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Financing of social development: Challenges for Ukraine

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Challenges for Social Development

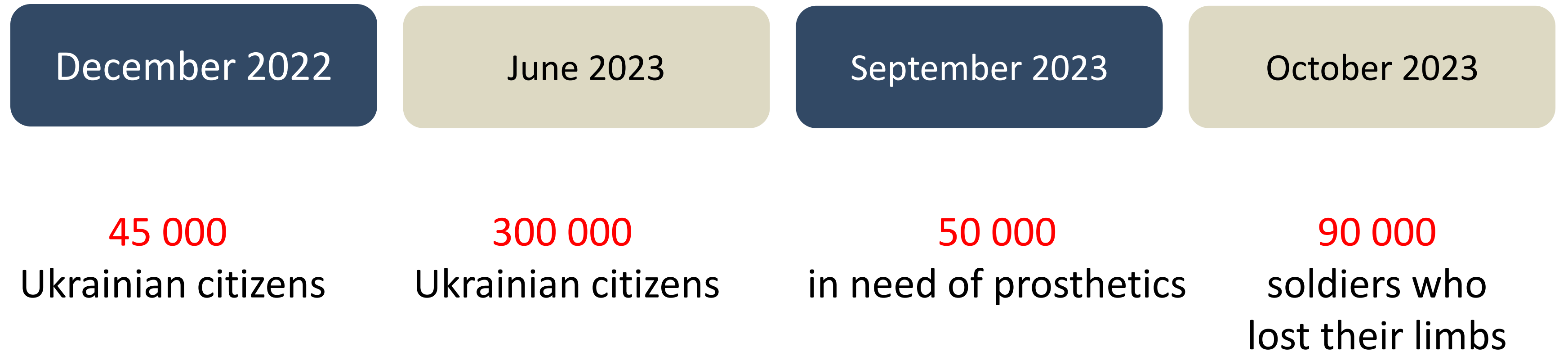
Changing the structure of society: the appearance of a large number of disabled people and the need to support them

Budget deficit and dependence on external donors

Destroyed infrastructure

Human Capital Depletion

Changing the structure of society: **people with disabilities**



Budget deficit and dependence on external sponsors

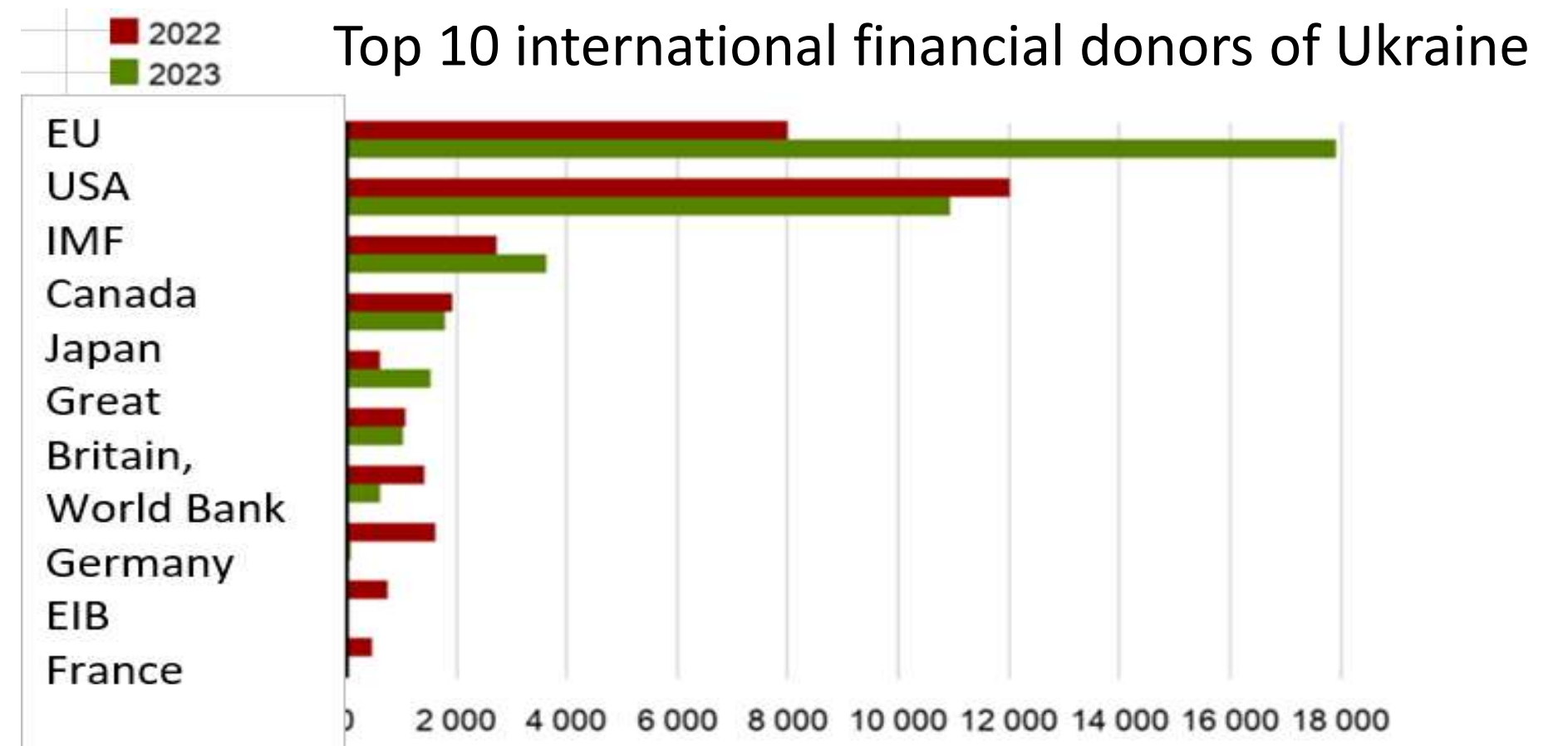
As of March 2023

10.7 million payers for **10.8** million pensioners

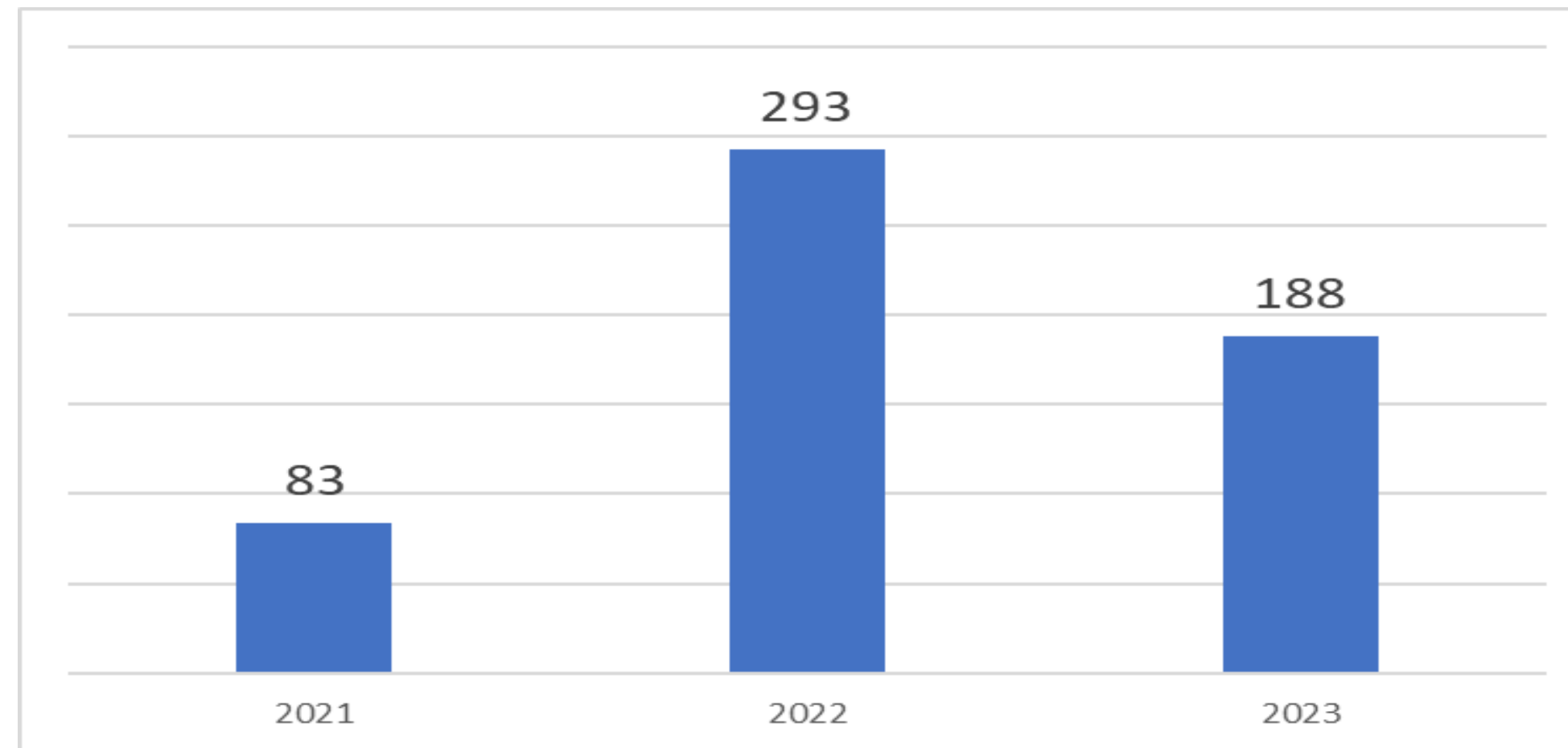
Specific weight Official transfers from donors in the revenues of the budgets of Ukraine*

year	2021	2022	2023
%	~ 0,0008	21,9	14,0

* European Union, foreign governments, international organizations, donor institutions



Budget deficit and dependence on external donors



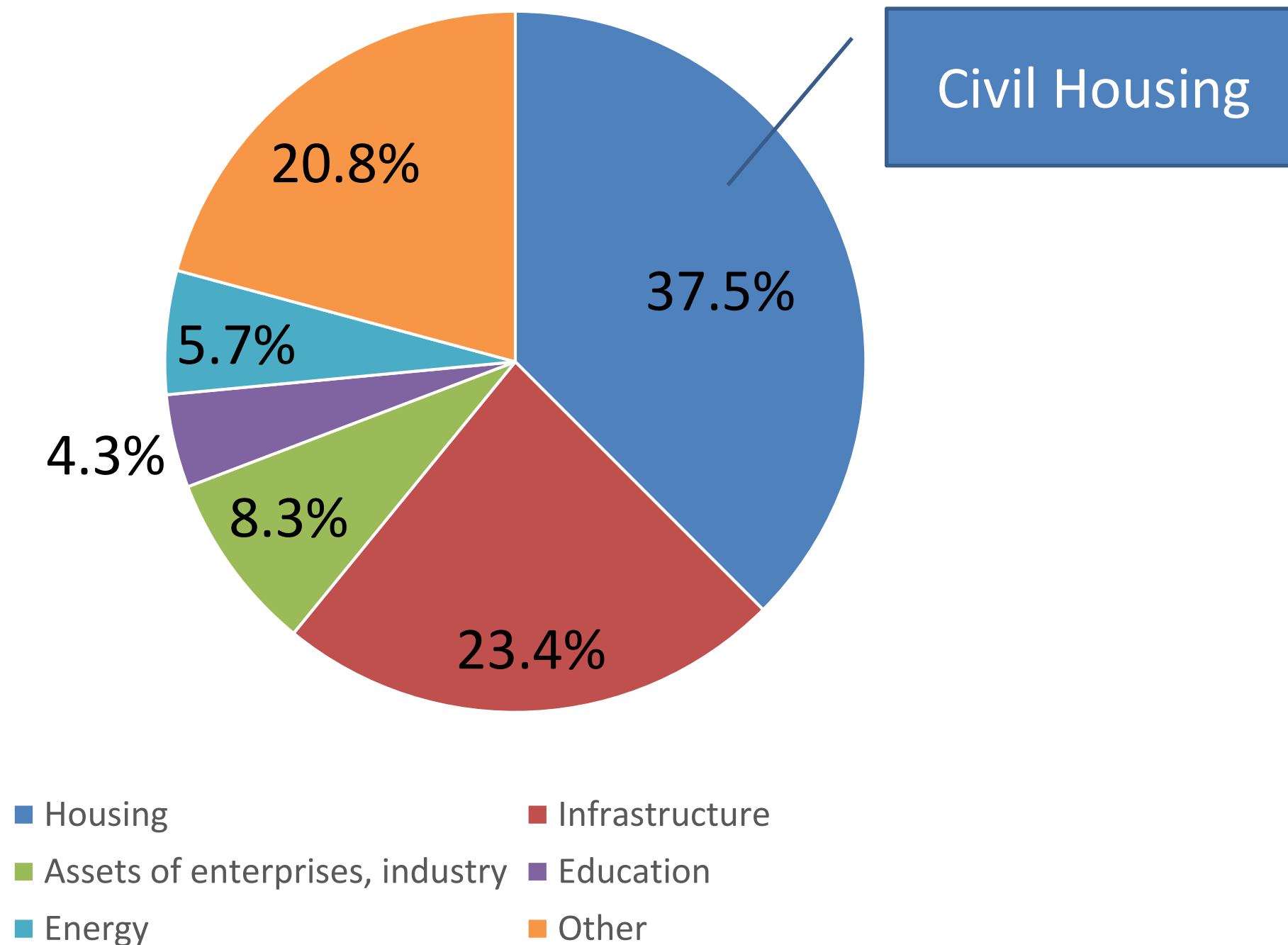
Growth rate of external borrowings in the budget of the system of Ukraine, %

The structure of expenditures of the Consolidated Budget of Ukraine, %

	2020	2021	2022	2023
State functions	12,8	13,7	8,2	7,9
Defense	7,6	6,9	37,6	47,2
Public order, security, judiciary	10,0	9,6	14,93	13,32
Economic activity	16,5	15,9	5,1	5,6
Environmental protection	0,6	0,6	0,2	0,1
Utilities	2,0	3,1	1,4	1,6
Social development*	50,6	50,3	32,7	24,3

* Health care , Spiritual and physical development, Education, Social protection and social security

The total amount of damage caused to the infrastructure of Ukraine due to the war as of **March 2024**




Direct damage caused to Ukraine's infrastructure during the war has already reached almost \$63 billion.

Global economic losses are about **\$543–600** billion



Framework for Social Development

Human capital as the basis of the post-war reconstruction of Ukraine

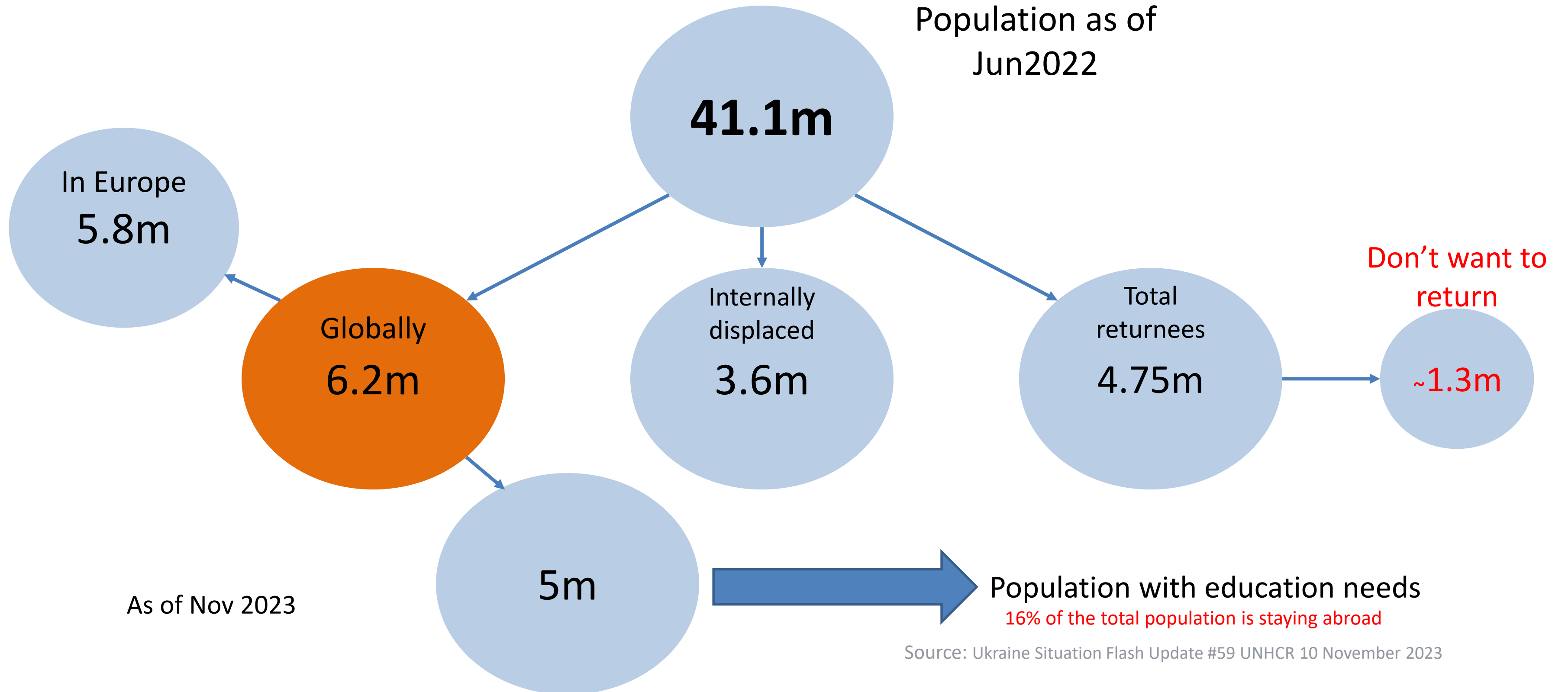


The population that remains on the territory of Ukraine during the war as a basis for development



Investors' support as a core pillar of development

Human capital in figures



The impact of war: **human capital concerns**

Quantity

- Loss of human lives
- Increase in the number of injured people
- Birth rate decline
- The decline in the number of university students
- Decreased student test scores

Quality

- Decline in productivity
- Insufficient and inefficient schooling of children
- Loss in adult's skills
- Breaking family ties
- Brain drain

Lack of



Security

Financial ensure
and social
protection

Physical and
Mental Health



Social Concerns

Brain drain

- 47% of refugees have a university education
- 14% of refugees found an occupation in education
- Favorable incentives for researchers at risks

Human Capital depletion

- Health and mental issues
- Absence of social housing facilities
- The low motivation of IDP to get retrained
- Lack of psychological assistance for veterans

EU accession

- Migration
- Lack of education facilities
- Insufficient standard of living
- Enhanced ties with host countries during the war



Framework for Social Development in Ukraine

Ensuring of National Security



Social Responsibility of Investors



Human Capital Restoration



Investing in Ukraine

1. A strategic geographical location at the crossroads of Europe, Asia and the Middle East.
2. Tremendous natural resources (4th in the world): stocks of iron, manganese, titanium, uranium (renewable), mercury ore reserves, shale gas, coal
3. Talented Human Capital - **70%** of Ukrainians have secondary or higher education
4. Simplified legal procedures for business as well as state-guaranteed investment security.

There is great potential for investment in such sectors as

- (1) agricultural processing
- (2) production of building materials and furniture
- (3) logistics
- (4) decarbonization and green technologies
- (5) transport production.



Investment Incentives

1. CIT and VAT exemption
2. Exemption from import duties for new equipment and components to it
3. Construction/compensation for built engineering and transport infrastructure
4. Lease of state or communal land plots without land auctions
5. Land tax exemption/ reduced land tax rates
6. Exemption from compensation for losses of forestry production
7. Exemption from real estate tax for industrial buildings
8. Exemption from import duties for new equipment
9. 10-year corporate income tax exemption
10. State Program “Affordable Loans 5-7-9%”

According to a USAID survey, 89% of the companies who invested in Ukraine before the 2022 full-scale invasion were either meeting business goals (49%) or exceeding them (40%). These figures point to the promise of a Ukrainian recovery for those who invest now.



S pillar in ESG Investing

However, we think that among investment initiatives, essential attention has to be paid to supporting investments that pursue human capital development and human rights protection

Overall, the S pillar in ESG Investing covers

- workforce health and safety, diversity, and training
- customer and product responsibility
- community relations and charitable activities

The core examples of **S factors** that a firm may be measured against include **human capital management** (HCM) metrics: how an organization recruits, engages with, empowers, and ultimately retains its people



S pillar in ESG Investing

However, we think that among investment initiatives, essential attention has to be paid to supporting investments that pursue human capital development and human rights protection among **veterans**

Based on the anonymous online survey by The Ministry of Veterans in Ukraine among 1043 respondents in January 2024

43% are 36-45 years old

31% - identified themselves as an unemployed person

40% - mentioned the issue with job search

55% - mentioned the absence of appropriate job offers in the living area

62% - are ready to start their own business after demobilization



HCM metrics: **investing** in Ukraine

HCM metrics are quantitative measures used to track and assess the efficiency and effectiveness of human resource management practices within an organization. These metrics cover a wide range of areas, including recruitment, retention, training, employee satisfaction, performance, and productivity.

Taking into consideration the increasing number of veterans (including people with disabilities caused by war), it is crucial to include particular HCM metrics for evaluating the Social pillar in Investment Programs like **Ukraine Facility Plan***

- Percentage of employed veterans to total employees
- Percentage of retrained veterans to total employees
- Gender equality among employed veterans
- Meeting the minimal salary range based on qualifications and seniority

The **Ukraine Facility** is the European Union's financial assistance program for Ukraine. During the period of **2024-2027**, 50 billion euros from the EU will be allocated to finance the state budget, stimulate investment, and provide technical support in the implementation of the program.

Priorities for **Human Capital Restoration** in Ukraine

1. Changes in state regulations of the veteran labor force (status identification, inclusion, adaptation, transparency)
2. Development of the effective mechanisms of veteran human rights at the workplace
3. Tax exemptions for companies that hire veterans
4. Investment initiatives for investors that meet the particular HCM metrics
5. Promotion of Investing in veteran businesses by buying Private Veteran Bonds (**FinStream**)
6. Adjustment of the international evidence of similar initiatives * (Work Opportunity Tax Credit, Vocational Rehabilitation and Employment in the USA, Helmets to Hardhats in Canada, Career Transition Partnership (CTP) in the UK)



* Source: <https://www.rbc.ua/rus/news/bitva-maybutne-pratsevlashtuvannya-veteraniv-1711707582.html>

