

**Liudmyla Kozarezenko***Department of Finance, State University of Trade and Economics, Kyiv, Ukraine (corresponding author)**E-mail: l.kozarezenko@knute.edu.ua**ORCID: <https://orcid.org/0000-0002-1349-6805>**ResearcherID: C-4531-2018*

## The Impact of European Integration on Ukraine's Social Security System: The Financial Component

**Abstract**

This article examines the impact of European integration on Ukraine's social protection system, focusing on its financial capacity to provide adequate support to its citizens. It analyses the financing of social protection components in Ukraine. This included articles on rehabilitation and recreation of children with special needs, social protection of persons with disabilities, families and children, support for low-income families, provision of benefits and housing subsidies to citizens, and financial assistance to citizens in difficult circumstances. The study also addressed the issues of financial support for pension payments, bonuses and increases to pensions under pension programmes, as well as the shortfall in the Pension Fund of Ukraine. The paper analyses the role of international donors in financing social expenditures in the second year of the full-scale invasion. Additionally, the study concludes with proposals for reforming the social protection system in Ukraine in the context of European integration. *Research methodology.* The methodology includes the use of comparative analysis, statistical analysis and generalisation to analyse and draw conclusions based on the research data. *Purpose of the study.* The European Union (EU) is committed to developing highly competitive social market policies aimed at achieving full employment and social progress. Ukraine, as a candidate country for EU membership, is obliged to ensure the implementation and development of legislation, in particular in the area of social protection of its citizens. Thus, the purpose of this study is to summarise the results of changes in the social protection system of Ukraine that have occurred as a result of active integration with Europe. The publication contains conclusions and recommendations on the necessary future changes to implement European norms and standards in the social protection system in Ukraine. *Conclusion.* The social security system in Ukraine does not meet the criteria and objectives set by the European community. The eligibility requirements for pensions are relatively low in terms of age and pensionable service, while the pensions themselves are also low, putting many pensioners at risk of financial hardship. This issue is particularly relevant for women, who may receive pensions earlier than men, but still struggle to make ends meet. In addition, it is necessary to reform the system of institutional care and upbringing of children, as well as to focus on a strategy for deinstitutionalising children in residential institutions in the context of social protection. It should be noted that Ukraine has not yet begun preparations for the administration and use of the European Social Fund. The development of scientific and practical tools for reforming Ukraine's social protection system in line with European standards is an important step towards Ukraine's membership in the European Union. This work is crucial to ensure gradual and stable progress towards Ukraine's EU membership.

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Article 3 of the Treaty on European Union states that the EU shall develop a highly competitive social market policy, ensuring full employment and social progress (Consolidated Version of the Treaty on European Union). To achieve this goal, the EU is developing policies to improve working

conditions, increase worker mobility, combat social exclusion and discrimination, promote social justice, gender equality, solidarity between generations and protect children's rights. The preamble to the Treaty on the Functioning of the European Union states that the EU aims to improve the living and working conditions of all persons living in the territory of the Union

**Keywords**

European Union, European Commission, European Pillar of Social Rights, European Social Fund Plus, The Social Protection Committee, social policy, social security and inclusion, social inclusion, social services, healthcare

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(Consolidated version of the Treaty on the Functioning of the European Union).

In 2017, the European Commission introduced the European Pillar of Social Rights. It consists of 20 key principles and rights, grouped under three themes:

i. Providing equal opportunities and access to the labour market through lifelong learning, gender equality and employment support.

ii. Workers should have access to fair working conditions, including job security, decent wages, protection against dismissal, social dialogue and a balance between work and private life.

iii. Social protection and inclusion: minimum income, unemployment benefits, childcare, social inclusion of people with disabilities, homelessness assistance, access to social services, health and long-term care.

The European Pillar of Social Rights isn't legally binding; it's a set of "soft law" measures that identify priority areas for cooperation between member states and common objectives. However, some of its principles have been included in EU directives, thus becoming part of legislation. For example, the Minimum Wage Directive and the Directive on Gender Balance in Boards of Directors. In 2021, the Commission adopted an action plan for the European Pillar of Social Rights (Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions). This plan outlines the goals that need to be achieved by 2030:

i. In order to make progress towards gender equality and achieve the employment target for the entire working-age population, at least 78% of people aged 20-64 must be in employment. This will also require halving the gender gap in employment by 2019. To support this, it is important to increase the availability of formal early childhood education and care (ECEC) in order to promote a better work-life balance and enable women to participate more fully in the labour market. It is also necessary to reduce the share of young people aged 15-29 who are not in employment, education or training (NEETs) from 12.6% in 2019 to 9%, which can be achieved by improving their employment prospects.

ii. The goal is for at least 60% of all adults to participate in annual training. This means that at least 80% of people aged 16-74 should have basic digital skills, which are essential for their inclusion and participation in the labour market and society in a digitally transformed Europe. There is also a need to minimise early school leaving and increase participation in upper secondary education.

iii. The aim is to reduce the number of people at risk of poverty or social exclusion by 15 million. Of these 15 million, at least 5 million must be children. Focusing on children is essential, not only to give

them access to new opportunities, but also to help break the cycle of intergenerational poverty. This should prevent children from growing up to become adults at risk of poverty or social exclusion. This will have positive long-term consequences for society.

In particular, the 99.3 billion EUR budget supporting this plan comes from the European Social Fund Plus.

The European Union (EU) does not regulate Member States' social protection systems. This is the responsibility of the individual countries. However, the EU supports national policies and initiatives aimed at improving the quality of social protection. The EU is only involved in protecting the rights of mobile workers and coordinating the provision of pensions for such workers between countries. The Social Protection Committee (SPC) was established to promote cooperation between Member States and the European Commission in the field of social protection. The Committee has an advisory status under Article 160 of the TFEU and is responsible for monitoring the social situation and social protection policy in the Member States and the EU (Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed 2019/C 387/01). It also facilitates the exchange of information, experience and practice among Member States and with the Commission, and prepares opinions.

In the course of performing its duties, the Committee establishes contacts with social partners. The European Commission should also include a separate section on social protection developments in the Union in its annual report to the European Parliament. Principle 12 of the European Pillar of Social Rights states that workers and self-employed persons, irrespective of the nature or duration of their employment, have the right to adequate social protection. In 2019, the Council of the EU adopted a Recommendation on access to social protection for workers and the self-employed (Council Recommendation of 8 November 2019 on access to social protection for workers and the self-employed 2019/C 387/01), which aims to support the self-employed and those engaged in non-standard forms of work. This includes social assistance in the event of unemployment, sickness, maternity or paternity, accidents at work and occupational diseases, disability and old age.

## **2 Ukraine's Social Security System Needs to be Updated to Meet European Standards**

On February 28, 2022, Ukraine applied for membership of the European Union on the basis of Article 49 of the Treaty on European Union (Consolidated Version of the Treaty on European Union). Following Ukraine's completion of the EU questionnaires on June 17, 2022, the European

Commission recommended that Ukraine be granted the status of EU candidate country (Opinion on Ukraine's application for membership of the European Union). Ukraine was officially granted this status on June 23, 2022. On December 14, 2023, the European Council decided to open negotiations on Ukraine's accession to the European Union.

To be eligible for EU membership, countries must meet the so-called "Copenhagen criteria" (conditions for membership). These include having stable institutions that guarantee democracy, the rule of law, human rights and the protection of minorities. In addition, countries must have a functioning market economy that is competitive in the EU market. Finally, they must have the capacity to take on and effectively implement the obligations of membership, including the objectives of political, economic and monetary union.

The Association Agreement between Ukraine and the European Union (Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part) sets out objectives and targets in various areas. However, EU legislative acts often contain general provisions, which means that Ukraine has to develop its own internal provisions in national legislation to fill the gaps. Chapter 21 of the Agreement lists the objectives to be achieved by Ukraine in the fields of employment, social policy and equal opportunities. The Agreement commits Ukraine to align its legislation with EU Directives on employment, social policy and equal opportunities. Ukraine and the EU have agreed to strengthen their communication and coordination in various areas related to employment and social policy. The Agreement includes measures to ensure safe and healthy working conditions, social dialogue, social protection, social inclusion, gender equality and non-discrimination. Article 419 of the Agreement lists all the areas in which cooperation will be strengthened, while Article 420 sets out specific objectives to be achieved in these areas. The directives listed in Annex XL of the Agreement help Ukraine to align with EU laws, standards and practices. The Agreement also emphasises the importance of involving civil society organisations in the implementation of reforms and cooperation between Ukraine and the EU (as stated in Article 421).

### **3 Financing of Social Protection in Ukraine in the Current Context**

State support, particularly the funding of social protection in times of war, plays a key role in ensuring the safety, dignity and well-being of people in conditions of extreme complexity and instability. According to the Ministry of Social Policy of Ukraine (Internally displaced persons in Ukraine), almost 4.9 million citizens were registered as internally displaced persons (IDPs) in the first half of 2014.

Of these, 1.3 million are elderly, 1.1 million are children and 200 thousand are people with disabilities. According to the World Bank, the loss of property and livelihoods has pushed 7.1 million people in Ukraine below the poverty line (Kabanets, 2023; Updated Ukraine Recovery and Reconstruction Needs Assessment). The UN Refugee Agency reports that 17.6 million people in Ukraine are in urgent need of humanitarian assistance and protection (Humanitarian situation in Ukraine: response measures of the UN High Commissioner for Refugees, overview of the aid provided). The largest budget programmes of the Ministry of Social Policy of Ukraine are pensions and social assistance for citizens in difficult life situations, low-income families (including housing subsidies and benefits), children and families (payments upon birth of a child, upon adoption, children under guardianship or custody, children of single mothers, children in large families, natural assistance "baby packages", etc.), persons with disabilities. The state budget of Ukraine for 2023 allocated 442.3 billion UAH for these programmes, and 230.5 billion UAH, or 52% of the annual plan, was allocated in the first half of 2023. In January-November 2023, 407.9 billion UAH were allocated from the state budget for social payments, especially 36.7 billion UAH in November. These funds were allocated to 249.2 billion UAH (including 22.7 billion UAH in November) – for financial support for payment of pensions, allowances and increases in pensions allocated under pension programmes and for the deficit of the funds of the Pension Fund of Ukraine; 93.8 billion UAH were allocated for support of citizens in difficult living conditions, including 8.2 billion UAH in November. Furthermore, 39.8 billion UAH have been allocated for the provision of benefits and housing subsidies to low-income families, of which 3.3 billion UAH were released in November. Over 22.2 billion UAH was allocated for social protection of children and families, including 2.0 billion UAH in November. Ultimately, 0.2 billion UAH (including 0.02 billion UAH in November) was allocated for the rehabilitation and recreation of children in need of special attention. It is worth noting that in 2023, all pensions, housing subsidies and other types of assistance were paid in full to low-income families, children, people with disabilities and internally displaced persons, and this was made possible thanks to the support of international partners (Ministry of Finance of Ukraine: From the beginning of 2023, 408 billion hryvnias were allocated to social payments). The Ministry of Social Policy of Ukraine and the World Bank have signed an agreement to launch a new project called "Investments in Social Protection to Increase Coverage, Sustainability and Efficiency" (INSPIRE). The project aims to provide 1.2 billion USD to

finance 29 different types of social payments for the most vulnerable groups in Ukraine. Moreover, the project will support social protection reforms in Ukraine (Ukraine received 950 million US dollars from Japan as part of the INSPIRE and HOPE projects of the World Bank).

#### **4 Reforming Ukraine's Social Protection System in the Context of European Integration Prospects**

Ukraine needs a new social contract that reflects current realities and the modern world. The government's policy is to promote self-sufficiency rather than dependence on others. In line with this philosophy, a new policy is being formulated based on the following principles: digitalisation, targeting, universality, equity and accessibility. Social services should be easily accessible through smartphones and cover all aspects. Support for individuals should start with social services and can be supplemented with necessary payments. Assistance will only be provided to those who really need it. Special emphasis will be placed on pension reform to ensure a decent retirement for all.

The creation of a social sphere in Ukraine that puts human needs and well-being first consists of the following elements (Priorities of the Ukrainian Government):

i. The transition from maintaining institutions to financing social services is based on the principle that "money follows the person". This means that funding is given for the specific service provided and not just for the existence of the organisation or institution. This ensures that social support is targeted and fair. The principle is applied to support groups such as children, veterans and large families. The register of social service providers allows people to use state support in the most effective and acceptable way for them. Electronic case management will also be introduced.

ii. The creation of the Unified Social Register is an important component of the Unified Social Information System. This register will provide targeted and high-quality support to those in need and save taxpayers' money. It is important that this register includes both recipients of state benefits and recipients of relevant services.

iii. The Ukrainian government is introducing a new pension reform with the aim of ensuring that every Ukrainian pensioner receives a common pension of at least 30% of their average salary during their working life. The reform will introduce a points system for calculating pensions, aimed at reducing disparities between those who retired long ago and those who retired more recently. In order to create the right conditions for decent European pensions in the medium and long term, the Ukrainian government plans to introduce a mandatory funded system.

With the introduction of this system, Ukrainian pensioners will receive at least 50% of their salary for life in addition to the accumulation component. The government has set 2024 as the target date for the introduction of indexation under the new system.

iv. It has been decided to review the current approach to the level and form of support provided to families in difficult circumstances. Social assistance will be made available to all those in need and will depend on their income level. The Ukrainian government aims to create a system that guarantees a minimum standard of living to support the most vulnerable sections of society and help them overcome their hardships in the medium term.

v. The government aims to digitise social services so that they can be easily accessed via smartphones. This applies to services such as receiving a housing subsidy or applying for child adoption. The process will be simple, fast and without unnecessary bureaucracy. The goal is to make digital services available to the entire social sphere. The government plans to increase the number of digitised social services by 50%.

#### **5 Conclusions**

To become a member of the EU, countries must align their legislation with EU rules. In the Association Agreement between Ukraine and the EU, Ukraine undertook to align its legislation with a significant number of EU directives in the areas of employment, social policy and ensuring equal opportunities. The accession process for all EU Member States includes the implementation of six clusters, divided into 35 chapters of mandatory minimum legislation. One of these chapters, Chapter 19, deals with social policy and employment.

According to the 2023 Report on Ukraine (Key findings of the 2023 Report on Ukraine), Ukraine's social protection system is not well developed. The report highlights that eligibility requirements for pensions are low in terms of age and insurance experience. In addition, pension payments are low, putting many pensioners at risk of not meeting the minimum standard of living. This issue is particularly relevant for women, who may retire earlier than men and are therefore at risk of remaining in poverty. The need to reform the institutional care and education of children was also mentioned in the context of social protection. In particular, the deinstitutionalisation strategy for children in boarding schools is highlighted. Lastly, the European Commission has noted that Ukraine has not yet begun to prepare for the management and use of European Social Fund resources. The development of scientific and practical tools to reform Ukraine's social protection system in line with European standards is an essential step towards Ukraine's accession to the European Union. This work is essential to ensure gradual and steady progress towards this goal.

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