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In the two-plus decades since the collapse of the Soviet bloc and the transition to market economy, the countries of Central and Eastern Europe (CEE) have provided rich empirical evidence to inform international understanding of the pitfalls that confront efforts to privatize public social security systems. CEE governments inherited well-developed social security systems as a legacy of state socialism. Those systems covered nearly all of the workers in the economies and addressed the full range of contingencies defined by the

International Labour Organization.[1] However, the systems were costly and not well matched to the market economies that the new governments sought to build. In the late 1990s and early 2000s, following the template of the World Bank (1994)[2], many CEE governments adopted what was promoted as the market-based approach to pension reform. In so doing, they mandated the diversion of a portion of each worker's contributions from the public pension system to fund a personal, commercially managed investment account. Workers were, in general, required to participate but were free to choose their fund manager. Benefit levels were no longer set in law but were determined by market performance. The new schemes' proponents held that those changes would actually increase workers' retirement security as (i) workers would own their accounts as private property, and (ii) private management would reduce the risks of political interference by governments (Holzmann, 1997). A look back today shows important differences between the market-based model and actuality.

1. ***Continuing state involvement*** –The rhetoric of privatization promised a shift of administration from state to private players. What stands out in Central Europe is, however, the continuing centrality of governments in pension management. In most countries, legal statutes require large segments of the workforce to invest with commercial funds, creating captive markets for management firms.[3] State agents collect contributions, passing them on to private managers, who collect substantial fees from workers. To date most managers have eschewed private investment instruments in favor of government bonds, thus returning the worker funds to state coffers.To ensure that workers' funds are properly allocated and accounted for, most governments continue to play a substantial role in record keeping. While private funds do not guarantee benefit levels, most governments provide a minimum guarantee. In short, privatization has not moved Central European governments out of the pension business.

2. ***Missing or incomplete benefit packages*** – Most of the schemes in place today still lack key rules for paying benefits. In their absence, many workers do not know what institution(s) will convert their account balances into annuities (monthly benefits, payable for life) at retirement, or under what terms. The main obstacles are two-fold. First, major differences exist between the benefit features characteristic of public systems –regular adjustments to reflect inflation and gender equality in benefit computation – and those of private pension funds –unindexed benefits, computed to reflect gender differences in life expectancy.[4] While the World Bank urged national authorities to formulate legal specifications for the private benefit package in ways that follow private market practices, many governments have been reluctant to accept the resulting losses of worker protections. Second, economies of scale in annuity markets enable large companies to offer customers substantially lower prices. Such significant price differences create a

[1] As defined in ILO Convention 102, Social Security (Minimum Standards), the contingencies are old age, disability, survivorship, sickness, disability, employment injury, maternity, plus the need for medical care and subsidies for childrearing.

[2] Hungary did so in 1998; Poland in 1999; Latvia in 2001; Bulgaria, Croatia and Estonia in 2002; Lithuania in 2004; Slovakia in 2005; FYR Macedonia in 2006; and Romania in 2008.

[3] Lithuania is an exception, but once a worker voluntarily joins the private system, he/she cannot leave.

[4] Equal treatment is generally interpreted to mean that women and men who accumulate identical account balances during their careers and retire at the same time would receive equal monthly benefits. Because women as a group live longer than men as a group, that would require a cross-subsidy from men to women. Public pension schemes typically provide such cross-subsides, but few private schemes do so.

rationale for a single national annuity provider – an approach resisted by proponents of privatization as being at odds with the concept.

The continuing impasse shows the difficulties in delivering the kinds of social security benefits that politicians and workers most value – regular inflation adjustments, gender equality in benefit computation, and low-cost administration – through market-based systems.

3. ***High vulnerability to political risks*** – As noted earlier, some proponents of privatization claimed that private accounts would shield workers from government interference. No claim has proven more at odds with actual experience. After the global economic crisis, many Central European governments abruptly retrenched their private systems, suspending, reducing, or terminating funds for private accounts.[5] Hungary ceased funding individual accounts altogether and nationalized most workers' balances, thus discrediting earlier claims that, as private property, those assets were beyond governments' reach. Poland retained its accounts but trimmed their revenues by more than half. Latvia and Lithuania made similar funding cutbacks, drafted as temporary laws, but have extended them repeatedly. Retrenchment continued, even after the crisis subsided: Slovakia reduced its funding of individual accounts by more than half in 2012, and Bulgaria is now contemplating similar action.

In sum, the CEE experience suggests that "privatization" is itself misnamed. These so-called privatized systems are largely run by governments that mandate worker participation and provide costly services to support private commercial involvement. What matters to the success of social security is not whether the state is involved but how. Most crucially, there is a need for governments to provide legal frameworks for social security systems that define benefits levels and conditions of eligibility as a matter of right. The need for strong state involvement in both these regards is reflected in the Social Security Conventions of the International Labour Organization, and most recently, in the ILO's Recommendation on National Social Protection Floors (No. 202).

ILO Social Protection Floors Recommendation, 2012 (No. 202)

The Social Protection Floors Recommendation, 2012 (No. 202) was adopted by the International Labour Conference in June 2012.

The Recommendation expresses Member States' commitment to build comprehensive social security systems by establishing national floors of social protection. It complements existing ILO Conventions and Recommendations related to social security.

The Recommendation provides guidance to Member States aimed at ensuring that all members of society enjoy at least a basic level of social security throughout their lives. It provides a framework for governments in – Establishing and maintaining national social protection floors as a fundamental element of their social security systems, and Implementing their floors within strategies for the extension of social security that progressively ensure higher levels of social security to as many people as possible, guided by ILO Social Security Standards.

[5] Estonia, Lithuania, and Latvia in 2009; Hungary in 2010; Poland in 2011; and Slovakia in 2012.

While Recommendation 202 is of central importance for developing countries seeking to build social security systems, it also has high relevance for developed market countries with privatized pension systems. Workers in market economies face many forms of risk, yet the core of the privatized systems – benefit levels based on market performance – leaves them without guarantees of pension adequacy in old age. By putting in place social protection floors, CEE governments have helped to restore that critical dimension of protection.

Significantly, the Recommendation assigns governments themselves the lead role in devising such floors, including responsibility for defining national social guarantees, financing them on principles of solidarity and ensuring that benefits are adequate and predictable.

References

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World Bank. 1994. Averting the Old Age Crisis: Policies to Protect the Old and Support Growth.

Opinions expressed in this article are those of the author and do not necessarily reflect views of the ICSW Management Committee

- **Launch of the European Observatory for Social Work and Social Development**

The European Observatory on Social Work and Social Development was launched in Istanbul at the end of the conference of the European Network for Social Action held in Istanbul from 16 to 19 April 2013

Susan Lawrence (President of the European Association of Schools of Social Work), Christian Rollet (President of ICSW Europe) and Cristina Martins (President of IFSW Europe) said: 'We welcome the creation of this joint initiative to record and promote the social activities that address the major social problems facing Europe. In these times of social crisis and austerity in Europe, it is essential that social workers and social development professionals find effective ways to document what is happening in our continent. The Observatory will give us an opportunity to showcase what makes a positive difference and gather evidence to inform the United Nations, the European Union and other regional bodies and national governments.'

The European Observatory is the regional arm of The Global Observatory, which was established by the International Association of Schools of Social Work (IASSW), the International Council on Social Welfare (ICSW) and the International Federation of Social Workers (IFSW). The Observatory is set up to report activity under the Global Agenda for Social Work and Social Development and monitor its implementation.

The European Observatory has invited submissions on the current state of social work and social development in Europe. The framework for submitting evidence is available for downloading on the websites of all 3 organizations.

- **OECD considers innovative approaches to socio-economic development for the post -2015 agenda**

The 2013 OECD Global Forum on Development (4-5 April) focused on "Innovative Approaches to Poverty Reduction, Social Cohesion and Progress in the post-2015 world". The topic promoted strong interaction among over the 350 stakeholders who attended, from OECD and developing countries. Sharing ideas and good practices was one of the top priorities of the discussions.

The corollary was that, while eradicating poverty should remain a central concern for the post-2015 agenda, we also need to broaden our understanding of poverty by going beyond income measures (and adding other key dimensions that matter to people's lives), by tackling the question of relative poverty, inequality and social cohesion, and by introducing more forcefully the question of sustainability.

The members of the Global Network of Foundations Working for Development (netFWD) subsequently joined the OECD Global Forum. The voice of foundations was prominent with a keynote speech by Heather Grady, Vice President of the Rockefeller Foundation, who reiterated the importance of using the post 2015 momentum for philanthropies to engage further in partnerships for development.

Members reaffirmed netFWD's role as a platform to influence policy and share innovative practices on philanthropy for development. The participants reiterated that they came to the OECD meeting to exchange lessons and focus on concrete workstreams such as (i) unfolding the drivers and value-added of "Enterprise Philanthropy"; (ii) the centrality of data sharing to enhance impact; and (iii) innovative approaches to support youth empowerment. The central issue of where foundations fit within the "Development Galaxy" was raised, following a keynote speech by Michael Green, (co-author of Philanthro-capitalism: How giving can save the world), on the possible "clash of civilizations" between traditional development co-operation and philanthropy.

For more details: http://www.oecd.org/dev/developmentcentre-newsletterapril.htm

- **Useful resources and links.**

According to a recently released UNICEF report entitled Improving Child Nutrition: The achievable imperatives for global progress, undernutrition in the first 1,000 days of children's lives can have irreversible consequences. For millions of children, it means they are forever stunted, more susceptible to sickness in the future and could have a shorter life-span. According to some estimates about one third of under-five mortality is attributable to malnutrition. This is a tragedy for the 165 million children under the age of 5 afflicted by stunting in the world today. It is not only a violation of their rights, but also a huge burden for nations, whose future citizens will be neither as healthy nor as productive as they could have been.

At last, the gravity of under nutrition and its long-term effects are being acknowledged and acted upon – with increasing urgency. This is, in large part, happening in recognition of the ever-growing body of compelling evidence on the short- and long-term impacts of stunting and other forms of under nutrition. Slowly, treatment is expanding but, still, too many children remain out of its reach. For more details please go to:

http://www.unicef.org/publications/files/Nutrition_Report_final_lo_res_8_April.pdf

The 2013 edition of the Economic Report on Africa co-authored by the United Nations Economic Commission for Africa (ECA) and the African Union, and entitled *Making the most of Africa's Commodities: Industrialization for Growth, Jobs and Economic Transformation*, argues that Africa needs to frame specific policies for commodity-based industrialization for each country so as to ensure initiatives that foster linkage development and accelerate that process, through leveraging Africa's abundant resources and high commodity prices and the changing global production process.

Advocating the "appropriate development planning framework" the Report says that, individually and collectively, African countries must embark on a "bold transformation" towards a commodity-based industrialization strategy that would allow the continent to take charge of its own development, which is necessary if African countries are to be able to address the youth unemployment, poverty and gender disparities, and other pressing socio-economic challenges they face.

For more details please go to:
http://www.uneca.org/sites/default/files/publications/unera_report_eng_final_web.pdf

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