



## Ukraine Social Protection: Current & Future Needs

**1. The necessity to support displaced persons (IDPs) and to provide social assistance and pension payments has put the welfare system in Ukraine under extreme stress.** The invasion has resulted in massive employment losses. According to ILO, around 44 percent of jobs may be lost<sup>1</sup>, while according to the national statistics the wage income comprised 60 percent of total disposable income. The projected household losses from the income shock and higher cost-of-living are estimated around 25 percent of the household budget<sup>2</sup>. GDP is expected to decline by 45.1 percent through 2022, and poverty to reach as high as 58 percent in 2023<sup>3</sup>. This will push millions more people onto social assistance. The brunt of the burden will be borne by the Guaranteed Minimum Income and Housing Utilities Subsidy programs, which share design features to quickly expand when incomes fall.

### Main Social Assistance Programs Affected By War

Expenditures, min UAH	2019	2020	2021e	Impact of the Invasion
HUS	35240	24690	29047	Increase up to 2.5-fold over 2022/2023 heating season due to loss of income, sizeable component of blanket subsidy due to the freeze of tariffs (cost near UAH 100 bn)
GMI	10378	11155	12790	Increase up to 3.5-fold increase due to loss of income
IDPs-related SA	2991	3014	3052	Since the beginning of the war the cost reached UAH 2 bn per month, the government tries to limit expenditures by only houses destroyed
Military-related SA			2972	Increase up to 3.5-fold or more, driven by the increase of servicemen number from 200,000 to 700,000

Sources: 2019-2021 – administrative data of the Ministry of Social Policy and the state budget allocations

**2. The ability to finance additional and even existing social expenditures is highly constrained.** There are significant new social expenditures because of the war, such as the

<sup>1</sup> ILO Brief, May 11, 2022

<sup>2</sup> WB staff calculations; wages comprise almost 60 percent of total household resources in 2020 ([http://ukrstat.gov.ua/operativ/operativ2021/advdp/ssr/ssr\\_20ue.xls](http://ukrstat.gov.ua/operativ/operativ2021/advdp/ssr/ssr_20ue.xls)), loss of 44 percent of jobs estimated by the ILO would result in loss of 25 percent of households' incomes

<sup>3</sup> Relief, Recovery, and Resilient Reconstruction: Supporting Ukraine's Immediate and Medium-Term Economic Needs

survivor benefits, veterans' benefits, and disability. These expenditures are expected to be substantial and may reach one percent of pre-war GDP. According to an assessment of the Minister of Finance, if the war continues for another four months, sweeping expenditure cuts will be needed. This will have catastrophic consequences for social expenditures. This assessment calls for the following strategic social protection priorities.

## Relief

### **3. An immediate need for the national welfare system is to support people that were severely affected by the war while maintaining the integrity of the existing social safety nets.**

The war is destroying social protection infrastructure and displacing social workers. Vulnerable groups which require social services are unable to receive them, requiring adjustments to the existing programs despite reduced capacity in the social protection and employment services sectors. Impressively, leveraging of existing digital platform developed by the government (the Diya platform, see Box 1) allowed digitalized cash transfer program to start in just eight days; four weeks later it was supporting 3.5 million beneficiaries, and processed payments amounting to nearly USD800 million<sup>4</sup>. This includes temporary cash transfer programs and wage subsidies to support IDPs introduced by the government with a total budget of over USD200 million<sup>5</sup>. The UN lead initiative has distributed USD202.9 million in cash to 1.59 million people<sup>6</sup>. In this respect, the World Bank reallocated around USD154 million from the two existing operations (Eastern Ukraine: Reconnect, Recover, Revitalize Project and Social Safety Net Modernization Project) to support the government's new IDP cash assistance program.

**4. Protecting the financing of social expenditures is critical.** The overwhelming damage to economic potential of Ukraine and a very large loss of GDP has resulted in massively reduced domestic resource mobilization capacity. There is a critical need to work out strategies to develop a financing approach that could prevent sweeping cuts to social expenditures.

## Recovery

**5. Stimulating employment and preparing for long term recovery is key.** The UNHCR estimates that around 4.7 million people fled Ukraine<sup>7</sup> in addition to 7.1 million internally displaced people<sup>8</sup>. The most recent poll estimates that about 41 percent of people who had a job

4 Cabinet of Ministers, April 1, 2022

5 Ministry of Social Policy, May 13, 2022, <https://www.kmu.gov.ua/news/58-milyarda-griven-pererahovano-dlya-viplati-dopomogi-na-prozhivannya-vnutrishno-peremishchenim-osobam>

6 Ukraine Cash Working Group, June 6, 2022, <https://www.humanitarianresponse.info/en/operations/ukraine/cash-working-group>

7 UNHCR, Government, June 6, 2022, <https://data.unhcr.org/en/situations/ukraine#:~:text=Almost%203.7%20million%20refugees%20have%20crossing%20has%20f>

8 IOM, May 23, 2022, [file:///C:/Users/wb481970/Downloads/IOM\\_Gen%20Pop%20Report\\_R5\\_final%20ENG%20\(1\).pdf](file:///C:/Users/wb481970/Downloads/IOM_Gen%20Pop%20Report_R5_final%20ENG%20(1).pdf)

before the war are out of job<sup>9</sup>. The public employment services are even more critical now and will need to adapt and strengthen skills matching and labor force activation capacities as a key input for aiding recovery and reconstruction.

**6. Recovery-phase interventions should consider utilization of new technologies to strengthen the adaptability of the overall system.** Such technologies include cloud based and online solutions. Ukraine has already appreciably invested in digital solutions such as the Diya platform which has 17.3 million users<sup>10</sup> and provides the IDPs with additional support.

**7. Building back better.** Not only social infrastructure needs to be rebuilt quickly, but this recovery effort should be aligned with investment, policy, and behavioral changes – such as promoting community- based services.

### **Resilient Reconstruction**

**8. For the longer term, the World Bank could support development of community-based social services, which will be crucial for rehabilitation of war-affected groups such as the orphans, IDPs, and persons with disabilities.** This approach is critical for reintegration of the war veterans into society and could efficiently respond to the multidimensional challenges faced by the survivors. This could include development of a system of benefits and pensions to veterans combined with social and labor activation services (e. g. psychological support, physical rehabilitation to improve functionality, social rehabilitation to ensure inclusion in the community, etc.).

**9. The post-war experiences point to a major burden on the national budgets related to the military and war veterans pension expenditures.** This includes benefits to both the military and their families who lost their members in combat as well as loss-of-life compensation for civilian deaths. To manage prudently, all such liabilities need to be quantified, with proper financial plans and institutional arrangements put in place. It is recommended to associate such liabilities with the overall package of the economic damages and financial compensation that is actuarially assessed and ideally fully pre-funded to minimize its impact on the future budgeting process and the attendant politics.

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<sup>9</sup> Rating Group Ukraine, National Survey, April 26, 2022

<sup>10</sup> Ministry of Digital Transformation, May 24, <https://www.ukrinform.ua/rubric-technology/3490961-vze-ponad-173-miliona-ukrainciv-koristuutsa-dieu.html>

The Diya platform, launched by the Ministry of Digital Transformation in 2020, includes website and mobile application. The Diya mobile app allow citizens to have digital national IDs, taxpayer identification documents, driving licenses, biometric international passports, vaccination certificates, and other documents. The Diya currently uses the available information from the state registries and databases. All data are transmitted and stored in encrypted form, for the critical data Diya uses the blockchain technology of distributed data storage. The Diya connects users to services using their Bank IDs.