



## Social Protection Discussion Paper Series

### **Safety Nets in Transition Economies: Toward a Reform Strategy**

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## Abstract

Social safety nets in ECA transition countries are, in many respects, the most complicated and least easily defined area of social protection. Across the region, countries have inherited a broad range of public programs, policies and services for addressing a wide variety of social needs. By and large, these mechanisms have proven ill-suited to the needs of a market economy and incapable of addressing the types of social risks which have emerged during the transition period. This paper reviews the role of safety nets in transition economies within the context of a social risk management framework. The risk management framework builds upon this traditional view and considers poverty and vulnerability within a dynamic framework. The paper discusses the objectives of safety nets, the legacy of pre-transition programs, developments during the transition period, strategic choices facing countries, and the operational experience and strategy of the Bank.

The development of safety nets during the transition has varied widely by country, in part due to divergent pre-transition starting points, as well as differing socioeconomic conditions and political and cultural factors. Despite these differences, a number of similarities can be drawn. By and large, countries in the Former Soviet Union (FSU) have retained a greater emphasis on subsidies for housing and utilities, while countries in Central and Eastern Europe (CEE) have relied more on cash benefits. Means-tested social assistance schemes based on a minimum income guarantee have been more prevalent in CEE, although many FSU countries have introduced, or are in the process of introducing, such programs. There is also limited evidence that the Central Asian countries rely more upon informal safety nets, such as extended family networks, than other countries. The pace of reforms varies greatly across the region, as well. While some countries have adopted ambitious safety net reforms, other countries have changed little.

ECA countries face significant challenges to transform inherited safety nets to the needs of a market economy. While many countries have preferences for benefit structures similar to those of OECD countries, these may not necessarily be the most appropriate models. The social risks in transition economies are significantly different from those of developed market economies and of many other developing countries, as well. Further, cultural and economic differences between transition economies and OECD countries, and between transition economies themselves, militate against a one-size-fits-all solution. Yet, in designing social safety nets for transition economies, three fundamental issues must be addressed: (i) transition shock; (ii) the movement to a market economy; and (iii) popular perceptions about safety net programs. The paper discusses reform options and program design options as they relate to the context of the transition.

The paper reviews country developments and Bank involvement in safety net operations to date and finds that across the region, further dialogue and analysis is needed. Effective safety net programs that meet the changing needs of vulnerable groups are critical for the success of the transition in ECA. While important changes have taken place, there is a need to raise the profile of safety net policies both within ECA countries and at the World Bank.

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## **SAFETY NETS IN TRANSITION ECONOMIES: TOWARD A REFORM STRATEGY**

### **I. INTRODUCTION**

The demands on ECA countries to provide safety nets for their populations have grown significantly during the transition period. Increased poverty, unemployment and deteriorating health status, among other social risks, have exceeded the potential of the inherited system to cushion the shock of transition, as policies adopted by the former socialist regimes are ill-suited to the risks of market economies and, in fact, may have exacerbated them.

The safety net policies designed by individual countries during the transition have been diverse, based on different objectives and leading to substantially different outcomes. While many countries have introduced social assistance targeted to lower-income populations, others have retained broader benefits, and/or relied heavily on subsidies for housing and utilities. Non-cash benefits and services vary similarly across countries. The relative importance of formal safety nets also differs considerably. In fact, in a number of countries, social assistance and other benefit programs play a minor role in addressing the needs of vulnerable groups, as public financing has collapsed and benefit levels have been eroded.

This paper reviews the role of safety nets in transition economies within the context of a social risk management framework. Social safety nets are often described as a means to help the vulnerable and poor only after they have reached a state of deprivation. The risk management framework builds upon this traditional view and considers poverty and vulnerability within a dynamic framework. That is, safety net programs should both alleviate poverty and reduce the likelihood of falling into poverty. Our paper discusses the objectives of safety nets, the legacy of pre-transition programs, developments during the transition period, strategic choices facing countries, and the operational experience and strategy of the Bank.

We discuss policy considerations that are likely to be critical for safety net design, including the impact of the transition shock and the social risks involved, the development of a market economy, and the education of public opinion. In addition, we find that the diversity among transition countries implies

that each country make a careful appraisal of the severity of its own transition and the social and economic consequences for its population. In other words, one social risk management strategy is not necessarily suitable for all. Nonetheless, we suggest that certain strategies on the part of transition economies and certain courses of action on the part of the World Bank are more likely to result in an effective management of social risks.

## **II. THE NEED FOR SAFETY NET PROGRAMS**

### **A. *Safety Net Programs Defined***

Defining safety net programs in the transition countries is a challenge in and of itself. Across the region, countries have inherited a broad range of public programs, policies and services for addressing a wide variety of social needs. The complexity and multiplicity of programs has increased considerably since the transition with the introduction of programs to combat unemployment and poverty. The increased involvement of local governments in social assistance has also led to increased program diversity, as subnational governments have started to design and implement their own policies. Social programs also have gained in complexity as they began to have multiple objectives -- for example the provision of long-term unemployment assistance which serves both as a labor market program and a poverty alleviation policy.

The transition from state central planning has required a fundamental reconsideration of the role of the state and public policy. This paper focuses on safety net mechanisms which are not employment related. Although, pension systems and active and passive labor market programs also have important poverty reduction functions, they are addressed in companion papers. Social investment funds, which support community based development initiatives are not addressed directly in this paper (See Box 1). Family policies, including family and child allowances, regular and one-time social assistance payments, and community-based policies, are included. In addition to government programs, NGO activities (charity and otherwise) and informal and private safety net mechanisms have important roles in social safety net provision. Because of the role of informal safety nets and the particular risks involved, the balance of public and private involvement in safety nets demands particular attention. Lastly, we touch upon the safety net benefits provided through social funds.

### Types of Benefits.

Many safety net programs in transition economies appear similar to those of OECD market economies. We have constructed a typology of such benefits in Annex A. A primary distinction in this typology is whether or not benefits are targeted to families with limited resources – most often, those that society designates as poor. Targeting is probably the first consideration that governments must address when fiscal resources are constrained and needs are great. This is true not only of transition economies but of developed market economies, as well. Targeting mechanisms fall into three categories:

- First, *means testing* which includes individual or household income-testing, and may or may not include some type of assets test;
- Second, *'proxy' means-testing*, or indicator-targeting, where eligibility is based upon one or more indicators correlated with poverty which are easier to observe than income, such as household size and geographic location. (In broad terms, *categorical benefits* may be regarded as a form of indicator targeting, although they may be weak predictors of poverty.);
- Third, *self-targeting* in which individuals self-allocate benefits based upon their own decisions and choices, such as price subsidies on foodstuffs which are more often consumed by the poor.

Safety net benefits may be provided either in cash or in-kind. In-kind benefits consist of a range of goods and services which are directly provided, subsidized, or paid-for through vouchers. Non-cash benefits generally include goods and services that society considers necessary to reach a minimum living standard. These include food, energy supplies, transportation, education, and goods and services for the frail elderly and disabled. They also may include services for families or individuals with behavioral problems, alcoholism, and drug abuse. The benefits of in-kind programs represent directed consumption. For example, food stamps cannot be used for activities that society may not condone such as the consumption of alcohol or gambling. In most cases, however, economic theory suggests

that welfare is improved through the use of cash benefits so that individuals and families can determine their own consumption patterns to maximize their welfare.

Next, benefits can be distinguished by their coverage. Benefits can be universal -- ones that all individuals or families can apply for, or categorical -- ones that are only distributed to certain types of families or individuals. Universal benefits that are not targeted are rare, and are generally restricted to in-kind subsidies for household goods and services (e.g. food and energy), even in socialist economies. Universal targeted benefits, which are available to all individuals and families meeting an income or asset test, are also used to provide similar types of in-kind subsidies. Targeted universal benefits include cash social assistance paid to those in poverty. Such benefits are generally provided to a small fraction of the population

Categorical benefits range from benefits which are provided to broad population groups, such as children, or more narrowly focussed programs, such as those for foster-parents, orphans, and war veterans. While such benefits are frequently targeted, that is restricted to those with lower incomes, this is not always the case. Categorical programs are provided in one way or another in most developed market economies. Many benefits under socialism were narrowly categorical and extremely fragmented – with many separate benefits provided for many different groups and sub-groups. Nonetheless, there are certain groups within the population which are frequently considered vulnerable in both market and transition economies. For example, benefits are most often directed toward children. Different countries address children's needs in different ways. Some cash and in-kind programs may include all children, regardless of family income, while other programs include children in particular types of families – for example, single parent families, families with many children, families with low income, or orphans. In addition to children, the elderly and the disabled are frequently the focus of safety net programs, although eligibility criteria differ substantially across countries and programs. In the transition economies, the newest category is the unemployed.

Safety net benefits may be provided on an ongoing basis, at intervals, or through one-off provision. Some programs can be both regular and periodic, such as social assistance benefits which may be paid monthly, or as a one-off benefit, depending on household eligibility. Safety net programs may also be differentiated by other criteria. Benefits may be provided according to strict centrally determined criteria

or they may be at the discretion of individual social workers. For example, a program may institute strict income tests but require a qualitative assessment by the social worker of the individual's surroundings for a final eligibility determination. In program design there are trade-offs between programs which specify all aspects of eligibility and those in which local authorities, who have specific information about their communities, can provide assistance at their discretion. Frequently, emergency assistance and one-off benefits are provided in a more discretionary manner than ongoing transfers.

## SOCIAL INVESTMENT FUND (SIF)

Social investment funds or social funds (SIFs) are quasi-financial intermediaries that channel resources in the form of grants to private and public organizations and community groups to undertake small investments, called “microprojects”. Social funds emerged in Latin America more than a decade ago to mitigate the social costs of structural adjustment. They were conceived as short-term compensatory mechanisms to create labor demand and develop or restore social and economic infrastructure. They demonstrated how a government program could reach disadvantaged groups and alleviate their plight, thereby giving stabilization and structural adjustment policies time to take hold. The success of SIF operations in Latin America generated interest in Eastern Europe and Central Asia (ECA) to use SIFs to mitigate the negative social impacts of transition. The Albania Development Fund, effective in 1993, was the first SIF in the region. Today, there are SIFs in six more countries; altogether they manage more than US\$100 million from the World Bank, other donors, central and local governments and beneficiaries.

SIFs in ECA share some common strategies to improve the quality of life through labor market and poverty alleviation interventions. Common *short term aims* are to inject cash into communities by financing works that create labor demand, restore public confidence in government and give reforms time to take hold. *Longer-term objectives* to contribute to sustainable development are to: (i) improve or stop the deterioration of human resources by investing in badly neglected social infrastructure and services (e.g. health and education); (ii) restore or improve the financing and operation of small economic infrastructure (e.g. water, roads, bridges) necessary for private sector growth and employment; (iii) improve the prospects for long-term earnings of self-employed by increasing their productivity through training, credit and other types of micro-business support; and (iv) stimulating positive externalities from social capital (i.e. social solidarity, inclusion, trust) that affects access and redistribution of resources.

Social funds in transition economies have demonstrated that they are well suited to (i) finance rapidly and efficiently small investments to improve productivity of capital assets and create secondary employment effects, especially for self-employed who need better infrastructure to take more risk and engage in high return activities; (ii) include the poor in productive activities to enhance their earning opportunities, particularly those in transient poverty who are able to work but have low incomes arising from low productivity; (iii) attract co-financing from sub-national governments, NGOs, donors and users/beneficiaries to protect and improve human and physical capital; and (iv) use informal family and community networks to reach the under-served and provide them services.

Social funds have much potential, but limited experience, to upgrade skills of laborers to enhance their earning chances and reduce their dependence on public and private transfers, and increase labor force participation rates of female workers (*risk reduction*); enlarge the safety net by becoming a permanent work program which can be expanded when crisis hits (*risk coping*); and transfer resources to single industry towns to aid redeployment of labor dedicated and linked to restructuring of state-owned enterprises (*risk mitigation*).

Is a social fund the best use of resources relative to alternative interventions, such as social assistance, unemployment benefits and active labor market policies? The answer will vary with country circumstances and institutional capabilities. The capacity of SIFs to address the incidence and severity of poverty is difficult to ascertain. While SIFs are probably not the best instrument to fulfill a temporary income-support function, it is possible to design a SIF to appreciably enhance its benefit transfer function.

### Measuring Poverty.

Because of their poverty alleviation objectives, safety nets, and targeted programs in particular, rely on measurements of poverty to determine eligibility and direct resources to vulnerable populations. Measuring poverty is a difficult task which is fraught with methodological complexities. There is no correct or 'scientific' method for measuring poverty and decisions on what approach to use are inevitably subjective. Poverty is usually measured using: (i) an absolute poverty line related to a normative threshold providing for basic nutritional and social needs; or (ii) a relative poverty line related to prevailing income levels -- such as 50 percent of mean per capita income. While no one approach is 'correct', there are standards of measurement for each of these approaches that are generally recognized as being methodologically sound. Distinctions between poverty measures are extremely important from a policy perspective, however, especially if poverty-relief benefits are related to officially recognized poverty lines. Policymakers should be aware that the role of safety net policy is not to raise all families to a standard of living equal to or above the poverty line through the use of income transfers. Rather, poverty lines represent goals set for society and means to identify groups who are eligible for extra assistance.

### ***B. The Risks Covered by Safety Net Programs***

The *dynamics of social risk* in ECA countries have changed dramatically during the transition. From all perspectives -- regional, national, household and individual -- the prevalence and incidence of risks has increased. Safety nets can address a range of risks which have emerged or intensified during transition. In contrast with social insurance programs, safety nets cover risks which are not insurable. For example, while the provision of old age pensions is possible through social insurance or savings, the actual outcome of poverty in old age cannot be insured. The risks addressed by safety nets can be categorized by scope, frequency, and degree of correlation.

- *Scope*: Risks can be *idiosyncratic or covariant*. Idiosyncratic risks affect only some households in a community, such as individual risks affecting a family such as illness and frictional (uninsured) unemployment. In contrast, covariant risks impact whole communities, as is the case with cyclical and regional (structural) downturns, and regional and economy-wide shocks from transition.

- *Frequency*: Risks can be *catastrophic or non-catastrophic*. Catastrophic risks occur infrequently, but with severe effects. Some catastrophic risks can be covariant and some idiosyncratic. Some catastrophic risks can be predicted more accurately across a population while others cannot. For example, the most severe risks, such as war and revolution, will completely uproot a society. The economic and political break-down of the former Soviet Union and Central and Eastern is such a catastrophic event – as it was unique and unpredicted. Similarly, the melt-down of the south-east Asian economies can be characterized as catastrophic, as can the war in Bosnia. Other catastrophic risks can be predicted with greater certainty, including increased unemployment following a downturn in the business cycle. The prevalence of some catastrophic risks can be forecast in the aggregate, if not individually. These include poverty in old-age, long-term unemployment, the onset of adult disability (mental, physical, or substance abuse), and poverty or disability in childhood or at birth. In contrast, non-catastrophic risks occur more frequently, with non-severe effects. These include temporary unemployment or illness.
- *Correlation*: The degree to which risks are correlated is another important risk attribute. In some cases, risks may be augmented by *repeated shocks*. For example, the transition shock also led to a higher prevalence of morbidity and mortality among many populations. Similarly, war potentially leads to many a series of repeated shocks. In contrast other risks are uncorrelated, and, as a result, are *single shocks* or isolated events.

When a social risk exhibits two specific characteristics, risk reduction policies are more easily developed and implemented. These characteristics are: (i) that the risk results from an exogenous shock, and (ii) that the probability of occurrence is known. Social insurance operates on this basis, as insurers provide insurance by predicting and pooling the risks of many individuals. By contrast, because of their focus on ex post mechanisms, safety net programs are generally necessary when the probability of the risk is unknown and the risk is not exogenous.

Unpredictable risks are exogenous but the probability of its occurrence is unknown because the event is extremely rare or because the event is hitherto unknown. Such risks have also been characterized as exhibiting uncertainty. Uncertain risks can affect individuals, as well as communities.

For example, if an individual becomes ill with a hitherto unknown disease, that event can be considered as an unpredictable risk or uncertainty.

Risks can also be influenced by endogenous factors which amplify their effects. For example, individuals and communities influence the likelihood of a risk through their own choices and actions. Substance abuse is a risk which is affected by individual behavior, as is (but not always) pregnancy. At the aggregate level, a country's policy choices -- willingness or resistance to reform -- can intensify or reduce social risks.

The impact of specific risks and exogenous shocks on individuals and communities may also depend on initial endogenous conditions. For example, in many countries there are links between ethnicity and poverty, placing some groups at greater risk. In many ECA countries, post-transition poverty is particularly widespread and severe among Roma, due to ethnic discrimination and socio-cultural factors. Roma communities often lack access to basic social services which place them at an increased risk of poor health and low school attendance, which subsequently lead to disadvantages in the labor market, subsequent low wages and/or unemployment, and, consequently, low incomes and poverty. Ethnic marginalization can magnify the impact of repeated shocks and lead to the development of 'cultures of poverty' and social exclusion. Initial conditions can also affect the probability of a disruptive event occurring, as factors such as geography, natural resources and ethnic diversity can make a country or community more or less susceptible to various risks, including conflict, natural disaster, and economic crisis.

### *Risks in Transition*

In ECA countries, the transition represents a unique catastrophic event which resulted in a series of correlated shocks. Across the region, the collapse of GDP led to a realignment of prices and subsequent economic dislocations which have had serious socioeconomic consequences. The armed conflicts in any number of ECA countries have been unpredictable and catastrophic. Abstracting from the one common transition experience and the cases of conflict, patterns of risk across and within countries have differed greatly due to socioeconomic, geographic, and historical factors. Contrasts within and across countries and regions (e.g. between the new OECD countries and South-Eastern Europe; and between Central and Eastern Europe and Central Asia) are increasingly stark. Post-

conflict countries present a particular challenge for the efficacy of safety nets as these populations must deal with both reconstruction and the transition to a market economy. Cross country differences in the scope and composition of risks are important from a policy perspective, and, in part, determine the proper mix of safety net and social protection policies.

The incidence and diversity of risk have increased throughout ECA during the transition as the social impact of the transition has taken its toll. The collapse of output and subsequent price shocks resulted in precipitous declines in household income and employment and, consequently, the emergence of poverty and unemployment. Poverty has grown in both relative and absolute terms across the region. Patterns of poverty vary considerably. In some countries (e.g. Poland) poverty is rather shallow, while in other countries, pockets of persistent poverty are common (e.g. Bulgaria). Poverty and social welfare are closely linked to labor market trends. Poverty assessments have confirmed strong links between unemployment, particularly long-term unemployment, and poverty. In addition to unemployment, ethnicity, family size, and education have emerged as significant risk factors for poverty.

During transition, ECA countries have also experienced increases in a broad range of social risks for which safety nets are designed, including alcohol and substance abuse, suicide, depression, criminality, domestic violence, prostitution and trafficking of women, social dislocation (due to conflict, migration), and divorce (see Box 2 on countries in conflict). Health risks are also on the rise, including sexually transmitted diseases and non-communicable diseases associated with lifestyle factors (e.g. alcohol, poor nutrition). In addition, school attendance has fallen in many countries, with immediate implications for children's health (as schools provided immunizations, meals and public health information) and future implications for labor market readiness. Transition has also led to growth in the severity of social exclusion, and increases in risks which exclude and marginalize groups from society. Increasingly vulnerable groups include ethnic minorities (including Roma), street children, children in difficult circumstances, and the homeless.

### **Box 2: Social Assistance in a Climate of Organized Ethnic Violence**

Organized ethnic violence has become part of the scene in several parts of Eastern Europe and Central Asia. The Balkans are the present "hot spot", but Armenia/ Azerbaijan, Georgia/Abkazia, and various situations within the Russian Federation (Cechnya, North Ossetia, etc.) come quickly to mind as

well. The politically correct euphemism for such cases is “post-conflict situation”, but in fact there is little reason to believe or even hope that ethnic violence is near being finished in the region.

One can differentiate between two situations. In one, conflict results in the physical segregation of warring ethnicities into different jurisdictions – Armenia and Azerbaijan provide an example. For all practical purposes each country expelled all members of the opposite ethnic group. In such “border conflict” situations, assuming that a resumption of violence can be avoided, the problems of social protection and labor market development are not, in fact, so different than if people had been dislocated by natural disasters. Perhaps the main difference is that it is less likely that people will return “home” than it would be if they had been displaced by a natural disaster.

In a more complicated situation, however, the warring ethnicities continue to share the same jurisdiction. Segregation may occur within that jurisdiction, but nevertheless people are confronted with the difficulties of relying on at least some common institutions of government. The Federation of Bosnia-Herzegovina is an example. In such situations, people may view social protection programs that entail net transfers from their ethnic group to another as helping the enemy gird for the next round in the conflict.

Decentralization in such circumstances can become the mechanism that one ethnic group uses to avoid cross-subsidizing another. Responsibility for social protection, and especially social assistance, can be decentralized to subdivisions that are small enough to be more or less homogeneous ethnically, with water-tight barriers separating them. In the short run this may be the price of peace, but it fragments risk pools and guarantees that poor subdivisions have poor social protection programs. In the polar case, decentralization becomes the precursor of disintegration.

When ethnic hostility makes a state-wide social assistance program impossible, especially when this is reinforced by decentralization, it may be desirable to fortify the social assistance elements of programs whose basic purpose is not social assistance. For example, it may be desirable to give special attention to a “social pension” that is independent of work history or contributions; to design special provisions for the poor in the health finance system, and to create special tariffs for the poor for public utilities, transport and even food. In “normal” countries, these measures might be thought “second best” to an explicit and well-functioning social transfers system. In situations where conflicts among ethnic groups are close to the surface, these second best mechanisms may be the best one should hope to achieve.

### ***C. Risk Management Strategies***

#### ***Objectives***

Safety nets are generally designed to address three objectives. First, safety nets provide for *poverty alleviation* and the reduction of economic vulnerability through targeted programs for

households in chronic poverty (e.g. due to disability, poverty in old age) and those at risk of transient poverty (e.g. due to illness or temporary loss of income).

Safety nets also contribute to *consumption smoothing*, by allowing households to maintain their income levels through programs such as family and child benefits which compensate families for the costs of raising children. Safety net programs allow for pre-retirement income maintenance, while old-age pensions provide for redistribution of income across the life cycle. In addition to individual and household consumption smoothing, safety nets allow for intergenerational and inter-societal redistribution, as benefits targeted to individuals in need of assistance (such as the aged and disabled) transfer income from high to low risk groups.

Finally, safety nets contribute to *economically sustainable development* by promoting growth through the establishment of social funds and other income generating activities. Community-based safety net programs promote development through the direct provision of employment and the fostering of productive activity, as well as community involvement. These benefits may be particularly important in ECA countries where civil society and social capital were virtually nonexistent under socialism.

### Strategies

Safety net programs help governments, households and individuals manage risk. Analyzing safety net policies in terms of risk can help determine the optimal mix of policies and strategies. Risk management strategies relate to the objectives outlined above. The three main strategies include:

- *Risk Reduction policies that are introduced ex-ante and contribute to economic growth through employment and income generation.* Education and training leading to human capital formation serves a risk reduction function. In the case of safety net policies, risk reduction policies include social funds which provide jobs, foster other income generating activities, and encourage business development. Family allowances and other benefits for children reduce risk by enabling children to take advantage of educational opportunities through provision of adequate financial and nutritional resources.
- *Risk Mitigation policies that are introduced ex-ante and focus on consumption smoothing.* Other programs such as pensions, unemployment insurance, health insurance,

disability insurance are more important in terms of risk mitigation. These programs need to be coordinated with safety net programs, however, to ensure that safety net expenditures are cost effective. Among safety net programs, child allowances may provide an important risk mitigation function allowing for life-cycle consumption-smoothing and cohort transfers.

- *Risk Coping strategies that are introduced after the adverse risk has occurred and are the most important function of safety net policies.* These include means-tested poverty alleviation programs, one-time cash benefits, services for specific groups such as the elderly, orphans, and the disabled, and programs and charity provided by NGOs. Social insurance benefits also serve risk coping objectives as they provide a basic benefit to those with no other source of income and cushion the effect of among the elderly and disabled. Similarly, unemployment benefits provide assistance to those temporarily without wage income.

From a policy perspective, transition countries face the challenge of creating flexible safety net policies which are related to the risk management strategies identified above. Since safety net policies are programs of last resort, they require careful coordination with other social protection programs. Consideration of risk management strategies can strengthen linkages between programs (e.g. making employment or school attendance a condition for receipt of social assistance to reduce repeated risks).

### Vulnerable Groups

Risk management strategies can be associated with categorical programs for children, the elderly and the disabled. Families with children have been a primary focus for social safety net benefits in socialist and market economies alike. Typical programs include targeted or universal

child allowances. Targeted child allowances are *risk coping* strategies providing enhanced resources to families below a certain living standard. Targeted child allowances also act as *risk reduction* strategies as they provide poor children adequate nutrition and better educational opportunities for a brighter and more productive future. Child benefits that are not explicitly targeted but are categorical (i.e. to families with many children or single-parent families) are often based on the assumption that the categories chosen are more vulnerable to poverty. Thus, they are, in theory, implicitly targeted.

Family benefits that cover all children, or all but the most wealthy, represent *risk mitigation* strategies for those above the poverty level. In most countries, family formation starts at a relatively young age before parents reach their peak earnings years. Thus, family allowances transfer funds from empty-nest families and the childless to young families with children. This type of risk sharing is similar to that provided by PAYG pensions. It provides life-cycle consumption smoothing for child-bearing cohorts and transfers income to children. Such life-cycle consumption smoothing can be justified on the grounds that under imperfect information, young families cannot borrow funds based on their future earnings. Broadly based child allowances have also been advocated as self-targeted *risk coping* strategies in countries in which families with children, or, rather, families with many children, are more likely to be poor.

Programs addressing the needs of the aged and the disabled also have risk coping and risk mitigating functions. Cash benefits for the disabled at birth (or those not insured through employment) are *risk coping* strategies when the recipients are poor. If benefits are not targeted, they represent a transfer from families do not have a disabled child to those who do. This type of transfer is *risk mitigating* to the extent that the risk of having a disabled child is random across families. The same argument can be made for PAYG pensions – that is, transfers are made to families with improvident elders from families whose elders have saved for their old-age or, those whose elders have shorter life expectancies. In the case of the aged, cash benefit programs may represent *risk mitigating* or *risk coping* strategies, depending on the extent to which they are targeted. (Similar arguments can be made with regard to other in-kind benefits that are not targeted.) Again, it is a societal decision as to whether old-age and disability benefits should be targeted or not. *Ceteris paribus*, however, poorer countries are less able to afford untargeted benefits than countries with higher per capita income.

From an individual perspective, policies need to be designed to allow individuals and households to formulate their own risk management strategies. The shift from a paternalist welfare state to a market economy is a profound one, demanding a rapid move toward self-sufficiency. This requires that an appropriate mix of policies be available for addressing social risks and that incentives be well managed. Public relations and communication strategies are also important to ensure that people are well informed about safety net programs and that policy making is transparent.

### **III. THE PRE-TRANSITION SAFETY NET**

#### **A. *Safety Nets in Planned Economies***

Safety nets in planned economies were fully embedded the planning process. In theory, financial security was provided to all individuals equally, first through employment and second through social insurance. Social insurance included old-age, disability, and survivors' pensions and short-term benefits for sick-leave and maternity leave. Other benefits and basic needs, particularly in the USSR, were provided through enterprises, including nursery schools, hospitals, and housing. In general the socialist welfare states provided an extensive web of "cradle to grave" benefits, which provided a plethora of largely untargeted and uncoordinated social programs. From a risk management perspective, policies under central planning sought to reduce risks through employment promotion and household income support. Risk reducing and risk mitigating policies were intertwined, as consumption smoothing mechanisms were linked to employment. Risk coping strategies were largely absent, as the focus on ex ante solutions assumed that households would not fall into poverty. Society was relatively egalitarian in terms of living standards and female labor force participation was high (although inequities emerged in other ways, including wage discrimination and occupational segregation).

While the planned economy succeeded in providing most people jobs and stable incomes over the course of their lifetimes, it proved fiscally unsustainable over the longer-term. Household income was supported by a broad range of consumer and producer subsidies that redistributed incomes among republics, regions, enterprises and households. Such subsidies aggravated a plethora of other price distortions produced by the economic planning process. For example, as a result of extensive cross subsidization, enterprises could afford to pay for redundant (and inefficient) labor and provide expensive

‘employee benefits’ that could never have been supported within a market system. As a consequence, the system failed to offer attractive rates of economic growth in the long run as protected, loss-making enterprises continued to flourish. Nonetheless, despite these inherent inefficiencies, it provided a more reliable, if relatively low, standard of living as compared to OECD countries. Eventually, when the system broke down, it resulted in a substantial and unexpectedly deep shock. As underlying systemic inefficiencies became overwhelming and growth and productivity began to stagnate in the late 1980s, maintaining full employment became impossible and the social risks of poverty and low income, which had been hidden under socialism, emerged as a reality. Because of the direct link between employment and risk management policies, existing social programs were not designed to assist those who lost their jobs. And with job loss there was a loss of access to the implicit ‘socialist safety net’.

In the pre-transition world, a safety net, as understood in a market economy, would have had little purpose, as the basic needs of the population were met through guaranteed employment and price subsidies. Pre-transition safety net programs focused almost exclusively on individuals and families with special needs, including children and the disabled. Categorical untargeted family benefits were the most common form of assistance. For example, child benefits were provided to families with many children, single mothers, children of military servicemen, and mothers without alimony. Such situations were considered to be unusual and/or deserving. Although a means-tested social assistance benefit was established in 1974 in the USSR, it was of relatively minor importance. Probably the most significant child benefit in the USSR was the universal birth grant established in 198. But this benefit was not regarded as a part of a targeted safety net meeting risk coping or risk mitigation needs. Rather, it was a pro-natalist entitlement for an act which benefited the state.

While some pre-transition benefits appear to be similar to those of market economies, others are simply privileges or rewards. For example, the wide range of benefits for veterans fits this description. Even the rationale for family benefits vacillates between that of a safety-net program for special categories and/or a reward for an action useful to the state. The concept of privileged benefits and special needs created a hornet’s nest of multiple and overlapping benefits in the pre-transition system. The overall framework, however, was consistent with the importance placed on: (i) on-the-job in-kind benefits, (ii) a pricing structure that subsidized housing, energy, and food, and (iii) intricate

networks of privilege, favoritism, and influence which supplied goods and services outside of normal markets and channels.

Without exception, ECA countries inherited complex safety nets, but ones that were intricately interwoven within the economic planning framework. This legacy of socialist institutions, policies and processes continues to shape social policy making in the transition period (Barr, 1994). On the one hand, the extensive web of benefits and subsidies which were provided to households helped maintain living standards. But, the plethora of benefits forestalled cost-containment efforts and proved to be fiscally unsustainable, even prior to the transition. At the enterprise level, benefits and services were a financial burden to firms. At the end of the day, the inheritance of a paternalistic welfare state of pervasive benefits and services created high expectations that inherited benefits and privileges would be maintained. As a result, streamlining and scaling back entitlements has been politically difficult in the transition period, despite severe fiscal constraints. Similarly, the pre-transition stigma attached to poverty precluded popular, political support for anti-poverty programs despite expanding needs.

#### ***B. Services for Special Groups***

Benefits and services provided under the socialist system were largely categorical, targeted at groups thought to be vulnerable or deserving. In addition to safety net programs, some groups had additional privileges provided through the social insurance system (such as early retirement) and other public programs and services. In some cases the recipients of these benefits were in need of assistance, and in other cases they were not. The most common categories were families with many children, the disabled, and the elderly. Other groups included veterans, orphans, and employees in certain occupations (e.g. considered to be hazardous such as miners).

Benefits and services for families were widespread, as programs often employment promotion and pro-natalist objectives. A broad range of benefits were provided to families with children, particularly through the workplace, including regular cash payments, birth grants, parental leave arrangements, school grants, maternal and child health services, subsidized housing and consumer goods, childcare and kindergartens. In the USSR in 1989 3 percent of GDP was allocated to such family benefits and services.

The disabled were also provided special assistance, and benefits for this group included (and still include, in many cases) a complex array of price subsidies, as well as the direct provision of durable medical equipment, spa care, transportation, and other kinds of cash and in-kind benefits. These benefits were provided on the assumption that persons with disabilities had extra needs that could not be met within the normal context of work and pensions. Thus, society had the responsibility to provide additional benefits to persons with disabilities.

Similarly, institutions for the aged, persons with disabilities, and orphans represented solutions to problems that were outside the rubric of normal life. The emphasis on residential institutions was a pervasive feature of the pre-transition system, which still persists. Throughout the region, many children, disabled, elderly, mentally ill and other marginalized groups were institutionalized in poorly run and maintained facilities, isolated from the rest of society.

### ***C. Cash Benefits and Allowances***

#### ***Family Benefits.***

A wide range of benefits were provided to families with children to maintain household income, and to encourage parents to work and have children. The main programs included: (i) monthly allowances for families (such as those with many children); (ii) lump-sum birth grants; (iii) maternity benefits for insured and uninsured mothers; (iv) parental and child care benefits; (v) paid leave for care of a sick child; and (vi) funeral benefits. To a great extent these benefits were provided on the job, except for those targeted as categorical payments to groups with perceived special problems. There were often multiple and overlapping benefits within the categories outlined above. For example, at the end of the 1980s in the USSR, separate family allowance programs existed for families with four or more children, single mothers, disabled children, orphans and children of military servicemen. In addition to these benefits, a means-tested family allowance was introduced in 1974 for families with low incomes.

#### ***Social Assistance.***

As it was assumed that poverty did not exist under socialism, little emphasis was placed on social assistance and poverty alleviation benefits. Other than a few means-tested family benefits, regular

cash benefits for low income households were rare. If benefits did exist they were not related to minimum consumption requirements, such as a subsistence basket, and were highly discretionary (Barr, 1994). Because of the emphasis on full employment, individuals who could not work were considered social problems, and as a result poverty benefits were stigmatized and eligible individuals often did not apply.

#### ***D. Subsidies***

Heavily subsidized prices of consumer goods, housing and utilities were the most significant form of household support in the former socialist countries. In the USSR in the late 1980s, consumer and producer subsidies comprised nearly 10 percent of GNP (IMF and Goskomstat). Housing subsidies were primarily direct budget transfers for construction and maintenance. As a result of these subsidies, households spent a relatively low share of their total income on housing -- 3 percent of total expenditures in Poland in 1991 and a similar level in the USSR (Subbarao, et al., 1997). Also, as a result of these subsidies, the maintenance of high-rise apartment buildings often was left undone.

#### ***E. Informal Safety Nets***

In addition to public programs, informal arrangements existed during the pre-transition period. While little is known about these mechanisms, some evidence is available on private household transfers, remittances from abroad, family and community trading networks for coping with the shortage economy (see Cox, et al., 1997 on Russia), and traditional community structures such as the mahalla in Uzbekistan (see Coudouel and Marnie, 1998). Further, it is known that informal arrangements were important for the allocation of normal and luxury goods among families, in addition to those in which families provided assistance to each other.

#### **IV. POST-TRANSITION SAFETY NET POLICIES**

##### **A. *The Necessity of a New Type of Safety Net***

The political dissolution of the Soviet bloc and the economic melt-down of the CEE countries created catastrophic, unforeseen shocks for the populations of transition economies. Transition shock was characterized by measured declines in GDP of 30 to 50 percent (perhaps exaggerated due to measurement errors), compounded by dislocations due to privatization and confusion spawned by the development of competitive markets. In addition, social services formerly provided by state-owned enterprises were gradually shed because they were no longer affordable or appropriate to a market economy. As a result, the implicit pre-transition safety-net structure dissolved. At the same time, problems of vulnerability and poverty experienced by market economies started to emerge, as incomes declined and unemployment appeared. These problems were compounded by the extreme economic uncertainty that followed the transition in a population that had been used to unusual conditions of job stability, at least in recent pre-transition years.<sup>1</sup>

The institution of unemployment benefits for workers who lost their jobs due to restructuring was the first response to economic disintegration during transition. But such benefits were insufficient to deal with the problems of the newly unemployed who exhausted their benefits in countries in which unemployment rates reached double digits, such as Poland, Hungary and elsewhere. In other countries, particularly in the CIS, unemployment was not allowed to increase, but wage arrears placed many workers in limbo, neither employed nor unemployed – a situation that would be a severe aberration in developed market economies.

Due to sharp declines in real GDP and spiraling inflation (often following the initial phase of price deregulation), another outcome of the transition was a significant drop in the purchasing power of the majority of the population and a monumental sense of dislocation after a hitherto very stable existence. Such a shock to the population was catastrophic within our definitional framework of social risk. Of course, for those countries in which armed conflict took place, this shock was intensified even further.

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<sup>1</sup> Past dislocations engendered by the 1917 Revolution, World War II, and any number of explicit and implicit Stalinist policies certainly cannot be underestimated.

Thus, the second response to the disintegration of the planned economy was a hodgepodge of subsidies and benefits intended to reduce the joint shocks of inflation and declining living standards. While subsidies were eventually removed in the majority of cases (in part, due to fiscal constraints and, in part, due to the efforts of international institutions), and cut-backs were made in certain other benefit supplements undertaken early in transition, the end result was a complex mix of benefits which were neither fish nor fowl and which did not effectively protect the population from the transition shock.

At the same time, the ECA countries were becoming market economies. As a consequence, in addition to the direct shocks of transition, those risks inherent in market economies were developing. For example, in market economies, the distribution of income is likely to be greater than those of planned economies, as individuals are paid according to their productivity rather than being guaranteed a job. Consequently, a population of working poor may arise. Further, exhaustees of unemployment benefits and workers without wages may also fall into poverty. Thus, the rationale for safety-net policy must also change from one primarily dealing with special-population issues (such as disability, alcoholism, or behavioral aberration) to one concerned with poverty alleviation. Social safety net programs in market economies are meant to provide a floor of protection while attempting to reduce the risk of poverty overall.

The ability of many ECA countries to transform their social policies to meet new objectives has been marginal. First, systemic privileges have been politically difficult to remove, and, as a consequence, policymakers have often not been eager to remove them. Second, because transition shocks have disrupted incomes across the board, policymakers have often been unwilling to target the poor, particularly when pre-transition attitudes towards poverty prevail in many quarters. Before transition, those in poverty, who did not fit in a recognized category, were considered to be social deviants and, consequently, the undeserving poor. If this mindset continues, the same attitudes will hold for post-transition poverty. This may be one reason that individuals remain on their jobs without pay, rather than admitting that they are *de facto* unemployed. In sum, the development of market-oriented poverty policies is confounded by the widespread nature of the transition shock, its resulting fiscal constraints, a lack of familiarity

with the techniques of targeting, and attitudinal reluctance to change – not to mention the difficult issues that all countries face in designing adequate and affordable social safety nets.

## ***B. Policies Implemented***

The development of safety nets during the transition has varied widely by country, in part due to divergent pre-transition starting points, as well as differing socioeconomic conditions and political and cultural factors. Despite these differences, a number of similarities can be drawn. By and large, the FSU countries have retained a greater emphasis on subsidies for housing and utilities, while CEE countries have relied more on cash benefits. Means-tested social assistance schemes based on a minimum income guarantee have been more prevalent in CEE, although many FSU countries have introduced, or are in the process of introducing, such programs. There is also limited evidence that the Central Asian countries rely more upon informal safety nets, such as extended family networks, than other countries. The pace of reforms varies greatly across the region, as well. While some countries have adopted ambitious safety net reforms, other countries, particularly slow reformers such as Turkmenistan and Belarus, have changed little.

This section describes some of the major policy instruments implemented during the transition. As mentioned at the outset, categorizing safety net programs is problematic. For example, the line between targeted family benefits and social assistance is often difficult to draw. Distinguishing between cash and in-kind programs is similarly challenging, as some programs allow social workers to provide either a cash or an in-kind benefit.

### *Price Compensation Schemes*

Some of the earliest income support mechanisms adopted during the transition period were price compensation measures. In the USSR in the late 1980s, and early 1990s, supplementary payments compensating for price increases were adopted to protect household incomes from the shocks of liberalization (Kuddo, 1998). In 1991 in the USSR supplements were added to most wages and benefits, and new benefits were introduced including birth grants, parental leave and additional categorical child allowances (e.g. for single parents). These early compensation measures formed the basis for the establishment of a new system of universal

family allowances in many FSU states, including the Baltic states and Russia. However, due to fiscal constraints, in some other countries, these benefits were later abolished or their real value rapidly eroded.

Countries have also implemented programs to protect vulnerable groups from increasing housing and utility prices. Alongside privatization of housing and increased rents, some countries (Russia, Hungary) have introduced targeted housing benefits to assist low income families with housing costs. Data for Poland and Russia suggest that housing subsidies amounted to 25-35 percent of government expenditures in 1991-93. Programs and policies to protect the poor from increasing energy costs have also been introduced. In 1995, Bulgaria introduced a targeted winter benefit which was first paid in-kind and now is being paid in cash. Romania has a form of lifeline tariff and Hungary and the Kyrgyz Republic provide compensation through the social assistance system.

#### *Family and Child Benefits*

In the early transition years, cash benefits paid to families played an important role in cushioning household incomes from transition shocks. Poverty assessments have shown family size to be a significant risk factor for poverty across countries. Even as inflation eroded the real value of benefits, the growth of unemployment and the absence of other forms of assistance made family benefits an important source of cash income for many households with children, especially in rural areas. While many family-related benefits, including child care services, were scaled back as state owned enterprises were closed or divested social assets, family allowances were generally protected as a percent of GDP during the early years of transition, but subsequently declined.

**Table 4.1: Public expenditures on family allowances in Central and Eastern Europe***(in percentage of GDP, 1989-95)*

	1989	1990	1991	1992	1993	1994	1995	<i>1995 GDP 1989=100</i>
Czech Republic	2	1	4	2	1	2	0	85.3
Slovakia	2.9	2.8	2.1	9	7	5	-	86.9
Poland	2.0	5	9	9	3	-	-	98.2
Bulgaria	6	6	2.3	7	1	0	0.9	76.5
Romania	2.9	2.7	4	0	0.8	0.8	0.7	82.2
Lithuania	0.1	0.1	-	-	-	-	0.4	36.0
Russia	-	0.5 a	-	-	0.6b	0.7 b	-	60
Ukraine	0.1	0.1	0.3	0	-	-	-	42.9
Azerbaijan	-	2.0	2.4	2.0	2.5	2	0.2	33.3

*Source:* Children at Risk in Central and Eastern Europe: Perils and Promises, Economies in Transition Studies, Regional Monitoring Report - No. 4, UNICEF, ICDC, 1997; p. 95.

*Notes:* a. Data refer to the USSR and the percentage of net material product (Goskomstat 1992); b. World Bank, 1995.

Country approaches to family and child benefits during the transition have differed greatly. While some countries (Russia and Estonia), have introduced new universal child allowances, others have targeted previously universal benefits (Poland, Belarus), introduced new targeted benefits (Czech Republic, Lithuania), or eliminated benefits altogether (Georgia). Design of benefits has been similarly varied, with benefits often differentiated according to the number and age of children, the presence of a single mother, and residence in rural or urban areas. Other family benefits, including birth grants, parental leave benefits and maternity leave for uninsured mothers continue to be important. While most countries have retained benefits from the pre-transition period, others have consolidated programs or introduced new benefits. The provision of child care and pre-primary education has also undergone significant changes in the transition period. Kindergarten enrollment rates have fallen throughout ECA, with the exception of the countries of the former Yugoslavia and a number of FSU states such as Latvia and Estonia (UNICEF, 1998). These declines have been attributed to a number of factors including changing female employment patterns, increasing costs to families, and the closing of child care facilities attached to state owned enterprises.

### Targeted Social Assistance

As poverty increased in the early 1990s, countries began to introduce or strengthen existing social assistance cash benefit programs. ECA countries have adopted diverse approaches to targeting, setting of benefit levels and administration. As the USSR did not have targeted social assistance, but rather relied on family benefits, CEE countries have been ahead of the FSU in implementing social assistance. CEE states such as Poland, Hungary and the Czech and Slovak Republics passed new legislation on social assistance in the early 1990s which built upon existing programs. Estonia and Latvia introduced new means-tested social assistance programs in the early 1990s, and in 1995 the Kyrgyz Republic was the first CIS country to adopt a national poverty benefit.

*Targeting.* Social assistance schemes in ECA adopt many different approaches to targeting benefits to vulnerable groups, most of which involve an income test combined with other criteria on household assets, employment status, household size and composition, and health. Examples include:

- *Bulgaria:* Like many other countries in the region, Bulgaria's social assistance system is a minimum income guarantee scheme which provides eligible households, whose income falls below a centrally set 'Basic Minimum Income' (BMI), with a benefit equal to the difference between their income and the threshold. In addition to the income-test, the social assistance applicant must also pass an asset test (financial and property). Among other criteria, beneficiaries must be registered with the labor offices, must not own a business, or have lived abroad to be eligible. Applicants for benefits apply to local social assistance offices and social workers determine eligibility through interviews and home visits.
- *Armenia:* Armenia is the first country in the region to introduce a social assistance program based on proxy-means testing. Building upon the 'Paros' program which was implemented in 1994-5 to distribute humanitarian aid, the country has begun providing benefits based on a set of observable characteristics determined to be correlated with poverty. Households receive points based on indicators such as the presence of children, students, pensioners, disabled or unemployed in the household, as well as housing conditions, employment and other income-related benefits.

- *Russia*: Social assistance in Russia is a discretionary benefit paid at the local level and has become increasingly decentralized to the regional and municipal levels. With Bank support the Government has been experimenting with three different targeting methodologies in three pilot oblasts including (i) proxy-means-testing; (ii) a ‘categorical filter’ which pre-screens applicants first upon the basis of household characteristics, and then applies a means-test; and (iii) a complex means-testing formula which estimates potential household earnings.
- *Uzbekistan*: In 1994 Uzbekistan introduced an innovative mechanism for targeting social assistance benefits to low income families, utilizing traditional pre-Soviet local community structures called ‘mahallas.’ The mahallas, which are comprised of respected citizens, are not part of the state administration. Using central government guidelines on eligibility, the mahallas identify social assistance beneficiaries based on their own local assessment of living standards and a set of welfare indicators, including household composition and characteristics, and assets. The system is unique in the way it combines objective criteria set by the central government, and the discretion of the mahalla.

*Benefit levels.* In most countries the income threshold for benefit eligibility is nominally tied to some kind of measure of minimum subsistence, although due to inflation and national budget constraints these levels are usually no longer real measures of poverty. In Lithuania, the Minimum Standard of Living (MSL) was originally based upon a consumption basket of food and non-food products and services first evaluated in 1990. The basket has not been reevaluated since mid-1992 and a new ‘applied MSL’ was introduced for benefit setting which amounted 22 percent of the original MSL in 1997 (Gassmann and de Neuborg, 1997). A similar situation exists in Bulgaria where the minimum income level is not indexed, but rather adjusted on an ad hoc basis by government decree. In other countries, the benefit is linked to the minimum wage which is most often not indexed to inflation. In Uzbekistan there is no national threshold, instead the mahallas determine eligibility based upon their assessment of local living standards.

*Benefit length.* Most countries have both a regular monthly benefit program as well as occasional benefits for households in temporary need of assistance. In Estonia the benefit period for social assistance is limited to three months if one family member is working, and to six months if all

members are unemployed or meet eligibility criteria. The Kyrgyz Republic has a benefit payment period of one year, based on reported incomes in the previous three months. In FYR Macedonia, where there was previously no limit, a ceiling of four years has just been introduced. The period of eligibility varies greatly across countries.

*Work incentives.* Social assistance programs in ECA deal with labor market incentives in different ways. Because of the emergence of significant numbers of working poor in many countries, it is important that benefits be designed not to tax workers for additional earnings. Some countries have introduced an income disregard into the social assistance benefit program to encourage continuation of employment. For example, in Bulgaria 30 percent of wage income is disregarded in the calculation of eligibility for benefits. Other approaches to incorporating labor market incentives into social assistance programs include requiring beneficiaries to be registered with labor offices, limiting the eligibility period for social assistance, and keeping benefit levels low. In Estonia, non-working household members of working age who are not registered at employment services are not included in benefit calculations. In many countries these labor market links are weak or non-existent, and there are no incentives for individuals to seek work or participate in active programs, instead of claiming benefits.

*Administration.* Institutional and financing arrangements for social assistance differ across countries. In some countries social assistance is legislated and financed by the central government, while other countries have decentralized provision and/or financing of benefits. In many countries, including Bulgaria, Romania and Latvia responsibility for financing social assistance has been transferred to local governments, with some support -- not necessarily earmarked for social assistance -- through central budget transfers. In other cases, such as Armenia, Estonia and the Kyrgyz Republic, funding for social assistance is centralized in the state budget and is administered at the local level. In Bulgaria financing of social assistance is split between the central and local budgets. Regular social assistance is paid out of municipal budgets, and a supplementary winter benefit -- to compensate poor households for energy expenses -- is paid centrally. In other countries, administration and financing of all or some social assistance programs is completely decentralized. In Hungary, in addition to nearly 34 national programs, there are a plethora of local programs. A review of programs found that local governments had adopted over 2,500 decrees on eligibility and benefit levels for social assistance (Sipos, 1995).

### Non-Cash Assistance

In addition to cash transfers, in-kind assistance takes many different forms in ECA. On-going subsidies for housing and utilities in many countries are probably the most important as a share of the government budget and their impact on household expenditures. Direct in-kind provision of goods and services also remains common. Benefits largely remain based upon those provided by the socialist regimes and are targeted to certain groups such as the elderly and disabled. Health benefits, including provision of free medicines and medical supplies (e.g. crutches and prostheses) are frequently provided, as are vouchers for public transportation and school books, meals, and uniforms for children. For example, the range of in-kind social assistance benefits found in Romania in 1997 includes meals, medical devices, health services, home care for the disabled, transportation for pensioners, school children and students, and television and radio licenses for the disabled, war veterans and ‘survivors and victims of the revolution.’

Non-cash assistance care also provided through residential institutions. The socialist regimes relied heavily on institutionalization for children, elderly and the disabled. These services have been maintained in the transition period. In some countries, such as Lithuania, Armenia, Bulgaria and Romania, transition has brought a greater emphasis on institutionalization, with increasing numbers of children and disabled in public care. This may be due in part to declines in living standards that have made families less able to provide care. In other countries, such as Hungary, there has been a shift away from institutionalization of children. This may be due to policy reasons, such as the availability of foster care, cultural reasons, or the collapse of the public care system due to declining resources (UNICEF, 1994).

### *Informal Safety Nets*

Difficult economic circumstances have increased the importance of informal coping mechanisms for many households. A number of studies have indicated the growing role of family and community networks in providing support to vulnerable households and individuals. In some cases, particularly in Central Asia, where official social assistance is underfunded and paid at very low levels, informal mechanisms may be more effective than formal programs for addressing social risks. Inter- and intra-household transfers have been found to be quite important in a number of countries including Russia, Kyrgyz, Albania, and Romania. As an example, in Albania, many families borrow from family, friends and neighbors to cover daily expenses and to cope with unexpected costs, including medical care (World Bank, 1997). Remittances from abroad are also important in some countries, such as Albania and Armenia. In Albania transfers from outside the country, particularly from Greece, are the largest source of income in rural areas.

### *Community-based Services and NGO involvement*

Countries have been increasingly involving non-state actors, including NGOs and community organizations in the provision of social services. Some countries have passed legislation which allows for the participation of NGOs in social policy. For example, Bulgaria's and the Slovak Republic's new laws on social assistance establish the regulatory framework for NGO involvement in social services. Hungary has had a particularly active NGO sector, since 1989 roughly 35,000 new non-profit organizations have registered. It is estimated that about 15 percent of these are involved in social welfare provision including, children and youth services, large family organizations, organizations for the physically and mentally disabled and the chronically ill, kidney and diabetes organizations, sight- and hearing-impaired organizations, elderly services and institutions, and organizations serving the homeless, refugees, and the poor and needy (Jenkins, 1998). In Lithuania, under the Social Policy and Community Social Services Development Project, the government is experimenting with community based services in three municipalities. Sub-projects will support services for children, the disabled and elderly with a shift away from institutionalization toward services. The project seeks to prevent institutionalization and strengthen the coordination between cash and non-cash services.

### C. *Assessment of Policies*

Because of their complexity, evaluating social safety net policies within and across countries is an extremely difficult task. Programs cannot be examined in isolation, rather the effectiveness of the whole range of policies needs to be considered in order to assess whether the safety net is meeting its objectives. This exercise is especially challenging in ECA because of the lack of consistent and quality data, and because of rapidly changing circumstances. While a number of countries have implemented household surveys in recent years, data are rarely comparable across countries and over time.

Three questions are of particular importance in policy evaluation. First, do programs reach the poor? Second, do they alleviate poverty -- are benefit levels adequate and do active programs lift people out of poverty? And third, are they cost-effective (e.g. how much of public spending is allocated to safety nets, and what are the costs of targeting?)? To answer these questions, both time series and survey data should be analyzed. Trends in social safety net programs should be based, in part, on indicators such as (i) social assistance expenditures as a percent of GDP, (ii) social expenditures as a percent of the national budget, (iii) social assistance recipients as a percent of the population, and (iv) families receiving monthly family allowances as a percent of prime childbearing-age women (18-45). Unfortunately, even such basic data do not exist and would have to be collected, with considerable difficulty, on a country-by-country basis. Findings from a number of country-specific studies are available, however, and such analysis for several countries is provided below.

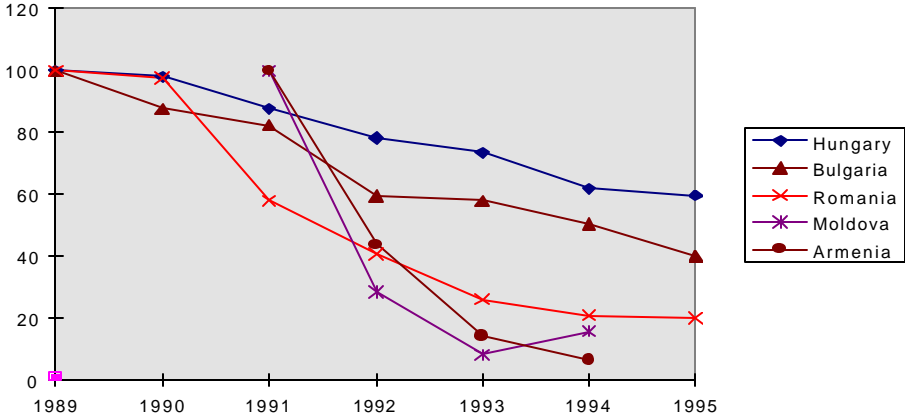
*Incidence.* Despite growing poverty, aggregate benefit receipt of social assistance (not including family benefits) has been found to be quite low, to the extent that some social assistance schemes have been termed 'irrelevant' (Milanovic, 1998). Cross-country analysis of household survey data from 1993-5 found that 2.6 percent of households in Bulgaria received assistance, 2.7 in Estonia, and 3.7 in Poland. In contrast, 24.4 percent of households in Hungary received assistance.

Targeting can be assessed by analysis of *exclusion errors* -- measuring the extent to which poor households are excluded from assistance, and *inclusion errors* -- the extent to which non-poor households do receive benefits. Both inclusion and exclusion errors within targeted programs have been found to be high in ECA. A cross-country study of eight ECA countries found that cash social assistance was not well targeted to the poor. On average, the bottom quintile of the population received

28 percent of social assistance cash transfers (Milanovic, 1998). This varied across countries, ranging from 52 percent in Slovakia to six percent in Russia and Ukraine. On the other hand, poverty analysis in other countries suggests that social assistance seems to be well targeted, including FYR Macedonia.

*Poverty alleviation impact.* The capacity of safety net programs to address the incidence and severity of poverty is difficult to ascertain, as programs have ex ante effects (e.g. family benefits), as well as ex post, by assisting families which have already fallen below a minimum income threshold. Analysis of the poverty alleviation impact of in-kind benefits and services is also quite difficult. In general, the real value of cash benefits -- family allowances and social assistance -- has been eroded in real terms by inflation, as few countries have indexed benefits. By 1995, the real value of child allowances in Armenia and Moldova had fallen to less than 20 percent of 1991 levels (Figure 1, UNICEF, 1994). Similar trends have been observed for social assistance. In Bulgaria the social assistance eligibility threshold was 31 percent of its 1991 level in 1997. Between 1993 and 1995 monthly social assistance benefits per household amounted to US \$54 in Poland, US \$10 in Bulgaria, and US \$5 in Russia.

**Figure 4.1: Real Change in Child Allowances, 1991-95**



Source: Children at Risk in Central and Eastern Europe: Perils and Promises, Economies in Transition Studies, Regional Monitoring Report - No. 4, UNICEF, ICDC, 1997; p. 95.

Analysis for some countries has looked at the effectiveness of transfers in lifting households out of poverty. The Bulgaria Poverty Assessment estimated that social assistance brought 12 percent of

poor households out of poverty in 1997. Child allowances were responsible for lifting 7 percent out of poverty and pensions 40 percent (Skoufias, 1998).

## **V. STRATEGIC CHOICES FOR POST TRANSITION SAFETY NET POLICY**

### **A. *Policy Considerations in Safety Net Design***

To date, safety net programs remain an amalgam of pre-and post-transition policies. While numerous governments have preferences for benefit structures similar to those of OECD countries, these goals have yet to be achieved. Nor should they be. The social risks in transition economies are significantly different from those of developed market economies and of many other developing countries, as well. Further, cultural and economic differences between transition economies and OECD countries, and between transition economies themselves, militate against a one-size-fits-all solution. Yet, in designing social safety nets for transition economies, three fundamental issues must be addressed: (i) transition shock; (ii) the movement to a market economy; and (iii) popular perceptions about safety net programs.

*Transition Shock.* The shock of transition has been catastrophic and historically unprecedented. No population in the region has recovered fully from the shock, although some countries, such as Poland, Hungary and the Czech Republic, are proceeding at a relatively faster pace towards an economic environment more in keeping with that of OECD countries. Nonetheless, in most transition economies, safety net policies need to take into account the transition shock, as it resulted in a country-wide decline in living standards that in many countries still affects the majority of the population. Consequently, in these countries safety net policies have a dual purpose – to rectify transition loss and address the needs of the lowest income deciles of the population. In fact, in many countries, the majority of the population appear to be more concerned about transition-shock losses and less about the welfare of the poorest members of the population. This is a result of the prevailing view of the economy, which is still one that values the cradle-to-grave security provided by socialism.

*The Market Economy.* Of course, the movement towards a market economy is the fundamental consideration in the redesign of the social safety net system. Thus, programs need to be developed that are sustainable in the future. In other words, the risks of transition economies are likely

to mirror the risks found in other countries with similar economic conditions. In normal circumstances, catastrophic risks should be predictable (and insurable) in the aggregate and should be related to those risks which pertain to individuals and/or specific communities (floods, fire). Programs should primarily focus on the risks associated with life events (including initial unfavorable conditions at birth) and cyclical fluctuations. In other words, policies should not only address the current poverty profile but be designed to encourage economically sustainable development and consumption smoothing in the future. For example, poverty in many ECA countries is concentrated among working-age families due to unemployment and wage arrears. In the future, the issue of wage arrears should diminish and the transition-related component of structural unemployment should diminish. Thus, a flexible approach to poverty design might provide child allowances to families in which the income-eligibility cut off was not indexed so that, with economic growth, fewer and fewer families would be included in that part of the safety net.

*Popular Perceptions.* The third consideration in designing ECA safety net programs is the need to secure public acceptance of the role of safety net programs in a post-transition economy. Under the former socialist system, social programs were primarily intended to assist individuals and families with special needs (such as the aged and disabled) rather than to provide a safety net to reduce economic vulnerability. Persons in poverty outside of specific standard groupings were most likely considered to be social deviants. Consequently, there are ingrained attitudes against social assistance as a poverty reduction instrument that need to be changed. One possible way to break down existing attitudes would be to establish broadly targeted programs, such as child allowances, which are more likely to gain political acceptance. Another possibility would be to develop targeted social assistance programs which interact with job training programs and micro-enterprise development as a means to encourage program participation. A third related strategy would be to institute public information campaigns aimed at reducing the stigma of benefit reciprocity. Such campaigns could reduce the stigma of program participation in the eyes of society at large, and in so doing encourage eligible families to apply for benefits.

## **B. Policy Objectives**

The primary objective of safety net programs in ECA countries is to establish a risk management strategy that reduces the catastrophic risk of transition and addresses future, more predictable social risks that are inherent in market economies. (Such future risks are likely to differ by country according to each country's stage of economic development.) Safety net programs should not only meet risk-coping needs but should reduce the likelihood of income vulnerability nationwide and mitigate vulnerability to life cycle transitions. In ECA countries, the realization of these objectives will be difficult in the face of serious budget constraints and a much reduced tax base due to declines in GDP and severe reductions in tax compliance, particularly within the CIS countries. Thus, the design of safety net programs require the careful consideration of trade-offs between groups if poverty reduction and risk reduction are to be achieved.

For example, the importance of child allowances in the safety net package is a complex issue. On the one hand, the provision universal family allowances may place an untoward fiscal burden on the budget. Further, there are real questions and divergences of opinion as to the degree to which parents are individually responsible for the number of children they bring into the world and the resources they allocate to their upbringing. These are social decisions that must be made within a carefully defined budget constraint on a country-by-country basis. *Ceteris paribus*, poorer countries should be less likely to provide untargeted child allowances than those with higher per capita incomes. Nonetheless, on the other hand, when the income distribution of a country is relatively flat, with small differences in the position of the poverty line creating a significant difference in the percent of the population recorded in poverty, untargeted child benefits might be the best way to protect children from the adverse developmental consequences of poor nutrition and lack of schooling. This is likely to be the case in many transition economies.

We have already examined the way in which child allowances meet all three risk management objectives. Thus, the maximization of risk management strategies in transition economies with binding budget constraints suggests that programs be targeted first towards children. Children represent the future of the country, and investments in their human capital will prevent poverty in the long run. Child allowances may also be the best way to provide financial assistance to help mitigate reductions in living

standards resulting from the shock of transition. Many World Bank poverty assessments for ECA countries indicate that children are more likely to be in poverty. Yet, in a situation of fiscal constraint, child allowances still ought not be universal. They should exclude families with income above a certain level.<sup>2</sup> In the future, if child allowances are capped, economic growth will reduce the percentage of families receiving allowances automatically, even if initially they are received by the majority of the population. Since child allowances were not provided to all families before transition, governments should inform the public that the current aim of child allowances is to soften the impact transition shock – that is, it is a transitional rather a permanent benefit. In that way, the allocation of safety net expenditures can gradually be targeted to the residual poverty population once economic growth resumes and the economy is more normalized.

Child allowances should also not be high enough create an environment in which discouraged adult family members are content to receive assistance payments instead of actively pursuing employment opportunities. Programs that foster welfare dependency are not appropriated risk management strategies as they do not reduce the risk of poverty overall. And parents living on the dole provide poor role models for their children. By contrast, policies which promote *employment* do reduce the risk of lifetime poverty for current and future generations. Higher rates of employment should promote faster economic growth, *ceteris paribus*, as, in the long run, the best way to reduce poverty is to raise standards of living

While risk management strategies suggest that family allowances can address the catastrophic shock of transition and reduce the risk of poverty in the future, the needs of other vulnerable groups, such as the aged and disabled, are also important. Many pensioners and persons with disabilities, however, are not in poverty as they receive pensions, wages, and family support. Consequently, programs directed towards these groups, and towards children, need to be carefully reviewed to improve targeting, directing limited budgetary resources towards the poor. Less needy individuals can purchase goods and services on their own. At the end of the day, the provision of a targeted social assistance benefit available to all eligible households should be the first priority of government, and,

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<sup>2</sup> The concept of ‘affluence-testing’ to exclude the rich, as opposed to including the poor is gaining attention in OECD countries.

when necessary, even displacing untargeted child allowances. Targeting also requires that governments rectify the current situation of overlapping benefits. Benefits need to be *simplified* and *coordinated* across programs.

Governments need to evaluate both the incidence and depth of poverty to target programs effectively. And, ongoing poverty assessments should be implemented to help policymakers decide on the relative emphasis to be placed on different programs. For example, although pensions appear to reduce the risk of poverty in many transition economies, in other countries, the aged are more likely to be poor and require an additional safety net. Similarly, in some countries, poverty is centered in rural areas and unemployment in the major cities is minimal. While in others, rural inhabitants are better off due to their ability to grow their own food, and the unemployed and workers with wage arrears in urban areas fare less well. Difficult choices may be required to distribute resources fairly by demographic group (i.e. the old old, children under five, children of school age, etc.) and geographic location (i.e. regions with high unemployment; single enterprise towns). Such decisions need to be based on a reliable objective (empirical) assessments supported by institutional knowledge.

The provision of targeted benefits in situations of budget constraint may require strict reductions in untargeted benefits. However, certain popular privileges that are not needs based, may have to be phased out more slowly for political reasons by grandfathering those currently on the rolls and/or keeping the amount of the benefit fixed. Assuming some inflation, such benefit caps will erode in real terms over time. Further, programs that include the purchase of goods and services (e.g. prostheses, wheel chairs, home care) should be eliminated for those who can pay, or perhaps provided with a sliding payment schedule. Other benefits, which are overlapping (such as duplicative health benefits for those in areas suffering environmental damage) should be eliminated or phased out as quickly as possible. This requires a serious governmental effort to review all benefits individually and make difficult choices when enacting safety net reforms.

### ***C. Program Design and Program Administration***

Three key policy objectives for the development of effective safety net programs in transition economies are: (i) targeting, (ii) employment promotion, and (iii) benefit coordination. Program design incorporating these objectives, however, requires considerable technical expertise if the objectives are

to be met. In the absence of clearly delineated and well managed programs, policy initiatives are unlikely to be successful. Further, the specific details of program policy and program administration are as integral to the implementation of an effective safety net as overall objectives and design.

### Program Design Issues.

*Targeting.* Many countries are faced with decisions about targeting safety net benefits and services. Given severe resource constraints and growing poverty, targeting can be an important mechanism for directing assistance to the most vulnerable. However, a number of considerations become important in assessing when and how certain benefits should be targeted, including: (i) administrative capacity to determine eligibility and deliver benefits; (ii) administrative costs and the costs of transitioning to a new system; (iii) political considerations; and (iv) cultural factors and existing organizational structures.

Targeting mechanisms fall into three categories: means testing, indicator targeting, and self-targeting. Under *means testing*, eligibility for benefits is based on individual or household income (income testing) or income and assets (means testing). To award means-tested benefits, social workers use standard documentation on income (and assets), possibly augmented by home and neighborhood visits to discern signs of unreported income and business activity (for example, the presence of a new automobile or television). Some countries in the ECA region, such as Macedonia, report considerable success with income targeting, while others do not. Under *indicator targeting*, or 'proxy' means-testing, eligibility is based upon one or more indicators which are correlated with poverty, but which are more easily observable than income, such as household size and geographic location. Full proxy means testing relies on statistical indicators that are correlated with poverty. These indicators are best developed through a careful analysis of extensive survey data on family income, assets, living arrangements, and household accoutrements. Finally, *self-targeted programs* allocate benefits based upon individual behavior, such as price subsidies food products which are more often consumed by the poor.

A number of specific circumstances will shape country decisions about the selection of targeting mechanisms. Perhaps most important is the difficulty in measuring household income. The highly informal nature of much of the economy in many the transition countries, and the reliance on barter in some FSU

countries, greatly complicates the measurement of wage income. In many countries, unreported income and assets, concealed employment, and in-kind and irregular wage and benefit payments are important factors. In addition, evidence from both qualitative and quantitative surveys indicates that many households, particularly those in rural areas, rely on home production from private plots. Given these significant gaps in income data, it is unlikely that income-testing scheme can be a fully effective targeting mechanism. In this regard, proxy means-testing, such as the Paros scheme in Armenia -- which targets social assistance based upon a set of indicators, including income -- may be a more realistic option. A number of Latin American countries, with high rates of informal sector activity, including Chile, Costa Rica and Colombia have adopted indicator-based targeting.

While the use of proxy data as a substitute for individual family income and asset data is attractive, good survey data must be available and their collection may engender some of the same problems as those of direct income-reporting. Further, proxy targeting requires that that some variables significantly vary with poverty status. Ideally, the degree of variance explained by the proxy equations should be relatively large. Otherwise, this method is as likely to have as many errors of inclusion and exclusion as decisions made by social workers using actual means-testing criteria. For example, recent reports on the Paros scheme in Armenia have indicated that substantial revision is necessary if the proxy criteria are to be successful. Other countries have tried to combine income testing criteria with judgmental criteria on asset ownership to determine the presence of income from informal market activity.

Another consideration for transition countries in targeting benefits is the extent to which pre-existing categorical benefits may or may not be effectively targeted. In reforming and redesigning benefit schemes, the capacity of existing programs to meet the needs of vulnerable groups is an important policy consideration. For example, poverty analysis undertaken in Romania found that child allowances were effective in reaching poor households. Building on this finding, benefit levels were raised in 1997 during a crisis period to protect the poor from further restructuring. Decisions on whether to target or maintain benefits are subject to a range of country specific considerations, including political and historical considerations.

*Employment Promotion.* A key objective of an ECA safety net should be the promotion of employment rather than the creation of a culture of welfare dependency. It is all too easy to design programs that have benefits that are high enough to discourage work or to have such sharp reductions in benefits once a certain income is reached so that work effort is effectively discouraged. Such work disincentives are known as poverty traps. For example, in Macedonia in the early 1990s, social assistance payments provided a family of four with the equivalent of the average wage. Naturally, with such generous benefits there was little incentive for the unemployed to search for new jobs even after their unemployment benefits were exhausted. In Poland, the eligibility criteria for the housing subsidy program contains sharp income cut-offs which provides every incentive to limit family income.

The linked issues of poverty traps and work incentives have been one of the primary motivators for the reform of social protection programs in OECD countries. These issues have been given little attention in transition economies, however, although they are likely to become increasingly important. The relative inattention to these issues in safety net program design is probably related to several factors. First, social assistance benefits in many countries are minimal, poorly targeted, and provided to so few that poverty traps are inconsequential. Second, to date, the international community has paid more attention to pension and unemployment insurance programs than to safety net policies. Program-design analysis to avoid poverty traps and work disincentives is sophisticated, and currently relatively few analysts in transition economies have the tools to conduct such analysis. This is an area in which greater technical capacity-building training would be opportune.

There are many reasons why policies to encourage work incentives are likely to become more important to transition economies in the future. In some CEE countries, a population of long-term unemployed has already developed; in others, social assistance is being used to maintain workers on jobs without pay. In each case, governmental support discourages job search and/or self-employment activities. Work incentives would also be enhanced by greater coordination between targeted cash-benefit programs and jobs programs. As such, it should be a government priority to direct employable participants in means-tested cash benefits programs to jobs programs, including training, micro-enterprise development, public service jobs, and multi-purpose programs such as SIFs.

*Program Coordination:* Limited linkages between safety net programs and jobs programs are only one area in which program coordination can be improved. The socialist legacy of overlapping and fragmented programs complicates and raises the costs of benefit administration, and limits the ability of the system to provide for the comprehensive coverage of risks. Many programs represent categorical entitlements based on pre-transition assessments of vulnerability and/or privileges for groups considered to have provided exemplary service to society (under socialism). Program coordination would include the elimination of pre-transition entitlements that are not needs based and the amalgamation of overlapping benefits, such as the multiplicity of categories of child benefits that exist in many countries. Current fragmented benefit structures also multiply the difficulties of establishing incentives within the system to minimize poverty traps and provide labor market incentives. While many countries are starting to simplify and consolidate duplicative benefits, particularly family benefits, much more needs to be done to create a coherent and comprehensive safety net.

*Cash vs. In-Kind Benefits* From a theoretical perspective, cash benefits are generally preferred to in-kind benefits, as they avoid distortionary consumption effects which reduce individual and aggregate welfare. However in-kind benefits may be preferable in certain circumstances by encouraging the consumption of essential goods and/or improving targeting through self-selection. In transition countries two factors are particularly important in choosing between cash and in-kind benefits. First, in countries with high levels of inflation, in-kind benefits may be preferable as they hold their real value while cash benefits are eroded. Many ECA countries have experienced bouts of hyperinflation, when the real benefits of cash transfers dropped dramatically. A second consideration is administrative. Where countries lack the administrative capacity to target and deliver cash benefits, in-kind benefits may be more appropriate, at least in the short run.

Typical in-kind benefits subsidize specific consumption items such as housing, energy, food and transportation. In pre-transition economies, distortionary price structures provided implicit in-kind benefits to everyone in the population. Since transition, with the implementation of market prices in many parts of the economy, targeted subsidies have been provided to relatively lower-income families for energy and/or housing. In theory, these subsidies ought to have offset the impact of the second wave of the transition shock resulting from price liberalization. In practice, they could turn into a

continuing entitlement even after the economy has adjusted to the new price structure. Such subsidies also distort consumer preferences and therefore do not maximize welfare. If such benefits incorporate a fixed eligibility cap not indexed for wages or prices, however, as the economy regains momentum a smaller proportion of the population will receive the benefits. For example, in the Czech Republic, means-tested energy subsidies are provided to offset the rapid increase in fuel prices, but they are scheduled to be phased out after several years.

School lunch programs are frequently identified as an example of a positive in-kind program. These programs, which offer nutrition to children, also provide incentives to low-income parents to continue their children's education. While educational attainment has been high in transition economies, as universal literacy was a priority under the former regime, in the face of constrained educational budgets and lower real family income, school attendance rates have started to decline in some countries. Thus, school lunches may offer considerable externalities to society which may outweigh targeting errors of inclusion.

Assistance to groups with special needs is particularly challenging in the transition context. These are often groups that fell within the rubric of pre-transition social policy. With the transition, the incidence and range of societal problems has grown. Conditions such as disability, homelessness, suicide, domestic violence, alcohol and other substance abuse require a diverse mix policies and programs. Determining the appropriate balance of in-kind and cash benefits and services is a major challenge, particularly given the undue emphasis placed on institutionalization in socialist regimes. Shifting away from in-kind provision of services to cash benefits through the de-institutionalization of children, elderly and disabled is currently being tested in Romania and Lithuania. Similarly, foster-care programs are being encouraged in Slovakia as an alternative to orphanages (See Box 3).

The provision of social services is interconnected with the issue of targeting. Pre-transition, many services were provided for the disabled and elderly regardless of income. These included transportation, prosthetic devices, spa treatments, and special diets. These services are no longer affordable on an untargeted basis. Yet there appears to be a strong social consensus in favor of their provision. One solution is to provide referrals for such services, but not payment or service provision itself, to those who can afford to pay. For those with slimmer resources, the provision of services could

be fully paid for or subsidized by social welfare offices. Changes of this nature are currently being implemented in the Slovak Republic.

### **Box 3: De-institutionalizing Social Policy in ECA**

One of the most deleterious legacies of social safety nets under socialism was their over-reliance on residential institutions for social care. Institutionalization was often the only option for the elderly who were unable to live on their own, adults with physical and mental disabilities, and children in difficult circumstances due to poverty, ethnicity, disability and other risk factors. In many cases, those who were placed in institutions were those most vulnerable and marginalized within society, including the chronically ill, criminals, children with learning disabilities and Roma and other minorities. Recent data suggest that nearly 3 million people live in approximately 7,400 institutions in ECA, of which approximately 820,000 are children.

While the degree of institutionalization varies across ECA countries, this phenomenon has in general increased during the transition, in particular for children and the disabled. The growth of poverty and the erosion of the socialist safety net and guaranteed employment have led to increases in vulnerability and social risks and, consequently, inflows into institutions. As an example, in Lithuania, the number of children in residential care grew 32 percent between 1990 and 1995 and in Kyrgyz Republic the number of children in institutions rose by 69 percent between 1992 and 1995. Not only has transition led to growth in the institutionalized population, but evidence indicates that living conditions in institutions have deteriorated significantly as budgets have shrunk and operating costs – including those for energy and maintenance – have expanded with price liberalization.

Many ECA countries have begun exploring alternatives to institutions for addressing social welfare needs. Experience of western European countries and the United States suggest that community based services, such as home care and day services, and special education programs for children with learning disabilities can be more effective, efficient and humane options. ECA countries are well-positioned to begin developing such services and to shift away from residential institutions, as decentralization and increased NGO activity and community participation in civil society have laid the groundwork for greater consumer involvement in social services.

Making the transition to community based care involves significant changes in country approaches to social policy. Six elements form a comprehensive and integrated strategy. (1) Changing public opinion and mobilizing community support; (2) Strengthening the community-oriented social welfare infrastructure, such as schools of social work, training programs for staff in residential institutions and staff in local social assistance offices; (3) Piloting community-based social service programs to provide the flexibility for testing a wide range of approaches and allow for identifying and correcting inappropriate approaches and mistakes made on a small scale; (4) Designing pilot projects to reduce the flow of individuals entering residential institutions and to reintegrate individuals into the community; (5) Redesigning, converting, or closing individual facilities. Personnel in residential institutions can be retrained on new forms of service delivery, and alternative uses for institutions can be found. (6) Based on piloting experience, developing a national system of community-based social services with revised legislation on classification, placement and rights of the vulnerable, new funding streams, monitoring evaluation, and accountability.

Some ECA countries are already leading the way in this transformation. For example, in three communities in Lithuania, disabled children are attending classes in day centers. In Constanza, Romania, apartments with house parents are used to care for HIV-positive children who attend a regular school. In Shkodra, Albania, a family support center for keeping at-risk families together provides counseling, home visiting, parent training, and referral services. Finally, in Armenia, through its “Children’s Initiative” the government is developing a comprehensive strategy for deinstitutionalization and the development of reintegration programs for children in residential care.

*Adapted from D. Tobis, “Moving From Residential Institutions to Community-Based Services in Eastern Europe and the Former Soviet Union” Forthcoming World Bank Study.*

Social services, in particular, are ones which could be provided through community organizations and NGOs. Partnership with non-state actors can help increase the range of social services which are available, improve quality through competition and increase public participation and ownership of safety net programs. Some services and programs may be more effectively delivered through NGOs. Some countries may find that certain specialized programs can be handled more effectively by NGOs. Another possibility is for the state to agree to have some Government programs be contracted out to the NGOs. However, careful consideration of the roles of state and non-state actors is important to ensure that the state does not abdicate its role in social policy, particularly in countries with more serious income constraints.

#### Administration and institutional capacity

Administrative simplification goes hand in hand with program consolidation. In many cases, related and overlapping benefits are delivered by separate implementing agencies. For example, in

Bulgaria medicines for low-income patients were distributed through both the Ministry of Labor and the Ministry of Health, and child allowances were paid through four different agencies: the social assistance system for poor households, the labor offices for the unemployed, the social insurance system for the employed and the Ministry of Education for students. Simplifying benefit structures should be accompanied by a similar rationalization of administrative bodies.

Building administrative and institutional capacity for delivering safety net policies is an urgent need across the region. Because of the increased demand for safety net policies and the introduction of new programs and services, existing institutional arrangements have had difficulty meeting needs. Inherited safety net institutions were weak to begin with -- not least because social welfare services were considered low priority 'unproductive' sectors. Administrative constraints included (among others): (i) weak institutional coordination and unclear division of labor among ministries and different levels of government; (ii) poorly trained staff; (iii) lack of incentives for staff; (iv) lack of flexibility and overly bureaucratic institutions; and (v) lack of transparency and communication with the public. In addition, the administrators and staff of safety net programs often do not realize that the rationale for a safety net in a market economy differs greatly from the rationale for programs before the transition, when social services were just supplements to cradle-to-birth security based on guaranteed jobs and special privileges.

*Decentralization.* Local and municipal governments have been granted increased autonomy in the administration and implementation of social policy. Balancing intergovernmental responsibilities for financing and delivering benefits is a tricky task involving equity and efficiency tradeoffs. On the one hand decentralization is desirable because local governments are better able to evaluate and respond to local needs, while on the other, lack of centralization makes it difficult to ensure the equity and quality of program administration across localities. In particular, two specific problems arise. While locally managed social welfare offices are more likely to know community and individual needs, they may also be more prone to show favoritism in the distribution of assistance. Further, the financing of social safety net programs often requires the subsidization of one region by another. When such subsidization becomes transparent, more affluent regions may be unwilling to support programs which require larger subsidies. In addition, while decentralization was an expected and necessary development following

decades of rigid central control, decentralization proceeded unplanned in many cases, and local governments found themselves without the fiscal basis to fund their new found responsibilities.

The decentralization of safety net programs has led to adverse outcomes in a number of countries, as local governments have lacked the resources to pay benefits to eligible recipients. In addition, where funds for safety net policies are not earmarked, decentralization has often left payment of benefits to the discretion of local government officials. In contrast with other policy areas, such as education and health, social assistance often loses out in budget battles due to the lack of strong vested interests (e.g. doctor and teacher associations). Faced with competing interests, social assistance is often left unfunded (e.g. in Bulgaria, Romania, Lithuania, Russia). Decentralization proceeded in an ad hoc manner during the early transition period -- as state owned enterprises divested services and the state attempted to 'off-load' fiscal responsibilities on to local governments. As a result some countries have recently begun to re-centralize aspects of social assistance (Latvia, Bulgaria). Yet other countries, such as Uzbekistan, which utilizes the 'mahallas' in communities, safety net program operate with a high degree of local autonomy. Slovakia is attempting to select a middle road in which policies and administration are centralized but local offices are being given increasing ability to make decisions about benefit eligibility on a case by case basis.

*Building poverty monitoring capacity.* Accurate information on social needs is an essential element of safety net policy. Targeting, in particular, relies on detailed information on the characteristics of the poor. ECA countries inherited weak information systems for administering safety net policies. Data collected were often incomplete and inaccurate and surveys and information systems were not designed with policy analysis in mind. In general few channels existed for incorporating analysis into policy deliberations. One of the most urgent challenges countries face is strengthening the availability and use of information for designing, monitoring and evaluating policies.

## **VI. BANK INVOLVEMENT AND DIRECTIONS FOR THE FUTURE**

### **A. *A Framework for Bank Assistance in ECA Safety Net Programs***

The attention devoted to the development of safety net programs in transition economies needs to be as intensive, if not more intensive, than that already provided other social protection policies.

Program design must be quite country specific – in fact, even more specific than that required in the design of pension and labor market policies. Up until now, however, relatively less time and effort has been devoted to the redesign of social safety nets. In sum, whereas the Bank has ascribed the highest priority to poverty reduction, the attention provided safety-net programs has not been commensurate with their importance. One reason for this lacuna may be the fact that the cash-benefits and social services are not traditional areas of Bank involvement. Yet considerable capacity has been devoted to program evaluation and poverty assessments. Equivalent attention is now needed for policy design and implementation.

The development of World Bank programs to meet the safety net needs of ECA countries must be formulated as coordinated multi-year efforts rather than a series of unconnected initiatives. Individual operations should be developed within an integrated framework in which each prior operation is a building block for subsequent efforts. Bank operations should serve to both inform the Bank and build capacity within Government.

The World Bank has four basic types of activities at its disposal to help ECA countries design and implement requisite safety net strategies and policies. First, the Bank may conduct economic and sector work (ESW). In the area of social safety nets, the most important product would be the poverty assessment. Second, based on that assessment, the Bank can support changes in safety net programs and policies through sectoral adjustment loans. Adjustment loans should not be provided on a stand-alone basis, however, as policy changes also require changes in program management, administration, monitoring, and evaluation. Thus, a coordinated implementation loan should be developed at the same time as the adjustment loan. Further, some of the new lending instruments such as LILs and APLs provide new opportunities for Bank involvement, particularly in non-traditional areas. Additional funding through IDF grants, PHRD grants, and trust funds from other countries should not be overlooked in the development of safety net reform.

Last but not least, the Bank may directly provide technical assistance itself. This assistance may be furnished to our clients even in the absence of an adjustment operation. In effect, one of the primary products of an adjustment operation is just this type of technical assistance. It is likely, however, that even in the absence of an adjustment loan, an investment loan to supplement the Bank provided TA, to

increase institutional capacity through training, and to upgrade information technology and facilities would be needed. Alternatively, such assistance could be provided by, and/or supplemented by, bilateral, international, and NGO assistance, as appropriate.

*Economic and Sector Work (ESW).*

Ongoing poverty assessments are required prior to the development and implementation of significant policy and administrative changes. Such assessments develop measures of poverty that are country specific and measure both the incidence and depth of poverty. Different standards should be used to measure the sensitivity of the poverty line to small changes in measurement. The distribution of income is also important to policy development and needs to be considered specifically in ESW. With a normal income distribution it is easier to set a poverty line that is relatively impervious to its exact placement. With a distribution of income that is relatively equal except for the upper tail, small movements in the poverty line can lead to large movements in the measured incidence of poverty. Poverty assessments should also determine the economic and demographic profile of poverty. In other words, which measurable groups have a higher risk of poverty than others. This type of information is crucial to the development of program design.

Poverty assessments should involve appropriate ministerial officials and government experts so that institutional capacity and knowledge is developed within the country. Since living standard assessments are done with the consent of the country, the building of capacity can be developed as an integral part of the project. The results of poverty assessments and other Bank ESW should be distributed widely throughout the country through translated text and within-country presentations. Further, within Bank coordination is also necessary. When country-specific ESW is conducted by units in the center (research or network), it should be distributed and presented to staff in PREM and ECSHD operational units. Further, more generally, coordination between PREM and ECSHD should be ongoing in these areas. And the HD network and center research units should ensure that country specific studies done within the Bank or outside the Bank be distributed to appropriate staff within PREM and ECSHD.

Considerable education is required in transition economies among both high level officials and others with an interest in safety net issues, including mid-level government officials, government analysts,

business, labor unions, and the press. As a result, there is considerable scope for a series of conferences on safety net policies similar to the many conferences held on pension policy issues since the start of transition. To date, this opportunity has not been seized, with the result that there appears to be considerable misunderstanding of the role of safety nets in a post-transition environment. Within the Bank, collaboration with EDI in these areas should be developed further.

### Policy Development

In developing adjustment operations (as well as providing free-standing policy advice), the Bank should involve country counterparts in the development of the policy matrix to ensure project ownership by the Borrower. Ideally, these discussions should include evidence from economic and sector work to motivate the need to search for new policy alternatives. Discussions between Government representatives and the Bank mission team should be conducted as a two-way dialogue in which the Bank staff listen as much as they recommend. Only by listening can Bank staff understand the importance of both political and social constraints, as well as social and political opportunities, to design innovative policies and programs. Mission teams should both be willing to work with governments and be willing to walk away from policy loans should there be insurmountable differences of opinion on key determinants of program success. Bank teams should be open to a diversity of safety net solutions including the panoply of cash and in-kind benefit alternatives. In addition, new ideas should be investigated, particularly in the area of social services, including the deinstitutionalization of children and the strengthening of community based social services (Romania, Bulgaria, Armenia, Lithuania). As the diversity of social risks increases in ECA, the Bank is challenged to address new areas (e.g. post-conflict support, Roma issues, etc.). Similarly, the Bank should not shy away from the use of pilot projects in policy or administration when nationwide solutions are not acceptable or when evidence is not sufficient to rank one policy more favorably than another.

### Investments in Social Safety Nets:

Investment operations ought to be fully coordinated with safety-net policy reform. Frequently the management and administrative structure to implement new policies must be put in place before the reform can be successful. Such administrative changes may require technical assistance with organizational design, management training, staff training, and organizational facilities (including

information technology). Second, management information systems may be needed to monitor program success in terms of operational efficiency, outreach capacity, and the minimization of fraud and abuse. Additional capacity may need to be developed to assess overall program success -- for example, in monitoring the duration of program participation and transitions into employment. Further, client follow-up studies of the poverty profile of the population and the efficacy of income support and social services to serve that population may require additional training and resources to build capacity from within.

An additional form of technical assistance that is particularly important in ECA countries is the dissemination of public information explaining the rationale for social safety net policy reforms. Over the past several years, the importance of public information campaigns related to pension reform has been increasingly recognized. Certainly, experience with the Polish pension reform program suggests that public information can be crucial to gaining public acceptance. The use of public information to spotlight the Macedonian privatization program was similarly important to its success. To date, public information has not been used to support social safety net initiatives. Yet, this is an area in which pre- and post-transition differences in the objectives and methods of securing minimum living standards are as striking as the differences between pay-as-you-go and funded pension systems. And, in both cases it is the psychological perception of the role of the state that is crucial. In both cases, the population needs to move away from the concept of state provision and state responsibility to the concept of individual responsibility. This is a difficult step to take when what is often evident to the majority of citizens is a loss of economic stability and government guarantees. Consequently, the advantages of a safety net based on risk management strategies need to be stressed and compared to the disadvantages of a system which ultimately failed current and future generations alike.

#### ***B. A Review of Bank Operations Related to Safety Net Policies***

To assess the volume of work conducted for ECA countries since transition in a comprehensive way, it is helpful to categorize World Bank operations according to seven regional groupings. While the countries in each group have a number of common features in addition to geography, these groupings are in no way structured to present a critical analysis based on government structure, per capita income, economic situation, cultural congruence, or any other measure of similitude. The groupings selected

are: (i) Central Europe; (ii) the Baltics; (iii) Balkans I; (iv) Balkans II; (v) Russia and Neighbors; (vi) the Caucasus; and (vii) Central Asia.

In discussing Bank operations, we focus on three categories of Bank activity – economic and sector work (primarily poverty assessments, but including other economic and sector work as well); adjustment loans (including SALs, LILs and other operations), and investment loans. A listing of major World Bank safety net projects in transition economies is provided in Annex 2. We focus on countries in which all three elements – ESW, policy advice, and investment support -- have been present and on the ways in which sector work, policy work, and implementation projects have been coordinated. There are many reasons why the Bank’s activities in a particular country, however, may not have contained all these elements. In particular, the Bank’s activities are demand-driven – that is if a country is not interested in a policy dialogue about its social safety net programs, a structural adjustment program cannot be initiated. Second, with a limited staff, Bank managers must make strategic decisions about the policies and institutions which will be addressed. Social safety net issues may have not been on the radar screen of Bank operations and ECA governments at the start of the transition. Other issues within the human development sphere, such as pension reform, may have taken precedence. Further, privatization projects, banking reform, macroeconomic stabilization, and other critical reforms may have also taken priority in the difficult process of transition.

### Central Europe

The countries included in the Central Europe grouping are the Czech Republic, Hungary, Poland, and the Slovak Republic. Both Poland and Hungary had extensive poverty assessments and other sector work conducted relatively early in the transition. A recent CEM was finished for the Slovak Republic in 1998 and one is in process for the Czech Republic. Both these documents have an evaluation of the social assistance system.

In Braithwaite, Grootaert, and Milanovic (BGM, 1998), a statistical analysis is presented on the impact of the social assistance programs in two of these countries: Poland and Hungary. The findings are not entirely encouraging. Poland was found to have a relatively high poverty line and provide

generous benefits to a relatively low percentage of recipients.<sup>3</sup> Nonetheless, only 27.2 percent of recipients were in the lowest consumption decile and 35.5 percent of all recipients were not poor. While these findings suggest that targeting could be improved considerably in Poland, the findings for Hungary are no more encouraging. In Hungary, the poverty line was relatively high, the number of recipients was also high, and the amount per recipient was low. In Hungary, 34.7 percent of recipients reported consumption in the lowest decile but almost 87 percent of the households receiving benefits were not poor.<sup>4</sup> Thus, program leakage in Hungary was substantially worse than in Poland.

These findings suggest that in the past it would have been appropriate for the Bank to have pursued discussions with Government on the implementation of the safety net programs. Unfortunately this did not occur, and by now both countries are unlikely to request Bank assistance as they quickly graduate to European Union status.

### *The Baltics*

The Baltics include the traditional countries -- Estonia, Latvia, and Lithuania. Only Estonia has had a formal poverty assessment. Both Latvia and Lithuania have had bank projects that have included a social safety net component. In Latvia, A project was funded in 1998 with the objective of designing a more efficient and effective delivery system for social security including increased use of alternatives to institutionalization. In addition, recent sector work has included an assessment of the Latvian social assistance reform. Thus, while operational work in Latvia did not follow an initial poverty assessment, policy advice has been combined with implementation assistance and sector work to improve the Latvian social safety net.

In Lithuania the Bank approved an innovative project in 1997 which includes support to strengthen safety net policies – including monitoring and evaluation, and support for community-based social service development with the objective of reducing institutionalization. The Loan supports multi-services social centers in six municipalities which provide mostly day services for at risk groups including mentally handicapped children, children in need of short-term care prior to placement in foster homes,

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<sup>3</sup> In Poland social assistance benefits included income tested scholarship; social assistance from enterprises; alimony from social fund; social assistance for nursing; social assistance; and others benefits.

<sup>4</sup> In Hungary social assistance benefits were comprised 34 programs (including assistance of long-term unemployed).

battered mothers and children, alcohol and substance addicts and the elderly. Early results suggest that the programs are progressing well and may be replicated across the country.

BGM provide an assessment of the Estonian social assistance program based on 1995 data.<sup>5</sup> The assessment indicates the program was not as effective as those of the two Central European countries discussed above. However, the system was significantly changed in 1997 – through a combination of two programs, a means-tested housing allowance, and an income support benefit, and indications from the latest household survey are that the effectiveness of the safety net has increased. While there is room for improvement in this system, the Bank has apparently not had the opportunity to effect policy reform through an adjustment loan. The last poverty assessment was conducted in 1996; a new poverty assessment is planned for 1999. Hopefully, this new assessment can lead to a further policy dialogue.

### *Balkans I*

The Balkans I group includes Bosnia-Herzegovina, Croatia, Macedonia, Slovenia, and Yugoslavia – in other words all the countries that used to make up the Former Yugoslavia. So far, the only poverty assessment was done in Macedonia, although poverty assessments for Bosnia-Herzegovina and Croatia are planned for the upcoming years. The Bank has been requested to do little in Slovenia (except for minor technical assistance) and will not launch any programs in Belgrade until political conditions warrant it. Work in Macedonia has included analysis, policy development, and investment assistance. These activities began with an investment operation which contained (i) technical assistance to develop a poverty line and (ii) investment funds to establish pilot social welfare offices and, eventually, upgrade the information technology within all the social welfare offices. While work in Macedonia did not start with a poverty assessment, Macedonia did not have a fragmented social assistance system, so it was more possible to provide investment assistance in advance of policy reform. Further, the technical assistance provided in the investment loan included the development of a poverty line. This ensured that the subsequent poverty assessment and adjustment loan could be prepared

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<sup>5</sup> In Estonia, social assistance includes subsistence benefits, other support from state or local governments, and social support from enterprises and other organizations.

simultaneously.<sup>6</sup> These efforts were extremely successful and integrated, in part, because of the prior development of the poverty line. Further, the adjustment loan also covered labor market issues so that linkages between programs were considered during the operation. Government was also concerned about work incentives due to the substantial growth in the number welfare beneficiaries. In sum, our operations in Macedonia represented a logical development on the part of the Bank.

### *Balkans II*

The Balkans II group includes Albania, Bulgaria, Romania, and Moldova. This group of countries present a very ambitious profile in terms of Bank involvement. Each country has had a poverty assessment, an adjustment operation with a safety-net focus, and either an investment operation or the development of a social investment fund. Nonetheless, the path taken in each case has been quite different. In the future, Moldova is scheduled for a second poverty assessment, and Romania for a SIF. While the Bank has not planned a SIF for Albania, the poorest country in the region, recent civil unrest and lack of access to all parts of the country may make such an operation infeasible at this time.

A great deal of work has been done in Albania, but it has been somewhat fragmented. For example, in Albania, the poverty assessment was finished in 1997 by ECSPE, while ECSHD's Social Safety Net project was started in 1994 prior to the assessment. Nonetheless, Albania's safety net programs have been sustained by World Bank investment activities. A new living standards study is scheduled for 1999 which will hopefully be linked to further policy dialogue.

Improvement of Romania's safety net programs has been the focus of considerable World Bank activity since 1991 when the Ministry of Labor and Social Protection received technical assistance as part of a larger Technical Assistance and Critical Imports (TACI) Loan for the Government as a whole. This was followed by comprehensive sector work in 1992, and the Employment and Social Protection Project in 1995, which seeks to consolidate fragmented social assistance benefits and streamline administration and targeting. A complete poverty assessment was undertaken in Romania in 1996-97, based upon an integrated household survey financed under the TACI Loan. In support of the ambitious economic reform program of the new Government elected in November 1996, the quick disbursing

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<sup>6</sup> A small investment loan was also provided to support the adjustment loan.

Social Protection Adjustment Loan (US\$50 million) was approved in June 1997 to provide support for policies to improve the social safety net, including cash-benefit and in-kind programs. In addition, another investment loan focuses on social services for children, including an extremely innovative initiative to help street children and to reduce institutionalization through improved incentives for home and foster care. Most recently, the Social Investment Fund Loan has been approved and signed by the Government (January 1999). However, implementation of projects is still hampered by excessively centralized and complex administrative procedures, most of which are a legacy of the Ceausescu era and the Bank is working aggressively with the Government on improving both policy and implementation of projects.

Bank activities in Moldova accelerated in 1997 and 1998. In 1997, an adjustment loan included conditionality to make timely payments to social assistance beneficiaries. This work was followed by a poverty assessment that is currently still in draft form. Simultaneously, a SIF project was developed and the proposed credit is about to go to Board. While the coordination of this work is not clear, it provides a solid groundwork for further support.

Considerable work has also been done in Bulgaria, including a poverty assessment that was started prior to Bulgaria's 1997 economic collapse and finished afterwards using a follow-up survey. BMG concluded that Bulgaria had a relatively low poverty line, a low number of recipients, and low per recipient benefits<sup>7</sup>. The study indicates that 20.5 percent of an insignificant amount of funds were received by the lowest decile and that 87 percent of social assistance was received by those outside the poverty population. The draft poverty assessment compares the poverty rate in 1995 and the poverty rate in 1997 and finds it increases from a 5.5 percent rate to a 36.0 percent rate, a significant increase in the incidence of poverty due to a second round transition shock. The 1997 analysis indicates that 17 percent of the poor receive social assistance as do 12 percent of the non-poor. The 1998 Social Protection Adjustment Loan supports efficiency improvements in the safety net programs and the reallocation of resources within existing programs towards needy groups, without increasing public expenditures. The framework for targeting is the poverty assessment. Although there is no companion implementation loan, technical assistance for institutional reform and public relations is being supported

separately through grant from the Bank's Institutional Development Fund (IDF). Further, as a result of current economic conditions, a social fund project is also in preparation. Other initiatives related to safety net issues are being pursued as well.

### *Russia and Neighbors*

The countries in this grouping include Russia, Ukraine, and Belarus. As Russia is by far the largest and the most important country on the international stage, considerable assistance resources have been targeted towards Russia by the international community. These efforts have been multiplied since the collapse of the Russian economy in 1998. The Bank has produced some of the earliest and most sophisticated work in poverty and social safety net policies in Russia. BGM reports that Russia has a relatively high poverty line, a high number of recipients, and a relatively low per-recipient benefit.<sup>8</sup> Their study indicates that 64.5 percent of social assistance benefits go to the non-poor and that 87 percent of the poor receive no social assistance. This is not an encouraging record. While the 1994 Employment Services and Social Protection Project (ESSP) was, in part, intended to review social assistance programs, this segment of the program was not implemented. More recently, however, Government has started pilot projects on a regional level to be supported by the ESSP and the Social Protection Implementation Loan (SPIL) (the coordinated investment loan for the 1997 Social Protection Adjustment Loan (SPAL)). That loan provides for a comprehensive review of all social assistance programs and the rationalization of benefits. Child allowances are also included in the policy conditions for the loan. As these efforts were sidetracked by the recent financial collapse, ECSHD has spearheaded an effort to review the safety net needs of the Russian Federation which is inclusive of both ECSHD staff and colleagues from other areas of the Bank who have conducted much of the Russian economic and sector work. While initial Bank efforts towards safety net reform have not been extremely successful, particularly in view of the wealth of knowledge gained about the needs of the country, overarching difficulties in other areas have made progress toward safety net reform rather beyond the Bank's control.

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<sup>7</sup> In Bulgaria, social assistance included social benefits for households.

<sup>8</sup> In Russia, social assistance is paid by the local authorities; fuel allowance are not included in the study.

Much less sector work and cooperation has been forthcoming from Ukraine and Belarus. In 1996, a Ukrainian poverty assessment was conducted, followed by a very small US\$2.6 million Social Protection Support project, whose primary purpose is to support the administration of the housing subsidy. There will be a continuing dialogue with Government to decide on future sector work on social safety net issues. Ukraine has not been one of the most prominent reformers in the CIS. The Bank conducted a poverty assessment for Belarus 1996, but no follow-up policy adjustment or implementation loans. Some work by consultants is being funded through trust fund financing. Belarus has been even less reform minded than Ukraine.

### The Caucasus

The three countries included in the Caucasus region are Georgia, Azerbaijan, and Armenia. The needs of these countries are somewhat different from those of the others we have discussed, except for Bosnia, as regional conflicts have had a considerable adverse impact on their economies and on economic growth.<sup>9</sup> In Georgia, a poverty assessment will be completed in 1999. A SIF project went to Board prior to that assessment. In Azerbaijan, a poverty assessment was completed in 1997 and a social protection SIL is scheduled for the future.

Bank involvement in Armenia has been the most extensive among the Caucasus countries in terms of sector work. A SIF has been recently introduced and an interesting proxy targeting system has been developed based on a scheme for distributing humanitarian aid. Evaluations of that program, however, suggest that it should be revised to gain greater participant acceptance and improve the accuracy of the targeting indicators. Nonetheless, the willingness to try new approaches is a positive signal for the Bank. In addition, the Bank is supporting deinstitutionalization of children through an IDF grant. Further policy work and investments in nationwide Government capacity is wanting. Given that this is a post-conflict country, however, the timing for the development of more stable programs may be difficult to apprise.

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<sup>9</sup> While internal armed conflict has also affected Russia, its impact was far less given the size of the conflict and conflict region relative to the size of the country. Moldova, and Albania have also experienced conflict, with political conflict in Albania and ethnic conflict leading to a secessionist region in Moldova.

## Central Asia

Central Asia is composed of a group of five countries that are very different in their populations, economies, and approaches to reform. Tajikistan is the fifth major post-conflict country in the region. To date, past and current work have focused on poverty assessments. Work in Turkmenistan has been limited to a forthcoming poverty assessment. LSMS work started with financing from a Technical Assistance and Institution Building Project, but was suspended when the Bank halted disbursements to Turkmenistan in 1998. Some analysis of social assistance was carried out as part of the CAS dialogue. Work in Uzbekistan has also been limited to poverty assessment preparation. These Governments have been less interested in conducting a dialogue with the Bank than those of the Kyrgyz Republic and Kazakhstan.

Bank involvement in safety nets in the Kyrgyz Republic has been intensive and ongoing, beginning in 1994 under the Social Safety Net Project supported the design and implementation of a new means-tested social assistance benefit through extensive technical assistance and training. Lessons learned from piloting and evaluation under the Project informed the drafting of a new Law on State Benefits, which became effective May 1998 and provided the regulatory basis for the Unified Minimum Benefit (UMB), the monthly social assistance program, and additional categorical benefits. Early assessment conducted in September 1998, suggests that the program is functioning well. Additional support for strengthening of the UMB is being provided under the recently approved Social Sector Adjustment Credit (SOSAC), which went to the Board in November 1998. Safety net measures in the SOSAC include the development of a permanent system of poverty monitoring and household surveys, as well as assessments of the effectiveness of targeting under the UMB and the potential impact of the removal of utility prices on the poor and the implications for social assistance.

In Kazakhstan, work on safety nets is now progressing rather rapidly after relatively little activity on the topic prior to 1997. An adjustment operation focusing on public administration included a component on housing allowances which provided some insight into social safety net delivery. A 1998 poverty assessment is providing the analytic foundation for a Social Protection Reform Adjustment Loan (SPRIL) that is currently under preparation. That operation will focus both on safety net and labor market issues. During preparation, a companion Social Protection Implement Loan (SPRIL) will be

developed which could include traditional products such as technical assistance for administration or more recent approaches such as the implementation of a SIF.

### *Conclusions about Bank Operations*

The Bank has an impressive portfolio of activities on poverty and social safety net policy evaluation in ECA. Poverty assessments have been conducted for 17 out of 26 countries. Such assessments are scheduled for 6 additional countries over the next few years. Innovative SIFs have been started in a number of countries. Yet there appears to be a need in the future for more intensive dialogue with our clients on overall policy reform. And this dialogue needs to be based on findings from Bank economic and sector work. There is some evidence that such coordination was lacking in the past. This appears to be a problem that is now being overcome since the restructuring of the Bank's organization. Discussions with clients on social safety net policies should be integrated with public expenditure reviews, as well. Many countries have unwarranted and uncoordinated expenditures. Others have benefits that are poorly targeted, allow significant leakage to the non-poor, and are inadequately administered. Budgets allocated to such expenditures may need to be reduced or increased depending on the political, economic, and social conditions of the country.

Lastly, policy discussions should be part of a multi-year program, whether through the strictures of a multi-tranche adjustment operation or otherwise. And, there should be greater emphasis on the coordination of policy reform with implementation assistance. While the majority of Bank operations have been satisfactory, a review of supervision reports should be implemented to ensure that we take advantage of lessons learned in implementation and avoid similar problems that could arise in other countries. Social safety net policies need to have a higher profile in the future as they are the primary tool that governments have to cope with poverty in market economies. Such policies need to be designed to meet individual country needs which will shield the vulnerable from living conditions that are unacceptable to society.

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*Annex 1: Social Safety Net Programs: A Typology of Benefits*

	<u>Cash Benefits</u>		<u>In-Kind Benefits</u>	
	<i>Universal Eligibility</i>	<i>Categorical Eligibility</i>	<i>Universal Eligibility</i>	<i>Categorical Eligibility</i>
<b>Not Targeted</b>	(None)	Child Allowances (all) Child Allowances (age cut off) Single Parents Divorced Parents Families with Many Children Disabled Children Military Families Orphans Unemployment Assistance Student Stipends Foster-parent Allowances Employer Benefits Union Benefits War Veteran’s Benefits	Food Subsidies Energy Subsidies Transportation Subsidies Housing Subsidies	School Lunches Student Transportation Transportation for Aged Transportation for Disabled Services for Aged Services for Disabled Student Scholarships Services for Alcoholism Services for Drug Abuse Emergency Programs (war, flood, natural disaster) Employer Benefits Union Benefits Homes for the Aged Orphanages Programs for National/Ethnic Groups
<b>Targeted</b>  i. Means-testing  ii. Indicator-testing  iii. Self-targeting	Social Assistance Housing Allowances	Child Allowances (all) Child Allowances (age cut off) Single Parents Divorced Parents Families with Many Children Disabled Children Unemployment Assistance Student Stipends Assistance for Elderly Assistance for Disabled Emergency Aid	Food Subsidies Energy Subsidies Transportation Subsidies Housing Subsidies	School Lunches Student Transportation Transportation for Aged Transportation for Disabled Services for Aged Services for Disabled Student Scholarships Services for Alcoholism Services for Drug Abuse Emergency Programs (war, flood, natural disaster)

		One-off Benefits		Homes for the Aged
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**Annex 2: World Bank Initiatives Related to Safety Net Issues**

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COUNTRY	Year	Type of Activity	Name of Activity	Sector Unit
<b>ALBANIA</b>	1993	LOAN	RURAL POVERTY ALLEV.	ECSHD
	1994	LOAN	SOCIAL SAFETY NET	ECSHD
	1997	ESW	POVERTY ASSESSMENT	ECSPE
	1999	ESW	FILLING THE VULNERABILITY GAP	ECC07
	1999	ESW	LIVING STANDARDS MEASUREMENT	ECSHD
	1999	LOAN	COMMUNITY WORKS	ECSPE
	2000	LOAN	SOCIAL SERVICES DEVT	ECSHD
<b>ARMENIA</b>	1996	LOAN	SOCIAL INVEST. FUND	ECSHD
	1996	ESW	POVERTY ASSESSMENT	ECSPE
	1997	IDF	CHILDRENS' INIATIVE	ECSHD
	1999	ESW	POV. & TARGETING STRATEGY	ECSHD
	2000	LOAN	SOC. INV. FUNDS	ECSHD
<b>AZERBAIJAN</b>	1997	ESW	POVERTY ASSESSMENT	ECSHD
	2001	LOAN	SOCIAL PROTECTION	ECSHD
<b>BELARUS</b>	1994	ESW	POVERTY ASSESSMENT	ECSPE
	1996	ESW	POVERTY ASSESSMENT	ECSPE
	2001	LOAN	SOCIAL PROTECTION	ECSHD
<b>CZECHOSLOVAKIA</b>	1991	ESW	SOC. SECTORS IN ECONOMY	ECSHD
<b>BOS.-HERZ.</b>	1997	LOAN	EMG DEMOB. & REINTEG	ECSHD
	1997	LOAN	EMG PUB WORKS & EMPL	ECSHD
	1997	LOAN	LOCAL INITIATIVES	ECSHD
	1999	ESW	SOCIAL SECTOR NOTE	ECSHD
	2000	ESW	POVERTY ASSESSMENT	ECSPE
<b>BULGARIA</b>	1999	ESW	POVERTY ASSESSMENT	ECSHD
	1999	IDF	SOCIAL ASST.ADMINISTRATION	ECSHD
	1999	ESW	CHILD WELFARE REFORM	ECSHD
	1999	LOAN	SOC. PROTECT. ADJ.	ECSHD
	1999	LOAN	REG. INITIATIVE FUND	ECSHD
<b>CROATIA</b>	1999	ESW	HOUSEHOLD INCOME SURVEY	ECSPE
	2000	ESW	POVERTY ASSESSMENT	ECSPE
	2002	LOAN	EMPL. PROM. & SOC. S	ECSHD
<b>ESTONIA</b>	1996	ESW	LIVING STANDARDS	ECSPE
	2000	ESW	POVERTY ASSESSMENT	ECSPE

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<b>GEORGIA</b>	1998	LOAN	SOCIAL INVESTMENT FUND	ECSHD
	1999	ESW	POVERTY ASSESSMENT	ECSPE
<b>HUNGARY</b>	1991	ESW	HUMAN RESOURCES REVIEW	ECSHD
	1996	ESW	POVERTY ASSESSMENT	ECSPE
	1999	ESW	POVERTY ASSESSMENT NOTE	ECSPE
<b>KAZAKHSTAN</b>	1994	ESW	HUMAN RESOURCES REVIEW	ECSHD
	1994	ESW	LABOR SURVEY	ECSHD
	1995	LOAN	SOCIAL PROTECTION PROJECT	ECSHD
	1996	ESW	SOCIAL EXPENDITURE REVIEW	ECSHD
	1998	ESW	LIVING STANDARDS (POVERTY)	ECSHD
	1999	LOAN	SOCIAL PROTECTION REFORM	ECSHD
	2000	LOAN	SOC. PROT. REFORM IMPL.	ECSHD
<b>KYRGYZ REPUB</b>	1993	ESW	HUMAN RESOURCES	ECSHD
	1995	ESW	POVERTY ASSESSMENT	ECSHD
	1995	LOAN	SOCIAL SAFETY NET	ECSHD
	1999	LOAN	SOCIAL SEC. ADJUST.	ECSHD
	1999	ESW	POVERTY SURVERY UPDATE	ECSHD
<b>LATVIA</b>	1997	LOAN	WELFARE REFORM	ECSHD
	1999	ESW	SOCIAL ASSESSMENT	ECSPE
	1999	ESW	POVERTY ASSESSMENT	ECSPE
<b>LITHUANIA</b>	1995	ESW	SOC. SAFETY NET POL. NOTE	ECSHD
	1997	LOAN	SOC. POL. COMM SERV	ECSHD
<b>MACEDONIA</b>	1995	LOAN	SOCIAL REFORM	ECSHD
	1999	ESW	POVERTY ASSESSMENT	ECSHD
	1999	LOAN	SOCIAL SECTORS ADJ.	ECSHD
	1999	LOAN	PENSION REF. T.A.	ECSHD
<b>MOLDOVA</b>	1994	ESW	SOCIAL SECTOR REVIEW	ECSHD
	1997	ESW	PUBLIC EXPENDITURE REVIEW	ECSPE
	1999	ESW	SOCIAL PROTECT STRATEGY	ECSHD
	1999	ESW	POVERTY ASSESSMENT	ECSPE
	1999	LOAN	SOCIAL INV. FUND	ECSHD
<b>POLAND</b>	1992	ESW	INCOME SUP/CASH BENEFITS	ECSHD
	1992	ESW	SOCIAL SECTORS EXPENDITURES	ECSHD
	1995	ESW	POVERTY ASSESSMENT	ECSPE
	2000	ESW	POVERTY ASSESSMENT	ECSPE

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<b>ROMANIA</b>	1992	ESW	HUMAN RESOURCES STRATEGY	ECSHD
	1995	ESW	GENDER ANALYSIS	ECSHD
	1995	LOAN	EMPLOY. & SOC. PROTE	ECSHD
	1997	ESW	FINANCES OF SOCIAL SECTOR	ECSHD
	1997	ESW	POVERTY ASSESSMENT	ECSHD
	1997	LOAN	SOCIAL PROTECT. ADJ.	ECSHD
	1998	ESW	CHILD WELFARE STRATEGY	ECSHD
	1998	LOAN	CHILD WELFARE REFORM	ECSHD
	1999	ESW	LOCAL SOC. SERVICE DELIVERY	ECSHD
	1999	LOAN	SOCIAL DEVELOP. FUND	ECSHD
	2000	LOAN	SOCIAL SECTOR	ECSHD
<b>RUSSIA</b>	1993	LOAN	EMPLY. SERV. & SOC. PROT.	ECSHD
	1994	ESW	PROTECTING SOC. REVENUE	ECSHD
	1995	ESW	POVERTY ASSESSMENT	ECSHD
	1996	ESW	SOCIAL EXPENDITURE ISSUES	ECSHD
	1996	LOAN	COMMUNITY SOCIAL INF	ECSPE
	1997	ESW	SOC. SEC. STRATEGY	ECSHD
	1997	LOAN	SOC. PROTECT. ADJ.	ECSHD
	1998	LOAN	SOC. PROTECT. IMPL.	ECSHD
	1999	ESW	POVERTY UPDATE	ECSHD
<b>SLOVAK REP.</b>	1999	LOAN	SOCIAL BENEFITS REF.	ECSHD
<b>TAJIKISTAN</b>	1997	LOAN	PILOT POVERTY ALLEV.	ECSHD
	1998	ESW	POVERTY ASSESSMENT	ECSHD
	1999	ESW	SOCIAL SECTOR UPDATE	ECSHD
	2000	ESW	NATIONAL POVERTY SURVEY	ECSHD
	2000	LOAN	POVERTY ALLEV. II	ECSHD
<b>TURKMENISTAN</b>	1999	ESW	POVERTY ASSESSMENT	ECSHD
	1999	ESW	SOCIAL ASSISTANCE REVIEW	ECSHD
<b>UKRAINE</b>	1993	ESW	SOCIAL SECTOR & TRAINING DEV.	ECSHD
	1995	ESW	SOCIAL SECTOR REVIEW	ECSHD
	1996	ESW	POVERTY ASSESSMENT	ECSPE
	1997	LOAN	SOCIAL PROTECT. SUPP	ECSHD
	1999	ESW	PUBLIC EXPENDITURE REVIEW	ECSHD
	2001	LOAN	SOCIAL SECTOR SECAL	ECSHD
<b>UZBEKISTAN</b>	1995	ESW	ADJUSTING SOCIAL PROTECTION	ECSHD
	1999	ESW	LIVING STANDARDS ASSESSMENT	ECSHD
	1999	LOAN	SOC. TRANS. FUND	ECSHD
	2001	ESW	HUMAN RESOURCES	ECSHD

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