

USAID



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

BROADENING THE BENEFITS OF REFORM
in Europe and Eurasia
A Social Transition Strategy for USAID

Bureau for Europe and Eurasia
February 2000

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

BROADENING THE BENEFITS OF REFORM in Europe and Eurasia

A Social Transition Strategy for USAID

Table of Contents

A. Why a Social Transition Strategy?	1
What do we mean by social transition?	3
What are USAID/E&E's comparative advantages?	5
USAID's Financial Contributions to the Social Transition, 1992 – 2000	6
B. Critical E&E Social Issues in the 1990s and Beyond	7
Humanitarian Crises and Burdens	7
Deteriorating Health and Health Delivery Systems	8
Increased Poverty and Income Inequality	13
Inadequate and Unsustainable Social Insurance Systems	15
The Challenge of Unemployment and Labor-Market Rigidities	17
Special Concerns Regarding Vulnerable Groups	20
Need for Educational Reform	21
Note on Gender Issues	22
C. The USAID/E&E Social Transition Strategy	23
The Strategic Framework: What's New?	24
Strategic Assistance Area III: Social Transition	24
Revised SO 3.1 – Strengthened Humanitarian Response to Crises.	25
Revised SO 3.2 – Increased Promotion of Good Health and Access to Quality Health Care.	28
SO 3.4: Mitigation of Adverse Social Impacts of the Transition to Market-based Democracies.	31
D. Implementation Progress and Next Steps	37

2/7/00

BROADENING THE BENEFITS OF REFORM in Europe and Eurasia

A Social Transition Strategy for USAID

A. Why a Social Transition Strategy?

The real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This simple but powerful truth is too often forgotten in the pursuit of material and financial wealth.

-- U.N. Human Development Report, 1999

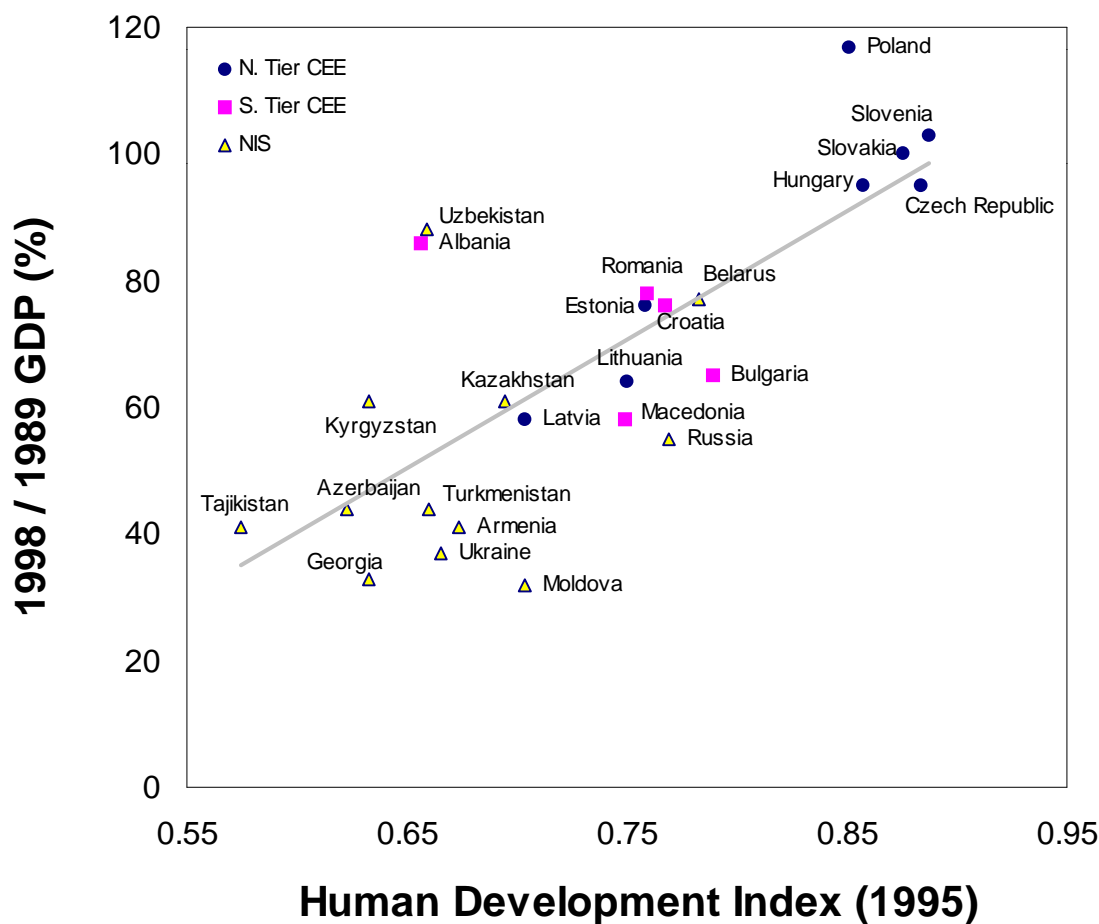
“A rising tide lifts all boats” has been an underlying premise of USAID’s assistance programs in Europe and Eurasia. Indeed, helping countries strengthen business-friendly market environments and build robust economies based on privately-generated economic activity remains the best long-term strategy for generating economic growth that leads, in turn, to improved living standards in all countries. However, recent reexaminations of the basic assumptions behind USAID’s E&E programs and of the actual conditions prevailing in the region have led to a conclusion within the E&E Bureau that this approach is not, by itself, sufficient to achieve the desired goal of broad-based prosperity and good quality of life in the medium term. Absent attention to the adverse socio-economic legacies of the communist systems and to the social impacts of the transition itself, these problems may act as a dragging anchor on the transition ship. It is also apparent that even where countries have resumed healthy economic growth -- for example, in Poland -- some populations are unable, for various reasons, to enjoy the benefits of growth without targeted support in the short term.

While not equal to the western industrial countries, when compared with the developing world the Soviet bloc countries enjoyed relatively favorable social conditions: high literacy and life expectancy, low infant and child mortality, very low poverty and unemployment rates, high income equality and virtually universal access to health care and education. Each of these indicators has shown significant decline during the transition years. The World Bank has noted that in all regions of the world, countries’ ability to manage the social costs of structural adjustment have depended significantly on governments’ ability to maintain public investments supporting human capital, especially health and education. By this standard, it is not surprising that the countries of the E&E region are suffering from adverse social impacts, since spending on social sectors has declined markedly throughout the region.

Figure 1 shows the correlation between economic performance and social conditions in the E&E region, as measured by the *U.N. Human Development Index*.

Figure 1

Human Development and Economic Growth in the Transition Countries



Note: The Human Development Index (HDI) is based on three indicators using 1995 data: longevity, as measured by life expectancy; educational attainment, as measured by a combination of adult literacy and combined primary, secondary, and tertiary enrollment ratios; and standard of living, as measured by real per capita GDP (\$PPP). The HDI ranges from 0 to 1, with higher values representing greater human development. UNDP, Human Development Report 1998 (May 1998); EBRD, Transition Report Update (April 1999).

It is with this perspective that the E&E Social Transition Working Group (STWG) was formed to develop this Social Transition Strategy (STS) for the E&E region. The STWG has met regularly over the last six months to analyze social trends and issues in the region and to discuss how USAID can most effectively address them with limited financial resources, in country and regional programs already defined and at a relatively advanced stage of maturity. The work was initially organized around 11 sub-topics, each of which was addressed by small teams within the Working Group, each of which produced a discussion paper. The papers were discussed by the STWG members and others at a day-long workshop in April 1999.

Participants in the work of the STWG and the development of the STS have included representatives of all of the E&E Bureau's technical offices as well as the Global Bureau. Specialists from other USG agencies, the World Bank, UN organizations, private firms and non-governmental organizations have also met with the STWG on several occasions. This paper is the outcome of the STWG's work, supplemented by discussion and comment in E&E field Missions and among reviewers both inside and outside the Bureau and the Agency. The STS paper will serve as the basis for the Bureau's approach to social transition programming in the overall E&E Strategy for 2000-2005.

What do we mean by "Social Transition"?

The momentous events of the last decade have demonstrated that capitalism and democracy together hold the greatest potential for raising living standards, producing wealth and a better quality of life for the greatest number of people. However, everywhere in the world the ability of individuals to avail themselves of these benefits varies significantly by geography, gender, education and skill level, household structure, ethnic group, employment status, and existing social and legal frameworks. It is widely understood that in every society there remain problems and populations requiring publicly financed support, and the E&E region is no exception. In this region, the momentous process of change from old to new systems is inherently stressful and produces both winners and losers, especially in the short and medium term.

Social systems deal with individual and community problems that cannot be adequately or entirely addressed through market mechanisms because of market imperfections, information barriers or other impediments. Societies with democratic values and a belief that people should have the opportunity to reach their fullest potential and enjoy the benefits of their economic endeavors also generally adhere also to the principle that all citizens are entitled to certain minimum standards of health, safety and well-being. Governments are seen to have a responsibility to ensure that these expectations are realized, either by direct provision or - - increasingly, in open systems -- by mobilizing the resources and efforts of others. In addition, citizens themselves are recognized as having responsibility to use the means available to them -- including the ballot box -- to contribute to their own welfare.

In common with (and as part of) the transition to market-based economies and democratic political systems, the social transition requires changes at many levels. Reform of social systems to serve open societies and market economies involves:

- **Establishment of public and private consensus on broad goals and values to be pursued in social policy, as well as on the roles and responsibilities of key actors.** This consensus is often achieved through adoption of a constitutional provision or human rights declaration laying out the rights and expectations of all citizens regarding quality of life and access to the basic services needed to attain these rights (such as adequate shelter, health care, education, energy, water and sanitation).

- **Promulgation of new or restructured legal authorities and policy frameworks needed to realize the agreed-on goals.** This entails passage of laws, regulations and policies enabling both public and private providers of social services to address identified social needs of specific populations. Particularly critical in this regard is fiscal decentralization, since in most countries, responsibility for social welfare functions and financing has been shifted to local governments from state-owned enterprises and central ministries. However, revenue generation authorities are not fully devolved, leaving local governments unable to carry the burden of social responsibility. In addition, authority over social policy is frequently retained in central government ministries, leaving communities unable to set priorities according to local needs.
- **The financial means to manage and sustain sound social programs.** Pending full fiscal decentralization and the growth of local revenues sufficient to finance social services, most social budgets will continue to come through transfers from central government in the near term. Slow or negative economic growth, poor tax collection and budget austerity requirements (including those imposed by the IMF) have resulted in sharply lower and often erratic transfers and expenditures for social programs. Persistent inefficiencies in the programs and poor targeting of benefits also reduce the effective level of resources available for these purposes. The social transition needs to remedy these inefficiencies (for example through careful targeting of publicly-financed safety nets to those in need) and include explicit means for efficient fiscal management of social programs and stable flows of resources to sustain them, whether locally or centrally controlled.
- **New paradigms for social program administration and burden-sharing among public and private providers of services.** . A successful social transition will require replacing systems based on universal subsidies with those using cost-effective, carefully targeted benefits to help those who cannot otherwise obtain access to basic needs such as shelter, energy and clean water. Such systems will reflect a basic orientation toward individuals sharing responsibility with governments for meeting one's social needs where possible, while governments maintain lead responsibility for a safety net for those with special needs who cannot undertake such responsibility. In place of reliance on central control and exclusive governmental (or enterprise-based) provision of services, new systems must allow for participation of private organizations in the delivery of social services, with government playing the key regulatory or oversight role to ensure high quality, as well as conducting social policy research, maintaining statistical records and promoting innovation. E&E countries are just beginning to recognize that non-governmental organizations (NGOs) and private businesses have a legitimate and valuable role to play in providing social services, in partnership with local and national governments. The new systems must also provide for public participation in transparent decision-making processes, and public availability of information to ensure that community needs are met and responsible public officials are held accountable for cost-effective, high-quality services.

- **Strengthened public and private institutions and human capacity in relevant professional disciplines.** Most social service ministries, local agencies and service providers in the region have highly-trained professionals (such as physicians) in key leadership positions, but these officials are not well prepared for the new systems that will emerge from the transition. For operation of efficient, high-quality programs, training and institutional development are urgently needed, focused on management, resource efficiency and quality control. In addition, some professions, such as social workers and nurse practitioners, are practically unknown in the region; establishment of these and similar professions is an essential part of the social transition.

Putting these systems in place will require time, resources, and experimentation with innovative approaches tailored to local conditions. The task is enormous. USAID's role can only be a small part of the endeavor, and must be built on our comparative advantages. While a strategic framework and illustrative activities are offered in a later section of this paper, USAID field missions will need to determine where and how best to incorporate social transition initiatives into the specific contexts of their country strategies.

What are USAID/E&E's Comparative Advantages?

As in other aspects of the transition process, USAID enjoys comparative advantages in the following areas:

- USAID/E&E (encompassing both Washington and the field) and its implementing partners have a wealth of experience providing technical assistance and training in the development of legal and regulatory frameworks, in demonstrating effective and replicable models of reform through pilot projects, and in building local institutional capacity. Increasingly, USAID has moved from "traditional" modes of technical assistance, to partnership mechanisms that link institutions in E&E countries with similar organizations either in the U.S. or in other E&E countries. Experience to date indicates that the partnership approach is particularly appropriate and effective in the social arena.
- USAID's experience in a variety of sectors has demonstrated the powerful potential of our work in policy reform and capacity development to leverage and mobilize large-scale investments by other donors, international finance institutions, private strategic investors, and the countries themselves. USAID is able to respond to needs more quickly than the development banks and to provide grant-financed technical services that help shape the direction of larger-scale bank loans. While USAID cannot expect to make the large social investments required by the transition with the modest USG resources available, this should not deter us from using our limited means as a catalyst, with the explicit aim of leveraging the resources of others. Donor coordination is especially important in this regard, and is likely to occur most often and effectively at the technical level both in Washington and in the field.

- USAID has a broad range of economic and democratic reform activities underway or planned that can usefully incorporate social transition components at modest cost in financial and management terms. Those particularly appropriate for “imbedding” social transition activities include privatization, fiscal reform, legal and regulatory development, civil society development/NGO strengthening, local government, energy and environment.
- USAID/Washington’s system of strategic management, organized around Program Objective Teams (POTs) for each of the Bureau’s Strategic Objectives, facilitates the transfer across borders of best practices and lessons learned. To date, the absence of a coherent strategy for the social transition has meant that this system has worked less effectively in the social sectors than in economic and democratic programs. This lack was highlighted by one USAID consultant active in social reform efforts in Ukraine, who noted in a recent report: “Since the beginning of the project in 1995, USAID has convened no seminars or workshops on social sector reform in which members of the project team were invited to participate. No USAID publications have covered the results of the program...The absence of any opportunities to discuss the program with other USAID missions or with contractors working on similar activities in other countries has undoubtedly reduced program impact and sustainability.” The strengthening of the existing SOs and POTs for social reform and the creation of an additional SO (and related POT) will greatly enhance the use of this important capability.

USAID’s Financial Contributions to the Social Transition, 1992-2000

In USAID/E&E’s three-pronged strategic approach to the transition process – embodied in its three Strategic Assistance Areas (SAAs) for economic (SAA1), democratic (SAA2) and social transition (SAA3) – the social transition SAA has received a disproportionately small amount of funding over the last eight years. Excluding humanitarian assistance (which has involved large emergency commodity programs such as winter fuel and agricultural inputs), the social sectors have accounted for only 7% of USAID funding for Europe since 1990, and 8% for Eurasia since 1995 (see Figures 2 & 3). One cannot draw simple conclusions from this picture, since technical assistance for economic transition is more likely to involve expensive consulting services than either social or democratic programs, both of

USAID Budget Support for Europe, FY 90 - 99

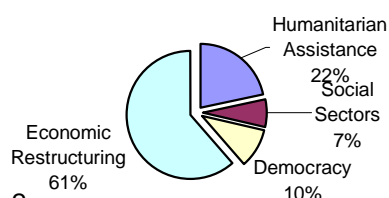


Figure 2

Cumulative USAID Budget Support for Eurasia, FY 95 - FY 99

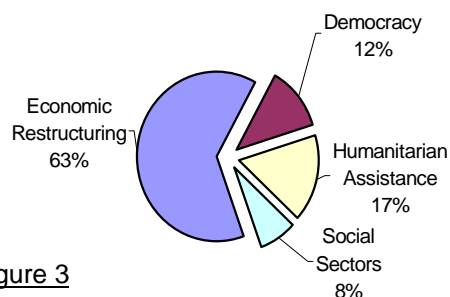
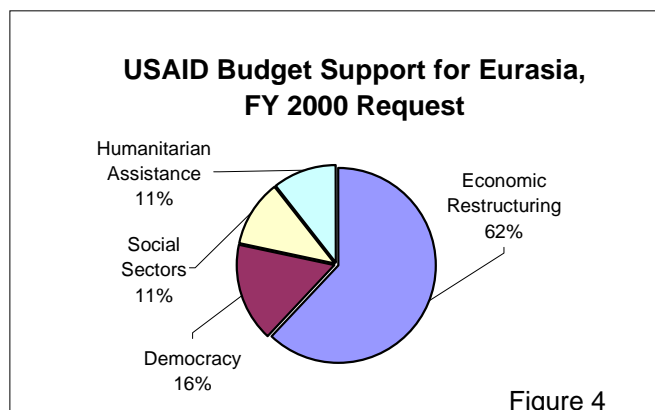


Figure 3

which rely to a much greater extent on mechanisms involving low-cost non-governmental organizations (NGOs) whose programs involve cost-sharing and voluntary efforts. Further, some programs beneficial to the social transition (such as pension reform and assistance to help strengthen indigenous social-service NGOs) are imbedded in the economic and democratic figures. However, the numbers unmistakably reflect the lower priority given to social transition programs up to the present time. Planned expenditures for FY2000, shown in Figure 4, show a notable increase in the social sectors, driven largely by Congressional earmarks and directives in the health area.



B. Critical E&E Social Issues in the 1990s and Beyond

The following sections describe the experience of the E&E transition countries since the fall of communism and highlight the socio-economic issues identified by the STWG as most significant in the region at the outset of the new century.

Humanitarian Crises and Burdens

The E&E region has suffered over the past decade from a series of complex emergencies, caused or exacerbated by conflict, requiring broad and flexible utilization of humanitarian assistance tailored to the particular situation in a country or region. Countries that have experienced such crises include Tajikistan, Georgia, Armenia, Azerbaijan, Bosnia-Herzegovina, Croatia, Macedonia, Russia (Chechnya) and Yugoslavia (Kosovo). The complex emergencies in the region to which USAID responded are the result of:

- ethnic fighting, causing massive movements of population;
- large numbers of refugees and internally displaced persons remaining for extended periods in camps and collective centers;
- economic collapses and market failures, resulting in governments left without resources and with weakened or compromised leadership; and
- the wholesale breakdown of institutions of social welfare, education, health and public safety.

These emergencies contributed to the serious delay or disruption of the reform process in the affected countries, as shown by their relatively poor performance in all major economic, political and social indicators. Only Georgia among these countries has begun to show signs of real economic recovery and democratic reform in the last two years.

Most recently, of course, Kosovo demonstrates the ongoing challenges facing the region in trying simultaneously to respond to humanitarian needs while simultaneously promoting democratic and economic reform.

Deteriorating Health and Health Delivery Systems

Faced with economic crises, virtually all governments in the E&E region have cut back on national budgets for social services, including health. These reduced resources have caused the continued deterioration of systems that were not satisfactory to begin with. In most Southern Tier Europe and most Eurasian countries, health systems represent sectors in crisis, characterized by the following trends:

- Physical and human resources for health care are continuing to deteriorate;
- Life expectancy and many other health indicators are continuing to decline, and populations are both aging and shrinking;
- The mortality rate for children under the age of 5 is increasing due to a dramatic upswing in the incidence of two environmentally related childhood diseases: diarrheal diseases and acute respiratory infections;
- Epidemics are underway or looming in such diseases as tuberculosis, HIV/AIDS, hepatitis and STDs, all diseases which disproportionately affect the most economically productive age groups;
- Most people have access only to abysmal health care, and are unable to afford the medical care they need; and
- While active patient/citizen participation in promotion of good health is growing, it remains very limited.

Governments are increasingly unable to rectify the situation with the declining fiscal and institutional resources at their disposal, yet they ignore the problems at their peril as health crises, such as the epidemic spread of tuberculosis and HIV/AIDS, loom ever larger. USAID has focused modest resources on health crisis management and on health-sector restructuring, including the development of models for health care delivery involving increased reliance on private-sector approaches and on cost-effective primary and preventive health care. But constraints on funding, limited programmatic flexibility due to earmarks, and limited availability of technical staff have curtailed these programs and limited their systemic impact.

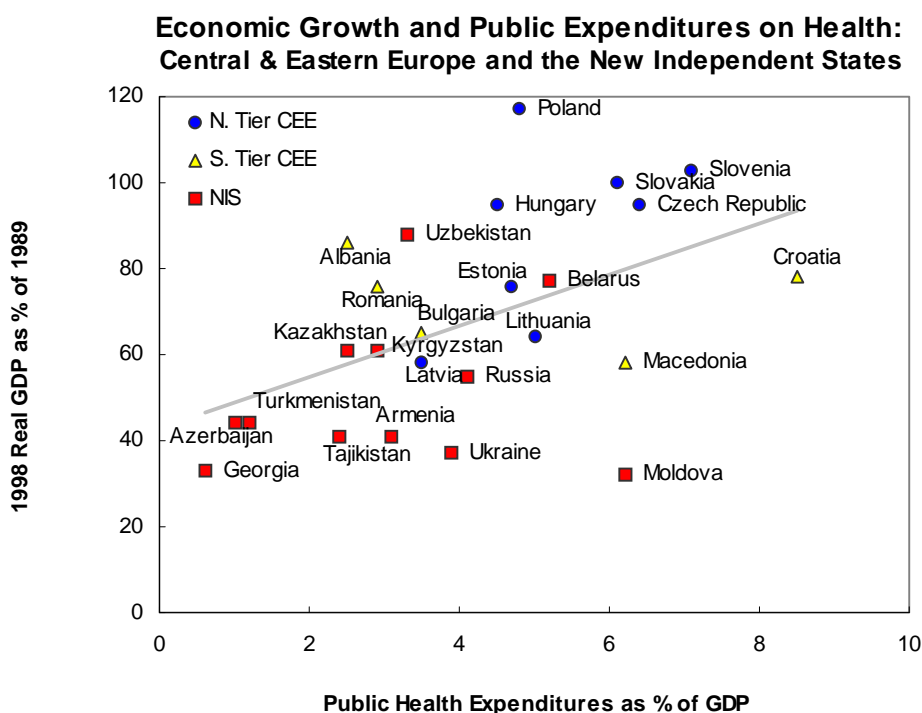
Increasingly, E&E countries and international donors including USAID are discovering that the diversion of resources from health care has impeded economic growth and the overall transition. These foregone investments in health have eroded support at the ballot box, reduced worker productivity, hindered the restructuring of enterprises, contributed to civil unrest, increased the cost of future health needs, and jeopardized the welfare of individuals, communities and nations.

Worldwide, health status indicators have been shown to be valid determinants of economic progress. Below are three illustrations of this correlation within the E&E region:

Figure 5 compares economic growth and public expenditures on health. Most of the Eurasian countries show low public expenditures for health and low economic growth, especially when compared with Northern-Tier countries. This picture also reflects disproportionate reductions in lower cost, preventive care (previously paid by the state) compared with higher-cost treatment and tertiary care that is funded largely by individuals through out-of-pocket payments.

Most E&E countries allocate well over half of their health budgets to hospitals, leaving little money for basic outpatient health services. This ratio must be reversed if basic health services are to be protected and expanded.

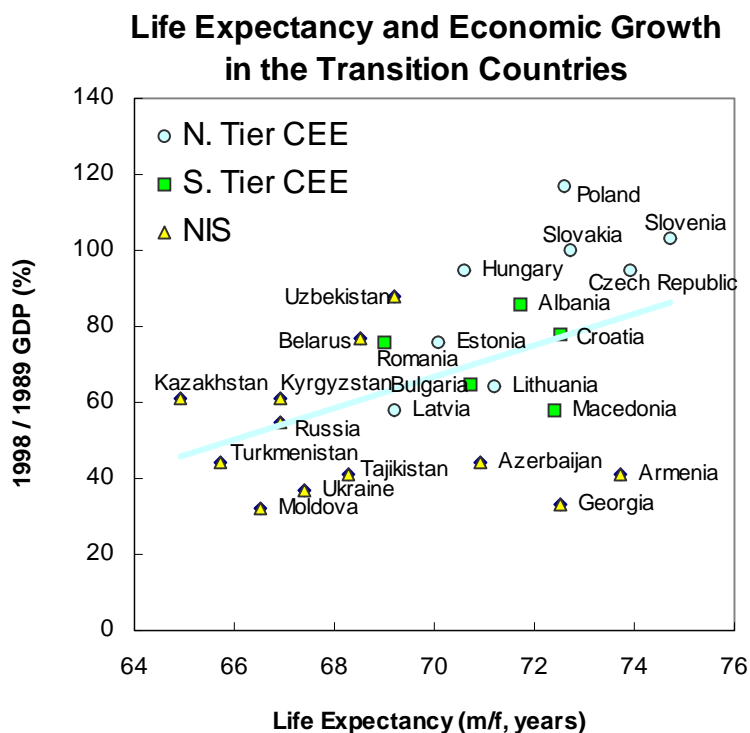
Figure 5



World Bank, World Development Indicators 1999 (March 1999) and EBRD, Transition Report Update (April 1999)

Figure 6 compares economic growth and life expectancy, reflecting worldwide trends. The world's 41 most highly indebted countries have an average life expectancy of 51 years, compared to an average of 78 years for industrialized countries. It is the trends within the E&E region that are most concerning. Life expectancy has declined in the Baltics, the European Southern Tier and most Eurasian countries. In Russia, life expectancy for men dropped by nearly six years (to 58) from 1989 to 1995. While the leading causes of mortality continue to be

Figure 6



World Bank, World Development Indicators 1999 (March 1999) and EBRD, Transition Report Update (April 1999)

cardiovascular disease and cancers, striking increases are being experienced in deaths due to injuries, and stress-related causes such as accidents, violence, and suicides. Continued neglect of healthy lifestyle practices such as diet, smoking, exercise and alcohol consumption, is also a key factor in the epidemiological profile. Moreover, huge jumps in the incidence of infectious diseases also are being experienced. Devastating from an economic perspective is that the fastest deterioration in life expectancy is among the most economically productive populations.

Perhaps the most striking of these illustrations, however, is Figure 7, which illustrates the change in under-five mortality rates between 1990 and 1997. Among 55 USAID-assisted countries in the geographic bureaus of ANE, AFR and LAC, only three countries (5%) experienced constant or increasing under-five mortality rates over the period from 1990-1997. By contrast, among 24 countries in the E&E Region, 15 (63%) experienced increases in the under-five mortality rates from 1990-1997. Only Croatia, Cyprus, Hungary Latvia, Poland, Romania, Slovakia, Slovenia and Turkey experienced decreases in the child mortality rates.

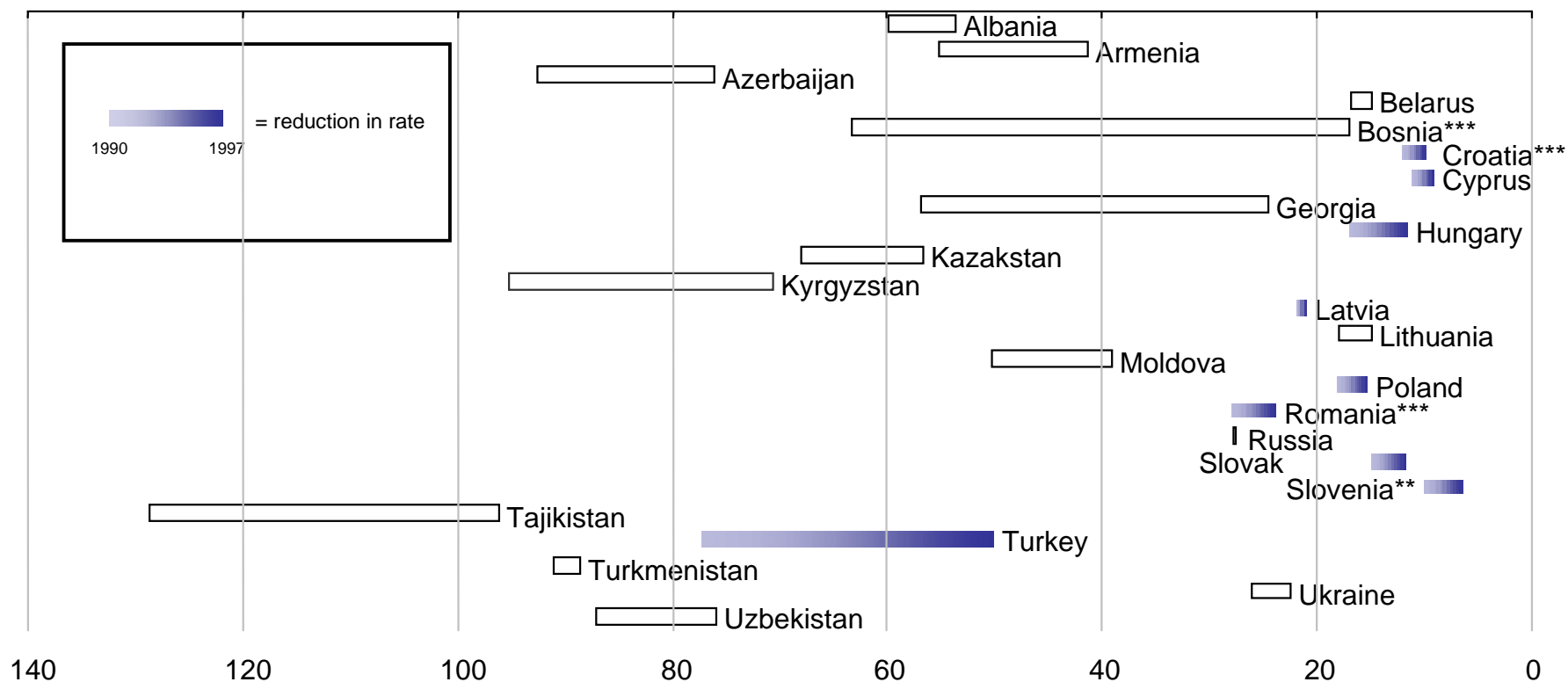
Causality probably works in both directions. A strong economy improves health expenditures and health indicators as well. Nevertheless, these are but three illustrations of the impact of deteriorating health on the economic transitions of E&E countries. There are more. The repercussions of just these three, however, are significant. The populations in Europe and

Figure 7

11

UNDER-5 MORTALITY RATE IN CEE/NIS COUNTRIES

Bars reflect change in under-5 mortality rate, 1990-1997



Source: US BUCEN International Database

* Country (unweighted average)

** 2007 Plan from APP 2000

*** When 1990 data was unavailable, the closest available year was used.

Albania, Armenia, Azerbaijan, Belarus, Bosnia, Georgia, Kazakhstan, Kyrgyzstan, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan all experienced increases in their Under-5 mortality rates.

many Eurasian countries are declining, aging, and becoming less productive. Foregone care ultimately comes back to society as increased costs for more serious health care needs. Older populations demand a disproportionately large share of health care, as well as pensions, housing subsidies and other social services. Populations with relatively fewer young people greatly increase the burden of dependency that each productive worker must bear. And lower worker productivity greatly extends the time necessary for families, communities and nations to make the economic transition successfully.

A further point that frequently escapes policy makers is the contribution the health industry makes to the economy. In addition to supporting the well-being of the public and the labor force in non-health sectors, the health sector is a large economic sector that also produces goods and services contributing to national economic growth and output.

Nowhere is the impact on productivity, infant mortality and life expectancy more dramatic than in environmental health issues, which, when dealt with, are among the most powerful and cost-effective measures in improving the quality of human life. Decades of uncontrolled environmental degradation from poor industrial practice and agricultural policies and practices in E&E countries have taken their toll in contaminated air, water and soil, the health consequences of which have only begun to emerge. These formerly socialist economies have a high prevalence of cancers and respiratory ailments due to industrial and agricultural pollutants. In addition, E&E countries are experiencing a resurgence in poverty-related diseases due to lack of clean and sufficient water, uncontaminated food and clean air. Epidemics such as hepatitis (A and E), diphtheria, cholera and typhoid are chronic to the region. Economic, social and political crises have accelerated deterioration of infrastructure systems such as water and wastewater facilities. As a result childhood diarrheal diseases have increased and contributed to higher infant and child mortality.

Historically, the region had strict environmental laws and regulations but lacked both the institutional capacity to enforce them and economic incentives to eliminate environmental health hazards. Data collection remains insufficient, and policies to address the impact of the environment on health are weak or non-existent. Furthermore, there is very little public awareness, community mobilization and participation in mitigation of environmental health risks, although some environmental NGOs have been important and vocal advocates for improvement.

One can conclude from this discussion that E&E countries' economic growth and successful transition to market-based economies will be impeded by the relative neglect of public health continues. Inadequate and inefficient investments in health have been major factors in declining health, declining productivity and declining support for the democratic and free market transition in the E&E region. The inescapable prescription for E&E countries and USAID is higher spending levels, and more efficient spending priorities.

Increased Poverty and Income Inequality

A large and stable middle class is a keystone to stable democratic systems and dynamic economies; conversely, its absence is a threat to both. The reality of much of Europe and all of Eurasia is the small size and fragility of the middle class. In many countries, an underclass of the chronically poor is large and growing, is becoming a threat to both economic and political reform, and is a burden to governments that are increasingly incapable of dealing with it in their budgets. Further, income inequality has increased dramatically in the region. While data on poverty are inadequate and problems exist even with its definition in the E&E region, available information supports the conclusion that poverty needs the explicit attention of government policy-makers and donors in the short and medium term if it is not to impede longer-term economic and democratic goals.

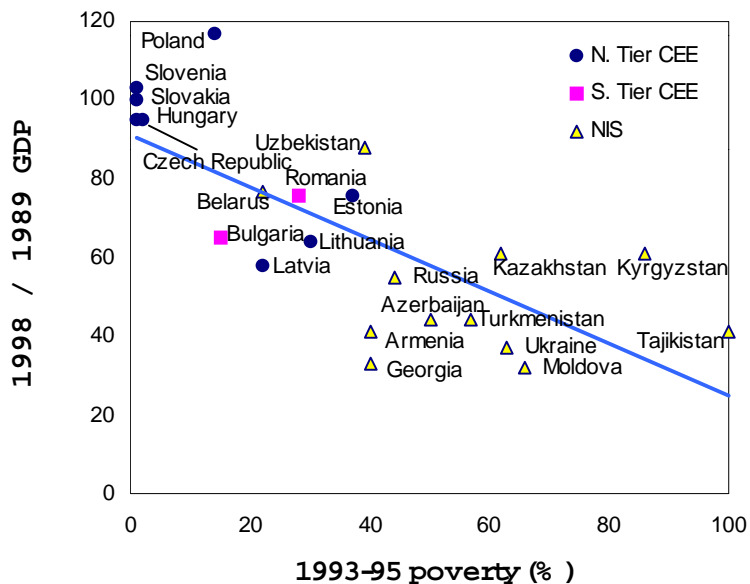
The UN estimates that the percentage of people in the E&E region living below an absolute poverty line of \$100 per month (on the basis of purchasing power parity) grew almost tenfold between 1989 and 1994, from about 13.6 million to 119.2 million people. More recent data indicate that poverty continues to grow in the region, and is becoming a persistent problem within some population groups.

Measuring poverty presents significant challenges in the E&E region, and it may be misleading to use an absolute poverty threshold based on income because statistics are sparse and often suspect. Measurement of consumption patterns and/or assets may be more reliable in many cases, but differences in the value of minimum subsistence requirements make cross-national comparisons difficult on the basis of any definition. Within countries, relative poverty – a concept that compares income or consumption patterns across population groups and sets the poverty line at a fixed percentage point below the median or average household – is used as the standard in some places, and may be more useful for targeting vulnerable groups. This approach shows much greater sensitivity to national and sub-national variations in poverty across the region. In Armenia, for example, the incidence of poverty ranges from 38% to 63% among regional administrative units in terms of relative poverty. As striking as that is, the differences within regions are even greater, reflecting such things as differences in land productivity and access to urban markets.

Household expenditure surveys are also used to estimate and characterize poverty. Despite data problems, these surveys do provide yet another perspective on local poverty by showing that many households expend virtually all of their incomes on basic necessities. When taken together, the various estimations confirm that the E&E region has experienced the sharpest decline in living standards of any region of the world during the 1990s.

The most fundamental reason for persistent and growing poverty in the European and Eurasian countries is the slowness with which countries have stemmed the contraction of their economies and resumed growth. As of 1998, only five countries – Poland, Hungary, Slovenia,

Poverty and Economic Growth in the Transition Countries



Note: Overall poverty rates for most countries measure the percent of population in 1993-95 living below poverty line of \$120 per capita per month at 1990 international prices; for Armenia, Azerbaijan, Georgia and Tajikistan the poverty threshold is \$100 per month. Economic growth is measured by 1998 real GDP as a percent of 1989 level. Data are from EBRD, *Transition Report Update* (April 1999), Branko Milanovic, *Income, Inequality, and Poverty during the Transition from Planned to Market Economy* (World Bank, 1998), and UNDP, *Poverty in Transition?* (July 1998).

Slovakia and the Czech Republic – had recovered to at least 90% of their 1989 GDP levels.

Seven countries

were between 60% and 80% of 1989 GDP, while 11 remained at or below 60% (four of which were below 40%). While poverty data lag behind economic growth statistics, Figure 8 shows the strong correlation between the two. For governments, slow or negative economic growth in the formal economy has a profound impact on tax revenue, compounded in most cases by poor tax compliance. These problems in turn impose severe fiscal constraints on pensions and other social welfare payments, as well as public-sector wages, resulting in arrears in many countries and declining living standards for many people. The UNDP estimates that a decline of one percentage point in Russian GDP results in an increase of 700,000 people to the poverty category.

Increased income inequality is closely correlated with increased poverty and lagging economic growth during the transition, particularly in Eurasia. Under the old regimes, incomes were distributed far more evenly throughout the E&E region than in the OECD countries. Gini coefficients for E&E countries ranged between .20 and .30 compared with an average of .33 for the OECD countries. (The higher the Gini coefficient, the more inequitably income is distributed.) This difference reflected not only the lower wage disparities in socialist economies,

but also the equalizing effect of universally available social benefit programs. Since the collapse of communism, according to UN data, the Gini coefficient has risen dramatically in every E&E country for which income distribution statistics are available, with the exception of Hungary. Russia has the greatest income inequality in the E&E region, with a Gini coefficient of .48, but increases between 1989 and 1996 have been greatest in Romania (61%), followed by Russia (56%), Belarus and Estonia (54%), Kyrgyzstan (49%) and Ukraine (48%) . Average increases have been much lower in Europe (32%) than in Eurasia (48%), and income distribution remains more equitable in the European countries as a group than in most middle-income and OECD countries.

Increased income inequality also correlates strongly with declines in national economic output – that is, the countries that experienced the largest and most sustained drops in GDP and have been slowest to regain their 1989 levels also suffered the biggest increases in income inequality, as shown in Table 1 and Figure 9. Other factors associated with increased income inequality include wage and price liberalization, the absence of progressive taxation and of effectively targeted subsidy programs capable of smoothing income and consumption discrepancies.

Who are the poor? Despite televised images of elderly Russian “babushkas” selling vodka or personal belongings on the street, the data indicate that the *increase* in poverty has been most significant among children, female heads of household, the unemployed, minorities, and new labor force entrants, especially low-wage/low-skill male workers. Pensions have, in most countries, been somewhat better protected from erosion by inflation, budget cuts and arrearages than have wages and child-related benefits. Older people have also relied significantly on family transfers, ongoing housing subsidies and self-help means such as garden plots. But pensioners – a high percentage of who are women – are indeed found in significant numbers among the poor.

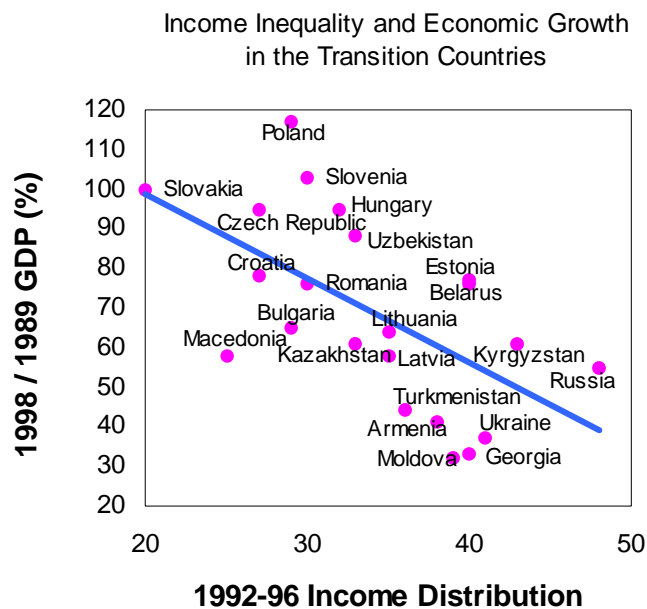
On the positive side, available data indicate that poverty is relatively shallow in the E&E region – that is, a relatively minor increase in income (10% is the figure usually cited) would significantly reduce the number of people below the poverty line, however defined. It is also generally understood that poverty and income inequality have been cushioned to some extent by informal safety nets (such as home-grown food, employment in the informal sector and family support).

The most critical short-term need for the E&E region’s populations in poverty is to ensure that safety net programs are in place to provide them with access to basic human needs – food, shelter, energy, water and health care. USAID has assisted several governments in developing targeted subsidies aimed at these groups, using various means-testing approaches to screen for eligibility. USAID assistance in the housing sector in Russia and Ukraine, involving privatization and elimination of universal subsidies, led to the development of targeted housing allowances that also include allowances for utilities.

Income Inequality in the Transition Countries

Country	Gini Coefficient
Russia	48
Kyrgyzstan	43
Ukraine	41
Belarus	40
Estonia	40
Georgia	40
Moldova	39
Armenia	38
Turkmenistan	36
Latvia	35
Lithuania	35
Kazakhstan	33
Uzbekistan	33
Hungary	32
Romania	30
Slovenia	30
Bulgaria	29
Poland	29
Croatia	27
Czech Republic	27
FYR Macedonia	25
Slovakia	20

Figure 9



Note: Income distribution is measured by the Gini Coefficient, which ranges from 0 to 100; the higher the figure, the greater the inequality. Income data are most recent available over the period 1992 to 1996. Data are from EBRD, *Transition Report Update* (April 1999); World Bank, *World Development Report 1998-1999* (November 1998); UNICEF, *Education for All?*, The MONEE Project, #5 (1998).

Inadequate and Unsustainable Social Insurance Systems

A hallmark of all the old socialist systems was the provision of a basic level of cradle-to-grave social protection to all citizens, including universal subsidies for housing, utilities, health care and other social services, as well as income after retirement. Additional subsidies were targeted at certain privileged groups (such as military veterans or mothers of soldiers killed in conflict). Unemployment income support was viewed as a non-issue, because unemployment was officially non-existent. Disabled populations were generally cared for in public institutions. The cost of maintaining all these benefits in the years leading up to the collapse of communism has been estimated by the World Bank at up to 15% of GDP in many countries.

The quality of state social services is now understood to have been mediocre to poor and their administration highly inefficient in many communist countries. These systems consumed

large portions of state budgets. Their continuation in a restructured fiscal and economic environment is clearly not financially sustainable. As a result, they have largely collapsed over the last decade as falling economic output, greatly reduced tax collections and fiscal austerity requirements of the IMF reduced governments' expenditures for social programs and created large arrearages in many countries. At the same time, high inflation reduced the value of benefits received, and marked increases in unemployment, worsening health conditions and an aging population is increasing demand for benefits.

One of the roles maintained by governments in most market-oriented countries is that of an important (but not usually the sole) provider and administrator of social insurance systems to cover risks and costs associated with unemployment, retirement, disability and health care. In many countries, including the U.S., debate continues over the best means to sustain these systems over the long run. Primary responsibility for financing and administering most pension and unemployment insurance systems remains with governments in most E&E countries. The challenge of developing viable insurance schemes with or without increased private responsibility is particularly great for the transition countries, however. Nascent capital markets, weak economies, excessive social taxation rates and poor tax collection, newly-hardened budget constraints and leftover expectations that "the state will provide" restrict program resources and hamper reform. Massive inefficiencies and universal subsidies need to be eliminated, so that government budgets can sustain benefits and excessive social taxation can be reduced, making the effective cost of labor less expensive (thereby encouraging more new employment in the formal economy). In short, social insurance systems require complete redesign in most countries.

Since the start of the transition, a number of countries have initiated new social insurance programs in an effort to maintain access and improve services available for unemployed workers, families in need of health care, disabled persons and the elderly. Many of these were developed with support from the World Bank and other donors, including USAID on a limited basis. Results have been mixed, however, for a number of reasons -- most importantly, a continuing lack of financial resources and limited capacity of government institutions.

USAID is particularly active in pension reform in a number of countries in the E&E region. These reform efforts are helping countries to address problems of inadequate funding to sustain government pension systems and to maintain regular and adequate income levels for the elderly. While improving the efficiency of existing "pay-as-you-go" governmental systems, they are also introducing mandatory and voluntary private pension schemes where functioning capital markets and regulatory systems are in place. USAID is helping to create models appropriate to different countries' status and needs.

Health insurance experiments are also underway in some areas, mostly in local pilot projects (including some involving private insurers and/or health service providers, including HMO-like organizations). Unemployment and disability insurance are much less broadly addressed in efforts to date. The social insurance field needs considerably more attention from

donors and governments, most of it beyond USAID's funding capacity, but focused efforts to develop policy frameworks and models could leverage significant IFI resources in this area.

The Challenge of Unemployment and Labor-Market Rigidities

A flexible, efficient and productive labor force is needed for a successful transition to market economies and democratic societies, as well as for integration of European and Eurasian countries into the fast-changing and highly competitive global economy. Where workers lack currently-needed skills and opportunities, economic stagnation or even collapse may occur. Where organized labor senses its vulnerability and resists reform, political consensus breaks down and unrest often follows. Where workers suffer layoffs and long-term unemployment, social ills arise.

Available data indicate that poverty, unemployment and negative economic growth are closely correlated. Concerns about massive unemployment and related unrest or political vulnerability of current leadership have arguably been a major factor in the timidity with which many governments have approached the privatization, restructuring or closure of large and inefficient state-owned enterprises overburdened by excess labor. Related issues include broader concerns about legal and other impediments to labor mobility, adequacy of skills in the workforce to meet market-based needs, and the status of worker rights and conditions, including health, safety and environmental hazards in the workplace.

The ideology of the centrally-planned economy viewed labor not as a factor to be optimized in the production function -- with its own market, value, and supply and demand curves -- but as half of the social contract that guaranteed full employment (and related benefits) to all in exchange for service to the state in fulfilling its production quotas. As a result, most industries employed far more workers per unit of output than is the case in market economies, most of them relatively unskilled, making labor productivity very low.

Among the workforce issues that have arisen during the transition to a market economy are the following:

- Many workers have been dislocated from their jobs due to economic contraction, privatization and restructuring of large state-owned industries, and the emergence of competitive markets in which low-skilled industrial workers often cannot compete successfully for new jobs requiring higher levels of education and capabilities in emerging fields such as finance and information technology;
- Social benefits historically provided to workers and their families by state-owned enterprises, (housing, child care, health care, and even food distribution) were shed as they were no longer affordable or appropriate to a market economy;

- Wage arrears and mandatory administrative leaves are creating invisible unemployment and under-employment, while leaving employees of state-owned enterprises in limbo, unable to quit or apply for unemployment benefits and still dependent upon the enterprise. Ethnic minorities, women, and the disabled are disproportionately affected by these changes and in some areas are becoming part of an emerging underclass of the poor and unemployed;
- Statutory and practical rigidities in the labor market, such as administrative restrictions on relocation, shortages of housing, and linkages between location and eligibility for social benefits, have prevented workers from moving out of stagnating local economies to seek better opportunities elsewhere;
- Labor organizations in a number of industries have become vocal opponents of enterprise restructuring because of prospects for large-scale layoffs and a lack of reemployment prospects; and
- Efforts to retrain workers, in the limited experience to date, have not achieved significant success.

Labor conditions currently differ significantly between European countries and those of Eurasia. In the European countries, restructured enterprises have shed labor and the private-sector share of employment has increased. Generous and costly public social protection programs were used to facilitate the layoffs and manage the potentially disruptive effects of this transition. But the reality is that even in those European countries experiencing real economic growth (Poland, Hungary, Slovenia, Slovakia and the Czech Republic), job creation has been slow, resulting in both an increase in open unemployment and a significant shift from relatively short-term unemployment to more troublesome long-term, structural unemployment (generally defined as lasting for more than a year), which is now in double digits in most European countries. European countries have also had to accept a high financial burden for the costs of layoffs and pensions: by maintaining high social taxation rates (hovering around 70% of payroll in most countries) and supporting labor-related restructuring costs with public funds, many European governments are actually creating disincentives to growth of the formal business sector. Ironically, too, excess employment is actually higher in some privatized industries than in the public sector, owing to the high cost to employers of shedding labor and, in some cases, to governmental restrictions on employers' discretion to lay off workers during the initial years of private ownership.

In Eurasia, financially insolvent states continue to subsidize firms or resist sending them into bankruptcy, partly due to labor opposition. Labor "hoarding" (maintaining excess workers to avoid severance costs or worker unrest) is common, as are administrative leaves, and the traditional social protection programs guaranteed by the state and state enterprises continue to exist even with little or no funding. Along with inflation and general economic contraction, these policies have resulted in much lower real wages and a growing problem with arrears in wage and social payments, but lower open unemployment than in the European countries. As one might

expect, the share of private-sector employment is smaller in Eurasian than in European countries but the informal sector is enormous.

In both the European and Eurasian countries, labor concerns have been a particular brake on privatizing and restructuring the large strategic industries, including those in the energy sector, where trade unions are especially vocal, and the sheer number of workers is greatest. USAID has worked actively to strengthen labor organizations and to promote energy-sector restructuring in many countries, and is now beginning to include explicit attention to labor and social benefit issues in its energy-related technical assistance efforts. In these and other sectors, advance preparation involving both labor and management is critical, along with measures to give retained workers a stake in the future prosperity of the companies. The U.S. Department of Labor has been working in Hungary, Poland, Romania and Bulgaria to engage management and labor together, along with community leaders, to plan for downsizing, assist laid-off workers and promote local job creation initiatives.

Privatization and restructuring do not necessarily lead to increased unemployment; on the contrary, over time they lead to increased job creation throughout the economy, and in many cases to employment growth in the privatized companies themselves. However, because many of the old, money-losing manufacturing or defense-based industries cannot survive in a market economy, and because many of their workers cannot adjust successfully to new economic demand for higher-skilled labor, particular groups of workers are evolving in many countries into a permanent underclass of joblessness. Among the most visible of these are coal miners in Romania, Poland, Ukraine and Russia. Other state sectors where privatization and restructuring present significant unemployment challenges include electric power, oil and gas and defense. These strategic industries have lagged behind small businesses in privatizing, and are just now entering a period of significant restructuring in most countries.

Working conditions are another concern for labor groups in the E&E region. Issues of worker rights, child labor, and occupational health and safety exist in most countries of the region, and are the subject of international labor standards of the ILO and the EU. Countries may need assistance in bringing their laws, policies and practices into compliance with international norms.

Special Concerns Regarding Vulnerable Groups

Hubert Humphrey once remarked that a society may be judged by the way in which it deals with its most vulnerable citizens. In the E&E region, particular risks of violence, exploitation, discrimination, poverty and neglect have become evident among children – particularly those living in institutions, thrust prematurely into the workforce, exposed to conflict, subjected to toxic or radioactive hazards, or identified early in life as mentally or physically handicapped. Poverty in the region is highest among families with large numbers of children, especially in single-parent households. Dickensian images of orphanages filled with emaciated children in confined spaces, particularly in Romania and Russia, have been widely

publicized in the U.S. Many of these children are warehoused because of cultural stigmas attached to those with physical or mental disabilities, as well as a lack of support services to enable them to remain in their families and communities. Governments incur very high costs to maintain them in orphanages, and institutional conditions have generally deteriorated in recent years as a result of government budget reductions. With other international aid agencies, USAID has begun assisting these countries to develop ways to better care for children with special needs, including orphans (many of whom in fact have one or more living parents), in families and communities rather than in institutions.

There is increasing evidence that women are suffering particularly adverse impacts from the transition process, including discrimination in layoffs and hiring, resulting in increased poverty especially in women-headed households with children. Women among the elderly are also suffering disproportionately from the loss of the value of their pensions. Increased economic stress is also leading to higher instances of domestic violence and exploitation of women in international trafficking of the sex industry. Adolescent boys and young men with limited job skills – particularly those in minority groups and outside major urban centers – may also need special assistance to make a successful entry into the workforce.

Other vulnerable groups include ethnic and religious minorities, especially those affected by conflict. The Roma have been the object of discrimination in Southeast Europe and are being assisted in some countries. With the encouragement of various U.S.-based organizations, Congress has called for special attention within U.S. assistance programs to vulnerable groups in the E&E region. As a result, USAID's annual appropriations have increasingly included earmarks and directives for specific activities (often with specifically designated countries and implementers as well). While these activities have resulted in some important achievements in local areas, they have generally been undertaken without close connection to Missions' strategic program directions and have not been adequately assessed for strategic impact. By incorporating vulnerable groups explicitly with this Social Transition Strategy, the STWG believes it will be possible to build more productively on prior efforts, to undertake more systemic reforms aimed at alleviating the root causes of the problems of vulnerable groups, and to better evaluate the impacts of these programs.

Need for Educational Reform

Systemic reform of economic and political frameworks, along with social systems, requires nothing less than changing people's fundamental mindsets and building new skills in problem-solving, innovation, risk-taking, teamwork, and taking greater responsibility for one's own well-being, individually and collectively. Achieving this is likely to require fundamental reform in the ways that learning and teaching occur in public education systems of the E&E countries, from early childhood through higher education. This is a long-term undertaking, but in the more immediate period the education sector has not avoided the crises affecting other social service systems. There are disturbing signs that existing education systems are failing to reach a growing portion of the population. Primary school enrollment rates declined across the entire

region between 1989 and 1995, except in Hungary, Lithuania and Slovenia. While the largest decreases were recorded in Eurasia – 14% in Armenia, nearly 11% in Kyrgystan and 6% in Ukraine, in the worst cases – some European countries also experienced serious erosion in their universal school enrollment records – 5% in the Czech Republic and Bulgaria. The reasons for this situation appear to be several and complex: among the documented causes are the closure of schools due to problems with physical structures (including lack of winter heat in some places) and a shortage of staff; the increasing cost to families of sending their children to school (due to elimination of free books, uniforms and supplies); and economic pressures on families, requiring older children to seek work. As in other sectors, education systems have been marked by inefficiencies and unsustainably high costs to national and local government budgets.

Secondary education also requires examination and reform in selected areas. Mounting evidence indicates that youth taught in vocational and technical curriculum streams are being taught skills no longer in demand, while lagging in the computer-based information sciences, foreign languages and practical business skills increasingly in demand. This mismatch contributes to high unemployment among new workforce entrants, which leads in turn to a host of social problems including increased drug use and crime.

Education reform is an enormous undertaking, but may be critical to a successful and sustainable transition. Indeed, discouragement over the pace of economic and political reform in many countries has led some observers to suggest that donors' strategies might be more effective if significant attention were redirected away from those still entrenched in the old ways to preparing the next generation effectively for market economies and open societies. Toward that end, USAID and other donors (including the Soros Foundation) have already experimented successfully with pilot programs to teach critical thinking, democratic values and problem-solving skills in interactive learning environments. If widely replicated, such innovative approaches should help European and Eurasian countries respond to democratic and economic opportunities and to be competitive in a world of global integration and communications.

Specifically focused on the social service sectors, USAID and others can help fill a critical need for professional development and progressive thinking in the helping professions, including social work, community-based care of disadvantaged populations, and primary health care.

Note on Gender Issues

For all the social issues and trends described above, there is statistical evidence that women are particularly adversely affected in many countries. The problems faced by women stem both from historical conditions – despite formal commitments to equality, high labor force participation and education levels – and from the transition process. Historically, labor markets have been somewhat segregated by sex, with women relegated to lower-paid and less skilled jobs. In retirement – which is usually mandated at an earlier age for women than for men, despite

their longer life expectancy – women receive smaller benefits but must often cope alone in their later years.

Available data indicate that poverty and unemployment rates are consistently higher for women than for men across the E&E region, for example. Women have been laid off disproportionately in privatizations and their rehiring has been slower. Within the social sectors such as education and health, where female employment is high, the impacts of restructuring, downsizing and wage arrears have fallen hardest on women. The health problems of women require significant attention, particularly in reproductive health, family planning and maternal health. Women are suffering increasingly from the growing problems of violence and conflict.

It is apparent, then, that gender concerns need to be better understood and addressed appropriately in all aspects of social transition and reform. USAID can assist in this effort through greater analysis of gender issues, promotion of gender-sensitive policies, and introduction of targeted programs in selected areas, such as reproductive/women's/maternal health, domestic violence and sexual trafficking.

C. The USAID/E&E Social Transition Strategy

To address the critical social issues arising from the transition process in Europe and Eurasia -- as well as the legacy of economic, social and political systems that existed before the start of the transition -- **the E&E Bureau has developed a Social Transition Strategy (STS) that**

- Strengthens E&E's existing Strategic Assistance Area (SAA) 3 Framework by introducing a new goal statement for social transition, initiating a new Strategic Objective 3.4*, focused on mitigation of transition-related social impacts, and refining SOs 3.1 (on improved humanitarian response) and 3.2 (on health promotion and quality health services). The new SO 3.4 will enable us to direct resources explicitly toward reducing poverty, unemployment and other socio-economic problems that are now addressed on the periphery of our programs, and to manage those resources effectively for results. In addition, the modifications to SOs 3.1 and 3.2 include specific Intermediate Results (IRs) for the first time and embody a more comprehensive and strategic approach to these issues.
- **Raises awareness of social issues and of the impacts of existing and new USAID-funded activities.** As described earlier in this paper, broad understanding now exists that social issues are critically linked to the success or failure of new economic and political systems, and to popular support for reforms. This new strategy encourages further analysis of specific country and sectoral contexts, in order to help all E&E project managers design and implement programs that take social issues appropriately into account. This can be done, for example, in country strategies, R4s and "results packages" for specific activities in all three Strategic Assistance Areas, not just SAA 3. (Until a few

years ago, USAID routinely included a “social soundness analysis” in all project papers. The demise of project papers has contributed to the lack of analysis of these issues.)

- Encourages incorporation of social impact mitigation measures into economic and democratic programs in all SOs, where appropriate. While the new and revised SOs in SAA 3 will provide an opportunity to undertake targeted activities aimed specifically at social transition objectives, equally great opportunities for effective intervention lie in “imbedding” social components in other elements of USAID/E&E’s assistance programs. For example, programs aimed at privatization and restructuring of industry can be made more effective through inclusion of activities that address employment impacts and the need for continued access to social services, particularly where large-scale layoffs are anticipated. Activities designed to strengthen local governments and NGOs, both of which are frequent providers of social services, can be enhanced and can contribute more effectively to the social transition through specific attention to their functions in the social sectors.
- **Focuses activities under the new SO 3.4 on critical unmet needs in the areas of poverty alleviation** (including design of targeted safety nets), **unemployment** (including efforts to remove labor-market rigidities and other systemic barriers to reemployment of workers in a modern and competitive market economy), development of **social insurance systems**, protection of particularly **vulnerable populations** and improving **educational systems** where critical deficiencies exist.
- **Builds on USAID’s comparative advantages and relies on close coordination with the World Bank, EBRD, EU and other donors.** Following this principle will allow us to leverage USAID investments in targeted technical assistance, training and partnerships and achieve much greater impact through linkage with IFIs’ and other donors’ larger capital investments. USAID’s efforts will directly support legislative, regulatory and policy reform; institutional capacity-building; demonstration of effective social service delivery systems through pilot activities at the local level; and fulfillment of preconditions to productive governmental, IFI and private-sector investments with positive social impacts. Sustainability will be a key factor in the selection and design of activities.

The Strategic Framework: What’s New?

In considering USAID’s overall goal with respect to the social transition, the STWG concluded that our essential purpose should be to ensure that the broadest possible spectrum of citizens of the transition countries have the opportunity to enjoy the benefits of reform and to achieve higher living standards and a better quality of life. The Working Group developed the following statement to express this goal for Strategic Assistance Area 3:

Strategic Assistance Area III: Social Transition

Goal: Enhance the ability of all persons to enjoy a better quality of life within market economies and democratic societies.

The STWG discussed extensively the overriding goal of our current and proposed assistance activities in Strategic Area 3. The group was mindful of the fact that our purpose can be expressed in both positive terms – enhancement of people’s lives – and remedial ones – mitigating adverse impacts of prior systems and of the transition itself. Our goal, we decided, ought to be expressed in the most positive terms possible; hence the above wording.

The following sections describe the adjustments to be made to SOs 3.1 and 3.2, followed by a description of the new SO 3.4.

Revised SO 3.1 -- Strengthened Humanitarian Response To Crises.

The E&E Bureau assumed lead responsibility for handling humanitarian needs in Eurasia in 1992, when general economic collapse led to loss of access to basic needs for large numbers of people in Eurasia. USAID/E&E’s response to ensuing conflict in the Caucasus countries and in Tajikistan was to immediately stabilize the situation by providing for basic needs of targeted, vulnerable populations (especially food, shelter, medical supplies and services, clothes, fuel, water and sanitation). In the Balkans, following the Dayton Accords ending the ethnic fighting in 1995, the Bureau for Humanitarian Response (BHR) took the lead in providing the most immediate assistance, while the E&E Bureau supported longer-term recovery efforts, including infrastructure reconstruction.

Depending upon the specific situation, E&E has supported humanitarian interventions that evolved as quickly as possible into programs to promote resettlement, self-sufficiency and the restart of economic activity, while discouraging dependency or a sense of entitlement on the part of beneficiaries. Using grants and cooperative agreements, E&E has funded the efforts of private voluntary organizations and international organizations as its implementing partners in all these efforts.

Some missions have undertaken humanitarian assistance under SO 3.1 (or other SOs) as part of their bilateral assistance programs over time, but the linkages with other aspects of the country strategies tended to be relatively weak. "Graduation" from SO 3.1 for such countries requires, at a minimum, either (1) the recovery of the economy and civic infrastructure (government and local institutions) to begin to service the vulnerable populations, or (2) the political settlement of the civil conflict to allow the return or integration of the population displaced by the conflict. In most countries with SO 3.1 activities, USAID missions have been attempting to program these resources more effectively to complement their overall country strategies. Increasingly, missions are beginning to realize that they could use SO 3.1 activities to leverage or enhance actions needed for progress in other SOs, such as those focused on

indigenous NGO development and local government capacity-building. Even in long-running programs, however, little attention has been given to humanitarian programs during E&E/Washington programmatic reviews, where the value of linking these activities strategically with other aspects of mission programs could be more effectively recognized and emphasized. Humanitarian activities are often the most visible and tangible parts of USAID's work, both in the countries we assist and in the U.S. For most people, these activities put a human face on U.S. Government assistance.

The intermediate results (IRs) presented below reflect the relief-to-development continuum that characterizes USAID's response to disasters and conflicts around the world. At one end of the spectrum are those programs that meet the most urgent needs, but have the least long-term impact (3.1.1); at the other end are those programs that strengthen local capacity to respond to and to meet the urgent needs of the population (3.1.4). Intermediate steps on the continuum are the non-emergency humanitarian (charitable) programs (3.1.2) and the transition programs - traditional NGO development activities or programs that target vulnerable populations with the potential of longer-term impact and recovery of economic, social and political systems from crisis conditions. Recognizing the frequent conflicts in the E&E region, there continues to be a need for humanitarian activities that will alleviate the suffering of vulnerable populations over the next five years. By making more strategic decisions, greater emphasis can and should be placed on targeting the assistance to those most in need and seeking greater impact from the resources invested.

The changes recommended below recognize that E&E can better support charitable donations by seeking to have the greatest impact possible. Humanitarian assistance, unlinked to sustainable activities, has only very short-term impact and may result in wasted resources, however well intended. SO 3.1 activities must therefore seek greater impact by becoming better integrated with USAID Missions' overall strategies for post-conflict or post-disaster economic recovery, development and political reform in the medium to long term.

A critical element for accomplishing this SO is reflected in the relationships among the E&E missions, E&E/W, the Global Bureau and the Bureau for Humanitarian Response. Each brings certain strengths that, when combined, provides the appropriate response to address the crisis. The Mission provides the country-specific knowledge of the people, the places, and the geography of the situation. E&E/W brings the regional perspective, the lessons learned elsewhere in the region, the resources available to respond, and coordinates the overall response. BHR brings the emergency response capacity, with its ability to tap critical skills in the private sector necessary to respond to the emergency. Recent experiences in Southeast Europe have improved the coordination of the efforts of all these parties, and this excellent cooperation will continue.

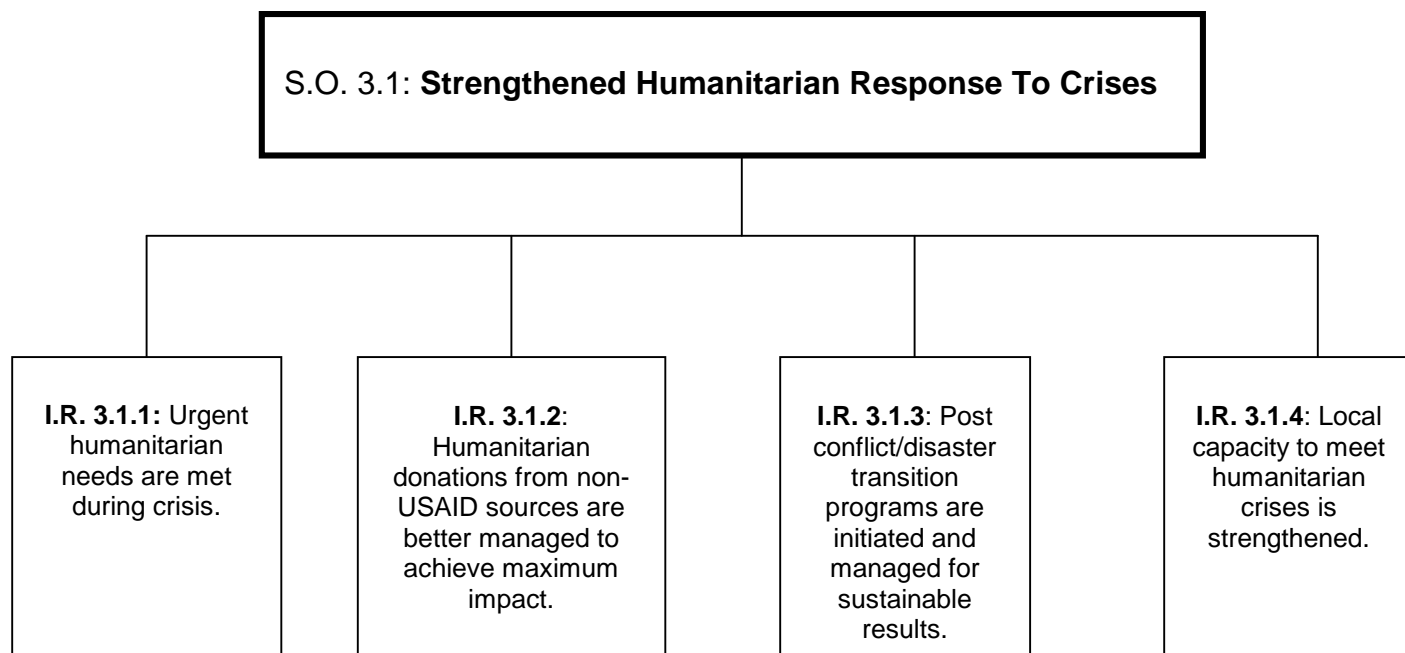
SO Linkages: SO 1.3, 2.1, 2.3, 1.5, 3.2, 3.4

Intermediate Result 3.1.1: Urgent humanitarian needs are met during crisis.

Illustrative activities:

- Assistance to war trauma victims, refugees, and displaced persons
- Emergency food distribution
- Emergency supply of medicines, vaccines and medical equipment
- Provision of food, water, sanitation, energy, shelter and health services
- Increased collaboration with other disaster response organizations, both governmental and non-governmental

E&E S.O. 3.1 RESULTS FRAMEWORK



Intermediate Result 3.1.2: Humanitarian donations from non-USAID sources are better managed to achieve maximum impact.

Illustrative Activities:

- Efficient and timely distribution of donated goods to alleviate acute poverty and breakdown of market supply systems for essential commodities
- Identification of vulnerable groups and their needs, and registration of target populations using proxy-based means-testing to assure appropriateness of emergency commodities and services delivered
- Coordination of donated goods by linking with ongoing development assistance programs in country

Intermediate Result 3.1.3: Post conflict/disaster transition programs are initiated and promoted

Illustrative Activities:

- Restoration of essential infrastructure and services
- Assistance to returning refugees and displaced persons, including resettlement, reintegration and self-help initiatives
- Provision of economic self-help commodities such as seeds and tools
- Targeting of micro-credit and other income-generation programs to vulnerable population
- Conflict resolution activities and training
- Post-traumatic psychosocial counseling and treatment activities
- Transition programs to lay the groundwork for onward development programs.

Intermediate Result 3.1.4: Local capacity to meet humanitarian crises is strengthened.

Illustrative Activities:

- Development of early warning systems for humanitarian crisis
- Improvement of emergency preparedness
- NGO strengthening activities
- Development and strengthening of partnerships

Revised SO 3.2 - Increased Promotion Of Good Health And Access To Quality Health Care.

This revised SO, together with new SO 3.4, replaces the former SO3.2: “Improved sustainability of health and other social benefits and services.” With this revision, the E&E strategic framework now includes an explicit health objective, better recognizing the critical role that healthy populations play in the overall transition process, and the integral part that health activities play in many E&E country programs, providing a means to strengthen NGOs in a critical civil society role.

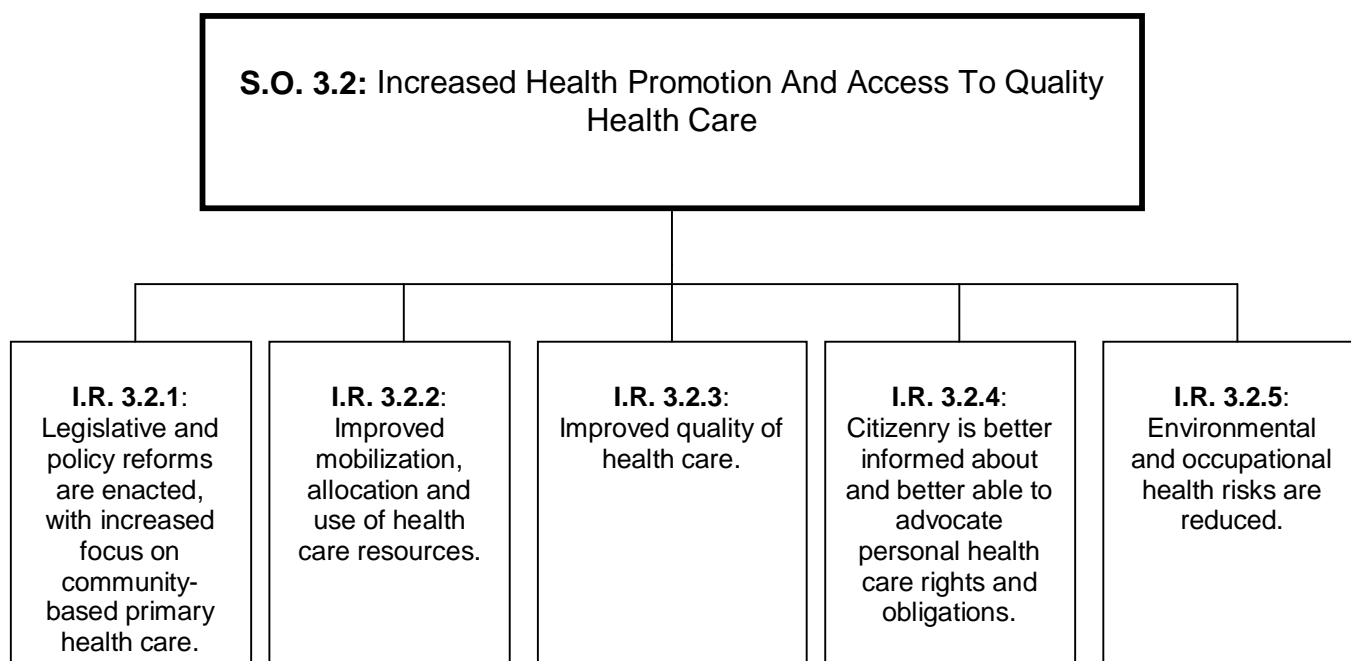
Previously, health activities in E&E countries have often been implemented under SO 4.1 “Special Initiatives” or under other SOs in SAA 1 or 2. This revision, for the first time, offers Missions suggested Intermediate Results (IRs) and illustrative approaches for health activities and will encourage economies of scale and synergy among Mission programs. As performance indicators and benchmarks are developed, the Missions and the E&E Bureau also will have improved criteria against which progress may be judged, and improved mechanisms for the sharing of lessons learned and program replication.

The revised SO incorporates the elements of prevention, access (both financial and geographic), equity, quality, efficiency and sustainability. It also emphasizes the vital roles of individuals, families and communities, as well as national and regional governments. It also restores environmental and occupational health as a valid program objective.

A wide variety of approaches could be included within each IR. The following list of approaches is illustrative only and is neither prescriptive nor proscriptive. The focus will be on technical assistance, training, tools and guidelines, analysis and operations research.

An important addition to SO 3.2 is IR 3.2.5, “Environmental and occupational health risks reduced.” From 1994 to 1998, E&E had a separate SO (then called SO 3.3) on reducing environmental health risks. In early 1998, the Bureau adopted a new, broader environmental SO within SAA 1, the economic restructuring assistance area: SO 1.6, “Improved environmental management capacity for sustainable economic growth.” This SO better reflected the full range

E&E S.O. 3.2 RESULTS FRAMEWORK



of environmental assistance being undertaken in the E&E region and the close linkage between environmental and economic reform objectives in moving to sustainable market economies. Initially SO 3.3 was retained to give Missions a choice of where to direct their environmental assistance programs, but when all Missions except one (the exception being a country scheduled for early closeout) moved their programs to SO 1.6, the old SO 3.3 was dropped. The downside of this decision was that activities aimed explicitly toward mitigating environmental health risks no longer enjoyed a strategic focus or reporting experience. Now, to remedy this problem and reinstate the attention this important topic requires, the STWG proposes a new IR for environmental health under SO 3.2.

Intermediate Result 3.2.1: Legislative and policy reforms enacted, with increased focus on community-based primary health care.

SO Linkages: 1.2, 2.1, 2.2, 2.3, 3.4

Illustrative Activities

- Assist with preparation of laws, regulations and policies
- Conferences, workshops and town meetings to discuss and redefine national, regional and local roles and responsibilities (including regulatory responsibilities)
- Develop stakeholder participation and advocacy workshops and mechanisms
- Implement information campaigns on community-based primary health care targeted at decision-makers
- Strengthen data and information analysis and operations research for use in decision-making
- Assist local, regional and national jurisdictions to redirect an increased share of health care resources to primary health care

Intermediate Result 3.2.2: Improved mobilization, allocation and use of health care resources.

SO Linkages: 1.1, 1.2, 1.3, 2.1, 2.2, 2.3, 3.4

Illustrative Activities

- Train health care personnel (pre-service and in-service).
- Help make financial systems and structures stronger and more transparent to make health care more effective, available and affordable
- Initiate pilot programs to rationalize, equip, supply and maintain health care infrastructure
- Programs to strengthen NGOs and for-profit private sector capacity to provide health services
- Pilot programs to effectively integrate currently separate health services
- Institutional capacity building for health management information systems (esp. surveillance)
- Training, technical assistance and partnership programs in health care management and efficiency

Intermediate Result 3.2.3: Improved quality of health care.

SO Linkages: 2.1, 2.3, 3.4

Illustrative Activities

- Development of and training and TA in evidence-based treatment protocols
- Demonstration programs in national certification and accreditation
- Demonstration programs in quality assurance programs and QA systems developed
- Training of providers and public education programs in client-centered services

Intermediate Result 3.2.4: Citizenry is better informed about and better able to advocate personal health care rights and obligations.

SO Linkages: 2.1, 2.2, 2.3, 3.4

Illustrative Activities

- Public information and marketing campaigns encouraging at-risk populations to practice more responsible behavior
- Demonstration programs in broad-based health promotion and healthy lifestyles
- Curricula and materials developed and disseminated/taught relating to preventive/primary health practices and services
- Training conferences and workshops to help citizens and NGOs advocate for health policies and programs

Intermediate Result 3.2.5: Environmental and occupational health risks reduced.

SO Linkages: 1.1, 1.3, 2.1, 2.2, 2.3, 3.4

Illustrative Activities

- Programs to improve water quality and sanitation systems and management
- Demonstration programs strengthening capacity to collect and analyze environmental data and to monitor the impact on health
- Model programs for handling of medical waste
- Programs to strengthen occupational health and safety regulations and practices
- Programs to strengthen public awareness and knowledge about the health implications of air pollution, toxic substances and guidelines for reducing exposure
- Assistance with the development and implementation of National Environmental Health Action Plans (NEHAPs)

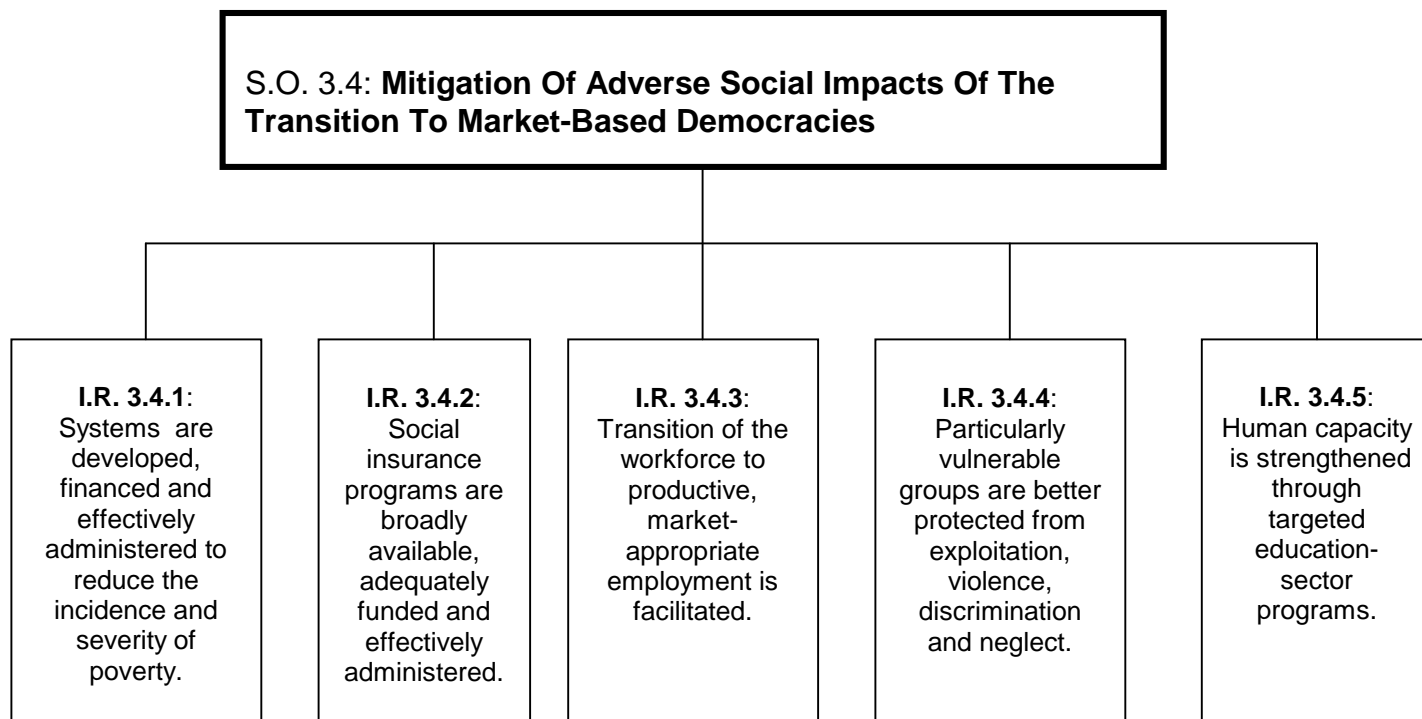
S.O. 3.4: Mitigation Of Adverse Social Impacts of the Transition To Market-Based Democracies.

The Social Transition Working Group (STWG) concluded that a new Strategic Objective would significantly increase USAID's focus on social transition issues and enhance the Agency's ability to undertake social reform activities within a coherent framework, while better tracking and disseminating results across countries and programs through the Program Objective Team (POT) structure. The STWG sees particular need to focus on the social issues of poverty, unemployment, social insurance reform, protection of vulnerable groups and education reform, which have been addressed in a number of USAID missions' programs on an ad hoc basis, but have not benefited from results tracking, cross-border dissemination or sharing of lessons learned.

The STWG heard expressions of concern that social reform and safety-net programs may be better handled by the World Bank, EBRD, EU and others, since USAID may lack the wherewithal to take on this dauntingly large and complex area of assistance with our limited budgetary resources. The STWG is of the view, however, that USAID has a comparative advantage in certain aspects of the social reform and protection agenda, and can greatly enhance the effectiveness of other donors' investments and leverage larger IFI commitments through targeted technical assistance, training and partnerships carried out in close coordination with the Banks and the EU. The sections below will describe the areas in which increased USAID involvement is likely to be most effective.

The STWG does not recommend that all current social programs be moved to the new SO. We expect that a number of Missions will continue managing such programs under other SOs. Pension reform efforts, for example, are probably most often implemented by Missions under SO 1.2 (fiscal reform) or 1.4 (financial sector reform), and are likely to remain under those SOs. However, we believe that these activities may be better coordinated with related issues and activities (such as other social insurance programs, in the case of pension reform), monitored for impact and disseminated to other countries through the existence of the new SO and the efforts of the POT. USAID Missions and the E&E Bureau can thus build upon existing social-sector activities being carried out under other SOs and are encouraged to consider undertaking new activities under SO 3.4 where there is a critical mass of activities and resources to justify having such an SO.

E&E S.O. 3.4 RESULTS FRAMEWORK



The STWG has identified assistance priorities and approaches applicable to a wide variety of activities under SO 3.4. They are:

- Assistance with preparation of laws, regulations and policies, and with their implementation;
- Assistance to improve information systems and statistics needed to administer social programs;
- Public awareness and education programs to inform people about new programs, how they can benefit from them and what their responsibilities and rights are;
- Establishment of public-participation mechanisms for interacting with government agencies responsible for funding and administering social programs;
- Development and strengthening of social-service NGOs;
- Institutional capacity building for government agencies responsible for social programs, particularly at the local level (and at the central level where sufficient reform energy exists);
- Conferences, seminars, workshops, cross-border and Internet networks and publications to share and disseminate best practices and lessons learned across countries;

- Strengthening of local capacity (e.g., “think tanks”) to carry out policy analysis and research into social issues; and
- Cross-border partnerships among professionals in the social sectors and officials responsible for social programs.

The STWG has identified five Intermediate Results (IRs) to capture the key issues to be addressed and the impacts being sought from USAID’s assistance efforts. The following sections describe each of the IRs, their linkages to other SOs, the STWG’s initial thinking about possible “sub-results” to aim for, and illustrative USAID approaches and activities.

Intermediate Result 3.4.1: Systems developed, financed and effectively administered to reduce the incidence and severity of poverty.

SO Linkages: 1.2, 1.3, 1.5, 2.1, 2.3, 3.1

Possible “sub-results” as criteria for graduation:

3.4.1.1: Governments maintain reliable and timely data and adequate analytical capacity to track the incidence of poverty, target benefits, and develop policy responses.

3.4.1.2: Legal frameworks provide for a safety-net to enable low-income households to meet basic requirements for food, shelter, water, energy and health care.

3.4.1.3: Delivery systems exist to address emergency and extreme cases of poverty.

3.4.1.4: Government anti-poverty programs receive adequate and reliable funding.

Illustrative activities:

- Assistance creating the legal framework for anti-poverty and other social programs
- Assistance to increase the capacity of government agencies responsible for poverty programs to develop and implement the following:
 - improved poverty-related data collection and monitoring systems;
 - targeting criteria and methodologies for social safety net programs; and
 - systems for cost-effective delivery and monitoring of benefits
- Partnerships with U.S. state and local government social service agencies
- Education, training and exchanges for social workers and welfare program administrators
- Programs to strengthen NGOs as advocates for and providers of services to the poor
- Temporary/transitional employment programs for low-income unemployed
- Assistance to finance ministries and line ministries and to local governments on fiscal aspects of social safety net programs
- Demonstration projects to develop effective models of poverty-related services

Intermediate Result 3.4.2: Social insurance programs are broadly available, adequately funded and effectively administered.

SO Linkages: 1.1, 1.2, 1.3, 1.4, 3.2

Possible “sub-results” as criteria for graduation:

3.4.2.1: Policy, legal and regulatory frameworks exist for social insurance programs.

3.4.2.2: Government agencies have capacity to develop, finance and administer social insurance programs for unemployment, health, disability and pension benefits.

3.4.2.3: Countries rely increasingly on investment from individuals, private employers and capital markets as supplements to government budget in funding social insurance systems.

Illustrative USAID Activities:

- Assistance with drafting legislation, policies and regulations for social insurance programs
- Technical assistance and training to improve the capacity of government agencies responsible for financing and administering pension programs and health, unemployment and disability insurance systems
- Pilot programs at the local level to test viable and replicable approaches
- Public education programs to inform citizens and leaders about the personal, corporate and governmental roles and responsibilities with respect to social insurance programs

Intermediate Result 3.4.3: Transition of the workforce to productive, market-appropriate employment is facilitated.

SO Linkages: 1.1, 1.2, 1.3, 1.4, 1.5, 2.3

Possible “sub-results” as criteria for graduation:

3.4.3.1: Governments collect, maintain and analyze reliable labor market information.

3.4.3.2: Legal frameworks eliminate barriers to labor mobility and labor market efficiency.

3.4.3.3: Workers displaced by privatization and reform are assisted in the transition to new employment and skill development.

3.4.3.4: Working conditions and national labor standards are consistent with international norms.

Potential USAID Activities:

- Assistance with legislation and policies to remove labor market rigidities and to conform to international labor standards
- Labor adjustment programs in privatizing/restructuring/downsizing industries
- Capacity-building in agencies responsible for labor market statistics and monitoring required to support unemployment insurance systems and targeted jobs programs
- Strengthening of labor unions and worker organizations in advocacy of worker rights and workplace health, safety and environmental protection
- Community economic development/employment generation activities
- Development of private vocational training/retraining capacities
- SME and micro-enterprise development programs

In addition, USAID can aid governments and private employers in establishing coordinated approaches to the related challenges of employment creation and poverty alleviation among those who have become unemployed on a long-term basis. Among the possibilities for dealing with this special group of workers are:

- Assistance in developing and administering cost-effective, means-tested, short-term income maintenance programs (including unemployment insurance) combined with work incentives;
- Creation of incentives for private firms to employ low-income and disadvantaged workers, including female heads of households, and to improve their skill levels to ensure productivity gains;
- Elimination of barriers (such as protective and prescriptive labor codes and regulations, burdensome registration requirements and excessive taxation) to microenterprise and small business creation and to formal employment, so as to facilitate movement of workers from the informal to the official economy; and
- Carefully designed temporary public works employment programs or social investment funds in areas of extreme poverty or economic disruption.

Intermediate Result 3.4.4: Increased protection of particularly vulnerable groups from exploitation, violence, discrimination and neglect.

SO Linkages: 1.3, 2.1, 2.2, 2.3, 3.1, 3.2

Possible “sub-results” as criteria for graduation:

3.4.4.1: Information is more widely available to determine which groups are especially vulnerable to discrimination, neglect, exploitation or violence and to facilitate appropriate policy responses.

3.4.4.2: Legal framework provides better enforcement of rights and protection of identified vulnerable groups.

3.4.4.3: Improved capacity of advocacy groups to effectively represent minorities and disadvantaged populations.

3.4.4.4: Increased public education and awareness of the values of tolerance, protection and equitable treatment of the disabled and other disadvantaged groups.

Potential USAID Activities:

- Assistance with strengthening laws, regulations and policies to protect vulnerable groups
- Public education/awareness programs to foster tolerance, protection and equal treatment of the disadvantaged and vulnerable
- Training and exchanges for social workers and service providers
- Programs to strengthen NGOs working with vulnerable groups
- Targeted community-based prevention and crisis programs

Intermediate Result 3.4.5: Human capacity strengthened through targeted education-sector programs.

SO Linkages: 1.1, 1.3, 1.5, 2.1, 2.3

Possible “sub-results” as criteria for graduation:

3.4.5.1: Legal framework provides for decentralized authority and capacity of local governments to finance education.

3.4.5.2: Democratic values and market-oriented knowledge and skills are widely incorporated into curricula.

3.4.5.3: Opportunities exist for public and parental participation in education-related decision-making.

3.4.5.4: Disadvantaged and at-risk youth are provided adequate access to educational opportunities.

Potential USAID Activities:

- Support to policy analysis, legal reform and fiscal decentralization of education finance
- Development of public participation mechanisms

- Curriculum reform and development in selected fields, including early childhood development and civic education
- Pilot programs for new approaches to education and training for youth, to stem erosion of school enrollment, literacy and educational attainment
- Development and pilot testing of education and training programs for social-sector specializations

D. Implementation Progress and Next Steps

The E&E Bureau has initiated a dialogue with outside experts, implementation partners, other US Government agencies and donors, and regional counterparts to solicit feedback on the STS and ideas for its implementation. As part of its broader exercise of developing an overall strategy for all assistance programs in the region, the Bureau has also adopted the revised SAA3 strategic framework, agreed to the creation of a POT 3.4 as the successor to the STWG, and developed a regional budget for FYs 2000 and 2001 to support activities under this new SO.

As the lead office for implementing the STS, the Office of Environment, Energy and Social Transition (E&E/EEST) has also held discussions and received comments on the evolving STS from E&E Mission Directors and selected Mission staffs. The purpose of this outreach is to support field missions and country counterparts as they identify issues, needs and priorities for ST-related activities and programs, including adoption (where appropriate) of SO 3.4. In addition, POT 3.4 has begun to develop appropriate indicators and graduation criteria for SO 3.4. As indicated at the outset of this paper, the STS will build on prior and existing work throughout the region, and the field missions will determine how their countries will participate and the level of resources they are prepared to commit to the effort.

Making the Social Transition Strategy a fully operational part of the E&E Bureau Strategy and, where appropriate, of Missions' country strategies will require further assessment of selected E&E countries' needs and priorities, design of appropriate activities for USAID support, a commitment of resources (in both regional and bilateral budgets), modest staff and organizational restructuring in the cognizant E&E/W technical office, and increased management focus both in Washington and in the field. These tasks will be especially challenging at a time when programs are mature and budgets are already constrained. Therefore, the Bureau leadership's continued support and outreach on behalf of the STS is critical to its effective implementation. The STWG is especially mindful of the need to build partnerships with our natural constituencies for social reform programs among the NGO community in both the U.S. and the E&E region, and to increase understanding and support of social reform objectives and possibilities within the larger USG foreign policy community (including the State Department and the Congress).

Important next steps will include identification of appropriate existing mechanisms (e.g. Global Bureau IQCs) for use to carry out technical assistance and training in the social sectors; establishment of cooperation and coordination mechanisms with other donors, and in particular

the World Bank; and organizing and staffing a small E&E/Washington technical staff to support social transition activities.

The achievement of significant impact in supporting the social transition through USAID assistance will require some increase in the level of funding going to these issues, but given budget constraints, these increases are likely to be relatively modest. Cost-effectiveness, management efficiency and multiplier potential will necessarily be criteria for selection of specific activities, and monitoring of impacts will be standard operating procedure. The STWG believes, however, that with the strong commitment to social reform now evident in the Bureau, the opportunity to achieve significant results is ours to take.

Stsmas.doc