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Social Policy in Ukraine in the Wartime: 2022-2023 years

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Executive summary

The year 2022 brought immense challenges to Ukraine due to the full-scale russia's invasion, causing loss of lives, economic decline, and widespread damage. The Government focused on critical social spending, financed by international partners, to address the crisis and combat rising poverty. Despite some stabilisation, the impact of the war persisted, leading to inflation, reduced economic activity, and significant unemployment.

Despite budget constraints, Ukraine continued financing social programs and stimulating employment to maintain its safety net and economic resilience. The Government emphasised digitalisation during wartime to ensure better access for Ukrainians to social assistance. Efforts were made to support internally displaced persons (IDPs) through simplified registration, financing for IDP assistance, and provision of shelters where possible.

Existing social welfare programs were maintained, but coverage decreased due to migration and budget constraints. E-governance solutions were introduced to coordinate charity and support various initiatives. Unemployment benefits were reduced, likely to stimulate job search.

Ukraine's social policy will continue balancing fiscal constraints with supporting war-affected populations, emphasising existing safety net programs and means-tested assistance. External migration offered short-term benefits but posed long-term challenges, requiring guidelines for encouraging return migration.

International support, including financial, military, and humanitarian aid, is crucial for Ukraine to win the war and overcome the war's effects, implement reforms, and prepare for EU membership.

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Introduction

2022 was the most challenging for Ukraine since it returned its independence in 1991. The full-scale russian war of aggression against Ukraine on February 24, 2022, eight years after russia launched the war by occupying Crimea and parts of Donbas, resulted in the loss of people, a profound reduction in economic activity, a temporary loss of territories, and destroyed infrastructure and housing. Ukraine's Government faced the major challenge of substantially increasing defence and security spending while economic activity dropped. In 2022, defence and security spending exceeded 50% of the State Budget, and this proportion was also preserved in the first months of 2023.

The war pushed many Ukrainians to flee their homes as the russian army fully or partially destroyed residential and administrative buildings, plants and factories, and infrastructure. Millions of Ukrainians became internally displaced; many were forced to leave the country. Unemployment surged. Due to the harsh war impacts, in spring 2022, the World Bank expected that poverty in Ukraine would exceed 50%, while there were also poverty estimates at 80%. But the actual poverty estimate was at about 25%, partially due to the Government's social policies.

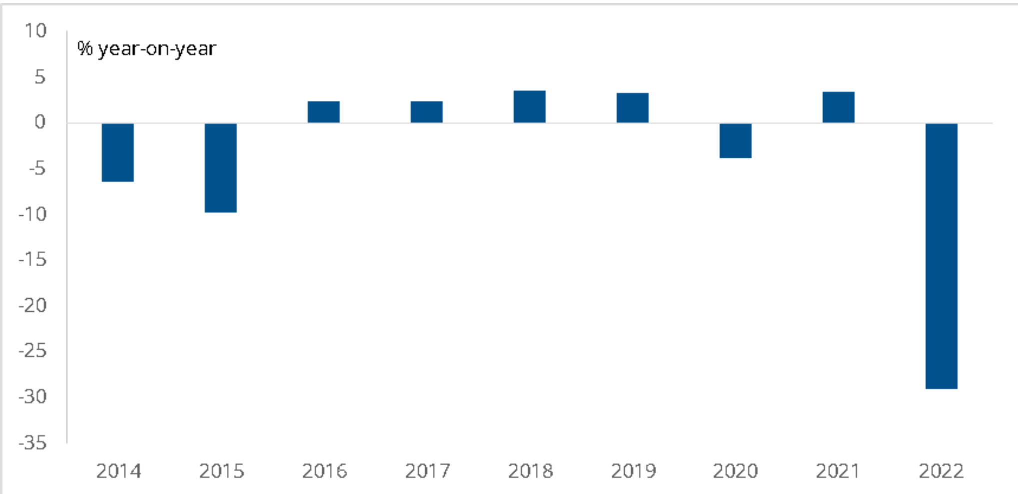
Taking all challenges and poverty risks into account, the Government has defined timely funding of critical social spending as one of its priorities for budget financing. That became possible due to financial aid from international partners, whose support allowed for ensuring priority spending. This Government decision was the social policy approach for 2022 that has also continued in 2023.

The structure of this article is as follows. First, we describe the social impact of the war and analyse budget constraints for financing social welfare. Then, we present the social safety net in Ukraine before and during the full-scale war. The pensions payments, essential for supporting families during wartime, the policies related to the labour market, the state programs of business support aiming to preserve employment, and the efforts to support internally displaced persons (IDPs) are considered in detail. The role of international partners in humanitarian support easing the pressure on the state and local budgets is outlined before the conclusions are presented.

Social impact of the full-scale war

The Ukrainian economy has been going through turbulent times since 2014 when russia began the war against Ukraine and occupied part of Donetsk and Luhansk oblasts in the East and Crimea. A slow recovery followed the real GDP sharp drop in 2014-2015. Ukraine has introduced many reforms, strengthening the economy during the last eight years. The National Bank of Ukraine became a strong independent regulator, and the banking sector was sound. The Ukrainian Government reduced debt from 80% of GDP in 2016 to 50% in 2021, while many countries increased their debt, especially during the Covid-19 pandemic. Ukraine became known for introducing an effective, transparent electronic public procurement system Prozorro. It also introduced land reform and multiple changes while implementing the Association Agreement between Ukraine and the EU.

Figure 1: Real GDP in Ukraine



Source: Ukrstat

However, economic growth was stopped on February 24, 2022, when russia bombed Ukraine in the early morning and started a full-scale invasion. The war of russia against Ukraine resulted in a drop in Ukraine's real gross domestic product (GDP) by 29% in 2022.

The social impact was devastating as many people were forced to leave their homes, many lost their jobs, and the purchasing power of households dropped. The exact number of internally or externally displaced Ukrainians is unknown, but some estimates exist and are provided below. Besides, there is no precise information on the civilian causalities due to the war, but some estimates reach 30 000 persons killed in the war. Still, official figures are lower as there is no chance to investigate the situation in temporarily occupied territories, especially in Mariupol. In particular, from February 24, 2022, to January 2, 2023, OHCHR recorded 17,994 civilian casualties in Ukraine: 6,919 killed and 11,075 injured.[1]

Intensive war, temporary occupation of Ukrainian territories after February 24, and partially or fully destroyed housing pushed Ukrainian either to internal or external migration. According to the KSE estimate, damage caused to the housing stock as of November 2022 was USD 52.5 bn, accounting for 38.6% of total damages.[2] Damaged housing comprised 126.7 thousand private houses, 16.8 thousand residential buildings, and almost 300 dormitories.

The number of officially reported IDPs increased during the full-scale invasion from 1.5 m to 4.9 m persons[3]. However, the actual number could be more significant as not all people register as IDPs. That is explained by comparatively low financial support and the need to re-register in military offices for men. According to the International Organization of Migration (IOM), the number of IDPs was estimated at 5.6 m in December 2022.[4]

Many Ukrainians had to move abroad, where security was higher and support more extensive. According to the UN estimates, as of November 2022, 7.6 m Ukrainians that left Ukraine after February 24 remained abroad.[5] About 2.8 m persons were in russia and Belarus, partially due to forced deportation from temporarily occupied territories. The number of Ukrainians with temporary protection in European countries is estimated at 4.9 m persons[6], predominantly women with children (87% of all) and the elderly. At the same time, already in September 2022, the President of the European Commission, Ursula von der Leyen, said in September 2022 that 5 m out of 8 m of Ukrainians that fled from Ukraine to the EU had already returned home.[7]

The World Bank estimates that over 20% of Ukrainians fell into poverty. According to the UN report, as of December, there were 17.7 m individuals in need[8]. From them, 9.3 million people require food and livelihood assistance, 14.5 million in Ukraine are estimated to need health assistance, and about 16 million people in Ukraine need water, sanitation, and hygiene assistance.

The full-scale war of russia against Ukraine resulted in higher inflation, which hampers purchasing power of households. Consumer price inflation reached 26.6% year-on-year in December 2022 compared to December 2021. Food prices surged by 34.4% year-on-year, which worsens the situation of poorer households the most. At the same time, transport prices, primarily due to gasoline, increased by 42.9% year-on-year partially because the russian army mostly destroyed oil refineries and fuel storage. Still, inflation was restricted by the decision of the Government to increase housing and utility tariffs.

Most sectors faced financial problems due to being destroyed by russians facilities and infrastructure, longer and more expensive logistics, shortage of demand, and more expensive inputs. Moreover, since October 2022, companies had to invest money into electricity generators and fuel for them as well as other means to ensure electricity generation after russians started attacks on Ukrainian energy infrastructure, which led to electricity outages. As a result, the average nominal wage declined substantially in the first months of the year but somewhat recovered after the companies adapted to the shock. At the same time, real wages fell considerably due to high inflation (Figure 2).

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[1] https://www.ohchr.org/en/news/2023/01/ukraine-civilian-casualty-update-3-january-2023

[2] https://kse.ua/about-the-school/news/as-of-november-2022-the-total-amount-of-losses-caused-to-the-infrastructure-of-ukraine-increased-to-almost-136-billion/

[3] https://www.slovoidilo.ua/2022/12/14/novyna/suspilstvo/ombudsmen-nazvav-kilkist-vnutrishnix-pereselenczivukrayini

[4] https://reports.unocha.org/en/country/ukraine/

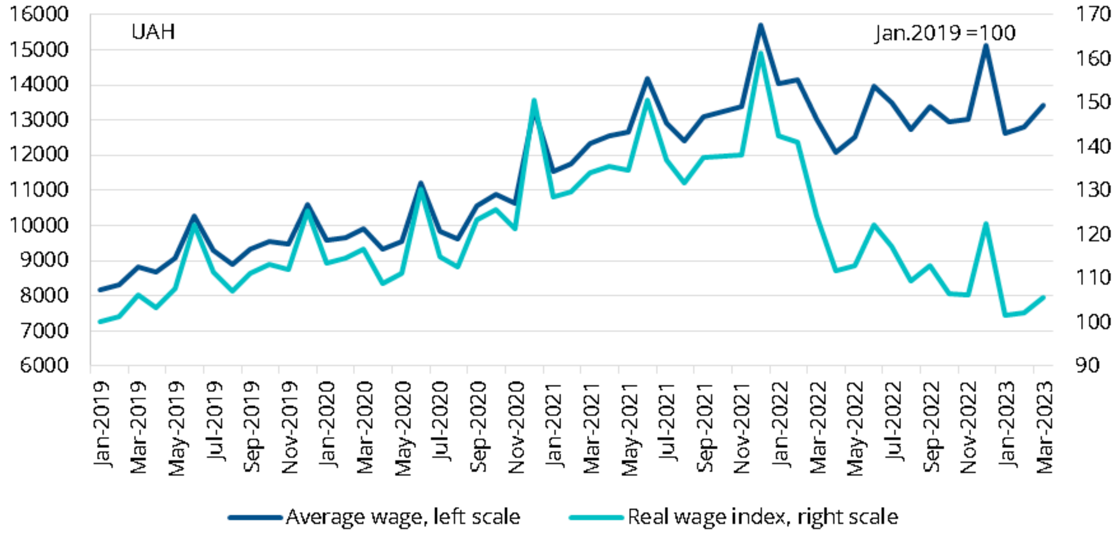
[5] https://bank.gov.ua/admin_uploads/article/Migration_impact_2022-12-15.pdf

[6] https://data.unhcr.org/en/situations/ukraine

[7] https://twitter.com/vonderleyen/status/1570420184531214338?s=20&t=vvHuuwmOgNpuN8N3yDfeMA

[8] https://reports.unocha.org/en/country/ukraine/

Figure 2: Average* and real wage



*Note: * Average wage approved for the calculation of pensions as the Ukrstat does not publish wage information*
Source: PFU, Ukrstat

In July 2022, the NBU estimated the unemployment rate at about 30%.[9] That resulted from the closure of some businesses, reduction of production, a lower number of self-employed, and a high number of IDPs. According to the IOM, about 60% of IDPs lost their jobs. At the same time, the number of individuals registered as unemployed at the State Employment Service did not increase.

Ukrainians were hit substantially on territories temporarily occupied after February 24. There were problems with pensions and social welfare payments to them. For instance, in June 2022, according to the Ministry of Social Policy, 300 000 Ukrainians from vulnerable categories did not receive such payments.[10]

The economic situation has stabilised since the second half of 2022. Consumer inflation decelerated to 12.8% year-on-year in June 2023,[11] while unemployment is estimated at about 20% of the labour force.[12] The real GDP is expected to grow by about 3-4% in 2023.

However, the critical problems featured after the beginning of the full-scale aggression remained. The economic activity remained much lower than in 2021 as over one-fifth of the territory remained occupied, and active battles have continued. Massive russian missile attacks over civilian infrastructure persisted, with no single region being secured. By April 2023, the housing damage reached USD 54.4 bn,[13] and the total number of damaged residential buildings reached 158 thousand. The number of officially registered IDPs has remained stable, and most Ukrainian refugees in Europe have not yet returned. According to the UN, as of July 18, 2023, there were still 5.9 m Ukrainian refugees in Europe, including russia and Belarus. Poverty has also stayed high.

[9] https://bank.gov.ua/ua/news/all/inflyatsiyniy-zvit-kviten-2023-roku

[10] https://visitukraine.today/blog/526/how-to-get-a-pension-or-social-benefits-in-the-temporarily-occupied-or-war-torn-territories

[11] https://bank.gov.ua/

[12] https://bank.gov.ua/ua/news/all/inflyatsiyniy-zvit-kviten-2023-roku

[13] https://kse.ua/about-the-school/news/147-5-billion-the-total-amount-of-damages-caused-to-ukraine-s-infrastructure-due-to-the-war-as-of-april-2023/

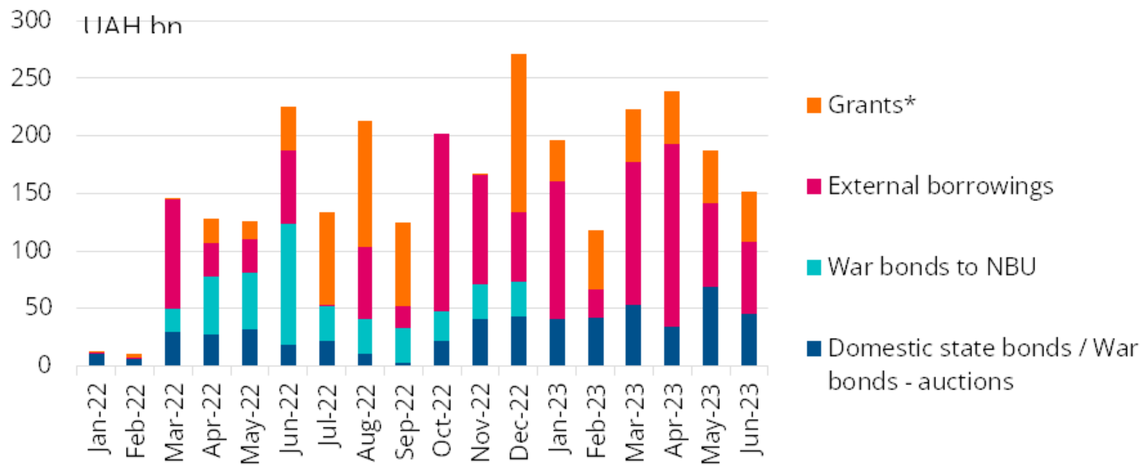
Budget constraints for social welfare financing

Budget expenditures in 2022 and 2023

The full-scale invasion resulted in a drop in economic activity in Ukraine, negatively impacting fiscal revenues[14]. Besides, in March and April 2022, the Government introduced several tax exemptions, which were then gradually phased out. At the same time, the Government faced the challenge of substantially increasing defence and security spending. The Government defined social protection expenditures as a priority, but there was a need to increase spending for the support provided to IDPs. Overall, already in April 2022, the budget financing needs were officially estimated at USD 5 bn per month, which the IMF also verified. However, international assistance reached this level only in December 2022. In other months, financial needs were covered by domestic government war bonds (directly purchased by the NBU and placed on the market) and international aid, which came in the form of either grants or concessional loans.

Overall, in 2022 consolidated fiscal expenditures (state and local budgets) grew substantially, primarily due to financing received from international partners at USD 31.2 bn. From this, aid grants[15] comprised 44.4% and were predominantly received from the USA (at almost USD 12 bn). International partners provided the borrowings on concessional terms to avoid a substantial negative impact on the debt sustainability of Ukraine. In particular, the EU provided EUR 7.1 bn on concessional terms in the framework of macro-financial assistance programs.

Figure 3: State budget financing and grants



Source: Openbudget.gov.ua

According to the official statements, international assistance is directed towards financing priority spending of the Government other than defence and security, which would allow the country to keep going. That primarily includes social spending, wage payments, procurements, and some immediate and urgent reconstruction.

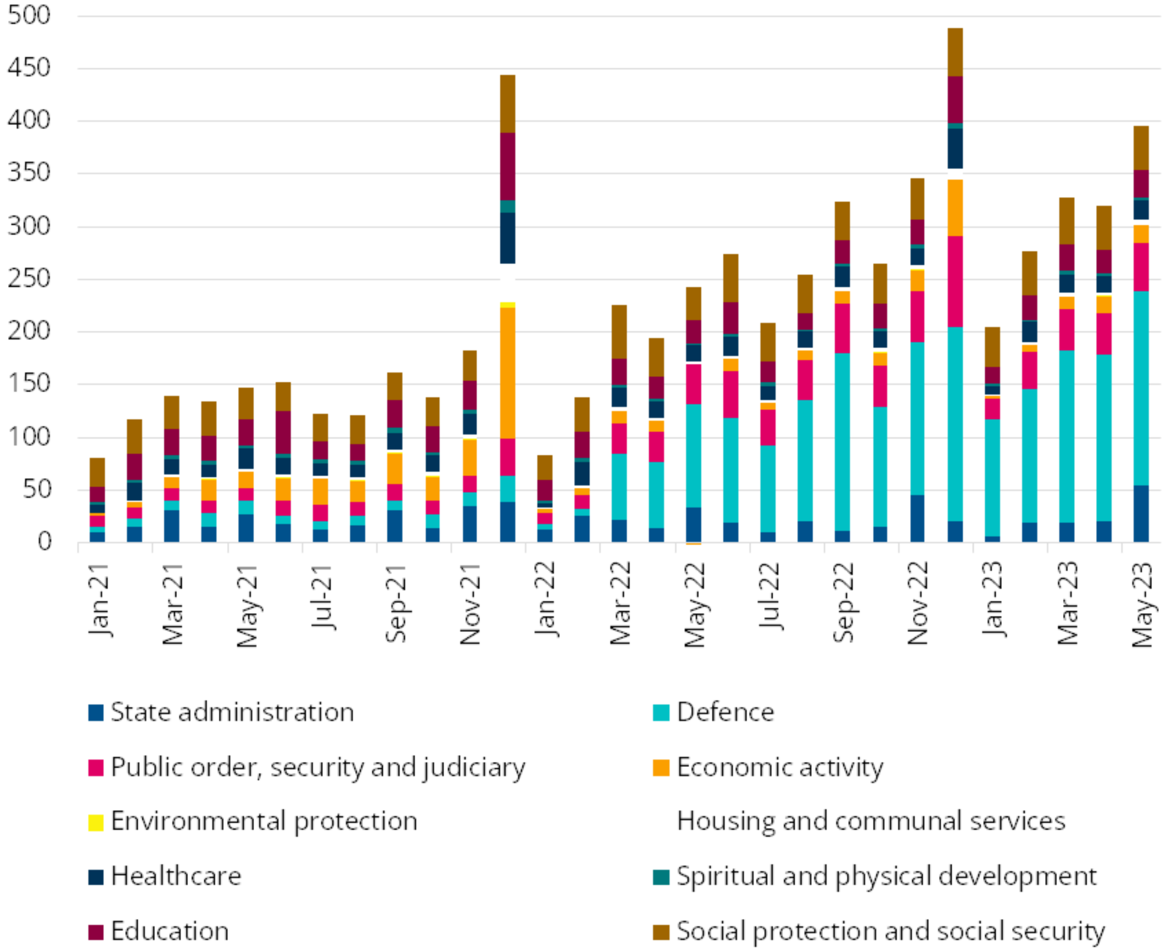
Indeed, only domestic resources were allocated for defence and security expenditures. That includes tax revenues and allocations of domestic government bonds. Gross financing from military bonds amounted to UAH 650.8 bn, of which the National Bank of Ukraine directly purchased UAH 400 bn. It should be noted that military and humanitarian support provided to Ukraine by international partners is mostly not accounted for in the budget.

In 2022, consolidated fiscal expenditures increased by 65%. Defence expenditures surged 8.2 times, while security spending was 2.5 times higher than in 2021. They accounted for 37.6% and 14.9% of the total consolidated fiscal expenditures, respectively. As a result, the share of social protection and social security spending was reduced by 5.1 p.p. to 15% of total expenditures, even though the social budget increased by 22.3% in 2022.

[14] Monthly Economic Monitoring of Ukraine №216, 2023, IER, http://www.ier.com.ua/en/publications/regular_products/monthly_economic_monitoring?pid=7063

[15] Grants are accounted as a component of budget revenues.

Figure 4: Consolidated fiscal expenditures, UAH bn

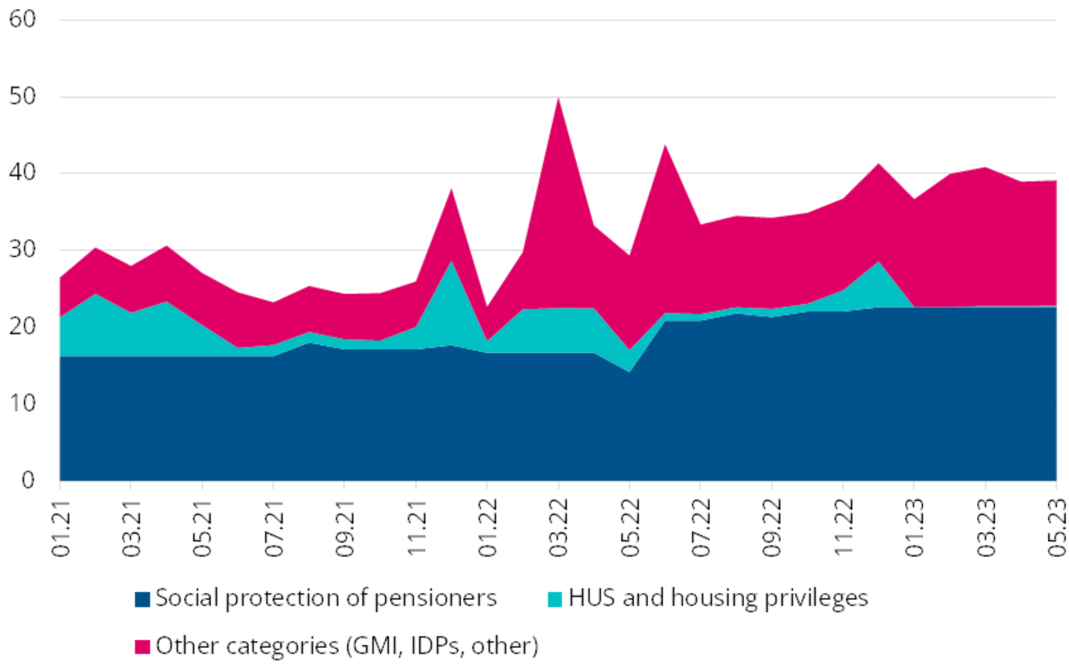


Note: Consolidated fiscal expenditures include spending from state (central) and local budgets.
Source: Openbudget.gov.ua

Ukraine has a complex social safety net system.[16] In 2022, the Government attempted to pay fully and on time social welfare payments (see Figure 5). The two most extensive social welfare programs include low-income family allowances (guaranteed minimum income program, GMI) and housing and utility subsidies. In 2022, the financing of support to IDPs substantially increased due to a surge in the number of internally displaced individuals. Besides, significant funding was allocated to other programs of social assistance. Moreover, as in previous years, there was a central fiscal transfer to the Pension Fund to allow for timely and complete payment of pensions.

[16] https://documents1.worldbank.org/curated/en/099105408022290169/pdf/P179456044b242050b5ed0b8ae55bfe32f.pdf

Figure 5: Social protection expenditures, UAH bn



Note: The budget classification changed in 2023 so that HUS is not separated from other programs
Source: Openbudget.gov.ua

In 2023, defence and security spending remained the priority for the country. Similarly to 2022, social expenditures are almost entirely financed by international aid provided through grants or concessional lending.

Overall, the decision of the Government to finance the existing social safety net was the correct one. According to the 11th round of the survey conducted by the IOM, 43% of all households in Ukraine will have wholly exhausted their savings by December 2022.[17] Therefore, if social payments, including pensions, were not paid on time, there would be a fear that the number of refugees would increase. Moreover, timely social protection financing also supported domestic sectors such as food and light industries.

International assistance for social financing

From the first days of the full-scale invasion of russia into Ukraine, the Ukrainian Government started negotiations with international partners on the provision of financial aid to ensure timely financing of priority spending. While domestic sources were to secure funding for defence and security, international assistance became necessary for the timely financing of other expenditures. The IMF quickly provided Ukraine with USD 1.4 bn, and the EU provided a concessional loan of EUR 600 m in March and the same amount in May.[18] Later, a significant share of financial assistance came from the USA and the EU, while other countries joined the effort. Even though all this money was spent on other than defence purposes, their allocation does not seem to be strictly identified except for funds provided by the USA through the World Bank.

The Public Expenditures for Administrative Capacity Endurance project (PEACE project), administered by the World Bank[19] and funded mainly by US grants, reimburses several types of Ukrainian government spending. It started by reimbursing wages paid to government officials and public sector educators, but with the addition of US spending, the project covered several types of social spending. US grants reimburse budget transfers for pensions, payments to IDPs, housing subsidies, guaranteed minimum income welfare payments, and social assistance for disabled children and adults disabled since childhood. In addition, spending on the program of medical guarantees (PMG) covering medical services guaranteed to be

[17] https://displacement.iom.int/sites/g/files/tmzbdl1461/files/reports/IOM_Gen%20Pop%20Report_R11_IDP_final_Publ.13122022.pdf

[18] https://carnegieendowment.org/2022/12/05/ukraine-needs-financial-lifeline-too-pub-88569

[19] The Public Expenditures for Administrative Capacity Endurance project https://www.worldbank.org/en/country/ukraine/brief/peace

free by the Government was also reimbursed[20]. Table 1 below shows the funding situation as of August, when the USD 4.5 bn grant from the USA was approved. At that time PEACE project covered social spending from March to July and part of August spending.

	March	April	May	June	July	August	September	October	Total
Transfer from the budget for pensions (MoF projection)	539	539	458	600	500	500	500	500	4,536
IDPs payments	5.8	132	209	200	160	160	160	160	1,347
GMI +HUS +Disabilities	260	267	169	105	110	110	110	110	1,321
PMG	250	250	250	250	200	200	200	200	2,000
First responders' wages	83	83	83	83	70	70	70	70	664
TOTAL	1137.8	1271	1169	1238	1263	1263	1263	1263	9,867.8
Covered under the Second AF:									
Pensions	539	539	458	600	500	94	-	-	2,730
IDPs payments	0	0	209	200	160	-	-	-	569
GMI +HUS +Disabilities	205	205	169	100	110	-	-	-	789
PMG	0	0	0	0	0	10	-	-	10
First responders' wages	83	83	83	83	70	-	-	-	402
TOTAL SECOND AF	827	827	919	983	843	101	-	-	4,500

Table 1: **Government expenditures funded by the Second AF for the PEACE project**
Source: World Bank Report No: PAD5127[21]

Unfortunately, a similar table for a new round of financing of USD 4.5 bn approved in November[22] was not released. If funding needs did not change substantially, it likely reimbursed social and healthcare spending up to November. The World Bank announced a fourth additional financing round for the PEACE project that would add social assistance to families and children to the list of expenses that can be reimbursed as a part of the project. The US Congress approved additional appropriations for Ukraine assistance in December 2022 for spending in January-September 2023[23]. According to the Biden administration budget request, this includes USD 9.9 bn in direct budget aid. It seems likely that these funds will be used again to reimburse the Ukrainian Government's social spending and spending on civil servants' wages, including those responsible for social services.

The budget does not account for some support provided, particularly humanitarian, by international organisations. At the same time, such support somewhat eased the pressure on the Government to allocate more funds for IDPs and those in need against state budget constraints.

State Budget constraints remained tight in 2023 as financing needs remained high. According to the State Budget Law for 2023, external financing was initially planned at USD 38 bn, which is essential for financing social protection expenditures. In December 2022, the uncertainty about this financing was reduced as the European Parliament approved the decision on the provision of Ukraine with concessional loans with a total amount of EUR 18 bn during the year (with EUR 3 bn provided in January 2023) and the USA adopted the decision to transfer grants at USD 1.1 bn in January-September.

[20] PEACE project directed only USD 10 m as of Augus to PMG but Ukrraine received separate transfer USD 1.7 bn from the US in July to cove wages unde PMG. https://www.kmu.gov.ua/en/news/ukraina-otrymala-hrant-vid-ssha-u-rozmiri-17-mlrd

[21] https://documents1.worldbank.org/curated/en/099105408022290169/P179456044b242050b5ed0b8ae55bfe32f.docx

[22] https://www.worldbank.org/en/news/press-release/2022/11/22/world-bank-mobilizes-additional-4-5-billion-for-ongoing-assistance-to-ukraine

[23] https://www.whitehouse.gov/briefing-room/legislation/2022/12/29/bill-signed-h-r-2617/

According to the MinFin, timely and full financing of social protection expenditures in 2023 remains a priority, with planned financing from the state budget at UAH 454 bn accounting for about 13.6% of the total central fiscal expenditures. However, due to budget constraints, social standards will increase on average by 5.4% in 2023 and, thus, will decline in real terms as consumer inflation was at 26.6% year-on-year in December 2022 and is expected to remain at about 20% year-on-year in December 2023. Still, the Government planned to increase financing of housing and utility subsidies, assistance to IDPs, and a program of guaranteed minimum income. Financing of different programs for low-income families was planned at UAH 72.9 bn, people in difficult life circumstances – UAH 66.8 bn, families with children – UAH 27.3 bn, people with disabilities – UAH 3.3 bn.[24] At the same time, during the first six months of 2023, the Government somewhat streamlined the social welfare policies, which might impact the final expenditures for different programs (see below).

The social safety net in Ukraine

Social welfare programs and the social security system

Ukraine has a complex and relatively expensive social safety net (SSN) system with many benefits still provided on the categorical principles.[25] According to the World Bank, SSN spending before 2022 accounted for 3% of GDP, with almost half of the population enrolled on some form of social protection program. The system has assessed the one with weaknesses, "including coverage, gender discrepancies, inclusion, and benefit adequacy".[26]

Many programs still do not take into account the income level of recipients[27]. In particular, childbirth grants are equal for all families as they were aimed to stimulate a higher birth rate. Besides, there are payments to individuals with disabilities, foster families, large families, and the elderly. At the same time, a low-income family allowances program, also known as a guaranteed minimum income (GMI) program, efficiently targets the poor. Financing of the GMI program was in 2021 at 10% of the total social safety net budget, and it has low coverage. Another social welfare program with better financing and covers more households is housing and utility subsidies (HUS). The eligibility depends on the level of household income and the share of income spent on housing and utilities. Besides, there are categories of individuals who are eligible for housing and utility services privileges in the form of discounted prices (this includes, for instance, veterans of war and labour). HUS financing totalled about 20% of the social safety network budget. Other smaller programs include payment of social allowances to single mothers or fathers, which is also means-tested. A large part of the social safety net budget is transferred to the Pension Fund to ensure pension payments to retired individuals.

The social welfare system in Ukraine envisages several different privileges and exemptions for some categories of the population, primarily pensioners and their subcategories. That includes free public transport access, cost reductions for housing and utility services and some other privileges for pensioners and some categories of employees. These privileges and benefits became more means-tested over the years but remain multiple and not always efficient in targeting the poor.

In 2022 the Government defined the timely financing of social welfare programs as one of its priorities. That preserved the planned increase of the subsistence minimum, establishing the size of several types of social payments. However, given the fiscal constraints, in 2023, the Government kept the subsistence minimum fixed at the level of December 2022 for the entire year despite expected inflation.

[24] https://www.msp.gov.ua/files/pictures/2022/2023.pdf

[25] https://documents1.worldbank.org/curated/en/099105408022290169/pdf/P179456044b242050b5ed0b8ae55bfe32f.pdf

[26] https://socialprotection.org/discover/publications/assessing-current-level-alignment-between-humanitarian-and-social-protection

[27] The short description of categorical programs is available in the report at: https://socialprotection.org/sites/default/files/publications_files/B022_Ukraine_A%20social%20protection%20country%20profile%20for%20the%20Ukraine%20crisis%20response.pdf.

Period	Average subsistence minimum	Children up to 6 years old	Children 6-18 years old	Working able individuals	Pensioners and people with disabilities
2023	2589	2272	2833	2684	2093
01.12.2022 - 31.12.2022	2589	2272	2833	2684	2093
01.07.2022 - 30.11.2022	2508	2201	2744	2600	2027
01.01.2022 - 30.06.2022	2393	2100	2618	2481	1934
01.12.2021 - 31.12.2021	2393	2100	2618	2481	1934
01.07.2021 - 30.11.2021	2294	2013	2510	2379	1854
01.01.2021 - 30.06.2021	2189	1921	2395	2270	1769

Table 2: Subsistence minimum in Ukraine

Note: Average exchange rate was at UAH 27.29 per USD in 2021, UAH 32.34 per 1 USD in 2022, and UAH 36.57 per 1 USD in January 2023.

Source: State Budget Laws for 2021, 2022, and 2023.

Another component of the social safety network in Ukraine is the contributory social security system, based on the single social contribution paid by employers on behalf of their employees and by private entrepreneurs registered under a simplified taxation system. The social security system includes several types of compulsory state social insurance:

- Pay-as-you-go pension system;
- Social insurance, which includes sickness insurance and insurance in case of working accidence and occupational disease;
- Unemployment insurance that funds active and passive labour market policies.

Before 2023, three state social insurance funds administered these types of insurance. At the end of 2022, the Ministry of Social Policy initiated changes. Since 2023, the Pension Fund has administered the first two types of compulsory social insurance. This step aimed to enhance the effectiveness of the social security system as the Pension Fund was recognised as more efficient than the Social Insurance Fund. Meanwhile, the Government also rationalised payments within the social insurance component, mainly by reducing in-kind benefits, including rehabilitation services.

Guaranteed minimum income program

The Guaranteed Minimum Income (GMI) is a tightly targeted program aimed at impoverished families that need last-resort support to achieve the minimum subsistence level. It is provided as a cash payment to households. The benefit is equal to a difference between the household's total income and the guaranteed level of income: 45% of the subsistence minimum for those able to work, 130% for children, and 100% for disabled people. The maximum benefit is 100% of the subsistence minimum for the family. Using only a fraction of the subsistence minimum for individuals able to work is supposed to stimulate them to look for jobs and receive higher wages, but, on the other hand, it limits coverage of families by the program. In 2020, 318 000 households comprising 1.2 m persons were targeted with the GMI program, and 60% were children. In 2021, economic growth resumed, and the GMI program covered only 257 000 households.

The Government in 2022 implemented the subsistence minimum increases as planned before the full-scale invasion. Therefore, if inflation is considered, the GMI increased in nominal terms, even though it dropped substantially in real terms.

The planned budget for the GMI program 2022 was UAH 14.8 bn (equivalent to almost USD 0.5 bn). The actual financing in 2022 was UAH 13.8 bn, 9.6% higher than in 2021. The number of families that received cash payments within this program dropped to 216 200 households or by 2.4% year-on-year, while average assistance grew by 12.6% to UAH 5 349 per family.

Therefore, the only means-tested program reduced the coverage in 2022, when poverty increased. One of the reasons for this might be related to the low level of GMI and the efforts of the Government to pay pensions and wages in public sectors on time. Still, the coverage by the program was shallow and, thus, likely excluded some households in poverty. Indeed, the World Bank suggests that the GMI programs should be expanded, and the benefits should be increased within this program

In 2023, the planned budget for the GMI program is UAH 15.6 bn, or 13% more than the actual spending. While the expected number of recipients of cash payments under the GMI program is estimated as 269 500 households, growing by 25% compared to the previous year, the average assistance is planned to reduce to UAH 4 815 per family.

Thus, although the Government increased the planned coverage of the GMI program in 2023, the benefits are expected to reduce, making it an even less efficient tool for eliminating the extreme poverty that it was before.

Housing and Utility Subsidies

The housing and utility subsidies (HUS) provide targeted cash support for the payment of utility bills by capping how much households spend to cover a standard amount of consumption, defined concerning social norms. The maximum share of household income that should be spent on traditional consumption of housing and utility services is estimated according to the formula, which considers the level of household income for the subsistence minimum per household.

The HUS is the most extensive means-tested program, although it's less efficient in targeting the poor than the GMI program. The HUS financing and coverage surged during 2015-2017 to support Ukrainians during the energy reform, which eliminated universal energy subsidies: 6.5 m households received HUS. Since 2018, the coverage by HUS has reduced as households' disposable income grew faster than tariffs while the program's design was streamlined to enhance its targeting and accountability.

During 2022, the Government facilitated the provision of HUS to households because many households lost their income. Besides, IDPs were allowed to receive HUS at the place of their new residence, which expanded their protection. The administration of HUS also changed. Since October 2022, the Pension Fund became responsible for HUS payment; since December 2022, it is also responsible for the HUS granting.

Still, the program coverage dropped in 2022. The financing of HUS at UAH 20.2 bn was 38.8% lower than in 2021. Moreover, the number of recipients reduced by 18% year-on-year from 2.0 m in 2021 to 1.6 m in 2021, while the average monthly HUS amount reduced by 14.5%. The temporary occupation of territories and housing destruction, external migration and Government tariff policy restrictions are likely reasons for the observed changes.

In particular, the number of HUS recipients also has not surged because the Government approved the decision to keep households' electricity, gas, and heating tariffs unchanged to keep the population from extreme poverty. On the one hand, this seemed to be a good strategy, as it reduces potential social tensions and restricts inflation growth. On the other hand, evidence suggests that universal subsidies are more expensive than targeted social assistance. In particular, in the summer of 2022, the Government had to provide the Naftogaz with a central fiscal transfer of above UAH 100 bn for natural gas purchases. Besides, it had to allow external lending to the Naftogaz and the Ukrenergo. Both companies faced budget gaps as household tariffs for gas and electricity were lower than the cost-covering level.

Also, in spring 2022, local government entities in the cities with active war battles introduced zero housing and utility tariffs, which were to be covered by the local budgets. Such benefits existed only for several months due to budget constraints.

There is some ambiguity in paying the bills in partially damaged residential buildings, especially when owners decide to leave their locations for safer places. According to the Ministry of Hromadas Development, individuals should not pay housing and utility bills for destroyed housing as services are not provided there. In other cases, when accommodation is partially destroyed, or an individual does not live in a particular housing for more than a month, it is possible to be allowed not to pay the bills, except for the centralised heating if provided.

In 2023, the Government expects an increase in HUS coverage to 1.7 m recipients, with the planned program budget at UAH 24.4 bn or 20.8% more than the year before. The average monthly payment is estimated to amount to UAH 1 189, which is more than in 2022 (UAH 1 170) but still much less than in 2021 (UAH 1 368). However, the June 2023 increase of electricity tariffs for households by 83% might have impacted the HUS program outcome.

Other measures of support

The Government introduced different measures of wartime support, which were fragmented but all aimed at keeping Ukrainians from poverty. One of the first programs was ePidtrymka (eAid), implemented in March 2022. Residences of 14 regions affected by the full-scale invasion, if employed before February 24, were eligible to apply through application 'Diia' for a one-time payment of UAH 6 500. Overall, the Government spent for the program UAH 31 bn to pay almost 5 m persons.

To support Ukrainians in need, the Government also simplified the procedures for applying for social welfare support. Registration as IDPs or unemployed became possible online through the Diia application. Later in 2022, the Government introduced a new online public platform eDopomoga, which has three directions: 1) to receive cash state assistance; 2) to receive help from volunteers or to become one; and 3) to receive aid payments from international organisations. Indeed, along with the state, many international and Ukrainian organisations provided humanitarian and financial assistance to Ukrainians in need after February 24. The Ministry of Social Policy verified the data of individuals that apply for assistance through the platform using existing state registers and databases. That was essential to avoid parallel funding by different donors, which happened in the first months of the full-scale invasion of russia in Ukraine.

Even though people in the temporarily occupied territories could not receive their pensions and social welfare payments due to the absence of an operational banking system, the Government continued transferring the due amounts to their banking accounts. As a result, as soon as towns and cities were de-occupied, people could withdraw cash from their cards.

That was facilitated by the fact that since the early weeks of spring 2022, the Government worked out a solution to ensure that people have cash when banks and ATMs were not in full operation. It made it possible for people to obtain cash by withdrawing it at the cash registers of defined supermarkets, pharmacies or gas stations at the time of purchase of any good. That also helped in de-occupied territories as all procedures were already operational. Moreover, cash can be obtained from the offices of state-owned company Ukrposha, which typically recovers activities of its branches within several days after the liberation of cities and towns. People can either withdraw money there or receive money transfers.

The Government and donors also introduced one-time payments to all people in liberated areas who stayed there under the occupation. They were financed at the account of donors' financing and by humanitarian organisations due to budget constraints. In October 2022, they were set at UAH 3 000 for children and persons with disability and UAH 2 000 for other individuals These payments are made through the offices of Ukrposhta. The Ministry of Reintegration of Temporary Occupied Territories also informs about the possibility of such people receiving UAH 1 200 from Ukraine's Red Cross and/or UAH 2 200 from the International Organization of Migration. Besides, people in liberated areas are eligible for humanitarian support, which includes food, clothing, and other essentials. However, there seems to be a lack of effective coordination in settling all such payments, as several ministries and various humanitarian organisations are involved.

In October 2022, the Government launched the program eOselya (translated as *eHousing*), which implements the program of subsidies credits for housing. The program envisaged that eligible households could receive a banking credit with a 3% interest rate (the difference with the market rate is covered by the Government) and maturity of up to 20 years, with a first own contribution of 20%. The maximum amount of the credit is defined at UAH 6 m. The eligible population groups include military and security personnel, health and education staff, war veterans and their families, IDPs, and households with no or small housing. The program was revised in July 2023 to widen its coverage.

According to Ukrfinzhytlo, as of July 20, 2023, the program eOselya disbursed 2 028 credits, amounting to UAH 2.8 bn. Most credits (78%) were provided to military and security forces personnel, followed by medical personnel (10%).

Summing up, the Government has continued implementing its commitments within the existing social safety network despite the war-induced tight budget constraints. In 2022, the number of recipients of the two most extensive means-tested programs – GMI and HUS – dropped, likely due to extensive migration. Still, both programs are expected to increase their coverage in 2023 as poverty remains a significant concern. Apart from using ad-hoc instruments for providing additional social support to the most affected by the full-scale russian aggression, the Government introduced several longer-term solutions, like the program eOselya providing subsidised credits for housing, and eDopomoga establishing a platform for charity coordination.

Pensions

In Ukraine, the state pay-as-you-go (PAYG) system primarily represents the pension system. The non-state pension systems are undeveloped due to the lack of a stock exchange market and high risks. The pension age under the pay-as-you-go (PAYG) pension system is defined as 60 years. To receive an old-age pension, women should have an insurance record in the system at 30 years, while men at 35 years. If these eligibility requirements are met, the retired person receives a pension, estimated according to a strictly defined formula, but which cannot be lower than the minimum level, defined at the subsistence minimum level for such group. The minimum pension for pensioners above 65 years old is 40% of the minimum wage (UAH 2680 or USD 73 per month as of January 2023). There are also some additional payments to pensioners above 70 years old.

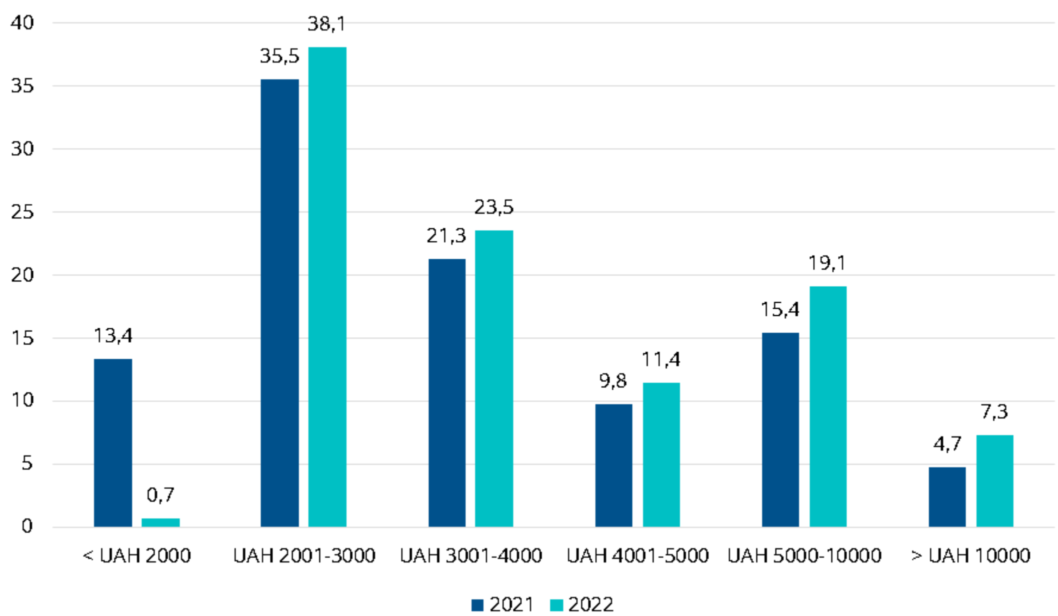
The timely payment of pensions has been an essential component of the wartime social safety network, as Ukraine has many pensioners. According to the Pension Fund, there were 10.8 m pensioners as of the beginning of 2022 and 10.7 m in January 2023. Some pensioners were forced to become internally displaced people (IDPs) or temporarily leave Ukraine due to the war. According to the 11th round of the International Organisation of Migration survey, 1.2 m pensioners became IDPs and comprised 20.6% of all IDPs.

As the Government approved the decision to keep as many people from poverty as possible, the pension indexation was implemented in 2022 as approved before the full-scale invasion, and another round of indexation was conducted in 2023.

In 2022, minimum pensions were increased during the year in line with the subsistence minimum and minimum wage increase, and the elderly pensioners received additional payments to their pensions. As of January 1, 2023, the average pension reached UAH 4 623 (USD 126), which is 15.8% higher than a year ago. Still, about 38% received pensions close to or somewhat above the minimum level as of January 1, 2023, while 7.3% of pensioners received pensions above UAH 10 000. Higher pensions are likely to be received by pensioners from specialised pension categories or those who always received higher than average salaries in the formal economy.

In 2023, the Government continued to index pensions to compensate for the high inflationary pressure. The 2023 indexation envisaged a 19.7% pension increase, though not less than UAH 100 and not more than UAH 1 500. The indexation has not covered pensioners receiving over UAH 20 930, working pensioners with insufficient insurance records, and some specified categories of pensioners like former prosecutors, judges etc.

Figure 6: Distribution of pensioners by pension size, %



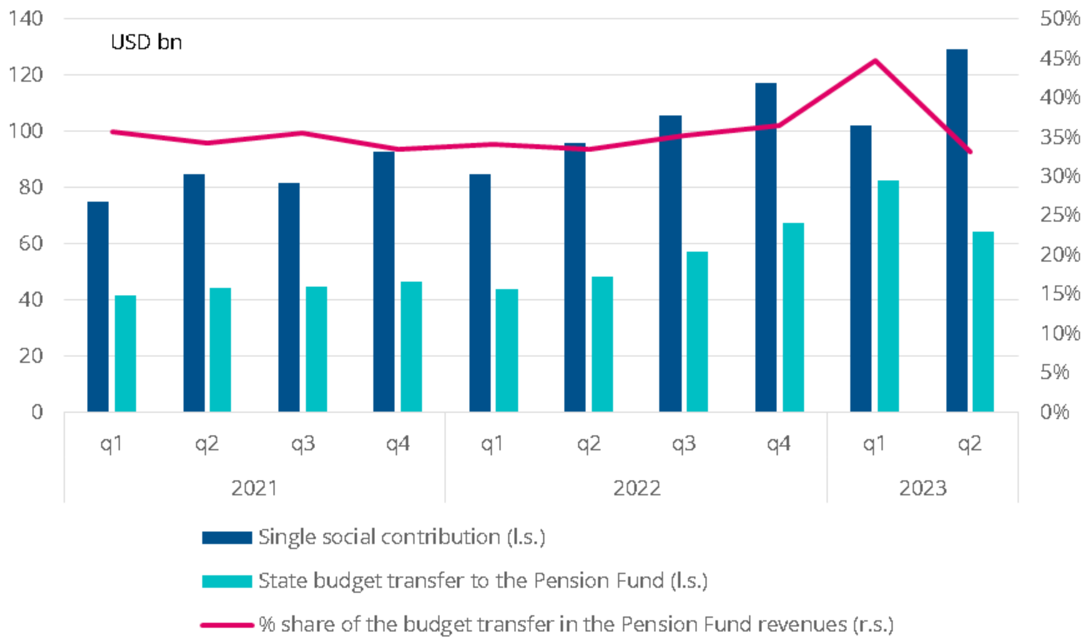
Source: the Pension Fund
; the distribution as of January 1 of the following year

After February 2022, as in previous years, pensions were financed from a single social contribution and the state budget transfer. This transfer has several vital functions:

- To fund pensions to specified categories of pensioners according to state pension program (pensions to former judges, military personnel, prosecutors, etc.);
- To finance the difference between a minimum pension and a formula-based pension if the latter is lower than the minimum level;
- To finance the deficit of the Pension Fund.

Overall, in 2022 the Government provided the Pension Fund with a central fiscal transfer of UAH 217 bn, which is 22% more than in 2021. At the same time, the Fund's own revenues, primarily received from the single social contribution, increased by 20.8% to UAH 404 bn due to the increase in fiscal spending on military remuneration (as the size of remuneration increased and the number of military personnel). Higher payments of single social contribution on military remuneration compensated for lower contributions paid by other employees as the number of employed declined, and wages in some sectors were likely also reduced due to the difficult financial situation of employers.

Figure 7: Structure of the Pension Fund revenues, UAH bn



Source: the Pension Fund

In 2023, the Pension Fund budget is planned at UAH 768.9 bn, out of which UAH 451.1 bn are the Fund's own revenues, and the rest are transfers from the state budget. In the first half of 2023, Fund's revenues were UAH 378.3 bn, including UAH 231.4 bn of its own revenues. In the first quarter of 2023, the Pension Fund received an unusually high state budget transfer at UAH 82.7 bn or 45% of its total revenues. However, the situation stabilised already in the second quarter.

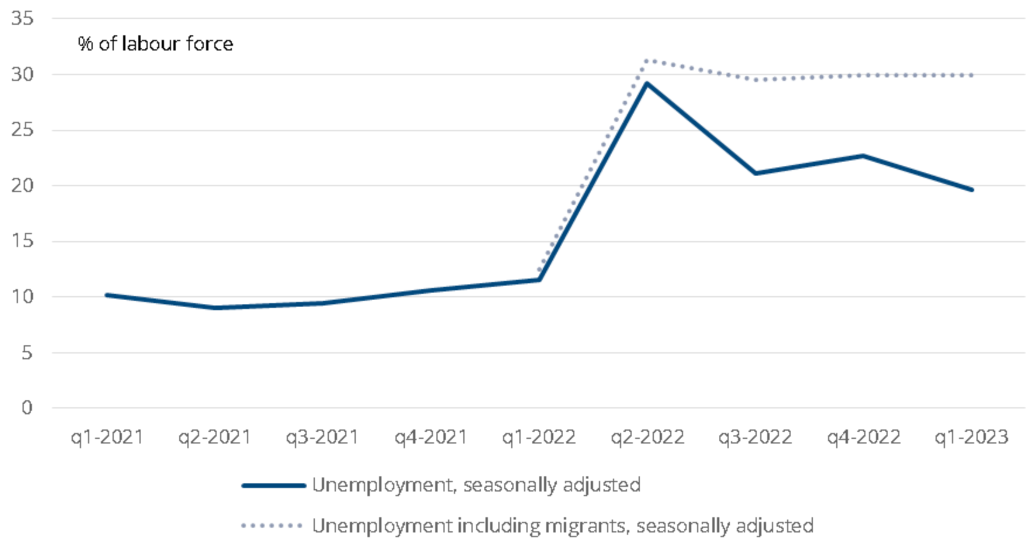
There are no public statistics, but informal employment might have also increased in 2022, which hampers own revenues of the Pension Fund. According to the Ukrstat estimates, in 2021, informal employment was estimated at 3 m individuals. That stimulated policymakers to discuss policies to increase formal engagement. Also, the Government continued discussions on the pension reform to increase the equity of the PAYG pension system as only a few pensioners receive relatively higher pensions, while overall pensions remain low. According to the Ministry of Social Policy, the replacement rate (the percentage of an individual's annual employment income that is replaced by retirement income when they retire) in Ukraine equalled 30% in 2021, which means a high risk of poverty after retirement.

Overall, an increase in state budget transfer and higher single social contributions paid by military personnel allowed the Pension Fund to pay pensions fully and timely. Moreover, the Pension Fund budget had a surplus in December 2022, which is not typical for Ukraine. The Government continued transferring pensions to the accounts of pensioners at territories, which became temporarily occupied after February 24. That is also essential for people to stay out of extreme poverty.

Labour market policies

The Ukrstat has stopped publishing unemployment statistics since the full-scale aggression. According to the NBU estimates, the number of unemployed surged in 2022, with the unemployment rate reaching about 30% of the economically active population (ILO methodology) in the summer of 2022 due to the contraction of economic activity and high domestic migration. By the end of 2022, the unemployment rate declined to 23%, as economic activity stabilised while extensive externa migration lowered the pressure on the domestic labour market. This trend has continued in 2023. However, if migrants are treated as a part of the Ukrainian labour force, the unemployment level has stayed at about 30%.

Figure 8: Unemployment, ILO methodology, 2021-2023



Source: NBU, Inflation Report April 2023

The State Employment Service, an executive entity of the State Fund of Compulsory Insurance in Case of Unemployment, supported the unemployed through active and passive labour market policies since the beginning of the full-scale aggression. However, the Government has been adjusting these policies in response to the war challenges and budget constraints.

Unemployment benefits

Though with essential adjustments, the state continued paying unemployment benefits during martial law. Since September 2022, the Parliament has restricted unemployment benefits to those registered as unemployed. In particular, the duration of unemployment benefits payment was reduced to 90 days from 120-360 days applied before. Early retirement schemes were shortened from two years to one year. Besides, the unemployment benefits were reduced to minimum wage regardless of insurance records.

There were two likely reasons for the changes. On the one hand, it could be explained by the budget constraints of the Unemployment Insurance Fund. On the other hand, the Government might have attempted to stimulate the unemployed to take available jobs more actively or agree to participate in public works.

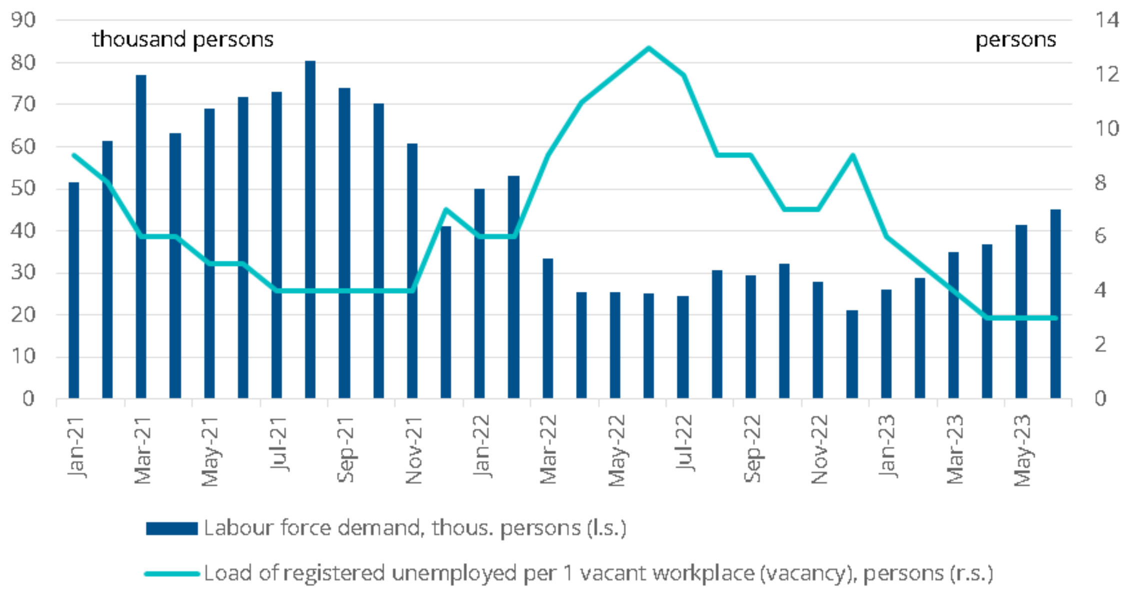
At the same time, the number of individuals registered in State Employment Centres as unemployed has been on a downward trend since May 2022. As of June 2023, Ukraine had only 113 thousand registered unemployed persons or less than one per cent of the labour force. The number of registered unemployed reduced by 37% year-on-year in December 2022, while in June 2023, the annual drop reached 64%. The decrease was economically counterintuitive, considering the decline in economic activity and the estimated increase in unemployment according to the ILO methodology. The trends could be, however, explained by the policy changes.

Figure 9: Registered unemployment, 2021-2023

Source: NBU

One of the likely reasons for low registration as unemployed and the reduction in the number of unemployed might be the restriction of duration and size of unemployment benefits. The number of those that receive unemployment benefits dropped by 66% year-on-year by the end of 2022 and by 82% year-on-year in June 2023 due to the limitation of the payment period to 90 days.

Figure 10: Labour market, 2021-2022



Source: NBU

Meanwhile, the number of vacancies has decreased and remains lower than before February 2022, although the situation has steadily improved since the beginning of 2023. The load of registered unemployed per vacant workplace increased immediately after the full-scale aggression, and it would be much higher if the NBU estimate for the unemployed were considered. However, by mid-2023, the load per vacancy dropped even lower than in 2021.

Considering budget constraints, the limitation imposed on unemployment benefits might be justified during wartime. However, the adequacy of such measures might be questioned from the social policy standpoint as these benefits are a part of the social security system. Moreover, the limitations envisaging the reduction of insurance benefits regardless of insurance records distort the incentives for official employment and foster unofficial. That, in turn, means lesser income taxes and social contribution payments, undermining future fiscal revenues and incomes of social insurance funds.

State programs to support employment

During 2022, the Government has extended previous and approved new programs to support business. One of the ultimate goals was to keep companies from dismissing employees, as employment is essential for keeping households from poverty and promoting economic resilience. Several programs are described below.

Relocation of companies: After the start of the full-scale war of russia against Ukraine, it became evident that there was a need to relocate some companies from more insecure oblasts in the eastern and south oblasts of Ukraine to other oblasts. As a result, the Government has started the 'Relocation program' with a clear idea to move companies to safer locations away from battlelines.

The program was implemented as a joint program of regional administrations, the Ministry of Economy, and public railway operator 'Ukrzaliznytsia' and Postal service 'Ukrposhta' that were enlisted to help move equipment and other relocated company assets. Currently, the relocation of enterprises is carried out in one of sixteen regions (Transcarpathian, Ivano-Frankivsk, Lviv, Ternopil, Khmelnytskyi, Chernivtsi, Vinnytsia, Volyn, Rivne, Kirovohrad, Cherkasy, Poltava, Dnipropetrovsk, Zhytomyr, Odesa and Kyiv (excluding Kyiv) regions).

According to the Ministry of Economy, as of November 25, 605 relocated companies renewed their work in safer locations saving around 35 000 jobs and adding 7000 new jobs. 161 more companies were moved but were still in the process of returning to work. As of March 2, 2023, the number of relocated companies reached 800, and 650 companies planning relocation decided to stay due to the de-occupation of territories.

"Available credits 5-7-9%": After the start of martial law, the Government reworked the existing program of subsidised loans to businesses to add 0% loans for the duration of the war. In October 2022, companies that lost their facilities due to the war received a right to obtain a recovery credit under the interest of 9% for five years in the amount of up to UAH 60 m.

According to the NBU, most new business loans after February 24 were provided to companies as part of the program. The subsidised loans accounted for 28% of the outstanding loans in hryvnia to corporate borrowers in 2022. The state-owned bank Oschadbank reported that 85% of provided banking credits in 2022 were in the framework of this state program. Agriculture was one of the largest recipience under the program. The same trends have continued in 2023, with the hryvnia credit expansion mainly occurring within the "Available credits 5-7-9%" program.

eWork: The Government implemented several grant programs to support SMEs and save or create new jobs. The Government introduced microgrants for new startups encouraging self-employment "Vlasna sprava", grants to manufacturing companies of up to UAH 8 m, and grant programs to support new orchards or greenhouses to replace those lost during the war. The program eWork was launched in July 2022.

A year after starting operations, the program supported 5 604 companies providing UAH 4 bn in grants. That includes 5 061 microgrants under the self-employment program "Vlasna sprava" worth USD 1.2 bn, grants to 455 manufacturing companies amounting to UAH 2.4 bn and 88 grants to orchards or greenhouses at UAH 0.3 bn. The Ministry of Economy estimates that just "Vlasna sprava" microgrants have already allowed creating 14 thousand new jobs.

Subsidies employment. Employers can apply to receive the compensation of part of wages and a single social contribution for job creation. That relates not only to cases where IDPs are hired but also to the employment of vulnerable groups of employees, including those of pre-retirement age, persons with disabilities, etc. Small companies can also receive the compensation of part of a single social contribution for job creation.

Besides, to support employment, the Parliament approved the Law that officially allows the work of freelancers in companies with the negotiation of contracts without upfront specified duration and terms of work. Besides, flexibility was increased for employers to dismiss employees in case of termination of work, reorganisations, or other changes. Such liberalisation of employment regulation was debated for years but occurred only after the full-scale war began.

Public works

The Government amended the regulation on public works to involve more unemployed in war-related public works in June 2022. These public works include activities related to the war, particularly:

- Constructing defence infrastructure,
- Helping emergency services clean areas after russian missile and drone attacks,
- Demolition of rubble and restoration of buildings damaged as a result of hostilities,
- Harvesting firewood for the military and the population,
- Unloading of humanitarian aid,
- Strengthening dams,
- Clearing highways from debris, and
- Assisting internally displaced persons, people with disabilities, and older people.

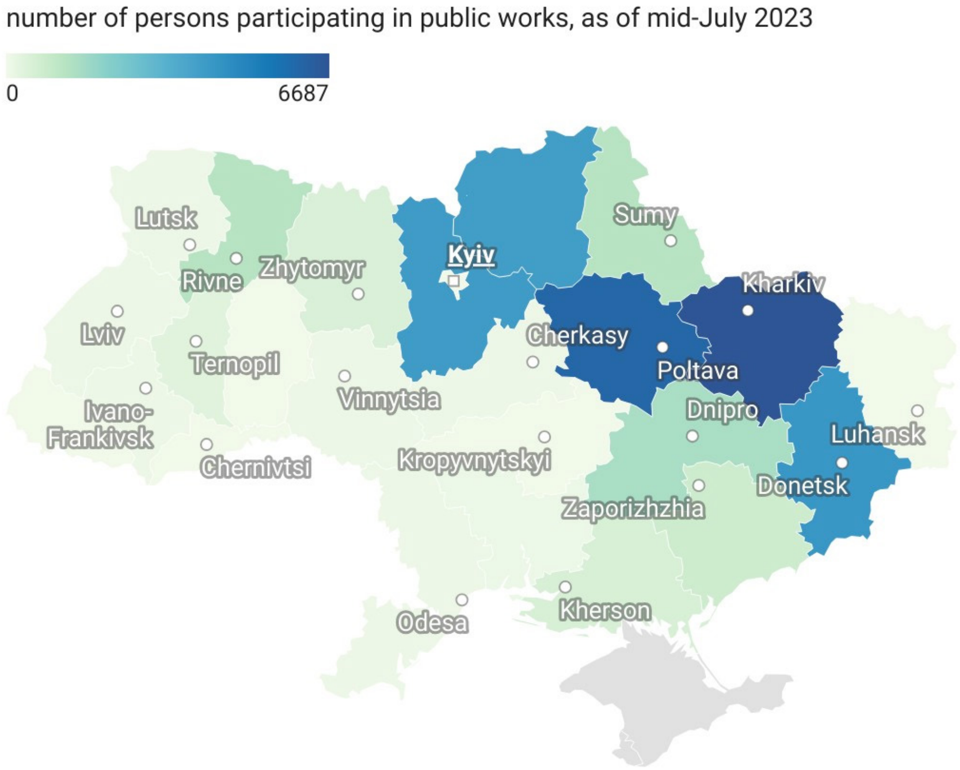
The local authorities define the exact list of activities. The Government named people participating in such public works as the Army of Recovery.

The policy had two purposes. On the one hand, it aimed to integrate unemployed people into critical public works. On the other hand, it was supposed to reduce pressure on the Unemployment Insurance Fund budget.

The active implementation of these public works was launched in October 2022 and initially demonstrated only moderate success. By the end of 2022, these public works were organised in 9 oblasts, with 3 597 unemployed individuals participating and receiving at least minimum wage. Total financing reached UAH 24 m. However, the program performance improved significantly by mid-2023. As of July 18, 2023, the program covered 18 oblasts, with 37.4 thousand participants and UAH 255 m of wage funding.

While Sumy and Chernihiv oblasts were the first to join this public work initiative, by mid-2023, Kharkiv oblast took the lead, involving 6 687 participants and accounting for 18% of the total number of participating unemployed individuals. Other regions featuring intensive participation are Poltava, Donetsk, Kyiv, and Chernihiv oblast, jointly accounting for another 49%, while the share of the remaining thirteen participating oblasts was 33%. Noteworthy, Ukraine's southern, central and western oblasts feature low participation rates, likely because they can offer other more attractive employment opportunities.

Figure 11: Public works geography, as of July 2023



Source: State Employment Service of Ukraine

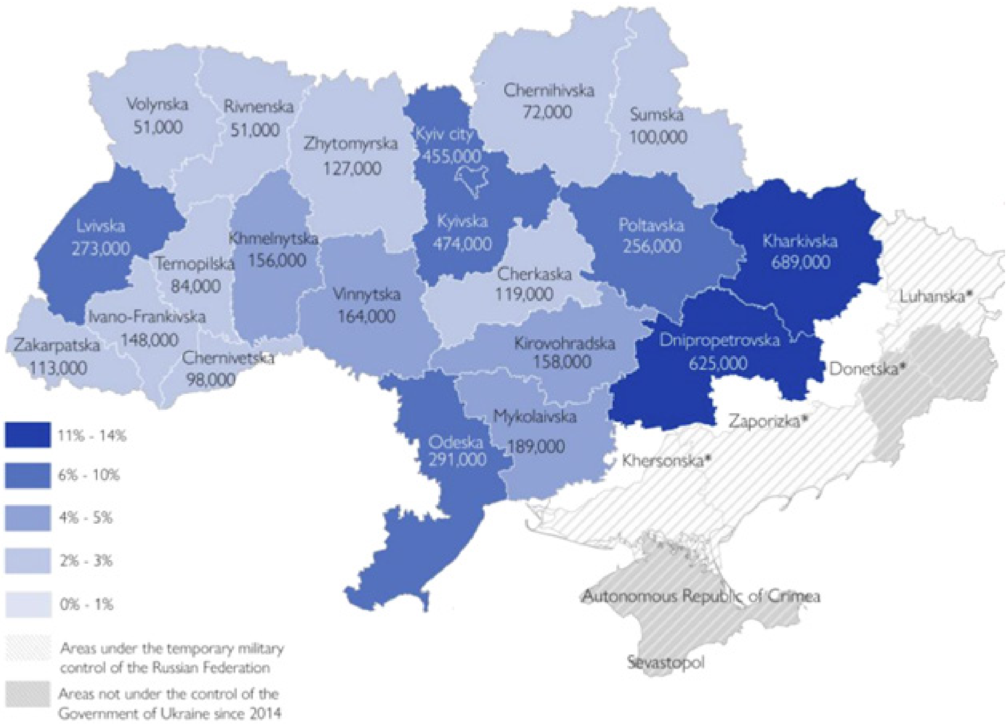
Summing up, after February 24, 2022, the state labour market policies have been twofold. On the one hand, the social commitments were narrowed, with stringent limitations on the duration of unemployment benefits payments and their amount. On the other, the Government aimed to stimulate both the relocation and the development of new companies, including micro-business, and offered public works to foster employment.

While in 2022, the results of these efforts were moderate, the first half of 2023 showed that changes had been accumulated. The official unemployment and especially the number of those receiving unemployment benefits dropped sharply, while participation in business supporting programs like eWork and public works intensified.

IDPs support

Ukraine had about 1.5 Ukrainians registered as internally displaced persons (IDP) before the full-scale invasion by russia. After February 2022, their number sharply increased, though the assessments regarding the total number of IDPs in Ukraine vary. According to the International Organisation of Migration (IOM), 5.9 m Ukrainians were IDPs at the end of 2022, after a peak of 8.0 m in May 2022. At the same time, the Ministry of Social Policy reported the number of Ukrainians registered as IDPs at 4.9 m persons at the end of 2022, from whom 3.5 m became IDPs after February 24. In its May 2023 report, the IOM assessed the number of IDPs at 5.1 m Ukrainians, coming closer to the number of officially registered IDPs.

Figure 12: The location of IDPs, IOM estimates as of May 2023



Source: IOM

According to the Law on rights of internally displaced people, IPDs are citizens or permanent residents of Ukraine who were forced to flee due to conflict, temporary occupation, generalised violence or mass human rights violations. For IDP registration, the Ministry of Reintegration of Temporary Occupied Territories approved the list of areas and localities which are temporarily occupied and/or have active war battles. Residents of respective cities, towns, and villages received a right to register as internally displaced persons. This list was revised numerous times considering the war situation.

People can apply for IDP status at centres for the provision of administrative services of the community or through the Department of Labor and Social Protection of the Population, where an IDP is located. Moreover, in 2022 for the facilitation of the procedure, people received the possibility to apply for IDP status online through the application "Diia" on their smartphones.

Registered IDPs are eligible for social assistance to cover essential living needs. The monthly cash payments equal UAH 3 000 (USD 93, applying the average official exchange rate in 2022) per each child and person with a disability and UAH 2 000 (USD 62) per every other person. This assistance is the same for all households and does not follow the means-tested approach. According to the Ministry of Social Policy, about 1.8 m receive cash assistance (1.4 m IDPs applied for assistance online). Overall, state budget financing for supporting IDPs reached UAH 57 bn in 2022 compared to UAH 3.0 bn in 2021. The payments to IPDs in 2023 were automatically prolonged without the need for additional referrals and appeals to social welfare departments.

In July 2023, the Government revised the grating procedure and continued to pay the IDP assistance to improve its targeting. The IDP assistance for those who get it as of August 2023 was automatically continued for another six months until January

2024. The assistance is not prolonged for those abroad for more than 30 days for unjustified reasons (reasons related to medical assistance, rehabilitation, child and inability care etc. are considered justified) or returned to their previous residence.

Starting September 1, 2023, IDP assistance becomes more need-based. The payments are stopped for those IDPs who, as of July 2023, made one of the following:

- Purchased a vehicle less than five years old, except for cars that were purchased by volunteers and transferred to the needs of the country's defence;
- Bought a land plot, an apartment, or a house for more than UAH 100 000;
- Have funds in a deposit bank account in the total amount of more than UAH 100 000;
- Purchased foreign currency or bank metals for a total amount of more than UAH 100 000;
- Own housing located in territories other than those where active (possible) hostilities are taking place or which are occupied if such housing has an area of more than 13.65 square meters per family member.

Local and largely volunteer-driven efforts were essential from the beginning of the full-scale invasion to assist IDPs and other Ukrainians in need. They were providing food and basic goods as well as housing. Hromadas in safer areas were organising shelters, typically in schools. International organisations such as UNDP and IOM also assisted.

As many IDPs lost their earnings, the Government introduced a subsidised employment program for IDPs. Employers that hire IDPs can receive compensation at the minimum wage for each employed IDP for up to two months. To participate in the program employer should apply either at the regional Employment centre or through the Single state web portal of electronic services Diia. Such programs are essential as, according to the IOM survey, 60% of IDPs lost their jobs, while many are attempting to integrate into new places of residence. Overall, 68% of IDPs who hope to integrate at new locations required cash-financed support, and 19% said assistance was needed to increase their capacity to earn income (education, training, grants, etc.). However, after fifteen months of the full-scale war of aggression, the IDPs' reintegration into economic activity remained dare, with only 40% of the IDPS employed, including self-employed, as of May 2023.

The limited IDPs' involvement in economic activities made social payments the critical source of income for them. As of May 2023, 49% of IDP households reported different kinds of social assistance being the primary source of their income, including 22% of the households relying on IDP assistance, 21% depending on retirement pensions, 4% on social benefits, and 2% relying on disability assistance. Salaries are the main source of income for 38% of IDP households.

An essential part of support to IDPs is the provision of housing. Contrary to the previous period of war in 2014-2021, the Government and local government entities put efforts into organising places to live for IDPs. In the beginning, these were primarily collective centres for displaced persons. Assembly and sports halls of educational facilities, dormitories, and production facilities in safe oblasts of Ukraine continued serving as shelters for IDPs through the summer and even later. However, several modular housing areas and villages where IDPs received housing were opened in summer and autumn. Often, they are also provided with an exemption from payment of housing and utility services for several months.

In February 2023, the Government adopted the law launching a program for compensation for destroyed and damaged housing. In the case of destroyed premises, the compensation will be provided either in the form of a housing certificate or monetary compensation paid to the special bank account (the latter applied if the private house was wrecked). The housing certificate allows purchasing an apartment or house or investing in construction until 2028. The monetary compensation can be used for purchasing construction materials and ordering services. The collection of compensation claims through the online portal Diia was launched in July 2023. In May 2023, the Government introduced eVidnovlennya (eRecovery) program for damaged housing. The program allows getting up to UAH 200 000 in compensation. Importantly, compensation can also be claimed for the repairs done before the program was introduced.

This law has no decision on providing compensation to IDPs whose housing is currently on the temporarily occupied territories, likely due to budget constraints and the challenged administration of such compensation. Even with the current level of commitment, the program requires massive funding, putting the implementation at risk. As planned, the program will be funded through the state and local budgets, international assistance, russia's reparations, and any other legal sources.

In April 2023, the Government passed the IDP strategy until 2025. It provides state support for IDPs at all stages, from evacuation, during the process of social adaptation in a new place, to the moment of returning home if feasible.

Thereby, 2023 brought positive changes in the public policies regarding the IDPs. The strategy for integrating IDPs or fostering their return, if feasible, was approved. The introduction of more targeted IDP assistance and support in housing reconstruction or the purchase of the new one stimulates the IDP households to decide whether they integrate or return home, if feasible. The Government has also targeted IDPs in the business support programs, aiming to foster economic integration. But still, IDPs should also be involved in active labour market policies to ensure faster employment.

Humanitarian effort and social policy

Humanitarian relief efforts supplemented Ukrainian social policy during wartime. According to the UN OCHA , humanitarian needs in Ukraine in March-December 2022 were estimated at USD 4.29 bn, out of which USD 3.40 bn in funding was raised. Donors estimated that their aid reached 13.9 m people in Ukraine. Humanitarian aid tracked by the FTS (Financial Tracking Service at UN OCHA) included USD 701 m for food security and USD 1 112 m in multipurpose cash assistance (MPC) in 2022. MPC assistance reached estimated 5.9 m people. Organisations participating in the MPC dashboard reported USD 1 062 m in payments to 5.26 m beneficiaries.

In 2023, the UN OCHA estimated the country's humanitarian needs at USD 3.95 bn, of which the incoming (pledged) international funding through Ukraine's Humanitarian Response Plan 2023 amounted to USD 1.13 bn or 29% of the total. According to the MPC dashboard for 2023, as of July 2023, Ukraine received USD 364 m assisting about 2.5 m persons, primarily in Kharkiv, Odesa, Dnipropetrovsk and Kherson oblasts.

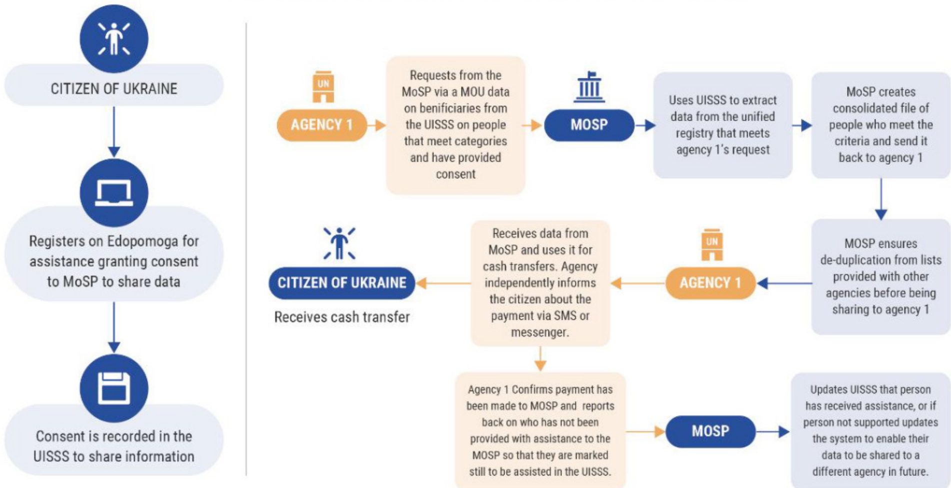
The multipurpose cash assistance targeting framework developed by Cash Working Group advises donors to focus cash assistance on five main groups of beneficiaries:

- Recently displaced IDPs, i.e. those that left their homes within the last 30 days;
- Households in conflict areas, namely those within 15 km of battle lines;
- Households affected by shelling;
- IDPs with low incomes (under UAH 5400 per person per month) and meeting at least one vulnerability criteria;
- Households in areas where combat ended within the last four months with low incomes and meeting at least one vulnerability criteria (3+ children, people with disabilities, elderly etc.).

The targeting framework is advisory, but it seems that a significant portion of the assistance is distributed to recipients that belong to one of the five groups listed above. There are no special continuous social programs targeted at households in conflict areas or recently liberated areas, but existing benefits recipients continued to receive the usual social payments.

Initially, the Government shared data on IDPs with humanitarian actors through case-by-case data-sharing agreements such as the Memorandum of Understanding with the UNHCR in April 2022. Later MoSP tried a more systemic approach to cooperation with donors. IDPs, pensioners and other social assistance recipients were invited to self-register with the eDopomoga website and provide consent for their information to be shared with donors, including their income and IDP status. According to the Ministry of Social Policy, over 10 m individuals provided their consent, including nearly 5 m pensioners, 1.35 m IDPs and 1.10 m persons with disabilities, and 296 thousand recipients of GMI. Overall, in 2022, the Ministry transferred data on 3.19 m potential recipients to partner organisations eligible to receive UAH 5.80 bn in MPC assistance.

PROCESS OF CASH PAYMENTS FROM INTERNATIONAL HUMANITARIAN ORGANIZATIONS VIA THE EDOPOMOGA PLATFORM



Source: MoSP

Still, some donors reported concerns about the self-selection of registrants and categorical targeting of the register as well as its limited usefulness in areas close to conflict lines where internet access is limited. On its side, the Ministry of Social Policy reports on all efforts provided for verifying data supplied by applicants to reduce fraud.

Recently two papers were published dealing with coordinating humanitarian assistance and social protection in Ukraine . These papers report that there were difficulties in coordination from both the humanitarian actors and Government sides. Some humanitarian actors were unaccustomed to working in countries with developed social protection frameworks or were unwilling to work too closely with the Government for reasons ranging from perceived corruption and poor targeting of social protection in Ukraine to preserving neutral humanitarian status that would allow them to work in an area not under government control. At the same time, it seems the Government was sometimes too slow in responding to offers of cooperation and data protection legislation limiting sharing of data on IDPs and other vulnerable groups with aid providers.

Conclusions

After February 2022, the state continued financing social programs and stimulated employment to maintain social safety net in wartime, restrict the increase in poverty, and improve the country's economic resilience. That happened as the Government successfully negotiated with international financial and humanitarian organisations and other countries to ensure financing for such programs. Otherwise, the Government would not have had funding for social spending, as tax revenues were only sufficient to cover defence and security expenditures.

Still, the initial Government's response to new challenges was somewhat fragmented. At first, after February 24, 2022, the social policy focused on supporting IDPs, and continuing other social payments, particularly pensions, to provide some social protection during the severe economic crisis that accompanied the full-scale war. However, starting in the autumn of 2022 and especially in 2023, the Government began to revise its social policy priorities, aiming to restrain spending and push for higher economic activity whenever possible. Another peculiar characteristic of Ukraine's social policy in wartime has been its further digitalisation, with basically all actions being offered online.

The financing of social assistance to IDPs surged due to the higher number of individuals in this vulnerable group, even though the sum spent per person remained low due to budget constraints. The registration of people as IDPs was simplified and possible offline and online (the latter through the mobile application 'Diia'). At the same time, the registered IDPs received flat payments regardless of their income level, which does not comply with the best practices of social welfare programs. In 2022, the Government and local government entities organised shelters in many hromadas and later, with the help of external support, built several modular housing areas and villages for IDPs. However, there was a need for a permanent solution.

In response to this need, in 2023, the Government launched two programs aiming to compensate the owners of destroyed or damaged housing on the controlled territories, while there is still no clear-cut policy for the accommodation of IDPs, whose housing remains on the temporarily occupied territories. Moreover, in April 2023, the Government adopted the IDP strategy until 2025, framing the policy from immediate support in the case of need until integration into the new community or return home.

Likely due to budget constraints, the Government did not introduce new programs to help those who stayed in their homes or returned but financed permanent programs that existed before, including guaranteed minimum income program (GMI), housing and utility subsidies (HUS), pensions, etc. However, the coverage by the GMI program, which is assessed as a means-tested program, decreased, likely due to migration, budget constraints, and relatively low assistance. The number of HUS recipients also dropped, probably due to the fixed administrative tariffs for gas and electricity for households. In 2023, these programs continued. However, the Government has expanded housing and utility subsidies coverage to replace some of subsidised housing and utility tariffs for households (e.g. in July 2023 the electricity tariffs were increased for households). That is a proper step considering that universal subsidies in the form of discounted tariffs are typically more expensive and inefficient in targeting the poor.

The Government also attempted to streamline the payments within the social security system by liquidating the Social Insurance Fund and moving its functions to the more efficient Pension Fund. The social safety net reforms are expected to continue to streamline payments and make the system more efficient. In particular, the Ministry of Social Policy, with the help of the World Bank and the IMF, is expected to work out a concept for the reform of the social welfare system. That is essential as the coverage by a highly targeted program of guaranteed minimum income remained relatively low during the full-scale war, while universal subsidies are inefficient.

In 2022, the Government introduced one-time payments to people in de-occupied areas, financed at the expense of donors and humanitarian organisations, as budget financing was limited. However, it faced a challenge with coordinating all assistance as several ministries and many organisations are involved in the settlement of social payments. In response, the online platform eDopomoga, helping to coordinate charity, has been launched, one of several promising e-governance solutions that emerged in wartime.

Other solutions include eOselya, moderating the provision of subsidised mortgages to military and security personnel, medical personnel, IDPs and several other groups; eVidnovlennya, operating the compensations of damaged houses; and eWork, aiming to support the SMEs and job creation. Moreover, the Diia services have significantly widened.

Over fifteen months of the full-scale war, some policies were changed to ensure higher financing efficiency. That primarily relates to financing unemployment benefits, which were reduced and shortened in time. As a result, the number of unemployed registered in the State Employment Service declined sharply, which might increase the risk of higher poverty among those unable to find jobs. Moreover, that could also contribute to higher external migration. In addition, there is a question of whether reducing and shortening unemployment benefits are proper, considering that unemployment benefits are paid in the framework of the social security system and, thus, should depend on the insurance record. At the same time, the reduced unemployment benefits were complemented by the policies supporting job creation and self-employment, thereby shifting the focus on the resumption of economic activity compared to higher social safety.

In the short run, Ukraine's social policy is expected to continue balancing between tight fiscal constraints and the need to support the population suffering from war-induced social and economic problems. The focus will stay on maintaining the existing social safety net programs with increasing attention to means-tested assistance and the support of SMEs and self-employment.

High external migration in the short run reduces pressure on the labour market and the state budget. However, it is a challenge for Ukraine in the long run as the Government will have to develop guidelines on how to return people to Ukraine as they are essential for economic recovery. First, that is a current and future labour force, as many refugees are children. Second, these people create demand for goods and services in the country, contributing to economic activity. For people to return, the Government will have to implement a broad scope of reforms, ranging from education to judiciary, and prepare the country for EU membership.

But first, Ukraine must win the war. The country needs all possible support from international partners, including financial, military, and humanitarian aid.

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