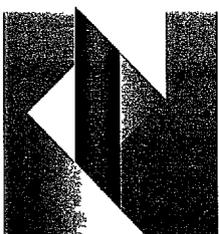


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Social Sector Reform Activity

COUNTRY OVERVIEWS



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OVERVIEW OF SELECTED COUNTRIES' SOCIAL SECTOR REFORMS

The major issues in transforming a communist system of government into a democratic system are usually thought to be democratization and liberalization of the political system, the establishment of laws that protect the civil liberties of citizens, and privatization of state-owned enterprises. These changes often have unforeseen effects in the social sector.

Democratization and liberalization of the political system often includes political decentralization. Municipal governments are formed, but the central government may not allow them to tax residents, which severely limits the independence of the local governments. Staff may not have experience administration, budgeting, or other areas that are important at the local level.

Privatization of state-owned companies has had many effects, including mass lay-offs. The governments of Eastern Europe have tried various employment programs for laid-off workers, including job search activities and retraining. Another effect of the privatization of state-owned companies has been the liquidation of those that will not be profitable. These liquidations have increased the need for local economic development efforts, particularly in "one-company towns." Some states have developed social investment funds to develop local infrastructure in place of state funds, which are no longer available.

Since most Eastern European governments have shrinking revenues, expenditures have had to decrease. Governments have chosen to target subsidies, rather than to give them to all citizens. Means-testing is a new phenomenon in Eastern Europe. In addition, government pension programs have been reformed to decrease unemployment, target the most needy, and be less burdensome to state budgets.

ALBANIA

Introduction

This overview presents a brief summary of social sector issues in Albania. While it is not intended to be comprehensive, this summary will provide an introduction to social sector reform in Albania since 1989. In addition, this summary discusses the role of USAID, the agency of the United States government that provides aid to foreign countries, in Albania's transition to democracy and a market-based economy.

Albania, about the size of the state of Maryland, has a population of 3,200,000 (1995). With a GNP per capita of \$584 (1995), Albania is the poorest country in Europe. Ninety-five percent of the population is Albanian, and three percent is Greek.

Review of the Literature on Transition

The transition began (unofficially) in 1985 with the death of Enver Hoxha. He had been part of the Communist leadership when the party formed in 1941 and in the government since 1944.

The government of Sali Berisha (Democratic Party) was elected in contested elections in 1992. In 1996 Berisha's government set forth its new reform platform for Albania. The platform addressed social sector issues of importance to Albanians:

- ▶ reduce subsidies for social security in order to create conditions for private investment in this field
- ▶ carry out public investment in infrastructure development
- ▶ improve water and sewer systems
- ▶ increase funding for the homeless, including victims of political persecution and people living in housing being restored to prior owners
- ▶ build new rental housing for the poor
- ▶ increase number and capacity of job training centers
- ▶ government support of wages for companies creating new jobs (up to 80 percent of minimum wage)
- ▶ decentralize social welfare budgets and increase local government responsibility
- ▶ create supplementary private pension funds
- ▶ create voluntary private pension insurance funds
- ▶ continue to index pensions regularly
- ▶ create State Secretariat for Youth and Women to improve the position and socioeconomic status of women
- ▶ create employment retraining programs and state sponsored social services for women

Discussion of Key Issues

Key issues for Albania center on improving the quality of life for its citizens. Improving investment in infrastructure (water, sewers, roads, and health) and increasing employment opportunities are priorities.

Albania also faces ethnic strife, the Serbian province of Kosovo has a 95 percent ethnic Albanian population. Serbia claims the region as its traditional lands, the Albanians living there are not treated as citizens with full rights.

Political crisis and civil war erupted over the collapse of nine pyramid schemes in late 1996 and early 1997. Many Albanians had invested their life savings, as well as sold land and houses for cash to invest in the schemes. The collapse of the schemes led to loss of savings for many Albanians, and President Sali Berisha was implicated in the collapse (he was said to have owned a stake in one or more of the schemes).

Brief Overview of Socialist Economic Activity

Under the Communist system, agriculture accounted for more than 30 percent of GDP and employed more than 50 percent of all workers (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, p. 103). Agricultural lands were collectivized after 1979, and farmers were allowed only small personal plots. Peasant incomes remained at a subsistence level after collectivization (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, p. 80). The industrial sector -- especially petroleum production, electric-power generation, mining, engineering, and light industry -- accounted for more than 40 percent of GDP and employed about 25 percent of all workers (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, p. 104).

While Albania theoretically had no class system under the Communist system, in actuality, several classes emerged. First, there was an upper class composed of party elite, leaders of the state and mass organizations, and high-ranking officers of the military and security forces. Members of this elite class received special privileges, including special medical care, exclusive housing, free food and alcohol, vacation allowances, entertainment subsidies, French and Italian clothing, cosmetics, appliances, and vacation homes. Below this upper class of party elite were the party and government bureaucrats, professionals, and intellectuals. This group received educational and economic privileges not available to lower classes. The third class group consisted of party members and the fourth of workers or peasants (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, p. 79).

Brief Overview of Political Freedom and Civil Liberties

Albania, as mentioned above, experienced a strict form of communism. No private media were allowed, and in 1996, there was still no law legalizing private radio and television. Private car ownership was forbidden, and few Albanians had telephones.

Government was highly centralized with local governments having little or no power. Citizens were not responsible to make decisions on local issues reflecting local needs.

Marriage laws were reformed after the constitution of 1946 was adopted. Before the Communists took power, Albanian society was organized according to clans, with men having absolute power over their wives and mothers. The new marriage laws afforded women equal power in the marriage (including rights to choose professions and residences) as well as the ability to request a divorce. Religious marriages were forbidden, as were marriages to foreigners (except with permission of the government) (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, p. 80).

Religion was, at best, discouraged in Albania. In 1945, Albania nationalized most property of religious organizations, clergy and believers were tried, tortured, and executed. Foreign Roman Catholic clergy were expelled in 1946. Albanians caught with religious objects including Bibles and icons received long prison sentences (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, pp. 85-86).

Until the Communist takeover in 1945, 85 percent of the Albanian population was illiterate. Schools under the Ottoman Empire were forbidden to use the Albanian language, and books published in Albania before 1908 used a combination of alphabets, including Latin, Greek, and Turkish-Arabic letters. In 1908, a group of Albanian patriots met to choose an Albanian alphabet; they chose one based on Latin letters, and textbooks began to be written in the new language. In 1910, however, the Turks closed all schools teaching in the Albanian language (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, pp. 87-88). The Communist regime focused on eliminating illiteracy and established compulsory elementary and secondary schools. University-level education was available, and tuition was free (Albania: A Country Study, Federal Research Division, Library of Congress, 1994, p. 93).

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

USAID's activities have focused primarily on building a viable private sector. 60 percent of USAID/Albania's portfolio was directed to this objective in 1996 and 1997. Some activities under this objective, though, relate to the social sector. For example, by training potential entrepreneurs in business, USAID is helping to build small and medium enterprises and thus employment in Albania.

Even though the mission realizes that citizen participation in government and policy formulation will contribute to strengthening democracy, the same realization is not voiced in relation to the social sector. USAID/Albania's social sector activities revolve around the health sector: improving immunization rates and maternal and child health, increasing use of contraceptives (as

opposed to abortion), improving access to health services, and improving management and administration in the health care industry

According to USAID/Albania's 1996 Results Review and Resource Request document, health services are a priority because Albania has some of the worst health indicator statistics in Europe. These statistics include maternal mortality of 40 women per 100,000 births (compared to 19 in Western Europe) and infant mortality of 35.7 per 1,000 births (compared to 10 in Europe) ("Results Review and Resource Request," USAID/Albania, May 1996, p. 63)

The communist regime provided affordable health care to Albania's citizens with an emphasis on providing equal care to all. USAID is introducing private sector management to teach the concept of providing high quality care for as many as possible (the American system)

Other Donors

The European Union's PHARE program has provided aid to Albania since 1991. Some of the program areas PHARE has funded are humanitarian aid, balance of payments support, cross-border cooperation, food aid, EIB loans, energy, and the environment.

The World Bank and the International Development Association (IDA) have also been active in Albania since 1991. World Bank projects have focused on poverty alleviation, economic growth, and private sector development. IDA projects have included forestry, power transmission and distribution, agro-processing, roads and transportation, and urban works and microenterprise development. Through June 1996, Albania had received \$273 million in IDA credits.

Labor Market Reform

Official unemployment in Albania (which does not include discouraged workers) was under 13 percent in 1995 (down from 18 percent in 1994). Hidden unemployment and underemployment are both problems, however, as persons living on agricultural lands are not allowed to register as unemployed, and jobless workers must register each month of the year to be counted as unemployed.

The private sector is growing, and in 1995, 60 percent of GNP and 75 percent of the jobs came from the private sector. The trade sector is the fastest growing, employment in this sector increased by 58 percent in 1995.

Under a 1993 social insurance law, Albania established unemployment benefits. Employers pay six percent of their payroll for unemployment, workers pay none, and the government covers any deficit. Unemployed persons must register with the unemployment office and be willing to undergo training in order to receive benefits. Benefits are set at a flat rate based on a minimum standard of living and include a supplement for children under 15 years.

USAID documentation does not indicate that DOL is active in Albania

The United Nations Development Programme (UNDP) has several labor market programs underway in Albania which provide job training and placement help to the unemployed as well as encourage job creation by small and medium sized enterprises

Pension Reform

Pensioners, along with the unemployed, were losers during the transition. Pensions have been kept low to keep the budget deficit under control. As a result of low pensions and rising prices, purchasing power for pensioners with agricultural pensions was only 49 percent of the purchasing power they had in 1991 (purchasing power was unchanged for pensioners receiving nonagricultural pensions). Nonagricultural pensions were worth about \$38/month in 1995 while agricultural pensions were less than \$10/month.

According to UNDP, pensioners were saved by the Albanian family structure. Most pensioners live with a married son and his family. Pensioners living alone usually receive help and assistance from their children.

As mentioned earlier, pension reform, including creating supplementary private pensions, is one of the Berisha government's reform initiatives. Albania currently has a pension system which covers the elderly, disabled, and survivors. Under the current social insurance law (passed in 1993), the retirement age for men is 60 and 55 for women (with 35 years of contributions). Women who have six or more children older than eight years are eligible at age 50 with 30 years of contributions. Workers contribute 10 percent of their earnings to the social insurance system, and employers contribute 26 percent of payroll.

Pensions are based on a basic flat-rate pension (equal to a minimum living standard) given to all pensioners. In addition the basic pension, pensioners receive an earnings-related increment: one percent for each year of coverage multiplied by the average wage for which contributions were paid.

In 1994, the Albanian Social Insurance Institute (SII) and the World Bank asked the U.S. Department of Labor to assist the SII in developing staff capabilities and forecasting tools for planning pension reform. DOL, through an actuarial consultant company, developed a budget projection model for SII and provided staff training on operating the model. The model allows SII to make short-term actuarial analysis, three-year financial forecasts, and analyses of proposed reforms to the social insurance system ("ILAB Technical Assistance Program on Social Insurance Reform, Central and Eastern Europe," U.S. Department of Labor, undated mimeo).

Targeted Subsidies

Social Programs

In 1995, 65,100 families received full social assistance, and 76,400 received partial benefits (these families represent more than 700,000 persons) For families with no additional income, the monthly social assistance payment was fixed at \$31

UNDP reports on a private study that fixed the minimum income needed for a family of four at \$143/month According to this measure 80 percent of Albanians are living below poverty (compared to 25-33 percent for Hungary, Poland, and Bulgaria)

Albania also has a family allowance program that provides benefits for all dependent children and students Employed persons and their children are eligible for benefits, which are paid entirely by the government Benefits are fixed at 200 lek/month

Governance and Municipal Reform

Under Communist rule in Albania, local governments were not allowed to develop Cities were not autonomous political units, and decision-making was centralized at the national level Responsibility for some services has been devolved to the local level These services include water, sewer, solid waste collection and disposal, street repair, fire protection, and land use Funding for these services, however, is controlled by the central government The first local elections in Albania were held in late 1996

Infrastructure is a major issue for local governments as they attempt to deliver services In 1996, according to USAID/Albania, water service was limited to several hours a day, electricity was erratic, sewage treatment did not exist, and transit services were of poor quality

One of USAID/Albania's first local government activities was a Housing Sector Assistance Activity Through this activity, USAID assists the government of Albania in utilities management, land use planning and infrastructure development, and emphasizes public-private partnerships Accomplishments have included the creation of the first intergovernmental working group, the establishment of legal and institutional mechanism for private sector participation in service delivery, development of procurement procedures for solid waste disposal, agreement by the central government to privatize water services, and assistance to the government for creation of a public utility regulation agency

USAID selected five cities as pilot cities for a local government training program, city staff are trained in management, budgeting, and economic development

Increasing funding for local services was identified by USAID as a desperate need in Albania

USAID/Albania also supports development of local government through development of public-policy oriented NGOs The Democracy Network Program makes grants to NGOs and has helped the Albanian NGO Forum develop as a clearinghouse for information on the nascent NGO sector In 1996, there were approximately 400 NGOs in Albania

Gender Issues

USAID/Albania has paid particular attention to improving women's legal rights in Albania. Through assistance from ABA/CEELI, the Women's Legal Group was established and lobbies the government on women's issues. Another NGO, the Women's Legal Rights Association, was established with help from Land O'Lakes and focuses on legal issues related to property, inheritance, marriage and divorce, and access to credit. Other USAID gender-related activities include support of the Land Market Action Plan which has a gender focus, and sponsorship of a four-week workshop on gender-disaggregated data analysis and dissemination.

UNDP reports that of the 580 directors of ministries and state institutions, only 80 were women in 1995. In addition, no women served as mayors or heads of local government.

Conclusions

Development of local government

Under the Communist regime, municipalities existed but had little power. Now, power is devolving to these governments slowly. Because of their inexperience, the central government is reluctant to give up its own authority, thus contributing to a cycle of inexperience.

Infrastructure development

Albania has needs in development of water systems, sewers, roads and transportation, telecommunications, and others. Private investment will remain slow as long as infrastructure development is weak.

Pensions

The government of Sali Berisha expressed a desire to establish private pension funds as supplementary pension insurance. In addition, many pensioners and other Albanians lost their savings during the pyramid crisis of 1997, leading to a need for a safe, reliable system of pension savings.

BULGARIA

Introduction

This overview presents a brief summary of social sector issues in Bulgaria. While it is not intended to be comprehensive, this summary will provide an introduction to social sector reform in Bulgaria since 1989. In addition, this summary discusses the role of USAID, the agency of the United States government that provides aid to foreign countries, in Bulgaria's transition to democracy and a market-based economy.

Bulgaria began its political transition in 1989 but serious market reforms did not begin until 1991. The transition for Bulgaria has been erratic both politically and economically. Economic reforms have been slow, and the standard of living for Bulgarians has decreased substantially. In 1996 and 1997, the value of the lev declined from 70/\$1 to more than 2,500/\$1 in February 1997. An IMF currency board was imposed in 1997, helping to bring the lev up to 1,800/\$1.

Review of Literature on the Transition

The transition to democracy and a market economy began in Bulgaria in 1989. Bulgaria has traditionally strong ties to Russia and was perhaps its closest ally in the former Soviet bloc. Bulgaria's reliance on the Soviet Union for trade led to a dramatic fall in trade and severe shortages of foreign exchange ("Bulgaria Country Overview," The World Bank, <<http://www.worldbank.org/html/extdr/offrep/eca/bgrcb.htm>>). The transition proceeded slowly; by November of 1995, only 483 of 3,800 state-owned enterprises had been privatized.

Prior to the transition, Bulgaria's national government provided citizens a comprehensive social safety net which included full employment, retirement and disability pensions, free health care, and free education ("Social Safety Net and the Poor During the Transition: The Case of Bulgaria," Fareed M. A. Hassan and R. Kyle Peters, Jr., The World Bank, p. 1). The transition was marred by a severe decline in the standard of living for the majority of Bulgarians. The inflation rate increased to more than 300 percent in 1996, and the average pension amounted to less than \$5/month (in February 1997) while bread cost about \$0.50 per loaf and eggs \$1/dozen. In addition, the grain harvest in Bulgaria in 1996 was the lowest in 20 years, leading to shortages of bread, the staple food ("Economic Review," FBIS, July 22, 1996, <<http://wnc.fedworld.gov>>).

USAID expected joblessness due to continued privatization of state-owned enterprises to increase to between 480,000 and 800,000 persons, or as much as 25 percent of the work force, in 1997.

Bulgarians in early 1997 demonstrated against the government and the prevailing economic conditions — the first such protests since the changes began in 1989. These demonstrations called for pre-term parliamentary elections and led to the election of Petar Stoyanov as President (Union of Democratic Forces) and defeat of the Bulgarian Socialist Party in Parliament.

Discussion of Key Issues

The transition to a market economy has not been easy for Bulgaria. Inflation, the devaluation of the currency, bank failures, and food and heating oil shortages have all beset the country. Under agreements with the World Bank and the IMF, Bulgaria instituted a currency board to attempt to control the slide of the lev. A new government was elected in April 1997, this new government promised to hasten reforms as a way to improve the economic situation.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

Prior to the transition to a market economy, Bulgaria had in place a pension system and a short-term benefit system. The country had little social assistance and no unemployment benefits. Since the transition began in 1989, Bulgaria has established an unemployment system as well as expanded its social assistance programs. The current social safety net in Bulgaria includes pensions, unemployment benefits, and maternity, child, and social assistance or family benefits ("Social Safety Net and the Poor During the Transition: The Case of Bulgaria," Fareed M. A. Hassan and R. Kyle Peters, Jr., The World Bank, pp. 18-21)

USAID

USAID has been involved in several areas of reform in Bulgaria, including economic restructuring, democratic transition, social stabilization, and other special initiatives. USAID/Bulgaria programs include:

- humanitarian aid, including provision of pharmaceuticals
- banking sector reform
- supporting growth of small and medium sized enterprises
- the Democracy Network program
- scholarships for economic reform training
- Local Government Initiative, including a new "democracy component"
- assisting the National Municipal Association to develop lobbying efforts
- labor market reform initiatives
- pension reform
- the American University of Bulgaria
- Professional Media Program (see Annex 1 for a more complete listing)

USAID/Bulgaria's activities under Strategic Objective 3.2 Improved Fiscal Sustainability of Social Benefits and Services have focused on labor market reforms. These are discussed in more detail below, in Section IV.

Other Donors

Bulgaria's Mass Privatization Program has been assisted by the European Union and the French

Government The IMF, World Bank, European Bank for Reconstruction and Development Bank, and the European Union are all involved in macroeconomic policy, bank restructuring, budget development, and tax policy (USAID Congressional Presentation 1998 Bulgaria, p 2)

Labor Market Reform

Bulgaria's current compulsory unemployment insurance law was passed in 1989 and covers both employed persons and graduates of vocational schools and colleges and universities Employers pay five percent of their payroll for unemployment insurance The government covers the costs of benefits for government workers and students

Unemployment benefits are based on 60 percent of average earnings during the previous six months (but not less than 90 percent or more than 140 percent of the minimum wage) The duration of the benefits depends on age and length of coverage

Unemployed persons must register at an unemployment office within seven days of dismissal or one month of warning of dismissal

USAID's labor market reform activities have had three primary components employment services, training for ethnic minorities, and social insurance reform

USAID, through agreements with DOL, has helped establish a national employment service DOL helped the government of Bulgaria establish model labor offices, these offices conduct job skills training, provide employment counseling, and conduct employer outreach

Services to ethnic minorities have focused on two programs Social Welfare to Employment (SWEP) and Work Literacy Training Ethnic minorities in Bulgaria have high unemployment rates (more than 50 percent of the Turkish minority and 80 percent of Gypsies are unemployed) SWEP attempts to address the problem of long-term welfare dependency among ethnic minorities by providing job skills training and job placement SWEP has been successful in reducing unemployment payments to the ethnic population through employment in government work programs Work Literacy Training provides literacy training in language and mathematics, vocational training, and job placement

A new project begun in 1997, the Quick Start program, provides retraining to workers in collaboration with local training centers and businesses

Pension Reform

In 1992, the Government of Bulgaria passed the Pension Reform Act that lowered the retirement age (effectively encouraging early retirements) the retirement age for men was reduced from 64 to 60 and for women from 58 to 55 Generous provisions for early retirement led to increased pension expenditures — 9.6 percent of GDP in 1993 (Branko Milanovic, section 3, p 5)

In 1996, the government established the National Social Security Institute (NSSI) and gave it

authority over the pension system. The U.S. Department of Labor (DOL) and the Free Trade Union Institute provide training to NSSI staff. This training is intended to help Bulgaria meet the terms and conditions of a World Bank loan to help reform Bulgaria's social insurance system. The DOL project includes increasing NSSI institutional capacity (policy analysis, actuarial forecasting, public information and education, and personnel management improvements) and improving NSSI operational efficiency in the new market economy (reversing tax noncompliance trend and strengthening NSSI's ability to perform evaluation).

Pensioners currently comprise about 30 percent of the Bulgarian population (2.5 million pensioners). Twenty percent of government expenditures go for pensions, but the average pension is worth only 33 percent of the average salary.

Bulgaria has no official private pension system, however, a government working group has been established to draft legislation establishing private pensions. Several private pension funds have been established in recent years, they operate as insurance funds, and no law has yet been passed to regulate their operations. USAID is currently designing a program to assist Bulgaria with private pension reform.

Targeted Subsidies

Reforms in Bulgaria have not yet focused on increasing use of targeted subsidies. The World Bank has explored the need for targeting in Bulgaria and identified how well social assistance programs are targeted to the poor. The following discussion is summarized from, "Social Safety Net and the Poor During the Transition: The Case of Bulgaria," a publication of the World Bank.

According to the World Bank's analysis, middle income households receive more than half of all social benefits in Bulgaria. For example, middle income households receive almost 70 percent of all child allowances while low-income families receive fewer than 20 percent of child benefits. (It should be noted that Bulgaria's child allowances are intended to encourage births due to their declining birth rate and declining population.) Two-thirds of all social assistance go to "better-off" households.

Pension benefits are evenly distributed throughout the income groups. However, poor pensioners are completely dependent on their meager pensions (the value of pensions has been declining as the economic situation worsens) while wealthier pensioners have additional income.

The World Bank suggests that child allowances be means-tested and pension benefits be increased and adequately indexed.

Governance and Municipal Reform

Local governments in Bulgaria are responsible for delivering services, but the authority to tax and provide financing for services belongs to the central government ("Local Government Reform in Bulgaria: Current Issues, Constraints, and Opportunities," International City/County Management Association, September, 1994, prepared for USAID, draft report, p. 2). The

principal expenditure categories for local government spending are science and education, culture and arts, health care, construction and development, social support, tourism and sports, land division and marking, and youth activities. The central government prescribes that 70 percent of the budget goes for education and health care, local governments do not have the flexibility to change those percentages based on local needs.

The International City/County Management Association (ICMA), through a contract with USAID, provided technical assistance to local governments in Bulgaria. Through this contract, ICMA conducted an evaluation of conditions affecting local governments, developed a plan for short-term improvements in revenue enhancements and expenditure reductions, developed a plan for long-term improvements in financial management, administrative performance, service delivery, and citizen participatory processes, and identified capital projects that demonstrated feasibility for funding and implementation assistance from donor agencies ("Local Government Reform in Bulgaria: Current Issues, Constraints, and Opportunities," International City/County Management Association, September, 1994, prepared for USAID, draft report, executive summary).

One of ICMA's recommendations was that a study be conducted to determine benchmarks for evaluating delivery of municipal services. The study will help municipal officials make resource allocation decisions ("Local Government Reform in Bulgaria: Current Issues, Constraints, and Opportunities," International City/County Management Association, September, 1994, prepared for USAID, draft report, p. 30).

USAID has also begun a Local Governance Initiative project in Bulgaria. Regional municipal associations were created to provide training and technical assistance to municipalities, USAID provides training and support to these associations.

Conclusion

Bulgaria continues to face economic hardships. Country needs include private pension reform and social services, including health care, social assistance, and food assistance.

USAID is not involved in many social sector areas. Outside of the DOL programs and a one-time humanitarian aid program to purchase pharmaceuticals, USAID/Sofia does not have social sector programs.

THE CAUCASUS ARMENIA, AZERBAIJAN, GEORGIA

Introduction

The Caucasus is not as advanced in its reforms as Central and Eastern Europe. Armenia's political reform was set back in Autumn 1996 by flawed elections. Political decision makers are reluctant to undertake critical reforms that may further burden the population. Armenia's per capita GDP is one of the lowest in the NIS (USAID/Armenia, Results Review Document, 1998, p. 2). Armenia is not yet economically viable on its own and will be reliant on aid, external debt and remittances for several years to come. Azerbaijan has enforced a transport embargo against Armenia and Turkey has also closed its borders with Armenia. Very little of the existing industry has been privatized in either Armenia or Azerbaijan and war between Armenia and Azerbaijan has increased the governments' financial burdens due to the need to provide for internally displaced persons (IDPs).

Baku is a boomtown, in spite of the fact that Azerbaijan has not yet been able to export oil. It has been slow to undertake economic or political change. Heydar Aliyev, former leader of the Communist Party, has shown little inclination to make any changes. Corruption is also a problem in Azerbaijan. There are about 800,000 internally displaced persons in Azerbaijan and 20 percent of Azerbaijani territory is occupied by Armenia. These IDPs receive minimal support from the Azerbaijani government.

Georgia has emerged as one of the more progressive NIS countries. Georgia is comprised of several disparate ethnic and political groups and has had some internal conflict. Abkhazia is the current locus of most of Georgia's unrest. Reconciliation between Georgia and South Ossetia is also incomplete. In spite of its political problems, Georgia is strategically placed between Europe and the Middle East and is used as a main transport route. Georgia experienced an energy crisis last year when Turkmenistan cut off Georgia's gas supply for non-payment. Further, the health care system has broken down and can not cope with preventable diseases.

Brief Overview of Socialist Economic Activity

Armenia was heavily subsidized as a Soviet Republic. Azerbaijan exported oil to the other Republics and imported most other goods. Georgia had a strong tourist trade that supported its economy. There is significant agriculture in both Georgia and Armenia.

Brief Overview of Political Freedom and Civil Liberties

Like elsewhere in the Soviet Union, the Constitution granted the people of the Caucasus extensive political freedoms, but no civil liberties to support them.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

The social sector areas which USAID has tried to impact are labor market reform, governance

and municipal reform, and community development. Up to this point, little to no work has been done by USAID on pension reform in any of the countries. And while some consumer subsidies are still in place, the only experience with targeting subsidies is to displaced persons and others who were affected by war.

USAID has not yet provided any support for programs that target subsidies to those who need them most.

USAID supported approximately 100 community micro-projects in Armenia, generally in water provision, farming, and sanitation. USAID has supported NGOs through technical assistance and training and by creating an NGO Training Center.

The USAID Mission to the Caucasus has created a new social sector/community mobilization initiative in Armenia and Georgia to enhance the sustainability of social services and to attempt to get the community to become self-sufficient by providing those services within the community rather than relying on the central government. This effort promotes local economic development (more provision of services locally) and municipal development (independence from central government) as well as social sector reform.

Other Donors

EU-TACIS is currently providing the Government of Armenia with technical assistance to revise its pension system.

Labor Market Reform

Many workers have been laid off and unemployment insurance is not being paid. The current system can not support the number of unemployed workers and as privatization of medium and large firms begins, this number will only increase. The Government of Armenia has made a deal with Merrill Lynch to auction off 13 strategic enterprises for international investment. However, the government does not recognize the need for comprehensive market reform.

Armenia's unemployment benefits are available to those who are registered with the employment office and are able and willing to work. The minimum benefit is 50 percent of the minimum wage and the maximum benefit is three times the minimum wage. Workers generally receive 50 to 75 percent of average monthly earnings, depending on length of service and elapsed time since employment. Work injury benefits require no minimum qualifying period. The temporary disability benefit equals 100 percent of the average monthly earnings in the previous twelve months. The benefit is payable from the day of incapacity until recovery or award of disability pension. The permanent disability pension pays 30 to 60 percent of the wage base, depending on degree of disability.

Azerbaijan's unemployment benefits are available to those who are registered with the employment office and are able and willing to work. Benefits are paid for 26 weeks, plus an additional two weeks for every year over 25 worked. Benefits equal 55 to 75 percent of pre-

unemployment earnings, depending on time in service and time elapsed since employment. The maximum benefit may not exceed the average wages in that enterprise and the minimum benefit equals the minimum wage. A dependent supplement of 10 percent of unemployment benefits may be available.

Work injury benefits are paid from Georgia's pension fund. The temporary benefit is 100 percent of earnings from the day of incapacity until recovery or award of disability pension. The permanent disability benefits range from 30 percent of earnings to 100 percent of old age benefits, depending on degree of disability and time employed, plus supplement for constant attendance if necessary. A social pension may also be available from 30 percent to 100 percent of the old age pension.

Unemployment insurance benefits for Georgia are meager. To qualify, one must register at the employment office and be willing and able to work. Benefits are payable for six months, equal to 200 percent of the subsistence wage for months one, two, five and six and 250 percent the subsistence wage for months three and four. A flat rate cost of living adjustment is paid monthly.

Employment services programs have not been attempted by any of the countries. Mass lay-off response mechanisms do not exist in the Caucasus. Because large scale privatization has not occurred, they have not been necessary but if economic restructuring continues, these may become desirable.

Training

USAID/Caucasus would like to see more training for bank staff. The Central Bank of Armenia has agreed to require testing of senior bank personnel, which should be an impetus for future training. Other training has included national budgeting, municipal financial management, horticulture, agribusiness, media technical skills, and airport management.

Azerbaijanis have not received much training. Only 25 Azerbaijanis have come to the US for short-term training in banking and human rights and 40 more received training in business practices in Baku.

Thirty-three Georgians attended short-term training in the US and 4 attended a short conference on municipal and local government in Sofia, Bulgaria last year. The IMF has sponsored staff training to support Georgia's banking sector.

Pension Reform

Many workers in the Caucasus do not have adequate pensions. Some may not have received payments for several months. In general, the pension and banking systems in the Caucasus need to be reformed to increase public confidence.

Armenia's pension benefits are payable to men at 60 years (with 25 years of employment) and to women at 55 (with 20 years of employment). Mothers of five or more children, mothers of

disabled children and those working in hazardous occupations qualify for the old age pension at 50 with 20 years of work) Benefits equal 60 percent of the wage base for the minimum years of work plus one percent of the wage base for each additional year

Georgia's pension fund provides benefits to men age 60 (with 25 years of employment) and to women age 55 (with 20 years of employment) These requirements are reduced for hazardous work, mothers of four or more children, mothers of disabled children, and the blind

Private pensions have not yet been institutionalized in the Caucasus Domestic savings are extremely low since per capita income is low and many people lost their savings during the transition

Targeted Subsidies

Housing subsidies have not been targeted to any particular parts of the population, but housing maintenance and service is being successfully privatized

The Armenian government has established the PAROS program, which is a need-based voluntary registration program for humanitarian assistance Single pensioners and orphans in Armenia receive preferential treatment for humanitarian aid and government subsidies Humanitarian assistance in the form of kerosene and wheat subsidies are decreasing and are being allocated increasingly to those with the most need Armenian refugees from Azerbaijan have been almost fully integrated into society although they are some of the PAROS recipients

Sickness and maternity benefits are provided through cash payments and universal coverage Sickness benefits are theoretically available in Armenia for illness or to care for a sick family member, however, that information is not available Maternity benefits equal 100 percent of earnings payable for 70 days before and 70 days after confinement Monthly benefits equal 100 percent of minimum wage until the child is 18 months old Unpaid leave may be granted to care for child for an additional 18 months Further, there is a birth grant of 3,000 dram

The family allowance in Armenia is means tested and available to urban families with children if per capita income is less than 60 percent of the minimum wage The family allowance ranges from 450 to 650 dram per month, depending on number of children There is a supplementary benefit of 700 dram for single mothers

Due to sluggish revenue collection and poor targeting of social assistance resources the Georgian government is still not able to provide for those in need

Sickness and maternity benefits are provided through cash payments and universal coverage The sickness benefit is equal to 60 to 100 percent of the last month's wages, depending on length of employment The maternity benefit is payable for 70 days prior to and 56 days after confinement equal to 100 percent of wages

Community Development

Both Armenia and Georgia have social investment funds that have sponsored many local infrastructure projects. Armenia's social investment fund was established by the World Bank to support infrastructure renewal and repair. Georgia's was established by USAID to fund 10 community level projects and stimulate employment through rehabilitation of small to medium scale infrastructure projects. One of the goals of Georgia's SIF was to increase employment and therefore income by creating construction jobs for residents. The government of Georgia is going to take responsibility for a larger social investment fund sponsored by the IBRD in late 1997.

The capitals of the three countries are fairly well developed but there has been little development outside the capitals. ICMA, IRIS, IESC, and VOCA are all working to reform the economic sector in Armenia. There is little incentive for businesses to operate legally in the private sector because the taxes on private industry in Armenia are prohibitively high.

In spite of tough laws, the NGO community has grown considerably in the past three years. Armenia's Ministry of Justice has a roster of over 1,000 NGOs. These organizations are no longer doing just humanitarian work, but are advocating change in the legal, media, and human rights spheres. Connections with constituents are relatively weak, but a small core of NGOs are beginning to understand their role in society. Save the Children has done some NGO capacity building work.

Georgia's NGOs have been expanding and growing. There are a dozen or so well-organized NGOs in the social, political, and economic policy spheres. They are able to effectively advocate change but need financial support and/or fund-raising training. NGOs are also having problems with tax collection agents who do not understand the tax exemption provided by law or bilateral agreement. But this too has been delayed and the conditions for growth are not favorable.

Governance and Municipal Reform

There has been little effort to reform and strengthen local government in the Caucasus. Armenia's local governments are slowly developing as they win grants from the Armenian Social Investment Fund to improve infrastructure and services.

In Georgia immediately after the civil war, there was a decentralization of power, but the president has since appointed regional governors, effectively recentralizing the system. Since the attempt on Shevardnadze's life, he has successfully taken power away from the Mkhendroni (local warlords) in Georgia, which has increased the power of legitimate governing forces. The government recognizes the need for a new law on local self-government and the Parliament is progressive and would probably approve one, but the delay is caused by a debate over whether local officials should be elected or appointed. In addition, there is still no agreement on the Ossetian/Abkhazia issue.

Local governments are still largely reliant on the central government for funding needs.

Conclusions

Many of USAID's social sector programs in the Caucasus have focused on assistance to refugees and displaced persons. Services including shelter, health, nutrition, and employment programs have been provided through both national and international non-governmental organizations.

USAID's social sector reform efforts in the Caucasus are moving away from humanitarian assistance and into more long-term social safety net development. A sustainable social safety net and employment creation programs will help these countries better manage their transitions.

CENTRAL ASIA KAZAKHSTAN, KYRGYZSTAN, TAJIKISTAN, TURKMENISTAN, UZBEKISTAN

Introduction

Central Asia is not as advanced in its reforms as Central and Eastern Europe. Kyrgyzstan is the most advanced in its reforms and generally follows democratic norms. Kazakhstan, Uzbekistan, Tajikistan, and Turkmenistan are characterized by varying degrees of authoritarianism. None of the countries have held elections that meet internationally recognized standards of “free and fair.”

Economic reforms are proceeding slowly, since the governments are afraid of rapid change and economic devastation.

Brief Overview of Socialist Economic Activity

The Central Asian Republics were treated as colonies under the communist system. They supplied the center with raw materials, but had little manufacturing capability. Cotton was an important industry in Central Asia from the 1860's to the 1990's. Uzbekistan was one of the world's leading cotton producers in the 1960's and 1970's (Yuriy Kulchik, Andrey Fadin, and Viktor Sergeev, Central Asia After the Empire, Pluto Press, Chicago, IL, 1996, p. 10). Its production, however, has led to soil erosion, a rapidly shrinking supply of drinking and irrigation water, human disease as a consequence of poor quality drinking water, and the necessity of importing food, since almost all arable land is devoted to cotton.

The social protection system in the Soviet Union included a comprehensive social security and wage supplements for most of the population, as well as full employment and job security, free access to health, education, and other social services. In addition, utilities and housing were subsidized.

Brief Overview of Political Freedom and Civil Liberties

Like elsewhere in the Soviet Union, the Constitution granted the people of Central Asia extensive political freedoms, but no civil liberties to support them. In Kazakhstan, non-indigenous peoples (Russians, Ukrainians, Tatars, etc.) were pushed out of communist power structures from the 1960's to the 1980's.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

USAID has not participated in labor reform programs in Central Asia because economic reforms have not yet changed the economy or employment status of many workers.

Pension reform has occurred in Kazakhstan, but USAID played a minimal role.

USAID has designed activities that will help the government of Kyrgyzstan make changes to

sustain the social benefits system. The largest part of these activities is creating a means-tested benefit system and training administrators in management techniques.

USAID has provided NGO support across the region. USAID has focused its efforts on promoting constituency building and provision of services to NGO members in Uzbekistan. In Kyrgyzstan, USAID has supported training for staff and provided seed money for projects for more than 80 NGOs in the country.

USAID has provided training and technical assistance to local governments in housing and health. USAID has also managed a pilot project in Karakol, Kyrgyzstan and Atyrau, Kazakhstan on Municipal Finance and Management. USAID also intends to provide local governments with expert assistance by hiring an expatriate city advisor from the US to conduct training in areas such as rationalization of social service delivery and transparent competitive bidding.

Labor Market Reform

To maintain high levels of employment, Central Asian countries require rapid diversification of the agricultural sector and of the economy in general. These are some of the least urban countries in the world. Employment services will be needed for economic stability as the economy broadens to include more non-agricultural activities. Retraining may also be an important component in economic restructuring because people were trained to work cotton fields and few received higher education.

Kazakhstan's work injury benefits are distributed through cash payments and universal coverage. The temporary disability benefit equals 100 percent of earnings from the day of incapacity until recovery or award of a disability pension. The permanent disability pension equals 40 to 60 percent of earnings as a maximum and a minimum of 50 to 100 percent of the old age pension, based on degree of disability and length of employment. Kazakhstan has also developed a new system of unemployment insurance.

Uzbekistan's work injury benefits are also distributed through cash payments and universal coverage. The temporary disability benefit equals 100 percent of earnings from the day of incapacity until recovery or award of disability pension. The disability pension ranges from 30 to 55 percent of earnings, with a minimum of 50 to 100 percent of the minimum first-tier old age pension. To qualify for Uzbekistan's unemployment benefits, one must have worked 12 weeks in the past 12 months, be registered at the employment office, able and willing to work, and receiving no income from employment. Benefits are equal to 50 percent of average earnings, payable for 26 weeks. The maximum benefit requires that average earnings not exceed the Republic's average wage. The minimum benefit equals the minimum wage.

Pension Reform

Kazakhstan's pension reform scheme is unique. It completely eliminated the first pillar, or the pay-as-you-go system, and replaced it with mandatory funded private pension accounts. Instead of being managed by a private company, however, the fund is managed by the government since

there are few firms in Kazakhstan that have the requisite knowledge and experience to maintain such a large fund

In Kazakhstan, men qualify for pensions at 60 5 years with 25 years of covered employment, women qualify at 55 5 years and 20 years of work. Requirements are reduced for the blind, for those working in hazardous occupations, and mothers of disabled or five or more children. Pension benefits equal 60 percent of earnings plus one percent for each year in excess of the required minimum. The minimum pension is established yearly in the Republic budget.

In Uzbekistan, men qualify for pensions at 60 (25 years of covered employment) and women qualify for pensions at 55 (20 years of work). These requirements are reduced for hazardous occupations. Retirement is necessary to qualify for these pensions. First tier pensions equal 55 percent of average earnings (over any five year period). The maximum benefit paid is 5 25 times minimum wage and the minimum benefit equals half the minimum wage. A second tier pension may be paid in addition at one percent average earnings for every year of service. These may also be special pensions awarded to war veterans and others.

Targeted Subsidies

Housing subsidies are now provided by local governments in most of Central Asia. The funds for providing subsidies, however, are not plentiful. USAID has been working with local governments in this area to promote cost-effective administration of housing units.

Kyrgyzstan is developing a means-tested social benefit system which will target resources to those who need them most.

Uzbekistan provides cash payments and universal coverage for sickness and maternity benefits. Sickness benefits range from 60 to 100 percent, depending on length of service. The maternity benefit equals 100 percent of wages for 70 days prior to and 56 day after confinement. Uzbekistan's Ministry of Health has approached USAID about assistance with health reform, particularly in the areas of targeting, sustainable budgets, and privatization.

Community Development

Tajikistan has a social investment fund that is sponsored by the World Bank. It focuses on rebuilding infrastructure and communities that were destroyed by civil war.

Agriculture is still a critical sector for the Central Asian countries. In Uzbekistan, efforts to develop a Private Farmers Association have had limited success because the government still exercises considerable control over that sector.

The governments in Central Asia are trying to solidify their positions and are threatened by citizen involvement in the governing process. While the constitutions give citizens the right to be involved and to assemble and form groups, these rights are rarely exercised without government intervention.

NGOs are developing slowly in Central Asia. In Uzbekistan, the NGOs are still subject to government monitoring, but no NGOs have experienced interference with training or other activities. In fact, the government has been mildly supportive of those that attempt to make economic or social changes in the communities.

Governance and Municipal Reform

Like in many countries in Eastern Europe, some of the Central Asian governments have devolved responsibility for social service provision to the local governments, but revenue raising capacity has not been decentralized. In Kyrgyzstan, local governments are largely responsible for housing, health, and education provision. The World Bank is working in two oblasts in Kazakhstan to improve health and kindergarten services. The UK Know-How Fund is also assisting two municipalities in Kazakhstan to improve health care delivery.

Budgeting is difficult in these countries since local governments have limited taxation authority and can generally only collect around 20 percent of potential revenue.

Conclusions

There is still much programming that USAID could provide to Central Asia to assist the democratization process there. Social sector programs may increase in importance as Central Asia's economies diversify.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Introduction

The Former Yugoslav Republic of Macedonia was fortunate to avoid war with rump Yugoslavia upon its secession, but the current conflict in Kosovo threatens its political stability. FYR Macedonia has been plagued by interrupted trade routes, ethnic tensions and refugees requiring large public expenditures as a result of war in neighboring countries. While war interrupted trade possibilities to the north, conflict with Greece over the name "Macedonia" prevented trade from developing to the south.

Brief Overview of Socialist Economic Activity

Yugoslavia was one of the least repressive socialist states in Eastern Europe. Agriculture was never forcefully collectivized, though it was often cooperative. Macedonia had many economic ties (not necessarily official ones) with Italy, Greece, Turkey, and Austria. Macedonia had some industry (though the majority of the heavy industry was concentrated in Croatia) and some agriculture (which was concentrated in Serbia). The workers' self-management system that Yugoslavia used was more decentralized and market oriented than other Eastern European systems. Wages were compressed, most consumer goods were subsidized, and fringe benefits were generous. The government also administered pay-as-you-go pensions, unemployment insurance, an insurance-funded medical system, and means-tested family allowances.

Brief Overview of Political Freedom and Civil Liberties

The Yugoslav system of government under Tito was equitable and therefore not threatening to any of the nationalities. There was a rotating presidency and each group was guaranteed representation. Macedonians were accorded fairly extensive political freedoms in Yugoslavia, but only a few civil liberties. After Tito's death, the rise of Serbian nationalism alarmed the other nationalities, and one by one the republics seceded from Yugoslavia.

Macedonia has a relatively large ethnic Albanian population. There has been tension recently between the Macedonian government and the ethnic Albanian community, largely over the lack of Albanian language instruction in schools and the resistance to establishing Tetovo University, the only Albanian-language university in the country.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

USAID has contracted with the following technical assistance providers to work in various areas of economic restructuring: IRIS (collateral law), KPMG (bank supervision, bank rehabilitation), OI (micro lending), Land O' Lakes (dairy marketing), FSVC (business sector support), CFED (commercial law, bank operations), Crimson Capital (business resource center), VOCA (farmer-to-farmer assistance), Carana Corporation (bankruptcy law), IDLI (financial transactions), US Treasury (tax administration), WOCCU (rural credit).

USAID has contributed to the pension reform effort in Macedonia through its funding of a study of possible reform measures and training of Pension Fund staff. Carana has been hired to work on social sector reform programs.

USAID funded advisors have provided Macedonian NGOs with financial management, organizational skills, grant writing, strategy development and member recruitment training. ICNL (NGO laws), Delphi (networking of women's organizations), NFF (NGO networking), PIET (participant training).

USAID has provided assistance through its contractors for three local governments to manage public services and infrastructure, economic development, revenue generation, and public involvement in decision-making. It contracted with the following technical assistance providers to work in municipal reform and governance: USIA (English-language instruction, democracy commission, media training), DAI (local government), ISC (democracy networking), KPMG (central government), NDI (political organization), CRS (parent-teacher organizations), CEELI (rule of law).

Labor Market Reform

Macedonia traditionally traded its manufactures and agricultural products with the other Yugoslav republics and neighboring countries. It has had difficulty establishing external trade. The war in Slovenia, Croatia, and Bosnia-Herzegovina and the blockade on Serbia-Montenegro severed normal trade with the former republics. Bulgaria's difficult situation prevented them from importing Macedonian goods and the conflict between Macedonia and Greece over the name "Macedonia" led to a Greek embargo on Macedonian goods as well which has since been lifted.

Employment rates in Macedonia decreased by 25 percent between 1989 and 1995 (Allison and Ringold, p 18). The working age population in Macedonia has decreased by 5 to 6 percent since 1990 (Allison and Ringold, p 10), which accounts for some of the decline. Registered unemployment grew from 24 percent in 1989 to 36 percent in 1995 (Allison and Ringold, p 23). Figures are only available from 1990 to 1993, but fewer than 10 percent of the registered unemployed actually received benefits during that period (Allison and Ringold, p 27). Long-term unemployment is extremely high. In 1993, 87 percent of those who were unemployed were long-term unemployed (Allison and Ringold, p 28).

The rate of withdrawal from the labor force due to disability, however, has been lower in Macedonia than in other countries, less than 2 percent the total working age population as of 1993 (Allison and Ringold, p 14). The withdrawal from the labor force to old-age pensions has been more common among women, but the total rate was approximately 15 percent (Allison and Ringold, p 14).

The government proposed budget cuts and austerity measures to bring inflation and the budget deficit under control. These cuts, however, would further impair the ability of the government to

provide health insurance, pensions and unemployment benefits to the population

The World Bank began a restructuring program in 1994 and the consequence was that 10,000 workers were fired. The social safety net, however, can not support additional unemployed workers. The World Bank has sponsored a labor redeployment program to respond to the unintended consequences of privatization. Self-employment is an increasingly attractive option for some of these workers, but little credit is available for small business start-up.

Macedonia had unemployment insurance under socialism, but the country was also supposed to have full employment. Its experience with administering such a program, however, should have been helpful to government officials who were creating the new system. The old unemployment benefits were distributed by the Employment Department, but it has not been able to meet the demand for several years and unemployment payments were being made from the central budget. Prime Minister Crvenkovski cited unemployment as Macedonia's biggest problem, with 230,000 people unemployed according to Employment Department data (Nova Makedonija, Feb 8, 1997). And apparently, unemployment shows no signs of decreasing since the figure published at the end of October was 250,000 unemployed (Skopje MIC, October, 31, 1997).

Pension Reform

As part of the World Bank program, the Macedonian Government had to agree to undertake actuarial analysis of the pension system to understand the requirements for reforming the old pension system. Macedonia passed laws that increased the eligibility ages for pensions, reduced individual pension levels, and increased contributions by employers.

Pensions and health insurance have not been paid for a large number of workers. The Supreme Court decided that the payment of pensions was the duty of the Pension Fund and that the central government could not be held accountable. However, the Fund is in a crisis and can not afford to pay what it owes to the pensioners. Many businesses have closed or are no longer operating legally so they are not paying into the Pension Fund. Others are simply defaulting on the contributions. The government has adopted a new regulation that requires businesses to pay contributions to the Pension Fund by the 25th of the month regardless of whether salaries have been paid (Skopje Puls, July 25, 1997, p 5-7).

Private pensions are now mandatory in Macedonia. Originally the government requested information and aid in establishing voluntary private pension funds, but has since changed its program.

Targeted Subsidies

Macedonia is one of the few countries that benefits from having experience with means-tested welfare under communism. The World Bank supported another program in Macedonia to establish baseline poverty measures, increase the capacity of the social assistance system through staff training in administration, enforcement and budgeting.

Community Development

Macedonia has the smallest NGO community in the region and the NGOs are very issue oriented and generally do not engage the national or local governments in a policy dialog

Governance and Municipal Reform

A new local election law was adopted in the summer of 1996. The law allowed 34 municipal governments to be expanded to 123.

HUNGARY

Brief Overview of Socialist Economic Activity

Economic reforms began in the late 1960's with the New Economic Mechanism. It tried to substitute market prices for the plan as an allocative mechanism (World Bank, Hungary-Youth Training Project, p. 1). It also built some of the institutions necessary in a market economy. Hungary began importing capital from the west. It continued through the 1980's and by 1988, approximately 10 percent of the labor force was employed in private ventures. The remainder worked mainly in the manufacturing and industrial sectors. Large state-owned companies in Hungary were often responsible for supplying education and social services with a small grant from the government, particularly in one-company towns (UNDP, Informal Economy, p. 6). Trade unions provided workers with financial support and holidays. Unlike in other countries, about 80 percent of Hungarians lived in housing that they owned (not including farmland) by the end of the 1980's (UNDP, Informal Economy, p. 8).

Brief Overview of Political Freedom and Civil Liberties

Hungary was one of the first communist countries to make the transition to democracy. Even under communism, Hungarians were relatively free compared to other Eastern Europeans. While the Magyar Socialist Workers' Party (MSZMP) was the only legal party, opposition groups existed in relative peace. The movement for reform in Hungary came from within the MSZMP. The government entered into roundtable discussions with opposition groups and, in June 1989, removed the clause in the constitution that outlawed other political parties. Six well-defined political parties participated in elections in April 1990.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

USAID has sponsored several labor market reform programs in Hungary since 1990. The Department of Labor has managed three of these programs. The first is the Quick Start Labor Intervention Program. Its goal was to generate employment for the long-term unemployed by training them for jobs and skills that are in demand. This program has earned the cooperation of private enterprises, regional re-employment and retraining centers, and county labor offices.

The second DOL program in Hungary is the Employment Services and Dislocated Workers Program/Rapid Response. The program successfully improved the ability of the Hungarian government to deal with mass layoffs from privatization or restructuring by institutionalizing County Labor Centers which counsel workers individually and help them find new job placements before they are unemployed for any long period of time.

DOL's third program in Hungary is the Labor Management Relations Program. This program was designed to help the Hungarian government, trade unions, and enterprises develop a national industrial relations system that allowed collective bargaining, dispute resolution, and approaches

to accountability, responsibility, and decision making that will lead to increased productivity for workers and investors

USAID has created a framework for better definition and targeting of government benefits. An inter-ministerial working group has accepted the framework, but the Pension Fund authorities have not. USAID's goal is to have the framework in place and the new system functioning by 1999.

USAID is working with the Government of Hungary to reduce subsidy expenditures. The 1996 target for subsidies as a share of government expenditures was 9.5 percent, but the actual figure was 10.2 percent. The goal is to have government subsidies reduced to 6 percent of budget expenditures by 1999.

USAID has several goals in the small and medium enterprise program that should help community development. Hungarian banks are extremely cautious about lending to small and medium enterprises, and while foreign banks do make such loans, available capital is limited. Those Hungarian banks that do provide loans to small and medium enterprises often require 150 percent collateral, which prevents many businesses from receiving a loan. USAID has provided a \$6 million loan portfolio guarantee to Hungary's largest bank, OTP Bank, to encourage lending to small and medium enterprises. USAID has also provided a few banks with software that allows the bank to efficiently track its portfolio. USAID has also worked with the businesses themselves to promote better presentation of financial data to banks.

USAID has also worked to improve the technology available to small and medium firms. Many of these enterprises can now access the Internet at local enterprise agencies. USAID established a database of regional information on the web for agricultural producers and businesses. It has also made resource materials available through virtual libraries at universities and other educational centers. These resources have begun to support small business development centers in larger towns and cities. USAID has offered business training through the State University of New York, which has established Total Quality Management (TQM) centers at seven Hungarian universities, and Indiana University, which has collaborated with the Budapest University of Economic Sciences to create programs that specifically focus on the needs of women in business.

Labor Market Reform

Labor shedding and a subsequent growth in labor productivity characterize labor market adjustment in Hungary (Allison and Ringold, p. 4). Between 1990 and 1993, employment fell by 1.03 million, approximately 20 percent, in Hungary (Commanter and Coricelli, p. 4). The changes were mainly from state-owned companies or privatizing companies laying off workers. Many analysts thought that the growth of private companies should absorb those released from state industries, however, this did not happen. Many people retired early, some went to work in the private sector (largely in service industries) and others joined the ranks of the unemployed. Wages are generally higher in private sector.

Unemployment reached maximum of 13.4 percent in 1993 and has subsided, but is still high at 10.2 percent (475,000 people) of the workforce. Over half of the unemployed people are under the age of 35. Those with the least education suffer most (World Bank, Hungary-Youth Training Project, p. 2). Withdrawal from the labor market was the solution for many people, particularly women. When child care subsidies and generous benefits to mothers ended, many women had to leave the labor force to care for their children (Allison & Ringold, p. 11). Others participate in the hidden economy. One study in Hungary found that the informal economy comprised nearly 30 percent of GDP in 1992 (Allison and Ringold, p. 6). Unemployment fell to 12 percent in 1994. For those who are employed, however, real wages have remained stable and fairly high since 1991 (World Bank, Hungary-Poverty and Social Transfers, p. 7).

Most transitions from the public to the private sector were made before the individual was laid off. Recruitment was largely by personal contact or word of mouth. Transitions from unemployment to jobs were insignificant in the labor movements (Commander and Coricelli, p. 18). Employment services were not terribly effective in Hungary prior to 1994 for several reasons. Most services that were offered (like the rapid response project) were offered after the individual was laid off, meaning that it could not be a job to job transition.

The government first tried to avoid mass layoffs by having people voluntarily leave, reducing hours, cutting shifts, and delaying payment of wages. Then it offered generous early retirement and retirement through disability packages. Mass layoffs came anyway and worst in agriculture and heavy industry (Allison and Ringold, p. 19).

Unemployment is higher for those with vocational secondary training than with a general secondary education, but it is shrinking probably due to changes in the training (Allison and Ringold, p. 26). The World Bank and EU PHARE have undertaken a project that will restructure the training and education system for young adults. They are moving from a system that had very specific training for more than 100 specified jobs (and no training after formal education)—concrete how-to, few principles—to a system that trains for 13 job families and provides more education in science and math to lay the principle ground work. Expenditures on this program equal \$60.1 million.

The structure of unemployment benefits created a disincentive for low-skilled workers to search for a job once they began receiving unemployment benefits (Commander and Coricelli, p. 31). Workers were eligible to receive 90-100 percent of their old wages. Hungary has spent more per unemployed worker and in terms of GDP on unemployment benefits than any other country in the region (Commander and Coricelli, p. 30). The long-term unemployed now comprise about 50 percent of the unemployed population in Hungary (Allison and Ringold, p. 28). While this may sound high, the Hungarian rate is actually lower than the French, Spanish, and German rates.

Work injury benefits and disability pensions are paid out of the general pension fund. Allowance is payable for work-connected disability of more than 15 percent, but payable for only two years if less than 25 percent disability. The temporary disability benefit is 100 percent of average net

earnings for up to one year. The permanent disability benefit is 56 to 70 percent of average net earnings depending on degree of disability and years of service.

Unemployment benefits are payable to persons who were employed for forty-eight months prior to loss of employment and unemployment is not due to refusal of a suitable offer. The benefit is 70 percent of average net earnings for the first year and 50 percent for the second year. The minimum payable benefit is equal to minimum wage and the maximum benefit is twice the minimum wage.

Pension Reform

The number of people receiving a disability pension increased to 7 percent of the working age population over the first few years of the transition. In order to avoid increasing unemployment enrollment, the government offered generous severance packages to many employees of state owned firms, such as early retirement and retirement through disability. However, these packages have created a significant number of people dependent on government pensions.

The Budget Department needs to keep better track of Social Security Funds, so that is one of the items they will include in the Public Finance Management Network, enabling the Budget Department to track social security payments closely (World Bank, Hungary-Public Finance Reform Project, p. 3). Social security supports several of the pensions the government offers: old age pension, survivors pension, disability pension (World Bank, Hungary-Poverty and Social Transfers, p. 26). Social insurance is contribution based (both employer and employee).

By January 1996, Hungary had almost 3 million retirees (in a population of 10.3 million). Fifty-three percent of retirees collect old age pensions, 24 percent collect disability, and 7 percent collect widower pensions (UNDP, Transition Problems, p. 7). In addition, there are agricultural annuities, orphan annuities, and accident annuities that people might collect. Pensioners in Hungary tend to be young, 34 percent of men and 39 percent of women collecting pensions were younger than 50 in 1995. Pensions represented around 10 percent of GDP in 1995, HUF 582.2 billion (similar to France and Italy, US 5%, Canada 4%).

In spite of the high costs, pensions have not kept up with inflation. In 1993, 40 percent of the population collected government pensions and was not employed at any full-time job (World Bank, Hungary-Poverty and Social Transfers, p. 25). The government plans to increase pensions by 19 percent in 1998.

Pension benefits are payable to men at 60 years and women at 56 years after 20 years of employment. Benefits are equal to 53 percent of net earnings during the best four of the five years preceding retirement. For those who were employed more than 20 years, benefits increase 2 percent per year for up to five years (total 25 years) and one percent for each of the next seven (32 years total).

Other government pensions include child care fee, child care allowance, family allowance, third

child allowance (all paid by central budget), social assistance for the long-term unemployed (50% central, 50% local), unemployment insurance (solidarity fund payroll contributions, both employer and employee, some central support), and pregnancy/confinement allowance (Health Insurance Fund, from contributions) (World Bank, Hungary-Poverty and Social Transfers, p 26-7) In addition, local governments finance some of their own social assistance programs Ninety-one percent of Hungarian households receive some kind of transfer and among the poorest 25 percent, 96 percent receive some form of assistance (World Bank, Hungary-Poverty and Social Transfers, p 28) In the new government system that took effect April 1997, the pregnancy/confinement allowance would be replaced by a one-off support 10,000 HUF per child and the child care allowance would be paid only to children born before April 15, 1997

The Hungarian Parliament passed a new law on the pension system in July 1997 Beginning in 1998, employees will pay 75 percent of their pension contributions to the central pension fund and 25 percent to a private fund of their choice In addition to this, employees may elect to put additional money into a private pension account, much like an American 401K fund There are 244 new voluntary pension insurance depository banks These banks are helping to build Hungary's capital markets

Targeted Subsidies

Hungary inherited from the communist system the infrastructure for massive cash transfer programs Large subsidy programs were important for buy-in However, of the 10.3 million people in Hungary, 7 million are eligible for benefits This creates quite a strain on government budgets (World Bank, Hungary-Poverty and Social Transfers, p 25) Poverty is shallow, meaning that most people are not far below the poverty line

The sickness and maternity program provides cash benefits in addition to universal health care The first fifteen working days of sick leave are paid by the employer, the government insurance fund picks up benefits on the 16th day Benefits range from 60 to 70 percent of earnings, depending on length of employment and type of illness

Maternity benefits are 100 percent of daily net earnings if employed had 270 days of insurance within the previous two years, 60 percent for 180 days The benefit is payable four weeks before and 20 weeks after confinement In addition, mothers qualify for a lump sum maternity grant of 150 percent of the minimum pension Families with three or more children or one disabled child are automatically qualified for an extended infant care grant of 19,500 forints This grant is means-tested for families with one or two children

Family allowances are means tested for families with one or two children Large families receive a maximum of 3,750 forints and single parents receive a maximum of 3,950 forints Parents receive a monthly benefit of 5,100 forints per disabled child

Wealthy families receive about the same amount in government subsidies as poor families, making income from a job the primary determinant of a family's income rank (World Bank,

Hungary-Poverty and Social Transfers, p 11) The poor do receive slightly more of government pension and aid money than wealthy families, but the difference is small (- 06, scale being -1 to 1, 0 being neutral) Unemployment benefits are more effective in targeting the poor (- 11) The family allowance is slightly regressive (04) The child care allowance is progressive (- 05), but the child care fee is regressive (22) (World Bank, Poverty and Social Transfers p 32-4)

Some housing grants (particularly to pensioners) have been difficult to reduce

Most social assistance is distributed by the local governments child benefit, home maintenance support, unemployment, social benefit, transportation assistance for handicapped, temporary support Education makes the largest contribution in raising living standards (World Bank, Hungary-Poverty and Social Transfers p 21) Being a pensioner lowers one's standard of living more than being unemployed, all else equal So education and employment status are the keys to income (or lack thereof)

Social assistance programs target the poor most directly (- 16) However, they tend to leak benefits and to not reach enough of the poor (World Bank, Hungary-Poverty and Social Transfers, p 34) In terms of poverty alleviation, pensions are the best tool in use They currently lift 2/3 of recipients out of poverty (World Bank, Hungary-Poverty and Social Transfers, p 37) The child care fee is the second most effective

One group that is falling through the cracks is the long-term unemployed heads of household (World Bank, Hungary-Poverty and Social Transfers, p 41) In order to cut expenditures and increase targeting to those who need it most, an income cap was introduced on the family allowance, except for households with three or more children In addition, the child care allowance and the childcare fee are being merged and means tested at the same rate as the family allowance

Community Development

Hungary has no social investment funds

The western part of the country has developed much faster than the eastern part Budapest has developed much more than any other region in the country The eastern part of the country was supported by heavy industry, metallurgy in particular, and these businesses have been some of the first to close and experience the largest worker layoffs For example in 1993, the unemployment rate in Miskolc was 24 percent, while in Budapest it was only 4-8 percent (Commander and Coricelli, p 15) Agricultural regions and regions with a high concentration of heavy industry were hit especially hard Poverty is deeper in villages than in Budapest or bigger towns (World Bank, Hungary-Poverty and Social Transfers, p 17)

In order to encourage the growth of small and medium enterprises, the Government of Hungary has created a program of subsidized credit for these firms These subsidies generally amount to 25 percent of the Hungarian inter-bank loan rate, currently around 21 percent Excluding the

Hungarian Government, EU-PHARE, EBRD, and the Japanese EXIM Bank are currently the largest providers of credit for small and medium enterprises in Hungary. Once Hungary becomes a member of the European Union, more credit will be available to these firms as well.

Governance and Municipal Reform

Hungary's municipal governments comprise the following: a directly elected mayor in towns less than 10,000 or the mayor is elected by the local council along with one or two deputy mayors in towns greater than 10,000. The mayor is the head of the municipal administration. Committees are created by the local council and are generally advisory in nature. The local council also appoints a chief administrative officer for an indefinite term (Baldersheim and Illner, Appendix).

When polled, local officials cited the inadequacy of existing personnel and recruiting qualified people as the biggest problem in public administration (Baldersheim and Illner, p. 18).

The US Treasury, UK Know-How Fund, IMF, and World Bank have all been working on better targeting of subsidies at the national level. Local governments need to coordinate more effectively with the Budget Department for information sharing. The World Bank is sponsoring a project that will design and set up coordinating mechanisms, policies, procedures, and standards that ensure that the elements of the government's Public Financial Management network function as one (World Bank, Hungary-Public Finance Management Project, p. 4).

Conclusions

The immobility of labor (due to a tight housing market) is still a barrier to labor market development.

Local governments need to coordinate better with the central Budget office to make transfers more efficient.

As poverty grows and becomes more correlated to unemployment, labor market flexibility and adaptability, educational systems and opportunities for self-employment are becoming and will become more important in CEE.

POLAND

Introduction

This overview presents a brief summary of social sector issues in Poland. While it is not intended to be comprehensive, this summary will provide an introduction to social sector reform in Poland since 1989. In addition, this summary discusses the role of USAID in Poland's transition to democracy and a market-based economy.

Quality of life in Poland is high as indicated by the following:

- a 99 percent adult literacy rate,
- 72 year life expectancy,
- infant mortality of 13.6 per 1,000 live births,
- 100 percent of the population has access to safe drinking water, and
- GNP per capita of \$2,800

The population is nearly 39 million. Ninety-five percent of the population is Catholic. The remaining five percent is Eastern Orthodox, Protestant, and other faiths.

Review of Literature on Transition

In 1989, Poland was the first country to declare its independence from the former Soviet bloc and enact "shock therapy" reforms. This declaration was the culmination of several factors: food shortages and labor strikes in 1988, and agreements in 1989 with Solidarity Trade Union to end the ban on Solidarity and establish full trade union freedom, freedom of expression and of political and social organization, representation in Parliament, and municipal self-government ("Poland Country Assistance Review," World Bank, April 14, 1997, p. 25). In response to these changes and to encourage democratization, the United States government enacted the Support for East European Democracy (SEED) Act (PL 101-179) on November 28, 1989. The SEED Act was intended to help 1) develop a market economy and strong private sector, 2) develop democracy, and 3) improve the basic quality of life.

Poland has made great strides in democratization since the transition. In 1990, free and democratic elections were held, Lech Walesa, president of the Solidarity Trade Union, was elected President. Leaders of local gminas (cities and towns) were also elected as were members of Parliament (USAID 1998 Congressional Presentation, p. 2). Subsequent elections, held in 1995, resulted in the election of Aleksander Kwasniewski, a former Communist, as President. The most recent elections held on September 21, 1998, led to the election of Solidarity Alliance candidates to Parliament.

Since the transition, Poland has been admitted in 1996 as a member of the Organization for European Cooperation and Development (OECD) (USAID 1998 Congressional Presentation, p. 2). The country continues to work on economic prerequisites necessary for its accession to the European Union (EU), and by 1996 had cut its debt to 60 percent of GDP — one of the

requirements for EU membership Poland is still, however, one of the largest debtors in Central Europe and is classified by the World Bank as severely indebted (USAID 1998 Congressional Presentation, p 1)

The effects of transition on the economy have been mixed in the short-term Privatization of state-owned enterprises has been slow 5,000 of 8,000 state enterprises remained in 1996 Unemployment reached a high of 17 percent in 1994, and in 1996 was 14 percent or, 2.5 million of the 18 million person workforce ("Evaluation of DOL's Labor Market Transition Program in Poland, Hungary, and Bulgaria, USAID, September 6, 1996, p 4) The percentage of the population living below the poverty line reached 24 percent in 1995 although this poverty is considered to be shallow (poverty is discussed in more detail below) ("Poland Country Assistance Review," World Bank April 14 1997, p 5) On the positive side, 60 percent of GDP was estimated in 1996 to come from the private sector ("Poland FY 1999 Results Review and Resource Request," USAID/Poland, May 1997, p 3) Poland had the highest GDP growth rate of any of the transition economies from 1990-1995, and U S investment increased to \$2.4 billion in 1996 (USAID 1998 Congressional Presentation, p 1)

Discussion of Key Issues

USAID plans to graduate from Poland in the year 2000 FY 1999 is the last year funds will be obligated to Poland, but USAID staff will continue to operate in the country until 2001 monitoring close-out procedures ("Poland FY 1999 Results Review and Resource Request," USAID/Poland, May 1997, p 80)

One key issue in Poland remains unemployment In 1996, 14 percent of the population was unemployed Women are especially vulnerable a 1992 World Bank report found that the government's focus on enterprise development did not fully compensate for the loss of employment from privatization of state-owned enterprises (SOEs) Women were dually affected by the loss of day care benefits previously offered by SOEs and higher than average unemployment ("Poland Country Assistance Review," World Bank, April 14, 1997, p 12)

The cost of living continued to increase as SOEs closed or privatized and free social services previously provided by SOEs were eliminated As noted above, 24 percent of the population lived below the poverty line in 1995

Social benefits, especially pensions, require one-quarter of all government spending As discussed below in more detail, these social benefits could be better targeted to the poor

Brief Overview of Socialist Economic Activity

Poland borrowed international funds during the 1970s to finance an industrial investment program When this program failed, Poland experienced a severe economic crisis which led to the imposition of martial law and the rejection of Poland's applications to join the World Bank and the IMF By 1986, the crisis was under sufficient control to be accepted into the World Bank In 1988, Poland experienced food shortages and strikes, in response, the government took

steps toward reform of the private sector and foreign trade policies. Macroeconomic policies, however, exacerbated repressed inflation and shortages ("Poland Country Assistance Review," World Bank, April 14, 1997, p. 25)

The structure of the Polish economy has changed substantially since the transition. In 1985, 15 percent of GDP came from agriculture, in 1995, the figure was seven percent. Industry provided 51 percent of GDP in 1985 and 44 percent in 1995. Services made up only 34 percent of GDP in 1985 and increased to 49 percent in 1995.

Brief Overview of Political Freedom and Civil Liberties

Prior to the transition, Polish leaders were not elected, the media was state-run. Solidarity Trade Union, an important force in Polish politics, was formally established on August 31, 1980, but was banned until 1989 ("Poland Year 2000 USAID Graduation Plan," May 1996, p. 4). Since the transition, Poland has made strides in democratization: leaders of the 2,500 gminas are elected as are national leaders, the media is now independent.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

The social sector includes a broad range of issues, many of which overlap with issues not traditionally considered part of the social sector. Included in this discussion of the social sector are the following areas: labor markets, housing and social subsidies, pensions, local governance, and non-governmental organizations.

USAID

While several social sector issues in Poland have received attention from USAID and other international donors since the transition, USAID's primary efforts in the social sector have been in labor market reforms and local governance. USAID, through agreements with the U.S. Department of Labor (DOL), assisted Poland in establishing employment services and in providing training and retraining services to the unemployed and lower-skilled. Local governance activities have included training of local government officials and capacity-building of local associations and institutions involved in policy-making and advocacy.

During the close-out period (1996-2000), USAID/Poland will streamline its activities and focus its remaining time and resources on three strategic objectives:

- *The private sector is stimulated at the firm-level.* USAID will undertake capacity-building activities for organizations that can assist small- and medium-sized enterprises (SMEs) through training and technical assistance. USAID will also focus on objectives in energy and environment as well as legal and regulatory reform related to the private sector under this objective.
- *A competitive, market-oriented private financial sector is developed.* USAID will

assist the banking industry and help strengthen bank supervision and regulation

- *Local government is effective, responsive, and accountable* USAID will provide capacity-building assistance to local governments and municipalities as well as local institutions, associations, research and academic centers, and local consultants. Non-profit organizations will be served under this SO

Social sector reform is not an objective for USAID/Poland during the close-out largely because the Government of Poland indicated that it would not request assistance in policy development from USAID. Thus, a social sector restructuring project developed by USAID/Poland in 1995 will not be implemented

USAID's efforts in Poland include

- support for formation of public services city zones (powiat)
- coordination with EU on SME development, local government, NGOs, environment
- Poland-Ukraine initiative, including study tours of Poland for Ukrainian leaders of social benefit reforms

Labor Market Reform

Public works and wage subsidies both provide temporary employment to the unemployed to maintain their skills and attachment to the labor market. Training is subcontracted by the government to private training agencies, and the unemployed persons in training courses receive a 15 percent additional unemployment benefit. Typically, loans for job creation do not go to the poor ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No. 13051-POL, p. 72-73)

USAID's labor market reform efforts were implemented by DOL through cooperative agreements and efforts in specific areas are discussed in detail below

Employment Services

DOL's employment services reform efforts included establishing a system of employment counseling. DOL trained 420 employment counselors around the country, these counselors then worked at local employment offices to help match job seekers with available jobs. Although the employment counseling program was seen as very successful, efforts to place hard-to-serve individuals in jobs were deemed not cost-effective by the national government and discontinued ("Evaluation of DOL's Labor Market Transition Program in Poland, Hungary, and Bulgaria," p. 5)

DOL also assessed Poland's employment services, arranged technical assistance and study trips for employment services officials, developed procedures for model employment centers, and facilitated nationwide institutionalization of procedures and systems

Mass Layoff Response

A new project begun in 1996 addresses the problem of high unemployment among women in Gdansk. The Reemployment Advisory Center for Women will be a model center developed in cooperation with the Polish chapter of the International Association of Personnel in Employment Security. The center will provide women in Gdansk with social services to help them find secure employment.

The Coal Sector Reemployment Fund is another new project designed to dislocate workers in the coal sector. The coal sector is especially sensitive in Poland, there are 275,000 miners, and for every miner's job, another six jobs are created in related services. The project uses local service providers to provide retraining and job placement services to miners to help them secure alternative employment.

Retraining and Youth Training

DOL's retraining projects included the establishment of several training centers:

- Construction Crafts Skills Training Centers. Project partners included DOL, AFL-CIO, Solidarity, and Poland's Ministry of Labor and Social Policy. Centers prepared skilled masons, roofers, carpenters, welders, plumbers, and other construction subspecialists. Instructors for the centers are trained in the United States. By 1996, the centers had trained 2,200 people. Almost all have been able to find jobs.
- Lodz White-Collar Skills Training Center. The Lodz region experienced unemployment of about 21 percent in 1995, most of these were women formerly employed in the linen- and cotton-producing factories. The White-Collar Skills Training Center provides training including secretarial and administrative skills, management, typing, bookkeeping, computer use, communication skills, stress management, basic English, and how to start a business. Solidarity and the AFL-CIO teamed up to start the center.

Unemployment Insurance

DOL's labor market reform projects did not address unemployment benefits. However, unemployment benefits are included in pension and social benefits reform discussions (see section on Targeted Subsidies below).

Labor-Management Relations

DOL provided training and technical assistance to public and private Polish institutions, including labor unions and associations, the Polish government, and private enterprises in collective bargaining, dispute resolution, and cooperative approaches to quality improvements. Training included study tours to the U.S.

Pension Reform

Poland's pension system presents medium-term sustainability problems for the Government. First, the system is "pay as you go," and the government's portion consumes more than 25 percent of annual government expenditures. Second, the pension payroll tax is 45 percent of wages — encouraging companies and workers to avoid pension registration and payment. Third, the high payroll tax encourages companies to substitute capital for labor (contributing to the unemployment problem) ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p. 7)

The Parliament is considering reform legislation, and opposition parties have proposed reforms of their own. Reform proposals typically include these provisions:

- raising the retirement age,
- equalizing the retirement age for men and women (women can currently retire earlier than men),
- reducing the portion of retirement pensions to be paid by the government's social security program, and
- establishing a capital-funded private pension program (pensions would be based on lifetime contributions and the investment return on the contributions)

The government's reform proposal envisions making participation in privately managed, capital-funded pension programs mandatory. These pension plans would then become major investors in Poland and provide long-term financing for infrastructure projects ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p. 7)

USAID currently has a contract with Price Waterhouse to provide technical assistance to Poland on pension reform issues.

The U.S. Department of Labor has also provided technical assistance to Poland through training for staff of the Polish social insurance administration and development of econometric tools. Staff training — conducted in the U.S. and Poland — included public affairs, personnel management and development of national registration plans, collection assessments, and computerized earnings records. Econometric tools developed included a model for real time modeling of Polish long-term social security reform and the impact of reform on macroeconomics and a model for determining economic and actuarial implications of social insurance changes ("ILAB Technical Assistance Program on Social Insurance Reform: Central and Eastern Europe," U.S. Department of Labor, undated mimeo)

Targeted Subsidies

Housing

USAID/Poland has not been involved in housing projects in Poland. The World Bank, however, has been encouraging the government of Poland to decrease its use of housing subsidies for new homes which favor middle and upper income home buyers and switch to the use of mortgages.

Other Social Programs

According to the World Bank, 14.4 percent of the population was poor in 1994, or 5.5 million people (poor is defined as having an income below the minimum government pension, or about \$71 per month in June, 1993) ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No. 13051-POL, p. 1)

Poland's expenditures on cash social transfers have risen during the transition and are high in comparison to countries of comparable size. Poland spent 19 percent of GDP on social transfers in 1993 and 8.7 percent in 1989. In comparison, Chile, with the same per capita GDP, spent seven percent in 1993 ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No. 13051-POL, p. 43). About 88 percent of all households receive at least one social transfer ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No. 13051-POL, p. 46). Table 1 lists the types of social transfers and the distribution of these transfers.

Table 1 Government of Poland Social Transfers

Type of Assistance	Percent of all Assistance
Family allowances	9.8
Maternity benefits	0.4
Child benefits	1.0
Other social insurance	0.6
Disability pensions	29.5
Old-age pensions	50.5
Unemployment benefits	6.5
Social assistance	1.8
Total	100.0

Note: Family allowance is a per-child payment to all households regardless of income (except for farm families where the allowance is means-tested).

Source: "Poverty in Poland," Volume 1, Main Report, The World Bank, Report No. 13051-POL, p. 43-44.

Poverty in Poland is "shallow" — the poor are bunched around the poverty line. Any economic expansion will lift a high percentage of them out of poverty, an economic recession will drive

many people into poverty ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No 13051- POL, p 14) The World Bank identifies several socio-economic factors important in determining whether someone is poor

- low education level,
- job in a declining industry,
- low-position job,
- unemployment,
- being female,
- large number of dependents, and
- old age

Only 3.4 percent of childless couples live below the minimum pension line, and poverty incidence doubles with each child ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No 13051- POL, p 26)

Targeting social transfers is a problem for the government of Poland. The World Bank notes that Poland's social assistance programs have a high rate of "leakage" — people who are not poor (before the transfer) receive social assistance.

The data show that a significant number of non-poor households receive social transfers. For example, 80 percent of the households receiving family allowances were not poor prior to the receipt of the allowance. Overall, one quarter of all social transfers go to the non-poor ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No 13051- POL, p 58)

Analysis of targeting shows that only 11 percent of social transfer recipients remain poor after receiving benefits. For pensioners, only eight percent remain poor after the receipt of pensions. Recipients of other transfers have higher poverty rates post-transfer: 13.5 percent for recipients of family allowances and 28 percent for recipients of social assistance. These gaps reveal instances where better targeting could help reduce poverty ("Poverty in Poland," Volume 1, Main Report, The World Bank, Report No 13051- POL, p 58)

Community Development

Non-governmental organization (NGO) development is subsumed under USAID/Poland's local governance strategic objective. In 1994, there were 12,000 registered NGOs. NGOs typically provide services in education, social assistance, health care, environmental protection, arts and culture, and regional and local development. Increasingly, instead of providing basic social assistance, NGOs are helping people solve their problems through educational, advocacy, and advisory services ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p 50-51)

Ten percent of Polish NGOs are public policy-oriented and provide advocacy or lobbying.

services at the national or local levels USAID/Poland is addressing issues of non-profit capacity development through its local governance strategic objective By strengthening public policy-oriented NGOs, USAID intends to strengthen public participation in governance A survey of NGOs indicated that many are financially susceptible

Governance and Municipal Reform

In the years following the transition, Poland instituted reforms that allowed for local government elections The national government decentralized many functions, including health, group homes and public welfare, primary education, housing, transportation, roads, fire departments, and infrastructure investment ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p 20) Gminas have expressed reservations about the adequacy of funds available for these services and have successfully lobbied the central government for amendments to housing laws for more appropriate allocation of resources ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p 49)

There are currently two levels of local government the gmina (cities and towns) which is elected and the voivodship (regions) whose leaders are currently appointed by the central government A pilot "Municipal Public Service Zone" or powiat has been established, similar to a U S county, that, if replicated nationwide, is proposed to be elected ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p 50)

Developments in municipal reform include the creation of a Municipal Development Agency that lobbies for cities and provides a clearinghouse for technical assistance The Joint Commission on Municipal Self-Government includes representatives from the national and local governments who negotiate on revenue-sharing agreements Four national, voluntary organizations representing gminas have been established, with one, the Federation of Unions and Associations of Polish Gminas, working to improve coordination between national and local associations ("Poland Year 2000 USAID Graduation Plan, 1996-2000," USAID/Poland, May 1996, p 49)

Conclusions

The World Bank notes coordination issues donors have turf battles and problems of ownership The World Bank mission in Poland had little authority to make decisions and decisions from Washington often took a long time Officials in the Polish government changed frequently, leaving little institutional memory of agreements and reforms already underway

USAID and DOL have had problems of communication and coordination in their projects in Poland

Both USAID and the World Bank identified targeting of social transfers and pension reform as areas needing continued technical assistance

ROMANIA

Introduction

This overview presents a brief summary of social sector issues in Romania. While it is not intended to be comprehensive, this summary will provide an introduction to social sector reform in Romania since 1989. In addition, this summary discusses the role of USAID, the agency of the United States government that provides aid to foreign countries, in Romania's transition to democracy and a market-based economy.

Romania is a country of 23 million people in southeastern Europe. Its primary languages are Romanian, Hungarian, and English. The Romanian population is 89 percent ethnic Romanian and nine percent ethnic Hungarian (other ethnicities include German, Turk, and Gypsy). The primary religion is Romanian Orthodox.

Romania is the only country in Europe whose people are of Latin ancestry. The Romanian language is derived from Latin. (Andrei Codrescu writes that Roman soldiers settled in Romania and married the native Dacian women.)

According to the UNDP, in 1995 Romanians had a life expectancy of 69.5 years, an adult literacy of 97 percent, and GDP per capita of \$4,130 (USD) calculated on the basis of purchasing power parity. On the basis of these measures, UNDP rated Romania in the category of "medium" human development.

Review of Literature on the Transition

The transition began in Romania in 1989 in the western city of Timisoara. Crowds gathered to protest the eviction of a Hungarian priest who had been preaching homilies on human rights and peace. The crowds began to demand an end to the dictatorship of Ceausescu. In the ensuing clash between the protesters and the military police, demonstrators were killed (the final number is disputed; original estimates were five to ten thousand, later estimates were less than 700). Protests spread around the country, and an opposition group, the National Salvation Front, was able to seize power. The Front captured Ceausescu, tried him and his wife, Elena, in front of a military tribunal, and executed both by firing squad (the exact day is also disputed; either December 24, 1989 or December 25).

The Front, made up of former Communists, won election during Romania's first election in 1990 and again in 1993. In 1996, however, Romanians voted the Communists out of office and elected the Democratic Convention of Romania candidate to the presidency, as well as gave the convention a plurality in Parliament.

According to the USAID mission in Romania, the transition to a market economy has been slow and painful. One in five Romanians is considered poor, inflation has been high (at one point approaching 100 percent), official unemployment is around six percent (USAID estimates unemployment to be around 15 percent).

In 1995, GDP was estimated to be \$4,600 with only 40 percent accounted for by the private sector. Ninety percent of industry remained socialized in 1995. In 1994, agriculture accounted for almost 20 percent of GDP, industry for 36 percent, and services for 44 percent.

Discussion of Key Issues

The transition in Romania has been difficult. According to the World Bank, output fell by 30 percent between 1989 and 1992. As a result, the percentage of the population living in poverty increased from 4 percent in 1989 to 20 percent in 1994.

Poverty remains an issue in Romania. USAID asserts that poverty is deep, and the average length of unemployment is 18 months.

The reforms of the first seven years of the transition were slow and incomplete, according to USAID. The government of Emil Constantinescu and the Democratic Front, elected in 1996, pledged to begin "shock therapy" reforms; these reforms, however, are expected to increase (as much as double) the unemployment rate and contribute to greater hardships for the Romanian people.

These expected hardships could jeopardize the current government and reduce public support for the reforms if steps are not taken to mitigate the effects.

Brief Overview of Political Freedom and Civil Liberties

Prior to the transition, Romanians lived under the harsh Ceausescu regime. Ceausescu and his wife, Elena, known simply as He and She, lived in grandeur while common Romanians went hungry. The Ceausescu palace, only two-thirds completed at the time of their deaths, is bigger than the Pentagon.

The Ceausescus attempted to regulate many aspects of Romanians' lives. One of their most infamous laws made abortion illegal. This law led to overcrowded orphanages, broadcast around the world following the revolution.

In addition to the Army, the regime had a police force called the Securitate. The Securitate had a network of spies and used spying devices to keep track of the population. The 13th floor of the Intercontinental Hotel in Bucharest was set aside for the Securitate and their surveillance activities. In a country of 23 million people, there were eight million microphones in use by the Securitate to monitor the population.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

USAID first became involved in Romania in 1990 and provided humanitarian assistance after the revolution. Current assistance to Romania includes

- technical assistance to advance economic reform
- development of private, independent capital markets
- decentralization of governing authority to local governments
- development of non-governmental organizations
- social service restructuring

According to its Strategic Plan for Romania, support for privatization is the centerpiece of USAID's assistance to Romania

Other Donors

Romania joined the World Bank in 1972 and since then, the Bank has committed \$4 billion for 45 projects. World Bank activities include

- Health Rehabilitation Project
- Private Farmer Support Project
- Education Reform Project
- Petroleum Sector Development Project
- Employment and Social Protection Project
- Rehabilitation and Modernization of the Romanian Electricity Authority
- Railway Rehabilitation Project
- Financial and Enterprise Sector Adjustment Loan

In addition, the following countries have also participated in development projects with Romania

- Norway — training for Romanian police officers, water project in Zalau, Romania
- European Union — short-term technical assistance to the Ministry of Industry to help reorganize steel and petrochemical industries, Support for Improvement in Governance and Management (SIGMA)
- Netherlands — promoting human rights education in Romanian schools
- Switzerland, Netherlands, Council of Europe, Austria — Themis plan for the development of law
- EBRD — improving civil service

Labor Market Reform

Official unemployment in Romania is six percent, however, a household survey cited by USAID puts unemployment at 15 percent. Many of the unemployed may not register with local labor offices (necessary to be counted as unemployed)

USAID, in its "Strategic Plan for Assistance to Romania 1998-2000," notes that the shock therapy reforms prescribed by the World Bank and IMF for Romania will likely lead to a doubling of unemployment. A labor market reform program, according to USAID, is "critical to keeping the reforms on track." To that end, USAID, the U.S. Department of Labor (DOL), and

the World Bank are collaborating on a labor market redeployment project. The project will include counseling and training designed to increase labor mobility and a rapid response program that works with labor and management of companies undergoing privatization. This USAID project is part of Strategic Objective 1.3 Development and Growth of Private Enterprises.

Pension Reform

Romania currently has an old age and disability pension system. Begun in 1912, the system was last revised in 1995. Workers contribute three percent of their earnings, and employers contribute 15 to 35 percent of payroll depending on working conditions (25 percent for normal conditions).

To receive a pension, men must be 60 years of age with 30 years of employment, and women must be 55 years of age with 25 years of employment. Persons with arduous or dangerous work may retire earlier, as may women who have raised at least three children.

Benefits are 54 to 85 percent of the average base earnings of the best five consecutive years during the last ten years. There is a minimum pension benefit level. In addition, means-tested social assistance is available for those who do not qualify for a pension.

USAID is not currently involved in pension reform efforts in Romania.

Targeted Subsidies

Romania's current social safety net includes sickness and maternity benefits, work injury benefits, unemployment benefits, and family allowances.

The sickness and maternity program provides cash benefits in addition to universal health care. The first ten working days of sick leave are paid by the employer, the government insurance fund picks up benefits on the 11th day. Benefits range from 50 to 100 percent of earnings, depending on length of employment and type of illness (those recovering from wounds received during the 1989 revolution, for example, are eligible for 100 percent of earnings).

The work injury insurance fund pays both temporary and permanent work disability payments. Temporary payments provide 100 percent of earnings (paid by the employer). Permanent disability payments provide 54 to 85 percent of earnings depending on length of employment.

Unemployment benefits are payable to persons who were employed six months in the last 12 months, who registered at a local labor office, and whose income is not higher than half of the indexed national minimum wage.

Family allowances are universal and cover all children under the age of 16 (or 18 if disabled or a student) in Romania. Families receive a set amount per month for each child. The allowance is doubled for totally disabled children. Additional, means-tested social aid is available based on income and the number of family members.

USAID/Romania notes that poverty in the country is deep but not widespread about 20 percent of the population is considered poor (slightly above CEE average) Poverty in Romania, according to USAID, is more intractable, and the poor are poorer longer than their counterparts in other CEE countries

USAID/Romania's Strategic Objective 3.2 is "Reduce the number of at-risk children in Romania," and includes both assisting at-risk children and improving reproductive health and the use of modern contraception

The World Bank and EU/PHARE have established a "fiscally sustainable" social safety emergency fund for Romania to help families deal with the hardships created by the economic reforms These donors, in conjunction with the Government of Romania, seek to establish a viable social safety net to help Romanians cope with the hardships caused by the economic reforms

Governance and Municipal Reform

During the Ceausescu regime, all authority (for decisions both great and small) rested with the President Like other CEE countries, the Romanian central government is now trying to decentralize authority

USAID, in the early years of the transition, provided direct support to local cities and municipalities In its Strategic Plan for Assistance to Romania 1998-2000, USAID/Romania stated that it will move from direct assistance to local government to providing training and technical assistance to local authorities and assisting national ministries with local government responsibility

UKRAINE

Introduction

Ukraine has been slow to reform. However, many large state-owned enterprises have been privatized, fewer activities require licenses and new tax and banking laws have been passed. Ukraine was adversely affected by Russia's economic collapse and social conditions have been steadily worsening.

Brief Overview of Socialist Economic Activity

Ukraine was known as the bread basket of the Soviet Union, and is often thought to have an agrarian economy. Its economy is actually quite diverse. Agriculture was extremely important, but Ukraine also had a large energy sector and defense industry.

Brief Overview of Political Freedom and Civil Liberties

Like elsewhere in the Soviet Union, the Constitution granted the people of Ukraine extensive political freedoms, but no civil liberties to support them.

Introduction of the Subset of the Social Sector Reform Activities that Donors Have Sponsored

USAID

Much of USAID's technical assistance in Ukraine is devoted to legislative drafting assistance to develop a new structure for social benefit delivery. A draft law on social insurance passed in 1997 and then the debate about revamping the pension system began.

USAID/Ukraine has supported the government's cost recovery plan for housing and services for several years. The costs paid by citizens are now close to the actual costs of housing. Those who can not afford the payments receive a housing and utility subsidy from the government. The increased costs and targeting subsidies saved approximately \$1 billion over the 1996 expenditures.

USAID has supported the development of local NGOs in Ukraine through training and small grants. In 1996, USAID helped 25 NGOs that work in social service areas become self-sustaining organizations. In March 1997, USAID launched the Democratic NGO Social Service Activity, which will provide support to social service and advocacy-oriented NGOs.

USAID support has enabled municipal governments to reduce their operating costs, increase revenue, and provide better services to residents. Ternopil, Kharkiv, and Lviv participated in a program in which the mayors were provided with an American city manager as an advisor. These cities have greater transparency of government now, for example, annual financial reports are available for citizens. In addition, Lviv now has a municipal services tracking system that will allow city employees to better monitor the performance of municipal services.

Labor Market Reform

Labor unions are still strong in Ukraine and are looking for a new role in a privatizing economy. Many workers have not been paid in several months and the government is just now beginning to pay the arrears. It plans to finish payments by the end of the year.

Another problem with labor market reforms in Ukraine is the *propiska*. A *propiska* is a residence permit. It is difficult to relocate within a city, much less to a different city because it is difficult to obtain the permit for the new residence.

Ukraine's "Employment Service" is actually the unemployment registration agency. Stipends are available for the unemployed. Unemployment is a new phenomenon in Ukraine. Ukraine still officially had full employment until 1996 (though that is not to say people were not underemployed). The recipients, however, suffer from non-payment of stipends, as do pensioners and workers.

Pension Reform

Current pension benefits are paid to men at age 60 (after 25 years of contributions) and to women at age 55 (after 20 years of contributions). The benefits paid are 55 percent of the wage base plus one percent for every year of service beyond the required minimum.

Pension reform is an important issue in Ukraine right now. The government fell three months in arrears in 1997. The Supreme Council has proposed a pension increase in 1998, but the Ministry of Finance has rejected the idea since it would only increase budget deficits in 1998. In addition, the Ministry of Finance proposed increasing the eligibility age from 60 to 65, but the Supreme Council has rejected that measure.

Other social benefits are being paid by municipal governments and they are raising prices and tariffs to cover these costs. And wages and pensions are still not being paid to people in most parts of the country.

Targeted Subsidies

Ukraine's current social safety net includes sickness and maternity benefits, work injury benefits, unemployment benefits, and family allowances.

The sickness and maternity program provides cash benefits in addition to universal health care. Benefits range from 60 to 100 percent of earnings, depending on length of employment with special provisions for Chernobyl victims. Payments are not to exceed 4 months. The maternity benefit (100 percent), payable for 70 days before and 56 days after confinement, also applies to students' stipends and unemployment benefits.

The work injury insurance temporary payments provide 100 percent of earnings (paid by the pension fund) from the first day of incapacity until recovery or award of disability pension. Permanent disability payments provide 40 to 70 percent of earnings depending on degree of

disability. Those qualifying for a permanent disability payment may also receive a social pension (30 to 200 percent of the minimum old age pension, depending on degree of disability)

Unemployment benefits are payable to persons who registered at an employment office and whose other income is less than minimum wage. Benefits range from average income for the region to 50 percent of the minimum wage, depending on the reason for unemployment and length of unemployment. Dependent supplements of up to 50 percent of minimum wage per dependent may be payable as well.

Family allowances are available for families with three or more children, single mothers, and families with a disabled child. Families may receive 50 percent of minimum wage per child for children under 16 (18 if student), but this benefit is income-tested. Single mothers and children whose fathers evade child support receive 50 percent of minimum wage per child under 16. Guardians of children under 16 may receive up to 200 percent of the minimum wage (income-tested). Parents caring for a disabled child will receive 100 percent of the minimum wage. There is also a lump-sum delivery grant equal to four times the minimum wage and mothers may also receive 200 percent of minimum wage for undergoing the prescribed prenatal care regime. Women can receive 100 percent of the minimum wage as a child care benefit until the child has reached three years of age as part of maternity benefits.

The government has raised housing and maintenance prices to 80 percent of the actual costs and most people can still afford to pay them on time. In 1998, the costs are projected to increase to 100 percent of the actual costs. The government still subsidizes housing for some individuals and families who can not afford the price increases, making this Ukraine's first targeted subsidy program.

Ukraine is also developing a plan to target family allowance benefits to ease budgetary pressures and increase program effectiveness. Social benefits expenditures have been brought under control, constituting only 23.3 percent of GDP in 1996. The Ukrainian government is seeking a World Bank loan to purchase computers for local government offices to aid in managing benefits processing. Eventually, it would like to establish a national benefits processing system.

Community Development

Ukraine currently has no social investment fund.

NGOs are already playing an important role in Ukraine, that of service provision. One NGO in particular provided services to 6,200 single elderly persons in Kyiv in 1996. NGOs also distribute humanitarian aid to those who need it in their communities. The Counterpart Alliance is providing training to NGOs on financial and organizational development, as well as issue-specific technical assistance from Alliance partners.

In addition to USAID's support of social service NGOs, the Eurasia Foundation has established a national network of NGO resource centers. These centers allow local NGOs to have access to

computers and other communications devices that they may not have the resources to purchase for themselves

Governance and Municipal Reform

Municipal governments seem to be more independent than most others in Central and Eastern Europe. They have the ability to raise prices and tariffs on goods to cover their expenditures. It is not clear if there is any regulation as to what they can tax, so it is impossible to know how the burden of the social costs is being distributed among the population.

Local governments are apparently budgeting and keeping social needs (heating oil, water, basic services) on the top of their lists. However, it is not clear if there is a limit on amounts they can tax consumers.

Some institutional change has occurred with the devolution of power to the local governments. Although the central budget still provides a large part of their budgets, they are not beholden to the central government because they do have revenue raising mechanisms.

Conclusions

There is still a need for training and technical assistance in Ukraine. Local capacity for implementing changes needs to be further developed.