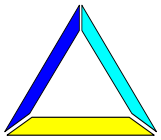
INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING IN UKRAINE
GERMAN ADVISORY GROUP ON ECONOMIC REFORM

Reytarska 8/5-A, 01034 Kyiv, Tel. (+38044) 228-6342, 228-6360, Fax 228-6336
E-mail: institute@ier.kiev.ua, http://www.ier.kiev.ua



S19

Social Security Challenges in Rural Ukraine – The Case of Rural Pensioners –

Executive Summary

This advisory paper addresses the social challenges involved in the support of rural pensioners.[1] The paper has been initiated by a request from the Ministry for Agricultural Policy to the GAG to deliver some information on the German System of Social Security in Agriculture.

Problem Statement

An Ageing Population: According to the UN Population Division, Ukraine has the fastest *decreasing* population of all countries in world with an annual rate of -0.73 %. This trend will pose enormous challenges to Ukraine's pension system. In a medium-fertility variant, the share of Ukraine's population aged 60 years and above will increase from 20.5 % in 2000 by 0.35 percentage points annually to 27.5 % in 2020 and 38.1 % in 2050. This means that in 2050 the ratio between economically active persons and pensioners will be almost 1:1. In short, Ukraine will face increasing problems to pay pensions for the elderly. This applies also for rural pensioners.

A Shrinking Agricultural Sector: The restructuring of the former collective farms has caused a lot of jobs been lost. The majority of those who are no longer employed by CAEs are pensioners, but on the other hand there is a steadily rising number of small and medium-sized farms. The owners of these farms are not any more hired workers, and will not be covered by the general pension system which is built upon wage contributions. Two questions arise: How can the income of rural pensioners be guaranteed today and in the future, and what role can pension systems play in this respect?

A Decreasing Share of Rural Wage (and Future Pension) Income: Since the average pension level is too low to allow people to enjoy an acceptable standard of living solely on this basis, it is important for policy makers to know what additional income sources these citizens have. Rural pensioners produce a major share of their income and food needs on their personal household plots. But what happens to elderly individuals who are no longer capable of physical work? Will their pensions combined with land lease receipts and family support be enough to pay for more intensive care in higher age? And who is going to pay for the pension component in the income portfolio of the rural elderly in twenty years?

---

[1] Even though there is unemployment in rural areas as well (7.1% according to ILO standards), it is less pronounced than in the cities (12.6%) according to official statistics.

Recommendations

1. The current system of the Fixed Agricultural Tax (FAT) is not sufficient to finance the rural pensions. Moreover, the “earmarking” of certain tax incomes to special expenditures like pensions should be avoided.

2. Generally, a separate agricultural pension system can not be recommended, because it would probably suffer from permanent financial shortage due to the decreasing share of agriculture in the GDP.

3. For this reason, an imitation of the German agricultural pension system as well as other sector-specific social security schemes should be avoided.

4. To finance future pensions, policy should not solely rely on pay-as-you-go systems, but also encourage the formation of capital-based pension funds open to anyone.

5. Taking into account the variety of income sources of rural pensioners, agricultural policy should not rely on pensions alone as an instrument. Additional areas are:

- Creating trust in the Ukrainian banking system to encourage private savings
- Land market development to ensure incomes from land lease payments
- Rural infrastructure development to ease the sale of own-produced food
- Re-delegation of social responsibilities from the state to the family level

1. Demographic Trends in Rural Ukraine

A century ago most of Ukraine consisted of rural areas, with nearly 80% of population living in villages. Massive urbanisation during Soviet times caused the rural population share to shrink to nearly 32%. However, this indicator varies significantly between the oblasts. The highest shares of rural population can be found in western Ukrainian oblasts where more than half the population is living in rural areas, while in the industrialised eastern regions the share of the rural population is about 15 %. Obviously, the importance of the rural labour market development as well as of rural social security issues is differs among the regions.

There are rapid changes in the quantity and in the average age of the rural population. It can be observed that to a large extent rural inhabitants are pensioners (5,7 ml pensioners or 41% of those who are registered in social security agencies live in rural areas, compared to a rural share of only 32 % for the total Ukrainian population). This means that 36,3 % of the rural population are pensioners, compared to about 24 % in urban areas. A vast majority of these pensioners have previously worked as agricultural employees, and still earn a considerable share of their income from producing food for both their own use and for small-scale sales.

According to the UN Population Division, Ukraine has the fastest *decreasing* population of all countries in world[2] with an annual rate of -0.73 %. This is due to a very low fertility of only 1.1 children per woman. Whatever demographically relevant policy Ukraine might pursue in the near future, this trend will pose enormous challenges to Ukraine's system of social security, particularly to the pension system. In a medium-fertility variant, the share of Ukraine's population aged 60 years and above will increase from 20.5 % in 2000 by 0.35 percentage points annually to 27.5 % in 2020 and 38.1 % in 2050. This means that in 2050 the ratio between economically active persons and pensioners will be almost 1:1. In short, Ukraine will face increasing problems to pay pensions for the elderly. There are no indications that the Ukrainian countryside will be less affected by this demographic trend than urban areas.

Summing up, the following stylised facts have to be taken into account:

- The share of rural population has been stable during transition due to official figures.
- However, it is fair to assume that much unrecorded out-migration of younger people has taken place.
- Hence, the share of rural pensioners has increased dramatically.
- In the long run rural areas in Ukraine will be much less populated than today.

2. Rural Labour Markets During Transition

Since the restructuring of the former collective farms, a lot of jobs have been lost in these agricultural enterprises. It is fair to assume that the majority of those who are no longer employed by CAEs are pensioners. The good message here is that these pensioners will probably stay in their villages and will not enter the tight urban labour markets. On the other hand, a there is a steadily rising number of small and medium-sized farms. The owners of these farms are not any more hired workers, and do not any more receive wage incomes.

[2] Only countries above 1 Mio inhabitants have been included.

Consequently, they will not be covered by the general pension system any more which is built upon wage contributions.

The share of agriculture in GDP is currently about 15 %, but 23% of the labour force works in this sector. Some regions are still very dependent on agriculture. The labour market in Ukrainian rural areas has a size of 6.5 ml economically active people, almost 6 ml of which are in working age (Table 1). There are two predominant varieties of employment in agriculture, which deliver the lion's share of rural employment and income, namely hired labour for agricultural enterprises (46% of all employment) and self-employment on household plots (49%).

Table 1. Number and shares of population by economic activity in 2001, %

	Ukraine total		Rural areas		Rural/
	thous.	%	thous.	%	total, %
Economically active population	**22755**	**100.0**	**6536**	**100.0**	**28.7**
of workable age	21251	93.4	5910	90.4	27.8
of older than workable age	1504	6.6	625.4	9.6	41.6
including **unemployed people**	2516.9	11.1	466.8	7.1	18.5
of workable age	2502.1	11.0	466.3	7.1	18.6
of older than workable age	14.8	0.1	0.5	0.0	3.4
Economically inactive population	**13529**	**100.0**	**4394**	**100.0**	**32.5**
of workable age	7919.9	58.5	2385	54.3	30.1
of older than workable age	5609	41.5	2008	45.7	35.8

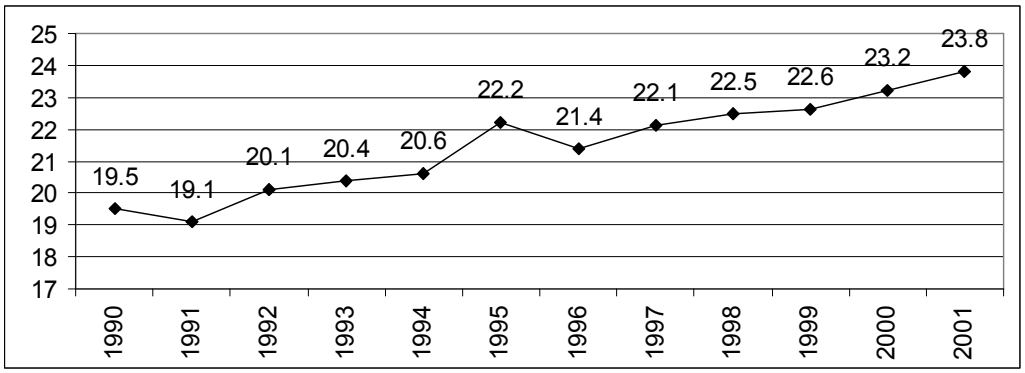
Source: State Statistics Committee of Ukraine.

It is commonly assumed that Ukrainian agricultural enterprises are overstaffed. However, during transition (1990-2001) the employment on agricultural enterprises decreased by more than half (from 4.88 ml to 2.13 ml[3]), and in 2001 alone the number of employees decreased by 344 thsd in comparison to the previous year. But despite this fact, most rural inhabitants still earn their income in agriculture. In 2000 that share was 70.5% of the officially employed rural population, and it is increasing (see also Figure 1).

Work on household plots has become the main employment and source of income for almost 2 ml rural inhabitants. Since Independence, the number of persons registered as "fully employed" on individual household plots in Ukraine increased dramatically and reached 2.6 ml in 2001, which is more than hired employment in all large-scale agricultural, forest and fishery enterprises which are currently existing. As a result, the share of agricultural employment in Ukraine even increased since transition (Figure 1), which seems to contradict the usual long-term economic trend of decreasing agricultural employment due to rapidly increasing labour productivity in the sector. It is very likely that a high share of those self-employed on a household plot are pensioners.

[3] Without small agricultural enterprises.

Figure 1. The share of agriculture in total employment in Ukraine



Source: State Statistics Committee of Ukraine.

One has to keep in mind that these figures might be biased and thus hide a different reality. Many of those who are registered as "employed on household plot" do not necessarily earn the main part of their income from their household plot. There may be some income from hired labour outside the personal plot, social transfers, and transfers within the family. The decisive question to be answered is what different sources of income the population in rural areas has. As the newest EBRD report on rural development suggests, a lot of income in rural areas consists already of social transfers, while other sources are family transfers, mini-jobs, home gardening, and small-scale trade.

3. Principles Governing Social Security Systems

Before describing the systems of social security in Ukraine and Germany in detail, some remarks on the general principles underlying social security systems will be made.

1. When making use of the services of a private insurance, the benefits granted by the insurance are calculated in equivalence to the premiums the customer pays. The result of this principle is a highly differentiated range of premiums according to the risk a customer represents (**equivalence principle**). The public pension funds in Germany function largely according to this principle.

2. When introducing the idea of solidarity, the tight connection between premiums and expectable benefits has to be relaxed. Members with a higher income have to pay more, but do not get higher benefits, e.g. in the case of illness (**solidarity principle**). The financing of public health insurance in Germany corresponds to this principle, as well as – to a lesser extent – the Ukrainian pension system.

3. The most far-reaching form of solidarity is the financing of certain social benefits from public tax revenues (**welfare principle**). This principle is more and more gaining importance in Germany due to the fact that certain areas of social insurance working according to the two principles mentioned above are losing their financial basis as the ratio of contributors to beneficiaries falls. The reason is, as in Ukraine, a rapidly ageing population. A prominent example is the German pension system, which cannot fulfil its obligations to the retired due to the fact that in an ageing society less and less workers have to sustain more and more pensioners. In order not to place the burden entirely on a decreasing share of dependently employed workers, an increasing share of German pensions is nowadays financed by tax revenues.

4. Another principle has to be mentioned which stands a little bit above all the principles mentioned so far. It is the **subsidiarity principle** according to which financial responsibilities should be delegated to the lowest societal or government level possible. In the case of security against age risks, this means that the first addressee for support demands has to be the own family of the pensioner. If the family is able to support the grandmother or grandfather, why should the general public do this, as long as family ties have any social significance? The subsidiarity principle is applied in Germany when an individual applies for general welfare. Before granting this kind of “poverty aid” to those whose pension entitlements are too low to pay for livelihood and care, it is first determined whether the family of the person in question is able to carry that burden.

4. The German System of Social Security in Agriculture

Apart from the a general social security system in Germany covering all hired workers, a parallel system for agriculture exists which is quite different from the general system. This description of the German agricultural system is not intended to present it as a shining example to be followed. On the contrary, the German system is incoherent with the principles it is supposed to follow in almost any respect. This particularly applies to the pension part of this system.

Historical background

According to the traditional system of ethical norms in agriculture, safeguard mechanisms against risks such as illness, accidents and disablement, and care for the elderly were considered to be a genuine task of the farm family according to the subsidiarity principle. The arrangements regulating the relations between the older and the younger generation (which eventually took command of the farm) were particularly detailed, mostly in written form, sometimes even specifying the daily amount of bread the farm had to deliver to the retired grandparents of the farming family. In many regions, tradition called for the retirees to leave the main farm dwelling and t move to a smaller house called the "Altenteil" ("the elders' share"). The purpose of these regulations was to ensure a decent standard of living for the elderly while passing the management of the farm on to the younger generation without invoking inter-generational conflicts.

During industrialisation the agricultural sector experienced a vast outflow of labour accompanied by a decrease in farm numbers. The practical result of this was that very often a retired couple of farmers had no successor to support them in the traditional way as described above. This was the reason why the social security of farmers and agricultural employees was put on a broader financial base in the course of time. Today there are three specific systems of social security which are relevant for German agriculture:

- Agricultural pension fund
- Agricultural health insurance
- Agricultural accident insurance

The accident insurance was introduced in 1886, and agricultural pension funds were established in 1957. The last component of the social security system, the health insurance for farmers, was only set up in 1972. Following the focus of this paper, the pension system is shortly sketched in the following.

Agricultural pension fund

In the case of the agricultural pension system, it needs to be stressed out that it is not embedded in the general pension system in Germany. The reason is that the general system is much older than the agricultural one, and based on wage contributions. Self-employed farmers in Germany don't earn wage incomes, which makes their contributions incompatible with the general German pension system. Nevertheless, the idea was to create an agricultural pension fund designed as a pay-as-you-go system. In such systems, the pensions are directly paid from contributions made from the salary of employees.

However, the number of contributors to finance this system according to the equivalence principle has never been sufficient and sustainable due to the rapid decline of farm numbers in Germany. Thus the German system of agricultural social security is to large extent dependent on support from federal tax revenues, which can to a considerable part be labelled as subsidies for agriculture.

The fund was introduced only in 1957 with very low initial contributions. Members are all operators of agricultural enterprises above a certain (very small) size. Usually, in Germany only hired workers have to pay a fixed share of their gross income to a pension fund (currently 19.5 %). Since farmers are independent entrepreneurs, their contributions are determined according to the market value of all assets of the farm. Nevertheless these contributions are very low and cover only about 20 % of the expenditures of the fund compared with 70% in the case of the non-agricultural general pension funds. To a major part this disparity has political reasons. The level of the pensions is currently fixed at 490 € per month for former farm operators and 210 € for spouses. Only retired independent farmers are entitled to receive pensions from the fund, and only after having paid contributions at least 15 years. Hired agricultural workers contribute to the general pension fund like all other employees.

Overall assessment

Summing up, it has to be pointed out that the social security system in German agriculture does not work according to those principles it is supposed to do. The benefits are not connected to prior contributions made the farmers, which means that the **not the equivalence principle, but the solidarity principle** is valid for that share of granted benefits which can be covered by own contributions. Moreover, a considerable share of the costs of this system is compensated by the federal budget. This means that social security in German agriculture is highly subsidised, with roughly 70% of the agricultural budget's 5 billion Euro going into social security. The governing principle for this share of the social security benefits is the **welfare principle**, which is, nevertheless, applied to all farmers notwithstanding their need for income support.

The idea of the German system is that the agricultural sector pays the pensions of elder farmers. This may be called a "sectoral subsidiarity principle", but because of the decreasing agricultural sector and increasing use of general tax funds, the German system **has never worked as a true agricultural system**. Finally, the German system **only simulates a pay-as-you-go pension system** to a minor extent, while in reality it is an almost pure tax-based welfare system. Thus, it means a support of both rich and poor farmer pensioners with the taxpayer's money. It is thus not suited to be recommended as a solution to the problem of financing rural pensions in Ukraine.

5. Elements of Social Security in Rural Ukraine

In Ukraine, there is no separate social security system for the rural population or those employed in agriculture. To understand social security in rural areas, the general system will be described. The social security system in Ukraine is based on social security funds which are fed through obligatory and voluntary insurance contributions. There are three types of obligatory state social insurance:

- Pension insurance system.
- Insurance against unemployment.
- Insurance against the temporary loss of the ability for work as well as child birth and funeral expenditures.
- Insurance in the case of work accidents and specific professional illnesses, which lead to the loss of work ability.

The existing social security system has been built on the basis of the former Soviet social security service. In the process of establishing the new system in the 1990s, the number of different pension and social security contributions and their rates changed several times. The present system was introduced between 1998-2001 by the adoption of a number of laws. Those Ukrainian laws are based on international principles, in particular on the European Social Security Code and Recommendations of International Labour Organisation. Thus, Ukraine is increasingly relying on international experience as a guideline for its social security system.

While previously social security funds were financed through taxes, today the main source of incomes is insurance payments from employers and employees. The insurance rates are calculated in as a percentage of wages. To some extent the level of the rates depends on level of wage. In contrast to employers, employees pay only a small part of social insurance payments and do not pay for the insurance against the work accidents at all.

It has to be borne in mind that this switch from a general tax-based social security to wage contributions implies a one-sided taxation of the production factor labour. This practice has come under criticism in western countries because it means that the factor labour becomes more and more expensive compared with capital and natural resources, particularly given an ageing population that places increasing demands on the social security system.[4] The following, more detailed description of the social security system will focus on the pension fund.

Pension System

In Ukraine there are labour and social state pensions. The labour pensions are granted after reaching a certain age, on disablement, and in case of the loss of the household's breadwinner. All citizens who are not capable of work have the right to receive social pension.

According to the above classification of social security principles, the Ukrainian pension system follows the solidarity principle, which means that the level of benefits is loosely connected with past contributions. There is no unitary pension, but nevertheless a minimum

[4] A more detailed discussion of possible pension system changes can be found in the advisory paper S3, "The Analysis Of A Draft On Pension Reform", by the German Advisory Group.

pension level. A personalised pension accounting system was introduced last year. In the future it is planned to determine the level of an individual pension according to the level of the individual contributions.

Most commonly a pension is granted when a certain age is reached – 77,6% of the pensioners receive this kind of pension. Men can receive a pension when they reach the age of 60 years and with a minimum working time record of not less than 25 years. For women the requirements are 55 years and 20 years of work, respectively. There are also a number of legal cases, which entitle the worker to receive the pension earlier, e.g. unhealthy and laborious working conditions. The pension is determined on the level of 55% of wage, but not less than the minimal pension. For every working year over minimal working time record the pension increases by 1%. The average pension in rural areas was 8-12% lower than average in Ukraine during last years (Table 2).

Table 2. Average pensions general and in rural area in Ukraine, UAH

	1990	1998	1999	2000	2001
Average in Ukraine	85.23	52.23	60.65	68.91	83.06
Average granted to rural pensioners	72.51	48.23	54.75	61.35	73.45

Source: State Statistics Committee of Ukraine.

Generally the pension insurance includes payments from employers and employees to Pension Fund of Ukraine. The employers pay 32% and employees 2% of the gross salary. Compared to the low level of pensions this percentage seems to be very high. In Germany, with its relatively generous pension system, the rate is about 20 %, with the remaining 10 % being finance out of tax revenue.[5] However, the large share of shadow economy activity in Ukraine indicates that the level of avoidance regarding these contributions is very high.

Agriculture and Social Insurance Payments

The system of paying the contributions to Pension Fund as well as to other social security funds for those who engage in agriculture is different from the general system in Ukraine, which is due to the special taxation system for agriculture.

The fixed agricultural tax (FAT) - which substituted 12 taxes, including insurance payments to mentioned above social security funds – was introduced in early 1999.[6] Only 70% of the calculated FAT is paid and it is going into social security funds, 68% to the pension fund and 2% to a social security fund for other purposes. Hence, all taxes paid by agricultural enterprises are social insurance payments. The idea to let the agricultural sector pay for the pensions of farm workers is similar to the German agricultural pension system.

But this system appears to be not sustainable. While increasing wages are followed by increasing contributions to the general social security fund, it is impossible to achieve the same with an unchanged FAT. Thus, during the last years the contributions to social security funds in the form of fixed agricultural tax have covered only a small part of social expenditures in rural areas. For instance, pension expenditures were covered to only 10.4 % in 2001 (see Table 3). Thus the shortcomings of the Ukrainian system are very similar to the those of the German system. Apart from the fact that the agricultural enterprises make very

[5] This means that the pension burden on wages is lower in Germany than in Ukraine, when looking at the official Ukrainian regulations.

[6] The German Advisory Group has addressed the question of agricultural taxation more in-depth in the advisory paper S 4, “Taxation and Ukrainian Agriculture after 2004”.

low contributions to the Pension Fund, the existing FAT system does not allow using personificated pension accounts for rural employees.

Table 3. Share of pension payments for pensioners in rural area financed by the fixed agricultural tax in 2001

Year	Amount needed to pay pensions for rural pensioners, Mio UAH	Contributions from the fixed agricultural tax, Mio UAH	%
2000 [a)]	5,400	559.4	10.4
2000 [b)]	4,030	167.9	4.2
2001 [b)]	6,700	262.4	3.9

Sources: a) Note from the President of Ukraine L. D. Kuchma to the Verkhovna Rada and the Cabinet of Ministers, "On Main Directions for Reforming the Pension Security System for Ukrainian Inhabitants ", October 8, 2001; b)Ministry of Labour and Social Policy, 2002.

Moreover, it can not be assumed that the national share of people which earn their income in agriculture will remain stable during the next twenty years; instead it will probably decrease dramatically. The investment in modern, capital-intensive technology in Ukrainian agriculture will drive down the number of the agricultural workers. This means that a pension system which aims at paying pensions of agricultural workers from funds which have been extracted from the agricultural sector will be more and more difficult to be justified economically, because the ratio of contributors to beneficiaries will decline even faster than in the total economy.

7. Challenges and Policy Recommendations

The Key Challenge

The following stylised facts can be summarised:

- Both the total number of pensioners as well as those living in rural areas is rapidly increasing in Ukraine.
- The number of people not working on large farms, but instead self-employed on household plots or private farms is increasing.
- Thus, the number of pensioners which are entitled to a pension from the pay-as-you-go pension system currently being created in Ukraine will decrease.

From the facts identified so far the major challenge for agricultural policy regarding rural pensioners becomes clear. **In the future the income of rural "pensioners" which have earned part of their money as private farmers will increasingly have to come from sources other than the current pension system.** Policy should support the ability of pensioners to generate income from the following sources:

(a) personal savings,

(b) land lease payments,

(c) own production of food,

(d) regular pensions,

(e) family transfers,

Formatted: Bullets and Numbering

(f) social welfare payments.

Some recommendations regarding these income sources are given in the following section.

Suggestions to Guarantee the Incomes of Rural Pensioners

(a) Private Savings

Formatted: Bullets and Numbering

Instead of customary pensions, private savings can play an increasing role as a source of income in future periods. Policy can support the citizens to better use their savings:

- Storing savings "under the pillow" has become widespread in transition countries. This money is "dead capital". The reason for this habit is missing trust in the banking system.
- Creating trust in the banking sector (e.g. through a sufficient minimum reserve) will both increase the savings income of pensioners by allowing deposit interest income, and vitalise considerable amounts of dead capital to serve as a source for investment in the whole economy.
- Pension systems can be designed on the basis of capital savings invested in shares and state bonds (instead of pay-as-you-go systems). These have the advantage that the pension accounts are truly personalised, and that their security is less exposed to the demographic changes in a sector or the whole country.

Agricultural policy has not the scope to fulfil these tasks alone. However, it can lobby at other ministries (Economy, Finance, Social Issues) to take these arguments into consideration.

(b) Land lease payments

Formatted: Bullets and Numbering

During the restructuring of CAEs in Ukraine lease payments for land and property of former collective agricultural enterprises have emerged as a significant source of additional income for rural pensioners. The mass character and even distribution of these payments allows for calling it a social security element. Last year the total amount of lease payments was 3 Bln UAH. Taking into account that almost 60% of former CAE owners were pensioners, such payments constitute substantial support. To ensure these payments, policy should support the long-run profitability of agricultural enterprises. Recommendations:

- Systematise and strengthen the property rights of the small land owners vis-à-vis the land-leasing large farms. Moreover, all measures which foster the development of a competitive land market in Ukraine will help to raise value of land and thereby the lease price.[7]
- Introduce proper bankruptcy procedures for agricultural enterprises. This basically means that the owners and managers of unprofitable farms can be forced out of job. Small land owners will not be negatively affected by such bankruptcies because they are not any longer co-owners of the farm enterprise, and hence don't share the liabilities. Instead, they will get the chance to offer their land shares to a better farm owner/management team, who will eventually be able to pay higher rents.

(c) Own-Production of Food

Formatted: Bullets and Numbering

The own-production of food is a key income source for rural pensioners. Own- or subsistence production usually takes place in the garden land adjacent to the house of the person in

[7] The GAG has addressed these questions in its last book of agricultural development in Ukraine.

question. Supporting rural pensioners in food production is nothing in which the state should be *directly* involved. However, some measures in rural development policy have a positive impact on the income-generating potential of home gardening. This applies particularly to investments in rural infrastructure, which will improve the market linkages of rural inhabitants. They will then be able to buy both cheaper inputs, and sell their products more easily on local markets.

(d) Regular Pensions

Formatted: Bullets and Numbering

The Ukrainian pension system is increasingly moving in the direction of a pay-as-you-go system dependent on contributions deducted from wages. This approach may still be suited to pay the pensions of the rural pensioners today, but it will fail to create pension entitlements to the ageing free farmers of tomorrow. Free farmers are entrepreneurs who do not receive wages. It is thus recommended to:

- Drop the idea of a publicly administrated wage- or income-based pension system especially for future Ukrainian farmers with benefits equivalent to contributions on a pay-as-you-go basis.
- In the longer run, pay-as-you-go pensions should only be granted to former hired workers, not to independent entrepreneurs.
- Instead of implicitly subsidising large farms with taxpayer's money, use the equivalent resources to duly pay the pensions of former CAE workers. Restructuring farms hinges on the 'pull' that takes excess labour away. This pull can be into alternate sectors, or into some sort of social security
- Lower the high rate of pension deductions from wages in order to reduce the incentive to circumvent these payments.
- The current use of the Fixed Agricultural Tax as a basis for financing agricultural pensions is not sustainable in the face of rising expenditures for pensions.
- The current use of the Fixed Agricultural Tax is also incompatible with the principle that public expenditure items should not be directly related to certain tax positions.

(e) Family transfers

Formatted: Bullets and Numbering

To avoid an overload of the public budgets by social transfers, it is recommended to adhere to the subsidiarity principle described above. This means that in case that other income sources are not available, first the family and only then the public is responsible for the support of people in need. Legislation on social welfare measures in Ukraine should take this into account.

(f) Social Welfare Payments

Formatted: Bullets and Numbering

In a period of tight public budgets, the state should concentrate on those who are really in need of income support:

- Those who are needy have to be identified. Pensioners without relatives or land, and, most importantly, those who are too old or infirm to earn additional income have to be taken care of.
- Social welfare payments have to be individualised according to the need of the beneficiary, and handled in a fairly restrictive manner to avoid the abuse of such benefits.

- The responsibility for social welfare action should be delegated to the local government level, because the necessary administrative tasks can be carried out there most efficiently.

O. S., A. K., Lector S. v. C.-T.

January, 2003.

References

German Advisory Group (2002), “The Analysis Of A Draft On Pension Reform”, Advisory Paper S3, Kiev.

German Advisory Group (2002), “Taxation and Ukrainian Agriculture after 2004”, Advisory Paper S4, Kiev.

Law of Ukraine "On Obligatory State Social Security against a case of work accidents and specific professional illnesses, which lead to the loss of work ability” as of September 23, 1999, N 1105-XIV.

Law of Ukraine “On Pension Security” as of November 5, 1991, N 1788-XII.

Law of Ukraine “On Levels of Some Obligatory State Social Security Contributions” as of Janury 11, 2001, N 2213-III.

Law of Ukraine “On Insurance Tariffs to Obligatory State Social Insurance against a case of work accidents and specific professional illnesses, which lead to the loss of work ability” as of February 22, 2001, N 2272-III.

Law of Ukraine “On Obligatory State Social Insurance against a temporary loss of the ability for work as well as child birth and funeral expenditures” as of Janury 18, 2001, N 2240-III.

Law of Ukraine “On Fixed Agricultural Tax” as of December 17, 1998, N 320- XIV.

Note of the President of Ukraine L. D. Kuchma to the Verkhovna Rada and the Cabinet of Ministers “ On Main Directions for Reforming the Pension Security System for Ukrainian Inhabitants”, October 8, 2001.

Ministry of Labour and Social Policy of Ukraine, Pension Fund of Ukraine (2002), “Obligatory State Social Insurance and Pension Security in Figures and Facts.” Kyiv – 45 p.

Pension Security in Ukraine. – Informational and Statistical Review: Ministry of Labour and Social Policy, Pension Fund, United States Agency for International Development (PADKO Project), http://www.pension.kiev.ua/UAnalit/Stat/Oglyad2000/?index.html

Pugachov M. (2000). The Social-Economic State of Ukrainian Rural Areas // APHDP, #17, October 2002. – 16 p.

State Statistics Committee of Ukraine.