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EUROPE AND EURASIA BUREAU SOCIAL TRANSITION STRATEGY

June 2006

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--June 2006

EXECUTIVE SUMMARY

Purpose and Scope

This new regional sector strategy updates the 2000 strategy, “Broadening the Benefits of Reform in Central and Eastern Europe and the New Independent States: A Social Transition Strategy for USAID.” In this update, The Europe and Eurasia Bureau Social Transition Team (EE/DGST/ST) offers guidance to the Bureau and individual missions on priority social sector needs in the countries of Europe and Eurasia (E&E), and ways in which missions might design, sequence, align, monitor and evaluate technical assistance activities to advance such reforms. It covers five components of the social sector: labor markets, education, social assistance, social insurance and social services. Like the new E&E Bureau Strategic Framework, this strategy takes into account that it will be implemented during a period of declining resources and increased pressure to phase out U.S. Government (USG) assistance.

What’s New and Different in this Strategy

The new strategy builds on the core findings and conclusions of the 2000 social sector strategy, but it also differs in a number of respects. Specifically, it:

- Excludes health, which is handled under a separate sector strategy;
- Moves beyond the concept of mitigating the adverse impacts of transition and advocates for the establishment of viable social systems;
- Argues that investments in the social sector, or their lack, carry implications for the development of market-based democracies, and that social interventions will be most effective when they are relevant to economic growth and democracy goals;
- Identifies a range of program linkages between social transition and the economic growth, democracy and health sectors, without jeopardizing either the objectives or the funding levels of those sectors;
- Emphasizes the need to address a range of crosscutting issues, including corruption, gender, trafficking in persons, and youth; and
- Offers strategic recommendations based on two important factors. The first is judgments on social sector priority needs in each country, based on analyses carried out by the Social Transition team. The second is the time horizon left to achieve each social transition benchmark, as determined by the EUR/ACE and E&E “phase out” discussions.

How Missions Can Make Use of this Document

This document is designed to meet the different information needs of social sector practitioners, other sector experts, and mission management. Section I introduces the reader to key social sector concepts, challenges, and goals. Sections II-VI present five self-contained sub-sector strategies, which can be used independently or in tandem with other parts of the strategy. Specific Appendices present tools that can help missions identify major priorities by country and program linkages with other technical sectors.

Social Sector Rationale and Goals

The social sector is a critical part of the E&E transition. Citizens need skills they can sell in an efficient market and they need to be protected from the risks inherent in moving from centralized control to an open, competitive system. Social indicators reveal serious and growing problems, including an escalation in unemployment, especially among youth; a decline in school enrollment and completion rates; and a deterioration of the social safety net for the unemployed, the retired, and the vulnerable. These issues become even more urgent when viewed against the backdrop of the global war on terror and the U.S. Government strategy to address development goals as part of its response to combating extremism.

Transforming the old social system to one that supports open markets and democracy implies changes at many levels, including shifts in roles, responsibilities, and burden sharing among the State, its citizens, and the private sector. The vision of the Social Transition Sector Strategy is to enhance the ability of all persons to attain a better quality of life in E&E countries. The long term goal is to establish efficient and effective social systems appropriate to market democracies. Within the 2005 to 2008 strategy period, the focus is on helping E&E countries address critical social weaknesses that impede their progress in transition or their ability to compete in high-potential sectors.

Labor Markets

Long term strategic goal: A reformed labor market that preserves worker protections while increasing flexibility, mobility, and productivity of the workforce.

Short term goal: Jobs created and employment generated in the most vulnerable countries in the region.

Employment is the principal source of income for most households, making a well functioning labor market a cornerstone of social protection and a critical component of economic growth. The transition from a rigid, planned labor force to a market-driven labor force that meets the demands of a private economy is far from complete in the E&E countries. Current barriers include: (1) declining labor force participation and growing informal sector employment, (2) low worker mobility, (3) excessive public sector employment, and (4) disproportionate unemployment among certain demographic groups.

Possible interventions to address these issues include:

Promoting inter-regional mobility through information on vacancies and increased liquidity in the housing market, coupled with incentives to induce qualified labor to relocate.

Addressing the misallocation of labor by explicitly targeting workforce development within cluster competitiveness initiatives, especially in countries dealing with positive birth rates and high rates of unemployed youth.

Designing job creation initiatives based on a comprehensive worker deployment model. The community focus of this approach is cost-effective, has a demonstrable impact on job retention, and has been shown to increase local economic diversity -- essential to reduce the drain on skills in rural areas.

Strengthening and expanding internal data analysis by supporting the capacity of policymakers to understand labor market analysis and to facilitate candid public education campaigns on the tradeoffs of policy changes.

Education

Long term strategic goal: Improved capacity of education systems to meet demands of market economies and democratic societies.

Short term goal: School-to-work programs established to build more competitive workforces.

Education has a central role in the creation of human capital. E&E countries face three challenges in this sector: (1) maintaining earlier educational achievements and reversing the deterioration of the system, (2) aligning education systems with the evolving needs of market economies and democratic societies, and (3) ensuring equitable access to quality education for all groups, regardless of gender, ethnicity, and socio-economic standing.

Possible interventions to address these issues include:

Improving the quality and relevancy of education analysis and policy formulation by strengthening host government capacity to analyze and assess the country's education needs and to undertake reforms that rationalize the system;

Helping countries develop a strategic vision for the education sector and build national consensus for reform priorities;

Promoting equitable access to education for minorities and other disadvantaged groups; and

Targeting areas at the tertiary level that simultaneously promote reform at the basic education level. For example, building the management and training capacity of pedagogical institutions would help produce teachers familiar with interactive teaching methodologies and critical thinking approaches.

Social Services

Long term strategic goal: Affordable and accessible systems established that provide preventive and protective social services.

Short term goals: Most-vulnerable communities take responsibility for providing family-

focused services; Strengthened social services NGOs coordinate their efforts to provide a continuum of services; and Successful service models replicated in other communities. Social service systems provide a comprehensive range of “human service” programs aimed to help citizens deal effectively with life crises and become productive members of society. The major barriers facing E&E countries as they shift social services toward an international model of community-based, family-focused care are: (1) policy and financing systems that continue to favor the old institutional model; (2) outmoded beliefs regarding the value of institutionalization; (3) a limited pool of human resources for the delivery of community-based services; and (4) reliance on external assistance.

Possible interventions to address these issues include:

Putting in place a legal, regulatory, and policy framework that supports a range of community-based social services from prevention to protection;

Increasing access to services through public and private providers that target specific needs for at-risk groups throughout the life cycle;

Supporting workforce initiatives that develop and strengthen social sector professions through university training, associations, and networks;

Improving public understanding of social service reform through public awareness campaigns, media training, citizen advocacy and volunteerism;

Strengthening NGO capacity to provide social services in a sustainable manner through legislation, training, grant making, and federation development; and

Building partnerships and networks within and across sectors to promote synergy and facilitate the sharing of expertise and best practices.

Social Insurance

Long term goal: Affordable, broadly subscribed social insurance systems capable of delivering adequate benefits established.

Short terms goals: Current pension reforms continued and completed; social insurance reforms initiated where sufficient capacity exists to make meaningful progress.

Social insurance (both public and private) is the primary way people sustain their livelihoods when unemployed, disabled, or retired. To date, USAID’s focus has been on pension reform. Major challenges include: (1) lack of an adequate legal and regulatory framework; (2) lack of a cadre of professionals in pension supervisory authorities; (3) difficulty producing results once the private pension fund sector is established; and (4) difficulty integrating international standards and best practices into pension management and supervisory practices and procedures.

Possible interventions to address these issues include:

Assisting policymakers to develop the capacity to analyze pension systems demographically, economically, and politically so as to develop acceptable and fiscally sustainable pension reform policies, as well as responsive legal and regulatory frameworks;

Supporting the establishment and/or maturation of creditable institutions to manage and regulate the reformed pension system through on-going capacity building;

Developing programs to generate a well-trained cadre of pension economists and actuaries, which are crucial to the long-term success of pension reform, as well as to the successes and stability of the insurance industry in general; and

Raising public awareness regarding the system's purpose, benefits, roles and responsibilities.

Social Assistance

Long term strategic goal: systems in place to provide means-tested targeted assistance to vulnerable individuals, households, or communities.

Short term goal: targeted assistance programs initiated in the poorest countries.

Societies need to supplement the income of vulnerable and individuals in crisis and families living in poverty with cash or in-kind benefits (e.g., "welfare"). Major challenges in reforming social assistance programs include: (1) the lack of good data on assets and social assistance expenditures; (2) the large number of people who are living in poverty without minimal benefits; and (3) inadequate targeting of benefits, which may result in the non-poor receiving more benefits than poor individuals.

Possible interventions to address these issues include:

Increasing the accuracy of targeting assistance to the poor through (i) pilot programs focused on means-testing, information collection, and database tracking; and (ii) more effective publicity campaigns designed to inform poor families how to apply for benefits;

Enhancing efforts to reach vulnerable populations who are excluded from or inadequately covered by the social safety net, including single pensioners, the disabled, single parent families, the Roma and other ethnic minorities, refugees, displaced populations, migrant laborers, and long-term disaster victims; and

Strengthening social assistance delivery structures particularly in remote areas with poor resources through: infusion of capital; increased coordination of state providers; training; enhanced public-private partnerships; development and integration of new service providers, including NGOs, into existing networks.

Assessing Country Vulnerability

To assist Missions in addressing the most urgent social issues, the Social Transition team has identified critical vulnerabilities, also referred to as sector hotspots, in education, labor, and vulnerable groups across the region. These findings have been analyzed within the context of a number of frameworks, including the country classifications in USAID's Agency Policy Framework for Bilateral Foreign Aid (January, 2006), indicators compiled by EE/PO's Monitoring Country Progress, EUR/ACE-E&E phase-out dates, and other donor involvement in the social sector. Critical trends and recommendations by country are summarized in Appendix B.

As depicted in the map below, the most vulnerable include Moldova and the countries in Central Asia and the Caucasus. Although less vulnerable than the Eurasian countries, the countries in Southeast Europe have yet to meet the status of the Northern Tier countries at the time of their graduation from USAID assistance. Before designing assistance activities within a particular social sub-sector, the E&E Bureau encourages Missions to conduct a full social sector assessment to pinpoint the areas requiring the most attention.

Crosscutting Themes and Sector Linkages

Addressing crosscutting issues such as corruption, trafficking in persons, gender and youth during analysis and design can further pinpoint vulnerability and need in the social sector. These themes are introduced in Section I and highlighted in the relevant sub-sector discussions. Including an examination of the linkages between the social sector and health, democracy, and economic growth will sharpen problem identification and maximize the allocation of resources among sectors. (See the cross-sector linkage charts in Appendix C).

Figure 1: Social Sector Vulnerability Across the Region*



*Map created on October 31, 2005. This particular chart shows education and labor market vulnerabilities. Updated versions will incorporate findings from other sub-sectors.

INTRODUCTION

A. The Importance of the Social Sector in Transition

Social transition is a critical component of the overall transition to market democracies. A sound and healthy social sector – which includes a well-functioning and flexible labor market; an education system that provides the skills needed in the market; social services appropriate to different segments of the population; public and private insurance to manage risk across the life cycle; and social assistance for the vulnerable – is fundamental for a thriving economy and democracy. In order to be productive, citizens need skills that they can sell in an efficient market and need to be protected from the inevitable vagaries of life.

Early assumptions that the Soviet health and education sectors were the hallmark of these societies and weather the transition have proven false. Monitoring the progress of transition over the past decade shows that among all the E&E goals, social indicators are the most disappointing, revealing widespread declines in many aspects of health and education, degradation or elimination of social safety nets, and increasing vulnerability of youth and other social groups. Social systems have deteriorated and the benefits of reform have not automatically trickled down to all segments of the population. Rather, many of these societies have become increasingly stratified, with deep pockets of poverty emerging in some.

In addition to the personal and social consequences of these declines, failure to improve in these areas can inhibit performance in economic and democracy objectives. For example, the “voting with one’s stomach” or “voting out of discontent” which led to the election of communists in Moldova in 2001 and 2004 was a disheartening result of donors and governments not paying adequate attention to the negative impact of transition on people’s wellbeing. Recovering from the 1998 financial crisis also revealed linkages when more than 20 E&E countries’ positive economic growth belied real wage declines and job loss, forcing tens of thousands into subsistence farming and the gray economy.

Equally important, the context for U.S. assistance has changed over the last five years. The events of September 11, 2001 and the global war on terror have elevated the importance of addressing development goals as part of the U.S. Government (USG) response to combating extremism. Key to this strategy is the assumption that poverty, unemployment, social injustice, inequality, and lack of economic and political opportunity fuels frustration and leaves individuals, communities, and countries vulnerable to terrorist networks. Attention to social transition issues will also help countries qualify for resources under the Millennium Challenge Account (MCA) by demonstrating a strong commitment to a key criterion: “investing in people”.

B. Shifting Toward a Market Democracy

In Europe and Eurasia, social transition includes the transformation of social organization, structures, and values from those that support a command economy to those that support a market democracy. This shift requires changes at many levels of society.¹ Most importantly, it includes the diminution of the role of the State in dictating the life of its citizenry and the empowerment of individuals, families, and communities to take more initiative and make key decisions regarding their lives. The social contract between E&E governments and their people – whether explicit or implicit, agreed-upon or imposed – is shifting during transition. Under the old system, the State provided cradle-to-grave support in exchange for the surrendering of individual rights and initiative, and in some cases, dignity. That reality is changing to one in which the individual has enhanced rights and responsibilities and shares the burden, along with the private sector, of supporting the social system with the State.

The balance of burden sharing among the State (at central and local levels), the individual, private business, and non-governmental organizations is still being worked out in most countries of the region. State budget constraints, weak tax enforcement systems, the absence of a culture of philanthropy to support NGOs, and corruption have meant that the burden of providing social support has, in many cases, fallen disproportionately upon the individual while the quality of services has declined sharply. In some cases, where the burden has shifted too sharply from the State to the individual, there has been recidivism toward communism, as in the case of Moldova.

During the transition to market democracies, the role of the State evolves, but remains critical – as that of regulator and facilitator. Concomitantly, individuals, households, employers, and local communities absorb a more significant portion of the costs related to social sector services and opportunities. Helping countries in the region find the right balance in allocating the costs of social protection policies and programs is a major aspect of transition. Models range widely; from those commonly found in Western Europe and Scandinavia, where the State plays a significant role, to the U.S. model that is largely private and individual.

In a transition scenario, the social sector picture itself is dynamic. The choice of who is vulnerable and in need of help may appear clear initially, but circumstances change throughout the life cycle. For instance, obsolete vocational skills may force an unemployed worker to move in search of a job. High medical bills may wipe out a family's savings. Or, a retirement couple may lose its pension to inflation. On the other hand, a child adopted by a stable family can leave the institutional support of an orphanage, go to school, and participate in society. Or, an unskilled worker who can access relevant education has the opportunity to secure a job with benefits. In a market democracy, the key is determining who needs assistance, when the assistance is needed, what type of help they require, for how long they require help, and what cost the help implies. While most citizens may require assistance only at a specific point in time, a smaller group may never have the capacity to be productive and therefore will need lifelong support.

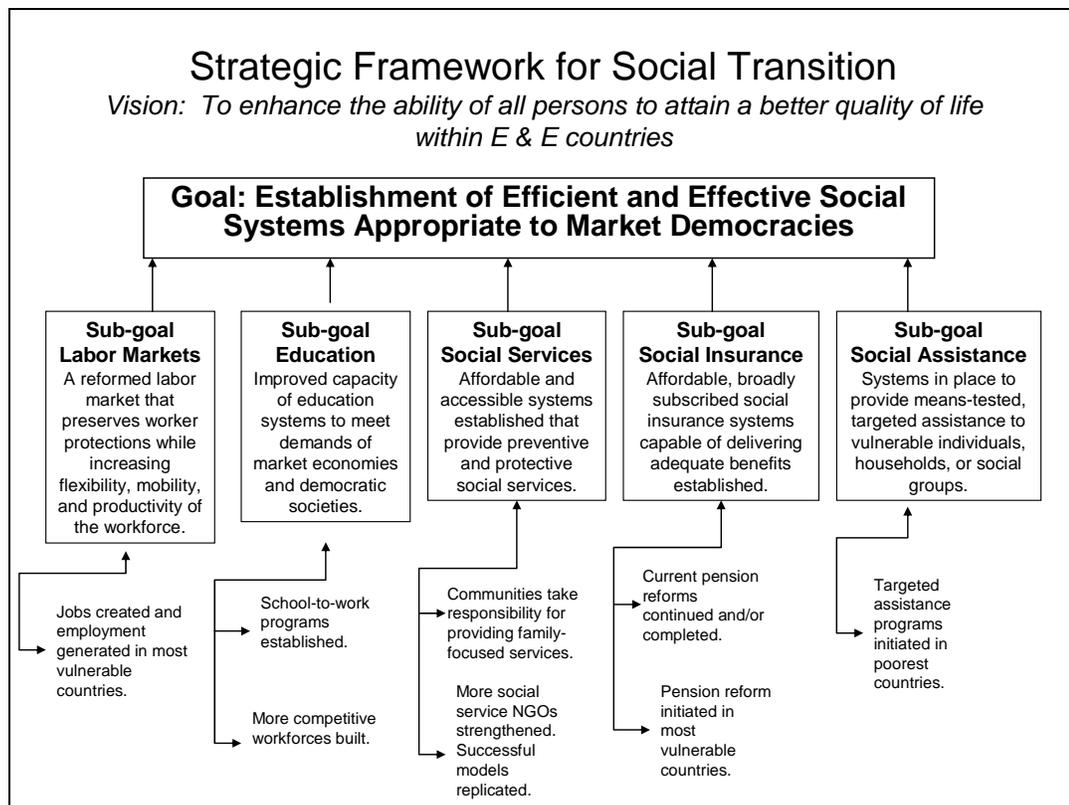
¹ The 2000 social transition strategy outlines a range of issues including consensus building in society on roles and responsibilities; restructuring the legal and regulatory framework, fiscal decentralization; new paradigms for program administration; and capacity-building. See: Bureau for Europe and Eurasia, *Broadening the Benefits of Reform in Central and Eastern Europe and the New Independent States: A Social Transition Strategy for USAID*; February 2000; pp. 3-5.

Taken together, these issues present to policymakers and practitioners a series of challenges in transforming the social system to one that supports market-oriented democracy. They include: (i) ensuring the impact of economic and political policies is fair and optimal in order to optimize growth and wellbeing; (ii) developing a safety net that assists those in need at critical points in the life cycle and cares for and integrates the most vulnerable in society; (iii) developing a social protection system that reduces risks and provides for public-private burden sharing; and (iv) designing tools and incentives that accelerate human potential through increased access, opportunity, participation, and private burden sharing.

C. Strategic Framework for Social Transition

The strategic framework guiding USAID assistance to E&E countries is illustrated in the following chart. The vision of the Bureau Social Transition Strategy is to enhance the ability of all persons within E&E countries to attain a better quality of life. The strategic goal for social sector assistance is to establish efficient and effective social systems appropriate to market democracies. This is a long-term goal.

Figure 2



To help focus assistance efforts in the short-term, the Social Transition team has identified social sector hotspots in education, labor, and vulnerable groups and will further refine these analyses in the near future. Specific descriptions and conclusions gathered from the hotspots analyses are discussed in the relevant sub-strategies and summarized in Appendix B, Country Trends and Recommendations.

As depicted in Figure 2, a set of goals for each sub-sector supports the strategic goal for social transition. The first tier of goals (i.e., sub-goals) is long-term in nature. The second tier identifies the shorter-term goals of this strategy. These are concentrated on assisting E&E countries to address those social sector hotspots that impede the progress of their transition toward a market-oriented democratic society. It is expected that these shorter-term goals will change as the strategy is implemented.

Detailed discussions of each sub-sector are contained in Sections II-VI.²

D. Assessing Country Vulnerability

Appendix B, Critical Trends and Recommendations, provides a comprehensive tool for helping mission staff identify vulnerability and priority needs for their countries. It is based on a number of Agency and Bureau tools, including the country classifications in USAID's Agency Policy Framework for Bilateral Foreign Aid, indicators compiled by EE/PO's Monitoring Country Progress, analyses conducted by the E&E Social Transition team, EUR/ACE-E&E phase-out discussions, and other donor involvement in the social sector. These recommendations will be updated and extended over the next year as the Social Transition team continues to implement its analytical agenda.³

Conclusions from these studies have been incorporated into this strategy, including a menu of possible interventions under each sub-strategy. Before designing assistance activities within a particular sub-sector, however, the E&E Bureau encourages Missions to conduct a full social sector assessment to pinpoint those areas requiring the most attention. Particular country conditions, past activities, political will, number of years remaining prior to close-out, and numerous other factors will combine to identify which sub-sectors and which interventions should be a priority in each country. Once priorities are established, more detailed analysis may be required to determine whether the necessary preconditions are in place before a chosen intervention can be implemented.⁴

E. Crosscutting Themes

Addressing crosscutting issues during analysis and design will help missions further pinpoint vulnerability and need.

Corruption

The E&E Bureau's approach to anticorruption is presented in Transparency, Accountability, Prevention, Enforcement, Education (TAPEE): An Analytical Framework for Combating Corruption and Promoting Integrity in the Europe and Eurasia Region. This framework addresses

² Relevant abbreviations and a glossary of social sector terms are contained in Appendix A.

³ For a list of current and future studies, consult the Social Transition Team and the Social Transition intranet website.

⁴ Sequencing activities can be complex and highly technical. Resources for helping Missions with this task include expert advice from the Social Transition team members, the Social Transition intranet website, and the annual Social Transition workshop.

different forms of corruption across all sectors and provides guidance on how to strengthen anticorruption efforts in the region.

Systemic corruption, as distinguished from individual corruption, is deeply entrenched in society and government institutions and is defined as “the abuse of entrusted authority for private gain”. It is comprised of high-level, or *grand corruption* and low-level, or *administrative corruption*.⁵ The general approach for addressing corruption aims at creating an environment that supports institutional and procedural integrity by identifying and assessing: (i) predominant corrupt practices; (ii) systemic factors that drive corruption patterns; and (iii) structural weaknesses associated with corrupt practices.

In the social sector, corruption affects the daily life of citizens in very tangible ways. For instance, the selling or buying of grades, diplomas, professional licenses, and certification for disability and other benefits are common practice. Embezzlement of public funds is often related to ghost teachers and the collection of benefits under an assumed name. As in other sectors, bribes and kickbacks are routine in social sector contracting, as are favoritism and nepotism in hiring, and promotion in social service institutions.

Gender

During Soviet times men and women achieved enviable levels of gender equality by the standards of many other nations with similar GDP levels. Across the region, men and women had relatively equal access to education, health care, and employment. Now, many believe that women’s gains and status have begun to erode and some indicators suggest that the transition is resulting in different impacts on men and women. For example, the gap in life expectancies between men and women in Eurasia is widening and women’s representation at many levels of government across the region is declining.

Assessing gender-related trends and issues in the social sector is surprisingly difficult due to the lack of sex-disaggregated data for many social indicators and to the absence of comparable cross-country data on other issues of concern, such as domestic violence rates. To some extent, the paucity of data is because many gender issues are highly sensitive and both citizens and governments may be reluctant to discuss them openly. In such cases, data trends need to be complemented with in-country observations, small-scale studies, and anecdotal reports. A gender analysis is in progress for the E&E region, which tracks a series of indicators with a special focus on education, employment, and earnings.⁶

Gender disparities in the E&E region are not as great as those found in other parts of the world. Some issues that may bear watching in E&E social sector analysis and programming include: domestic violence; the impact on women of rolling back family supports such as maternity leave and state-provided childcare; increasing pay gaps between men and women; potential poverty

⁵ E&E Bureau, TAPEE Framework, August 2005, chapter 2.

⁶ USAID, Europe and Eurasia Bureau, *Women and Men in Europe and Eurasia: An Analysis of Gender Parity in the Social Sector* (in progress). More information about gender trends in the region may be found at the following websites: UNECE Gender Activities Homepage; World Bank GenderStats: <http://devdata.worldbank.org/>; United Nations Development Fund for Women (UNIFEM): <http://www.unifem.org/>; UN Inter-Agency Network on Women and Gender Equality - Women Watch: <http://www.un.org/womenwatch/>.

issues for female-headed households, particularly as divorce rates increase; increasing risks and gaps in the safety net; and gender differences in secondary and higher education enrollments.

Trafficking in Persons

Trafficking in Persons (TIP) is an explosive problem in the region. At-risk groups in E&E contrast with those in other regions because those vulnerable to trafficking constitute a majority of the population, rather than just marginalized or minority groups.⁷ TIP adult victims usually have secondary education or higher, but lack the job security and seeming stability provided under the communist system. Trafficking is more likely linked to organized crime in the region, which is home to the most pernicious organized crime groups in the world.

USAID anti-trafficking efforts focus on (i) reducing the vulnerability of youth, especially young women and children, to traffickers; and (ii) addressing the underlying factors that have given rise to TIP, such as the widening and visible gap between rich and poor, high unemployment, breakdown of family and community networks, high uncertainty and instability. Over 10 percent of trafficking victims assisted in the region are minors, the most vulnerable being orphans, street children, children from abusive homes, and Roma and other minorities.

Some issues to consider during social sector analysis and design include: workplace discrimination against women and ethnic minorities; inadequate protection for labor migrant rights; underlying causes for youth unemployment; gender stereotyping in schools; and lack of capacity within the social services to assist victims of trafficking.

Youth

The demographic trends for youth in the E&E region are moving in two directions. In some countries (e.g., Albania, Azerbaijan, the Central Asian Republics, Kosovo, and Macedonia), the proportion of the population under 25 years is 50 percent or higher, and growing. In other countries (e.g., Bosnia and Herzegovina, Serbia, and Russia), the under 25 age group is similar to western countries, but declining. Each situation carries different implications for social sector reform.

In either case, E&E youth are increasingly vulnerable and at risk for negative life outcomes. Large numbers are out of school and unemployed, leaving them with uncertain prospects and feelings of alienation from society. Unengaged youth are more susceptible to risky behaviors (e.g., abusing alcohol or drugs, engaging in unsafe sex, committing crimes) and potentially attracted by fringe or fundamentalist ideologies. At the same time, young people are important resources for solving social problems and sustaining transition gains in the future. Research in the region shows a positive link between progress in transition and progress for young people.⁸

USAID could make a significant impact on social concerns by enhancing opportunities for youth in its programs, particularly in relationship to employment, education and training, and community-based social services. Youth issues are strategically integrated into the various sub-

⁷ UNDP research report on TIP in the Commonwealth of Independent States (CIS), forthcoming in 2006.

⁸ Maria T. Nagorski for the E&E Bureau, *The Hope of Tomorrow: Integrating Youth into the Transition of Europe and Eurasia*, 2004, pp. 11-12.

sector discussions. Additionally, numerous approaches for incorporating youth into Mission plans are detailed in the E&E Bureau's youth manual.⁹

F. Sector Linkages

Including an examination of the linkages between the social sector and democracy, health, and economic growth can sharpen problem identification, maximize the allocation of resources among sectors, and help sustain progress toward meeting transition goals.

Appendix C identifies cross-sector linkages that benefit the objectives of each sector. In some instances, social sector activities are a necessary complement to progress in other sectors. For example, following recognized labor standards in the workplace reduces occupational accidents and fatalities at the firm level. Up-to-date training and education improves individual and business competitiveness. Recasting social insurance eligibility requirements or benefit duration may help small and medium enterprises afford coverage for employees. Early childhood education links education, health and nutrition and promotes healthy cognitive development.

By the same token, work in other sectors can advance improvements in the social sector. For example, more accountable and transparent fiscal management systems improve the efficiency and effectiveness of social sector investments. Dismantling inefficient state structures and devolving responsibility to local authorities enables communities to take responsibility for social services. Training journalists to understand and accurately report on social issues helps put social concerns on the national political agenda.

⁹ Nagorski, *The Hope of Tomorrow*, 2004.

LABOR MARKETS

Employment is the principal source of income for most households, making the labor market¹⁰ a cornerstone of any social protection system. Considering that one's job is often the conduit to accessing other components of a social protection system – such as tax deferred savings for retirement, various types of insurance, and skills acquisition – then a well-functioning labor market is the first line of defense to preserving and improving human welfare.

A. Challenges and Constraints

Achieving smooth labor market function is not easy in any country. The policies and institutions that regulate employment require ongoing review and fine tuning to stay in check with the supply and demand for skills. Moreover, they must satisfy the conflicting interests of multiple parties (workers, business owners, sector associations and government officials), each of whom has a different stake in the outcome of changes to policy and regulations affecting the workforce.

The key problem in E&E labor markets today is that most countries have instituted only half-measures on the road to reform. The result is a hybrid system that bears some features compatible with market economies, and some remnants of protectionism common to the previous system. Missions are observing the symptoms associated with these hybrids: job creation lags, and in some cases stagnates, while economies show signs of positive growth. Shortages of skilled labor exist in one area of a country, while numerous vacancies go unfilled in another. Paying attention to labor market function is the way to move past the symptoms to address the underlying causes.

E&E Labor Market Legacies

Labor markets under communism were rife with tradeoffs. In attempting to build an economy free from human exploitation, the State implemented expensive and inflexible policies with the goal of reducing inequality. Plans were inefficient in the economic sense, because they emphasized production quotas and full employment instead of worker productivity, cost effectiveness, or time saving technology. Education and training were consequently skewed toward narrowly defined and highly specialized job functions to ensure that everyone had a job. Residency permits and workplace allocated housing were additional ways the State controlled workforce deployment and movement.

These were the compromises necessary in the view of the State to achieve total job security, meet basic needs, minimize the disparity between the least and highest paid worker, and provide universal guarantees to health, education and other social benefits. For the system that it was

¹⁰ The labor market is the system of policies and laws, everyday practices, support networks and flows of information that govern interactions between job seeker and employer.

intended to serve, it worked – for the most part. For an agile, responsive, market oriented economy, however, such policies can be disastrous.

Today, two central features of the old system remain largely intact: low mobility and high rigidity. Some examples of the consequences of those legacies, and how they negatively affect market operation and human welfare, are noted below.

Rigid policies, poorly funded public programs, and weak labor market institutions impede reform:

- Labor codes retain some of the strict legal controls on hiring and firing workers, making it difficult for enterprises to adjust their demand for labor in response to market trends, internal financing, or exogenous economic crises.
- Ministries of labor tend to hold less prestige and influence within a cabinet than their counterparts. They command few resources and are in a weak position to attract and retain the best among public servants. The main casualties are state employment bureaus. Lacking talent and resources, these service outlets perform poorly, lack a client-oriented service culture, and fail to network with the business community to understand labor demand.
- Trade unions, whose notional authority was strongly tied to the ruling party under the old system, are having mixed success in the new economy. Generally capable at monitoring the enforcement of worker protections, unions are only beginning to acquire genuine expertise and prominence in collective bargaining, arbitration, membership recruitment, and dispute resolution. A key challenge is to improve their ability for effective negotiation by raising the low levels of economic literacy among union leaders.

Insecure jobs, obsolete skills and insufficient adaptation tools reduce risk taking:

- Workers often find themselves in legal limbo. Those owed wage arrears have little legal recourse to collect. Quitting leaves them jobless and blemishes their work history. As a compromise, many workers retain their status as employees in one firm but factually work elsewhere, frequently in the shadow economy where they forego legislated benefits and protections. Low paid and unskilled workers are the most vulnerable in such situations.
- The majority of workers lacked the skills, flexibility, or information to mobilize toward jobs created in the new economy, especially in the underdeveloped non-state service sectors, such as finance (banks, investment, accounting); communications (telephone, wireless, internet, for-profit media); not-for-profit organizations (environmental advocacy, human rights, etc); hospitality (hotels, restaurants, tourism); and promotion (advertising, marketing).
- Relocating to areas of job demand is a risky choice for workers afraid of sacrificing the few secure assets they can count on, such as housing, family and social networks. The effects of low inter-regional mobility are common in countries that have surplus labor in one city and unmet demand in another.

Employers, who want to do the right thing, cannot:

- Firms trying to hire new talent or to lay off unproductive staff are challenged by protectionist features of many E&E labor codes.
- Complying with labor regulations imposes high transaction costs, leading firms to bypass state regulations in favor of quasi-legal temporary contracts or informal arrangements.
- The structure of labor laws creates an incentive to underreport wages which has the additional impact of reducing benefits. The high statutory cost of labor places both worker and employer in a catch-22: employers find it hard to grow businesses and increase wages due to the high rates of social tax; workers accept underreporting of wages as a compromise for keeping their jobs.
- Employers either do not have the funds to invest in training or are skeptical that training will yield more efficient, productive, loyal and secure workers.

In short, improving earnings and expanding employment requires corrective labor market intervention as a necessary complement to economic growth strategies. The evidence is indisputable: bouncing back from the 1998 financial crisis, more than 20 E&E countries experienced year-on-year increases in GDP, while real wage growth and employment gains for the same period were slight or declining.¹¹ Persistent and unaddressed labor market barriers force workers into subsistence farming and informal sector jobs. Arguably, these are important coping mechanisms, but they have the potential to exacerbate distortions in the labor market, and not unimportantly, fiscal balances in the social protection system. If citizens are to witness the benefits, rather than just the pain, of transition, then greater attention must be paid to labor market structure and function, as a critical component of macroeconomic and social policy.

Patterns of Change

Analyses comparing E&E labor markets have yielded new insights into progress and vulnerability. Based on a multi-indicator framework, studies carried out by the Social Transition team in 2003 and 2004 examined trends over a ten-year period in four areas of labor market performance: workforce participation, government capacity and commitment to reform, productivity, and outcomes for workers. The following trends emerged:

- Declining labor force participation (workers dropping out of the market);
- Growing informal sector employment (a near-term coping strategy with detrimental long-term effects on the social protection system);
- Misallocation of labor, i.e. increased employment in the agriculture sector, despite a comparatively low or declining contribution of agriculture to GDP;
- Lower worker mobility (most likely connected to information flows, an underdeveloped housing market, and increased risk aversion);

¹¹ Compare EBRD calculations for the average annual change in GDP growth (1997-2001) versus the average annual change in employment growth (1997-2001). The one exception was Macedonia, where employment growth outpaced GDP growth on average.

- Excessive public sector employment;
- Disproportionate unemployment among certain demographic groups, such as males under 29, females over 55, or people with secondary or tertiary education in specific countries.

B. Activities and Progress to Date

During the previous five years, only two missions have addressed **systemic barriers in the labor market**. *Croatia* supported a national level tripartite dialogue with the goal of developing consensus among the government, business leaders, and trade unions on painful but necessary labor and social reforms. *Bulgaria* placed a high level expatriate advisor in the labor ministry to counsel senior policymakers on restructuring personnel, analysis, and services. Each choice was specific to the circumstances of its host country, was process-oriented, and rested on the logic that building domestic capacity for problem solving would yield significant benefits – if not immediately, then over the long-term. *Armenia* and *Bosnia* are planning future interventions.

In contrast to a systems approach, several missions have chosen initiatives that increase employment directly. As discussed below, these fall into two categories: employment generation, which applies non-market, short-term interventions using public funds (sometimes referred to as “public works”); and job creation, which takes longer and uses market-oriented approaches with a higher rate of sustainability

Employment generation, particularly for displaced or hard to employ groups – *Macedonia* (Youth Employment Support), *Georgia* (Georgia Community Mobilization Initiative), *Serbia* (Community Revitalization through Democratic Action), and *Armenia* (Social Sector Restructuring) implemented various public works or community rehabilitation projects. *Bulgaria* and *Bosnia* targeted dislocated workers (demobilized soldiers) with short-term employment and retraining.¹² The effects were immediate and visible, making them vital vehicles to reduce social tension or restore community cohesion, particularly in areas recovering from conflict. An added advantage to these programs is that they lay a valuable foundation upon which a mission can advance other strategic goals, such as municipal restructuring or capacity building.

Sustainable job creation programs were implemented through local economic development models in *Bulgaria*, *Macedonia*, and *Romania*. In combination with related programs to increase enterprise competitiveness and to strengthen worker redeployment, these activities have yielded close to 10,000 jobs. In some cases, projects led to the adoption of new laws that improved market and governance practices. Missions interested in achieving quantifiable and sustainable labor market results must be prepared to fund these process-intensive initiatives for at least three years in order to realize impact. Microfinance projects are also a staple used by missions to create jobs for those with an entrepreneurial instinct. These approaches target a critical segment of the labor market, which in turn can create more jobs. However, it is not a sizeable segment of the labor market, so the effects may be modest at the level of national strategy.

¹² This undoubtedly captures only some of our missions’ efforts at employment generation, since missions have variously used other stimulus programs, especially in post-conflict situations, such as “food for work.”

A third area broadly supported by USAID across the region was the **funding of labor market surveys**, which strengthened overall statistical collection, analysis, and understanding of labor market conditions and barriers. Mission funding for statistic bureau improvements tended to be one-time events, sometimes in coordination with other donors (World Bank, IMF or ILO support). Nevertheless, they laid a foundation for lasting improvements.

Lastly, a number of missions indirectly contributed to improvements in labor market institutions by supporting **trade union development** under their democracy portfolios. As funding has declined, implementing partners have tried to magnify the impact and relevance of trade unions by using them to serve other portfolio needs. Trade unions in *Croatia*, for example, sponsored breast examination awareness fairs and played a critical role creating public support for the country's move to a multi-pillar pension system.

C. Proposed Interventions

Many labor market problems are addressed most effectively at the systemic level, by changing policies to remove barriers to interregional mobility, simplify administrative procedures, and introduce incentives for demand-driven skill development and redeployment. One of the challenges E&E countries face is trying to balance necessary reforms with public discontent over the negative consequences certain reforms will inevitably bring. Governments trying to meet EU accession or World Bank lending criteria, for example, may be forced to reduce industrial subsidies. These reductions lead enterprises to displace additional workers, which in turn can trigger public protests and imperil the existence of reform-minded administrations.

Program Options

The following list matches constraints with the countries where such problems are particularly acute. Given resource limitations, much of the strategic and technical advice in specific cases would emphasize integrating approaches into existing activities rather than planning new stand-alone efforts.

Employment generation can be a valuable tool to support stability during periods of extreme economic downturn, but mission expectations should be realistic. The non-market nature of the effort – where labor is either publicly funded or offered as an “in-kind” contribution by the community – makes the impact of such programs on labor markets small and unsustainable. Missions that have used such approaches (*Georgia, Serbia, Armenia, Azerbaijan, Moldova*) are encouraged to consider ways to build on achievements of “mobilizing individual communities” by developing follow on activities that link to market driven demands for skills in order to increase the prospects of sustainable employment.

Interregional mobility is strongly connected to an inadequate supply of affordable housing and insufficient resources to finance relocation. Promoting greater liquidity in the housing market, coupled with incentives to induce qualified labor to relocate, can have important stimulus effects on labor market reform. This problem is particularly acute in *Russia*, where some cities cannot find qualified workers while others languish following factory closures. The mission might consider ways in which its substantial investments to develop SMEs and credit networks in Russia might be used to bring cities with labor surpluses and those with shortages into dialogue

with each other. Mobility is also constrained in *Bosnia* by a number of factors, including its multiple entity structure.

Making workforce development an explicit component of competitiveness initiatives is one way to address the misallocation of labor. Thirteen of the twenty-six missions worldwide to adopt competitiveness projects are in the E&E region. Missions are encouraged to learn from each other's approaches and to consider how influential actors within an industrial cluster can signal their demand for skills to education providers and the workforce itself. Self-interested clusters might mobilize faster and more successfully than labor experts in identifying and advocating for the removal of barriers. This approach is especially recommended for missions dealing with positive birth rates and high youth unemployment (*Albania, Kosovo, Macedonia, CARs*).

Job creation initiatives based on a comprehensive worker deployment model have a demonstrated cost-effective impact. Utilizing a community focus, this model has increased economic diversity at the local level and improved job retention. Helping businesses find cost savings through technology, productivity increases, or improved human resource strategies has prevented layoffs in a number of cases. Given the three-year commitment typically involved in these methods, the worker redeployment model is worth considering for missions that assign priority to job creation, but are not under immediate phase out pressure (*Azerbaijan, Armenia, Bosnia, Georgia, Kosovo, Moldova, CARs*).

Internal data analysis should be strengthened and expanded. While data collection has improved dramatically through statistics agencies and the administration of labor force surveys, the information is not used to make informed policy choices. This is especially true of urban-rural labor market distinctions. Many governments are at the mercy of external experts (World Bank, IMF, EU) whose recommendations are often poorly received by the public. Missions (*Bosnia, CARs, Georgia, Kosovo, Moldova*) might consider projects that build capacity to analyze the data and orchestrate public education campaigns on the tradeoffs of policy changes.¹³

Integrating Crosscutting Themes

There are a number of ways missions can integrate crosscutting issues into their labor market strategy. Efforts might include fighting discrimination against women and ethnic minorities in the workplace; providing decent and dignified work for youth; and raising awareness of TIP among workers in employment bureaus and involving them in public awareness campaigns to youth and communities. If missions are working at the policy level and interested in addressing trafficking concerns, they might consider supporting bi-lateral labor and guest worker agreements that provide more opportunities to work abroad legally and improve protection of labor migrant rights. If missions want to target at-risk youth, they could consider linking young people aging out of institutions or foster care with jobs in small business development programs.

¹³ This is especially true in societies where the public demands a well-funded, European model of active labor market policy and assistance, but is rarely willing to bear the cost in the form of higher taxation.

D. Expected Results Over the Next Few Years

The results over the next few years will depend on level of effort and the receptivity of each country toward change. Elected leaders will be reluctant to embrace policies that quickly liberalize labor markets and increase worker mobility if the political cost is too high. How a society softens the impact on those dislocated from the market and assists their redeployment are sensitive issues, especially if that country is under pressure to build social cohesion and stability while improving fiscal discipline. These challenges place a premium on effective public communication, so that workers advocating for a European model of labor market policies understand their cost-sharing responsibilities in the form of higher taxation.

Current Funding Levels

Assuming no change in funding, missions can make a difference by examining labor market barriers in their countries and then strategically refocusing existing projects to work toward their removal. The earlier example of introducing workforce competitiveness is one possibility. Missions working in the area of mortgage financing may think about analyzing the impact of housing on labor mobility.

Higher Funding Levels

If funding is increased, missions are encouraged to address systemic level changes. Revising labor codes and implementation regulations that remove labor market barriers can complement other efforts with legal and judicial experts. If systemic issues are not the most significant, missions may want to look at processes that align private sector demand for skills with available supply. That would include examining and addressing the inadequacies of the education and training system at the secondary and tertiary levels. Funding might also be directed to assist in the retraining and redeployment of specific disadvantaged groups, such as the long-term unemployed, youth, women, ethnic minorities, ex-military, etc.

E. Description of Endpoints of U.S. Assistance

USAID cannot ensure well-functioning labor markets on its own, but it can create benchmarks that suggest sufficient capacity is in place to carry forward and sustain critical labor market reforms. Such proxies include:

1. Multi-year improvements in labor market participation, coupled with reductions in unemployment, would suggest that requirements for formal sector compliance are easing. Participation should reach 70 percent of the working age population; unemployment will be very specific to country circumstances, and fluctuate in composition (full-time, part-time, seasonal).

2. Reduction in the share of public sector employment to less than 25 percent of all job holders would be a strong indication that the state is divesting its role as the employer of last resort.¹⁴
3. Average wages should not fall below two times the subsistence minimum.
4. A narrower gap between a country's official unemployment rate and labor force survey rate would indicate more accurate reporting of labor market information and possible reductions in informal sector activity. Gaps larger than 2 percent for similar reporting periods should be viewed as problematic.
5. Countries with upwards of 20 percent of their population deployed in a particular sector should pay attention to the multi-year estimated contribution of that sector to GDP to determine whether that labor is being used in a rational way. Situations where greater than 40 percent of the workforce is in a sector yielding 4–9 percent of GDP do not offer sustained economic growth into the future.

¹⁴ Partial or full state funding of salaries in some E&E countries exceeds 40 percent. As a comparison, public sector employment in the United States combining all sources is under 17 percent of total employment, including federal (2.2 percent), state (3.5 percent) and local (10.5 percent). This type of proxy complements the EG measure of private sector enterprises.

EDUCATION

Education has a central role in the formation of human capital – an essential component of economic growth and societal development. Formal and informal education systems are the principal means by which people enhance their skills and knowledge, productivity, and adaptability to changing requirements of the workplace. As the pace of technological development accelerates, so does the need for regular upgrading of skills to remain competitive in the job market.

A. Challenges and Constraints

More than a decade after the dissolution of the Soviet Union and the beginning of a transition to a market economy and democratic society, the region faces three broad challenges in the education sector:

- Maintaining the earlier educational achievements and slowing or reversing the process of deterioration that has been taking place;
- Reforming the education systems so that they correspond to the needs of the market economy and democratic society; and
- Ensuring access and equity to education for all groups, regardless of gender, ethnicity, and socio-economic standing.

Resources for Education

Many governments in the region reacted to the deteriorating economic situation of the 1990s by reducing the education sector's share of GDP. Between 1998-2002, E&E countries spent on average 4.6 percent of their GDP on education, as compared to the OECD average of 6 percent. This general trend masks regional variation, where some countries maintained financial support only for the most basic sector components (*Central Asia, Caucasus, Albania, and Kosovo*). In addition, there is a declining trend in educational expenditures for several countries, including a few that have the lowest spending levels in education (*Albania, Azerbaijan*) despite an increasing youth population.

National decentralization policies have resulted in an unequal distribution of resources for the education sector, creating greater inequities in educational choices and opportunities. To compensate for lost revenues, many governments have devolved responsibility for maintaining and financing the education sector to regional self-governing bodies without the commensurate transfer of authority and resources. While some regions have the capacity to generate funds for education and other social programs, regions with low per capita income and little economic opportunity have been left struggling.

The delivery of quality basic education in some instances has been further undermined by the changed composition of education expenditures, with a disproportionate share of resources going to tertiary education, and the focus on maintaining the same number of teachers and staff. As a result, salary expenditures have risen as a share of recurrent education expenses, reaching in some cases 80-90 percent of state budget expenditures for education. This has left little, if any, resources for infrastructure maintenance, in-service teacher training, and teaching aids.

Quality and Relevance

Evidence from international cross-country student assessment tests¹⁵ suggests that the region's education systems are not well aligned with the needs of modern economies. While some of the countries have performed at comparable levels with OECD, over the past several years several of the best performers have registered a declining trend in test scores (*Hungary, Slovakia, Russia, Bulgaria*). It is plausible to assume that those E&E countries less able to cope with the challenges of the transition and whose education systems, as a result, are even more affected, will score lower on these tests.¹⁶

Issues related to quality and relevance in E&E schools systems include:

- **Shortage of qualified teachers:** In the context of declining public revenues, governments have maintained the number of teachers in the system, but have dropped their salaries significantly. In some cases, an average monthly teacher salary is less than a third of the estimated social minimum for survival. As a result, many teachers have taken additional jobs to boost earnings or have left the profession for work in other sectors of the economy.¹⁷ Countries are now forced to employ teachers without appropriate training and certification. This trend is pronounced in remote rural areas;
- **Lack of institutional capacity:** School directors and education administration personnel at all levels of the system lack the training needed to transform and manage systems in an effective and transparent manner;
- **Lack of quality in-service and pre-service teacher training:** Teacher-training institutions are no longer subsidized by the national budget. While some national-level institutions have fought for survival through various income-generating activities, their professional capabilities have suffered. Regional training institutions face even greater constraints without the capabilities to generate additional income;
- **Outdated curricula and textbooks, and shortage of teaching materials:** In order to meet the requirements of a market economy, E&E education systems have to revise both the content and the pedagogy of existing education programs. This involves a sequence of steps – establishing new standards, designing curricula that reflect these standards, and developing textbooks and teaching aids that respond to the curricular requirements.

¹⁵ Starting in the mid-1990's, several countries from Central and Southeastern Europe as well as Russia participated in the following tests: TIMSS – Trends in International Mathematics and Science Study; PISA – Program for International Student Assessment; PIRLS – Progress in International Reading and Literacy Study.

¹⁶ In 2006-2007, Azerbaijan, Bosnia and Herzegovina, Croatia, Kazakhstan, Kyrgyzstan, and Uzbekistan will administer the tests for the first time, providing an important baseline for future comparisons.

¹⁷ This is particularly true for secondary school math, science and foreign language teachers.

While some countries have made limited progress in that direction, their efforts are ad hoc; others are falling rapidly behind. Additionally, there is a critical shortage of affordable textbooks. Even textbook rental schemes are out of reach to lower-income families, thus feeding the spiral of poor achievement and growing dropout rates; and

- Lack of national systems of student assessment and other indicators of educational quality: Most E&E Ministries of Education do not have the expertise or capacity to monitor educational quality or to measure outcomes. Educational standards do not address the requirements of a more decentralized system based on equivalence of qualifications and comparability of results across ethnically and geographically disparate regions.

Enrollments, Access, and Equity

While basic education enrollments remain high, participation at the secondary and tertiary levels has registered declines for several countries. In 2002, basic education enrollments in the region averaged about 95 percent (age 7-15).¹⁸ However, four countries have registered a declining trend since 1998 (*Bosnia-Herzegovina, Georgia, Macedonia, and Serbia-Montenegro*).

Several countries (*Turkmenistan, Moldova, and Kyrgyzstan*) show both low enrollments at the secondary level (age 15-18), as compared to the regional mean, as well as declining trends. Most declines in secondary enrollments have been in the vocational/technical tracks, without compensatory increases at the general secondary level.

The following table presents data for total secondary and tertiary enrollments, and amounts governments spend on education (as % of GDP).¹⁹

Figure 2: Vulnerability in terms of Enrollments and GDP

Country Type	Total Secondary Enrollments (%)	Tertiary Enrollments (%)	% Of GDP to Education
Regional Average	68	34	4.6
Graduated Countries	89	50	5.5
Vulnerable	46	22	2.8
Highly Vulnerable	27	5	2.0

¹⁸ Discussion of basic and secondary enrollments in this document is based on education data compiled by the Innocenti Social Monitor 2004 (published by the UNICEF Innocenti Research Center). Unlike the USAID Education Strategy in which basic education subsumes both primary and secondary levels, the Innocenti report defines the basic education cohort as the percent of relevant population ranging from ages 6-15; although the age range varies slightly among countries (i.e., 6-13, 6-14, 7-14, 7-15). A similar situation exists with secondary education, where the relevant percent of population generally covers ages 15-18, although the specific range will differ according to the existing education structure in each country. USAID defines basic education to include all program efforts aimed at improving early childhood development, primary education, and secondary education delivered in formal and informal settings, as well as training for teachers working at these levels. It also includes training in literacy, numeracy, and other basic skills for adults and out-of-school youth. See *USAID Education Strategy: Improving Lives Through Learning*. April 2005, PD-ACD-232.

¹⁹ The averages are based on the data in the Innocenti Social Sector Monitor 2004.

In 2002, the regional average for total (general plus vocational/technical) enrollments in secondary education was 67.5 percent. Two countries have classified as “highly vulnerable” (*Tajikistan, Turkmenistan*) and six countries as “vulnerable” (*Moldova, Azerbaijan, Georgia, Kyrgyzstan, Armenia, Bosnia and Herzegovina*). The gap in secondary enrollments becomes even more pronounced when the enrollment averages for the graduated Northern Tier countries are contrasted with those of the vulnerable and highly vulnerable countries.

The chart in Appendix D identifies which E&E countries are vulnerable along key categories (enrollments, percentage of GDP allocated to education, per capita income, and percentage of population under 15 years). Several countries show vulnerabilities in more than one category, raising two concerns: (i) some of the most vulnerable in terms of performance are also the poorest, thus the least capable to address challenges; and (ii) some of the most vulnerable and poorest also have large youth populations (*Tajikistan, Uzbekistan, Kyrgyzstan, Azerbaijan*), underscoring the downstream demand on the education system.

Although basic education is theoretically free and compulsory, in practice it is becoming an increasingly expensive commodity in the region. The costs connected with textbooks, transportation, and “tuition” (either in the form of tutoring or contributions for school maintenance), have created barriers to equitable access to education for the poor and average income families. Available data indicate that falling enrollment rates have disproportionately affected the poor, who are forced to spend a larger share of their income on education at all levels as compared to the non-poor.

Demands for equitable access to quality education in one’s native language have become a serious point of contention in some countries and, in *Macedonia*, a catalyst for political instability. Although guaranteed by former and present constitutions, the learning needs of ethnic minorities become a lower priority in countries struggling to provide adequate education services. This is most evident in the lack of minority language textbook development and teacher training. If not adequately addressed, the emerging gap in quality and equity could give rise to new social cleavages and further undermine nation-building efforts.

Corruption in Education

During the past decade, corruption in general as well as in education has become both more pervasive and more accepted as a social phenomenon. Corruption in the education sector can be found at all levels, ranging from siphoning off of government funding and favoritism in appointments to selling grades or offering tutoring to one’s students. Corruption in the sphere of education affects not only the volume of education services but also their quality and efficiency and, subsequently, educational outcomes.²⁰

²⁰ A detailed discussion of corruption trends in the education sector and ways to address it can be found in Annex D of the E&E Bureau Corruption Strategy - *Transparency, Accountability, Prevention, Enforcement, Education: An Analytical Framework for Combating Corruption and Promoting Integrity in the Europe and Eurasia Region* (USAID, August 2005, PN-ADD-630).

B. Activities and Progress to Date

Between 1989-2002, no mission in the Europe and Eurasia region had a stand-alone strategic objective targeting education. Rather, education investments were made in support of other sectors. Most efforts have focused on the tertiary level, and earmarks constituted a large portion of the funding. Starting in 2003, several missions have developed comprehensive programs addressing issues in basic education (*Central Asia, Georgia, Macedonia*). In general, education activities have developed or restructured curricula in several disciplines, introduced new degrees (MBA, actuary science, social work), established new institutions of higher education, supported NGOs active in the area of advocacy or teaching methodology, and created professional associations. Some examples follow.

Western-style higher education institutions created and strengthened. USAID continues to provide support to the newly established western-style institutions of higher education, including: American University of Bulgaria, American University of Armenia, American University - Central Asia, and South East European University in Macedonia. These institutions are established on the principles of equity and quality and represent a legacy of USAID assistance in the region.

Management training and economics education reformed at the tertiary level. The Management Training and Economic Education Project, implemented between 1991-2000 in Central and Eastern Europe, has transformed the way management training and economic education is taught at the tertiary level. Certificate, MBA, and PhD programs were developed in *Albania, Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, and Slovakia*. All programs continue their activities and two of them offer U.S. degrees. Business management education in *Ukraine* has strengthened undergraduate business management education, fostered university and business community partnerships, and developed the capacity for continuing improvement of business management education. Business education in *Central Asia* has established management academies that provide pedagogical training to professors of economics and business in the CAR region and created an Ethics Resource Center in Bishkek.

Curriculum and teaching methodology improved. Civic education projects in *Central Asia and Russia* developed new curricula that are being integrated into required school instruction. The Joint History Project in Southeastern Europe developed four history workbooks that include a more balanced interpretation of history and promote ethnic reconciliation. These workbooks will be translated into local languages – the first such effort was launched in Serbia. The Orava Project in *Slovakia* developed and helped to institutionalize an in-service teaching program. Step-by-Step activities in *Bulgaria, Romania, Kyrgyzstan, Uzbekistan, Tajikistan, and Ukraine* have introduced child-centered curriculum, parent participation in the classroom, and building collaborative relationships. The projects have established local NGOs to deliver educational services post-USAID support.

The Regional Basic Education Strengthening Project in *Central Asia* is improving in-service teacher training and emphasizing student learning skills in curriculum development. The Creative Teaching and Learning Project in *Macedonia* provides training to primary and secondary school teachers and promotes active learning methodology and problem-solving skills.

Institutional capacity strengthened at national and local levels. The General Education Decentralization and Accreditation project in *Georgia* assists the Government to develop and implement a national strategy, action plan, and procedural framework for decentralization and accreditation. Among other things, this effort will increase transparency and reduce corruption in the system. The Regional Basic Education Project in *Central Asia* addresses strengthening institutional, management and technical capacities at the national, oblast, rayon, and school administration levels to better support innovation in schools; and improving school infrastructure.

Equitable access to higher education promoted. The National Scholarship Test activity in *Kyrgyzstan* will build the capacity of an independent testing organization to organize fair and transparent university entrance testing. This facility will help fight corrupt practices related to university admissions and promote transparency and citizen engagement in the distribution of state-funded scholarships.

C. Proposed Interventions

There is no single approach for education sector reforms that will be appropriate for all countries. Successful education systems, for example, vary widely in terms of centralizing or decentralizing responsibilities and structures. The macroeconomic and labor market contexts provide the overarching framework for designing education strategies and aligning them with current and anticipated skill needs.

Program Options

Improve the quality and relevancy of education analysis and policy formulation by strengthening host government capability to analyze and assess the country's education needs and to undertake appropriate reforms to rationalize the system. Targeting management and governance of the education sector, and accountability in the delivery of services will support USAID goals in the democratic transition and improve the capacity of the education structures.

Help countries develop a strategic vision for the education sector and build national consensus for education reform priorities. An education strategy needs to be part of a broader development agenda in order to impart skills needed to create a competitive labor force that responds to the needs of the global economy. USAID is well positioned to play this type of strategic assistance role.

Promote equitable access to education for ethnic and religious minorities and other disadvantaged groups. Education policies that provide for equity of access can be a powerful instrument for fostering social and national cohesion that further supports country's development goals.

Target assistance at areas of the tertiary level that simultaneously promote reform at the basic education level. For example, building management and training capacity of pedagogical institutions would help produce teachers familiar with interactive teaching methods and critical thinking approaches. Likewise, assisting in establishing quality assurance and assessment systems such as licensing and certification of educational credentials, or learning assessments,

will contribute to improving quality and relevance of the education sector. This approach does not exclude or de-emphasize other types of assistance at the tertiary level such as support for curriculum, program, and staff development.

Different Scenarios; Different Approaches

Determining an effective assistance approach for countries at different stages of transition is a challenge for missions. Program choices among the different education levels should be based on the needs, opportunities, and availability of resources. For many of the transition leaders in Europe, the most pressing challenges are at the upper secondary, and vocational and technical levels that are responsible for producing the labor force. In contrast, the countries in the Caucasus and Central Asia face a more critical situation at all educational levels and may require a broader scope of assistance. Given the number of challenges and funding constraints, the focus for USAID assistance in those cases should be on basic education.

In the absence of a specific “window of opportunity” for assistance to the education sector, missions may consider the following suggestions in conceptualizing an assistance strategy for education:

- For low income, low capacity countries with no consensus on reform issues, analyze and address broad, sector-wide needs, donor coordination, and positioning education within the broader national development strategy;
- For low income reform-minded, low capacity countries, choose from the following set: consensus-building around reform issues; formulating an education sector strategy; building broader capacity (regionally or country-wide); introducing curricula for information and communication technologies (ICT), science, and technology at some or all levels of the system; and addressing critical issues in higher education; and
- For middle income, reform-minded countries with moderate capacity for reform, consider (in addition to the interventions mentioned above) support for strategic policy advice, regional partnerships, and life-long-learning structures.

Integrating Crosscutting Themes

Education and training is the pathway for helping youth, women, and other vulnerable persons acquire the marketable skills they need to find employment. Facilitating their access to vocational schools and other training opportunities is key. In countries where the youth express a strong willingness to migrate, providing information on safe and legal migration is one way to help them avoid the risks of trafficking in persons (TIP) and organized crime. Working with parent-teacher-student groups and conducting peer education is another approach to preventing TIP and educating the community about this problem. Another possibility is integrating anti-TIP curricula into courses throughout the educational system. Gender and sex education are also important in order to change attitudes and behavior towards women, and gender stereotypes.

D. Expected Results Over the Next Few Years

Results over the next few years will to a great extent depend on the level of funds available for program continuation and launching new initiatives, and the responsiveness and capacity of the respective governments.

Current Funding Levels

In addition to maintaining the existing long-term commitments (support/endowments for universities), USAID could continue to work collaboratively with other international donors (i.e., World Bank and Asian Development Bank) to provide technical assistance in the areas where USAID holds a comparative advantage and when these activities complement areas that are central for the achievement of Missions' objectives in other sectors.

As noted under section B, on-going education activities will contribute to one or several of the following results: institutional strengthening (American Universities and South East European University in Macedonia); improved curriculum development and teaching methodology (Central Asia and Macedonia); improved access at the tertiary level (Kyrgyzstan); and strengthened institutional capacity, increased transparency, and reduced corruption (Central Asia and Georgia).

Higher Funding Levels

Should additional funds become available, USAID could broaden its involvement in the education sector by beginning to address systemic level barriers, especially issues of management, finance, and accountability. Additionally, Missions could increase their involvement in building capacity for the alignment of teaching methods and curriculum development with the demands of a market economy and democratic society.

E. Description of Endpoints of U.S. Assistance

While USAID cannot ensure a reformed education sector, it can create and monitor benchmarks that reflect the commitment and ability of a country to carry out the necessary reforms. The following indicators are useful for gauging a country's capacity to carry out reforms:

1. Percent of GDP allocated to education (increasing trend, reaching at least 4.5 percent; or a stable allocation with a consistently growing economy);
2. Maintaining basic education enrollments at a near universal level;
3. Secondary level enrollments (increasing, reaching at least 60 percent);
4. Tertiary level enrollments (increasing, reaching at least 33 percent); and
5. Median teacher salary at the level of an average salary.

SOCIAL SERVICES

Social services (typically called human services in the West) are a comprehensive range of programs and services that aim to improve the wellbeing of individuals, families and communities across a wide range of domains including the psychological, social, physical, and spiritual. Such services may be *protective* (e.g., those designed to protect people who are vulnerable due to psychological, physical, social and/or emotional problems), *rehabilitative* (e.g., services that help people to return to independent and productive living) or *preventative* (e.g., services designed to help individuals avoid behaviors and situations that put them at risk for decreased wellbeing). Common social services include various forms of counseling, mental health and substance abuse programs, foster care and other child welfare services, domestic violence hotlines or prevention programs, and programs designed to aid the disabled. (See Appendix E for examples of social services across the life cycle.) These programs are not designed to provide an income support function; rather, programs designed to materially aid the poor fall under the category of social assistance.

A. Challenges and Constraints

The Legacy of Social Services in E&E Countries

The Soviet Bloc countries relied heavily on government programs to provide social services, particularly in the form of government-operated institutions for vulnerable individuals such as children separated from their parents, youth in trouble with the law, and disabled and special needs children and adults. Even though the cost of government-operated institutions is quite high compared to community-based care, deeply ingrained attitudes and practices have slowed the establishment of systems of family-focused, community care models. In most E&E countries, decentralization and other social service reforms have proceeded in piecemeal fashion, with many crucial policies, laws, and financial structures still not in place. The result is continued over-reliance on institutions for care and a lack of many basic social services across a wide variety of vulnerable groups and geographic regions.

Understanding Who is Vulnerable

A well-designed system of social services can provide a comprehensive array of services to individuals confronting circumstances that threaten to decrease their wellbeing. In times of war, economic hardships, natural disasters, and personal stress or crisis, informal systems break down or are insufficient to meet escalating needs and those who are vulnerable must turn to their communities for more formal assistance. Throughout the region, the numbers of vulnerable individuals and groups have increased. Most often, the following groups are found vulnerable.

Children and Families: Rates of child institutionalization increased in most countries in the region between 1995 and 2001, even as alternative forms of care were being developed. This has

been especially troubling for children and youth with disabilities and behavioral problems, who often languish in institutions for most of their lives. While foreign adoption has become an alternative to institutionalization, it is becoming an increasingly complex political, moral, and child welfare issue in the region. Romania banned international adoptions in 2005, Ukraine recently instituted a moratorium on these adoptions, and Russia has considered doing likewise.

Vulnerable youth: This broad category includes youth engaging in a wide array of risky behaviors, including crime and substance abuse. Overall, the youth at greatest risk are those who are not participating in either education or employment. Of concern is the alarming increase in suicide rates and substance abuse among young people since the early 1990's. Co-occurring with the increase in drug use, early sexual activity and HIV infection rates are also on the rise among E&E youth.²¹

The Elderly: Many elderly persons are in high-risk categories, including those with chronic diseases and those who are socially isolated. As the population ages and the birth rate decreases, there will be an increasing number of elderly with limited family supports and, in many cases, small or sporadic pension benefits.

Individuals with special needs: Those who are disabled, mentally ill, or substance abusers cut across all socioeconomic lines. Community-based models of care that include modern clinical treatment modalities such as pharmacological treatment, medical monitoring integrated with psychosocial treatment, and aftercare programs are not prevalent. Services for the disabled are nonexistent and these individuals are frequently consigned to institutions that provide nothing more than food and shelter.

The "hot spots" analysis of vulnerable groups conducted by the Social Transition team in 2005 pointed to the following problems within specific countries:

- Increased rates of child institutionalization have been largest in *Russia, Belarus, Georgia, Moldova, and Ukraine*;
- Children are over-represented among the poor and thus, are particularly vulnerable in *Albania, Armenia, Belarus, Romania, Turkmenistan, Tajikistan, Kyrgyzstan, Macedonia, Bulgaria, Kazakhstan, Moldova, and Russia*;
- Geographic pockets of poverty are particularly pronounced in *Tajikistan, Ukraine, Kyrgyzstan, Romania, Russia, and Kazakhstan*;
- Adolescents in many countries are vulnerable to early sexual activity and pregnancy and those in *Belarus, Moldova, Russia and Ukraine* show higher than average levels of sexually transmitted diseases;
- Young males in *Kazakhstan, Russia, and Belarus* have the highest rates of suicide in the region;
- Unemployment among youth (aged 15-24) is particularly high in *Macedonia, Belarus, and Uzbekistan*; and.

²¹ UNICEF, Social Monitor 2002.

- **Bulgaria, Croatia, and Ukraine** currently have the highest percentages of elderly (65+) although other countries are also faced with increasing elderly populations.

Constraints to Reform

The current challenge facing many countries in the region is to develop comprehensive systems of community-based services that provide a range of services from prevention to protection, employ a cadre of properly trained human services professionals, and engage the local community and citizens as stakeholders. Some of the major obstacles to achieving these goals are summarized below.

Preference for the old institutional model: Policy and financing systems continue to favor institutional care over family-focused, community-based models, with little focus on the parent's roles and responsibilities. Among other problems, this approach results in a fragmented and poorly coordinated system of services where responsibility for people in need is often distributed across multiple Ministries and agencies. International and local assistance providers, who tend to focus on meeting the most urgent humanitarian needs, have compounded the problem. They ameliorate the worst conditions yet perpetuate old structures.

Outmoded beliefs regarding the value of institutionalization: Old systems of care are sustained by the large number of people who are employed in caring for individuals in institutional settings; the notion that it's easier to monitor individuals, especially high-risk infants, in a "medical" setting rather than a family; the idea that institutions are a better place for children than in poor families; and limited knowledge about the meaning of family support. These attitudes reflect old Soviet ideologies, with an emphasis on deficit models of human behavior, a lack of understanding of healthy child development, and little experience with alternative social services.

A limited pool of human resources: Few E&E social sector practitioners are trained in the delivery of a prevention-focused system of services, with appropriate technical expertise in treatment and rehabilitation at the community and family level. Social service professions such as social work and psychology are poorly developed.

Reliance on external assistance: The political will for long-term solutions is sometimes undermined by a reliance on external assistance, primarily humanitarian relief in the form of financial and material supports through international organizations. Initiatives that build local capacity require long-term investments, but are slower to be accepted.

B. Activities and Progress to Date

Little systematic information exists about the social services systems in the region, although there are many examples of social programs operating through grassroots NGOs in the prisons, hospitals, and institutions for children and the disabled. There are few broad system reform efforts aimed at social services in the region. Most of USAID's investment in social services has focused on child welfare issues, particularly in Romania and Russia. (The only Congressional earmark that relates to issues of social transition mandates that USAID address child welfare

issues in Russia.) Bosnia and Armenia have also recently begun child welfare activities. More recently, through the Displaced Children and Orphans Fund, USAID has initiated programs designed to tackle child welfare issues in Ukraine, Georgia, Azerbaijan, and Belarus.

Romania decentralized child welfare services through legislative mandate in mid-1997. USAID responded by supporting the Government of Romania, in partnership with other donors, in setting up systems of community-based care, and simultaneously, initiated changes to close institutions. Working with local government as well as a network of professional social and community workers, a range of services began to be offered, including family reunification efforts, foster care, national adoption, mother and child shelters, independent living for adolescents, and prevention services including day care and parenting education. In 1997, there were almost 100,000 children in Romanian institutions; now there are roughly 37,000. Other outcomes included the creation of a national system for the continuing education of public child welfare workers, implementation of a community grassroots advocacy campaign, and the dissemination of best practice models of community based care.

In **Russia**, USAID has been spending several million dollars per year to address the needs of abandoned and institutionalized children and their families. The Assistance to Russian Orphans (ARO) program has focused on early intervention and abandonment prevention, development of family-based alternatives to institutionalization, enhancing the life skills of young adults leaving institutional settings, providing services to street children, and public awareness and legislation. Models that reflect community-based best practices were developed and disseminated through regional workshops and subsequent funding was available for NGOs to implement innovative, community-based programs. A more recent focus has been on preventing abandonment and providing services to HIV-positive mothers and their infants.

USAID initiated a basic social casework training program in **Armenia** to upgrade the skills of social workers through curriculum design and training in order to improve social services delivery for those accessing various social insurance programs.

There are also numerous investments through the health and democracy sectors that have modernized systems of care. The health sector has provided technical assistance and training in assessment and treatment of substance abuse within the context of primary care in Georgia. They have also introduced community care for tuberculosis patients through assistance to NGO's. The democracy sector, through civil society development initiatives, has funded many non-profit organizations that deliver a range of community-based social services to vulnerable individuals and families.

C. Proposed Interventions

Program Options

Put in place a legal, regulatory, and policy framework that supports a range of community-based social services, from prevention to protection. National, centralized functions (regulatory, financing, policy, and legislative) and decentralized functions (service delivery, monitoring, and local financing) need to be defined and implemented. Standards of care and standards of practice need to be made part of this legal and professional framework. Systemic

reform initiatives should focus on decentralizing services, reducing the reliance on institutionalization, integrating and mainstreaming special needs adults and children, increasing the use of foster care and other alternative child placement services, and expanding the ability to provide protective social services to vulnerable individuals in the community.

Increase access to social services through public and private providers that target specific needs throughout the life cycle. This intervention includes four aspects: identification of priority at-risk groups and their related problems in countries and sub-regions; a framework for a continuum of services that incorporates the most recent technical knowledge that is treatment-specific; mechanisms for community participation to define needs and increase accessibility; and systems for monitoring and evaluating outcomes for individuals and their families.

Support workforce development initiatives to help recruit, train, retrain, and retain qualified personnel. In many countries, the development of a community-based system of social services cannot be realized without an increased number of specially trained clinical staff to provide services related to substance abuse, mental health, disability, and child welfare. It also requires the development of standards of professional practice and regulatory mechanisms.

Professional associations in social work, psychology, and other relevant professions need to be strengthened and multidisciplinary networks should be created that engage in advocacy and institutional capacity building. In some countries, professional credentialing programs may need to be developed or strengthened.

Professional development efforts should include strengthening university education programs with a focus on new curricula that reflect best practices in a decentralized, community-based system of services. Partnerships between university schools (of social work, education, medicine, etc.), public authorities, and private, non-profit advocacy and professional associations should be initiated to provide on-going training and education of social services personnel. In many cases, proper workforce development will first require changes in job functions and job classifications.

Improve public understanding of social service reform in order to reduce reliance on old institutional systems, improve quality of community services, and increase access. Public awareness campaigns are one way to alter the beliefs and attitudes that influence behaviors, impact personal and family relationships, and sway policymakers. The attitude of some parents toward abandoning their children to institutions must be altered. Additionally, negative attitudes towards disadvantaged or disenfranchised individuals including minorities, substance abusers, disabled people, the mentally ill, orphans and others is a significant barrier to reform.

Community members can assist in the development of effective lobby, advocacy, and pressure groups. Initiatives to develop an informed media that reflects the values of system reform and community-based social services can increase public awareness. Increased citizen participation in volunteerism and parents and consumer groups can serve to empower various client groups.

Strengthen the capacity of relevant NGOs and create NGO networks with advocacy, service provision, and public education functions. This might include working on legislation that legitimizes NGOs as providers of social services, training NGOs in how to procure grants and other funds, designing study tours to Western countries so that NGOs can learn about

systems in which such services are mainly provided at the community level, and nurturing federations of NGOs in order to increase their influence on relevant policies and discussions. Efforts to ensure the sustainability of services offered by NGOs will become increasingly important as reforms progress and attention should be provided to sustainability mechanisms.

Build partnerships and networks within and across sectors to promote synergy and facilitate the sharing of expertise and best practices. Organizing a Regional Technical Assistance Network would help to ensure that those working on social service system reform can share knowledge, technical expertise, and best practices. Countries farther along in the reform process could provide valuable insights into the types and sequencing of steps that are necessary to achieve reform. Among other things, such a network could focus on the development of human capital and the creation of appropriate training programs (including distance learning and computer-based programs). In addition, social service reform initiatives should be linked to health (primary care) and democracy (civil society and community development) initiatives that already provide support for vulnerable groups. The development of crosscutting partnerships and networks will build on and leverage existing investments.

Integrating Crosscutting Themes

There is a strong correlation between domestic violence and trafficking in persons (TIP). In some countries, one third of the TIP victims have previously been victims of physical abuse in the home. Social service providers play an important role in both cases – often as part of national referral systems providing shelter and assistance to both types of victims. Training social workers to assist TIP survivors is critical. Teaching life skills to orphans and street children, who are particularly vulnerable to trafficking as they “graduate” from institutional care, is another approach being successfully implemented by some missions.

D. Expected Results Over the Next Few Years

Current Level of Funding

Results anticipated under current funding levels focus on community outreach to the most vulnerable, NGO strengthening, increased public awareness, and formation of networks at multiple levels. Types of outcomes include:

- Increased access by a variety of vulnerable groups to prevention and early intervention services;
- Decreased reliance on institutions and development of alternative care services for children and other vulnerable individuals;
- Increased capacity of NGOs with technical expertise to deliver specialized treatment and rehabilitation services;
- Formation of coalitions of professional and practice-based public and private groups that deliver services, and are organized and mobilized to influence policy decisions about the social services system;

- Increased public awareness and volunteerism in community-based social services programs through national, regional and grassroots media campaigns;
- Improved public policy advocacy among social services NGOs, including media campaigns for public awareness and public engagement; and
- Formation of technical support networks among individuals and groups working in different countries on similar social service reforms.

Increased Level of Funding

- Establishment of policy and financing systems that favor community-based care with reduced reliance on central government financing and institutional models of care;
- Improved human capacity with an infrastructure for on-going training and education that supports quality services for community-based models of care;
- Established standards of care and standards of professional practice with associated quality assurance systems;
- Widespread access to protection services that deliver treatment and rehabilitation in community-based programs; and
- Development of management information system infrastructure with particular emphasis on decision support systems for financial tracking, outcome monitoring, and program planning.

E. Description of Endpoints of U.S. Assistance

1. An established legal and policy framework that targets vulnerable individuals (including children and families), and that promotes prevention with protective features;
2. Decreased reliance on institutionalization and substantial development of alternate systems of care, including foster care, adoption, etc.;
3. Mobilized national advocacy and lobby groups;
4. Local NGO's present and established with private, national, and international financial and technical support;
5. Public awareness of the need for and the availability of social services provided at the community level and increasingly positive attitudes toward marginalized groups including the disabled, orphans, and minority group members; and
6. Properly trained social service professionals with the technical knowledge necessary to implement the basic values and principles of a humane system of social services delivered at the family and community levels.

SOCIAL INSURANCE

Social insurance (both public and private) is the primary way people sustain their livelihoods when unemployed, disabled or retired. Pension systems,²² in particular, enable people to set aside money during their work years in order to support their retirement years. They contain redistribution and social safety net components, thus playing an important part in alleviating poverty among the elderly. Pension reform is compatible with market-oriented growth and has important linkages to capital market development, fiscal reform, and other social programs.

A. Challenges and Constraints

Moving to a market economy has resulted in hyperinflation, which in turn has decreased the value of fixed payments. Pensioners have been hit particularly hard as their savings have eroded and the value of pensions has vanished.

Winners and Losers

Some transition period retirees have benefited from hyperinflation because many of the post-Soviet pension systems used the wages from the last two years of employment to determine pension income. The pension payout for the transition period retirees does not match their overall lower wage based contributions. In essence, pensions are being paid on a lower contribution wage base for a 25-30 year period while the hyperinflation transition period pension benefits are based on only a few exaggerated wage base years and not the worker's historical wages. The recent increases in economic growth have not helped the pensioners who were in retirement before the transition period began. These vulnerable pensioners have experienced pensions that are below poverty level and that are often paid late. Future generations that potentially face either benefit curtailments or contribution hikes could be losers as well.

Pension Models

The pension reform debate is over the appropriate public-private sector mix in providing old-age income. Basic issues include the degree to which pension benefits are the state's responsibility versus the individual's responsibility; the role of the private sector; and whether government pensions or private pensions should provide the bulk of old-age income, with the other providing supplementary benefits.

²² Most of the work in social insurance in the region has focused on pension and health reform. Social insurance also includes coverage for unemployment, disability, and life. As systems mature, missions may consider expanding pension reform efforts to include these other types. Health reform is addressed separately in the Health Sector Strategy.

Pension system options include the following features.

Funded or Unfunded

- Unfunded: “pay-as-you-go”
- Funded: assets accumulated now to pay future benefits. Each generation funds its own future pensions.

Defined Contribution (DC) or Defined Benefit (DB)

- DC: Pension is a function of contributions, determined by markets
- DB: Pension is a function of pre-established benefit formulae, determined by government

Private or Public

- Private competing pension funds, perhaps with centralized collection
- One public centralized institution, such as a provident fund

Earnings-related or Universal

- Eligibility and funding based on contributions from wages, or
- Universal eligibility and funding from general revenues

The various options combine into different “pillars” to form a comprehensive pension system. The global trend in pension reform is toward “multi-pillar” systems. Currently, the World Bank defines the “pillars” as shown below.

- Zero pillar: social assistance for the poorest
- Pillar One: mandatory unfunded pay-as-you-go (PAYG); either defined contribution (DC) or defined benefit (DB)
- Pillar Two: Mandatory funded individual accounts (DC)
- Pillar three: Voluntary pension plans (usually funded, but can be unfunded; usually defined contribution, but can be defined benefit)
- Pillar Four: Other means of old-age income support (remittances, family support, non-pension savings, etc.).

In pension reform, countries are diversifying their single tier pension systems to a mix of public and private pension schemes with unfunded and funded as well as voluntary and mandatory features. Typically, the first pillar of government-mandated benefits remains in place, but is often reduced in size even when broader coverage is sought. In some recent cases, this first pillar is being replaced with an unfunded defined contribution (vs. benefit) scheme, commonly referred to as a notional defined contribution scheme (NDC). Pillars two and three complement the first pillar. In some countries, pillar two is a government mandated, fully funded, defined contribution scheme, managed by the private sector with varying degrees of government oversight. Pillar three is often a voluntary private fund supported by employer-sponsored or individual savings schemes.

Collectively, these different pension schemes are intended to provide retirees with an adequate income since it is doubtful that any one such scheme would do that on an individual basis. By layering or diversifying the sources of funds that retirees will receive in old age, countries around the globe are instituting better risk management approaches to pension financing.

While the public-private mix in pension schemes varies by country, the majority takes the view that the State should provide basic universal old-age pension coverage with contributions provided by both employers and employees. Private pension funds in these countries are viewed as complimentary or supplementary schemes. In contrast, for example, Chile and Kazakhstan have taken the view that it is the individual's primary responsibility to save for retirement through employee contributions to private pension funds. The government pension benefit plays a secondary role in these countries and, therefore, the benefit is very low.

Common Challenges

USAID and other donors encounter a number of challenges when assisting countries to design and implement pension reform. **Political will** is a critical ingredient for successful pension reform. In addition to a visible, high-level government champion who can advance the pension reform agenda, a broader group of policy makers and stakeholders need to understand the underlying budget issues related to pensions. This includes quantifying the costs and benefits of the current pension system, of other schemes, and of the downstream impact of doing nothing.

Streamlined tax collection and administration are necessary complements or preconditions to pension reform. A unified contribution collection mechanism is needed to reduce costs, improve efficiencies, and increase the likelihood of compliance and enforcement of social protection taxes. In the absence of political will and other relevant preconditions, pension reform may need to be postponed. For those countries that have not initiated pension reform, the E&E Bureau encourages an assessment that combines pension, financial sector, and political variables to determine whether they are candidates for pension reform.

A variety of **technical issues** emerge in pension reform assistance, including the need for appropriate legal, regulatory and institutional structures; capacity in the public and private sectors to staff and supervise pension fund collections and distributions; adequate information systems to monitor and track funds; and the ability to work on an international basis. Lessons learned are highlighted under Section B, below.

B. Activities and Progress to Date

USAID has provided on average \$1,000,000 per year over a three-year period in pension reform technical assistance to **Ukraine, Poland, Hungary, Croatia, Bulgaria, Macedonia, and Kazakhstan**. To a lesser extent, USAID has assisted **Albania, Latvia, Lithuania, Romania, Slovakia and Uzbekistan** with pension reform technical assistance. Beginning in 1997, Poland and Hungary undertook comprehensive pension reforms. They radically changed their government-only, unfunded pension systems to a mix of public and private as well as funded and unfunded pension schemes. In the case of **Poland**, the country changed its government-mandated, unfunded, defined-benefit scheme to an unfunded, defined-contribution system that is complemented with mandatory and voluntary defined contribution schemes. **Bulgaria, Croatia and Kosovo** recently developed three-pillar pension systems and they are being implemented. **Ukraine** has just begun to implement a three-pillar pension reform.

Focus of Activities

Working with key government officials, policy makers, trade unions, journalists and others, USAID has assisted countries in introducing private pension funds that often complement the government-mandated pension systems. Technical assistance has included capacity building in three areas: (i) strategic policy development; (ii) legal and regulatory framework development; and (iii) implementation of multi-pillar social security systems. Integral to each pension reform project has been a public awareness and education component to garner citizen support for the reformed pension systems. Study tours and internships have also been an integral part of pension reform projects.

Lessons Learned

Pension reform has improved long-term fiscal sustainability and inter-generational equity. Nevertheless, missions embarking on or continuing in pension reform should be mindful of several key lessons.

- Continuing with fiscal reforms in many cases is needed. Coordinated attention is required to reduce the total labor burden (e.g., continued pension reform, reform of other social programs funded from wage taxes, and personal income tax reform);
- Administrative costs have been significant and should be considered at the reform design stage. Funded pillars need to be designed large enough to achieve economies of scale, with cost-efficient administration, or alternative reform designs should be chosen;
- Introduction of funded components or notionally defined contributions (NDC) reduces redistribution. Thus, policymakers need to help the poor and those who do not work full careers through complementary programs, such as universal benefits versus needs-tested; survivor and disability benefits; unisex actuarial table for annuities; and non-pension social programs;
- Gender issues need to be watched. Women disproportionately make up the oldest generation, but most tend to work fewer years in the formal labor market, suggesting they may not get adequate pensions from funded systems;
- Supervisory regimes of funded pensions need ongoing monitoring and revising, addressing issues that arise as pension systems and financial markets develop;
- Risks can be managed in different ways, including diversification across financial instruments within a defined contribution mandatory pillar; across funded and PAYGO components; or across voluntary savings. Deciding which approach best optimizes risk-adjusted returns requires quantitative analysis;
- Institutions and implementation are as important as policy design in ultimately determining reform success. How transition costs are paid (e.g., tax increases, expenditure cuts, debt, or efficiency gains) is at least as important in overall reform impact as the final-state design;
- Assistance must build capacity among policymakers and civil society; and

- The most important lesson of sequencing is to seize a political window of opportunity when it opens and to design reforms in the context of the country's level of development.

C. Proposed Interventions

Program Options

Assist policymakers to develop the capacity to analyze pension systems demographically, economically, and politically so as to develop acceptable and fiscally sustainable pension reform policies, as well as responsive legal and regulatory frameworks.

Support the creation of creditable institutions to manage and regulate the reformed pension system through on-going capacity building in the public and private sectors.

Develop programs to generate a well-trained cadre of pension economists and actuaries, which are crucial to the long-term success of pension reform, as well as to the successes and stability of the insurance industry and general business risk management issues.

Raise public awareness regarding the system's purpose, benefits, roles, and responsibilities.

Winning and retaining the public's confidence in pension reform requires a continuing commitment to improve the efficiency and effectiveness of the new system. No matter where a country is in the pension reform process, improving the reform's design remains a constant undertaking. Pension reform laws are often hostage to a variety of political agendas, which make the reform outcomes less than the proposed objective. For example, a reform may not go far enough to address the inclusion of society's most vulnerable citizens. Or, the reform may not address adequately how pension funds assets are to be invested or distributed upon retirement. Amendments or regulations are regularly needed to "fix" the reform or respond to issues.

Timing and Sequencing

Pension reform requires substantial investment and specialized assistance. Interventions need to be tailored to the country's transition progress in democracy, economic growth and institution building. Generally, the sequence of steps to pension reform is as follows.

Step One: Restructure and downsize the existing public pension pillar.

- Provide broader workforce coverage that includes farmers and the informal sector;
- Use actuarial analysis to estimate transition costs and develop sustainable pension systems;
- Increase the retirement age to be more in line with life expectancies;
- Reduce the replacement ratio (the percentage of salary received as retirement income); and
- Tie benefits to lifetime earnings.

Step Two: Introduce privately managed, funded pension schemes.

- Promote competition within the private pension fund industry and
- Promote financial literacy with effective public education campaigns.

Step Three: Adopt and apply international standards and best practices.

- Streamline and upgrade the regulatory, supervisory and administrative processes for greater efficiency and effectiveness;
- Train regulators, supervisors and private pension fund providers; and
- Strengthen compliance and enforcement.

In some countries, step two may precede the reform of the social security system, as was the case in the *Czech Republic and Hungary*. Capacity building for social protection policy makers and service providers takes time. As counterparts gain knowledge and experience they realize how much more there is to learn in order to improve the system and to keep up with global developments and trends. Many of the *Balkan countries* do not have fiscally sustainable pension systems. A few have begun to reform their pension systems but they still have considerable work to do in order to attain long-run fiscal sustainability. The *Balkans* are likely candidates for USAID to provide pension reform technical assistance.

D. Expected Results Over the Next Few Years

Russia, Ukraine, and Slovakia are in the early stages of pension reform. In 2002, Russia introduced individual-funded, pension saving accounts that allow workers to select the investment manager of their choice. Ukraine's pension reform law, which was passed in 2004 provides for the introduction of a mix of government and private sector pension schemes. Institutions implementing the reforms and administering new systems may benefit from technical assistance to build administrative and supervisory capacity.

E. Description of Endpoints of U.S. Assistance

USAID should plan to end assistance when the country has a pension system that:

1. Provides an adequate income for retired workers regardless of where or with whom the worker worked;
2. Is fiscally sound and sustainable; and
3. Has the capacity to regulate and manage the public and private pension funds effectively and efficiently.

The first threshold addresses poverty alleviation among the elderly and embraces all workers, including those in the informal and agricultural sectors. Minimum pensions should cover basic housing, food and clothing needs and allow for cost of living adjustments so that benefits are meaningful over time rather than just in an initial period. The second threshold reflects the need for fiscal stability and sustainability over the long-term while ensuring that the elderly have adequate old age income. The third threshold addresses the issue of capacity. Policy makers, regulators and pension fund providers must be trained sufficiently to ensure the reformed pension systems are reliable, timely and adhere to international standards and best practices.

SOCIAL ASSISTANCE

Social assistance programs provide for the most vulnerable in society. In the West, social assistance programs are typically administered by governments, are designed to serve an income support function, and are targeted at individuals or families who are living beneath acceptable poverty levels. (In the United States, such programs are often described using the term “welfare”.) Generally, such assistance has a monetary value and can include regular cash payments, subsidized housing or utilities, food or nutrition programs, transportation subsidies, and access to health care or insurance. Many social assistance programs are designed to supplement income while also maintaining incentives to work among recipients.

A. Challenges and Constraints

The Legacy of Social Assistance in E&E Countries

In contrast to Western models, social assistance systems in the E&E region were administered through state owned enterprises (SOEs) rather than governments. They were not designed to alleviate poverty and they provided little or no coverage to non-working individuals and their families, or to other groups at high risk of poverty. Eligibility for social assistance was based on population categories rather than on income criteria, and, as a result, many of the E&E non-poor became the main recipients of government subsidies.

With the dismantling of SOEs, responsibility for the provision of social protection has shifted to central governments, which are ill equipped to cope with rising poverty and unemployment resulting from the market transition. Central governments face grave fiscal constraints and often fail to adequately finance social assistance programs at the regional and local levels. Consequently, these programs are under-funded, and, in some cases, fiscally starved, and provide minimal poverty relief. The social adjustment programs financed by international lenders have largely focused on the needs of pensioners and have excluded other important groups, particularly those not covered by social insurance, such as ethnic minorities and the marginally self-employed.

Social Assistance Reform Across the Region

The pace of social protection reform has varied greatly across countries. Reform has been relatively slow in *Belarus, Moldova, Turkmenistan, and Kyrgyzstan*, whose social protection systems have not evolved much since the transition, and are based on categorical rather than income-based eligibility rules. *Uzbekistan* has revived the traditional mahalah system, which provides a decentralized targeting of benefits using local communities as its primary vehicle for providing social assistance. Extensive social assistance reforms are underway in *Russia, Ukraine, and Armenia*, but considerable leakages remain in the social safety net, particularly in Russia, which has not been able to effectively target the poor. The more advanced Southeast

Europe countries have relatively well-functioning cash assistance programs that are efficient and well targeted. The challenges in these countries are to extend coverage to marginal populations, particularly the Roma, and to strengthen the financing of social service delivery, especially in **Romania**, which has the most decentralized system of all the countries.

In general, social protection structures have deteriorated in the war-affected countries of **Western Balkans**, and all of them have to cope with minority integration, refugee returns, and displaced persons. Parallel social protection structures exist in **Kosovo and Bosnia-Herzegovina**, with many ethnic Serbian inhabitants receiving cash assistance from Serbia. In Kosovo, the social protection system implemented by UNMIK is still in a nascent stage and has yet to provide a genuine safety net. In Bosnia-Herzegovina, the cash assistance system is virtually non-existent. Social protection structures are relatively stable and advanced in **Serbia and Montenegro, Albania, and Macedonia**, where cash benefits are the main policy instruments to reduce poverty, and the priority is to better target benefits.

The current social assistance systems in **Georgia and Azerbaijan** are poorly targeted and fail to reach the extremely poor, who constitute a large and rising proportion of the poor. The poorest of the poor suffer from under-nourishment and are at high risk of malnutrition. War dismantled **Tajikistan's** once comprehensive social protection systems to such a dismal state that it barely functions. Informal private transfers are the main source of support for the poor.

Lack of Good Data

The biggest constraint to improving social assistance programs is lack of information. It is impossible to target the very poor without good data, just as it is impossible to design and conduct effective public education programs without data. Asset reporting is often not accurate and expenditure information is lacking. Furthermore, many National Statistical Offices do not have the human or material resources they need to regularly collect household level data.

In most cases, guaranteed minimum income and minimum social pensions are driven by budgets rather than consumption needs. While this is the fiscally responsible approach, and certainly one USAID should advocate in the short run, as tax bases and revenues grow, governments should have plans to expand benefits to meet consumption needs. At the very least, USAID should be concerned about the percentage of the population living in extreme poverty by global standards, at \$2.15/day or less. Moldova (63 percent), Tajikistan (50 percent), Armenia (49 percent), Ukraine (45 percent), Turkmenistan (44 percent), and Uzbekistan (44 percent) have particularly high levels of poverty. There are also geographic pockets of extreme poverty in nearly all the countries of the E&E region and in many countries children and the elderly are especially likely to be poor. Overall, the average poverty rate (at \$2.15 a day or less) in the E&E countries where USAID continues to provide assistance (31.4 percent) is roughly four times the average poverty rate in the Northern Tier (7.4 percent).

Impact of Societal Values

Political economy is an expression of societal preferences and values in a given country and may pose constraints to social assistance reform, particularly where the majority excludes marginal groups. Poor targeting and leakage often compromise social assistance programs. Minimum

wages may be set too high and therefore support the non-poor. Free riders may find ways to take advantage of subsidies if they are targeted to businesses, apartment buildings, or neighborhoods. There is also a significant challenge in eliminating or discouraging corruption at all levels in the delivery of social assistance. The poor may have to bribe government workers to receive their subsidies or cash assistance, or even to be considered eligible for them. Funds may not be transferred in a timely manner or may be stolen before they can be paid to the intended recipients. Adequate wages and penalties for misallocation or misappropriation of funds may help minimize corruption.

B. Activities and Progress to Date

USAID's investments in social assistance programs have been primarily in *Ukraine, Russia and Armenia*. For each of these activities, it was critical to balance social needs and budget realities. Since these countries could not afford generous social assistance programs, reforms have focused on the very poorest segments of the population, improving methods of targeting over time.

The USAID Mission in *Ukraine* was the first in the region to take on a large social assistance reform program by replacing entitlements with targeted assistance in housing and childcare benefits. Once implemented, the average per capita income of families receiving assistance was approximately 75 percent of the official poverty level. The government's net savings over the first three years of the program were more than \$3 billion. The percentage of the population living below \$2.15/day had been reduced to three percent by 1999, very close to the graduated Northern Tier countries and well ahead of any other country in the region. Because administration of the new benefits was tied to participation in other programs, some consolidation was possible and administrative costs were halved.

In *Russia*, USAID funded a pilot project in which housing subsidies were provided through local NGOs to specific target populations in three cities. The goals of the project were to break local agency monopolies, formalize and professionalize the services provided by NGOs, and support the development of civil society. The results were mixed in terms of competition, service delivery levels and effective monitoring systems, but clients in each case were satisfied with the service received.

Armenia's social assistance program had severe structural and process-related deficiencies through 2000. With USAID assistance, a Public Education unit was established in the Ministry, an appeal system was established, auditing and anti-fraud programs were implemented, and a new centralized database was developed. Staff received training and procedural manuals to improve their performance. The benefit criteria were revised to better reach the very poor. NGOs were identified to help educate the citizenry of the new program requirements and the benefits of change. The results to date have been good. By retargeting the Family Poverty benefit, the percentage of the population in extreme poverty (under \$2.15/day) was decreased by 6 percent between 1999 and 2002. Customer service ratings have increased with each survey period, indicating that the changes are better serving the client population.

Some general conclusions can be drawn from USAID's experience in the region.

- One of the key elements in any reform program is public education. Potential beneficiaries need to know whether they are eligible and how to access benefits;
- Because the income, asset and expenditure reporting systems are inadequate for determining benefit eligibility, new, holistic methods of tracking overall household economic health have to be developed;
- Capital costs to begin the reforms may need to be born by the donor, including computer equipment, new forms, manuals, technical assistance and training;
- Practical policy advice is important for developing appropriate legal and regulatory frameworks, evaluating options, and building trust with in-country partner organizations;

C. Proposed Interventions

Program Options

Increase the accuracy of targeting assistance to the poor through pilot programs focusing on means-testing, information collection, and database tracking; and for publicity campaigns to inform poor families how to apply for benefits.

Enhance efforts to reach vulnerable populations who are excluded from or inadequately covered by the social safety net, notably those who live in abject poverty and lack adequate food and shelter. These populations include:

- **Single pensioner, disabled, and single parent families living in rural areas** where social infrastructure is weak and social welfare offices are not accessible due to long distances and limited transport (*Tajikistan, Russia, Ukraine, Georgia, Bulgaria, Romania, Azerbaijan, and Kyrgyzstan*). Single pensioner families are also among the extremely poor in the urban areas of *Georgia*;
- **The Roma and other ethnic minorities** who lack access to social safety nets in urban areas and access to productive resources needed for subsistence agriculture in rural areas. Roma populations are concentrated in *Romania, Slovakia, Bulgaria, Hungary, and the Czech Republic*, but are present in almost all of the E&E countries;
- **Refugees, displaced populations, and migrant laborers**, especially those residing in the *war-affected areas of former Yugoslavia, Azerbaijan, Georgia, and Tajikistan*; and **minority populations** in *Kosovo, Albania, Bosnia-Herzegovina, Macedonia and Croatia* who lack equal access to social benefits; and
- **Long-term disaster victims**, such as inhabitants of radioactive contaminated areas in *Ukraine and Belarus*, and those rendered homeless by the earthquake in *Armenia*. Emergency assistance has ended, but these populations do not yet have the resources to return to normal living.

Strengthen social assistance delivery structures, particularly in remote areas with poor resources. Activities may include: infusion of capital; increased coordination of state providers; personnel training; enhanced public-private partnerships; creation and/or strengthening of new service providers, including NGOs, and their integration into the existing network of providers.

Social assistance delivery systems are particularly worn down in *Macedonia, war-affected countries in the Balkans, Azerbaijan, Georgia, and Central Asia*.

Priorities and Sequencing

While specific interventions will be determined by the structures and gaps in each country, more accurate targeting of the poor should be the first priority. Having more accurate information allows for better targeting of the poor, generally improves the system's efficiency and effectiveness, and enables countries to service those vulnerable populations currently falling through the social safety net. Other priorities should include strengthening social assistance delivery structures to further improve the efficiency and effectiveness of the system, and addressing the needs of other disadvantaged groups not included among the most vulnerable, but still needing attention.

Trade-offs

Some pilot programs are very expensive and hard to replicate or scale up. On the other hand, certain reforms do not make sense to implement as pilots because their cost is not significantly less than the upfront costs for a large-scale program (i.e., computer systems, personification systems, etc.). Another factor is the time required to establish the infrastructure for these programs. Legal and policy frameworks have to be developed, as do data collection methods for income and expenditures. Implementing a unified personification system will require buy-in and time from government partners. Missions should plan on a 3-6 year timeframe to reform social assistance. The savings, however, begin to accrue as soon as the changes in benefits are implemented.

Leveraging Other Investments for Social Assistance

Missions can capitalize on investments made in tax reform and pension reform, such as unified contribution systems and unified personification systems, which are also key elements in social assistance reforms. Improved tax collection, simplified taxation schemes that improve compliance, and higher tax effort in some areas will increase the availability of funds for social assistance and other programs. Key democracy and governance activities might also be leveraged to contribute to goals of social assistance reform, particularly in the development of NGOs. They may act in several ways: as advocates for the poor; as policy advisors; as coordinators of services; and as information repositories.

D. Expected Results Over the Next few Years

Current Level of Funding

Given the current level of expenditures, expected results for the next few years are modest. At present, *Armenia* is the only Mission with an ongoing social assistance reform program. Program results should continue to reduce the percentage of the population in extreme poverty. The benefits of a responsible fiscal policy will continue to accrue to *Ukraine*.

Increased Level of Funding

The Social Transition team will continue to provide technical assistance and guidance to missions interested in developing programs. If additional resources were to become available or if funding were shifted from another sector, *Moldova, Kyrgyzstan and Kazakhstan* should consider adopting social assistance reforms to alleviate budgetary constraints and optimize the effectiveness of their social assistance programs. Social benefits structures should be unified in *Bosnia-Herzegovina and Kosovo*, ultimately producing cost savings in administration alone, if not through better targeting of resources. Finally, all countries would benefit fiscally from better targeting social assistance to those who are most vulnerable.

E. Description of Endpoints of U.S. Assistance

Gains in this sector can be considered irreversible when the infrastructure to maintain a system of social assistance is in place, including:

1. A unified personal identification system;
2. Reliable data on incomes and expenditures;
3. An effective oversight body; and
4. Mechanisms for setting and adjusting the minimum standard of living to which citizens are entitled.

The latter element includes civil society organizations advocating for the needs of the poor and other groups within society, an open political climate, and political will to uphold the social contract. USG assistance in this area should end when rational, affordable systems are in place that can meet the needs of the most vulnerable in each society.

The best indicator to determine whether these reforms are reaching those who need it would be a reduction of the number of households in extreme poverty, typically measured at \$2.15 per day. Consistent reductions over time would indicate that those most needing help are well targeted by a country's social assistance programs. The E&E Bureau recommends that a goal of less than 10 percent of the population falling under \$2.15 per day is necessary. Other countries in the world achieving these thresholds are Jordan, Tunisia, Turkey, Malaysia, Chile and Guyana. Each country should also have less than 20 percent falling under \$4.30 per day, a target achieved by the Northern Tier countries prior to graduation. Each country may determine that a specific percentage of GDP could be allocated to meeting the needs of the most vulnerable in society, but it is impossible to recommend a percentage across the region, as it is dependent on the types of vulnerability, the availability of funds, and the other types of assistance that may be available.

APPENDIX A

Abbreviations and Glossary

ADB	Asian Development Bank
ARO	Assistance to Russian Orphans
CAR	Central Asian Republic
CEE	Central and Eastern Europe
CEUME	Consortium for the Enhancement of Ukrainian Management Education
CIS	Commonwealth of Independent States
CRDA	Community Revitalization through Democratic Action
DAC	Development Assistance Committee
DGST	Office of Democracy, Governance and Social Transition
E&E	Europe and Eurasia
EBRD	European Bank for Reconstruction and Development
EdNet	Education Network
EG	Office of Economic Growth
EU	European Union
FSU	Former Soviet Union
GCFI	Georgia Community Mobilization Initiative
GDP	Gross Domestic Product
GNI	Gross National Income
IALS	International Adult Literacy Survey
ILO	International Labor Organization
IMF	International Monetary Fund
ITO	Independent Testing Organization
LF	Labor Force
MBA	Master of Business Administration
MCA	Millennium Challenge Account
Mkt	Market
MOE	Ministry of Education
MTEEP	Management Training and Economic Education Project
NDC	Notional Defined Contribution
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PAYGO	Pay As You Go
PhD	Doctor of Philosophy
PPP	Purchasing Power Parity
SEEU	South Eastern Europe University
SME	Small and Medium Enterprise
SO	Strategic Objective
SOE	State Owned Enterprises
SSR	Office of Social Sector Restructuring; also Social Sector Restructuring
ST	Social Transition
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization

UNICEF	United Nations Children's Fund
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
USG	United States Government
WB	World Bank
WDI	World Development Indicators

Glossary of Terms

Bureau for Europe and Eurasia: Oversees USAID programs in Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Ireland, Kazakhstan, Kosovo, Kyrgyzstan, Republic of Macedonia, Moldova, Romania, Russia, Serbia and Montenegro, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Capacity building: A coordinated process of deliberate interventions leading to skill upgrading, procedural improvements and organizational strengthening. Capacity building refers to investment in people, institutions, and practices that will, together, enable countries in the region to achieve their development objective. (Source: World Bank)

Community-based services: Locally-provided services where most decisions on how to run programs and responsibility for their implementation rest at the community level, either with local government or civil society. (Source: World Bank)

Disability: A restriction or lack of ability (resulting from impairment) to perform an activity in the manner or within the range considered normal for a human being. Impairment is defined as any loss of psychological, physiological or anatomical structure and function. (Source: United Nations Development Programme)

Education: Consists of the totality of public and private, formal and informal institutions, systems, and processes (including primary, secondary, tertiary education, and vocational and technical programs) through which knowledge and skills are transferred and enhanced. As the overarching mechanism through which human capital is expanded and economic productivity raised, education is a societal investment of time and funds to ensure quicker and more sustainable development in the future.

Hotspots: Through in depth analysis of social indicators across individual social sectors, geographic regions and individual nations have been identified as hotspots. These areas show marked trends towards societal conditions that are likely to impede the progress of their transitions toward market-oriented democratic societies and/or their ability to compete in high-potential sectors.

Human capital: The knowledge, skills, and experience of people that make them economically productive. Investing in education, health care, and job training can increase human capital. (Source: World Bank).

Informal sector: Consists of all persons engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale. Labor relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees (see also *shadow economy*). (Source: International Labor Organization).

Investing in people: A concept which encapsulates international social development efforts (such as education, health, labor, nutrition, and social services) that endeavors to raise living standards and expand human capacity in the developing world.

Labor force: All the economically active people in a country between 15 and 65. Includes all employed persons, the unemployed, and members of the armed services, but excludes students. (Source: World Bank)

Labor market: The combination of social, economic, political, and cultural institutions and processes through which employment and income are determined for a nation, region or occupation. Labor markets (which include labor policies and laws, employment practices, and the exchange of information) are the setting where labor is exchanged for wages, thus impacting the level of employment and unemployment, pay, and working conditions. Smoothly functioning labor markets are a key to economic stability and social harmony, as a nation's productive capacity and competitive advantage are rooted in the skills and adaptability of its workforce and employee wages and benefits are the primary means by which workers and their families meet basic expenses.

Labor market development: The overarching strategy, process, and network of programs designed to reform labor markets in transition nations to ensure worker protections while increasing flexibility, mobility, and productivity of the workforce. In the E&E region, labor market development focuses on supporting nations to overcome barriers that prevent the effective functioning of labor markets, such as declining labor force participation, growing informal sector employment, low worker mobility, excessive public sector employment, and disproportionate unemployment among certain demographic groups.

Low-income country: A country having an annual gross national product (GNP) per capita equivalent to \$760 or less in 1998. The standard of living is lower in these countries; there are few goods and services; and many people cannot meet their basic needs. In 2003, the cutoff for low-income countries was adjusted to \$745 or less. At that time, there were about 61 low-income countries with a combined population of about 2.5 billion people. (Source: World Bank)

Quality of life: People's overall wellbeing. Quality of life is difficult to measure (whether for an individual, group, or nation) because it includes such intangible components as the quality of the environment, national security, personal safety, and political and economic freedoms, in addition to material wellbeing (see *standard of living*). (Source: World Bank)

Safety net: Formal and informal measures that protect people from the worst effects of low income and poverty. The social policy aspect of safety nets is concerned primarily with formal programs designed to provide or substitute for income. (Source: World Bank)

Shadow economy: (Also called gray economy.) Consists of business activities that are not accounted for by official statistics. It includes illegal activities (the so called "black market") and activities that are in themselves legal but go unreported or under-reported for purposes of tax evasion. (Source: World Bank).

School-to-work programs: A range of programs that include three major components: school-based learning, work-based learning, and connecting activities to bridge school- and work-based learning. In the United States, these three components are achieved through the following approaches: (1) developing an applied and integrated curriculum; (2) implementing classroom-based development career guidance; (3) creating articulation between K-12 and postsecondary education; (4) developing work-based learning opportunities; (5) working in partnership with business, industry, labor, and the community; (6) providing professional development activities. [Kathleen Paris (1994) A leadership model for planning and implementing change for school-to-work transition. University of Wisconsin-Madison]

Social assistance: Typically administered by governments, these programs are designed to serve an income support function, and are targeted to individuals or families who are living beneath acceptable poverty levels. (In the U.S., such programs are often described using the term “welfare”.) Usually such assistance has a monetary value and can include regular cash payments, subsidized housing or utilities, food or nutrition programs, transportation subsidies, and access to health care or insurance.

Social insurance: A range of programs to cushion the risks associated with unemployment, disability, work injury, and old age. These programs are usually tied to replace a specified percentage of a worker’s previous earnings, with the percentage a function of work years, level of pay and often social criteria such family size and credit for certain non-work periods (e.g., child care, registered unemployment) or below-average earnings. These programs may be either contributory or noncontributory. The former are financed, in large part, through earnings-related contributions from employers and/or employees; the latter are financed from the general budget. Eligibility for benefits under contributory programs is usually limited to those who have made a minimum number of contributions. (Source: Asian Development Bank)

Social risk: The possibility that an intervention would create, reinforce or deepen inequity and/or social conflict, or that the attitudes and actions of key stakeholders may subvert the achievement of the development objective, or that the development objective, or means to achieve it, lack ownership among key stakeholders. Such risks may arise out of the country's socio-cultural, political, operational or institutional context. In general the sources of risk can be grouped in five categories: vulnerability, country risks, political economy risks, institutional risks, exogenous risks. (Source: World Bank)

Social sector: The comprehensive spectrum of social institutions and values according to which people are supported and organized into social units. The social sector includes: the labor market which guarantees productive and safe employment for working age individuals; education and training systems through which skills are obtained such that individuals and societies can lead productive lives; the social (human) services system to assist families and individuals cope with and overcome crises; the social insurance system such as pension funds, health, life, unemployment, disability insurance which protect individuals when they are unable to be productive; the social assistance system which includes subsidies, cash payments, and allowances for individuals or families in crisis or in poverty, without a family, or unable to be productive due to a disability.

Social services: (Typically called human services in the West.) The comprehensive range of programs and services that aim to improve the wellbeing of individuals, families and communities across a wide range of domains including the psychological, social, physical, and spiritual. Such services may be protective (e.g., those designed to protect people who are vulnerable due to psychological, physical, social and/or emotional problems), rehabilitative (e.g., services that help people to return to independent and productive living) or preventative (e.g., services designed to help individuals avoid behaviors and situations that put them at risk for decreased wellbeing). Common social services include various forms of counseling, mental health and substance abuse programs, foster care and other child welfare services, domestic violence hotlines or prevention programs, and programs designed to aid the disabled. These programs are not designed to provide an income support function; rather, programs designed to materially aid the poor fall under the category of social assistance.

Social transition: A component of the transition of E&E countries to market democracies. Social transition addresses the challenges of the social sector in managing the risks citizens face and in assisting them to reach their full potential as productive members of society. Social transition includes the transformation of social organization, structure, institutions and values from those that support a command economy to those which support a market democracy. Successful social transition includes a well-functioning and flexible labor market, an education system which provides the skills needed in that market, social services appropriate to different segments of the population, public and private insurance to manage risk across the life cycle, and social assistance (cash and in-kind) for the poor. Social transition is the societal foundation of competitiveness, economic growth and democracy in market economies.

Standard of living: The level of wellbeing (of an individual, group or the population of a country) as measured by the level of income (for example, GNP per capita) or by the quantity of various goods and services consumed (for example, the number of cars per 1,000 people or the number of television sets per capita). Societies have an obligation to provide a minimum standard of living for their constituents to ensure that the basic needs of individuals are adequately satisfied. (Source: World Bank)

Strategic groups: Segments of the population that potentially can play a positive role towards catalyzing progress toward a market economy and democracy. For example, young people and the well educated may help sustain positive change during the process of transition by effectively taking advantage of new opportunities and setting examples of new behaviors and attitudes.

Targeting: A systematic approach of identifying eligibility and delivering services and resources to segments of a population determined to be deserving of support in terms of need and potential for benefit. A variety of targeting schemes exist to provide subsidies to different segments of society, including group targeting (in which a specific population group, such as mothers, children, or communities in a particular location, receives services or benefits); and means-testing (determining eligibility for a benefit by using income and/or financial asset information to establish a certain cutoff level under which individuals must qualify to be entitled to the benefit).

Transfer payments. Payments from the government to individuals used to redistribute a country's wealth. Examples are pensions, welfare, and unemployment benefits. (Source: World Bank)

Tripartite dialogue – Advanced by the International Labor Organization, tripartite dialogue refers to a process of consensus building for policy among representatives of business, labor and government.

Unemployment: All people above a specified age who are not in paid employment or self-employed, but are available and have taken specific steps to seek paid employment or self-employment. (Source: United Nations Development Programme)

1. **Cyclical Unemployment** occurs when the unemployment rate moves in the opposite direction as the GDP growth rate. (When GDP growth is small (or negative) unemployment is high. When the economy goes into recession and workers are laid off, we have cyclical unemployment.)
2. **Frictional Unemployment** occurs as a result of people moving between jobs, careers, and locations. (If a person quits his job as a scuba instructor to try and find a job in real estate, we would consider this to be frictional unemployment.)
3. **Structural Unemployment** results when there is an absence of demand for the workers that are available. Structural unemployment is often due to technological change. (If the introduction of DVD players causes the sales of VCRs to plummet, many of the people who manufacture VCRs will suddenly be out of work.)

Vulnerable: A condition characterized by higher risk and reduced ability to cope with shock or negative impacts. It may be based on socio-economic condition, gender, age, disability, ethnicity, or other criteria that influence people's ability to access resources and development opportunities. Vulnerability is always contextual, and must be assessed in the context of a specific situation and time. (Source: World Bank)

Vulnerable groups: Broadly defined as being comprised of individuals who could potentially experience a reduced capacity to meet individual and/or family needs. They may be identified by ethnicity, location of residence (rural vs. urban, regions within countries), disability, age (elderly, children) and poverty.

APPENDIX B

Critical Trends & Recommendations, Based on Country White Paper Classifications

Background notes

(1) Croatia, Bulgaria and Romania were omitted because their early dates for phase out preclude further interventions.

(2) How the columns were derived:

- The first column registers the classification given a country by the State/AID “White Paper,” along with illustrative programming priorities recommended by the Bureau Regional Framework Strategy. Priorities were formed after reviewing the EE/PO Monitoring Country Progress (MCP) analysis indicators.
- The second column notes the phase out year for social sector programming, as determined by the State/USAID review in 2004.
- Since the MCP uses only two indicators for the social sector, column three aims to obtain a more in-depth and comprehensive view of the social sector in each country. Drawing from cross-country analytic studies carried out by USAID, the World Bank (Djankov, et al “Doing Business” series), and other sources, the ST team cites specific social sector vulnerabilities which may adversely impair other transition goals.
- Column four highlights major ongoing programs by other donors in the social sector to address critical vulnerabilities.
- Column five concludes with the Team’s recommendations for how a mission might prioritize and integrate social sector priorities relative to other USAID technical bureaus.

(3) Criteria behind ST recommendations:

Recommendations from the ST team on priority program interventions are based on a combination of desktop studies, independent data analysis, personal experience, and TDYs, where applicable. Poverty rates were assessed via the World Bank’s estimates of the percentage of the population living on less than \$2/day so that data would be comparable across countries. Poverty rates based on national poverty lines in individual countries may differ somewhat from the numbers presented here. Not all of the recommendations have been “groundtruthed”, however, and the team therefore welcomes interaction and feedback from mission staff.

Additionally, the team was asked by the EE Front Office in 2004 to incorporate specific criteria in making recommendations, namely to set priority to those issues where:

- A) Transition may not happen without improvements in this area;
- B) Initiatives designed by USAID will make transition more sustainable;
- C) The absence of support could lead to backsliding in a country’s progress toward phase out/graduation;
- D) There is a realistic chance to effect some positive change in the vulnerable or weak area cited for programming within a three year timeframe.

White Paper Classification & Program Office Recommendation of social sector priority needs	Social Sector Phase Out Year	DGST Hotspots Analysis & Recommended Priorities	Donor Involvement & Emphasis (NON-US DAC) - Most Recent and Prospective	Integration with Other Technical Priorities
<p>Azerbaijan</p> <p><i>Low income fair performer</i></p> <p>-----</p> <p>Basic Education</p>	<p>2014</p>	<p>Our analysis does not exclude Bureau recommendations, but points to other urgent needs, namely:</p> <p>Education - Highly Vulnerable: Tertiary with declining trend; Vulnerable: Total Secondary; % of GDP for education.</p> <p>Labor Market – Weakness across all four pillars, even despite suspicious data (2004). 40% of the workforce is currently employed are in agriculture, an increasing trend over the five-year period 1998-2003 without marked improvements in productivity for agricultural workers. In non-ag sectors, worker productivity is low relative to E&E average, but has been growing 8.1% per year 1998-2002.</p> <p>Poverty and vulnerable groups; not among the countries in the region with the highest overall poverty rates; although the rate of institutionalization of children aged 0-17 was lower than average for the region, it increased 56% between 1995 and 2001.</p>	<p>World Bank Basic Education \$21m for curriculum reform in grade 1-11; national standards development and educational financing; runs through 2008</p> <p>World Bank \$12.6M project to help improve the living conditions of IDPs and enhance their economic opportunities and prospects for social integration.</p>	<p>A poor business climate, complicated hiring/firing, and estimated 60.6% informal sector (Djankov) combined with the high youth unemployment indicates a strong need for improvements at secondary ed level and emphasis on “school to work” programs to help youth transition into the workforce. Diversification beyond agriculture and oil in the economy will be important over the medium and long-term.</p> <p>The increasing rate of institutionalization of children is worrisome, particularly in combination with the lack of a well-developed system of social services, including foster care. Mission could consider coordinating with other donors to facilitate development of needed reforms in this area, thereby benefiting not only children but other vulnerable groups as well.</p>

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<p>Turkmenistan</p> <p><i>Low income weak performer</i></p> <p>-----</p> <p>Basic education</p>	2014+	<p><i>Our analysis agrees with Bureau recommendations and further points to specific vulnerabilities, namely:</i></p> <p>A lack of transparency in data is a considerable problem. USAID and other donor studies and databases, including WDI, the WB “Doing Business,” and Transmonee had major data gaps, complicating recommendations.</p> <p>Education - Highly Vulnerable: pre-primary, secondary with declining trend, and tertiary.</p> <p>Labor Markets: 2004 labor market study was inconclusive due to data gaps. The 2003 desktop study registered <u>high vulnerability</u>, despite missing data. For example, wages < 50% of 1989 values.</p> <p>Youth bulge in 2005 and 2010.</p> <p>Poverty and vulnerable groups: high overall poverty levels (44% living on <\$2/day), children and those in rural areas are disproportionately poor; high levels of inequality (gini index = 40.8).</p>	<p>\$2.5m in non-DAC educational spending from 1998-2002, mostly for tertiary.</p> <p>Least funded: vocational, basic education</p>	<p>This is the only E&E country rated a low income, weak performer in DG, EG and ST.</p> <p>Given the political climate and ideologically motivated education policy, we can only hope to remain engaged on methods (pedagogical technique) but not content.</p> <p><u>It is recommended that the mission investigate the feasibility of a) dialogue with donors on joint approaches; b) regional activities to engage Turkmen under the radar, including conferences and exchanges (such as through the “Community Connections” program, and student scholarships); and c) training for academics and officials to improve social sector data collection and interpretation.</u></p>

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<p>Armenia</p> <p><i>Low income good performer</i></p> <p>-----</p> <p>Basic education</p>	<p>2013</p>	<p><i>Our analysis agrees with Bureau recommendations but highlights more specific and additional vulnerabilities:</i></p> <p>Education - Highly Vulnerable: % of GDP for education; Vulnerable: pre-primary; total secondary enrollments; tertiary; and a worrisome declining trend of primary completion rate.</p> <p>Labor Markets: The 2004 study confirmed Armenia as 1 of 4 worst labor markets in E&E, with consistent weakness across all pillars. 79% of all unemployed are LTU. 45% of employed are in agriculture, a trend that has increased over 5 years (1998-2003) without increases in ag worker productivity. Although employment growth has been negative, worker productivity in non-agriculture sectors is low, but grew 17.6% per year between 1998-2002.</p> <p>Pension indexation extremely weak, where benefits are approximately 13% of average wages.</p> <p>Poverty and vulnerable groups: although the rate of institutionalization of children aged 0-17 was lower than average for the region, it increased</p> <p>144% between 1995 and 2001; high overall poverty levels (49% living on <\$2/day); high levels of inequality (gini index = 37.9).</p>	<p>Past emphasis on tertiary education.</p> <p>In 2004, World Bank initiated new tranche of its education loan , which will direct \$17m to basic education.</p> <p>World Bank \$5.2M Social Protection Administration Project to improve performance by the labor and public employment, pension and social assistance agencies in providing services to the population.</p> <p>Final stages of World Bank \$49.3M Social Investment Project that assisted the GOA to improve living standards of low income groups and strengthen local institutions.</p>	<p>Considering Armenia’s MCA status, it is expected that increased “investments in people” will result in higher levels of spending in education – a sector that is also notorious for corruption. Strategic interventions by USAID to cast “daylight” on corruption and to nurture domestic anti-corruption efforts will reduce the potential for leakage of MCA funding and yield longer term benefits to the ed sector as reforms take hold. We applaud the mission’s efforts to gain traction on this and related questions, through its sponsorship of three educational discovery workshops.</p> <p>Add'l: Direct programming in upper sec/voc ed, job creation linked to SME and trade promotion (part of EREO strategy) and removal of structural barriers in labor market will help shift the 46+% of informal sector GNI toward formal sector job creation. We encourage DSRO and EREO to move deeper into the labor market and pension restructuring areas, especially through the upcoming Social Sector Strengthening Program.</p> <p>We commend the Mission's “Children in Especially Difficult Circumstances” program, which seeks to prevent abandonment of children and to improve the wellbeing of children in several residential institutions. We encourage the Mission to build on this work in the future and to focus on areas in which reform is especially needed, including the further development and implementation of alternative systems of care (e.g., family reunification, foster care) and the large-scale development of community-based social service programs.</p>

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<p>Georgia</p> <p><i>Low income good performer</i></p> <p>-----</p> <p>Basic education</p>	2013	<p><i>Our analysis agrees with Bureau recommendations but highlights more specific and additional vulnerabilities:</i></p> <p>Education - Highly Vulnerable: % of GDP for education; Vulnerable: pre-primary; total secondary enrollments.</p> <p>Labor Markets: The 2004 Labor Market study confirmed Georgia as 1 of 4 worst labor markets in E&E, with consistent weakness across all pillars. Weak and declining labor force participation, especially among prime age workers (only 67%). 59% of those employed are in agriculture, a trend that increased from 1998-2003 as overall employment growth was negative and productivity among workers dropped. Despite 51% youth unemployed, young people have higher than average rates of participation (46% versus regional average of 38%). While they are trying to get jobs, older workers are not exiting labor force to create vacancies.</p> <p>Poverty and vulnerable groups: not among the countries in the region with the highest overall poverty rates; although the rate of institutionalization of children aged 0-17 was lower than average for the region, it increased 92% between 1995 and 2001; high levels of inequality (gini index = 38.9).</p>	<p>Tertiary education most funded by other donors</p> <p>World Bank project (\$31m) to improve relevance of curriculum through 2005</p>	<p>Considering Georgia's MCA status, it is expected that increased "investments in people" will result in higher levels of spending in education – a sector that is also notorious for corruption. Strategic interventions by USAID to cast "daylight" on corruption and to nurture domestic anti-corruption efforts will reduce the potential for leakage of MCA funding and yield longer term benefits to the educational sector as reforms take hold.</p> <p>We commend the mission for its responsiveness and strong commitment in supporting the Government of Georgia efforts in implementing reforms in the education sector.</p> <p>Add'l: 67.7% informal sector & weak contracts enforcement beg investigation of the links between skills demand, preparation and formal sector job creation.</p> <p>We commend the Mission's program dedicated to increasing the wellbeing of street children and the capacities of the organizations that seek to provide services for them ("Strengthening capacities to meet the needs of vulnerable children in Georgia"). We encourage the Mission to build on this work in the future and to work with other donors to address and provide alternatives to the increasing rates of institutionalization in Georgia.</p>

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<p>Moldova</p> <p><i>Low income good performer</i></p> <p>-----</p> <p>Basic education</p>	<p>2013</p>	<p><i>Our analysis agrees with Bureau recommendations but highlights more specific and additional vulnerabilities:</i></p> <p><u>Across social indicators (labor, education, child welfare, poverty), Moldova consistently rates as one of the weakest countries in the E&E region.</u></p> <p>Education - Vulnerable: Total secondary enrollments, and a worrisome declining trend; tertiary. Moldova has the second lowest primary completion rate in E&E region.</p> <p>Labor Markets: The 2004 Labor Market study confirmed Moldova as <u>1 of 4 worst labor markets in E&E</u>, with consistent weakness across all pillars. 50% of employed work in agriculture, an increasing trend from 1998-2003, without commensurate increases in productivity. Outside of agriculture, there has been a five-year trend of negative worker productivity and negative employment 1998-2003. Labor force participation among youth is 31%, falling below regional average (38%).</p> <p>Pension indexation very weak, where benefits are approximately 26% of average wages.</p> <p>“Soft” youth bulge in 2005 and 2010</p> <p>Poverty and vulnerable groups: high rates of institutionalization of children aged 0-17; high overall poverty levels (64% living on <\$2/day); those living in rural areas are disproportionately poor.</p>	<p>Secondary education is least funded among donors; emphasis on higher education;</p> <p>World Bank current primary and secondary education projects end in 2004</p> <p>World Bank \$20M social Investment Project contributes to Moldova’s Poverty Reduction strategy by helping vulnerable groups to meet their needs via community development, social services development, increased human capacity and other activities.</p>	<p>Note: Moldova and Tajikistan garnered the worst scores for education needs and capacity to meet them (overall) for “Hotspots Analysis” vulnerability.</p> <p>EG emphasis on SME, coupled with evidence of poor business environment, constraining hiring/firing index and estimated 45.1% informal sector (Djankov) will weaken job creation and perpetuate low wage prevalence. <u>Need to focus on job creation and secondary education relevance to market demand and wage improving employment.</u></p> <p>By its own account, the mission observes a large and persistent out migration of labor, coupled with record high remittances. This feeds into a whole host of social problems which, left unattended, could have negative consequences for decades. We strongly encourage the mission to explore these issues further.</p>

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<p>Albania</p> <p><i>Low income good performer</i></p> <p>-----</p> <p>Secondary and university education; social protection/labor</p>	2014+	<p><i>Our analysis agrees with Bureau recommendations and we further highlight specific vulnerabilities, namely:</i></p> <p>Education – Highly Vulnerable: tertiary (2001); Vulnerable: % of GDP spend on education.</p> <p>Labor Markets: The 2004 labor market study ranked Albania as a “middle performer” in the region among labor markets, but it has severe challenges. 93% of all UE are LTU. Agricultural workers make up 58% of all employed. Although there has been negative employment growth from 1998-2003, worker productivity in non-agriculture sectors steadily improved. Moreover, labor force participation among youth (54%) outpaces the regional average of 38%. Both are mild reasons for optimism.</p> <p>Youth bulge: With 30% of the population ages 14 and under and 48% of the population under age 25, Albania's youth bulge shifts both prospects and pressure points in social sector</p> <p>Poverty and vulnerable groups: not among the countries in the region with the highest overall poverty rates; children and those living in rural areas are disproportionately poor.</p>	<p>World Bank \$15m project on management of the education sector.</p> <p>Least funded is management education and teacher training.</p> <p>World Bank \$15M Social Services Delivery Project increases access of vulnerable groups to well-targeted social services, assists the GOA to develop effective social services policy, and improves capacity to deliver effective social services.</p> <p>DFID \$2.4M Social Service Delivery Programme increases involvement of multiple actors in the design and management of social welfare services.</p>	<p>As an MCA threshold country, our concern is that the government genuinely improves education reform and spending to help boost their prospects for candidacy.</p> <p>We encourage the mission to evaluate how well vocational education and job creation are integrated into the EG priorities for SME development.</p> <p>The combination of a youth bulge and relatively high levels of child poverty is worrisome. We recommend that the mission monitor this situation and consider possible interventions to reduce the vulnerability of children and youth.</p>

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<p>Uzbekistan</p> <p><i>Low income fair performer</i></p> <p>-----</p> <p>Secondary and university education; social protection/labor</p>	<p>2014</p>	<p><i>Our analysis agrees with Bureau recommendations.</i></p> <p>Education - Highly Vulnerable: pre-primary; tertiary (2nd lowest in the region). Although Uzbekistan does not show as vulnerable on education indicators at the basic/secondary levels, we caution reliability of data; anecdotal info suggests significant drop out rates at secondary level, with particularly strong affect on rural population (63% of territory).</p> <p>Labor Markets: The unreliability of data collected by the state made it impossible to compute labor market indicators for the comparative study. Household budget surveys are being carried out independently, however, and warrant further analysis.</p> <p>Youth bulge in 2005, 2010 and beyond; and an estimated potential for radicalization of Islam</p> <p>Poverty and vulnerable groups: high overall poverty levels (77% living on <\$2/day).</p>	<p>High level of donor spending on secondary and vocational education.</p> <p>Least spending: early childhood</p>	<p>In light of known social sector problems, weak economic growth, and high poverty levels, it is not clear that the Uzbek government approach will produce the kind of labor market entrants necessary for placement in the economy or capable of earning better real wages.</p> <p>We recommend a strategic assessment of the social sector, focusing on the implications of current policies for young people and the types of programs that could be development given current political realities.</p>

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<p>Belarus</p> <p><i>Low income top performer</i></p> <p>-----</p> <p>Secondary & university education; social protection/labor</p>	<p>2014+</p>	<p><i>Our analysis agrees with Bureau recommendations, however, we call attention to the following additional issues:</i></p> <p>The questionable validity of data on education, and unavailability and questionable validity of data in labor, complicate efforts to assess vulnerability.</p> <p>Education – does not show as vulnerable.</p> <p>Labor Markets: The 2004 Labor market study confirmed Belarus as a “middle performer” among E&E labor markets, however, there are some disturbing trends. Labor force participation rates fall below E&E average and declined over multiple years (1998-2002). Youth LFPR of 29% falls well below the E&E average of 38%. Payroll tax rates of 36% raise the unit cost of labor and may have negative implications for job creation.</p> <p>The “Doing Business” series estimates 48.1% of GNI comes from informal sector and rates Belarus among the worst for labor market rigidity and business climate among E&E countries. Additionally, the MCP cobweb charts show weak progress on 1st and 2nd stage economic reforms.</p> <p>Poverty and vulnerable groups: high rates of institutionalization of children aged 0-17; not among the countries in the region with the highest overall poverty rates; children, the elderly, and those living in rural areas are disproportionately poor.</p>	<p>Owing to difficult climate and unwillingness of government to host/cooperate with donors, there is very little happening.</p>	<p>It is difficult to make recommendations without additional and more accurate data. The reform environment makes even in-depth studies challenging.</p> <p>At this point, we recommend two areas of intervention, with mission concurrence:</p> <ul style="list-style-type: none"> • Dialogue with donors on a common strategy to discuss data gaps; • Expansion of child welfare programming beyond the recently initiated DCOF project since this is a social issue on which the GOB appears willing to engage.

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<p>Bosnia</p> <p><i>Low income top performer</i></p> <p>-----</p> <p>(Secondary and university education; social protection/labor)</p>	<p>N/A</p>	<p>We agree with Bureau recommendations and highlight the following additional concerns:</p> <p>Indications from our research point to a complex array of weaknesses across the social sector, arising in part from Bosnia's evolving state structure.</p> <p>Education – Highly Vulnerable: pre-primary with declining trend; Vulnerable: Secondary and tertiary enrollments. Although not vulnerable, enrollments at primary level are the lowest in the region; there are worrisome declining in primary completion, basic education enrollments.</p> <p>Labor Markets: The 2004 Labor Market study underscored the complexity of data management in the two entity state and nascent attempt to nationalize statistical information. Wage taxes remain high (69% FBiH; 52% RS) and systems are administratively complex. Six areas of vulnerability measured under the “Doing Business” series include a 34.1% estimated informal sector contribution to GNI.</p> <p>Poverty and vulnerable groups: missing data on most standard indicators of poverty and vulnerability.</p>	<p>Most of the emphasis by donors in the education sector has been on tertiary education.</p> <p>\$51M World Bank Social Sector Adjustment Credit project supports reforms in cash transfer and labor programs/institutions so as to reorient social protection so that the poorest and most disabled are protected in a fiscally sustainable manner.</p> <p>\$15M World Bank Community Development Project improves basic services for poor communities and improves the capacity of local governments to deliver services.</p> <p>The World Bank SITAP (pension reform) project, and its to be named successor effort.</p>	<p>Improvements in social indices are extremely important to mitigate the potential for conflict and further consolidate support for economic and democratic reforms in Bosnia.</p> <p>There remain difficult administrative structures in the education and labor sectors, some of which will be attenuated by the mission's excellent initiatives under ELMO and SPIRA.</p> <p>We recommend continued collaboration between ST and the mission to determine areas of priority and feasible interventions on the above named areas.</p> <p>We commend the Mission for their recent child welfare program and encourage them to expand this project in the future. Children are among the most vulnerable in conflict situations and systems of alternative care need to be well-developed in order to protect those who are left without parental care.</p>

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<p>Ukraine</p> <p><i>Low income good performer</i></p> <p>-----</p> <p>Secondary & university education; social protection/labor</p>	2011	<p><i>Our analysis agrees with Bureau recommendations and we further highlight:</i></p> <p>Education - does not rate as vulnerable.</p> <p>Labor Markets: The 2004 labor market study rated Ukraine as a “middle performer.” Although GDP per worker was low, it was growing rapidly from 1998-2002 (8.3% per annum). Two serious concerns worth highlighting are average labor market participation (61% on average, 56%, among women) raising serious concerns about gray sector. Also, unemployment disproportionately affects those with primary and secondary education. In addition, the “Doing Business” series estimates the informal sector at 52.2% of GNI.</p> <p>Poverty and vulnerable groups: high number of institutionalized children aged 0-17; high overall poverty levels (46% living on <\$2/day); the elderly are disproportionately poor.</p>	<p>In May 2005, WB approved the first education loan to address equal access and quality of education (\$86.5M for 4 years).</p> <p>No significant donor investment in or labor market initiatives in areas of perceived vulnerability</p> <p>\$50M World Bank Social Investment Fund Project supports the reform of social protection through the development of social and communal services and assistance to GOU in social protection reform.</p>	<p>The economy has seen growth without redistribution, widening the gap between the rich and poor. Unfortunately, we see next stage EG reforms as having strong negative social consequences, because additional privatization is likely to worsen unemployment, and poor health status will have deleterious impact on the labor force.</p> <p>We therefore recommend a closer look at the quality of education at the general secondary level and school to work transition.</p> <p>We commend the Missions’s child welfare project which seeks to establish alternative social services for institutionalized children. We urge the Mission to consider expanding this work in the future given the high number of institutionalized children in Ukraine and the likelihood that systemic reform in this area will require long-term attention and investment.</p>

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<p>Kazakhstan</p> <p><i>Middle income fair performer</i></p> <p>-----</p> <p>Education (basic, secondary, university); social protection/labor</p>	<p>2011</p>	<p><i>Our analysis agrees with Bureau recommendations and we further highlight the following concerns:</i></p> <p>Education - High vulnerability: preprimary.</p> <p>Labor Markets: <u>High Vulnerability</u> was noted in the 2003 study, with declining labor force participation trend lines; low job creation despite growth; and cumulative labor market vulnerability. In the 2004 study, data trends detected a five-year increase in agricultural employment (1998-2003) without commensurate increases in productivity. The “Doing Business” series additionally estimates 43.2% of GNI generated through the informal sector; extreme inflexibility in hiring and firing of workers and weak contracts enforcement.</p> <p>Youth bulge: apparent in 2005 and 2010</p> <p>Poverty and vulnerable groups: not among the countries in the region with the highest overall poverty rates; children are disproportionately poor.</p>	<p>Least funded education sectors by donors: secondary, vocational, and educational facilities. Most funded: primary education.</p>	<p>We encourage the mission to consider support for incentives to reduce the burdens on enterprises and encourage greater employment in the formal sector.</p> <p>Kazakhstan’s youth bulge, combined with high child poverty rates, reinforces the importance of a youth focus in programming. For this reason, we additionally recommend initiatives to assist labor market entrants gain a foothold in the workforce, through training, skills development, and job placement.</p>

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<p>Macedonia</p> <p><i>Middle income top performer</i></p> <p>-----</p> <p>Secondary & university education; social protection/labor</p>	<p>2010</p>	<p><i>Our analysis agrees with Bureau recommendations and our analysis calls attention to additional issues:</i></p> <p>Education – Vulnerable: pre-primary and tertiary.</p> <p>Labor Market: The 2004 Labor Market study concludes Macedonia is 1 of 4 weakest labor markets in the E&E region. Only 41% of working females are employed by the formal sector (average is 61% in E&E); youth unemployment increased from 58% to 66% from 2002-2003; and substantially higher rates of unemployment affect workers with primary and secondary educations than those with tertiary education.</p> <p>Poverty and vulnerable groups: not among the countries in the region with the highest overall poverty rates; children are disproportionately poor.</p>	<p>World Bank programs in youth, social cohesion and modernization of the education system.</p> <p>\$2.5M World Bank Children and Youth Development Project will utilize community-based approaches to increase the social cohesion of youth at risk and will contribute to the implementation of a Children and Youth Strategy.</p> <p>Least funded among education sector programs is teacher training, however, USAID is active in this area.</p>	<p>In a post-conflict environment, USAID/Macedonia invested wisely in education reform, which may account for its position relative to other E&E countries. Equitable access and the potential for discrimination based on ethnicity in education remain concerns.</p> <p>We commend the mission's strong focus on youth and continual monitoring, along with other donors, of progress on child poverty and youth employment.</p> <p>Although pension and competitiveness programs have taken root, the labor market and business climate are weak, especially in hiring/firing inflexibility and contracts enforcement. Continued emphasis on structural labor market reform and school to work transition is suggested.</p>

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<p>Russia</p> <p><i>Middle income good performer</i></p> <p>-----</p> <p>Education (basic, secondary, university); social protection/labor</p>	<p>2010</p>	<p><i>Our analysis agrees with Bureau recommendations and we further highlight the following:</i></p> <p>Education - does not register as vulnerable; however shows a declining trend in % of GDP spend on education (data available through 1999).</p> <p>Labor Markets: Real wages have declined on average and barely surpass 50% of their 1989 value on average. Further analysis suggests that labor market mobility is low, and while “flexibility” is increasing, it is coming at a real cost to basic protections in the workplace. Although Russia has made significant progress in improving the climate for SME creation, the informal sector is still estimated to account for 46.1% of GNI (“Doing Business”) underscoring that the formal sector does not offer the potential for improved earnings or credible social protection.</p> <p>Poverty and vulnerable groups: high number of institutionalized children aged 0-17; although not among the most at-risk countries on this indicator, poverty levels are relatively high (24% live on <\$2/day); the elderly are disproportionately poor; high levels of inequality (gini index = 45.6).</p>	<p>Secondary and tertiary education has been the subject of multi-year spending by the donor community.</p> <p>\$4M CIDA Improving Services for Youth at Risk project improves the social integration of youth at risk (including those who are in institutions).</p> <p>\$3.3M DFID Targeted Social Assistance Project to strengthen capacity of the Nizhny Novgorod Oblast to design and implement a targeted family social assistance model.</p>	<p>We recommend continued support for models that examine alternatives to income security as the labor market and workforce change, including those that address Russia’s continued dependence on migrant labor.</p> <p>We commend the Mission’s Assistance to Russian Orphans program and encourage continued work in this area despite declining budgets. One possibility is to increasingly integrate child welfare with programming in other areas where funds may be more available. We also encourage the Mission to share their lessons learned in this area with other missions that are in earlier stages of child welfare programming.</p>

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<p>Kyrgyzstan Republic</p> <p><i>Low income weak performer</i></p> <p>-----</p> <p>Basic Education</p>	2011	<p><i>Our analysis agrees with basic Bureau recommendations, but we highlight additional and more specific vulnerabilities:</i></p> <p>Education – Highly vulnerable: pre-primary; Vulnerable: Secondary and a declining trend. Although not vulnerable, there has been a declining trend in primary completion rate.</p> <p>Labor Markets: <u>High Vulnerability</u>, revealed especially in declining real wages (<50% of 1989 levels in 2003); diminishing marginal returns on agriculture productivity relative to workforce deployment; labor migration; and high levels of informal sector activity (39.8%).</p> <p>Poverty and vulnerable groups: although not among the most at-risk countries on this indicator, poverty levels are relatively high (27% live on <\$2/day); those living in rural areas are disproportionately poor.</p>	<p>Strong emphasis in donor assistance on tertiary education, with some on early childhood and basic education</p>	<p>We commend the Mission for its dedicated engagement in the education sector reform and encourage to continued involvement in the sector to provide strategic guidance and build on achieved results to date.</p> <p>Lack of diversification in the Kyrgyz economy, combined with failing state status, poor employment prospects, high poverty and its status as a recovering fragile state and MCA threshold country underscores the importance of collaborative approaches between ST & EG in order to surmount human capacity weaknesses and position Kyrgyzstan for economic growth over the medium and long-terms.</p>

White Paper Classification & Program Office Recommendation of social sector priority needs	Social Sector Phase Out Year	DGST Hotspots Analysis & Recommended Priorities	Donor Involvement & Emphasis (NON-US DAC) - Most Recent and Prospective	Integration with Other Technical Priorities
<p>Serbia</p> <p><i>Low income top performer</i></p> <p>-----</p> <p>Education (basic, secondary & university); social protection/labor</p>	<p>2011</p>	<p><i>Our analysis agrees with Bureau recommendations and we further highlight the following:</i></p> <p>Education – does not show as vulnerable but registers a declining trend in secondary enrollments.</p> <p>Labor Markets: High rates of youth unemployment are continued concerns, as are low participation by youth in the workforce (30%); LTU (72%), and low formal sector participation by working females (52% versus E&E average of 61%).</p> <p>Poverty and vulnerable groups: missing data on most standard indicators of poverty and vulnerability.</p>	<p>Least funded by donors: secondary education</p>	<p>A lack of reliable data (and often data that fails to disaggregate Serbia from Montenegro and Kosovo) is a sure problem in reaching firm conclusions on hotspots and priority sectors for intervention. It is clear, however, that continued improvements in social indices are extremely important to mitigate the potential for conflict and further consolidate support for economic and democratic reforms. External considerations, such as Kosovo’s final status, are among factors that could destabilize the reform path.</p> <p>We therefore recommend close cooperation between the ST team and the mission and EG colleagues to focus on improvements in data quality, school to work transition, workforce competitiveness, and youth engagement.</p>

White Paper Classification & Program Office Recommendation of social sector priority needs	Social Sector Phase Out Year	DGST Hotspots Analysis & Recommended Priorities	Donor Involvement & Emphasis (NON-US DAC) - Most Recent and Prospective	Integration with Other Technical Priorities
<p>Kosovo</p> <p><i>Fragile state</i></p> <p>-----</p> <p>Education (basic, secondary & university); social protection/labor</p>	<p>Was not reviewed for potential Phase Out dates by sector</p>	<p><i>Our analysis agrees with Bureau recommendations and further highlights the following issues:</i></p> <p>Data quality and availability are weak, making it difficult to reach conclusions in the context of our “Hotspots” analyses. Separate, independent studies, however, point to high rates of unemployment and youth unemployment; a collapse of social systems, a youth bulge in 2005 and 2010, and a growing informal sector.</p>	<p>Absent country status, Kosovo is ineligible for World Bank loans, limiting the potential scope and impact of technical assistance to minor areas in education and social cohesion.</p> <p>\$4M World Bank Community Development Fund 2 project may include sub-components designed to support community social service programs.</p> <p>\$4.2M World Bank Social Protection Project focuses on designing a basic safety net and sustainable social welfare system as well as developing administrative capacity for delivery of pensions and veterans’ benefits.</p>	<p>It is important to note that even the World Bank data (“Doing Business”) are mostly missing for Kosovo concerning the climate for business. Our mission and implementing partners underscore the constrained environment in which businesses operate and the dwindling donor and remittance support to assist households in the transition to market democracy.</p> <p>We strongly encourage collaboration between the ST team and the mission to address a multitude of social sector systemic problems, including data gathering and social program administration, employment and youth.</p>

White Paper Classification & Program Office Recommendation of social sector priority needs	Social Sector Phase Out Year	DGST Hotspots Analysis & Recommended Priorities	Donor Involvement & Emphasis (NON-US DAC) - Most Recent and Prospective	Integration with Other Technical Priorities
<p>Tajikistan</p> <p><i>Fragile state</i></p> <p>-----</p> <p>Education (basic, secondary & university); social protection/labor</p>	<p>2014+</p>	<p><i>Our analysis agrees with Bureau recommendations and we further highlight additional and specific areas of vulnerability, including:</i></p> <p>Education - Highly Vulnerable: pre-primary; secondary; tertiary. Vulnerable: % of GDP spent on education.</p> <p>Labor Markets: <u>High Vulnerability</u> and cumulative labor market weakness based on available desktop data. Real wages remain at <50% of 1989 levels. Complications with obtaining reliable data make it difficult to refine analysis.</p> <p>Youth bulge: distinctive in 2005 and 2010.</p> <p>Potential for radicalization of Islam</p> <p>Poverty and vulnerable groups: high overall poverty levels (51% living on <\$2/day).</p>	<p>World Bank education modernization project runs through 2008 (USAID collaborates).</p> <p>Aga Khan foundation working to improve school conditions (USAD also funds).</p> <p>\$1M Sub-project of the EC TACIS project to focus on reform of social assistance system to ensure effective impact of poverty reduction efforts.</p>	<p>We would like to commend the Mission for active engagement and dedication in addressing the vast needs of the education sector. We recommend continued engagement in the sector, promoting further donor collaboration.</p> <p>In the case of Tajikistan, the absence of data made precise recommendations difficult. The World Bank “Doing Business” series encountered the same problem. Yet even the limited available data points to profound weaknesses in the social sector.</p> <p>Note: Moldova and Tajikistan garnered the worst scores (overall) for “Hotspots Analysis” vulnerability on education needs and capacity to meet them.</p> <p>Given population dynamics (youth bulge) and what we understand about the weak labor market and education system, we strongly recommend further analysis and school to work transition programs as a joint EG/ST effort.</p>

APPENDIX C

Sector Linkages: Social Transition & Democracy and Governance

**Vision: To enhance the ability of all persons to attain a better quality of life within market democracies.
Goal: Efficient and effective social systems established.**

LABOR MARKETS	EDUCATION	SOCIAL SERVICES	SOCIAL INSURANCE	SOCIAL ASSISTANCE
A reformed labor market that preserves key worker protections while increasing flexibility, mobility, and productivity of the workforce.	Improved capacity of education systems to meet demands of <i>strengthening of market economies</i> and democratic societies.	Affordable and accessible systems established that provide preventive and protective social services.	Affordable, broadly subscribed systems that are capable of delivering adequate benefits	Systems in place to provide means-tested, targeted assistance through transfers, subsidies and cash payments to vulnerable individuals, households, or social groups
LINKAGES TO DEM & GOVERNANCE	LINKAGES TO DEM & GOVERNANCE	LINKAGES TO DEM & GOVERNANCE	LINKAGES TO DEM & GOVERNANCE	LINKAGES TO DEM & GOVERNANCE
<p>ROL – Transparent implementation of contracts, wage agreements, alternative dispute resolution mechanisms.</p> <p>Human rights – Observing ILO fundamental rights in the workplace.</p> <p>Civil society – Participation by Trade Unions to advocate for worker rights.</p> <p>Political development – incorporating wage, gender discrimination, and other labor issues into party position papers and platforms</p>	<p>Democratic political process – civic education curricula nurture democratic values; active learning approaches foster critical thinking; civic involvement of PTAs and teacher associations.</p> <p>Legal framework – EFA policies; policies address equity, gender, and minority issues;</p> <p>Accountable gov – transparent fiscal & management systems at all levels;</p> <p>Nation-building – social cohesion (curriculum stressing tolerance, equity for religious & ethnic minorities</p>	<p>Human rights: Improving appalling conditions that orphans, street children and the institutionalized face which contradict US/global values for humane treatment.</p> <p>Decentralization, Civil Society – Dismantling inefficient state structures, devolving responsibility to local authorities & NGO subcontractors for service delivery.</p> <p>Community Building – Enabling communities to have a voice, take responsibility for decisions about social services & their implementation.</p>	<p>Transparency and Anti-Corruption– Establishing regulatory and supervision agencies to ensure that pension funds are transferred to individual accounts, investment options are vetted and well-managed.</p> <p>Media – Training of journalists to understand and accurately report on operation of public and privately funded insurance programs.</p>	<p>Broadening access of citizenry to governance institutions – Breaking down barriers so that excluded groups and those for whom access is difficult, such as ethnic minorities, elderly, veterans, disabled, and female headed households, can receive assistance.</p> <p>Anti-Corruption – Determining eligibility for benefits in transparent way reduces opportunities for corruption.</p>

Sector Linkages: Social Transition & Health

Vision: To enhance the ability of all persons to attain a better quality of life within market democracies.
Goal: Efficient and effective social systems established.

LABOR MARKETS	EDUCATION	SOCIAL SERVICES	SOCIAL INSURANCE	SOCIAL ASSISTANCE
A reformed labor market that preserves key worker protections while increasing flexibility, mobility, and productivity of the workforce.	Improved capacity of education systems to meet demands of <i>strengthening of</i> market economies and democratic societies.	Affordable and accessible systems established that provide preventive and protective social services.	Affordable, broadly subscribed systems that are capable of delivering adequate benefits	Systems in place to provide means-tested, targeted assistance through transfers, subsidies and cash payments to vulnerable individuals, households, or social groups
LINKAGES TO HEALTH	LINKAGES TO HEALTH	LINKAGES TO HEALTH	LINKAGES TO HEALTH	LINKAGES TO HEALTH
<p>Occupational health & safety – following recognized labor standards reduces work related accidents, fatalities</p> <p>Workplace flexibility – accommodating family leave and workers with disabilities engages productive capacity of previously excluded labor segments</p> <p>Benefit access & eligibility to health care and health insurance often linked to formal sector employment</p>	<p>Early childhood development – links education, health and nutrition and promotes healthy cognitive development (higher intelligence scores, school enrollments and completion)</p> <p>HIV/AIDS – better education and awareness promotes behavioral change and decreases incidence of infection (healthy lifestyles)</p> <p>Maternal health – better educated females have fewer and healthier children</p>	<p>Improved health for disabled youth through increased access to services that provide diagnosis and treatment/services related to mental and physical disabilities</p> <p>Better health outcomes for orphans through programs that deinstitutionalize them and place them with families.</p> <p>Decreased chance of MTC transmission of HIV/AIDS through early intervention programs aimed at helping HIV+ women keep their babies rather than abandoning them.</p>	<p>Best practices reduce waste, fraud – spillover effects to training oversight bodies that regulate insurance funds which in turn help prevent or eliminate abuse</p> <p>Improved actuarial analysis helps track trends and anticipate modifications in benefit structure, levels and cost to meet subscriber needs.</p>	<p>Indirect health benefits by increasing the incomes of poor individuals and families so that they are more likely to be able to afford medical care, proper nutrition, etc.</p>

Sector Linkages: Social Transition and Economic Growth

Vision: To enhance the ability of all persons to attain a better quality of life within market democracies.

Goal: Efficient and effective social systems established.

LABOR MARKETS	EDUCATION	SOCIAL SERVICES	SOCIAL INSURANCE	SOCIAL ASSISTANCE
A reformed labor market that preserves key worker protections while increasing flexibility, mobility, and productivity of the workforce.	Improved capacity of education systems to meet demands of <i>strengthening of market economies and democratic societies.</i>	Affordable and accessible systems established that provide preventive and protective social services.	Affordable, broadly subscribed systems that are capable of delivering adequate benefits	Systems in place to provide means-tested, targeted assistance through transfers, subsidies and cash payments to vulnerable individuals, households, or social groups
LINKAGES TO ECONOMIC GROWTH	LINKAGES TO ECONOMIC GROWTH	LINKAGES TO ECONOMIC GROWTH	LINKAGES TO ECONOMIC GROWTH	LINKAGES TO ECONOMIC GROWTH
<p>Productivity – On the job training increases output per worker and reduces cost to business over time</p> <p>Varying the skill mix – Reforms that introduce flexibility in hiring, firing, and other aspects of employment law enable businesses to respond to changing market conditions.</p>	<p>Promote economic competitiveness -</p> <p>Curricula with appropriate skill mix to respond to labor market needs ; retraining and life-long learning programs to address unemployment; improvement of productivity and PPP earnings</p> <p>Appropriate fiscal policies that support education sector decentralization</p>	<p>Workforce participation:</p> <p>Training and life skills programs, especially for institutionalized and disabled youth, allow them to gain employment and contribute to a growing economy.</p> <p>Retraining obsolete workers:</p> <p>As institutions and orphanages close, workers can be retrained for jobs that are needed in a growing, market-based economy.</p>	<p>Benefit affordability – Private sector group policies introduce economies of scale and enable SMEs to afford coverage for employees</p> <p>Business growth – As confidence in regulation and oversight grows, public more willing to buy new insurance related products, creating spin-off companies and jobs</p>	<p>Fiscal Management:</p> <p>Instruments for means testing ensure efficient and transparent use of public revenues by directing them to the neediest.</p>

APPENDIX D

Country Vulnerability in Education Highest Priorities

The table below groups vulnerable and highly vulnerable countries according to their levels of secondary tertiary enrollments, percent of GDP spent on education, per capita income, and percent of country's population under the age of 15 (30% and above). The latter is an important indicator of the demand for education in the next decade. The previous two indicators contrast the country's and individual's ability to provide resources for education. The PPP-adjusted per capita GDP is based on 2003 World Bank Development Indicators.

Country Vulnerability in Education

Secondary	Tertiary	% GDP to Education	PPP	% Pop under 15 (2002)
Tajikistan	Turkmenistan*	Armenia	Tajikistan	Tajikistan
Turkmenistan*	Uzbekistan	Georgia	Moldova	Turkmenistan
Moldova*	Tajikistan	Albania	Kyrgyzstan	Uzbekistan
Azerbaijan	Azerbaijan*	Tajikistan	Uzbekistan	Kyrgyzstan
Georgia	Bosnia & Herzegovina	Azerbaijan	Georgia	Azerbaijan
Kyrgyzstan*	Armenia		Armenia	
Armenia	Macedonia		Azerbaijan	
Bosnia & Herzegovina	Moldova		Albania	
			Ukraine	
			Belarus	
			Kazakhstan	

Bolded countries designate **highly vulnerable**

* Indicates a declining trend since 1998.

The table illustrates that several of the vulnerable countries show vulnerability in several categories. For example, Armenia and Georgia are vulnerable in terms of performance and they are also among the poorest. Tajikistan and Azerbaijan are vulnerable in all four pillars and will have a continued high demand placed on the education system (% of population under 15). Other countries such as Kyrgyzstan and Uzbekistan are vulnerable in certain categories and also dealing with a youth bulge. In other words, the countries that have the least capacity and available resources have the greatest needs.

APPENDIX E

Range of Services During Life Cycle Based on Degree of Risk or Harm

Stages of the Life Cycle	Universal and Preventative: Private for-profit and non-profit sector is the primary provider	Ameliorative: Services aimed at removing the risk and supporting return to self-reliance	Restorative: Services aimed at finding alternatives since the care systems no longer function
Birth	Early detection screening programs; parenting classes and parent support groups; day care; classes to promote safety in the home; infant/toddler toy-lending programs	High risk infant screening; infant stimulation; specialized day care and rehabilitation; protective day care; child abuse prevention programs	Early detection for drug-exposed infants; foster care and family reunification; adoption; stimulation and rehabilitation services; infant/mother and family shelters
Early Childhood	Preschool programs; day care; play groups; child development classes; safety education programs	Protective day care and preschool programs; short-term foster care with family preservation services; volunteer programs such as Toys for Tots; child abuse prevention programs	Foster care; family reunification; adoption; therapeutic and protective day care and foster care; parent visitation; court-appointed advocates
Childhood	Day Care, Recreation Programs, scouting programs, peer mentoring; drug prevention programs; public awareness campaigns and laws prohibiting alcohol and cigarette use	Protective day care and preschool programs; short-term foster care with family preservation services; peer mentoring and big-brother/big sister programs; school mediation programs	Specialized foster care and family reunification; therapeutic and protective day care; adoption; parent visitation; court advocates; family shelters
Adolescence	After-school care; recreation programs, prohibition of alcohol and drug use	Group homes and independent living skills programs; suicide prevention hotlines	Group homes and independent living programs and job training; shelters; drug/alcohol rehabilitation

Stages of the Life Cycle	Universal and Preventative: Private for-profit and non-profit sector is the primary provider	Ameliorative: Services aimed at removing the risk and supporting return to self-reliance	Restorative: Services aimed at finding alternatives since the care systems no longer function
Reproductive years	Prenatal and parenting classes; family support and family life education; labeling of dangers of alcohol and drug use during pregnancy	Parent support groups; parent advocacy groups; self-help groups such as Alcoholics Anonymous, Narcotic's Anonymous, and Parent's Anonymous	Early detection of high risk pregnancy and counseling; infant/mother and family shelters; domestic abuse shelters; homeless shelters; drug/alcohol detox and rehabilitation; employment training, retraining and job-hunting
Middle age	Specialized support groups such as singles, divorced, adult children of alcoholics, education and support programs for adult children; information and referral Services	Counseling; crisis telephone; employee assistance programs; day hospital programs; access to entitlement programs	Fostering of mentally retarded adults; small group home facilities; supported employment programs
Senior Citizens, and Old Age	Association of Retired Persons (AARP); advocacy groups; Senior Citizens community Centers; meals on wheels; senior community centers	Crisis telephone; health and social day care programs; access to entitlement programs	Assisted living and nursing care facilities; rehabilitation facilities; small group home facilities