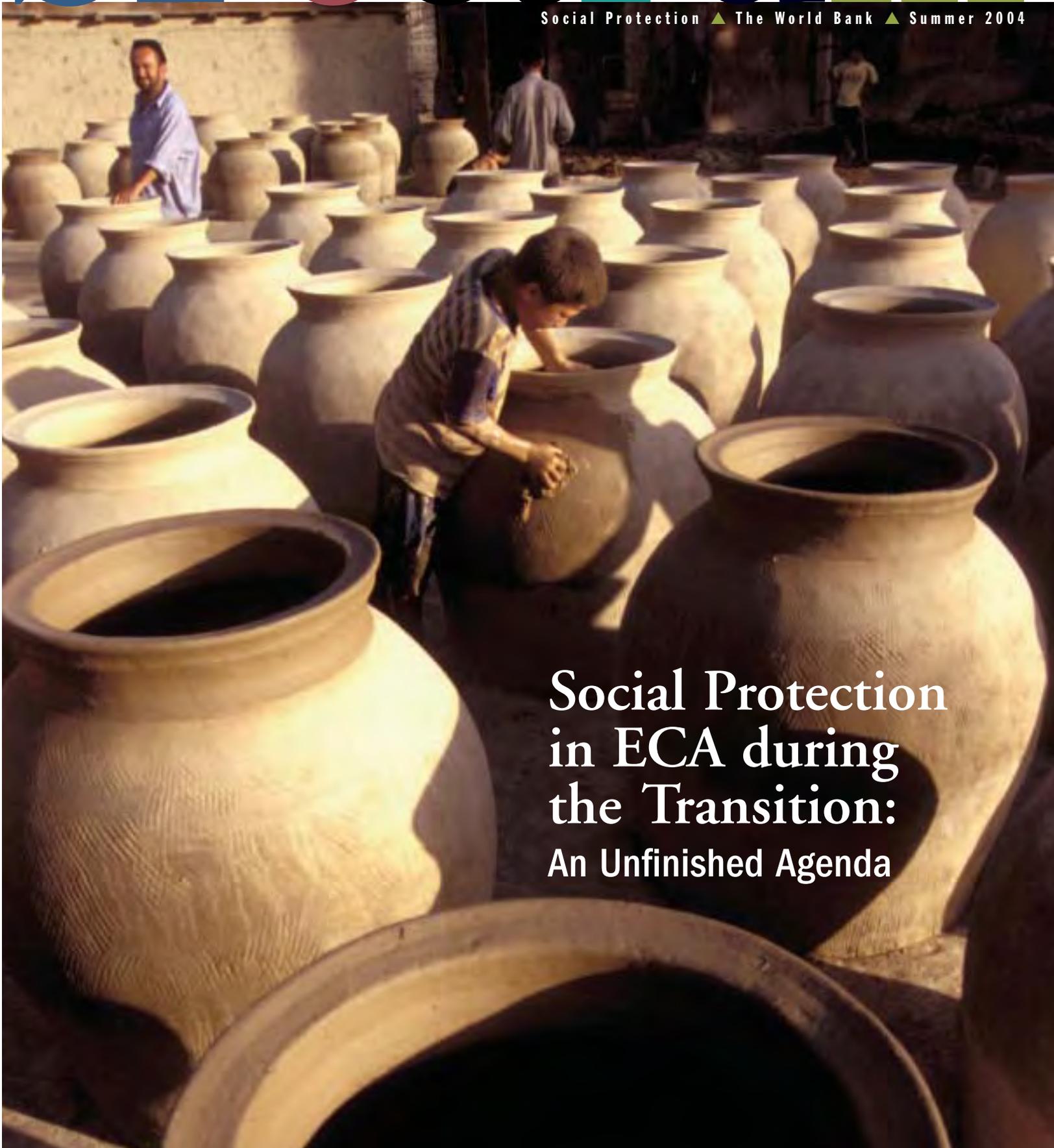


SPepectrum

Social Protection ▲ The World Bank ▲ Summer 2004



**Social Protection
in ECA during
the Transition:
An Unfinished Agenda**

Social Protection is a collection of measures

to **improve** or protect

human capital, ranging from labor market

interventions and publicly mandated

unemployment or old-age insurance to

targeted income support. Social Protection

interventions **assist**

individual, households, and communities

to better **manage**

the risks that leave people vulnerable.

◀ Cover Photo: Anvar Ilyasov

**“Tandir” ovens made from clay and grass drying
in the sun in a local workshop
established by a number of master craftsmen
in Uzbekistan.**

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Lead Editor: Jeanine Braithwaite with guidance
from Hermann von Gersdorff, Michał Rutkowski,
and Sándor Sipos. Edited by Diane Stamm.

Welcome

Welcome to the SPectrum on Europe and Central Asia (ECA) countries. This issue is the second in a series that focuses on regions of the world where the World Bank is active in social protection, including labor markets, pensions, social assistance, disability, and child welfare. Our goal is to explore key social protection issues in ECA, and describe recent Bank work and other developments in the Region.

This issue takes us to a World Bank region that comprises 28 countries, of which 27 are transition countries, and which also includes Turkey. These countries are grappling with a unique set of issues brought on by their transition from state planning to market economies, and social transformations leading to democracy and new public institutions with new mandates for the market-oriented democratic societies. This issue also provides an overview of how social protection has evolved in this diverse and challenging region, which includes both postconflict countries and some middle- and higher-middle income countries. New developments for the Region are pension reform, conditional cash transfers, and multisectoral or programmatic reform programs in which social protection is key. This issue also highlights lessons learned from the first 10 years of transition, the changing agenda as some issues are resolved while others come to the fore, and focuses on the challenge of finding regionally appropriate ways of helping people, as individuals, as household members, and in communities, to better manage risks.

We believe that social protection has a strategic role in reducing poverty and improving human development in the Region, and in underpinning efforts of the ECA countries to reach the Millennium Development Goals (MDGs). Social safety nets are critical for addressing the needs of vulnerable populations, social insurance is key for mitigating risk, and the Region faces the major challenge of moving from “safety net to trampoline” by developing social risk management efforts that will enable poor people to move out of poverty. This multisectoral approach is important to integrate health, education, finance, infrastructure, and transportation for such crosscutting issues as persons with disabilities or vulnerable children. Uniting efforts across all sectors is important to the struggle to substantially reduce extreme poverty and hunger, to achieve education for all, to improve health outcomes, and to achieve the other MDGs adopted by the international community in 2000.

Eight of the countries in the Region recently joined the European Union (EU) through the accession process, and several others are actively preparing their accession. The eight accession countries will benefit from EU membership, but the EU will also be enriched through its new members because they have a unique experience in recent reform of their social protection systems that can bring new lessons for the previously established EU members. Some of the challenges in social protection reform faced by the accession countries are quite acute in the other EU countries as well, such as the aging of the population and needed pension reform, and the difficulty of mobilizing youth employment.

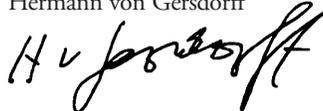
We are proud to showcase our Region, which has a unique legacy of social protection institutions and challenges stemming from transition. We hope that the focus on the ECA region will provide valuable insights to readers interested not only in transition, but in the challenges faced in all countries in building a just and equitable society for all, with special protection afforded to the most vulnerable.

Robert Holzmann



Director, Social Protection
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Social Protection in ECA during the Transition: An Unfinished Agenda

Michał Rutkowski

The transition from planned to market economies in the countries of Europe and Central Asia (ECA) has created unprecedented challenges as cradle-to-grave social security has disappeared and income differentials have rapidly increased. Even though many people in the region have benefited from the reforms and will continue to do so in the longer term, average living standards have declined, and poverty and unemployment have increased. Many individuals and families have for the first time in their lives had to deal with income uncertainty and other social and economic risks on their own. Countries have approached the breakdown of the old social protection system in different ways. Some have attempted wholesale reform, while others have tried to adapt the old systems to emerging welfare needs and fiscal realities.

The World Bank's Social Protection Strategy

Since the World Bank became involved in social protection in the ECA transition economies after the end of the Cold War, the Bank's social protection lending has grown tremendously, totaling more than \$1.4 billion globally in fiscal year 2003, up from little more than \$100 million in 1991. After more than a decade of experience in the region, it is clear that the main challenge for all the transition economies—both those about to join the European Union and those still struggling with structural reform—will be to strike the right balance between promoting growth and providing protection. To meet this challenge, all countries must strive to develop competitive but fair labor markets; foster affordable pension systems for everybody; consolidate untargeted social assistance benefits; improve social programs aimed at the most vulnerable, such as the Roma (previously called gypsies), street children, and the disabled; and strengthen community-based interventions.

In 2001, the Bank's newly proposed social protection strategy, while sensitive to each country's context, suggested that ECA countries could be broadly characterized into one of two groups—European, comprised of all the European Union accession transition economies, and South-East European countries; and Eurasian, comprised of members of the Commonwealth of Independent States. Countries such as the Russian Federation, Ukraine, Belarus, and Turkey, and to a lesser extent, Kazakhstan and Albania, are now somewhere in between the two groups. But the distinction between the categories still holds—namely that relative to Eurasian economies, European economies have restructured more quickly and more aggressively. All countries in the region share the need for further reform, and still have a long way to go.

In the European transition economies the World Bank's analysis stresses labor markets, pensions and unemployment insurance systems, and social services, including social care. Labor markets in these countries need to become more flexible, and collective bar-



Photo: Anatoliiy Rakhimbayev

gaining should be decentralized. Pension and unemployment insurance should be made affordable for all. Pension benefits should be linked to contributions through an expansion of defined contributions systems, both in their financial and non-financial (that is, notional, or unfunded) form. Poverty should be addressed through minimum pensions and means-tested social assistance. Social policy should also speed up deinstitutionalization and the development of social welfare and community-based services. Special programs for vulnerable groups should be developed.

In Eurasian countries, the strategy focuses on promoting restructuring, institutional development, and poverty reduction. Macroeconomic stability and high-quality fiscal adjustment should be pursued before attempting fundamental labor market reforms. Until financial and administrative conditions improve, Eurasian countries should consider flat benefits for pensions and unemployment, or at least benefits that ensure a minimum standard. The limited ability of local governments to collect taxes, and the existence of large informal economies, mean that risk-mitigation and social insurance interventions are difficult to implement in this region. One of the big challenges is to gain a better understanding of how informal safety nets actually function before developing new formal systems. In the meantime, social investments funds and community works programs can help provide temporary employment.

Future Efforts

The World Bank's Social Protection Unit in ECA will continue to focus heavily on the countries' pension systems, because they invariably constitute the largest public transfer program, with immense fiscal and poverty implications. It is also necessary to place greater emphasis on social assistance and labor relations, because they both play a key role in the fight against poverty, and their reforms were neglected during the early years of the transition. Development of innovative approaches will be a priority, as will newer concerns such as postconflict support and ethnic violence, which must be addressed. In the area of social services, deinstitutionalizing the care of children and strengthening community-based services merit further intensive work, along with considering new means of support for the Roma and disabled populations.

Conclusion

It is crucial to foster ownership and support for the policies within countries. Stakeholders must be deeply engaged in the policy reforms, and public information campaigns should be used to increase understanding of the difficult choices facing countries. The difficulty of moving from

cultural dependence on state provision of security toward more individual risk-bearing arrangements requires that the public be educated about market reforms.

Policymakers should also be educated on the implications of tradeoffs among policies of generous protection, fiscal costs, growth, and work incentives. This is a continuous process because there are powerful forces in place wanting to retain the old security arrangements, despite the unaffordable costs they entail.

The articles in this issue of *Spectrum* explore in more detail a range of current social protection issues in the region, from pension reform to the applicability of conditional cash transfers and interventions for special vulnerable populations. Collectively, they illustrate the belief of our staff and clients that it will be possible to meet the challenges in ECA countries and create not only adequate social protection, but exciting new growth opportunities as well. ▲





Poverty and Millennium Development Goals

Philip Goldman and Alan Wright

There is an increasing awareness that the lack of material resources reflects just one dimension of poverty. Being poor goes well beyond a narrow lack of material consumption; it encompasses poor health outcomes, low achievement in education, and a sense of vulnerability to external events, as well.

This multidimensional nature of poverty is recognized by the Millennium Development Goals (MDGs), which in broad terms, aim to cut by half the proportion of people in extreme poverty worldwide by 2015, provide education, improve health, and preserve the environment. These eight goals (see Box 1), which were endorsed by 189 countries at the September 2000 UN Millennium General Assembly in New York, represent a global consensus on development goals, and promote poverty reduction and human development as the key to sustaining social and economic progress in all countries. While only the first MDG refers directly to poverty, each of them addresses an aspect of poverty that is important in its own right and which interacts and mutually reinforces the other aspects of poverty.

In the Europe and Central Asia (ECA) region, at the beginning of the 1990s, social indicators appeared better in most transition countries than other countries with similar income levels. The severe economic downturn in the region left a legacy of a huge social infrastructure (for example, schools and hospitals), which many countries could no longer afford. In many cases, rural areas have been hit particularly hard. The stress of this transition resulted in reversals in many social indicators. Income poverty levels rose significantly in many countries in the region, especially during the early phase of the transition. Now that positive growth levels have emerged in nearly all ECA countries, some countries such as Russia and the Kyrgyz Republic are experiencing reduced poverty levels. It is not yet clear whether there has been comparable improvement in the progress toward meeting the MDGs, and because there has been serious deterioration in the

quality and access to social services in many countries, the focus on human development outcomes appears to remain a significant priority. Even where income poverty has been reduced, the gains have not been equally distributed, and significant poverty issues still remain. For example, in Armenia, while poverty incidence for 1998/99 was 53.7 percent nationally, it ranged from 36.7 percent in the Armavir Marz (region) to 77.3 percent in the Shirak Marz.

MDG Challenges

Using the MDGs as an analytical framework reinforces the commonly held view about the poor state of some of the countries in the region. For example, Tajikistan is unlikely to meet any of the MDG human development targets by 2015. Moldova and Uzbekistan are likely to meet only one of the MDG targets. When assessed by country population, however, a large percentage of ECA's residents are in countries where MDG achievement is unlikely or unrealistic (see Table 1).

The MDGs present a number of particular challenges for transition countries:

- Data are often not available or of adequate reliability to track the MDGs from the 1990 baseline year, or even for subsequent years.
- For some middle-income transition countries, the global MDG targets, if mechanically applied, would require that they improve their social indicators ahead of a developed country standard. Further, the region's rapid socioeconomic decline began roughly at the same time as the 1990 MDG baseline date, and some indicators that are improving today are still "catching up" with 1990 levels. The types of measures used are also important: in transition countries, measuring poverty at both \$1 and \$2.15 per capita per day yields a more accurate poverty profile than just a single \$1 measure.¹

Box 1. The Millennium Development Goals

Goal 1. Eradicate Extreme Poverty and Hunger

Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

Target 2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2. Achieve Universal Primary Education

Target 3. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3. Promote Gender Equality and Empower Women

Target 4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.

Goal 4. Reduce Child Mortality

Target 5. Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate.

Goal 5. Improve Maternal Health

Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6. Combat HIV/AIDS, Malaria, and other Diseases

Target 7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS.

Target 8. Have halted by 2015 and begun to reverse the spread of malaria and other diseases.

Goal 7. Ensure Environmental Sustainability

Target 9. Integrate the principles of sustainable development into country policies and programs and reverse the losses of environmental resources.

Target 10. Halve by 2015 the proportion of people without sustainable access to safe drinking water.

Target 11. By 2020 to have achieved a significant improvement in the lives of at least 100 million slumdweller.

Goal 8. Develop a Global Partnership for Development

Target 12. Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.

Target 13. Address the special needs of the least-developed countries.

Target 14. Address the special needs of landlocked countries and small island developing States.

Target 15. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

Target 16. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.

Target 17. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.

Target 18. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

■ Similarly, while the prevalence of indicators such as HIV/AIDS in the region is low, the infection rates are extremely high, and present a development challenge that is not immediately captured by the global MDG indicator. Other indicators, such as the one related to malaria, are not of central importance to the region.

■ For countries such as Russia, an intensive focus on child mortality may have less of an impact on life expectancy than a health strategy that also addresses high adult mortality levels.

For transition economies, it may be advisable to mitigate social and economic risks through a country-specific

“MDG-plus” agenda, which uses the MDGs as a foundation for a strategy that may go beyond the global goals. Such strategies might include goals to:

- Reduce the number of children at risk (orphans, disabled)
- Improve the living conditions for vulnerable groups, such as Roma
- Increase labor force participation
- Reduce hunger or malnutrition of children through stronger safety nets

Table 1. Progress of ECA Economies Toward Meeting MDGs, by Economy and Percent of Population*

MDG	Likelihood of Meeting MDG Goals by Selected ECA Economies (%)				
	Likely	Maybe	Unlikely	Unrealistic Target	No Data
1. Malnutrition	10	0	30	0	60
2. School Completion	15	50	30	0	5
3. Equality in School	45	20	20	0	15
4. Child Mortality	20	10	35	30	5
5. Maternal Mortality	10	0	35	55	0
6. HIV/AIDS	5	15	70	0	10
7. Water Access	15	45	5	0	35
Likelihood of Meeting MDG Goals (by % of total ECA population)					
1. Malnutrition	3	0	52	0	45
2. School Completion	9	77	13	0	1
3. Equality in School	25	40	19	0	16
4. Child Mortality	25	8	45	20	1
5. Maternal Mortality	7	0	61	32	0
6. HIV/AIDS	1	5	93	0	1
7. Water Access	8	77	6	0	9

*Only the following 20 ECA economies were included in this analysis: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Romania, Russian Federation, Serbia and Montenegro, Tajikistan, Turkey, Ukraine, and Uzbekistan.

- Ensure that the elderly have adequate means through sustainable and well-administered social insurance programs.

The World Bank's Role

The Bank is working closely with a number of transition countries to strengthen their ability to develop, monitor, and evaluate policy, including MDG monitoring. As part of our development dialogue with our clients and partners (such as the United Nations Development Programme), we are also attempting to address the policy challenges that are particular to the region, so that maximum progress can be made to reduce poverty, strengthen human capital, and improve overall living standards.

Within the Bank, there has been an increasing awareness of the importance of the MDGs and the need for them to be reflected in various Bank instruments and analyses. In the poorest (International Development Association-eligible) countries, poverty reduction strategy papers (PRSPs) are providing an important analytical framework for establishing country-owned socioeconomic development programs that are informed by the MDGs. Poverty Reduction

Support Credits are also being prepared and implemented (for example, in Albania) to support our clients' ability to develop, implement, monitor, and evaluate their PRSP programs. Further, as part of its economic and sector work program, Bank staff from the human development and poverty and economic management sectors regularly prepare poverty assessments for our clients. While these typically cover an assessment of the poverty situation, analysis of the impact on poverty of growth and public actions, and appraisal of poverty-monitoring and evaluation systems, the MDGs are also providing a useful framework for looking at the non-income dimensions of poverty. ▲

Endnotes

1 The \$2.15 standard is roughly based on both the lowest absolute poverty lines in ECA, and a nationally determined minimum food basket plus an allowance for non-food expenditures. (See "Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia," World Bank, Washington, D.C., 2000, pp. 370–371).



Pension Reforms: Security through Diversity

Hermann von Gersdorff and Michał Rutkowski

One of the main social and economic features of the transition in Central and Eastern Europe and the New Independent States has been the crisis in pension systems. The crisis is most acute in Central and Eastern Europe, where the demographic transition has proceeded more rapidly, and the burden of old age pensions weighs more heavily on the working-age population (see Figure 1). Despite recent declines in health indicators, the average postretirement life span in most Central and Eastern European countries still exceeds that in most Organisation for Economic Co-operation and Development countries. In other words, the states of Central and Eastern Europe and the New Independent States, with much lower incomes and tax collection capabilities, have promised higher benefits (in relation to their resources) than some of the richest countries in the world, many of which are now finding their generous welfare systems unaffordable.

In most of the Europe and Central Asia countries (ECA), pensions as a share of gross domestic product (GDP) increased in the initial years of the transition. Today in Eastern Europe, pension expenditures are frequently the largest item in the government budget, reaching about 15 percent of GDP in Poland and Slovenia, and 10 percent in Bulgaria, Hungary, Latvia, and Slovakia. From an economic perspective, high and often growing pension expenditures have burdened stabilization efforts and crowded out other needed government expenditures, such as new social and economic infrastructure. Countries increased payroll tax rates dramatically to finance these expenditures—up to 40 to 60 percent of employees' gross wages. The payroll tax financing of pension expenditures has led to an increased share of the labor force working in the informal economy, and to lower demand for labor, leaving the burden of paying for pension benefits on those left in the public sector, who cannot evade taxes.

For Central and Eastern Europe and the New Independent States, this means scaling back the public pension system while building up new funded, privately managed pension schemes to take the pressure off the pay-

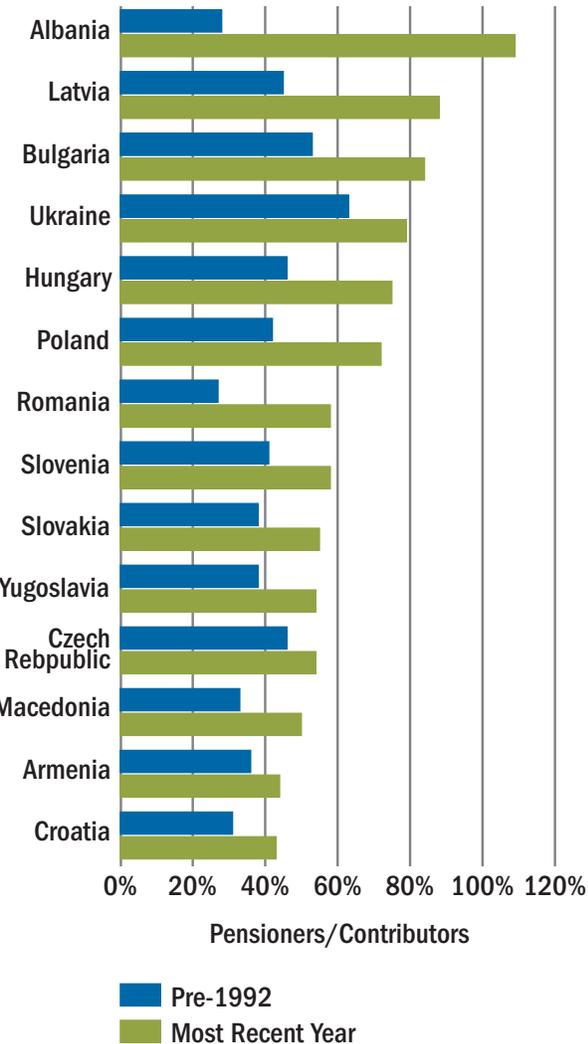
as-you-go pension system. Several countries raised retirement ages, sometimes in a very radical fashion. For example, Georgia raised the retirement age by five years for men and women overnight. Indexation rules shifted from wage to a combination of wage and price indexation. Some countries introduced legislation to reduce future expenditures by making changes in the benefit formula and increasing the number of years of wages included in the calculation of pension benefits. Furthermore, some of the countries embarked on an expansion of voluntary private pension alternatives, typically with favorable tax treatment or matching subsidies. For example, the Czech Republic allows some individuals to save more for old age than can be provided in the public pension schemes, and to diversify into other types of investment. A conscious attempt was made to link contributions much more closely to benefits, and to avoid transfers from one group of participants to another. It is hoped that such changes will provide better labor market incentives. At the same time, these changes will put the pension schemes on a sounder long-term footing.

The Shift to Multipillar Schemes

An extension of these arguments led to movements toward multipillar schemes in several countries. These reforms shift a portion of the mandatory contribution to the pension system to private institutions that have established individual defined contribution accounts for each eligible worker. In most reforming countries the introduction of funded defined contribution accounts, as opposed to defined benefit systems,¹ was extended to the public system. In the public pension system, through the introduction of “notional defined contribution” individual accounts, a close link is established between contributions made and the total amount accumulated, and the benefits to be collected. The eventual pension is made up of a downsized public pension scheme plus a benefit purchased with accumulated funds from the so-called second pillar.

This movement follows from several policy conclusions: individual accounts embody desirable incentives both to

Figure 1. Evolution of Retirees to Workers in Pension Systems



work in the formal sector and to comply with social security contributions; under the right fiscal conditions, funding can increase a nation’s savings and investment; and funded accounts can accelerate development of capital market institutions and increased efficiency in capital allocation. The returns on labor and capital differ over time, and a multipillar system thus enables individuals to diversify the risks of the sources of their retirement income.

Introduction of a multipillar pension system with a mandatory funded component carries with it complex challenges, including conditions in terms of financial market development and in administrative and supervisory capacities. In addition, countries must have a fiscally feasible strategy to deal with the financing requirements of the

transition to the new pension system. The transition typically will impose some initial welfare losses that some countries are not prepared to assume because of limits on how much of a shift to funding can be debt financed to match those losses over time to economic gains.

The trend we see, of a willing embrace of these reforms in Central and Eastern Europe and the New Independent States, may well be explained by the countries’ need to reap the benefits of a funded pillar relatively quickly to increase savings and growth, and because after a profound ideological crisis they are willing to emphasize personal accountability and private savings.

Table 1 shows what selected countries have done to introduce a multipillar pension system. Other countries not mentioned in the table are in the final stages of the design of similar reforms.

Conclusion

Pension reform has proved to be an ongoing process for all of the reforming countries, but it must be followed by additional reforms. Next steps in the reform process include development of annuity markets, portability issues with the European Union, links to capital market regulation, governance issues both in the pension funds and in the companies where these funds are invested, and issues of minimum pension guarantees. The World Bank has played a role in most of the reforming countries, not so much in terms of the amount of the financing provided, but with technical evaluation of reform options. During the next stages the importance of the Bank’s technical support will be even greater because the countries are stepping into areas where they have little experience. ▲

Endnotes

1 In defined contribution systems (DC) the pension benefit is the result of the contributions made, and in defined benefit pension systems (DB) the benefit is defined in advance and the contribution rate is the result of the level of benefits chosen.

Table 1. Transition Economies with or Moving to a Multipillar Pension System

	Starting Date	First Pillar	Size of the Second Pillar as Share of Payroll	Projected Pension Fund Assets in 2020 (%GDP)	Workforce in Funded Pillar (2002)	Switching Strategy
Hungary Operating	January 1998	PAYG DB	6%	31%	45%	Mandatory new entrants Voluntary others
Kazakhstan Operating	January 1998	Guaranteed Minimum	10%	30%	100%	Mandatory
Poland Operating	January 1999	NDC*	7.2%	33%	70%	Mandatory <30, Voluntary 30–50
Latvia Operating	July 2001 (NDC January 1996)	NDC	2% growing to 9%	20%	72%	Mandatory <30, Voluntary 30–50
Croatia Operating	January 2002	PAYG DB	5%	25%–30%	60–70%	Mandatory <40, Voluntary 40–50
Bulgaria Operating	January 2002	PAYG DB	2% growing to 5%			Mandatory <42
Slovakia Legislated	January 2005	PAYG DB	9%			Mandatory New entrants
Estonia Operating	July 2002	PAYG DB	6%	20%	60%	Voluntary (opt-out +2%)
Lithuania Operating	January 2004	PAYG DB	2.5%			Voluntary
Romania Partially legislated then questioned	January 2003	PAYG DB	8%	30%		Mandatory >20 years from retirement
Macedonia Legislated	January 2005	PAYG DB	7%	26%		Mandatory New entrants
Russia Partially legislated and operating	January 2002	NDC	2% (<35) to 6% (36–50)			Mandatory <50
Ukraine Partially legislated	January 2003	PAYG DB	2% growing to 7%			Mandatory new entrants
Kosovo Partially legislated and operating	January 2002	Minimum	10%			Mandatory

* NDC = Notional defined contribution; a system that has the same features as a defined contribution system (DC), but is not funded.



Labor Market Interventions during the Transition in ECA

Jan Rutkowski

There are two broad types of labor market policies: policies meant to improve the functioning of the labor market, and policies to help workers who are at risk of losing a job or becoming unemployed. These are known as Active Labor Market Programs (ALMPs). These two policies are not independent of each other. Policies aimed at the unemployed are as a rule not very effective if the labor market is not performing well. At the same time, well-designed programs to help the unemployed allow the labor market to function more smoothly and to better match workers to vacancies. Labor market interventions have the potential to improve labor market performance. Whether this potential is realized, however, depends on a number of exterior and interior factors. External factors include stable macroeconomic conditions, an enabling business environment, and a competitive product market. Internal factors include policy design and implementation. Thus, the positive impact of ALMPs cannot be taken for granted, which points to the importance of monitoring and evaluating their outcomes.

Improving the Functioning of Labor Markets

Virtually all transition economies have inherited labor market institutions and regulations developed under central planning, and they have proven to be ill suited to the needs of a market economy. There are at least three reasons for this. First, labor market institutions were designed for state- or socially-owned firms operating in relatively closed economies where productivity and profit were not the main objectives. Consequently, they are not adequate for an open economy dominated by private, often small, firms.

Second, reflecting socialist ideology, labor regulations have provided a high level of employment protection, an egalitarian wage structure, and generous work-related benefits. These provisions are unsustainable in a market economy where firms, in order to survive, must constantly control costs and improve productivity.

Third, in line with the planning principle, labor regulations tended to be very detailed and to cover a very broad range

of activities. The resulting overregulation of labor relations limits the capacity of firms to restructure and adjust to changing economic conditions, which is vital in a competitive, dynamic economy.

This legacy of rigid regulations has considerably hindered labor market performance in transition economies. Thus, most Europe and Central Asia (ECA) countries have started to reform their labor market institutions, moving more or less decisively toward a more flexible labor market. For example, Estonia and Hungary liberalized their labor markets early in the course of transition, while Poland has been reforming its labor market more gradually. Serbia and Montenegro carried out far-reaching labor market reforms soon after the collapse of the Milosevic regime, while Croatia took a slower route. The common aim of these reforms has been (a) to improve employment flexibility through lowering the dismissal costs (such as lowering severance pay and introducing temporary employment contracts), (b) to enhance working time flexibility (through, for example, providing for rescheduling of working hours), (c) to increase wage flexibility (for example, through eliminating rigid wage grids), and (d) to reduce certain non-cash benefits. More generally, there has been a movement toward the deregulation of labor relations. The underlying principle is that it is preferable to grant workers fewer rights, but to enforce them effectively, than to maintain a wide range of nominal worker rights that are not or cannot be effectively enforced.

Simultaneously with the deregulation of labor relations, there has been a movement toward their decentralization. The role of the State has been lessened and that of social partners—trade unions and employer organizations—increased. Collective bargaining has gained prominence as a means of regulating the conditions of employment. It has proved particularly effective in those countries where both labor and business are well organized and able to articulate their interests, and where the power of social partners is balanced, so that neither side can dominate the bargaining process.

Labor market reforms, especially if coupled with reforms in other key areas of the economy, create conditions for faster job creation and higher productivity, and thereby for employment and wage growth. They considerably improve labor market prospects of vulnerable worker groups: youth and workers without labor market experience, informal sector workers, and the unemployed. By lowering the regulatory costs of operating in the formal sector, they can also limit the size of the informal sector. Despite these long-term benefits, labor market reforms are politically difficult due to short-term costs. They lessen job security, increase worker and job turnover, and may lead to a temporary increase in unemployment. They are associated with less employment protection and higher labor market risks. This points to an important role played by unemployment protection, and in particular by the active labor market programs.

Helping the Unemployed: Active Labor Market Programs

The objective of ALMPs is to assist jobseekers in finding a job. These programs are a useful tool for improving labor market prospects of disadvantaged worker groups. They cannot, however, eliminate or even substantially reduce overall unemployment. The programs can be grouped into five categories: job search assistance, training, wage subsidies, public works, and self-employment support. In addition, pre-layoff services are increasingly being provided in large enterprises undergoing restructuring and privatization.

Each group of ALMPs addresses different types of labor market problems. Job search assistance is meant to address frictional unemployment¹ by improving the efficiency of matching of the unemployed to vacancies. This includes collecting information on available vacancies and passing it on to the unemployed, assisting the unemployed in searching for jobs and improving their job search skills, and providing vocational counseling. Intensive job search assistance and counseling are a key part of pre-layoff (labor redeployment) services offered to workers in enterprises undergoing restructuring and privatization. Training and retraining are intended to address structural unemployment. These programs provide the unemployed whose skills are obsolete or inadequate with new skills that are marketable and sought after by employers. Wage subsidies are provided mainly on equity grounds to encourage employers to hire the unemployed belonging to disadvantaged groups, such as inexperienced youth, the disabled, ethnic minorities, ex-prisoners, and low-skilled, long-term unemployed. The idea is to compensate the employer for higher risk associated with employing workers from seemingly low-productivity groups. Public works were initially invented to address the demand deficiency unemployment; however, they have

increasingly turned into an income-support program largely targeted at the low-skilled, long-term unemployed. The underlying concept, known as workfare, is that able-bodied individuals should receive income support conditional on or in return for performing some publicly useful work. Finally, support for self-employment is meant to help the unemployed with entrepreneurial skills to start their own business by providing necessary information and advice, seed capital, and support during the business maturation period (for example, through business incubators).

The effectiveness of ALMPs varies substantially depending on the specific design features, implementation capacity, and labor market conditions. It also varies across different worker groups: programs that meet the needs of one particular worker group (such as women reentering the labor market) do not necessarily meet the needs of a different group (such as middle-aged men with narrow vocational skills). This points to the need for the evaluation of the cost-effectiveness of different programs for various client groups and under different conditions, and for developing programs based on evaluation results.

In general, job search assistance and counseling have been found to be the most cost-effective labor market measures for the general population of unemployed. That is, they achieve results similar to other interventions, but at a significantly lower cost. It costs less to place one unemployed person into a job through job search assistance and counseling than through, say, training or wage subsidy.

As regards training, the results are mixed. Narrowly targeted and small-scale training programs addressing well-identified needs of both the unemployed and the employers tend to have a positive net impact. On-the-job training (as opposed to classroom training) provided by private firms has proven particularly effective. In contrast, broadly targeted large-scale training or retraining programs, such as for workers laid off en masse, have little impact. Similarly, training has proved of little effectiveness as a means of addressing youth unemployment. Training cannot substitute for general education, and cannot make up for the failings of the educational system.

Training is often perceived as the most promising labor market intervention because it apparently addresses one critical cause of unemployment, which is poor human capital. Relatively high job-placement rates for training participants are often cited in support of this view. However, such gross placement rates can be highly misleading. They can be high owing to so-called cream skimming, a selection process whereby training is offered to the most able and motivated individuals. Such individuals are more likely to find a job

even without training. Accordingly, attributing their finding a job to training while disregarding the part played by their personal traits leads to the overstatement of the impact of training. The relevant question is not how many people found a job after receiving training, but how much training improved the chances of finding a new job.

To answer this question one needs to have a comparison group of similar people who did not receive training, and then compare job-placement rates for both groups. When such net impact evaluation is carried out, it turns out that the effect of training is considerably smaller than usually assumed. For instance, in Bulgaria (the example of which is representative), in the late 1990s, about 40 percent of training participants found a job within one year of training completion. However, some 30 percent of similar unemployed who did not receive training also found a job. Thus, while the gross impact of training was 40 percent, the net impact was only 10 percent. This means that training helped only 1 in 10 training participants find a job. This still represents a statistically significant net impact, but it indicates that training is a relatively costly way of providing employment.

Despite modest overall effects, training can substantially improve employment chances of some specific worker groups. For example, in the ECA, training has been found to particularly strongly improve job prospects of workers with a low level of education. In Hungary and Poland the net impact of training on workers with primary education was found to be 15 to 17 percent. In Bulgaria it was still higher, at about 20 percent.² These examples show that if well designed and well targeted, training can be an effective labor market intervention.

Wage subsidies have also proven effective in helping the particularly disadvantaged unemployed. For example, in the Czech Republic and Hungary, wage subsidies were found to significantly improve the employment chances of the long-term unemployed. In Poland subsidized employment helped people with low skills obtain jobs. In Bulgaria wage subsidies turned out to be particularly effective in high-unemployment regions. The net impact of wage subsidies typically ranged from 10 to 15 percent.

Public works as a rule do not improve employment chances of participants, and sometimes their net impact can be negative, meaning that participation in public works can lower a person's chance of finding regular employment. However, as mentioned, this is largely an income-support program, and should be evaluated as such.

Finally, support for self-employment is usually an effective measure, helping the unemployed with entrepreneurial abili-

ties (which is admittedly a relatively narrow group) to start their own business and escape unemployment. However, in this case rigorous program evaluation is more difficult due to the critical role played by nonobservable determinants of success, such as entrepreneurial abilities and skills.

Conclusions

What are the lessons that can be drawn from the evaluation of ALMPs in ECA countries? At the most general level, evaluation results indicate that ALMPs can significantly improve employment prospects of disadvantaged worker groups. However, their impact on aggregate unemployment is limited. ALMPs are not a panacea for unemployment, and in particular they cannot substitute for flexible labor market institutions and an enabling business environment. At a more specific level, evaluations indicate that the impact of particular interventions cannot be determined without carrying out a specially designed study. It varies, depending on design features, accuracy of targeting, and local labor market conditions. The same program can be effective for one group of unemployed and ineffective for another. This implies that ALMPs need to be tailored to the needs of the unemployed and employers, and to account for local labor market conditions. To this end, regular monitoring and periodic evaluation of ALMPs is required to determine which programs work for what client groups.

A sound labor market policy would be to develop a menu of ALMPs on a pilot basis and then monitor and evaluate their results. Using the results, one should expand those programs that were found most cost-effective, and target them at those groups of unemployed who benefit the most. However, there are at least three caveats. First, most programs exhibit diminishing returns to scale. Programs that are effective on a small scale may become ineffective if expanded beyond the optimum size. Second, ALMPs are costly; this is particularly visible when costs are related to the incremental (net) impact of ALMPs. Opportunity costs of expanding ALMPs thus need to be accounted for. Finally, a favorable business environment and reasonably flexible labor markets are prerequisites for the success of ALMPs. Thus labor market reforms to remove critical rigidities and distortions need to precede the development of ALMPs. ▲

Endnotes

1 *Frictional unemployment* is associated with workers moving between jobs. *Structural unemployment* arises if the structure of unemployment (for example, by skills, occupation, or location) is different from that of vacancies. *Demand deficiency unemployment* occurs when the number of job openings is smaller than the number of the jobseekers.

2 These estimates were obtained using quasi-experimental methods, and thus are approximate and subject to a substantial margin of error.



Social Assistance in Transition Countries of Europe and Central Asia

Verdon Staines and Dilnara Isamiddinova

Social Assistance and its Context

The challenge. The collapse of centrally planned economies in Europe and Central Asia led to falls in production and income of up to 60 percent in the new transition countries of the region. As government revenue plummeted, the old social protection strategy—guaranteed public employment, heavily subsidized consumer prices, and generous social benefits for pensioners and socially dependent groups—became unsustainable. New programs were clearly needed to assist burgeoning groups of poor and vulnerable people, although an adequate resource base for these programs was not apparent. Moreover, popular expectations for living standards had fallen more slowly than production. Economically sustainable reform options then seemed politically unattractive when compared with what was promised, but not deliverable, under past policies. One key element of the policy response was the introduction of new social assistance programs.

Social assistance. Social assistance programs combat poverty for people with resources below socially recognized needs standards. As such, they are risk-coping mechanisms provided after poverty has struck. The programs provide cash benefits, cash-like benefits (such as tax credits or vouchers), or in-kind benefits (such as food, clothing, and coal). Eligibility for these benefits is usually limited categorically, by income or asset tests, or by both.¹

Related programs. Other social policies supplement social assistance as risk-coping mechanisms in providing more adequate incomes and living standards for the poorest and most vulnerable people, and those with special needs. Ultimately, it is the cumulative impact of all of those programs on the economic circumstances of families that matters.

- Social assistance programs are a key part of countries' social safety nets (SSNs), which can also offer more diverse forms of help. Examples include health insurance or health care subsidies, childcare, job training, social

services, and special employment opportunities. Some of these programs can be considered risk-mitigation measures; for example, health insurance and childcare help smooth income when additional expenditures are needed.

- Broader social insurance programs partly offset interruptions in people's incomes linked to known risks, like retirement, disability, widow- or widowerhood, and unemployment. Social insurance programs—flat-rate pensions, for example—can also contribute substantially to income-adequacy objectives. These programs are risk mitigating because they provide assistance for life cycle events when they occur.
- Many countries channel certain groups at risk of poverty, like retirees, to social insurance rather than social assistance arrangements. For example, Lithuania in 1993 set pension rates above the ceiling levels of income at which means-tested social assistance benefits were payable. That approach assigns these groups to simpler, less overextended, and less stigmatizing administrative systems. (For example, they do not subject beneficiaries to income tests or means tests).
- These redistributive social policies all complement policies for macroeconomic stability and growth. However, they can never substitute for widespread productive employment and income generation, which provide the income base that SSN and social insurance policies partly redistribute. These policies neither mitigate risks nor cope with already existing risks, but reduce the risks of income inadequacy overall.

Design choices in social assistance. Policymakers face many decisions. Which program models for delivering social assistance could be implemented successfully? Which of these will be used? Who will be eligible for social assistance? What factors will affect the amounts they receive? In what form (cash, vouchers, or in-kind) will the assistance be provided? What levels of government will be responsible for policy and rules, funding, administration, and monitoring compliance with program rules and policies

in administering the program? How will the program be financed?

- Those decisions are difficult because the programs have multiple objectives, the different objectives typically conflict to varying degrees, conflicting objectives imply tradeoffs, and tradeoffs create the need for policy choices. Program objectives include raising the living standards of beneficiaries, preserving favorable work incentives for program participants, maintaining fairness between recipients and nonrecipients of social assistance, keeping program costs affordable, and keeping programs administratively simple.²
- Because of unavoidable tradeoffs among competing objectives, policymakers must strike an optimal balance among benefit adequacy, work incentives, and program affordability.³ The tradeoffs are often seen as implying “target efficiency” as an intermediate goal. However, target efficiency does not promote economically efficient resource use. In fact, it usually makes it worse. So target efficiency is only one of several criteria of good performance.⁴
- Broader tradeoffs also arise. Social assistance spending to improve income adequacy competes with other public spending, including social insurance spending to increase income smoothing and continuity. Current consumption must be sacrificed to accelerate growth in future retirement incomes. Economic efficiency can be inconsistent not only with target efficiency but also with equity objectives. Although public social assistance programs supplement private transfers from relatives, friends, and charities, the public programs can also potentially displace these private transfers to some degree.
- In transition countries where robust administrative systems are still emerging, additional constraints on policy choices result from the costs and challenges of gathering relevant information, weak administrative capacity, and vulnerability to corruption. In particular, targeting strategies are more difficult to implement successfully when it is hard to obtain accurate, verifiable information about applicants’ economic resources and employment status. That creates special difficulties in the many ECA transition countries with large informal economies.

Social Assistance Models in ECA Countries

Trends and issues. A wide variety of basic models for providing social assistance have been used, singly or in combination, within ECA countries. In general, their relative importance has changed over time, and also varies across countries and between ECA’s European and Eurasian subregions. As a social protection strategy, the combination of

guaranteed public employment, widespread price subsidies, and generous earnings-related pensions gave way to alternatives more quickly in the European subregion than in the Eurasian subregion. Children’s benefits were a popular alternative strategy early on. They gradually lost prominence, however, to approaches that assist individuals or families based on their personal or household characteristics—particularly, measures, indicators, or judgments about their levels of income, assets, or consumption. Subsequent experience has highlighted the difficulty of measuring or estimating family income accurately in transition countries with limited administrative capacity, especially when the informal sector is very large. Families have incentives to misreport their circumstances, and administrative systems for verifying this information easily are limited. Another major challenge, it is now clear, is to find an acceptable balance between including too many families and including too few.

Children’s benefits. European transition countries often substituted universal payments for children as an initial step, but found, by the mid-1990s, that their sharply constrained budgets could not finance adequate payments of this kind for all families (World Bank 2000). More narrowly targeted approaches were then adopted by many countries, which experienced significant challenges in implementing them successfully. For example, in 1993, Turkmenistan introduced an income-tested family benefit, initially of 20 Manats per child per month, to accompany scaling back of its universal children’s benefit for nonworking mothers of children under 7 years of age. However, the income test ended eligibility abruptly at a threshold level of per capita income. That created inequities between families just above and below the threshold. It also created incentives for families to reduce or hold down their incomes, or at least to report that they had done so. Such incentives imply “poverty traps,” where people’s attempts to improve their economic position by earning more actually make them worse off.⁵

Income-tested, asset-tested, or means-tested payments. Some countries, beginning with Estonia in 1990, adopted a “guaranteed minimum income” (GMI) approach. This paid families the difference between their actual incomes and a low family income level that allowed only an austere living standard. However, this approach also created, below that income threshold, an effective marginal rate of tax (MRT) of 100 percent that served as a disincentive to work. In 1993 Lithuania, an innovative reformer, introduced instead a means-tested social benefit structured as a negative income tax. Initially, this paid half of the difference between a state-supported family income level and a family’s actual earnings. It thereby reduced the MRT to 50 percent

but, consequently, also raised the income ceiling for benefits to twice the state-supported family income level. The broader eligibility was affordable only if the supported income level was lower than that affordable under a GMI design. Over time, to make possible a larger state-supported income level, Lithuania raised the MRT to 90 percent, where it remains. (Lithuania also addressed fairness and cost issues by imputing income to household plots of land.) In 1995, the Kyrgyz Republic became the first Eurasian country to adopt such a benefit. Although otherwise like an austere GMI program for the poorest households, the Unified Monthly Benefit program pays benefits only for eligible children within the family. This has made the benefit function like a negative income tax program with an MRT that varies with the proportion of adult family members. Albania also has an income-tested benefit for eligible poor families. Although three-quarters of Albanian families receiving this benefit are poor, three-quarters of poor Albanian families do not receive it. The Kyrgyz experience also reflects a similar pattern of benefits that go predominantly to poor households, but that nevertheless miss most poor families.

Means-testing using proxy indicators. An alternative approach, which some countries have adopted, predicts which families are likely to be poor using proxy indicators that supplement or replace measured income.

- In the simplest form of this approach, statistical analysis identifies household characteristics and assets that correlate strongly with consumption levels reported in household surveys. Those indicators are used to select who will be assisted by the program and to what extent. The estimated underlying statistical relationships capture averages rather than special circumstances, and information on the proxy indicators can itself be vulnerable to intentional misreporting.
- Armenia's family poverty benefit is more complex, and evolved from the prior Paros system used to allocate humanitarian aid first after the 1988 earthquake, and then after the war with Azerbaijan. It replaced 26 fragmented, categorically targeted uncoordinated benefits. The scheme constructs a family need score by multiplying together factors representing (a) family information on each member's social risk category and ability to work, (b) the household's place of residence and housing status, and (c) the household's income, expressed as a proportion of its estimated minimum income needs. (The first factor is the most important.) A family is eligible if (a) the family need score exceeds a threshold level, (b) it has been assessed as eligible for social benefits by a process involving community and government representatives, and (c) it does not own a car or business. If eligible, the family qualifies for a base benefit

amount and a flat-rate supplement per child under 18. A recent analysis concluded that about 80 percent of the benefits paid went to families that would have been poor if those transfers had been suddenly withdrawn, and that three-quarters of recipient poor families would have been extremely poor in their absence (Posarac 2002). However, once again, 80 percent of families were poor prior to transfers, and over 70 percent of extremely poor families received no assistance. Real transfers under this program have fallen by almost one-third since its introduction in 1999.

Benefits based on community judgments within guidelines. Another unique program within the ECA region is based on the Mahalla system in Uzbekistan. The Mahalla tradition involves a group of respected elders who help to solve social problems and conflicts within the community. It has been adapted to provide a framework for allocating funds for social assistance benefits based on community judgments within guidelines. Box 1 provides a detailed description of this program.

Selected price discounts. Price discounts for a wide range of consumer goods and services, also known as "privileges," were widespread within the region in the early 1990s. Eligibility was diverse, reflecting meritorious conduct or social need or other political judgments. Most ECA countries have substantially reduced the range of goods and services covered, the categories of people eligible, and the size of the subsidies. Nevertheless, many such privileges remain within the region, in Ukraine, and in the Eurasian transition states. Some countries have narrowed their scope and targeted the subsidies, partly by limiting them to poorer social groups, or even to poor families within such groups. Targeting energy price subsidies has proved a particularly challenging area in countries that are raising energy prices substantially as part of reforms to achieve financial viability within restructured energy sectors. This is particularly so when these countries have very cold winters or mountainous regions.

Other approaches. Other approaches have been, or could be, considered. They include:

- *Benefits Linked to Other Behavioral Goals.* Conditional cash transfers (CCT) are cash payments to the families of poor children who regularly attend school or, in some countries, health clinics. Many countries have experimented with CCT for specific programs, or are conditioning social assistance generally. A companion article in this issue, "Conditional Cash Transfers," discusses this approach.
- *Workfare and Work-Tested Benefits.* Some countries have responded to concerns about work incentives by

Box 1. Mahalla Social Assistance System

Mahalla is a traditional body of community self-administration in Uzbek and Tadjik cultures, based on Islamic perception of social functions and conflict resolution. The Mahalla tradition involves a group of respected elders who help to solve social problems and conflicts within the community, including meeting social expectations for wedding feasts and funerals, promoting social control and cohesion in families, and assisting poor families. Although the role of Mahallas diminished in the Soviet period, an Uzbek law after independence strengthened their traditional functions. It recognized Mahallas as bodies for citizen self-management in territories with more than 350 households. Mahallas have an elected chairman who must be endorsed by the government's local representative, a secretary, and a rotating group of advisors.

In 1994, the state abolished numerous social allowances and delegated to the Mahallas responsibility for the social assistance function of allocating cash assistance for low-income households with children. The Mahallas' role was augmented to include, from 1997, targeting children's benefits and, from 1999, targeting maternity benefits to nonworking mothers of children under two years of age. Also from 1999, Mahalla committees began to collect utility payments from citizens. If these are complete and timely, the Mahalla committees can keep 10 percent of collected payments for discretionary benefits or organizational expenses. In addition, Mahallas can identify elderly people living alone and in need of care and recommend in-kind benefits—mainly foodstuffs. Each benefit is means-tested (with a few categorical exceptions). The law provides guidance on how this should be done, and on authorized benefit levels. (The main criterion is monthly per capita average income for the last 12 months.) Nevertheless, the Mahallas also have considerable discretion; all benefits and the income threshold are discussed and approved in open, general Mahalla meetings. The Mahallas receive revenue from state, central, and local budgets, and from off-budget sources.

Social assistance spending under this system fell from 1.4 percent of gross domestic product in 1998 to 0.9 percent in 2001. The fall was concentrated primarily in the number of recipients, rather than the amount per beneficiary in real terms—particularly for the low-income benefit.

Coudouel and Marnie (1998) have identified, as strengths of the Mahalla system, that it uses multiple household welfare indicators, relies on local knowledge of living standards, incorporates a self-targeting element, discourages false reporting by applicants of their circumstances, is transparent and relatively inexpensive to administer, requires reapplication every three months, and encourages local traditions and responsibility. As disadvantages, they note that it grants discretion to the local Mahalla elders with the associated potential for abuse, favoritism, and discrimination on ethnic or other grounds; does not allow redistribution between richer and poorer Mahalla districts; allows receipt of benefits to create social stigma; and entails administrative costs for 500 Mahallas, including assistance from local labor ministries in processing child benefit applications.

imposing work requirements on some or all recipients as a condition for receiving benefits. Bulgaria's recent initiative along those lines is described in a companion article in this issue on public works, "Public Works in Europe and Central Asia." Highly visible U.S. welfare reforms in 1996 combined this approach with job training, subsidies for child and dependent care, retention of health insurance assistance benefits, and a ceiling on duration of benefits.⁵

- *Mandatory Child-Support Payments.* Like many other transition countries, Turkmenistan inherited from the Soviet era a system of mandatory child support following divorce. Husbands' child support obligations are set by law at 25 percent of salary for one child, 33 percent of salary for two children, and 50 percent of

salary for three or more children. A child support payment of 50 Manats per month per child is payable from a Central Bank account if the husband pays no child support. This benefit is also available to unmarried women with children (for example, in second, unofficial families).

- *Tax-Transfer Linkages.* As transition countries develop stronger administrative systems, policy linkages between systems of taxation and social benefits could become more attractive. Family benefits or children's allowances illustrate the possible benefits from integrating or coordinating the tax and income-transfer systems. The income tax structure could potentially assist all families with children, including families with too little income to pay tax, by permitting a refundable

tax credit for each child. But this mechanism requires a sophisticated system of tax administration and a well-informed, low-income population that applies successfully for the credit to be refunded. However, because the social insurance system can deliver cash assistance to a large part of the population, an administratively simpler alternative would be to pay each family a children's allowance that varies with family size in the same way as the tax credit. If the income tax structure included no other preferences for children (such as higher exempt levels of income), then that allowance should be nontaxable. Paying the allowance would be equivalent to providing a refundable income tax credit within the income tax structure. (In all other cases within an integrated tax-transfer system, however, social security benefits should be taxable, with benefit rates set accordingly.) Alternatively, if policymakers wished to provide assistance to families in a more targeted and selective way, they might prefer to choose instead to do so through means-tested or categorical social assistance benefit systems. The latter approach would reduce the number of families assisted but, for a given level of spending on benefits, would enable larger benefits to be paid to each eligible family. Administrative costs, however, would be higher. ▲

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Endnotes

1 Social assistance policy uses government authority to establish programs for compulsory, systematic sharing. Specifying both the structure and financing of benefits makes clear that these programs create both winners (net recipients) and losers (net contributors). Hence, targeting is an inherent feature of social assistance policies: it consists of determining who will be net winners, who will be net losers, and by how much.

2 Work incentives depend on the proportion of any additional earnings that a worker can keep without an offsetting reduction in the benefit (or, equivalently, on the rate at which benefits are withdrawn when private earnings increase). They also depend on the worker's overall resources and, consequently, on their ability to "afford" to engage instead in non-work alternatives, including home production and leisure.

Fairness (or equity) is usually viewed as having both vertical and horizontal dimensions. The vertical dimension ranks people according to their resources and implies that related assistance should be targeted toward those with low incomes or means. The horizontal dimension involves differences in "needs" among people at any given income level, and implies that related assistance should be targeted to those people with special needs (for example, because of family size, illness or disability, or remote or harsh geographic circumstances).

3 A policy dilemma arises from the inherently conflicting objectives of cash transfer programs: high levels of assistance to the poorest groups, strong incentives for them to work, and low overall expenditures on social assistance. They conflict because they involve three policy variables—the maximum benefit, the effective marginal tax rate, and the ceiling income level for benefit eligibility—but only two of these can be set independently. Unfortunately, raising the basic benefit amount for someone without other income will also raise total program spending, unless higher spending is offset by faster withdrawal of benefits as private income increases. But that would worsen work incentives! More generally, policy changes to achieve any of the three goals more completely would worsen attainment of at least one of the other two. So policymakers face unavoidable tradeoffs among the competing objectives, requiring them to strike an optimal balance among benefit adequacy, work incentives, and program affordability.

4 "Target efficiency" refers to the proportion of a program's expenditures that the intended target group receives. For programs to alleviate poverty, it refers to the share of benefits that go to people below the poverty line, rather than "leaking" to individuals who are not poor to begin with or "spilling over" by raising some poor people's posttransfer incomes to levels above the poverty line. The concept also reveals the tradeoffs among competing objectives of benefit adequacy, work incentives, and program affordability. For example, a social assistance program that is perfectly target efficient, with no leakage and no spillover, would also imply no incentive to work (or to work more) over the range of income below the poverty line. Fiscal analysts often presume that, in a world of limited budgets, a more target-efficient program is a better program. However, making a social assistance program more target efficient will usually make the allocation of resources less economically efficient by eliminating incentives for participants to increase their work effort.

5 These problems do not arise because benefits are made dependent on an income test. Rather, they arise because the size of the benefit is reduced too quickly as the private income of the benefit recipient rises. The solution is to restructure the income test so that benefits vary more slowly than incomes, and so that increases in income lead to benefit reductions that are smaller than the income changes that caused them.

6 United States Congress. Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which replaced the old welfare system with a new program, Temporary Assistance to Needy Families (TANF).



Social Protection in Postconflict Environments in ECA

Maniza Naqvi, Philip O'Keefe, and Christian Bodewig

Conflict destroys, displaces, and distorts. A postconflict environment is therefore one in which society tries to recover from the death, displacement, and impoverishment of its citizens, and from the physical destruction of its social and economic infrastructure. Often the ensuing realities of war's aftermath distort further the conditions that were the underlying causes of the initial conflict.

Social safety net and labor market reforms in Europe and Central Asia (ECA) are being undertaken in a variety of conflict and postconflict settings. Violent conflict, often with a strong ethnic dimension after the collapse of communism, has been the experience in Albania, Armenia, Azerbaijan (Nagorno-Karabakh), Kosovo, Bosnia and Herzegovina, Croatia, Georgia (Abkhazia and South Ossetia), the former Yugoslav Republic of Macedonia, Moldova (Transnistria), the Russia Federation (Chechnya), Tajikistan, Serbia, and Montenegro. Neighboring countries that were not directly affected by the conflict have had to deal with side effects such as refugee influxes or slowing investment due to regional instability.

The Impact of Conflicts on Labor Markets and Safety Nets in ECA

While postconflict countries in ECA share many characteristics of those in other regions, they also have distinguishing characteristics. They face a dual transition from a planned to a market economy, and from conflict to postconflict recovery and development. Most postconflict countries in the ECA region were middle-income countries prior to conflict, and their citizens had a high standard of living. Preconflict labor and safety-net policies in the ECA region were socialist, with all-but-guaranteed employment and generous welfare systems. However, they were unsustainable. As a result, in postconflict ECA countries, citizens have unrealistic expectations of social protection in the new environment, and look back with nostalgia to a "golden age," without realizing that the old system has fundamentally changed in the intervening years in nonconflict tran-

sition countries. Ironically, therefore, the devastation of war often weakens the understanding of the need for reform of the inherited social protection system, because present problems are blamed solely on the conflict and not also on the unsustainability of the previous system.

War has decreased the capacity of states, already under strain in transition economies, to respond to these challenges. Administrative capacity in postconflict countries in the region tends to be even lower, and corruption worse, than in other transition countries. Public finances are in a precarious state because of very low tax collection and often continued high military spending. Political action is constrained by instability or the fear of it. Postconflict states may also tend to fragment, either formally through complex constitutional arrangements meant to overcome ethnic rifts (such as in Bosnia and Herzegovina), or informally with ethnic groups reluctant to cooperate (such as in Macedonia).

It is also important to distinguish the situation among postconflict countries within the ECA region. Key distinctions include whether the conflict was internal (as in Albania, Tajikistan, Georgia, and Kosovo), with an external enemy (as in Armenia and Azerbaijan), or some combination of the two (as in Bosnia and Herzegovina); whether war has hardened perceived ethnic differences within the country; whether it engulfed the entire country or only parts of it; whether in the postconflict period there is a political and/or a military presence or control of the international community; whether the conflict was prolonged; the scale of population displacement; and so forth. The distinctions are likely to impact both the scale of necessary social protection reform, and the political economy of introducing reforms, and point to the importance of considering the specifics of each country setting within the ECA region.

There is a range of features of *postconflict labor markets* that are shared by ECA countries, though not all characteristics are seen in all countries. They include:

- *Loss of employment during the war.* Aggregate employment has typically declined—sometimes dramatically—during conflict in ECA countries. While there may be a postconflict economic “boom” in terms of GDP growth rates, this is usually from a very low base, so that GDP and employment growth rates in the initial postconflict years are deceptive.
- *A high likelihood of low levels of foreign and domestic private investment* in the economy following the conflict, making the employment response in postconflict highly sensitive to scaling back of aid flows. Given the importance of political risk perceptions in investor decision-making, these negative effects on investment, and hence longer-term growth and employment, often take years to overcome.
- *Increased informalization of the labor market* during and after the war, while being the primary coping mechanism and creating new avenues for the private sector, also increases the space for criminalization of activities due to smuggling and other wartime activities.
- Displacement of workers from their prewar residences leads to *distortions in the regional and sectoral composition of employment*, as some areas remain “off limits” to some or all of the population even after the conflict, due to continued insecurity, landmines, and other factors. In ECA, the bias tends to be toward disproportionately less employment in rural areas and sectors such as agriculture (at least in terms of formal employment). Displacement may also worsen skills mismatches as people with skills suitable for one geographical region or sector find themselves in a local labor market with different needs. These effects are made more complex by the disproportionate needs in all transition economies for substantial labor reallocation.
- *Higher likelihood of discrimination in the labor market postconflict.* This contributes to lower labor mobility in the postconflict stage, and in extreme cases undermines efforts to establish a single economic space in the country. In some cases, such as Bosnia and Herzegovina, the response in the public sector has been to impose formal and informal quotas on senior positions in the public sector, which may complicate efforts to move toward a merit-based civil service. In contrast, there is the likelihood of preferential treatment in the labor market for certain groups, not necessarily highly educated or skilled, such as demobilized soldiers. This may undermine efforts to raise productivity, and exacerbate difficulties in finding employment for groups such as youth and women, who tend to have higher unemployment rates.
- *Exacerbated skills gaps are created in the current and emerging labor force* because those who fought and had to give up their education and those who were too

young to fight were faced with a suspension or a deterioration in their education. In societies where there is widespread, prolonged, and severe conflict, there is also likely to be a significant brain drain both during and after the conflict, as those with skills and opportunities seek new lives abroad. Also, those who are skilled are not necessarily left in positions of power or access after a war. Where there is a strong donor and international community presence, short-term demand from these high-paying employers may create additional distortions in the labor market, drawing high-skilled workers away from both public sector jobs and entrepreneurship, often into highly paid but low-skill jobs.

There is also a range of *impacts on the social safety net* in postconflict countries in ECA. While a number of these are characteristic of postconflict countries in other regions as well, the comprehensiveness and generosity of the inherited safety net in ECA transition countries makes the contrast between the pre- and postconflict systems unusually stark. Some key issues faced by ECA postconflict countries in their safety nets are:

- *Greatly increased claims on social protection budgets* due to the increase in poor and vulnerable people, including specific groups such as the newly disabled, orphaned children, and others who have suffered the most during the conflict.
- Political demands to prioritize certain groups as social protection beneficiaries may be inconsistent with the underlying principles of different cash transfer programs. This applies in particular to those with service in or relationship to the military or security services. These groups may not on average be worse off than the general population, so that preferences to them may undermine the logic of targeting in the noninsurance parts of the system. They may also be given preferential treatment in social insurance systems—both in terms of preferential eligibility and in terms of levels of benefits—further undermining financial balance. In addition, citizens in ECA postconflict countries have proved sensitive to safety nets reforms that are perceived as preferential to one ethnic group in cases where the demographic profile of groups formerly in conflict varies significantly (for example, debates on the relative priority of pension and child allowance reforms and impacts on Albanian and non-Albanian populations in the Balkans). As a result of these various influences, the basic notion of who is “deserving” as social protection beneficiaries has therefore often been distorted in ECA countries after conflict. This has made the customary problems faced by all transition countries in reforming their social safety nets much

more complex in technical and political economy terms. Prioritizing and rationalizing claims on social protection budgets due to varying levels of influence by different groups presents political dilemmas for nascent and fragile governments that are seeking stability and longevity.

- *A dramatically reduced tax and contribution base for social protection programs* occurs due to the drop in employment, and the even greater fall in formal sector employment.
- *Social insurance programs or programs requiring centralized financing may be resisted* because of unpopularity of interethnic and/or geographical redistribution. This can result in very decentralized financing for social welfare, where ethnic homogeneity is highest and there is a division of the country into more than one social insurance system, sometimes along ethnic lines (for example, Bosnia and Herzegovina used to have three separate pension systems in the initial years after the war, and still has two). This leads to fragmented risk pools in social insurance programs, and persistent inequality among regions and a vicious circle of poverty. Addressing this is part of an overall effort to reform intergovernmental fiscal equalization mechanisms, affecting sectors beyond social protection.
- *Institutional capacity and administrative problems* can prove significant obstacles for social safety nets in a postconflict environment. For example, contributions records for pensions may have been destroyed, and the loss of identification documentation can make claims on the social safety net more difficult or costly. For systems with means-tested programs, targeting is made difficult by increased informalization of incomes. A lack of any or quality statistical data complicates social policy evaluation and development. Personnel administering social protection programs are likely to have been undermined in several ways, including death, displacement, and out-migration. Even for those who remain in-country and resume work within the social protection system, the lack of professional development during the conflict may have undermined their skills base. There are also typically complex transitions from the humanitarian phase during which social assistance is often in the hands of humanitarian aid organizations, international donors, and nongovernmental organizations (NGOs), to the postconflict phase where the domestic public sector starts once more to play an increased role. While the increased public interventions should coordinate with NGOs and complement their activities, this often proves difficult because the post-communist public sector has little experience in doing this effectively as a partnership, due to the inherited system and practices.

Lessons for Social Protection Policy and Programs in ECA Postconflict Countries

The widespread and sadly prolonged experience of ECA countries to date in social protection reforms suggests a number of lessons. Perhaps the most crucial is that fundamental policy reforms should not be ignored in the immediate postconflict period, though in a number of cases this has not been the case. The often complete breakdown of social safety nets and severe disruptions of labor markets during war can present an opportunity in the immediate postwar period to undertake fundamental reforms before the situation returns to “normal.” Given the needs in ECA countries, even prior to conflict, for greater flexibility in labor markets and overhaul of the inherited social safety net, such an opportunity needs to be carefully assessed as early as possible. The example of Kosovo is perhaps the most dramatic case in point of where early choices of serious reforms were made.

A second important lesson relates to sequencing of reforms. In societies where there has been widespread devastation, the key social protection objective is even more than usual to maximize job creation, because the fiscal and administrative capacity to sustain even a well-targeted social protection system is likely to be limited. In addition to promoting short-term employment opportunities, this objective can be supported through ensuring that labor legislation and policy aims for maximum flexibility in the formal sector, subject to protection and promotion of core labor standards. In ECA postconflict countries, this usually means fundamental reform of an inherited labor relations framework, and specific investments and interventions such as public works programs. With respect to the safety net, policy reforms in the initial stages should focus on social insurance programs, because these are both the most costly programs in transition countries and those where expectations of a return to the previous and unsustainable system are likely to be strongest. For social assistance, there is likely to be a “honeymoon” period where humanitarian aid will continue to target the most vulnerable households for a few years postconflict. In addition, the lack of reliable poverty data and unusually dynamic developments in the poverty profile in the early postconflict years suggest that more fundamental policy reforms in social welfare might be appropriately made a more medium-term priority.

Other lessons include the importance of postconflict donor coordination on policy and programs. Donors should speak with one voice on reform, and their assistance in projects and programs to the country should further that reform agenda.

Public awareness campaigns are key in building trust and transparency in postconflict environments. They are vital in the management of public expectations, demonstrating progress, building ownership and acceptance of change, assuring citizens of their rights, and dispelling rumors and misunderstandings of favoritism and wrongdoing, which tend to be rife in the absence of information during conflict. Many of these issues are relevant in any postconflict setting, but the risk of high expectations of a return to the unsustainable previous system has been seen to be much stronger in ECA countries.

Individual types of social protection interventions are constrained by postconflict challenges in different ways, and open up different opportunities to respond. Moreover, the design of interventions changes from emergency- and restoration-focused to policy-reform and developmental ones over time, as demands change. The most common social protection interventions supported by the World Bank in the ECA region are as follows.

Social fund operations. These have the advantage of being adaptable to different emergency situations, particularly when the State's capacity to deliver has been reduced, and in some cases the inherited formal safety net has collapsed entirely. The main characteristics of social funds are well suited to the special requirements of a postconflict situation, where the immediate needs are reconstruction of destroyed infrastructure, generation of employment, and infusion of stability and hope at the household, neighborhood, village, and town level. These features include procedures for identifying local needs, encouraging local participation of beneficiaries in decisionmaking, and a transparent process for resource allocation. Social fund decisionmaking processes provide a framework and a forum for citizens to return to a process of participation in decisionmaking, which usually breaks down during conflict at the community level, thus promoting a sense of empowerment and stability. Social Funds have been supported by the Bank in Macedonia, Armenia, Albania, Georgia, Azerbaijan, Tajikistan, Kosovo, and Bosnia and Herzegovina. Social funds ideally are expected to enhance democratic processes, including transparency in decisions, by encouraging debate and negotiations between citizens and their elected representatives in planning for local level investments and resource mobilization. If managed carefully, they can evolve in a period of stability into a long-term development tool for building institutional capacity of the government for service delivery, mainly at the municipal and community level.

In Tajikistan the Social Fund, set up under the *Pilot Poverty Alleviation* project, began operation before the

peace accord was signed between the warring factions. Since national and local organizations and agencies were viewed with suspicion depending on region and community, the Fund partnered with international relief and development organizations to repair infrastructure and delivery services, and through them built local and community capacity for service delivery. One of the successful partnership programs was a microfinance program that increased national capacity for microlending, and through solidarity groups the members of which belonged to female-headed households, increased social integration between previously conflicting groups and targeted the most vulnerable and new poverty groups in the country at the time. The follow-on project focuses on deepening national capacity through local organizations for service delivery at the community level. In Georgia, the Social Investment Fund recently began operations in breakaway South Ossetia, beginning to build bridges between former enemies, even though 10 years have passed since hostilities ceased. The immediate postwar Emergency Public Works Project in Bosnia and Herzegovina focused on emergency reconstruction, and on providing people temporary wage-earning opportunities. The project did not focus on building interethnic alliances directly in the immediate aftermath of war because of a high level of tensions among groups. However, it did create conditions for return by rebuilding roads and repairing infrastructure, and provided a sense of hope and stability, which is an unquantifiable but necessary condition for peace and security. The follow-on Community Development Project deepened the institutional development of municipalities and their linkages with citizens of all ethnicities in decisionmaking for municipal investments. The project narrowed the previous focus from nationwide coverage to those municipalities that remained hardest hit by conflict, and underserved by development assistance and government financing.

Labor reintegration and redeployment programs have taken various shapes in ECA postconflict countries, and respond to a variety of demands. Immediate needs dictate public works responses that create short-term daily wage labor, which acts as a safety net in the immediate postconflict period and perhaps beyond. The Azerbaijan Rehabilitation and Reconstruction project focused on employment creation and generating income through microcredits for starting up small businesses, and a small public works program. The Tajikistan Post-Conflict Reconstruction project in the Karetegin Valley promoted demining to address both employment and security concerns. The balance within active labor market programs is likely to shift over time toward traditional public interventions, such as employment services, building on the private sector playing a greater role in creating employment.

Because of the nature of postconflict environments, a major group that requires redeployment and reintegration are soldiers, who must be given incentives to desist from fighting again. In Bosnia and Herzegovina, the Emergency Demobilization Project focused on all persons who took up arms during the war, and provided short-term income-earning job opportunities, including training. In the context of immediate postwar economic breakdown, labor-intensive public works projects purchase peace by providing people incentives to not take up arms through the creation of subsistence income-earning opportunities, such as reconstruction of infrastructure. However, public works projects are short term, with three-to-six-month wage-earning opportunities, and are unlikely to significantly improve reemployment prospects outside the program. The demand for such programs over a longer term shifts from demobilized soldiers to retrenched workers in restructured state-owned enterprises, and from quick short-term employment to the reallocation of workers to stable jobs. For example, the Bosnia and Herzegovina Pilot Emergency Labor Redeployment Project's target group is discharged professional soldiers. The project tests various labor market interventions with the aim of replicating some of these interventions in new employment creation programs run by public employment services for a wider range of the unemployed. The project has had several successes in placing ex-soldiers in jobs with different ethnicities from the firm owner and its other workers.

In Bosnia and Herzegovina the Local Initiatives Project (LIP) immediately after the war provided grants to NGOs for on-lending at market rates to microlevel businesses in Bosnia. The focus was on fast disbursement of loans to clients in dire need of income-earning opportunities. In the second generation of the LIP, the project focuses more on institution building and stricter criteria for assessing borrower creditworthiness and institutional solvency. The project is also assisting in developing a microfinance legal and regulatory framework.

Promoting policy reforms in social protection through adjustment lending, technical assistance credits, and analytical work is a key area of support in ECA postconflict countries. In clients such as Serbia and Montenegro, Albania, Bosnia and Herzegovina, Kosovo, and Armenia, analytical work contributed to increased awareness of the need to reform preconflict labor policies and cash transfer systems. This was followed by adjustment operations that provided support to labor market and social safety net reforms.

Serbia provides a positive example of rapid and comprehensive social protection reforms that have been well

sequenced. First, the post-Milosevic Serbian government legislated a major overhaul of the labor code within a year of assuming power. This was accompanied by a two-stage reform of the pay-as-you-go (PAYGO) pension system, with initial "stabilization" measures, including an increase in pension age and adjustment of indexation, followed by a comprehensive reform of the PAYGO pillar. The authorities then moved with reforms of benefits and programs for the unemployed, as well as social assistance and child protection. The reforms have been supported through a series of adjustment operations: a Social Protection Economic Assistance Grant, a Structural Adjustment Credit, and a Social Sector Adjustment Credit.

Kosovo represents the most dramatic overhaul in ECA of the inherited safety net in the face of fiscal and institutional collapse. The move from the complex inherited safety net to a single "poverty benefit" avoided cementing unrealistic expectations in the immediate postconflict period. The basic benefit has been gradually supplemented by a new pension scheme as the resource base stabilizes and institutions are built. However, the political economy of Kosovo, where reforms were implemented under a UN mandate, also suggests that such options may not be feasible where more typical political arrangements exist.

The nature of the conflict in a country suggests the need for a strong awareness of the social and political feasibility of reforms in the immediate postconflict period. In Bosnia and Herzegovina, reforms of the PAYGO pension system were less comprehensive in the initial postwar years than was demanded by the new realities, with the result that cash rationing later needed to be imposed by the international authorities mandated under the Dayton peace accords. Even today, such reforms remain constrained by conflict-induced challenges such as the unpopularity of social insurance involving interethnic redistribution, and strong resistance to reallocating funds from very generous veterans' benefits to better-targeted and more needs-based social assistance. In Georgia, reforming the very rudimentary formal social safety net continues to be hampered by the existence of large politically and strategically mandated transfers to displaced people who receive assistance based not on need, but on their displacement status. Support from various adjustment credits and analytical work has been vital in supporting challenging reforms of the social safety net in such environments.

Conclusion

The challenge for social protection reforms in postconflict situations is facilitating employment generation while providing assistance to the most vulnerable. Experience shows

that reforms should be explored as quickly as possible after the conflict, even though the possibilities for introducing reforms need careful exploration of the local political economy. Under all circumstances, proposed reforms need to be explained to citizens as being necessary, equitable, and transparent, and increasing the level of assistance to the most vulnerable in society through a rationalization of the existing system.

Social protection reform in postethnic conflict countries has to be cognizant of the flaws in the system that contributed to conflict and the new obstacles and challenges created by the conflict, particularly its ethnic nature. Interventions have to be designed flexibly to deal with those obstacles. The challenge remains the ability of policymakers to move toward equitable systems quickly, even if that means that the first steps taken toward reform begin with second-best solutions. The challenge for policymakers is to create a process of dialogue and change that allows citizens to understand and accept the reform. From a political economy point of view, these second-best solutions may be first best, given the context of conflict, because they avoid fuelling the very tensions that led to war in the first place. ▲





Integrating and Empowering the Poor and the Excluded: The Roma and Other “Pockets of Poverty”

Sándor Sipos

An increasingly important part of the social protection agenda in Europe and Central Asia (ECA) is integrating and empowering the most vulnerable groups whose fortunes seem to increasingly lag behind mainstream society. There is a concentration of deep and chronic poverty among the long-term unemployed and discouraged workers, and among ethnic minorities, most deeply affecting the Roma (formerly called gypsies). This exacerbates social exclusion at a time when, in most ECA countries, the mainstream population has started to reap the benefits of more than a decade of arduous transition. Setting an easily distinguishable, vulnerable group on a welfare path different from the rest of society can reap unwelcome consequences. These include increased intolerance, segregation, mass migration and, occasionally, civil unrest, as highly publicized cases of confrontation with Roma communities in Bulgaria, the Czech Republic, Hungary, and Slovakia have already shown.

These unfortunate, extreme situations, while marginal, are fueled by vast differences in opportunities and the deep poverty of the minority group, and by the intolerance of the most frustrated elements of the majority population. In Bulgaria, for example, the likelihood of being poor is nine times higher for the Roma, and three times higher for Turks, than for ethnic Bulgarians. Intolerance flares easily in an environment where recent welfare gains lifted many of the previously transient poor just above the poverty line, still far away from their aspirations. In most ECA countries, people feel a lot poorer than measurements would justify. This indicates an unusually big gap between societal aspirations and realities, and the fear of falling back into poverty. This fear often translates into prejudice against and intolerance of the Roma and other excluded minorities, especially since the people just above the poverty line often live in neighborhoods next to ethnically distinct “pockets of persistent poverty.” The poverty of the neighbors embodies the fears of the vulnerable in the majority society, and engenders rejection.

An Emerging Cycle of Poverty

In contrast to the slowly increasing welfare of the majority, a cycle of poverty is emerging among the children of disadvantaged minorities, like the Roma. In many ECA countries, an unusually high and increasing proportion of children live either in poverty or in institutions. On one hand, this is because disadvantaged minorities tend to have more children than the majority. On the other hand, the number of children is often an important determinant of poverty status. Many of these children end up in institutions. Household surveys and poverty statistics often fail to characterize institutionalized children as poor, since their current consumption might be above the poverty line. However, this measurement ignores what these children miss most: a nurturing family and an accommodating community in which they can grow to become competitive workers and responsible citizens.



Photo: Petra Vehovska

All ECA countries have an interest in reversing this trend of exclusion and in starting to integrate and empower the excluded. In addition to the obvious dangers of segregation, a special interest lies in the requirements of the European integration for the accession countries.¹ Accession aside, with declining populations, most ECA countries cannot afford to leave an increasing part of their working-age population idle because they never learned the skills to compete in the labor market, or because they lost their skills during long periods of unemployment.

How Can the Excluded Be Reintegrated?

Clearly, reintegrating the excluded “pockets of poverty” and breaking the emerging cycle of poverty will require special efforts from the governments and civil society in ECA countries. These efforts include legislating and enforcing antidiscriminatory rules, earmarking additional resources for this purpose, and experimenting with new social policy instruments. Building durable institutions both top down by the State and bottom up by civil society seems a condition for sustainable success.

Social funds and other community-driven initiatives are explicitly targeted on these “pockets of persistent poverty.” In countries, where local governments are relatively large, such as Bulgaria, the communities of disadvantaged minorities are often concentrated in isolated villages, hamlets, or sections of settlements that could easily be out of sight of even the lowest level of local government. The larger the local governments are, the higher is the probability

that they are dominated by the majority group, and thus might be biased against disadvantaged minorities. In that situation, social funds can play an important role in empowering the communities of poor by making resources directly available, and transferring knowledge of how to identify priorities in the communities and how to acquire and manage resources to address these priorities. Social funds are helpful where the disadvantaged communities are the weakest, namely building social capital in the communities of the poor. In addition, social funds and community-driven initiatives can create a very powerful bottom-up loop in the process of the articulation of interests between higher and lower levels of public administration and between the State and civil society.

Microcredit institutions would seem to be another “must” instrument to address pockets of persistent poverty. However, ECA lags in developing this instrument due to a lesser role of the informal economy than in typical developing countries. Also, financial sector regulators are often unwilling to sanction microcredit institutions out of fear that they might serve as covers for pyramid schemes, which plagued ECA in the early stage of the transition. The existing microcredit institutions operate on the basis of special exceptions, and are usually run by foreign development agencies such as the U.S. Agency for International Development, Catholic Relief Services, and the Open Society Institute. These special arrangements are unlikely to lead to a sustainable microfinance industry in the absence of favorable legislative and regulatory changes.

Public works and other temporary employment programs are increasingly used in ECA to address chronic poverty, and not for the sole reason of covering unemployment spells, but also to reach out to the pockets of poverty. Impact analysis of early public works programs has shown a high level of interest from the pockets of poverty in some countries. However, with unemployment slowly subsiding in the majority populations, this previous self-selection of disadvantaged minorities might turn into a de facto, selective, and therefore discriminatory, application of workfare principles by the State toward these minorities. There is a fine line here that is less likely to be crossed if a robust legal and institutional framework is developed to prevent discrimination.

Similar caution should apply to **conditional cash transfers**, which, instead of, or in addition to, demonstrated willingness to work, require some form of positive behavior from recipients, such as school attendance of children. Again, decisions on what constitutes positive behavior can easily lead to discrimination, and might penalize children for their parents’ behavior. These programs are not yet widespread in ECA. Turkey recently launched a conditional

cash transfer program, and various other countries are considering introducing them.

Deinstitutionalization can become a powerful means of breaking the cycle of poverty and reintegrating disadvantaged groups, especially their children. Romania and Bulgaria have launched ambitious reforms to reduce the large number of children raised in institutions. Many other ECA countries have similar problems because the rationale for institutionalization emerged in the context of the needs of the planned economy and rapid nuclearization of families² during socialist times. With full employment and two wages needed to provide a decent standard of living, childcare, eldercare, and any distraction from the availability to work was referred to institutions. While the nuclear family remains the dominant model in the post-transition era, in many ECA countries there are both state and civil society programs to strengthen the capacity of communities to prevent institutionalization and to move children to a more sympathetic and supportive environment, preferably to families, rather than large childcare institutions.

Some ECA countries face specific expectations in the European Union (EU) accession process to reduce the number of children in institutions, and all accession countries will increasingly benefit from earmarked EU resource transfers for programs that promote integration. Others will need to rely more on themselves and other international agencies, such as the World Bank.

How Can the World Bank Help Address Chronic Poverty?

The World Bank offers a wide range of new instruments that can be used to address chronic poverty in the pockets of disadvantaged communities. The **new programmatic adjustment lending instruments (PALs)** are designed to reward measures to monitor and fight long-term poverty.

The Bank also played a pioneering role in **fostering social funds** in ECA. Currently there are 29 successful projects, which clearly increased direct interaction with disadvantaged communities. The Bank put a great emphasis on elaborating poverty maps to improve targeting the activities of social funds to the most affected communities, and on the facilitation process used to mobilize these communities. The facilitation process is critically important in making community initiatives sustainable. The Bank requires reassurances that the facilitation applied will increase the social capital of the disadvantaged community, empowering it to design and implement similar projects after Bank-supported projects are completed.

Innovative new investment loans were provided to Bulgaria and Romania **to support child welfare reforms** with the explicit goal of deinstitutionalization, including changing the physical environment and the way the police interact with children who spend a lot of time on the streets. Similar, stand-alone, child welfare reform projects are also being prepared in Georgia and Russia. In Albania, Armenia, Latvia, and Moldova child welfare reform components were included in broader investment projects.

The Bulgaria and Romania **ethnic integration institutional development (IDF) grants** have played a key role in developing antidiscrimination legislation, and in launching initiatives to form a more open and accommodating public opinion. Japanese Social Development Grants have helped pilot community initiatives and targeting on disadvantaged communities in several countries.

In addition to lending and grant instruments, the World Bank can also facilitate **transferring knowledge about promising new instruments to fight chronic poverty**. One such example is in Turkey, where the Bank supported the design and introduction of conditional cash transfers to increase motivation for school attendance and health care use by children. Another, joint initiative with the United Nations Children's Fund (UNICEF)—Changing Minds, Policies, and Lives—creates a multicountry instrument to address systemic issues related to child welfare reform, such as setting child welfare standards and enforcing them.

With these instruments the Bank is uniquely positioned to assist ECA countries to fight the most damaging chronic poverty of disadvantaged minorities, such as the Roma, and help cut the cycle of poverty among the children—for as long as it is needed, and for as long as it takes. ▲

Endnotes

1 Estonia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia joined the European Union on May 1, 2004. The accession of Bulgaria and Romania to the European Union is scheduled for 2007. Croatia aspires to join the 2007 wave of accession.

2 Rapid socialist industrialization brought large rural masses to urban centers where there was neither need nor appropriate conditions (especially housing) for maintaining multigenerational families. With nearly full employment, women decided to have only one or two children, and hence by the mid-1960s, in most Central European countries, the nuclear family model became dominant.



Protecting the Vulnerable through Programmatic Adjustment Lending

Galina Sotirova, Philip Goldman, and Boryana Gotcheva

A New Power Tool

Programmatic adjustment lending (PAL) is a new tool in the arsenal of protecting the vulnerable in developing countries. By addressing broad, sectorwide, and cross-sector issues, these operations support medium-term broad Government programs of poverty reduction and sustainable growth. In International Development Association countries, they form the backbone of support for the implementation of poverty reduction strategies, which build on the developed Poverty Reduction Strategy Papers (PRSPs). Programmatic adjustment operations are usually designed as a series of one-tranche loans with clearly defined benchmarks and milestones that need to be achieved before the operation is presented to the Board of Directors of the World Bank. The benchmarks and milestones represent monitorable indicators of progress in the reform process, and in meeting the objectives of protecting the poor and vulnerable in the restructuring process and beyond.

To date there is little experience in Europe and Central Asia (ECA) with programmatic adjustment operations. Only three—in Albania, Bulgaria, and Ukraine—have been developed so far. The overall objectives of the operations focus on broader economic reform, such as ensuring sustainable economic growth through restructuring, promotion of private sector investment, and private sector development. However, cross-sectional goals also include public sector accountability, good governance, improved public sector institutions, protection of the vulnerable population, empowerment and participation in economic growth, better social services, and effective social safety nets.

Country Examples

Thus, in Albania, the Poverty Reduction Support Credit (three single-tranche operations totaling \$50 million) supports the development and implementation of policies and structural reforms. It is structured around four components: (a) promoting sustainable growth and supporting private sector development, (b) strengthening the capacity to monitor and evaluate the policy agenda, (c) improving service delivery and social safety net effectiveness, and (d) improving core public sector functions and institutional arrangements.

The Ukraine PAL (three operations totaling \$800 million) supports the government's program of identifying and removing critical institutional bottlenecks that currently hamper economic reforms, increase transactions costs, weaken property rights, and favor soft-budget constraints. PAL II also supports the government's efforts to improve the effectiveness of the state in the provision of social services, protection of the poor, and protection of the environment. To that end, PAL II seeks to complete and streamline the institutional framework and significantly improve public and private sector governance. It is organized according to five interrelated themes: financial discipline, regulatory framework, property rights, public sector accountability, and management of social and environmental risks.

In Bulgaria, the overall PAL (three operations totaling \$450 million) objectives are to sustain economic growth and reduce poverty through (a) creating an investment climate that promotes private sector investment, restructuring, and productivity leading to growth; and (b) empowering the population, especially the poor, to participate in economic

growth. To implement the growth and poverty reduction strategy, the PAL-supported medium-term reform is built on five pillars: (a) sustaining structural reforms in the enterprise sector focusing on the restructuring of the energy, railway, telecommunications, and water sectors; (b) establishing a market-friendly business environment, focusing on entry and exit policies, regulatory costs, delivery of public services, competition, and market institutions; (c) deepening the financial system, addressing the constraints on increased lending by the banking system and the development of financial markets; (d) improving public sector governance, including implementing an anticorruption strategy, strengthening local governments, reforming the judiciary, and pushing administrative reform; and (e) investing in human capital and strengthening social protection, focusing on education, health, and pension reforms and social assistance effectiveness.

Focus on Social Protection

All three adjustment operations have well-articulated social protection components that support the medium-term reform agenda for the protection of the poor and vulnerable population. Old age security is sought through the establishment of financially sustainable pension systems, ensuring reduction of poverty among the elderly population. Important benchmarks in program implementation are support for reforming and strengthening of social assistance through better targeting of benefits to the poor, including phasing out of non-poverty-targeted benefits, and phasing out of privileges in the case of Ukraine, to improve coverage of social assistance and the effectiveness of energy assistance programs. The Ukraine PAL focuses especially on community-based social care as a way to improve care, and on creating a regulatory environment for the provision of diversified services and improved standards. The Bulgaria PAL pays special attention to the improvement of social care, and foresees the development of minimum standards for social services and the building of the capacity to analyze and monitor poverty and living standards.

Although it is too soon to gauge the impact and assess the effectiveness of programmatic adjustment lending on poverty reduction and the protection of the poor compared to standard adjustment and investment operations, a number of characteristics suggest that it might be better suited. First, social protection reforms and ensuring effective protection of the vulnerable is a medium-term agenda—most of the reforms require much longer time, and more consistent, uninterrupted support than could be provided within the traditional adjustment and investment operations. In that respect, programmatic lending provides an opportunity for assisting a medium-term program in a

continuous manner, and allows close monitoring and the flexibility to adjust the details of the program as needs arise in the course of development and implementation.

Second, reforms in the social sectors cannot be effective unless key public sector and broad economic reforms are implemented, such as strengthening the effectiveness and accountability of the public sector in general. Thus the cross-sectoral nature of programmatic adjustment lending allows viewing the social protection agenda as an element of a comprehensive reform, and to link it with other sectoral reforms. For example, issues related to labor market flexibility can be linked to the creation of a favorable business environment; energy sector reforms and cost recovery can be linked to an effective social safety net; and pension reform can be linked to an improved financial and fiscal environment. This comprehensive approach allows assessment of the possible adverse effects on welfare, and particularly on the vulnerable, of certain structural reform measures, and thus focuses the attention of the Government and the World Bank on issues of vulnerability and the importance of social protection. Third, close monitoring, identification of monitorable indicators, and achievement of targets focus efforts on building an effective monitoring system, analysis and monitoring of poverty, and welfare developments.

Effective protection of the poor requires building institutions and making a significant investment in the improvement of capacities and services. Such focused investments and the technical assistance required are not easily provided through mechanisms of adjustment lending, and therefore would require that supporting investment and technical assistance projects be designed and implemented along with the programmatic adjustment lending, with coordinated goals, timing, and adequate scope. ▲

Box 1. Preconditions for Effectiveness

There seem to be a number of preconditions that could ensure the effectiveness of programmatic lending or, if not present, could jeopardize success. A partial list includes the following:

- A viable government medium-term reform program
- Continuity of previous adjustment and investment operations, and additional ones as well
- Strong reliance on the existing investment projects—PAL results could be doubtful if not adequately supported with investments
- Adequate economic and sector work like Poverty Assessments, Country Economic Memoranda, Public Expenditure Reviews, and sectoral notes and reports
- Continuity of cross-sectoral Bank and Government teams
- Flexibility of the PAL agenda, changes in benchmarks and triggers in the context of a dynamic environment, and possible newly emerging reform challenges
- Linkage and synchronization of PAL benchmarks, outcomes, and performance indicators with the countries' MDG business plans
- A close link between the PAL medium-term reform agendas and the European Union (EU) accession requirements (relevant for the countries that are candidates for EU membership and that align their legislation along the EU *acquis communautaire*, which is the body of rules and regulations that EU accession countries must adopt in order to join the EU).



Social Funds in ECA: An Effective Tool to Reach Pockets of Poverty

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Social Funds (SFs) are relatively new to the Europe and Central Asia (ECA) region. The first fund started in Albania as a pilot Rural Development Fund in 1993. The Armenia Social Investment Fund became effective in 1995, and was followed by one in Tajikistan in 1997, and in Georgia in 1998. Today the portfolio of Social Funds in ECA consists of 29 projects in 14 countries. A total of \$737 million is invested in the SFs, of which \$518 million is World Bank lending. The SFs managed to attract significant cofinancing by the governments, local communities, and donors (including the European Union, the U.K. Department of International Development, the Swedish International Development Agency [SIDA], the KfW–Development Bank of Germany, and the Soros Foundation). Having increased from \$120 million in 1998 to almost \$740 million in 2003, it is one of the fastest-growing portfolios in ECA.

The success of SF operations has demonstrated to political leaders that they are an effective mechanism for delivering benefits rapidly and effectively to poor and disadvantaged communities and vulnerable populations during the economic transition. Benefits emanate from improved roads and bridges that provide better access to marketplaces and social services; improved water supply systems that contribute to better-quality water and improved health indicators; better schools managed by parent and teacher associations with improved teaching methodologies and innovative programs; improved health facilities and other social care services for street children and other disadvantaged groups; and microcredit for new entrepreneurs financed through SFs. Success has generated interest in the region in using SFs to develop infrastructure, attract and channel public and private investment resources, create temporary jobs as income support, develop private businesses, strengthen transparency and the capacity of local governments, foster civic responsibility and community initiative, and contribute to postconflict reconstruction.

Mobilizing Poor Communities

The Social Development Fund (SDF) project in Romania is an example of an SF that seeks to contribute to poverty alleviation in the poorest small and isolated rural communities that usually have a passive population. Like in other East European countries during the recent communist past, freedom was repressed, association was banned, collective action was forced and thus perverted, civil society was destroyed, and people became suspicious and distrustful of each other and of authorities. In that context, for any development initiative to succeed, there was a need to enhance trust, promote democratic participation, increase cooperation and collective action, and create local capacity for organization. The Romanian SDF responded by having the specific objective of “promoting social capital enhancement and civic engagement.” This objective is achieved through the following project design and implementation features.

Proposals for subproject financing are accepted only if communities can show evidence that community members met, discussed their problems, established priorities, and selected a project that would respond to their needs, and signed minutes of the meetings are registered with the mayor’s office, thus earning the community legal status in its relationship with the Fund. Poor communities from the poorest counties receive the help of facilitators, who are local people who received training from the Fund in community capacity building. They contact community members and help them come together, listen to each other, and express their demands and agree on priorities. Once a proposal is approved, the elected leaders of the community-based organization (CBO) are trained by the SDF on community organization, project management, and implementation. Communities implement projects by being the recipients of the grant and making all procurements. The project cost is partially covered from community contributions (cash or in kind). Appraisal and supervision by the Fund is conducted in a structured manner; appraisers

and supervisors are trained by the Fund in order to eliminate patronizing behaviors and imbue positive, constructive attitudes. Facilitation is also conducted during project implementation, whenever the social dynamics of the community need it. The SDF supports networking and knowledge-sharing activities for the participating communities.

Many of the SFs in the region use a similar approach and procedures, but they have different objectives and target different population groups. This is highly dependent on the particular country context, overall development level, and program.

For example, a 100-year-old school in Rachesti, a very poor and remote village of approximately 1,000 inhabitants in the Soldanest region of Moldova, had not been renovated in 15 years. The building was badly deteriorated. The school principal and the mayor participated in the MSF introductory workshop in the regional center, and were among the first to submit a proposal for the reconstruction of a half-finished residential building that was abandoned after the collapse of the Soviet Union. The community estimated that the microproject would cost about \$50,000, and committed to contribute 15 percent of it (\$7,500) in cash, labor, and construction materials. The community entrusted five elected members of the Microproject Committee (MPC) to manage the microproject on their behalf. The MPC handled the design of the project, negotiations with the MSF, procurement of the contractor and local supervisor, and supervision of the work, and signed off on payments.

During the course of the microproject implementation the teachers and parents organized themselves into a Parent/Teacher Association (PTA) and registered it as a nongovernmental organization (NGO). Under the partnership arrangement with the MSF, the teachers received training from the Soros Moldova Foundation, and introduced new child education programs in the primary grades. The newly created NGO received a \$300 grant from the Soros Foundation for program implementation. The PTA also received donations from private sponsors (TV set, toys, books, supplies, and so forth). The MSF provided the NGO with training in community strategic planning, facilitation, and fundraising.

Recently, the Rachesti PTA (among nine others) received a \$5,000 grant from the Government of the Netherlands for early childhood education programs. Using the skills developed through the MSF training program, the PTA has prepared a two-year action plan for improving both education in the school and education outcomes. The action plan included extracurricular development activities

for students, teachers, and community members, including new learning methodologies, improvement of management skills, seminars on education for democracy and human rights, legal issues, tolerance, health education, and thematic study trips to museums. The PTA has raised private funding which is matched with equal amounts by the MSF for implementation of this plan. A regional training center has been established in the Rachesti School, and a school principal has become a trainer and is using his skills to help the MSF as a community facilitator in new communities participating in the MSF. Currently, the MSF is evaluating the impact of the project to determine whether the outcomes are improved.

Addressing Multiple Disadvantages

In Bulgaria the Social Investment and Employment Promotion (SIEP) Project is focusing on the populations that are locked in persistent “pockets” of poverty that are concentrated regionally, among the long-term unemployed and ethnic minorities (including Roma). These vulnerable groups suffer from multiple disadvantages, including exclusion, weak social capital, poor access to markets and basic services, and low levels of education and employment. A distinct feature of the project supported by the Ministry of Labor and Social Policy is that under its Bulgarian Active Labor Market Initiative it is aiming to increase productivity and reduce poverty by assisting the unemployed in poor communities to extend and use their skills in response to changing economic and labor market conditions. It helps the depressed communities receive additional resources to support labor market services that will help people find jobs (through, for example, employment services, retraining, and small business assistance). The employment agency will provide these services through municipal labor offices in close collaboration with NGOs, private companies, and employer and employee organizations. About 25,000 people seeking work will receive such services, which will promote their competitiveness in the labor market.

The Armenia Social Investment Fund (ASIF) provides a clear example of how the SFs can create opportunities for effective decentralized systems, building upon the interactive partnership between the public and the government. The participatory process promoted under the project consists of gradually preparing governments and communities in the fundamentals of participation, project management, and accountability. The activities under the project involved redefining the roles and responsibilities of municipal authorities and citizens in the delivery of municipal services, and disseminating accurate and accessible information to the public. The recent Beneficiary

Assessment notes that the project served as an effective catalyst for institutional development and social capital formation. More important, the institutional linkages strengthened under the framework of the project increased the efficiency of local communities and government entities in service delivery, and created effective social capital.

Community infrastructure microprojects served as an effective framework for promoting the complementary interaction between institutionally strengthened local governments, mobilized community members, and created linkages between local governments and communities. In addition, the active engagement of community leaders with their constituents under the ASIF microprojects enhanced interpersonal trust and strengthened intracommunity bonds and cooperation. The ASIF provides an effective decentralized development framework wherein the poor become empowered to meet their own needs facilitated by community investments, institution building, and partnership formation.

Social Services for the Vulnerable

Lithuania, like many other countries in the region, has inherited a Soviet system of social care services that is largely based on the residential care provided by the State in costly and inefficient institutions. As an alternative to this system, the Government of Lithuania, together with the World Bank and in collaboration with SIDA, implemented a community social services development pilot. The objective of this pilot is to develop, test, and replicate a new community-based social service model for different groups of vulnerable people to ensure their social integration and prevent institutionalization and social exclusion in a decentralized environment of social assistance provision in the country. The intention is to provide a level of service provision that would reduce the need for residential care, but at the same time allow parents the freedom to work full time. The target groups were mentally disabled children and young adults, battered women and children, the elderly, drug abusers, and ex-prisoners. While this project is not intentionally targeted at the poorest, these populations and their families are among the poorest, due not only to inability to care for themselves and earn a living, but also to social stigma and exclusion related to it.

The early success of the project and the impact it has had on the vulnerable themselves, on their family members, and on social workers and communities have inspired the Government to develop an additional and still ongoing program of social service infrastructure development, and to put more emphasis on the development of programs to train social workers.¹ The project served as a catalyst for

the development of new initiatives, centers, and new approaches to the socially vulnerable and their integration in both the pilot and other municipalities. During the five years of the project all planned 14 pilot centers in six municipalities were fully renovated and furnished with special equipment, and 130 staff were trained. More than 10,000 clients benefited in some way from these improved services. The centers provide daycare for 100 disabled children daily, allowing their parents to work full time and become self-sufficient. The project has not solved all social problems of provision of efficient social assistance, but it earmarked a new efficient approach and a way to address poverty and social exclusion through well-prepared, community-based development.

Albania is the only country in the region that did not rely on residential care services for the population groups that needed social care services, and it ended up having almost no services. The Government and the World Bank agreed to prepare and implement a program that would help develop a national system of social care services. The project uses the SF mechanism to provide grants to local governments, on a competitive basis, for creating community-based services. Based on demand, these services might include home delivery programs for the elderly, battered women's shelters, youth centers, facilities for children such as daycare centers, and counseling services for vulnerable groups. Their goals are to (a) improve the quantity and quality of community-based social services; (b) promote new and innovative initiatives in community-based social services, including awareness, prevention, and early detection programs, among social workers, teachers, and others; (c) increase the involvement of beneficiaries in the design and implementation of community-based social services; (d) increase the involvement of civil society (NGOs and CBOs) in service delivery programs; (e) improve partnerships among local government, civil society, and community; and (f) increase community awareness and improve social cohesion in participating communities. The project also helps the Government develop policy and institutional frameworks for a modern system of social care services.

Conclusion

The diversity and variety of the SFs in the region demonstrate that they are an effective instrument for addressing the priority issues in the particular context and focusing on the most vulnerable and disadvantaged population groups. ▲

Endnotes

1 The midterm progress and positive impact of the project were presented in the article, "A Model for the Future. Innovative Social Policy in Lithuania," that appeared in the first issue of SPectrum in Fall 1999.



Public Works in Europe and Central Asia

Arvo Kuddo

Temporary relief work or public works play a central role in the offerings of the public employment services (PES) in many countries. In the recommendations of the European Community (EC) Commission on Employment, published in early 1993, the organization of public works was regarded as one of the principal levers for reducing unemployment. In many EU countries, such as Denmark and France, the unemployed are obliged to accept temporary jobs in the public sector, or to work part time. However, public works, where they exist in transition economies, tend to be the responsibility of local authorities that may lack the capacity to manage them effectively. Additionally, there are both costs and benefits of public works that may have kept transition economies from adopting them more comprehensively.

Advantages and Disadvantages of Public Works

Advantages. In most transition countries, unemployment benefits are low, so salaries earned by participating in public works could be a sufficient economic support to the unemployed, especially if they are targeted to the neediest job seekers. Participation in public works also allows the PES to test and monitor the willingness of registered unemployed to participate in other labor market programs. Temporary work can provide informal sector workers and the poor with income support where administrative capacity is weak. It allows some of the unemployed to establish contacts with employers, and provides information on the local labor market. Often temporary employment turns to permanent employment. In certain areas, such as in environmental protection programs or in the social services sphere, public works might significantly contribute to the well-being of the local community.

Disadvantages. On the other hand, public works are not very popular among employers or job seekers themselves. Such works are criticized as being too expensive per additional job created, entail large non-labor costs, are often

temporary in nature, and often do not help increase wage or employment prospects (Betcherman 2000). Since in many transition countries, highly skilled labor prevails among the unemployed who were previously engaged in capital-intensive industries, their participation in unskilled jobs might be shameful to them. In several countries, most public works are organized in the regions of high economic growth and low unemployment, not in the regions of high unemployment. In many countries, fiscal limitations restrict local authorities, potentially the major purchasers of such services, from using them, while local employment services are not very active or experienced in organizing public works.

In addition, public works are usually seasonal—there are few temporary-employment offers during the highest unemployment periods from autumn to spring. Further, the organization of public works is often complicated due to a mismatch in the skills needed and the qualifications possessed by the job seekers. In certain countries and regions, public works are complicated to organize due to ethnic or gender issues. There are also some social and psychological aspects of participation in public works, such as low prestige and low qualifications for the work, that are not desirable or sufficient to satisfy certain job seekers. Based on the evaluation of outcomes of relevant programs in the world, Dar and Tzannatos (1999) concluded that public works can help the more disadvantaged groups (older workers, the long-term unemployed, those in distressed regions) as a poverty/safety net program.

The Bulgarian Example

Currently, Bulgaria is implementing a large-scale temporary employment program called From Social Assistance toward Employment. Under this program, unemployed individuals—recipients of social assistance—are given an option of either accepting temporary jobs or risking a reduction or cutoff of their social assistance benefit. The program created 117,800 temporary jobs in 2003, and

79,400 people participated on average per month. The program significantly reduced the number of claimants of social assistance benefits. BGN129 million (around \$62 million) was spent on the program that year.

Tripartite labor councils at the local and regional level select project proposals based on bidding procedures. The priority for participation is given to long-term unemployed—those registered at the employment agency and out of work for more than 24 months and receiving social assistance for more than 18 months; member of the family in which parents are unemployed and are receiving social assistance; and unemployed single-parent recipients of social assistance. For some of the participants from ethnically mixed regions, employment will be combined with literacy enhancement and vocational training. The target is to employ around half of participants in construction and renovation works and in social and other such works, and around 30 percent in environmental cleanup. It is anticipated that the person can stay in the program for not more than three years. Wages are set at around 110 Leva (minimum wage) to 125 Leva (around \$60 to \$70), but those employed have to give up social assistance benefits (on average 40 Leva per recipient in 2002). So the net cost of the program to the state budget would have reached 80 million Leva in 2003. The program is supported by a vast majority of participants, and only around 4 percent of those offered participation refused (half of them for medical reasons). Among the reasons for the attractiveness of the program might be that the participants are also covered by pension and health insurance (including maternity benefits).



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Conditional Cash Transfers

Jeanine Braithwaite

Conditional cash transfers (CCTs) are cash payments to the families of poor children who agree to fulfill a certain obligation or responsibility in exchange for the payments. For example, families might receive CCTs if their children regularly attend school or visit health clinics. Many countries have experimented with CCTs for various programs, and are conditioning social assistance generally. In fact, the trend in international best practices is to condition social assistance on some form of positive behavior. For example, in France there is a “reinsertion contract” to bring the recipient fully back into productive society, which requires behavior such as dealing with substance abuse, becoming literate, or obtaining a driver’s license. Another example is the Temporary Assistance to Needy Families (TANF) program in the United States, which now requires individuals to look for a job or to study in order to receive welfare payments. In Latin America, CCT programs are widespread.

Impact on Education

There is a large CCT program in Mexico in which poor school children and preschool children receive cash payments provided that they attend school or health clinics. In evaluating the Mexican Education, Health and Nutrition Program (PROGRESA, now called Opportunities), the program was found to have a net positive impact on enrollment, particularly of girls in secondary school. There was also a positive effect, although not as large, on attendance. There was no net impact on achievement test scores, but this could be due to an insufficient sample size for adequate comparison.

Targeting Issues

Most governments cannot afford to provide universal social benefits because of their very high cost. Most countries choose to target their assistance to the poor or poorest on grounds of equity and fiscal constraints. Several methods have been used internationally to target benefits to the poor, but the most prevalent for CCT programs are scoring formulas, also called proxy means tests or combined indicator

targeting. Using this technique, the household’s living standards are estimated based on a series of indicators that are found to correlate with poverty in that country. The indicators are typically things like the number of children and elderly in the household, the housing construction material and amenities (such as water and electricity), number of rooms and, often, consumer durable goods (refrigerators, cars). In agricultural areas, household holdings of livestock and land are also considered.

CCTs in Turkey

Turkey has embarked on a far-reaching effort to improve the attendance of school children and to improve health care use of children through a CCT program. The Government of Turkey supports this program, as does the World Bank through the Social Risk Mitigation Project (SRMP). The SRMP includes cofinancing for the actual CCT payments themselves, and financing for the computer infrastructure and technical assistance to implement the CCT in the 931 districts of Turkey, where the program is administered by the district-level Social Solidarity Foundations.

Scoring formula and community targeting in Turkey.

Using household data, a scoring formula for CCTs in Turkey has been developed, but with special consideration for the role that community targeting has played in the country. While wanting to modernize its approach to targeting through adopting a scoring formula, the Government also wanted to retain the benefits of the community approach. As a result, the scoring formula will be the usual determinant for eligibility, but there will also be an appeals committee including community representation that will oversee the process and consider special circumstances.

Piloting CCTs in Turkey. Since CCTs are a new innovation in Turkey, it was decided to begin with six pilot districts to troubleshoot the new program and the scoring formula, which was modified based on pilot experience. These six districts were chosen as being broadly representative of

Turkey's diverse regions, but with enough administrative capacity to undertake the program. The first payments were made in five of the districts in April 2003 to 22,000 beneficiaries.

Rollout of CCTs across Turkey. Provinces were randomly selected for reasons of equity (each province had an equal chance of receiving the new program), and for evaluation purposes (so that a control group could be formed of the untreated areas until each province adopted the program). According to the rollout schedule, 23 percent of Turkey was to have been covered by November 2003, and the rest of the country will be covered in 2004. As of March 1, 2004, there were 220,000 beneficiaries enrolled.

CCTs for Turkey: Spotlight on girls' education. Turkey is strongly committed to the goal of education for all, and in particular, is aware of the need to improve attendance of girls in compulsory education (through grade 8) and to increase the enrollment of girls in secondary school, particularly in the Southeast Anatolia region of the country. In addition, in some areas there is a problem of access to health care for unregistered children. While the Government works on the supply side to provide education and health services and to improve their quality (through various projects including support from the World Bank), the CCT program will work on the demand side to increase incentives to use these services.

Conditional Cash Transfers in Europe and Central Asia

CCTs are an obvious choice for any country in the Europe and Central Asia region that needs an incentive on the demand side, particularly for improving girls' education and use of primary health care among the poorest. Countries that would likely benefit from CCTs include Central Asia and Azerbaijan. In addition, all countries in the region would benefit from conditioning social assistance more generally, as is best practice in the European Union. Attendance at school and health clinics would be an important condition for child allowances and general social assistance. ▲





Child Welfare Reform Projects and Initiatives

Alexandra Pošarac and John Innes

The economic and social shocks of transition from a socialist economy to a free market economy have had an adverse impact on the capacity of many families in the Europe and Central Asia (ECA) region to manage risks, and on the capacity of the State to provide meaningful support. As a result, the well-being of children across the region, and in particular in former Soviet countries, has deteriorated. Children face an increased risk of being poor and extremely poor, particularly if they live in multichildren or single-parent families. Their health and nutrition status has worsened. Access to education, and in particular to quality education, has deteriorated as well. Children are more likely to be deprived of birth family upbringing and to be placed in an institution; to be neglected, homeless, or abused; to become an alcoholic; and to commit a crime. These developments challenge not only the immediate welfare of poor and vulnerable children in ECA, but also their longer-term prospects, because by falling behind in human capital development, they may not be able to grow out of poverty. Beyond the adverse implications for the individual, however, the deteriorating health and educational status of a country's population is likely to lead to increased social, financial, and economic costs, and to hinder the country's participation in the labor market, and thus its economic performance.

Pioneering Sector Work

Throughout the years of World Bank involvement in ECA, improving child welfare has been one of the pillars of the social protection dialogue with the client countries. The dialogue has focused on, among other things, the trends in child welfare, reforms of the institutional and regulatory framework for family and child welfare policies, development of child- and family-centered policies and institutions, strengthening implementation arrangements and capacity building, and improving resources management efficiency. Particular attention has been paid to the development of previously nonexistent preventive community-based child and family welfare programs that would, in

coordination with programs in health and education and cash programs in social assistance, provide a range and a continuum of care to poor and vulnerable families so as to strengthen their capacity to take care of their children.

The World Bank's ECA Social Protection group has initiated a series of country-specific child welfare studies and Policy Notes, which serve as an analytical base for the policy dialogue and which provide a framework for the reform of child welfare policies and institutions, the first being for Romania in 1997. Two more recent studies were completed in 2003: the "Armenia Child Welfare Note," and "Child Welfare Outcomes During the 1990s: The Case of Russia." A study on "Child Welfare in Georgia" will be completed in 2004.

Child Welfare Reform Projects

A number of social protection investment projects have had either a child welfare component or are solely focused on child welfare. The *Albania Social Services Delivery Project* has a component aimed at improving community-based social services. The Romania Child Welfare Reform Learning and Innovation Loan, recently completed, aimed at developing community-based child welfare services and developing services for street children. The Moldova Social Investment Fund Project includes a component aimed at strengthening children's social development and deinstitutionalization. The Latvia Welfare Reform Project included piloting of community-based services, including those to vulnerable families and children. The Bulgaria Child Welfare Reform Project has three components: (a) developing the legal and institutional framework to manage child welfare reform effectively; (b) reforming the system of institutional care through the development of alternative forms of child care, deinstitutionalization, and family and societal reintegration programs for children and youth leaving institutions; and (c) preventing abandonment by mothers and/or fathers in high-risk groups, and developing forms of interventions for the improvement of the welfare

of street children. The Armenia Japanese Social Development Fund Grant is financing the piloting of two community centers that would provide social work and care services to families and children in need, including dysfunctional families, orphans, socially maladjusted children and youth, and disabled children.

Two new projects are currently under preparation: the Russia Child Welfare Development Project, aimed at developing preventive social care services for families and children, developing family-based care solutions for children in need of care, and deinstitutionalization of care of vulnerable children; and the Georgia Social Protection Reform Project, which includes a child welfare reform component.

In assisting client countries to reform their child welfare systems, the World Bank has built partnerships with other donors, in particular the United Nations Children's Fund (UNICEF) and international and local nongovernmental organizations and civil society groups and organizations.

Changing Minds, Policies, and Lives Project

Since the early years of transition, a tendency has been observed in many ECA countries to rely extensively on long-term institutionalization of vulnerable children, including children deprived of birth parental care, and disabled and poor children. Institutional care has long been proven to be ineffective, inefficient, and detrimental to child development. Hence, many governments in the ECA Region have identified deinstitutionalization, development of family-based care options, and development of preventive services as key components of their family and child welfare reform.

To support and facilitate the ongoing reform processes in the region, UNICEF and the World Bank jointly launched the "Changing Minds, Policies, and Lives" project. The project also addresses two important strategic concerns of both organizations. For the World Bank, systemic change is one of the cornerstones of its social protection strategy in ECA. This includes deinstitutionalization and development of new cost-effective approaches. For UNICEF, prevention of institutionalization, including support to families and provision of rights-based alternative care, for children deprived of parental care is one of key priorities in the region.

The Changing Minds, Policies, and Lives project, completed at the end of June 2003, was aimed at contributing to a permanent shift from reliance on state institutions to provision of rights-based, and family- and community-

based care for vulnerable individuals, including children at risk and those deprived of parental care. It focused on supporting the implementation of a comprehensive national strategy grounded in concerns for both human rights and cost-effectiveness.

The project strategy was to develop reform proposals for three family and child welfare system regulators—finances, standards, and decisionmaking processes—which were identified as key to the reform process. This strategic approach is expected to influence changes in a child protection system that will (a) ensure family-centered outcomes through appropriately defined standards of care and measurement of outcomes; (b) redirect resources to community-based services by changing financing flows in support of families at risk and family-based care alternatives; (c) reshape the gatekeeping system by legislating and implementing rights-based policies and procedures for special protection of families and children at risk; and (d) create an environment supportive of the reform process by identification and documentation of good practices.

For each of the regulators—finances, standards, and decisionmaking processes—a technical instrument, or toolkit, was developed. Each toolkit includes concepts, guidance for reform of regulators, and proposals for design and implementation of the change. The toolkits were tested in Bulgaria, Latvia, and Romania. They are currently being reviewed and will be published in both English and Russian. They will also be available on the World Bank and UNICEF websites. ▲

Europe and Central Asia At a Glance: Selected Indicators

Table 1. Size of the Economy, Life Expectancy, and Employment

	Population		Gross National Income		Gross National Income per Capita		Gross Domestic Product Per Capita		Life Expectancy at Birth		Unemployment					
	Millions 2002	\$ Billions 2002 ^a	Rank 2002	\$ 2002 ^a	Rank 2002	% Growth 2001-02	% Growth 2001-02	Male Years 2002	Female Years 2002	Male % of Male Labor Force		Female % of Female Labor Force		Total % of Total Labor Force		
										1980	2000-02 ^a	1980	2000-02 ^a	1980	2000-02 ^a	
Albania	3	4.6	120	1,450	120	4.7	4.1	72	76	—	18.8	—	28.4	5.6	22.7	
Armenia	3	2.4	145	790	144	12.9	13.6	71	79	—	—	—	—	—	—	
Azerbaijan	8	5.8	108	710	146	10.6	9.8	62	69	—	1.1	—	1.5	—	1.3	
Belarus	10	13.5	80	1,360	124	4.7	5.2	63	74	—	1.9	—	2.6	—	2.3	
Bosnia and Herzegovina	4	5.4	112	1,310	125	3.9	2.5	71	77	—	—	—	—	—	—	
Bulgaria	8	14.1	78	1,770	111	4.8	5.5	69	75	—	20.2	—	18.4	—	19.4	
Croatia	4	20.3	66	4,540	71	5.2	5.2	70	78	3.4	13.4	8.2	18.5	5.3	15.2	
Czech Republic	10	56	46	5,480	68	2	2.1	72	79	—	5.9	—	9	—	7.3	
Estonia	1	5.7	109	4,190	75	6	6.5	65	77	—	12.9	—	12.2	—	12.6	
Georgia	5	3.4	135	650	151	5.6	6.6	69	78	—	11.6	—	10.7	—	11.0	
Hungary	10	53.7	49	5,290	69	3.3	3.6	68	77	—	6.1	—	5.4	—	5.8	
Kazakhstan	15	22.6	62	1,520	117	9.8	10.1	57	67	—	—	—	—	—	—	
Kyrgyz Republic	5	1.4	158	290	181	-0.5	-1.5	61	70	—	—	—	—	—	8.6	
Latvia	2	8.1	95	3,480	86	6.1	7	65	76	—	14.1	—	11.5	—	12.8	
Lithuania	3	12.7	81	3,670	83	6.7	7.1	68	78	—	19.7	—	14.2	—	13.8	
Macedonia, FYR	2	3.5	132	1,710	116	0.7	0.6	71	76	15.6	31.7	32.8	32.3	22	31.9	
Moldova	4	1.7	155	460	164	7.2	7.6	63	71	—	8.7	—	5.9	—	7.3	
Poland	39	176.6	22	4,570	70	1.4	1.4	70	78	—	19.1	—	20.9	—	19.9	
Romania	22	41.7	53	1,870	108	4.3	4.8	66	74	—	7.1	—	5.9	—	6.6	
Russian Federation	144	306.6	16	2,130	99	4.3	4.8	60	72	—	9.3	—	8.5	—	8.9	
Serbia & Montenegro	8 ^c	11.6 ^c	84	1,400 ^c	123	4	35.7	70	75	—	22.6	—	22.1	—	22.3	
Slovak Republic	5	21.3	63	3,970	80	4.4	4.4	69	77	—	18.6	—	18.7	—	18.6	
Slovenia	2	20.4	65	10,370	52	2.9	3.6	72	80	—	5.6	—	6.3	—	5.9	
Tajikistan	6	1.1	164	180	197	9.1	8.5	64	70	—	—	—	—	—	—	
Turkey	70	173.3	24	2,490	95	7.8	6.1	68	73	9	10.9	23	9.9	10.9	10.6	
Turkmenistan	5	—	—	— ^d	—	14.9	13.1	61	68	—	—	—	—	—	—	
Ukraine	49	37.9	56	780	145	4.8	5.6	63	74	—	11.2	—	11	—	11.1	
Uzbekistan	25	7.8	98	310	176	4.2	2.9	64	70	—	—	—	—	—	—	

Source: 2004 World Development Indicators, World Bank.

a. Data are for the most recent year available.

b. Calculated using the World Bank Atlas method.

c. Excludes data for Kosovo.

d. Estimated to be lower-middle income (\$736–\$2,935).

Table 2. Millennium Development Goals: Eradicating Poverty and Improving Lives

	Eradicate Extreme Poverty and Hunger			Achieve Universal Primary Education	Promote Gender Quality		Reduce Child Mortality	
	Share of Poorest Quintile in National Income or Consumption %	Child Malnutrition Weight for Age % of Children Under 5		Primary Completion Rate %	Ratio of Female to Male Enrollments in Primary and Secondary School %		Per 1,000 Live Births	
		1990	2002		1990/01	2001/02 ^c	1990	2002
	1990–2002 ^b			00/01–02/03 ^{ac}				
Albania	9.1	—	14	100	90	102	42	24
Armenia	6.7	—	3	74	—	104	60	35
Azerbaijan	7.4	—	17	100	94	98	106	96
Belarus	8.4	—	—	131	—	102	21	20
Bosnia and Herzegovina	9.5	—	4	77	—	—	22	18
Bulgaria	6.7	—	—	94	94	98	16	16
Croatia	8.3	—	—	90	97	101	13	8
Czech Republic	10.3	1	—	—	94	101	11	5
Estonia	6.1	—	—	103	99	99	17	12
Georgia	6.4	—	—	92	94	105	29	29
Hungary	7.7	2	—	—	96	100	16	9
Kazakhstan	8.2	—	—	99	—	98	52	99
Kyrgyz Republic	9.1	—	6	94	100	99	83	61
Latvia	7.6	—	—	90	96	101	20	21
Lithuania	7.9	—	—	106	93	99	13	9
Macedonia, FYR	8.4	—	—	95	94	98	41	26
Moldova	7.1	—	—	80	103	—	37	32
Poland	7.3	—	—	95	96	98	19	9
Romania	8.2	6	3	94	95	100	32	21
Russian Federation	4.9	—	6	99	—	100	21	21
Serbia & Montenegro	—	—	2	—	96	101	30	19
Slovak Republic	8.8	—	—	—	98	101	15	9
Slovenia	9.1	—	—	96	97	101	9	5
Tajikistan	8	—	—	101	—	88	127	116
Turkey	6.1	—	—	95	77	85	78	41
Turkmenistan	6.1	—	12	—	—	—	98	86
Ukraine	8.8	—	3	98	—	100	22	20
Uzbekistan	9.2	—	—	98	—	98	65	65

Source: 2004 World Development Indicators, World Bank.

a. Data are for the most recent year available.

b. See Table 2 (next to Gini index) for survey year and whether share is based on income or consumption expenditure.

c. Data are preliminary.

d. Less than 0.05.

Improve Maternal Health			Combat HIV/AIDS and Other Diseases		Develop a Global Partnership for Development	
Maternal Mortality Ratio Per 100,000 Live Births Modeled Estimates	Births Attended by Skilled Health Staff % of Total		HIV Prevalence		Incidence of Tuberculosis per 100,000 People 2002	Unemployment % Ages 15-24 2002
	1990	95-00*	Male % Ages 15-24 2001	Female % Ages 15-24 2001		
55	—	99	—	—	27	—
55	—	97	0.2	0.1	77	—
94	—	84	0.1	0 ^d	82	—
35	—	100	0.6	0.2	83	—
31	97	100	—	—	60	—
32	—	—	—	—	48	38
8	—	100	0	0	47	37
9	—	99	0	0	13	16
63	—	—	2.5	0.6	55	22
32	—	96	0.1	0 ^d	85	20
16	—	—	0.1	0 ^d	32	13
210	—	99	0.1	0 ^d	146	—
110	—	98	0	0	142	—
42	—	100	0.9	0.2	78	21
13	—	—	0.2	0 ^d	66	29
23	—	97	0	0	41	—
36	—	99	0.5	0.1	154	—
13	—	99 ^f	0.1	0 ^d	32	44
49	—	98	0 ^d	0 ^d	148	18
67	—	99	1.9	0.7	126	—
11	—	99	—	—	38	—
3	—	—	0	0	24	37
17	100	100	0	0	21	16
100	—	71	0	0	109	—
70	—	81	—	—	32	20
31	—	97	0	0	94	—
35	—	100	2	0.9	95	24
24	—	96	0 ^d	0	101	—

Table 3. Poverty in ECA Countries

	National Poverty Line								International Poverty Line				Poverty & Inequality		
	Population Below the Poverty Line				Population Below the Poverty Line				Survey Year	Population Below \$1 a Day %	Poverty Gap at \$1 a Day %	Population Below \$2 a Day %	\$2 a Day %	Survey Year	Gini Index
	Survey Year	Rural %	Urban %	National %	Survey Year	Rural %	Urban %	National %							
Albania	2002	29.6	—	25.4	—	—	—	—	2002 ^a	<2	<0.5	11.8	2.0	2002 ^{cd}	28.2
Armenia	1996	48.0	58.8	54.7	98–99	44.8	60.4	53.7	1998 ^a	12.8	3.3	49.0	17.3	1998 ^{cd}	37.9
Azerbaijan	1995	—	—	68.1	2001	—	—	49.6	2001 ^a	3.7	<1	9.1	3.5	2001 ^{cd}	36.5
Belarus	1998	—	—	33.0	2000	—	—	41.9	2000 ^a	<2	<0.5	<2	0.1	2000 ^{cd}	30.4
Bosnia & Herzegovina	2001–02	19.9	13.8	19.5	—	—	—	—	—	—	—	—	—	2001 ^{cd}	26.2
Bulgaria	1997	—	—	36.0	2001	—	—	12.8	2001 ^a	4.7	1.4	16.2	5.7	2001 ^{ef}	31.9
Croatia	—	—	—	—	—	—	—	—	2000 ^a	<2	<0.5	<2	<0.5	2001 ^{cd}	29.0
Czech Republic	—	—	—	—	—	—	—	—	1996 ^b	<2	<0.5	<2	<0.5	1996 ^{ef}	25.4
Estonia	1995	14.7	6.8	8.9	—	—	—	—	1998 ^a	<2	<0.5	5.2	0.8	2000 ^{ef}	37.2
Georgia	1997	9.9	12.1	11.1	—	—	—	—	2001 ^a	2.7	0.9	15.7	4.6	2001 ^{cd}	36.9
Hungary	1993	—	—	14.5	1997	—	—	17.3	1998 ^b	<2	<0.5	7.3	1.7	1999 ^{cd}	24.4
Kazakhstan	1996	39.0	30.0	34.6	—	—	—	—	2001 ^a	<2	<0.5	8.5	1.4	2001 ^{cd}	31.3
Kyrgyz Republic	1997	64.5	28.5	51.0	1999	69.7	49.0	64.1	2001 ^a	<2	<0.5	27.2	5.9	2001 ^{cd}	29.0
Latvia	—	—	—	—	—	—	—	—	1998 ^a	<2	<0.5	8.3	2.0	1998 ^{ef}	32.4
Lithuania	—	—	—	—	—	—	—	—	2000 ^a	<2	<0.5	13.7	4.2	2000 ^{cd}	31.9
Macedonia, FYR	—	—	—	—	—	—	—	—	1998 ^a	<2	<0.5	4.0	0.6	1998 ^{cd}	28.2
Moldova	1997	26.7	—	23.3	—	—	—	—	2001 ^a	22.0	5.8	63.7	25.1	2001 ^{cd}	36.2
Poland	1993	—	—	23.8	—	—	—	—	1999 ^b	<2	<0.5	<2	<0.5	1999 ^{cd}	31.6
Romania	1994	27.9	20.4	21.5	—	—	—	—	2000 ^a	2.1	0.6	20.5	5.2	2000 ^{cd}	30.3
Russian Federation	1994	—	—	30.9	—	—	—	—	2000 ^a	6.1	1.2	23.8	8.0	2000 ^{cd}	45.6
Serbia & Montenegro	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Slovak Republic	—	—	—	—	—	—	—	—	1996 ^b	<2	<0.5	2.4	0.7	1996 ^{ef}	25.8
Slovenia	—	—	—	—	—	—	—	—	1998 ^a	<2	<0.5	<2	<0.5	1998–99 ^{ef}	28.4
Tajikistan	—	—	—	—	—	—	—	—	1998 ^a	10.3	2.6	50.8	16.3	1998 ^{cd}	34.7
Turkey	—	—	—	—	—	—	—	—	2000 ^a	<2	<0.5	10.3	2.5	2000 ^{cd}	40.0
Turkmenistan	—	—	—	—	—	—	—	—	1998 ^a	12.1	2.6	44.0	15.4	1998 ^{cd}	40.8
Ukraine	1995	—	—	31.7	—	—	—	—	1999 ^b	2.9	0.6	45.7	16.3	1999 ^{cd}	29.0
Uzbekistan	2000	30.5	22.5	27.5	—	—	—	—	2000 ^a	21.8	5.4	77.5	28.9	2000 ^{cd}	26.8

Source: 2004 World Development Indicators, World Bank.

a. Based on expenditure.

b. Based on income.

c. Data refer to consumption shares by percentiles of population.

d. Ranked by per capita consumption.

e. Data refer to income shares by percentiles of population.

f. Ranked by per capita income.

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