

FIGHTING COVID-19 IN UKRAINE: Initial estimates of the impact on poverty

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COVID-19 is a unique crisis, in the sense that its socio-economic impact is highly dependent on the outcomes of the health pandemic and lockdown strategies. Despite the high degree of uncertainty, we present here the first projections of the impact of COVID-19 on poverty, including child poverty, and the most vulnerable groups in Ukraine. The results are derived from microsimulations based on the household budget survey (HBS). This report is a live document, which will be updated regularly as new information appears.

Key findings:

1. Poverty is expected to increase significantly due to income contracting as a result of COVID-19 under two scenarios:
 - under the less severe scenario (based on recent macro projections of the Cabinet of Ministers of Ukraine) absolute poverty is expected to increase from 27.2 per cent to 43.6 per cent;
 - under the more severe scenario³, absolute poverty is expected to increase from 27.2 per cent to 50.8 per cent.

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The views expressed in this paper are those of the authors, and do not necessarily reflect the views of UNICEF or the Institute for Demography and Social Studies. UNICEF does not guarantee the accuracy of the data included in this work.

³ See technical annexes for details

2. The impact on child poverty is estimated to be even larger: under the less severe scenario absolute child poverty is expected to increase from 32.9 per cent to 51.3 per cent; and under the more severe scenario it is expected to increase to 58.5 per cent.
3. According to our estimates, everything else being equal under the less severe scenario Ukraine can expect 6.3 million more people to be living in poverty of whom 1.4 million will be children; while under the more severe scenario 9 million more people will be living in poverty of whom 1.8 million will be children.
4. In the case of the more severe scenario all improvements of poverty reduction achieved in Ukraine since the crisis of 2015, can be reversed by at least 3 years.
5. Overall the most vulnerable families in terms of socio-economic impact of COVID-19 are the ones who cannot diversify their income.
The following 4 categories are likely to be most severely affected (have the largest increase in poverty compared to the baseline scenario):
 - households with 3 or more children,
 - single parents with children,
 - households with children below 3 years of age and
 - single pensioners above 65 years of age.
6. It is vital that socio-economic policy during this critical time is evidence-driven, and that limited resources are used most effectively and reach those in need in timely manner.

1. What is the impact of COVID-19 on poverty, including child poverty, in Ukraine?

We have estimated the potential impact of COVID-19 on monetary poverty through its effect on household incomes. The projections are based on latest micro data available (from 2018). The national definition of absolute poverty (adult equivalent expenditure below the actual subsistence minimum) is used.

We consider two scenarios:

- **Less severe** – based on the official recent macro projections of the Cabinet of Ministers of Ukraine (as of March 29, 2020⁴) and accounting for pension increase plans (announced by the Ministry of Social Policy).
- **More severe** – based on more pessimistic projections of GDP decline by IMF⁵ and impact on labour market (regional projections by ILO)⁶.

* Please see the technical annexes for more details.

⁴ <https://www.kmu.gov.ua/npas/pro-vnesennya-zmin-do-postanovi-kabinm2903020etu-ministriv-ukrayini-vid-15-travnya-2019-r-555>

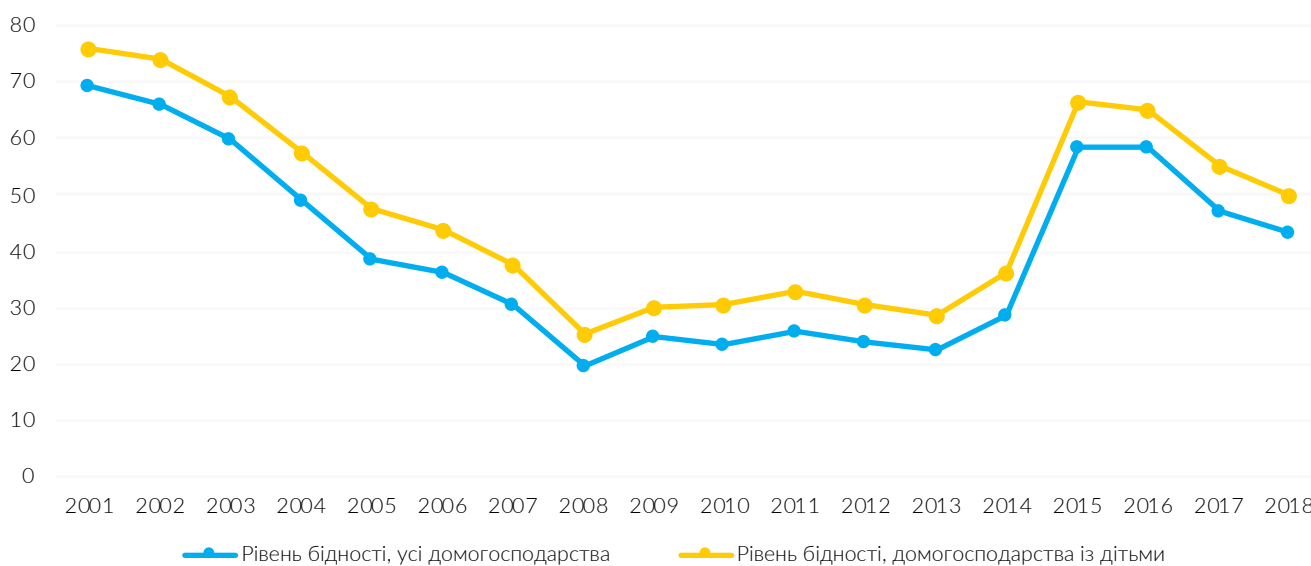
⁵ <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

⁶ https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_740877.pdf

Before the crisis

In 2018, the overall poverty rate in Ukraine was 43.2 per cent, with child poverty reaching 49.9 per cent⁷. In 2019, according to the State Statistics Service, every second Ukrainian was financially unprotected⁸. Fifty-one per cent could not afford unexpected necessary expenditure from personal resources. By comparison, in the 28 European Union countries (EU-28) this indicator was 32.5 per cent. In addition, every fifth Ukrainian (21.1 per cent) could not pay in full and on time rent, mortgage, credit or utility payments. For comparison, in the EU-28 this indicator was 8.9 per cent.

Figure 1. Poverty rate of all households and households with children in Ukraine, 2001-2018



Source: State Statistics Service of Ukraine, HBS

The results of our initial simulations are as follows:

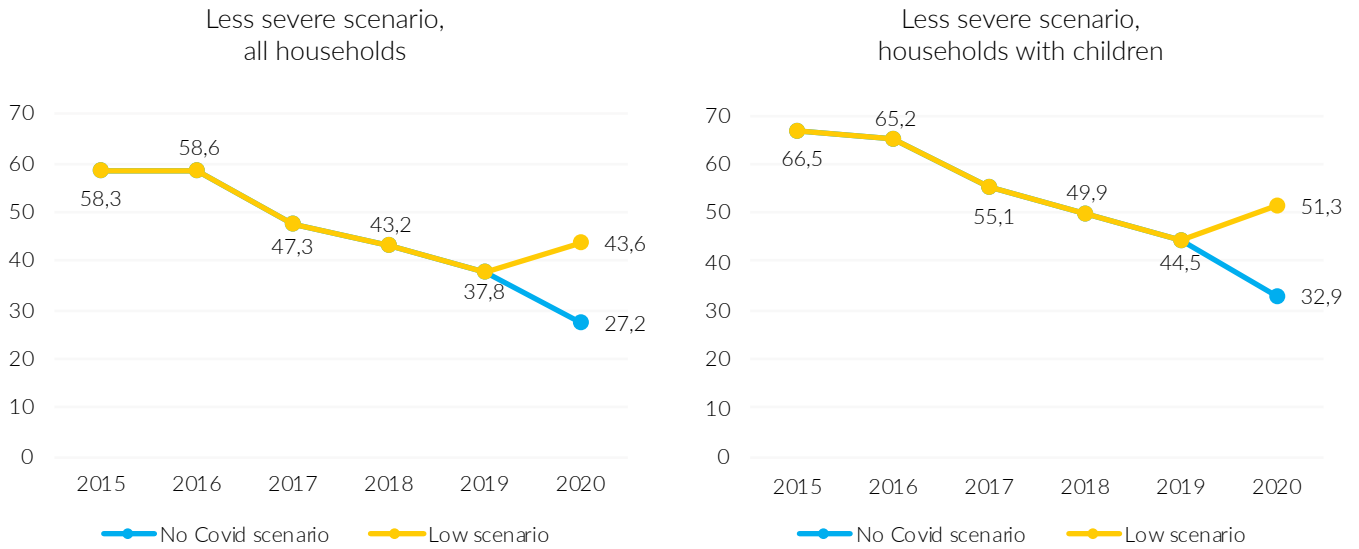
Less severe scenario

- (i) According to the less severe scenario, because of COVID-19 absolute poverty is expected to increase by 5.8 percentage points (from 37.8 per cent to 43.6 per cent) in 2020 compared to 2019. The increase would be even steeper if the new poverty rate with COVID-19 is compared with what the poverty rate would have been in 2020 without COVID-19: 16.4 percentage points (from 27.2 per cent to 43.6 per cent).
- (ii) According to the less severe scenario, because of COVID-19 absolute child poverty is expected to increase by 6.8 percentage points (from 44.5 per cent to 51.3 per cent) in 2020 compared to 2019. The increase would be even steeper if the new poverty rate (with COVID-19) is compared with what the poverty rate would have been in 2020 without COVID-19: 18.4 percentage points (from 32.9 per cent to 51.3 per cent).

⁷ Adult equivalent expenditure below actual subsistence minimum, <http://www.ukrstat.gov.ua/>

⁸ Self-esteem of some goods and services affordability for households, 2019, <http://www.ukrstat.gov.ua/>

Figure 2. Poverty rate of all households and households with children in Ukraine, projections for less severe scenario



More severe scenario

- (i) According to the more severe scenario, because of COVID-19 absolute poverty is expected to increase by 13 percentage points (from 37.8 per cent to 50.8 per cent) in 2020 compared to 2019. The increase would be even steeper if the new poverty rate (with COVID-19) is compared with the baseline – what the poverty rate would have been in 2020 without COVID-19: 23.6 percentage points (from 27.2 per cent to 50.8 per cent).
- (ii) According to the more severe scenario, because of COVID-19 absolute child poverty is expected to increase by 14 percentage points (from 44.5 per cent to 58.5 per cent) in 2020 compared to 2019. The increase would be even steeper if the new poverty rate (with COVID-19) is compared with the baseline – what the poverty rate would have been in 2020 without COVID-19: 25.6 percentage points (from 32.9 per cent to 58.5 per cent).

Figure 3. Poverty rate of all households and households with children in Ukraine, projections for more severe scenario

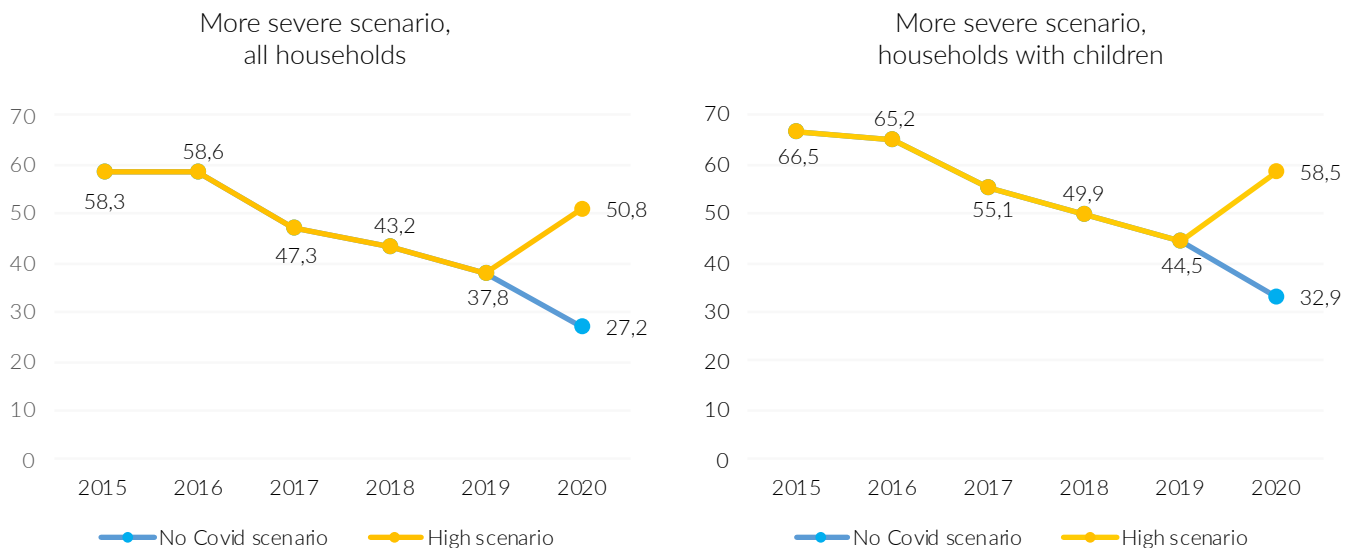


Table 1. Estimated absolute poverty level of all households and households with children in Ukraine, by scenarios, 2018-2020

	Absolute poverty level, all households, percentages			Absolute poverty level, households with children, percentages		
	2018	2019*	2020*	2018	2019*	2020*
Less severe scenario	43.2	37.8	43.6	49.9	44.5	51.3
More severe scenario	43.2	37.8	50.8	49.9	44.5	58.5
Baseline scenario (without COVID-19)	43.2	37.8	27.2	49.9	44.5	32.9

Source: authors' estimates based on Ukraine HBS *estimated

According to our estimates, everything else being equal Ukraine can expect:

- 6.3 million more people to be living in poverty, of whom 1.4 million are children under the less severe scenario;
- 9 million more people to be living in poverty, of whom 1.8 million are children under the more severe scenario (Table 2).

Table 2. Number of people (children) falling into poverty in 2020 as a result of income contraction (compared to the baseline (no Covid-19 scenario))

	Additional people living in poverty		
	All households, people	Households with children, people	Children
Less severe scenario	6 294 000	3 771 000	1 388 000
More severe scenario	9 054 000	5 244 000	1 859 000

Source: authors' estimates based on Ukraine HBS

2. Who are the new poor and the most vulnerable?

The Government of Ukraine is taking action to mitigate the impact of the pandemic and lock down on the most vulnerable. First and foremost, the Government has declared its intention to preserve all existing benefits and services and adjust enrolment and payment measure to reflect the lockdown requirements. The Government has introduced a one-off pension increase of US\$35 to low-income pensioners. In addition, the state has introduced a one-off payment for current beneficiaries of child disability payments. It was proposed that the Guaranteed Minimum Income Programme relax edibility requirements⁹, extend

⁹ <https://www.msp.gov.ua/main/prescentr.html>

duration of payments and enable simplified enrolment. Enrolment into the Housing and Utilities Subsidy Programme has also been simplified, and a moratorium introduced on penalties and disconnection for consumers who are late making utility payments¹⁰.

Given the rapidly changing public health situation and on-going national shutdown in Ukraine, evidence will be needed about who the most vulnerable are from a socio-economic perspective, to ensure that effective countermeasures are taken as part of the response.

According to our estimates, the following categories are most likely to be affected by COVID-19 (under the less severe scenario): households with three or more children, single parents with children, households with children below 3 years of age and single pensioners above 65 years of age.

Table 3. Estimated absolute poverty rate of households in Ukraine, by categories and by scenarios, 2019-2020

	2019, %	2020 Baseline scenario (without COVID-19), %	2020 Less severe scenario, %	Difference between 2020 baseline and 2020 less severe scenario, percentage points
Household with children	44.5	32.9	51.3	18.4
Household without children	30.2	20.6	34.7	14.1
One adult below 65 years of age	18.5	15.9	24.6	8.7
One adult above 65 years of age	32.0	31.8	45.6	13.8
One adult with children	42.1	32.7	71.3	38.6
Household with children below 3 years of age	51.1	43.3	62.6	19.3
Household with three and more children	63.8	49.0	70.6	21.6
Ukraine total	37.8	27.2	43.6	16.4

Instrumental for designing policy is to understand the share of the most vulnerable categories among the new (additional) poor (Table 4).

Table 4. Proportion of households of all new (additional) poor by categories, %

Groups of households	Proportion of all new (additional) poor, %
Households with children	59.9
Households without children	40.1

¹⁰ http://www.ugogentilini.net/wp-content/uploads/2020/04/Country-SP-COVID-responses_April10.pdf;
<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U>

Groups of households	Proportion of all new (additional) poor, %
One adult above 65 years of age	3.4
One adult with children	5.5
Household with children below 3 years of age	13.1
Households with three and more children	3.2
New (additional poor)	100%

Conclusions:

In Ukraine COVID-19 poses a real challenge not only as a public health crisis, but also as a socio-economic crisis because of its impact on poverty, including child poverty. COVID-19 also threatens the ability of Ukraine to achieve the Sustainable Development Goals. To ensure that scarce resources are spent with most benefit and reach those in need, it is vital to have data on how COVID-19 is expected to impact poverty and who the most vulnerable groups are. We hope that the results of this microsimulation will inform the socio-economic policy of the Government of Ukraine and will shape the programmatic work of the key stakeholders.

Analysis demonstrates that poverty rates would increase significantly under both scenarios as a result of COVID-19 quarantine measures, with child poverty increasing even steeper. Overall the most vulnerable families in terms of socio-economic impact of COVID-19 are the ones who cannot diversify their income. Families with both parents and multi-generational households are more likely to compensate decline or loss of income by one family member with income or social benefits preserved by other family members. Whereas the following categories are more dependent on single income source and are more likely to fall into poverty as a result of COVID-19: single parents with children, households with children below 3 y.o, and single pensioners above 65 y.o; as well as families with 3 and more children, who have traditionally the highest rates of poverty. The report presents the estimates of the magnitude of this impact.

Therefore, social protection measures to mitigate the effect of COVID-19 should be comprehensive and use instruments / programs currently available at the disposal of the Ministry of Social Policy and another line Ministries. Rather than applying a categorical approach, a combination of several instruments /programs, both universal and targeted, will be needed to reach the most vulnerable (for example childbirth benefit, GMI, benefit for single parents, benefit for parents with 3+ children).

Technical Annexes

Annex 1. Assumptions

Our estimates are highly dependent on the duration of the lockdown measures. In these initial projections we assume lockdown will continue for 3 months (March-May) and economic activity will resume afterwards. At the moment of writing of this report, the official quarantine in Ukraine is announced starting from March 12 until April 24 (with possibility for extension).

As a base scenario for 2020 (without COVID-19) we take the average of GDP projections for 2020 prior to crisis – 103.5 percent (average of Ukraine Cabinet of Ministers, World Bank, IMF¹¹); inflation – 105 percent (National Bank of Ukraine¹²), min. salary - 4723 UAH (State Budget of Ukraine¹³); min. pension – 1676 UAH average chronological of subsistence minimum for pensioners, adjusted 3 times a year (State Budget of Ukraine); average nominal salary - 12043 UAH (or 11440 in real terms), average pension and other income – increase based on GDP projections (103.5 percent).

As a less severe scenario (with COVID-19) we take official projections by the Ukraine Cabinet of Ministers (as of March 30¹⁴): GDP - minus 4.8 percent or 95.2 percent; inflation – 111.6 percent; min. salary - 4723 UAH (State Budget of Ukraine); min. pension – average chronological (State Budget of Ukraine) – 1676 UAH; average nominal pension – 106 percent (Ministry of Social Policy)¹⁵; average nominal salary 10700 UAH; other income – given GDP decline 95.2 percent and inflation 111.6 percent, nominal - 106.2 percent.

We make certain distributional assumptions about the impact of COVID-19 on household income, in other words we assume that different groups are likely to be affected differently as a result of the crisis. For people which potentially could be more severely affected we apply different (lower) coefficients. We account for social policy response, such as increase of pensions in the second half of 2020.

As a more severe scenario (with COVID-19) we take the GDP projections for 2020 – minus 7.7 percent or 92.3 percent (IMF projections¹⁶); inflation – 111,6 percent (Ukraine Cabinet of Ministers); min. salary - 4723 UAH (State Budget of Ukraine); min. pension – average chronological (State Budget of Ukraine) – 1676 UAH; average nominal pension - 102,9%¹⁷; all employment income (except wages at the level and below minimal) – 6 percent reduction in nominal terms (ILO projections for the region¹⁸).

Annex 2. Limitations

First, we disregard other potential mechanisms how the pandemic could affect poverty. Second, while realizing that poverty is a multidimensional phenomenon, in this analysis we only estimate the impact on monetary poverty. Third, while we account for some social policy countermeasures (increase in pensions), we disregard others (e.g. increase in unemployment benefits), which could mitigate the impact to some extent.

¹¹ <https://minfin.com.ua/2019/10/23/39477102> ; <https://www.worldbank.org/en/news/press-release/2020/01/08/modest-pickup-in-2020-amid-mounting-debt-and-slowing-productivity-growth>; <https://interfax.com.ua/news/economic/618981.html>

¹² <https://bank.gov.ua/news/all/natsionalniy-bank-zberig-prognoz-inflyatsiyi-na-2019-2021-roki-i-polipshiv-otsinku-zrostannya-ekonomiki-7024>

¹³ <https://zakon.rada.gov.ua/laws/show/294-IX>

¹⁴ <https://www.kmu.gov.ua/npas/pro-vnesennya-zmin-do-postanovi-kabinm2903020etu-ministriv-ukrayini-vid-15-travnja-2019-r-555>

¹⁵ <https://www.ukrinform.ua/rubric-economy/2902457-v-ukraini-z-travnja-trudovi-pensii-proindeksuut-na-11.html> / Indexation of 11% from May was announced by the Ministry of Social Policy, M. Lazebna (in annual figures – 6 percent increase)

¹⁶ <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

¹⁷ Real GDP 92.2 % , accounting for inflation 111.6 % , nominal – 102.9%

¹⁸ https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_740877.pdf