



JOINT SDG FUND

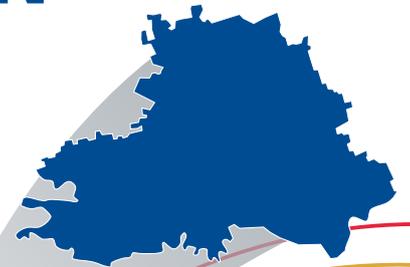


UNITED NATIONS
UKRAINE



DEVELOPMENT FINANCE ASSESSMENT: KHERSON REGION

ANALYTICAL REPORT





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Reservation

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ABBREVIATIONS

BCU	Budget Code of Ukraine
GDP	Gross domestic product
GVA	Gross value added
IDPs	Internally displaced persons
VRU	Verkhovna Rada of Ukraine
PBO	Principal budget owners
SASU	State Audit Service of Ukraine
PEFA	Public Expenditure and Financial Accountability
Statistics Service	State Statistics Service of Ukraine
STSU	State Treasury Service of Ukraine
PPP	Public-private partnership
SFRD	State Fund for Regional Development
EBA	European Business Association
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
UST	Unified social tax
HCF	Health care facilities
INFF	Integrated National Financing Framework
CMU	Cabinet of Ministers of Ukraine
MNE	Municipal non-profit enterprise
ME	Municipal enterprise
CSR	Corporate social responsibility
IBRD	International Bank for Reconstruction and Development
Ministry of Economy	Ministry of Economy of Ukraine
Ministry of Regions	Ministry for Communities and Territories Development of Ukraine
Ministry of Finance	Ministry of Finance of Ukraine



ITA	International technical assistance
IFC	International Financial Corporation
IFI	International financial institutions
NBU	National Bank of Ukraine
NCSSM	National Commission on Securities and Stock Market
RSA	Regional State Administration
LSGA	Local self-government authorities
UN	United Nations
DFA	Development Finance Assessment
VAT	Value added tax
IIT	Individual income tax
DFI	Direct foreign investment
CIT	Corporate income tax
UNDP	United Nations Development Programme
PFTS	First Stock Trade System (Stock Exchange)
ACU	Accounting Chamber of Ukraine
RF	Russian Federation
SCMU	Secretariat of the Cabinet of Ministers of Ukraine
WTO	World Trade Organization
PFMS	Public Financial Management System
USA	United States of America
IE	Individual entrepreneur
SDGs	Sustainable Development Goals
USAID	United States Agency for International Development



Chapter 1.

INTRODUCTION

The Agenda 2030 for Sustainable Development adopted by the United Nations (UN) in 2015 set the integrated and ambitious vision of global development. It provides for achievement of the clear seventeen sustainable development goals with specific tasks as well as the list of indicators of how the world countries succeed in implementation of the Sustainable Development Agenda. At the same time, achievement of the sustainable development goals by 2030 (SDGs 2030) takes material and sustainable financing by governments, international organisations and private businesses. Given the limited development finance capacity, the available funds should be concentrated on the areas that will mostly facilitate implementation of SDGs 2030 in all dimensions: social, humanitarian, security, economic and climate ones. It requires revising the governmental policy for setting the priorities during the strategic and budget planning, increasing performance of interaction between the private and public sectors, and enhancing cooperation with the international financial institutions.

In 2019, the UN professionals suggested that the national governments should introduce the special tool to support implementation of the national development strategies, namely the Integrated National Financing Framework (INFF), in order to create the efficient framework for implementation of the sustainable development goals.¹ The actual purpose of this tool is to facilitate formation of the common idea of national development priorities and tasks and to ensure financing thereof with account of the country's current development, challenges and obstacles as well

as opportunities by coordination of efforts to achieve the sustainable development goals by all the stakeholders.

The experts of the United Nations Development Programme (UNDP) have developed several tools for efficient implementation of the INFF, including the Development Finance Assessment (DFA).² The assessment aims at finding the opportunities to improve performance of the available development finance and to mobilise additional financing. Moreover, the assessment is effected based on the sustainable development goals in order to clearly see which financing sources are most important for implementation of the respective goals and national policy priorities accordingly. The available development finance and areas of use thereof need to be understood to develop the policy actions both at the national and local levels, and implementation thereof will facilitate an increase in such financing.

The work group responsible for implementation of the INFF was established in Ukraine in spring 2021. The development finance assessment project was implemented in May to December 2021 with the support of the UNDP for Ukraine and two regions, Donetsk and Kherson Regions; the project was implemented by the Institute for Economic Research and Policy Consulting (Kyiv). The importance of drafting separate DFA reports for the regions is explained with the decentralisation reform as well as different development level and different challenges and tasks faced by the regions. The assessment is mostly associated with the period from 2016 to 2020.

¹ UN Financing for Sustainable Development Report 2019, <https://developmentfinance.un.org/fsdr2019>

² DFA – Development Finance Assessment.



This report is on Development Finance Assessment in Kherson Region. It presents financing of regional development in 2016 to 2020 by various sources, public and private, external and internal, for seventeen sustainable development goals³. It should be noted that the research contains expert assessment of allocation of financing by the SDGs since there is no formal classification of budget expenditures, external financing and capital investment based on the sustainable development goals. Moreover, all the available financing is assumed to be used for the tasks that help achieve the SDGs 2030 by some means or other.

Kherson Region attracts investors into development of traditional industries, for instance, agriculture, and development of new areas of the economic activity. The challenge hindering development of the region and engagement of investors remains the military aggression of Russia in the east of Ukraine and annexed

Crimea in the south. The Strategy for Regional Development of Kherson Region contains quite many priorities the implementation of which requires financing of development.

The report starts with description of the regional economy that helps understand peculiarities of its development and major challenges. The next section analyses and assesses budget revenues and expenditures. Section 6 is dedicated to private investment as well as obstacles on their path. The region has a number of municipal companies and private companies the investment into which is designated for development of Kherson Region (Section 5). Also, the separate section focuses on analysis of financing of development from international partners. The final section contains the opinions and recommendations of what the government must do to improve performance of development finance and raise additional resources.

³ Annex 9.1 presents the list of the financing sources, and Annex 9.2 contains the SDGs and progress in achievement thereof in Ukraine.



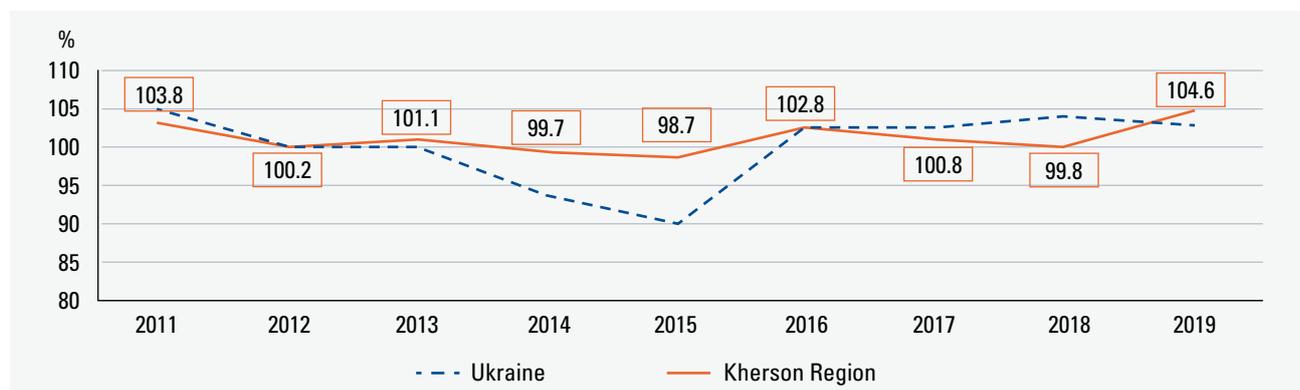
Chapter 2. REGIONAL ECONOMY

Kherson Region has traditionally been one of the important agrarian regions of Ukraine, which is explained by the considerable areas of fertile agricultural lands and the favourable climate in the region. The industrial complex of the region is represented by the food industry in the first place, and the shipbuilding industry. Kherson Region also has the considerable recreational potential on the shore of the Black and Azov Seas.

Since 2014, one of the main challenges faced by Kherson Region has been the Russian aggression, which has turned it into the “border-line”

region near the temporarily occupied territory of the Autonomous Republic of Crimea and has lost the important markets for distribution of certain types of agricultural products. The real GDP of the region in 2014-2015 still was decreasing less than the general GDP of the country, which is connected with a small share of the manufacturing industry in the economy most affected by disruption of the supply chains, and stable development of agriculture (Figure 1). At the same time, the regional economy grew quite moderately in the next few years (except for 2018).

Figure 1: Physical GRP index in Kherson Region and Ukraine, 2011-2019, % in the prices of the previous year



Source: Statistics Service

Kherson Region still is the region with relatively low economic development. In 2019, the region ranked 21st among all the regions of Ukraine by the total volume of GRP. The specific weight of Kherson Region in the national GDP makes around 2%. The GRP of the region per capita is almost lower than the GDP at the level of the country (60 thousand Ukrainian hryvnias against 95 thousand Ukrainian hryvnias), which allows the region to rank only 19th based on this indicator.

As for division of the gross value added (GVA), agriculture has the largest share (see the Figures in Annex 9.3); in 2019, it covered 26.9% of the entire GVA of the region. The manufacturing industry provided for 14.5% of the GVA only. The other industries include wholesale and retail trade, repairs – 11.2%, transport and logistics – 5.4%, and construction – 1.5%. In comparison with 2016, the share of agriculture went down (from 36.5% down to 26.9%) whereas the role of the wholesale and retail

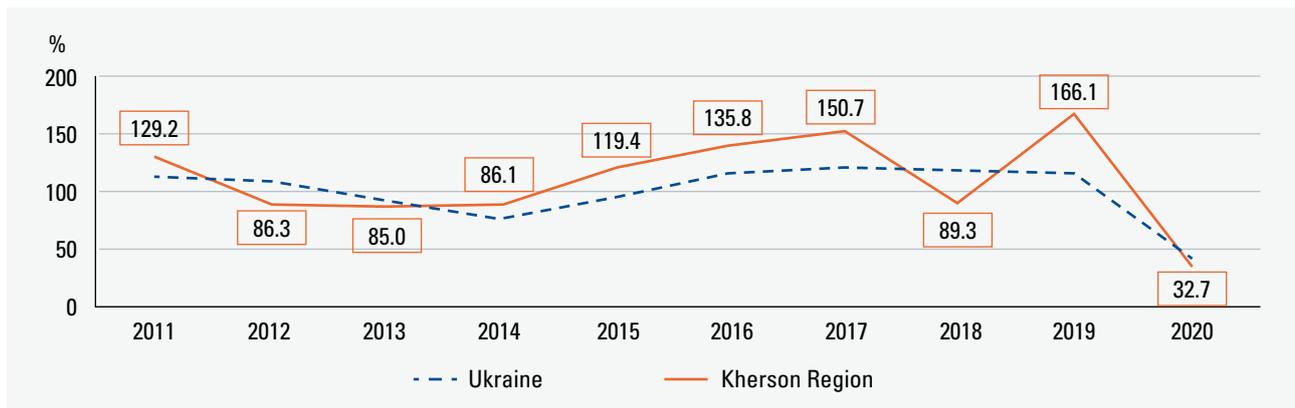


trade and repairs grew inconsiderably (from 9.4% up to 11.2%) (Figure 2).

The pandemic of COVID-19 has negatively affected capital investment in Kherson Region. In 2017-2019, the capital investment in real terms more than doubled, namely due to the investment into development of the solar electric power. In 2019, Kherson Region

demonstrated the third highest indicator (after Kyiv and Kyiv Region) of the investment to GRP ratio (20.0%). At the same time, the coronacrisis in 2020 resulted in reduction of the investment into the region in real terms by 67%, which is higher than at the national level – 58%. Such a considerable decline caused reduction of capital investment almost by one third in real terms in comparison with 2016.

Figure 2: Capital investment indices, % dpr



Source: Statistics Service

In 2017-2019, the share of credit funds as a financing source of capital investment went up. In particular, 54% capital investment in Kherson Region covered the banks and other loans in 2019. However, especially given the pandemic, the main source of investment in 2020 was own funds of enterprises again (61%).

Manufacturing industry: In 2014-2015, Kherson Region demonstrated reduction of the scope of the industrial production with account of the general economic situation in the country. However, the manufacturing industry of the region grew in 2016-2020. Moreover, recovery of the manufacturing industry differs depending on the industry. In particular, the food industry demonstrated growth in 2014 (15.3%), but it shrank in 2015-2018. It can initially be connected with import substitution against the background of material devaluation of the Ukrainian hryvnia and then loss of the traditional markets and retargeting at the new ones. In 2019-2020, the food industry started to recover.

The processing industry of the region today is not diversified enough and is represented by small enterprises in the first place. For instance, 1,062 enterprises were registered in

the manufacturing industry in 2019, including only three large ones and 94 medium-sized ones. Also, the food industry that supplements the agrarian profile of the region prevailed: In 2019, the manufacturing of food products, drinks and tobacco products made 29.2% of the volume of the industrial products sold although the weight of the industry went down in comparison with 2016, when the industry had the share of 50.1%. However, the industry still is the main processing locomotive. In 2019, around a half of sales in the processing industry pertained to manufacturing of food products, drinks and tobacco products. The leading enterprises in the industry include, without limitation, Danone-Dnipro LLC (milk processing by Danone), Chumak PrJSC (production of ketchups, sauces, sunflower oil etc.), PrJSC "The House of Vintage Cognacs "Tavria".

In 2016-2019, the role of power, gas, steam and conditioned air supply grew in the manufacturing industry owing to the green generation. In 2019, the industry had more than one third of the volume of the industrial products (37.8%) although it was only a quarter in 2016 (24.8%). The other manufacturing industries provided for small volumes of products. They included manufacturing of rubber and plastic products,



other non-metal mineral products (9.3% in 2019), wood, paper products and printing (8.7%), and machine building (5.6%).

Stable growth was only demonstrated by the power industry, which grew several times quicker than the other industries of the region in general in 2015-2020. Contrary to Donetsk Region, the main focus in the power industry of the region is on the solar and wind power plants that have been actively developed in the region for the last few years. As of 1 January 2020, there were 47 solar power plants (with the total capacity of almost 419 MW) and seven wind power plants (338 MW) in Kherson Region. Thus, Kherson Region had almost one third of the wind capacity of Ukraine (mostly Windkraft Ukraine LLC).⁴ As for the other energy areas, extension of the hydro power capacity of the region has been planned for many years. There is Kakhovka HPP near the city of Nova Kakhovka; it was constructed in the 1950s. Kakhovka HPP-2 is going to use the existing dam, with additional turbines to be constructed. The feasibility study of HPP-2 was made in 2010-2016 with the support of the EBRD's grant. Extension of the capacity of Kakhovka HPP may be of importance to balance the power system during the peak hours. Solar and wind plants cannot handle this task.⁵

At the same time, shipbuilding is developing in the region slowly although it is represented by such large enterprises as Smart Maritime Group LLC and Kherson State Plant "Pallada". There are also such machine building enterprises as Large Electric Machines Plant LLC, Kakhovka Electric Welding Equipment Plant PrJSC, Beryslav Machine Building Plant PrJSC, Kherson Electric Mechanical Plant SLC, SADA Battery Factory PJSC. Production and Commercial Firm "Elit-Plast" LLC, Opentech LLC and Askona-Pivden LLC manufacture rubber and plastic products and other non-metal mineral products.

Agriculture: Kherson Region has vast agricultural lands, but the region is a high-risk farming area. Due to the geographic location and climate, there are periodic droughts as well as soil degradation. Impact of climate conditions

is noticeable in terms of yield of agricultural crops. The southern dry regions of Ukraine have the worst level of crop yield of winter wheat and sunflowers in 2020. In comparison with Kherson Region, these crops have had lower yield only in Zaporizhzhia, Mykolaiv and Kherson Regions. The crop yield of winter wheat and sunflowers in Kherson Region was lower than the average one in Ukraine (3.27 t/ha against 3.88 t/ha and 1.61 t/ha against 2.06 t/ha).

In 2020, Kherson Region ranked eleventh among all the regions by the scope of production of grain and leguminous crops and ninth by the oil crops. At the same time, the region remains an incontestable leader by the vegetable crops, which is helped by the warm climate. Kherson Region produces 13% of the open-ground vegetable crops and 40% of vegetable crops at the enterprises. The region produces around one third of the tomatoes grown in Ukraine.

In the first place, irrigation in the region is effected with the water resources from Kakhovka Reservoir, which goes along the region from the north to the south. There is also the Northern Crimean Channel, which used to supply fresh water to Crimea, goes along the territory of the region. However, as the water supply to the peninsula occupied by Russia has been terminated, there are still problems with delivery of additional water resources to certain communities. The internal irrigation system that supplied water to specific land plots has been destroyed for the last decades.

Transport: In general, Kherson Region has a good geographic location with the considerable transit potential. The road condition in the region has been unsatisfactory for years. However, some of the motor roads have been repaired within the "Large Construction" programme initiated by the President starting from 2020. The runway of the International Airport of Kherson (which resumed its operations in 2014) needs overhaul. Concession of the airport that would enable to raise funds from private investors for development of flight connections in the region is possible. Private investment could also be raised for

⁴ See <https://investinkherson.gov.ua/pro-region/energy-potencial/>

⁵ See https://uhe.gov.ua/media_tsentr/novyny/budivnictvo-kakhovskoi-ges-2-argumenti-za and https://uhe.gov.ua/filiyi/kakhovska_hes_2_v_protsezi_pidhotovky_do_budivnytstva



the Kherson Sea Trade Port. The concession agreement was made in 2020, but transfer of the asset group to the concession holder had not been completed as of November 2021. In general, the transport infrastructure fails to meet the needs of the agriculture and travel industry.

Foreign trade: The volume of commodity export from Kherson Region is insignificant and allows the region to only rank 23rd among all the regions by this indicator. In 2020, the volume of commodity export in the region was 281 million US dollars whereas it was 247 million US dollars in 2016. The region has a negative trade balance: in 2020, the import exceeded export by 46 million US dollars. It results from growth of the investment activity in the region, in particular, import of expensive equipment for the alternative power industry.⁶ In 2020, two third of the imported goods (66%) were machines, equipment, mechanisms and electric technical equipment.

The structure of export in Kherson Region is non-diversified. In 2016 and 2020, around 70% of the value of the export was agricultural and food industry products. The other important export goods in 2020 included non-precious metals and products thereof (6.2%), machines, equipment and mechanisms, electric technical equipment (6.2%), wood and wooden products (5.3%) and ground vehicles, aircraft and water craft (5.2%).

There have been changes in the geographical structure of the export of Kherson Region for the last five years. In particular, the role of the Russian Federation as a trade partner has changed: from 9% in 2016 down to 3.2% in 2020. Turkey, the Netherlands and Belarus remain among TOP 5 of the countries important for export. However, Turkey was the main export consumer of the region in 2016 (14.8%), but it ranked second in 2020 (only 10%). The Netherlands was ranked first in 2020 (10.3%).

Human capital: The population of Kherson Region makes around one million people. The regional problem is depopulation since natural decrease in population continues. In 2020, the indicator of the natural decrease in population

made 9,407, which was the highest indicator of the region for the last decades. The region also suffers from labour migration that has resulted in the migration decrease of the population of 1,799 persons. At the same time, the internally displaced persons (IDPs) from the annexed Crimea and occupied territories in the east of the country come to the region.

The indicators of the educational level in Kherson Region are a bit lower than the average Ukrainian ones. Around 25% of the employed have complete higher education (32% in the country) while 26% have vocational education (26% in the country).

Given the agrarian specialisation of the region, almost one third (29.7%) of the employed population of the region worked in the agricultural industry in 2019⁷. It is almost twice as higher as the national indicator, 17.1%. The second industry that is most important for employment is trade: 23.2% of the employed (22.9% in Ukraine). The manufacturing industry has only 9% of the employed, which is lower than the general indicator in Ukraine (14.8%). At the same time, the share of the employed in the recreation and travel industry is insignificant. Only 1.4% of the employed work in the area of temporary accommodation and food services (1.8% at the country level).

The unemployment rate for the population aged 15 to 17 went down to 9.6% in 2019. At the same time, the unemployment rate reached the indicators of 2016 and made 11.3% in 2020 (higher than the average national indicator, 9.5%) due to the negative impact of the pandemic upon businesses and employment.

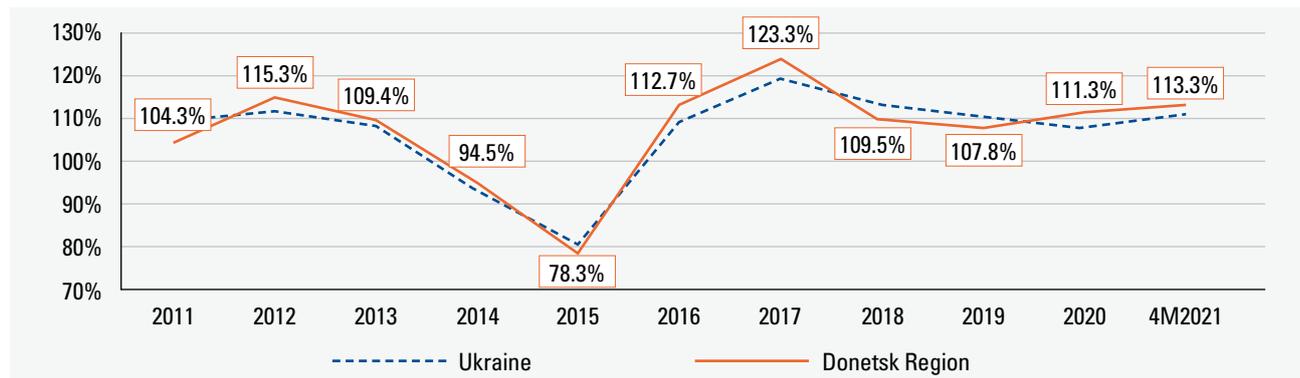
Household income: In 2020, the average monthly salary in Kherson Region made only UAH 9,157, which is more than UAH 2,000 less than on average in Ukraine. Therefore, the average salary in the region was one of the lowest in Ukraine. At the same time, the real salary growth pace in the region is approximately the same as the Ukrainian one. However, the increment in the region, for instance, in 2020 was higher than in the country in general owing to the agricultural contribution (Figure 3).

⁶ See the Development Strategy of Kherson Region for 2021-2027.

⁷ It is almost twice as higher as the national indicator, 18%.



Figure 3: Real salary index in Kherson Region and Ukraine, 2011-2020, % against the previous year



Source: Statistics Service

50.7% of revenues in the structure of the aggregate household income in the region is wage. 19.6% of the revenues are pensions, scholarships and social allowances while 10.8% is revenues from entrepreneurship and self-employment.

Almost half of the funds are spent by the households in the region for food products (49.0%), and almost one fifth – to pay for the housing and utility services (17.3%). The other significant categories of expenses include alcohol and tobacco (4.3%) as well as clothes and footwear (4.0%).

Summary. Therefore, Kherson Region needs investment into economic development. That is investment into the irrigation systems that will facilitate agricultural development, capital investment into upgrade of production and technologies of the food industry and machine building enterprises as well as development of ship-building enterprises and establishment of new enterprises. Improvement of the infrastructure, both transport and power one, will help build the supply chains and increase exports. Moreover, investment into the infrastructure will help develop the recreation and travel sector, which has the considerable potential in the region.



Chapter 3.

STRATEGIC AND BUDGET PLANNING IN THE REGION

3.1. Regional Development Strategies

According to the Law “On Stimulating Development of the Regions” and in response to the State Regional Development Strategy until 2020 approved by the government⁸, in

2015, the Kherson Regional Council adopted the Development Strategy of Kherson Region until 2020⁹. The local authorities of the inferior level were also supposed to adopt their strategies.

Insert: Local Strategic Planning

The strategic planning at the regional level seems to be more orderly than the national one. The local executive authorities adopt their regional development strategies based on the following key laws and regulations on strategic planning:

1. Law of Ukraine “On Local Self-Governance” No. 280/97 dated 21 May 1997 (as amended and supplemented);
2. Law of Ukraine “On the Local State Administrations” No. 586-XIV dated 9 April 1999 (as amended and supplemented);
3. Law of Ukraine “On the Fundamentals of the State Regional Policy” No. 156-VIII dated February 2015;
4. Resolution of the CMU “On the Procedure for Developing Regional Strategies and Action Plans for Implementation Thereof, and Monitoring and Assessment of Their Performance” No. 932 dated 11 November 2015 (as amended and supplemented).

According to the Law of Ukraine “On the Fundamentals of the State Regional Policy”, the State Regional Development Strategy is defined as the principal strategic planning document for implementation of the state regional policy and regional development strategies (level of regions) as the principal strategic planning documents at the local level. The State Regional Development Strategy sets the benchmarks for amendments to the regional policies and strategic development goals. Financing within the State Fund for Regional Development is allowed for the regional development programmes pursuant to the tasks set by the Strategy.

The Regional Strategy until 2027 was adopted at the end of 2019 by the resolution of the Regional Council¹⁰. The Strategy was developed and adopted by the work group responsible for development of the Regional Development Strategy and made of three Deputy Chairmen of the RSA, the Director of the Department for Economic and Regional Development of the RSA, the Counsellor to the Chairman of the RSA, and members of the work group from different areas: the meetings of regional expert groups

were held. Also, the members of the work group responsible for developing the Strategy were representatives of the local communities (deputies of the local councils, mayors of the cities and others) as well as officials interested in the Strategy (school directors, scientists etc.) and regional entrepreneurs. It must be noted that the developers of the Strategy received methodological and organisational support from the EU technical assistance project “Support to Ukraine’s Regional Development Policy”¹¹.

⁸ Decree of the Cabinet of Ministers of Ukraine dated 6 August 2014 No. 385, <https://zakon.rada.gov.ua/laws/show/385-2014-%D0%BF#Text>

⁹ Resolution of the Regional Council dated 10 September 2015 No. 1296, http://khoda.gov.ua/image/catalog/files/archive/Strategiya_2020.rar

¹⁰ <https://khoda.gov.ua/strateg%D1%96ja-rozvitku-2021-2027>

¹¹ <http://surdp.eu>



However, the Regional Strategy was adopted before the new State Regional Development Programme until 2027 adopted by the government¹². Thus, on 23 April 2021, the amendments were made to the Strategy for 2021-2027 by the resolution of the Regional Council to bring it into conformity to the State Strategy.

The Strategy until 2020 was formed with account of the projects submitted by the districts and territorial communities. The Strategy for 2021-2027 provides for alignment with the master plans for territorial development at the local level. According to the Strategy, the territorial communities may formulate the development strategies within their borders.

In general, both Strategies are quite similar (Table 1). They provide for the development of cities, villages, health care facilities, educational establishments, environmental security and conservation, support of entrepreneurship and especially the agricultural industry as a strategic one, support of tourism, preservation of the cultural heritage, development of power supply systems and renewable energy, raising of investment and accessibility of public services. The difference of the Strategy 2027 is, without limitation, its focus on digitalisation as well as determination of medical tourism as one of the travel priorities.

Table 1: Main attributes of the Development Strategies of Kherson Region

	Strategy until 2020	Strategy for 2021-2027
Purpose/goal of the Strategy	To create conditions for rapid growth of the economic and social capital of the region, to help turn it into the modern, energy-efficient and resource-adequate economy out of the slowly-growing one. Several strategic goals and operational tasks are set.	To create conditions for rapid growth of the economic and social capital of the region, to help turn it into the modern, energy-efficient and resource-adequate economy out of the slowly-growing one. Several strategic goals and operational tasks are set.
Reference to the SDGs	N/A	There is a reference to the need to consider the President's Decree on the SDGs and the table of connections between the Strategy goals and SDGs 2030.
Priorities, strategic goals	The priorities are clear and include: <ol style="list-style-type: none"> 1. Development and preservation of the population. 2. Local economic development. 3. Environmental safety and saving of resources. 	The priorities are clear and include: <ol style="list-style-type: none"> 1. Regional economic development taking into account digitalisation and innovation and investment processes. 2. Demographic and spatial development. 3. Environmental safety and resource conservation. 4. Improvement of competitive advantages of the region based on smart specialisation.
Financial feasibility	The Strategy contains assessment of the financing from the following sources: State Budget, regional budget, local and city budgets, targeted subventions, funds from the State Fund for Regional Development, borrowed funds, investors' funds, funds of interested enterprises, grants, individuals' funds, funds from the State Road Fund, funds from the Mandatory State Social Insurance Fund, other sources, by the main tasks for five years. However, assessment of the necessary financing in terms of these sources is not presented.	The Strategy contains assessment of the financing from the following sources: State Budget, regional budget, local and city budgets, targeted subventions, funds from the State Fund for Regional Development, borrowed funds, investors' funds, funds of interested enterprises, grants, individuals' funds, funds from the State Road Fund, funds from the Mandatory State Social Insurance Fund, other sources, by the main tasks for 2021-2023. Yet, assessment of the necessary financing in terms of these sources is not presented.
Reporting	The RSA submitted annual monitoring of progress of the action plan for the Regional Development Strategy. The reports on progress of the tasks are made by the Department for Economic Development and Trade of the RSA, and they are made available for quarter I and for the year. The annual monitoring reports are adopted by the Regional Council. The reports are public.	The report on performance of the Strategy tasks for the first half of 2021 was presented.

Source: Strategy 2020 and Strategy 2021-2027

¹² Resolution of the Cabinet of Ministers dated 5 August 2020 No. 695, <https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF#Text>



It should be noted that both Development Strategies of Kherson Region being analysed contain the feasibility study. Thus, assessment of the necessary financing at the expense of the budget is presented. At the same time, the findings of analysis of financing the Strategy until 2020 show that the planned financing was not achieved for most of the programmes. Thus, Strategic Goal 1 was achieved by 13.7%, Goal 2 – by 36.8%, and Goal 3 – by 67% by the scope of financing¹³.

The Strategies also provide for financing from the other legal sources, but the necessary financing in terms of these sources is not assessed so it is not clear how the region is going to finance all the actions.

According to the Strategy 2027, the following issues need to be resolved:

- Improvement of the motor roads (repairs), repairs and extension of the runway at the airport.
 - Determination of the water supply issues (for drinking and irrigation water) in some districts, need to upgrade the waste water treatment equipment.
 - River clearing and increase in the percentage of forest land.
 - Youth employment.
 - Internet coverage all over the region.
 - High level of depreciation of the electric infrastructure.
 - Optimisation of educational establishments due to incomplete classes, lack of financing to upgrade training and practical centres.
 - Need for investment into tourism.
 - Upgrade of the sports infrastructure, more expenses for training and sports work.
 - High energy and material intensity of the manufacturing industry.
 - Need for investment.
- Number of small and medium-sized enterprises per ten thousand people less than the average one.
 - Excessive air pollution in the region or parts thereof. Non-conformity of the treatment facilities and sewage system of the region to the technical requirements.
 - Soil degradation, negative influence of geological processes (destruction of river banks, sea shore and water reservoir banks) on the land resources.

In general, the same issues were the focus of the Strategy 2020, which included, without limitation:

- Poor financing of the housing and utility system and resulting insufficient repairs of lifts and thermal upgrade of houses.
- Insufficient quantity of rubbish dumps.
- Development and preservation of the fish industry potential.

According to the best practices, the web-page of the Kherson RSA contains reports on progress of the plans for implementing the Strategy 2020, which specify the financing sources for various tasks.¹⁴ The reports on assessment of performance of the Strategy are also published; however, it is limited to comparison of the achieved indicators and the targets whereas the indicators do not always allow understanding the performance of the tasks specified in the Strategy. Implementation of the Strategy until 2020 (Report on Performance of the Tasks of the State Regional Development Strategy) was monitored by the Department for Economic Development and Trade of the Kherson Regional State Administration.

In order to implement the Strategy 2027, the Regional Council adopted the action plan for 2021-2023 as well as the financial draft action plan in 2020¹⁵. The initial plan was updated in April 2021: in particular, it included the project to improve the territory for creation of the industrial park with the aggregate value of 22.6 million Ukrainian hryvnias.

¹³ Kherson RSA, Development Strategy 2020 <https://khoda.gov.ua/strategiya-rozvitku-2020>, own estimates.

¹⁴ <https://khoda.gov.ua/strategiya-rozvitku-2020>

¹⁵ <https://khoda.gov.ua/image/catalog/files/plan-zakhodiv-z-realizatsii-u-2021-2023-rokakh-strategii-rozvitku-khersonskoi-oblasti-na-period-2021-2027-ro.pdf>



3.2. Sustainable Development Goals in the Regional Development Strategies

The Strategy 2020 does not refer to the sustainable development goals, but it is noted that it is based on the “concept of sustainable development of the territory on the basis of preservation and development of the population, natural and resource population as well as production, scientific, technical, financial and social capitals”. The Strategy 2027 provides for consideration of the clauses and tasks of the Decree of the President of Ukraine “On the Sustainable Development Goals of Ukraine for the Period until 2030”. Also, when the amendments were

made in April 2021, the Strategy was supplemented with the table specifying the connections between four goals in the Strategy and seventeen goals of the SDGs 2030. In general, it is stated that all the sustainable development goals have been considered in the Strategy.

The strategic and operational goals are listed in Table 2. Whereas both Strategies do not compare the operational goals and tasks with the sustainable development goals, such connections can be established in an expert manner.

Table 2: Strategic and operational goals prescribed by the Strategies

Strategy 2020	Strategy 2027
<p>Strategic goal A. Development and preservation of the population</p> <p>Operational goal A.1. Territory of trust. Creation of conditions to preserve and develop settlements</p> <p>Operational goal A.2. Territory of healthy life</p> <p>Operational goal A.3. Modern quality education pursuant to the labour market needs</p> <p>Operational goal A.4. Kherson Region as the crossroads of cultures, territory of tolerance</p>	<p>Strategic goal 1. Regional economic development taking into account digitalisation and innovation and investment processes</p> <p>Operational goal 1.1. Development of innovative sectors of economy and digitalisation</p> <p>Operational goal 1.2. Development of agricultural territories, irrigation, organic agricultural production and fishing industry</p> <p>Operational goal 1.3. Agricultural processing based on the smart specialisation</p> <p>Operational goal 1.4. Travel and recreation industry for recreation, leisure and intellectual and spiritual enrichment of people</p> <p>Operational goal 1.5. Development of the transport infrastructure and connections</p>
<p>Strategic goal B. Local economic development</p> <p>Operational goal B.1. Innovative Kherson Region</p> <p>Operational goal B.2. Accessible services, maintained communication</p> <p>Operational goal B.3. Infrastructural support of the leading economic industries</p> <p>Operational goal B.4. Infrastructural support of the future</p>	<p>Strategic goal 2. Demographic and spatial development</p> <p>Operational goal 2.1. Kherson Region as the territory of healthy life</p> <p>Operational goal 2.2. Development of human capital to ensure productive employment of the population</p> <p>Operational goal 2.3. Creation of comfortable living conditions for the population</p> <p>Operational goal 2.4. Preservation and development of the cultural space</p> <p>Operational goal 2.5. Each child in a happy family</p>
<p>Strategic goal C. Environmental safety and saving of resources</p> <p>Operational goal C.1. Protection of general national interests in environmental protection</p> <p>Operational goal C.2. Balanced environmentally-friendly water resources</p> <p>Operational goal C.3. Preserved potential of land resources</p> <p>Operational goal C.4. Improvement of waste management</p> <p>Operational goal C.5. Energetically safe territory</p>	<p>Strategic goal 3. Environmental safety and saving of resources</p> <p>Operational goal 3.1. Protection of general interests in environmental protection</p> <p>Operational goal 3.2. Improvement of waste management</p> <p>Operational goal 3.3. Energetically safe territory</p>
	<p>Strategic goal 4. Improvement of competitive advantages of the region based on smart specialisation</p> <p>Operational goal 4.1. Increase in the added value of agricultural production, development of rural territories.</p> <p>Operational goal 4.2. Development of medical tourism</p>



Goal 1. No poverty. One of the main tasks of Goal 1 is to reduce the poverty level and to eradicate absolute poverty, to ensure comprehensive social protection and equal access to economic resources.

The Strategy 2020 and the Strategy 2027 do not expressly provide for fight against poverty. However, a number of actions are aimed at reducing poverty.

In the Strategy 2027, Strategic Goals 1 and 2 will help achieve SDG 1. For instance, Operational goal 2.2. *Development of human capital to ensure productive employment of the population* means reduction of unemployment and more decent work, which will facilitate reduction of poverty.

Goal 2. Zero hunger, development of agriculture. The principal tasks of Goal 2 include fighting hunger, improving food security and nutrient indices as well as supporting sustainable agriculture.

Neither of the Strategies is directly aimed at zero hunger. At the same time, the Strategies contain the tasks to develop the agricultural industry. The Strategy 2020 has Operational Goal C.3. *"Preserved potential of land resources"*; and the Strategy 2027 contains Operational Goal 1.2. *"Development of agricultural territories, irrigation, organic agricultural production and fishing industry"*; and Operational Goal 1.3 *"Agricultural processing based on the smart specialisation"*. Agricultural development will also be facilitated (sometimes indirectly) by the tasks within Strategic Goal 3 *"Environmental safety and saving of resources"* as well as Operational Goal 4.1 *"Increase in the added value of agricultural production, development of rural territories"*.

Goal 3. Good health and well-being. The main tasks of Goal 3 include to improve health, to increase performance of the health care system and to popularise the healthy life style.

In the Strategy 2020, this goal is achieved with Operational Goal A.2: Territory of healthy life.

In the Strategy 2027, SDG 3 will be achieved with Operational Goals 1.4 *"Travel and recreation industry for recreation and intellectual*

and spiritual enrichment of people" and 2.1 *"Kherson region as the territory of healthy life"*. The better environment as a result of performance of the tasks for Strategic Goal 3 *"Environmental safety and saving of resources"* and will also ensure better indicators of public health.

Goal 4. Quality education. The principal tasks of Goal 4 include accessibility of inclusive and fair quality education.

In the Strategy 2020, this goal is achieved with Operational Goal A.3 *"Modern quality education pursuant to the labour market needs"*.

In the Strategy 2027, this goal is achieved with Operational Goal 2.2 *"Development of human capital to ensure productive employment of the population"*. Achievement of SDG 4 will also be indirectly influenced by digitalisation as provided for by Strategic Goal 1.

Goal 5. Gender equality. One of the principal tasks of Goal 5 is to ensure gender equality and to create equal opportunities for women.

The tasks of the Strategy 2027 directly include 2.3.4 *"To ensure social protection and gender equality"* with such indicator as the ratio between salaries of men and women as well as tasks 1.1.2, 2.1.4, 2.2.5 and 2.4.1 with the gender indicators of performance.

Goal 6. Clean water and sanitation. Some of the principal tasks of Goal 6 include accessibility and sustainable management of drinking water and adequate sanitation for all the populations.

In the Strategy 2020, the goal is achieved with Operational Goal C.2 *"Balanced environmentally-friendly water resources"*.

In the Strategy 2027, the goal is achieved with Operational Goal 2.3. *"Creation of comfortable living conditions for the population"* as well as environmental goals 3.1 *"Protection of general interests in environmental protection"* and 3.2 *"Improvement of waste management"*.

Goal 7. Affordable and clean energy. The principal tasks of Goal 7 include giving the public access to reliable, sustainable, modern and affordable energy and improving energy efficiency.



In the Strategy 2020, this goal is achieved with Operational Goal C.5 “*Energetically safe territory*”

In the Strategy 2027, this goal is, in the first place, achieved with the tasks within Operational Goal 3.3 “*Energetically safe territory*”.

Goal 8. Decent work and economic growth. The principal tasks of Goal 8 include to facilitate the long-term, inclusive and sustainable economic growth, full and efficient employment and accessibility of decent work for everyone.

In the Strategy 2020, this goal is subject to Operational Goal A.1 “*Territory of trust. Creation of conditions to preserve and develop settlements*”; and partly Operational Goal B.3 “*Infrastructural support of the leading economic industries*”

In the Strategy 2027, SDG 8 will be achieved with the tasks within Operational Goals 1.1 “*Development of innovative sectors of economy and digitalisation*”; 1.3 “*Agricultural processing based on the smart specialisation*”; and 2.2 “*Development of human capital to ensure productive employment of the population*”. The actions to improve the competitive ability of the economy under Operational Goal 4.1 “*Increase in the added value of agricultural production, development of rural territories*” will definitely facilitate achievement of SDG 8.

Goal 9. Industry, innovation and infrastructure. The principal tasks of Goal 9 include development of the reliable and sustainable infrastructure, facilitation of the inclusive and sustainable industrialisation, and encouragement of innovation.

In the Strategy 2020, this goal is achieved with Operational Goals B.3 “*Infrastructural support of the leading economic industries*”; and B.4. “*Infrastructural support of the future*”.

In the Strategy 2027, this sustainable development goal is subject to Strategic Goal 1 “*Regional economic development taking into account digitalisation and innovation and investment processes*”. It will also be facilitated by the tasks within Strategic Goal 3 directed at improvement of the competitive ability owing to the smart specialisation.

Goal 10. Reduced inequalities. The main task of Goal 10 is to reduce the economic inequality and to ensure accessibility of social services.

Neither operational goal is directly focused on this sustainable development goal.

In the Strategy 2020, the goal is to be indirectly achieved with Operational Goal B.1 “*Innovative Kherson Region, regional development project*”; namely task 1.2.2. “*Financial support of small and medium-sized businesses*”.

In the Strategy 2027, the goal is to be indirectly achieved with Operational Goal 1.1 “*Development of innovative sectors of economy and digitalisation*”. At the same time, numerous tasks for Strategic Goal 2 “*Demographic and spatial development*” will facilitate achievement of SDG 10 via better access to quality public services.

Goal 11. Sustainable cities and communities. The main task of Goal 11 is to increase the level of inclusion, security, resilience and sustainability of cities and all human settlements.

In the Strategy 2020, this goal is achieved with Operational Goals A.1 “*Territory of trust. Creation of conditions to preserve and develop settlements*”; B.3. “*Infrastructural support of the leading economic industries*”; and partly B.4. “*Infrastructural support of the future*”.

In the Strategy 2027, the goal is to be achieved with Operational Goals 1.5 “*Development of the transport infrastructure and connections*”; 2.2 “*Development of human capital to ensure productive employment of the population*” and 1.4 “*Travel and recreation industry for recreation, leisure and intellectual and spiritual enrichment of people*”.

Goal 12. Responsible consumption and production. The main task of Goal 12 is to maintain sustainable consumption and production models.

In the Strategy 2020, this goal is achieved with Operational Goal C.4 “*Improvement of waste management*”.

In the Strategy 2027, the goal is to be achieved with Operational Goal 3.2 “*Improvement of waste management*”. At the same time, achievement of SDG 12 will be indirectly facilitated by the tasks within the other strategic goals.

Goal 13. Climate action. In the global system of the SDGs 2030, the main task of Goal 13 is



imperative fight against climate changes and consequences thereof. However, the only task for this goal in the Ukrainian national SDG system is to reduce the greenhouse gas emissions.

In the Strategy 2027, Operational Goal 3.1, Task 3.1.1 *"To facilitate adherence to the international ecological treatment standards in Kherson Region"* directly provides for the actions to reduce greenhouse gas emissions.

Goal 14. Life below water. The main task of Goal 14 is to preserve and use sea resources sustainably.

In the Strategy 2020, this goal is achieved, without limitation, with Operational Goals C.1 *"Protection of general interests in environmental protection"* and C.2 *"Balanced environmentally-friendly water resources"*.

In the Strategy 2027, this goal is achieved with Operational Goal 3.1 *"Protection of general interests in environmental protection"*.

Goal 15. Life on land. The principal tasks of Goal 15 include protection, recovery and sustainable use of the land eco-systems, sustainable use of forests and fight against deforestation, termination of reduction of biodiversity and land degradation.

In the Strategy 2020, this goal is achieved with Operational Goals C.1 *"Protection of general interests in environmental protection"* and C.3 *"Preserved potential of land resources"*.

In the Strategy 2027, this goal is achieved with Operational Goals 3.1 *"Protection of general*

interests in environmental protection" and 1.2 *"Development of agricultural territories, irrigation, organic agricultural production and fishing industry"*.

Goal 16. Peace, justice and strong institutions. The main tasks of Goal 16 include support of peaceful and inclusive communities to ensure sustainable development, provide access to justice to everyone and create efficient and inclusive institutions at all levels.

In the Strategy 2020, this goal is partly achieved with Operational Goal A.1 *"Territory of trust. Creation of conditions to preserve and develop settlements"* and Operational Goal B.1 *"Innovative Kherson Region"*.

In the Strategy 2027, this goal is partly achieved with Operational Goals 1.1 *"Development of innovative sectors of economy and digitalisation"* and 2.3 *"Creation of comfortable living conditions for the population"*.

Goal 17. Partnerships for the goals. The main task of Goal 17 is to improve the means of implementation and revitalisation of global partnership for sustainable development, which, pursuant to the national SDG system, constitutes, without limitation, mobilisation of additional financial resources to finance development.

In the Strategy 2020, this goal is achieved with Operational Goal B.4 *"Infrastructural support of the future"*.

In the Strategy 2027, this goal is partly achieved with Operational Goal 1.1 *"Development of innovative sectors of economy and digitalisation"*.

3.3. Financing of the Sustainable Development Goals

Within the study, the authors of the report compared the tasks for seventeen sustainable development goals planned within both Development Strategies of Kherson Region (Figure 4)¹⁶. According to the expert opinion of the authors of the report, a number of the sustainable development goals were not financed in pursuance of the Development Strategy of Kherson Region until 2020. It is understandable for certain goals: SDGs 1 and 10 are financed

from the State Budget in the first place. At the same time, lack of financing of SDGs 12-14 means that the regional council did not focus on them in those years.

According to the Plan for Financing the Strategy 2027 in 2020-2023, financing for SDG 5: *"Gender equality"* and SDG 12: *"Responsible consumption and production"* and SDG 14: *"Life below water"* was allocated (Figure 5). At

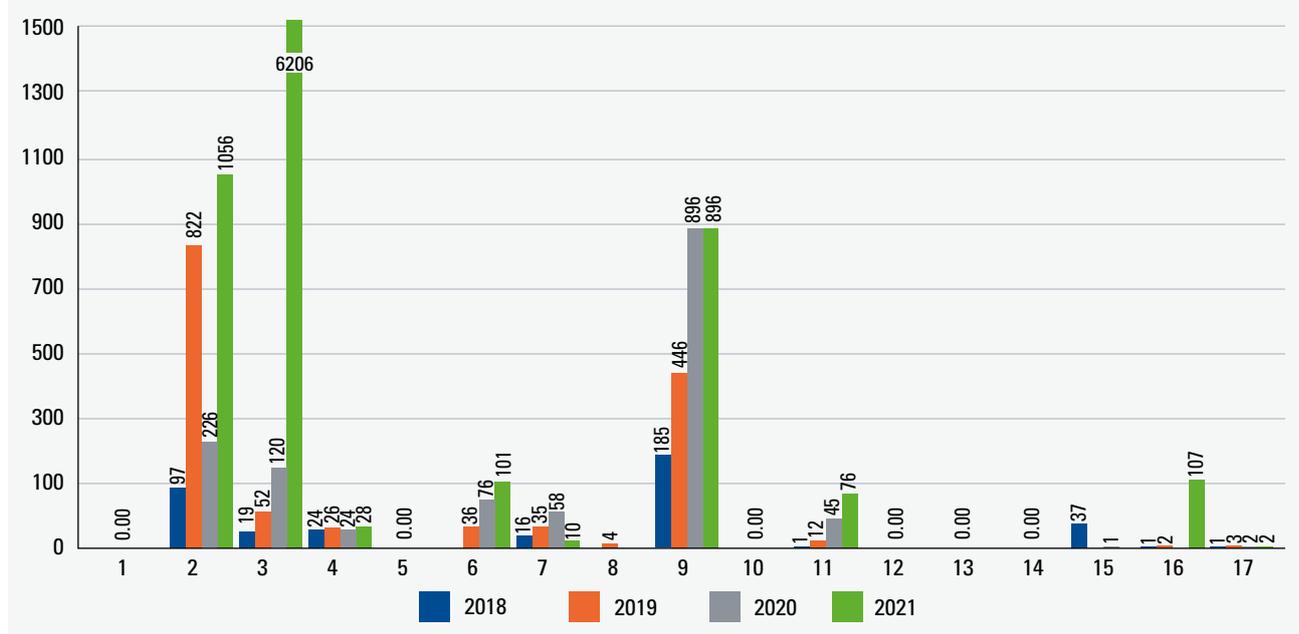
¹⁶ Therefore, such division is an expert opinion of the authors of the report.



the same time, the financing priorities changed as well: from health care to the power industry. In particular, the major financing plans (12 billion

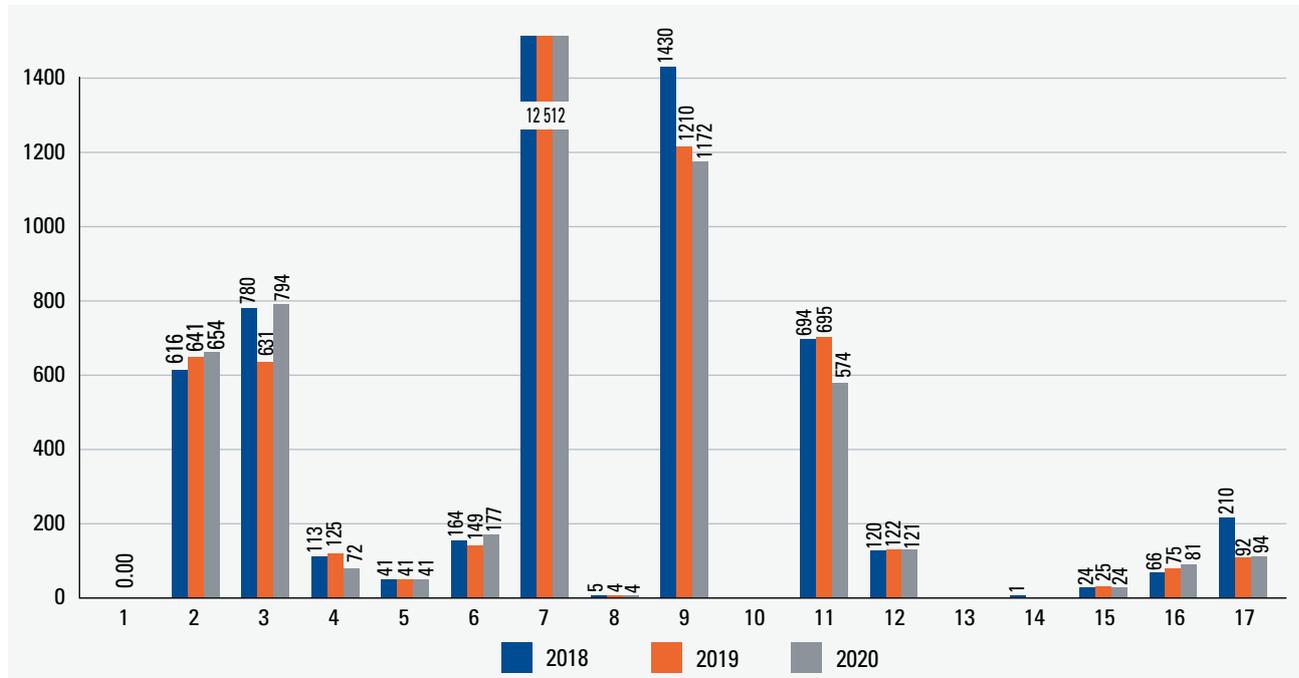
every year from 2021 until 2023) are designated for Terms of Reference 3.10. Renewable Energy Development.

Figure 4: Financing of the Development Strategy of Kherson Region until 2020, 2016-2019



Source: Strategy Implementation Reports, Kherson RSA

Figure 5: Planned financing of the Development Strategy of Kherson Region until 2027, 2021-2023



Source: financial plan of the draft Action Plan for Implementation in 2021-2023 of the Development Strategy of Kherson Region for 2021-2027

It should be noted that financing of the tasks that are definitely associated with creation of jobs and decent work pertain to SDG 8. At the same time, financing of many other sustainable development goals will result in the secondary impact

upon achievement and tasks of SDG 8. Thus, more investment into infrastructure (SDG 9) will improve the investment climate since the existing imperfect logistics in the region remains one of the obstacles to private investment (Section 6).



Chapter 4.

LOCAL BUDGETS

4.1. Local Budget Planning

The Budget Code of Ukraine (BCU) establishes the budget planning principles, rules and time frames both at the national and local levels. In particular, the Code clearly specifies the sources of revenues of the state and local budgets, the funds that are transferred to the general fund of the budget or the special fund (targeted proceeds) as well as powers of different budget levels in financing of expenditures.

According to the BCU, the consolidated budget of Kherson Region includes indicators of the regional budget, district budgets and local self-government budgets in the region whereas the latter include budgets of village, urban village, city territorial communities as well as budgets of districts in the city. The decentralisation reform of 2015 has resulted in material changes in the number of local budgets as well as the structure of their revenues and expenditures.

On the one hand, the local self-government budgets were increased by creating the (amalgamated) territorial communities and amalgamating the districts: As a result, the number of the local budgets in Kherson Region was materially reduced. Thus, in 2021, the region has five districts and 49 territorial communities while there were 18 districts and many more local self-government budgets in 2016. Such changes are aimed at increasing the financial capacity of the local communities and establishing their direct inter-budget relations with the state level. Thus, most transfers from the State Budget are now directed at the community level rather than the regional or district

level, which facilitates better performance of expenditures.

At the same time, fiscal decentralisation started in 2015, which first resulted in transfer of more financial resources to the local level. Financing of powers started to be gradually transferred to the local level as well. For instance, vocational educational establishments are owned by the local authorities that have to finance them. Local budgets are the main source of financing of local development as well. Thus, the educational subvention covers salaries of the pedagogical staff in the first place whereas the local authorities must finance the utilities and capital expenditures. The former medical subvention and the current payment for medical aid to health care facilities covers medical aid whereas repairs, procurement of equipment and payment for utilities of municipal facilities are financed from the local budgets. The municipal cultural and sports facilities are financed from the local budgets in the first place. The important thing is that the local authorities are responsible for development of the social network of facilities in the first place, including educational, medical, cultural and sports ones. The amended financing principles facilitate more efficient financing of the facilities.

At the same time, the local authorities can obtain financing of certain projects at the expense of the State Fund for Regional Development, the social and economic subvention or other types of subventions that are actually targeted transfers. The local budgets may also receive an alignment subsidy from the State Budget or



provide a reverse subsidy to the State Budget (which is a rare thing).

According to the BCU, the local authorities have to consider the size of the inter-budget transfers approved in the State Budget when they develop and adopt their budgets. The local budgets have to be approved at latest on 25 December of the year before the planned one. Also, if the State Budget is approved later, the local authorities have to make respective amendments to their budgets with account of the transfers.

Before the local budgets are developed and approved, three-year budget requests from principal budget owners at the local level that are considered to forecast the local budgets are prepared. According to the Code (Article 75), the forecast is made by the local financial authority together with the other principal budget owners by 15 August of the year before the planned one, pursuant to the goals and priorities set in the forecast and programme documents on the economic and

social development of Ukraine and respective territory. Furthermore, gender-responsive budgeting (GRB) is mandatory both at the local and central levels. However, the local budgets do not always reflect the strategic priorities specified in the applicable documents. It is partly explained by the dispersal of the priorities and tasks set by the authorities and restricted budget resources available.

Starting from 2021, when they prepare their budget requests for future periods and forecast the local budgets, the local authorities also have to consider the indicators and priorities specified in the Budget Declaration¹⁷. The purpose of such forecasts is to improve predictability of the local policy and the business environment.

Budget requests and budget programme data sheets shall be based on the management by objectives (MBO). However, in fact programmes mostly lack clear goals and indicators, which prevents assessment of performance of budget expenditures.

4.2. Budget Revenues

The important source of financing the sustainable development of the region is the consolidated budget, which includes the state and local budgets to which taxpayers pay taxes and effect non-tax budget payments (allocation of the main payments between different budget levels is presented in Annex 9.4). The tax objects and rates are set by the Tax Code of Ukraine. The ratios for allocation of taxes between the state and local budgets (including by their levels) are specified in the Budget Code of Ukraine. The main source of revenues

of the State Budget is the value-added tax (VAT) and the corporate income tax (CIT). The most important source of revenues of the local budgets are such taxes as the property tax and fixed tax (fully credited to the local budgets).

In addition to the taxes and levies, the unified social tax (UST), which is a source of budgets of the respective off-budget funds, is paid by employers for their employees and by individual entrepreneurs¹⁸.

Insert: Local Taxes and Levies

According to the Tax Code of Ukraine, the local taxes and levies include two taxes and two levies. The local taxes include the property tax and the fixed tax. The property tax is made of: (1) land charges; (2) tax on the real estate different from the land plot; (3) transport tax. The land charges being a part of the property tax are paid as the land tax or lease charges for the state and municipal land plots.

The fixed tax is paid by the tax payers being individual entrepreneurs (groups I to III), legal entities (group III) and agricultural manufacturers (group IV) that have selected the simplified tax assessment, accounting and reporting system.

The local levies include the parking levy and the tourist levy.

¹⁷ In 2021, the Cabinet of Ministers adopted the mid-term Budget Declaration (for 2022-2024) for the first time.

¹⁸ There are two types of mandatory state social insurance: unemployment insurance and insurance against temporary loss of the ability to work, against an occupational accident and occupational disease. The UST revenues are proportionally allocated for mandatory state social insurance against unemployment (4.8%), in connection with temporary loss of the ability to work and against the occupational accident and occupational disease that has caused loss of the capacity for work (9.6%), mandatory state pension insurance to the pay-as-you-go system (85.6%).



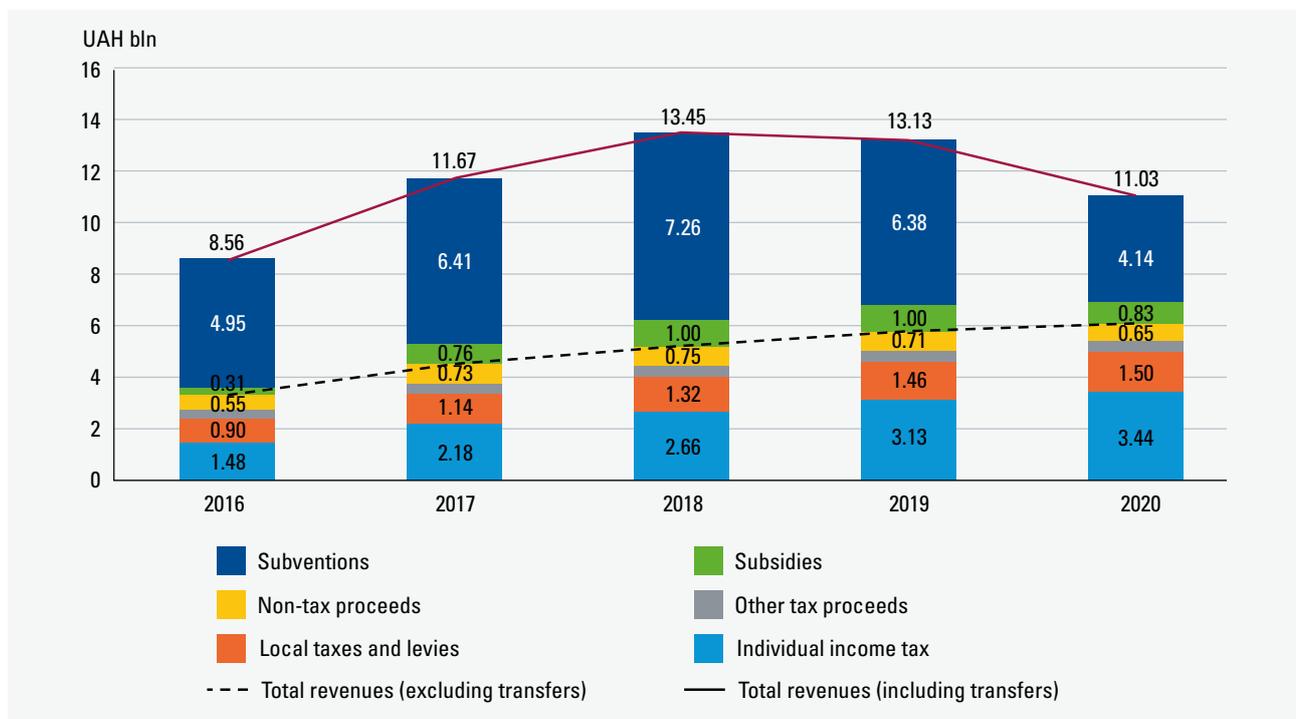
This Section analyses the revenues of the consolidated budget of Kherson Region that unites revenues of all the local budgets of the region¹⁹. The revenues of the consolidated budget of Kherson Region were lower than the average and median revenues of the other regions, and they were considerably lower than the revenues of the consolidated budget of neighbouring Dnipropetrovsk and Zaporizhzhia Regions, but close to the revenues of the consolidated budget of neighbouring Kirovohrad and Mykolaiv Regions.

The revenues of the consolidated budget of Kherson Region per capita, without taking into

account the transfers from the State Budget, were considerably lower than the respective average value of the other regions of Ukraine.

The revenues of the local budgets in Kherson Region include own revenues and transfers from the State Budget of Ukraine. The specific weight of own revenues made 38.5-38.6% in 2016-2018, which was lower than the average level in Ukraine. Their share went up in the next two years due to an increase in tax revenues of the local budgets and changes in approaches to health care and social allowance financing (Figure 6).

Figure 6. Dynamics and structure of revenues of the local budgets in Kherson Region, billion UAH



Source: State Treasury Service of Ukraine, Statistics Collections "Budget of Ukraine" of the Ministry of Finance of Ukraine

In the structure of own revenues of the local budgets of Kherson Region, tax revenues, IIT in the first place, have the main specific weight, which is typical for all the regions of Ukraine. In 2020, the IIT proceeds in the local budgets of Kherson Region made 3.4 billion Ukrainian hryvnias. The biggest amounts of the IIT were credited to the budgets of Kherson (1,200.9 million Ukrainian hryvnias), the regional budget of Kherson Region (688.4 million Ukrainian hryvnias), the budgets of Nova Kakhovka TC (243.6 million Ukrainian hryvnias),

the city of Kakhovka (119.5 million Ukrainian hryvnias) as well as Henichesk (109.0 million Ukrainian hryvnias), Oleshky (88.9 million Ukrainian hryvnias), Novotroitske (80.9 million Ukrainian hryvnias), Bilozerka (77.5 million Ukrainian hryvnias), Skadovsk (72.4 million Ukrainian hryvnias) and Beryslav (56.6 million Ukrainian hryvnias) Districts.

The property tax and fixed tax are tax proceeds of the local budgets of the region that follow by significance. The fixed tax paid by individuals is

¹⁹ According to Part 4 of Article 6 of the Budget Code of Ukraine: the consolidated budget of the region includes the indicators of the regional budget, district budgets and local self-government budgets in the regional areas.



considerably higher than proceeds from legal entities. The biggest proceeds of the fixed tax were received by the budget of the city of Kherson, Nova Kakhovka City ATC and the city of Kakhovka. In terms of the types of activities, the major fixed tax payers are agriculture and trade.

The biggest proceeds of the property tax are land charges, namely lease charges for the state and municipal land plots from the legal entities. The local authorities set rates of the land charges, which are mostly minimum, and also delay revision of the regulatory monetary appraisal of lands. As a result, the revenues from the land charges are often lower than the potential ones. The local councils take actions to suspend use of unregistered land plots. At the same time, according to the Kherson RSA, efficient administration of land charges is prevented by the imperfection of the State Register of Property Rights to Real Estate, which does not enable to make a list of property right holders and/or property items for which state registration of transfer of property rights to real estate items has been effected *for the specific period of time or the items located within the specific territory*. Instead, there is only search by the specific entity or item.

A significant element of the property tax is tax on the real estate different from the land plot, namely the one paid by the legal entities that own non-residential real estate. The least significant element in the structure of the property tax is the transport tax. The biggest proceeds of the property tax (the same way as the fixed tax) were received by the budgets of the city of Kherson, Nova Kakhovka City ATC and the city of Kakhovka. In terms of the types of activities, the major property tax (the same way as the fixed tax) payers are agriculture and trade.

The tourist levy plays the special role in Kherson Region as a sea resort region. The proceeds kept growing stably in 2016-2019. However, its actual payment in 2020 was lower than planned and than in the previous year due to the quarantine restrictions imposed to fight COVID-19.

In comparison with 2016, during the following years, the significance of the *excise tax on retail*

trade in excisable goods became considerably lower because the fuel was removed from the list of the items subject to assessment of the local retail excise tax. Instead, the local budgets included allocations from the national excise tax on the fuel produced and imported.

The environmental tax is not a significant source to fill the local budgets in Kherson Region due to absence of the vast tax base and major tax payers in the region. On the other hand, no large emissions of contaminants into the air and water facilities have a positive impact upon the environmental condition of the region.

Use of numerous tax evasion and mitigation schemes by the tax payers also has a negative impact upon dynamics of tax proceeds in Kherson Region. Another problem is low trust of tax payers in the state represented by the regulatory tax and customs authorities due to possible corruption. The above in aggregate results in under-payment of considerable funds to the state and local budgets as well as the UST. As a result, growth of expenditures to finance sustainable development of the region and the state in general is limited and slow. These problems are typical of all the regions of Ukraine, and Kherson Region is no exception.

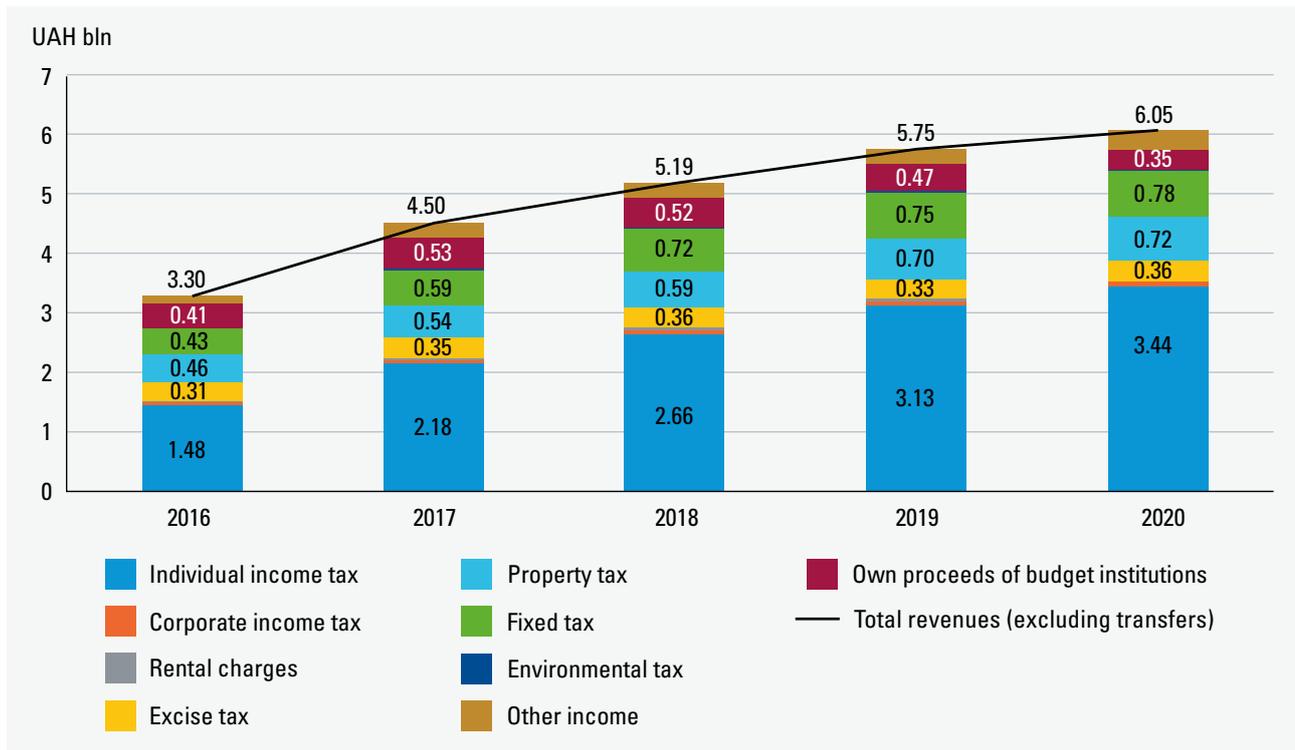
Electronic services help reduce risks of the payers' failure to adhere to the tax laws, increase voluntary payment of taxes and improve the tax culture. As of the end of 2020, the private part of the Electronic Cabinet of the State Tax Service that grants access to more than 80 electronic services was already used by 19.3 tax payers in Kherson Region, which is more than a quarter. They included 4.5 thousand economic operators, which is more than 305 thousand tax returns submitted via the telecommunication means. 14.7 thousand individual entrepreneurs sent more than 210 thousand tax returns²⁰.

The principal items of non-tax proceeds are own proceeds of budget institutions that are fully credited to the special local budget fund (Figure 7). In particular, these are the funds received by the budget educational and health care facilities for paid services.

²⁰ The Public and Tax Authorities of Kherson Region Take Care of Regional Development. Main Directorate of the STS in Kherson Region, Autonomous Republic of Crimea and City of Sevastopol. 17.12.2020. URL: <https://kherson.tax.gov.ua/diialnist/zabezpechennya-nahodjen/print-445541.html>



Figure 7. Dynamics and structure of own revenues of the local budgets in Kherson Region, billion UAH



Source: State Treasury Service of Ukraine, Statistics Collections "Budget of Ukraine" of the Ministry of Finance of Ukraine.

Different forms of transfers, including subventions (targeted transfers) and alignment subsidies, are transferred from the State Budget to the local ones. The biggest subvention is the *Educational Subvention*; it finances salaries of pedagogical staff in secondary education establishments: in 2016-2020, it grew from 1.2 billion Ukrainian hryvnias up to 2.4 billion Ukrainian hryvnias. Also, the share of the *Medical subvention* had been large until 2020, but it was reduced in 2020 and disappeared in 2021 as a result of the health care system financing reform. In pursuance of the reform, the medical subvention was replaced with the separate budget programme within the State Budget, which provides for direct payment for medical services to the facilities by the National Health Service of Ukraine (NHSU).

In 2020, the subventions for social allowances and benefits were reduced due to changes in mechanisms for financing from the designated budget transfers to the local level to the general national budget programmes. That action was aimed at increasing the performance and promptness of applicable expenditures.

In order to fight COVID-19, the local budgets, including Kherson Region, were given four new

additional subventions from the State Budget at the expense of the Fund for Counteraction to the Acute Respiratory Disease COVID-19 (122.7 million Ukrainian hryvnias in total), including:

- 66.3 million Ukrainian hryvnias to supply oxygen to the bed capacity of the health care facilities (KPKVK 41036000);
- 47.4 million Ukrainian hryvnias to supply medical equipment to the basic health care facilities in the hospital districts (KPKVK 41037800);
- 4.8 million Ukrainian hryvnias to make additional payments to the staff of the health care facilities (KPKVK 41031900);
- 4.3 million Ukrainian hryvnias to take actions to prevent occurrence and spread, to contain and eliminate COVID-19 (KPKVK 41034700).

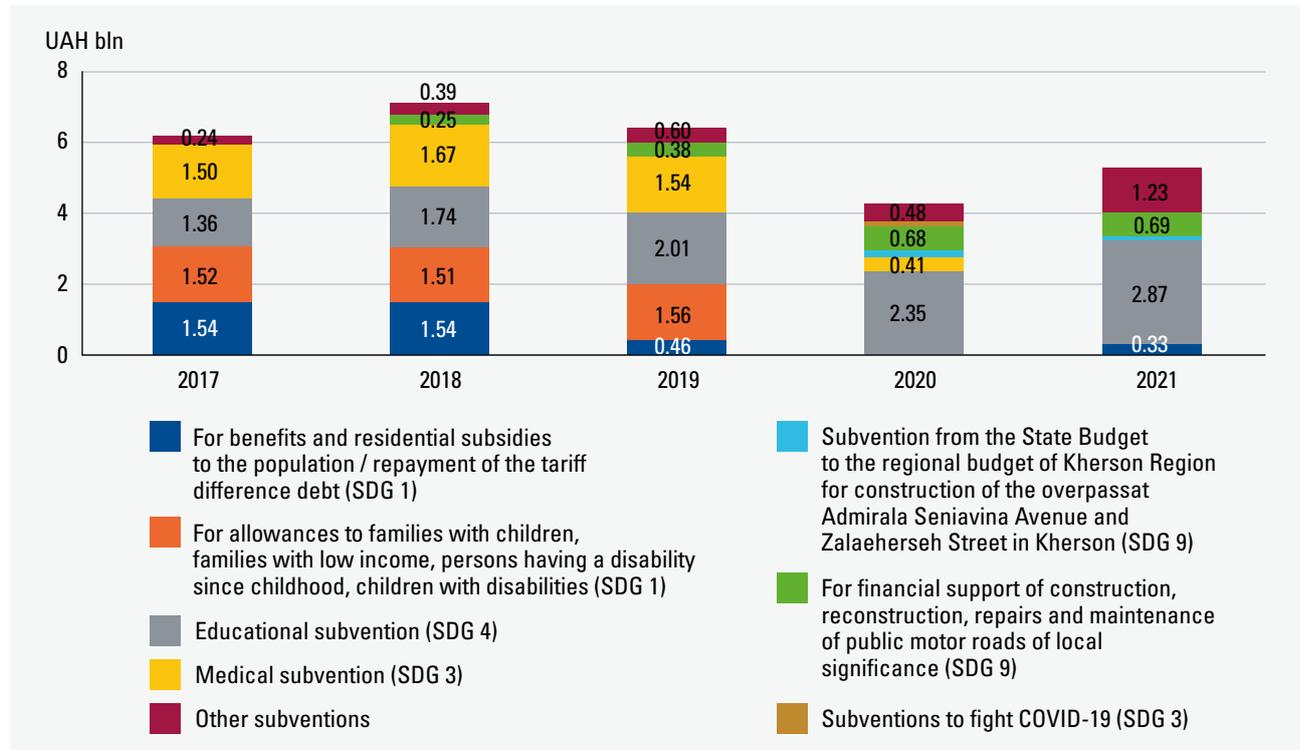
Introduction of the national programme "Large Construction" initiated in 2020 resulted in the considerable increase in the *Subvention from the state budget to the local budgets for construction, reconstruction, repairs and maintenance of the motor roads of local significance*. Moreover, in 2020, the *Subvention from the State Budget to the regional budget of Kherson Region for construction of the overpass at*



Admirala Seniavina Avenue and Zalaeherseh Street in Kherson was granted (Figure 8). In

general, the road construction improves the investment climate in the region (see Section 6).

Figure 8. Dynamics of subventions to the local budgets in Kherson Region in 2017-2021, billion UAH



Source: State Treasury Service of Ukraine

Therefore, own revenues of the local budgets in Kherson Region are increasing. The growth pace went considerably slower in 2020 as a result of the COVID-19 quarantine. However, the region received the material financial support from the government for the health care facilities and road infrastructure development that year. A decrease in the volume of a number of subventions and transformation of

the mechanism for financing via the budget programmes are explained by an attempt to increase performance of use of budget funds.

More proceeds of the local budgets enable their predictable and efficient use for sustainable development of infrastructure of the settlements, higher quality of medical services, and adequate level of education and culture.

4.3. Budget Expenditures

4.3.1 Expenditures of the Consolidated Budget of Kherson Region

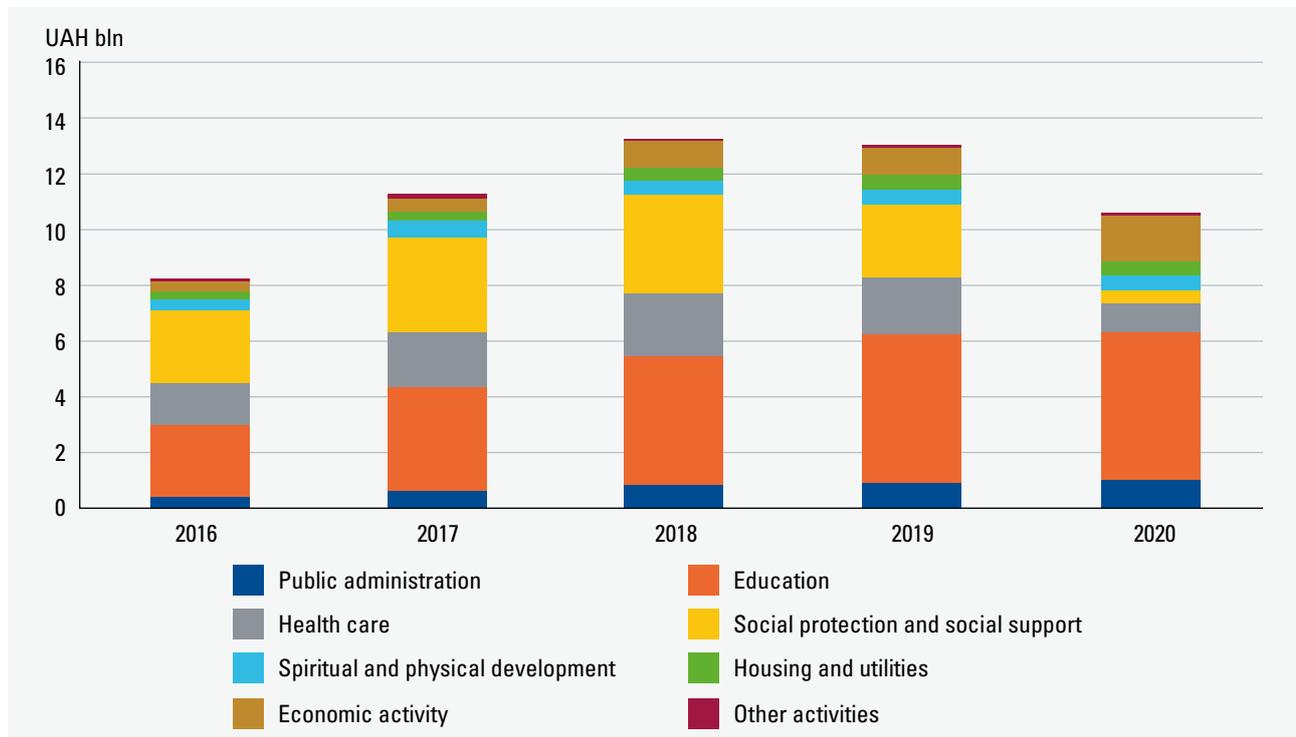
The Budget Code of Ukraine regulates the expenditures incurred at each budget level: regional, district and territorial community ones (see the Insert). In 2017-2018, the expenditures of the local budgets grew as a result an increase in revenues and delegation of powers to the local level. For the last few years, there have been considerable changes to the format and

sources of financing of different governmental functions, which has materially influenced the structure of expenditures of the consolidated budget of Kherson Region (Figure 9).

The main functions to which direct local budget expenditures are directed are education, health care and economic activity. Since 2020, the social protection and social insurance have not been the main expenditures of the local budgets due to the changes in approaches to financing of respective allowances to the population.



Figure 9: Structure of expenditures of the consolidated budget of Kherson Region based on the functional classification



Note: the expenditures include both the ones incurred at the expense of own revenues and subventions among the local budgets.

Source: Statistical Budget Collections of the Ministry of Finance for 2016-2019, Budget for Citizens Portal (openbudget.gov.ua) for 2020

Most expenditures of the local budgets of Kherson Region are expenditures for education, which is, first and foremost, consistent with SDG 4. *Quality education*. Expenditures for school education are financed with the educational subvention²¹ from the State Budget in the first place whereas the local authorities finance maintenance, development and utilities of schools as well as salaries, except for teachers' salaries. The educational subvention has been growing for all the years due to the increase in the teachers' work pay. There is a number of smaller subventions, such as "Capable school" and "New Ukrainian school," the purpose of which is to improve the quality of school education. The local authorities finance vocational educational establishments and pre-school education owned by the community. Despite the limited revenues in 2020 as a result of the coronavirus crisis, the expenditures of the local budgets in the region for education have grown.

In 2019 and 2020, the expenditures of the local budgets for health care (*SDG 3: Good health and well-being*), which were traditionally financed with the medical subvention, were reduced as

a result of introduction of the medical reform: the medical subvention was replaced with direct payment for medical aid from the National Health Service of Ukraine to the health care facilities (HCF), which was used as work pay. At the same time, the local authorities still finance capital expenditures, maintenance, development and utilities of the HCF. If the influence of the traditional medical subvention is omitted, the health care expenditures of the local budgets in the region in 2020 were estimated to grow by around 12% as a result of the need to improve the capacity of the HCF to fight Covid-19.

The expenditures of the consolidated budget of Kherson Region until 2020 had a large share of social protection financing (in the first place, *SDG 1: No poverty*) before 2020. At the same time, most of the respective payments were financed with the subventions from the State Budget: subventions for payments for children, subventions for housing benefits and subsidies etc. In 2019, the housing and utility subsidy monetisation reform was gradually implemented, which meant that the respective subvention from the State Budget was first narrowed and

²¹ Targeted transfer from the State Budget to the local budgets for school financing.



then fully cancelled. In 2020, the financing of social support from the local budgets was rapidly reduced because the respective social subventions were cancelled, and the programmes were centralised at the level of the Ministry of Social Policy. Some of the local budgets introduce their own social support drivers and programmes for different populations subject to their priorities and availability of budget opportunities.

The expenditures of the consolidated Budget of Kherson Region for the economic activity (which is de facto associated with a large number of the sustainable development goals) grew by 57% in nominal terms in 2020. In the first place, it is connected with the national introduction of the state programme “Large Construction” that financed construction of roads, construction and reconstruction of educational and health care facilities with applicable subventions from the State Budget. The local authorities also increased financing of the respective programmes at their own expense since their powers were expanded as a result of the decentralisation reform as well as the need to support the health care facilities during the implementation of the medical reform and fight against Covid-19.

As for the economic classification, the local budgets direct most funds for work pay and payroll charges. As a result of the above-mentioned changes in the approaches to financing social allowances and health care and against the background of the increase in salaries in

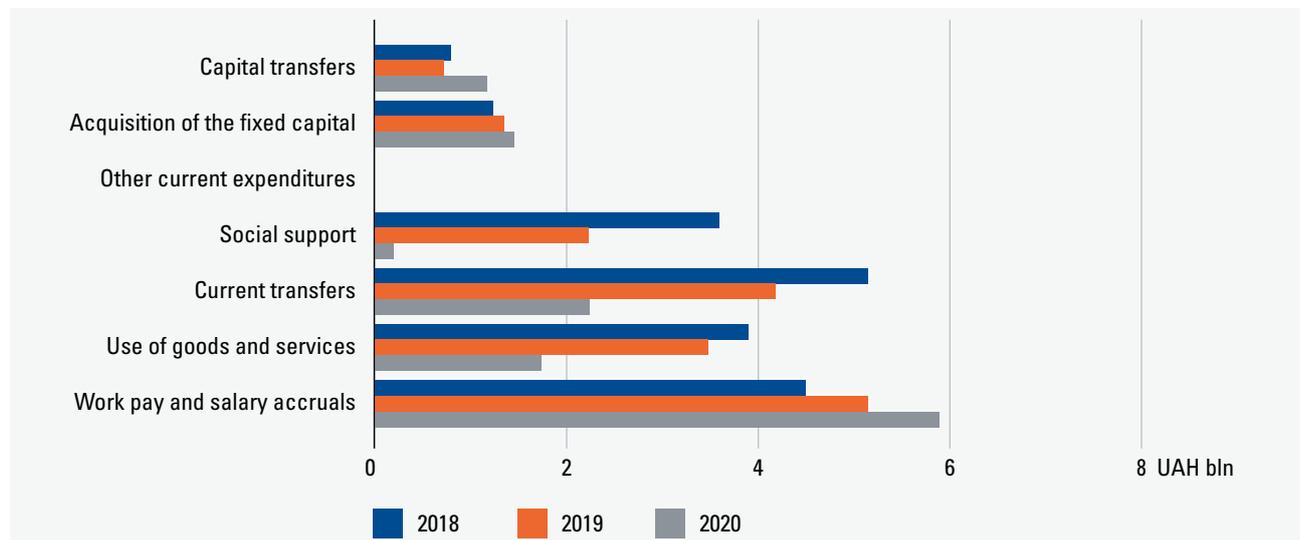
the public sector and budget institutions, those expenditures made around 48% of all the local budget expenditures in 2020.

A decrease in expenditures to procure goods and services in 2020 was caused by reduction of expenditures for specific actions in pursuance of the state programmes, namely less financing of the design and construction works for family-type houses and smaller expenditures for provision of housing to various populations as a result of the limited budget capacity against the need to finance the fight against Covid-19. The local authorities hardly spent any funds for water quality improvement programmes in 2020. At the same time, financing for health care equipment grew to enhance the ability of the facilities to provide medical aid to the patients suffering from COVID-19.

The important expenditures still are current transfers that contain subsidies and transfers to enterprises as well as subventions to other local budgets.

In 2020, the expenditures for acquisition of the fixed capital and for capital transfers, which actually are investment into development reached around 17.7% of the local budget expenditures in comparison with approximately 10% in 2019 (Figure 10). It resulted in the need to invest funds into upgrade of the health care facilities against the pandemic background and the launch of the national programme “Large Construction”.

Figure 10: Structure of consolidated budget expenditures of Kherson Region based on the economic classification



Source: Budget for Citizens Portal (openbudget.gov.ua)



In addition to the local budget funds, the important source of development finance in the regions and territorial communities is financing of projects from the State Fund for Regional Development (see Section 4.3.3). According to different experts, financing of projects from the State Fund for Regional Development (SFRD) is an adequate approach to distribution of funds from the centre to the local level since it provides for clear procedures and principles. At the same time, some of the funds of the SFRD, the financing of which under the BCU is supposed to make at least 1% of the forecast volume of general fund revenues of the draft State Budget, are annually redistributed to finance the social and economic subvention; political weight of the people's deputies plays a major role in the distribution. The biggest portion of such subvention is used to finance the educational and health care facilities as well as sports and play grounds. However, it should be noted that it is important to refuse from directing funds to non-transparent social and economic subventions and to use financing from the State Budget for the SFRD.

4.3.2 Expenditures of the Consolidated Budget of Kherson Region by the SDGs

Budget classification and budget data sheets both at the central and local levels do not contain the coding that would allow to tie the expenditures within specific budget programmes to the specific sustainable development goals. That is why the INFF contains the separate task to develop the tool that would enable determining the directions of spending funds by the SDGs and assessing financing gaps at the planning stage.

The DFA includes the rapid expert assessment of using expenditures of the consolidated budget of Kherson Region by the SDGs in 2018-2020²². The assessment was based on the codes of the standard programme classification of expenditures (four-digit codes), without taking into account detailed budget programme data sheets. It is explained by the fact that all the local budgets have their own programmes and budget programme data sheets.

Expert assessment of division of expenditures by the SDGs helps understand the priorities or approaches to financing of expenditures. Moreover, all the expenditures of the consolidated budget of the region were distributed since all the expenditures were assumed to facilitate achievement of the integral sustainable development goals.

During the expert assessment of division of the programmes and financing thereof by the SDGs, the initial task at which the programme was aimed was considered. Moreover, some of the programmes were considered to facilitate achievement of several goals. In particular, expenditures for construction of hospitals and schools facilitate achievement of SDG 3 "Good health and well-being" and SDG 4 "Quality education" as well as SDG 9 "Industry, innovation and infrastructure". Some of the programmes are concurrently related to SDG 1 "No poverty" and SDG 10 "Reduced inequalities". The same way as in the other sections, the weights for division of the financing were determined based on the expert opinion.

According to the estimates most standard programme classification codes are associated with performance of tasks for the sustainable development goals that are related to people: social support (SDGs 1 and 10), education (SDG 4) and health care (SDG 3). The important thing is that the local authorities direct financing at the sustainable development of cities and communities (SDG 11), which pertains to the powers of the local authorities (Figure 11).

During the expert assessment of division of the programmes and financing thereof by the SDGs, the initial task at which the programme was aimed was considered. Moreover, financing of some of the programmes was divided between several sustainable development goals (Figure 12).

Most financing was allocated for *Goal 1 "No poverty"* in 2018. However, as a result of changes to the approaches to financing of social support at the local level, financing of this goal from the local budgets was reduced in 2020. Today this goal is financed from the State Budget in order to maintain higher performance of respective expenditures and the same accessibility of social

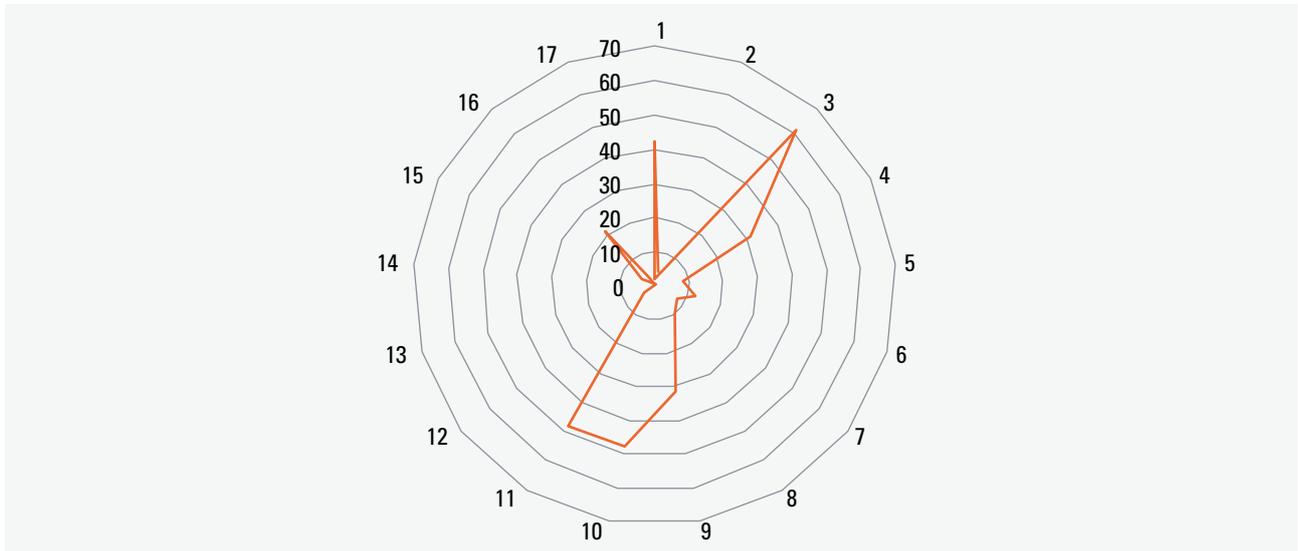
²² Analysis is based on the data for 2018-2020, which are available on the portal of open data on public finance called Budget for Citizens, <http://openbudget.gov.ua>.



support for citizens. At the same time, the local authorities in Kherson Region are estimated to pay more attention to *Goal 10 “Reduced*

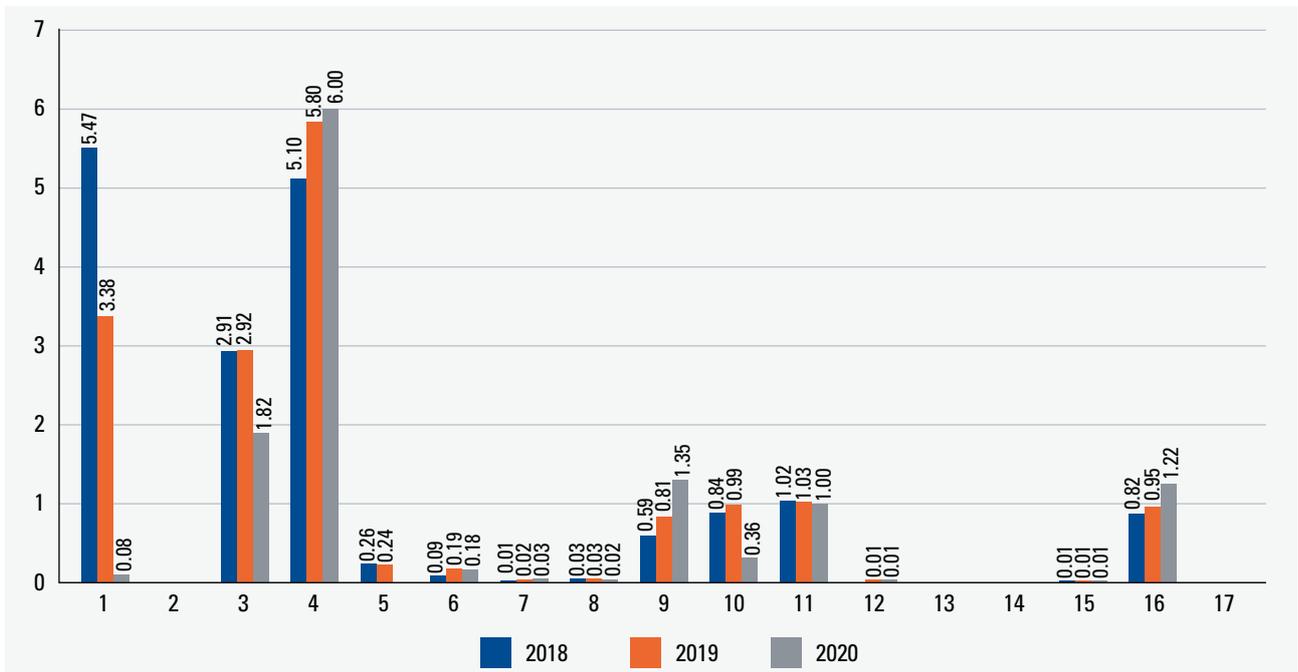
inequalities” rather than Goal 1, which is connected with the efforts to improve accessibility of social services.

Figure 11: Distribution of the programme classification codes by the SDGs, 2018-2020



Source: expert opinion based on the data from the Budget for Citizens Portal (<http://openbudget.gov.ua>)

Figure 12: Distribution of consolidated budget expenditures of Kherson Region by the SDGs, 2018-2020, billion UAH



Source: expert opinion based on the data from the Budget for Citizens Portal (<http://openbudget.gov.ua>)

The local authorities do not allocate expenditures to support agriculture so the expenditures for *Goal 2 “Zero hunger, development of agriculture”* are not material. According to the national DFA report, state aid to the agricultural enterprises and farmers is granted within the expenditures of the State Budget.

Goal 3 “Good health and well-being” includes all the budget programmes for health care, rehabilitation, recovery and development of sports. In 2020, the local authorities considerably reduced financing of expenditures for general hospitals, emergency medical aid centres, perinatal centres and maternity homes, which



was mostly connected with implementation of the health care financing reform and transition to direct payment for their services by the NHSU. At the same time, according to the Budget Code of Ukraine, the local self-government authorities as owners of the municipal health care facilities (HCF) have to finance utility services and energy carriers of the respective HCF as well as local programmes for their development. In particular, they include procurement of devices and equipment as well as renovation of the respective facilities. The expenditures to procure equipment for the HCF were increased by the local authorities to improve the capacity of the facilities for aid in case of COVID-19.

The expenditures for *Goal 4 "Quality education"* are now the largest in the local budgets of Kherson Region. Most expenditures are directed to finance the secondary education establishments, for which the local budgets receive the educational subvention from the State Budget in order to cover the salaries due to the pedagogical staff in the secondary education establishments. The utility payments and development expenditures in this area are covered by the local authorities. The LSGA also fully finance the pre-school and out-of-school education.

The expenditures to finance the infrastructure are important and pertain to *Goal 9 "Industry, innovation and infrastructure"*. These expenditures partly include financing of construction of different facilities, such as road expenditures.

The local authorities of Kherson Region pay attention to the development of the communities as well as provision of accommodation or improvement of accessibility of accommodation for the specific populations, which pertains to *Goal 11 "Sustainable cities and communities"*.

Goal 16 "Peace, justice and strong institutions" includes the expenditures that encourage development of strong institutions at the local level as well as financing of the local election. At the same time, expenditures for security and defence are incurred from the State Budget by the respective authorities and their units.

According to experts, minor financing is allocated by the local authorities for such goals as *SDG 12 "Responsible consumption and production"* and *SDG 15 "Life on land"*. At the same time, according to the experts, there are no expenditures directed at achieving *Goal 13 "Climate action"* and *Goal 14 "Life below water"*. The first one is probably connected with the fact that the local authorities are now paying less attention to the climate policy, and no expenditures for *Goal 14* are probably explained by the fact that the funds from the State Budget are partly spent for these goals. According to the assessment, the local budgets of Kherson Region also do not incur expenditures for *SDG 17* since they have no debt service expenditures.

4.3.3 Financing from the State Fund for Regional Development

One of the development finance sources in Ukraine is the State Fund for Regional Development established as the separate budget programme within the State Budget. The funds are allocated to finance projects in the regions, which were selected by the local authorities and the special committee and finally approved by the resolution of the Cabinet of Ministers of Ukraine. The Ministry of Regions submits information on project financing by regions and areas of financing. The Figure shows the expert opinion on distribution of the projects that have been financed from the SFRD in Kherson Region, by the sustainable development goals in terms of several years. The assessment was based on selection of the prevailing sustainable development goal since most projects financed with the SFRD can be indirectly associated with *SDG 8* although it was unlikely to be the main one in those projects.²³ The projects that can pertain to *SDGs 3 and 4* as well as *9* in 2016 are estimated to be financed most often. There are certain *SDGs* that were not defined as principal ones in financing of the projects from the SFRD. In the first place, they are the goals financed with the state or local budgets. In particular, such sustainable development goals include *Goals 1, 2, 5, 8, 10, 13, 14, 16 and 17* (Figure 13).

²³ The approach was selected to avoid duplication in consideration of project financing.



One of the assessment problems is inconsistency of data on the official website of the State Fund for Regional Development²⁴ with the decree of the Cabinet of Ministers. This research only considers information from the decree of the CMU. Another problem is lack of information on the duration of implementation and the period during which the project is financed in the decree of the CMU as well as details of the project, for instance, whether financing is provided to implement the project or to repay the debt in the project that has already been financed with the borrowed funds.

The largest projects in 2016 were restoration works for the taxi path surface at the ramp of Kherson Airport, with the value of 44.28 million Ukrainian hryvnias, and construction of the water supply system in the urban village of Komyshany, Komsomolske District, with the value of 9.86 million Ukrainian hryvnias.

The projects with the biggest financing in 2017 were the construction of the overpass in Kherson with the value of 37.7 million Ukrainian hryvnias, and restoration works for the taxi path surface at the ramp of Kherson Airport, with the value of 12.87 million Ukrainian hryvnias.

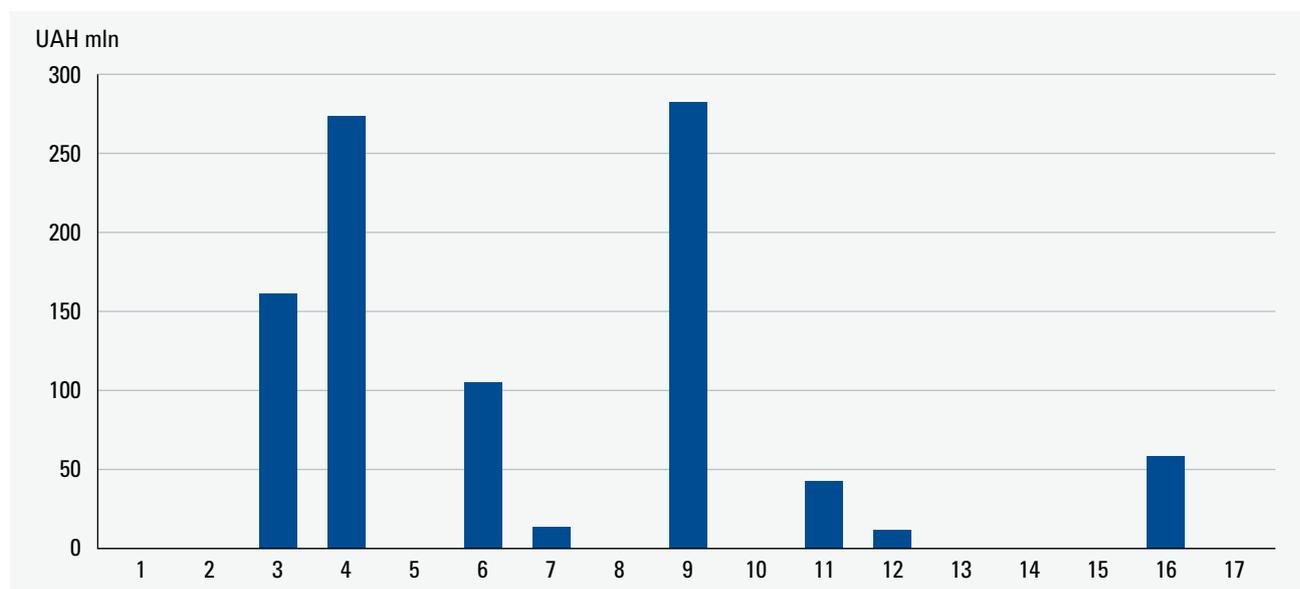
In 2018, the projects with the biggest financing were construction of the overpass in Kherson with the value of 86.23 million Ukrainian hryvnias, and construction of the ASC in Nova Kakhovka with the value of 18 million Ukrainian hryvnias.

In 2019, the largest projects were installation of the runway lighting system at Kherson Airport with the value of 46.15 million Ukrainian hryvnias, and purchase of ambulances with the value of 17.57 million Ukrainian hryvnias.

In 2020, the projects with the biggest financing were installation of the runway lighting system at Kherson Airport with the value of 23.75 million Ukrainian hryvnias, and reconstruction of the buildings, facilities, external utility systems and improvement of the area of Nova Zbruivka School No. 1 in the village of Nova Zbruivka, Hola Prystan District.

In 2021, the projects with the biggest financing were restoration and correction of the municipal facility "Regional Palace of Culture" in Kherson with the value of 25.95 million Ukrainian hryvnias, and overhaul of Kalanchak Complete Secondary Education Establishment No. 1 in the urban village of Kalanchak, Kalanchak District, with the value of 20.9 million Ukrainian hryvnias.

Figure 13. Assessment of the aggregate project financing from the SFRD by the SDGs in Kherson Region in 2016-2021, million UAH



Source: resolutions of the Cabinet of Ministers of Ukraine, expert opinion

²⁴ <https://dfr.minregion.gov.ua/>



SDG 3. Good health and well-being. This goal includes 100% of the investment projects in medicine, sports infrastructure (in case it is not the project that finances, for instance, winterising of the sports facility or technical re-equipment thereof within the sports infrastructure project, i.e. the investment activity also consistent with another SDG; in this case, 70% of the investment is calculated for Goal 3). In total, the investment was mostly made into reconstruction of the buildings as well as technical re-equipment of hospitals, and overhaul and construction of the sports infrastructure.

In 2016, only three projects were financed for this SDG: one that was 100% consistent with the SDG, one – 70%, and one – 30%. The projects with the biggest financing this year are reconstruction of the football field in the complex children and youth sports school in Kherson with the value of 1.78 million Ukrainian hryvnias for the SDG, and overhaul of the Primary Medical Aid Centre in Kochubeivka Amalgamated Territorial Community for the amount of 1.36 million Ukrainian hryvnias.

In 2017, fifteen projects 100% consistent with the SDG were financed. The projects with the biggest financing for this SDG were establishment of the Highly-Specialised Medical Rehabilitation Centre of the Regional Rehabilitation Treatment Hospital in Kherson, with the value of 5.85 million Ukrainian hryvnias, and purchase of ambulances in Kherson with the value of 3.96 million Ukrainian hryvnias.

In 2018, nine projects 100% consistent with the SDG were financed. The projects with the biggest financing were establishment of the Highly-Specialised Medical Rehabilitation Centre of the Regional Rehabilitation Treatment Hospital in Kherson, with the value of 13.75 million Ukrainian hryvnias, and purchase of ambulances in Kherson with the value of 4.13 million Ukrainian hryvnias.

In 2019, eight projects 100% consistent with the SDG were financed. The projects with the biggest financing were purchase of ambulances in Kherson with the value of 17.57 million Ukrainian hryvnias, and overhaul of the sports football field “Dnipro” at the sports complex of Energy Stadium in Nova Kakhovka, with the value of 12.43 million Ukrainian hryvnias.

In 2020, six projects 100% consistent with the SDG were financed. The projects with the biggest financing into the SDG were reconstruction of the training field at Crystal Stadium in Kherson with the value of 11.25 million Ukrainian hryvnias, and overhaul of the sports football field “Dnipro” at the sports complex of Energy Stadium in Nova Kakhovka, with the value of 6.61 million Ukrainian hryvnias.

In 2021, four projects 100% consistent with the SDG were financed. The projects with the biggest financing into the SDG were construction and correction of the stadium in the village of Chornobaivka, with the value of 16.17 million Ukrainian hryvnias, and construction and correction of the sports grounds group in the city of Tavriisk, with the value of 10.27 million Ukrainian hryvnias.

SDG 4. Quality education. The same way as with SDG 3, the investment into education is divided into the ones that have 100% and 70% of the volume pertaining to this SDG by the experts. This goal includes investment into schools, kindergartens and children culture and art centres as well as sports schools.

In 2016, only twenty-three projects were found to be consistent with the SDG, including thirteen projects with 100% consistency with the SDG and ten projects with 70% consistency with the SDG. The projects with the biggest financing were reconstruction of the football field of the children and youth sports school in Kherson with the value of 4.16 million Ukrainian hryvnias, and reconstruction of the roof in the general educational gymnasium school in the urban village of Novotroitske, with the value of 2.49 million Ukrainian hryvnias.

In 2017, twelve projects were found to be consistent with this SDG, including ten projects fully consistent with the SDG and two projects with 70% consistency with the SDG. The projects with the biggest financing that year were reconstruction of the roof and façade of Ivanivka Gymnasium in the urban village of Ivanivka with the value of 4.21 million Ukrainian hryvnias, and reconstruction of the roof and façade of the general educational school in the village of Kostiantynivka, Hornostaivka District, with the value of 2.8 million Ukrainian hryvnias.



In 2018, seventeen projects were generally found to be consistent with this SDG, including twelve projects 100% consistent with the SDG and five projects with 70% consistency with the SDG. The projects with the biggest financing were reconstruction of the sports ground with the artificial surface at general educational school No. 47 in Kherson with the value of 9 million Ukrainian hryvnias as well as reconstruction of the municipal facility “Chornianka Geriatric Home” as municipal pre-school educational establishment “Zoloty Kliuchy” in the village of Chornianka, Kakhovka District, with the value of 3.9 million Ukrainian hryvnias.

In 2019, fourteen projects were generally found to be consistent with this SDG, including eleven projects fully consistent with the SDG and three projects with 70% consistency with the SDG. The projects with the biggest financing were reconstruction (with expansion up to 180 beds) of the kindergarten in the village of Muzykivka, Bilozerka District, with the value of 8.79 million Ukrainian hryvnias, and reconstruction involving extension of two groups and sports ground at the kindergarten in the village of Vynohradove, Oleshky District, with the value of 6.37 million Ukrainian hryvnias.

In 2020, nineteen projects were defined for this SDG, including sixteen projects 100% consistent with the SDG and three projects 70% consistent with the SDG. The projects with the biggest financing were reconstruction of the buildings, facilities, external utility systems and improvement of the area of Nova Zbruivka School No. 1 in the village of Nova Zbruivka, Hola Prystan District, with the value of 21.69 million Ukrainian hryvnias, and reconstruction of the kindergarten in the village of Muzykivka, Bilozerka District, with the value of 14.43 million Ukrainian hryvnias. In 2021, SDG 4 has five projects, all of them 100% consistent with the SDG. The projects with the biggest financing were overhaul of Kalanchak General Educational School No. 1 in the urban village of Kalanchak with the value of 20.9 million Ukrainian hryvnias, and construction of the kindergarten at the area of general educational school No. 5 in Kherson with the value of 8.58 million Ukrainian hryvnias.

SDG 6. Clean water and sanitation. The main projects for this SDG are repairs and reconstruction

as well as construction of water pipes and pipelines as well as construction and repairs of water treatment facilities.

In 2016, four projects consistent with the SDG were financed, including three projects with 100% consistency and one with 30% consistency. The largest projects were construction of the water supply system in the urban village of Komyshany, Komsomolske District, with the value of 9.86 million Ukrainian hryvnias as well as overhaul of the water supply system in the village of Dudchyne, Kakhovka District, with the value of 2.09 million Ukrainian hryvnias.

In 2017, a total of five projects were financed for this SDG; all of them were 100% consistent with the SDG. The largest projects were construction of the water supply system in the urban village of Komyshany, Komsomolske District, with the value of 12.3 million Ukrainian hryvnias, and reconstruction of the sewage treatment systems in the city of Henichesk.

In 2018, a total of three projects were financed for this SDG; all of them were 100% consistent with the SDG. The largest projects were reconstruction of the sewage treatment facilities in the city of Henichesk with the value of 8.62 million Ukrainian hryvnias as well as reconstruction of the sewage system in the urban village of Nyzhni Sirohozy with the value of 5.41 million Ukrainian hryvnias.

In 2019, a total of five projects were financed; all of them were 100% consistent with the SDG. The largest projects were reconstruction of the sewage treatment facilities in the city of Skadovsk with the value of 7.99 million Ukrainian hryvnias as well as reconstruction of the sewage facilities in the city of Henichesk with the value of 5.36 million Ukrainian hryvnias.

In 2020, only one project 100% consistent with the SDG was financed: that was construction of the sewage treatment facilities in the city of Skadovsk with the value of 14.4 million Ukrainian hryvnias.

In 2021, one project 100% consistent with the SDG was financed: that was construction of the sewage treatment facilities in the city of Henichesk with the value of 11.24 million Ukrainian hryvnias.



SDG 7. Affordable and clean energy. This sustainable development goal is border-line for most of the projects since, for instance, overhaul of a school or hospital with account of the energy-efficiency requirements is focused on upgrade of the school in the first place and only then on energy-efficiency. Therefore, most of the projects within this SDG are projects with the share of 30% of the total investment.

In 2016, ten projects were financed for this SDG, all with the scope of investment 30% consistent with the SDG. The largest projects were reconstruction of the swimming pool with the equipment of school No. 46 with the solid fuel heating in Kherson, with the value of 1.16 million Ukrainian hryvnias, and thermal rehabilitation of the municipal enterprise “Palace of Youth and Students” in Kherson with the value of 1.06 million Ukrainian hryvnias for this SDG.

In 2017, a total of two projects were financed for this SDG, all with the scope of investment 30% consistent with the SDG. The projects were equipment of school No. 46 with the solid fuel heating in Kherson with the value of 0.52 million Ukrainian hryvnias within this SDG, and reconstruction (winterising of the façade, replacement of the windows and outer doors) at Tiahynka Pre-School Establishment in the village of Tiahynka, Beryslav District, with the value of 0.043 million Ukrainian hryvnias for this SDG.

In 2018, five projects were determined for this SDG; all of them were 30% consistent with the SDG. The largest projects were thermal upgrade (overhaul) of the general educational school in the village of Tomyna Balka, Bilozerske District, with the value of 1.14 million Ukrainian hryvnias, and thermal upgrade (overhaul of the heating system) of Mali Kopani General Educational School in the village of Mali Kopani, Hola Prystan District, with the value of 0.87 million Ukrainian hryvnias for this SDG.

In 2019, a total of three projects were financed for this SDG; all of them were 30% consistent with the SDG. The largest projects were thermal upgrade (overhaul of the heating system) of Mali Kopani General Educational School in the village of Mali Kopani, Hola Prystan District, with the value of 0.65 million Ukrainian hryvnias, and implementation of the measures by means

of the energy-efficient technologies for thermal rehabilitation of the building of Dobropillia General Educational School with the value of 0.66 million Ukrainian hryvnias for this SDG.

In 2020, a total of three projects were financed for this SDG; all of them were 30% consistent with the SDG. The projects with the biggest financing were reconstruction of the building of the kindergarten “Lelechenia” in the urban village of Ivanivka, Ivanivka District, with the value of 2.65 million Ukrainian hryvnias allocated for this SDGs, and implementation of the measures by means of the energy-efficient technologies for thermal rehabilitation of the building of the general educational school in the village of Dolmaty, Hola Prystan District, with the value of 0.75 million Ukrainian hryvnias allocated for this SDG.

In 2021, neither investment was consistent with the SDG.

SDG 9. Industry, innovation and infrastructure.

Almost in all cases, the investment into Goal 9 in Kherson Region for the period from 2016 to 2021 is investment into the infrastructure. In the first place, that includes construction and repairs of motor roads and investment into the airport. If the investment is made in cities, this Goal is often defined as auxiliary one to Goal 11.

In 2016, only one project was financed for this SDG; it was 100% consistent with the goal. It was reconstruction of the surface and taxi paths at Kherson Airport, with the value of 44.28 million Ukrainian hryvnias.

In 2017, two projects pertained to that SDG, all of them 100% consistent with the SDG. They included construction of the overpass in Kherson with the value of 37.7 million Ukrainian hryvnias, and reconstruction of the surface and taxi paths at Kherson Airport, with the value of 12.87 million Ukrainian hryvnias.

In 2018, only one project was financed for this SDG; it was 100% consistent with the goal. It was construction of the overpass in Kherson with the value of 86.23 million Ukrainian hryvnias.

In 2019, two projects fully consistent with the SDG were implemented in total. They were installation of the runway lighting system at



Kherson Airport with the value of 46.15 million Ukrainian hryvnias, and construction of the overpass in Kherson with the value of 10.84 million Ukrainian hryvnias.

In 2020, two projects fully consistent with the SDG were implemented in total. They were installation of the runway lighting system at Kherson Airport with the value of 23.75 million Ukrainian hryvnias, and construction of the overpass in Kherson with the value of 1.3 million Ukrainian hryvnias.

In 2021, only one project was financed for this SDG; it was 100% consistent with the goal. It was installation of the runway lighting system at Kherson Airport with the value of 15.73 million Ukrainian hryvnias.

SDG 11. Sustainable cities and communities.

Financing of projects within SDG 11 is mostly investment into development of the city transport infrastructure as well as cultural and art establishments like museums, cultural centres, and creation of urban development documentations and construction of residential buildings.

In 2016, only one project was financed for this SDG; it was fully consistent with the SDG. It was reconstruction of the palace of culture in Nova Kakhovka with the value of 5 million Ukrainian hryvnias.

In 2017, no projects were financed for this SDG.

In 2018, no projects were financed for this SDG as well.

In 2019, only one project was financed for this SDG; it was fully consistent with the SDG. It was restoration of the building of the Regional Palace of Culture in Kherson with the value of 10 million Ukrainian hryvnias.

In 2020, only one project was financed; it was fully consistent with the SDG. It was restoration of the building of the Regional Palace of Culture in Kherson with the value of 4 million Ukrainian hryvnias.

In 2021, only one project was financed as well; it was restoration of the building of the Regional Palace of Culture in Kherson with the value of 25.95 million Ukrainian hryvnias.

SDG 12. Responsible consumption and production.

Only one project was financed for this SDG in 2016-2021; in particular, in 2021, the domestic waste sorting facility was built in the city of Beryslav with the value of 10 million Ukrainian hryvnias.

SDG 15. Life on land. Only one project was implemented for this SDG during the entire period of interest. It was implemented in 2016. It was construction and equipment of the Artesian well in the sanitary protection zone within the Kachkarivka Village Council, Beryslav District, with the value of 1.34 million Ukrainian hryvnias.

SDG 16. Peace, justice and strong institutions. The absolute majority of the projects defined to be consistent with the SDG were construction and reconstruction of buildings into the administrative service centres (ASC).

In 2016-2017, no projects were financed for this SDG.

In 2018, one project was financed for this SDG; it was 100% consistent with the goal. It was construction of the ASC in Nova Kakhovka with the value of 18 million Ukrainian hryvnias.

In 2019, two projects 100% consistent with the SDG were financed. That was construction of the ASC in Nova Kakhovka with the value of 11.77 million Ukrainian hryvnias, and creation of the Safety Centre in Zelenyi Pid Territorial Community, including the purchase of the fire engine for 3 million Ukrainian hryvnias.

In 2020, two projects fully consistent with the SDG were financed. They were construction of the ASC in Nova Kakhovka with the value of 4.76 million Ukrainian hryvnias, and creation of the Safety Centre in Zelenyi Pid Territorial Community, including the purchase of the fire engine for 4.5 million Ukrainian hryvnias.

In 2021, only one project fully consistent with the SDG was financed: it was construction of the ASC in Nova Kakhovka with the value of 13.07 million Ukrainian hryvnias.

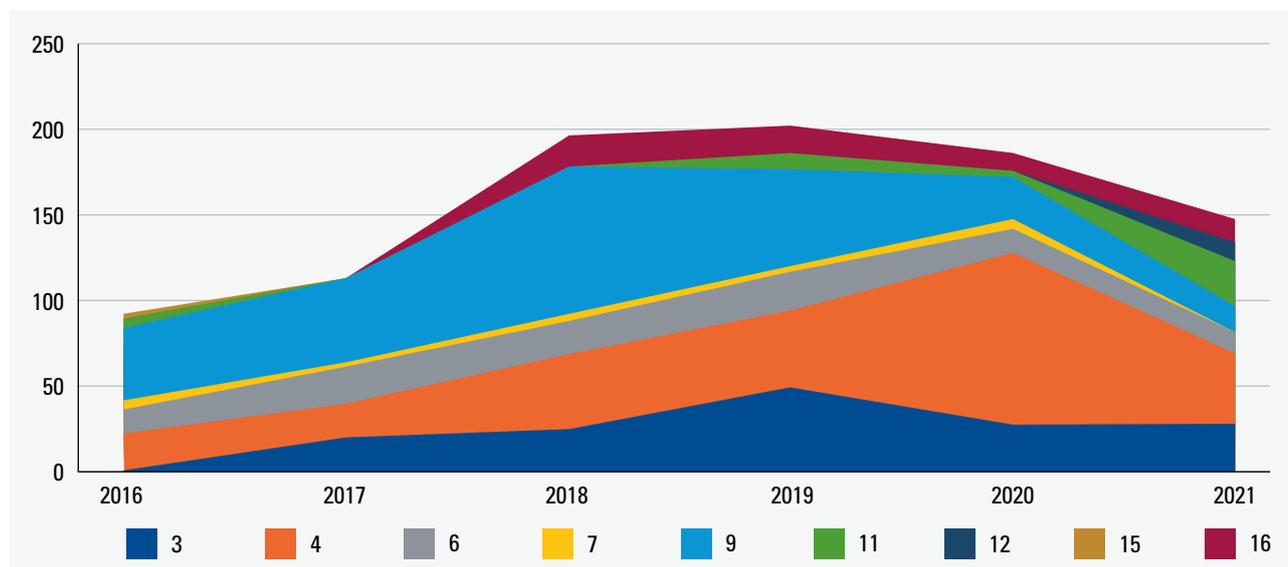
Therefore, the SDGs with most financing within the SFRD projects are Goals 9 and 4 as well as SDGs 3 and 6. The SDGs which are supposed to be financed at the local and regional levels



and have not been financed at all are SDGs 15 and 8. Only one project has been financed within SDG 15 (Figure 14). It should be noted that the projects financed from the SFRD are

overhaul of buildings and roads whereas construction of new buildings and infrastructure and procurement of equipment are mostly not invested (except for several projects).

Figure 14. Aggregate dynamics of SDG financing by years, million UAH²⁵



Source: resolutions of the Cabinet of Ministers of Ukraine, expert opinion

4.4. Local borrowing

According to the BCU, local borrowing may be effected by city budgets to finance development budgets.²⁶ Local external borrowing may only be effected by the Kyiv and Sevastopol City Councils, and councils of cities of regional significance, in particular, concessional loans from international financial institutions that are an important source of financing of development projects. A borrowing decision is taken by the respective authority and approved by the Ministry of Finance.

At the same time, according to the Ministry of Finance, neither of the local budgets of Kherson Region effected local borrowing in 2016-2020.²⁷ Lack of such borrowing explains zero expenditures of the local budgets to service debt of the local budgets. At the same time, Kherson Region is implementing several projects financed with the loans from the IFIs, where the local communities are one of the beneficiaries although they are not direct borrowers of the respective funds (see Section 7.2).

4.5. Budget Monitoring and Fiscal Transparency

According to the BCU, budget control is exercised at all stages of the budget process by its participants. It includes assessment of budget funds management, adequacy of accounting and credibility of financial and budget reports,

analysis and assessment of the financial and economic activity of budget owners, and feasibility of planning budget proceeds and expenses. Moreover, all the budget owners have to facilitate internal control and audit in

²⁵ Financing of the SDG was defined to be consistent with the direct most suitable Goal. Most projects can be defined as the ones consistent with SDG 8.

²⁶ In this case, the aggregate borrowing scope of the local budget may not exceed the shortfall of the development budget of the local budget, and expenditures for local debt service shall not exceed 10% of expenditures of the general fund of the respective budget. Expenses to repay the local debt are incurred from the development budget of the respective local budget.

²⁷ <https://www.mof.gov.ua/uk/miscevij-borg-ta-miscevij-garantovanij-borg>



their institutions and in the institutions and organisations subordinated to such budget owners.

Furthermore, the financial audit and performance audit by the Accounting Chamber conducted by it as an external auditor may be effected regarding:

- use of the state budget funds provided to the local budgets;
- receipt of the national taxes and levies assigned to the local budgets or a portion thereof, and use of the local budget funds in terms of the expenditures that are defined by the state functions and are transferred for use to the Autonomous Republic of Crimea and local self-government.

The State Audit Service of Ukraine (SASU) audits performance of expenditures of the local authorities. It is responsible for controlling the targeted, efficient and productive use of the local budget funds (including the state financial audit), reliability of establishment of the need for budget funds in the planned budget indicators; conformity of the budget indicators to the budget programme data sheet; accounting as well as financial and budget reporting, execution of budget programmes data sheets and reports on performance thereof, cost estimates and other documents.

Following the audits, the SASU gives recommendations for gap filling by the audit objects.

According to the SASU report²⁸ on the financial audit of the local budgets of Kherson Region for the period from January 2017 until 31 July 2019: “the local budgets of Kherson Region have the high resource potential and are mostly capable of facilitating provision of social services to the residents of the region at the adequate level.” In particular, the local authorities introduce tax benefits, fail to revise the regulatory land appraisal on time, thus reducing revenues from the land tax, and also fail to change municipal property lease rates. Moreover, the SASU emphasised the problems of imperfect budget planning and inefficient

management (both in general and of municipal enterprises in particular). It was also noted that the local authorities were inefficient managers of the network of municipal enterprises and budget establishments, namely in education and health care. Those conclusions were also confirmed by the financial audits conducted by the SASU bodies in 2020.

The SASU also audits the procurement procedures at the expense of the local authorities. The audits apply to specific procurement procedures; in 2017-2019, they were conducted for 217 procurement procedures with the aggregate value of around 689 million Ukrainian hryvnias.

In 2020, the SASU bodies monitored 208 monitoring procedures in Kherson Region for the total amount of 818 million Ukrainian hryvnias. The bidding procedures in the amount of 276 million Ukrainian hryvnias were cancelled, and the contracts were terminated in the amount of 36 million Ukrainian hryvnias following the monitoring. In general, the high level of challenging the audited procurement procedures means that the SASU bodies most likely monitor the high-risk procurement.

The important thing is that control over conformity of the indicators of the approved budgets, budget financing targets, cost estimates of budget institutions and other documents used in the budget process in relation with the district budgets and territorial community budgets with the budget laws is also exercised by the Regional State Administration. The website of Kherson RSA contains detailed quarterly reports on performance of the Consolidated Budget of Kherson Region²⁹. At the same time, the website does not contain information on all the budgets in the region.

According to the laws of Ukraine, all the local self-government authorities shall publish information on the local budgets, resolutions on the local budgets and quarterly reports on utilisation of the budgets. It can be done on their portals. They shall also publish resolutions on the local budget in the designated local newspaper. Some

²⁸ Report on the operating results of the SASU for 2020, https://dasu.gov.ua/attachments/41c93f15-7eb7-49ab-b464-1934173c7f58_%D0%97%D0%92%D0%86%D0%A2__2020_%D1%80%D1%96%D0%BA.pdf; the complete Auditor's Opinion following the state financial audit of the local budgets in Kherson Region for the period from 01.01.2017 to 31.07.2019 can be found here: <http://dkrs.kmu.gov.ua/kru/doccatalog/document?id=158539>

²⁹ <https://khoda.gov.ua/zvit-pro-vikonannya-miscevix-byudzhetiv-oblasti>



of the local authorities publish full information in the convenient form and also furnish information on budget programme data sheets and reports on performance thereof. At the same time, information is often provided as scanned copies, which makes it difficult to analyse.

Public control over the budgets of the local authorities is facilitated by the launch of the E-data platform (<http://edata.gov.ua>), which combines several portals:

- Unified Web-Portal of Utilisation of Public Funds (<https://spending.gov.ua/new/>): the portal shows all the transactions of all the budget owners, including the level of territorial communities,
- Open budget (<https://openbudget.gov.ua/>): the portal presents data of budgets of all the territorial communities in terms of indicators of revenues, expenditures, lending and financ-

ing. The information is available starting from 2018. The portal also contains the analytical tool of BOOST analysis that enables analysing budget indicators by communities;

- IFIs projects / register of IFI projects (<https://proifi.gov.ua>): the portal contains information on the social and economic development projects financed at the expense of IFIs.

Control over public procurement by the LSGA and municipal enterprise is also supported by the fully open information on procurement on ProZorro portal: there is information on the bidding procedure, bidders' documents, and the contract made.

Public access to information on the budget indicators of the territorial communities facilitates public control both by the community residents and journalists.



Chapter 5.

INVESTMENT BY MUNICIPAL ENTERPRISES

Municipal enterprises (Mes), which are companies established by the municipalities or regions to satisfy a specific need of the community or region that cannot be fully satisfied by the private business under the existing

conditions, are important for operation of the local infrastructure and household industry. Moreover, the local self-government authorities are not formally limited in the industries in which they can establish the MEs.

Insert: Assessment Methodology

The financial statements of the municipal enterprises (some with the legal form of the “municipal unitary enterprise”) established at the level of the region, districts and city were analysed in Kherson Region. There were 258 enterprises in 2020. Legal entities of the municipal ownership in other legal forms (companies, budget institutions, organisations, company groups etc.) are not considered.

For the purposes of the analysis, we have defined the investment by these companies in 2016-2020 as changes in the initial value of fixed assets. The financial reporting data for 2016-2019 were taken from the BvD Ruslana³⁰ data base, and the financial reporting data for 2020 were uploaded from the portal data.gov.ua, where they were first published by the State Tax Service as open data in 2021.³¹

All the municipal enterprises are divided by the main codes of types of economic activity (KVED). The main KVED of the municipal enterprises generally represents their statutory type of activity. We divided the investment by the sustainable development goals based on the KVED. However, in practice, the principal activity of some MEs may differ or be broader than the main KVED, which can cause certain inconsistencies. The quantity and other indicators of the municipal enterprises are divided by the sustainable development goals. Certain types of activities have been included into several SDGs.

Since the investment was defined as changes in the initial value of the fixed assets, some indicators have negative values. In particular, these amounts refer to the investment falling within SDG 11 “Sustainable cities and communities” due to a decrease in the scope of the fixed assets of the MEs being housing maintenance management companies. These negative values were excluded from the analysis by setting the negative values equal to zero. The total amount of change in the value of the fixed assets were shown for certain industries. In particular, it refers to the investment falling within SDG 11 “Sustainable cities and communities” due to a systematic decrease in the scope of the fixed assets of the MEs being housing maintenance management companies.

The local authorities most often have a considerable impact upon the financial resource of the municipal companies. In particular, it means formation of the authorised fund, the tariff and pricing policy, provision of budget subsidies and grants as well as benefits allocated from the local taxes.³² Thus, the unsatisfactory

financial position of many housing and utility and transport municipal enterprises is often associated with the tariffs set at the level that does not include an investment component.

During the medical reform in 2018-2020, the local self-government authorities transformed

³⁰ <https://www.bvdinfo.com/en-gb/our-products/data/national/ruslana>

³¹ The financial statements (statement of financial position (balance sheet),) and profit and loss and other comprehensive income statement (profit and loss statement) submitted as an attachment to the reporting (reporting new) tax statements for the annual tax (reporting) period pursuant to Clause 46.2 of Article 46 of the Tax Code of Ukraine <https://data.gov.ua/dataset/24069422-5825-41f6-81f7-89567e5e2ac9>

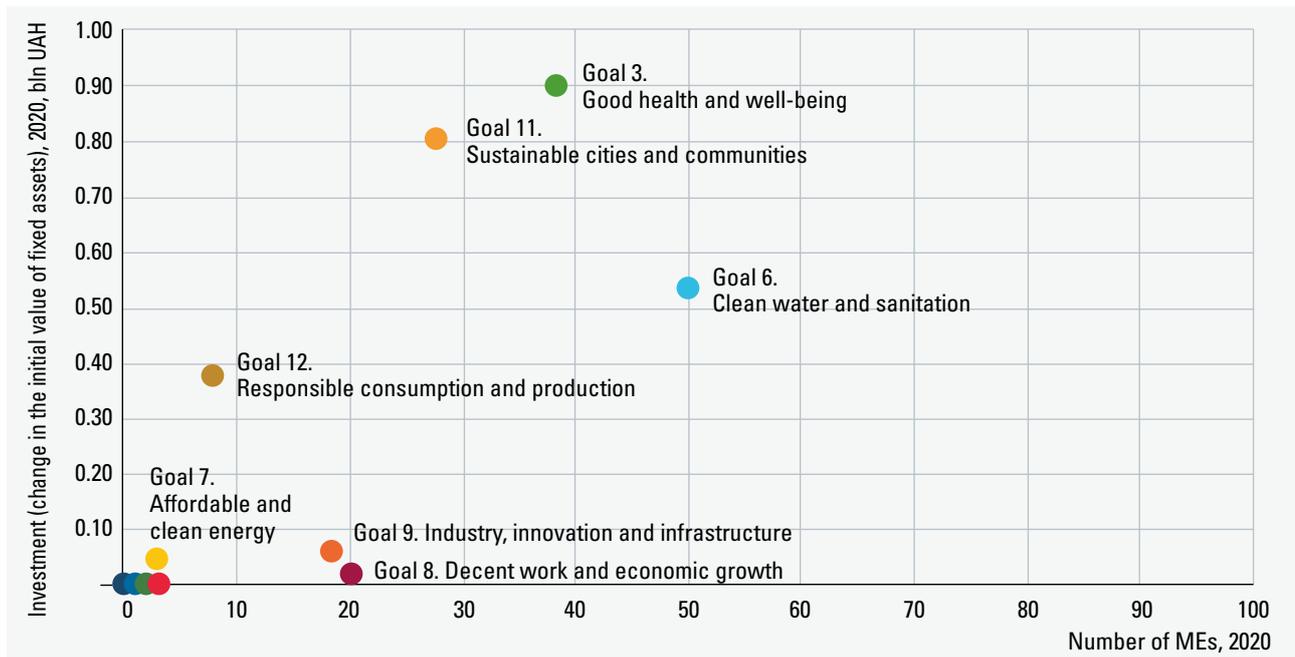
³² See Local Budget and Financial Support of the Amalgamated Territorial Community, Civil Society Institute, Kyiv, 2017.



the municipal health care facilities (HCF) into municipal non-profit enterprises out of budget institutions. Therefore, the number of the health care facilities (HCF) as budget institutions went down gradually whereas the number of HCF as MNE went up. The investment into health care grew accordingly in 2020, especially given the need to increase the capacity of the HCF to provide aid during the pandemic of Covid-19.

In 2020, according to the experts, 12.38 billion Ukrainian hryvnias of investment by the municipal enterprises pertained to nine out of seventeen SDGs (Figure 15). At the same time, the industry and the goal can be clearly compared only for three goals: Goal 3, Goal 6 and Goal 12. The assessment considers the main types of activity of the ME in the first place and does not take into account indirect impact of their investment upon the other SDGs.

Figure 15: Division of the investment of the municipal enterprises by the SDGs, 2020



Source: expert opinion based on the financial statements of the MEs

According to the experts, most investment in 2020 was made into SDG 3 “Good health and well-being” (Table 3). It is connected with the medical reform in Ukraine and reorganisation of hospitals from budget treatment facilities into municipal enterprises and increase in investment into them in pursuance of the health care financing reform as well as the need to purchase devices and equipment and make repairs to fight the pandemic of COVID-19. The investment made 901 million Ukrainian hryvnias. The investment into SDG 11 “Sustainable cities and communities”, which includes, without limitation, infrastructural facilities in the cities, made 801 million Ukrainian hryvnias in 2020. The investment into SDG 6 “Clean water and sanitation” made 531 million Ukrainian hryvnias in 2020.

The goals that pertain to the responsibility of the local authorities and are not included into the table and charts above also include SDG 4

“Quality education”: The schools and pre-school educational establishments that are subordinated to the local self-government authorities exist as budget establishments.

Below is the description of the sustainable development goals that are mostly invested by the municipal enterprises in Kherson Region.

Goal 3 – Good health and well-being. This SDG includes the investment of the municipal non-profit enterprise being hospitals, outpatient hospitals (100% of their investment) and parks (50% of the investment). However, parks can have another form different from the municipal enterprises.

The principal investment into SDG 3 is mostly procurement of medical equipment instead of the depreciated one, and expansion of the range of medical services within the medical reform.

**Table 3. Investment of the ME in Kherson Region**

Sustainable development goal	Provisional number of MEs (2020)*	Scope of investment 2016, mln UAH	Scope of investment 2017, mln UAH	Scope of investment 2018, mln UAH	Scope of investment 2019, mln UAH	Scope of investment 2020, mln UAH	Notes (main KVED pertaining to the Goal)
Goal 3. Good health and well-being	38.5	1.65	1.3	7.767	62.707	901.943	Including the health care facilities transformed into the MNE during 2018-2020
Goal 6. Clean water and sanitation	139	0	12.346	122.128	100.033	531.318	Including water supply MEs
Goal 7. Affordable and clean energy	3	14.362	6.750	6.995	3.244	43.774	Including heating and outdoor illumination MEs
Goal 8. Decent work and economic growth	20.33	2.665	5.019	2.728	6.569	21.622	Including the MEs with ten various KVEDs
Goal 9. Industry, innovation and infrastructure	18.83	24.090	23.316	42.788	67.48	62.781	Including the MEs with twelve KVEDs, mostly transport MEs
Goal 11. Sustainable cities and communities	28	2.767	2.383	10.877	5.762	801.124	Including the MEs with sixteen KVEDs. Decrease due to the transfer of apartment blocks from the balance sheet of the MEs to the apartment building co-owners associations and management companies
Goal 12. Responsible consumption and production	8	13.343	13.268	21.254	20.119	381.240	Including only the waste collection and disposal MEs
Goal 16. Peace, justice and strong institutions	1	0	0	0.578	0.014	0.568	Including the activity of security services, public administration and social insurance
Others	1.33	1.879	3.921	10.745	0.274	0	
Total**	258	60.766	68.307	236.599	266.206	2,744.372	

*Note: The division by the sustainable development goals is provisional: the indicators for some enterprises pertain to two or three goals. Thus, the number of the MEs does not have to be a whole number

**Note: the total scope of the investment is made of the positive and negative indicators of the change in the initial value of the fixed assets.

Source: financial statements of the MEs, own calculations

Goal 6 – Clean water and sanitation. Goal 6 includes the municipal enterprises in charge of the water supply systems as well as sewage and treatment systems and facilities and irrigation channels. In 2020, most investment into this SDG was made by the municipal enterprises “Miskyi Vodokanal”,

“Osnova”, “Strumok”, “Vodohrai” and “Hopry-Vodokanal”. The biggest investment made by Nova Kakhovka ME “Miskyi Vodokanal” was repayment of the debt for procurement of the equipment for eleven sewage pumping stations and sewage treatment facilities³³ with the financing by the IBRD.

³³ Data Sheet of the Investment Programme of the ME “Miskyi Vodokanal” for 2020 <http://nk-komun.org.ua/docs/%D0%9F%D0%B0%D1%81%D0%BF%D0%BE%D1%80%D1%82-%D1%96%D0%BD%D0%B2%D0%B5%D1%81%D1%82%D0%B8%D1%86%D1%96%D0%B9%D0%BD%D0%BE%D1%97-%D0%BF%D1%80%D0%BE%D0%B3%D1%80%D0%B0%D0%BC%D0%B8-2020.pdf>



In general, Goal 6 includes 161 enterprises, most of them being relatively small local enterprises.

Goal 7 – Affordable and clean energy. SDG 7 includes 50% of investment by the municipal enterprises that operate based on KVED 35: Supply of power, gas, steam and conditioned air. In 2020, there were six enterprises (50% of this number are three enterprises). The biggest investment in 2020 was made by the ME “Kotelshchyk,” which was 38.45 million Ukrainian hryvnias. The city municipal enterprise “Khersonteploenerho,” which had led by the capital investment before 2020, increased its assets in 2020 by 32.925 million Ukrainian hryvnias, but the growth was based on the higher debt, namely due to the increase in the accounts receivable, whereas the value of the fixed assets changed only by 0.659 million Ukrainian hryvnias.

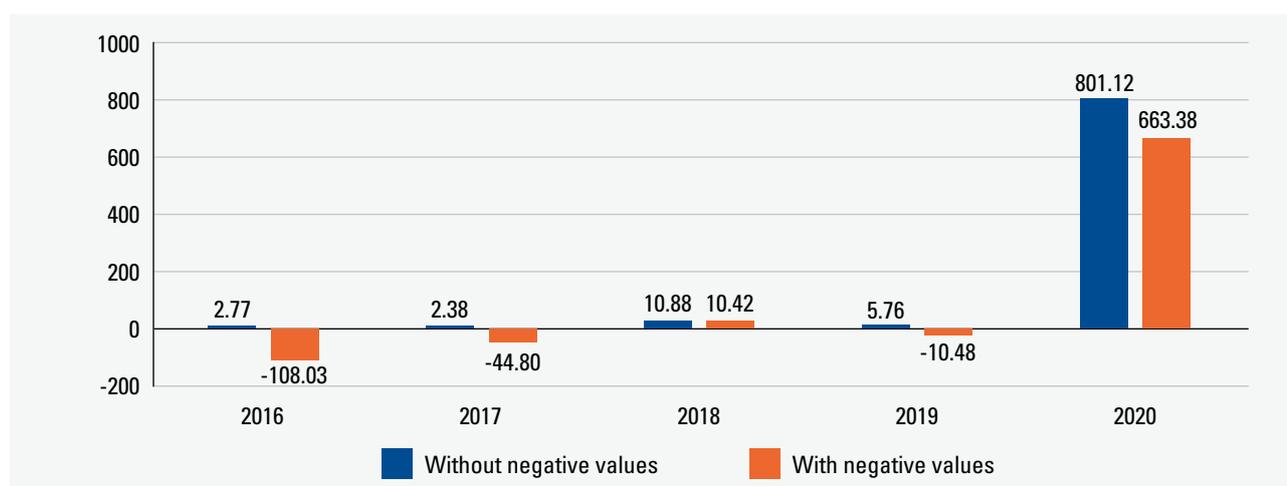
Goal 8 – Decent work and economic growth. Goal 8 includes the enterprises connected with relatively non-high-technology industrial manufacturing and mining industries, trade, administrative and office activity, creativity and art, repairs of equipment, insurance and other financial services, and other types of activity. The considerable part of investment by the

MEs is assessed to have the weight of 50% since the KVEDs with which the MEs work have the weight of 50% because it is hard to clearly assess the activity of such enterprises for one SDG.

Goal 9 – Industry, innovation and infrastructure. Goal 9 includes 50% of investment of the enterprises that work with SDG 7 as well as 100% or 50% of investment of such relatively high-technology types of activity as textile and clothing production, wood processing, oil and chemical product, computer and electric appliance, motor transport production, and construction of buildings and facilities as well as all types of transport services, telecommunication, provision of information services, office and scientific activity.

Goal 11 – Sustainable cities and communities. This Goal includes the investment of the MEs that maintain buildings and areas, including the residential housing management companies, as well as MEs in small cities (so called “one-customer services”), which conduct numerous activities, although their main task is to maintain buildings and streets in the adequate condition. This SDG also includes 50% of investment by the MEs that construct residential and other buildings.

Figure 16. Goal 11: Change in the initial value of the fixed assets, mln UAH



Note: the total scope of investment with negative values is made of positive and negative values of changes in the initial value of fixed assets without taking into account the indicator of the ME “Nova Kakhovka Housing and Maintenance Directorate” for 2016, which has the negative value. The total scope of investment without negative values is only made of positive values; negative ones are not considered.

Source: financial statements of the MEs, own calculations

In general, the facilities of the housing and utility enterprises are now transforming into apartment building co-owners associations.

Most apartment building co-owners associations were probably established in 2016; this year also has the highest investment losses



of the housing MEs. As of 2019, apartment building co-owners associations were established in 790 buildings out of 3,360 apartment buildings, i.e. 23.51% of the total apartment building housing stock, against 21.25% at the national level. The management form in 314 buildings was not selected, which was 9.34% of the total apartment building housing stock, against 4.62% at the national level.³⁴

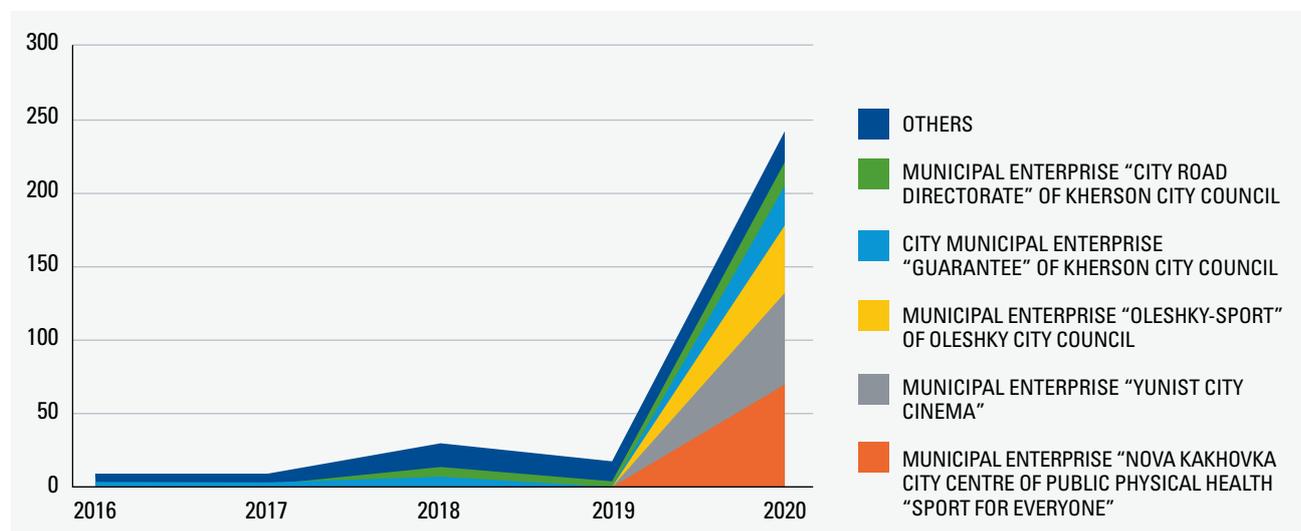
In general, the biggest investment of the ME into this SDG was made by the other enterprises rather than housing MEs, namely the

MEs that work in the area of cultural, sports and infrastructural development of the communities. They facilitated growth of the ME investment into that SDG in 2020.

Goal 12 – Responsible consumption and production.

According to the assessment, eight MEs that collect, dispose, remove and bury waste work for SDG 12 (Figure 17). The private companies that operate for this SDG are considered in the other sections. The KVEDs that pertain to this SDG include waste collection, processing and removal as well as other waste treatment activity.

Figure 17. Division of the ME investment pertaining to SDG 12 by the enterprises with the biggest investment, million UAH



Note: the total scope of the investment is only made of the positive indicators of the change in the initial value of the fixed assets. The indicators do not include investment by the ME "SC Ecoservice".

Source: financial statements of the MEs, own calculations

The indicators in Figure 17 do not include investment by the ME "SC Ecoservice" in Nova Kakhovka. This ME provides a wide range of services, from waste and rubbish removal

and disposal to city improvement and burial services³⁵. Its investment made 279.14 million Ukrainian hryvnias in 2020.

³⁴ Information on the Housing Stock and Management Thereof as of 01.01.2019, <https://www.minregion.gov.ua/wp-content/uploads/2019/01/Informatsiya-pro-zhitloviy-fondta-upravlinnya-nim-stanom-na-01.01.2019.xlsx>

³⁵ <http://nkekoservis.ks.ua/poslugi/>



Chapter 6.

INVESTMENT AS A DEVELOPMENT FINANCE SOURCE

6.1. Investment Raising Policy

Raising of investment is the focus of the Development Strategy of Kherson Region for 2021-2027. The Strategy declares support of the investment processes, creation of investor services, distribution of up-to-date investment and establishment of industrial parks. These areas of work pertain to Strategic Goal 1 “Local economic development taking into account digitalisation and innovation and investment processes”. According to the Strategy, investment raised together with the modern technologies has to facilitate “deep differentiation of the regional economy for sustainable development of the territory based on the smart specialisation”.

Within Operational Goal 1.1 “Development of innovative industries and digitalisation”, support of investment processes and promotion of investment proposals are declared. Moreover, the expected outcome of Operational Goal 1.3 “Agricultural processing based on the smart specialisation” includes raising investment resource for upgrade of the existing processing enterprises and formation of new production technologies. Energy-efficiency investment projects are also expected (Operational goal 3.3 “Energetically safe territory”).

The specific potential actions to raise investment can be seen in the Action Plan for the Strategy for 2021-2023. The Plan contains several proposed terms of reference for the regional development projects connected with

promotion of investment at the regional level. The document also has the estimated financing needs of these regional development projects (at the expense of state, grant and private funds). These projects are:

- Promotion of the Investment Potential of Kherson Region in Ukraine and Globally (about 29 million Ukrainian hryvnias).
- Quality Services to Consult Investors and Register of Investment Platforms (1.2 million Ukrainian hryvnias).
- Creation and Promotion of Investment Products and Presentation and Demonstration Samples in Medical Tourism to Raise Investment (2.3 million Ukrainian hryvnias).
- Creation of Conditions for Raising Investment into Medical Tourism in the Black Sea Areas of the Region (1.1 billion Ukrainian hryvnias).

An increase in capital investment and direct foreign investment is included into the indicators of the Strategy of Kherson Region performance. They are scope of capital investment per capita (thousand Ukrainian hryvnias), scope of capital investment per capita in % against the general indicator in Ukraine, scope of direct foreign investment per capita in % against the general indicator in Ukraine. Moreover, the estimated indicators of the scope of capital investment and direct foreign investment until 2027 are set.



It must be noted that development of infrastructure to draw investors was also a focus of the previous strategic document: the Development Strategy of Kherson Region until 2020. Furthermore, the investment raising infrastructure was launched and maintained at the regional level. The Kherson RSA also established the Investment and Export Development Office, which is responsible for the portal *Invest in Kherson*. The portal distributes information on investment opportunities. In particular, the Investment Data Sheet of Kherson Region, investment profiles of the communities, the investment map etc. are published. The region conducted the International Investment Forum “Tavrian Horizons” for more than ten years. The Kherson Regional Council of Investors and the Business Protection Council were established in February 2020 to set up the dialogue between the authorities, entrepreneurs and investors.

By the resolution of the CMU dated 20 November 2019, the experimental project of creation and operation of the institution “Regional Development Agency “Eurointegration Office” of Kherson Region” was launched in the region (based on the Regional Development Agency of Kherson Region). The institution must also focus on raising investment and financial assistance from the EU.³⁶ As a result, Kherson Region was the first in Ukraine to establish the Eurointegration Office in October 2020, and its Director was appointed in March 2021.

Despite the long-term discussion, the region still has no registered *industrial parks*. In particular, the agrarian industrial parks were supposed to be established according to the Development Strategy of Kherson Region until 2020. Moreover, the Action Plan for the Strategy until 2027 includes organisation of coordination of the activity with the regional enterprises as to creation of industrial parks based on the respective industrial facilities. At the end of 2020, future construction of the industrial park “Chervonyi Maiak Agropark” in the area of the Novoraisk TC was announced³⁷. Moreover, in spring 2021, the Skadovsk City Council initiated creation of the industrial park “SkadovskIndustrialInvest”

The IP is supposed to be created greenfield, at the site of 19.24 hectares without existing infrastructure. According to the estimates of the local council, development of the land plot requires 31.4 million Ukrainian hryvnias (3.7 million from the local budget and 27.7 from the SFRD). 400 million Ukrainian hryvnias of investment and 400 jobs are expected. However, Skadovsk and Novoraisk TC still have not allocated necessary land plots and have not made the documents for these initiatives.

It must be noted that the region has the problem associated with creation of the industrial parks that is typical for Ukraine:

- The local authorities prefer projects to be implemented from scratch instead of recovery of the existing sites.
- The procedure for selection of the managing company is complicated: search, selection and approval thereof takes a year and a half on average.
- Land allocation problems: inability to obtain land plots, need to change the intended use, impossibility of lease benefits, minimum area of the park (15 hectares).
- Insufficient focus on investment projects in financing of the SFRD. At the same time, the fund covers 70% of the planned park investment.

After the Law of Ukraine “*On Concessions*” had been adopted, Kherson Region became the first region where such form of public-private partnership (PPP) was introduced. In June 2020, the agreement on concession of the Kherson Sea Trade Port was signed. The investors Risoil-Kherson LLC (the group of Georgian and Ukrainian companies) received the port for 30 years and undertook to invest 300 million Ukrainian hryvnias into development thereof and other 18 million Ukrainian hryvnias into the local infrastructure.³⁸

Implementation of the port concession project results from the national efforts to develop public-private partnership, especially in the

³⁶ See <https://www.kmu.gov.ua/npas/pro-realizaciyu-eksperimentalnogo-proektu-shchodo-utvorenniya-ta-zabezpechennya-funkcionuvannya-ustanovi-agenciya-regionalnogo-rozvitku-ofis-yevrointegraciyi-hersonskoyi-oblasti-i201119> and <https://www.kmu.gov.ua/news/eksperimentalnij-proekt-shchodo-zapusku-agencij-regionalnogo-rozvitku-ofis-yevrointegraciyi-prodovzhen-na-2021-rik>

³⁷ See <https://khoda.gov.ua/pershij-%D1%96ndustr%D1%96alnij-park-na-hersonshhin%D1%96-mozhe-z%E2%80%99javitsisja-u-novorajsk%D1%96j-otg>

³⁸ See <https://www.kmu.gov.ua/news/pidpisano-pershij-dogovir-koncesiyi-morskogo-portu-v-ukrayini-vladislav-krilij>.



infrastructural industry. Before the adoption of the amended laws, Kherson Port was selected as one of the pilot projects for PPP mechanisms. In 2017, the consulting group established with the support of the EBRD prepared the Preliminary Feasibility Study of the PPP Project in Kherson Port.³⁹ Six road sites were also chosen at the national level for the PPP projects, including the route from Kherson to Mykolaiv (M-14).

Application of the *PPP* mechanisms at the regional level looked rather declarative until recently, namely in the strategic documents of the region. However, the Action Plan for the Strategy until 2027 contains the specific terms of reference for the projects that are supposed to facilitate application of concession to develop the infrastructure and connections. In particular, that is concession of Kherson International Airport and support of concession of other ports in the region. However, the Ministry of Infrastructure also announced the pilot concession projects in Kherson and Lviv. In addition, the priority of concession of the airport was also determined by the international experts. Thus, development of the projects also depends on the national agenda. Private investment could also be raised for the Kherson Sea Trade Port by means of concession. The

concession agreement was made in 2020, but transfer of the asset group to the concession holder was delayed until December 2021.

Kherson Region is actively developing *green energy*. However, the investors' activity in this sector materially develops on the national policy. The main driver of solar and electric power plants was the high green tariff, which was first introduced into the legal framework of Ukraine in 2008. There were debates regarding the size of the green tariff some time ago. As a result, in 2020, the Verkhovna Rada reduced the tariffs, which caused dissatisfaction among some of the investors.

The Kherson RSA initiated the project to develop the Black Sea coast, La Perla Azzurra. It includes development of the new resort, therapeutic and travel infrastructure at Ustrychne Lake in Hola Prystan and Skadovsk Districts. The value of the project is one billion US dollars, which are necessary to construct the water park, hotels, recreation centres etc.⁴⁰ The project had been promoted for several years, but no investors were found for such major project as of the end of 2021. In December 2020, the CMU included La Perla Azzurra into the list of the national priority investment projects until 2023.⁴¹

6.2. Investment Financing Sources

The same way as at the national level, own funds of enterprises and organisations in Kherson Region generally remain the principal source of financing of capital investment. In 2020, own revenues and depreciation charges provided for almost two thirds (61%) of the total capital investment (CI). At the same time, this indicator in 2016 made almost three quarters (73%). The role of own funds was reduced owing to growth of other financing sources. Whereas credits and loans covered only 8% of the CI in 2016, the borrowed funds grew in 2017-2019. In 2019, the credits and loans in the region provided for more than a half (54%) of capital investment. The scope of loans (6.7 billion Ukrainian hryvnias) was more than once and a half higher than use of own revenues and depreciation charges (4.2 billion

Ukrainian hryvnias). The situation was not standard since the share of borrowed funds at the national level was within the range of 7 to 11%. It was probably made possible due to significant investment into the green energy in the region. As it has been mentioned above, this industry, for instance, is the main importer of goods into the region due to supply of expensive equipment.

There was a rapid decline in investment in the region in 2020 due to Covid-19. Thus, the scope of the utilised (used) capital investment was reduced by almost 40% in comparison with 2019 (from 12.4 billion Ukrainian hryvnias down to 7.2 billion Ukrainian hryvnias). The businesses reduced investment with their own funds almost by 39% (from 3.9 billion Ukrainian hryvnias in

³⁹ See Opinion of the Ministry of Infrastructure following the Analysis of Performance of the Public-Private Partnership as to the Concession Project at Kherson Sea Port.

⁴⁰ See <https://investinkherson.gov.ua/dilyanka/proekt-rozbudovi-uzberezhzhya-chornogo-m/>.

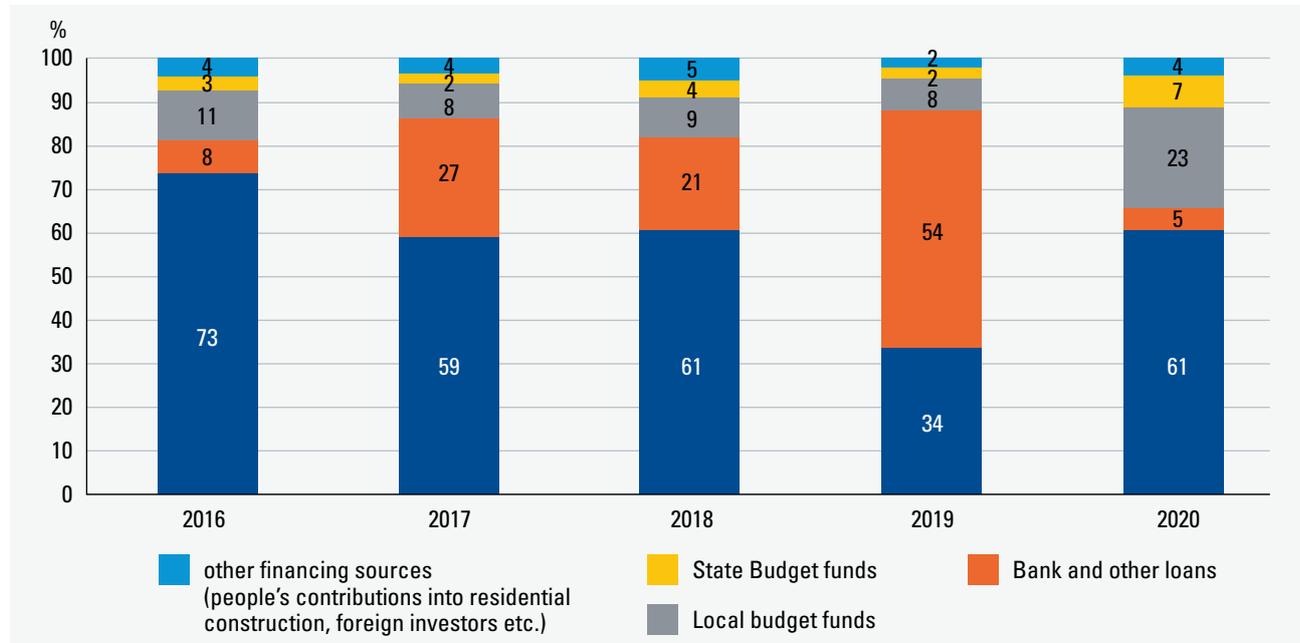
⁴¹ See <https://zakon.rada.gov.ua/laws/show/1581-2020-%D1%80#Text>



2019 down to 2.4 billion Ukrainian hryvnias in 2020). Moreover, the bank lending, the scope of which was reduced more than thirty times, froze. As a result, only 5% of the CI covered the credits and loans in 2020. At the same time, the scope

of investment with funds of the state and local budgets hardly changed. In the end, the local budgets provided for almost a quarter of capital investment. Thus, the pandemic reversed distribution of financing sources to 2016.

Figure 18: Structure of capital investment by the financing source in 2016-2020, %



Source: Statistics Service of Ukraine

The statistical data of the NBU demonstrate that Kherson Region lacks attention of foreign investors. As of 31 December 2020, Kherson Region ranked 15th among all the regions of Ukraine by the scope of DFI (439.0 million US dollars) whereas this amount at the end of 2016 was twice smaller (236.1 million US dollars). In 2020, the DFI covered 159.1 million US dollars via the capital subscription instruments. In comparison with 2016, the scope was reduced by 14 million US dollars. Thus, the scope of investment in Kherson Region grew owing to an increase in debt borrowing.⁴²

In this case, the main source of investment into the region and Ukraine in general in 2020 was Cyprus (72% in the capital subscription instruments), which traditionally is the jurisdiction often used for resident investment via offshore companies. Also, there was material investment from Sweden (9%), the Netherlands (5.4%), Turkey (3%) and Canada (2%). Cyprus traditionally remains the main source of the DFI both in the country in general and in certain regions. However, in 2016, Cyprus provided only for more than a half of the scope (51.4%). The list of other countries of investment origin also differed. In particular, the leaders included the UK (14.9%), but there was no Sweden (only 0.2%).

6.3. Capital Investment by Industries

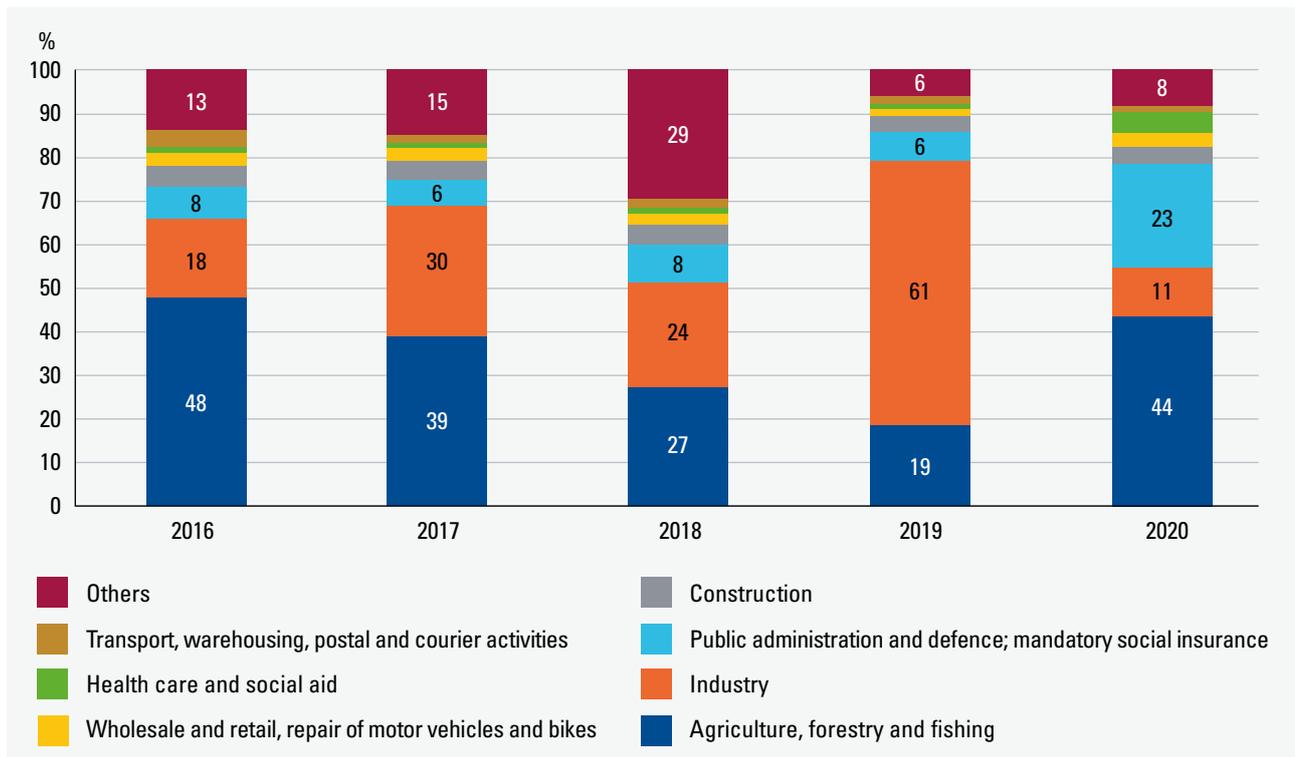
In 2020, 44% capital investment was made into the agriculture whereas there was only 19% in 2019. However, that indicator grew in the agriculture owing to a decline in capital investment in the manufacturing industry due to the pandemic. In 2019, the industrial enterprises were

the ones to provide 62% of the capital investment in Kherson Region (37% in the country). Moreover, almost all the scope was supply of power, gas, steam and conditioned air (green energy, in the first place).

⁴² See <https://bank.gov.ua/ua/statistic/sector-external/data-sector-external#3>.



Figure 19: Structure of capital investment by the types of economic activity for 2016-2020, %

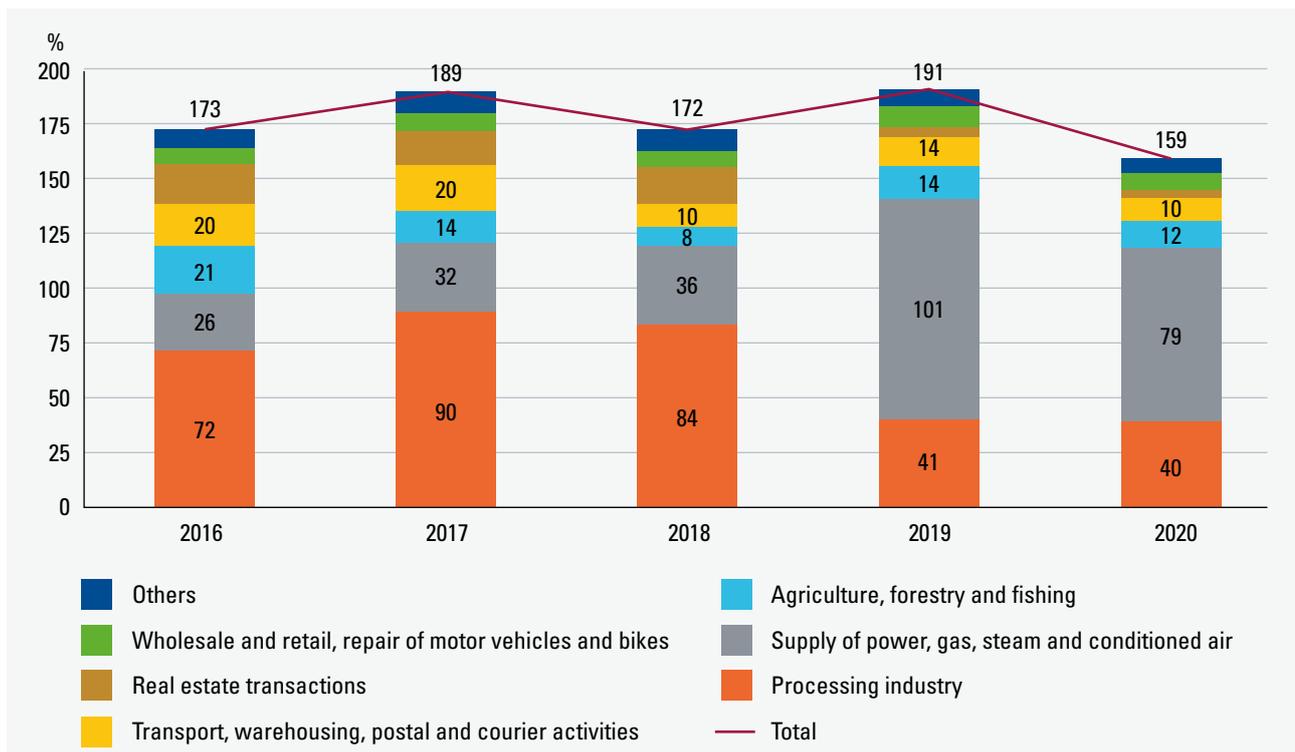


Source: Statistics Service of Ukraine

A decline in investment in the manufacturing industry in 2020 resulted in the bigger role of public administration and defence (23%) and

health care (5%), which are financed from the budget in the first place.

Figure 20: DFI structure by the types of activity in 2016-2020, million US dollars



Source: Statistics Service of Ukraine



The DFI structure in the capital confirms the high interest of investors into the renewable energy sector in the region (solar and wind energy). Whereas the power industry in 2018 was 36 million US dollars (capital subscription tools), that indicator in 2019 exceeded 100 million, thus increasing the DFI into the region in general.

For instance, considerable investment was made since 2018 to develop the wind park of Syvashenergoprom LLC, which had been purchased by the Norwegian company NBT. French company Total Eren also joined the project. The project was also funded with the borrowings from the EBRD (around 150 million euros).⁴³ It must be noted that investment into the renewable energy in the region mostly depends on the state policy at the national level. In particular, reduction of the green tariff and debt for the

green tariff to the manufacturers may decrease attractiveness of investment into the sector. Therefore, repayment of the debt for the green tariff in 2021 could be a positive signal.

The available data demonstrate that most capital investment is received by such SDGs as Goal 2 “Zero hunger” and Goal 7 “Affordable and clean energy”, which is caused by the focus of the region on the agrarian sector and renewable energy. Goal 16 “Peace, justice and strong institutions”, Goal 3 “Good health and well-being” and Goal 4 “Quality education” are also supported by the State Budget. Moreover, private investment does facilitate implementation of Goal 7 “Affordable and clean energy”. At the same time, there was an outflow of the DFI from the processing industry after 2018 (Goals 8 and 9).

6.4. Private Investment by the SDGs

Statistics are not enough to clearly establish how much private investment has been used to achieve the sustainable development goals, and such data are not collected. That is why expert assessment of the ratio between capital investment by private enterprises and the sustainable development goals subject to the type of their principal economic activity (KVED) was effected. The scope of investment was calculated as the change in the fixed assets of the enterprise in a year; pertinence of the enterprise to the specific sustainable development goal was defined by means of the KVED of each enterprise (each KVED is consistent with one or several goals). Further analysis was based on the financial statements of the private enterprises published by the State Tax Service for 2020 (data for other years are not available). The assessment findings are presented in Figure 21.

In 2020, 983 enterprises in Kherson Region changed the scope of their fixed assets.⁴⁴ The total investment made 4.5 billion Ukrainian hryvnias.

Most of the enterprises that invested into their activity pertain to **Goal 8** “Decent work and

economic growth” and **Goal 9** “Industry, innovation and infrastructure” by their KVED – 344 and 292 enterprises accordingly. The capital investment of the enterprises whose activity could pertain to Goal 9 made 1.7 billion Ukrainian hryvnias: that goal had the largest share among all the SDGs. 64% of the investment was provided by small enterprises, and 35% – by large and medium-sized ones. SDG 8 includes a part of the investment into different sectors since they facilitate economic growth and decent work. The enterprises that can be referred to Goal 8 by their KVED increased the scope of their fixed assets in 2020 by 318 million Ukrainian hryvnias, despite the fact that the number of enterprises in these industries is the largest in the region, and capital investment is relatively low. The share of small enterprises is somewhat higher – 73% of the investment, with 23% of the investment provided by medium-sized and large businesses.

The activity of 34 enterprises of the region pertains to **Goal 7** “Affordable and clean energy”. They are mostly enterprises in the green electric energy industry that has favourable conditions in Kherson Region. By the general amount of capital investment, the enterprises

⁴³ See <https://www.ebrd.com/work-with-us/projects/esia/east-renewable-energy-syvash-wind-project-ukraine.html>

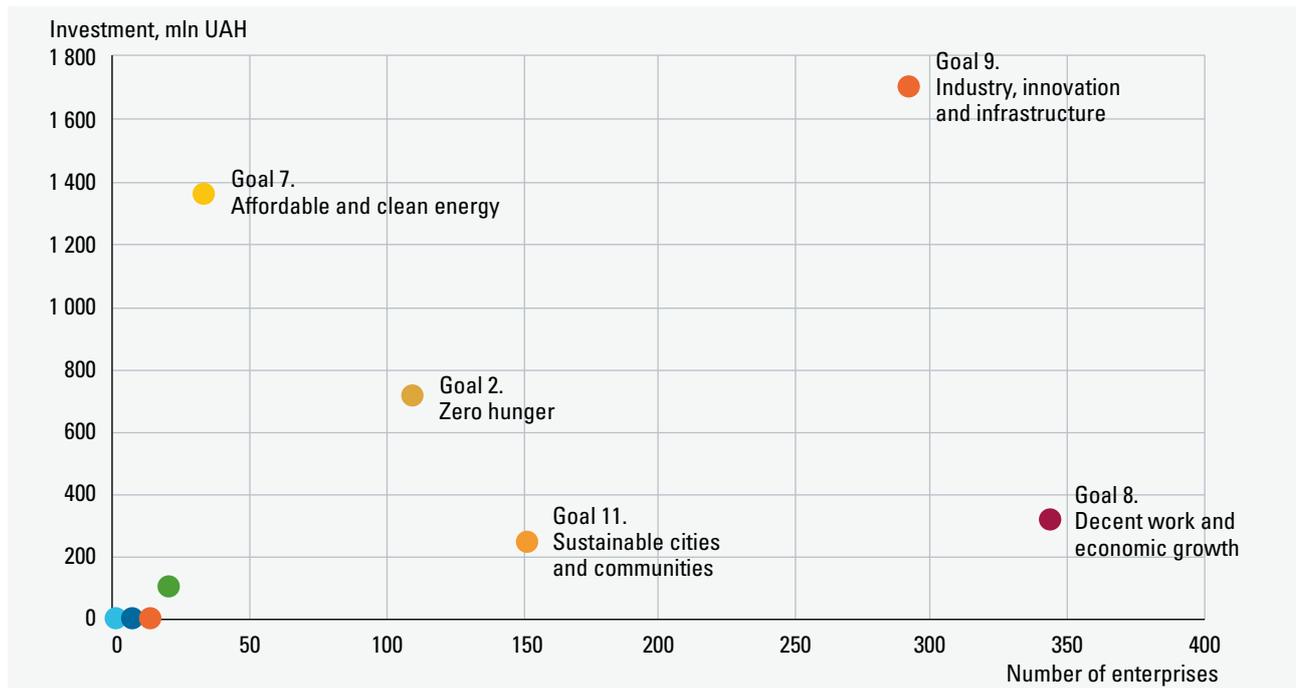
⁴⁴ One enterprise, KZESO PrJSC, was excluded from the analysis due to the abnormal increase in the initial value (+130 billion Ukrainian hryvnias for 2020), which was probably an error in the data.



in that industry were the second main investor in Kherson Region: an increase in the scope of the fixed assets associated with Goal 7 can be estimated to be 1.4 billion Ukrainian hryvnias. Kherson Region has one of the best solar emission indicators in Ukraine: the only regions that have better natural conditions for the solar power industry are the south of Odesa Region and Crimea. The region is also attractive to

construct wind power plants. These natural characteristics as well as large areas of unoccupied steppe lands make Kherson Region one of the leading regions by development of the green energy in Ukraine: there are seven wind power plants and 47 solar power plants here. 62% of the investment associated with Goal 7 was made by small businesses, and 38% – by medium-sized and large ones.

Figure 21. Distribution of the capital investment by the number of enterprises and their industry in 2020



Source: State Tax Service

110 enterprises in Kherson Region pertain to **Goal 2** “Zero hunger” by their activity; in the first place, they are agricultural and food industry enterprises. The scope of capital investment by enterprises in this industry in 2020 was increased by 720 million Ukrainian hryvnias. 73% of the investment was made by medium-sized and large businesses, and 24% – by small ones. The largest increase in the initial value of the fixed assets was demonstrated by Soliia LLC, which manufactures oil and vegetable fats: the enterprise started operations in 2020 and invested 446 million Ukrainian hryvnias into its fixed assets.

Operations of 153 enterprises can be referred to **Goal 11** “Sustainable cities and communities.” The scope of capital investment by those enterprises in 2020 made 250 million Ukrainian hryvnias; the lion’s share (90%) was invested by small enterprises, almost 9% – by micro-enterprises, and

the share of the medium-sized and large businesses made a bit more than 1%.

The capital investment of 21 enterprises that pertain to **Goal 3** “Good health and well-being” by the type of their activity was increased by 104 million Ukrainian hryvnias in 2020. 80% of growth was provided by one enterprise: Medicgroup LLC (Taurt Medical), which opened a large therapeutic and diagnostic centre in Kherson in 2020 and increased the scope of its fixed assets by 83 million Ukrainian hryvnias.

The capital investment by the enterprises associated with the other sustainable development goals was very insignificant. Four small enterprises whose activity can be referred to **Goal 16** “Peace, justice and strong institutions” (they are security services and companies supporting operations of the security systems) increased the scope of their fixed assets by



4.4 million Ukrainian hryvnias. Three enterprises that pertain to **Goal 6** “Clean water and sanitation” by their KVED invested 3.9 million Ukrainian hryvnias into their activity. Seven private companies that provide the waste collection and disposal services and can directly pertain to **Goal 12** “Responsible consumption and production” increased their capital investment by 800 thousand Ukrainian hryvnias.

The scope of the fixed assets of six private companies that can be referred to **Goal 4** “Quality education” was increased by 66 thousand Ukrainian hryvnias. Three enterprises associated with **Goal 14** “Life below water”, namely fish enterprises, invested 22 thousand

Ukrainian hryvnias into their operations. In 2020, there were no enterprises connected with **Goal 15** “Life on land” that would invest into their operations in Kherson Region.

Several sustainable development goals are hard to achieve within the principal activity of the enterprises so applicable corporate social responsibility programmes are generally directed at them. The examples include **Goal 1** “No poverty”, **Goal 5** “Gender equality”, **Goal 10** “Reduced inequalities”, **Goal 13** “Climate action”, **Goal 17** “Partnerships for the goals”, achievement of which cannot be traced based on KVEDS, but they can be covered within the corporate social responsibility.

6.5. Obstacles to Investment

Insignificant investment into Kherson Region shows possible obstacles both at the regional level and in territorial communities. The investment attractiveness is influenced by the location of the region, the security level, development of transport and other factors. In particular:

- **The geographic location** of Kherson Region can be favourable for development of the agricultural and recreation industries. However, the climate of the region causes frequent droughts, soil degradation etc., thus turning the region into the high-risk agricultural area. The region needs investment into recovery of irrigation systems for efficient use of the land resources. Closure of the Northern Crimean Channel caused lack of water resources for irrigation in some Kherson communities near Crimea.
- On the other hand, location of Kherson Region can also cause negative expectations as to **possible military aggression**. The region has the “border-line” status as it is located next to temporarily occupied Crimea with the large group of the Russian army.
- The region needs to resolve certain **transport issues** that can prevent investment. In general, Kherson Region has a good geographic location with the considerable transit potential. However, the technical condition of the roads in the region is unsatisfactory, and the road surface needs to be repaired although some motor roads have been repaired since 2020 within the governmental programme “Large Construction”. The runway of the International Airport of Kherson (which resumed its operations only in 2014) needs overhaul. In general, the transport infrastructure fails to meet the needs of the agriculture and travel industry.
- **The unfavourable business environment** can also be a material obstacle to investment into the region. For instance, Kherson ranked last, the 24th, in the USAID study “Municipal Competitiveness Index 2019/2020” (MCI 2019/2020) and received 31.62 points out of 100 possible ones. In MCI 2021, Kherson ranked 40th among 45 major cities of Ukraine. Moreover, the ABCA SME Business Climate Index in Kherson was 0.12, which was also one of the lowest indicators.⁴⁵
- The survey results demonstrate the **low level of business security** in the region. In particular, according to MCI 2019/2020, the cases of corporate raid most often occurred in Kherson in 2018-2019. It can mirror the overall situation in the region. Kherson is also the most dangerous city of Ukraine according to the residents as stated in the Sixth Ukrainian Municipal Survey.⁴⁶ The situation in Kherson can reflect general business security tendencies in the region.

⁴⁵ See http://www.ier.com.ua/files/Projects/2020/MCI/reports1/MCI_2019-2020_Part%202_Profiles_UKR.pdf.

⁴⁶ The survey was conducted by the Rating Social Group on behalf of the Centre of Analysis and Sociological Research of the International Republic Institute, and financed by the United States Agency for International Development. See http://ratinggroup.ua/research/regions/shestoy_vseukrainskiy_municipalnyy_opros.html



Chapter 7.

FINANCING OF DEVELOPMENT WITH EXTERNAL SOURCES

7.1. Financing of IFI Projects in the Region

One of the important sources of financing the development in Ukraine is concessional loans directed at economic and social development projects both at the central and local levels. Such loans are granted by international financial institutions (IFIs) for specific areas at the lending rates that are lower than the market ones. They are sometimes accompanied by a minor grant element used to improve the beneficiary's institutional capacity.

In order to implement its economic and social development projects, Kherson Region cooperates with such international financial institutions (IFIs) as International Bank for Reconstruction and Development (IBRD), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Reconstruction Credit Institute (KfW), Clean Technology Fund (CTF) and Nordic Environment Finance Corporation (NEFCO). Kherson Region is now implementing six

IFI projects, with the total amount of allocated credit funds of 976.2 million US dollars (equivalent).

The IFIs finance the projects pursuant to their strategic documents and the strategic documents common with Ukraine. In general, the credit funds of the IFIs in Kherson Region are directed at the extremely important sectors, including health care, power industry, financial and insurance activity. The project initiators are the Ministry of Regions, the Ministry of Social Policy, the Ministry of Energy, and Ukrhydroenergo PrJSC. Since some of the IFI projects are implemented in several regions at the same time, and the amount allocated for Kherson Region itself cannot be specified for some projects, the assessment has been made based on the total amount of the loan for the project. The list of the projects that are fully or partly implemented in Kherson Region is presented in Table 4.

Table 4: List of the existing projects financed in Kherson Region with the funds borrowed from the IFIs

Project name	Creditor	Date of the loan	Total amount of the loan, US dollars	Sector	SDG
Project of the Kherson Regional Oncological Health Centre regarding technical re-equipment of radiology department No. 2 within the UERP	EIB	2014-12-22	1,100,000	Health care and social aid	3
Improvement of Energy Efficiency in the Sector of Centralised Heat Supply in Ukraine Based on the CME "Khersonteploenerho"	CTF and IBRD	2014-05-26	21,650,000	Water supply, sewage, waste treatment	7



Project name	Creditor	Date of the loan	Total amount of the loan, US dollars	Sector	SDG
Construction of 750 kV Air Line of Zaporizhzhia NPP-Kakhovka 31.143	EIB and EBRD	2010-10-19	423,500,000	Electric power, gas supply	7
Hydro Power Plants Rehabilitation 47947	EBRD	2015-12-30	217,800,000	Electric power, gas supply	7
Social Assistance System Modernization in Ukraine	IBRD	2014-07-09	300,000,000	Health care and social aid	1, 3, 10
Support of Small and Medium-Sized Enterprises 2007 65 339	KfW	2012-12-29	12,100,000	Financial and insurance activity	8

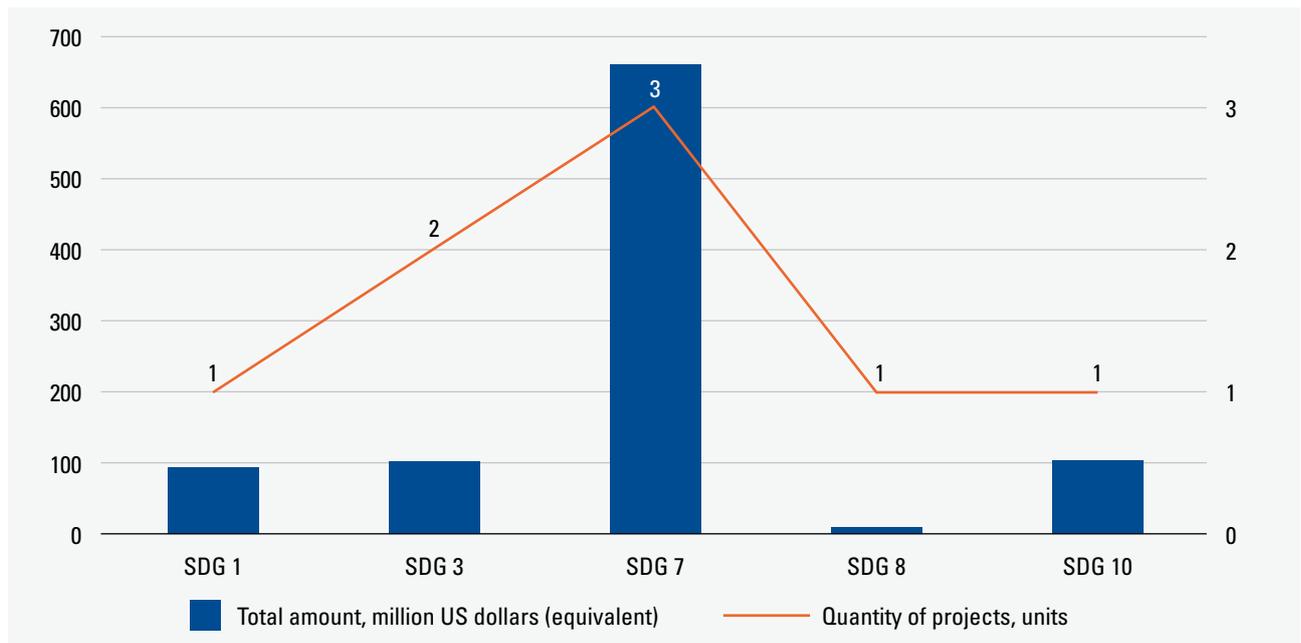
Note: as of 1 August 2021

Source: official state portal with the register of IFI projects⁴⁷

Below are the SDGs for which the funds borrowed from the IFIs were allocated within the projects that are implemented, without limitation, in Kherson Region (Figure 22). According to the experts, most of the projects financed

by the IFIs that cover around 68% of the aggregate financing of such projects are directed at financing of the tasks for Goal 7 “Affordable and clean energy”.

Figure 22: Financing of the SDGs in the available IFI projects in the public sector



Source: author’s estimates based on the data from the portal of the register of IFI projects⁴⁸

Goal 1. No poverty and Goal 10. Reduced inequalities. The project “Social Assistance System Modernization in Ukraine” has been referred to three goals at the same time, SDGs 1, 3 and 10, since it is aimed at improving performance of social aid and the social service system in Ukraine for the families with low income, better administration of provision of social aid and social services, support for the development of

family forms of guardianship for orphans, children deprived of parental care, children with disabilities as well as children with limited abilities who are raised in foster homes. Kherson Region has also joined this project. In particular, 32 communities in Kherson Region have already received necessary computer equipment that will enable them to provide quality social services to the public in pursuance of

⁴⁷ Official state portal with the register of IFI projects. URL: <https://proifi.gov.ua/?p=analytics>

⁴⁸ Official state portal with the register of IFI projects. URL: <https://proifi.gov.ua/?p=analytics>



this projects⁴⁹. The project is financed with the support of the IBRD and provides for the loan of the total amount of 300 million US dollars.

In total, implementation of SDGs 1 and 10 requires 99 million US dollars and 102 million US dollars accordingly.

Goal 3. Good health and well-being. SDG 3 partly includes the above-mentioned project “Social Assistance System Modernization in Ukraine”, with the weight of 33%, and the project of the Kherson Regional Oncological Health Centre regarding technical re-equipment of radiology department No. 2 within the Ukraine Early Recovery Programme (UERP), with the weight of 100%.

In general, the Ukraine Early Recovery Programme provides for granting the loan of 242 million US dollars (equivalent) for the repair works and recovery of hospitals, schools, kindergartens, administrative and public buildings in Donetsk, Luhansk, Kharkiv, Dnipropetrovsk and Zaporizhzhia Regions as well as other regions, including Kherson, where lots of IDPs arrive, to assist in solution of the problems resulting from high pressure upon the social infrastructure and housing.

In particular, the UERP in Kherson Region provides for implementation of one sub-project of the Kherson Regional Oncological Health Centre regarding technical re-equipment of radiology department No. 2 for radiation therapy of the oncological patients in Kherson Region and displaced persons from other regions of Ukraine. Since Kherson Region ranks second in Ukraine by the level of oncological morbidity, implementation of this sub-project is of extreme importance for the region and the country in general. As of 23 April 2021, the State Budget had already transferred the tranche of 1.1 million US dollars (equivalent)⁵⁰, which are the funds borrowed from the EIB to implement the sub-project of the Kherson Regional Oncological Health Centre. Thus, this sub-project pertains to SDG 3.

Implementation of SDG 3 requires 100.1 million US dollars.

Goal 7. Affordable and clean energy. Implementation of SDG 7 is made of three projects for the total amount of 858 million US dollars.

The project “Rehabilitation of Hydro Power Plants 47947” supported by the EBRD provides for rehabilitation of hydro power plants of Ukrhydroenergo PJSC in order to improve the operational stability and reliability of electric power supply, by increasing the regulating capacity of the Integrated Power System, increasing performance and level of safe operation of the HPP and, therefore, facilitating unhindered operation and opening of the electric power market. In particular, the transformer T1 70 MBA for Kakhovka HPP has been supplied for implementation of the project in Kherson Region.⁵¹ The total amount of the funds borrowed for project implementation is 217.8 million US dollars.

The project “Construction of 750 kV Air Line of Zaporizhzhia NPP-Kakhovka 31.143” supported by the EBRD and EIB provides for improving the reliability of the operational mode of the southern part of the IPS of Ukraine by lifting the network restrictions of provision of the capacity to Zaporizhzhia NPP, stabilising the carrying capacity at the interception of the southern part of the IPS of Ukraine via enhancement of the connection between Kakhovka energy unit and the main systems of the IPS of Ukraine. This is the largest project that is implemented, without limitation, in Kherson Region and provides for borrowing funds in the amount of 423.5 million US dollars.

The project “Improvement of Energy Efficiency in the Sector of Centralised Heat Supply in Ukraine” supported by the IBRD and CTF provides for assisting the municipal enterprises participating in the project in improvement of the economic and energy performance, mitigation of losses of fuel and power resources, enhancement of their institutional potential and investment into higher reliability of operation of the heat supply systems by means of the reconstruction of the centralised heat supply (heat generation and transportation) systems as well as improvement of the environmental

⁴⁹ Kherson Regional State Administration. [https://khoda.gov.ua/"socialna-gromada"%3A-na-hersonshhini-41-gromada-zaprovadila-elektronnu-sistemu-nadannja-socialnoi-dopomogi%C2%A0](https://khoda.gov.ua/)

⁵⁰ Kherson Regional Council. URL: <http://khor.gov.ua/2021/04/23/26487/>

⁵¹ Official state portal with the register of IFI projects URL: <https://proifi.gov.ua/projects/250528340>



situation in the regions. In particular, Kherson Region is implementing the project based on CME “Khersonteploenerho” for the total amount of 21.65 million US dollars⁵².

In particular, implementation of SDG 7 is subject to most loans of the IFIs, which is 663 million US dollars.

Goal 8. Decent work and economic growth. SDG 8 is achieved only with one project “Support of Small and Medium-Sized Enterprises 2007 65 339”. It is implemented with the support of KfW and provides for expansion of the system for lending to small and medium-sized enterprises (SMEs) via the partnering institutions of the GUF and regular provision of financial services to the SMEs and individual entrepreneurs in Ukraine (to finance investment and circulating assets of the SMEs). In particular, owing to the broad network of the partnering banks, the project to support SME investment is implemented almost all over Ukraine, including in Kherson Region.

Three other projects are being prepared. They are going to be fully or partly implemented in Kherson Region:

- Project to improve the energy efficiency of public buildings of the municipal non-profit enterprise “O. S. Luchanskyi Kherson City Clinical Hospital” and city illumination in Kherson. The approximate cost of the project at the expense of the funds borrowed from NEFCO is 6 million US dollars; the project is aimed at achieving SDG 7 “Affordable and clean energy”.
- The EBRD project “Improvement of the Public Transport Infrastructure of Kherson by Purchasing New Low-Floor Trolleybuses and Auxiliary Repair Equipment, Repairs and

Upgrade of the Trolleybus Contact System” for the total amount of 12.1 million US Dollars; the project is aimed at achieving SDG 9 “Industry, innovation and infrastructure”. This project is of paramount importance for Kherson Region since most public transport in the region has long been obsolete and needs to be upgraded.

- The Ukraine Recovery Programme is the second stage of the Ukraine Early Recovery Programme and provides for borrowing funds from the EIB in the amount of 411.4 million US dollars. The purpose of the programme is to support multi-industry investment sub-projects in the municipal, social and transport infrastructure in order to overcome consequences of the conflict in the east of Ukraine so the Ukraine Recovery Programme pertains to SDG 16 “Peace, justice and strong institutions”. However, only some of the regions will be able to participate in the Programme, including Kherson Region as the region whose social services and infrastructure are heavily affected by the arrival of lots of IDPs.

One KfW project “Non-Targeted Financial Loan for the Total Amount of 90 Million Euros” that considers financing of the project of the Mylive Village Council “Construction of the Cascade of Solar Power Plants” with the approximate value of 24.2 million US dollars (equivalent)⁵³ and is aimed at achieving SDG 7 “Affordable and clean energy” was at the Initiation stage as of September of 2021. Kherson Region has the large potential for development of the green power industry, especially solar one, since the region is located in the south of Ukraine with lots of sunlight. The region now already has 47 solar power plants.

7.2. International Technical Assistance in the Region

7.3.1 ITA projects

International technical assistance (ITA) is an important source of financing the implementation of the sustainable development goals. Ukraine is a recipient under many programmes in different industries and in all the regions.

During the period from 2016 until 2020, Kherson Region actively engaged the ITA projects: as of 2017, implementation of three ITA projects with the total cost-estimate value of 9 million US dollars had started, and that indicator in 2020 reached eight ITA projects with the total cost-estimate value of 75 million US dollars.

⁵² Official website of Kherson. URL: <http://www.city.kherson.ua/articles/mizhnarodne-spivrobitnictv>

⁵³ Official state portal with the register of IFI projects, <https://proifi.gov.ua/projects/250881818>



Insert: Regulation of ITA Projects

According to Resolution of the Cabinet of Ministers of Ukraine No. 153 dated 15.02.2002 *“On Creating the Uniform System for Raising, Using and Monitoring International Technical Assistance”*⁵⁴ (as amended and supplemented), the Ministries, other central and local executive authorities, the Council of Ministers of the Autonomous Republic of Crimea can submit requests for international technical assistance to the Secretariat of the Cabinet of Ministers of Ukraine. In its turn, the SCMU has to have strategic programmes based on these requests approved by the development partners.

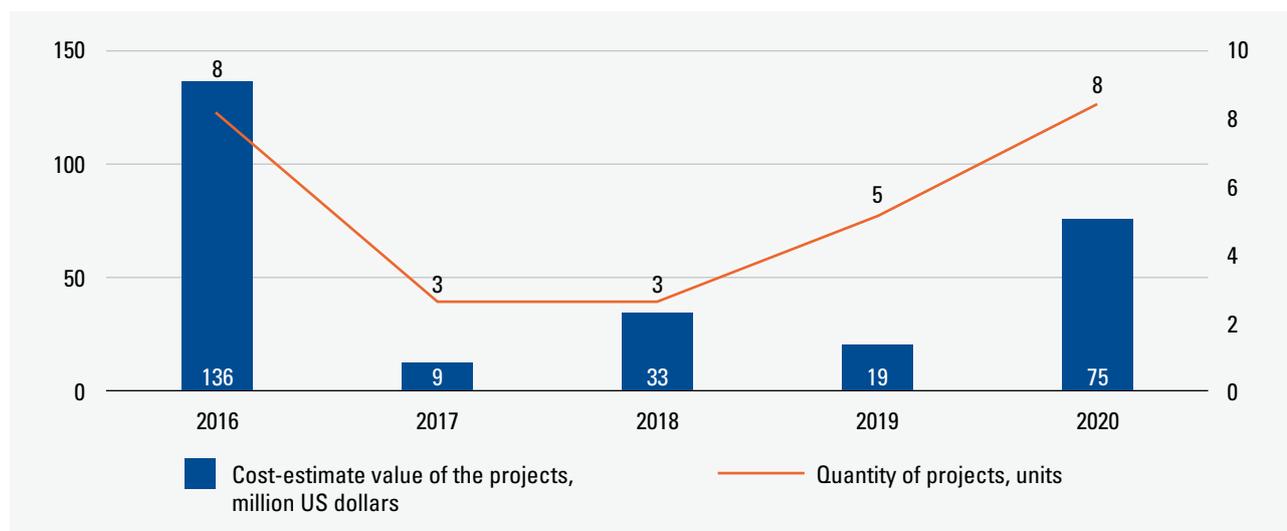
According to Resolution No. 153, the strategic programme is a “document that sets the priorities of technical and economic cooperation between the development partner and Ukraine based on the analysis of the social and economic development problems of Ukraine. This document has been developed in accordance with the procedure and for the period approved by the development partner and the Secretariat of the Cabinet of Ministers of Ukraine.” In their turn, annual projects/programmes are annually formed jointly with the development partners and based on the strategic programmes.

The official website of the Investment and Export Development Office⁵⁵ contains the list of available international technical assistance programmes⁵⁶ (most of which are permanent) in which potential recipients in the region can participate.

In general, implementation of 27 ITA projects with the total cost-estimate value of 272.4 million US dollars (equivalent) started during 2016-2020 in Kherson Region. The ITA projects are

implemented in thirteen industries (Figure 23) with the support of twelve development partners, the largest of which are the USA, the UN and the EBRD (Figure 24).

Figure 23: Quantity and cost-estimate value of the ITA projects which implementation started in 2016-2020



Source: official websites of the CMU⁵⁷, Diia⁵⁸, Kherson RSA⁵⁹, Investment and Export Development Office of Kherson RSA⁶⁰

According to the Kherson RSA⁶¹, more than 65 ITA projects had been implemented in the region for the entire period of cooperation with

the development partners as of 2020. In 2016-2020, the main initiator of the ITA projects in Kherson Region was Kherson RSA.

⁵⁴ <https://zakon.rada.gov.ua/laws/show/153-2002-%D0%BF#Text>

⁵⁵ <https://khoda.gov.ua/granti-i-mizhnarodna-texnichna-dopomoga/mizhnarodna-texnichna-dopomoga/>

⁵⁶ <https://investinkherson.gov.ua/ru/mizhnarodna-tehnicna-dopomoga/informaciya-pro-mtd/>

⁵⁷ Information on the ITA provided to Ukraine following the project monitoring by the SCMU in 2020, Information on the ITA provided to Ukraine following the project monitoring by the SCMU in 2019, <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>

⁵⁸ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

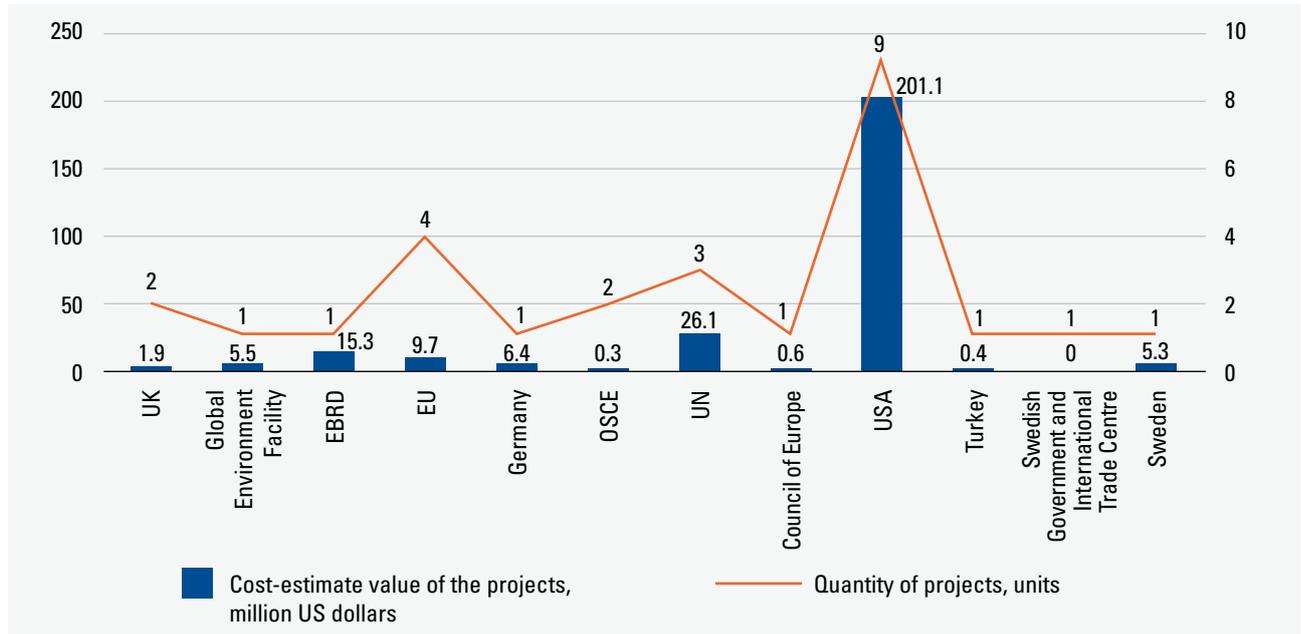
⁵⁹ Data base of the international technical assistance projects (programmes) implemented in Kherson Region as of 10.01.2018, <https://khoda.gov.ua/granti-i-mizhnarodna-texnichna-dopomoga/mizhnarodna-texnichna-dopomoga/>

⁶⁰ Official website of the Investment and Export Development Office of Kherson RSA, <https://investinkherson.gov.ua/mizhnarodna-tehnicna-dopomoga/zaluchennya-mtd-na-khersonchiny/>

⁶¹ <https://khoda.gov.ua/mizhnarodna-tehnicna-dopomoga-hersonshhini%3A-u-2020-roci-realizovano-65-proektiv-na-1-5-mln-dolariv>



Figure 24: Quantity and cost-estimate value of the ITA projects which implementation started in 2016-2020, by the development partners

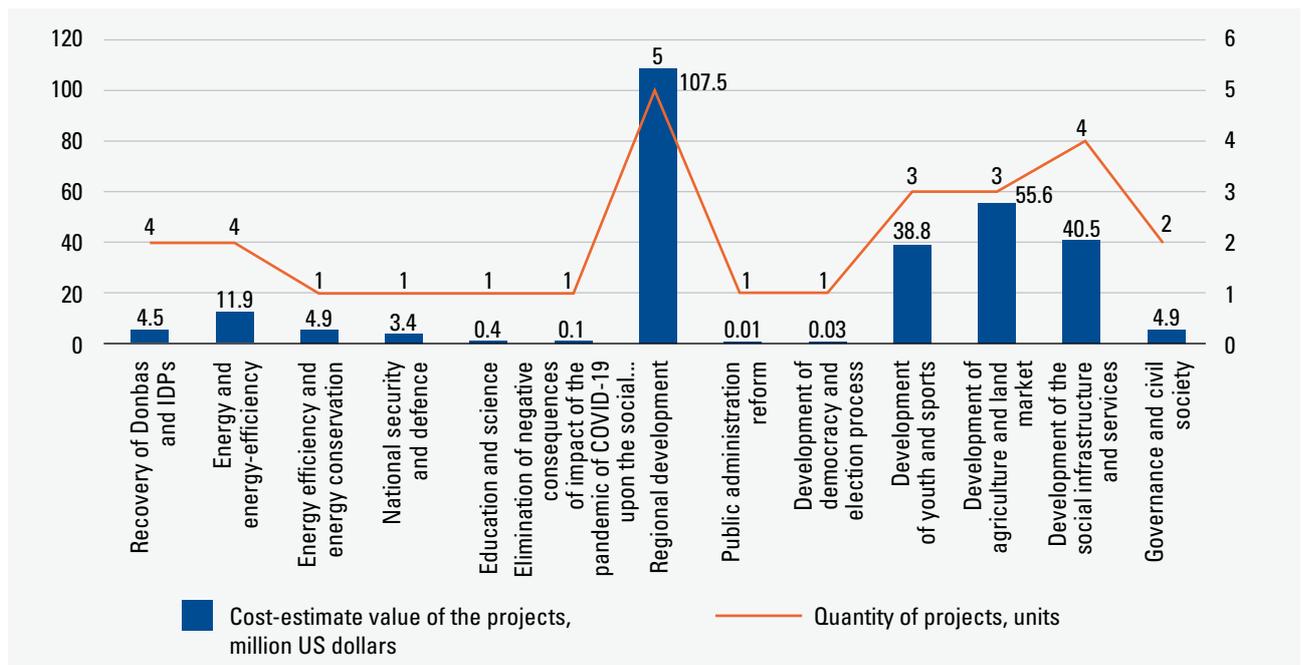


Source: official websites of the CMU, Diia, Kherson RSA, Investment and Export Development Office of Kherson RSA

In 2016, the total cost-estimate value of the ITA projects grew rapidly to reach 136 million US dollars (Figure 25). It was caused by the started implementation of two projects of Regional Development with the US support

in the region: Decentralization Offering Better Results and Efficiency (DOBRE) and Policy for Ukraine Local Self-Governance (PULSE), with the cost-estimate value of 50 million US dollars each.

Figure 25: Quantity and cost-estimate value of the ITA projects which implementation started in 2016-2020, by the sectors



Source: official websites of the CMU, Diia⁶², Kherson RSA⁶³

⁶² <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

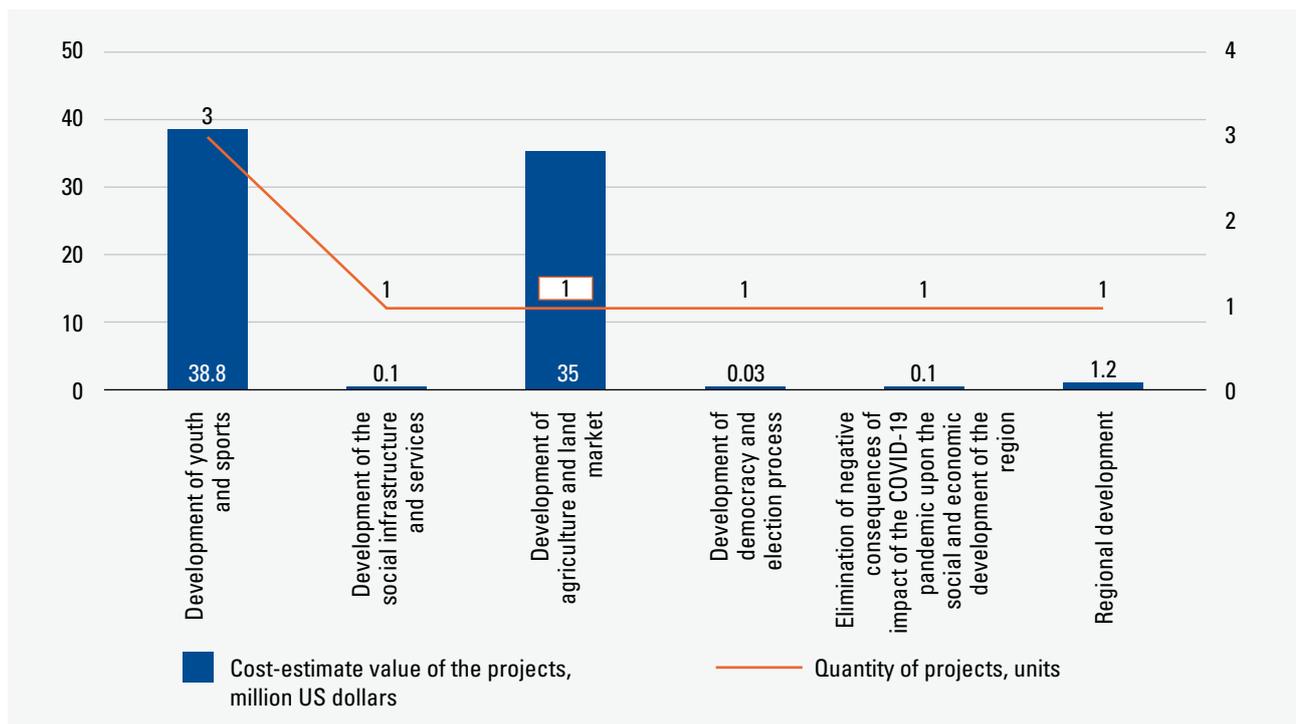
⁶³ <https://khoda.gov.ua/granti-i-mizhnarodna-texnichna-dopomoga/mizhnarodna-texnichna-dopomoga/>



The largest ITA projects in 2018-2019 were: “Social Support and Responsible Parenting in Ukraine” (with the cost-estimate value of 25 million US dollars) supported by the UN, and “Improvement of the Public Transport Infrastructure of Kherson by Purchasing New Trolleybuses and Auxiliary Repair and Diagnostic Equipment, Repairs and Upgrade of the Depot, Trolleybus Contact System” (with the cost-estimate value of 15.2 million US dollars) supported by the EBRD. Both projects pertain to the sector “Development of the social infrastructure and services”. At the same time, the purpose of the second project is to provide technical support to the city in addition to the loan to be granted by the EBRD on a contractual basis to finance the respective social and economic development project.

In 2020, the implementation of ITA projects started in six sectors with the support by the USA, the EU, the UK, the Council of Europe, the UN and the OSCE. The largest development partner in 2020 was the USA, which launched two ITA projects with the cost-estimate value of 73 million US dollars, which made 97% of the total cost-estimate value of the projects started in 2020. Following 2020, the directions of the ITA changed (Figure 26). The main sectors where most ITA resources were raised were: “Development of youth and sports” (three projects for the amount of more than 38 million US dollars) and “Development of agriculture and land market” (one project for the amount of more than 35 million US dollars).

Figure 26: Quantity and cost-estimate value of the ITA projects the implementation of which started in 2020, by the sectors



Source: official websites of the CMU⁶⁴, Diia⁶⁵, Investment and Export Development Office of Kherson RSA⁶⁶

In general, in 2016-2020, the main sectors where most ITA resources were raised in Kherson Region were: “Regional development” (five projects for the amount of more

than 107 million US dollars), “Development of agriculture and land market” (three projects for the amount of more than 55 million US dollars), “Development of the social infrastructure and

⁶⁴ Information on the international technical assistance provided to Ukraine following the project monitoring by the Secretariat of the Cabinet of Ministers of Ukraine in 2020, Information on the international technical assistance provided to Ukraine following the project monitoring by the Secretariat of the Cabinet of Ministers of Ukraine in 2019, <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>

⁶⁵ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

⁶⁶ Official website of the Investment and Export Development Office of Kherson Regional State Administration, <https://investinkherson.gov.ua/mizhnarodna-tehnichna-dopomoga/zaluchennya-mtd-na-khersonchiny/>



services” (four projects for the amount of more than 40 million US dollars) and “Development of youth and sports” (three projects for the amount of more than 38 million US dollars).

The largest number of the projects for the last five years was launched with the support of the USA (nine projects), the EU (four projects) and the UN (three projects). These projects are divided among the main development partners by the total cost-estimate value as follows: USA (201 million US dollars, which is 74%), UN (26 million US dollars, which is 9%) and EBRD (15 million US dollars, which is 5%), which makes 88% in total.

7.3.2 Focus and Impact of the Projects upon Provision of the Governmental Services and Their Performance

In 2016-2020, the ITA was focused on various areas, including: improvement of the public transport infrastructure of Kherson by purchasing new trolleybuses; maintenance of the safe and decent living conditions for the internally displaced persons and other persons affected by the armed conflict; improvement of the physical infrastructure of the academic institutions, development of the training systems and improvement of the teachers’ professional competence; improvement of the quality of the administrative services provided to the population at the local level; assistance in establishment of the Administrative Service Centre; development and installation of the sodium hypochloride production plant for water decontamination; assistance to the governmental authorities of Ukraine that facilitate performance of the tasks in public order and anti-corruption to improve their institutional capacity, efficient investigation into criminal offences, introduction of the modern HR management system, improvement of public relations; Summer School for future social workers dedicated to counteraction to domestic violence.

A lot of attention is paid to enhancement of the institutional capacity of governmental

authorities via joint experience exchange programmes as well as support of their technical re-equipment. It all means that implementation of the ITA projects has a positive impact upon provision of services to the population, upon the quality of people’s life, creates new personal development opportunities and favourable working and studying conditions, develops provision of electronic services to businesses and people by the public authorities, and facilitates peace and safety in Ukraine.

Now there is no complete register of ITA projects, and information on the projects is available on the website of the CMU only as the list of the ITA projects registered with the SCMU as well as the list of reports of the beneficiaries included into the official reports of the CMU following the monitoring of the ITA projects. The official website of the Investment and Export Development Office⁶⁷ also contains only the list of the existing projects in progress in Kherson Region.

These project lists do not have a unified presentation system; the project information is often filled in incorrectly, there are no performance indicators of the projects. Information on the projects is not often updated, and there is often no information on conformity of the projects to the national SDGs. It must be noted that, according to Resolution of the CMU No. 153, the Secretariat of the Cabinet of Ministers of Ukraine as the coordinator of the activity associated with raising international technical assistance shall facilitate formulation of the strategic international technical assistance programmes in accordance with the SDGs, without limitation, and also analyse conformity of the project to the tasks and actions set by the SDGs. The project proposal shall also contain references to the tasks and actions set by the SDGs. Due to lack of information, it is impossible to determine which percentage of the ITA of the total cost-estimate value of the projects was raised for Kherson Region.

Also, the problems to be resolved include:

- lack of the project priority system although this problem is expected to be resolved by means of the new three-tier ITA coordination system;

⁶⁷ <https://investinkherson.gov.ua/ru/mizhnarodna-tehnichna-dopomoga/zaluchennya-mtd-na-khersonchiny/>



- unclear division of the ITA by its directions and beneficiaries with account of the national development priorities and national SDGs;
- insufficient focus on certain sectors, which need proper attention with account of the targets of the national SDGs, in particular, health care and economic growth.

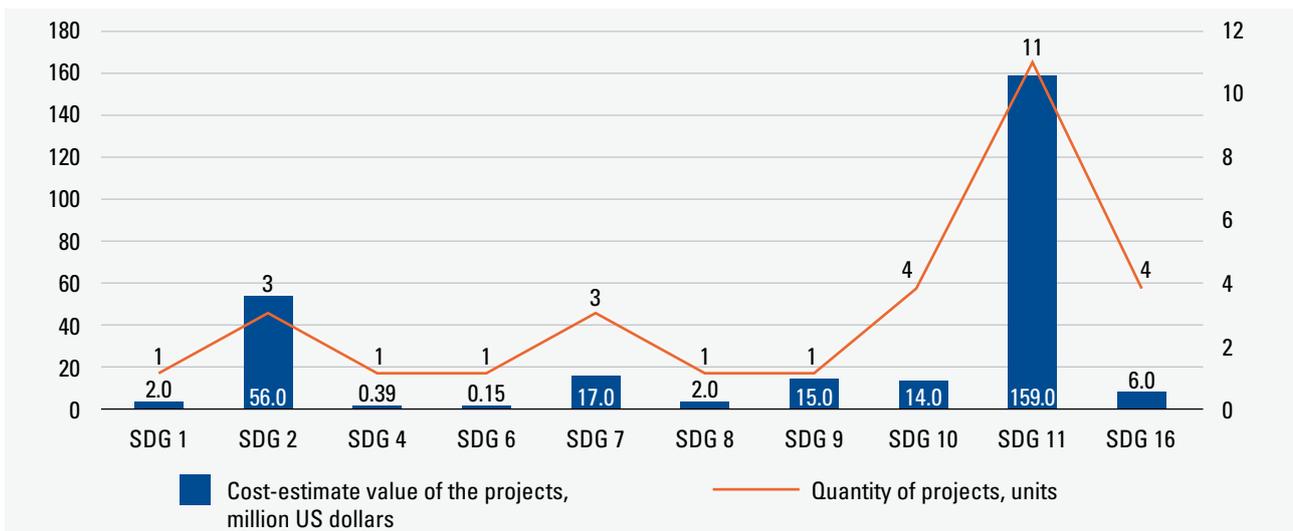
7.3.3 ITA Projects and Conformity to the SDGs

In general, the analysis demonstrates that the ITA in Kherson Region is directed at the tasks that are consistent with many sustainable development goals. According to the experts, in 2016-2020, implementation of the ITA

projects was associated with the tasks within ten SDGs (Figure 27).

Goal 1. No poverty. In pursuance of SDG 1, in 2016-2020, with the support of the US Government via the United States Agency for International Development (USAID), in the territory of Ukraine, including Kherson Region, 2 million US dollars (equivalent) were allocated, and implementation of one project “Aid to the Families Affected by the Conflict in the East of Ukraine” was started to assist the internally displaced persons by: maintaining safe and decent living conditions for the internally displaced persons and other persons in Ukraine affected by the armed conflict; granting pupils access to better studying conditions.

Figure 27: Financing of the SDGs in 2016-2020, million US dollars



Source: expert opinion based on the data from the official websites of the CMU⁶⁸, Diia⁶⁹, Kherson RSA⁷⁰

Goal 2. Zero hunger, development of agriculture.

Kherson Region has quite the powerful potential for development of the agriculture. In 2016-2020, considerable attention was paid to SDG 2 “Zero hunger, development of agriculture.” 56 million US dollars (equivalent) were allocated for SDG 2 within three projects in the sector “Development of agriculture and land market”; namely: US project “Support of Agrarian and Agricultural Development”, which provides for support of sustainable economic growth by facilitating agricultural development;

“USAID Agriculture and Rural Development Support (AGRO)” directed at faster economic development of the rural communities of Ukraine in need of most support, by improving management in the agricultural sector, which will help develop more efficient, modern and profitable micro, small and medium-sized agricultural enterprises that will successfully integrate into the competitive Ukrainian and international markets; project of the Swedish Government and International Trade Centre “Support of Entry of the Ukrainian SMEs in

⁶⁸ Information on the ITA provided to Ukraine following the project monitoring by the SCMU in 2020, Information on the ITA provided to Ukraine following the project monitoring by the SCMU in 2019, <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>

⁶⁹ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

⁷⁰ Data base of the international technical assistance projects (programmes) implemented in Kherson Region as of 10.01.2018, <https://khoda.gov.ua/granti-i-mizhnarodna-texnichna-dopomoga/mizhnarodna-texnichna-dopomoga/>



the Fruit and Vegetable Sector to the World and Domestic Markets and Inclusion Thereof into the Added-Value Chains”, which provides for technical assistance to the SMEs to produce goods in accordance with the market requirements, improvement of organisation of business support to provide quality services to small and medium-sized businesses as well as connection of the pilot SMEs with the target markets within the EU.

Goal 4. Quality education. Kherson Region needs to optimise secondary education establishments due to the insufficient number of pupils. In 2016-2020, only one project “Contribution into the Educational Infrastructure of Ukraine” was directed at achieving SDG 4 in Kherson Region: it provided for improvement of the physical infrastructure of academic institutions, purchase of equipment, development of training systems and improvement of the teachers’ professional competence. The development partner in achievement of SDG 4 was Turkey, with 389 thousand US dollars (equivalent) allocated for the goal.

Goal 6. Clean water and sanitation. It is very important to achieve SDG 6, both in Kherson Region and in the country in general. Due to the deteriorated waste water disposal systems, the settlements in the region have problems associated with the treatment facilities and sewage system. The EU allocated for that goal the support of 146.4 thousand US dollars (equivalent) within one project “Safe Water for Kherson”, which provides for development and installation of the sodium hypochloride production plant for water decontamination.

Goal 7. Affordable and clean energy. Kherson Region has sufficient capacity to develop the green energy. In 2016-2020, in pursuance of SDG 7 in the region, three projects were initiated to introduce energy-efficient solutions in public buildings and residential sector. The development partners were: the EU, Germany, and Global Environment Facility. In total, achievement of SDG 7 required 17 million US dollars (equivalent).

Goal 8. Decent work and economic growth. In pursuance of SDG 8, in 2016, the project “Economic Opportunities for People Affected by Conflict” (EOPAC) supported by the US

Government via the United States Agency for International Development (USAID), was initiated in Ukraine, including Kherson Region; the purpose of the project was to help the internally displaced persons by: creating new jobs and developing skills of the persons affected by the conflict; creating and/or relocating small businesses; expanding economic opportunities of persons with disabilities in Ukraine. The total cost-estimate value of the project is about 2 million US dollars (equivalent).

Goal 9. Industry, innovation and infrastructure. The public transport in Kherson Region needs to be upgraded since it is worn out and obsolete. Thus, in 2019, the EBRD project “Improvement of the Public Transport Infrastructure of Kherson by Purchasing New Trolleybuses and Auxiliary Repair and Diagnostic Equipment, Repairs and Upgrade of the Depot, Trolleybus Contact System” (with the total cost-estimate value of 15 million US dollars (equivalent) was initiated in 2019 within SDG 9.

Goal 10. Reduced inequalities. In 2016-2020, four ITA projects were commenced in Kherson Region for the total amount of 14 million US dollars (equivalent). They include three projects that are concurrently consistent with SDGs 10 and 11 (with the weight of 50% each): the UN project “Local Social and Economic Development”, the purpose of which is to support the local initiatives directed at reducing negative consequences of the pandemic of COVID-19 in Kherson Region as well as two UN and OSCE projects aimed at counteraction to domestic violence, social protection and responsible parenting. In 2017, one more project “Supporting Equality of the LGBTQ People in Ukraine” was started in Ukraine with the support of the UK in order to increase tolerance to the LGBTQ persons, to engage them into social life, to expand opportunities of the LGBTQ community and organisations in Ukraine.

Goal 11. Sustainable cities and communities. In 2016-2020, most attention was paid to SDG 11 “Sustainable cities and communities”. Implementation of SDG 11 required 159 million US dollars (equivalent), and eleven ITA projects were started, including three projects that partly pertained to SDG 10. In particular, the principal technical assistance within SDG 11



was provided in the following sectors: Five ITA projects were directed at regional development, in particular, improvement of local self-governance, better quality of administrative services and support of strategic planning processes and financing of sustainable development; three projects were dedicated to development of youth and sports; three other projects had the weight of 50% in the following sectors: “Development of the Social Infrastructure and Services” and “Elimination of Negative Consequences of Impact of the COVID-19 Pandemic upon the Social and Economic Development of the Region” that partly pertained to SDG 10.

Goal 16. Peace, justice and strong institutions. In 2016-2020, achievement of SDG 16 required 6 million US dollars (equivalent), and four ITA projects were initiated. In particular, the projects were aimed at important tasks, namely: to improve performance of the Department on Combating Drug-Related Crimes of the National Police of Ukraine; to help the governmental authorities of Ukraine that facilitate performance of tasks in protection of public order and counteraction to corruption in order to improve their institutional capacity, to efficiently investigate criminal offences, to introduce the modern HR management system, and to improve public relations.

In 2021, Kherson Region started implementation of two other ITA projects, namely: project “Promotion of Energy Efficiency and Implementation of the EU Energy Efficiency Directive in Ukraine”, which is implemented by the order of the governments of Germany and Switzerland and provides for support of cities and ATC in the form of awareness-raising campaigns, individual consultations and regular support visits for introduction of municipal energy management, as well as, with the support of the United Nations Industrial Development Organization (UNIDO), project “Centre of Innovations, Startups and Technologies at the Kherson National Technical University” directed at promotion of innovation activities and transfer of technologies, promotion of startups, cooperation with the manufacturing industry and small businesses, creation of the comfortable innovation environment to generate and implement creative ideas and successful startups, with the total cost-estimate value of 30 thousand US dollars.

It should be noted that many ITA projects focus on gender equality (SDG 5). In particular, these may be both respective tasks and determination of gender-based performance indicators of the projects. However, separation of financing thereof is not a trivial task. Therefore, the expert opinion was based on the initial goal and implementation of ITA projects in the first place.



Chapter 8.

CONCLUSIONS AND RECOMMENDATIONS

8.1. General Conclusions and Recommendations

Kherson Region has historically been one of the important agrarian Ukrainian regions. It is due to the considerable areas of fertile agricultural lands and favourable climate of the region. Today the agricultural industry is the main employer in the region. In addition, the industrial complex of the region is represented by the food industry in the first place. In the manufacturing industry, the priority industry of Kherson Region is shipbuilding. Kherson Region also has the considerable recreational potential on the shore of the Black and Azov Seas.

In 2014, due to the Russian aggression, Kherson Region became the “border-line” region near the temporarily occupied territory of the Autonomous Republic of Crimea. Also, important sales markets of certain types of agricultural products in adjacent Crimea and Russia were lost. Nevertheless, the region still is potentially attractive for development of its traditional industries and has refocused on the new markets.

This report is the first systemic attempt to compare the available development finance in Kherson Region with the sustainable development goals. Thus, Kherson Region has all the development finance sources, but there is still growth potential. For this purpose, the local authorities should increase the quality of tax administration and performance of budget expenditures, take actions to improve the

investment climate, in particular, by enhancing the infrastructure. Since there are no sufficient own funds to finance development, the local authorities should set up better cooperation with the IFIs. In this case, concessional loan financing by the IFIs must be accompanied by the grant component as ITA in order to improve the capacity of beneficiaries. Moreover, clear priorities must be set both for budget and private financing of development. Furthermore, it is important to improve the quality of management of municipal enterprises.

The data on development finance sources are not mutually exclusive so their total scope is difficult to assess. At the same time, the key assessment outcome is the understanding what priorities are financed with specific sources as well as what financing gaps exist. It will enable developing the actions of importance for mobilisation of development finance.

The analysis findings have helped find the main financing sources for specific sustainable development goals (see Table 5). Mobilisation of development finance from different sources will facilitate achievement of respective SDGs 2030. In general, in consideration of the major financing needs, the central and local authorities must join their efforts to raise more financing from all the possible sources and to direct it at clear and coordinated priorities.

**Table 5: Main development finance sources by the SDGs**

Sustainable development goal	Main financing sources	Comment
Goal 1. No poverty	<ul style="list-style-type: none"> – State Budget – Financing by IFIs 	<p>The State Budget funds still are necessary to finance social benefits, housing and utility subsidies and other expenditures to overcome poverty. The performance of such expenditures can be improved by means of state verification tools after respective decisions are taken at the central level.</p> <p>The IFI funds shall be directed at supporting economic growth, which is the most efficient way to fight poverty.</p>
Goal 2. Zero hunger, development of agriculture	<ul style="list-style-type: none"> – Private investment 	<p>Private investment must be the main source of financing of agricultural development in the region. However, certain stimulation actions by the state and local authorities are necessary. In particular, resolution of the irrigation problem must be partly financed from the State Budget.</p> <p>Thus, agricultural development in Kherson Region is prevented by climate issues and poor irrigation. Solution of these issues requires budget financing from the SFRD, PPP projects and/or funds from the international financial institutions for large-scale infrastructural irrigation projects (Sub-section 8.8). It is also important to invest into development of the infrastructure (Goal 9).</p>
Goal 3. Good health and well-being	<ul style="list-style-type: none"> – Local budgets – Financing by IFIs – MNE investment 	<p>Health care facilities reorganised into municipal non-profit enterprises can invest into development the funds received in the first place from provision of paid services (since payment by the NHSU covers salaries in the first place). However, senior executives of medical facilities must be trained on efficient planning and procurement. Moreover, the government must use the predictable health care policy at the national level.</p> <p>The SFRD already finances investment into health care within certain projects. Moreover, health care funds are allocated within the projects under the programme “Large Construction”.</p> <p>At the same time, the local budgets remain the main source of financing of health care development. In order to reduce utility costs, funds should be directed at financing of the thermal upgrade, which can already raise funds from the NEFCO and EU grants. The efficient mid-term budget forecasting at the local level will facilitate allocation of funds for the priority areas, one of which is health care.</p>
Goal 4. Quality education	<ul style="list-style-type: none"> – State Budget – Local budgets 	<p>The investment projects in education can be implemented at the expense of the State Budget, namely within special programmes or SFRD, “public budget”, local budgets. Some educational projects are already financed with the governmental programme “Large Construction”.</p> <p>The reform of the vocational education, in particular, introduction of the module education and dual education, will facilitate engagement of the private business into formation of educational programmes. It will help reduce the skills gap. Moreover, cooperation between different territorial communities can help them create the powerful inter-territory vocational educational establishment, which will develop skills of the population. Therefore, it can be an additional driver for businesses to come to the region.</p> <p>Higher educational establishments may finance respective expenditures at the expense of the funds received from the paid services or charity.</p> <p>Local budgets remain the main investor into the pre-school and school education. The local authorities may raise donor funds to finance thermal upgrade of establishments to free the funds for better equipment and construction of the establishments.</p> <p>Private investment is possible by opening private educational establishments, philanthropy and dual education projects.</p>



Sustainable development goal	Main financing sources	Comment
Goal 5. Gender equality	<ul style="list-style-type: none"> – ITA – State Budget 	<p>The gender budgeting elements should be expanded at the local level.</p> <p>Moreover, this goal plays an important role in the ITA projects. The dialogue between the local authorities and international organisations and proper collection of data on violence, female employment and other problems caused by the gender inequality must be maintained.</p>
Goal 6. Clean water and sanitation	<ul style="list-style-type: none"> – ME investment – Private investment (PPP) – IFI projects 	<p>The local water supply and waste water disposal MEs do not have funds for the investment, which they need due to the worn out water pipes. Therefore, ITA funds should be raised to develop prospective water supply plans, and inter-government loans and IFI funds should be raised for upgrades.</p> <p>Use of the PPP instruments can play the key role in raising private investment into the local water companies. For this purpose, awareness of the local self-government authorities of this matter should be raised, and the dialogue between potential investors and the LSGA should be established. The existing ITA projects that work with the communities can hold respective workshops and webinars.</p> <p>The critical task for the industry is to resolve the matter of difference in the tariffs.</p>
Goal 7. Affordable and clean energy	<ul style="list-style-type: none"> – Private investment – Financing by IFIs 	<p>Housing and premises thermal upgrade projects must be implemented. It can be done, without limitation, via financing from the SFRD as well as local budgets. At the same time, the most probable source of financing of such projects can be loans from the IFIs.</p> <p>The local authorities can introduce the local drivers for the companies that produce materials, offer energy efficient technologies, provide winterising services etc.</p> <p>The region was a magnet for the green energy projects due to its natural conditions. Maintenance of the drivers of green energy development at the governmental level will facilitate growth of private investment in pursuance of Goal 7. The dialogue between the local authorities and businesses is important to resolve possible issues.</p>
Goal 8. Decent work and economic growth	<ul style="list-style-type: none"> – Private investment 	<p>In the first place, the goal is achieved with private investment. Recommendations for raising it can be found in the national DFA report.</p> <p>The local authorities can submit projects for equipment of the industrial parks to be financed from the SFRD. If they already have the finished infrastructure and connections to the systems and are insured, the investors will believe that the risks are lower.</p> <p>In pursuance of Goal 8, it will be useful to raise the ITA for business education and projects associated with development of small and medium-sized businesses in the region. Special attention should be paid to the projects focused on improvement of the export capacity of the businesses since the local demand is limited, and prospects of its quick growth are unclear.</p>
Goal 9. Industry, innovation and infrastructure	<ul style="list-style-type: none"> – Private investment – SFRD – Financing by IFIs 	<p>The state investment into the infrastructure, the transport one, in the first place, will also help achieve Goal 8 since business development is limited by expensive logistics. Road construction, railway electrification.</p> <p>Private investment into the infrastructure can be made via the PPP projects. In particular, concession of Kherson International Airport is planned. Moreover, the agreement on concession of Kherson Sea Port was signed in 2020, but the asset group still has not been transferred to the concession holder. Active efforts of the local authorities are necessary to implement such projects.</p> <p>Public transport is generally procured at the expense of loans from the IFIs.</p> <p>Cooperation between businesses and universities and academic institutions will facilitate development of innovation. Where there is an opportunity, the local authorities can encourage such cooperation by organising and holding meetings and discussions between the higher education establishments and businesses as well as via cooperation with the ITA projects in science for the local higher education establishments (training on Horizon grants, publication of articles in international editions etc.).</p>



Sustainable development goal	Main financing sources	Comment
Goal 10. Reduced inequalities	<ul style="list-style-type: none"> – State Budget – Local budgets 	<p>Accessibility of the social services is ensured at the expense of the state and local budgets. Grant funds can be allocated to construct and equip certain types of premises or service stations (for instance, shelters for the women affected by domestic violence, mobile ASCs etc.), which can be managed by the state or local authorities. However, most tasks within this goal are within the dimension of functions of the central government.</p>
Goal 11. Sustainable cities and communities	<ul style="list-style-type: none"> – Local budgets – SFRD – Financing by IFIs 	<p>Affordability of housing in the region is one of the sorest points with the biggest financing challenges due to high risks as well as the low level of the demand with the paying capacity in most settlements.</p> <p>At the same time, affordability of housing will be ensured by the existing affordable mortgage programmes as well as announced leasing programme.</p> <p>Regional development requires thorough strategic planning based on the respective budget planning. However, many communities still have not formulated and adopted their development strategies. It can be assisted by the ITA projects, whose performers should develop the joint methodology for efficient formulation of regional development strategies involving local businesses and population.</p>
Goal 12. Responsible consumption and production	<ul style="list-style-type: none"> – Private investment – Financing by IFIs – ME investment 	<p>The waste treatment infrastructure in the region is municipally owned. The landfills are natural monopolies so they have the potential of drawing loans from the international financial institutions as well as public-private partnership tools.</p> <p>The same way as in the other regions, development of sorting and other waste disposal methods (save for burial) depends on amendments to the national laws. Yet, behavioural changes can also be stimulated via communication and awareness raising. They can be initiated by the local authorities either on their own or by encouraging the local NGOs as an element of cooperation with the ITA donor projects.</p> <p>Thus, waste disposal in the region, the same way as all over Ukraine, is hindered by lack of state supervision over adherence to the environmental protection laws by the economic operators. Moreover, the region does not have the rubbish recycling facility, which needs to be built. Construction of the facility requires coordinated efforts of the region communities to agree upon allocation of land, to allocate funds from the local budgets for construction of the facility, and to arrange a concessional loan from the IFIs.</p>
Goal 13. Climate action	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>Private financing to achieve the goal – actions of the large plants to reduce greenhouse gas emissions. At the same time, the region is less industrialised in comparison with the other regions of Ukraine, which leads to more attention to the other issues related to climate changes.</p> <p>The tools to finance such investment have to be presented within the Green Deal.</p>
Goal 14. Life below water	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>Today the region has no private investment to achieve Goal 14. The local budgets also have no respective expenditures.</p> <p>The region also has access to the Black and Azov Seas. Therefore, sea resources must be protected and preserved. This activity can potentially be financed via cooperation with the global environmental protection organisations and donor funds aimed at ecology and climate action.</p>
Goal 15. Life on land	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>Today the region has no private investment to achieve Goal 15. In addition, only minor amounts are allocated from the local budgets.</p> <p>The scope of financing can potentially be increased via the international assistance within the Green Deal. At the same time, the matters of protection and recovery of life on land need to be regulated at the national level.</p>



Sustainable development goal	Main financing sources	Comment
Goal 16. Peace, justice and strong institutions	<ul style="list-style-type: none"> – State Budget – Local budgets 	<p>This goal is financed from the State Budget, local budgets and IFIs. More cooperation with the international partners at the national level can raise more financing.</p> <p>There must be donor programmes at the local level to increase regional security in cooperation with the local authorities.</p> <p>The projects that facilitate higher transparency and prevention of corruption are also important because it will help achieve Goal 16.</p>
Goal 17. Partnerships for the goals	<ul style="list-style-type: none"> – Local borrowing – Private investment (PPP) 	<p>Closer cooperation of donors and more coordinated organisation of their efforts should be considered.</p> <p>The favourable investment climate will result in the bigger flow of the DFI into the region as well as launch of such private financing tools as PPP and industrial parks.</p>

This report presents the development finance assessment, determines main financing sources for the tasks in terms of the sustainable development goals, but the government and local

authorities of Kherson Region should develop and estimate the value of the specific actions necessary to achieve the SDGs, in particular, by means of the costs and benefits approach.

8.2. Recommendations: Strategic Planning

Some of the communities still have not adopted their own development strategies. At the same time, the adopted strategies mostly do not provide for implementation of the sustainable development goals. The strategies sometimes do not contain performance indicators consistent with the SMART principles. Therefore, the following actions should be taken in strategic planning:

- Adoption of the development strategies including the SDGs 2030 at the level of goals, tasks and indicators by the communities. This approach will enable to clearly monitor performance of the strategies.
- The SDG targets must be set at least at the regional level, and the targets must be collected and monitored on a continuous basis. To start with, historical data for the regions and largest communities must be collected

for 2015-2020. Furthermore, the number of the communities' indicators can be considerably lower than at the national level to avoid increased pressure on the communities.

In this case, the task of utmost importance is to set the targets for the indicators of SDGs 2030 in the region and to monitor them. However, monitoring of achievement of the indicators is important for the biggest communities too.

Planning based on the sustainable development goals at the community level will require separate training and support resources. Now few local communities with the strategies include the SDGs there. It could take a separate ITA project to include the SDGs into the community strategic planning and monitoring of implementation (by the example of reform support governmental offices).

8.3. Recommendations: Budget Planning, Revenues and Expenditures

In the first place, the territorial communities have impact upon financing of development within their budgets. That is why local budget planning, efficient administration of local taxes

as well as establishment of the clear priorities of development finance by the local authorities are extremely important.



Budget planning:

- The local authorities must take up mid-term budget forecasting to provide for financing of the priorities set in the strategic documents. It will enable assessing available financing and developing plans for raising financing from other development finance sources.
- Clear priorities financed at the expense of the local budgets must be set.
- Efficient introduction of the management by objectives at the local level will allow efficient budget utilisation and assessment of impact of the funds spent upon achievement of the goals set. In particular, the budget programme data sheets must set the goals, tasks and key performance indicators based on the SMART approach⁷¹: they have to be specific, measurable, assignable, realistic, time-related. In particular, such performance indicators for specific budget programmes may be the indicators and tasks set for achievement of the sustainable development goals.

Budget revenues:

- In order to ensure efficiency of the local tax system, cooperation of the tax authorities and local authorities must be improved to counteract tax evasion and mitigation, namely payment of unofficial salaries, illegal circulation of excisable goods, illegal mining of mineral resources etc. The citizens who lease out their land plots and accommodation (houses, apartments, rooms) without official registration must also pay taxes.
- The important step is to promote the national electronic services of the State Tax Service (Payer's Electronic Cabinet and software cash registers in the first place) and the State Customs Service of Ukraine (possible customs simplification for the status of an authorised economic operator, transit system of the NCTS in the first place) among the regional tax payers to ease and simplify and to ensure complete and timely budget payments. The role of the central authorities is most important here, but the local authorities can also inform the public of such services and opportunities.

- In order to mitigate tax evasion, actions should be taken to engage famous and successful local celebrities from the cultural industry (actors, singers, writers, artists etc.) and sports who were born and/or work in Donetsk Region into the promotional campaigns for the tax culture, with a view to increasing voluntary payment of taxes, namely during the personal income declaration campaign.
- The local authorities and the regional employment centres and STS departments can join the awareness raising campaign based on the digital platforms (Zoom, Skype, Google Meet) regarding the tax and labour laws, in particular, among novice businessmen and public organisations of entrepreneurs.
- One of the major sources of tax proceeds, which is not fully used at the local level according to various estimates, is property (real estate and land) tax assessment. Thorough assessment and monitoring can be effected at the regional level to determine the communities with the lowest statutory land appraisal and the lowest land tax rate. In this case, the causes of rate differences must be analysed. This potential tax resource can materially expand financing development opportunities.

Budget expenditures:

- The local authorities should clearly define the priority expenditures financed at the expense of the local budgets. In this case, adequate determination of the key performance indicators will allow assessing impact of expenditures upon achievement of the goals set and indicators. Expenditures must be sub-classified by the sustainable development goals in order to assess financing of the SDGs at the local level at the expense of the local budgets.
- It is also important to overview expenses for the selected budget programmes with participation of the public and experts.
- The local authorities must assess and review the chain of their establishments that provide public services in education, health care, culture and sports. The efficient chain will allow more efficient spending and bet-

⁷¹ SMART – specific, measurable, assignable, realistic, time-related



ter public access to public services of higher quality. In particular, it is about optimisation of the chain of schools and health care facilities.

- In order to efficiently prepare the workforce at the educational vocational establishments, the permanent dialogue between the local authorities, the regional employment centres and businesses is of paramount importance to assess future workforce needs.
- The local authorities should improve their capacity for submission of projects to the

SFRD as well as available projects financed by the international donors for financing.

Local borrowing:

- Today the local authorities do not borrow funds to finance development (save for the projects financed by the IFIs, which go through the State Budget in the first place). The financial capacity of the local communities must be increased to expand such financing. So the mechanisms for hedging the forex risk in borrowing in the foreign currency must be established at the central level. In particular, forex swaps can be introduced.

8.4. Recommendations: IFI and ITA projects

Now most borrowed funds within the IFI projects in Kherson Region are directed at the energy sector whereas ITA is mostly raised for sustainable development of cities and communities and the agrarian sector. At the same time, there is insufficient focus on support of specific sectors that are important for sustainable development of the region, namely health care and economic growth. In order to introduce the balance approach to development of Kherson Region, clear regional priorities of use of the funds borrowed from the IFIs and ITA that are clear for the public must be set with account of the tasks under the national sustainable development goals, and the efficient project priority system must be introduced in accordance with the national indicators of the SDGs.

Introduction of the mandatory assessment of project proposals by their conformity to the sustainable development goals before a decision on feasibility studies of the respective projects is taken should also be considered as it will help save the funds allocated for the feasibility studies for the projects that will not be selected for financing in the future.

The regional information data base of the projects that are already in progress in the region with the support of the IFIs as well as the projects in which Kherson Region still can participate should be created. Such base must contain all the applicable information on the progress of implementation and monitoring of

the IFI projects in the region and represent the focus of the projects on achievement of the regional and national targets of the SDGs. In general, it should be done at the national level for all the regions within the portal *Register of IFI Projects*.

Systematic (quarterly and annual) monitoring over progress of the projects, assessment of performance of the borrowed funds and achievement of the efficient targets at the regional level and further publication of the results should be ensured.

In order to inform the stakeholders (at the national and local levels) of the possibility of IFI loans, explanations must be given on the procedure and peculiarities of financing by the IFI for project implementation, and regular training on these matters must be conducted for the public authorities, with workshops and conferences organised.

It is also important to establish the mechanism for coordinating donors and contractors for the ITA projects. In particular, it includes quarterly donor meetings involving the donors, community representatives and civil society. The ITA matrix specifying which projects are in progress in the region will also be of help. It will help the communities find their place in the projects and improve their capacity.

For the possible concessional loans to be received from the IFIs:



- The Government of Ukraine and the RSA should negotiate with the IFIs to increase the share of concessional loans denominated in UAH to the local authorities in order to finance the social and economic development projects. At the same time, possibility of exchange swaps should also be developed to mitigate the risks of considerable pressure in case of foreign currency debts following UAH devaluation.
- The capacity of beneficiaries and contractors within the economic and social development projects financed with concessional loans from the IFIs must be improved. It requires introduction of the grant component in the form of international technical assistance.
- At the regional level, there must be ITA projects within which standard feasibility studies could be developed for implementation of the water supply, waste water disposal, waste treatment and other projects.
- Given the low capacity of beneficiaries and contractors, clear prioritisation of the IFI projects is necessary. Thus, clearer priorities as to raising IFI funds for project financing should be defined. This can be facilitated by the focus on the sustainable development goals.
- The national SDG indicators approved for the period until 2030 can be used to set priorities for the projects financed at the expense of the ITA and IFI funds, and to monitor implementation thereof. Application of these indicators in strategic planning creates a basis for sustainable development of the territories. At the same time, regional targets should be set for the future and used during the dialogue with the international partners.

8.5. Recommendations: Private Investment

The analysis demonstrates that:

- Before 2020, there had been generally positive tendencies as to the scope and structure of capital investment, but the pandemic of COVID-19 and the national green energy policy mitigated the positive changes.
- Kherson Region lacks attention of foreign investors, and the region gets minor DFI. The possible reasons include its geographic location, unfavourable business environment and low level of business security in Ukraine in general.
- Alternative energy has turned into one of the principal magnets for private investors. This industry has the considerable share of capital investment and DFI.
- The interest of private investors is somewhat limited by the traditional specialisation of the region (agrarian sector) and alternative energy. There are no actual drivers to expand investment into other industries. Development of the green energy was preconditioned by the national policy (introduction of the green tariff) in the first place.
- The region lacks private investment for most SDGs. Capital investment is mostly directed at the agrarian sector and renewable energy.

Education, health care etc. are traditionally supported by the State Budget while the other SDGs receive minor investment.

The national measures of private investment mobilisation are specified in the report "*Development Finance Assessment: Ukraine*". At the same time, there are some actions that can be introduced by the local authorities to overcome the main obstacles to private investment in the region:

- The authorities of Kherson Region should keep successfully implementing the Regional Development Strategy until 2027, which contains a number of important terms of reference for the regional development projects to raise investment.
- The synergy between the existing elements of the infrastructure to raise investment (investment office, investment portal, board of investors, Eurointegration Office).
- It is important to set up active operations of the Eurointegration Office, which is the first regional institution of this kind in Ukraine. Its active work will help attract investors into the region while the successful experience of the pilot project can improve the image of Kherson Region.



- The local authorities must actively communicate the regional problems and needs because they are often in the hands of the central authorities in the first place. For instance, the fight against illegal takeover is impossible without active actions of the law enforcement and central authorities.
- Mentorship in small village and urban village communities that are unable to prepare investment projects and find investors on their own must be set up at the regional level.
- It is important to engage private investment via the public-private partnership projects.
- The region also has the unfulfilled potential for creation of industrial parks. For this purpose, the communities need more infrastructural development capacity and dialogue with potential investors.
- The local authorities must also become partners of the State Property Fund of Ukraine in privatisation of state and municipal enterprises. Thus, the regional authorities and each individual community must be engaged into the search for an efficient private owner since this is a step to creation of jobs and increase in tax proceeds of the local budgets.

8.6. Recommendations: investment by municipal enterprises

The main obstacles to investment by municipal enterprises in the region are:

- Disposal of the municipal property based on the right of operational management or economic jurisdiction (pursuant to Article 78 of the Economic Code), which results in less motivation to invest.
- Large and unsettled debt to gas and/or electric power suppliers (which often happens to the water, heat supply MEs etc.), which results in lack of free resources to invest.
- High level of depreciation of the ME assets, which shifts the priorities in use of resources to current repairs.
- Tariffs lower than the feasible level, which results in loss-making of the enterprises.

The findings of the audit by the SASU have shown that the municipal enterprises sometimes direct the funds from the development budgets of the local budgets for their authorised capital as current expenses rather than investment⁷². Moreover, the MEs mostly make investment pursuant to their own operational goals, which have to be published on the website of the ME or its governing body according to Article 78 of the Economic Code. Today the sustainable development goals are not considered in the activity of the MEs. At the same time, the local authorities that own the companies could set the goals and operational results

of the ME in the ownership policy, in particular, with the focus on achievement of the respective SDGs.

The investment should also be divided by the applicable SDGs in such documents, which must be published according to Article 78 of the Economic Code:

- Annual reports of the senior executive and supervisory board (if any)
- Description of the main and expected risk factors that can affect the activity of the ME, and actions to manage such risks
- Structure, principles of formation and amount of the remuneration due to the senior executive and members of the supervisory board (if any).

The respective local authority in contact with the senior executive or supervisory board of the ME (if any) should include investment pursuant to the SDGs consistent with the enterprise's scope of activity into the key performance indicators (KPI).

If the ME receives financing for capital investment pursuant to one or several local programmes, the local self-government authority is recommended to specify to which sustainable development goals specific financing items pertain.

⁷² https://dasu.gov.ua/attachments/41c93f15-7eb7-49ab-b464-1934173c7f58_%D0%97%D0%92%D0%86%D0%A2__2020_%D1%80%D1%96%D0%BA.pdf



According to the experts, investment by all the operating municipal enterprises in Donetsk Region are directed at such sustainable development goals as 3, 6, 9 and 12 in the first place:⁷³

- **Goal 3.** The majority of health care facilities are municipally owned (due to the health care reform, budget institutions have been transformed into municipal non-profit enterprises). The need to upgrade the fixed assets of the regional hospitals, to form the efficient network of hospitals for the needs of the territorial communities and importance of creation of tertiary health care facilities (highly-specialised medicine) are among the most important factors to drive growth of the scope of investment pertaining to SDG 3. At the same time, the main source of capital investment of the medical MEs is local budgets (according to the Budget Code).
- **Goals 6, 12.** The water supply and waste water disposal as well as waste treatment infrastructure is also municipally owned. Most of the enterprises within these SDGs are natural monopolies. Owing to this, they can obtain loans from international financial institutions and use public-private partnership tools. The important need of Kherson Region is investment into waste disposal enterprises.
- **Goal 7.** This SDG includes the MEs that generate electric power and heat as well as operation of the respective infrastructure. The problems of the heat generation enterprises include the considerable debt to gas companies and considerable level of asset depreciation. The enterprises within this SDG are

also natural monopolies so there is space for investment from the IFIs.

- **Goal 9.** Public transport development is of great applicability. In order to preserve and develop the electric and other types of public transport, the IFI funds should be raised in all the cities, including small ones, and inter-city transport connections should be developed.
- **Goal 11.** In general, in 2020, the enterprises in this SDG make much more investment than before. In this regard, performance and optimality of investment must be monitored.

Investment into the other goals can be made from private and budget sources.

Creation of apartment building co-owners associations must also be encouraged, and management companies must participate in management of the housing stock on the books of the MEs.

In general, all the municipal enterprises are recommended to introduce corporate management elements based on the experience and resources of international organisations.

Based on the experience of collection and peculiarities of use of data for this analysis, it is recommended to publish available financial statements (including for the previous periods) as open data, both to the State Tax Service (it has already been done in part) and the State Statistics Service and local self-government authorities (namely financial plans and reports on progress thereof as well as balance sheets/statements of financial position).

8.7. Improvement of the Communities' Capacity for Mobilisation of Development Finance

The regional communities need help improving their institutional capacity. In particular, most communities do not have approved regional development strategies. However, the region has a number of ITA projects that help develop these Strategies pursuant to their own technique.

Instead, the coordinated policy of different donors and development of the joint technique to prepare such Strategies would be important. The efficient strategy targets include the most important targets by the sustainable development goals that can be set at the local level.

⁷³ It should be noted that, according to the experts, the large portion of investment by the ME indirectly facilitates achievement of Goal 8 "Decent work and economic growth".



Also, the local authorities, which were given extended powers in decision making and financing of community development, need further training on how to raise financing, conduct the dialogue with businesses, the

civil society and the public. In particular, there must be training on establishment of industrial parks and engagement of private businesses into public-private partnership projects.

8.8. Assessment Example: Irrigation Financing

In the first place, irrigation in Kherson Region is effected with the water resources from Kakhovka Reservoir, which goes along the region from the north to the south. There is also the Northern Crimean Channel, which used to supply fresh water to Crimea, going along the territory of the region. However, as the water supply to the peninsula occupied by Russia has been terminated, there are still problems with delivery of additional water resources to certain communities. The internal irrigation system that supplied water to specific land plots has been destroyed for the last decades. The condition of this internal systems is one of the main challenges for full-scale recovery of the irrigation system. Use of the irrigation systems can limit the negative impact of weather conditions. According to Kherson RSA, the region has 427.1 thousand hectares of the irrigated lands, with 320 thousand hectares of 75 used today.

The Irrigation and Waste Water Disposal Strategy of Ukraine until 2030 adopted by the government in August 2019 was supposed to resolve the problems and mobilise financing for recovery of the irrigation system.⁷⁴ The Action Plan for its implementation was adopted in October 2021 only.⁷⁵ According to the Strategy, implementation of the Strategy for entire Ukraine requires 4 billion US dollars, which are going to be raised from all the possible development finance sources. However, there have been delays in implementation of the plan. At the same time, activation of implementation of the Irrigation Strategy is finally expected since the Ministry of Agriculture takes up the irrigation powers from the State Agency of Water Resources.

Draft Law No. 5202 “On Organising Water Users and Stimulating Hydrotechnical Land Reclamation” must be adopted to develop land reclamation. In September 2021, the Verkhovna Rada adopted the draft law in the first reading. Adoption of the law is expected to create conditions for raising private investment into reclamation, construction of pump stations and to determine the property title.

Thus, private investment must be an important development finance source both for the regional agriculture in general and irrigation systems in particular. It has been facilitated by the launch of the agricultural land market in 2021, although the format has been limited. Thus, the land owner will be more interested in organising irrigation. Private investors must also be encouraged by state support of the manufacturers that use reclaimed lands.⁷⁶

However, recovery of the irrigation systems also requires public funds (in particular, via the SFRD projects). Another way to resolve the problem is PPP projects and/or concessional loans from international financial institutions for large-scale infrastructural irrigation projects. At the same time, the local authorities will have fewer risks borrowing funds if they can obtain loans in UAH or have efficient tools to insure forex risks.

Kherson Region is already raising financing to recover the irrigation system. For instance, the regional development project “Creation and Institutional Filling of the Investment Park “Kherson Region Irrigation Recovery” is already in progress with the support of the State Programme for Supporting the Sectoral

⁷⁴ <https://zakon.rada.gov.ua/laws/show/688-2019-%D1%80#Text>

⁷⁵ <https://zakon.rada.gov.ua/laws/show/1567-2020-%D1%80#Text>

⁷⁶ The applicable state support was adopted in October 2021, <https://www.kmu.gov.ua/news/uryad-pidtrimaye-fermeriv-yaki-vikoristovuyut-tehnologiyi-zroshennya-zemel>



Policy. The project provides for reconstruction of the irrigation systems within the area of 63.6 thousand hectares in seven territorial communities. Moreover, the region has submitted nine regional projects of development and recovery of the irrigation systems to the Presidential Office within the Magnets of Ukraine Project.⁷⁷

Today Kherson Region is also the first region for the pilot project "Irrigation Recovery in the South of Ukraine". The project will also involve Odesa and Mykolaiv Regions. Concessional

loans and grants from the IFIs should be raised to finance the project.

The irrigation matter is also considered by international donors. In particular, the region has USAID AGRO project, which provides for a sub-grant for creating the Organisation of Water Users in Kherson Region and supporting recovery and upgrade of the irrigation systems. Such technical assistance will also be of use for the region. Technical assistance in development of feasibility studies for the irrigation systems in the region would also be important.

⁷⁷ <https://khoda.gov.ua/hersonshhina--odeshhina-ta-mikola%D1%97vshhina-pracjuvatimut-nad-vprovadzhenjam-p%D1%96lotnogo-pro%D1%94ktu-pov%D1%96dnovlennju-zroshennja-na-p%D1%96vvn%D1%96ukra%D1%97ni>



Chapter 9.

ANNEXES

9.1. Map of Stakeholders in Public / Private and Internal / External Terms

	Public	Private
Internal	<ul style="list-style-type: none"> - Linear ministries - Local authorities - State Fund for Regional Development - Business Development Fund - Startup Fund - State and municipal enterprises - State banks (?) - UkrInvest (?) 	<ul style="list-style-type: none"> - Private companies - Commercial private banks - Credit unions and other financial organisations - Investment funds - Venture funds (?) - Crowdfunding platforms - Business associations - Non-governmental organisations (NGOs) - Charitable organisations (?)
External	<ul style="list-style-type: none"> - International financial institutions <ul style="list-style-type: none"> o World Bank Group (World Bank and IBRD) o IMF o EBRD o EIB o KfW o Others (?) - Bilateral partners <ul style="list-style-type: none"> o EU in general and different EU Member States in particular o USA, Canada, Japan and other countries of the OECD DAC o UAE and other countries 	<ul style="list-style-type: none"> - Commercial banks - Investment companies - Business associations (??? ACC, EBA???) - Direct foreign investment - Portfolio foreign investment - Transfers from abroad - International NGOs - Expatriate community (?)

Respective development finance sources:

- Public / private internal financing
- Public / private external financing
- Combination of financing:
 - o Public-private partnership
 - o Social and investment projects from the IFIs against the state guarantees or as loans to the state
 - o Commercial loans against the state guarantees



9.2. Current Progress in Achievement of the Sustainable Development Goals

2020	2021	SDG Tasks
Goal 1. No poverty		
		1.1. To reduce the level of poverty four times, namely by remedying its extreme forms
		1.2. To increase coverage of the poor people with targeted social support programmes
		1.3. To improve the viability of socially vulnerable populations
Goal 2. Zero hunger, development of agriculture		
		2.1. To ensure accessibility of balanced diet at the level of scientifically substantiated standards for all the populations
		2.2. To increase agricultural performance twice, in the first place, by using innovation technologies
		2.3. To facilitate creation of sustainable food production systems, which helps preserve eco-systems and gradually improves the quality of land and soil, in the first place, owing to innovation technologies
		2.4. To reduce the volatility of food prices
Goal 3. Good health and well-being		
		3.1. To reduce maternal mortality
		3.2. To mitigate the deaths that can be prevented among children younger than five
		3.3. To stop the epidemics of HIV/AIDS and tuberculosis, including by means of innovation practices and treatment
		3.4. To reduce early deaths as a result of non-infectious diseases
		3.5. To reduce early deaths, including by introducing innovation diagnostic approaches
		3.6. To reduce the level of severe injuries and deaths as a result of road accidents, including by means of innovational intensive care, treatment and rehabilitation practices for those affected by the road accidents
		3.7. To ensure general quality immunisation of the population with innovation products
		3.8. To reduce the level of tobacco smoking by using the innovation means of raising awareness of negative consequences of tobacco smoking
		3.9. To reform the health care financing system
Goal 4. Quality education		
		4.1. To ensure access to quality education for all the children and teenagers
		4.2. To ensure access to quality pre-school development for all the children
		4.3. To ensure access to vocational education
		4.4. To improve the quality of higher education and to ensure its close connection with science; to promote formation of cities of education and science in the country
		4.5. To increase the spread of the knowledge and skills necessary to find a decent job and do business among the population
		4.6. To eliminate gender inequality among school teachers
		4.7. To create modern training conditions in school, including inclusive education based on innovation approaches
Goal 5. Gender equality		
		5.1. To create conditions for eliminating all the forms of discrimination of women and girls
		5.2. To reduce the level of gender-based and domestic violence, to ensure efficient prevention thereof and timely help to its victims
		5.3. To promote joint responsibility for housekeeping and upbringing of children
		5.4. To create equal representation opportunities at the top decision-making levels in the political and social life
		5.5. To expand public access to family planning services and to reduce the level of teenage pregnancies
		5.6. To expand economic capacity of women
Goal 6. Clean water and sanitation		
		6.1. To facilitate accessibility of quality services of safe drinking water supply, construction and reconstruction of the centralised drinking water supply systems by means of advance technologies and equipment



2020	2021	SDG Tasks
		6.2. To facilitate accessibility of modern waste water disposal systems, construction and reconstruction of water collection and sewage treatment facilities by means of advance technologies and equipment
		6.3. To reduce the volume of untreated waste waters, namely by means of the innovation water treatment technologies at the state and personal levels
		6.4. To increase water use performance
		6.5. To facilitate introduction of the integrated water resource management.
Goal 7. Affordable and clean energy		
		7.1. To expand the infrastructure and to upgrade the systems to ensure reliable and sustainable power supply based on the innovation technologies
		7.2. To ensure diversification of supply of primary power resources
		7.3. To increase the share of power from the renewable sources in the national energy balance, in particular, by introducing the additional capacities of the facilities that generate power from renewable sources
		7.4. To increase the energy-efficiency of the economy
Goal 8. Decent work and economic growth		
		8.1. To ensure sustainable GDP growth based on production upgrade, innovation development, increase in the export potential and placement of products with the high share of the added value to the external markets
		8.2. To increase production performance based on sustainable development and development of high-technology competitive production facilities
		8.3. To increase the level of public employment
		8.4. To reduce the share of the youth who do not work, do not study and do not acquire professional skills
		8.5. To facilitate creation of reliable and safe working conditions for all the workers, namely by means of innovation technologies in occupational and industrial safety
		8.6. To create the institutional and financial capacity for self-fulfilment of the potential of the economically active part of the population and development of the creative economy
Goal 9. Industry, innovation and infrastructure		
		9.1. To develop the quality, reliable, sustainable and accessible infrastructure based on use of innovation technologies, including environmentally-friendly means of transport
		9.2. To facilitate wide use of electric transport and respective infrastructural network
		9.3. To facilitate availability of the road and transport infrastructure based on the innovation technologies, namely by expanding the forms of participation of the government in various infrastructural projects
		9.4. To facilitate rapid development of high- and medium-to-high-technology sectors of the processing industry formed based on the chains "education – science – production" and cluster approach in the following areas: development of the innovation eco-system; development of the information and telecommunication technologies (ITC); use of the ITC in the agroindustrial industry, power industry, transport and manufacturing industry; high-technology machine building; creation of new materials; development of the pharmaceutical and bioengineering industries
		9.5. To increase the financial and institutional systems (innovation infrastructure) that will facilitate research and (experimental) development
		9.6. To ensure access to the Internet, especially in the countryside
		9.7. To increase participation of the youth in scientific research
Goal 10. Reduced inequalities		
		10.1. To ensure rapid increase in income of 40% of the population with the lowest income
		10.2. To prevent discrimination in the society
		10.3. To ensure accessibility of social services
		10.4. To apply the labour remuneration policy based on equality and justice
		10.5. To reform the pension insurance based on justice and transparency
Goal 11. Sustainable cities and communities		
		11.1. To ensure affordability of accommodation
		11.2. To ensure development of settlements and territories solely based on comprehensive planning and management with participation of the public



2020	2021	SDG Tasks
		11.3. To ensure preservation of the cultural and natural heritage with participation of the public sector
		11.4. To inform the public of emergencies on time by means of information technologies
		11.5. To reduce the negative impact of contaminants, including upon the environment, namely by means of innovation technologies
		11.6. To ensure development and implementation of the local development strategies directed at economic growth, creation of jobs, development of tourism, recreation, local culture and production of local goods
Goal 12. Responsible consumption and production		
		12.1. To reduce the resource intensity of the economy
		12.2. To reduce food losses in the production and distribution chains
		12.3. To ensure sustainable use of chemical substances based on innovation technologies and production facilities
		12.4. To reduce the volume of generated waste and to increase the recycling and re-use volume based on the innovation technologies and production facilities
Goal 13. Climate action		
		13.1. To reduce greenhouse gas emissions in the economy
Goal 14. Life below water		
		14.1. To reduce sea contamination
		14.2. To ensure sustainable use and protection of sea and shore eco-systems, to improve their resilience and recovery based on innovation technologies
		14.3. To introduce efficient regulation of production of sea bioresources
Goal 15. Life on land		
		15.1. To ensure preservation, recovery and sustainable use of land and internal fresh water eco-systems
		15.2. To promote sustainable forest management
		15.3. To restore degraded lands and soils by means of innovation technologies
		15.4. To ensure integrity of mountain eco-systems
Goal 16. Peace, justice and strong institutions		
		16.1. To reduce the spread of violence
		16.2. To improve the level of detecting those affected by human traffic and all forms of exploitation
		16.3. To increase the level of trust in court and to ensure equal access to justice
		16.4. To enhance the system for preventing and fighting money laundering, financing of terrorism and proliferation of weapons of mass destruction
		16.5. To reduce the illegal circulation of weapons, ammunition and explosives
		16.6. To reduce the scope of corruption
		16.7. To increase performance of governmental and local self-government authorities
		16.8. To restore the territory affected by the conflict (Donbas)
		16.9. To improve social resilience, to promote peace-building and public safety (conflict and post-conflict regulation)
Goal 17. Partnerships for the goals		
		17.1. To raise additional financial resources by encouraging investment by foreign and national investors
		17.2. To gradually reduce the debt pressure upon the economy
		17.3. To develop partner relations between the authorities and businesses to achieve the sustainable development goals

Legend:

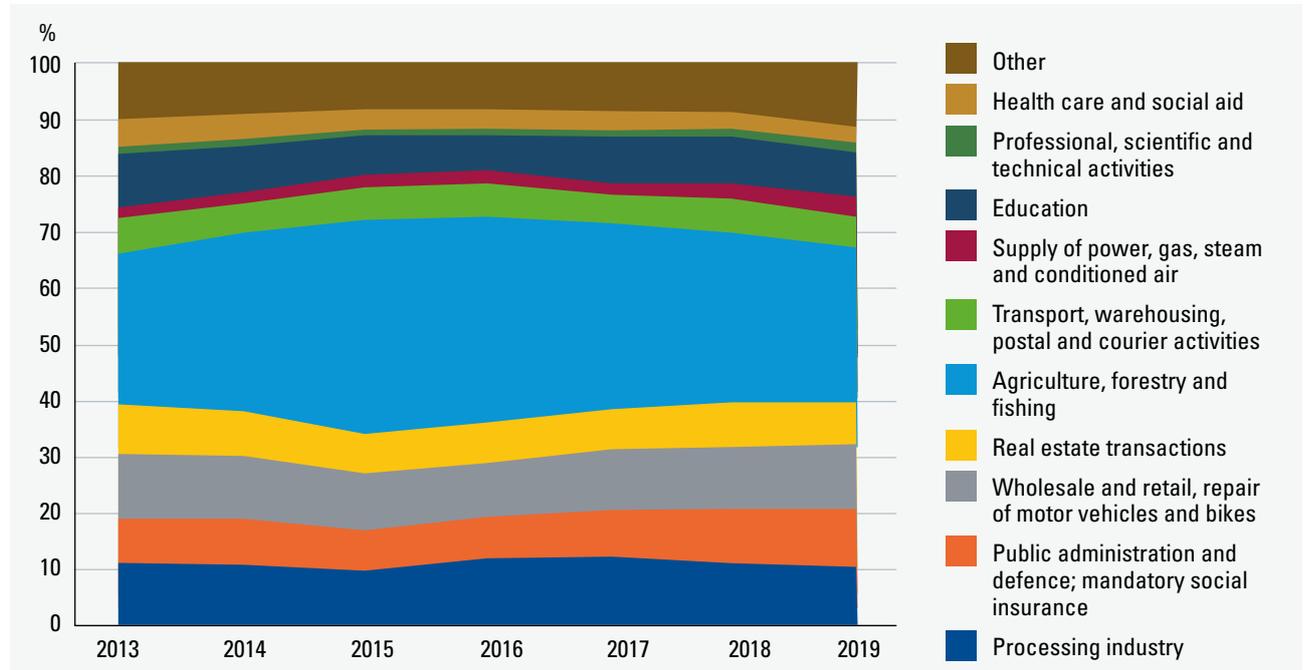
- Sufficient progress to perform the task
- Acceleration necessary to perform the task
- Reverse trend in performance of the task
- Impossible to measure

Source: Statistics Service⁷⁸⁷⁸ http://ukrstat.gov.ua/csr_prezent/ukr/ukr4/index.html#



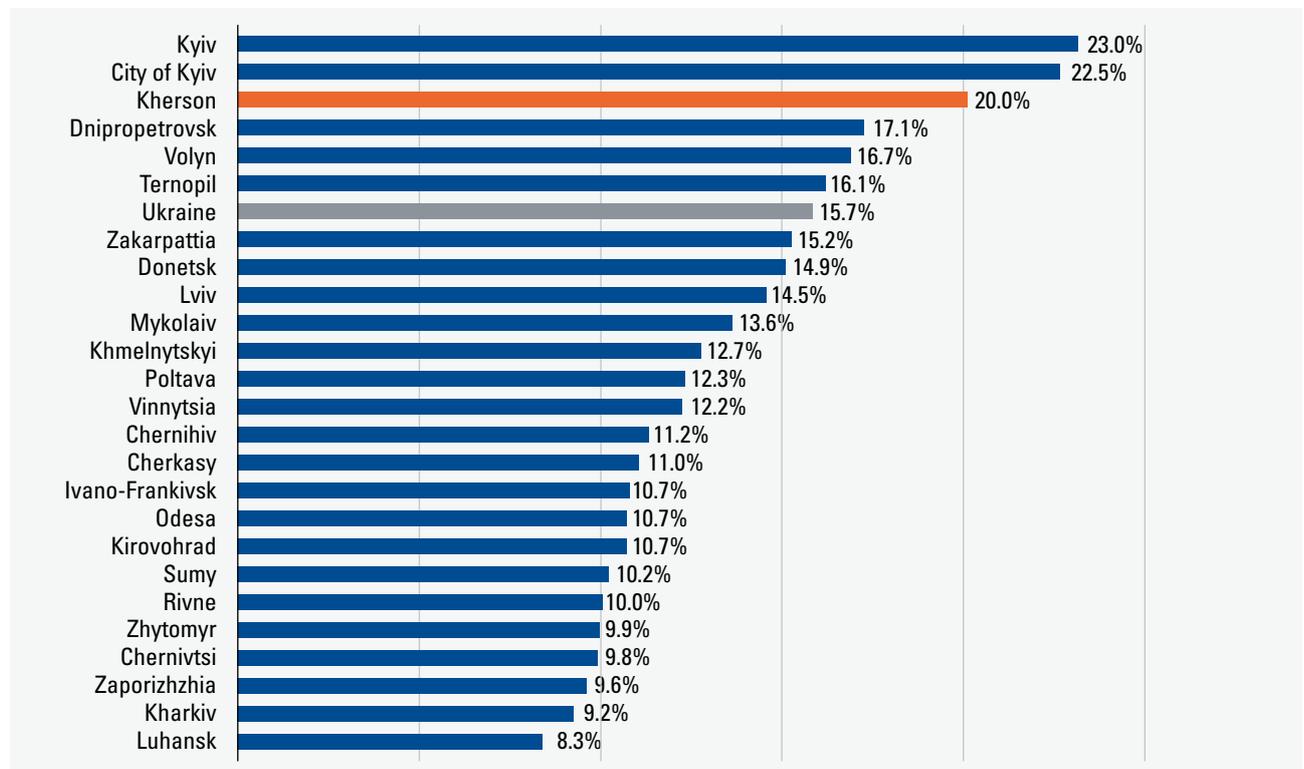
9.3. Annex to the Section “Economy of the Region”

Figure 28: Distribution of the gross value added by the types of economic activity in Kherson Region in 2013-2019



Source: Statistics Service

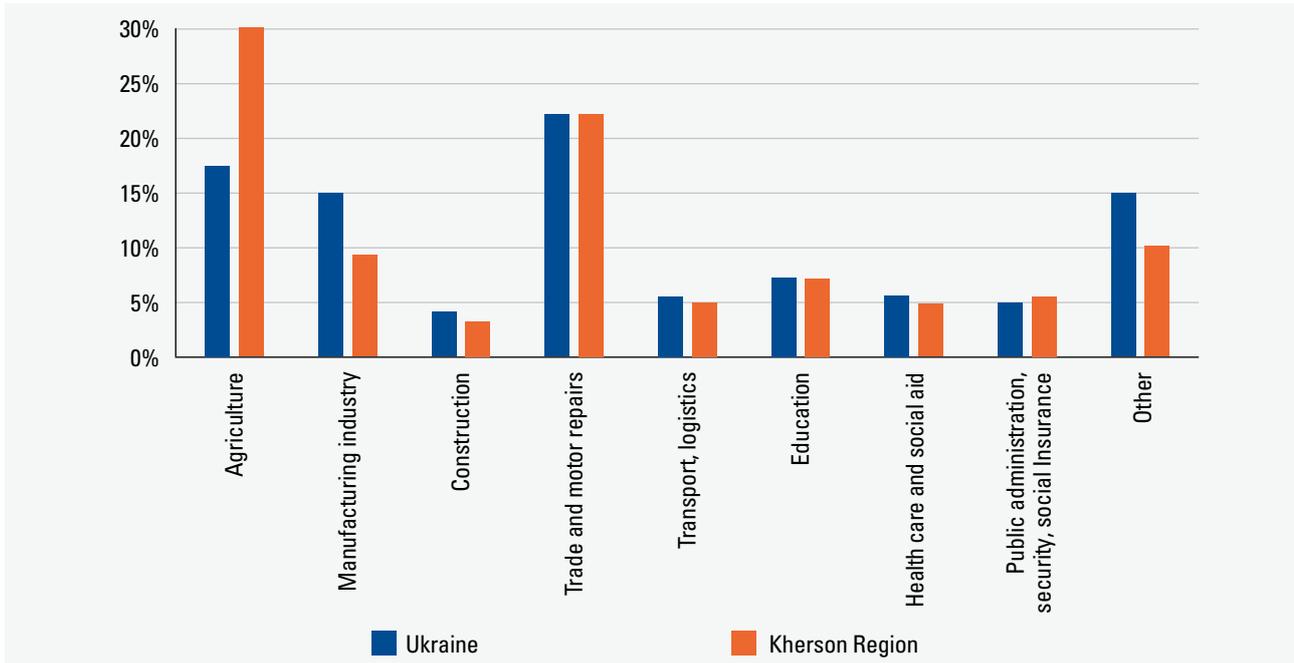
Figure 29: Investment to GRP ratio, 2019, %



Source: Statistics Service

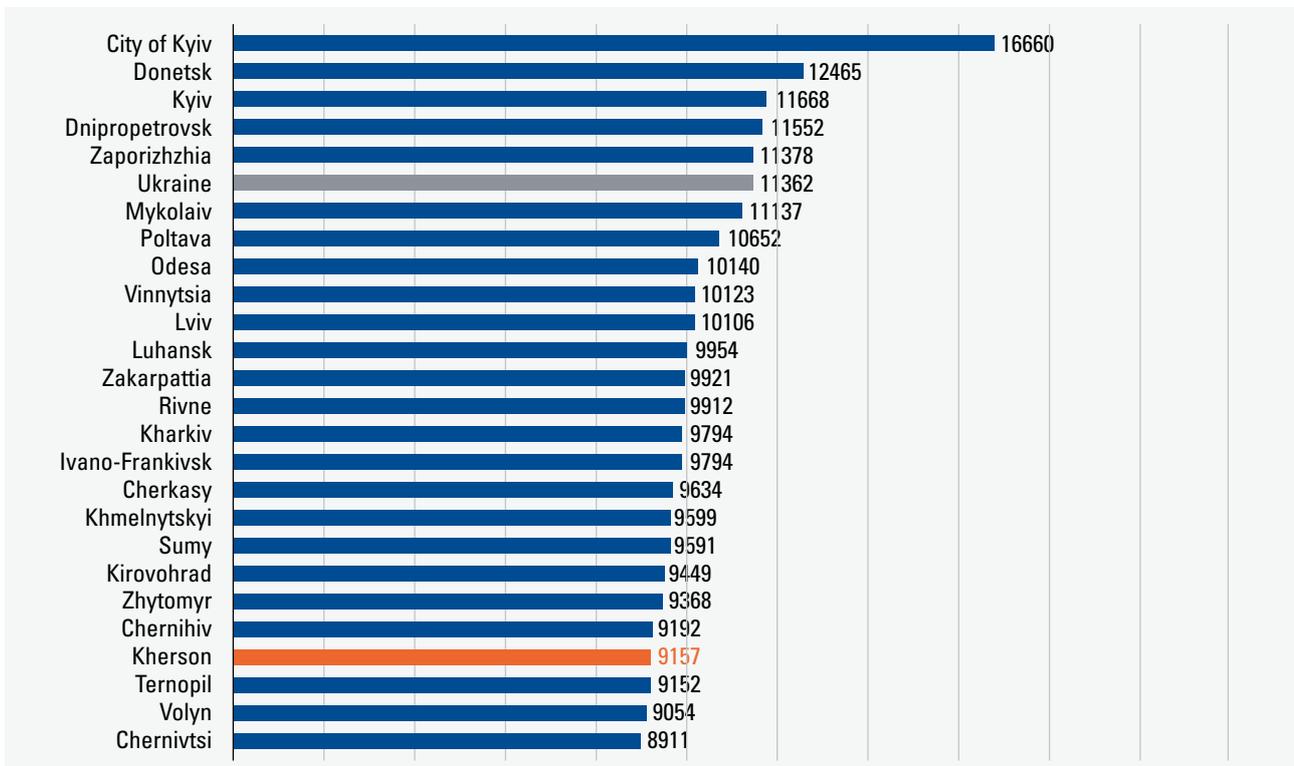


Figure 30: Employment by the types of economic activity in 2019, % of the employed aged 15 to 70



Source: Statistics Service

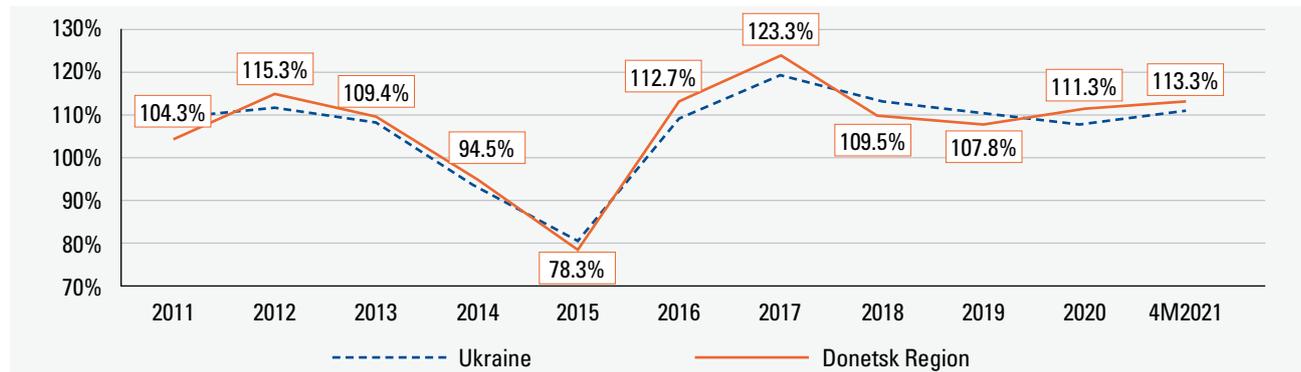
Figure 31: Average salary by the regions of Ukraine for 2020



Source: Statistics Service

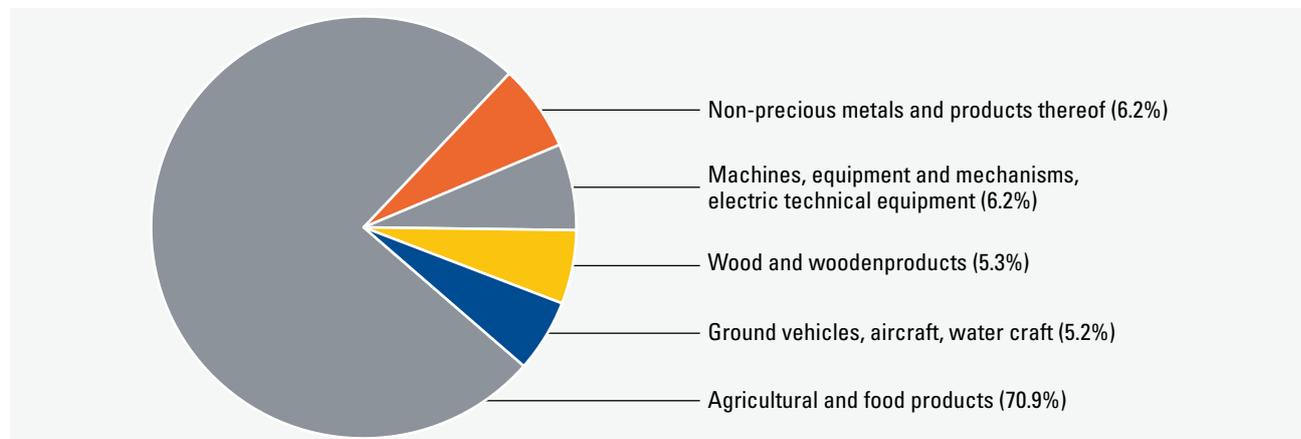


Figure 32: Real salary index in Kherson Region and Ukraine, 2011-2020, % against the previous year



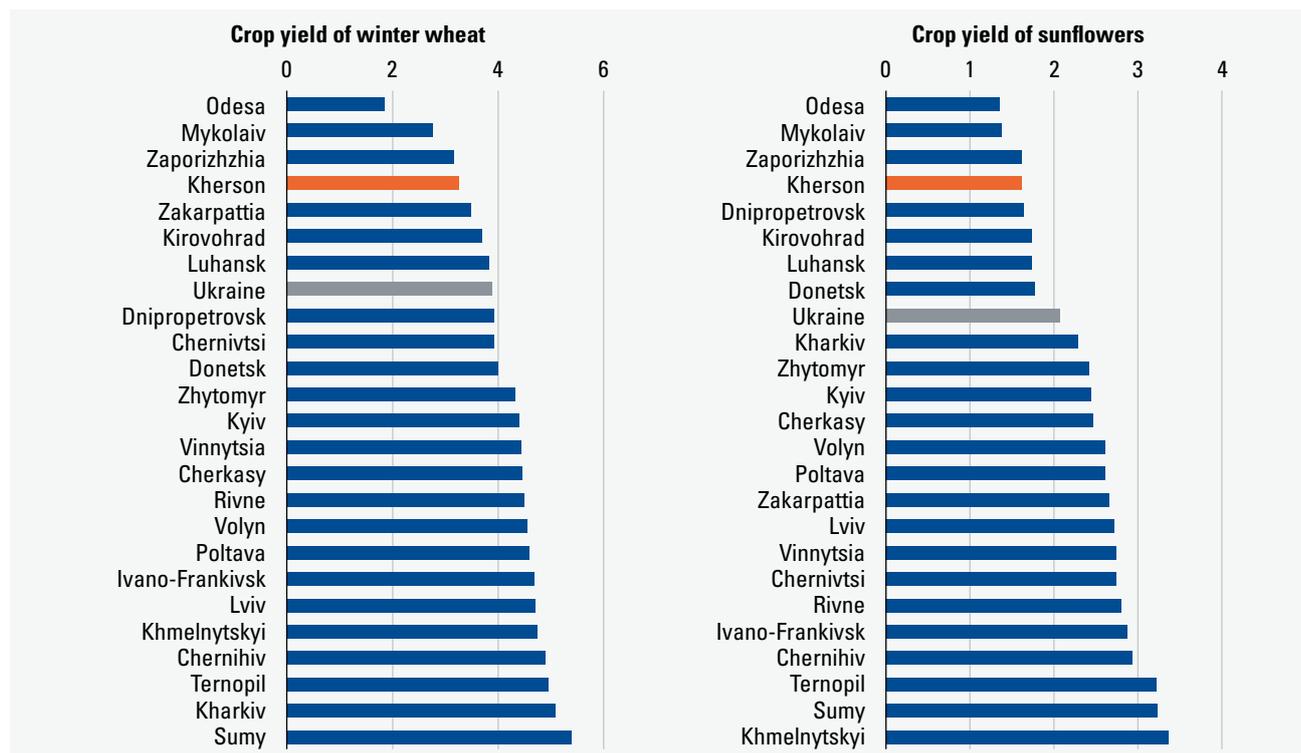
Source: Statistics Service

Figure 33: Structure of the commodity export in Kherson Region, 2020



Source: Main Statistics Department in Kherson Region.

Figure 34: Crop yield, t/ha, 2020

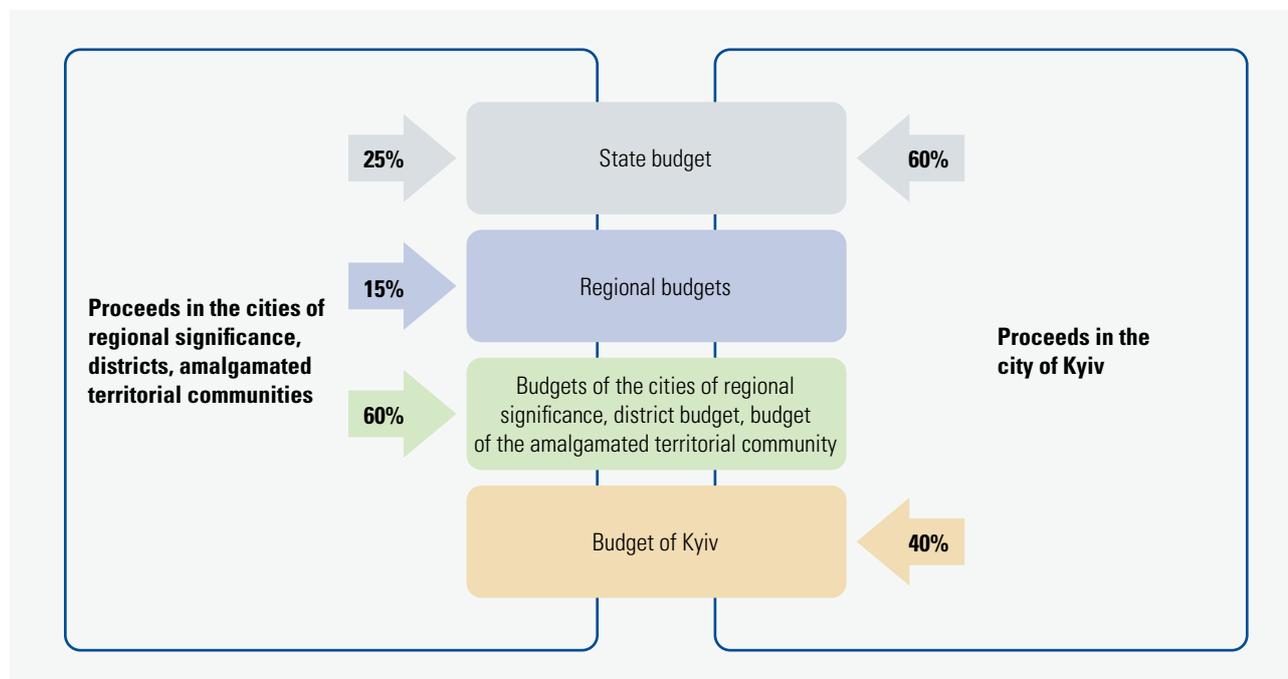


Source: Statistics Service



9.4. Tax Administration and Allocation of Budget Revenues among the Budget Levels

Figure 35. Ratios of division of the individual income tax according to the Budget Code of Ukraine



Source: Ministry of Finance of Ukraine

Table 6. Division of tax proceeds among the budget system levels and the unified contribution to the mandatory state social insurance

Tax and non-tax payments by the payers		Unified contribution to the mandatory state social insurance
Consolidated budget	Local budgets*	
State Budget of Ukraine	Local budgets*	Unified contribution to the mandatory state social insurance
Individual income tax (60% in Kyiv, 25% in the other regions of Ukraine), IIT from tax assessment of the passive income (100%)	40% in Kyiv, 75% in the other regions of Ukraine	The unified contribution to the mandatory state social insurance is the consolidated insurance contribution that is collected to the system for the mandatory state social insurance on a regular basis, in order to ensure protection as prescribed by the law, to protect rights of the insured to their insurance benefits (services) for the effective types of the mandatory state social insurance.
Military tax		
Corporate income tax (90%)	10 %	
Rental charges for special use of forest resources (partly)	Partly	
Rental charges for special water utilisation (partly)	Partly	
Rental charges for subsoil use (partly)	Partly	
Rental charges for use of radio frequency resources of Ukraine		
	Charges for use of other natural resources	
Rental charges for transportation		
Excise tax on the excisable goods (products) made in Ukraine	13.44% excise tax on the produced fuel	
Excise tax on the excisable goods (products) imported into the customs territory of Ukraine	13.44% excise tax on the imported fuel	



Tax and non-tax payments by the payers		
Consolidated budget		Unified contribution to the mandatory state social insurance
State Budget of Ukraine	Local budgets*	
	Excise tax on retail trade in excisable goods by economic operators	The amount of the unified contribution to the mandatory state social insurance is divided into: mandatory state social insurance against unemployment – 4.8058 %; mandatory state social insurance against temporary loss of the ability to work and mandatory state social insurance against an occupational accident and occupational disease that have caused the loss of the ability to work – 9.5727 %;
VAT on the products (works, services) made in Ukraine		
VAT on the goods imported into the customs territory of Ukraine		
Import duty, export duty		
	Local taxes and levies (property tax, parking levy, tourist levy, fixed tax)	
Environmental tax (partly)	Partly	
Part of net profit of state enterprises	Part of net profit of municipal enterprises	
Funds transferred by the NBU		
Payment for placement of the idle cash from the State Budget	Payment for placement of the idle cash from the local budgets	
Payment for administrative services	Payment for other administrative services effected at the place of provision thereof	
Court fee and proceeds from foreclosure for the benefit of the state		mandatory state pension insurance (to the pay-as-you-go system system) – 85.6215%.
Funds received for consular actions		
Enforcement duty		
Proceeds from lease charges for using the asset group and other state property	Proceeds from lease charges for using the asset group and other property in municipal ownership	
	State duty	
Fixed levy paid at the checkpoints (control points) at the state border of Ukraine		
Revenues from lending transactions and provision of guarantees (from the State Budget)	Revenues from lending transactions and provision of guarantees (from the local budgets)	
Levy for the social and economic compensation for the risk of the population residing in the territory of the observation zone		
Levies for the mandatory state pension insurance for the specific types of economic transactions		
Concession charges for the state facilities	Concession charges for the municipal facilities	
	Funds received from equity interests in development of the infrastructure in the settlement	
Own proceeds of budget institutions	Own proceeds of budget institutions	
Revenues from capital transactions	Revenues from capital transactions	
Official transfers from the European Union, governments of foreign states, international organisations and donor institutions	Official transfers from the European Union, governments of foreign states, international organisations and donor institutions	
Target funds, Proceeds to the Fund of Social Protection of Persons with Disabilities	Target funds established by the VR of the ARC, local self-government authorities and local executive authorities	
Official transfers from the public administrative authorities – reverse subsidies, subventions from the local budget to the State Budget for the social, economic and cultural development programmes of the regions	Official transfers from the public administrative authorities – subsidies and subventions from the State Budget	

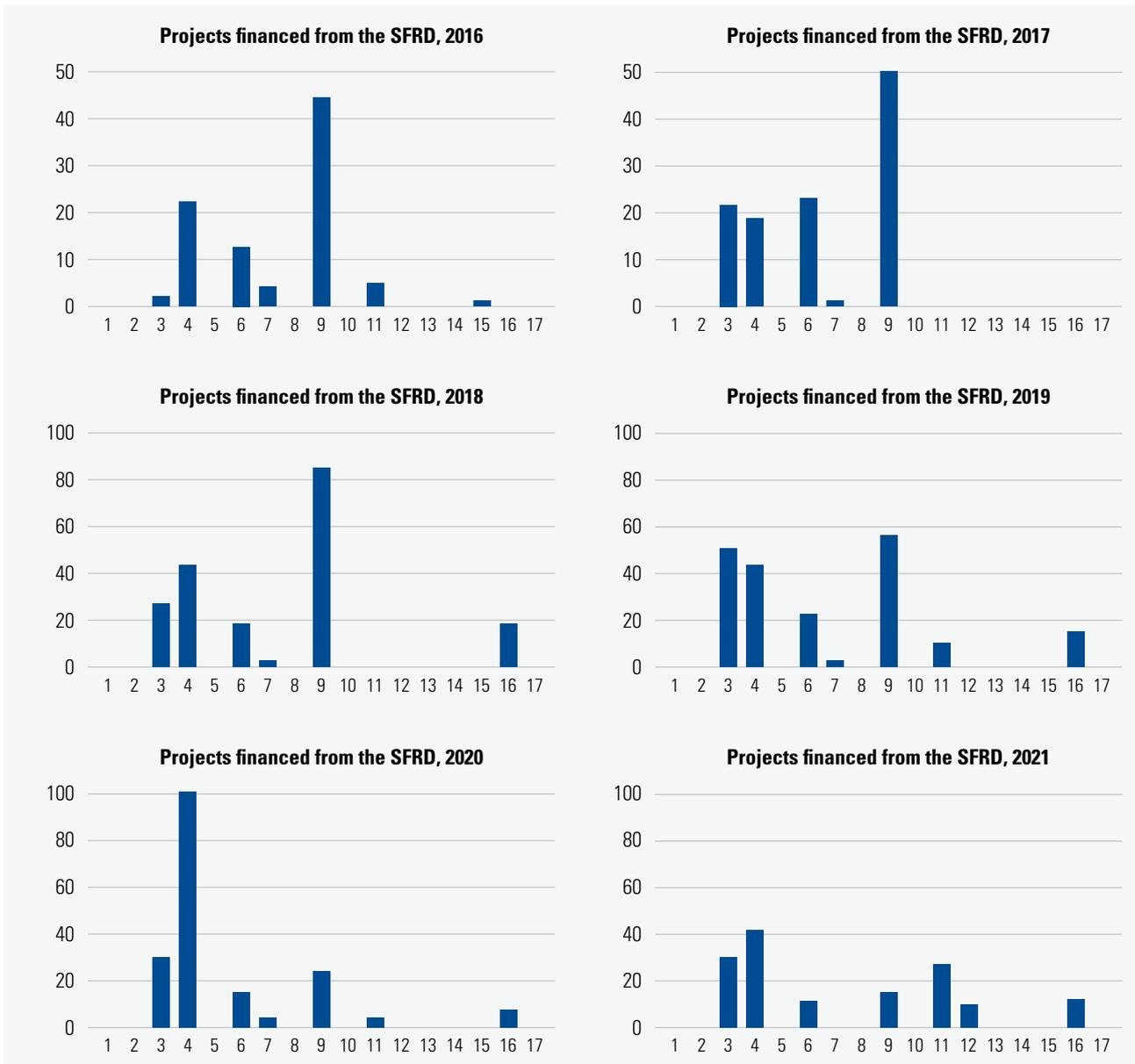
Note: local budgets – budget of the ARC, region, district budgets and local self-government budgets (budgets of village, urban village, city territorial communities as well as budgets of districts in the city in case city district councils are established).

Source: Tax Code of Ukraine, Budget Code of Ukraine



9.5. Financing Projects from the SFRD

Figure 36: Projects financed from the SFRD, by the years and SDGs



Source: resolutions of the Cabinet of Ministers of Ukraine, expert opinion



DEVELOPMENT FINANCE ASSESSMENT: KHERSON REGION

ANALYTICAL REPORT