International Labour Organization

SOCIAL PROTECTION

Social Security System of Ukraine in 2014–15 and Beyond

Towards effective social protection floors

DECENT WORK TECHNICAL SUPPORT TEAM AND COUNTRY OFFICE FOR CENTRAL AND EASTERN EUROPE

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ILO DECENT WORK TECHNICAL SUPPORT TEAM AND COUNTRY OFFICE FOR CENTRAL AND EASTERN EUROPE

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Foreword

In the context of the prolonged and deepening economic downturn, the Ukrainian Government implemented a number of changes in its social security system as part of its austerity measures in 2014 and 2015. The ILO carried out a review of the recent changes made to the Ukrainian social security system and of the planned future reforms in the light of international social security standards. The ILO assessment aims to assist the Ukrainian Government and the social partners in effectively formulating and implementing measures to sustain the social security system under unfavourable socioeconomic and political conditions.

This report is organized as follows: Chapter 1 presents the current and forecasted economic and fiscal situation in Ukraine, and its implications for the social security system. Chapter 2 analyses the changes made to the social security system implemented between 2014 and 2015. Chapter 3 reviews these changes and discusses their policy implications. Recommendations derived from the review are intended to enhance the effectiveness of the policy guaranteeing basic income security for all.

The report was developed as a part of the ILO project, coordinated by Kenichi Hirose, Senior Social Protection Specialist in the ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe (ILO DWT/CO-Budapest). The report was prepared by Krzysztof Hagemejer and Michal Polakowski of the International Centre for Research and Analysis (ICRA). This final report was completed under the supervision of Kenichi Hirose. Technical comments were provided by the Social Protection Department of the ILO Geneva. The main findings and recommendations of this report were presented and discussed at the national tripartite meeting in Kyiv in May 2016. Comments from the Ukrainian tripartite partners have been reflected in this final report.

The project and the report profited enormously from the assistance of Sergiy Savchuk, the ILO National Correspondent in Ukraine. The background study, prepared by Natalia Poliak, Olena Tarasiuk and Zoryana Samerkhanova of the Institute of Labour and Employment of Population of Ministry of Social Policy and National Academy of Sciences of Ukraine, also contributed substantially to the report. Important insights into the situation in Ukraine and the national policy debates were provided by the tripartite partners from the Ukrainian Government (Ministry of Social Policy) and from the employers' and workers' organizations. Athena Bochanis provided English editing and Olena Guz translated this report into Ukrainian.

We trust that the policy recommendations in this report will contribute to the development of a national policy for ensuring adequate social security for all, in line with the ILO Social Security Minimum Standards Convention, No. 102 (1952) – which Ukraine has committed to ratifying – and the ILO Social Protection Floors Recommendation, No. 202 (2012).

Budapest, June 2016

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Summary

This report presents a review of the changes made to the Ukrainian social security system between 2014 and 2015, and of the reforms planned for the near future. The review aims to assist the Ukrainian Government and the social partners in effectively formulating and implementing measures to help sustain the social security system under unfavourable socioeconomic and political conditions.

Economic and fiscal context – deep recession and high inflation

After the global economic and financial crisis in 2009, the Ukrainian economy began recovering in 2010. However, continuous conflicts since late 2013 have resulted in falling levels of economic activity, currency erosion and high inflation. The economic contraction from 2014 to 2015 further resulted in deep reductions of private consumption and investment.

Inflation accelerated dramatically from 2014 to 2015, largely due to an increase in energy prices. Unemployment (according to the ILO definition) increased, but only one-third of the unemployed are actually registered with employment offices and receive unemployment benefits. As a result of the conflicts in the east of Ukraine, more than 1.6 million people were displaced within Ukraine. Internally displaced persons face particular difficulties in finding employment. In 2015, the average household income declined by 28 percent in real terms due to the significant devaluation of wages, pensions and other social benefits. Inequality and poverty likely increased as well, although up-to-date statistical data fully assessing the poverty impact are not yet available.

Government revenues decreased by 5 percent of GDP, mainly because of the decrease in revenue from social security contributions and income taxes. In 2016 and onwards, there is a risk of further decrease due to the recent decision to lower social security contributions. The declining Government revenues have led to reductions in Government expenditure, largely through the reduction in social expenditure particularly pensions. This has been done so that Ukraine can meet the terms agreed to with the IMF, specifically to contain the Government deficit within 3.7 percent of GDP for 2016, a key condition for the IMF lending.

Changes in the Ukrainian social security system – as part of austerity measures

In the context of the prolonged and deepening economic downturn in Ukraine, the Government has implemented a number of changes in the social security system as part of its austerity measures. These measures include modifying the organization and financing of social insurance funds; freezing, delaying and reducing the indexation of social security benefits; and changing benefit entitlements, benefit amounts and taxation rules. The recent developments in the Ukrainian social security system from 2014 to 2015 are summarized below.

Declining social security expenditure

The total non-health social security expenditure was reduced from 23.0 percent of GDP in 2013 to 18.5 percent in 2015, and is projected to be further reduced to 17.8 percent of GDP mainly due to the reduction of social insurance benefits, particularly pensions. However, expenditure on the social benefits funded directly from the State budget is projected to increase from its current level, as it is expected that the costs for housing subsidies and social assistance benefits for low-income households continue to increase.

Frozen subsistence minimum levels and reduced indexation

In Ukraine, the subsistence minimum is a key policy parameter that is linked to the minimum wage, the minimum levels of pensions and other social security benefits. Due to the freeze of the subsistence minimum levels during 2014, the average subsistence minimum has lost nearly 40 percent of its value in real terms under high inflation. Indexation was also frozen or reduced for other benefits, including employment injury benefits.

Failing to adequately adjust the benefits in a high inflation period has had major negative consequences for all households, particularly low-income households. As of November 2015, the average statutory subsistence minimum represents 53.5 percent of the estimated subsistence minimum amount calculated based on the prices of predefined baskets of goods and services and price changes.

Reduction of the single social contribution rate

The single social contribution rate has been reduced significantly – from 36.76–49.7 percent to 22 percent for employers, and from 3.6 percent to zero for workers. This measure would make sense only if the reduced contribution rate widens the tax base and results in positive fiscal effects. Based on preliminary observations, however, it is likely that the total contribution revenue will decrease, specifically affecting the pension system through the significantly reduced allocation rate. The additional fiscal pressure on the State budget to cover the widening financial deficit will likely lead to additional cuts in benefit entitlements.

Organizational changes of social insurance funds

With a view to saving administrative costs and improving coordination, it was decided to merge the Temporary Incapacity Benefits Fund and the Employment Injury Benefit Fund into a single fund in 2015. However, one year later, the merger has still not been completed, indicating a lack of preparedness as observed by the social partners. One downside to this restructuring is related to the change in the governance structure, which diminishes the role of the social partners in the management and decision-making process of the social insurance funds and reduces the autonomy of the funds.

Reduction and restriction of pensions and other benefits

The Ukrainian pension system has undergone significant transformations in recent years. The first wave of major reforms started in 2011, when the Government decided to increase the retirement age of women from 55 to 60 years by 2021. The reform also increased the contribution period required for the minimum pension by 5 years for both sexes. Moreover, a maximum pension equaling ten times the minimum pension has been introduced for newly-granted pensions.

The reform measures implemented in 2014 and 2015 continue to tighten the benefit eligibility conditions and restrict benefit payments. Specifically, these measures reduce the pensions for special groups, eliminate preferential pension provisions for special occupational groups, reduce the pensions for working pensioners, and tax pensions above a certain threshold (although the Government increased significantly the minimum threshold for the pension taxation in 2016). The Government is planning further pension reforms, including the introduction of a mandatory funded pension tier.

In addition, various auxiliary benefits paid by the Temporary Incapacity Benefits Fund have also been removed from the list of benefits financed by social security contributions.

More targeting of non-contributory cash social benefits and other income support

There is a pronounced tendency for Ukraine to transform universal or categorical social benefits to means-tested benefits targeted to low-income families.

Among Eastern European countries, Ukraine was known to provide relatively sizable benefits to support families with children through non-contributory universal social benefits. However, child benefits were abolished, and childbirth benefits have been cut significantly for second and third children.

The Government plans to further expand the targeted social assistance for low-income families. The number of beneficiaries and the expenditure on this programme increased substantially in comparison with other categorical benefits. Although this programme is expected to cover all households in the lowest income decile by 2019, the fiscal priority has been shifted to housing subsidies, which started to play a major role in cushioning the impact of the increase in energy prices in 2015.

In 2014 and 2015, a series of amendments were implemented to the programme providing subsidized access to certain goods and services with discounted prices (the so-called “privileges”). These amendments aimed at targeting these benefits to low income groups and restricting the categories of the beneficiaries. At the same time, new special benefits were introduced for participants in anti-terrorist operations.

In 2014, a new benefit was introduced for internally displaced persons who meet certain eligibility conditions. They may not possess a residence or bank deposits above certain amount, and able-bodied family members must use their capacity for work.

Health care financing – increasing burden on households

The Ukrainian health care system is characterized by an extensive level of private financing, which has been strongly affected by the national macroeconomic instability. Although public sources cover almost all costs of inpatient care, day care, prevention, public health, and health management, the households are asked to pay almost all pharmaceutical and other medical product costs, and more than one-third of outpatient care costs. Consequently, 47.1 percent of the health expenditure is financed by out-of-pocket payments. The majority of households, particularly low-income households, cite the high costs of medicine, medical products and services as the main obstacles to accessing medical care.

ILO assessment and recommendations

The last chapter of the report analyses the policy implications of the current policies, looks at the views of the social partners identified during the project, reviews the recently-adopted National Poverty Reduction Strategy, and recommends the development of a more comprehensive national social protection strategy.

The assessment suggests a different approach, whereby key stakeholders should first agree on benefit levels and the mechanisms to safeguard them, and then discuss measures to make the system sustainable in the long term. This process should be based on a well-informed and participatory policy dialogue, and an in-depth financial and social impact assessment of the recent and proposed reforms of the Ukrainian social security system in line with international social security instruments.

Based on the ILO assessment, it is recommended that Ukraine undertake the following measures:

- Ukraine should adopt a mechanism to adequately adjust the subsistence minimum and re-establish the social security benefits levels.
- In restructuring the social insurance funds, the Government should ensure that the social partners continue to play a key role in the management and decision-making process of the social insurance funds and maintain the autonomy of the funds.
- The country should conduct a proper assessment of the financial impact and social consequences of the proposed reforms in the financing structure and benefit entitlements, in consultation with the social partners.
- Before considering the introduction of a mandatory funded pension tier, the Government and the social partners should examine the experiences of failure of similar reforms in countries in Central and Eastern Europe and in Latin America.
- As the Government aims to expand the role of the targeted social assistance benefits for low-income families, it should carefully analyse the pros and cons of such a policy direction. On the one hand, such targeting could achieve a more efficient resource allocation under tight resource constraints. On the other hand, targeting may not effectively address the underlying poverty issues. Targeted systems typically exclude many low-paid working families thus failing to lift them out of poverty, involve extremely high administrative costs in identifying the poor, and undermine incentives to work.
- It should be observed that cutting energy price subsidies has led the Government to finance an unexpectedly large amount of housing subsidies to compensate the energy price increases for low-income households. Such an ad hoc approach not only undermines the expected cost savings but also creates more negative consequences, simply shifting the burden to another area.

The Ukrainian Government has recently taken crucial steps towards protecting the minimum benefit levels under severe austerity measures and towards fulfilling the goals of the EU Association Agreement. With the strong support of the trade unions and employers' organizations, the Government adopted the Law on the ratification of the ILO Social Security Minimum Standards Convention, No. 102 (1952) on 16 March 2016. The Government is also considering ratifying the European Code of Social Security. All of these actions will contribute to strengthening the Ukrainian social protection system in compliance with the ILO Social Protection Floors Recommendation No. 202 (2012).

Ukraine's ratification of ILO Convention No. 102 is a major milestone in its efforts to maintain a well-functioning social protection system that ensures effective access to basic health care and adequate income security for all. The ILO, together with the UN System in Ukraine, stand ready to provide further assistance in translating these standards into reality.

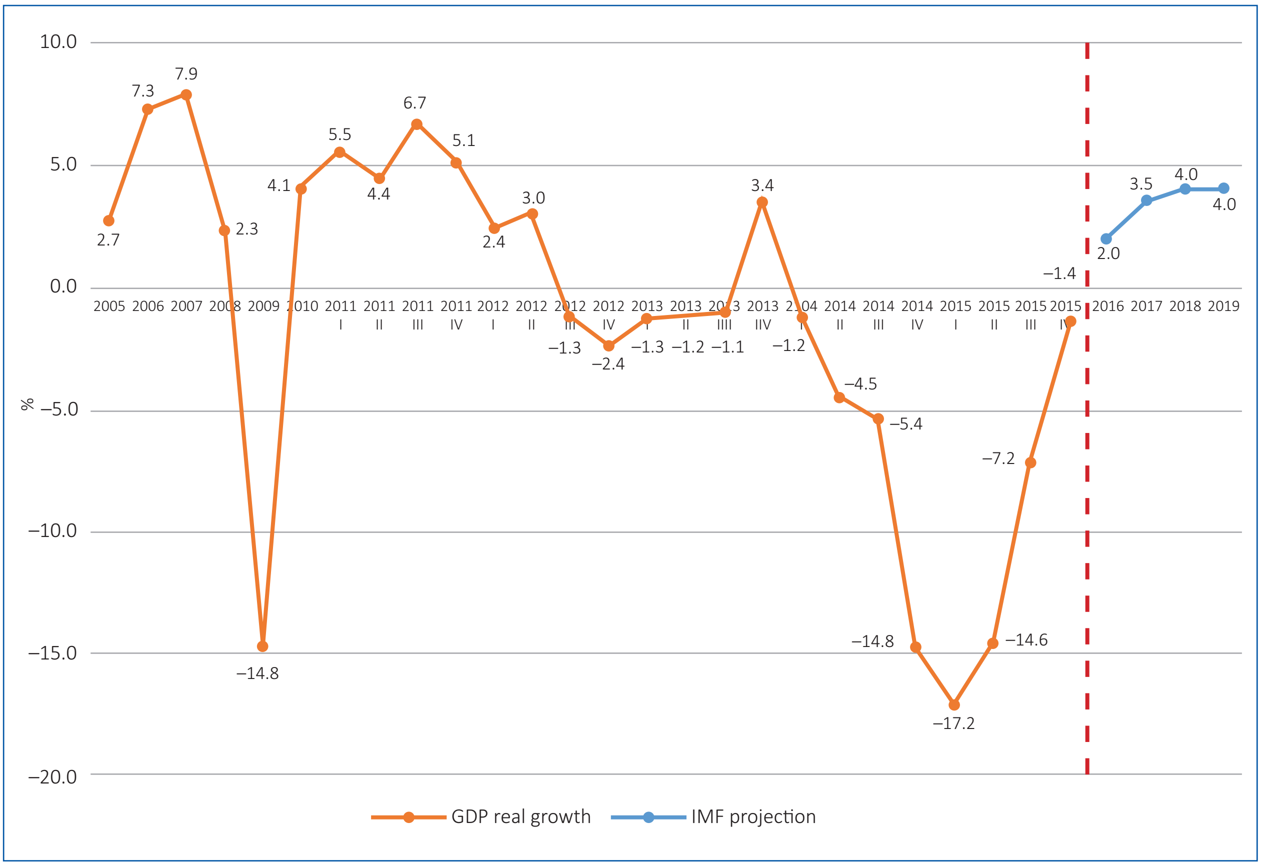
1. Economic and fiscal context

1.1. Macroeconomic and labour market indicators

Continuous conflicts and related disarrangements in Ukraine have resulted in a prolonged and deepening economic downturn, marked by falling levels of economic activity, currency erosion and high inflation.

As Figure 1 presents, Ukraine experienced a deep fall in economic activity during the global economic and financial crisis in 2009. While the economy started to recover in 2010 and 2011, 2012 and 2013 brought stagnation. This was followed by a deep recession in 2014 and 2015, although the IMF projections indicate that economic recovery will start to materialize in 2016.

Figure 1. **Real GDP growth rates, 2005–2020**

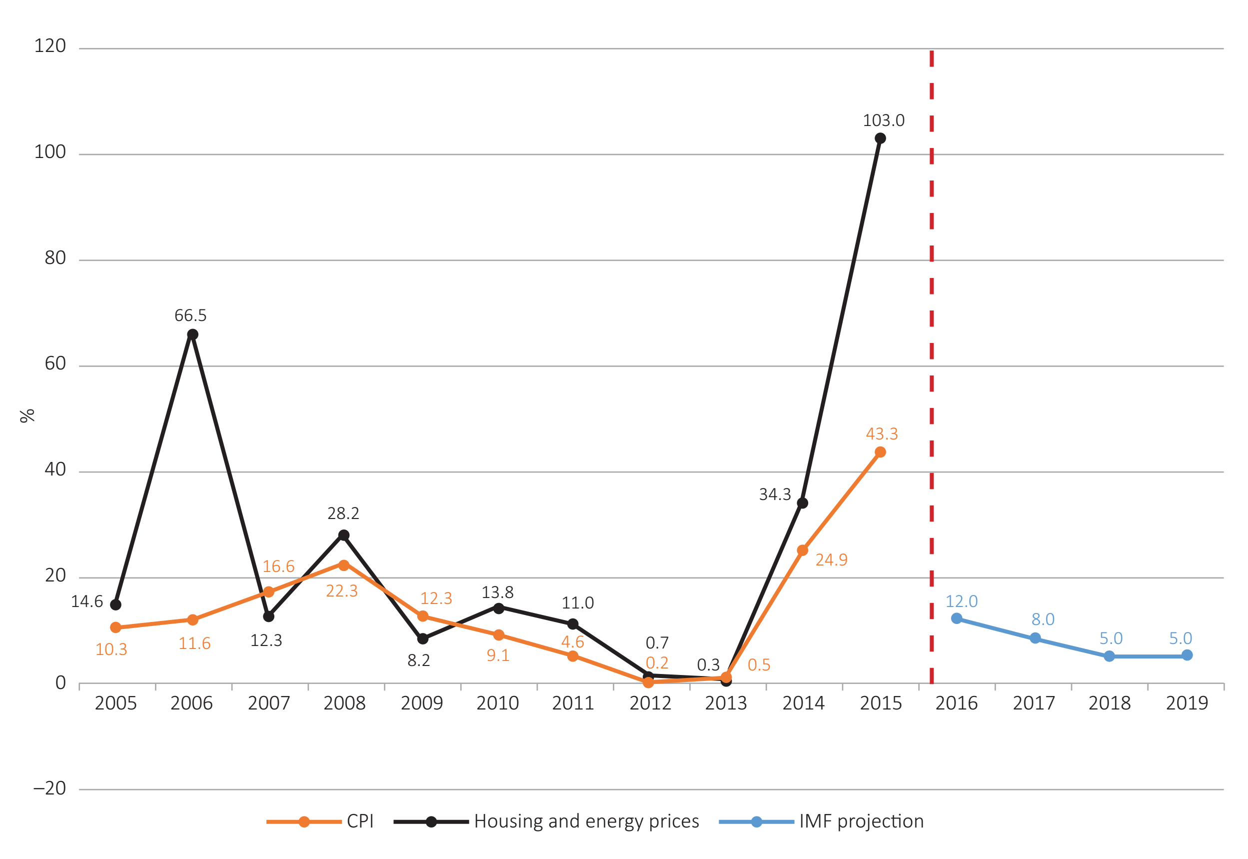


Source: National Bank of Ukraine (2005–2015) and IMF staff reports (2016–2020).

The economic contraction between 2014 and 2015 resulted in a deep reduction of private consumption and investment. Public consumption was relatively maintained due to expenditure on defence and security. Net exports were still growing in real terms, slightly compensating the decline in domestic demand.

As Figure 2 shows, Ukraine has experienced periods of relatively high inflation during the last decade. However, inflation in 2014 and 2015 accelerated dramatically, due largely to the increase in energy prices. The IMF projections assume that high inflation will taper off between 2016 and 2019.

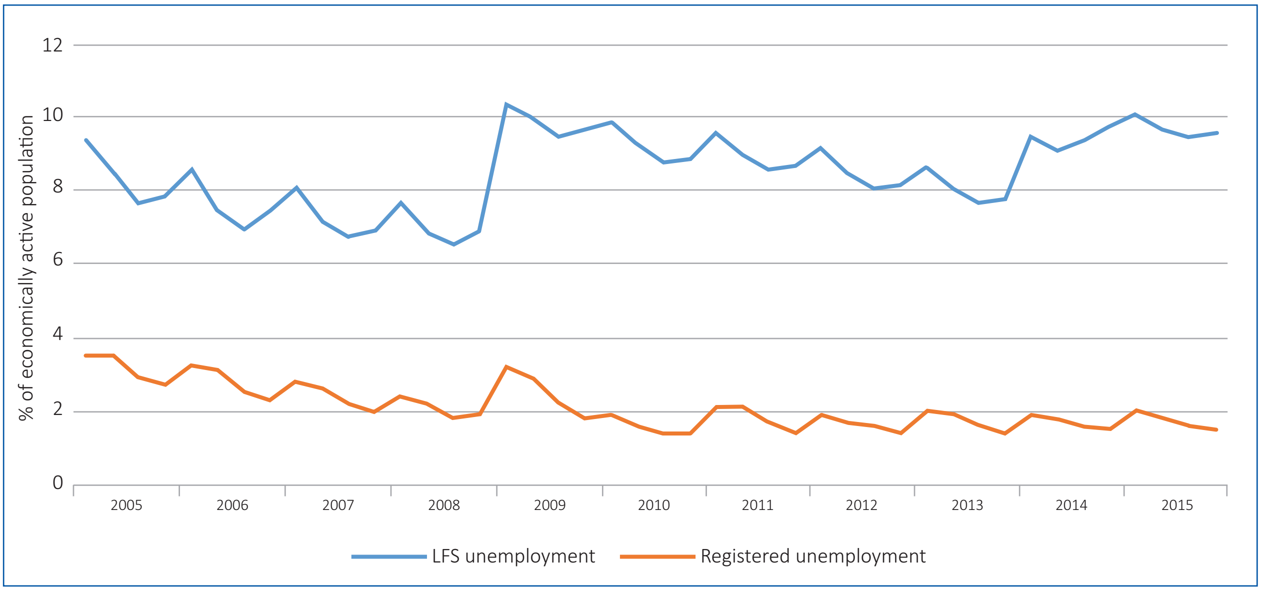
Figure 2. **Rates of increase in the Consumer Price Index, 2005–2019**



Source: National Bank of Ukraine (2005–2015) and IMF staff reports (2016–2020).

As Figure 3 shows, the decline of economic activity from 2014 to 2015 resulted in an increase in unemployment rates. The IMF projections signal a possibility that the unemployment rate will increase further in 2016 and stay at a relatively high level until 2020. But increases in unemployment rates are not accompanied by increases in the numbers of registered unemployed persons. Since 2009, the average unemployment benefit increased steadily in line with the increase in the subsistence minimum. It is estimated that only one-third of the unemployed are registered with the State Employment Service and receive unemployment benefits, although employment offices provide services for non-registered unemployed persons.

Figure 3. Unemployment rates, 2005–2015

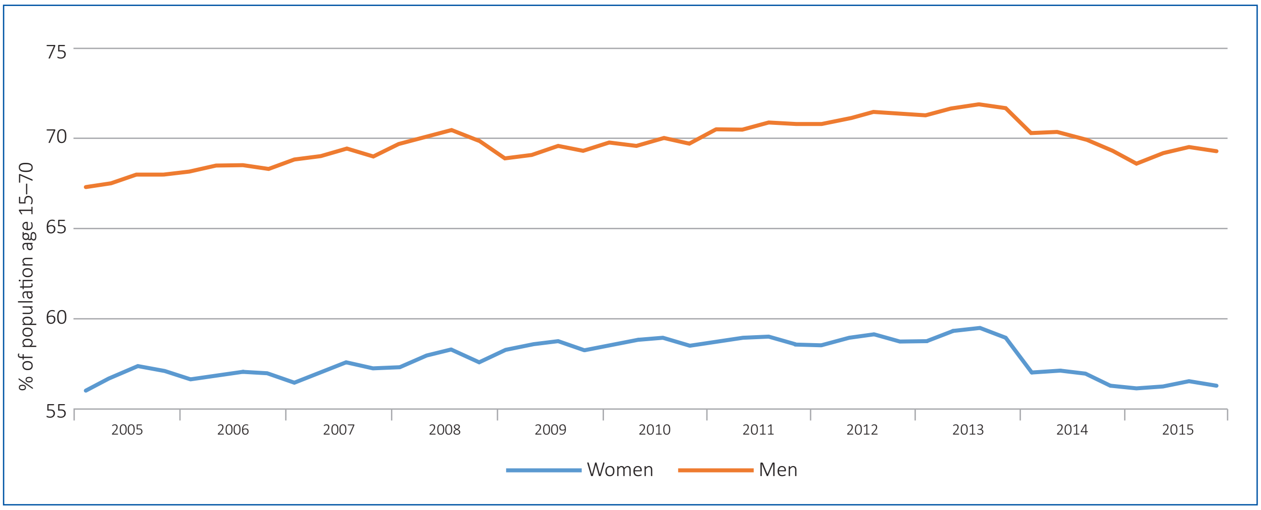


Source: National Bank of Ukraine.

As Figure 4 shows, there was a significant drop in the labour force participation rates in 2014, though there was some recovery in the second half of 2015. This suggests that an increasing number of workers quit the labour market. Among them were probably internally displaced persons who could not find a new job over a prolonged period.

As a result of the conflict in the east, more than 1.6 million people have been displaced within Ukraine. According to a recent ILO study,[1] about half of the internally displaced persons are in the labour force. The unemployment rate among them is twice as high as that of the total labour force. The study indicates that among those who were employed before displacement, only 46 percent remained employed after displacement, 22 percent were unemployed (mostly unregistered with the employment offices) and 32 percent left the labour market.

Figure 4. Labour force participation rates by sex, 2005–2015



Source: National Bank of Ukraine.

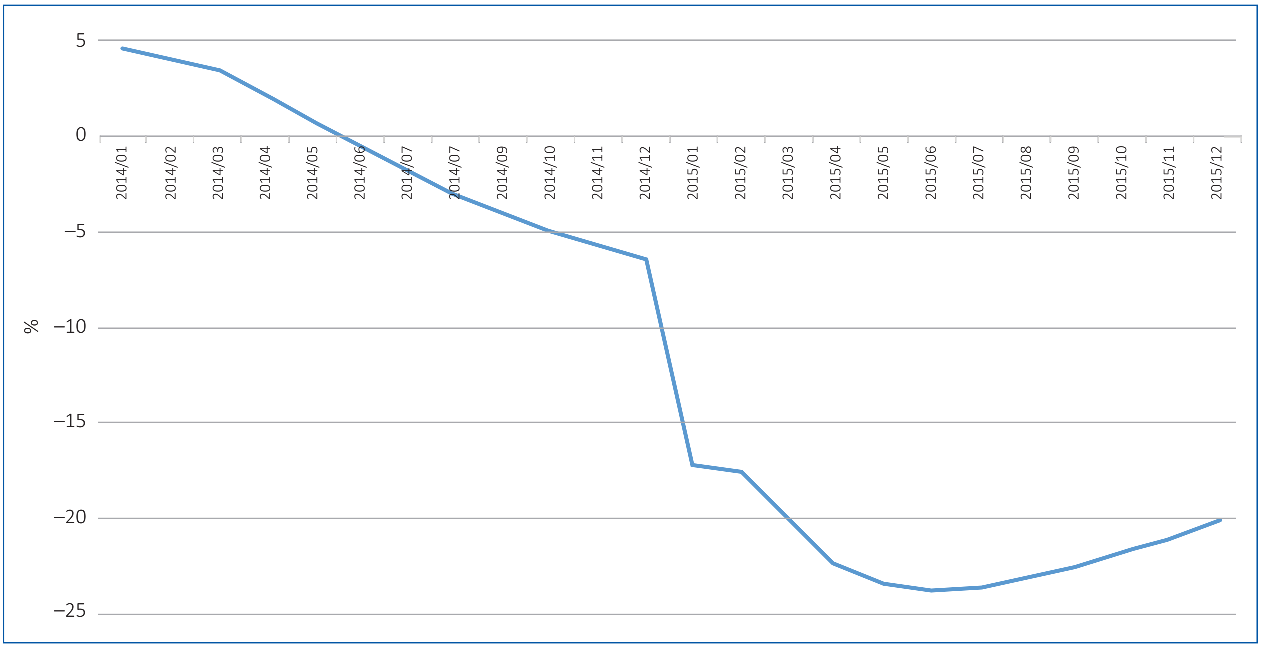
1. ILO and Kiev International Institute of Sociology (2015).

1.2. Household income

As Figure 5 shows, real wages started to decline from mid-2014 and then fell sharply during 2015. The average pension also fell in real value by 17 percent in 2014 and by 25 percent in 2015. It is estimated that the total average household income declined in real terms by 8 percent in 2014 and by 28 percent in 2015.

Delays in wage payments have been a feature of the Ukrainian economy for more than two decades, evincing a weakness in the enforcement of labour laws and other contractual agreements. There was a significant increase in arrears in the payment of wages in 2015. According to the State Statistics Service, the total amount of wage arrears as of 1 January 2016 was 1,881 million UAH, which had increased by 561 million UAH, or 42.5 percent, since 1 January 2015. Of these wages in arrears, 69 percent are owed by economically active enterprises, while the remaining 31 percent are owed by bankrupt or economically inactive enterprises.

Figure 5. Year-on-year change in real average monthly wages, 2014–2015



Source: National Bank of Ukraine.

As Figure 6 presents, the results of household surveys do not reveal any major changes in the overall structure of household revenues. The share of cash income from different forms of economic activity (such as employment, self-employment, and the sale of household-produced products) declined from 57.5 percent in 2013 to 56.5 percent in the first three quarters of 2015. The share of cash social benefits also decreased from 27.1 percent in 2012 and 2013 to 25.7 percent in the first three quarters of 2015. Compared to 2012 and 2013, the share of the private cash transfers from family members and other households increased to 7 percent in 2014 then decreased to 5.5 percent in the first three quarters of 2015. The share of the consumption of household-produced products increased to 4.9 percent in the first three quarters of 2015. There was a slight increase in the share of in-kind social benefits and in-kind housing related benefits to 1.1 percent of the total average household receipts in the first three quarters of 2015, mainly due to increased energy costs.

Figure 6. **Composition of household revenues, 2010–2015**

Source: State Statistics Service of Ukraine.

While the share of income from economic activities is close to 70 percent for households in the top income decile, it is less than 50 percent for households in the lowest income decile. The share of cash social transfers in the lowest decile is only slightly more than the average, which suggests an inefficiency in the poverty-targeted transfer programmes.

As Table 1 indicates, there were increases in income inequality and poverty from 2013 to 2015. The Gini coefficient increased from 0.236 in 2013 to 0.249 in the first three quarters of 2015. The income inequality widened in rural areas in particular, where the Gini coefficient increased from 0.208 to 0.238 in the same period.[2] Similar moderate increases were observed for other measures of inequality, such as the coefficient of variation and the decile ratio.

Table 1. **Income inequality indicators (based on total household income), 2013–2015**

	2013	2014 (I–III quarters)	2015 (I–III quarters)
Gini coefficient (all households)	0.236	0.242	0.249
Gini coefficient (urban households)	0.241	0.242	0.249
Gini coefficient (rural households)	0.208	0.228	0.238
Coefficient of variation	2.7	3.0	2.9
Decile ratio	4.7	4.8	5.1

Source: State Statistics Service of Ukraine.
Notes: Coefficient of variation = standard deviation / mean income.
Decile ratio = mean income of the top decile / mean income of the bottom decile.

2. It is not clear why the Gini coefficients of all households are identical to those of urban households in 2014 and 2015.

Table 2 presents the estimates of the poverty incidence rates using three alternative poverty thresholds: 75 percent of the median equivalent expenditure, 60 percent of the median expenditure, and the subsistence minimum.

Table 2. Poverty indicators, 2012–2014

	2012	2013	2014
75% median equivalent expenditure (UAH per month)	1,125	1,187	1,275
Poverty incidence	25.5%	24.5%	23.4%
60% median equivalent expenditure (UAH per month)	900	950	1,020
Poverty incidence	12.6%	11.9%	9.8%
Subsistence minimum (UAH per month)	1,042	1,114	1,176
Poverty incidence measured by equivalent expenditure	19.6%	19.8%	17.6%
Poverty incidence measured by monetary income	12.6%	13.5%	14.3%
Poverty incidence measured by total income	N/A	8.3%	8.6%

Source: Ministry of Social Policy, Institute of Demography and Social Studies and State Statistics Service of Ukraine.

These poverty data should be interpreted with care. While the estimated poverty incidence shows a decreasing trend from 2012 to 2014, this is probably due to the fact that the poverty thresholds were not adequately adjusted to catch up with the high inflation. As a result, fewer people were captured by those income thresholds. To assess the actual poverty impacts using the properly adjusted poverty thresholds, we must wait for the release of the complete set of data for both 2014 and 2015.

1.3. Government budget

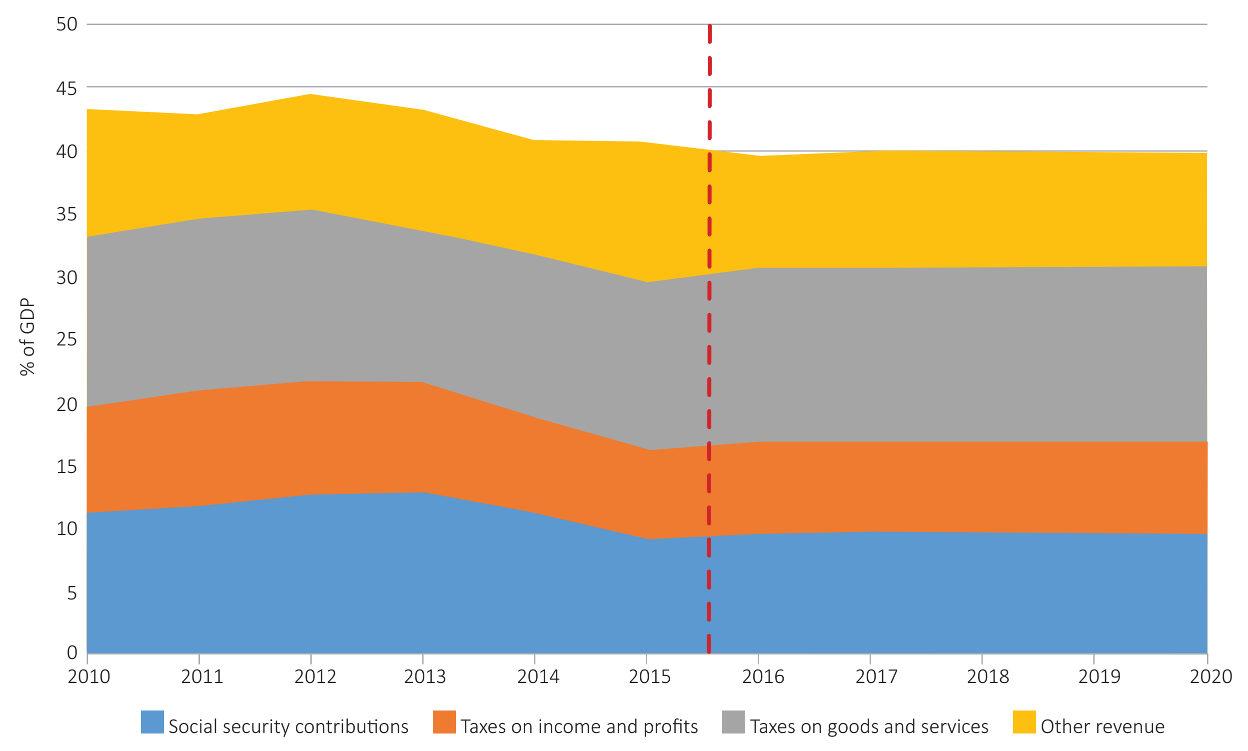
Figures 7 and 8 present the total revenue and expenditure of the Government. The total revenue of the Government, including social insurance funds but excluding Naftogaz, declined from nearly 45 percent of GDP in 2012 to about 40 percent of GDP in 2014, resulting in a deficit of 10 percent of GDP. For the period after 2015, the IMF projections assume that the overall level of revenue is kept at 40 percent of GDP. Revenue from indirect taxes was least affected, and is expected by the IMF to remain slightly below 14 percent of GDP in the future. Revenue from taxes on income and profits declined from 9 percent to 7 percent of GDP, and is expected to stay at this level in the future. Revenue from social security contributions was reduced from over 13 percent of GDP to below 10 percent in 2014, and the IMF projects it will stay around 10 percent of GDP in the future. However, a recent tax reform proposed by the Government, including the reduction of social security contributions by more than half (by abolishing workers' contributions and reducing employers' contributions to 22 percent) would significantly affect the future Government revenue.[3]

The total Government expenditure was reduced from over 49 percent to 45 percent of GDP in 2014 and 2015. However, the IMF forecasts the total expenditure will further decrease to about 42 percent of GDP by 2020. Expenditure on social benefits (including tax-financed benefits, pensions and other social insurance benefits) was reduced from 22–23 percent of GDP in 2012–13 to 18.5 percent in 2015, and is projected to be further reduced to less than 18 percent of GDP. These reductions affected primarily pensions, with expenditure decreasing from 17 percent to 13 percent of GDP in 2015. This is projected to decrease to less than 13 percent by 2020. Spending on other social insurance benefits was reduced from 2 percent of GDP to 1.3 percent of GDP in 2015, and is expected to be further reduced to 1 percent of GDP by 2020. Spending on social benefits funded directly from the Government budget increased slightly, up to 4 percent of GDP in 2015, and is projected to increase to 4.7 percent of GDP during 2016–17. These benefits include

3. For arguments in favour of a smaller and gradual reduction of the unified social security contribution rate compared to the Government proposals, see IMF (2016).

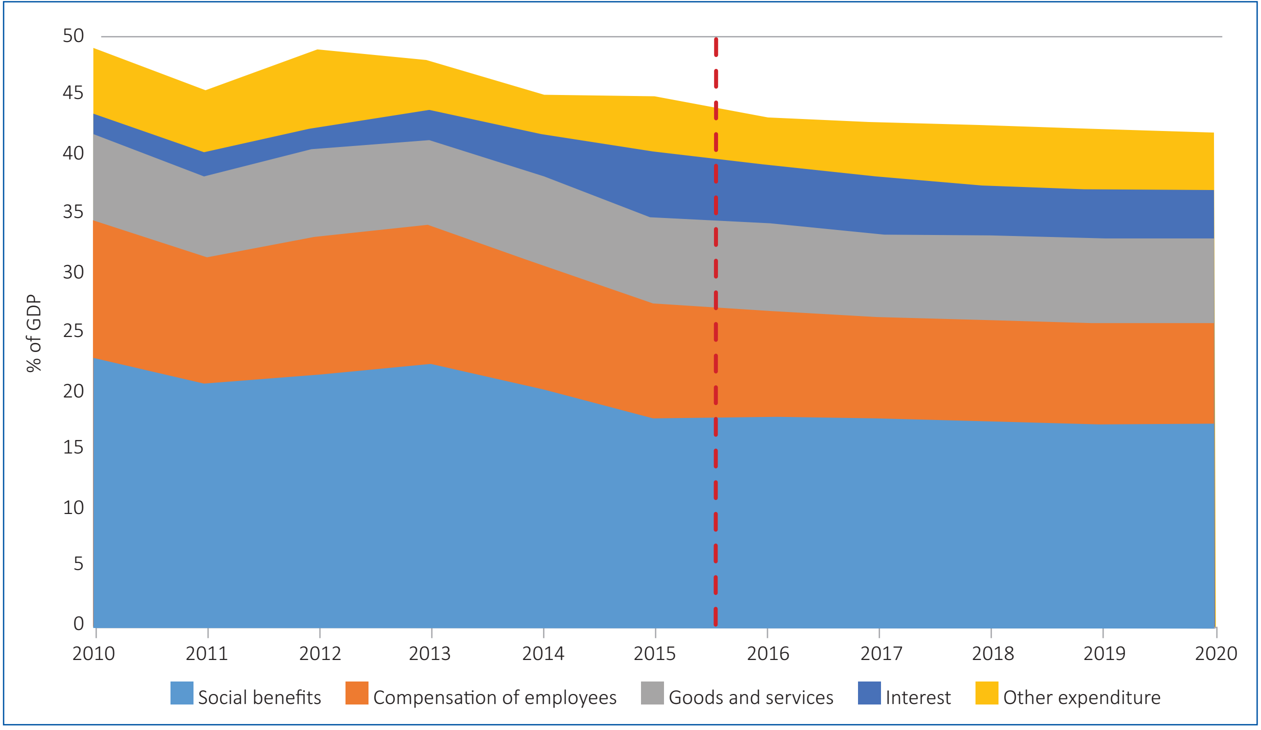
compensation for the increase in energy costs, as well as the costs of expanded social assistance. Expenditure on the wages of Government employees also declined from more than 11 percent of GDP to 9 percent in 2015, and is expected to fall to about 8 percent of GDP by 2020. Expenditure on goods and services is stable at about 7 percent of GDP. Interest payments on public debt increased from less than 2 percent of GDP to above 5 percent of GDP in 2015, and are expected to stay above 4 percent of GDP until 2020.

Figure 7. Government revenue, 2010–2020



Source: IMF staff reports.

Figure 8. Government expenditure, 2010–2020



Source: IMF staff reports.

2. Recent changes in the Ukrainian social security system

The current economic and fiscal situation in Ukraine has not only affected the well-being of citizens, but has placed pressure on the Government to reform the social security system as part of its austerity measures. The changes have involved modifying the organization of the social insurance funds, and changing the benefit entitlements and financing structure of the social security system. This chapter presents the developments of the Ukrainian social security system from 2014 to 2015 with respect to the implemented changes and the evolution of key indicators for each type of benefit.[4]

In Ukraine, the right to social security is established by the Constitution of 1996, as well as specific laws on social security benefits. In 2015, the Ukrainian Government initiated the process for ratifying the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), which was concluded on 16 March 2016, and initiated the process for signing the European Code of Social Security. Analyses conducted by the Government and ILO experts in 2015 confirmed that the Ukrainian social security legislation complies with both Convention No. 102 and with the European Code of Social Security.

The Ukrainian social security system comprises contributory social insurance and non-contributory social benefits of a universal or categorical nature. At the same time, targeted social assistance programmes have recently been expanding. The system also provides benefits in kind, which secure access to services or goods at subsidised prices.

Although the legal coverage of the Ukrainian social security system is almost universal, the effective coverage is lower due to the prevalence of the informal employment and undeclared work. For example, there are cases where contractual wage is set at the minimum level while the rest of salary is paid informally in cash. Similarly, while everyone has access to free public health care services, the significant levels of out-of-pocket payments estimated at over 40 percent suggest restrictions in the actual access to health care services.

2.1. The social security expenditure

In 2015, the State Statistics Service of Ukraine published estimates of the National Health Accounts and the National Social Protection Accounts, the latter following the methodology of ESSPROS (European Integrated System of Social Protection Statistics) developed by EUROSTAT.[5] Although there are still some problems in estimating the full range of revenue and expenditure,[6] these data allow us to

4. For a description and analysis of the Ukrainian social security system before 2012, see Baranova and Hirose (2010) and ILO (2012).

5. See the statistical reports and collections of the State Statistics Service of Ukraine, cited in the References.

6. In the published estimates, an important funding gap of the Pension Fund is not allocated to any funding source. Expenditure on survivors' and disability pensions paid by Pension Fund is allocated together with the old-age pensions under the old-age function. There is also an important difference between the public health expenditure estimated in the ESSPROS-type accounts and that in the National Health Accounts.

better assess the functional and financial structure of the Ukrainian social security system and to make international comparisons.

According to this methodology, the total social security expenditure of Ukraine in 2013 was estimated at 24.6 percent of GDP (24.2 percent for benefits and 0.4 percent for administrative and other expenditure). Of the social security benefits, 76 percent were paid by social insurance funds, and 3 percent were means-tested. According to the ESSPROS estimate, public health expenditure was 3.5 percent of GDP (the National Health Accounts estimates it at 4.3 percent of GDP). Non-health social security benefit expenditures were 20.7 percent of GDP, and a large majority of these (97.5 percent) were cash benefits.[7]

Table 3 compares the social security expenditure of Ukraine with those of selected EU countries neighbouring Ukraine in 2013. The total social security expenditure of Ukraine is higher than in any of the new EU countries neighbouring Ukraine. Expenditure on old-age, disability and survivors' benefits dominate the Ukrainian social security expenditure with 16 percent of GDP, or nearly two-thirds of the total. In contrast, expenditure on health is lower than the neighbouring EU countries and well below the EU average. Ukraine's social security expenditure is characterized by a relatively high level of expenditure on benefits for families and children, namely 2.7 percent of GDP or 11.2 percent of the total, which is slightly higher than the EU average.

Table 3. **Social security expenditure by type, Ukraine and selected EU countries, 2013**

	Ukraine	EU 28	Hungary	Poland	Romania	Slovakia
Expenditure (as a percentage of GDP)						
Total expenditure	24.6	28.6	20.9	20.1	14.8	18.4
Total benefit expenditure	24.2	27.5	20.6	19.8	14.5	17.9
– Sickness/Health care	4.4	8.0	4.9	5.0	3.9	5.5
– Old age, disability and survivors	16.0	14.6	12.4	12.9	9.1	9.5
– Family/Children	2.7	2.3	2.5	1.3	1.2	1.7
– Unemployment	0.4	1.5	0.5	0.3	0.2	0.6
– Housing	0.5	0.6	0.3	0.1	0.0	0.0
– Social exclusion not elsewhere classified	0.3	0.5	0.1	0.2	0.2	0.4
Share in the total benefit expenditure (percent)						
– Sickness/Health care	18.1	29.1	23.8	24.9	26.9	30.7
– Old age, disability and survivors	65.8	53.1	60.2	64.2	62.8	53.1
– Family/Children	11.2	8.4	12.1	6.5	8.3	9.5
– Unemployment	1.8	5.5	2.4	1.5	1.4	3.4
– Housing	1.9	2.1	1.5	0.3	0.1	0.2
– Social exclusion not elsewhere classified	1.1	1.9	0.6	0.8	1.1	2.3

Source: State Statistics Service of Ukraine and EUROSTAT database.

Table 4 presents the Government expenditure on social security benefits (excluding health care) from 2011 to 2020. Due to data availability, different data based on not entirely comparable methodologies

7. Estimate does not take into account the value of the benefits in kind, allowing access to services and goods at reduced prices (the so-called "privileges").

were used to assess the more recent trends. It should be observed that there was a significant reduction of social security expenditure relative to GDP in 2014 and 2015.[8]

Table 4. Government expenditure on social security benefits (excluding health care), 2011–2020

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		Actual expenditure					IMF projections				
Total	billion UAH	280.8	368.9	412.4	381.4	436.8	—	—	—	—	—
	% of GDP	24.8	26.0	27.0	24.3	22.1	—	—	—	—	—
Total (excluding health care)	billion UAH	275.9	310.4	350.8	324.2	365.8	416.2	472.5	522.5	567	624.7
	% of GDP	21.2	22.0	23.0	20.7	18.5	18.4	18.4	18.1	17.8	17.8
Pension Fund	billion UAH	210.8	233.7	260.2	243.6	260	284.6	323	363.6	400	441
	% of GDP	16.2	16.6	17.1	15.5	13.1	12.6	12.6	12.6	12.6	12.6
Other social insurance funds	billion UAH	22.8	22.2	26.7	22.3	2.06	26.6	29.2	31.6	33.5	35.5
	% of GDP	1.8	1.6	1.8	1.4	1.3	1.2	1.1	1.1	1.1	1.0
Non-contributory social benefits	billion UAH	42.3	54.5	63.9	58.3	79.8	105.0	120.3	127.7	133.6	148.2
	% of GDP	3.2	3.9	4.2	3.7	4.0	4.6	4.7	4.4	4.2	4.2
Health care	billion UAH	49.0	58.5	61.6	57.2	71.0	—	—	—	—	—
	% of GDP	3.6	4.0	4.0	3.6	3.6	—	—	—	—	—

Source: IMF staff reports,[9] State Statistics Service, Ministry of Finance of Ukraine, National Bank of Ukraine.

As seen in Table 4, the reduction of the social security expenditure affected social insurance benefits, in particular pensions. Due mainly to the lack of adequate indexation during the high inflation period from 2014 to 2015, the pension expenditure as a percentage of GDP declined from 17 percent in 2013 to 15.5 percent in 2014 and further to 13.1 percent in 2015. The IMF projects that the pension expenditure will further decrease to 12.6 percent of GDP in 2016 and remain at that level until 2020.

The combined expenditure on other social insurance funds (the Temporary Incapacity Benefits Fund, the Employment Injury Benefit Fund, and the Unemployment Benefit Fund which also provides employment services) as a percentage of GDP was reduced, from 1.8 percent in 2013 to 1.3 percent in 2015, and is projected by the IMF to be 1.1 percent by 2020.

However, the expenditure on non-contributory social benefits funded by the Government budget was not reduced in its proportion to GDP, although it decreased significantly in real terms. In fact, the IMF projects that this expenditure will increase faster than the GDP during 2016-17 due to a foreseen expansion of the housing subsidies.

8. There are significant problems with comparing absolute figures of expenditure and coverage from 2014–15 with those of previous years, as statistics for the latest years do not cover Crimea and occupied territories in the east of the country.

9. The IMF data used here do not consolidate budget and social security fund expenditure. When there are budget subsidies to the social security funds or when part of the benefits paid by the funds are actually financed from the budget, these expenditures are double-counted.

2.2. Financing of social insurance funds

Since 2011, a consolidated contribution rate – single social contribution – has been collected to finance all social insurance benefits in Ukraine. As Table 5 shows, from 2011 until 2015, employers' contribution rate was between 36.76 percent and 49.7 percent, depending on the assessed risk of occupational accident and disease, while employees' contribution rate was 3.6 percent. In 2016, the single social contribution rate for employers was reduced to 22 percent, and the contribution from workers was abolished.

The main laws concerning the contribution rates are:

- the Law on "Collection and registration of the single contribution for mandatory State social insurance (8 July 2010)," No. 2464-VI (last edition from 7 January 2016);
- the Decree of the Cabinet of Ministers of Ukraine "On approval of the distribution proportions of single contribution for mandatory state social insurance," No. 675 (last edition from 25 February 2016); and
- the Decree of the Cabinet of Ministers of Ukraine on "Some issues of the distribution of single contributions for mandatory state social insurance," No. 48 (30 January 2015).

Table 5. Changes in single social contribution rates in 2016

Categories	2011–2015	2016
Employers	36.76% to 49.7%, depending on assessed class of risks of occupational accidents and diseases	22%
Entrepreneurs working on civil contracts and self-employed persons	34.7%	22%
Budgetary institutions	36.3%	22%
Employees	3.6%	0%
Physical persons working under civil contracts	2.6%	0%
Civil servants	6.1%	0%

Notes: The total employers' contribution rate in 2010 consisted of pension insurance (33.2 percent), unemployment insurance (1.6 percent), insurance against temporary incapacity for work (1.4 percent), and employment injury insurance (0.56 percent to 13.5 percent, depending on 67 occupational risks).

The single social contribution rate remained unchanged from 2011 to 2015. However, the distribution of revenue from single contributions to different social insurance funds changed every year. As Table 6 shows, a larger share of contributions was allocated to the Pension Fund.

Table 6. Allocation of single social contributions to social insurance funds, 2013–2016

Funds	Proportions of contribution in %			
	2013	2014	2015	2016
Pension Fund	85.5330	88.2900	88.2900	78.5576
Unemployment Benefit Fund	5.0906	2.5843	3.1997	7.1767
Temporary Incapacity Benefit Fund	5.7410	5.2397	4.6243	7.7260
Employment Injury Benefit Fund	3.6354	3.8860	3.8860	6.5397
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Law on "Collection and registration of the single contribution for mandatory State social insurance," with amendments in 2013, 2014, 2015 and 2016.

At the beginning of 2015, motivated by fiscal difficulties and hoping to reduce the informal employment and the evasion of social security contributions, the Ukrainian Government announced the possibility that employers' single social contributions would be reduced by up to 40 percent if the following three conditions are met:

- there is a 20 percent increase in the contributory wages per worker compared to 2014;
- the overall level of contributions paid is at least maintained compared to 2014 levels; and
- the number of employees does not exceed 200 percent of the 2014 levels.

These requirements aimed to secure an aggregate amount of contribution revenue through extending the tax base without lowering the net salaries of workers. The Government planned to expand this reduction by up to 60 percent.

However, at the end of 2015, an even more drastic change was approved by the Verkhovna Rada. Starting in 2016, the rate of the single social contribution was lowered to the uniform rate of 22 percent, without reference to occupational risks. The same rate applies to self-employed persons and individual entrepreneurs. The allocation of revenue from single contributions to the Pension Fund was reduced drastically, from 88 percent to 79 percent, while the allocation for each of the other three funds increased.

At the same time, the maximum (ceiling) of the contributory salary was raised from 17 times to 25 times the subsistence minimum for able-bodied persons. Employees' contributions (as well as contributions by those employed under civil law contracts) were abolished. One can expect that the employees' contributions will be re-introduced if and when the mandatory funded pensions are introduced.

The reduction in the single social security contribution rate was complemented by a reform of the personal income tax. The progressive income tax, with two rates (15 percent and 20 percent), was replaced by a uniform tax rate of 18 percent. The special tax for military purposes (1.5 percent) was maintained. Although pensions were not taxed before 2014, a 15 percent tax rate was applied in 2015 for pensions between three and ten times the minimum wage (the threshold was increased to ten times the minimum wage in 2016).

Preliminary evidence based on the State Fiscal Service data[10] indicates that the single social contribution revenues in January and February 2016 dropped by 23.3 percent (6 billion UAH) compared to the same period in 2015. These revenues were 3.8 percent higher than the value estimated by the Government.

This evidence challenges the underlying assumption that reducing the contribution rate can create positive fiscal effects through the formalization of employment and undeclared work. As mentioned above, the allocation of single social contributions to the Pension Fund has significantly decreased. Therefore, the State budget will need to cover the emerging financial gaps, which will result in pressure to cut benefits further. Depending on the magnitude of the deficit, the reduction of the expenditure of the social insurance funds foreseen by the IMF may be even deeper in the future.

10. State Fiscal Service of Ukraine (2016).

2.3. The subsistence minimum and State social guarantees

In Ukraine, the subsistence minimum is a key policy parameter that determines the minimum benefit levels called the "State social guarantees." The Constitution of Ukraine (Article 46) and the Law on State Social Standards and Social Guarantees stipulate that the minimum wage and pensions and other social benefits that constitute main sources of income must not be lower than the subsistence minimum established by law. The amount of the subsistence minimum is different for (i) children up to 6 years, (ii) children from 6 to 18 years of age, (iii) individuals who are incapable of work, and (iv) able-bodied individuals. Table 7 presents how the subsistence minimum is linked with the minimum and maximum amounts of various social security benefits, the minimum wage, and tax thresholds.

Table 7. Relation between social guarantees and the subsistence minimum, 2016

Type of social guarantee	Type of subsistence minimum (SM)	Percentage/Multiple
Wages and taxation		
Minimum wage	SM for able-bodied persons	100%
Tax social privilege	SM for able-bodied persons	50%
Threshold for pension taxation	Minimum wage	3x (until June 2016) 10x (from July 2016)
Ceiling of the earnings subject to social insurance contributions	SM for able-bodied persons	25x
Social insurance benefits		
Minimum pension	SM for persons incapable for work	100%
Maximum pension	SM for persons incapable for work	10x (UAH 1,074 in 2016)
Minimum unemployment benefit	SM for able-bodied persons	80%
Maximum unemployment benefit	SM for able-bodied persons	4x
Employment injury: lump-sum	SM for able-bodied persons	17x
Employment injury: lump-sum for fatal cases	SM for able-bodied persons	100x plus 20x for each additional survivor
Non-contributory social benefits		
Childbirth benefit: lump-sum	SM for children aged less than 6 years	10x (fixed at 2014 values)
Minimum maternity benefit for non-insured women	SM for able-bodied persons	25%
Minimum child benefit to single mothers	SM for children in respective age	None (previously 30%)
Maximum child benefit to single mothers*	SM for children in respective age	100%
Benefit for children under guardianship or custodianship	SM for children in respective age	200%
Benefit to orphans and children deprived of parental care	SM for children in respective age	200%
Temporary benefit to children whose parents refuse to pay alimony*	SM for children in respective age	50%
Social assistance benefits for low-income families		
For able-bodied persons	SM for able-bodied persons	21%
For persons incapable of work or disabled	SM for persons incapable for work	100%
For children	SM for children in respective age	85%

Notes: SM = subsistence minimum

* For these benefits, the actual amount is the difference between these maximum amounts and the per capita family income.

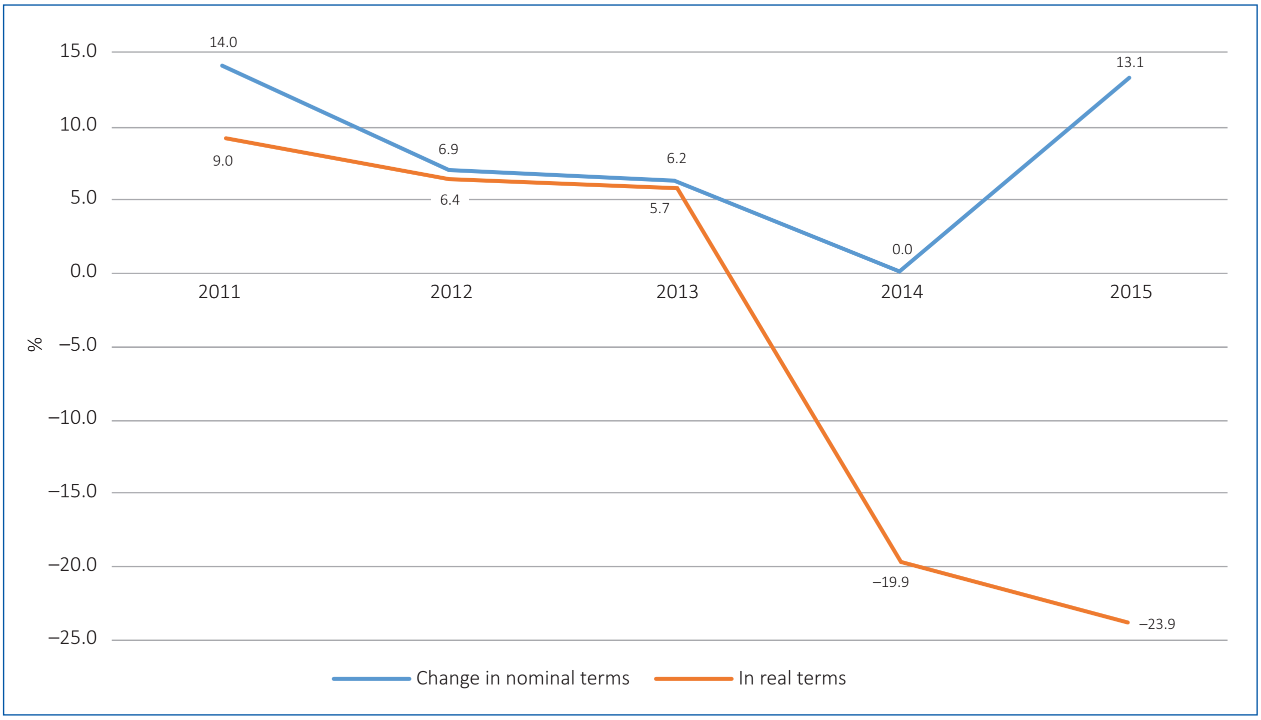
The subsistence minimum is established every year by the State budget law. Table 8 presents the statutory amount of the subsistence minimum from 2010 to 2016. As Figure 9 shows, due to the high inflation during 2014 and 2015 and the freeze of the subsistence minimum levels during 2014, the average subsistence minimum lost nearly 40 percent of its value in real terms. The approved 2016 State budget takes into account the planned increases in the subsistence minimum level for May and December 2016.

Table 8. Subsistence minimum by social group, 2010–2016

(as of 1 January of each year)

	2010	2011	2012	2013	2014	2015	2016
Average	825	894	1,017	1,108	1,176	1,176	1,330
Children aged less than 6 years	755	816	893	972	1,032	1,032	1,167
Children aged 6–18 years	901	977	1,112	1,210	1,286	1,286	1,455
Able-bodied persons	869	941	1,073	1,147	1,218	1,218	1,378
Persons incapable of work	695	750	822	894	949	949	1,074

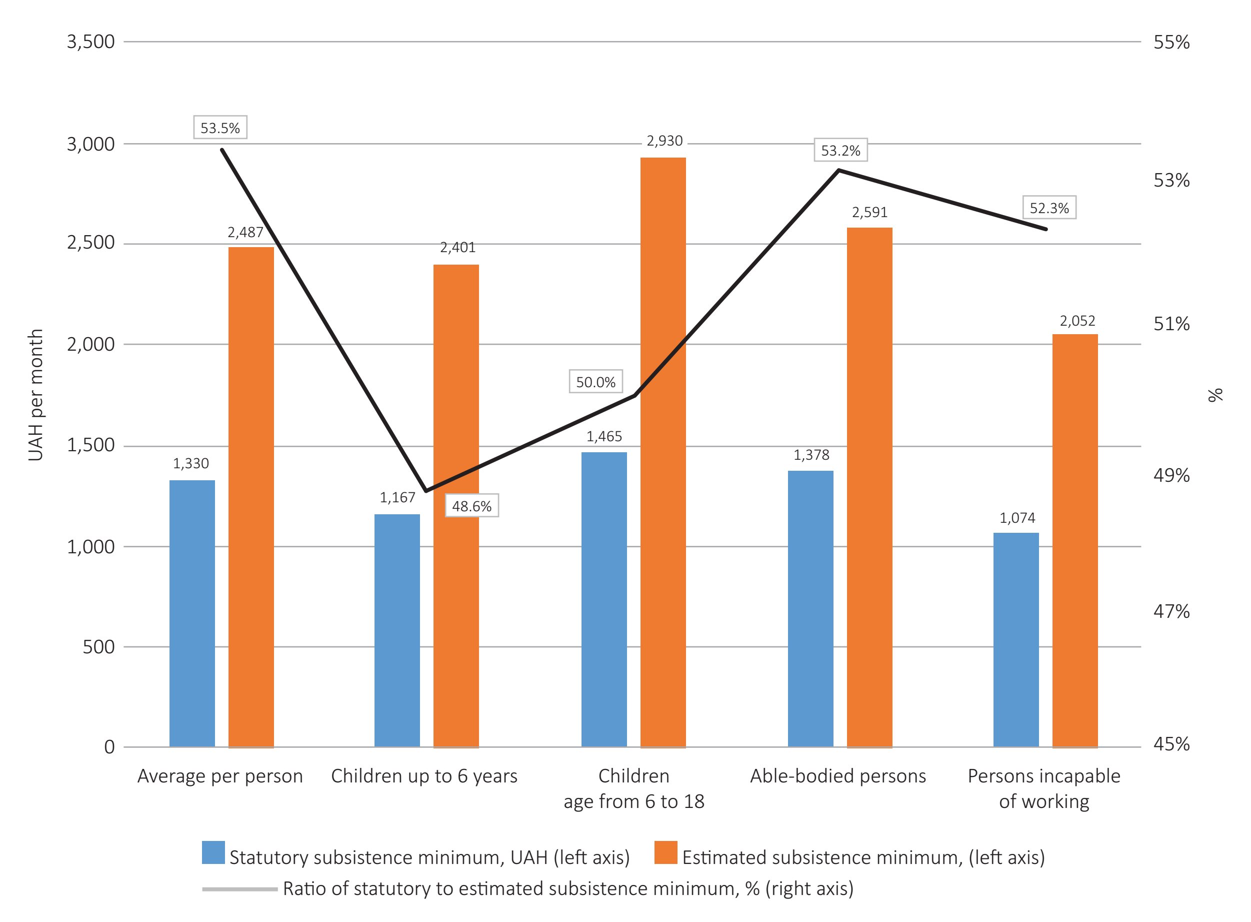
Figure 9. Changes in the subsistence minimum (able-bodied persons) in nominal and real terms, 2011–2015



Source: “Ukraine in figures” (data from 2010 to 2014), “Statistical yearbook of Ukraine,” State Statistics Service of Ukraine, own calculations.

In addition to the statutory subsistence minimum, the Ministry of Social Policy calculates the estimated subsistence minimum based on the prices of predefined baskets of goods and services and price changes. As Figure 10 indicates, there is a significant discrepancy between the statutory and estimated subsistence minimum. In November 2015, the ratio of the statutory subsistence minimum to the estimated subsistence minimum was 53.5 percent on average, 48.6 percent for children under 6 years, 50 percent for children aged between 6 and 18, 53.2 percent for able-bodied individuals, and 52.3 percent for individuals incapable of work.

Figure 10. **Comparison of the statutory and estimated subsistence minimums, November 2015**



Source: Own calculations based on data of the Ministry of Social Policy of Ukraine.

It should be noted that the gap between the statutory and the estimated subsistence minimums widened in 2014 and 2015. While they were nearly equal in 2012 and 2013 (94 percent in 2012 and 96.5 percent in 2013), the ratio of the statutory subsistence minimum to the estimated subsistence minimum dropped to 86.7 percent in 2014 and further to 54.4 percent in 2015.

Failing to adequately adjust the statutory subsistence minimum has had major consequences for the development of the minimum wage and minimum social security benefits.

The minimum wage has kept pace with the subsistence minimum since 2009. Nonetheless, when compared with the average wage, the increase rate of the minimum wage has been lagging. While the minimum wage constituted 38.1 percent of the average wage in 2011, this declined to 37.5 percent in 2012, 37.3 percent in 2013, 35 percent in 2014 and 32.8 percent in 2015. It should be noted that the average wage decreased in real terms by 6.5 percent in 2014 and by 22.7 percent in 2015.

A similar trend can be observed with respect to the relation between the minimum old-age pension and the average wage. While the minimum old-age pension accounted for 29.2 percent of the average nominal wage in 2012, this share dropped to 29.1 percent in 2013, 27.3 percent in 2014 and to 25.6 percent as of 1 January 2016.

Since the minimum unemployment benefit is set at 80 percent of the subsistence minimum for able-bodied individuals, the devaluation of the subsistence minimum in 2014 and 2015 negatively affected the unemployment benefit level.

2.4. Organizational changes in social insurance funds

Between 2014 and 2015, there were debates on how to restructure the social security organizations. The debates focused on the merger of the existing social insurance funds to reduce administrative costs and enhance coordination in expenditure planning. Debates also related to the removal of various auxiliary benefits, which were not considered as social insurance benefits covered by contributions.

Since the passage of the Law on “Amendments to some legislative acts of Ukraine on the reform of mandatory social insurance and legalization of payroll (No. 77-VIII of 28 December 2014),” which came into force on 1 January 2015, the Temporary Incapacity Benefits Fund and the Employment Injury Benefit Fund have been merged into a single fund, named the Social Insurance Fund of Ukraine. Some argue that this merger can bring about savings of 300 to 500 million UAH yearly.

In May 2015, the Cabinet of Ministers developed a draft Law on “Amendments to the Law on Mandatory State Social Insurance (No. 2775 of 5 June 2015),” to ensure the activity of the new fund during the reorganization. However, as of the beginning of 2016, the merger had not yet been completed, and all operations of the newly-created fund were performed by the older separate funds.

According to the aforementioned Law, the new Social Insurance Fund has a tripartite governance structure. Representatives of the State, workers, and employers are members of the Board of the Fund. The State representatives are nominated by the Cabinet of Ministers, and the workers’ and employers’ representatives are nominated by their respective national confederations. One important change in the governance of the Fund concerns the budget approval process. While previously the budgets were approved through the autonomous decision of the Board, all changes with respect to expenditure now require the approval of the Cabinet of Ministers as well. The social partners believe this will weaken the autonomy of the Fund.

In addition to these organizational changes, some of the Fund’s expenditure items have been removed so that only the benefits funded by dedicated contributions are kept within its scope. Consequently, the Fund is no longer responsible for financing sport schools, New Year’s gifts for children, preventive sanatorium treatment or health facilities for children.

2.5. Changes in the pension system

The Ukrainian pension system has undergone significant changes in the recent years. The first wave of major reforms started in 2011 when a decision was taken to increase the retirement age for women from 55 to 60 years, in six-month increments from 2011 to 2021. The retirement age of male civil servants, diplomats and scientists also increased from 60 to 62 years, in six-month increments from 2013 to 2017. The reform increased the number of contribution years required for the minimum pension, from 20 to 30 years for women and from 25 to 35 years for men. Moreover, a maximum pension worth ten times the minimum pension was introduced for newly-granted pensions. Since 1 January 2012, the period for calculating the reference salary for pensions was extended from one year preceding the retirement to three years. Finally, for women the age limit of social assistance for those who are not entitled to a contributory pension was increased from 58 years to 63 years.

The reform measures implemented in 2014 and 2015 continued the reduction of favourable provisions for special groups, so that their benefits would be in line with those of the regular worker (whose average replacement rate is approximately 45–50 percent of their previous earnings).

First, for the so-called “special groups” (including judges, prosecutors, deputies of Verkhovna Rada and civil servants), the level of newly-awarded pensions was reduced to 60 percent of the average salary. Before this change, the pension levels for these groups were 80 percent of the previous salaries for prosecutors, civil servants and deputies. These groups were also awarded 1 percent increments per year in excess of the required contribution period but the resulting pension should not be higher than 90 percent of their previous salary.

Second, for women working in “preferential (or privileged) conditions” (employees under hazardous and strenuous working conditions), their retirement age was increased in April 2015 from 45 years to 50 years. Their qualifying contribution period was kept at 7 years and 6 months.

Third, the possibility of combining work and old-age pension benefits was suspended between April and December 2015 for the aforementioned categories of workers. When they ceased working, their pensions were reinstated. Since 2016, combining work and receiving a pension is allowed without preferential treatment. As before, the termination of employment results in the reinstatement of a preferential pension. Furthermore, if a person receiving a special pension works in a different workplace (without preferential conditions), 15 percent of their calculated pension is suspended.

Fourth, the reduction of pension benefit was introduced for all the other groups of working pensioners who receive pensions higher than 150 percent of the subsistence minimum for pensioners. In this case, their pension is reduced by 15 percent. However, the reduced pension cannot be less than the threshold of 150 percent of the subsistence minimum.[11] Exempt groups include disabled individuals (degrees I and II), participants of military operations and their families, anti-terrorist operation participants, and other individuals and civil servants involved in those operations.

Finally, pensions above certain thresholds were taxed starting in 2015. Income from old-age pensions between three and ten times the minimum wage were subject to a 15 percent personal income tax and a 1.5 percent military duties tax. On the other hand, a uniform 18 percent personal income tax rate is applied to earnings from employment. In July 2016, the minimum threshold for the pension taxation was increased to ten times the minimum wage.

The Government’s plans of further pension reform were summarized in the Memorandum of Economic and Financial Policies, presented to the IMF in July 2015 (see Box 1).[12]

11. This means that the reduction affects pensions higher than 176.5 percent of the subsistence minimum.

12. See the *Memorandum of economic and financial policies*, attached to Ukraine’s Letter of Intent to IMF’s Managing Director Christine Lagarde, 21 July 2015 (attached to IMF Staff Report of August 2015).

Box 1. Excerpts from the Memorandum of Economic and Financial Policies attached to the Letter of Intent to the IMF on 21 July 2015

"Following the reform measures adopted in March that began to improve the sustainability and equity of the pension system, we will continue with broader parametric reforms to make the system financially viable in the medium term. To this end, with technical assistance from the IMF, we will review all parameters of our current pay-as-you-go system and design a reform that will begin to steadily reduce pension expenditure relative to GDP already in 2016. Among other things, the reform options will include termination of special pensions, which had unjustifiably created a privileged group of pensioners, and further tightening of occupational early retirement options. Once these measures, in combination with improvements in contribution compliance, create sufficiently large and permanent fiscal space to finance the cost of a mandatory, fully-funded pension pillar, we will consider the introduction of such a scheme. This sequencing of reforms will also allow us to develop and implement a plan to strengthen the institutional, technological, and capital market preconditions required for safe, efficient, and transparent operation of the funded schemes."

Table 9 presents the average pensions of different types from 2010 to 2015. Although the nominal amount of the old-age pension increased, the ratio in relation to the average wage has been decreasing steadily since 2012. While the average old-age pension constituted 51.6 percent of the average wage in 2010, it declined to 47.6 percent in 2011, 48.4 percent in 2012, 46.6 percent in 2013, and 45.2 percent in 2014. In 2015, the average old-age pension constituted only 40.3 percent of the average wage. It should be noted, however, that this decline can be partly attributed to the statistical exclusion of relatively wealthier pensioners who live in territories affected by the conflict.

Table 9. Average pensions by type, 2010–2015

Average pension	2010		2011		2012		2013		2014		2015	
	UAH	% of ave wage	UAH	% of ave wage	UAH	% of ave wage	UAH	% of ave wage	UAH	% of ave wage	UAH	% of ave wage
All types	1,152	51.4	1,253	47.6	1,471	48.6	1,526	46.7	1,582	45.4	1,700	40.5
Old-age	1,156	51.6	1,252	47.6	1,464	48.4	1,522	46.6	1,573	45.2	1,691	40.3
Invalidity	1,034	46.2	1,164	44.2	1,359	44.9	1,407	43.1	1,432	41.2	1,544	36.8
Survivors	940	42.0	1,054	40.0	1,253	41.4	1,304	39.9	1,433	41.2	1,640	39.0
Pension with full service	1,719	76.8	1,795	68.2	2,172	71.8	2,193	67.2	2,244	64.5	2,285	54.4
Social assistance	745	33.3	818	31.1	920	30.4	976	29.9	977	28.1	1,099	26.2
Pension for retired judges	6,241	278.7	7,491	284.5	7,837	259	12,177	372.9	16,302	468.5	16,783	400.1
Average nominal wage	**2,239**	**100.0**	**2,633**	**100.0**	**3,026**	**100.0**	**3,265**	**100.0**	**3,480**	**100.0**	**4,195**	**100.0**

Source: State Statistics Service of Ukraine "Statistical collection on social protection of Ukraine 2014," and operational statistics of the Pension Fund of Ukraine.

Notes: Data of 2015 do not include the Autonomous Republic of Crimea, Sevastopol, and the territories of the antiterrorist operations not controlled by the Ukrainian authorities.

As Table 10 shows, the percentage of pensioners receiving less than or equal to the subsistence minimum has been increasing. While this number was 2.4 percent in the beginning of 2013, it gradually increased to 4 percent in 2014, 5.4 percent in 2015 and 7.7 percent in 2016. Although the 2016 data might not fully reflect the increase in the minimum pension in September 2015, the growing number of pensioners receiving low pensions indicates an alarming sign of poverty among pensioners and their families.

Table 10. Distribution of pensions, 2013–2016

(As of 1 January of each year)	2013		2014		2015		2016	
	Share	Average pension (UAH)	Share	Average pension (UAH)	Share	Average pension (UAH)	Share	Average pension (UAH)
Below the minimum pension	1.0%	583	0.9%	587	0.8%	582	5.3%	932
Equal to the minimum pension	1.4%	894	3.1%	949	4.6%	949	2.4%	1,074
Above the minimum pension	97.6%	1,488	96.0%	1,554	94.6%	1,621	92.3%	1,761
Minimum pension (UAH/month)	894		949		949		1,074	
Total number of pensioners (persons)	**13,639,739**		**13,533,308**		**12,147,189**		**12,312,459**	

Source: State Statistics Service of Ukraine "Statistical collection on social protection of Ukraine 2014," and operational statistics of the Pension Fund of Ukraine.

Notes: Data of 2015 and 2016 do not include the Autonomous Republic of Crimea, Sevastopol and the territories of the antiterrorist operations not controlled by the Ukrainian authorities.

Table 11 presents the financial situation of the Pension Fund from 2013 to 2016. The planned figures for 2016 give an extremely severe picture of the Fund's financial status. Due to the significant reduction in the single social contribution rate and in the rate of allocation to the Pension Fund, it is estimated that the planned contribution amount will decrease by 36.3 percent from 2015, while the total expenditure will decrease by 3.5 percent. As a result, the Fund's own revenue (consisting mainly of contributions) covers only 55.6 percent of the benefit expenditure to be financed by the Fund. The transfer from the State budget to cover the Fund's current deficit grew from 14.9 billion UAH in 2014 to 31.8 billion in 2015. In 2016, it is expected to reach 81.3 billion UAH (equivalent to 3.6 percent of GDP), which represents 73.4 percent of the Fund's revenue, or 40.8 percent of the statutory expenditure.

Table 11. Revenue and expenditure of the Pension Fund, 2013–2016

(in million UAH)

	2013	2014	2015	2016 (plan)
Total Revenue	**252,755**	**245,246**	**266,536**	**257,208**
1. Own revenue of the Pension Fund	166,864	165,923	169,874	110,809
Contributions allocated to the Pension Fund	162,561	159,473	165,367	105,371
Other revenue	4,303	6,450	4,507	5,437
2. Transfer from the State Budget	83,234	75,814	94,812	144,889
Statutory transfer for financing additional pensions for special groups	61,470	61,131	63,052	63,600
Covering the deficit of the Pension Fund	21,764	14,683	31,759	81,289
3. Transfer from the Unemployment Benefit Fund	55.4	67.8	75.1	10.4
4. Transfer from the Employment Injury Benefit Fund	75.5	66.7	7.3	1,500

Total Expenditure	250,350	243,478	265,668	256,367
	2013	2014	2015	2016 (plan)
1. Expenditure to be financed by the Pension Fund	199,432	192,374	210,767	199,128
Pensions benefits	186,939	181,922	199,300	187,653
Other benefits	12,428	10,364	11,344	8,973
Administrative expenses	2,463	2,203	2,313	2,503
2. Benefits financed by the State budget	50,785	50,957	54,833	57,228
3. Benefits financed by other social insurance funds	133.3	146.4	68.4	10.4
Current Balance	**2,405**	**1,768**	**867.8**	**840.6**
Ratio of own revenue to own expenditure	83.7%	86.3%	80.5%	55.6%
Deficit as % of own revenue	13.0%	0.1%	18.7%	73.4%
Deficit as % of own expenditure	10.9%	0.1%	15.1%	40.8%

Source: Budgets of the Pension Fund, 2013–2016.

2.6. Unemployment benefits

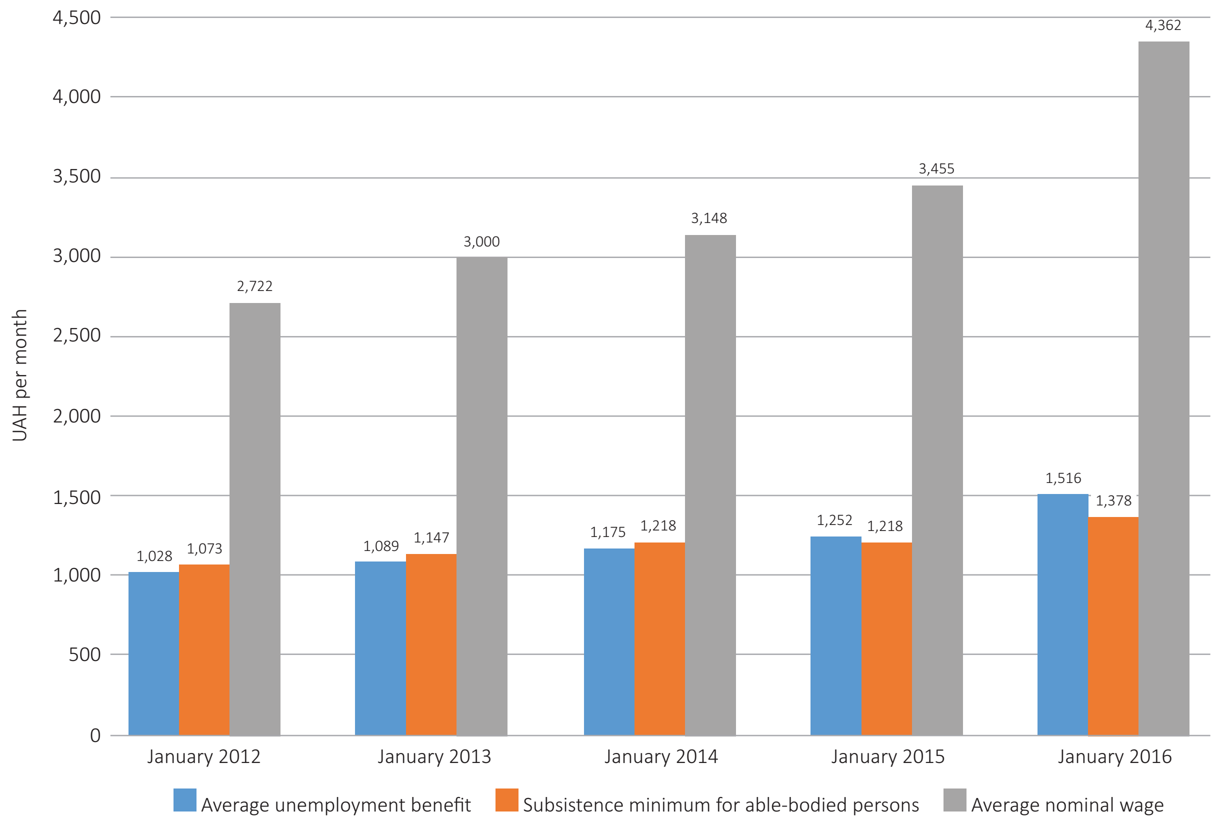
No major changes were made to unemployment benefits in 2014 and 2015.

Under the current system, an unemployment insurance benefit is payable to unemployed workers who have been insured for at least 6 months within the 12 months before becoming unemployed. The benefit replaces a certain percentage of their previous salary and its level depends on the insurance period, ranging from 50 percent (less than 2 years of insurance period) to 70 percent (more than 10 years of insurance period). The maximum duration of the unemployment benefit is 360 days (or 180 days for a first-time jobseeker with less than 6 months of contributions), and the benefit amount decreases over time. A beneficiary receives the full amount for the first 90 days, 80 percent during the following 90 days, and 70 percent for the remaining days. It should be noted that the minimum benefit for insured persons with more than 6 months of contributions is defined as 80 percent of the subsistence minimum for able-bodied persons, and the maximum benefit is set at four times the same subsistence minimum.

For unemployed workers who were not insured, disciplinarily discharged, or who do not qualify for an unemployment benefit due to their short contribution period, a flat-rate benefit is payable. From 2013 to 2015, the benefit equalled 544 UAH per month, or 47 percent and 39 percent of the subsistence minimum for able-bodied persons in the beginning of 2013 and in the end of 2015, respectively. The subsistence minimum for able-bodied persons increased from 1,147 UAH in January 2013 to 1,378 UAH in December 2015, and to 1,450 UAH in May 2016.

As Figure 11 indicates, the average unemployment benefit closely followed the subsistence minimum from 2012 to 2016, but its proportion to the average wage declined during the same period.

Figure 11. **Average unemployment benefit, subsistence minimum for able-bodied persons and average wage, 2012–2016**



Source: State Statistics Service of Ukraine, the Law on State Budget (2012–16), own calculations.

Table 12 presents the financial situation of the Fund from 2012 to 2016. While the revenue of the Fund exceeded its expenditure with a surplus in 2013, the opposite occurred in 2014–15. In 2015, the size of the deficit was equivalent to 26.8 percent of the Fund's expenditure. Thanks to its reserves, the Fund has been able to cover its current deficit. However, according to the planned figures for 2016, the Fund's reserve is expected to decrease to only 1.1 percent of its annual expenditure by the end of 2016. The worsening financial situation is due to declining contribution revenues and increased expenditure. However, the planned figures for 2016 indicate that, although expenditure increased slightly, the size of the current deficit is expected to be at the marginal level of 3.2 percent due to an increased allocation of the single social contributions to the Unemployment Benefit Fund.

Table 12. **Revenue and expenditure of the Unemployment Benefit Fund, 2013–2016**

(in million UAH)

	2013	2014	2015	2016 (plan)
Total Revenue	**9,664**	**6,192**	**5,743**	**8,311**
1. Contributions allocated to the Fund	9,602	6,156	5,704	8,280
2. Others	62.7	36.0	39.6	30.4
3. Transfer from the State Budget	0.01	0.7	0.1	0.4
Total Expenditure	**7,948**	**6,884**	**7,841**	**8,574**
1. Benefits and service costs	6,405	5,470	6,398	7,156
Unemployment benefit	5,330	5,053	5,963	6,662
Funeral benefit, material assistance	1.6	1.5	1.6	1.9
Vocational training and professional development for the unemployed	232.6	203.5	191.1	228.8
Vouchers to persons aged over 45	33.6	18.7	13.7	14.6
Organization of public works	34.5	40.8	63.8	76.9
Subsidy for employers for job placement	670.3	7.8	1.1	2.3
Information and consultation services	68.9	55.0	67.0	47.1
Vocational guidance services	13.5	6.0	4.5	4.3
Prevention of insured risks, part-time unemployment benefits	0.2	0.9	1.6	10.2
Implementation of measures under Article 241 of the Law on Employment	—	—	0.3	43.3
Compensation for single social contributions for employers	5.5	68.9	86.7	63.5
Bank commissions	14.6	13.2	3.8	0.5
2. Support for employment service's information systems	84.9	107.0	85.3	95.3
3. Transfer to the Pension Fund for costs related to early retirement	55.4	67.1	75.1	10.4
4. Administrative expenses	1,342	1,217	1,255	1,276
Current Balance	**1,716**	**–691**	**–2,098**	**–262.5**
Cumulative balance at the beginning of the year	2,904	4,620	2,470	353.5
Cumulative balance at the end of the year	4,620	2,470	353.5	91.0
Current deficit as % of the total revenue	—	11.2%	36.5%	3.2%
Current deficit as % of own expenditure (excluding the transfer to the Pension Fund)	—	10.1%	26.8%	3.1%

Source: Budgets of the State Unemployment Insurance Fund (2013–2016), own calculations.

Note: In 2014, an additional amount of 1,400 million UAH was transferred from the State Unemployment Insurance Fund to the State Pension Fund pursuant to Article 27 of the Law on State Budget 2014.

2.7. Benefits for sickness, maternity, death and employment injury

The social insurance against temporary incapacity for work provides benefits for sickness, maternity and death (funeral grant) for insured persons.

The sickness benefit depends on one's insurance period. Under the current legislation, last amended in 2015, the benefit rate is established as a percentage of one's previous income: 50 percent for a person insured for less than 3 years, 60 percent for persons insured from 3 to 5 years, 70 percent for persons insured from 5 to 8 years, and 100 percent for persons with insurance periods of 8 years and more. A 100 percent benefit rate is applied for selected categories of individuals, such as Chernobyl disaster victims and war veterans. Prior to 2015, the sickness benefit was 60 percent of one's previous income for persons with insurance periods of less than 5 years, 80 percent for persons with 5 to 8 years of insurance, and 100 percent for persons with 8 years and more. The sickness benefit is payable from the sixth day of sickness until recovery. The costs of the first five days of sick leave are covered by the employers.

The maternity benefit provides 100 percent of one's previous income, and not less than the minimum wage. The benefit is paid for 126 days, 70 days of which should be paid before birth. In Ukraine, the maternity benefit is a universal benefit for all women. For non-insured persons, the maternity benefit is paid as a non-contributory social benefit financed by the State budget. The maternity benefit for non-insured persons is 100 percent of their previous income (including scholarships and unemployment benefits), and not less than 25 percent of the subsistence minimum.

The funeral benefit is a lump-sum benefit. Its amount is defined by the Board of the Fund, but it cannot be lower than the subsistence minimum.

In addition to the aforementioned reductions made to the sickness benefit, further limitations were introduced to sickness and maternity benefits for workers with short contribution periods. Since 2015, for workers with a contribution period of less than 6 months, the sickness benefits cannot exceed the minimum wage, and the maternity benefits cannot exceed twice the minimum wage but not less than the minimum wage.

Employment injury benefits include benefits for temporary incapacity for work, benefits for total loss of earning capacity, survivors' benefits, medical care and rehabilitation.

Due to the financial shortages of the Fund, periodical cash employment injury benefits (pensions) were not indexed in 2014 and in 2015. The lump-sum payment benefits to victims of work accidents have also been reduced since 2015. For persons with permanent disability, the lump-sum payment has been changed from a multiple of the average wage by degree of disability (in percentage terms), but not higher than 4 times the maximum taxable income, to 17 times the subsistence minimum for able-bodied individuals. For fatalities, the lump-sum payment under the previous legislation was equivalent to 5 years' salary plus 1 year's salary per dependent. After the change, the payment equals 100 times the subsistence minimum for able-bodied individuals plus 20 times the subsistence minimum for each dependent family member. In both cases, a lump-sum payment has been changed from an earnings-related amount to a fixed-rate amount.

Tables 13 and 14 indicate the financial situation of the Temporary Incapacity Benefits Fund and the Employment Injury Benefit Fund from 2013 to 2015. As already mentioned, these two Funds are expected to be merged, but are currently operated separately. For the Temporary Incapacity Benefits Fund, the decline in revenues was matched by cuts on health promotion programmes. The Employment Injury Benefit Fund had a current deficit of 426 million UAH in 2015, despite the implementation of measures to cut administrative costs.

Table 13. **Revenue and expenditure of the Temporary Incapacity Benefits Fund, 2013–2015**

(in million UAH)

	2013	2014	2015 (plan)*	Ratio (%)	
				2014/2013	2015/2014
Total Revenue	**10,531**	**11,487**	**9,842**	**109.1**	**85.7**
1. Contributions allocated to the Fund	10,161	11,034	9,567	108.6	86.7
2. Receipts from partial payment for sanatorium vouchers	300.8	334.6	42.1	111.2	12.6
3. Others	68.8	118.3	233.6	171.9	197.5
Total Expenditure	**10,626**	**12,000**	**9,850**	**112.9**	**82.1**
1. Benefit for temporary incapacity of work	5,241	5,841	5,565	111.5	95.3
2. Maternity benefit	2,348	2,666	2,715	113.5	101.8
3. Funeral grant	33.1	39.5	33.7	119.3	85.3
4. Benefits for victims of Chernobyl disaster	47.6	57.8	59.0	121.4	102.1
5. Health promotion programmes	2,352	2,671	908.6	113.6	34.0
6. Administrative expenses	483.9	522.7	486.8	108.0	93.1
7. Others	120.8	202.2	81.7	167.4	40.4
Current Balance	**–95.1**	**–513.6**	**–7.3**	**—**	**—**

Source: Budgets of the State Social Insurance Fund due to temporary disability (2013–2015), own calculations.

Note: In 2015, the actual total revenue was 8,690 million UAH and the actual total expenditure was 6,930 million UAH, yielding a current balance of 1,760 million UAH.

Table 14. **Revenue and expenditure of the Employment Injury Benefit Fund, 2013–2015**

(in million UAH)

	2013	2014	2015 (plan)	Ratio (%)	
				2014/2013	2015/2014
Total Revenue	**6,500**	**6,463**	**6,666**	**99.5**	**103.1**
1. Contributions (from employers) allocated to the Fund	6,471	6,439	6,635	99.5	103.1
2. Voluntary contributions and other receipts	24.2	19.7	27.2	81.4	138.1
3. Revenue from fines	5.1	4.5	3.4	88.2	74.6
Total Expenditure	**7,504**	**7,118**	**7,092**	**97.9**	**99.6**
1. Accident prevention	31.5	26.4	12.3	83.8	46.7
2 Employment injury benefits	6,200	6,264	6,319	101.0	100.9
3. Medical, vocational and social rehabilitation	422	275	309	65.1	112.3
4. Administrative expenses	773	479	444	60.8	92.7
5. Transfer to the Pension Fund for disability and survivors' benefits	78.2	72.9	7.5	93.2	10.3
Current Balance	**–1,004**	**–654.4**	**–426.0**	**—**	**—**

Source: Budgets of the State Social Insurance Fund against Work Accidents (2013–2015), own calculations.

2.8. Health care

The current financial situation of the Ukrainian health care system is strongly affected by national macroeconomic instability. One of the characteristics of the Ukrainian health care system is an extensive level of private financing. More than 40 percent of the health expenditure is financed by out-of-pocket payments, with marginal participation of the private sector in the form of private insurance. According to the 2015 Household Survey, 29 percent of households were not able to meet their medical care needs. The majority of households, particularly low-income households, indicated the high costs of medicine, medical products and services as the main obstacles to accessing medical care.

As Table 15 shows, while the total health expenditure stayed around 7.5 percent of GDP, the share of public funding has declined and is compensated by an increase in the share of household funding.

Table 15. Health expenditure by financing source, 2010–2014

	unit	2010	2011	2012	2013	2014
Total health expenditure	million UAH	84,745	95,714	108,947	115,757	117,755
	% of GDP	7.6%	7.1%	7.5%	7.6%	7.4%
Public	% of GDP	4.3%	3.9%	4.3%	4.3%	3.8%
	% of total expenditure	56.3%	55.3%	57.2%	56.2%	51.7%
Households	% of total expenditure	40.8%	41.9%	40.2%	41.1%	46.0%
Private companies	% of total expenditure	2.6%	2.5%	2.4%	2.5%	2.1%
Donors	% of total expenditure	0.3%	0.3%	0.2%	0.2%	0.2%

Source: State Statistics Service, Statistical collection on National Health Accounts, 2014.

Table 16 shows the composition of the health care expenditure by type of service and source of financing in 2014. Although public sources cover almost all costs of inpatient care (88.2 percent), day care (100 percent), prevention and public health (92.6 percent), and health management (99.9 percent), the households are asked to pay almost all costs related to pharmaceuticals and other medical products (99.6 percent) and more than one-third of outpatient care costs (36.5 percent). As a result, the share of the heath expenditure funded by households through out-of-pocket payments was estimated to be 47.1 percent in 2014.

Table 16. Composition of health expenditure by type of service and source of funds, 2014

Type of health care services	Expenditure composition	Source of financing			
		Public	Households	Private companies	Outside the country
Curative care	52.7%	74.2%	22.9%	2.8%	0.1%
Inpatient care	29.4%	88.2%	9.7%	2.1%	0.0%
Outpatient care	17.1%	58.9%	36.5%	4.2%	0.4%
Day care	0.4%	100.0%	0.0%	0.0%	0.0%
Pharmaceuticals and other medical goods	35.2%	0.2%	99.6%	0.3%	0.0%
Prevention and public health care services	1.4%	92.6%	0.0%	0.0%	7.4%
Health administration	8.2%	99.9%	0.0%	0.0%	0.1%
Expenditure not classified	2.5%	53.4%	0.8%	45.9%	0.0%
Total health expenditure	100.0%	50.0%	47.1%	2.7%	0.2%

Source: State Statistics Service, Statistical collection on National Health Accounts, 2014.

A large share (71–74 percent) of the health care system costs consists of the remuneration of medical personnel. The limitation of the budget for medical procedures and medicines costs results in the payments by patients to cover part of these costs. In addition, the budget of the health organizations is based on the planned number of beds and doctors, not the volume of medical procedures. As a result, the budgeting involves very detailed and rigid rules for spending that cannot be altered throughout the fiscal year. This difficult financial condition results in the decreasing availability of medical services to the population. There is also a decline in the number of beds, doctors and nurses per population.

The National Strategy for Health Care Reform in Ukraine, adopted in 2015, outlines the directions for health sector reform. It deals with the organization, funding, and delivery of healthcare. However, it contains no detailed picture of the planned reforms, and no political consensus has been reached on this issue. The Letter of Intent to the IMF of July 2015 states that "another legislation package changing the basis of public financing for healthcare will shortly be submitted to parliament." It is not clear whether this legislation refers to the introduction of social health insurance or not.

2.9. Non-contributory cash social benefits

In Ukraine, non-contributory social benefits play a major role in poverty reduction. Approximately 60 percent of households are receiving some kind of social transfer. More than 70 percent of households in the lowest income group receive these benefits.[13] This section focuses on cash social benefits. The housing subsidies and the so-called "privileges" (reductions in various public service charges) are described in the following sections.

Many of the non-contributory cash social benefits in Ukraine are of a categorical nature, mainly directed to families with children. Some of them are dependent on the income of the recipients and their family members. As spelled out in the Poverty Reduction Strategy adopted at the beginning of 2016, the Government is aiming to expand the role of targeted social assistance for low-income families. Starting in 2014, the World Bank provided the Government with a loan of 300 million US$, which was aimed at the expansion and modernization of the targeted social assistance for low-income families (called the Guaranteed Minimum Income programme), regulated by the Law on State Social Aid to Indigent Families.

The existing cash social benefits include maternity benefits, benefits for children under guardianship or custodianship, child benefits to single mothers, benefits for disabled children or individuals disabled since childhood, alimony, benefits for orphans, benefits for low-income families with members who suffer from mental disorders, and benefits for individuals who do not qualify for old-age or disability pensions (called the social pension). Table 17 presents the amounts of these benefits from 2014 to 2016, including the planned increases in May and December 2016.

13. World Bank (2014); Figure 3 in Annex 6.

Table 17. Amounts of social benefits, 2014–2016

Benefit		2014 Jan.–2015 Aug.		2015 Sept.–Dec.		2016					
						Jan.–April		May–Nov.		Dec.–	
Maternity benefit (for non-insured)											
		Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
(UAH/month)		294	100% of average income	333	100% of average income	333	100% of average income	350	100% of average income	374	100% of average income
(as % of SM for able-bodied persons)		25%		25%		25%		25%		25%	
Child benefit to single mothers (by age of children)											
		Min	Max	Min	Max	Max		Max		Max	
under 6 years	(UAH/month)	310	516	350	584	1,167		1,228		1,313	
	(as % of SM for children of this age group)	30%	50%	30%	50%	100%		100%		100%	
6 to 18 years	(UAH/month)	386	643	437	728	1,455		1,531		1,637	
	(as % of SM for children of this age group)	30%	50%	30%	50%	100%		100%		100%	
18 to 23 years	(UAH/month)	365	649	413	689	1,378		1,450		1,550	
	(as % of SM for children of this age group)	30%	50%	30%	50%	100%		100%		100%	
Benefit for children under guardianship or custodianship (by age of children)											
under 6 years	(UAH/month)	2,064		2,334		2,334		2,456		2,626	
	(as % of SM for children of this age group)	200%		200%		200%		200%		200%	
6 to 18 years	(UAH/month)	2,572		2,910		2,910		3,062		3,274	
	(as % of SM for children of this age group)	200%		200%		200%		200%		200%	
Temporary benefit to children whose parents refuse to pay alimony (by age of children)											
under 6 years	(UAH/month)	310		350		584		614		657	
	(as % of SM for children of this age group)	30%		30%		50%		50%		50%	
6 to 18 years	(UAH/month)	386		437		728		766		819	
	(as % of SM for children of this age group)	30%		30%		50%		50%		50%	
Benefit to persons disabled since childhood and to disabled children (with additional payment for care)											
Disabled from childhood:											
Group I-A (UAH/month)		1,661		1,880		2,207		2,322		2,483	
Group I-B (UAH/month)		1,424		1,611		1,611		1,695		1,812	
Group II (UAH/month)		949		1,074		1,074		1,130		1,208	
Lone persons disabled from childhood of group II who need constant care (UAH/month):		949		1,074		1,074		1,130		1,208	
Disabled children:											
under 6 years (Group I-A) (UAH/month)		1,696		1,919		1,919		2,019		2,159	
under 6 years (others) (UAH/month)		1,181		1,336		1,336		1,405		1,502	
6 to 18 years (Group I-A) (UAH/month)		1,950		2,207		2,207		2,322		2,483	
6 to 18 years (others) (UAH/month)		1,307		1,480		1,480		1,557		1,664	
Benefit for individuals who do not qualify for contributory old-age pensions											
(UAH/month)		949		949		949		949		949	
(as % of SM for able-bodied persons)		100%		88.4%		88.4%		84.0%		78.6%	

Source: Ministry of Social Policy of Ukraine, monitoring of social indicators.

Note: SM = subsistence minimum.

Tables 18 and 19 present the number of cash social benefits and their expenditure from 2013 to 2015. The number of recipients declined during this period, mainly because of the phasing-out of the child benefit for children under 3 years. On the other hand, the expenditure on social benefits increased. The benefits that increased to the largest extent were the benefits for low-income families, the childbirth benefit, the benefit for persons disabled since childhood, and the benefit for disabled children. Nonetheless, the increase in spending on the childbirth benefit was limited due to the changes made to this benefit, as explained later in this section.

Table 18. Number of recipients of social benefits by type, 2013–2015

Benefit	2013	2014	2015	Ratio (%)	
				2014/2013	2015/2014
Childbirth benefit	532,672	500,746	459,458	94.0	91.8
Adoption benefit	1,679	1,357	1,198	80.8	88.3
Maternity benefit	277,732	243,571	223,097	87.7	91.6
Benefit for child care up to three years	1,558,232	749,552	16,694	48.1	2.2
Benefit for children under guardianship or custodianship	95,770	81,873	76,930	85.5	94.0
Child benefit for single mothers	253,295	208,920	213,006	82.5	102.0
Temporary State benefit for children whose parents refuse to pay alimony	163,665	153,105	147,567	93.5	96.4
Benefit for low-income families	453,376	564,062	—	124.4	—
Benefit for persons disabled since childhood and disabled children	42,170	40,564	46,379	96.2	114.3

Source: State Statistics Service and operational reports of the Ministry of Social Policy of Ukraine.

Table 19. Expenditure on cash social benefits by type, 2013–2015

(in million UAH)

Benefit	2013	2014	2015	Ratio (%)	
				2014/2013	2015/2014
Childbirth benefit	18,010	18,686	20,789	103.8	111.2
Adoption benefit	52.1	43.2	44.1	82.8	102.1
Maternity benefit	366	342	328	93.6	95.9
Benefit for child care up to three years	6,633	3,247	289	49.0	8.9
Benefit for children under guardianship or custodianship	1,413	1,300	1,347	92.0	103.6
Child benefit for single mothers	3,277	3,058	3,300	93.3	107.9
Temporary State benefit for children whose parents refuse to pay alimony	470	471	481	100.4	102.0
Benefit for low-income families	4,041	5,942	8,260	147.0	139.0
Benefit for persons disabled since childhood and disabled children	5,220	5,160	6,090	98.9	118.0

Source: State Statistics Service and operational reports of the Ministry of Social Policy of Ukraine.

Non-contributory social benefits are financed through subsidies from the State budget to local budgets. As Table 20 shows, they constitute an important share of the social security expenditure and of the consolidated budget.

Table 20. **Subsidy from the State budget to local budgets for social benefits, 2013–2016**

	2013	2014	2015	2016 (plan)
Subsidy from the State budget to the local budgets for social benefits (million UAH)	39,565	40,838	41,893	45,344
as % of the social security expenditure of the consolidated budget	27.3%	29.6%	23.8%	—
as % of the total expenditure of the consolidated budget	7.8%	7.8%	6.2%	6.8%

Source: The Law on State Budget of Ukraine (2013–2016) and statistical information of the State Statistic Service.

Changes in child benefits and childbirth benefits

Among the countries in Eastern Europe, Ukraine was known to provide relatively sizable benefits to families with children. These benefits, which were paid as non-contributory social benefits to all families with children irrespective of income, played an important role in reducing poverty in Ukraine. However, child benefits and childbirth benefits were the main victim of the austerity measures introduced on 1 July 2014.

First, the child benefit for children under 3 years was abolished, although the child benefit for single mothers was retained. The amount of the child benefit was the difference between the subsistence minimum for a child and the per capita family income, but not less than 130 UAH per child per month. As a transition measure, families already receiving the childbirth benefit for their first child (born before 1 July 2014) are entitled to an extended benefit of 130 UAH for 12 months after the child reaches 2 years of age.

Families with children under 3 years of age are covered under the scope of a new scheme introduced in April 2015, which applies only to low-income families. The amount of the benefit is 250 UAH. The amount of the benefit for low-income families with children was increased. Specifically, additional payments to low-income families, covered by the targeted social assistance programme (see below), was increased from 180 UAH in 2013 to 250 UAH in 2014 for children aged 3 to 13 years, and from 360 UAH in 2013 to 500 UAH in 2014 for children aged 13 to 18 years.

The childbirth benefit has been cut drastically. Previously, with a view to increasing fertility rates, the benefit level and duration of the periodical payment increased progressively with respect to the order of children. Since 2005, part of the benefit is paid as a lump sum, and the rest is paid in periodical payments. The duration of the periodical payments was 24 months for the first child, 48 months for the second child, and 72 months for the third child or more.

Table 21 compares the schemes before and after the amendment. With this amendment, the benefit became a uniform amount irrespective of the order of the children. The duration of the periodical payments was set at 36 months for the first child, while keeping the lump-sum amount unchanged. As a result, the total benefit amount for the first child actually increased by one-third, but the total benefit amount for the second child decreased by one-third and by two-thirds for the third child. More importantly, the new childbirth benefit is set at a flat rate, and its level is disconnected with the subsistence minimum. It is not clear how the childbirth benefit will be indexed in the future.

Table 21. **Changes in childbirth benefit (effective on 1 July 2014)**

		Before 1 July 2014		After 1 July 2014
Benefit level		First child	30 times SM	Uniform amount of the benefit regardless of the order of children. (initially equivalent to 40 times SM but no link to SM in the future)
		Second child	60 times SM	
		Third or later	120 times SM	
Payment		Lump-sum and periodical payments		Lump-sum and periodical payments
Lump-sum		10 times SM		10 times SM
Duration of periodical payment		First child	24 months	36 months
		Second child	48 months	
		Third or later	72 months	
Benefit amount using the SM of July 2014	Lump-sum	10,320 UAH		10,320 UAH
	Periodical payment	First child	860 UAH x 24	860 UAH x 36
		Second child	1,075 UAH x 48	
		Third or later	1,577 UAH x 72	
	Total benefit [as % of the new amount]	First child	30,960 UAH [75]	41,280 UAH [100]
		Second child	61,920 UAH [150]	
		Third or later	123,840 UAH [300]	

Note: SM = subsistence minimum for children under 6 years of age.

Targeted social assistance for low-income families (Guaranteed Minimum Income programme)

To receive the social assistance benefit for low-income families, a family needs to declare their income (excluding housing subsidies and alimonies) and the property of the family members.

The benefit is not payable if the family purchased goods or services at a price higher than ten times the subsistence minimum during the 12 months prior to the application, if they own second residences within certain areas, or if they own more than one car. Also, the benefit can be reduced by up to 50 percent if the family does not fully use its capacity to obtain additional sources of livelihood.

The benefit is not provided to able-bodied persons who do not work (except for unemployed persons registered at an Employment Centre), do not serve in the army, or are not in full-time education for three months prior to application.

Regardless of these restrictions, the benefit can be paid, subject to the examination of the living conditions of the family, if the family has a disabled member; has three or more children under 18 years of age (or 23 years of age in full-time education); or is unable to obtain any sources of income because of the prolonged illness of its members.

The social benefit for low-income families is calculated as the difference between the “guaranteed minimum income” and the monthly household income. The household income is computed as an average of the total family income earned during the six months prior to the application.

However, it should be observed that the “guaranteed minimum income” under the Law on State Social Aid to Indigent Families is not equal to the “State social guarantee” established by the Law on State Social Standards and Social Guarantees. Under the Law on State Social Aid to Indigent Families, the guaranteed minimum is defined as a certain percentage of the subsistence minimum.

- For elderly and disabled family members, the guaranteed minimum income equals 100 percent of the subsistence minimum for persons incapable for work.

- For children, it is currently 85 percent of the subsistence minimum for children in their respective age. This rate was increased from 50 percent to 75 percent in 2012 and to 85 percent in 2014.
- For other family members, it is only 21 percent of the subsistence minimum for able-bodied persons.

The level of the guaranteed minimum income is augmented for certain members of low-income households. It is increased by 10 percent for each child (except disabled children), and by 20 percent for each disabled child, child of a single parent, child whose parent(s) are disabled (groups I or II), and for citizens living and working in the mountain area settlement. In addition, there is an additional increment of 250 UAH per month per child under 13 years of age, and 500 UAH per month per child aged between 13 and 18 years.[14]

In April 2015, a maximum limit was placed on the benefits for low-income families. A benefit cannot exceed the sum of the subsistence minimum for the family. For low-income families without children, the maximum amount is set at the sum of 75 percent of the subsistence minimum for the family.

Further changes introduced in May 2015 removed the limitation on the size of owned land (previously less than 0.6 hectares) from the eligibility conditions for the benefit.

As Tables 18 and 19 show, both the number of beneficiaries and the expenditure on the benefits for low-income families increased substantially compared with other categorical benefits in 2014 and 2015. It is foreseen that this programme is expected to cover all households in the lowest income decile by 2019.[15] However, in 2015 the fiscal priority was shifted to housing subsidies, which started to play a major role in cushioning the impact of the freed energy prices. If this trend continues, the expansion of targeted social assistance to low-income families may not proceed as planned over the next few years.

2.10. Housing subsidies

The sharp increase in energy prices due to cuts in the energy price subsidies has led the Government to introduce a new procedure for income-tested housing benefits in 2015, with a view to partially compensating the costs of living for low-income households.

The housing subsidy covers the difference between the actual energy and utility bills paid by a family, and the specified mandatory bill amount. The amount is calculated by applying the estimated percentage of mandatory energy and utility payment (determined by the per capita family income) to the total family income.[16]

The change has widened the scope of potential applicants and now covers those who were not previously qualified for housing subsidies, such as landowners who are renting their property, owners of more than one car, unemployed persons who are not registered as unemployed, and individuals with high (more than ten times the subsistence minimum for able-bodied persons) expenses on health and education. However, a family is not eligible for the housing subsidy if it spent more than 50,000 UAH on a one-time purchase of goods or services in the previous year.

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14. As a result, the total guaranteed minimum income for a child under three years of age is 85 percent of the subsistence minimum plus 10 percent of this amount and 250 UAH. It exceeds the subsistence minimum for children of this age group.
15. World Bank (2014); Table 3.
16. According to the methodology developed by the Ministry of Social Policy, this percentage is estimated as 3.19 percent for every 500 UAH of the per capita family income.

In addition, the housing subsidies are now paid out throughout the year. Previously they were paid only in the winter season. Since May 2015, the application procedure has also been simplified so that only an income declaration is required.

As Table 22 presents, due to the significant growth of the number of recipients and the average amount of the subsidy from 2014 to 2015, the expenditure on housing subsidies for electricity, natural gas, heat, sewage and rent increased by more than six times, and the expenditure on housing subsidies for the purchase of solid and liquid domestic fuel and liquefied natural gas increased by more than four times. A further increase in the expenditure on housing subsidies is expected in 2016. As a consequence, the housing subsidy programme to certain extent overshadowed the planned expansion of targeted social assistance. The Memorandum of Economic and Financial Policies in July 2015 specifies further plans in this regard (see Box 2).

Table 22. Number of recipients and expenditure of housing subsidies, 2014–2015

Category		2014	2015	Ratio 2015/2014
Housing subsidies for electricity, natural gas, heat, sewage, rent	Number of households that applied for subsidies (in thousands)	1,687	5,922	3.5 times
	Number of households granted subsidies (in thousands)	1,510	5,393	3.6 times
	Total amount of subsidies (million UAH)	348.8	2,346	6.7 times
	Average subsidy (UAH/month, in December of each year)	335.3	1,091	3.3 times
Housing subsidies for the purchase of solid and liquid domestic fuel and liquefied natural gas	Number of households that applied for subsidies (in thousands)	263.1	753.3	2.9 times
	Number of households granted subsidies (in thousands)	242.3	617.4	2.5 times
	Total amount of subsidies (million UAH)	203.7	862.2	4.2 times
	Average subsidy (UAH/month, in December of each year)	1,042	1,448	1.4 times

Source: State Statistics Service, Statistical collection on granting subsidies (2014-2015) (express issue).

Box 2. Excerpts from the Memorandum of Economic and Financial Policies attached to the Letter of Intent to the IMF on 21 July 2015

"Increasing gas and heating prices to cost recovery requires an effective and fiscally affordable strategy for protecting vulnerable households. Under the current benefits system and projected price increases, the vast majority of households—including many with well above average income—would be eligible to receive significant social assistance next year. Reforms to the current system are needed to cope with the expected large increase in applicants and contain the fiscal costs while protecting vulnerable households. (…)

By May 31, 2016, we will reform utility-related social assistance by (i) reducing the scope of energy privilege programs to cover only households that remain exempt from income testing according to Law 76-VIII/2014; (ii) converging the associated benefits to the levels in the HUS program; and (iii) revising the benefit formula of the expanded HUS program in consultation with IMF staff to channel benefits to vulnerable households and provide incentives for energy efficiency. The overall fiscal envelope for all energy-related social assistance programs (privileges and HUS) will be set at UAH 43 billion."

2.11. Subsidies facilitating access to goods and services

An important and complex element of income support in Ukraine, inherited from the Soviet Union, is a system of subsidised access to certain goods and services with discounted prices. This benefit is called "пільги" in Ukrainian, which is somewhat misleadingly translated as "privileges." The system is regulated by about 45 legislations and normative acts. Typical examples of "privileges" include housing and utilities, fuel for domestic purposes, communication, transport, cultural services and others. Almost half of Ukrainian households benefit from some types of "privileges."

These benefits were available to 116 categories of people on the grounds of their social status (45 categories), professions (57 categories) and merits (14 categories). Table 23 presents the distribution of the funding of "privileges" among different socio-demographic groups in 2012. Old-age pensioners received more than one-third of these benefits (35.5 percent of the total spending) followed by children of war (19.97 percent).

Table 23. Composition of the funding of "privileges" by group, 2012

Categories of privileged beneficiaries	Share of funding
Veterans of War	7.94%
Veterans of Labour	17.20%
Children of war	19.97%
Persons injured by the Chernobyl disaster	6.94%
Veterans of military service internal affairs bodies	0.86%
Rehabilitated	0.04%
Handicapped disease	6.57%
Victims of Nazi persecution	0.02%
Retired firefighters, soldiers, policemen	0.45%
Rural teachers, librarians, growers, retired doctors, retired judges, investigators, retired miners	0.82%
Old-age pensioners	35.50%
Families with many children	0.94%
Children from a large family	2.76%

Source: Centre of Prospective Social Research (2014).

In 2014 and 2015, a series of measures were implemented which aimed at targeting these benefits to low-income groups. Under the new legislation, the categories of people who are entitled to privilege benefits include war veterans, children of war, victims of Nazi persecution, persons with special work merits, large families, pensioners with police service, teachers, health workers, and cultural workers in rural areas. Furthermore, an income test has been introduced. Since June 2015, the entitlement of "privileges" has been restricted to households whose income does not exceed the income allowing for tax deductions in the previous six months.

It is estimated that the new system of "privileges" covers approximately 4.7 million of Ukrainians. Of these, 3.7 million of the old beneficiaries retain their "privileges," but approximately 960 thousand of them may lose them in the future.

At the same time, new special benefits were introduced for participants in the anti-terrorist operation. As of May 2015, participants in the anti-terrorist operation have the same status as military personnel, therefore making them eligible for approximately 20 benefits in kind. These include free medicine, dentistry and sanatorium treatment, discounts on rent (75 percent), free transport, and additional living space. These "privileges" are extended to survivors of deceased anti-terrorist operation participants.

As Table 24 shows, the major item of the subsidy from the State budget to local budgets is subsidies for energy, other utilities and rents. The two other categories – transportation and fuel for domestic use – constituted significantly smaller shares of the total expenditure.

Table 24. Subsidy from the State budget to local budgets for various subsidies, 2013–2015

(in million UAH)

	2013	2014	2015	Ratio (%)	
				2014/2013	2015/2014
Subsidies for electricity, natural gas, heat, sewage and rents	6,046	6,173	17,995	102.1	291.5
Subsidies for the purchase of solid and liquid domestic fuel and liquefied natural gas	733.0	714.7	1,121	97.5	156.9
Subsidies for communications services and free public transport passes	1,829	1,766	1,735	96.6	98.2

Source: The Law on State Budget of Ukraine (2013–15), Statistical collections on the implementation of State Budget of Ukraine (2013–15).

2.12. Benefits for internally displaced persons

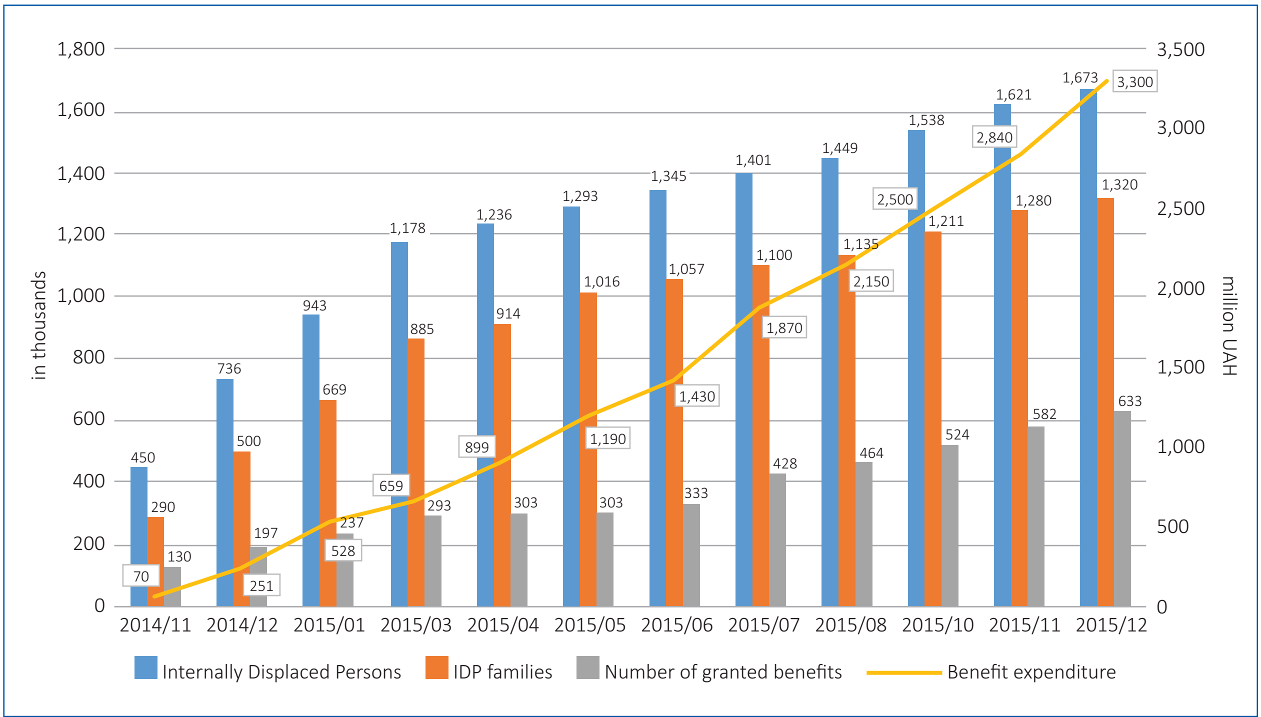
On 1 October 2014, a new benefit targeting internally displaced persons was introduced. This benefit, together with other services, also aim to support the integration of these people into new places of residence. The benefit is paid for 6 months, with the possibility of extension for an additional 6 months. The basic benefit amount for able-bodied persons is 442 UAH per month. For individuals who are incapable of work, the benefit is twice the basic amount (884 UAH per month), and for persons with disabilities it is equal to the subsistence minimum for this category (1,130 UAH as of 1 May 2016). The total benefit for a family cannot exceed 2,400 UAH per month. It should be noted that the income from this benefit is not included in the family income for purposes of assessing other social assistance benefits.

Certain conditions are set for receiving this benefit. An internally displaced family is not eligible for this benefit if it owns accommodation outside the temporarily occupied territory or if it has cash deposits of more than ten times the minimum wage. In addition, if there are able-bodied individuals who are not employed two months after receiving this benefit, the benefit amount is decreased by 50 percent for the following two months and ceases thereafter if the employment requirement is not met. Exempt groups include citizens who take care of children up to 3 years old, up to 6 years old who need care, or three or more children up to 16 years old; disabled persons; persons aged 80 years or older; citizens who provide social services; and full-time students.

In order to monitor the situation of internally displaced persons, a database was created based on data from the local authorities registering internally displaced persons. Figure 12 shows the number of the registered internally displaced persons from November 2014 to December 2015. By December 2015, a total of 1,673,135 persons in 1,320,162 families were registered, representing 3.9 percent of the population in Ukraine. Of these, 675,599 families applied for the benefit and 632,575 (or 93 percent of the applicants) received it. The benefit is financed by the State budget. The cumulative expenditure so far is 3.3 billion UAH, which is significantly more than initially expected.

The transfer of the pensions of internally displaced persons is also an important issue. In 2014, a total of 834,964 pensioners applied for the transfer of their pension to a new place of residence.

Figure 12. **Number of internally displaced persons and benefit expenditure, 2014–2015**



Source: Operational data of the Ministry of Social Policy of Ukraine, available at: http://www.mlsp.gov.ua/.

3. Conclusions

3.1. The ILO assessment of the recent changes to the Ukrainian social security system

Under the severe austerity measures introduced as a result of the economic downturn and the conditions imposed by international financial organizations,[17] the Government has implemented a number of reforms affecting the social security system.

From the ILO's perspective, we review the major elements of the changes and their implications.

First, freezing the value of the subsistence minimum (and suspending the indexation of social security benefits) in the high inflation period has had major negative consequences for all households. It has particularly hit low-income households who earn minimum wages or who rely on social benefits as their main source of income. Statistical evidence indicates that income inequality has increased, although poverty indicators did not capture the full impact due to the devaluation of poverty thresholds in real terms. As of November 2015, the average statutory subsistence minimum represents 53.5 percent of the estimated subsistence minimum. It is strongly recommended that this significant discrepancy is rectified by adopting a mechanism to adequately adjust the subsistence minimum and re-establish the social security benefits levels.

Second, the organizational restructuring through the merger of the two funds could save administrative expenses in the long run. However, one year after the decision was taken the merger still has not been completed yet, which indicates a lack of preparedness as observed by the social partners. The downside of this restructuring is related to the change in the governance structure, which diminishes the role of the social partners in the management and decision-making of the social insurance funds, hence reducing the autonomy of the funds.

Third, the single social contribution rate has been reduced significantly (by almost 60 percent). This measure would make sense only if the reduced contribution rate widens the tax base and results in positive fiscal effects. Based on preliminary observations, however, it is likely that the total contribution revenue will decrease, specifically affecting the pension system through the significantly reduced allocation rate. The additional fiscal pressure on the State budget to cover the widening financial deficit will likely lead to additional cuts in benefit entitlements.

17. The IMF statement on the 2016 Ukrainian budget states: "Approval of a budget consistent with the program objective of reducing the general government deficit to 3.7 percent of GDP is a key condition for the completion of the second review under the EFF-supported program. (…) Approval of a budget that deviates from program objectives for 2016 and the medium-term will interrupt the program and inevitably disrupt the associated international financing" (IMF Press Release No. 15/572, 18 December 2015). It should be noted that the expected deficit of the Pension Fund in 2016 is estimated to be 3.6 percent of GDP.

Fourth, various benefit cuts have been implemented. For pensions, the eligibility conditions have been tightened, and benefit payments have been further restricted. Specifically, these measures include the reduction of pensions for special groups, the elimination of preferential pension provisions for special occupational groups, the reduction of pensions for working pensioners, and the taxation of pensions above a certain threshold (although the Government increased significantly the minimum threshold for the pension taxation in 2016). In addition, significant cuts have been made to childbirth benefits for second and third children. Various auxiliary benefits paid by the Temporary Incapacity Benefits Fund have also been removed from the list of benefits financed by social security contributions. Although not all of these measures are unreasonable, they were implemented without the appropriate impact assessment, and many feel that they are fiscally motivated.

Fifth, the Government is contemplating the introduction of a mandatory funded pension tier as the next step of pension reform (see the Letter of Intent to the IMF cited in Box 1). An alarming remark should be made to this pension reform approach. It is important to note that this pension reform approach, which was very influential in the mid-1990s in the transition countries in Central and Eastern Europe, has yielded disappointing outcomes. There is ample evidence that the introduction of mandatory private pension systems in Central and Eastern Europe and in Latin America has not resulted in the intended macroeconomic impacts and has failed to expand coverage to the population outside the formal employment sector. Moreover, as anticipated, the significant transition costs associated with the introduction of these systems were added to the fiscal deficits of those countries, which went in the opposite direction from the deficit reduction in the short and medium-term.

Sixth, the Government aims to expand the role of social benefits targeted to low-income families. Generally, supporters of targeting assert that it can achieve a more efficient resource allocation for poverty reduction, especially when resource constraints are tight. Opponents who give preference to a universal approach argue that targeting is not effective in addressing issues of poverty. They point out that targeted social assistance systems typically exclude many low-paid working families and thus cannot effectively lift them out of poverty, involve extremely high administrative costs in identifying the poor, and undermine incentives to work. It is likely that this global debate will continue. In the context of Ukraine, the policy and its implementation strategy aimed at poverty reduction need to be carefully designed in view of the country's specific circumstances (see Section 3.3).

Last but not least, it should be observed that cutting energy price subsidies has necessitated the Government to finance an unexpected expansion of housing subsidies to compensate huge energy price increases for low-income households. Such an ad hoc change not only undermines the expected cost savings, but also brings about more negative consequences by shifting the financial burden onto other areas.

These analyses suggest that it would be sensible for Ukraine to consider a different approach. Under such an approach, key stakeholders should first agree on the benefit levels and mechanisms to safeguard them, and discuss measures to make the system sustainable in the long-term. This process should be based on a well-informed and participatory policy dialogue and a further in-depth financial and social impact assessment of the recent and proposed reforms of the Ukrainian social security system. For this purpose, international social security instruments such as the ILO Social Security Minimum Standards Convention No. 102 (1952), which Ukraine has recently engaged in ratifying, the ILO Social Protection Floors Recommendation No. 202 (2012), as well as the European Code of Social Security (1964) will serve as a framework of reference.

3.2. Views of social partners

The Ukrainian social partners have expressed great concerns that the recent reforms have negatively affected the social protection system and diminished its crucial function: to ensure basic protections in adverse situations. Both employers' organizations and trade unions have expressed their discontent with the very limited involvement of the social partners in the policy discussions. While they all understand the seriousness of the Ukrainian situation and appreciate the need for reforms and changes, they claim that many of these reforms and changes were decided without sufficient consultation with the social partners.

Social partners did have a say in various issues, including the merger of the Temporary Incapacity Benefits Fund and the Employment Injury Benefit Fund, the changed nature of the Unemployment Fund (namely the separation of the administrative operations, public employment services and the unemployment benefit payments), as well as the reduction of the single social contribution rate.

Trade union representatives have emphasized that the recent reforms are strongly driven by the austerity measures, which reduce the social rights of workers, especially the right to an old-age pension. The trade union representatives emphasized that the reform agenda lacks a clear vision, and that information provided by the Government was scarce even for major legal acts such as the budgetary bills. This situation is exacerbated by the diminished role of the National Tripartite Social and Economic Council.

Trade unions' central interest is the issue of unemployment. In their view, the Government is postponing its fight against unemployment, and is trying to retain control of the Unemployment Insurance Fund. At the same time, representatives of the unions raised the issue of the working poor, an emerging concern which has gained importance due to the decrease of the minimum wage in real terms in recent years.

Trade unions have also a critical view of the housing subsidies. In their view, this benefit weakens the bargaining power of workers. As an alternative, they believe that the Government should pay more attention to the quality of employment and make sure that the wages are increased sufficiently to compensate for energy price increases. Another important issue is the moratorium on labour inspection, which is seen as a way of weakening tax compliance.

Employers' representatives share the concern for the decreasing role of social dialogue in Ukraine at the State, enterprise and sectoral levels. The creation of the Social Insurance Fund, aimed at taking over the responsibilities of two funds, was done without consultation with the social partners. Employers also argue that the payment of the first five days of sick leave should be covered by the Social Insurance Fund.

Employers propose a reform of the Public Employment Service, which would allow them to outsource some tasks (such as training) to private agencies. They also propose an introduction of a social health insurance system to replace the current national health system funded by the State and local budgets.

3.3. Comments on the Poverty Reduction Strategy of Ukraine

The Poverty Reduction Strategy, adopted by the Government at the beginning of 2016, outlines its means and goals to be achieved by the year 2020. The Strategy is to be implemented through biennial Action Plans. The funding of the Strategy is to be secured through social security and other State resources.

The Strategy says the deteriorating labour market situation in Ukraine has been the major factor leading to an increase in poverty in recent years. The problems with the labour market include a large inflow of internally displaced persons, the widespread presence of the working poor and informality, and the weakness of the entrepreneurial sector. At the same time, the Strategy argues that poverty among some specific groups may be linked to low levels of social benefits. The risk of poverty is greatest in the rural areas and particularly affects children.

The Strategy concludes that the existing social benefits do not effectively reach the poor, and recommends the introduction of stricter targeting of social protection benefits. According to the 2014 data, only 30 percent of all social benefits reached poor individuals and 40 percent of the poor received no support, while only 25 percent of recipients could be classified as poor. The Strategy also argues that the outreach of social benefits to the poor improved in 2014 and 2015, thanks to a stronger emphasis on targeting and the scaling down of some categorical benefits.

The Strategy defines four strategic goals. The first goal is to increase access to employment and decent income from work, and to enhance social insurance coverage. This can be achieved through administrative reforms, as well as by subsidizing employment and creating preferential employment conditions for disadvantaged groups, particularly youths and persons with disabilities.

The second goal is to ensure equal access to social services and benefits for all across the country. This is to be achieved by enhancing the effectiveness and the efficiency of the administration of benefits and services at the local level, and by making improvements to infrastructure such as transportation.

The third goal involves combating poverty and the social exclusion of vulnerable groups. Here, the Strategy focuses on the better delivery of services and benefits to the neediest and the poorest, but also on the more efficient administration of such policy instruments and on providing incentives for enhanced self-help. The vulnerable groups include persons with disabilities, orphans, children deprived of parental care, and persons of similar backgrounds, large families with young children, persons affected by HIV/AIDS, patients with AIDS and tuberculosis, as well as ethnic minorities.

The fourth goal is devoted to responding to the challenges facing internally displaced persons. The social security administration and relevant authorities should make adjustments to meet their specific needs. The problems range from the registration of internally displaced persons to the provision of housing, counselling and other services.

While the Strategy sets out an important agenda, its consequences seem ambiguous. With respect to the social benefit policy, the main line of the strategy is to increase the targeting of social assistance benefits and to decentralize social assistance financing. Although it sets the goal to enhance the coverage of contributory social insurance coverage through more employment opportunities, it does not sufficiently recognize the positive aspects of universal social benefits in preventing poverty and the high coverage achieved.

Although the Strategy places an emphasis on employment, if a limited fiscal space inhibits proper labour market interventions, such a push to “any employment” could result in further deteriorations in job quality and the informalization of the labour market, which could in turn lead to the deprivation of social rights by limiting the access to social benefits.

The Strategy also assumes a major overhaul of the organization of the system, under which only a fraction would be financed through donor resources. Given the fiscal conditions, such an organizational change could put an additional burden on the State budget, crowding out mainstream social benefits.

It is recommended that the policies and strategies for poverty reduction should form part of a national strategy for achieving and maintaining a comprehensive social security system in compliance with international social security standards, notably the ILO Social Security Minimum Standards Convention No. 102 (1952) and the ILO Social Protection Floors Recommendation No. 202 (2012). Such a comprehensive social security system should play a crucial role in preventing and reducing poverty.

3.4. Concluding remarks – towards effective social protection floors in Ukraine

To protect the minimum benefit levels under severe austerity measures and to fulfil the goals of the EU Association Agreement,[18] the Ukrainian Government has recently taken crucial steps forward with the strong support of both trade unions and employers' organizations.

In 2015, the validation of the national study on the compliance of the Ukrainian social security law with ILO Convention No. 102 and the European Code of Social Security was carried out with the ILO's technical support. In February 2016, the President of Ukraine officially initiated the parliamentary process to ratify all the parts of ILO Convention No. 102. The Verkhovna Rada adopted the Law on the ratification of Convention No. 102 on 16 March 2016.[19] The Government is also considering ratifying the European Code of Social Security. All of these actions will contribute to strengthening the Ukrainian social protection system in compliance with the ILO Recommendation No. 202 (see Box 3).

Ukraine's ratification of ILO Convention No. 102 is a major milestone in its effort to maintain a well-functioning social protection system that ensures effective access to basic health care and adequate income security for all. The ILO, together with the UN System in Ukraine, stand ready to provide further assistance in translating these standards into reality.

Box 3. Key features of the ILO Social Protection Floors Recommendation No. 202 (2012)

The ILO Social Protection Floors Recommendation No. 202 (2012) calls for ILO member states and social partners to establish as quickly as possible and maintain their social protection floors comprising basic social security guarantees. The guarantees should ensure at a minimum that, over the life cycle, all in need have access to essential health care and to basic income security, which together secure effective access to goods and services defined as necessary at the national level.

The social protection floors should comprise at least the following basic social security guarantees:

(a) access to a nationally defined set of goods and services, constituting essential health care, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality;

(b) basic income security for children, at least at a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services;

18. The EU-Ukraine Association Agreement, signed on 21 March 2014, requires the Ukrainian Government to pursue the goals of "enhancing the level of social protection and modernising social protection systems, in terms of quality, accessibility, and financial sustainability" (Chap 21, Art. 420 (j)).

19. The ratification will enter into force 12 months following the date of registration of the formal act of ratification by the ILO Director-General.

Box 3. *(continued)*

(c) basic income security, at least at a nationally defined minimum level, for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and

(d) basic income security, at least at a nationally defined minimum level, for older persons.

Recommendation No. 202 also requires that member states formulate and implement national social security extension strategies, based on national consultations through effective social dialogue and social participation. Such national strategies should:

(a) prioritize the implementation of social protection floors;

(b) seek to provide higher levels of protection to as many people as possible, reflecting economic and fiscal capacities, and as soon as possible; and

(c) progressively build and maintain comprehensive and adequate social security systems coherent with national policy objectives and seek to coordinate social security policies with other public policies.

When formulating and implementing national social security extension strategies, countries should:

(a) set objectives reflecting national priorities;

(b) identify gaps in, and barriers to, protection;

(c) seek to close gaps in protection through appropriate and effectively coordinated schemes, whether contributory or non-contributory, or both, including through the extension of existing contributory schemes to all concerned persons with contributory capacity;

(d) complement social security with active labour market policies, including vocational training or other measures, as appropriate;

(e) specify financial requirements and resources as well as the time frame and sequencing for the progressive achievement of the objectives; and

(f) raise awareness about their social protection floors and their extension strategies, and undertake information programmes, including through social dialogue.

Recommendation No. 202 attaches particular importance to the role of social dialogue and to participative monitoring of social protection systems. Countries should monitor their progress in implementing social protection floors and achieving other objectives of national social security extension strategies through appropriate nationally defined mechanisms, including tripartite participation with representative organizations of employers and workers, as well as consultation with other relevant and representative organizations of persons concerned. They should regularly convene national consultations to assess progress and discuss policies for the further horizontal and vertical extension of social security.

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