



# ECONOMICS of BETTER CARE

# Concise Overview

Most recent economics literature focuses on the impact of social welfare on human capital. The World Bank defines human capital as the “knowledge, skills, and health that people invest in and accumulate throughout their lives to realize their potential as productive members of society.” Children’s accumulation of human capital largely depends on genetic, environmental, and service access/quality variables.

The *Better Care Initiative* is focused on creating a protective environment — within safe, nurturing, and supported families — that evidence shows supports a child’s physical, cognitive, emotional, linguistic, and socio-behavioral development. In contrast, a *Lancet* global [meta-analysis](#) showed children in residential care had IQs 20 points lower than their peers and significant deficits in height, weight, and head circumference. Compound child protection associated adversities in any environment have been [shown](#) to have negative effects on:



## Epigenetics:

DNA methylation, IGF-2 antisense, vasopressin affecting physiological development;



## Neurodevelopment:

Changes in cortical volume, tract connectivity, and neurotransmitters; and



## Changed response systems:

Disfunctions in stress and immune regulatory systems;



## Behavior embedding:

Changes in biology based on toxic stress, substance abuse, diet, etc.

These challenges are particularly acute in Ukraine, where an estimated 7.5 million children face or are at high risk of ongoing violence, displacement, loss or disability of a parent or caregiver, absence of a parent (especially fathers) due to military deployment, along with numerous additional risks and vulnerabilities. A recent assessment reported that 4 of 5 children studied identified family separation as their greatest risk (World Vision, 2023). **However, from the fiscal perspective, resource allocation under Ukraine’s public budget is heavily skewed towards cash-based social protection interventions (roughly 14 percent of the 2024 budget)** that are critical alleviators of stressors on families but do not directly address the adversities present in children’s environments. Ukraine’s **fiscal decentralization in 2014 devolved responsibilities for non-cash social services to local authorities** that were poorly equipped or resourced to provide those services. Decentralization makes scaling necessary interventions in Ukraine difficult, so the Government is currently reviewing a new centralized purchasing model as a way to fund local service delivery.

Children who face multiple adversities are at an increased risk of disease, as well as behavioral and psychosocial issues. Evidence further shows higher lifelong risk of cardiac disease, cancer,

diabetes, suicidal ideation, hepatitis, and other health issues, all contributing to lower life expectancy. Childhood adversity also has a strong impact on school participation and classroom performance. Multi-variate risk scenarios require a combination of economic and social supports for children and families grounded in holistic and individualized case planning delivered by a robust social service workforce. **Ukraine is in a current supply-demand crisis with a population to social worker ratio of roughly 11,500 to 1, compounded by severe supply shortages in essential public services.**

In short, investments in the health and education sector that aim to strengthen human capital are not Pareto-efficient in Ukraine. Significant underspending in social welfare — especially child protection and family strengthening — makes it impossible to approach **optimal human capital outcomes. This represents a form of market failure where this inefficient allocation of public goods has a non-marginal impact on the social determinants of health and education**, particularly in contexts like Ukraine's current humanitarian emergency. Market failure has been partially addressed through short-term humanitarian interventions. However, these interventions are not sustainable and do not address Ukraine's need to develop a child- and family-centered social welfare system that aligns with EU accession requirements (as outlined in the November [DG NEAR report on EU expansion and Ukraine](#) and the June 2022 Opinion on Ukraine's application for membership of the EU).

Ukraine's score on the World Bank's Human Development Index in 2020 was 0.6, which means **that a Ukrainian child in that year had only 60% of the human capital needed to be fully productive as an adult**. While data are not available, the massive displacement of Ukraine's 7.5 million children and their exposure to multiple adversities have undoubtedly led to a sharp deterioration in Ukraine's score.

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Investment in Ukraine's *Better Care Initiative*'s integrated package of services and benefits will result in:

- > **Labor market:** Increased participation of caregivers (especially women) in the labor market through (i) provision of day care and other services that make it possible to work; and (ii) creation of training and employment opportunities in these service areas. Depending on the type of service provided, 1,000 social service workers could serve 15,000–25,000 children, impacting a very large number of vulnerable families (as most Ukrainian families have only 1–2 children).
- > **Productivity gains:** Global evidence shows that the types of services the *Better Care Initiative* is providing will increase participation in school. While the World Bank has estimated globally that every 1 year of education will boost lifetime earnings by 8 percent annually, earnings are also driven by a child's classroom performance. The *Better Care Initiative* will be modeling internal rates of returns from service investments (see below). Note that increased labor market participation and higher productivity will boost domestic revenues through higher tax receipts. They will also boost demand for goods and services in the broader economy.

- > **Health status gains:** By addressing the above [social determinants of health](#) directly, the initiative will improve health status, which will (i) reduce demand for health services and generate related savings; (ii) reduce health-related obstacles to labor force participation; and (iii) increase life-expectancy, which yields economic returns that can be analyzed through an assessment of the long-term impact on Disability-Adjusted Life Years.
- > **Efficiency of public expenditure and value for money:** Institutions are both harmful to children and highly expensive to run due to the 24/7 staffing model, the costs of maintaining infrastructure and equipment, and high recurrent costs. In 2023, Moldova —which shares a Soviet institutional legacy with Ukraine — found that it could serve 14 children through community-based services for every 1 child in an institution. Although the analysis in Ukraine may show a different ratio, it will almost certainly be more efficient and equitable in terms of spending and desired outcomes for children and families.
- > **Social cohesion and reduction in social problems:** The integrated package supports services that will address drivers that could lead children to come into contact with the law, to engage in substance abuse, and to commit violence against others. This will reduce the direct costs associated with socially problematic behaviors (such as crime) and decrease costs to the justice and interior sectors.
- > **Reduction in humanitarian spending:** The Better Care Initiative aims to develop new public goods (services and functions) that will gradually replace the need for external humanitarian interventions, such as psycho-social support, case management, and childcare. This aligns with the Perekhid initiative's goal of enhancing the government's ability to assume these responsibilities.
- > **Improved inter-governmental fiscal relations to achieve “cash plus care” goals:** UNICEF's child protection and social policy sections are collaborating on developing a unified approach to cash benefits and allowances (centrally financed) and non-cash services (locally financed), and UNICEF will be providing the Government with technical support on the above-referenced new centralized procurement mechanism for social services.

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To sum up, the redistribution of public spending toward an integrated social service package will come at a cost, but it is a price worth paying to promote an equitable and holistic policy response to the complex needs of Ukraine's children and families (including intersectoral engagement on Ukraine's health and education, as well as Better Care's "cash plus care" policies and interventions). The above-referenced market failure in Ukraine justifies Government intervention to ensure Ukraine's policies are well-framed and better resourced. As shown above, the investments in the initiative should leverage Ukraine's broader social policy goals, which should in turn inform and frame budget allocation decisions. UNICEF will be supporting a full investment case in 2024 to better elaborate the fiscal and economic impact of the *Better Care Initiative*, drawing on the high-level factors outlined above.



**for every child,**

Whoever she is.

Wherever he lives.

Every child deserves a childhood.

A future.

A fair chance.

That's why UNICEF is there.

For each and every child.

Working day in and day out.

In more than 190 countries and territories.

Reaching the hardest to reach.

The furthest from help.

The most excluded.

It's why we stay to the end.

And never give up.