

**THE WORLD BANK AND THE EVOLUTION OF SOCIAL PROTECTION
IN POST-COMMUNIST SOCIETIES**

MICHAEL J.G. CAIN[†]

Draft 1.0
Comments Welcomed

Discussion paper originally prepared for

SOCIAL PROTECTION IN DEVELOPING AND TRANSITIONAL ECONOMIES
MAY 29-30, 2003

BROWN UNIVERSITY
WATSON INSTITUTE FOR INTERNATIONAL STUDIES

*[†]St. Mary's College of Maryland, Political Science Department, St. Mary's City, MD 20686. E-mail address:
mjgcain@smcm.edu*

The World Bank and the Evolution of Social Protection in Post-communist Societies

Michael J.G. Cain
Political Science Department
St. Mary's College of Maryland

Since the early 1990s international financial organizations, bilateral development agencies and international non-governmental organizations have been interested in shaping reforms across many different sectors in post-communist states. Several international actors, including the World Bank and the International Labor Organization (ILO) have been deeply involved in developing social policies and then diffusing and transmitting these policies to transitioning states. In some cases the viewpoints of these organizations on post-communist social policy have been at odds, reflecting deeper divisions among scholars and policymakers on the value, extent and form of social welfare and social protection in Eastern Europe and Eurasia.

This paper provides empirical, normative and theoretical perspectives on the operations and social policy positions advocated by the World Bank, focusing principally on social safety nets and pensions. The first part of this paper provides an empirical overview of World Bank lending patterns beginning in the early 1990s. We show that Bank policies on social welfare evolved as a response to increasing fiscal burdens on states. The second part of the paper evaluates World Bank social protection policies and poverty reduction goals and finds they frequently competed with or were subordinate to other market or fiscal priorities. Using Bank studies we also show weak operational linkages between poverty goals and growth in structural adjustment lending. The third part of the paper discusses the success of the World Bank in promoting neo-liberal pension reform and briefly considers

the main factors or frameworks that led to the transmission of these frameworks. The paper concludes with a qualitative assessment of World Bank policy advice and policy outcomes for transitioning states.

WORLD BANK INVOLVEMENT IN SOCIAL WELFARE SYSTEMS

The World Bank has advocated a neo-liberal, growth based approach to poverty reduction, along with a fiscally conservative, targeted social safety net. The Bank also possesses multiple means and mechanisms for diffusing its general approach and implementing its policy recommendations in transitioning states. As we shall see, the Bank, by several measures, has been extremely successful in diffusing its general approach to social protection throughout the region and implementing important pillars in its social policy framework.

Nevertheless the overall importance of social protection policies in World Bank transitional strategies and lending operations has evolved throughout the 1990s. With the exception of employment programs, international financial organizations generally neglected social protection policy in post-communist transitions until the middle of the 1990s (Orenstein and Haas, 2002). However changing circumstances in the region during the transition required the Bank to develop different strategies for different types of post-communist transitions. This suggests that World Bank policymakers adapted and learned from changing circumstances.

World Bank Lending Patterns and the Significance of Social Protection

As Bob Deacon notes, “The scale of the Bank’s work in the region outstrips everything else.” The scale of its operations in post-communist states can be illustrated by

looking at three separate sets of comparative data: loan commitments to states and regions, loans involving social protection and technical studies related to social protection.

Describing the scale of World Bank operations in post-communist state provides a useful proxy measure for estimating the Bank's presence in the region and the relative importance of social protection in the Bank's portfolio. But it also provides a useful perspective of how broad their presence and influence has been.

Understanding total loan commitments to countries is important because it illustrates Bank involvement with governments during the transition. It also gives researchers a sense of the 'demand' for World Bank services (whether loans or technical assistance) to different countries in transition. Figure 1 illustrates that World Bank lending to ECA countries peaked in the late 1990s, although the Bank had a significant presence in the region throughout the decade. World Bank loans to the region totaled over \$40 billion, with Eastern Europe and CIS countries receiving roughly equal amounts (See Table 1). From 1991-2002 the World Bank had a total of 665 separate loan agreements with all ECA countries, with most loans going to Eastern European and Baltic states in the early 1990s. The CIS received a greater share of World Bank much later in 1999, and has received a higher number of loans since that time (See Figure 2).

Although the number and amount of World Bank loans to countries varied, all countries in the region have been involved in multiple loan agreements. On average countries negotiated two loans per year with the World Bank, suggesting that World Bank involvement with governments was close throughout the transition period. Among Eastern European and Baltic states the number of loans ranged from a low of five loan agreements in the Czech Republic and Slovenia to a high of fifty-five loan agreements in Poland during

the transition period. Among countries in the CIS, Belarus and Turkmenistan had the fewest number of loans (four) while the Russian Federation had the most (sixty-four).

Given the important presence of World Bank loan operations in transition countries, how much of this lending involved social protection and how important were social protection operations to the Bank? Bank studies and data indicate that poverty reduction and social protection were not central to World Bank operations throughout much of the 1990s in Eastern Europe and Eurasia, even if it became the subject of increasing interest by Bank analysts in the late 1990s. Figure 3 shows that in terms of the quantity of World Bank loans issued to Eastern Europe and Central Asian (ECA) countries, social protection loans represent only a small proportion of all World Bank lending in the region. Only after 1996 did Bank lending for social protection reach much higher proportions. Figure 4 makes this same point somewhat differently. It shows that sector studies on poverty and social protection gradually increased in the latter part of the 1990s, peaking dramatically in 1999.

Evolving Elements and Strategies of Social Protection at The World Bank

What factors explain these different patterns in Bank operations? Many researchers have cited the unique circumstances associated with the transition to markets and democracy. States in Eastern Europe and the Commonwealth of Independent States (CIS) embarked on dual or triple transitions, where political, social and economic systems were changed simultaneously. This involved unprecedented levels of reform projects and led to an extreme informational overload for top decision-makers, which required policymakers to prioritize different elements of reform (Balcerowicz, 1994). International actors faced similar informational constraints, with priorities initially focused on the Washington Consensus goals of liberalization, stabilization and privatization of post-communist societies.

Social protection policies and social welfare reforms were generally postponed or deferred to ‘second stage’ transitions, thought by many to be less important than other market or political reforms.¹

This partially explains why Bank interest and lending for social protection and poverty was relatively low in the early 1990s. However, increasing interest in social protection by the Bank later in the decade was the result of a newfound recognition in the importance of initiating social reforms as well as Bank responses to rapidly changing circumstances in the region that required new reform strategies on social welfare and social protection.

The introduction of market reforms in the early 1990s caused harsh economic downturns throughout Eastern Europe—falling GDP, high levels of inflation and increased unemployment. To lessen the effects of unemployment caused by the transition to a market economy, many governments in Central Europe responded by raising basic pensions, encouraging early retirement for older workers, relaxing disability standards and providing generous unemployment benefits. Large numbers of workers in many Central European states became eligible for pensions, while the level of pension benefits to new retirees increased in many of these same countries.²

During the first stages of the transition to market, there was a strong desire to cushion the worst effects of GDP declines. This preference was shared both by policy elites and citizens in Central Europe. Among policy elites, neo-liberal policies on shock therapy

¹ Economic stabilization, price liberalization, legislation on property law, regular and fair elections, guarantees of political freedom as well as a host of other policies could easily be understood as essential to market and democratic transition processes or at least part of an early sequence in transitioning efforts (Blanchard et al., 1991; Przeworski, 1993). Though arguably important, social welfare reform does not appear essential to democratic or market transitions, nor does it appear essential to an early sequence of reform processes.

² There are many important distinctions between developments of pension systems in Central versus Eastern Europe. Pensioners in Central European states did better in relative terms than other households as measured in real or nominal terms (Zienkowski, 1998, p.20). However pensioners in states of the former Soviet Union did much worse in real and nominal terms compared to other households.

dictated strengthening social welfare policies. These policies undoubtedly reflected early fears about increasing inequality and the problems posed by open unemployment. In Poland, for example, 80% of the population from surveys taken in 1992-1994 agreed or strongly agreed that differences in income were too great (Cichomski & Swinski, 1995, p.187). Even larger numbers agreed that it was the responsibility of the government to provide a job for everyone who wanted it as well as a guaranteed basic income (Cichomski & Swinski, 1995, p.188). These attitudes were reflected throughout other Central and East European states. For example, on the issue of the government guaranteeing jobs for everyone that wanted it, 87% in Hungary agreed with this statement, 82% in Czechoslovakia, 88% in Slovenia, 87% in Bulgaria and 96% in Russia (Mason, 1995, p.391).

Comment: Similar views were held by Russians. In 1998 50% of respondents ranked social inequality as their main concern ranking it close to inflation (58%) and unpaid wages (57%). In a list of ten alternatives regarding their major grievance toward the present government, 34.7% responded with 'the lack of concern for the social welfare of the population' as the most important. (Shlapentokh, 1999, p.1175)

As government obligations for social insurance and social protection increased, the ability of governments to collect taxes and pension contributions to meet these growing spending obligations decreased.³ Increasing levels of unemployment, early retirements, the expanding gray economy as well as the collapse of state enterprises resulted in steadily decreasing numbers of workers contributing to social funds. These changes resulted in ever-increasing pressures on state budgets that alarmed neo-liberal economists.⁴ By the mid-1990s, the World Bank and the International Monetary Fund (IMF) began to openly worry about increasing government expenditures on social protection, in particular, expressing deep concerns about the sustainability of social transfers and pensions systems in Eastern Europe.

³ Central and East European countries are plagued by tax evasion social contributions evasion. The fluidity of small private businesses as well as the political power of loss making large state owned companies added to imbalances in the PAYG pension system. See Hausner, 1998; Cain and Surdej, 1999.

⁴ Jeffery Sachs noted, "In the next few years, the most important fiscal task in Central and Eastern Europe will be to reduce the size of social spending to more reasonable proportions of GDP." (Sachs, Transitions Newsletter, World Bank: March 1995.)

The domestic pattern that emerged in countries of Eastern Europe—restructuring followed by increasing unemployment and increasing spending on social protection—were important not only because of the fiscal pressures they placed on government budgets, but also because these patterns were *not repeated* later in the transformations of countries in the CIS. Instead, countries in the CIS, when compared to many Eastern European counterparts, tended to suppress open unemployment by slowing restructuring processes and the privatization of state owned enterprises. Although unemployment was consistently lower in the CIS compared to European states, GDP declines were much greater. The result was a dramatic fall in real wages throughout these countries, with unpaid leaves and persistent wage arrears in public sector employment.

Comment: Get average differences from EBRD Report.

Despite significant output decreases and low wages, Eurasian states did not attempt to strengthen social welfare protections in ways similar to Eastern European states. Spending on pensions in the CIS had median averages around five or six percent of GDP, with many states experiencing periods of pension arrears (Palacios and Pallares-Miralles, 1999). Spending on unemployment benefits averaged less than one percent of GDP from 1990-1995 (Boeri, 2000). By contrast European transitioning states had median averages close to ten percent of GDP with spending on unemployment benefits averaging over two percent of GDP. European transitioning states outspent CIS counterparts by almost two to one on social protection with considerably more generous social welfare provisions.

The different patterns of transition in post-communist states and the domestic responses to them not only contributed to the emergence of different types of social protection systems in each region, they also resulted in important differences in the extent and risks of poverty across regions. Poverty in European transitioning states tended to be related to formal participation in the labor market with social transfers playing an important

role in reducing the risks of falling into poverty. Whereas poverty in Eurasia was much less connected to participation in labor markets, with social transfers playing a very small role in protection individuals or households from poverty.

These regional patterns in social protection and poverty rates were gradually uncovered, in part, through poverty studies and assessments commissioned by the World Bank. These studies were important because they tended to underscore the intrinsic uncertainty associated with reform processes while focusing attention on the importance of social protection and poverty reduction. It was in this environment that international bilateral and multilateral actors, like the World Bank, were forced to adapt and evolve their policies to match changing economic and social realities. As these new patterns of poverty and social protection became more apparent, the World Bank social protection unit began to take stock of these patterns and condition policy advice to deal with these new circumstances (World Bank, 2000).

Table 2 illustrates some of the different policy recommendations for social protection in post-communist states advocated by the World Bank, many conditioned on the particular circumstances of transitioning states. These sector-based policies illustrate a broad menu of approaches to social protection that are sensitive to specific differences in each region. However the strategies themselves as well as the entire process behind their development, presupposes the existence of a large, evolving informational data base to produce policy advice for specific governments and policy elites.⁵ There was no static one size fits all approach.

⁵ A major World Bank policy statement on social protection (World Bank, 2000) was preceded by a series of different studies documenting different patterns. See for example, Grootaert, 1995, 1997; de Crombrughe, 1997; Milanovic, 1996; Braithwaite et al., 1999.

These observations about the World Bank are consistent with Bob Deacon work in *Global Social Policy*. In this book he shows that the Bank did not express a single set of policy prescriptions for social protection in transitional states in the early and mid 1990s. He also argues that the World Bank and the IMF did not always speak with a single voice on social protection. However my claim here is to emphasize the evolutionary character of World Bank policy advice during the 1990s and the corporate informational structure presupposed by Bank operations in the region. In transitional environments, replete with uncertainties, one should not expect consistent doctrines over time.

MULTIPLE GOALS AND WEAK POVERTY LINKS

The uncertainty surrounding European and Eurasian transitions certainly required the World Bank to build informational databases, to learn from this data and adapt its social welfare policy prescriptions to changing circumstances in post-communist states. The previous arguments also emphasize the evolving nature of World Bank lending behaviors and advice on social protection, and shows how these behaviors can be interpreted as a response to new information about changing circumstances within transitioning states.

However World Bank approaches to social protection in post-communist states are best viewed through the lenses of a liberal, market-based philosophy toward poverty reduction. According to this philosophy, economic growth is the best means to achieve long-term poverty reduction.⁶ Economic growth means an expanded private sector, with benefits flowing to the society through additional job creation, improvements in

⁶ See Carl Jayarajah, William Branson and Binayek Sen, 1996. *Social Dimensions of Adjustment: World Bank Experience 1980-1993*, Operations Evaluation Study, Washington DC, World Bank.

infrastructure and the spread of opportunities through small business development.⁷ These guiding Bank principles on poverty reduction no doubt have exerted a powerful influence on lending behaviors in the region and conditioned policy advice on social protection policies (Andrews and Ringold, 1999).

According to this philosophy, private sector growth naturally requires disciplined government spending—even if this demands short-term cuts in social welfare. The growth in social welfare, as we argued earlier, was viewed as a serious problem in transitioning states. For this reason the World Bank repeatedly emphasized the importance of decreasing overall government expenditures to relieve fiscal deficits to create the conditions for long-term economic growth. World Bank advice to governments in Eastern Europe involved a wide range of strategies designed to reduce public expenditures. These included an end to explicit or implicit subsidies for state run enterprises, a wide menu of suggestions for decreasing pension expenditures and reducing implicit pension debt, decreasing different types of untargeted universal benefits and reducing and eliminating subsidies to households including housing benefits and energy subsidies. In addition to this, many states maintained a vast array of different cash programs for a wide range of benefits that the Bank frequently suggested be consolidated or eliminated.⁸

How important were these fiscal goals when compared to social sector reforms and poverty reduction goals? World Bank advice for strengthening social protection and reducing poverty were made in a broader development environment, where other economic and social priorities competed and other market goals were pursued (Wedel, 2001). When

⁷ See World Bank, 2002. *Private Sector Development Strategy: Directions for the World Bank Group*. Washington DC; David Dollar and Aart Kraay, 2002. “Growth is Good for the Poor,” *International Monetary Fund Seminar Series (International)*, No.2000-35: 1-44 and “Spreading the Wealth,” *Foreign Affairs*. January/February 2002.

⁸ The number of different programs in a social safety net varied considerably, while special ‘branch’ provisions for pensions, housing, energy or other in-kind benefits existed throughout post-communist states. For example, Hungarian social protection included over thirty-five programs to help impoverished families while Kazakhstan had over fifty.

providing adjustment loans to transitioning states, the IMF and the World Bank conditioned loans on multiple policy objectives to encourage progress toward different economic and social goals. In the hierarchy of needs in post-communist states—economic growth, fiscal discipline and protections from the risks of poverty—the priorities of international financial institutions are well known and well documented (Hough, 2001; Wedel, 2001). Social protection goals and poverty reduction could easily get lost in the competition. As we shall see, they often did.

Linking Sector Work with Lending Operations

Most adjustment loan operations, especially those involving phasing and tranching, have multiple goals. The existence of multiple goals in the context of social protection reform and poverty reduction efforts raise important issues concerning the strength of the relationship between World Bank's poverty reduction philosophy, social protection strategies and the transfer of these policy frameworks to transitioning states. For example, if borrowers believe that the Bank sees poverty reduction as subordinate to liberalization or fiscal cuts in government budgets, then they might be tempted to give the Bank what they think it wants—growth oriented policies with fiscal discipline—regardless of the nature of the loan. Moreover if the connections between economic reform benchmarks and poverty reduction goals are unclear in adjustment lending, then an unintended signal to borrowing countries could be that one goal is really more important than another. To evaluate this linkage, I will first consider the main analytical products used to estimate poverty in a country, and then evaluate the relationship of these tools to loan operations. Internal Bank studies uncovered several different types of problems with previous Bank lending operations

involving Programmatic Social Adjustment Loans and Social Adjustment Loans in the 1990s.

When discussing Bank activities in post-communist countries considerable amounts of research have focused on the politics surrounding lending operations. However Stiglitz (1999) has emphasized the importance of the World Bank as a producer of basic research on development practices and policy frameworks that provide information and knowledge about the consequences of policies. As a producer of knowledge about the region, the World Bank produces a variety of products associated with social protection and poverty. The most important are poverty assessments and public expenditures reviews. Ideally these reviews and assessments are intended to inform and support loan processes by supporting Country Assistance Strategies (CAS). A CAS describes Bank strategy based on an assessment of priorities in the country, and indicates the level and composition of assistance to be provided based on the strategy.⁹ These are frequently the main documents used to develop loan conditionalities and guide technical assistance operations in borrower countries.

How effective are poverty assessments at providing a strong analytical framework for understanding poverty as well as linking economic development with poverty reduction? In terms of the analytical framework for understanding poverty, a 1999 Operations Evaluation Department (OED) review showed that more than sixty percent all poverty assessments reviewed by the Bank did not state their objectives with sufficient specificity. More than half of these assessments did not contain policy analysis.

⁹ The CAS is prepared with the government in a participatory way; its key elements are discussed with the government prior to Board consideration. However, it is not a negotiated document. Any differences between a country's own agenda and the strategy advocated by the Bank are highlighted in the CAS document. Prior to 1998, these documents were not available to the public. After that time, these documents may be released, depending on the consent of the borrower.

With respect to economic development and poverty reduction the results are even more troubling. Assessments rarely established clear links between macroeconomic, structural or sector reforms and poverty reduction.¹⁰ A 2000 OED evaluation argued that nearly half of the poverty assessments did not justify the balance between broad-based growth, social services provision and social safety nets. The same study noted that few of the Bank's Public Expenditure Reviews helped clients sort out tradeoffs in public expenditure allocation or suggest how poverty outcomes could be monitored.¹¹

Country assistance strategies, the basic documents used to set economic and social protection goals, had similar problems. In a selected sample of CASs from the early to mid 1990s, OED evaluation found that few made explicit the meaning of broad-based growth or established country-specific links between growth-oriented policies and poverty reduction. Even more troubling are findings on conditionalities in adjustment lending—one of the main mechanisms used by the Bank to ensure borrower compliance. In a study of Bank supervision of adjustment loans the study found that supervision "...focused more on compliance with conditionality than on monitoring progress, outcomes and impacts on poverty."¹²

These evaluations of the tools used by the Bank to reduce poverty indicate potential shortcomings in the coordination of Bank technical analyses on poverty with general loan operations. Although these studies do not directly speak to the 'effectiveness' of World Bank advice to reform social protection systems in post-communist states, they suggest a problem identified by other researchers concerning the relationship between lofty poverty

¹⁰ OED, 1999. *Poverty Assessments: A Follow-Up Review*. Report No. 19630. Washington DC: World Bank.

¹¹ OED, 2000. *Poverty Reduction in the 1990s: An Evaluation of Strategies and Performance*. Washington DC: World Bank.

¹² Operations and Policy and Country Services, 2001. *Adjustment Lending Retrospective: Final Report*. Washington DC, p.xvii.

reduction goals and activities only weakly linked to achieve these goals.¹³ This serves to further emphasize the lower priority of social welfare concerns to market and fiscal objectives.

THE NEW PENSION ORTHODOXY AND POLICY TRANSFER

Among social sector reforms advocated by the World Bank in post-communist states, multi-pillar pension reform stands out as an important case of successful policy transfer. By the end of the 1990s, at least seven former post-communist states in Central and Eastern Europe initiated fundamental changes in their pension systems, often involving radical policy changes associated with new institutional designs (Müller, 2003). This momentum throughout the region cannot be explained solely in terms of a coincidence of internal domestic politics and the simultaneous realization of political actors to a domestic need for reforms in pension policy; instead, the reform agenda most frequently adopted by domestic actors in post-communist societies has been promoted strongly by the World Bank and several other international actors.

What kind of pension reform has the World Bank recommended? Generally speaking, they have recommended that post-communist states introduce multiple pillars to provide for retirement usually including a state managed pillar providing a basic pension to all. A mandatory privatized pillar where individual savings are privately managed and a third voluntary private pillar that includes corporate or union based mutual benefit plans.

Multi-pillar systems are expected to provide a much closer link between individual contributions and pension payments, to separate the financing of payments from established capitalized accounts and eventually promised to reduce direct transfers of budgetary

¹³ White and Booth, forthcoming.

resources to finance pension obligations. Pension reform was also recommended, moreover, to encourage long-term economic growth, to increase the rate of savings, to decrease government budget deficits, improve tax collection and to strengthen domestic capital markets by creating large institutional investments. Reforms would then create positive incentives for individuals at the microeconomic level and generally would have salutary macro economic effects on the economy (Barr, 1994).

As Brooks has noted, even on pension policy there were different voices within the Bank when negotiating specific reform packages with individual countries. Moreover, the Bank did not impose a single model, but frequently presented a menu of options, which allowed governments to choose different alternatives, depending on the characteristics and needs of the country (Holzmann, 2000). For example, the three most radical pension reforms in post-communist states—Hungary, Poland and Kazakhstan—each have very different characteristics. This diversity resulted from domestic decisions, not from specific blueprints designed by the World Bank for each individual country.

Explaining the Mechanisms of Policy Transfer

However given the apparent success of the World Bank in promoting pension reforms in the region, many researchers have attempted to understand the underlying reasons for their success and the different mechanisms of policy transfer. Several sets of literature have emerged to explain how complex policy frameworks are transmitted, each stressing different factors.

The political economy approach to explain the transmission of complex policy frameworks acknowledges the dominant role the World Bank plays as a crucial agenda setter on social policy, but emphasizes the importance of institutional design in successful policy transmission. For example, researchers using this approach have attempted to explain

radical pension change by focusing on specific path dependencies and idiosyncratic institutional arrangements in these societies, such as the ministries or agents responsible for implementing reforms (Hausner, 1999; Müller, 1999; Nelson, 1999) or the number of proposal or veto actors in the reform process (Orenstein, 2000). These approaches stress the overall importance of domestic political and institutional variables to exogenous Bank influences.

Researchers have also stressed the national agenda setting power of the Bank, which is mainly associated with different types of resources at their disposal. At the national level, the Bank has promoted pension reform using loans and loan conditionalities to encourage states to reform existing PAYG systems. Figure 4 illustrates pension conditionalities make up the bulk of all conditionalities in Social Adjustment and Social Programmatic Adjustment Loans. Ney (2003) argues that agents of reform have used ‘policy stories’ to convince citizens to opt for radical pension reform by successfully framing debates or by providing selectively objective narratives about multi-pillar pension policy.

A third set of literature has emphasized the importance of the World Bank in developing complex policy frameworks and its success in transferring these frameworks to different epistemic communities (Haas, 1992). Merrien (2002) has argued that the success of World Bank policy advice on pension reform has resulted from fundamental changes in policy communities following the collapse of communism. This provided “...a basis more suited to organizations leaning towards the ‘neo-liberal’ paradigm.”¹⁴ Others such as Chlon and Mora (2003) demonstrate, using survey evidence, that World Bank policy experts played a significant role in developing pension reforms in sixteen countries post-communist states. Stiglitz (1999) has argued that World Bank resources are used to develop complex policy

¹⁴ Merrien, p.537.

framework, provided by Western nations as an international public good. The Bank then works to disseminate these frameworks to other nations. Cain (2000) following Stiglitz argues that the World Bank helps states overcome prohibitive start up costs by supplying complex policy frameworks as pure public goods.

Which set of literature provides the best approach to understanding policy transfer and diffusion? This review suggests that international organizations transmit policies to specialized policy communities and domestic policy actors. However, any assessment of policy transfer cannot be understood as a simple causal effect of an international organization, an 'epistemic' community or an international public good. Instead, policy transfers must be understood as a relationship involving international organizations *and* individual countries. The success of policy transfer depends both on the ability of organizations to supply and promote policy frameworks and the willingness or ability of countries to implement these policies. To assess the influence of international actors in terms of the effectiveness of policy transfers, one cannot investigate only one element of the relationship.

CONCLUSIONS ON WORLD BANK SOCIAL PROTECTION OPERATIONS

This paper focused on World Bank operations in Eastern Europe since the early 1990s. Although there is substantial variance in the number and amount of loans to post-communist states, all states have been involved in multiple loan activities. This testifies to the scale of World Bank presence in the region. Concerning social protection loans and operations, we found that the World Bank attention to post-communist social welfare systems increased gradually in the mid-1990s, peaking in the latter part of the 1990s.

Throughout this period however, social protection loans represented only a small portion of all World Bank loan commitments.

As different patterns of transformation emerged in post-communist states, the World Bank was forced to assess the importance of these changes for social safety nets in transition. The Bank responded by developing policy frameworks that were conditioned to these emerging patterns. Among the most successful policy frameworks developed by the Bank is the new neo-liberal multi-pillar orthodoxy and we reviewed some of the main factors associated with its successful transfer to post-communist states.

Comparing Policy Advice and Policy Outcomes in Three States

How effective has the World Bank been in terms of influencing the development of social protection systems in post-communist states? The World Bank is part of a large group of international actors in the region that have sought to influence various economic, political and institutional developments within post-communist societies. Without controlling for the influence these other organizations on social welfare reforms or estimating their relative influence, it is impossible to estimate Bank influence with any certainty.

However there is another reason why assessing the influence of the World Bank on post-communist social policy reforms is difficult. As we argued earlier, any assessment of policy transfer cannot be understood as a simple causal effect of an international organization, an 'epistemic' community or an international public good. Instead, policy transfers must be understood as a relationship involving international organizations *and* individual countries. The success of policy transfer depends both on the ability of organizations to supply and promote policy frameworks and the willingness or ability of countries to implement these policies. To assess the influence of international actors in

terms of the effectiveness of policy transfers, one cannot investigate only one element of the relationship.

With these caveats in mind, suppose we revisit the original policy advice on social protection provided to three countries—Hungary, Bulgaria and Ukraine—by the World Bank in the mid-1990s. Table 3 reproduces Bob Deacon’s descriptions of this advice along with approximations of recent policy outcomes. It is apparent that in pensions, the advice of the World Bank has been implemented in all three states—even Ukraine which he described as the most resistant to World Bank policy suggestions. Across other policy dimensions, the outcomes are more mixed, although they tend to be more biased toward preferred World Bank social policy positions, than preferred ILO social policy positions. If this is true, then it is possible to better evaluate the path of social policy in the region. Among Deacon’s many conclusions, he claims that,

“The trajectory of social policy reform in the region, as a consequence of western intervention, remains evenly balanced between an IMF/World Bank encouraged social liberalism (e.g. Hungary) and an ILO/UNICEF encouraged European welfare conservatism (e.g. Bulgaria).”¹⁵

This even balance now appears decidedly tipped in the neo-liberal direction.

¹⁵ Cf., Deacon, p.151.

TABLE 1: WORLD BANK LENDING COMMITMENTS IN ECA (1991-2002)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	1991-2002
ECA Region	3,837	2,111	3,844	3,726	4,499	4,395	5,006	5,225	5,286	3,042	2,657	7,391	51,018
<i>excl. Turkey</i>	2,937	1,777	3,286	3,626	4,249	4,083	4,906	4,621	4,758	1,273	1,629	3,841	41,065
Central Europe and Baltic States	2,937	1,777	1,790	1,476	859	1,240	1,787	1,559	1,440	783	755	2,871	19,273
Albania		41	44	47	67	73		84	125	60	28	88	657
Bosnia-Herzegovina						178	198	177	163	38	124	102	979
Bulgaria	17	250	178	148	125	121	94	116	161	221	102		1,533
Croatia				128	120	32	239	107	108	29	19	202	984
Czech Republic	300	246		80									626
Estonia			30	50	30	15				25			151
Hungary	550	200	413	129	38		293	336		32			1,991
Latvia			45	25	53	27	98	8	59	40	2	2	360
Lithuania			60	26	32	42	113		20	57	99	43	491
Macedonia, FYR				80	123	37	60	78	122		96	35	631
Poland	1,440	390	900	146	215	182	67	522	327	161	155	100	4,604
Romania	180	650	120	401	55	510	625	131	340	113	130	60	3,314
Slovak Republic	150			135								201	486
Slovenia				80		24			15	10			128
Yugoslavia(*)	300											2,039	2,339
Commonwealth of Independent States	-	-	1,495	2,151	3,390	2,843	3,200	3,063	3,318	489	874	970	21,793
Armenia			12	28	117	92	32	135	121	60	61	39	696
Azerbaijan					82	83	35	90	80	42	50	70	531
Belarus				170							23		193
Georgia					103	91	69	110	137	48	90	3	650
Kazakhstan				274	283	260	142	545	176	140	65		1,884
Kyrgyz Republic			60	78	77	99	60	65	62	34	72	15	621
Moldova			26	60	90	55	26	126	66		10	46	504
Russian Federation			1,370	1,520	1,741	1,816	1,716	1,629	1,930	90	398	351	12,560
Tajikistan						5	62	20	93	28	53	41	302
Turkmenistan					25		65						90
Ukraine			27		646	343	990	216	600	18	52	330	3,223
Uzbekistan				21	226		5	127	55	29	-	76	539
Turkey	900	334	559	100	250	312	20	603	528	1,770	1,028	3,550	9,953

Source: The World Bank, Integrated Controller's System, data as the end of first month of fiscal year 2003. Excludes repayments in the early 90s by Cyprus, Finland, Greece, Portugal and Spain.

(*) Federal Republic of Yugoslavia in the late 90s. Excludes December 2001 loan consolidation

TABLE 2: THE WORLD BANK'S REGIONAL APPROACHES TO SOCIAL PROTECTION

	Regional Approaches to Social Protection	
	<i>European</i>	<i>Eurasian</i>
<i>Wages</i>	Maintain minimum wages consistent with market and capacity	Increase minimum wages
<i>Pensions</i>	Increase pension age; tighten eligibility; develop multiple pillars consistent with banking capacity	Increase pension age; tighten eligibility; develop third pillar when possible; tighten link between benefits and contributions
<i>Unemployment</i>	Reduce benefit generosity and tighten eligibility; reduce duration of benefits; link insurance benefits with contributions	Consider flat rate assistance benefits; unemployment insurance not recommended
<i>Social Assistance</i>	Introduce means testing for all poverty benefits; improve means testing for social assistance;	Introduce targeted social assistance programs with proxy means testing (Paros scheme); consolidate cash assistance programs
<i>Housing</i>	Reduce housing subsidies and eliminate utility subsidies; means tested utility assistance	Reduce housing subsidies; eliminate branch provisions; introduce lifeline tariffs
Sources: Andrews and Ringold, 1999; World Bank, 2000; World Bank, 2000 (Lazlo Lovie)		

TABLE 3: COMPARISON OF WORLD BANK RECOMMENDATIONS AND OUTCOMES

Recommendations Recent Actions	<i>Hungary</i> 1995	<i>Hungary</i> 2002	<i>Bulgaria</i> 1995	<i>Bulgaria</i> 2002	<i>Ukraine</i> 1995	<i>Ukraine</i> 2002
<i>Pensions</i>	Raise pension age; ceiling on benefits; encourage private tier	Pension age gradually increased to 62; three pillar system introduced 1998	Raise pension age; reduce scope of public pension; encourage private pensions	Pension age continues to increase by statute; three pillar system begins 2002	Raise pension age; reduce scope of public pensions; encourage private pensions	Pension reform currently under development; private pension law passed July 2001; three pillar system planned (as of 2002)
<i>Family Allowances</i>	Differentiate by number of children; means test	Means testing introduce 1996; universal reestablished 1998; large families eligible for additional GYET benefit; tax deductions for children introduce 1999	Reduce universal coverage; need based transfer to low income families	Universal coverage for child allowance and one-time birth grants; child supplement eliminated in 1997.	See Safety nets	Most benefits are means tested; one time birth grants
<i>Unemployment Benefits</i>	Shorten duration flat rate for phase II; reduce benefits for some	Benefits reduced from one year to nine months; eligibility rule tightened; long-term unemployment benefits abolished 2000; local work schemes for long term unemployment	Flat rate; restrict to dismissed workers	Six months to one year, related to previous wage; means tested long term unemployment benefits for one year eliminated 1997; replaced with universal eligibility but reduced to three additional months	Flat rate; eliminate for new	
<i>Safety Net</i>	Define nationwide eligibility criteria and means test	Local provision and eligibility introduced in 1993; means testing for all poverty related benefits	Effective safety net to shield vulnerable groups; provision in-kind or food coupons to needy as alternative to cash at local level	Means tested GMI program administered and funded locally; in-kind energy benefits for low-income families	Pending income testing and poverty levels differentiated by region benefits to vulnerable groups; reduce general subsidies	Targeted housing benefits introduced in 1996; targeted family assistance introduced 1999; communal subsidies ended; local social assistance centers introduced

Data from 1995 reproduced from Deacon, 1997. Most recent data from the following sources: Hungary: Rocha and Vittas, 2001; World Bank, 2001. Bulgaria: UNDP, 2001; Tesluic, 2002. Ukraine: USAID, 2002; Vaughan, 2002.

FIGURE 1: TOTAL WORLD BANK LENDING BY YEAR

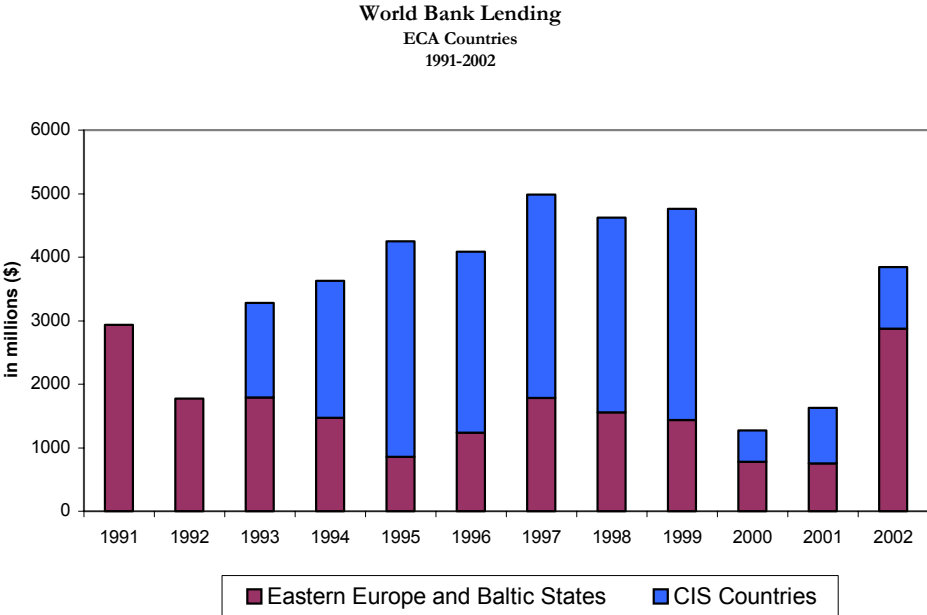


FIGURE 2: NUMBER OF WORLD BANK LOANS BY YEAR AND REGION

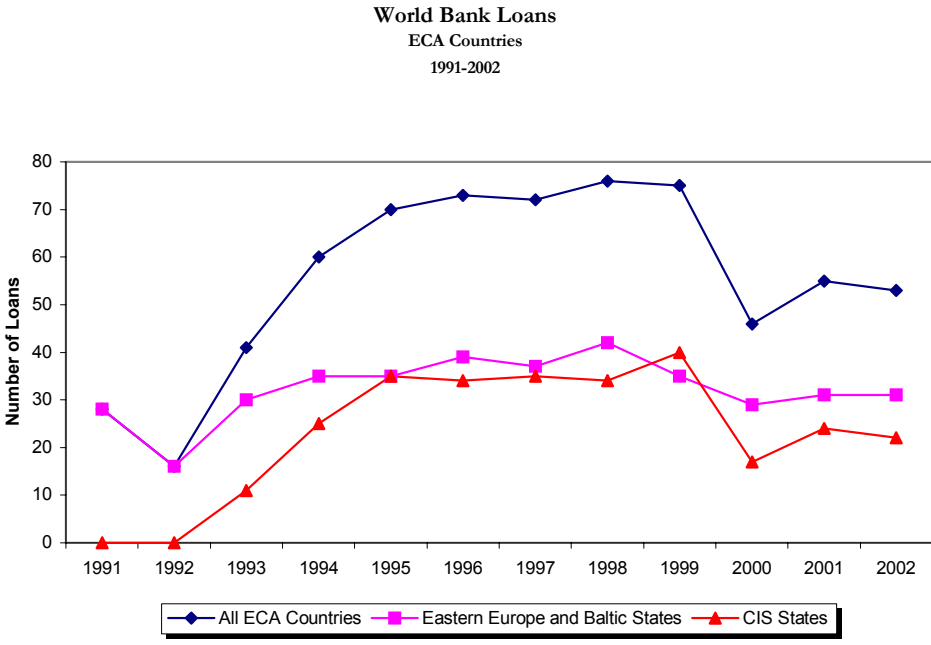
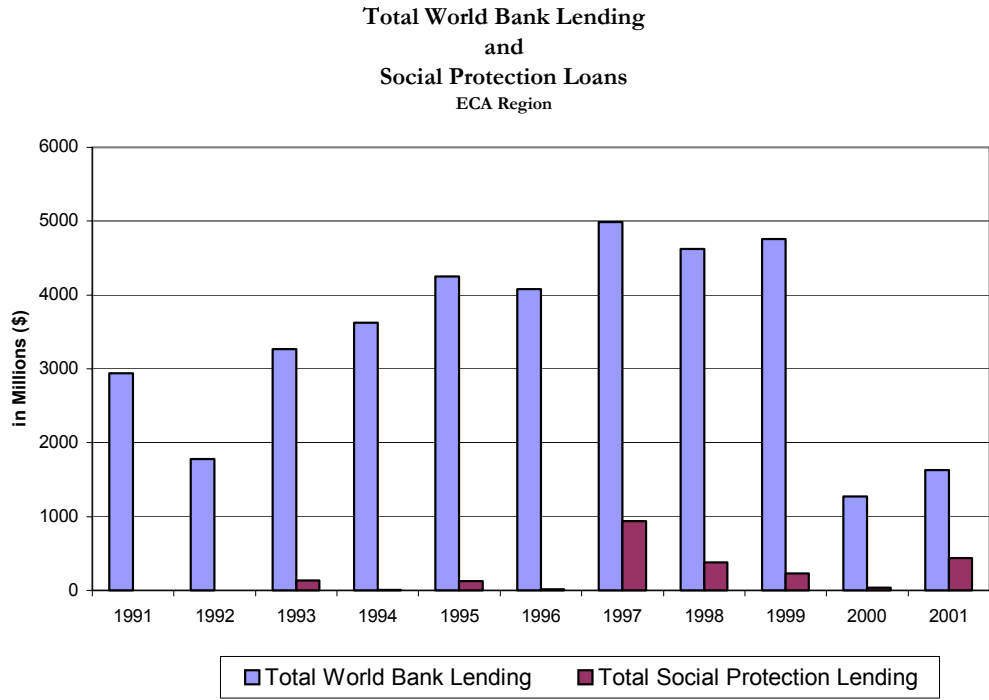


FIGURE 3: COMPARISON OF WORLD BANK LOANS IN ECA COUNTRIES



Sources: World Bank, 2000, Annex 2.

FIGURE 4: FREQUENCY OF SOCIAL PROTECTION LOANS AND STUDIES

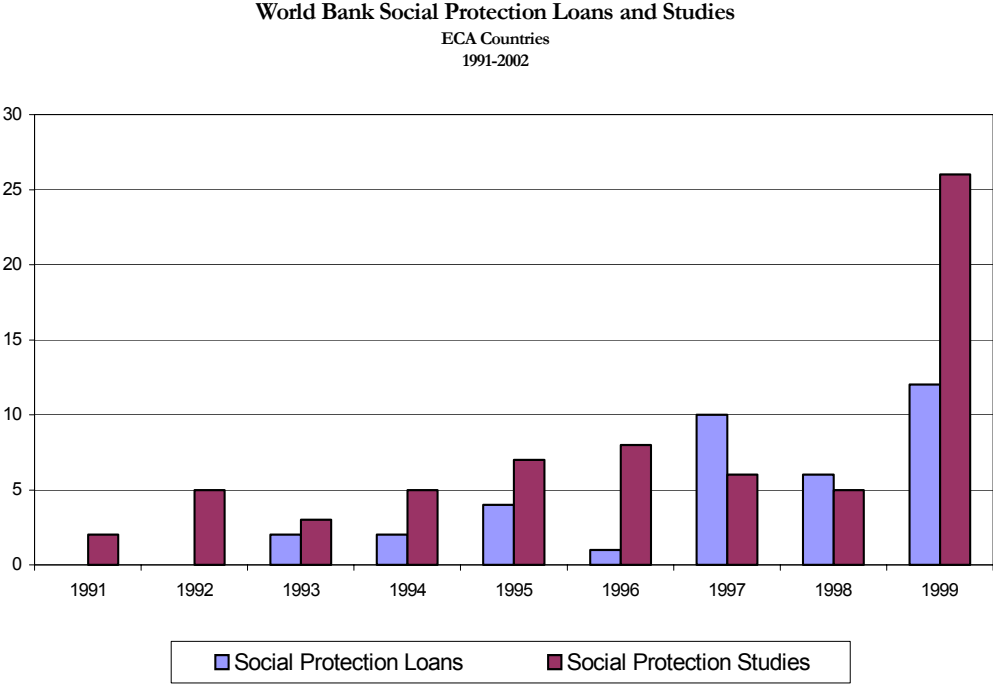
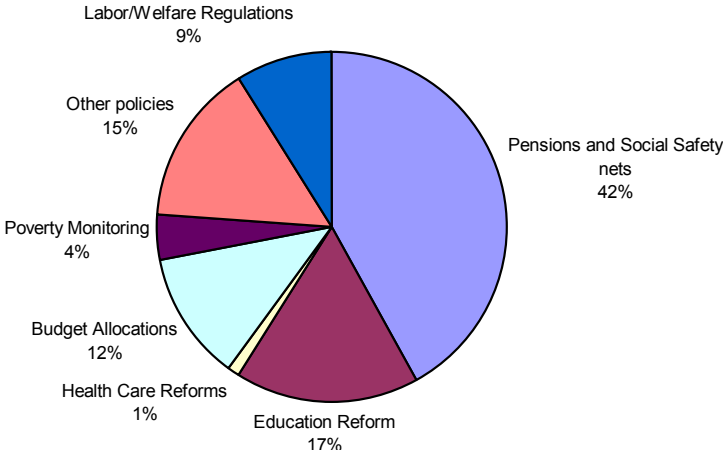


FIGURE 5: WORLD BANK CONDITIONALITIES FOR SOCIAL SECTOR LOANS

Social Sector Conditions FY98-00



BIBLIOGRAPHY

BIBLIOGRAPHY

- Andrews, Emily S. and Ringold, D. (1999). *Safety Nets in Transition Economies: Toward a Reform Strategy*. Washington, D.C.: The World Bank.
- Balcerowicz, Leszek. (1995). *Socialism, Capitalism, Transformation*. Budapest and London: Central European University Press.
- Blanchard, Olivier, Rudiger Dornbusch, Paul Krugman, Richard Layard, and Lawrence Summers. (1991). *Reform in Eastern Europe*. Cambridge, MA: MIT Press.
- Braithwaite, Jeanine, Christiaan Grootaert, and Branko Milanov, eds. (1999) *Poverty and Social Assistance in Transition Countries*. New York: St. Martin's Press.
- Cain, M. J.G. and Surdej, A. (1999) "Transitional Politics or Public Choice? An Evaluation of Stalled Pension Reforms in Poland" in *Left Parties and Social Policies in Post-Communist Societies*, Linda J. Cook, Mitchell A. Orenstein and Marilyn Rueschemeyer eds. Westview Press, 1999. Pp. 145-174
- Cain, M.J. G. (2000) "Globalizing Tendencies in Social Policy," *Emergo: Journal of Transforming Economies and Societies*, Vol.7 No.2 Spring, Pp. 6-19
- Deacon, Bob with Michelle Hulse and Paul Stubbs. (1997) *Global Social Policy: International Organizations and the Future of Welfare*. London: Sage Publications.
- de Crombrugghe, Alain. (1997). "Wage and Pension Pressure on the Polish Budget." World Bank Policy Research Working Paper, No. 1793. Washington, DC: World Bank.
- Dollar, David and Asrt Kraay. (2002) "Spreading the Wealth." *Foreign Affairs*. Council on Foreign Relations, January/February 2002.
- Grootaert, Christiann. (1995). *Poverty and Social Transfers in Poland*. World Bank Policy Research Working Paper, No. 1440. Washington, D.C.: The World Bank.
- Hausner, Jerzy. (1998). *Security through Diversity: Conditions for Successful Reform of the Pension System in Poland*. Discussion Paper No. 49. Collegium Budapest.
- Hough, Jerry F. (2001). *The Logic of Economic Reform in Russia*. Washington, D.C.: Brookings Institution Press.
- Jayarajah, Carl, William Branson and Binayek Sen, 1996. *Social Dimensions of Adjustment: World Bank Experience 1980-1993*. Operations Evaluation Study. Washington D.C.: World Bank.

- Merrien, François-Xavier. (2001) *The World Bank's New Social Policies: Pensions*. International Social Security Review: UNESCO.
- Milanovic, Branko. (1995). *Poverty, Inequality, and Social Policy in Transition Economies*. World Bank Policy Research Working Paper, No. 1530. Washington, D.C.: The World Bank.
- Müller, Katharina. (1999) *The Political Economy of Pension Reform in Central-Eastern Europe*. Great Britain: Edward Elgar.
- Ney, Steven. (2002) "The Rediscovery of Politics: Democracy and Structural Pension Reform in Continental Europe." *Pension Reform in Europe: Process and Progress*, eds. Robert Holzmann, Mitchell Orenstein, and Michal Rutkowski. Washington, DC: The World Bank.
- OED (1999). *Poverty Assessments: A Follow-Up Review*. Report No. 19630. Washington D.C.: The World Bank.
- OED (2000). *Poverty Reduction in the 1990s: An Evaluation of Strategies and Performance*. Washington D.C.: The World Bank.
- Operations and Policy and Country Services (2001). *Adjustment Lending Retrospective: Final Report*. Washington D.C., p.xvii.
- Orenstein, Mitchell A. and Martine R. Haas (2002). "Globalization and the Development of Welfare States in Postcommunist Europe." *Politics Matters: Globalization and the Future of Welfare States*, eds. Miguel Glatzer and Dietrich Rueschemeyer.
- Sachs, Jeffrey. "Postcommunist Parties and the Politics of Entitlements." *Transition Newsletter*. Development Economics Group, The World Bank. Washington, D.C.: The World Bank.
- Wedel, Janine R. (2001). *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*. New York: PALGRAVE.
- World Bank, (2000). *Balancing Protection and Opportunity: A Strategy for Social Protection in Transition Economies*. Washington, DC.
- _____ (2002a). *Private Sector Development Strategy: Directions for the World Bank Group*. Washington, DC. David Dollar and Aart Kraay, 2002. "Growth is Good for the Poor," International Monetary Fund Seminar Series (International), No.2000-35: 1-44.