

**Social protection and social inclusion in Belarus, Moldova and
Ukraine - Synthesis Report**

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Acronyms

CEE – Central and Eastern Europe

CIS – Commonwealth of Independent States

GDP – Gross Domestic Product

EC – European Commission

ETF – European Training Foundation

EU – European Union

EU-SILC – European Union Statistics on Income and Living Conditions

HBS – Household Budget Survey

HIES – Household Income and Expenditure Survey

IFAD – International Fund for Agricultural Development

IMF – International Monetary Fund

ILO – International Labour Organization

IOM – International Organization for Migration

LFS – Labour Force Survey

LMP – Labour Market Policy

NBB – National Bank of Belarus

NGO – Non Government Organization

NHIC – National Health Insurance Company (Moldova)

NMS – 'New' member states which acceded the EU 2004 / 2007

OECD – Organisation for Economic Cooperation and Development

PAYG – Pay As You Go

PES – Public Employment Service

PPMU – Poverty and Policy Monitoring Unit

PPP – Purchasing Power Parity

PULSE – Programmatic Ukrainian Living Standard Exercise

SADI – Small Area Deprivation Index

SSI – Statistics and Sociology Institute (Moldova)

SSIB – State Social Insurance Budget

SPSI – Social Protection and Social Inclusion

SSCU – State Statistical Committee of Ukraine

UNDP – United Nation Development Programme

UNFPA – United Nation Population Fund

UNICEF – United Nation Children’s Fund

UNIFEM – United Nation Development Fund for Women

UNPO – Unrepresented Nations and Peoples Organization

USD – US-Dollar

WHO – World Health Organisation

wiiw – The Vienna Institute for International Economic Studies

Executive Summary

Introduction

The present report examines social protection and social inclusion in Belarus, Moldova and Ukraine. It is based on three country reports of the respective countries completed by the end of 2009 and the beginning of 2010. Where appropriate, the report is supplemented by comparisons made with other countries and country groups of the region that share the same legacy, such as the new EU member states as well as the Western Balkan countries. The report explores economic, demographic and labour market trends including migration and the functioning of the educational systems, examines the social protection and welfare systems, analyses the risks of poverty and social exclusion and identifies the most vulnerable groups to poverty and social exclusion, looks at old-age, survivors' and disability pensions and assesses the access of individual population groups to health and long-term care. The report identifies future challenges for the modernization of social protection systems and for promoting social inclusion in terms of the Social Inclusion objectives of the European Union.

Economic, demographic, labour market and education trends

Economic transformation in Belarus, Moldova and Ukraine – as in other CIS countries – went along with the disruption of traditional production and trade links after the dissolution of the Soviet Union in 1991. In Moldova this process has been aggravated by the secession of Transnistria, the country's most prosperous economic region in Soviet times, generating around 40% of Moldova's GDP, one third of industrial production and nearly the entire production of energy (90%) in 1990. Ukraine and Moldova suffered from strong output declines in the early years of transition, e.g. in Ukraine real GDP fell by nearly 60% in the period 1991-1999. Economic growth in Belarus resumed as early as 1996 and has not been interrupted ever since.

The rapid economic growth during most of the 2000s and the general improvement in the living standards of the population have brought about a partial reversal of the negative trends prevailing during the first years of transition. Per capita incomes (in terms of purchasing power parity) vary widely across the three countries, ranging from EUR 10100 in Belarus to EUR 3000 in Moldova, while Ukraine ranks in between at EUR 6000. In 2008 the Belarus GDP per capita reached 36% of the EU-27 level, in Ukraine 24% and in Moldova only 9%. Estimates on the size of the informal sector indicate a considerably larger share of the unofficial economy in Belarus, Moldova and Ukraine than in the new EU member states: according to domestic estimates that share varies between 32% in Ukraine, 21% in Moldova and 15% in Belarus. International sources (e.g. Buehn and

Schneider), however, suggest the size of the informal economy to be over 50% of GDP in all three countries.

In terms of the employment structure, agriculture is still an important employer in Moldova and Ukraine, absorbing in 2008 31% and 14% of the total work force; its share, however has been declining over the past several years while the proportion of workers employed in the services sector has been on the rise, reaching in 2008 49% in Moldova, 62% in Ukraine and 64% in Belarus.

In Ukraine employment and activity rates increased steadily from 2002 onwards; the rise was evenly distributed between males and females, while Moldova shows a steep decline in employment rates at all levels with a stronger decrease for females than males, and in the rural versus urban regions. Irrespective of the methodology used, employment rates in Belarus resumed growth only in 2006, but are still high and compare well to the most advanced 'new' EU-member states such as Slovenia or the Czech Republic. From the mid-1990s labour migration became an increasingly important phenomenon, in particular from Moldova and Ukraine.

About one fourth of the active population of Moldova have left for work abroad; estimates on Ukrainians working abroad vary between 1 and 7 million persons. Labour migrants from Moldova and Ukraine are primarily male and young. Most of them come from rural areas; for instance, in Moldova more than two thirds of migrants are persons from rural areas with completed secondary education, while persons with higher education tend to stay in the country. The educational level of Ukrainian labour migrants is lower than that observed in earlier waves of migration or much lower than the average national educational level. Migrant workers' remittances have become an important source of income and have contributed to the decline in poverty in Ukraine and particularly in Moldova. Moldova is heavily dependent on remittances, which provided inflows of about 34% of GDP in 2007 with about one third of the population benefiting. Estimates for Ukraine indicate an inflow of remittances equal to 7-11% of GDP. By contrast, the remittance level has been relatively modest in Belarus with estimates varying between about 1% and 6% of GDP in 2006. For comparison, remittances account for approximately 20% of GDP in Albania, 18% in Bosnia and Herzegovina and 10% in Serbia.

Regardless of the measure used the number of unemployed in Belarus, Moldova and Ukraine has never been at levels as high as in many Western Balkan countries and even some new EU member states. Rising inactivity has become a serious problem in Moldova, increasing from 37.5% in 2000 to around 50% in 2008; in Ukraine and probably so in Belarus inactivity remained almost stable, but its structure has changed over time (Ukraine). The most worrisome trend has been the rising share of dependents and those looking after family/home, the majority of which are relatively young women (ETF, 2009, P.

25). Females account for more than 60% of the inactive population in Ukraine. They are also tend to be more outside the labour force than men in Belarus and Moldova, the reason behind being mainly family responsibility, but also lacking skills (Belarus). In all three countries unemployment – having increased strongly during the 1990s - fell during the 2000s up to 2008, when the unemployment rate stood at 6.4% in Ukraine, 1.1% in Belarus and 4.6% in Moldova. The main reasons behind these relatively low levels of unemployment are the slow speed of structural reforms, the decline in the working-age population, large-scale outward migration and rising informal sector activities. In Ukraine about 2.8 million persons (or 42% of those employed in rural areas) are working in subsistence agriculture officially counted as employed. Significant employment in subsistence agriculture which serves as a buffer for labour released from other sectors (e.g. from state and collective farms in Ukraine) is a common feature of all three countries. Subsistence agriculture is still an important source of income for most of the poor people living in rural areas. It is an important coping strategy against poverty for the low income groups, e.g. lone parent households, women and pensioners. For example in Moldova four out of five persons aged 65 and more are engaged in subsistence agriculture, in Ukraine more than one quarter of those in retirement age. In Ukraine the majority of self-employed are involved in activities related to subsistence agriculture due to the lack of other job opportunities and sources of income. The strong engagement in subsistence farming is also considered as the main reason for higher employment rates/lower unemployment rates in rural areas than in urban regions.

Certain structural features have remained unchanged or even deteriorated during the past years: regional disparities continue to widen, and skill mismatch has become a growing concern in the economies of the three countries at stake. In addition, Belarus, Moldova and Ukraine are severely hit by the decline and ageing of their populations. Based on assumptions for fertility rates, migration and life expectancy of the population, the population in Belarus may fall by 11% between 2010 and 2030 according the UN population forecast. According to the same source the population of Moldova and Ukraine may drop by some 11% each.

Since gaining independence the three countries have been reforming and modernizing their educational and training systems. Accordingly, primary and lower secondary education remains compulsory and is provided free of charge. There have been reform attempts to extend compulsory education, shorten the school week and granting the right to establish new educational establishments, and to improve vocational and educational training. Pre-school enrolment rates used to be very high in the former Soviet Union. Available data indicate a strong decline of enrolment rates during the initial years of transition in Ukraine and Moldova up to 1999 and an increase thereafter, while there was only a slight fall in Belarus. Urban-rural differences in enrolment rates are large. In terms of upper secondary education, enrolment rates are highest in Ukraine, at about 58%, while

the respective figures for Belarus and Moldova are 51% and 48%. These rates are very low when compared to the new EU member states, which report values of over 90%.

Discrimination against Roma children in education is widespread in Belarus, Moldova and Ukraine. Roma children are very often referred to schools with fewer resources than elsewhere in the countries and completing, if at all, mostly primary education. Discrimination in education against persons with disabilities is prohibited by law but still occurs in practice.

Disparities in the quality of education between urban and rural areas are addressed in all three SPSI country reports. Both the ETF Study on Ukraine and the Moldova SPSI report emphasize the problem of poor school infrastructure and the poor remuneration of teachers. Moldova faces a shortage of teachers particularly in rural areas, and about 14% of teachers are pensioners. Informal payments to education are very common in Moldova and Ukraine, representing a major problem for poor families (particularly in rural areas) who cannot afford these payments.

Thus far, the economies of Belarus, Ukraine and Moldova have been hit to a varying degree by the global economic and financial crisis, with Belarus performing the best and Ukraine the worst when it comes to developments in real GDP. In Belarus, recession could be avoided thanks to the expansionary fiscal and monetary policies aimed at stimulating the domestic demand, which made up for the falling export revenues. On the contrary, in Ukraine and Moldova the adverse impact of the crisis has been magnified by their relative backward economic structure. The impact of falling remittances – including increasing poverty – is likely to be felt over-proportionately in rural areas where two thirds of Moldovan migrants are coming from.

Irrespective of the current economic situation, many of the social problems created by the post-socialist and agricultural transformations are still present and have to be tackled. The continuing demographic decline and the related population ageing, outward migration and phenomena related to the shadow economy (tax evasion) represent serious challenges for the sustainability of the health care and pension systems in these countries due to a reduced inflow of revenues and contributions in the years to come.

Social protection systems

Belarus, Moldova and Ukraine inherited a well developed social protection system from the Soviet past, including a pay-as-you-go pension system, social assistance programmes for people with special needs such as the disabled and orphans, as well as numerous untargeted in-kind and subsidized services. But in the face of deep recession at the outset of transition, most of these benefits became unaffordable for the newly independent states.

After the break-up of the Soviet Union, Belarus, Moldova and Ukraine had to create a number of social protection programmes and new institutions from scratch, while some elements of the old system have been preserved, particularly in Belarus, to a lesser extent in the two other countries. In the course of transition the three countries opted for a combination of state social insurance (contributory scheme) and social assistance (non-contributory scheme). Due to the lack of resources and partly due to the lack of political will the reform outcomes have been poor so far and the social protection systems continued to be fragmented and inefficiently targeted.

In all three countries unemployment insurance schemes were introduced from scratch during the early 1990s. However, the coverage and replacement rates are low or insufficient and the entitlement period is short, particularly in Moldova; thus the unemployment insurance schemes in these countries do not appear as an appropriate instrument aiming at poverty alleviation.

Supporting families has been an important policy objective at the outset of transition when most of the countries introduced universal cash transfers for families with children in order to mitigate the impact of economic recession. As public budgets contracted following the economic downturn in the initial years of transition, a number of benefits became means tested. In Belarus, Moldova and Ukraine family benefit schemes are ranging from birth grants and child benefits to various types of family allowances e.g. allowances for single parents, handicapped children, for families with three or more children or children infected with HIV. In addition to the overall provision of contributory and non-contributory benefits the system of social privileges, dating back to former Soviet times, is still in place in Belarus (in a modified form), Moldova and Ukraine. Accordingly privileges, rights and guarantees are granted to certain professional categories, war veterans or victims of the Chernobyl accident.

The Soviet legacy segregating disabled persons is still present in Belarus, Moldova and Ukraine, where social rehabilitation is very much concentrated on medical rehabilitation. Currently rights of the disabled are generally protected by law, but they are often not enforced. In all three countries people with disabilities are provided with pensions and other social benefits, medical services, tax allowances or benefits in kind. Access to education and training of people with disabilities as well as the support provided to their inclusion into the labour market are still unsatisfactory.

Despite some reform attempts in the past couple of years, institutionalization is still perceived as the main form of protecting children at risk in the countries under consideration. In Moldova migration has contributed significantly to the rise in the number of children without parental care and consequently children in residential institutions.

Roma in the region tend to be overrepresented as recipients of social assistance, child benefits in particular, providing an important source for income. For example, in Moldova social assistance provides about 6% of the Roma income compared to 3% of non-Roma families. On the other hand only a small percentage of the Roma population is entitled to social insurance benefits due to low formal employment levels associated with high long-term) unemployment. The Moldova report states, that the extent of the Roma populations' participation in the social insurance system and their inclusion into social assistance programmes is unknown due to the lack of data. Roma often do not declare their identity because they fear discrimination.

Other groups at risk are the homeless and released prisoners. According to estimates of NGOs there were about 85,000 homeless persons in Ukraine in 2006, the main reason behind were low living standards in insufficient income as a consequence of economic transition. A survey conducted among homeless found that 43% of the respondents did not have identification documents excluding them from the entitlement to pensions or social assistance. Thus, only a small portion of homeless (20%) receives social assistance. Overall, homeless are in a poor state of health. In Moldova, support for homeless if at all is only provided by NGOs, while in Belarus homeless are not yet considered as vulnerable.

International organizations and donors play also an important role in developing and supporting the social protection systems, however differing by country. In Belarus for example the role of international donors and NGOs is limited due to the reluctance of the government to accept foreign humanitarian aid and technical assistance. In Moldova, by contrast, foreign donors contributed significantly to the consolidation of the social protection system including its institutional framework and human resources. In Ukraine the EU is one of the most important donors. Assistance ranges from the management of migration and the promotion of non-profit services providers to strengthening of capacities of NGOs to provide social services together with local governments. More than one third of non-government social services providers in Ukraine are dependent on international donations.

Poverty and social exclusion

Poverty in Belarus, Moldova and Ukraine is characterized by large differences depending on the economic situation and the stability of the development path, conducted economic and social policies and the level of income inequality in the respective countries. Relative poverty rates are quite similar in all three countries. In Belarus, in 2008, 12.5% of the population fell below the threshold of 60% of the median household consumption per capita equivalent, in Moldova 15.1% (2007), while in Ukraine 13.2% of the population can be considered as poor based on household income data. In absolute terms, however, the differences are substantially larger, pointing to higher general welfare levels in Belarus and also in Ukraine as compared to Moldova. In addition, during the process of transition

economic inequality remained much lower in Belarus than in the other two countries. In order to compare the situation of absolute poverty in these countries, it seems reasonable to report the share of people falling below the thresholds of USD 2.5 PPP and USD 5 PPP, respectively, consumption per capita per day (measures applied by the Worldbank). In Moldova 30% of the population face consumption levels below USD 2.5 PPP and 77% below USD 5 PPP, while in Ukraine this is the case for only about 1% and 18%, respectively. In Belarus even less than 1% face daily consumption levels below USD 2.5 PPP, 13% of the population below USD 5 PPP in 2007.

Due to the economic slump at the beginning of transition – already before but particularly after the break-up of the Soviet Union – Belarus and even more so Ukraine and Moldova had to face a sharp rise in absolute poverty. In addition this was driven by the rise in inequality that followed swiftly. The peak of poverty was reached at the end of the 1990s when the transitional recession bottomed out, but the Russian rouble crisis in 1998 had worsened the welfare situation once again. From the end of the 1990s onwards the resumption of economic growth and an improvement of the situation of inequality (in Belarus and Moldova) led to a substantial decline in absolute poverty rates. However, relative poverty remained quite stable in all three countries even though showing a downward trend, particularly in the more recent period of 2004-2008. The world-wide economic crisis has hit Ukraine and Moldova harder than the EU average. Since their social security systems and their benefit systems in particular are generally not well equipped to mitigate the negative social effects of the economic downturn, one likely impact of the current crisis will be a rise at least in absolute poverty in those two countries.

To interpret the situation of inequality and poverty in Belarus, Ukraine and Moldova in 2007, it is useful to compare it with that of some neighbouring EU member states as well as Russia. Absolute poverty rates, according to USD 5 PPP, e.g. in Estonia (18%) and Poland (20%), are higher than in Belarus but in line with that in Ukraine. The rate of Romania (45%) is above those of the latter two countries but still much below the one of Moldova. Relative poverty rates in 2007, based on EU methodology, are quite low in Belarus, Ukraine and Moldova compared to EU countries. In Poland the poverty rate reaches 17%, in Romania 19% and in the Baltic States it ranges between 19% and 21%, being among the highest in the EU-27. However, it should be pointed out that relative poverty rates of Belarus and Moldova are not fully comparable with those of EU countries as the former ones are based on consumption data, while the EU poverty rates nowadays are based on income data. For comparative reasons, therefore, it may be useful to report figures on income inequality as well. The Gini coefficients of household incomes in Poland, Romania and the Baltic States are among the highest in the EU-27, ranging between 0.32 and 0.35. The Gini coefficient for Belarus is reported to be 0.29, for Ukraine 0.30, while that for Moldova stands at 0.39. Therefore one can conclude that relative poverty may indeed

be somewhat lower particularly in Belarus and Ukraine than in Romania or the Baltic States, which is most probably not the case for Moldova.

In Belarus and the Ukraine poverty is less widespread but more concentrated in population groups that have a less favourable standing in the labour market or have no access to formal income at all. Thus, the relative poverty rate of unemployed persons in the former country amounts to 30.3%, compared to 12% in the total population. This is due to the low level of unemployment benefits, which make up only 20% of the official poverty line in Belarus. Moreover, less than 10% of those unemployed actually received benefits in 2007. Also disabled persons face a high risk of poverty, since their access to the labour market is quite restricted and they receive rather low public transfers. In all three countries analysed rural households face a much higher incidence of poverty than the rest of the population. In Ukraine and Moldova even in the period of higher growth from 2000 onwards the urban/rural gap in living conditions continued to widen. In Ukraine half of rural dwellings lack conveniences such as water pipes and lavatories, central heating and gas supply, which is the case for only about 15% of urban dwellings. 40% of rural households have no telephone and one third faces an absence of medical institutions and public transport. In Moldova, where poverty is in general a more widespread phenomenon, also farmers and agricultural workers are facing high in-work poverty rates due to the rather low level of average incomes. In addition, also in small towns the incidence of poverty is high in the country, pointing to the problematic heritage of mono-structural industrial planning in the Soviet era which led to mass unemployment during transition, as restructuring was hampered by the lack of capital and insufficient infrastructure.

Furthermore, households with three or more children are much more vulnerable to poverty in all three countries, due to child benefits being very low. In addition, there is evidence for Moldova that households with children left behind face a higher risk of being poor. Survey data for 2007 suggest that 37% of children aged 0-14 years are not living in families with both parents, and in slightly more than half of the cases this is due to the migration of one or both parents.

Material deprivation indicators also highlight the fact of social exclusion of poor households in general. In Moldova about 80% of poor households are not connected to a sewerage system, which is the case for 50% of non-poor households. Hot water supply is available for only 10% of poor households (for 35% of non-poor households), 83% have no bathroom or shower, 45% no telephone (56% and 11.6% respectively for non-poor households). In Belarus about 40% of poor households have no connection to a sewerage system, 52% no hot water supply (15% and 27% of non-poor households), while 47% have no bath and 40% no telephone (23% and 13% respectively for non-poor households).

During transition discrimination has been reinforced in particular for the Roma population, representing up to 4.2% of the total population in Moldova and close to 1% in Ukraine and Belarus – as their situation worsened due to the loss of basic support provided under the centrally planned systems. Only a small percentage of the Roma population is entitled to social insurance benefits due to low formal employment levels associated with high (long-term) unemployment. In all three countries the Roma population is considered one of the groups most affected by unemployment due to generally low qualification and the high rate of illiteracy. The high prevalence of Roma in informal sector employment also limits their access to benefits based on social insurance contributions, including health care and unemployment benefits.

In the Ukraine another minority facing social exclusion are the Crimean Tatars, which constitute a population of about 250 thousand people. They are reported to live predominantly in 'compact living' communities with unsatisfactory infrastructure, facing a deterioration of their health status and increasing mortality rates.

Pension systems

The pension systems of Belarus, Moldova and Ukraine rely mainly on traditional unfunded compulsory state-run pay-as-you-go (PAYG) schemes based on a defined benefit plan, partly linked to the members' wages and length of employment. The public is not included in the reform process and the governments have started some minor changes of the system only half-heartedly. Essentially, the former Soviet pension system is still in force.

The level of adequacy of the pension systems of Belarus, Moldova and Ukraine is rather low. The replacement rate of average pensions to average wages in recent years is somewhat below 30% in Moldova, 40% in Belarus and 45% in Ukraine. As a consequence, poverty among pensioners is wide spread. By comparison, the replacement rate in the EU is at about 50%, with some of the more developed welfare systems, such as Austria and Sweden, having replacement rates of above 60%. While in the Baltic States, the replacement rate is at around 40% as well.

Regarding the sustainability of the pension systems, the demographic development is a challenge. Moreover, strong migration outflows, in particular from Moldova, reduce the local work force. At present the demographic dependency ratio of the population aged above 65 years and the working-age population amounts to 14% in Moldova, 21% in Belarus and 24% in Ukraine. This is still quite below the EU average of above 25%. One reason is the very low life expectancy. Currently the male life expectancy at birth in Belarus, Moldova and Ukraine is well below 65 years. The EU average is about ten years above that value, ranging between 78 years in Sweden and about 65 years in the Baltic countries.

However, the actual number of contributors among the working-age population in Belarus, Moldova and Ukraine is low. Thus, the systemic dependency ratio of pensioners to contributors is about double the size of the demographic dependency ratio. One reason behind is the endemic informal sector. Increasing the number of regular contributors to the pension funds in the work force will be a key challenge in the medium term. While pension system reform plans that should acknowledge for the long-term demographic change have been developed, implementation has not started yet.

At present, Ukraine, Belarus and Moldova have some of the lowest retirement ages in Europe, based on the old Soviet scheme (55 years for females and 60 years for males). Only Moldova has implemented a small increase in the retirement age, by two years. In most European countries the statutory pension age is 65 for men and either 60 or 65 for women. The Baltic peer group has a retirement age of about 63 and 60, for men and women respectively.

Throughout the whole region, the main drivers of change in the pension systems are still representatives of social security funds, government and parliament. The role of non governmental organizations (NGOs), trade unions and private business is rather limited. That is one of the reasons why there is only limited willingness to change the system and face future demographic challenges in view of long-term adequacy and sustainability of pensions.

It appears that all of the old-aged are covered by pensions throughout the region. Minorities and other vulnerable groups are not being perceived as excluded from the pension system. Moreover, inequality among pensioners seems to be rather low. Today's pensioners have gained similar eligibilities given the egalitarian wage structures in Soviet full employment times. Only about 2-5% of the pensions are social pensions. However, the general level of pensions is low and poverty among pensioners widespread. Thus it seems that most of the pensioners represent a vulnerable group in itself.

The main threat to the sustainability of the current pension systems in Belarus, Moldova and Ukraine in the medium to long run is the low retirement age and especially the huge share of the informal sector in these countries. Together with the large number of unemployed persons who do not meet the minimum contribution period to the social security funds, this will pose a serious burden to the pension system in the decades to come. Estimates suggest that the inclusion of informal employment in the pension system could prolong the sustainability of the pension system by about two decades.

In the long run, the unfavourable demographic development appears to be the main threat to the pension system. Fertility rates decrease year by year, which in turn constantly increases the demographic dependency ratios. At the moment life expectancies do not

increase substantially. However, once economic development improves the health conditions of the population, a strongly increasing deficit of the social security funds is inevitable. Again, estimates suggest that raising the retirement age by five years could prolong the sustainability of the pension system by about two decades.

At the time being the public awareness and acceptance of pension system issues is rather low in the three countries analysed. People have to cope with current economic concerns. Moreover, the pension system is misused by the governments for political purposes. The social security funds are not self-governing. NGOs, trade unions and employers associations are excluded from the reform process.

Health and long-term care systems

In Belarus and Ukraine, the main features of the health care sector have been inherited from the Soviet times. They essentially represent a so-called 'Semashko-type' tax-financed centralized state model of health care, which shares a number of common features with the 'Beveridge' model characteristic of the United Kingdom and Malta (and until recently Cyprus), but is different from the insurance-based 'Bismarckian' system observed in other EU countries. In contrast, in Moldova compulsory health insurance was introduced in 2004, following respective moves in the new EU member states (NMS) of Central and Eastern Europe in the course of the 1990s. Moldova's health care system is a variety of the broad spectrum of social health insurance systems observed in the NMS. For instance, the collection and administration of health insurance contributions is managed by a single fund (similarly to most NMS except Slovakia, the Czech Republic and Romania) and the burden of contributions is shared between employers and employees (similarly to most NMS except Poland and Estonia), although the state is the single most important contributor to the budget of the health insurance fund (similarly to Bulgaria, Latvia, Poland and Romania).

The constitutions of Belarus, Ukraine and Moldova guarantee universal access to health care. However, in reality access to health care is hampered in a number of ways, most notably – though not only – because of the wide incidence of private 'out-of-pocket' (including 'shadow') payments, which amount to at least 30-50% of public health care-related expenditures and make up for the very low official wages earned in public health care establishments, standing generally at some EUR 100-150 per month. (Such informal payments are also widespread in a number of EU countries, including most NMS, but also e.g. Italy and Greece.) On the provider side, the system essentially remains state-run in all three countries, although a network of private health care institutions began to emerge, focusing in the first line on pharmacies and dentistry.

Although many quantitative indicators of the health care sector look favourable in relation to international benchmarks, the quality of medical services provided is not always satisfactory. Partly, this is due to the chronic underfinancing of the public health care sector and the insufficient levels of investment. Public expenditures on health care in Belarus, Ukraine and Moldova hover around 4% of GDP as compared to some 7% in the EU. On top of this, available funds are often used in a sub-optimal way: in Belarus and Ukraine, for instance, there are still overcapacities in the hospital sector, while primary care is still underdeveloped. In this respect these two countries are similar to most NMS (except the Baltic states, Poland and Slovenia) where a large-scale reduction of overcapacities in the hospital sector has been deterred by the lack of respective legislation and the decentralization of hospital care, which made it more difficult to implement reforms. However, in Moldova the hospital sector has been radically downsized, and the number of hospital beds per 10,000 of population is now comparable to that in Germany.

The quality of health care services provided is also hampered by the existing – largely administrative – model of funds allocation. Even in Moldova, despite the introduction of a formal fee-for-service in health care, the salaries of medical personnel are still generally set in an administrative way, often providing distorted incentives for medical personnel who may not be interested in the quality of the services they provide. The health outcomes of the population are also negatively affected by the generally unhealthy lifestyle, excessive consumption of alcohol and smoking, the wide incidence of non-natural causes of death, poor water supplies and sewage standards, and in some instances (notably Belarus) by the radioactivity-related consequences of the Chernobyl accident. As a result, life expectancy in Belarus, Ukraine and Moldova is 11-12 years shorter than in Western Europe; the difference to NMS is much less pronounced. Belarus and Ukraine also record a high gender discrepancy in life expectancy. Mortality rates in all three countries, particularly in Ukraine, are higher than in the EU, although the gap with some NMS (such as Lithuania) is smaller. Similarly to, e.g., Bulgaria and Romania, access to health care services in Belarus, Ukraine and Moldova is generally poorer in rural areas where health care establishments are often under-staffed, and the coverage by compulsory insurance (in the case of Moldova) is lower than in urban centres. In Ukraine and Moldova, the health situation of the Roma minority and their poor access to health services are particularly troublesome.

The provision of long-term care in Belarus, Ukraine and Moldova is underdeveloped and *de facto* split between the ministry of health and the ministry of labour and social policy. The capacities of nursing and elderly care houses have fallen since the break-up of the former Soviet Union. However, there is a network of social workers providing long-term care services on a domicile basis, often in collaboration with local authorities. Also, nursing by family members has traditionally provided an important relief to the problem, although

the disruption of traditional family links is increasingly raising demand for formal long-term care services.

Key challenges

- Sustained economic growth is an indispensable condition to create decent employment and to alleviate poverty and social exclusion. There is a need for policy responses to improve the access to education for the disabled, minorities (e.g. Roma) and those living in rural areas. Social services and social assistance targeting need to be developed since vulnerable groups are not adequately addressed; policies to mitigate regional disparities are missing. There is still a large number of persons – lone parents, women, pensioners - in rural areas dependent on subsistence agriculture, implying that there is a high number of low qualified jobs and a lack of social security. Measures of active inclusion of vulnerable groups into the labour market – assistance for (re-)integration – are not adequately designed or missing. Coordination among the main actors is either weak or non-existent and the administrative capacity of governments is low. The cooperation between governments and NGOs in providing social services is limited.
- In Moldova and Ukraine, poverty, material deprivation and social exclusion are widespread in rural areas due to low productivity in agricultural production, often subsistence farming, and also in small ('mono-industrial') towns. In addition, also in Belarus, population groups that have a less favourable standing in the labour market, such as the low-educated, or have no access to formal employment at all and thus depend upon social benefits, face a higher risk of poverty. Due to the rather low level of social benefits in all three countries the unemployed, pensioners and families with three or more children are often poor. In Moldova low welfare levels of a large part of the population is still a key challenge and child poverty in general is a severe problem, comparable to countries in the Caucasus and Central Asian CIS and much more pronounced than in Belarus, Ukraine or Romania. Left-behind children are one group of the population that has to bear severe negative consequences due to mass migration. In Ukraine and Moldova the Roma are reported to be extremely poor and socially excluded in many aspects of life. In Ukraine this is also the case, although to a lesser extent, for the Crimean Tatars. Thus, there is a need for policy responses to the vulnerabilities of ethnic minorities, the Roma in particular, focusing on housing, health, education and employability. In general, in order to alleviate the most severe forms of poverty and material deprivation, it would be useful to introduce measures of minimum income provision in all three countries.
- The replacement rates of average pensions to average wages in the state-run PAYG schemes of Ukraine, Belarus and particularly Moldova are rather low and decreasing. Demographic dependency ratios between the number of population above the age of

65 and the number of working-age population are increasing. However, the main concern in the medium term is the high and increasing systemic dependency ratio of pensioners to contributors. Thus, the key challenges to the pension systems are the inclusion of employees from the informal sector as well as a reduction of unemployment and an increase in non-precarious formal employment. The public is not included in the reform process and the governments have started some minor changes of the system only half-heartedly. Essentially, the former Soviet pension system is still in force. Long-term demographic changes should be addressed as soon as possible in order to allow for smooth adjustments, such as in the area of the retirement age. As a result, the main challenge will be to ensure an adequate and sustainable level of average and minimum pensions.

- The current economic crisis puts forth additional challenges for the health and long-term care sectors of Belarus, Ukraine and Moldova: tax revenues and health insurance contributions are generally going down, while health-related expenditures either remain constant or even increase, e.g. because of returning labour migrants (in Moldova) but also because imported medicines have become more expensive following the recent currency devaluations (in Belarus and Ukraine). In the longer term, the challenge to the countries' health and long-term care systems emanates primarily from demographic developments such as population ageing, requiring more expenditures on health and long-term care. In Moldova, the so far rising revenues of the national health insurance company have been made possible not least by the upward adjustments in health insurance contributions, which can hardly be viewed as a sustainable financing strategy for the future. Besides, in all three countries, the goals of increasing accessibility and equity in health care provision via reducing the incidence of out-of-pocket payments would almost certainly require substantial upward revisions of official salaries of medical personnel. At present, there is little evidence that the countries' authorities are prepared to tackle these issues. In Belarus, any major reforms of the health care sector have been virtually frozen, while Ukraine – though planning a switch from the administrative to a contract-based model – aims at adjusting the state guarantees to the realistic volume of 'free' health care services.

Social protection and social inclusion in Belarus, Moldova and Ukraine - Synthesis Report

Introduction

This synthesis report is based on the three country reports on social protection and social inclusion written by the teams of Belarus, Moldova and Ukraine and completed at the end of 2009 and the beginning of 2010. The report also draws on findings from other studies (e.g. ETF, UNICEF) and follows the broad structure of an earlier synthesis report on the Western Balkan countries.

The main objective of the synthesis report is to identify the key future challenges for the modernization of social protection systems and the fighting of poverty and social exclusion in Belarus, Moldova and Ukraine. In particular, the synthesis report summarizes on a comparative basis the similarities and the differences in social protection and social inclusion in the three countries at stake. Where appropriate, the report is supplemented by comparisons made with other countries and country groups of the region that share the same legacy, such as the new EU member states as well as the Western Balkan countries. The synthesis report on the latter (EC, 2009) provides a good benchmark in this respect, as it covers countries at a similar level of economic development, and was prepared already taking into account the newly developed set of indicators (EC, 2006).

The report will be organized as follows: Chapter 1 analyses the economic and social setting with a particular focus on labour markets, educational systems, gender relations and demography. Chapter 2 examines social protection and welfare systems. Chapter 3 analyses the risks of poverty and social exclusion and identifies the groups most vulnerable to poverty and social exclusion. Chapter 4 focuses on old-age, survivors' and disability pensions. Chapter 5 addresses health trends, assesses the access of individual population groups to health care, and analyses the structure of the health care systems and the access to health services and long-term care. Finally, Chapter 6 identifies the key challenges for the modernization of social protection systems and the fighting of poverty and social exclusion in Belarus, Ukraine and Moldova.

The analysis, however, is limited by the lack of comparable data in some cases. In this report we rely where possible on Eurostat data and data obtained from the national statistical offices through the individual country reports. In addition we used the UNICEF TransMONEE database, the CIS database as well as the wiiw database.

1 General overview

1.1 Introduction

The break-up of the Soviet Union in 1991, the related disruption of existing economic linkages and the subsequent economic transformation have left their marks on Belarus, Moldova and Ukraine – albeit to a differing degree. The general decline in the levels of GDP and living standards accompanying the economic restructuring, on the one hand, and the mounting income disparities (particularly in Ukraine and Moldova), on the other hand, represented a serious blow to the levels of social protection and to the operation of social safety network.

Wages earned have often been extremely low (particularly in the public sector), while pensions have been even lower. The virtual non-existence of trade unions, the initially high inflation (coupled with delays in the indexation of public wages and pensions), population ageing (and the related increase in the pension burden within the framework of the inherited ‘pay-as-you-go’ system), and – last but not least – the wide proliferation of wage arrears and barter (particularly in the 1990s) and of ‘shadow’ economy (which undermined public revenues and thus the state ability to fulfil its social obligations) have all contributed to the deterioration in living standards in general and a sharp rise of material deprivation of the poorest population segments. Simultaneously, low wages paid in health care and education – both belonging largely to the public sector – gave rise to the wide incidence of ‘side payments’, with obvious negative consequences for the poor.

The rapid economic growth during most of the 2000s and the general improvement in living standards of the population have brought about a partial reversal of these negative trends, particularly in Belarus and Ukraine. By 2008 only Belarus managed to exceed its 1990 GDP level (by 67%), while in Ukraine and Moldova GDP levels stood at 75% and 57% of the pre-transition levels.

Irrespective of the current economic situation, many of the social problems created by post-socialist transformation are still present and have to be tackled. The continuing demographic decline and the related population ageing, outward migration and phenomena related to the shadow economy (tax evasion) represent serious challenges for the sustainability of the health care and pension systems in these countries due to a reduced inflow of revenues and contributions in the years to come.

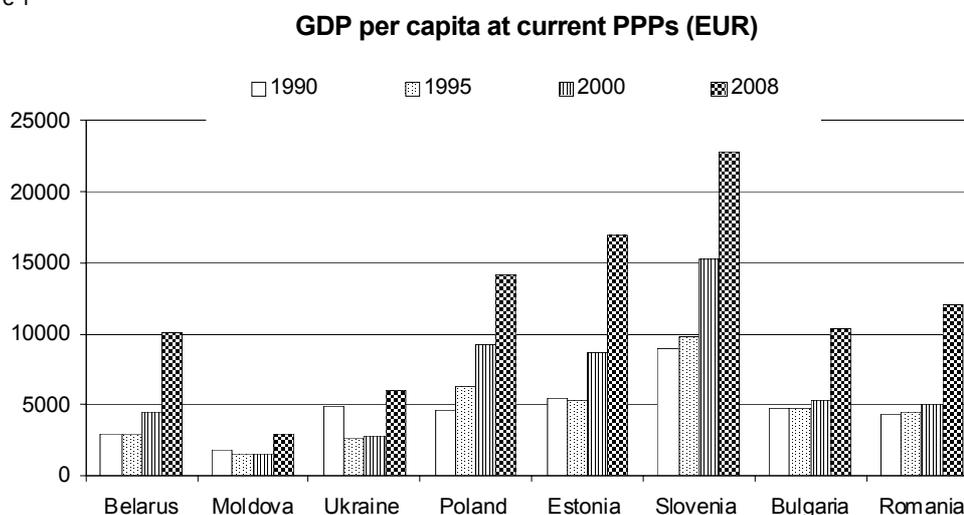
1.2 Macroeconomic overview

Economic transformation in Belarus, Moldova and Ukraine – as in other CIS countries – went along with the disruption of traditional production and trade links after the dissolution

of the Soviet Union in 1991. In Moldova this process has been aggravated by the secession of Transnistria, the country's most prosperous economic region in Soviet times, generating around 40% of Moldova's GDP, one third of industrial production and nearly the entire production of energy (90%) in 1990 (SPSI, Moldova 2009). Ukraine and Moldova suffered from strong output declines in the early years of transition, e.g. in Ukraine real GDP fell by nearly 60% in the period 1991-1999. Economic growth in Belarus resumed as early as 1996 and has not been interrupted ever since (Annex Table A.1.1a) aided by the high economic dynamics in Russia – Belarus' main trading partner. The peculiarity of the Belarusian development path is, however, that some essential features of the planned economy have been preserved. Genuine recovery in Ukraine and Moldova started only in the aftermath of the Russian crisis and the countries reported high growth rates up to 2008. However, in 2009 only Belarus had surpassed the pre-transition GDP level significantly, while it remained far below the 1990 level in Moldova and in Ukraine (Annex Table A.1.1b).

Figure 1 shows that GDP per capita (in terms of purchasing power parities) grew fast particularly from 2000 onwards, but interregional disparities remained significant, ranging from EUR 10100 in Belarus to EUR 3000 in Moldova, while Ukraine ranks somewhere in between at EUR 6000. Belarus' GDP per capita is similar to that in Bulgaria and amounts to about 36% of the EU-27 level, while the per capita incomes in Ukraine correspond to only 24% and in Moldova only 9% of the EU-27 level.

Figure 1



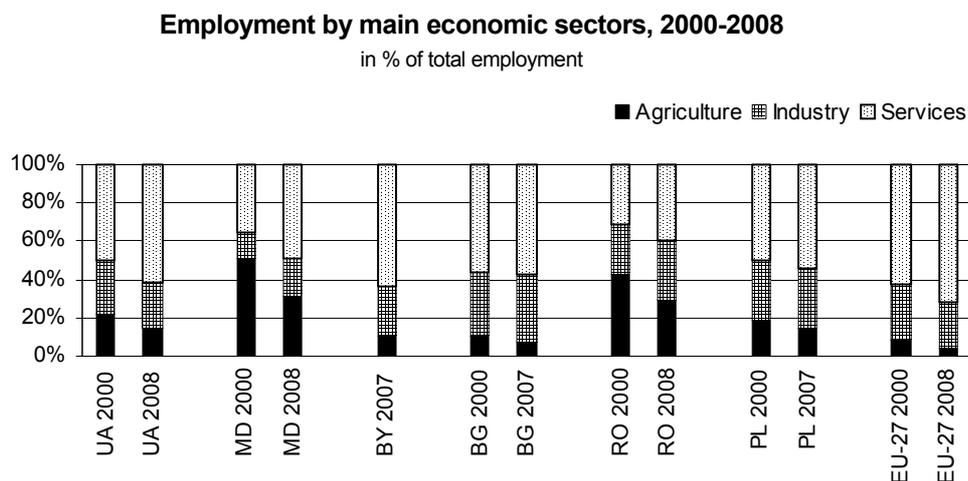
Note: data for Belarus and Moldova refer to 1993, for Estonia to 1991

Source: wiiw Database incorporating national statistics.

In terms of the structure of the economy, all three countries still generate a relatively high share of gross value added through agriculture; but, while that share has been declining over the past several years, the proportion contributed by the services sector has been on the rise (Annex Figure A.1.1). Similarly the structure of employment has changed significantly since the outset of transition. Employment fell considerably in agriculture and

industry, while jobs in the newly created services sector gained importance. But, compared to most NMS, the proportion of agricultural employment in total employment – though decreasing – remained high. In 2008 agriculture accounted for slightly less than one third of employed in Moldova, 14.2% in Ukraine and around 10% in Belarus (Figure 3). Overall, employment patterns in Moldova and Ukraine resemble those of Romania and Poland and most of the Western Balkan countries, while Belarus is similar to Bulgaria.

Figure 2



Source: National LFS; Belarus: Enterprise statistics, Eurostat.

1.3 Fiscal policy

The structure of public revenues and expenditures differs across countries. Data obtained from the IMF suggest that Belarus has the largest public sector among the three countries, with general government revenues and expenditures at about 48% of GDP each. In Moldova the respective value is about 40%, while Ukraine ranks in between with revenues and expenditures amounting to 42% and 44% respectively of the GDP. During the 2000s the general government financial account moved between slightly positive and slightly negative in Belarus and Moldova, while Ukraine reported permanent deficits, but at a low level (Annex Table A.1.2).

BOX 1

In all three countries, variations on the system of tax-sharing inherited from the Soviet period are still in place, with a certain share of revenue collected in the region going to the centre and the rest going to the region. The basis for setting these shares is (i) the central government's estimate of each region's minimum expenditure needs and (ii) forecasted revenue collections. If the region's minimum expenditure needs are not covered by revenue, then a grant or subsidy is provided by the centre. The incentive for the region is to lobby national finance offices for higher estimates of expenditure needs – which are based on expenditure norms – or lower estimates of expected revenue. Local governments also resort to informal ways of generating income by extracting extra revenue from local enterprises, or receiving services from enterprises in exchange for the cancellation of tax dues.

Source: UNICEF, 2009

1.4 Labour market

The economic downturn at the beginning of the transition was accompanied by employment cuts, rising open unemployment, increasing informal sector activities and in some cases an exit from the labour market altogether. Based on registration data during the 1990-2001 period employment fell by 15% in Ukraine and 28.5% in Moldova and by 14% in Belarus in the period 1991-2004.¹

Despite robust GDP growth during most of the 2000s, employment growth followed with a certain time lag, varying by country. Thus, increased productivity rather than the creation of new jobs has been the driving force behind growth ('jobless growth') in the initial years of economic recovery (Figure 3). Altogether the creation of new jobs particularly in the services sector was not sufficient to offset the huge job losses in agriculture and in industry. In Ukraine employment started to grow at moderate levels from 2002 onwards and in Belarus from 2005.² By contrast, in Moldova employment fell throughout the entire period, mostly due to the high outward migration.

Figures for Ukraine suggest a steady increase in employment and activity rates from 2002 onwards; the rise was evenly distributed between males and females (Annex Tables A.1.3 and A.1.4). By contrast, data for Moldova show a steep decline in employment rates at all levels with a stronger decrease for females than males, and in the rural versus urban regions. Irrespective of the methodology used, employment rates in Belarus resumed growth only in 2006, but are still high and compare well to the most advanced 'new' EU-member states such as Slovenia or the Czech Republic³. Ukraine exhibits a higher employment rate than Poland and Romania, and is similar to Bulgaria. Moldova ranks again at the lower end of the scale, which can be explained primarily by large outward migration coupled with rising inactivity. Youth employment rates are extremely low in Moldova (at 17%) but almost the same as the EU-27 average in Ukraine. Though the unemployment rate nearly halved in the period 2000 to 2008, young people remain among the most vulnerable groups of the unemployed in Ukraine. The unemployment ratio of young persons (15 and 24 years) is much higher in Ukraine (13.3% in 2008) than in the EU-27 (6.9%), but has been steadily on the decrease starting from the beginning of the 2000s. Similarly in Moldova, the youth unemployment ratio fell from almost 22% in 2000 to 7.6% in 2008. Information for Belarus based on household survey data indicates for the

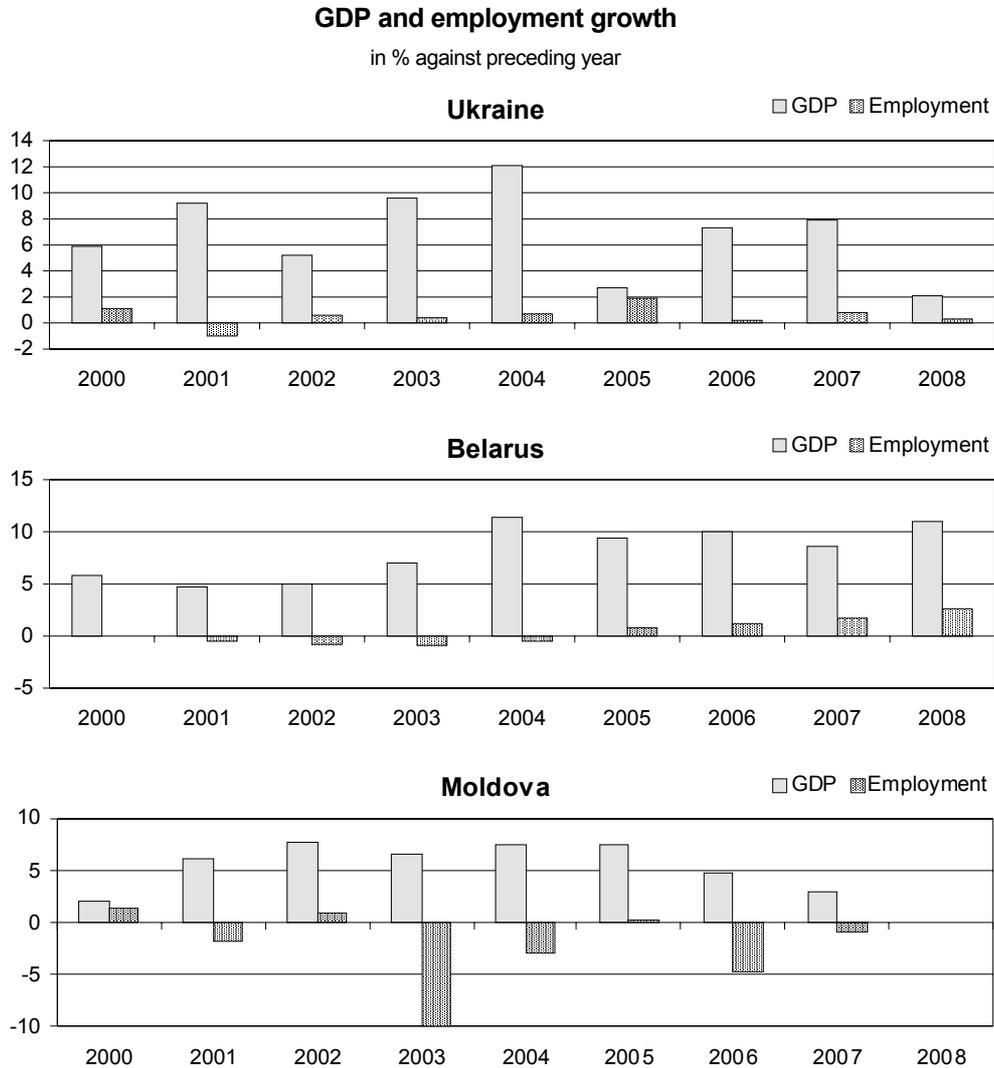
¹ Depending on the source used employment data for Belarus differ considerably. Comparable data available for the 1994-2004 period show that measured by registration data employment fell by 8.2% over that period, while it increased by 1.3% based on the Household Budget Survey (HBS).

² Most of the employment growth in Ukraine is to be attributed to subsistence agriculture and self-employment in low productivity sectors. Full time jobs were replaced by precarious jobs (ETF, 2009).

³ Employment rates are defined here as employed as a percentage of working age population 15-64. Data for Moldova and Ukraine are obtained from the national labour force survey, while data for Belarus are based on the Household Budget Survey HBS.

age group 17-19 years an unemployment ratio of 17.9%, and for those aged 20-24 years a ratio of 8.4% (Table Annex A.1.5.d)

Figure 3



Source: wiw Database incorporating CIS statistics, Eurostat.

BOX 2

Labour market statistics are derived from the LFS in Ukraine and Moldova, but from administrative sources in Belarus – which makes a big difference in the interpretation and comparison of these data and the respective indicators; in addition, different definitions of the working-age population are a limiting factor for our analysis.

Unemployment

Though rising in the initial stage of transition, unemployment has never been at such high levels as in many Western Balkan countries (where it often exceeded 30% of the labour

force) and even some new EU member states. Having reached values of close to 10% in the 1990s (Ukraine 1998, Belarus 1995/96 and again in 2002) unemployment fell in all three countries during the 2000s up to 2008, when the unemployment rate stood at 6.4% in Ukraine, 1.1% in Belarus⁴ and 4.6% in Moldova (Annex Table A.1.5). The main reasons behind these relatively low levels of unemployment are among others the slow speed of structural reforms, the decline in the working-age population, large-scale outward migration (Ukraine and Moldova) and rising informal sector activities.

Lehmann and Pignatti (2007), analysing the functioning of the Ukrainian labour market, found that the fall in unemployment during the initial years of the 2000s was entirely driven by growing informal employment relations. Accordingly, 'most workers try to enter formal employment and seem to use unemployment as well as informal dependent employment as waiting stages for entry into formal dependent employment. The flow analysis also demonstrates that at all ages workers line up for dependent formal employment, which is by far the most favoured destination. At the same time, some workers are forced to take up informal salaried jobs, while a minority engage in informal jobs of their free will.'

In 2008 the incidence of unemployment was higher for males than for females in Ukraine and Moldova and vice versa in Belarus (Annex Tables A.1.5a and A.1.5b). Also persons with secondary and high school education are particularly affected by unemployment. This is in contrast to the NMS where those with higher education are less affected by unemployment than persons with lower educational attainment. According to ETF (2009) this can be explained by their small share in total population and high inactivity rates.

During the 2000s the average duration of unemployment fell to six months in Ukraine and Belarus⁵ while it was 19 months in Moldova. Long-term unemployment (unemployed for more than one year) is of less significance than in the NMS-10 and particularly in the Western Balkans where in some cases it accounts for more than 80% of total unemployment.⁶ As for Ukraine, the share of long-term unemployment fell from 55% in 2000 to only 23% in 2007, while it was 35.5% in Moldova in 2007.

Inactivity

Rising inactivity has become a serious problem in Moldova. There, declining employment has translated rather into an exit from the labour market than in an increase of unemployment. Since 2000 the share of inactive population has rose from 37.4% to 50.6%

⁴ In Belarus the unemployment rate based on HBS (Household Budget Survey) has been higher than data obtained from registration all over the period from 1994. In 2007 the unemployment rate derived from HBS stood 4.3%.

⁵ Information on Belarus refers to registration data. Thus, the short duration of unemployment is primarily due to poor incentives to register (very low level of unemployment benefits, restricted access to unemployment benefits conditional on the participation in the public works programme).

⁶ However, one needs to take into account that in the Western Balkan countries people often register at the labour offices because of health insurance or in order to get access to some other social benefits (Gligorov et al., 2008)

in 2008. The rise was faster for males than for females resulting in a narrowing of gender differences from 5.8% to 3.5% over the 2000-2008 period. Migration can be considered as one of the main reason behind the high inactivity rate in Moldova. Görlich et al. (2007) analyzing the labour market impact of migration and remittances in Moldova found, that migrant households tend to invest more into higher education of their children and are increasingly involved in home production 'with the migrant working abroad and the remaining household members engaging in childcare, subsistence farming or other household duties'. In addition, many of those receiving remittances are not willing to accept low paid jobs in Moldova as long as they receive remittances from abroad regularly (ETF, 2009, p. 27).

Depending on the method used inactivity in Belarus remained unchanged in the past couple of years (HBS) or has increased (registration data), which would suggest the evidence for labour hoarding.

In Ukraine inactivity remained almost stable, but its structure has changed over time. The probably most worrisome trend has been the rising share of dependents and those looking after family/home, the majority of which are relatively young women (ETF, 2009, P. 25). Females account for more than 60% of the inactive population in Ukraine. They are also tend to be more outside the labour force than men in Belarus and Moldova, the reason behind being mainly family responsibility, but also lacking skills (Belarus).

Wages

Wage arrears and delays of in-kind payments were common for all three countries during the 1990s up to the early 2000s. Along with the economic recovery at the beginning of the 2000s wages started to grow strongly – from very low levels. In Moldova official monthly gross wages, measured in PPP⁷, amounted to EUR 353 in 2008, in Belarus to EUR 706 and in Ukraine to EUR 489 (in 2009 each).⁸ A comparison with the new EU member states shows that Moldova's wage level is the lowest, while wages in Belarus and Ukraine are somewhat above/below the Bulgarian level. Altogether the share of wages in the total earnings of the population remained relatively constant at 42-44%.

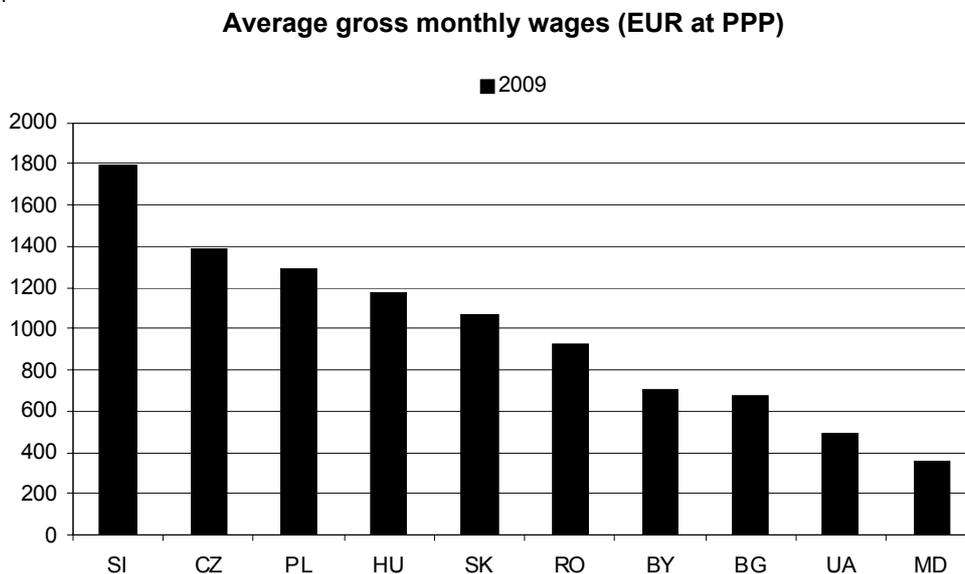
Taking into account the high share of undeclared work in these countries, the reliability of official data on wages seems questionable. For example, in Moldova one third of employers pay wages unofficially and about one third of those employed in the formal sector receive envelope payments. Unofficial sources even put the share of unofficially paid salaries at 40-70% – the main reason behind being tax evasion. Wages reported by the National Bureau of Statistics are at least twice as high as those obtained from the State

⁷ wiiw calculations based on CIS statistics.

⁸ Given the high share of shadow payments (envelope payments, under the counter payments etc), these figures seem to be underestimated and may serve only as guideline indicators.

Tax Inspectorate. For comparison, in 2007 about 11% of employees in the Central East European countries and 5% in the EU-27 had received all or part of their salary from their formal employer in the form of envelope payments (European Foundation, 2008).

Figure 4



Note: Moldova refers to 2008.

Source: wiw Database incorporating national statistics.

Data derived from enterprise statistics indicate that females in Ukraine earn only 73% of the monthly male wage. In Belarus average wages of females account for 82% of the male wages, despite comparable educational attainment. This situation is primarily due to the shift of female work towards low paid services sector activities (SPSI Belarus, 2009). The Ukraine report identified gender segregation on the labour market by arguing that females still perform most of unpaid jobs such as housework, childcare or care for sick and elderly. Young women are likely to be discriminated because of pregnancy or having small children (ETF, 2009b). Employers frequently refuse employing them because they are obliged by law to provide 'relatively generous maternity and child care leaves' (ETF, 2009b). In addition, affordable child care is lacking. Females, handicapped and young people are also discriminated when starting and running a business since they have less access to credits than average men.

Evidence for Belarus shows an increase in wage premiums to education, which has caused an increase in wage dispersion. These developments have led to substantial returns to education such as in other transition countries (see also Rutkowski and Scarpetta, 2005).

Access of vulnerable groups in the labour market

The Ukraine report identified the most vulnerable groups in the labour market in rural areas where over two thirds of those working in the informal sector are living and do not enjoy any legal or social protection. About 2.8 million persons (or 42% of those employed in rural areas) are working in subsistence agriculture officially counted as employed. Significant employment in subsistence agriculture which serves as a buffer for labour released from other sectors (e.g. from state and collective farms in Ukraine) is a common feature of all three countries. Subsistence agriculture is still an important source of income for most of the poor people living in rural areas. It is an important coping strategy against poverty for the low income groups, e.g. lone parent households, women and pensioners. For example in Moldova four out of five persons aged 65 and more are engaged in subsistence agriculture, in Ukraine more than one quarter of those in retirement age. In Ukraine the majority of self-employed are involved in activities related to subsistence agriculture due to the lack of other job opportunities and sources of income. The strong engagement in subsistence farming is also considered as the main reason for higher employment rates/lower unemployment rates in rural areas than in urban regions.

Information on the access of other vulnerable groups in the labour market is scarce. A survey conducted among employers in Belarus (Lynova, 2002) indicates that, e.g., more than half of the entrepreneurs prefer to employ male to female workers (with a lower degree of discrimination found in private firms). Ethnicity was considered an important factor in employment decisions: persons with Slavic origin are preferred to Caucasians. Also religion plays a vital role in employment preferences: the vast majority of entrepreneurs (90%) is in favour of employing Christians, while only 4% prefer Muslims. The Roma⁹ population is considered one of the groups most affected by unemployment in Moldova and Ukraine, due to the generally low qualification and the high rate of illiteracy. In Ukraine only about 38% of Roma are economically active (74% out of work and 26% employed), permanent jobs are rare and irregular work has become an important source of income. A survey conducted among Roma in Moldova found that they are mainly engaged in low qualified temporary jobs, while Roma virtually are not employed in the health and education sectors or as policemen.

Apart from the Roma population Crimean Tatars are heavily affected by unemployment in Ukraine. Information dating back to 2004 indicates that more than half of the working age population of Crimean Tatars was unemployed. One of the main reasons behind is that 'the authorities did allow their return but do not facilitate a social re-integration into

⁹ According to official data the Roma population in the early 2000s accounted for 0.4% and 0.1% of the total population in Moldova and Ukraine, while alternative estimates put the share at 4.2% and 0.9% respectively. For further information see, UNICEF (2009), p. 89. In Belarus the official share of Roma in total population is given at 0.2% (based on the 1999 census) whereas according to unofficial estimates Roma represent up to 0.7% of the population (SPSI Belarus, 2009).

society¹⁰ (partly also because of lack of funding, due to the economic crisis). Furthermore, the provision of land for subsistence farming was limited as the return of Crimean Tatars coincided with the liquidation of collective agricultural enterprises and the allotting of land plots to their members (SPSI Report Ukraine, 2010).

In general, disabled persons have only low access to the labour market because of poor educational and vocational levels and limited availability of vacancies. Wages are very low (minimum wage) and social services are insufficiently developed.

Labour market policies

Labour market policies are regulated by laws introduced at the beginning of the 1990s in all three countries investigated; all services stipulated by these laws are provided by the respective Public Employment Service (PES). Labour market policies (LMPs) in Belarus, Moldova and Ukraine are mainly concentrated on passive measures, particularly in the form of unemployment benefits (for further details see Chapter 2), while active labour market policy measures, as in most transition countries, are still underdeveloped by EU-15 standards. Public expenditures on LMPs over the recent years have been considerably lower than in the EU-15 where 2.3% of GDP was earmarked for LMPs. In Ukraine 0.24% was spent on passive support (unemployment benefits) in 2007, expenditures on active measures such as training accounted for only 0.1% of GDP. In 2007, spending on active measures in Moldova made up 0.05% and 0.12% in Belarus. Active labour market policy measures concentrate primarily on public works (conditional for the unemployed in Belarus) and vocational training.

1.5 Informal sector

The transition went along with the emergence and expansion of self-employment and informal sector employment and a growing incidence of irregular, casual or temporary jobs – with the characteristics of informal activities varying within each transition country and across them (Rutkowski and Scarpetta, 2005). Informal sector activities in the CEE countries were associated with high taxes and strict regulations in production and labour markets, while in the CIS ‘the informal economy has a clear rural connotation and has played the role of an employer of last resort to provide subsistence income’. The latter is confirmed by the underlying country studies, reporting that the largest proportion of informally employed is concentrated in rural areas engaged in subsistence agriculture – ‘the only available method of survival’ (ETF, 2009a) due to the lack of other work opportunities.

¹⁰ ee, <http://www.unpo.org/content/view/7871/106/>

People frequently have a primary job in the formal sector and a secondary job in the informal sector. Envelope payments are widespread in Belarus, Moldova and Ukraine particularly in formal enterprises, both in the public and private sectors, where a part of the salary is paid unofficially.

Estimates on the size of the informal sector – irrespective of the method used – indicate a considerably larger share of the unofficial economy in Belarus, Moldova and Ukraine than in the new EU member states or the Western Balkan countries. Similar to the Western Balkans the incidence of informality has been growing in the three countries during transition, driven by incentives to evade taxes and avoid labour regulations. Lately however a reversal of the trend is observable (Moldova, Ukraine). Available estimates on the size of the informal sector differ substantially. In general it turned out that estimates provided by national authorities of the respective countries are considerably lower than those provided by Schneider (one of the few sources for comparable estimates): for instance, the Ministry of Economy in Ukraine puts the share of the informal economy at 32% of GDP in 2007, Schneider (2007) arrives at close to 55%. Data obtained from the LFS indicate that in 2007 about 22% of the total employed worked in the informal sector, with the majority engaged in agriculture. For Belarus the Ministry of Taxes and Duties estimated the share of the informal economy at 15% of GDP. Calculations made by the HBS found that ‘undeclared work’ is particularly important for the young and old age groups, accounting for 12% and 28% of total employment in Belarus. Information on Moldova is again very contradictory: according to the National Bureau of Statistics the informal sector accounted for about 21% of GDP in 2007 (down from 35% in 2000) as against about 50% as estimated by Schneider. An ILO survey (2004) conducted in Moldova found that the majority of non-formally employed work in agriculture and only a small part in public administration, education, health and social protection. Males working in the informal sector act as self-employed or members of production cooperatives, while women are at home (unpaid).

More comprehensive information on informal sector activities including daily and/or seasonal work as well as underreporting is missing.

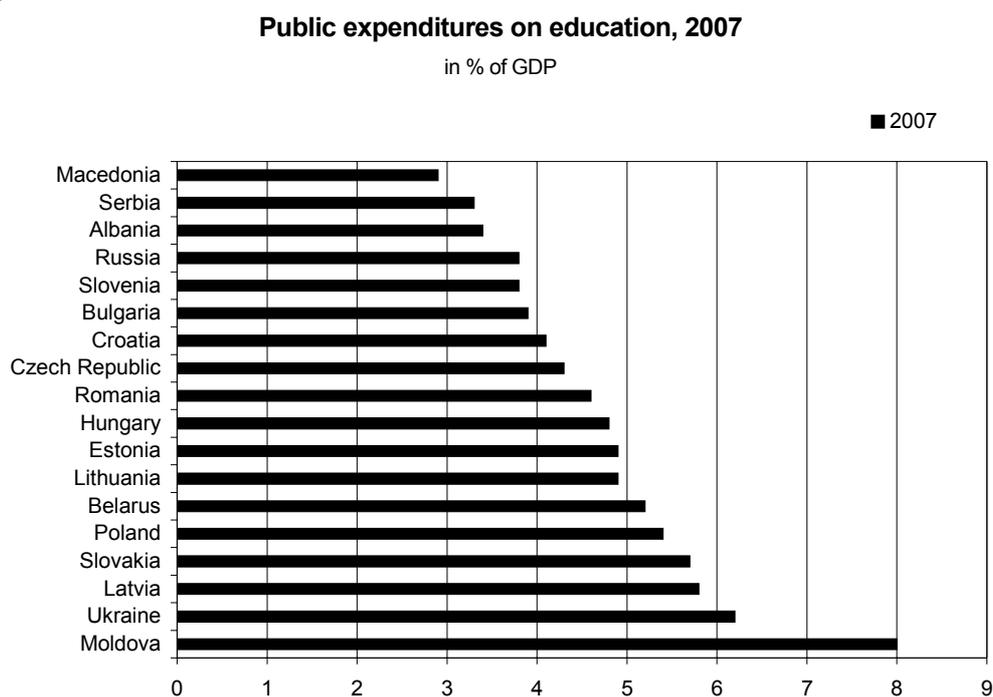
1.6 Educational system

Under the Soviet system education was controlled by the state and was formally free at all levels; it involved compulsory primary and lower secondary education, but set limits for secondary and tertiary education in line with state needs. Vocational education was very important and schools providing vocational and educational training were attached to enterprises (ETF, 2009).

Expenditures on education

Though spending on education has been increasing in the past couple of years, funds are used inefficiently and proper policy designs are missing. SPSI country reports suggest that in 2008 expenditures on education reached 8.7% of GDP in Moldova, 6.4% in Belarus (2006) and 6.2% in Ukraine. These figures are confirmed by the most recent TransMONEE data, reporting that in 2007 expenditures on education were 8% of GDP in Moldova, 5.2% in Belarus and 6% in Ukraine, which is higher than in most new EU member states or in Russia (Figure 5). The respective value for EU27 was 5% in 2006.

Figure 5



Note: EE, RU data refer to 2005. RO, HR, SI, MK data refer to 2006.

Source: EBRD, UNESCO, National Statistical Office.

Since gaining independence the three former Soviet republics have been reforming and modernizing their educational and training systems. Important changes of the educational system were introduced in Ukraine in 1991 and in Belarus and Moldova in 1994. Accordingly, primary and lower secondary education remains compulsory in all countries and is provided free of charge. There have been reform attempts to extend compulsory education, shorten the school week and granting the right to set up new educational establishments or to improve vocational and educational training.

Pre-schools and kindergartens

Prior to transition pre-school enrolment rates used to be very high in the former Soviet Union and in the Central and Eastern European countries. Available TransMonee data

indicate that during the initial years of transition enrolment rates declined strongly in Ukraine and Moldova up to 1999 but increased thereafter, while there was only a slight fall in Belarus. In 2007/08 the enrolment rate reached 73% in Ukraine and Moldova and 90% in Belarus. In all three countries the provision of kindergartens is insufficient: in Ukraine this is mainly the case in urban areas, while Moldova faces similar problems in rural areas.¹¹ There is a big urban-rural difference of enrolment rates, for example 92.5% vs. 53% in Belarus, 69% vs. 33% in Ukraine. Pre-school education is either provided for free or at symbolic fees depending on the family income.

Primary education and lower secondary education

Having declined slightly during transition, enrolment rates in primary education increased to over 90% in Moldova and reached almost 100% in Ukraine and Belarus. As a consequence of the declining population in Ukraine and Moldova the number of pupils has fallen continuously over the past decade. Data for Ukraine indicate that the number of pupils in secondary schools has fallen by 35% since 1990, whereas the number of schools has decreased by only 3.5% (SPSI Ukraine, 2009). This trend is expected to continue over the coming decades, implying the need for a fundamental reform of the educational system. In Moldova the number of pupils in primary and in lower secondary education even contracted by up to 60% in the period 2000-2007.

In terms of upper secondary education, enrolment rates are highest in Ukraine at about 58%; the respective figures for Belarus and Moldova are 51% and 48%. These rates are very low when compared to the new EU member states which report values of more than 90%.

Tertiary education

Similar to most transition countries the number of students attending tertiary education has continued to increase in Belarus, Moldova and Ukraine during the 2000s. Between 2000/01 and 2007/08 the rise was most pronounced in Moldova (55%) followed by Ukraine (47%) and Belarus (32%). In Moldova and Belarus the share of females in tertiary education is almost 60%, while it accounts for 54% in Ukraine. These percentages compare well with the new EU member states, the Western Balkan countries and Russia.

The SPSI Report on Belarus suggests that in principle there is free access to higher education and the state provides limited scholarships for students who have successfully passed the entrance examination. But, today more than half of the students attending higher education are paying fees. Students whose studies were funded by the state are obliged to work for two years on a job determined by the institution of higher education.

¹¹ In Ukraine a huge number of pre-schools/kindergartens/nurseries were closed during the 1990s due to falling birth rates at that time.

Lack of housing has become one of the major problems students are facing in Ukraine but also in Belarus; for instance, the number of students in Minsk has increased by 56% over the past twelve years. Fee paying students are even worse off as they have to find accommodation on their own.

After joining the Bologna process Moldova harmonized its legal framework with the European one, but the implementation of a number of regulations is still in delay.

Vocational education

Driven by the changes on the labour market, vocational training and education is becoming increasingly important. Due to the shortage of blue collar workers in Belarus, government spending has been increased in order to offer additional places in vocational training institutions and to raise wages for training officers. Despite attempts to adapt the educational (vocational training) system to the needs of the labour market there is still a substantial skill mismatch in Moldova and Ukraine because of delayed implementation of adequate policy measures. The Belarus report, by contrast, quoting the Ministry of Education, concluded that the educational system in the country is responding successfully to the requirements on the labour market.

Access to education

A recent ETF Study on Ukraine (2009) found that the costs of education have risen remarkably since the beginning of the transition, such as additional payments for teachers, fees for the provision of higher-quality non-state educational services etc. In general the access to high-quality education depends on the family income. Also the financing of pre-school education has been cut substantially, thus only a relatively low share of children from households of the lowest income quintile is attending pre-school. Disparities in the quality of education between urban and rural areas are addressed in all three SPSI country reports. Both the ETF Study on Ukraine and the Moldova SPSI report emphasize the problem of poor school infrastructure and the poor remuneration of teachers. Moldova faces a shortage of teachers particularly in rural areas; about 14% of teachers are pensioners. Informal payments for education are very common in Moldova and Ukraine, representing a major problem for poor families (particularly in rural areas) who cannot afford these payments. A survey conducted by the Gorshenin Institute in Kiev found that about three quarters of Ukrainian university graduates or those who had studying children had paid bribes to teachers and/or rectors primarily in order to pass exams (ETF, 2009).

Discrimination against Roma children in education is widespread in Belarus, Moldova and Ukraine. Roma children are very often referred to schools with fewer resources than elsewhere in the countries and they complete, if any, mostly primary education. In Ukraine, for example, a survey conducted in 2003 by the Institute of Social Studies found that 49%

of the respondents had completed primary education, and only 2% higher education (SPSI Ukraine, 2009). The Education International Barometer and UNICEF report that education in Roma language is not available, thus Roma children do not understand teachers' instructions and are often assumed to be mentally incompetent.¹² In Belarus Roma may study at higher private educational institutions, but are often refused to enrol in state universities. As for persons with disabilities, discrimination in education is prohibited by law but still occurs in practice.

1.7 Migration and remittances

From the mid-1990s labour migration became an increasingly important phenomenon, in particular from Moldova and Ukraine, while in Belarus it occurred mainly at the outset of transition (return of Belarusians from other former Soviet republics). As of mid-2006 about one fourth of Moldova's economically active population left for work abroad (IOM, 2008a). An estimated one-third of Moldovan migrants stay illegally abroad (SPSI Moldova, 2009). Ukraine underwent several waves of migration after gaining independence: during the early 1990s it was mainly inward migration of Ukrainians from other former Soviet republics, which was followed by a period of intense outward migration up to 2004, driven by economic hardship. Starting from 2005 Ukraine reported a positive migration balance as a result of rising immigration of Ukrainians and other CIS citizens but also as a transit point for migrants on their way to Western Europe (ETF, 2009b). Estimates on Ukrainians working abroad after 1990 vary between 1 and 7 million persons (IOM, 2008b). According to calculations of the Institute for Demography and Social Studies, in the period 2005 to mid-2008 about 1.5 million migrant workers or 5% of the working-age population worked abroad. Most of them leave for Russia, but also for Italy, Spain, Greece, Portugal and Israel. Results of the population survey in 2008 show that around two thirds of Ukrainian labour migrants are living abroad without residence and working permits (ETF, 2009b).

Labour migrants from Moldova and Ukraine are primarily male and young. Most of them come from rural areas; for instance, in Moldova more than two thirds of migrants come from rural areas and have completed secondary education, while persons with higher education tend to stay in the country. The educational level of Ukrainian labour migrants today is lower than that observed in earlier waves of migration or much lower than the average national educational level. The majority of emigrants leave for economic reasons (low wages, limited job opportunities), primarily for Russia, the remainder for EU countries. Regarding sectors of employment, male nationals from Moldova and Ukraine are mostly employed in construction and repair, female migrants are mostly engaged in social care and housekeeping. Migrant workers' remittances have become an important source of income and have contributed to the decline in poverty in Ukraine and particularly in

¹² <http://www.ei-ie.org/en/index.php>, http://www.unicef.org/ukraine/media_11430.html.

Moldova. In the latter country remittances provided inflows of about 34% of GDP in 2007, with about one-third of the population benefiting. Estimates for Ukraine indicate an inflow of remittances equal to 7-11% of GDP. By contrast, in Belarus the remittance level has been relatively modest with estimates varying between about 1% (NBB) and 6% (IFAD) of GDP in 2006. For comparison, remittances account for approximately 20% of GDP in Albania, 18% in Bosnia and Herzegovina and 10% in Serbia.

More recent research has focused on the impact of migration – from Moldova in particular – on children left behind. While Prohntchi (2006) concluded that children of migrant parents tend to be better off than others, UNICEF (2009) stresses the negative impacts of parents' absence on children; these impacts affect the children's communication skills and social participation, but studies also found a link between rising juvenile crime rates and the increase in the number of children left behind.

According to the Moldova report the country's government expects a rise in return migration due to the global economic and financial crisis, leading to growing unemployment and a contraction of remittances. As for Ukraine the authors of the country study expect most labour migrants, those in EU countries in particular, to stay and work in their host countries most probably in informal sector activities as migrant workers are usually those laid off first.

In some countries migration from rural to urban areas is still under way. In Ukraine, however, net migration to rural areas was even positive in the period of the economic crisis up to 1999 when agriculture had an important function as a buffer against unemployment. After 1999 this trend turned negative (SPSI Ukraine, 2009).

1.8 Demography

All three countries have faced a serious decline in their population since the beginning of the 1990s. The main reasons behind this development have been very low fertility rates, rising mortality but also huge outward migration (Ukraine and Moldova). For example, in Ukraine the population has decreased by 5.6 million persons since 1993. The share of rural population has been falling steadily. The gap between life expectancy in the EU and Ukraine widened from 4.4 years in 1995 to 11 years in 2005.

In all three countries at stake the share of population in the pre-productive age (up to 14 years) has been declining, most notably in Moldova; at the same time the proportion of the post-productive age group has increased over the past decade and is highest in Ukraine. Compared with the EU-27, Ukraine shows a very similar pattern while Moldova reports a higher proportion of young population (18% versus 15.9%), and a much lower

share of persons over 65 years (9.8% versus 16.8%). In all three countries the proportion of working-age population (15-64 years) exceeds the EU-27 level of 67.3%.

Available projections indicate that the process of depopulation will – similar to most EU member states – continue at any scenario in Belarus, Moldova and Ukraine. Ageing of the population will become an important issue. According to the UN population forecast (revision 2008), the population in all three countries at state may fall by 11% (medium variant) between 2010 and 2030. This is based on the assumption of short life expectancy and continued migration (of the high-skilled in particular). From a comparative perspective these countries do a bit better than, for example, Bulgaria (-14%), but much worse than the Czech Republic where population may stagnate, or Poland (-3%) and Hungary (-5%).

1.9 Territorial disparities

There are noticeable differences between the living standards of the rural and urban population. These are mainly caused by the wage distribution across sectors, with wages being lowest in agriculture. Information provided for Belarus indicates that monetary incomes in urban areas are about 50% higher than in rural areas. Even if adding income in kind, the differences remain large, resulting in permanent migration from rural areas to urban centres. A Programme of Village Revival launched to counteract internal migration in Belarus has failed (SPSI Belarus, 2009). As for Moldova, the rural population is primarily dependent on subsistence farming, which is often not sufficient to meet basic needs, pointing to the fact that the incidence of poverty is much higher in rural than in urban areas. Large segments of the rural population depend on remittances from abroad.

Unemployment is usually lower in rural areas than in regions with industrial monoculture, because workers revert to subsistence farming and can take up temporary and seasonal jobs – there the problem is underemployment rather than unemployment (Rutkowski and Scarpetta, 2005).

The economic and labour market situation varies considerably across geographic areas in the three countries at stake. Overall, studies examining regional unemployment in transition countries came to the conclusion that labour market imbalances tend to be highly persistent in these economies over time (Bornhorst and Commander, 2004; Rutkowski and Scarpetta, 2005). In general, capital cities and industrialized regions are better off than rural areas (agriculture) in terms of wages. In Belarus the highest wages are paid in the eastern regions and the capital city (heavy industry) while wages are lowest in the regions of Grodno and Brest in the Western part of the country (agriculture and food industry). In Ukraine industrial regions in the East and South show the best economic performance, but life expectancy is very low.

Regional disparities in Moldova are particularly strong between the capital city and the rest of the country. A development programme launched in 2006 should help to diminish intra- and inter-regional differences, particularly in the Northern, Central and Southern regions of the country. Disparities have probably been increasing during transition. In Ukraine, for example, the gross value-added per capita gap (maximum and minimum value) increased from 2.7 in 1996 to 6.2 in 2006 (SPSI Ukraine, 2009).

1.10 Conclusions and key challenges

The impact of the global crisis on Belarus, Ukraine and Moldova

The global economic crisis has hit the economies of Belarus, Ukraine and Moldova to varying degrees, with Belarus performing best and Ukraine the worst in terms of real GDP developments. In Ukraine and Moldova, the adverse impact of the crisis has been magnified by their relatively backward economic structure and their specialization on exports of raw materials and goods with relatively low value-added, whose prices have plunged sharply in the wake of the crisis (metals and chemicals in Ukraine, agricultural products in Moldova). Besides, the pronounced recession in Russia – the major export destination for both Belarus and Ukraine – has undermined their exports of more sophisticated goods such as machinery and equipment. In Moldova, the crisis has resulted in declining inflows of remittances from the country's citizens working abroad, which in previous years had reached as much as 34% of GDP and were an important engine of domestic consumer demand. The impact of falling remittances – including increasing poverty – is likely to be felt over-proportionately in rural areas where two thirds of Moldovan migrants are coming from (see also Maddock and Ramgutee, 2009).

Simultaneously, the global liquidity crunch and the increased risk perceptions in the world financial markets have led to an outflow of capital from the region (albeit less so from Belarus); in combination with declining export revenues and remittances, this has put the currencies of Belarus, Moldova and Ukraine under a strong downward pressure. While Moldova's leu was successfully defended thanks to the National Bank's interventions, the Belarusian rouble was devalued by 20%,¹³ and the Ukrainian hryvnia (which has been allowed to float) has depreciated by as much as 60% against the EUR as compared to the pre-crisis level (September 2008).

On the one hand, these devaluations have created depreciation expectations of their own and have induced households to convert their savings into foreign exchange, thereby putting additional pressure on the national currencies. Besides, they brought about a spike in consumer inflation and translated into rising debt service of those who had borrowed in

¹³ Subsequently, it was pegged to a currency basket consisting of the US dollar, the euro and the Russian rouble, with a $\pm 5\%$ fluctuation band.

foreign currencies (e.g., 60% of all loans in Ukraine), resulting in a wave of insolvencies, particularly in the household sector. On the other hand, however, Ukraine's currency depreciation has nearly restored the current account equilibrium by making imports largely unaffordable. In Belarus, the relatively modest devaluation failed to have the same effect, at least not in trade with Russia, whose currency has fallen against the US dollar as well. Finally, Moldova – whose currency has been stable – is facing the risk of deflation, which could potentially aggravate the economic recession by resulting in the postponement of purchase decisions. All three countries have been facing a sizeable external financing gap; as a result, Belarus and Ukraine had to request 'rescue packages' from the IMF (USD 16.5 billion for Ukraine and USD 2.5 billion for Belarus) and Russia (USD 2 billion for Belarus).

At the same time, the impact of the crisis on the real economies of Belarus, Ukraine and Moldova has been vastly different. In Belarus, recession could be avoided thanks to the expansionary fiscal and monetary policies aimed at stimulating the domestic demand, which made up for the falling export revenues. This policy has been greatly helped by the use of various administrative measures (such as pressuring managers to raise the wages of employees and extending direct credit to enterprises in order to support investments) in this largely unreformed economy. As a result, in 2009 Belarus posted a marginal 0.2% real GDP growth – compared to GDP declines of 9% in Moldova and as much as 14% in Ukraine. These different developments should not come as a surprise, given that the latter two countries' economies are structurally weaker than that of Belarus, while their policy-making is complicated by political instability – the inability of Moldova's parliament to elect a president, having resulted in repeated elections, and the persistent stalemate between the president and the prime-minister in Ukraine. The drastic deterioration of the budget deficits in both countries¹⁴ reflects in the first place the extent of their economic decline and the accompanying shortfall in tax revenues rather than a fiscal expansion. The latter appears hardly realistic in the present circumstances, given the nearly blocked access of the countries' governments to international capital markets.

Other challenges

- Irrespective of the impact of the global economic crisis, Belarus, Moldova and Ukraine are confronted with the challenge of population ageing coupled with continued migration. Consequently the labour force is likely to shrink, which may entail slower GDP growth in the years to come.
- There is a high number of children left behind by migrant workers, particularly in Moldova, facing the loss of social skills and growing criminality who will need institutional and legal assistance for their support.

¹⁴ The consolidated budget deficit in 2009 in both Ukraine and Moldova stood at around 9% of GDP.

- Given the high proportion of young persons among migrants coming primarily from rural areas, strong return migration could lead to a significant deterioration of the labour market situation in rural areas and, in turn, to further worsening of rural poverty. The domestic unemployed will have to compete with returning migrants at a time of falling domestic labour demand.
- There are wide and growing regional and rural-urban disparities on the labour market, but also those related to the educational system. Rural areas are at a disadvantage to urban areas in terms of educational institutions and quality of education; corruption is widespread and favours children from rich families.
- In terms of statistics, there is still a lack of comparable employment data based on definitions harmonized with ILO/Eurostat in Belarus. Longer time series are missing. In addition, the large informal sectors in Belarus, Moldova and Ukraine do not allow for an assessment of the actual labour market situation in these countries. Improvements in data collection are also needed to permit proper research on migration and remittances.

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Annex

The main sources used are data from EUROSTAT and those taken from the individual country reports. These data are supplemented by information obtained from the IMF and EBRD, the wiiw Database, the CIS Database and the UNICEF TransMONEE Database.

Table A.1.1a

	Real GDP growth rate (%)													
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	-10.4	2.8	11.4	8.4	3.4	5.8	4.7	5.0	7.0	11.4	9.4	10.0	8.2	10.5
Moldova	-1.4	-5.9	1.7	-6.5	-3.4	2.1	6.1	7.8	6.6	7.4	7.5	4.0	3.0	7.2
Ukraine	-12.2	-10.0	-3.0	-1.9	-0.2	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.6	2.5

Source: Eurostat

Table A.1.1b

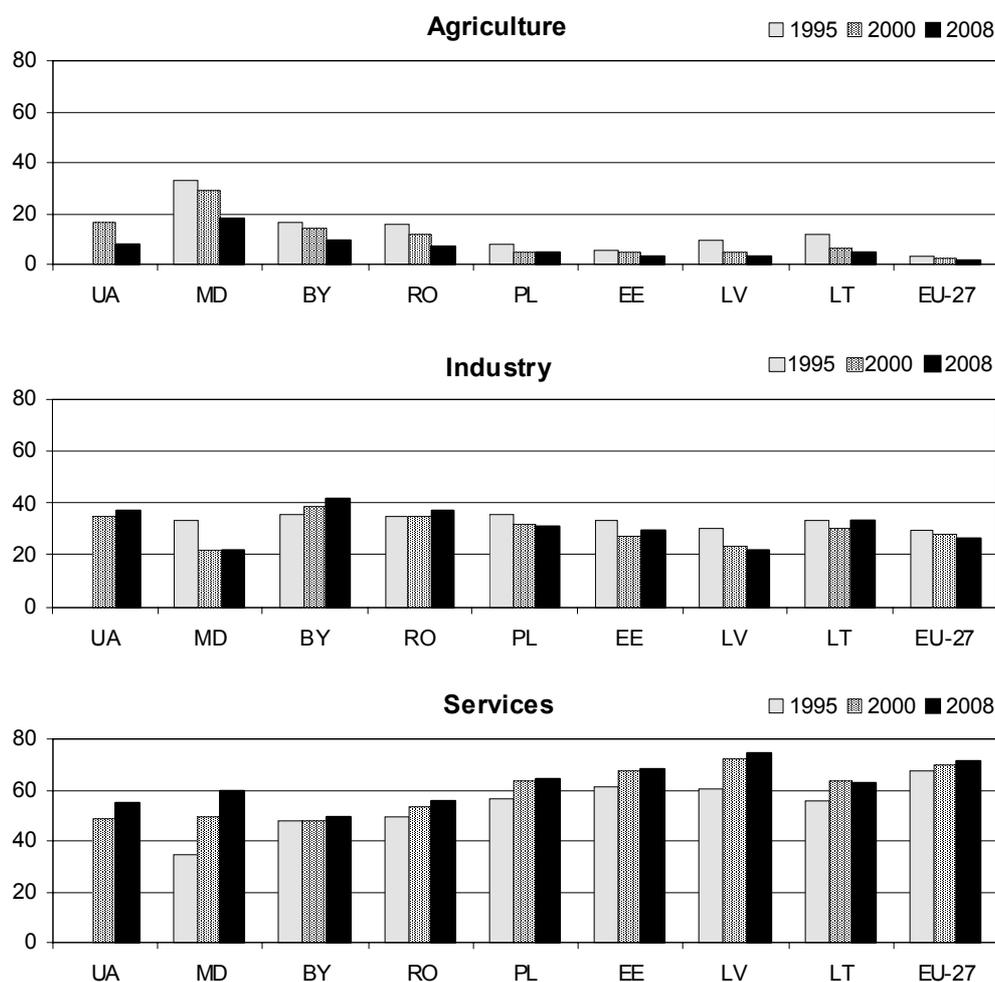
	Gross domestic product at constant prices											
	1990=100											
	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Azerbaijan	100	41.9	58.9	64.7	71.6	79.6	87.7	110.9	149.1	186.4	206.5	225.7
Armenia	100	52.8	67.8	74.3	84.1	95.9	106.0	120.7	136.6	155.4	165.9	142.0
Belarus	100	65.3	88.7	92.8	97.5	104.3	116.2	127.1	139.8	151.9	167.3	167.7
Georgia	100	28.3	37.5	39.3	41.5	46.1	48.8	53.5	58.5	65.7	67.2	.
Kazakhstan	100	61.4	69.4	78.8	86.5	94.6	103.6	113.7	125.9	136.8	141.3	142.0
Kyrgyzstan	100	50.6	66.5	70.1	70.1	75.0	80.2	80.0	82.5	89.5	97.1	99.3
Moldova	100	39.4	34.8	36.9	39.8	42.4	45.5	48.9	51.3	52.8	56.9	.
Russia	100	62.1	67.3	70.7	74.0	79.4	85.1	90.6	97.6	105.5	111.4	102.6
Tajikistan	100	.	.	.	.	.	.	.	.	.	.	.
Turkmenistan	100	.	.	.	.	.	.	.	.	.	.	.
Uzbekistan	100	81.2	98.1	102.2	106.3	111.0	119.5	127.9	137.2	150.3	163.8	177.0
Ukraine	100	47.8	43.2	47.2	49.7	54.4	61.0	62.7	67.3	72.6	74.2	63.0
CIS	100.0	59.4	63.4	67.2	70.6	76.2	82.3	88.1	95.1	103.7	109.9	102.2

Source: CIS Database.

Figure A.1.1

Economic structure by main economic sectors

Share in total value added in %



Note: UA data 2000 refer to 2001; comparable data for 1995 are not available. 2008 MD refer to 2006. BY, LV, LT to 2007.

Source: wiiw incorporating CIS statistics, Eurostat.

Table A.1.2

General government net borrowing (-)/net lending (+), relative to GDP (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	-2.7	-1.8	-1.2	-0.5	-1.8	0.3	-1.3	0.1	-1.5	0.0	-0.7	1.4	0.6	-0.8
Moldova	.	.	.	.	.	.	.	.	0.2	0.8	1.7	0.3	-0.3	-1
Ukraine	-6.6	-4.9	-6.6	-2.2	-1.5	0.6	-0.3	0.7	-0.2	-3.2	-1.8	-0.7	-1.1	-1.6

Note: Belarus Central Government

Source: Eurostat

Table A.1.3

Employment rate, total; employed in % of working age population 15-64

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	76.9	76	74.9	73.7	72.5	71.7	71.9	72.6	73.9	
Moldova	59.4	59.6	58.5	57.7	52.3	50.2	49.7	47.1	47.1	
Ukraine	58.6	59	58.6	59.1	59.7	60.4	61.5	62.1	62.9	63.4

Table A.1.3.a

Employment rate, males (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	71.9	71	69.6	68.1	66.7	65.9	66	66.6	67.8	
Moldova	61.4	61.5	59.8	58.2	52.8	49.8	49.1	48.6	48.1	
Ukraine	62.9	63.3	62.5	62.9	63.2	64.1	66.1	67.1	67.9	68.6

Table A.1.3.b

Employment rate, females (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	82	81.3	80.4	79.5	78.4	77.7	78.1	78.9	80.4	
Moldova	57.5	57.8	57.3	57.2	51.8	50.5	50.4	45.7	46.2	
Ukraine	54.9	55.1	55	55.7	56.5	56.9	57.3	57.5	58.3	58.5

Source: Eurostat based on national LFS statistics; for BY registration data.

Table A.1.4

Economic activity rate, total labour force in % of working age population 15-64

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	78.6	77.7	76.7	75.7	74.8	73.5	73.2	73.7	74.7	
Moldova	67.2	65.4	63.3	62.1	57	54.8	53.8	50.9	49.7	
Ukraine	66.4	67	65.9	65.5	65.8	66.2	66.4	66.8	67.3	67.8

Table A.1.4.a

Economic activity rate (15 - 64), males (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	73.1	72.3	71	69.7	68.4	67.1	66.8	67.3	68.3	
Moldova	71.2	68.4	65.7	63.6	58.6	55.6	54	53.5	51.5	
Ukraine	71.4	71.8	70.4	69.8	69.9	70.5	71.6	72.2	72.9	73.2

Table A.1.4.b

Economic activity rate (15 - 64), females (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	84.3	83.3	82.5	82	81.5	80.2	79.9	80.4	81.4	
Moldova	63.4	62.6	61	60.8	54.9	54.1	53.7	48.5	48.1	
Ukraine	62	62.6	61.8	61.6	62	62.2	61.7	61.7	62.2	62.4

Source: Eurostat based on national LFS statistics, registration data in BY.

Table A.1.5

Total unemployment rate (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	2.2	2.1	2.3	2.7	3.1	2.5	1.7	1.4	1.1	1.0
Moldova	11.2	8.5	7.3	6.9	8	8.2	7.3	7.4	5.2	4.0
Ukraine	11.6	11.6	10.9	9.6	9.1	8.6	7.2	6.8	6.4	6.4

Table A.1.5a

Unemployment rate - males (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	1.6	1.7	2.0	2.2	2.5	1.8	1.2	1.0	0.8	.
Moldova	13.4	9.8	8.7	8.2	9.6	10.0	8.7	8.9	6.5	4.6
Ukraine	11.8	11.6	11.0	9.8	9.4	8.9	7.5	7.0	6.7	.

Table A.1.5b

Unemployment rate - females (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	2.7	2.4	2.5	3.0	3.7	3.1	2.2	1.8	1.3	.
Moldova	9.0	7.3	5.9	5.6	6.4	6.4	6.0	5.7	4.0	3.4
Ukraine	11.3	11.6	10.8	9.5	8.7	8.3	6.8	6.6	6.0	.

Table A.1.5c

Unemployment rate: 15 - 24 years (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	.	.	.	.	.	.	.	.	.	.
Moldova	22.3	15.8	16.3	15.2	18.1	19.7	18.7	17.1	14.4	.
Ukraine	26.4	24.2	22.3	19.1	16.7	15.7	14.9	14.1	12.5	13.3

Source: Eurostat based on national LFS statistics.

Table A.1.5d

Youth unemployment ratios

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belarus	2.5	.	.	2.8	1.8	1.6	1.0	0.8	0.7
Moldova	21.6	17.8	16.2	17	16.7	14.8	14.3	9.8	7.6
Ukraine	24.2	22.3	19.1	16.7	15.7	14.9	14.1	12.5	13.3
Poland	13.3	15.7	16.1	15.2	14.2	13.2	10.2	7.1	5.7
Romania	8.3	7.5	8.7	6.5	7.8	6.3	6.6	6.1	5.7
Bulgaria	10.8	13.4	11.5	8.1	7.5	6.2	5.6	4.4	3.8
EU27	8.4	8.1	8.3	8.2	8.2	8.2	7.6	6.8	6.9

Source: Eurostat.

2 Social protection system

2.1 Overview of the social protection system

The Soviet social protection system included a pay-as-you-go pension system, social assistance programs for people with special needs such as disabled and orphans, as well as numerous non means-tested in-kind and subsidized services including transportation, medical payments, housing, and utilities (Dobronogov, 2003). A number of social services like kindergartens, summer camps for children, health care facilities and sanatorium treatments were provided by enterprises through trade unions with cost coverage going up to 100%. Within the former Soviet Union the state was the exclusive provider and administrator of financial resources which were directed from the budget. The system was based on the principle of non-contributory insurance. The social insurance budget was included into the state budget of the former Soviet Union while the social insurance system was managed by trade unions, taking over government functions. But facing deep recession at the outset of transition most of these benefits became unaffordable for the newly independent states. Since unemployment did not exist because of guaranteed employment under the previous system, unemployment benefits were introduced only in the early 1990s when widespread open unemployment emerged. Similarly, social assistance for the poor was almost non-existent under the previous system since poverty was not officially acknowledged by the Soviet authorities.

Thus, after the break-up of the Soviet Union, the successor states had to create a number of social protection programmes and new institutions from scratch, while some elements of the old system have been preserved, particularly in Belarus and to a lesser extent also in Moldova. In the course of transition the three countries at stake opted for a combination of state social insurance (contributory scheme) and social assistance (non-contributory scheme). Immediately after gaining independence Ukraine launched a social protection system based on the principle of social insurance, which is financed from contributions of employers and employees; the State Social Fund was separated from the State budget. At the same time means tested benefits were introduced. In Belarus first changes in the social protection legislation were made in 1995, followed by the adoption of numerous laws thereafter. In December 2007 a partial reform of the social protection system was achieved. In Moldova major reforms in the social protection system were introduced after the Russian financial crisis (which has hit the country hard). The reforms aimed at the creation of a dual social protection system based on (non-)contributory principles. But due to the lack of resources the reform outcomes have been poor so far and the 'social protection system continued to be fragmented and inefficiently targeted' (SPSI Moldova, 2009).

2.2 Financing of social protection

Social protection systems in Belarus, Moldova and Ukraine are financed through contributions of employers and employees at a varying degree, assignments from the state budgets and some other sources differing by country.

In Belarus contributions to the Social Security Fund - which is managed by the Ministry of Labour and Social Protection - are paid almost completely by employers and to a lesser extent by employees and self-employed. The responsibility on concrete implementation of social protection programs, however, lies on regional and local level. On the expenditure side the bulk of funds (80%) is spent on pensions (including old age pensions, survivors and disability pensions). Regional and local authorities are responsible for the implementation of social programmes. In general, nation wide programmes are providing the guidelines for authorities at all levels.

In Moldova the funding of the social protection system is provided through the Budget for State Social Insurance (SSIB) which is an integrated part of the national budget. It is managed by the Chamber of Social Insurance (NSIH), the State Treasury of the Ministry of Finance and by six funds (e.g. Pension Fund, Fund for Families with children, Unemployment Fund). Social insurance contributions from employers and employees account for the bulk of revenues and have been growing over time up to 85% of total revenues. The remaining (declining) share is financed through the state budget. However, as a consequence of the global economic and financial crisis, revenues may fall due to a contraction of the GDP coupled with rising unemployment and end up in a dramatic deficit increase of the SSIB.

In Ukraine the State Social Insurance Fund is financed by contributions of employers and employees, assignments from the state budget, financial penalties on enterprises, profits from deposits and charitable contributions of enterprises. Having declined in the second half of the 1990s social contributions and government contributions as a share of the GDP rose from 1999 and 2000 onwards, reaching about 11% and 16% respectively in 2007.

2.3 Types of benefits and services

The social protection schemes of Belarus, Moldova and Ukraine provide cash benefits and in kind benefits (services), such as housing subsidies, public transportation services, purchasing of pharmaceutical products or free social services (i.e. medical or everyday care at home or stationary residential institution).

2.3.1 Contributory (cash) benefits

In terms of cash benefits we can distinguish between contributory benefits including unemployment benefits, maternity and sickness benefits and non-contributory benefits such as family benefits (child benefits) or other social services (system of privileges). The access to such benefits is, however, hampered by the large size of the informal sector including undeclared work. Self-employed and undeclared workers are provided with contributory benefits on a limited basis (Belarus).

In all three countries *unemployment insurance systems* were introduced during the early 1990s, however, differing in terms of entitlement duration, replacement rates and coverage. In Belarus the average entitlement duration is only six months, while in Moldova and Ukraine it ranges between 6 months and 24 months, which is similar to other transition countries (Vodopivec, 2009).

Another important feature are the coverage rates, i.e. the percentage of registered unemployed receiving unemployment benefits, varying between 10% in Moldova (which is similar to most Western Balkan countries), 50% in Belarus and 73% in Ukraine. The latter is very high by international standards but less generous in terms of the benefit replacement rate. At the end of 2007 the average unemployment benefit in Ukraine accounted only for 20% of the average wage in the economy and about two thirds of the average subsistence minimum (ETF, 2009b). Nevertheless, the replacement rate in Ukraine was still higher than in Belarus, where it stood at only 6.5% in 2007, but lower than in Moldova ranging between 50-60%. The impact of different regulations on the unemployed are also reflected in the low level of expenditures on passive labour market policy measures (see, Chapter 1). Considering the low coverage and the replacement rates and the short entitlement duration (Moldova) the unemployment insurance schemes in these countries do not appear as an appropriate instrument aiming at poverty alleviation.

All three countries provide statutory *maternity benefits* both for employed and unemployed women. The level of benefits varies between 100% of the average wage for the employed and 100% of the unemployment benefit or 100% of the minimum wage in the case of unemployed women. Benefits are payable over a period of 126 days, which is at the lower end of the scale if compared to the new EU member states.

The level of *sickness benefits* depends on the work history and amounts to between 60% and 100% of the average wage. Benefits are also awarded for the care of a sick child (family member) up to 14 days.

2.3.2 Non-contributory (cash) benefits

The systems of social assistance comprise numerous benefits, which are aimed to support socially vulnerable groups and low income groups of the population. In general there exist a large number of social benefits in Belarus, Moldova and Ukraine which can be divided at least into two groups: means tested benefits (based on documented confirmation of eligibility) and non-means tested benefits (depending on the living conditions of an individual or a family).

Family benefits

Supporting families has been an important policy objective at the outset of transition when most of the countries introduced universal cash transfers for families with children in order to mitigate the impact of economic recession (UNICEF, 2009). As public budgets contracted following the economic downturn in the initial years of transition, a number of benefits became means tested. In Belarus, Moldova and Ukraine family benefit schemes are ranging from birth grants and child benefits to various types of family allowances e.g. allowances for single parents, handicapped children, for families with three or more children or children infected with HIV. Birth grants are provided universally in all three countries, while the entitlement to family allowances is means tested for children from 1.5 – 16 years in Moldova and from 3–16 years in Belarus and Ukraine. Allowances for disabled children are not subject to a means test.

System of social privileges

In addition to the overall provision of contributory and non-contributory benefits the system of social privileges, dating back to former Soviet times, is still in place in Belarus (in a modified form), Moldova and Ukraine. Accordingly privileges, rights and guarantees are granted to certain professional categories, war veterans or victims of the Chernobyl accident. In Ukraine a huge number of people (13 million in 2008) are eligible for privileges e.g. such as the use of urban transport at a reduced rate/free of charge or payment of housing services. Several attempts by the government to replace this system by means tested monetary compensations have failed due to strong political pressure from opposition parties. In Moldova social privileges are still in place for war veterans who are eligible to a set of compensatory payments. The system of social privileges in Belarus has been streamlined (by introducing targeting) in 2007 and includes war veterans, victims of the Chernobyl accident or disabled persons.

2.3.3 Social services

Belarus, Moldova and Ukraine offer a broad variety of social services in order to satisfy the needs of old aged and disabled persons – a system dating back to former Soviet times. Services are provided primarily by the State including e.g. home care for elderly, residential care services, transport services, social canteens, legal consultation and assistance or

psychological counselling. In Ukraine more than 48 types of social services were provided by 743 Territorial Centres in 2008, covering about one million persons (e.g. disabled persons, war veterans, pensioners). Social services are delivered exclusively by public organizations, since budgetary funding is allocated rather to the maintenance of large public institutions than to the needs of the social services recipients (SPSI Ukraine, 2009). In Belarus an estimated 1.6 million persons and 300 thousand families are benefiting from the assistance offered by social services centres. Part of the services is offered for free, while some of them are charged. In general, residents of remote areas are less likely to be covered by these services than those living in urban areas: For example in Belarus urban areas enjoy a hundred percent coverage with social services centres, while only 55% of rural areas.

There are also a number of benefits in kind (services) in the three countries at stake: e.g. in Belarus food coupons for disabled and pensioners and the allocation of foreign aid to persons, whose monthly income per capita is below 60% of the subsistence income level. Disabled persons are among others entitled to receive support services tending to their daily needs. For certain social groups transport tickets can be provided either for free or at a discount. Ukraine offers for persons in need housing subsidies and discount payments for telephone use, purchase of medicine and transportation (for war veterans, victims of the Chernobyl disaster and for certain types of professions)

2.4 Social protection of the most disadvantaged groups

2.4.1 *Persons with disabilities*

The Soviet legacy segregating disabled persons is still present in Belarus, Moldova and Ukraine, where social rehabilitation is very much concentrated on medical rehabilitation. 'People with disabilities were as a rule employed at specialized closed and subsidized enterprises, which contributed to their further isolation from the rest of society' (UNDP and ILO). Current legislation for the disabled persons 'has just a formal nature due to the lack of mechanisms for implementing its provisions and providing funding for such action'.

In all three countries disabled persons are provided with pensions and other social benefits, medical services, tax allowances or benefits in kind. Education and training as well as the inclusion into the labour market which is also part of existing legislation for disabled persons are still unsatisfactory. Rights of the disabled are generally protected by law, but they are often not enforced. In 2007, in Ukraine 2.5 million disabled persons were registered, out of which 170 thousand children. Data for 2008 suggest that around 238 thousand persons received the state social assistance in accordance with the Law 'On the state social assistance to disabled children and disabled since childhood'. The Ukrainian study states that mass violations of rights of disabled children were reported by the

General Department of Public Prosecutions - including non-coordination of responsible actors, the absence of individual rehabilitation programmes and the provision of rehabilitation means. Thus, rehabilitation of disabled children is very low. Lacking information on the actual situation of the disabled in the Ministry of Labour and Social Policy and in the Fund of Social Protection of Disabled persons has been identified as one of the major reasons for this poor outcome. In Moldova the number of persons with disability status has been growing the last couple of years, reaching 171 thousand persons by 2008, more than half are men and about 60% are living in rural areas. Though growing over time the disability pension accounted for only 23% of the average wage in 2007. Overall, the current practice in Moldova is rather paying social benefits than contributing to an active rehabilitation. Some progress has been made recently educating disabled children in regular schools which is supported primarily by the non-governmental sector. In Belarus disabled persons constitute in administrative terms the single largest group among the disadvantaged totalling 516 thousand persons in 2008, of which 6% are children. Apart from the provision of social benefits and pensions the disabled persons are eligible to benefits in kind. In addition the government offers tax preferences to enterprises employing disabled persons.

2.4.2 Children at risk

Under the centrally planned system placement of children in formal care was the main way for states to provide protection for children deprived of parental care (UNICEF, 2009). Despite some reform attempts in the past couple of years institutionalization is still perceived as the main form of protecting children at risk in Belarus, Moldova and Ukraine. A ranking based on the rate of children living in institutions show that Moldova and Belarus are among the countries with the highest rates if compared to CIS countries, selected new EU member and Western Balkan countries. Accordingly more than 1 per cent of the child population aged 0–17 lives in some form of institutional care with the rate even increasing in the 2000–2006 period. Conversely, Ukraine performs relatively well. But if the data on children living in institutions are disaggregated by regions it is clear that some regions in the south-east of the country have the highest rates of children living in institutions and also experienced the largest increases between 2000 and 2004 (UNICEF, 2009, p. 32f). In Moldova emigration has contributed significantly to a rising number of children without parental care and consequently children in residential institutions. Survey results show that residential institutions while relatively expensive do not meet the needs of children at risk. A reform of the residential system, which was launched in 2007 envisages halving the number of children in residential institutions by 2012 by integrating them into their own family or a similar social setting. This process is monitored by a Commission for Protection of Children at Risk at the local level. First results for 2008 show a decline in the number of children placed in residential institutions in Moldova. In Ukraine, the number of orphan children and children without parental care has been increasing over the past years. The majority of orphans is educated in public residential institutions, while only a small number in family

type homes and foster families. The educational level in public institutions, however, is very low and access to higher education is limited. Policies on de-institutionalization starting in 2005 did not yield the expected results so far (SPSI Ukraine, 2009).

2.4.3 Roma population

Roma in the region tend to be overrepresented as recipients of social assistance (child benefits in particular), providing an important source for income. For example, in Moldova social assistance provides about 6% of the Roma income compared to 3% of non-Roma families (SPSI Moldova, 2009). On the other hand only a small percentage of the Roma population is entitled to social insurance benefits due to low formal employment levels associated with high (long-term) unemployment. In all three countries the Roma population is considered one of the most affected groups by unemployment due to the generally low qualifications and the high rate of illiteracy. The high prevalence of Roma in informal sector employment also limits their access to benefits based on social insurance contributions, including health care and unemployment benefits (Ringold, 2005). The Moldova report states, that the extent of the Roma populations' participation in the social insurance system and their inclusion into social assistance programmes is unknown due to the lack of data. Roma often do not declare their identity because they fear discrimination. In addition many Roma children are left unregistered at birth limiting the access to health care and child allowances for Roma families (for further details see Chapters on Poverty and Health below).

2.4.4 Other vulnerable groups

Other groups at risk are the homeless and released prisoners. According to estimates of NGOs there were about 85,000 homeless persons in Ukraine in 2006¹⁵, the main reason behind were low living standards in insufficient income as a consequence of economic transition. A survey conducted among homeless in Ukraine found that 43% of the respondents did not have identification documents excluding them from the entitlement to pensions or social assistance. Thus, only a small portion of homeless (20%) receives social assistance. Overall, homeless are in a poor state of health: alcoholism, drug addiction, tuberculosis, hepatitis and HIV/AIDS are widespread phenomena. In 2006 the Ukraine parliament adopted the Law on the basics of social protection of homeless persons and street children, defining among others the strategy to combating homelessness based on a three pillar model, namely support, reintegration and prevention. In Moldova, support for homeless if at all is only provided by NGOs, while in Belarus homeless are not yet considered as vulnerable.

¹⁵ <http://www.feantsa.org/code/en/country.asp?ID=25&Page=22>

2.5 Influence of international organizations/donors

International organizations and donors play also an important role, but differing by country. In Belarus for example the role of international donors and NGOs is limited due to the reluctance of the government to accept foreign humanitarian aid and technical assistance (SPSI Belarus, 2009). But there are a number of UNDP activities (which are approved by the government) like the prevention of human trafficking, HIV and poverty prevention, the assistance of disabled persons and assistance to the Chernobyl regions. In some cases, for example for families with many children, foreign religious communities provide assistance in kind. The World Bank provided the so called Chernobyl loan providing clean energy-efficient heating systems through the provision of new equipment and better insulation in schools, hospitals and orphanages.

In Moldova, by contrast, foreign donors contributed significantly to the consolidation of the social protection system including its institutional framework and human resources. In order to increase the effectiveness of donor support the development partnership framework 'Coordination and Harmonization of Government and Donor Practices for Aid Effectiveness' in the Republic of Moldova' was established. Results of a donor mapping survey conducted among donors between November 2007 and January 2008 indicate that some EUR 83 million foreign aid flew into the country's social protection sector within a period of 8-9 years. About one third of funding is accounting for budget grants and loans and a similar share is channelled through the Moldova Social Investment Fund. The remainder is channelled through a number of programmes and projects implemented by international organizations/agencies (e.g. IOM, UNICEF, UNIFEM).

In Ukraine the EU is one of the most important donors. Assistance ranges from the management of migration and the promotion of non-profit services providers to strengthening of capacities of NGOs to provide social services together with local governments. UNDP is engaged in projects such as the Social Inclusion of People with Disabilities, Governance of HIV/AIDS, fighting against gender violence or helping to mitigate the consequences of the Chernobyl accident. More than one third of non-government social services providers in Ukraine are dependent on international donations.

2.6 Drivers of reform and system sustainability

Demographic decline and ageing of the population will become a major concern in ensuring the long-term sustainability of the social protection systems in Belarus, Moldova and Ukraine. Reforms of the social protection systems are underway in all countries, however at different stages. For example in Ukraine the unreformed system of social privileges and social assistance continues to suffer from inherited insufficiency features of the former Soviet system although there are some proposals under discussion for a

transformation of the current system. Similarly social assistance is envisaged to be better targeted by replacing universal principles by means testing. Provided the creation of suitable structures decentralization could help to improve the delivery of social services in all three countries under consideration.

Social protection system reforms in Moldova and Ukraine are also part of the Action Plans agreed between the EU and the two countries. For example, strengthening dialogue and co-operation on social matters should ensure a closer approximation of Ukraine and Moldova to EU standards and practices in the area of employment and social policies.

2.7 Conclusions and key challenges

Main characteristics of the social protection systems in Belarus, Moldova and Ukraine are influenced by the legacies of the Soviet times. The systems remain state run and highly centralized and offer access to social insurance benefits for those working in the formal sector of the economy. However, a significant part of the population is not adequately covered by the social protection and social assistance systems due to the large informal sector or because of the insufficient coverage of vulnerable groups. Although reforms have been launched in all three countries at stake a number of laws still exist only on paper or are poorly implemented. The system of social services and its implementation are non-transparent. Discrimination by gender, age, disability and ethnicity is still widespread in Belarus, Moldova and Ukraine. Rural areas are at a disadvantage to urban areas in terms of social services, but also regarding the labour market and access to education as noted in Chapter 1.

With respect to EU 2006 fighting poverty objective ensuring 'the active social inclusion of all, both by promoting participation in the labour market and by fighting poverty and exclusion' there are continued problems. Apart from still inadequate employment policies, the social protection systems which should play a key role in that respect are suffering from lacking 'flexibility diverting from inherited structures of expenditure, and the response to meeting special needs' (UNICEF, 2009). Measures of active inclusion of vulnerable groups into the labour market (assistance for (re-)integration) are not adequately designed or missing. In terms of Commission objective 3 stating that 'social inclusion policies are well-coordinated and involve all levels of government and relevant actors (and) that they are efficient and effective and mainstreamed into all relevant public policies' achievements made so far are modest. Coordination among the main actors is either weak or non-existent and the administrative capacity of governments is low. The cooperation between governments and NGOs in providing social services is limited.

The current economic crisis puts forward additional challenges for the social protection systems in Belarus, Moldova and Ukraine. While contracting employment leads to a

decline of the wage bill and consequently to a reduction of tax revenues and social security contributions, there will be an increased demand for social benefits and social assistance. The crisis may have a severe impact on the most vulnerable groups by restricting access to social transfers due to lacking budgetary funds. For example in Ukraine, only recently eligibility criteria for benefits to low income families were tightened.

The lack of statistics and information is still one of the major obstacles to research in the field of social protection: e.g. proper analyses are missing to identify vulnerable groups; information on the activities of public and private service providers is insufficient.

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Annex

Table A.2.1

Social protection expenditure in selected CEE/CIS countries, 2005-2006

	Social protection expenditure		Expenditure on pensions
	as % of GDP	as % of total public expenditure	as % of total public expenditure
Georgia	5	19	13
Kazakhstan	4	20	12
Latvia	9	25	.
Russian Federation	8	26	.
Albania	7	26	20
Belarus	14	29	18
Lithuania	10	29	.
Slovakia	11	29	19
Estonia	10	29	.
Czech Republic	13	30	19
Romania	10	30	19
Republic of Moldova	12	33	19
Hungary	18	34	21
Bulgaria	13	35	24
Slovenia	17	37	.
Poland	17	40	28
Ukraine	20	45	.

Note: Countries ordered by increasing share of public expenditure allocated for social protection. The data on social protection reflect the categories of expenditure used by the IMF in its Government Financial Statistics. These data differ from the data on social protection published by Eurostat due to the fact that they include health care expenditure under social protection, and not only sickness and disability benefits.

Source: UNICEF, 2009

Table A.2.2

Children living in institutions in selected CEE/CIS countries, end 2006

	total number of children living in residential care		Proportion of children living in residential care,	Proportion of children in general type boarding schools
	total	of which in general type boarding schools	including those in boarding schools (per 100,000 children aged 0-17)	(per 100,000 children aged 0-17)
Czech Republic	24517	2957	1313.3	158.4
Lithuania	10491	4278	1508.4	615.1
Belarus	24349	8968	1303.1	479.9
Republic of Moldova	11551	6039	1365.1	713.7
Russian Federation	360942	112746	1336.1	417.4
Ukraine	42634	10553	499.5	123.6
Armenia	7597	1973	917.9	238.4
Azerbaijan	16992	13075	655.4	504.3
Georgia	8155	4696	761.6	438.6
Kazakhstan	76859	48418	1670.3	1052.2
Kyrgyzstan	23390	17974	1206.6	927.2
Tajikistan	11646	8462	375.4	272.8
Turmenistan	3250	2314	150.6	107.2
Uzbekistan	32008	5076	308.8	49

Note: Data for Georgia refer to 2005

Source: UNICEF, 2009

3 Poverty and social exclusion

3.1 Introduction and objectives

The poverty situation in Belarus, Moldova and Ukraine is characterized by large differences depending on the economic situation and the stability of the development path, economic and social policies chosen and the level of income inequality in the respective countries. Relative poverty rates are quite similar in all three countries. In Belarus, in 2008, 12.5% of the population fall below the threshold of 60% of the median household consumption¹⁶ per capita equivalence, in Moldova¹⁷ 15.1% (2007), while in Ukraine 13.2% of the population can be considered as poor based on household income data. In absolute terms, however, the differences are substantially larger, pointing to much higher general welfare levels in Belarus and also in Ukraine as compared to Moldova. In addition, during the process of transition economic inequality remained much lower in Belarus as compared to both Moldova and Ukraine. In order to compare the situation of absolute poverty in these and other transition countries, it seems reasonable to report the share of people falling under the thresholds of USD 2.5 PPP and USD 5 PPP, respectively, consumption per capita per day (measures applied by the Worldbank).¹⁸ In Moldova 30% of the population face consumption levels below USD 2.5 PPP and 77% below USD 5 PPP, while in Ukraine this is the case for only about 1% and 18%, respectively. In Belarus even less than 1% face daily consumption levels below USD 2.5 PPP, 13% of the population below USD 5 PPP in 2007. Another criterion to assess the magnitude of absolute poverty in a country is the ratio of food expenditure in total household expenditures. In 2008 the share of food in the average households' consumption expenditures amounted to 41% in Belarus and to 49% in Ukraine, while in Moldova this share was at 55% in 2005. For comparison in the EU 27 the share is with 17% in 2005 substantially lower, in Poland, Bulgaria, Lithuania and Romania it amounts to 26%, 32%, 34% and 44% respectively.

Particularly in Moldova even small increases in relative poverty can result in a severe change in absolute poverty, as was the case during the 1990s. Therefore we will draw not only on relative but also absolute poverty figures where necessary. In the following chapter we will first briefly describe the development of poverty in the course of transition up to the most recent period. We will then give an overview of the research on poverty and social exclusion in the three countries investigated and on government policies and strategies

¹⁶ For the series of SPSI reports on Belarus, Moldova and Ukraine the authors calculated relative poverty rates according to the EU methodology, i.e. 60% of the median adult equivalent applying the modified OECD equivalence scale (1 - 0.5 - 0.3). However, the calculations are based on household consumption data in the case of Belarus and Moldova, which may cause a downward bias of poverty rates when compared to EU-SILC based poverty figures. For further methodological information see the Annex 2.

¹⁷ Data exclude Transnistrian rayons.

¹⁸ These poverty thresholds are used by the World Bank for Eastern European and Central Asian transition countries, without applying equivalence scales. For further methodological information see Annex 2.

designed to alleviate the hardship of poverty. This is followed by a description of the profiles of poverty and social exclusion in the three countries observed and the identification of the most vulnerable population groups. We will conclude with the key challenges of the chapter.

3.2 Historical perspective

Trends in poverty and social inclusion since the beginning of transition

The sharp rise of absolute poverty rates in Belarus and even more so in Ukraine and Moldova (see Table A.3.1) at the beginning of the transition period was mainly driven by the economic slump in the respective countries already before but particularly after the break-up of the Soviet Union and partly also by the rise in inequality that followed swiftly. The peak of poverty was reached at the end of the 1990s when the transitional recession bottomed out, but the Russian rouble crisis in 1998 had once again worsened the welfare situation. In 1999 the Ukrainian GDP had fallen to its low of 39% of the 1989 level, while in Moldova the transitional recession levelled off at 33% of the 1989 level in the same year. In Belarus, by contrast, the economic turnaround took place already in 1995, when GDP reached 63% of the 1989 level. However, also in Belarus absolute poverty rates rose until the end of the 1990s.

As a result of both the transitional recession and the rise in inequality, by 1999 10% of the population fell under the absolute poverty line (of USD 4.3 PPP per capita/day) in Belarus; in Ukraine that share was 30%, while in Moldova 85% of the population had to be qualified as poor according to this headcount measure. In the latter country the rate of relative poverty¹⁹ had at the same time risen to 25%, in Ukraine the rate²⁰ amounted to 12% and in Belarus to 11.3%. From the end of the 1990s onwards the resurgence of economic growth and an improvement of the situation of inequality (in Belarus and Moldova) led to a substantial decline in absolute poverty rates. However, relative poverty remained quite stable in all three countries even though showing a downward trend, particularly in the more recent period of 2004-2007. To interpret the situation of inequality and poverty in Belarus, Ukraine and Moldova, it is useful to compare it with that of some neighbouring EU member states as well as Russia. Absolute poverty rates (USD 5 PPP) e.g. in Estonia (18%) and Poland (20%) are higher than in Belarus (13%) but in line with that in Ukraine (18%). The rate of Romania (45%) is above those of the latter two countries but still much below the one of Moldova (77%) (see Table A.3.2). Relative poverty rates in 2007, based on EU methodology (new OECD equivalence scale applied), are quite low in Belarus (12%), Ukraine (12.7%) and Moldova (15.1%) compared to EU countries. In Poland the poverty rate reaches 17%, in Romania 19% and in the Baltic States it ranges between

¹⁹ According to national methodology: 50% of mean consumption expenditures.

²⁰ According to EU-methodology based on consumption data.

19% and 21%, being among the highest in the EU-27. However, it should again be pointed out that the comparison of relative poverty rates of Belarus and Moldova with those of EU countries may be not comparable as the former ones are based on consumption data, while EU poverty rates are based on income data. For comparative reasons, therefore, it may be useful to report also figures on income inequality. The Gini coefficients of household incomes in Poland, Romania and the Baltic States are among the highest in the EU-27, ranging between 0.32 and 0.35. The Gini coefficient for Belarus is reported to be 0.29, the one for Ukraine 0.30, while that for Moldova is much higher, at 0.39²¹. Therefore one could conclude that relative poverty may indeed be somewhat lower particularly in Belarus and Ukraine than in Romania or the Baltic States, which is most probably not the case for Moldova.

Government policies and strategies towards reducing poverty and social exclusion

The first poverty reports in all three countries provided the basis for the development of more comprehensive strategies to alleviate poverty and foster social inclusion. The Moldovan government presented its long-term strategy in the 'Economic Growth and Poverty Reduction Strategy' document (EGPRS) in 2004. The objectives focus on social inclusion and broadening the access of the poor population groups to education, health, social protection and the labour market. In the field of education, for instance, the situation was improved by introducing student scholarships for children from poor families, free food for children in kindergartens and for children from poor households in schools, subsidizing of textbooks, etc. In 2008 a new income-tested cash benefit system that targets poor families was introduced. The former system had been reported to be only marginally poverty reducing, therefore the new benefit scheme might cause some amelioration. In addition, by the end of 2008 174 integrated social services centres were set up, offering social assistance services to vulnerable groups. However, reportedly the sustainability of these services seems limited as the lack of fiscal decentralization in Moldova hampers sustainability in financing. Furthermore, the adopted 'Action plan on supporting the Roma population in Moldova for the years 2007-2010' is intended to reduce poverty and social exclusion in the fields of education, employment, health and social protection.

In Belarus macroeconomic policies in general are aimed at reducing economic fluctuations and thereby the incidence of unemployment and also poverty. This was the case in the course of the transitional recession and in the aftermath of the rouble crisis, and this policy also seems to have resulted in 'smoother' output reductions in the ongoing economic downturn. State intervention in the economy leads to wage compression and the outspoken goal of the social system is to maintain an egalitarian society (see also chapter 2). Within the framework of the social system, two measures in particular are due to alleviate poverty and material deprivation. Starting from 1998 a countrywide network of

²¹ Source: UNICEF TransMONEE 2009 Database.

local social services centres was established offering free services such as nursing, shopping and transportation for vulnerable groups whose income is below the administratively set poverty line. Furthermore, the provision of targeted social transfers was introduced for those with incomes below the subsistence minimum. As of the beginning of 2008 the benefit system of Belarus was changed comprehensively by reducing benefits in kind (food allowances, reduced fees for public transport, kindergartens, etc.) and expanding cash transfers. It is assumed that this modification will enhance the targeting of the benefit system of Belarus. The measures for poverty reduction taken by the Belarusian government were assessed by the World Bank (2004a) as a positive model for the CIS region.

In Ukraine the government programmes 'Strategy of Poverty Overcoming' (2001) and the 'Complex Programme of Nation-wide Realization of Decisions' (2003) are aimed at aligning policies fighting social exclusion. However, no comprehensive information is available on the direct impact of the strategies. In general the impact of social policy programmes and social assistance in Ukraine does not seem to be particularly well targeted towards poverty alleviation. All types of transfers and assistance (excluding pensions) merely reduce the poverty rate from 29.5% to 26.4% (subsistence minimum approach). There exist means-tested benefits on the communal level for households with low income and children as well as for pensioners. However, the overall poverty reducing effect of these assistance programmes is rather low.

3.3 Profiles of poverty and social exclusion and vulnerable groups

In 2008, applying the EU equivalence scale, 12.5% of the population were in relative poverty in Belarus and 13.2% in the Ukraine. However, the application of this equivalence scale may underestimate the poverty situation in Belarus, as due to the low shares of housing in total household expenditures, economies of scales might be lower than in other countries. Also in Moldova, the picture does not look too dramatic when poverty is measured in relative terms (15.4% in 2007) according to EU methodology. However one has to point out that in the case of Moldova relative poverty figures are calculated on the basis of consumption expenditure, which causes a downward bias. Moreover due to the rather low level of average incomes, contrary to the former two countries, poverty is a widespread phenomenon in Moldova when measured in absolute (administrative) terms (25.8% in 2007). The severity of poverty and social exclusion of poor households in Moldova is underlined also by material deprivation indicators. About 80% of poor households are not connected to a sewerage system, which is however also the case for 50% of non-poor households. Hot water supply is available for only 10% of poor households (35% of non-poor households), 83% have no bathroom or shower, 45% no telephone (56% and 11.6% respectively for non-poor households).

The dispersion of relative poverty between regions is moderate in Belarus; only in the capital Minsk, the rate (at 3.1% in 2007) is substantially lower than in other oblasts. Obviously, as in many other countries, regional differences can be traced back to the differences between rural (18.5%) and urban areas (8.4%). The same holds true for the Ukraine, where rural households face a much higher incidence of poverty nowadays than a decade ago. They have practically not felt any positive changes due to the revival of the country's economy from 2000 onwards and urban-rural disparities in living standards have grown. While the incidence of relative poverty fell in large cities and remained quite stable in small towns, it rose substantially in rural areas, to 20.6% in 2008. This divide is also observable when it comes to material deprivation. Half of rural dwellings lack conveniences such as water pipes and lavatories, centralized heating and gas supply, which is the case for only about 15% of urban dwellings. 40% of rural households have no telephone and one third faces an absence of medical institutions and public transport. Apart from this rural/urban divide, there are however no striking territorial disparities in poverty in Ukraine, the poverty rates of the Western, Southern and the Northern region of the country are only marginally higher than those of the rest of the country.

Also in Moldova the risk of being poor (in absolute, administrative terms²²) is much higher in rural areas (31.3% in 2007) but also in small towns (23.8%) than in cities (14%). Moldova is a highly agricultural country: about 60% of the population live in rural areas, much more than in other CEE countries (e.g. about 30% in Ukraine, 40% in Poland and the Slovak Republic and about 45% in Romania). Productivity in agriculture is exceptionally low, indicating that the lack of capital hinders investment, so that subsistence farming is the prevailing source of income in rural areas. Farmers and agricultural workers are therefore both facing high in-work poverty rates. The high incidence of poverty in small towns furthermore points to the problematic heritage of mono-structural industrial planning in the Soviet era which led to mass unemployment during transition in cities that depended upon one or a few factories. A restructuring of those industries did mostly not take place due to lack of capital and insufficient infrastructure. Also in the period of higher growth from 2000 onwards the gap in living conditions between small towns and bigger cities, the latter having a more diversified productive basis, widened further. Another effect of the divide in living standards between bigger cities and rural areas including small towns is that in the Central and Southern regions of Moldova, where the share of employment in agriculture is above average, the incidence of poverty is also more widespread. Large differences between rural and urban regions can be observed also on the basis of social inclusion indicators: 90% of the rural population are living in dwellings that are not connected to the public water network, while in urban regions this is the case for 27% of the population. About one fifth of rural households are provided only with substandard latrine facilities (UNICEF, 2009).

²² At this regional level only absolute poverty figures are available.

A comparison of the poverty profiles of the three countries shows, that in Belarus poverty is less widespread, but more concentrated in population groups that have a less favourable standing in the labour market or have no access to formal income at all. Thus, the relative poverty rate of unemployed persons amounts to 30.3%, compared to 12% in the total population in 2007. This is due to the low level of unemployment benefits, which make up only 20% of the official poverty line in Belarus. Moreover, less than 10% of those unemployed, actually received benefits in 2007. In addition, the incidence of poverty is substantially higher for those with low educational attainment levels (23.1%, figure for 2007). Also in Moldova, the risk of poverty differs to a large degree according to the educational attainment levels of the head of the household. About 25% of heads of households have low educational attainment levels (below secondary general or completed vocational education) and are facing substantially higher poverty rates.

In general, in the three countries the welfare situation is worse for the elderly compared to the one of the total population. In Belarus, the probability of falling into poverty (defined in relative terms) is definitely higher (30.6%) for singles in pension. Taking into account the longer lifetime of women and their larger share in the group of pensioners, the poverty rates of women are thus also higher than those for men in the total population. Nevertheless, the pension system has significantly lowered the incidence of poverty from 25.1% to 13.6% for the total population in 2007. By comparison, the reduction of poverty by other social transfers from 13.6% to 12% was quite meagre. In the Ukraine only for females aged above 65 the incidence of relative poverty (20.8%) is above the nationwide average, in contrary to males. However, for pensioner households in general, restricted access to medical services is reported when compared to the average Ukrainian household. About one third cannot afford essential in-patient care, doctors or medicines. A special feature of most post-Soviet pension systems also applied in Ukraine is that most pensioners continue working after reaching the retirement age and can receive both wages and pensions. Therefore the age group of 55-65 is the least prone to poverty, although pensions in Ukraine are rather low (see chapter 4). In Moldova the group of pensioners in general face much higher rates of poverty, particularly those aged more than 70 years (more than 30% are poor in relative terms), the reason being very low replacement rates as compared to Belarus and Ukraine (see chapter 4). For female pensioners the incidence is even higher.

Furthermore households with three or more children are much more vulnerable to poverty. In Belarus, due to the low level of family benefits, in this group of households the relative poverty rate has risen substantially, to 26.2% in 2007. In Ukraine alike it comes up to 27.9% and here also child poverty in general is substantially higher than that of the average population. Nevertheless, its level is still much lower than in Romania or Bulgaria and comparable to that in Poland, Estonia or Lithuania. Also in Moldova families with three or more children face a higher incidence of poverty as well as households with children

headed by persons other than their parents. While the former points to child benefits being very low in the country, the latter underlines that migration, apart from being an important means to escape from poverty, has also generated substantial social costs for the Moldovan society. Survey data for 2007 suggest that 37% of children aged 0-14 years are not living in families with both parents, and in slightly more than half of the cases this is due to migration of one or both parents. About 10% of the children live without either parent, while again in half of the cases they were left behind due to migration. The incidence of child poverty in general is comparable to the Caucasus and Central Asian CIS countries and much higher than in other Western CIS countries or Romania, the country with the highest incidence of child poverty in the EU (UNICEF, 2009). In general, the economic collapse in Moldova made labour migration a widespread phenomenon in all regions of the country (see chapter 1). About 80% of the 600 thousands migrants of Moldova have left the country after 1998 when the poverty situation aggravated (Cuc et al., 2005). Subsequently remittances became an important source of income for many households, alleviating the situation of poverty. In 2007 more than 40% of all households received remittances; with the inclusion of remittances to total disposable income, the rate of absolute (administrative) poverty falls from 37.1% to 25.8%.

In Belarus other vulnerable groups are e.g. disabled persons whose access to the labour market is quite restricted and who receive rather low public transfers. But, in this context it has to be mentioned that in Belarus data on 'non-standard' vulnerable population groups have not been collected so far. Therefore the situation of poverty and material deprivation of e.g. the homeless, labour migrants, etc. cannot be analysed for the time being. Moreover, social exclusion has so far not emerged as a concept of research in the country and is therefore not analysed. In Moldova and Ukraine ethnic minorities face lower welfare levels than the rest of the population. In the former country, the ethnic minority of Roma totals between 12 thousand and 15 thousand people (or 0.4% to 0.5% of the total population) according to official figures, although alternative estimates state that the figure could be up to ten times higher (UNICEF 2009, p.89) The absolute (administrative) poverty rate of the group is with 59% substantially higher than that of the rest of the population (24%; figures for 2007). By the indicators of health, education, access to the formal labour market, etc. the Roma minority can be regarded as socially excluded. In the Ukraine 47.6 thousand Roma were registered in the country according to the population census of 2001. Most Roma are reported to live in conditions of poverty, 50% of them are estimated to lack sufficient daily nutrition. Many of them are living in settlements with substandard conditions and little access to public transport or public utilities such as electricity or waste removal; overcrowding of dwellings is another problem to be mentioned. The availability of proper dwelling appliances such as running water, baths or showers or sewerage is much lower than for the average population. Discrimination, e.g. in the field of access to medical services and education, job placement, provision of housing and access to justice and protection of rights is reported to be prevalent. Moreover, in the Ukraine not only Roma but

also the Crimean Tatars, being resettled by force from the Crimea in the Stalin era, have not only lower living standards than the average population but also face substantial social exclusion and discrimination in various fields of public life. About 250 thousand of them could resettle in Ukraine until the beginning of 2004, most of them in the Crimea. Many Crimean Tatars are reported to live in 'compact living' communities with unsatisfactory infrastructure; for instance, only 27% of the households are connected to the public water system, only 3% have access to gas pipelines and sewerage and heating networks are practically absent (Netesa, 2008). A deterioration of the health status and increasing mortality rates among Crimean Tatars are reported.

3.4 Conclusions and key challenges

In the period 2000-2008, the economic upswing in Belarus, Moldova and Ukraine after the transitional depression led to a substantial reduction of absolute poverty and at least a stabilization of relative poverty rates. However, the world-wide economic crisis hit Ukraine and Moldova harder than the EU average. Since their social security systems and their benefit systems in particular are generally not well equipped to cushion the negative social effects of economic fluctuations, one impact of the current crisis will be a rise at least in absolute poverty rates in those two countries.

Based on 2007 data one can observe that absolute poverty of a large part of the population is still a key challenge in Moldova. Poverty, material deprivation and social exclusion are widespread in rural areas due to low productivity in agricultural production, mainly subsistence farming, and also in small towns, reflecting the legacy of the mono-industrial enterprises that had been established in the Soviet era and were not restructured in the transition period. Due to the rather low level of social benefits unemployed, pensioners, families with three or more children and other population groups that have a disadvantaged standing in the labour market face a higher incidence of poverty than the average population. Child poverty in general is a severe problem in Moldova, comparable to countries in the Caucasus and Central Asian CIS countries and much more pronounced than in Belarus, Ukraine or Romania. One of the coping strategies of the poor in particular in Moldova is labour migration, raising economic welfare levels especially in rural regions. However, left-behind children are one group of the population that has to bear severe negative consequences due to mass migration.

In Belarus relative poverty is concentrated in population groups that have a less favourable standing in the labour market, such as the low-educated, or have no access to formal income at all and thus depend upon social benefits, such as the unemployed and pensioners. The existing system of public benefits is not adequately adapted to balance the inequalities of the labour market; this is particularly dangerous in times of increasing unemployment such as in the current economic crisis. The plan to increase unemployment benefits to the level of the

subsistence minimum should be implemented. At present unemployment benefits amount to only 20% of the administrative absolute poverty line, and furthermore only 10% of those unemployed actually receive benefits; this situation is prone to produce vicious poverty cycles and raise child poverty. Poverty and material deprivation of non-standard population groups such as the homeless, labour migrants, etc. is not analysed in Belarus. This appears as a substantial lack in poverty monitoring and should be tackled.

In Ukraine rural poverty and material deprivation seems to be the most serious problem. People living in the countryside have benefited the least from the economic upswing in the period after 2000 and the difference in welfare levels between rural and urban regions has risen since. Furthermore, the lack of family benefits makes families with three or more children a vulnerable group. Ethnic minorities such as the Crimean Tatars but especially the Roma are reported to be extremely poor and socially excluded in many aspects of life.

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Annex 1: Tables

Table A.3.1

Poverty indicators in 1998–2008, in % of total population

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Moldova											
Relative (administrative) poverty rate: 50 % of the mean HH consumption expenditure per adult equivalent	25.8	25.4	22.3	23.7	23.6	19.4	20.3	23.3	.	.	.
Relative (administrative) poverty rate: 60 % of the median HH consumption expenditure per adult equivalent	.	.	.	.	.	.	.	.	16.9	15.1	.
Absolute (administrative) poverty rate	52.0	73.0	67.8	54.6	40.4	29.0	26.5	29.1	30.2	25.8	.
Absolute (international) poverty rate ²⁾ : USD 4.30 (EUR 3.43) PPP consumption expenditure per capita/day	93	96	96	94	90	85	.	.	34.5	29.8	.
Ukraine											
Relative (administrative) poverty rate: 60% of median HH consumption expenditure (equiv. scale 1 - 0.7 - 0.7)	.	14.4	13.9	14.9	13.7	13.7	14.2	14.4	14.8	13.8	13.5
Relative poverty rate: 60% of the median total equivalent household income (EU equivalence scale 1.0; 0.5; 0.3.)	.	12.0	12.6	14.0	12.6	12.5	13.6	13.4	13.5	12.7	13.2
Absolute (administrative) poverty rate: daily ratio > 2,100 kCal. p. person	.	32.6	25.6	25.9	17.3	15.6	13.7	13.2	14.2	14.3	13.2
Absolute (international) poverty rate ²⁾ : USD 4.30 (EUR 3.43) PPP cons. exp. per capita/day	.	.	.	.	31	22	.	.	.	.	.
Self-certification of "being poor" by households	.	.	.	.	.	.	77.5	79.6	86.1	55.9 ¹⁾	53.2
Belarus											
Relative poverty rate: without equivalence scale	.	.	.	.	.	.	.	.	.	14.7	.
Relative poverty rate: 60% of the median total equivalent household income (EU equivalence scale 1.0; 0.5; 0.3.)	11.9	11.9	10.4	9.9	11.2	11.6	10.1	12.6	12.2	12.0	12.5
Absolute (administrative) poverty rate: (population below the subsistence level budget)	33.0	46.7	41.9	28.9	30.5	27.1	17.8	12.7	11.1	7.7	6.1
Absolute (international) poverty rate ²⁾ : USD 4.30 (EUR 3.43) PPP consumption expenditure per capita/day	48	42	38	27	21	.	.	.	.	.	.

Note: 1) the methodology of the survey was changed, adding the new notation "no longer poor one but still not middle class". -
2) applied by the Worldbank.

Source: SPSI reports on Belarus, Moldova and Ukraine , World Bank (2005a).

Table A.3.2

Poverty indicators for selected countries in comparison, 2007, in %

	Absolute poverty USD 5 PPP	Relative poverty EU-methodology based on income data
Estonia	18	19
Latvia	12	21
Lithuania	.	19
Poland	20	17
Romania	45	19
Russian Federation	20	.
Ukraine	18	12.7
		based on consumption data
Belarus	13	12
Moldova	77	15.1

Sources: Eurostat (2009), World Bank (2010), SPSI-reports on Belarus, Moldova and Ukraine.

Table A.3.3

Housing conditions and availability of durables in households, 2008, in %

	Belarus	Moldova	Ukraine
Housing conditions			
Central heating	86	29.5	59.6
Gas	80	86.6	83.1
Sewerage	89	32.9	55.6
Bath	84	28.9	52.4
Hot water supply	78	22.6	41.3
Water supply	91	36.5	57.8
Electric range	19	0.7	3.6
Durable goods			
TV set	98.2	92.5	100
Personal computer	38.2	13	22
Music centre	.	9.5	17
Video or DVD player	55.8	14.7	21
Refrigerator	98.2	81.2	100
Automatic washing machine	57.3	25	.
Vacuum cleaner	.	43.8	74
Microwave oven	46.8	8.7	.
Car	.	17.2	20

Sources: State Statistics Committee of Ukraine (2009), National Bureau of Statistics of the Republic of Moldova (2009), National Statistical Committee of the Republic of Belarus (2010), wiw calculations.

Annex 2:

Methodologies of poverty measurement applied in Belarus, Moldova and Ukraine and statistical problems

In the countries of Belarus, Moldova and Ukraine headcount poverty figures for analysis and policy formulation are measured predominantly in administratively determined 'absolute' terms, in the second instance in relative terms. Absolute and relative poverty calculations in all three countries are based on household consumption data (i.e. monetary expenditures including income in kind from value added of home-grown food and benefits in kind) derived from Household Budget Surveys²³, applying regional price adjustment, while the application of equivalence scales in order to calculate consumption expenditures per adult equivalent is treated differently. In Belarus the absolute administrative poverty line is the monetary equivalent of 2400 calories per person (2700 calories per adult) per day, with no equivalence scale being applied. In Moldova there is a distinction between an 'extreme poverty line', based on the monetary value of a minimum food basket (2282 calories per person per day) and an 'absolute poverty line', estimated on the basis of a minimum consumption basket. The used equivalence scale is 1 - 0.7 - 0.5. In Ukraine two different absolute poverty lines are used: The first is a daily ration of 2.100 calories per person in a household without applying an equivalence scale. The second is the administrative subsistence minimum, applied in the analysis by using an equivalence scale of 1 - 0.7 - 0.7. The consumption basket underlying the administratively determined subsistence minimum is recalculated every year for different socio-demographic groups according to their consumption characteristics, comprising expenses for food, clothes, essential goods and services, etc.

In addition, national administrative relative poverty lines are applied in the three countries investigated. In Belarus an additional administrative poverty line is calculated since 1999 according to the "Subsistence level budget" approach, which is the value of a minimum set of material goods and services that are essential to secure the vital activity and health of a person, including compulsory payments and contributions. In Moldova the administration also refers to a relative poverty line amounting to 50% of the mean consumption expenditure per adult equivalent (pae) from 1998 to 2005; from 2006 onwards the relative line was changed to 60% of the median consumption expenditure pae. In Ukraine the official 'relative poverty' line comprises 75% of the median consumption expenditure pae, the 'extreme' poverty line 60% respectively.

For the series of SPSI reports on Belarus, Moldova and Ukraine the authors also calculated relative poverty lines according to the EU methodology, i.e. 60% of the median adult equivalent applying the modified OECD equivalence scale (1 - 0.5 - 0.3) using

²³ In Moldova the household budget survey does not cover Transnistrian rayons.

consumption data of households. When comparing the headcount poverty figures based on this methodology with those of other EU countries, it seems evident that data capturing extreme forms of poverty are more relevant for low-average consumption countries. One should also keep in mind that the underlying data differ from EU-SILC data in two ways. First and foremost, EU-SILC comprises data on household income rather than household consumption. Moreover, the question of applicability of the modified OECD equivalence scale to the three countries analysed in this report arises. Since food expenditure as a share of total household consumption in these countries are much higher than in the EU (and the share of housing expenditures is much lower than in EU countries), the benefits from economies of scale in household consumption also tend to be lower. Therefore it could be argued that for the three countries the focus should be on measuring extreme poverty using an equivalence scale that should be steeper than the modified OECD scale used for the harmonised SILC data analyses.

For comparison also data on consumption poverty according to the World Bank approach are available. The World Bank's poverty rates for the Eastern European and Central Asian region are defined as the percentage of individuals living in households with a per capita consumption lower than USD 5 PPP a day (also named vulnerability threshold) and below USD 2.5 PPP a day, respectively. In both cases no equivalence scale is applied, i.e. household consumption is just divided by the number of household members to derive the per capita consumption of the respective household. Before 2008 the poverty threshold applied was USD 4.3 PPP a day, which is also used in the chapter for comparative absolute poverty figures in 1999.

Non-monetary indicators from the HBS can also be used to investigate deprivation, although so far this has not been done consistently in the context of social exclusion analysis in any of the three countries. However, in Moldova material deprivation at a community level is analysed by calculating a 'Small Area Deprivation Index' (SADI). The Moldovan Ministry on Economics and Trade therefore collects data on the non-monetary living conditions of people, such as access to infrastructure, education and health services, housing amenities, data on local budget expenditures and revenues, number of social benefits, area of land plots, and soil quality. In Ukraine in 2007, a survey on deprivation issues was carried out. Data on 18 different types of deprivation were surveyed, and the poverty line by 'conditions of life' was then drawn at a level of 75% of the cumulative deprivation number, which resulted in that every household with four or more signs of deprivation has to be presumed as poor according to conditions of life.

Statistical problems

In order to render the poverty figures of Belarus, Moldova and Ukraine more comparable with those of other (particularly European) countries, relative poverty should also be calculated according to international methodologies (e.g. the OECD's modified equivalence

scale) in addition to the methodologies applied up to now. In the case of Belarus the application of an equivalence scale should be implemented in poverty research.

Moreover, information on non-standard issues of poverty is lacking, a gap that should be filled to provide for comprehensive monitoring of social problems to be tackled. A more systematic approach towards analysing material deprivation and social exclusion should be followed.

Annex 3:

Overview of research done on poverty and social inclusion in Belarus, Moldova and Ukraine

In the first phase of transition no systematic analysis of poverty and social inclusion was done in Belarus, Moldova and Ukraine. In all three countries the first poverty studies after the onset of transition were carried out only at the end of the 1990s, conducted by national scientific institutions in cooperation with state authorities and based on active support of the World Bank, UNDP, UNICEF, UNFPA and others after the launch of Household Budget Surveys (HBS). The first paper to analyse the development of poverty in the transition countries from a comparative perspective was Milanovic (1998), who already stressed the sharp rise in poverty throughout the region, but also the differences between countries such as Belarus and Moldova. From that time on a multitude of overview studies have been published, particularly by international organizations, on the evolution of poverty, inequality and – in the more recent period – also on social exclusion, underlining the growing importance of the latter concept in poverty research. For instance, the World Bank report 'Growth, poverty and inequality' (2005) provided a general overview on poverty developments in transition countries, the latest Innocenti Social Monitor (2009) investigated in particular child well-being.

Only in Belarus the government had introduced already in 1995 the first random Household Income and Expenditure Survey (HIES). Based on this survey the government produced, together with the World Bank, the first poverty assessment (World Bank, 1996), documenting the increase in absolute poverty but also the low rise in inequality and thus of relative poverty rates as well. From that year onwards the Ministry of Statistics and Analysis (MOSA) has carried out annual and quarterly analyses. Based on the HIES data a number of studies on poverty and household status were prepared, e.g. Liberati (2001), simulating a pro-poor retargeting of monetary transfers and identifying single parents and workers with children as those groups in society most prone to poverty. Walewski and Chubrik (2001) analyse the situation of households in 1995-2000, finding that the structure of social transfers in Belarus is not best designed to alleviate poverty. Chubrik and Haiduk (2007) conclude that all income decile groups benefited quite evenly from the prospering economy in the period 2000-2006, which led to a substantial fall in absolute poverty and kept relative poverty rates at a low level. A second Poverty Assessment Report published by the World Bank (2004a) shed light not only on the poverty situation but also on social exclusion. Although poverty levels remained relatively low, not least due to wage compression and administrative labour market regulations, unequal access of different income groups could be observed especially in the field of health care and education also due to commercialisation of those sectors.

In Moldova the first random HBS was introduced not earlier than 1997. Drawing upon those data the Poverty and Policy Monitoring Unit (PPMU) of the Ministry of Economy and Trade started to publish regularly poverty reports (see PPMU 2002, 2003a, 2003b). Moreover, the Department of Statistics and Sociology (SSI) and the World Bank analysed the structure and situation of welfare in their respective poverty assessment reports (2004b). Cornia (2006) analysed not only the poverty situation of vulnerable groups and the respective government policies, but also gave an in-depth analysis of measurement methodologies applied in the country. The phenomena of mass migration and its effect on poverty and social well-being is analysed by a number of authors, more recently by Walewski et al. (2008) focusing on the effects of migration and remittances in the rural areas of Moldova.

In Ukraine the State Statistical Committee (SSCU) produced poverty measures for the period 1999-2003 in 2004 and the first poverty assessment report based on those data was published as late as 2005 as a joint product of the World Bank and Ukrainian experts in the framework of the Programmatic Ukraine Living Standards Exercise (PULSE).

4 Pensions

4.1 Introduction and objectives

The pension systems of Belarus, Moldova and Ukraine rely mainly on traditional unfunded compulsory state-run pay-as-you-go (PAYG) schemes based on a defined benefit plan, partly linked to the members' wages and length of employment. The level of adequacy of these systems is rather low. The replacement rate of average pensions to average wages in recent years is somewhat below 30% in Moldova, 40% in Belarus and 45% in Ukraine. As a consequence, poverty among pensioners is wide spread. By comparison, the replacement rate in the EU is at about 50%, with some of the more developed welfare systems, such as those of Austria and Sweden, having replacement rates of above 60%. In the Baltics, the replacement rate is at around 40%. Regarding the sustainability of the pension systems, the demographic development is a challenge. Moreover, strong migration outflows, in particular from Moldova, reduce the local work force. At present the demographic dependency ratio between the population above the age of 65 and the number of working-age population amounts to 14% in Moldova, 21% in Belarus and 24% in Ukraine. This is still quite below the EU average of more than 25%. One reason is the very low life expectancy. Currently the male life expectancy at birth in Belarus, Moldova and Ukraine is well below 65 years. The EU average is about ten years above that value. The EU range is between 78 years in Sweden and about 65 years in the Baltic countries. However, the actual number of contributors among the working-age population in Belarus, Moldova and Ukraine is low. Thus, the systemic dependency ratio of pensioners to contributors is about double the size of the demographic dependency ratio. One reason behind is the endemic informal sector. Increasing the number of regular contributors to the pension funds in the work force will be a key challenge in the medium term. While pension system reform plans that should acknowledge for the long-term demographic change have been developed, implementation has not started yet.

4.2 Historical perspective

Until 1990, the Soviet pension system included the general pension scheme for employed persons, civil servants and military personnel, as well as the pension scheme for collective farm members. Pensions were determined according to a fixed scale based on the final wage. In case of old-age pensions, the replacement rate varied from 100% for low-income earners to 50% for high-income earners. Pensions were part of a general social insurance scheme, including also health and accident insurance. Pensions were funded from the enterprises and the state budget.

At the beginning of the 1990s, the successor republics of the Soviet Union, including Belarus, Moldova and Ukraine, adopted national pension laws. These laws foresaw slight

modifications of the Soviet pension system. However, the common Soviet features remained. The standard retirement age was 60 for men (after 25 or more years of employment) and 55 for women (after 20 or more years of employment). The old-age pension was calculated on the basis of 55% of the average wage of 5 consecutive years within the last 15 years of employment, plus 1% of the wage base for each year in excess of the minimum compulsory employment years (25 for men, 20 for women). Various other benefits were added to this calculation. The system had also a minimum and a maximum pension cap. More significant changes of the pension system took place in Moldova and Belarus in 1999 and in Ukraine in 2003.

4.3 Existing pension systems

The modifications of the Soviet pension system were the least severe in Belarus. From 2000 onwards, the calculation of the wage base was extended to seven consecutive years within the last 17 years of employment. The Belarusian state pension system provides either for an employment-related old-age, disability and survivors pension or for a social pension for those who had no work. There are special pensions for pilots, teachers, artists, athletes, specific categories of medical personnel, and persons injured in the Chernobyl catastrophe. Maximum pensions are capped to 75% of the wage base. Minimum pensions and social pensions increase with the official subsistence minimum. Inflation losses are compensated using individual pension coefficients. Insured persons contribute 1% of their earnings to the social security fund; the employers contribute up to 35% of the payroll. The state takes over the costs for the social pensions and subsidies to the fund.

In Moldova, the changes have been more pronounced. Although the plan was to annually increase the retirement age by 6 months, from 1999 onwards, to a level of 65 years for men and 60 for women by 2008, the retirement age was frozen at the level of 2002 with 62 years for men and 57 for women. Similarly, it had been planned to increase the necessary contribution period of men and women to 35 years. However, only a common contribution period of 30 years was implemented starting as of 2003. Apart from the old-age pension, the Moldovan pension system includes disability pensions, survivors pensions, pensions for parliament deputies, members of the government, public servants and elected representatives, as well as pensions for the members of the armed forces and the victims of the Chernobyl catastrophe. The Moldovan state pension scheme defines a minimum pension level and pensions are being adjusted for inflation and some average wage increases on an annual basis. Employees' contributions to the social security fund are being raised annually. The employees' contribution rate increased from 1% of the salary in 2004 to 6% in 2009. Vice versa, the contribution rate of the employers decreased by 1% annually of the payroll, to 23%. Employers in agriculture have a reduced rate of 16%. Self-employed contribute with a lump sum flat rate. The state budget is paying for the social pensions and is subsidizing the social security fund.

Despite a number of amendments and pension law reforms, the Soviet retirement age of 60 for men and 55 for women was preserved in the Ukraine. Eligibility requires at least 5 years of covered employment. Pensions are calculated with the help of a formula including 3 variables: Average wage; Wage coefficient based on each contribution month relative to the country's average wage; Coefficient of insurance length. For each full year of insurance length exceeding the required one, the pension is increasing by 1%, but no more than by 1% of a minimum pension. The minimum old-age pension is set at the level of the subsistence minimum for persons who have lost their ability to work. Apart from the old-age pension, the Ukrainian pension system includes disability, survivors, and social pensions, as well as pensions for a set of special groups, such as state employees, scientists, people's deputies, judges, journalists, members of the armed forces and Chernobyl victims. Only a part of the pension, which is within the limits of the subsistence minimum, is being adjusted for inflation. In addition pensions are adjusted for a coefficient which makes up no less than 20% of the growth of nominal average monthly wages. Employees contribute to the pension system with 1% to 5% of their earnings in relation to income. Self-employed persons contribute a fixed-rate amount equal to 32% of the minimum wage and employers contribute 32.2% of the payroll. The government bears the cost of state social benefits and subsidies to the fund.

4.4 Main reforms and drivers of change

Throughout the whole region, the main drivers of change in the pension systems are still representatives of social security funds, government and parliament. The role of non-governmental organizations (NGOs), trade unions and private business is rather limited. That is one of the reasons why there is only limited willingness to change the system and face future demographic challenges in view of long-term adequacy and sustainability of pensions.

In Belarus, a pension reform concept was approved in 1997. The concept envisaged the creation of a three-tier scheme, with a social pension, a mandatory PAYG contribution scheme and an industry-specific pension. It was planned to introduce individual pension accounts in 2003. However, the implementation of these plans has been postponed. Currently, the Ministry of Labour and Social Protection suggests indexing employment-related pensions to the inflation instead of wage growth. In 1993, the first private life and pension insurance company was established in Belarus. In 1996, employer contributions to life and pension insurance schemes were exempted from taxation. However, since 2002, several legal acts have virtually blocked the development of private pension schemes.

Similarly, private pension schemes are a negligible quantity in Ukraine, where in 2008 less than 2% of employees participated in private pension funds. Officially representatives of trade unions and employers' associations, scientists and government representatives have

formed a coordination centre for the pension reform. This body is however not acting on a regular basis. Apart from a few adjustments in 2008, no major reforms were initiated or envisaged.

4.5 Pensions, exclusion and vulnerable groups

It appears that all of the old-aged are covered by pensions throughout the region. Minorities and other vulnerable groups are not being perceived as excluded from the pension system. Moreover, inequality among pensioners seems to be rather low. Today's pensioners have gained similar eligibilities given the egalitarian wage structures in Soviet full employment times. Only about 2-5% of the pensions are social pensions. However, the general level of pensions is low and poverty among pensioners widespread. Thus it seems that most of the pensioners represent a vulnerable group in itself. In Ukraine in particular, where only a part of the pensions is being inflation-adjusted, poverty among elderly people appears to be an increasing problem. While the general level of poverty among the working-age population has not increased over the past decade (it is slightly above 10%), old-age poverty rates have increased significantly. In Ukraine, men above the age of 65 had a poverty rate below 10% at the end of the 1990s and around 15% most recently. Even more dramatically, for women, the old-age poverty rates increased from above 15% to more than 20% within the same period.

4.6 Sustainability of pension systems

The main threat to the sustainability of the current pension systems in Belarus, Moldova and Ukraine in the medium to long run is the low retirement age and especially the huge share of the informal sector in these countries. The systemic dependency ratio of pensioners to contributors is rather high. A large share of the work force does not contribute to the social security fund. Many employees and employers under-declare wages. The number of self-employed, avoiding and evading taxes and social security payments, is high. Moreover, in Ukraine and particularly in Moldova, an increasing part of the population is working as migrants abroad, mostly in the informal sector. Together with the large number of unemployed persons who do not meet the minimum contribution period to the social security funds, this will pose a serious burden to the pension system in the decades to come. The rather egalitarian structure of the current pensions will change and reflect the increases in inequality in the overall society. Estimates for Belarus suggest that the inclusion of informal employment in the pension system could prolong the sustainability of the pension system by about two decades (see Chubrik and Shymanovich, 2008). In the long run, the unfavourable demographic development appears to be the main threat to the pension system. Fertility rates decrease year by year, which in turn constantly increases the demographic dependency ratios. At the moment life expectancies

do not increase substantially. However, once economic development improves the health conditions of the population, a strongly increasing deficit of the social security funds is inevitable. Again, estimates for Belarus suggest that raising the retirement age by five years could prolong the sustainability of the pension system by about two decades (see Chubrik and Shymanovich, 2008). At present, Ukraine, Belarus and Moldova have some of the lowest retirement ages in Europe, based on the old Soviet scheme (55 years for females and 60 years for males). Only Moldova has implemented a small increase in the retirement age, by two years. In most European countries the statutory pension age is 65 for men and either 60 or 65 for women. The Baltic peer group has a retirement age of about 63 and 60, for men and women respectively.

4.7 Public awareness and acceptance

At the moment the public awareness and acceptance of pension system issues is rather low in the three countries analysed. People have to cope with current economic concerns. Moreover, the pension system is misused by the governments for political purposes. The social security funds are not self-governing. NGOs, trade unions and employers associations are excluded from the reform process.

4.8 Conclusions and key challenges

The replacement rates of average pensions to average wages in the state-run PAYG schemes of Ukraine, Belarus and particularly Moldova are rather low and decreasing. Demographic dependency ratios between the number of population above the age of 65 and the number of working-age population are increasing. However, the main concern in the medium term is the high and increasing systemic dependency ratio of pensioners to contributors. Thus, the key challenges to the pension systems are the inclusion of employees from the informal sector as well as a reduction of unemployment and an increase in non-precarious formal employment. The public is not included in the reform process and the governments have started some minor changes of the system only half-heartedly. Essentially, the former Soviet pension system is still in force. Long-term demographic changes should be addressed as soon as possible in order to allow for smooth adjustments, such as in the area of the retirement age. As a result, the main challenge will be to ensure an adequate and sustainable level of average and minimum pensions.

However, in the short run, the current world financial crisis puts pressure on the pension schemes of the Ukraine, Belarus and Moldova. Both, the sustainability of pensions (increase in deficit) as well as the adequacy (cuts in benefits) are affected. In the Ukraine, in 2009, the minimum pension was frozen at the level of October 2008 and inflation

indexing of pensions was frozen too. Annual pension growth is less than 5%, while inflation is double-digit. The gap between revenues and expenditures of the Ukrainian Pension fund increased to more than half, with the widening deficit being covered by a loan provided from the State Budget. The crisis has also widened the deficit of the Belarusian Pension fund and similarly to the Ukraine real pensions decreased 2009 by about 5%. Only in Moldova, due to parliamentary elections, 2009 pensions increased strongly above inflation rate. All the more, Moldovan social insurance budget deficit is widening to an estimated 20% of the budget approved for 2009. Thus, the ongoing crisis will pose an additional challenge to adequacy and sustainability of the pension system in the Ukraine, Belarus and Moldova.

References

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Annex

Table A.4.1

Replacement rate

	2004	2005	2006	2007
Belarus	43.4	43.0	41.8	41.5
Moldova ¹⁾	30.5	30.1	27.0	27.4
Ukraine ^{1), 2)}	39.0	51.0	48.0	45.0

Notes: 1) Average old-age pension. - 2) In % of nominal wage.

Source: National Statistics.

Table A.4.2

Demographic data

	Belarus	Moldova	Ukraine
Population, million, 2007	9.7	3.6	46.5
Projected population, million, 2030	8.6	3.2	38.9
Fertility rate, 2006	1.29	1.22	1.33
Male life expectancy at birth, 2006	62.8	64.6	62.3
Female life expectancy at birth, 2006	75.0	72.4	73.8
Old-age dependency ratio 65+ / 15-64, 2007	20.7	14.4	23.6
Projected old-age dependency ratio 65+ / 15-64, 2030	30.4	25.6	30.8

Source: European Demographic Datasheet 2008.

5 Health and long-term care

5.1 Introduction and objectives

The main features of the health and long-term care sector in Belarus, Ukraine and Moldova were inherited from the Soviet times. The respective countries' constitutions guarantee universal access to health care – the legacy of the Soviet past. However, in reality access to health care is hampered in a number of ways, most notably (but not only) because of the wide incidence of 'shadow' out-of-pocket payments.

In all three countries, the system has essentially remained state-run, although a network of private health care institutions began to emerge, and Moldova introduced compulsory minimum health insurance and an official fee-for-service in health care as of 1999. While many quantitative indicators look favourable in relation to international benchmarks, the quality of medical services provided is reportedly not always satisfactory. Partly, this is due to the chronic under-financing of the public health care sector and the insufficient levels of investment. On top of that, available funds are often used in a sub-optimal way. The health outcomes of the population are also negatively affected by the generally unhealthy lifestyle, the excessive consumption of alcohol and smoking, the wide incidence of 'external' (i.e. non-natural) causes of death, poor water supplies and sewage standards, and in some instances (notably Belarus) also by the radioactivity-related consequences of the Chernobyl accident.

When it comes to efficiency, equity and sustainability, the health care systems of Belarus, Ukraine and Moldova are facing a number of challenges. Population ageing – and the partly worsening health indicators of the population – lead to increased demand for health and long-term care services and thus additional financing. Besides, the existing administrative model of funds allocation provides distorted incentives for medical personnel, who may not be sufficiently interested in the quantity and quality of medical services they deliver (in Moldova, the system has been partly reformed, but the new incentive structure is not clear yet). The private expenditures on health care – both legal and 'shadow' – provide an alternative incentive structure, but create dangerous inequalities by restricting access to health care services by the poor. The long-term care sector is particularly underdeveloped and also particularly affected by the population ageing. Anecdotal evidence suggests that the quality of services in long-term care is generally very low, although there are very limited available statistics concerning this sector. At the same time, nursing by family members has so far provided an important relief to the problem.

5.2 Historical perspective

Evolution of legislation

The constitutions of Belarus, Ukraine and Moldova provide the main legal basis for the functioning of these countries' health care systems. In addition, there are a number of laws adopted since the proclamation of these countries' independence in 1991; finally, presidential and government decrees also play a role. The growing incidence of diseases such as tuberculosis and AIDS gave rise to a number of laws as well. In addition, there is a number of legislative pieces dealing with issues directly linked with the quality of public health, such as sanitary standards, environmental protection, consumer rights, childhood protection, family support, etc. A number of special national programmes are aimed at improving the management of the health care system, providing better access to health care, and renovating and modernizing medical equipment.

The existing legislation permits the operation of both public and private health care institutions (although in reality, the public sector dominates), and allows public health care facilities to charge extra for certain services. Private health care facilities have to be licensed by the state.

Main sector features

The present health care sectors in Belarus, Ukraine and Moldova were largely shaped in the Soviet times. The salient features of this system are:

- universal access to health care irrespective of social status guaranteed by the constitution (at least in theory);
- funding and provision of health care services is largely guaranteed by the state; however, as the economy declined and state revenues went down accordingly at the early stages of transition to a market economy, the share of private (including 'shadow') funding started to grow;
- bias towards specialized health care facilities (at the expense of general practitioners - GPs) and hospital capacities (at the expense of polyclinics – local health centres providing primary, including outpatient, health care services) in the public sector; and
- very low salaries earned in the public health care sector and resulting shortage of medical personnel in a number of cases (although official wages are usually supplemented by the shadow payments by patients or their relatives).

5.3 Health outcomes

Belarus, Moldova and Ukraine lag behind the EU countries in terms of health outcomes. This is primarily reflected in the relatively short life expectancy in these countries, partly owing to the deficiencies of their health care systems. For instance, the life expectancy at

birth in Ukraine and Moldova (68 years) and Belarus (69 years) is 11 and 10 years, respectively, shorter than in the EU-27. Besides, the gender gap in life expectancy in all three countries (Belarus and Ukraine: 12 years, Moldova: 8 years) is much bigger than in the EU-27 (6 years). The gender gap in life expectancy in favour of women is due to the extremely high male mortality in the age group under 65 and to a large extent boils down to the excessive alcohol consumption and the wide incidence of 'external' death causes.

Accordingly, the mortality rate is fairly high: 12 per 1000 of population in Moldova, 13.7 in Belarus, and 16.5 in Ukraine. This is substantially higher than, e.g., in Germany (9.9) or Poland (9.5), but comparable to some other new EU member states such as Lithuania (12.0). Among the fairly obvious reasons for the relatively high mortality are the poor quality of food, the insufficient access to medical services and preventive medicines, and the generally unhealthy lifestyle. Since the break-up of the Soviet Union, life expectancy has been generally falling (at least in the first years of transition, while in the past few years there has been a slight improvement in Belarus and Moldova), whereas the mortality rate has been generally on the rise. This reflected the economic decline, the accompanying deterioration of living standards, and – last but not least – the population ageing resulting from the unfavourable demographic developments, notably low birth rates. In addition, within each country, there are big differences in mortality between urban and rural areas – the latter perform much worse on this account, once again largely because of the higher alcohol consumption in the rural areas.

Generally, rising levels of alcoholism pose a big challenge to public health and the health care systems of the countries involved. For instance, in Belarus the number of chronic alcoholics increased by some 50% between 2002 and 2007, and in Moldova by 32% between 2003 and 2006 alone. Meanwhile, alcohol consumption stands at 11.6 litres per adult in Belarus and 13.5 litres in Moldova – to be compared with the EU average of 11 litres and the CIS average of 7.5 litres. In reality, given the extent of illegal alcohol production, the figures are probably much higher. One of the consequences of excessive alcohol consumption is the wide incidence of chronic liver disease and cirrhosis, which rank among the main causes of mortality. Smoking has become generally more widespread as well, particularly among women, albeit in the latter case starting from a very low level. For instance, in Moldova 51% of men, but only 7% of women are smoking; the respective figures for Ukraine are 52% for men and 15% for women.

Diseases of the circulatory system are the most common cause of death in Belarus, Ukraine and Moldova. Unlike e.g. in the Europe-A region (where the death rate from such diseases has been constantly falling over the past two decades), in Belarus, Ukraine and Moldova it has risen markedly and is currently 3-4 times higher than in Europe-A. A similar gap exists when it comes to 'external' death causes, although the recent dynamics of this indicator in Belarus, Ukraine and Moldova has been less dramatic, and in fact the situation

has improved to some extent. Deaths from both tuberculosis and AIDS have risen sharply (e.g. mortality from tuberculosis in Belarus and Ukraine has almost tripled) and represent a challenge to the health care systems of these countries. By contrast, cancer is one of the few death causes where Belarus, Ukraine and Moldova record similar levels as in Europe-A.

Since the break-up of the former Soviet Union, the morbidity patterns have worsened as well: morbidity rates have been growing both in general and across nearly all disease groups, with alcohol, tobacco, high blood pressure, high cholesterol, high body mass and low fruit and vegetable intake topping the main factors causing disease. In Moldova, the situation had deteriorated by the mid-1990s so much that the country found itself on the verge of a public health crisis, facing epidemics of infectious diseases, including not only tuberculosis and AIDS, but also diphtheria (in 1994-1996) and cholera (in 1995). Although the overall situation improved markedly in the subsequent years, in winter 2008 Moldova witnessed an outbreak of mumps, reportedly due to poor immunization coverage, making the country request assistance from UNICEF and WHO. Generally, when it comes to morbidity patterns, Belarus, Ukraine and Moldova combine the typical features of both developing (the relatively high morbidity of infectious diseases) and developed countries (the relatively high morbidity of cancer and cardiovascular diseases).

The morbidity of sexually transmitted infections such as syphilis and gonorrhoea rose sharply in the first few years following the break-up of the former Soviet Union, but declined substantially thereafter. Nevertheless, in many respects the situation remains quite alarming: for instance, the syphilis morbidity in Moldova exceeds 18 times the EU level. The incidence of newly registered cases of HIV/AIDS has hardly receded; in Ukraine, it has even increased more than ten times since 1995 (although part of the increase might be explained by better detection). Also, the morbidity of tuberculosis has grown markedly (except in Belarus); it often coincides with the incidence of sexually transmitted diseases, but is also high in the least well-off segments of the population such as prisoners and the Roma minority.

The poor water quality is also one of the factors behind the unfavourable health indicators. This is particularly true for the rural areas; the latter are generally poorly connected to the centralized water supply systems and rely mostly on well water, which often falls short of the sanitary and bacteriological safety standards. Another problem facing rural areas is the poor sewage system: in Moldova, for instance, only 5% of rural residents reportedly have toilets inside their houses. Finally, in Belarus radiation is still a problem, representing a consequence of the Chernobyl nuclear disaster in 1986. In a number of places, radioactively polluted products are being consumed, with milk being the most polluted foodstuff. Harvesting from polluted territories and collecting berries and mushrooms for

domestic consumption – a widespread tradition and also a coping strategy for the poor – are among the major sources of radioactive consumption.

5.4 Governance and financing

Sector organization and financing

In Belarus, Ukraine and Moldova, the primary state body responsible for the implementation of public health policy, including the provision of medical care, sanitary measures and relevant scientific research, is the Ministry of Health (Care). It typically ensures the provision of medical services, elaborates national policies in the area of health care, monitors the health status of the population, sets quality standards (*inter alia* via the accreditation of public and private health care institutions and pharmacies) and, when necessary, interacts with international donor organizations. In addition, health care is provided within the framework of other structures such as the Ministry of Defence, which e.g. runs military hospitals, and large enterprises often operating health care facilities of their own.

In all three countries, the raising and allocation of health care related funds is largely centralized and implemented through either the state budget (in Belarus and Ukraine) or the public health insurance body (in Moldova), the budget of which is also set by the country's parliament. However, the main responsibility for the management and delivery of health care services lies with the local authorities. It is the local authorities who operate district and municipal health care institutions and provide community services such as home and long-term care. Although the bulk of health care services in all three countries is still provided by the state, the share of the private sector has been growing since the break-up of the former Soviet Union, with private investment targeting primarily outpatient consulting facilities, dental care and pharmaceuticals. There are also some private hospitals.

The health care system of Belarus, Ukraine and Moldova is based on three pillars: outpatient and polyclinic organizations (primary health care sector), hospitals and emergency service, and sanitary-epidemiological service. Primary health care is provided by polyclinics, or regional health centres ('family medicine centres' in Moldova), rural clinics ('primary care centres' in Moldova) and health centres. At the secondary level, district and municipal hospitals are typically managed by local authorities. All three countries have inherited from the Soviet times overcapacities in the secondary (hospital) health care segment. However, the cuts in Moldova reportedly fell mostly on the rural areas, while in the urban centres there are still hospital overcapacities. The emphasis on hospital care is generally viewed as a source of inefficiency, since many diseases can be effectively

treated on the more cost-efficient primary level. At the same time, the primary sector in all three countries remains relatively under-developed.

The three countries find themselves at different stages of reforming their health care systems. Overall, Moldova has been the fastest reformer. Not only did it successfully downsize its inefficient hospital sector, thereby saving some 25% of funds that could be used for other purposes such as the reduction of payment arrears and the raising of salaries of medical personnel. Following the experience of a number of other East European countries, it introduced, as of 2004, compulsory health insurance and a purchaser-provider split (more on that, see below). These reforms were largely made possible by substantial foreign donor assistance such as a World Bank loan and a EUR 20 million grant from the Dutch government. In Ukraine, there have so far been only discussions on the desirability of an insurance-based system. However, the introduction of a fee-for-service instead of the previous input-based budgeting is planned. Finally, in Belarus the health care system inherited from the Soviet times has been hardly reformed, although there were two failed attempts to introduce health insurance: in 1992 and 1996-1997, respectively.

In Belarus and Ukraine, health care is largely funded from general taxation, and the Ministries of Health receive their funds from the Ministries of Finance. In Belarus, local governments and local taxes play a crucial role, although money for national healthcare programmes come from central authorities. In both countries, hospitals and polyclinics are funded on the basis of 'activity levels' – which essentially means funding on the 'per capita' basis in the case of polyclinics and the 'per bed' basis in the case of hospitals. Medical services provided by state structures other than the Ministries of Health Care are obviously financed from their own budgets, and the details of funding levels are often not disclosed. Also, some of the money comes from international organizations and donors such as the UNDP. Long-term care of the elderly in old people's homes is generally under the auspices of the Ministry for Labour and Social Protection, although there is also some 'long-term' treatment in hospitals, and a bulk of long-term care is essentially taken over in an informal way by relatives. Finally, 'out-of-pocket' payments from patients and their relatives (both official and 'under-the-table') continue to be an important source of finance of the health care system.

In Moldova, the law on compulsory health insurance was adopted in 1998, the National Health Insurance Company (NHIC) was founded in 2002, but it was not until January 2004 that the new system actually started working. This is a solidarity insurance system, funded by employer/employee contributions,²⁴ state transfers for some categories of population, and voluntary insurance sold by the NHIC to the (officially) unemployed categories of

²⁴ The employer/employee contributions were initially set at 2+2% of the wage bill, but have been raised subsequently and in 2009 stand at 3.5%+3.5%.

population. The penetration of compulsory health insurance into the rural areas is still low, and there is a declared target of an 85% coverage by 2010. Medical services at the primary level are generally guaranteed to everyone, including the non-insured;²⁵ the expenditures of the NHIC on health care services provided to the non-insured are reimbursed from the state budget, which continues to be the single most important contributor to the NHIC (accounting for as much as 65% of the NHIC budget in 2006). In reality, the NHIC takes over only part of the health care costs (32.5% in 2005), and the rest is essentially borne by patients themselves ('out-of-pocket'). This applies particularly to medicines, which account for the bulk of private health expenditures, although the list of drugs purchased at the primary level and eligible for reimbursement from the NHIC has been expanded over the past few years. There is also a small share of health expenditures (10%) financed directly from the state budget (health care services provided by other ministries).

Initially, only public health care providers were reimbursed by the NHIC, but as of 2008 private accredited health care institutions and pharmacies were admitted into the system as well.²⁶ Despite the formal introduction of a fee-for-service, so far the remuneration of health care providers by the NHIC has been only partly based on their performance. The salaries in public health care establishments are still set administratively, although since 2004 they have been allowed to channel up to 50% of collected fees (received 'out-of-pocket' from patients) for the remuneration of medical personnel. At the same time, for family doctors meeting specified quality indicators and primary care nurses, a performance-based system of bonuses has been introduced.

Compulsory medical insurance apart, voluntary health insurance (both supplementary and complementary) exists in all three countries. In Belarus, for instance, the law allows to buy voluntary health insurance to supplement state coverage by medical services defined as 'non-essential'. However, predictably, the market for voluntary insurance is negligible, e.g. just EUR 8 million in Ukraine. The generally risk-friendly attitudes widespread in the post-Soviet space are fostered not least by the difficulties in making insurance companies pay. In Moldova, private health insurance was nearly 'crowded out' by compulsory medical insurance after its introduction in 2004.

Structure of expenditures on health care

In Belarus, Ukraine and Moldova, the bulk of official health care expenditures is accounted for by the state. Generally, as a percentage of GDP, their budgets spend less on health

²⁵ However, the non-insured are only entitled to a basic package of primary health care services, such as a free consultation with a family doctor, assistance in major emergency cases at pre-hospital stage and services within the framework of national programmes.

²⁶ Also the health care establishments under the auspices of various ministries are increasingly being incorporated into the NHIC system.

care than the EU average (e.g. 4.8% of GDP in Belarus, 4.2% in Moldova and 3.5% in Ukraine – compared to 6.8% in the EU). As a share of total government expenditures, expenditures on health care in these three countries (10-11%) are also lower than e.g. in the EU (14.7%) or Germany (17.6%). The combined effect of a much lower per capita GDP (compared to the EU) in Belarus, Ukraine and Moldova and their lower expenditures on health care as a percentage of GDP implies that their per capita expenditures on health are just a fraction of the EU level: EUR 280 in Belarus, EUR 80 in Ukraine and as little as EUR 30 in Moldova (compared to EUR 1500 in the EU). However, this big gap should not be exclusively interpreted as an indication of the lower quality and volume of medical services provided in Belarus, Ukraine and Moldova. Partly, it is due to the low salaries of medical personnel – not only in absolute, but also in relative (to other population groups) terms.

Apart from public expenditures, private expenditures play an important role as well. Private expenditures essentially comprise official fees charged by public health care facilities, fees charged by private health care providers (particularly dentistry), and private expenditures on medicines. The relative importance of private expenditures varies by country: from some 30% of public health-related expenditures in Belarus to some 50% in Ukraine and Moldova.²⁷ In both Belarus and Ukraine, total recorded expenditures on health care (public plus private) stand at around 6% of GDP – lower than the EU average, but roughly in line with the levels observed in the new EU member states. In contrast, total health expenditures in Moldova (8.7% of GDP) are close to the EU average.

The above figures on private health expenditures do not include the so-called ‘shadow’ (‘under-the-table’) payments, which are highly widespread in all three countries. There are no reliable estimates of the extent of these payments. One estimate for Belarus is e.g. 10-20% of official salaries of the medical personnel. In Moldova, according to estimations of the World Bank, the ‘shadow’ payments amounted in 2005 to some 13% of total health care expenditures. In Ukraine, the available estimate is 3-3.5% of state expenditures on health, amounting to EUR 2.5 per capita annually – although this is probably an underestimate. The ‘shadow’ payments allow medical personnel, whose official wages are typically very low (see below), to make their ends meet, and in fact are often preferred to official fees (out of which, for instance, only 30% is actually received by doctors in the case of Ukraine).

Personnel in the health care sector

Generally, the salaries earned in the health care sector in Belarus, Moldova and Ukraine are very low and lag behind the wages earned in most other sectors. For instance, in

²⁷ In Belarus, the lower share of private payments may be attributed to the fact that the fees for medical services are set by the state (for public health care establishments) or are capped by price ceilings (for private health care providers), the argument being that price ceilings are required given the low level of competition in the sector.

Belarus they stand at 80%, and in Ukraine at 64% of the average wage (EUR 152 per month) – about the same level as wages earned by cleaners. In Moldova, the average salary of a doctor stands at EUR 180 per month, but that of a nurse is much lower (EUR 90 per month). In Belarus, 59% of medical personnel reportedly receive salaries below EUR 150 per month, although local budgets are allowed to provide additional funds for remuneration purposes, and some of them (e.g. Minsk and the Minsk region) actually do so. The low official salaries typically induce a wide incidence of shadow payments, and also cause medical personnel often to hold several appointments, work extra-time, etc. Not surprisingly, they also result in the shortages of qualified personnel, as young graduates tend to look for alternative jobs in the private health sector instead, which pays much better.

To mitigate the shift of personnel to the private sector and/or to other professions, the governments have been raising the salaries paid to medical personnel ahead of total health-related expenditures. As a result, the share of salaries in health expenditures has been rising, e.g. from 27.2% to 39.6% in 1990-2006 in Belarus. In Ukraine, salaries have been rising as well, and account for some 70% of health care expenditures. Also in Moldova, the salaries in the health care sector were raised following the radical overhaul and the downsizing of the hospital sector, and wage arrears were largely cleared. Besides, health care establishments in Moldova are allowed to use up to 50% of collected fees for remuneration purposes.

5.5 Access, equity and quality in health and long-term care

A number of quantitative indicators in the health care sector of Belarus, Ukraine and Moldova are fairly good. E.g. the physicians density has been rising and stands at a high level: 48 physicians per 10,000 of population in both Belarus and Ukraine, compared e.g. to 34 in Germany, although in Moldova, the density of physicians is lower (31 per 10,000 of population) – a consequence of radical reforms in the health sector. The ratio of nurses to physicians (2-2.5) is comparable with the EU levels as well. The number of hospital beds per 10,000 of population has been declining in recent years, but is still pretty high in some countries (112 in Belarus, 95 in Ukraine – compared to e.g. 83 in Germany and just 61 in Moldova). As already mentioned in the section on ‘Sector organization and financing’, the hospital capacity in Belarus and Ukraine appears to be excessively high, although this is partly due to the so-called ‘social beds’ (more on that, see section on long-term care below). In turn, in Moldova the hospital capacity under the auspices of the Ministry of Health has been reduced drastically: from 309 hospitals in 1990 to just 62 by 2007.

Geographically, access to health care institutions appears to be relatively high: e.g. in Moldova, 87% of households reside within 5 km of a health facility. However, access to medical facilities does not always guarantee access to medical services, since health

institutions are often under-staffed, especially in some rural areas. As already mentioned, rural health centres in Ukraine are typically 20% under-staffed. In some regions of Moldova, coverage by family doctors is only 50-60% of that needed; in fact, the number of family doctors somewhat declined over the past few years. Also, in emergency services, only 60% of doctor positions and 70% of supporting personnel positions are filled. In contrast, according to a survey conducted in 2005, the level of satisfaction with the accessibility of primary care services in the rural areas of Belarus is even higher than in the urban centres. There is also a lack of medical personnel in a number of areas, e.g. psychotherapists in Belarus and morbid anatomists in Ukraine, resulting in problems with access to medical services in these areas.

Potentially more problematic for the access and the equity in health care provision is the necessity of private payments. This applies particularly – but by no means exclusively – to dental services. In public health care facilities, medical personnel often neglect their duties unless they receive extra ('shadow') payment, and medicines are almost never free of charge to patients. Even in hospitals, patients are often required to bring their own food and/or linen and purchase medicines out of own pocket. As a result, e.g. in Ukraine, according to a household survey conducted in 2007, 18% of people in need of medical services or medicines could not afford it. In Moldova, one quarter of the population (essentially the non-insured, such as the unemployed and a large part of the rural residents) has only access to the 'basic package' of medical services guaranteed by the NHIC. This applies particularly to self-employed agricultural workers over the age of 55. No wonder, those insured are much more frequent recipients of health services: on average, they visit a family doctor 3.4 times per year, compared to only 0.8 times for the non-insured. Accordingly, the costs of primary treatment of the insured (reimbursed by the NHIC) exceed those of non-insured more than 10 times – another indication of existing profound inequalities in access to health care. There are also notable gender differences, as the insurance coverage of women is generally higher, given the longer life expectancy and an earlier retirement age for women.

In Moldova and Ukraine, the Roma community is particularly disadvantaged as far as access to health care services is concerned, which is consistent with their poor living conditions, inadequate nutrition and low hygiene standards. In Moldova, the vast majority of Roma are non-insured, not least because of the often missing identity documents. The infant mortality within the Roma community is 1.5 times higher than elsewhere in the country, while the immunization coverage of Roma children is much lower. In Ukraine, Roma communities overwhelmingly lack access to water supply systems (only 32% are reportedly using running water) and report a high incidence of tuberculosis.

The quality of medical services provided is often low, not least because of outdated equipment. For instance, in Ukraine 50% of health care equipment is reportedly obsolete;

in Moldova, 80% of primary care establishments lack the necessary equipment and are reportedly disconnected from water supply and sewage systems. The application of information technologies in health care institutions remains limited; health records are still generally paper-based. Also, there is an incentive problem in the public sector, since medical personnel receive their state-regulated salaries, largely irrespective of the efficiency of their services. Waiting lines in polyclinics are a common matter. As a result, the level of satisfaction with the medical services is generally low: e.g. in Moldova, 70% are dissatisfied with the quality of health care services, and the respective figure for Ukraine is 80%.

Generally, there are no pre-set standards of health care, although in some cases (Moldova, Ukraine) the health authorities are working on the elaboration of clinical protocols and guidelines to standardize the quality of health care. For instance, in Moldova a number of clinical protocols for tuberculosis, diabetes, hypertension, sexually-transmitted infections, etc. have been elaborated in line with the World Bank requirements. Also, in 2005 a law regulating medical practice and patient rights was adopted. In Ukraine, a number of legislative pieces are under preparation, such as the programme of health care standardization till 2010 and amendments concerning supervision, quality control and the protection of patients' rights. However, so far neither country has any workable mechanisms of quality control in the health care sector.

Long term care

Long term care in Belarus, Ukraine and Moldova is provided by old people's homes and a network of territorial centres and divisions of social services operated by the Ministries of Labour and Social Policy (Social Protection). There is a network of social workers providing long term care services on a domicile basis. In Ukraine and Moldova, such social services are delivered in close collaboration with the local authorities. The available statistics on the long term care sector is generally limited, which is to a large extent explained by the fact that the long term care responsibilities are divided between various ministries (more on that, see below). The available indicators typically include the number of nursing and elderly care houses and the number of beds in them. In all three countries, these indicators have generally fallen since the break-up of the Soviet Union, although in Ukraine the number of nursing and elderly care houses has increased somewhat.

Generally, the network of long-term care is deemed to be insufficient. This also applies to palliative care facilities, such as those dealing with cancer patients at an incurable stage, since the health care systems of Belarus, Moldova and Ukraine are not adapted to such patients (e.g. in Belarus, the first hospice was opened as late as 2005). At the same time, there are so-called 'social beds' in general hospitals, typically under the auspices of the Ministry of Health. In Belarus, such 'social beds' in general hospitals are common first of all in the rural areas. Sometimes people are admitted to nursing homes based on social

reasons, e.g. when they are unable to heat their houses. In Moldova, there are a number of newly created community care centres, social canteens, and long-term health and social services, largely due to the recent efforts of the international community and NGOs. Besides, traditionally, in all three countries old and disabled people are taken care of by their families, with whom they often share accommodation. This largely makes up for the deficiencies of the existing long-term care systems, although the latest social and migration trends often lead to disruption of traditional family relationships, leaving old and disabled people without appropriate support from families and thus raising the demand for formal long-term services.

Although there are no reliable statistics on this matter, the quality of services in long-term care institutions is believed to be generally low – the combined result of under-financing and low wages paid to the long-term care personnel. The long-term care services are still largely non-standardized; meanwhile, their standardization could contribute crucially to the quality of long-term services provided. Also, elderly homes are often located in distant places, which complicates social integration of their residents.

Old people generally have to pay for long-term care out of their pensions, even if the fees charged often do not cover the full cost of care (e.g. in Belarus). In Moldova, long-term care services delivered on a domicile basis by primary health care establishments are generally eligible for reimbursement from the NHIC, although the available funds (a mere 0.1% of the NHIC budget) reportedly fall short of the actual demand. In Ukraine, elderly people in need of nursing can apply for social benefits ranging between 6-18% of average pension and paid from the central budget. In addition, people who nurse an elderly person are eligible for social benefits set on the local level, although the application procedure is reportedly cumbersome, and the value of benefits is not high enough to ensure a substantial number of applications.

There are no private financial schemes to ensure proper funding of long-term care of the future elderly. Meanwhile, given the population ageing in all three countries, there will be greater demand for long-term care in the future. This demand is likely to be further boosted by the growing incidence of chronic diseases requiring long-term care such as diabetes, asthma, hypertension, etc.

5.6 Issues of sustainability / Main reformers and drivers of change

The population ageing in Belarus, Ukraine and Moldova as well as the partly worsening health indicators require more expenditures on health and long-term care. However, it appears that the governments lack a consistent strategy to meet this challenge, although in practice, the problem will be probably partly solved simply by collecting more tax revenues

in a growing economy (once the current crisis is over), which could be channelled *inter alia* to health and long term care provision.

As already indicated above, the three countries find themselves at different stages of reforming their health care systems. Moldova has advanced the most, having introduced a purchaser-provider split and relying on compulsory medical insurance administered by a national health insurance company (NHIC). Although the NHIC continues to receive subsidies from the state budget, it is not altogether clear whether there is actual need for it, as it reportedly failed to spend all its budget and has accumulated a surplus of EUR 30 million since the start of its operation in 2004. On the other hand, the NHIC revenues has been greatly helped by both the economic upswing over the last decade and the upward adjustments in the employer and employee insurance contribution rates. However, further hikes in contribution rates might prove counter-productive, possibly driving economic activity into the 'shadow zone' and posing a challenge of finding alternative sources of finance. Finally, it appears that the system implemented so far is not fully consistent in itself: despite the existence of a fee-for-service, the incentive structure for health care providers is still sub-optimal given that salaries are largely set administratively.

The practically unreformed publicly-funded health care sectors of Ukraine and Belarus continue to suffer from inherent inefficiencies characteristic of the old Soviet system, although some reforms have been either already undertaken or are in the pipeline. For instance, in 2000 Belarus replaced the input-based mechanism of financing by per capita budgeting according to specified norms. In Ukraine, the 'National Plan of Public Health Services Development till 2010' concentrates on the primary health care sector (the development of family care via a network of general practitioners) and envisages transition from administrative to contract model of health care via an introduction of a purchaser-provider split and of an official fee-for-service. The hospitals are to be converted into independent non-profit municipal establishments, and their number is to be reduced. Probably more controversially, the Plan envisages an adjustment of state guarantees to the realistic volume of health care services provided free of charge.

Meanwhile, the system inefficiencies in both countries result e.g. from the distorted incentives of health care providers and the sub-optimal health care structure, notably the excess hospital capacities and the insufficient network of primary care. Reducing these inefficiencies would almost certainly require the introduction of an insurance-based system, which both countries seem reluctant to implement at the present stage – probably not least because of the possible negative repercussions on the access to health care by the poor. Indeed, it appears that Moldova, where an insurance system is already functioning, also records the highest inequality in access to health care, since large segments of the population are not covered by insurance (albeit not least due to its relatively high share of agricultural population, which is lower in Belarus and Ukraine).

The health care reforms in Ukraine and Moldova are also shaped by their existing international commitments such as the Moldova-EU and the Ukraine-EU Action Plans. For instance, the EU-Moldova Action Plan targets a set of measures to improve the health security and the epidemiological safety in the country. The development of health care infrastructure, the elaboration of quality standards in the health sector, and ensuring financial sustainability of the health care system are typically part of the national development strategies of the respective countries.

5.7 Conclusions and key challenges

The main features of the health and long-term care sector in Belarus, Ukraine and Moldova have been inherited from the Soviet times. The respective countries' constitutions guarantee universal access to health care – the legacy of the Soviet past. However, in reality access to health care is hampered in a number of ways, most notably (but not only) because of the wide incidence of 'shadow' out-of-pocket payments which partly make up for the very low official wages earned in public health care establishments.

In all three countries, the system essentially remains state-run, although a network of private health-care institutions began to emerge, and Moldova introduced as of 2004 compulsory minimum health insurance and the official fee-for-service in health care. Although many quantitative indicators (such as the provision with doctors per 10,000 inhabitants) look favourable in relation to international benchmarks, the quality of medical services provided is reportedly not always satisfactory. Partly, this is due to the chronic under-financing of the public health care sector and the insufficient levels of investment. On top of this, available funds are often used in a sub-optimal way: for instance, there are overcapacities in the hospital sector, while primary health care is still generally under-developed. The health outcomes of the population are also negatively affected by the generally unhealthy lifestyle, the excessive consumption of alcohol and smoking, the wide incidence of 'external' (i.e. non-natural) causes of death, poor water supplies and sewage standards, and in some instances (notably Belarus) also by the radioactivity-related consequences of the Chernobyl accident. The health situation of the Roma minority in Ukraine and Moldova and their poor access to health services are particularly troublesome.

When it comes to efficiency, equity and sustainability, the health care systems of Belarus, Ukraine and Moldova are facing a number of challenges. The population ageing (and the partly worsening health indicators of the population) lead to increased demand for health and long-term care services and thus require additional financing. Besides, the existing administrative model of funds allocation provides distorted incentives for medical personnel, who may not be sufficiently interested in the quantity and quality of the medical services they deliver (in Moldova, the system has been partly reformed, but the new incentive structure is not clear yet). Private expenditures on health care – both legal and

'shadow' – provide an alternative incentive structure, but create dangerous inequalities by restricting access to health care services by the poor. The long-term care sector is particularly underdeveloped and also particularly affected by the population ageing. Anecdotal evidence suggests that the quality of services in long-term care is generally low, although there are very limited available statistics concerning this sector. At the same time, nursing by family members has so far provided an important relief to the problem.

The current economic crisis is posing additional challenges for the health care sectors of Belarus, Ukraine and Moldova. Because of falling employment and wages, tax revenues and health insurance contributions (in Moldova) have generally gone down. At the same time, health-related expenditures have either remained constant or even increased, e.g. because of returning labour migrants (in Moldova), but also because medicines, a bulk of which is being imported, have become more expensive following the recent devaluations (in Belarus and Ukraine). The challenge for the authorities of all three countries is to at least maintain the existing levels of social expenditures, including health care, in the current unfavourable circumstances. In the longer term, the challenge to the countries' health and long-term care systems emanates primarily from demographic developments with the concomitant issue of raising additional finance.

Conclusion and key challenges

- Sustained economic growth is an indispensable condition to create employment and to alleviate poverty and social exclusion. There is a need for policy responses to improve the access to education for the disabled, minorities (e.g. Roma) and those living in rural areas. Social services and social assistance targeting need to be developed since vulnerable groups are not adequately addressed; policies to mitigate regional disparities are missing. There is still a large number of persons – lone parents, women, pensioners - in rural areas dependent on subsistence agriculture, implying that there is a high number of low qualified jobs and a lack of social security. Measures of active inclusion of vulnerable groups into the labour market – assistance for (re-)integration – are not adequately designed or missing. Coordination among the main actors is either weak or non-existent and the administrative capacity of governments is low. The cooperation between governments and NGOs in providing social services is limited. There is still a high and growing portion of children living in institutional care in Belarus and Moldova. In this case public support combined with international assistance might be conducive in developing other forms of care, such as smaller family care or foster care.
- In Moldova and Ukraine, poverty, material deprivation and social exclusion are widespread in rural areas due to low productivity in agricultural production, often subsistence farming, and also in small ('mono-industrial') towns. In addition, also in Belarus, population groups that have a less favourable standing in the labour market, such as the low-educated, or have no access to formal employment at all and thus depend upon social benefits, face a higher risk of poverty. Due to the rather low level of social benefits in all three countries the unemployed, pensioners and families with three or more children often are poor. In Moldova poverty, measured in absolute (administrative) terms, of a large part of the population is still a key challenge and child poverty in general is a severe problem, comparable to countries in the Caucasus and Central Asian CIS countries and much more pronounced than in Belarus, Ukraine or Romania. Left-behind children are one group of the population that has to bear severe negative consequences due to mass migration. In Ukraine and Moldova the Roma are reported to be extremely poor and socially excluded in many aspects of life. In Ukraine this is also the case, although to a lesser extent, for the Crimean Tatars. Thus, there is a need for policy responses to the vulnerabilities of ethnic minorities, the Roma in particular, focusing on housing, health, education and employability.
- The replacement rates of average pensions to average wages in the state-run PAYG schemes of Ukraine, Belarus and particularly Moldova are rather low and decreasing. Demographic dependency ratios between the number of population above the age of 65 and the number of working-age population are increasing. However, the main concern in the medium term is the high and increasing systemic dependency ratio of pensioners to contributors. Thus, the key challenges to the pension systems are the

inclusion of employees from the informal sector as well as a reduction of unemployment and an increase in non-precarious formal employment. The public is not included in the reform process and the governments have started some minor changes of the system only half-heartedly. Essentially, the former Soviet pension system is still in force. Long-term demographic changes should be addressed as soon as possible in order to allow for smooth adjustments, such as in the area of the retirement age. As a result, the main challenge will be to ensure an adequate and sustainable level of average and minimum pensions. The donor community should support the governments of Belarus, Ukraine and Moldova in improving the contribution collection and minimising evasion and non-compliance.

- The current economic crisis puts forth additional challenges for the health and long-term care sectors of Belarus, Ukraine and Moldova: tax revenues and health insurance contributions are generally going down, while health-related expenditures either remain constant or even increase, e.g. because of returning labour migrants (in Moldova) but also because imported medicines have become more expensive following the recent currency devaluations (in Belarus and Ukraine). In the longer term, the challenge to the countries' health and long-term care systems emanates primarily from demographic developments such as population ageing, requiring more expenditure on health and long-term care. In Moldova, the so far rising revenues of the national health insurance company have been made possible not least by the upward adjustments in health insurance contributions, which can hardly be viewed as a sustainable financing strategy for the future. Besides, in all three countries, the goals of increasing accessibility and equity in health care provision via reducing the incidence of out-of-pocket payments would almost certainly require substantial upward revisions of official salaries of medical personnel. At present, there is little evidence that the countries' authorities are prepared to tackle these issues. In Belarus, any major reforms of the health care sector have been virtually frozen, while Ukraine – though planning a switch from the administrative to a contract-based model – aims at adjusting the state guarantees to the realistic volume of 'free' health care services.