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Conceptual framework for the development of financial support for social protection in Ukraine

Abstract

Introduction. The social protection in Ukraine is characterised by a complex multicomponent structure of funding, which is determined by a number of economic, demographic, social and political factors. Problems of economic development and a complex socio-demographic situation affect not only financial resources but also the level and quality of social benefits and services. Therefore, the development of a new concept of financial support for social protection to ensure balanced funding of all social benefits and allowances is currently a burning issue. The purpose of the article is justification of the conceptual framework for financial support for social protection in Ukraine.

Results. The authors of the article have developed and formalised a conceptual framework for social protection of the population to create a comprehensive system that will balance financial resources at all levels and in terms of all forms of social protection. It has been proven that a comprehensive system of social security provides social assistance through: 1) the public system of social security formed based on taxes paid to the budget of the country; 2) compulsory social insurance represented by cash payments and bonuses received by employees; 3) a non-governmental social insurance system (the formation of financial resources through contributions to non-governmental social security institutions or social programs developed by employers). It was determined that people can get the same kind of social benefits (e.g. pensions and medical services) through various levels of social protection. This will enhance the impact of the system on the population and affect the final size of social payments (or the amount and quality of provided social services).

Conclusions. It has been proven that this multifunctional system with clear separation of powers for the formation along with the use of financial resources will increase the level of social security in the future, reduce social tensions and the pressure upon public finances due to programs of social assistance to the poor. Expansion of accumulative financing principles has a positive impact on the financial stability of the entire system of public social protection and contributes to social and economic development, providing reduction in poverty and wealth disparity.

Keywords: Financial Security; Social Security; Financial Resources; Social Security Insurance; Social Policy

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Концептуальні засади розвитку фінансового забезпечення соціального захисту в Україні

Анотація. Статтю присвячено обґрунтуванню концептуальних засад розвитку фінансового забезпечення соціального захисту населення в Україні. Розроблено та формалізовано концептуальні засади розвитку соціального захисту населення, що полягають у побудові комплексної системи, яка дозволить збалансувати фінансові ресурси на усіх рівнях і в усіх формах соціального захисту населення. Обґрунтовано стратегічні орієнтири розвитку загальнообов'язкового державного соціального страхування, які ґрунтуються на концептуальних засадах побудови накопичувальної системи фінансування, що дозволить зменшити навантаження на державні фінанси та підвищити розмір соціальних виплат та якість соціальних послуг.

Ключові слова: фінансове забезпечення; соціальний захист; фінансові ресурси; соціальне страхування; соціальна політика.

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Концептуальные основы развития финансового обеспечения социальной защиты в Украине

Аннотация. Статья посвящена обоснованию концептуальных основ развития финансового обеспечения социальной защиты населения в Украине. Разработаны и формализованы концептуальные основы развития социальной защиты населения, заключающиеся в построении комплексной системы, которая позволит сбалансировать финансовые ресурсы на всех уровнях и во всех формах социальной защиты населения. Обоснованы стратегические ориентиры развития общеобязательного государственного социального страхования, которые основываются на концептуальных основах построения накопительной системы финансирования, что позволит уменьшить нагрузку на государственные финансы и повысить размер социальных выплат и качество социальных услуг.

Ключевые слова: финансовое обеспечение; социальная защита; финансовые ресурсы; социальное страхование; социальная политика.

1. Introduction

The system of social protection formed in Ukraine is multi-level and complex. All its forms (social security, social insurance and social assistance) are financed from various sources. This makes it possible to protect all segments of the population from a large number of various social risks. Conducted researches [16] have shown a constant increase in the number and diversity of social benefits, allowances and reduced payments. As a result of expansion in the number of potential recipients, more and more financial resources are required year by year.

In the meantime, complicated economic and demographic problems adversely affect both the balance of funds in the system of social security and the efficiency of their use. This is manifested in a constant shortage of funds for certain social programs and inefficient use of financial resources by recipients that do not need them.

All this affects the performance of social protection and eliminates the use of huge financial resources to support social protection. Therefore, in our opinion, it is extremely important to develop a conceptual basis for further development of financial provision of social protection.

2. Brief Literature Review

Conceptual approaches and a comprehensive analysis of the problems of social security, conditions and principles of its financing, mechanisms of formation of the major sources of financial resources, and principles of some of its forms are presented in great depth in the works by local and foreign scientists, among whom are S. Anna McCord and Rachel (2015) [1], V. V. Antropov (2006) [2], K. Barglowski et al (2015) [3], A. Barrientos (2010) [4], B. Başak and K. Barglowski (2015) [5], M. Cichon et al (2004) [6], K. Devesh and P. Nangia (2015) [7], G. Esping-Andersen (1990) [8], L. Morgon Banks et al (2016) [9], M. Pinilla-Roncancio (2015) [11], M. Waqas and M. Sarwar Awan (2017) [12], D. Piachaud (2011) [13], D. Pieters (2002) [14], M. M. Ruzhenskyi (2006) [15], P. Ruxandra (2017) [16], S. M. Brooks (2015) [17], S. Kidd (2017) [18], V. B. Tropin (2008) [19]. Basic conditions and principles of the organisation of the social protection system, the peculiarities of the formation and use of financial resources by governmental and private social insurance institutions, the forms and principles for the implementation of social assistance to various segments of the population, the peculiarities of the functioning of the social protection system under the influence of the whole range of social and economic factors and the characteristics of the relevant country have been researched by three scientists mentioned above. In recent years, special attention has been paid to reforming social protection systems because of various economic, social, demographic and cultural problems facing the world community in the new millennium. Despite significant achievements of local and foreign researchers, in the current dynamic conditions of the formation of the modern global economic system and transition from the so called welfare state model (followed by a decrease in government financing for social programs and their gradual reduction) to the new governmental social policy aimed at the elimination of contradictions between the

laws of the market and social objectives, as well as new theoretical and methodological problems requiring solution emerged.

3. The purpose of the article is to justify the conceptual framework for financial support for social protection in Ukraine.

4. Results

The conducted research [16] suggests that the established structure of financing of social protection in Ukraine is one of the main reasons for a significant number of financial problems. According to the distribution principle, basic funds are accumulated and distributed among various forms of social protection, its kinds and programs, mostly by means of the system of public financing (public budget, local budgets and public funds of compulsory social insurance). However, part of financial resources, especially those funded from premium payments reduces annually, which increases the tax burden on the budget system of the country.

On average, during the period between 1996 and 2017, part of public funds in the total amount of financial resources aimed at social security was about 43%. However, during the period under review, part of non-governmental social insurance expenses in total expenses of the system of social protection in Ukraine ranged from 0.1% to 0.5%, which is extremely low. For example, in OECD countries, private spending is about 2.6% of GDP (most in the USA - 11.4% of the country's GDP). Such development of the system of non-governmental social insurance enables to accumulate significant amounts of investments in non-governmental social insurance institutions, primarily private pension funds and insurance companies. Total assets of non-governmental social insurance institutions of OECD countries increased only from 104.1% to 125.7% of GDP over the period of 2006-2016. In value terms, they increased from USD 25.34 trillion in 2006 to USD 38.14 trillion in 2016 [20]. Despite the constant increase in social protection expenditures in Ukraine (on average they grew by UAH 27 billion over the period from 1996 to 2017 or by 19.57% each year), the size of social expenditures per capita is rather low, not only with regard to the EU and OECD countries, but also the countries of the post-Soviet space. At the same time, the constant growth of social expenditures from the budget system (especially to cover the financial deficit of the Pension Fund of Ukraine) negatively affects the economic development of the state and the stability of the financial system.

Therefore, the first step towards a financially balanced social security system is to change the structure of financing and provide a gradual transition to financing most social benefits and allowances through the system of compulsory state social insurance and non-governmental social insurance, where the accumulative principle of financing prevails.

The final result of the changes is to create a three-tiered system of social protection in Ukraine, where the first tier is designed to ensure a minimum level of social protection and be accessible to all groups of the population (Figure 1).

The first level should guarantee basic rights on social security to the population stipulated by the current legislation of Ukraine. The main goal of this level is to overcome poverty,

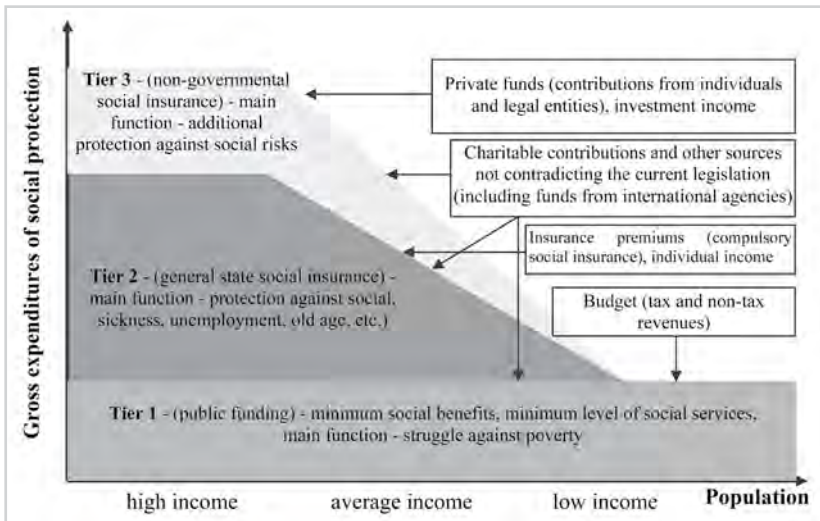


Fig. 1: Suggested structure of social protection in Ukraine
Source: Compiled by the authors

reduce income inequality and support disadvantaged groups of people.

However, the authors adhere to the position that health care in Ukraine should continue to be public, universally accessible to all groups of the population regardless of their income level and receive financial resources from the budget system. Non-governmental social insurance in the field of health care (which may be provided through insurance companies, health insurance companies, etc.) can and should be the only form of additional insurance protection.

The concept of the first tier of social protection should aim to achieve the following objectives:

- 1) reduce poverty among the population by providing minimum social assistance and facilitate its reception by the groups of people who need it;
- 2) ensure adequate income for families with children to provide full access to education, health care, food and accommodation, which is one of the main preconditions for overcoming the demographic crisis, increasing the birth rate in the country, improving the quality of education, etc.;
- 3) facilitate the functioning of qualitative and affordable health care services;
- 4) provide temporary social support for other groups of people who do not deal with other levels of social protection.

Social assistance to vulnerable groups of the population within the first tier should be given in accordance with the following basic principles:

- 1) welfare payments should provide the subsistence minimum for people with low income;
- 2) recipients of such benefits must be objectively deprived of opportunities to financially sustain themselves by other means of access to other financial resources (it is important to develop an effective system to assess the revenue potential of recipients of social benefits, taking into account the existence of a significant shadow income in Ukraine);
- 3) assistance should not encourage dependency, but include measures to develop the recipient's self-sufficiency and certain financial independence.

The share of public social expenditures in GDP of the country should be stabilised in the medium term, whereas it will gradually decrease in the long run. This is important given the negative impact of increasing public social spending on economic

growth. We have carried out an economical and statistical analysis of the dependence of the level of economic growth on the share of public expenditures on social protection in the country's GDP (data for the period 1980-2014 relating to OECD countries was used for the study, data for the years 2015-2017 is not yet available) (Table 1).

The obtained results indicate that a gradual increase in the share of public expenditure on social protection in GDP of the country reduces the level of economic growth. However, it reduces when achieves 10% of the level of government expenditure. The empirical correlation ratio $\eta = 0.3235$ indicates that there is a link between the share of public expenditure on social protection in the country's GDP and real economic growth, but it is moderate. The determination coefficient 0.1046 shows that the variation is 10.46% due to the differences between the signs, and 89.54% due to other factors [16].

Therefore, it can be argued that the optimal share of public expenditure on social protection in Ukraine's GDP should be within the range of 10-18%. Such amount of public spending on

social protection, according to the authors, enables the country to fight poverty effectively and does not suppress the level of economic growth. The second level should be based on the basic principles, incorporated in the system of compulsory social insurance: compulsory insurance to people according to the types of social insurance and the possibility of voluntary insurance in the cases provided by law; differentiation of benefits depending on the pension insurance record and insurance premium level; targeted use of social insurance; employers' liability and funds for the realisation of the rights of the insured person for financial support and social services.

Tab. 1: Results of analytical grouping of countries in terms of the dependence between average values of public expenditure on social protection and real GDP growth (1980-2014)

No.	Groups of countries for public expenditure on social protection in % of GDP	The amount of studies in the group	The average value of public expenditures on social protection in % of GDP	The average real GDP growth rate in % to the previous one
1	1.60-4.28	29	3.09	4.63
2	4.28-6.96	26	5.69	3.77
3	6.96-9.64	26	8.57	4.14
4	9.64-12.32	131	10.97	3.88
5	12.32-15.00	187	13.71	3.00
6	15.00-17.68	202	16.39	2.83
7	17.68-20.36	158	18.98	1.77
8	20.36-23.04	134	21.49	1.55
9	23.04-25.72	45	24.04	1.25
10	25.72-28.40	6	26.95	0.09
	Total	944	15.78	2.67

Source: Compiled by the authors based on data from the Organization for Economic Co-operation and Development

Particular attention should be paid to the system of compulsory retirement insurance. According to the conducted studies [16], the complex demographic and economic crisis in Ukraine generates a strong deficit of financial resources in the Pension Fund of Ukraine, which is covered at the expense of the public budget. During the 2013-2017 period alone, financial resources aimed at financing pension programs increased from UAH 83.2 billion in 2013 to UAH 133.5 billion in 2017. At the same time, loans totalling UAH 4.5 billion were attracted in order to cover cash gaps from the single treasury account in 2017. As of 1 January 2018, the balance of amount of loans unspent by the Pension Fund of Ukraine makes UAH 48.1 billion.

The third tier should be based on the principles of accumulative insurance, and perform both social and economic functions - promote the development of public economics through investment activities.

Ensuring the financial stability of the social security system is only possible through complex interaction participants at all levels in the system of social protection (social assistance recipients, employees, employers, state, state funds compulsory

social insurance, social security non-governmental institutions (Non-State Pension Fund, insurance companies, banks, etc.) all levels in the system of social protection (Figure 2).

A comprehensive social security system will provide social assistance through: 1) the public system of social security formed based on taxes paid to the budget of the country); 2) compulsory social insurance represented by cash payments and bonuses received by employees; 3) a non-governmental social insurance system (the formation of financial resources through contributions to non-governmental social security institutions or social programs developed by employers). It was determined that people can get the same kind of social benefits (e.g. pensions and medical services) through various levels

of social protection. This will enhance the impact of the system on the population and affect the final size of social payments (or the amount and quality of provided social services).

5. Conclusions

The functioning of the introduced multifunctional system with clear separation of powers for the formation along with the use of financial resources will increase the level of social security in the future, reduce social tensions and the pressure upon public finances due to programs of social assistance to the poor. Expansion of accumulative financing principles has a positive impact on the financial stability of the entire system of public social protection and contributes to social and economic development, providing reduction in poverty and wealth disparity.

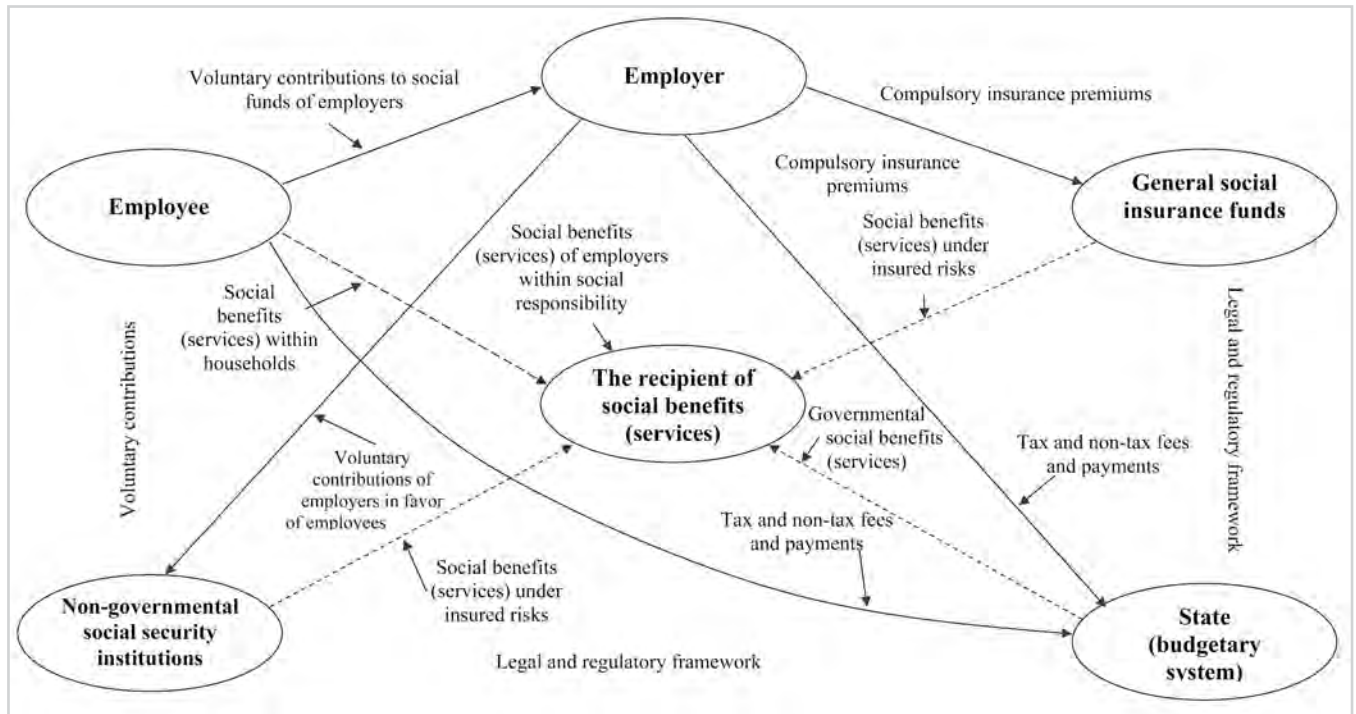


Fig. 2: The proposed scheme of interaction vectors between levels and participants of the social protection system in Ukraine
Source: Compiled by the authors

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