

UNITED NATIONS DEVELOPMENT PROGRAMME



# THE DEVELOPMENT IMPACT OF THE WAR IN UKRAINE

INITIAL PROJECTIONS

## Synopsis

The immediate humanitarian assistance to the people of Ukraine is of utmost importance and at the center of global attention. Early estimates by the Humanitarian Country Team indicate that nearly 30% of the population are likely to require life-saving humanitarian assistance. In its current scale and direction, 18 million people are projected to become affected and more than 7 million people internally displaced.

The development impacts of the war in Ukraine remain too much below the waterline of public visibility, in Ukraine, regionally and globally. Early UNDP projections suggest that already in the short- to medium term, the development setbacks for Ukraine will be significant. Poverty and inequalities will rise; the country's economy, its social fabric, and the environment will suffer. Government of Ukraine estimates suggest that at least \$100 billion worth of infrastructure, buildings, roads, bridges, hospitals, schools, and other physical assets have been destroyed. The war has caused 50% of Ukrainian businesses to shut down completely, while the other half is forced to operate well below its capacity. If the war deepens and protracts further, up to 90% of the population of Ukraine could be facing poverty and vulnerability to poverty.

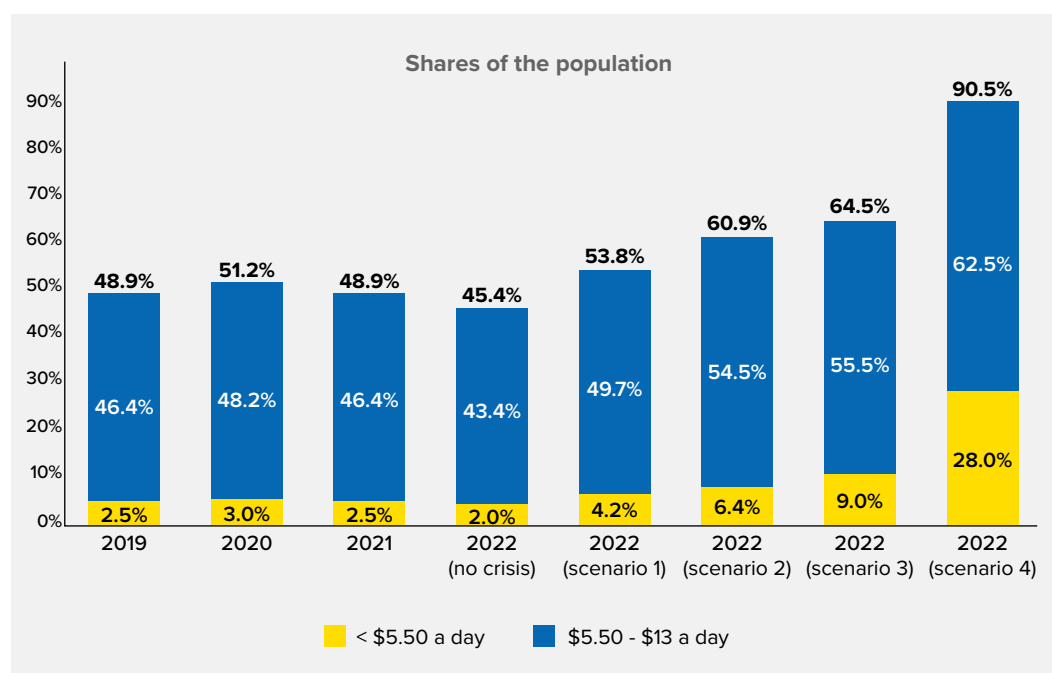
To mitigate such dramatic development setbacks, targeted and scaled response and recovery support to the Government of Ukraine, wherever feasible, will be critical. This is possible now and needs to happen in parallel with the ongoing humanitarian response. It requires a continuous and strengthened focus on maintaining the functionality of the governance ecosystem, and delivering public services in addition to longer term development support. An effective humanitarian-development-peace nexus will be critical, that is why humanitarian, early recovery, and development activities have to work hand in hand in Ukraine.

Based on its long-standing, trusted partnerships and close cooperation with the Government of Ukraine at all levels and with different line ministries, UNDP has been working with and through 332 municipalities, 15 networks of civil society organizations and more than 17 business membership associations across the country. UNDP seeks to leverage this extensive network of partnerships for immediate and scaled support to the people of Ukraine, as a foundation for maintaining the functionality of governance systems; sustaining service delivery; preventing human rights violations; generating emergency livelihoods and income-generation opportunities for IDPs and conflict affected populations; rapid repair of critical infrastructure; and early recovery. UNDP's extensive and robust network of partnerships in the country provides development partners and international finance institutions alike with established, ready-made operational entry points and platforms to channel and scale recovery and development support to the Government and people of Ukraine.

# Initial Projections<sup>1</sup>

Cognisant of the uncertainties and complexities surrounding the military invasion of Ukraine and constantly changing data sets, UNDP conducted initial partial equilibrium projections of household income in Ukraine, forward projecting the 2019 distribution of per capita household consumption to 2022, to formulate four crisis scenarios for poverty and vulnerability going forward. At this stage and given the prevailing fluidity, these projections focus solely on income shocks<sup>2</sup>. For the purpose of these projections, the scenarios assume different levels of GDP contraction depending on the severity of income shocks: 7% in scenario 1; 15% in scenario 2; 20% in scenario 3 and 60% in scenario 4, the latter is in line with a severe and protracted crisis scenario. The results of these initial projections are summarized in Figures 1 and 2 below:

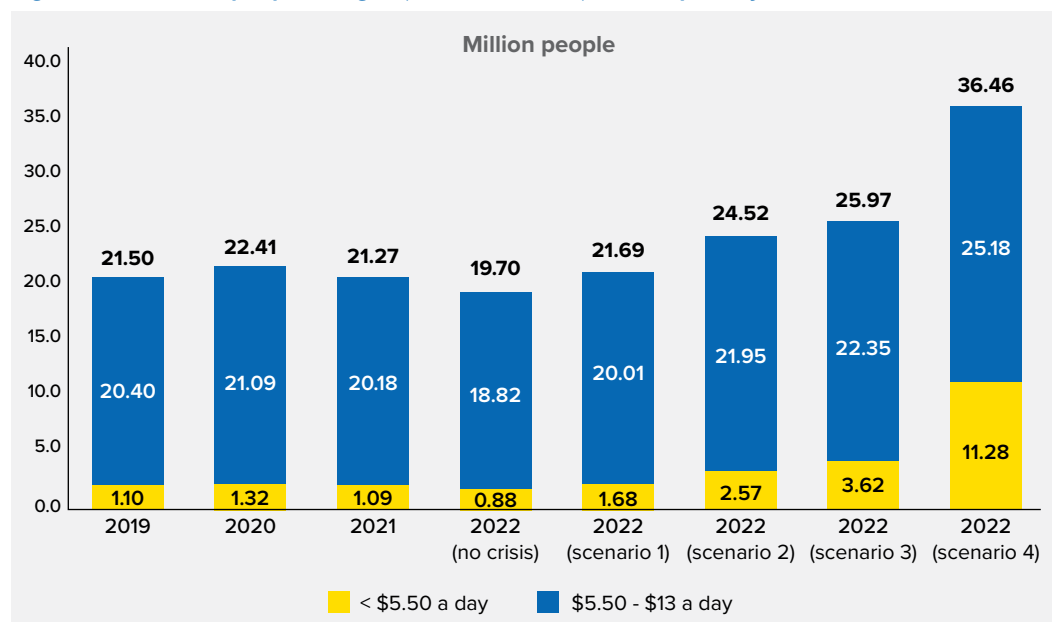
**Figure 1: % Shares of the Ukrainian population living in (or vulnerable to) income poverty**



1. See annex 1: Methodological note on projections of income poverty and vulnerability in Ukraine (March 10, 2022)

2. There are many caveats to fast-moving data and assumptions. The first and most salient caveat is demographic, as refugee and human displacement numbers change continuously. The income simulations are based on a refugee population of 3 million by 14 March, with a projection by UNHCR to reach up to 5 million in the following weeks. Since 24 February, the number of refugees has been increasing by 166,000 per day on average. The second set of caveats are about data. The only available granular information corresponds to the distribution of households' per capita consumption in 2019, with no possibilities of disaggregation across specific groups or regions within the country. The third caveat is that there are methodological limits to partial equilibrium analysis, as the one presented here. We cannot account for dynamic and cross-cutting effects between significant drivers of poverty and vulnerability; we are forced to assume direct income shocks, rather than estimate them, as done in general equilibrium analysis.

**Figure 2: Millions of people living in (or vulnerable to) income poverty**



As of 10 March 2022, the simulations project household monetary poverty impacts to be at least 15% (scenario 2). In this scenario, in 12 months-time, over 6% of the population is expected to be living under a \$5.50/day poverty line (in purchasing-power-parity terms). This amounts to three times the expected poverty rate had the crisis not occurred, and twice the poverty rate recorded during the Covid-19 pandemic. 54% of the population will be living at high risk of falling back into poverty, i.e., under the \$13/day vulnerability line. In the event of a continuing and widening protracted crisis, the projections suggest that 90% of the population will be facing poverty or vulnerability to poverty (scenario 4). This projection translates into a loss of 18 years of socio-economic achievements in Ukraine and a return back to poverty levels last observed in 2004. 28% of the population will be living under the \$5.50/day poverty line. This amounts to 14 times the expected rate had the crisis not occurred. 62% will be living in vulnerability to poverty.

## UNDP in Ukraine

Working closely with the UN family of agencies, funds and programmes in Ukraine, UNDP is among the agencies with the largest presence in the country and operates under a broad mandate and with strong capacity. UNDP’s team has remained operational throughout the crisis. UNDP is boosting its presence on the ground further with targeted surge deployments in key functional areas such as: debris management and environmental hazards assessments; damage assessments; cash-based assistance; information management; mine action; emergency livelihoods; early recovery/resilience-building; and support to Government functions in emergency response management and coordination, among others.

Based on its long-standing, trusted partnership with the Government of Ukraine at all levels and across many line ministries, UNDP has been working with and through 332 municipalities,

15 networks of civil society organizations and more than 17 business membership organizations across the country. Working closely with the UN Crisis Coordinator to ensure an effective humanitarian-development-peace nexus in supporting the Government of Ukraine, UNDP seeks to leverage its extensive network of partnerships on the ground by focussing support to the Government of Ukraine on maintaining core government functions, delivering public services, sustaining livelihoods, and restoring critical infrastructure.<sup>3</sup> UNDP's main concern, among all development partners in Ukraine, is to preserve development gains in Ukraine and support the government in sustaining the governance structure and services during these challenging times. UNDP's extensive and robust network of partnerships in the country provides development partners and international finance institutions alike with established, ready-made operational entry points and platforms to channel and scale recovery and development support to the Government and people of Ukraine.

Before and now during the war UNDP remains the operational backbone of the UN system on the ground, providing immediate support to the UN Crisis Coordinator. UNDP likewise continues to provide operational support for the humanitarian response as well as for many UN system agencies, funds and programmes.

UNDP is pivoting its programming to respond to the crisis in three dimensions:

- 1) redirecting and scaling up existing programme activities towards humanitarian needs and public service delivery;
- 2) immediate crisis response in partnership with humanitarian agencies and in support of the government's crisis coordination and emergency response management; and
- 3) ensuring that early recovery proceeds in parallel with the international humanitarian response, i.e., calibrating the humanitarian-development-peace nexus specifically to the situation in Ukraine, for it to be fully owned by the Ukrainian people themselves.

Going forward, UNDP is exploring needs and options with the Government of Ukraine and development partners to move towards large scale emergency multi-purpose cash transfer operations and possibly temporary basic income (TBI) schemes. Based on and subject to the scenario projections outlined above, the scope and cost of these operations at sufficient scale are calculated initially as follows: An emergency cash transfer system, for example, that covers partial income losses (equivalent to \$3.20/day per person) would cost between \$250 million per month (PPP) (under scenario 2, covering 2.57 million people) or \$352 million per month (PPP) (under scenario 3, covering 3.62 million people). A more ambitious temporary basic income (TBI) that provides a basic income floor at \$5.50/day per person (regardless of age or household composition) would cost between \$430 million and \$605 million per month (PPP) for the 2.57-3.62 million people under scenarios 2 and 3. Even the larger of these figures do not exceed approximately 1% of Ukraine's 2021 GDP in PPP terms, or 4% when measured at market exchange rates and as such, could be financed by the assistance currently being pledged to Ukraine by development partners.

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3. UNDP Recovery and Resilience Programme Overview, CO Ukraine, March 2022

**ANNEX 1****Methodological note on projections of income poverty and vulnerability in Ukraine****(March 10, 2022)****1. Scope**

This note provides a number of potential outcomes on income poverty and vulnerability based on tentative assessments of economic contractions by forecasters and financial press reports, as well as past experiences.

**2. Caveats**

1. The only available granular information corresponds to the distribution of households' per capita income in 2019 (from the latest available household survey), with no possibilities of disaggregation across specific groups or regions within the country.
2. The results presented relate only to tentative economy-wide contractions that may “pass through” to households.

**3. Measurement**

1. An individual is identified as **poor** if his/her daily per capita income is below \$5.50 a day (i.e., the international poverty line)
2. An individual is identified as **vulnerable to poverty** if his/her income is above \$5.50 a day but below \$13 a day (the latter value is associated with a 10% probability or less to fall into poverty).<sup>4</sup>

**4. Assumptions****I. Assumptions before the current crisis**

1. The income distribution of 2019 is projected forward using the following GDP per capita growth rates<sup>5</sup>:
  - a. Observed in 2020 (captures the pandemic-induced contraction).
  - b. Forecasted in 2021 and 2022 (the latter corresponds to the estimate in the absence of the armed conflict).
2. Each of these projections (2019-20, 2020-21, 2021-22) accounts for the empiri-

4. Bussolo, M., M. E. Davalos, V. Peragine, and R. Sundaram. 2018. “Toward a New Social Contract: Taking on Distributional Tensions in Europe and Central Asia.” Washington, DC: World Bank.

5. Based on the IMF World Economic Outlook Database (October 2021).

cal regularity that only 85% of the growth in GDP per capita is passed through to household income.<sup>6</sup>

3. Each of these projections (2019-20, 2020-21, 2021-22) account for demographic changes.<sup>7</sup>

## II. Assumptions to reflect the current crisis

1. Four scenarios of economic contraction are simulated:
  - a. Scenario 1: **7% contraction**. This is based on past evidence from armed conflicts across 45 sub-Saharan African countries over 1989–2017.<sup>8</sup>
  - b. Scenario 2: **15% contraction**. This is based on the accumulated contraction [observed](#) in Ukraine during the initial phase of the military conflict in south-eastern Ukraine in 2014-15.
  - c. Scenario 3: **20% contraction**. This is based on the contraction [observed](#) in the Yugoslavia or Georgia wars, and on econometric evidence for large-scale wars.<sup>9</sup>
  - d. Scenario 4: **60% contraction**. This is an extreme assumption based on previous experiences and a [commentary](#) by Oxford Economics that “... evidence from previous war-hit countries suggesting a slump of up to 60% could be possible.” In the recent history, for instance, the economy contracted by around 40% in Lebanon in 1982 (Lebanon war) and 1989 (war of liberation), and in Kuwait in 1991 (Gulf war); by more than 50% in South Sudan in 2012 (Heglig crisis); and in Libya by 53% in 2014 (second civil war), by 60% in 2020 (second civil war), and by 67% in 2011 (military intervention).
2. As before, for each of these contraction scenarios, an 85% pass-through to households is assumed.
3. Each of these contractions is simulated under a **heterogeneous shock**. That is, it assumes that the income contraction affects households differently depending on their share of expenditure on food and energy (proxy of households’ vulnerability to price spikes in food and energy).
  - a. Estimates of average consumption of food and energy, as share of average total consumption in Eastern Europe, are calculated from the World Bank’s [Global Consumption Database](#) for two consumption brackets: less than \$8.44 a day, and \$8.44 a day and above.

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6. Lakner, C., D. G. Mahler, M. Negre, and E. B. Prydz. 2020. “How Much Does Reducing Inequality Matter for Global Poverty?” Global Poverty Monitoring Technical Note 13. Washington, DC.

7. United Nations, World Population Prospects.

8. Fang, X., S. Kothari, C. McLoughlin, and M. Yenice. 2020. “The Economic Consequences of Conflict in Sub-Saharan Africa.” IMF Working Paper 221. Washington, DC.

9. Thies, Clifford F., and C. F. Baum. 2020. “The Effect of War on Economic Growth.” *Cato Journal* 40 (1): 199–212.

- b. The relative consumption of food and energy among people in the bottom group (i.e., less than \$8.44 a day) is divided by the corresponding relative consumption among those in the top group (i.e., more than \$8.44 a day).
    - c. The resulting ratio yields 1.46, suggesting that individuals located in the bottom group (about 15% of the population in 2022) would face a contraction that is 46% higher than the contraction among the upper consumption group.
  4. Each of the above scenarios of contraction in 2022 is adjusted for approximately 3 million people who are expected to have fled to neighbouring countries during the month of March, according to the [UNHCR](#) tracker. For reference, the country's population was:
    - a. 44.0 million in 2019
    - b. 43.8 million in 2020
    - c. 43.5 million in 2021
    - d. 43.4 million in 2022 (in the absence of crisis).

After the adjustment, the scenarios 1-4 in 2022 are based on a total population in the country of 40.4 million (43.4 million *minus* 3 million refugees).