

The War on Ukraine and its Effect on Human Capital: Early Evidence and EBRD response¹

24 February 2023

Russia's invasion of Ukraine is having a devastating impact not only on physical infrastructure but also on Ukrainian human capital. Current estimates suggest that 35 per cent of Ukraine's pre-war population have become displaced either abroad or internally. Vast numbers have also lost their lives or sustained injuries that prevent them from working. Among the adults who have found refuge abroad, 85 per cent are female, nearly three-quarters of whom were employed prior to leaving the country. Most refugees have not found work in the host countries and many face financial difficulties. The EBRD's response to the war on Ukraine includes significant support for client companies to sustain people's livelihoods and enhance human capital resilience throughout the war. This includes support to SMEs affected by the war through EBRD investments into partner financial institutions and equity funds. The Bank is also providing emergency liquidity support to large employers (particularly in the natural resources, energy and agribusiness sectors) to help sustain workers' livelihoods, along with financial and technical support to larger corporate clients for managing their human resources and opening up employment avenues for those most affected. The EBRD is also engaging with major SOEs and private sector clients to sustain access to vital services for citizens, thus helping to preserve their human capital. Lastly, the Bank is working with policy partners to address the most pressing human capital needs and safeguard equal opportunities. A comprehensive restructuring of Ukraine's economy, once conditions allow, will be needed to persuade refugees to return and avoid long-term inequalities.

Impact of the war on human capital

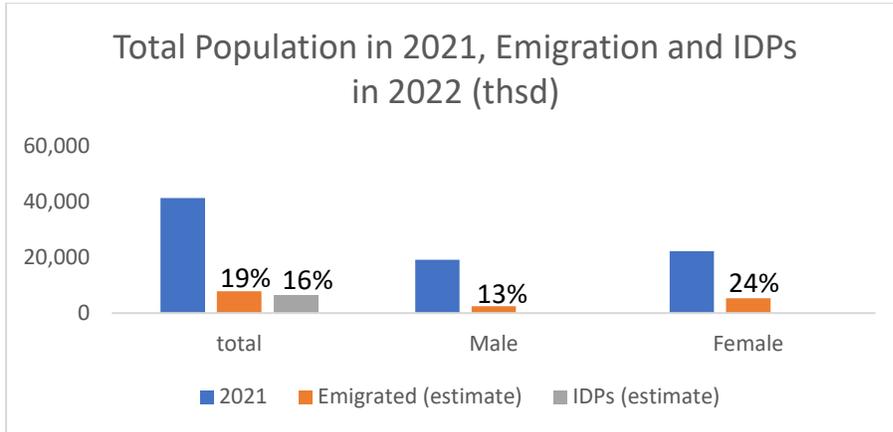
Russia's invasion of Ukraine, which began on 24 February 2022, has not only caused heavy devastation of infrastructure and production capacities but has also led to unprecedented losses of Ukrainian human capital. Many people have had to leave their jobs and homes, resulting in a 'brain drain', disruption to training and skills-matching, and the suspension or destruction of vital services and infrastructure that enable people to work and build up their human capital. This note looks at early evidence and estimates of the scale of migration and labour force displacement. It also outlines the EBRD's response so far to shifts in human capital, and suggests ways in which future interventions can help to persuade many of those displaced by the war to return to Ukraine once security conditions allow.

In 2021, Ukraine's population was estimated at 41.4 million, with a share of female to male population of 54 to 46.² Since the war began, it is estimated that 7.8 million people have left

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² Ukrstat.

Ukraine, and an additional 6.5 million have become internally displaced persons (IDPs).³ This means that 35 per cent of the pre-war population are not in their usual place of residence.⁴ Emigration is heavily concentrated among females: almost one-in four of the pre-war female population is now abroad, versus 13 per cent of males.



Source: Ukrstat, UN OCHA and authors' calculations.

These population movements have contributed to the major drop in GDP since the war began, a fall provisionally estimated at 30 per cent in 2022.⁵ Total employment has dropped by around 3.5 million because of the war. The unemployment rate, including refugees, is now running at 30 per cent, versus 9.8 per cent pre-war, according to the National Bank of Ukraine.⁶ But registered unemployment halved in 2022, largely because of a big drop in labour force participation from a combination of emigration (mostly among women) and conscription (mostly men).

A UNHCR survey indicates that 85 per cent of the adult Ukrainians who left the country are female, 73 per cent of whom had been employed at the time of leaving.⁷ That amounts to 2.8 million working women moving out of Ukraine's labour market. The remaining loss of 700,000 employment positions (out of the total 3.5 million that have been eliminated) are most likely accounted for by men serving in the army. Judging by data on collected social security contributions, it seems that most of the reduction in work positions has come from the private sector. At the same time, total contributions remained broadly at the pre-war level, helped by the increased fiscal expenses on defence personnel.⁸

³ [Ukraine | Situation Reports \(unocha.org\)](https://www.unocha.org/ukraine/situation-reports) – 19th December 2022.

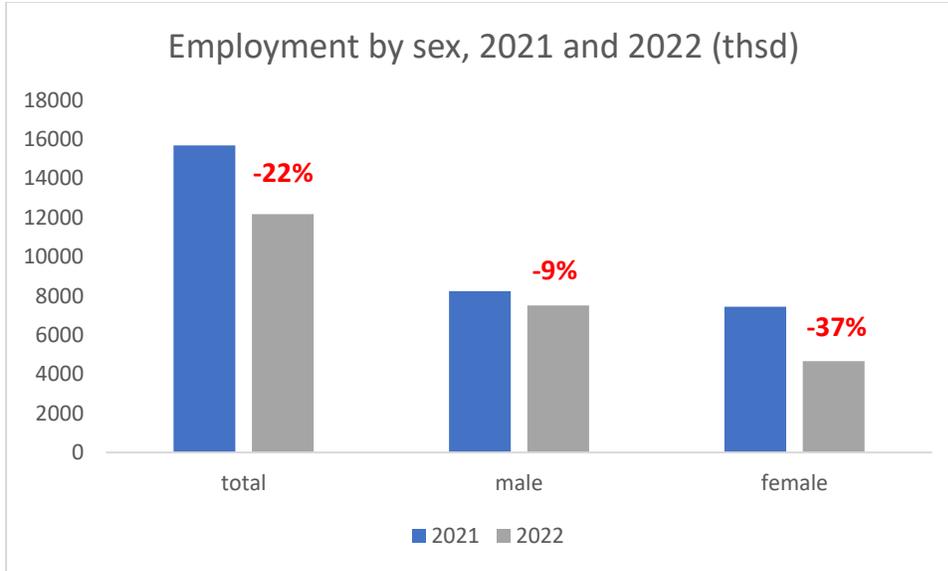
⁴ This estimate does not include those in military service or those who are hospitalised or lost their lives as a result of the conflict.

⁵ EBRD Regional Economic Prospects, February 2023.

⁶ NBU Financial Stability Report for H2 2022.

⁷ [UNHCR Regional Protection Profiling & Monitoring Factsheet](https://www.unhcr.org/ukraine/regional-protection-profiling-monitoring-factsheet), December 2022.

⁸ NBU, [Inflation Report, January 2023 \(bank.gov.ua\)](https://bank.gov.ua/en/press-releases/inflation-report-january-2023).



Source: Ukrstat, UNHCR and authors' calculations.

Many of those who have emigrated or been internally displaced are finding life very difficult in the host countries. A survey by the International Organization for Migration (IOM) indicates that only 21 per cent of female refugees in Poland are employed, while a further 30 per cent are looking for employment locally.⁹ This is despite the widespread support in Poland for providing support and employment for refugees from Ukraine. In other host countries, employment rates for Ukrainian refugees are likely even lower. As a result, many are facing financial hardship. For those who remain within Ukraine, a recent survey of IDPs shows that 56 per cent have already fully spent their savings, and 67 per cent say they need financial support.¹⁰ In response, the Ukrainian government has stepped in to mitigate the burden by increasing social spending by one quarter compared with the pre-war budget and by promoting active labour market policies.

One in three Ukrainian citizens currently in the country need emergency shelter and essential household items, according to research from UNOCHA.¹¹ That is especially the case with IDPs who are mostly members of vulnerable groups – children, the elderly and people with disabilities. Many health and educational facilities have been damaged or destroyed. Moreover, almost half of the population in the country need health assistance, at a time when the health system is overwhelmed by war-related injuries and casualties. Such a situation may have longer-term negative health implications for many people with chronic diseases as well as those with acute illnesses that require early medical intervention. Similarly, prolonged disruptions to children's and young people's education will lead to learning delays that may affect their later lives and careers.

⁹ IOM, Ukraine Response 2022 Poland, Refugees needs assessment, 28th December 2022. [PowerPoint Presentation \(iom.int\)](#).

¹⁰ IOM, [Ukraine — Internal Displacement Report — General Population Survey Round 11 \(25 November - 5 December 2022\) | Displacement \(iom.int\)](#).

¹¹ [Ukraine | Situation Reports \(unocha.org\)](#) – 19th December 2022.

EBRD response

The devastating impact of the war on people's livelihoods and human capital has triggered immediate international support to people, enterprises and communities affected by the war. Given the current scale of suffering and human capital displacement in Ukraine, the EBRD's immediate operational response has encompassed a dedicated focus on human capital resilience and maintenance of livelihoods.

EBRD engagements on this front have focused on three main areas:

- (1) *Opportunities*: Broadening people's economic opportunities through emergency liquidity support for employers to maintain and restore productive roles for individuals to fulfil;
- (2) *Competencies*: Strengthening people's skills and work-related capabilities by supporting businesses to engage, train and fully integrate the human resources required for their operations;
- (3) *Enablers*: Restoring the services, infrastructure and public goods that complement and fundamentally underpin people's economic activity – including housing, education, health care, child care, transport, utilities and a variety of other vital services and goods – without which individuals cannot fulfil a productive role.

The EBRD's investments, policy engagements and advisory activities in Ukraine are currently oriented towards the immediate crisis response, while also preparing for Ukraine's eventual reconstruction and economic recovery. To give some examples: the Bank provided €1.7 billion directly to Ukraine in 2022 of predominantly working capital and liquidity support to companies, helping to maintain vital food supplies and employment. The Bank's Trade Facilitation Programme has been ramped up, enabling imports of essential goods into Ukraine and helping many enterprises to continue their production cycles. The Bank is also supporting relocation to safer areas of the country as well as to neighbouring countries. Thanks to EBRD-brokered donor support, some relocating SMEs are receiving reimbursement of relocation expenses, financial assistance and advisory services.

The EBRD is also collaborating with bilateral donors to help major state-owned enterprises (SOEs) navigate wartime operational and policy challenges in order to deliver public services for citizens. The focus so far has been on the energy, transport, postal services, heating and water sectors. Amid the heavy destruction of civilian infrastructure, maintaining the bare minimum of utilities is vital for people remaining in the country and for preserving private sector jobs.

The war has led to a significant drop in stock of skills, because workers have been displaced or incapacitated and the development of new skills has been postponed. The EBRD has therefore engaged with the Ministry of Education and Science of Ukraine to enhance planning and delivery of vocational education and training programmes on a national scale. This partnership is generating an up-to-date assessment of skill needs across a range of business sectors to help channel spending on training and improve skills matching in line with labour market needs. Successful implementation will also set a solid foundation for Ukraine's reconstruction and economic recovery phase, as soon as the conditions allow.

The Bank's involvement in Ukraine extends to neighbouring countries too, where it supports relocated SMEs and works with larger companies to facilitate the broadening of employment opportunities for working-age refugees – notably in Poland, Croatia, Lithuania, Romania and Moldova. Favourable conditions within these countries' labour markets have helped these efforts

and, when combined with appropriate targeting and training, have opened up new opportunities across a range of economic sectors.

Looking ahead

From a longer-term perspective, there is a need for a holistic approach to Ukraine's economic restructuring. Reconstruction of vital infrastructure, services and public goods must go hand-in-hand with restoration of human capital, as the latter will be essential for businesses to resume production and return to growth. But there will be major challenges: how to encourage people to return from abroad and resettle in Ukraine; how to rehabilitate war veterans into civilian life and foster their integration into the labour market; how to train and fully integrate the vast number of people injured or disabled; and how to ensure the broadest possible access to employment and training opportunities.

Social and education policies will also have to cope with an increased number of single-parent families. Residential planning, policies and investment will need to address the enormous damage and destruction of the housing stock. Particular attention will need to go to infrastructure, services and public goods that directly support human capital development and rehabilitation, including education, health, housing and care provision. In addition, enhancing the government's capacity on vocational education and training reform will facilitate more robust and modern learning and education systems to align with employers' most pressing and emerging needs. Specific focus must be given to enhancing the digital transition and accompanying skills while, in particular, securing strong economic participation of women and other under-represented groups.

The EBRD's close engagement on this topic, aligned with broader international support, will continue to play a crucial role, highlighting the need for strong coordination with other IFIs and bilateral donors under the ongoing emergency response and throughout the upcoming reconstruction and economic recovery phase. Traditionally, the EBRD has a strong expertise in improving transport, energy and other utilities infrastructure, which are among the basic pre-requisites for return of refugees and support to the private sector. The EBRD's experience in financing construction of private housing, in supporting private health care companies and in financing education providers could be complementary to, and conducted in close coordination with, policy makers and international partner institutions.