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TOWARD COHERENT SOCIAL INCLUSION AGENDA: LESSONS FROM POLAND

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Executive summary

The issues of the Moldovan social protection system is that it neither could provide adequate protection to vulnerable groups nor stimulate people to use market opportunities more actively to improve their life. On the experience of Poland it is demonstrated that the exact technical recipe is not of primary importance for successful reform of a social protection system. Three other factors influence the outcome of reform, namely: (i) consensus building around the reform path; (ii) existence of institutions capable to conduct the reform; and (iii) gradual approach to reform with reaching specific objectives on each stage.

1. Introduction

Transition from socialist state to free-market democracy necessarily raises the issue of a social protection reform. Social protection reform is interesting from three perspectives:

- Agreement on the change from a communism-type egalitarian approach to an EU-like social inclusion agenda (consensus building)
- Engineering and implementation of the reform (reform dynamics)
- Building institutions to design and conduct the reform (governance building)

Main hypothesis (thesis) of the research: The exact technical recipe is not of primary importance for successful reform of a social protection system. Three other factors influence the outcome of reform, namely: (i) consensus building around the reform path; (ii) existence of institutions capable to conduct the reform; and (iii) gradual approach to reform with reaching specific objectives on each stage.

This paper focuses on the reforms in the field of social protection benefits in Poland in period 1990-2006 and draws lessons and conclusions which could be useful in the Moldovan context.

Republic of Moldova spends significant share of its scarce resources on social protection. In the meantime, social protection system is unable to protect vulnerable groups from shocks. **The problem for Moldova** is construction of social protection system, which cannot provide adequate protection to vulnerable groups. The issue is that an exact technical solution for the system is unclear; proposed solutions are either technically non-feasible (like full income test), or are not fully understood and accepted by decision makers (proxy-testing). This paper argues that the gradual approach is required to reach a consensus and build the capacity of institutions to conduct reform. On each stage specific objectives of reform should be reached, building ground for further developments.

2. Three stages of Social Policy reforms in Poland.

Since 1990, when transition from communism to market economy started, Poland has passed through three stages of social policy reforms¹.

1.1. Early start. At the very beginning of transition two major issues were important in social policy: (i) A substantial shift from an economic-based social policy to an income redistribution policy; (ii) Providing temporary assistance to ‘reform losers’ for a limited period of time to ease the reform path. In the years 1990-1991 the central effort went into removing price and wages controls,

¹ S. Golinowska provided more detail description of path of Social Policy reforms in Poland, for instance in UNDP Poland (1999). For purpose of this paper we took a wider view of reform path, identifying big major stages.

and replacing the existing policy of full employment with a rational social policy devoid of economic parameters. This required liberalization of prices and wages, and the building of institutions and mechanisms in the labour market and in the area of social assistance. However, these efforts produced some undesirable serious results, such as the absorption of many of the unemployed into the old-age and disability pension system. The next two years, 1992-1993, were devoted to correcting earlier over-generous social expenditure decisions. These were mainly in the area of lowering the average level of social transfers, including unemployment and family benefits, as well as price indexation of pensions. Additionally, the eligibility criteria for some of the benefits were made more restrictive. The years 1994-1995 brought another shift in social policy. High economic growth and improvement in the public finances were conducive to higher social expenditures. Separate programs were established to develop social assistance. However, apart from the rise in the level of benefits and pensions and new targeted measures (including family benefits), various programs were undertaken with the aim of increasing activity of beneficiaries on the labour market were undertaken.

From the institutional point of view, it was extremely important that at the very initial provision of basic social safety nets started at the local level of *gminas*, i.e. community level. Ośrodki Pomocy Społecznej (OPS - Social Welfare Agencies) at the *gmina* level proved to be very reliable source of basic social safety nets. Two points of view were expressed: first, these social protection offices were politically not so important, as, for instance, were the Labour Offices at the higher level of a *powiat* (county), and, consequently, did not suffer from constant staff changes. Second, early decentralization brought a sense of ownership and responsibility to local public administration.

2.2. Systemic changes. The period 1996-1998 was devoted to the preparation of systemic changes, aiming at an increase in efficiency of social protection systems through their partial privatization. A partial reform of the disability system in 1997 redefined 'inability' in 'a biological sense' as 'the remaining capacity to work' and strengthened eligibility controls. Besides this, certain restrictions on the transfers/wage ratio were imposed by replacing the wage indexation of social transfers with mixed (price and wage) indexation. This was an important change also from the fiscal policy viewpoint. In 1999, four big reforms in the social policy sphere were launched:

- Old-age pension reform introduced a new obligatory pillar with pension funds in addition to the diminished pay-as-you-go (PAYG) system. In parallel, pensions within PAYG were linked tightly via the formula with contributions accumulated throughout a whole working career (Notional Defined Capital, NDC). The NDC mechanism was supposed to make the system self-sufficient and stable. This would mean that the pension system is devoid of any distribution mechanisms and practically excluded from the area of public policy and politics.
- Health reform aimed at introducing the so-called regulated market with self-governance health institutions under public financing.
- Education reform aimed at adjusting the education system to the requirements of the modern labour market.
- Decentralisation, including shifting some social policy areas to local governments in order to increase their efficiency.

Pension reform assumed also a gradual elimination of early retirement. It should bear fruit in several years, although its immediate outcome was to increase the number of pre-retirement pensions (introduced in 1997). This is a way of protecting older workers against unemployment at the age just prior to retirement. Family policy during transition period has rarely enjoyed a clear consensus as to aims or actions. Ultimately, protection of the family against poverty was and remains its only plank, but this is very vague and negligible.

Out of the four reforms started in 1999 only old-age pension reform is considered partly successful. Pension reform managed to achieve two main goals—introduction of capital investment to the pension scheme and introduction of a rational relationship between contribution input and pension benefit. The technical solution was developed by the team of officials working at the Ministry of Labour and Social Protection. It had a strong participatory aspect, as major attention was devoted by the reformers to involving a large number of groups in the preparation of the reforms (so that large numbers of parliamentarians, ministers and trade union representatives would feel that they were "co-owners" of the reform) and in the creation of new groups of social actors (private pension funds); of course, the population was empowered as well (by being given the opportunity to make choices about their funds and, in the case of persons aged 30-50, to make a choice whether to join the new system or not). As a result difficulties arising from political circumstances were overcome. The problem of military and police pensions has been resolved, but the problem of farmer's pensions still needs to be tackled. However, consensus on pension reform directions was questioned during the implementation of the pension reform, as some of its elements lack clarity and are controversial. It should be also mentioned that the third pillar of the pension system—voluntary capital investment pension scheme—is still underdeveloped and quite weak.

In healthcare reform the government at the time did not make a sufficient effort to ensure an orderly progress of the transformation process. The direction of changes in healthcare remained vague. In addition to the general idea of commercializing and privatizing healthcare, the government had also promised the freedom of choosing service providers and insurance institutions. Organizational changes were made without any thorough analysis of the areas in question. Forcing all healthcare units to become autonomous was a formal move that had nothing in common with the actual improvement of their efficiency.

Decentralization is the case that in practice the reform does not accurately reflect the original theoretical plans. County and provincial self-government has been introduced; however, these governments have not been given adequate legislative powers or independent budgetary means. As a result the fundamental aim of the reform – the decentralization of the state — has only been partially achieved.

2.3. Social inclusion a’la EU. EU accession of Poland marked the successful end of a long way of transformation and market-based democratic society building. But it also highlighted the fact that unemployment is persistently high and dependence of certain groups of population on welfare transfers is quite high. Since 2003 Poland has started implementing the European Social Inclusion agenda. Social inclusion represents the next step in social policy reforms in Poland, shifting focus from effective provision of welfare benefits to a combination of activation policies, social benefits and social services at local level, provided by both state bodies and NGOs. One of the first steps in this direction was the National Report on Strategies for Social Protection and Social Inclusion for 2006-2008, developed by the Ministry of Labour and Social Policy and approved by the cabinet on the 9th of October 2006. It is too early to assess the results of this approach, but one of the lessons of the preparatory stage shows that government bodies should build their capacities for complex treatment of social issues. Development of social indicators list took a lot of time, and in many cases data were either not available or not reliable.

Table: Rates of poverty in Central and Eastern European countries in 1990s

Country	Relative Poverty*	Absolute Poverty**
Czech Republic	1.3	0.8
Slovakia	1.7	8.6
Poland	12.0 (1994) 15.8 (1998)	18.4
Hungary	9,9	15,4

Bulgaria	15,0	18,2
Rumania	39,0	44,5
Estonia	37,0	19,3
Latvia	22,0	34,8
Lithuania	30,0	22,5
Belarus	22,0	10,4
Moldova	66,0	84,6
Russia	22,8	50,3
Ukraine	63,0	29,4

Notes: * Adopted poverty line – 50% of household's expenditure calculated per one consumption unit according to OECD equivalence scales, data from years: 1993-1996;

** Poverty line used by World Bank – 4,30 USD per person daily, data from years 1997-1999.

Source: CASE (2002)

3. Concepts in the implementation of Polish reforms

There were two concepts in the implementation of Polish reforms: Marketization and Decentralization. **Marketization** implied that market should work in the areas where it works best; role of the government should be just filling the gaps where market fails. Marketization brings in the real changes focused on introducing competition to the public programmes—the concept of inner market as in the health care, and to some extent in social services. In other words, marketization is seeking for increased efficiency.

Decentralization tries to bring services closer to citizens, regardless of the costs it could cause. Poland administrative system is three-tier. The main aim of that reform was the creation of new levels of self-government: in 1990 the status of gminas was regulated afresh, in 1999 – powiats were introduced and the structure of voivodships (provinces) was fundamentally altered². Before the 1999 reform Poland had 49 voivodships as government structures, while after reform—only 16 with combination of government and self-government structures. Some of government duties in social welfare formerly assigned to the voivodship structures were shifted to the powiats' family support centres (PCPR).

	Poland	Moldova
3 rd level	<i>Voivodship (16)</i> combination of self-governance and government <i>Regionalne Ośrodki Polityki Społecznej</i> (ROPS – Regional Social Policy Centres) – social policy oriented institutions but forming a part of social welfare structures - not directly involved in the provision of social services, only	N/A

² The *gmina* is the principal unit of the territorial division. The authorities of the *gmina* include: the *gmina* council, elected in general self-government elections, and a board chosen by the *gmina* council and having executive power. The constitution guarantees the priority of the *gmina* in the management of local affairs. The *powiat* (district) is the second-tier unit of territorial division, comprising a number of *gminas* (usually 5-6 *gminas*). The authorities of the *powiat* include the *powiat* council, elected in self-government elections, and the board of the *powiat*. The voivodship is the largest territorial division unit. The voivodship authorities include the *sejmik*, the voivodship parliament chosen in self-government elections, and the board of the voivodship. The *sejmik* and the board are headed by the marshal of the voivodship. A representative of state power in the voivodship is the voivod who is the guardian of the national interest. The voivodship is responsible for matters related to regional development. It prepares and implements strategies, creates conditions for the economic development of the region.

	in analysis and training.	
2 nd level	<i>Powiat (around 360)</i> self-governance structure elected by citizens <i>Powiatowe Centra Pomocy Rodzinie (PCPR – Poviatic Centres for Family Support)</i> providing specialized social protection services, especially for disabled and foster families.	<i>Rayon (32+1³)</i> Combination of self-governance structure elected by citizens and representatives of central government <i>Social Assistance Offices</i> provide social workers, as well as distribution of humanitarian aid and one time material assistance <i>Territorial Social Insurance Houses</i> are responsible for granting cash benefits, both social insurance (pensions) and social assistance (child allowances, housing compensations, etc)
1 st level	<i>Gmina (2,489)</i> self-governance structure elected by citizens <i>Ośrodki Pomocy Społecznej (OPS - Social Welfare Agencies)</i> providing basic safety nets and social work (with individual clients, also organizing support groups for addicted people, community work to some extent)	<i>Primaria (967)</i> self-governance structure elected by citizens (major) Social Protection structures do not exist on that level. Network of <i>Social Assistants</i> to be created by 2008

Another specific feature of Polish transition was its **negotiated character**. Polish transition started from negotiations on possibility of participation in elections of Trade Unions not controlled by Communist Party.

Polish experience shows that one of the key factors of the success of the reform is the degree to which technocratic and participatory approaches are compatible in reform design and implementation. Reforms are successful where there is a good match. This occurs when, for example, reforms of a largely technical nature are carried out in a technocratic manner, and reforms requiring a more participatory approach are implemented as decentralized learning processes on the basis of negotiation, with the participation of various social actors. Unsuccessful reforms, on the other hand, are observed where there is a mismatch or an improper balance between the role of technocratic concerns and the role of the interests of various social actors.

One example could be the initial stabilization and liberalization reform package, which represents a success of the "technocratic" process in preparing a reform of a very technical nature. Parameters of reform were set by a small group of central institutions such as the finance ministry or the central bank⁴. It was argued that the success of the pension reform was due in large measure to the ability to find the appropriate balance between technocratic and participatory approaches. The pension reform, although technically complicated, had a strong participatory aspect, as major attention was devoted by the reformers to involving a large number of groups in the preparation of the reforms (so that large numbers of parliamentarians, ministers and trade unionists felt themselves to be "co-owners" of the reform) and in the creation of new groups of social actors (private pension funds); of course, the population was empowered as well (by being given the opportunity to make choices about their funds and, in the case of persons aged 30-50, to make a choice whether to join the new

³ Gagauzia have a status of autonomous territorial unit

⁴ However, it should be noted that a greater effort to educate Polish society about the goals of the reforms and the nature of the market economy was not undertaken, which led to certain opposition to reforms.

system or not). However, the reform also included a large, effectively organized "technocratic" component which was crucial in assuring the quality of reform design.

4. Moldova: Late start, uneven progress

The Republic of Moldova faced a very serious economic crisis as a result of USSR breakdown and consequences of economic transformation. Unlike in the case of Poland, economic decline in Moldova was stopped and growth resumed only in 2000. During the first decade of transition Moldova lost about 60% of its GDP, and found itself in a situation when lingering economic crisis, reduction of incomes of the population and of employment expanded the poverty zone that became a mass and permanent phenomenon. These circumstances forced the Parliament and Government of the country to revise the system of social assistance inherited from the central planning system. This work was undertaken under conditions of increasing financial stringency and acute lack of funds.

In the early stage of transition Moldova introduced unemployment insurance, to reduce impact of transformation and economic adjustment. However, the number of registered unemployed was quite low, reaching around 2% of working population. That could be explained by relying on short days or forced unpaid leaves practices used by enterprises to keep staff. Those practices, in fact, had negative effects—they reduced incomes of workers, while not allowing them to actively seek for a new job, thus slowing economic restructuring. Also, to address unemployment in the beginning of 1990s early retirement of unemployed became widespread, creating additional pressure on pension system, undermining its financial sustainability.

No targeted poverty benefits were introduced in the 1990s and Moldova heavily relied on the heritage of the Soviet system of privileges—costly and poorly targeted. However, in the 1990s some important changes occurred in the organization of social assistance, like introduction of new types of assistance (such as *ad hoc* one-time emergency material assistance, free canteen services etc.) and creation of new institutional structures rendering social assistance (Republican Fund of Social Support of the Population with affiliated branches at local level, State Commission on Distribution of Humanitarian Assistance). Child benefits were introduced in 1997, with some targeting mechanisms. However, due to small amount and limited coverage, they did not play significant role in poverty reduction.

Territorial structures, responsible for social assistance were created on the *rayon* level, but failed to cover the lowest *primaria* level. In 1998 Moldova shifted to a new territorial administrative structure based on 9 *judets*, however that reform was reverted in 2003 when 32 *rayons* were reintroduced. As a result, the first social assistance structures were abolished in former *rayons* and were kept in *judets* only. Next, the existing *judets* structures were “stretched” to newly formed *rayons* in 2003, as it was expected that reversal of reform would not involve staff increase. These changes had adverse effect on social assistance structures, which suffered from staff losses. Interestingly, National Social Insurance House (organization providing pensions) did not suffer seriously from these changes as it kept structures on the *rayon* level, arguing that this provided better service to citizens. Additional layer of *judets* offices was created, but it was barely functional and it was later abolished.

In 1997 Moldova started preparations for a pension reform. The concept of the pension reform was approved in early 1998 and the New Pension Law was approved in Autumn 1998. The objective of reform was to improve efficiency and sustainability of pension system, shifting to the principles of social insurance. It strengthened the link between the contributions and the amount of pension (similar to Poland) and separated the social insurance from social assistance. It was foreseen that

voluntary pension funds would be created as the second layer of pension system, however virtually no private pension funds were set up in Moldova.

The Parliament and Government decided to make fundamental changes only in 2000 when it chose to give up the system of benefits introduced during the Soviet era. In the Republic of Moldova at the beginning of 2000 there were 447,540 persons entitled to benefits (circa 12% of the population) in 37 categories. The total cost of benefits was estimated to be 36,755 million MDL (30 million USD), out of which only 207 million MDL (17 million USD) were provided for by the state budget. A large part of these resources was directed to benefits in the area of public utilities. A targeted compensation program was introduced in the second half of 2000 and covered circa 250,000 persons in 9 categories (later increased to 13). The Programme meant to strengthen the efficiency of social protection of the poor population in the field of payment for public utilities and energy resources based on the following criteria: importance of compensations for payment for public utilities and electric energy; timeliness and comprehensiveness of compensations received; accessibility to the system of compensations.

Currently the Social Protection in the Republic of Moldova comprises two sets of policies: social insurance and social assistance. The social insurance payments are based on contributions and are intended for the insured persons. The social assistance is provided through social benefits and social services.

The State Social Insurance Budget represents a considerable share in the national public budget. The State Social Insurance Budget revenues as a share of GDP made up 9.2% in 2004 and 10% in 2005. The recent rise of the State Social Insurance Budget revenues was generated by: (i) the increase of wages in the economy as a whole; (ii) implementation of redistributing the contribution fee between the employer and the employee; (iii) the change of the principle for computing the contribution of landowners, enrolled in associations, by applying the fee of 1.7 MDL per a grade/hectare of agricultural land under the ownership while calculating the contributions to the payroll fund. There is no separate Social Assistance Budget and funds for Social Assistance policies are accounted in State Budget on different lines and are channeled through different institutions—Social Assistant Offices, National Social Insurance House etc.

The performance of social assistance programs was pretty inefficient during the last years, especially due to inappropriate channeling of resources. The main objectives set up for the social assistance are oriented towards increased efficiency of social benefits and social services and their targeting towards the poorest people and focusing on the social groups at risk. The EGPRS 2004-2006 lists the following main shortcomings of the Social Assistance System: (i) the establishment of social benefits is based on category principle, except for two types of benefits based on testing of resources; (ii) social services are weak and not adjusted to the local needs of communities, being targeted towards a limited number of groups; (iii) the lack of financial resources does not allow to satisfy the request for social services, thus, resulting in a pretty expensive care rendered broadly.

Currently the social assistance system comprises 15 cash benefits expressed in compensations, social allocations, and other cash payments, being regulated by 16 legal and normative acts. Most social benefits are delivered based on category principle, while the value of each benefit differs depending on its type and the category of beneficiaries. The most popular, both in terms of the number of beneficiaries and of costs, are the individual compensations (45%). Compensations for children rank second (19%), being followed by the state social allocations and monthly state allocations to veterans and war participants (12%). Respectively, the largest annual average is represented by the state monthly allocations delivered to a pretty small number of people. The lack of a single database of all social assistance beneficiaries makes it impossible to identify both the number of beneficiaries of social assistance and the number of social benefits rendered to them

(because one beneficiary may get up to 11 types of benefits at the same time). Another problem is related to the lack of a recording mechanism focused on a „family” approach, because within one family there may be two or even more persons entitled to separate benefits, which makes it impossible to evaluate the total amount of the assistance delivered by the state to vulnerable groups. The state social insurance budget remains fragmented and little transparent from the point of view of fund flows circuit. Thus, within the budget the money are not strictly channeled to funds but circulate from one fund to another depending on the payment needs, hence, it is not possible to analyze the efficiency of the budget transfers by program performance.

According to the Concept on efficiency increase of the social assistance system, it has been proposed to introduce a system based on a filter combined with a simple testing of resources. It is expected that the efficiency of channeling the resources will be enhanced through the reduction of both errors – inclusion and exclusion (inputs and outputs). Regretfully, this document does not provide clear policy steps to be undertaken during the next year for integral reorganization of the system, which presumes a program of simplified and transparent benefits combined with social services that should be assessed on time.

5. Conclusions and recommendations

We hypothesized that one of the key factors in the political economy of reform success is consensus building around reform path. That consensus arises from appropriate mix of technocratic and participatory approaches. The success of the pension reform in Poland was due in large measure to the ability to find the appropriate balance between technocratic and participatory approaches.

Existence of institutions capable to conduct the reform represent another key factor of reform success. In Poland creation of Social Welfare Agencies at the lowest, level of the *gmina*, at early stage of transition was a factor in the appropriate provision of social welfare. In Moldova, the existence of Territorial Social Insurance Houses at the *rayon* level (though which nominal compensations have been channeled since 2000) was a key factor of success for the introduction of NTCs. Similarly, there is a lack of structures at the *primaria* level awaiting further reform of social assistance system.

Gradual approach to reform with reaching specific objectives at each stage is recommended. While Poland starts dealing with comprehensive Coherent Social Inclusion Agenda in mid-2000s, it passed certain stages in development of social protection system. At each of the stages, reforms had specific objectives, reaching of which allowed to take further steps in that area.

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Interviews

Paper is based information from interviews held with the following persons in the period 6-16 November 2006 in Warsaw, Poland. All points of view, conclusions etc stated in the present paper belong to author only, not the interviewees. Author is grateful to interviewees for fruitful discussions.

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