

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

Executive Summary

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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. Nevertheless, 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.

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 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

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.

In the course of transition the three countries opted for a combination of state social insurance (contributory scheme) and social assistance (non-contributory scheme). Unemployment insurance schemes were introduced 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 AIDS/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 and 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 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 area 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.