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Emerging from Ethnic Conflict: Challenges for Social Protection Design in Transition Countries

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Abstract

This paper is an attempt to shed some light on issues relating to social protection in transition countries emerging from ethnic conflict. It analyzes how constraints posed both by conflict itself and its ethnic nature affect social protection policies and suggests ways out. Both conflict and continuing ethnic tensions thereafter affect labor markets, as well as render social safety net policies difficult to implement. Instead, policymakers often have to resort to second-best solutions. In particular, in the light of precarious public finances, a limited ability of the government to provide services and assistance and ethnic tensions massively constraining social safety nets, people will continue to rely on many wartime coping mechanisms. Social protection design has to be mindful of this and may even build on these mechanisms. Furthermore, employment--formal and informal--needs to take over a key poverty alleviation role in a post-ethnic-war environment. The resulting main social protection policy implication, therefore, is to create the right conditions for the labor market to absorb those able to work.

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Executive Summary

Since the breakdown of communism in Eastern Europe and Central Asia, several countries in the region have witnessed violent ethnic conflict. Ethnic conflict worsens the social crisis associated with the post-communist transition and provides serious challenges and constraints for social protection.

A Post-Ethnic-Conflict Environment Is Different

Ethnic conflict in transition countries blocks or interrupts the process of economic and political reform. As a consequence, the social protection system in a transition country emerging from ethnic conflict is both in need of reform and needs to deal with the social effects of war at the same time.

War worsens social problems in that it fuels the breakdown of economic activity and delays recovery. Moreover, it produces new groups of vulnerable people who are in need of support: internally displaced persons and refugees, demobilized soldiers, disabled people, single- and female-headed households, and orphans.

War decreases the capacity of the state to respond to these challenges, which is already under strain in the transition. Administrative capacity tends to be even lower and corruption worse than in other transition countries. Public finances are in a precarious state because of low or inexistent tax collection and high military spending. Political action is constrained by instability.

Continuing ethnic tensions complicate social safety net reform and rule out interethnic redistribution because different ethnic groups may refuse to share funds with a former enemy. Ethnic minorities may be left out and discriminated against in the labor market.

What Are the Challenges?

The constraints and challenges social protection faces in such an environment can be distinguished into those relating to the violent conflict itself and those that stem from its ethnic nature. While the former do not necessarily affect policy design but just exacerbate the needs, ethnic tension constraints can limit the social safety net options severely.

- *Conflict-induced challenges* to social protection pertain to the problem of displacement, demobilization and disability, the new role of women, the needs of children and young people, the phasing out of humanitarian emergency aid, the destruction of the data collection infrastructure as well as the absence of reliable data, corruption, and the size of the unofficial economy.

- *Challenges relating to continuing ethnic tensions* render many of the formal safety net interventions difficult to implement and have a disruptive effect on the labor market. In particular, social assistance, pensions, and even social funds are constrained by the political acceptability of interethnic redistribution as well as targeting of and discrimination against minorities.
- *A window of opportunity for bold reform:* Those constraints notwithstanding, there is an open window of opportunity for wholesale change of the social protection framework because of the complete breakdown and the delayed recovery of transition economies affected by ethnic conflict. Namely, politicians face the choice of either re-establishing the pre-war socialist policies that, on the face of it, are hardly affordable, or pushing ahead with bold reforms aimed at promoting employment and an efficient social safety net.

What does this Mean for Individual Instruments?

Labor market: The key post-war social protection priorities are to create an environment that is attractive to employment creation and to equip people with the right skills and information to facilitate their entry. While war worsens the transition-related unemployment crisis and produces vulnerable groups with particular problems in finding employment, ethnic tensions may lead to labor market segmentation along ethnic lines.

- Demobilized soldiers, displaced people, and women all face a variety of problems limiting their opportunities in the labor market. They may have outdated or inadequate skills, face discrimination, or lack a network that helps them find employment. In the immediate aftermath public works programs can help ease this, while long-term improvements need to be built on labor market deregulation, training programs, and advisory and job information services. Members of ethnic minorities may benefit from anti-discriminatory labor legislation and its enforcement.
- A nascent peace process usually sparks an economic boom fuelled by reconstruction activities and the breakdown of war-induced barriers to economic activity. The post-war boom should be used to create employment instead of engraving people's perceptions of the continued affordability of a socialist-style welfare state. Donor-financed and labor-intensive reconstruction and the use of public work programs can help to integrate former combatants into civilian life quickly to help stabilize the post-war environment.
- Labor legislation and regulation should be carefully balanced. While there is a need for anti-discrimination legislation to stem labor market segmentation, regulation should be hands off. For instance, initially there will be vastly more employment generation in the informal than in the formal sector, and there is a good case to be made not to reign in informal economic development. State intervention might push informal businesses out of business rather than into the formal sector, with adverse effects on employment.
- Young people should benefit from special skills training and know-how transfer focusing on new technologies and job profiles to improve their chances in the

- labor market and to make them leading agents in the resumption of economic activity; young people are likely to be less risk-averse than older people and may be more prone to start their own businesses.
- However, employment creation is also dependent on factors outside the realm of social protection, namely on those factors that promote economic development and growth.

Social assistance: Post-communist countries often emerge from war with the old-style complex welfare state system intact but without the necessary funds and huge demand. The main and more long-term aim in a post-ethnic-conflict situation should be to create an entirely new and transparent social safety net system and not to reinstate old socialist-type redistributive policies, especially in the light of continuing ethnic tensions. Regardless of war-induced high demand for the welfare state, these tensions may rule out redistribution mechanisms reaching across ethnic lines.

- Continuing ethnic tensions may, at least initially, render the introduction of countrywide social assistance systems and cross-subsidies impossible to implement. To avoid putting a peace process at risk, pressures to introduce such systems should be avoided and efforts should be limited to harmonization until the political situation allows further movement.
- The old system's nontransparent nature can be and has been used as an argument in stirring up ethnic tensions that lead to the outbreak of conflict in the first place. Likewise, the same argument can continue to be used by pro-conflict politicians to paralyze the peace process. Redistributive elements of the safety net should therefore be transparent and build upon noncomplex criteria and on sound poverty and social data analysis.
- Irrespective of ethnic tension constraints, there is a need to adjust entitlements and focus on the needs of the most vulnerable to avoid building up payment arrears because of insufficient funds that could undermine the credibility of the entire system.
- The system needs to be kept simple because of narrow administrative capacities and funds. For example, cash benefits may initially have to rely on categorical targeting.
- With emergency humanitarian aid being phased out over time, public social assistance schemes will have to take over to help the very vulnerable. Public intervention should continue to coordinate and complement third sector activities. Pro bono nongovernmental organizations (NGOs) should be provided with the right incentives such as simple registration processes and tax exemption.
- Social services play an important role in providing support, counseling, and rehabilitation to vulnerable groups such as the disabled, children, (young) former soldiers, or women who are victims of rape, domestic violence, or trafficking. Social workers should receive special training to enable them to offer these services.

Pensions: Pension systems struggle under a number of conflict-induced constraints-structural and financial. On top of these, ethnic tensions may provide another set of formidable institutional constraints, in that pension systems reaching across ethnic lines may be politically unacceptable. Reform efforts should be concentrated on making a very simple and transparent system workable and sustainable.

- War puts the sustainability of a pay-as-you-go pension system under massive strain; death and disability decrease the numbers of contributors with the shrinking of the male working-age population and raise the numbers of beneficiaries.
- To keep the pension system as simple and as transparent as possible, pensions should be of a flat rate nature and calculated on a pay-as-you-go basis. From a political economy point of view, it is important first to make the system work and to pay pensions on time before raising individual pension levels and introducing differentiation according to contributions, so as to raise the people's trust in the institution.
- If countries emerge from ethnic conflict with more than one pension system in one jurisdiction for ethnic tension reasons, reform efforts should be limited to improving harmonization between the two pension systems. Merging them might put the stability of the peace process at risk.

Social funds: Social funds have the advantageous feature that they are very adaptable to different and extreme situations and can be used as an emergency and a long-term development tool. However, ethnic tensions affect their operability, and careful design is essential.

- Many of the characteristics of social fund operations fit the special requirements of a post-ethnic-conflict situation well (the need to rehabilitate destroyed infrastructure, the need to generate employment and stimulate economic development on a grassroots level, and the need to raise social capital and to empower communities). Social funds can indeed be designed with a focus on infrastructure, employment (at least in the very short term), community development, improvement of social service delivery, or support for decentralization.
- Social funds have the potential to build bridges between different ethnic groups and former opponents. However, this requires careful design, depends on the peace process, and requires a minimum of interethnic tolerance to allow different ethnic groups to communicate at least over such noncontroversial issues as infrastructure rehabilitation. Social funds should not be expected to perform bridging functions in a climate of heightened ethnic tensions and violence, and this should not be set out as one of the main ambitions of a social fund project in a post-ethnic-conflict setting.

Examining wartime coping mechanisms reveals what is possible in the aftermath of war and how people cope in the absence of a public social safety net.

- Those coping mechanisms include (i) reliance on small-scale agricultural production, (ii) merging households, (iii) nonpayment of public service bills, (iv) remittances from abroad, (v) sale of personal belongings, and (vi) unregistered and informal work.
- At the very least, public intervention should not be in the way of those coping mechanisms that are legal, but it may even build on these mechanisms. Fostering the productivity of small-scale agriculture through training and the supply of equipment could be one such option. Incidentally this may also counter urbanization by providing demobilized soldiers and displaced people with a source of income in rural areas.

Institutional framework: Welfare state reform is not limited to designing new policies but also includes reforming institutions--especially in transition countries emerging from armed conflict.

- Reform is not only a matter of doing away with inefficient structures surviving from pre-war communist times (for instance by fostering decentralization), but there is the additional task of overhauling those institutions built during war to deal with war-related issues. For example, often countries end up with more than one ministry dealing with issues related to veterans and disability.
- Furthermore, fighting corruption and making links between the state administration and various private and political agents transparent are important parts of social protection reform.

Emerging from Ethnic Conflict: Challenges for Social Protection Design in Transition Countries

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I. Introduction

Since the breakdown of communism in Eastern Europe and Central Asia, several countries in the region have witnessed violent ethnic conflict.² Ethnic conflict leaves these countries struggling with three different sets of problems simultaneously. First, they have to deal with the post-communist transition itself.³ Second, conflict results in further problems and challenges that deepen the transition crisis and delay recovery. Third, strategies to overcome these challenges are complicated by the ethnic nature of the conflict.

Realizing that civil wars and ethnic conflict affect many developing countries, international development institutions such as the World Bank and the United Nations Development Programme have over the last few years tried to systematically approach post-conflict issues, explore their implications for development, and examine what role they can play in the process of post-conflict reconstruction (see UNDP 2000 and World Bank 1998).

This paper is an attempt to take this analytical work further by examining the implications of conflict and in particular ethnic conflict for social protection in transition countries.⁴ It is an attempt to shed some light on the constraints and options policymakers face when designing social safety nets in post-ethnic-conflict situations. The paper divides the constraints into those related to conflict itself and those related to its ethnic nature. The approach is a conceptual and not an empiric one. While drawing from experience in different conflict-affected countries in Eastern Europe and Central Asia, this is not a study of those

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² The countries that fall into this category are Armenia, Azerbaijan (Nagorno-Karabakh), Bosnia and Herzegovina, Croatia, Georgia (Abkhazia and South Ossetia), the former Yugoslav Republic of Macedonia, Moldova (Transnistria), the Russia Federation (Chechnya), Tajikistan, and the Federal Republic of Yugoslavia (Kosovo).

³ Transition in this paper invariably means the transition from communist central planning to a market economy and not the transition from war to peace, unless otherwise stated.

⁴ Social protection is defined here to include labor markets and social safety nets (social assistance and pensions and social funds; unemployment insurance is not covered because it is an instrument rarely available in an immediate post-war crisis).

individual countries and an assessment of policies implemented there. Although the paper attempts to develop policy options for the politically delicate and economically desperate settings after a war, some of the options for the post-settlement case may be relevant for latent ethnic disputes and conflicts that have not escalated into war.

Although no post-conflict situation is alike and different peace processes follow different paths, it is useful to distinguish two broadly separate periods, the immediate period of stabilization and the more long-term period of reconstruction. In the stabilization period the main goal is to achieve stability, while developmental and equity issues are secondary. Social safety net policies can sometimes be used to support the stabilization process. For instance, veterans' benefits and demobilization programs should be seen as a means of "buying" support from former combatants for the peace agreement and making them lay down their arms. A key challenge for social safety nets early on is to make sure that receding provision of humanitarian aid does not create gaps of coverage. Any intervention has to be simple and easy to administer and therefore be based on indicator targeting and using flat rate benefits and pensions. The main emphasis should lie on easing the pronounced post-war unemployment crisis and making use of a potential post-war boom to generate employment. Overall, however, there is little scope for redistributive interventions, both because there is not much to redistribute and because poverty is widespread.

Over time, depending on the peace progress and in particular the receding of interethnic tensions, social safety net design will become less constrained. In the more long-term reconstruction phase an evolving functioning institutional framework, a clear division of responsibilities between higher and lower tiers of government, and sound public finances will make formal social safety nets more sustainable and affordable. Meanwhile, ethnic tensions complicate social safety net design in both periods and affect nearly all types of formal safety net intervention.

A note of caution. The term "post-ethnic-conflict situation" has severe limitations in that the transition from war to peace almost never follows a smooth and linear path. The type of ethnic conflict we are dealing with here is that of violent conflict, that is, ethnic warfare that has been ended by a ceasefire. However, a ceasefire does not necessarily represent a final settlement and peace agreement. Conflicts can go on for years without a resumption of large-scale, systematic, and countrywide violence, but also without a final settlement or agreement (sometimes called a frozen conflict). Almost any peace process encounters setbacks (there remains a continuous threat of renewed hostilities), and social safety net design has to be mindful of those constraints and dynamics so as to avoid fuelling the resumption of violence by promoting wrong policy choices.

The paper is organized as follows. Section II analyzes the ways that post-conflict situations are different from the mere post-communist transition. Sections III and IV examine what constraints related to conflict and its ethnic nature mean for individual social protection mechanisms. For every constraint the paper first lists the challenges and then possible policy options of how to deal with them. Section V describes the social protection experience in post-war Bosnia and Herzegovina and Georgia. Section VI concludes.

II. Why is a Post-Ethnic-Conflict Environment Different?

Economies in Eastern Europe and Central Asia coming out of ethnic conflict tend to be in an even more difficult situation than other transition economies. While conflict deepens the transition-induced crisis, the ethnic nature of conflict constrains the design of social protection further. This section sets out to analyze why and how much a post-conflict environment is different from mere post-communist transition.

Worsened Social Problems...

Breakdown of economic activity and delayed recovery: Conflict-affected Transition economies have seen their economies collapse more dramatically than elsewhere in the region. As table 1 shows, the war-torn countries in the Commonwealth of Independent States (CIS) have seen output slumps well above the CIS average.⁵ Infrastructure has been destroyed, physical and human capital decimated, and transport-routes interrupted by frontlines. Furthermore, conflict has delayed economic reform, the restructuring of enterprises, and reallocation of labor from socialist inefficient production to more productive activity. Therefore, recovery and a return to growth have been delayed as well. Not only do war-affected transition countries start from a deeper slump, but they also start their recovery later than any other reform country in Eastern Europe and Central Asia.

Table 1. Comparative Output Collapse in the CIS

	<i>Total fall in gross domestic product (GDP) from 1991</i>
CIS	40.7
Armenia	40.2
Azerbaijan	57.8
Belarus	34.6
Georgia	64.2
Kazakhstan	31.0
Kyrgyzstan	45.0
Moldova	52.4
Russia	34.7
Tajikistan	61.0
Turkmenistan	33.8
Ukraine	47.8
Uzbekistan	18.4

Source: Aslund (2001).

Unemployment in some conflict-affected countries is extremely high. This has poverty implications, because labor market status tends to be strongly associated with poverty in transition countries. In the absence of employment opportunities in the formal sector, many people seek work in the informal sector or migrate. However, internally displaced persons,

⁵ Aslund (2001) does not examine how much this output collapse is attributable to war itself, but argues that excessively low investment during the conflict years and thereafter contributed.

refugees, and ethnic minorities might not stand a chance of finding employment even in the informal sector, implying that unemployment is more long-term and widespread for these groups, and they have to rely on other coping mechanisms. Furthermore, the size of the informal sector has severe implications for tax collection and the sustainability of the pension system, because contributions and taxes are either not paid at all or not regularly.

New vulnerable groups: Conflict produces new and distinct and particularly vulnerable groups: (i) internally displaced people and refugees who are in need of assistance in form of food, shelter, and health care; (ii) single- and female-headed households, which are more widespread in post-conflict countries because of the loss of the male head of the household during the war, are especially vulnerable, and women find it more difficult to find employment and very often receive lower salaries; (iii) war veterans and disabled people provide another challenge for the social safety net, in that they may find it difficult to reintegrate into civilian life and may be disadvantaged in the labor market. However, support for them is often politically driven and therefore rather generous, not least because politicians feel they need to purchase the former combatants' support for a ceasefire or peace agreement.

...Decreased State Capacity...

While the demand for public social service delivery and social protection is dramatically increased by war, the capacity of the state to respond is dramatically narrowed. This is evident in a number of areas.

Administrative capacity: The administrative capacity in civil-war-affected countries tends to be even lower than in other transition economies. In war people and knowledge as well as funds are withdrawn from the public administration, and years of conflict and crisis hold back administrative reform that is taking place elsewhere in transition countries (for example, computerization of unemployment records and training of staff).

Public finances: While public finances are in a precarious state in nearly all transition countries, and in particular in the CIS, war worsens the situation considerably. Investment in the war effort diverts funds away from other parts of government activity. At the same time, the economic collapse, steeper and more protracted than elsewhere, reduces the revenue base. Tax collection is bad, as the authorities often lack the means and the will to crack down on tax avoidance, and informal economic activity has no public finance effects by definition. Narrow public finances make the generous welfare state surviving the war from communist times unaffordable.

Corruption and politicization: At the same time, war worsens corruption usually associated with transition. Anarchical conditions during war breed politicization of the state administration and a complex system of nontransparent links between the state administration and various private and sometimes illegal agents. These represent vested interests potentially opposed to changing the economic and social structures in the country.

Political and instability constraints: In a post-war setting social problems can get more easily out of hand, because social unrest is more likely. For instance, people not receiving their pensions are more prone to demonstrate in an emotionally heated post-conflict environment and given the proliferation of firearms, any demonstration can turn into a catastrophe. Very often, especially when the state is in arrears to many beneficiaries, it

channels the priority funds to the group that is expected to cause most trouble. Politicians might feel the need to prioritize certain groups of vulnerable people for political reasons, whether this is efficient or not. For instance they might purchase support for the peace process from former combatants by providing generous veterans' assistance to them.

...and Continuing Ethnic Tensions

While most of the constraints analyzed so far resemble those any transition country faces--just worse--the following ethnic-conflict-driven constraints are truly distinctive and have an impact on the design of social safety nets. In some countries two or more different ethnic groups continue to share one jurisdiction after the conflict and ethnic tensions may continue. This situation arises where there is some refugee and internally displaced persons (IDPs) return, where ethnic minorities remain in one jurisdiction or where, following a peace agreement, two former warring ethnic groups are lumped together. Examples for the first case are the Gali district in Abkhazia in Georgia, which has seen a number of waves of IDP returnees from the other side of the front line. The latter case is exemplified by the Bosnian-Croat federation of Bosnia and Herzegovina.

The impossibility of interethnic redistribution: Whenever two ethnic groups share one jurisdiction after a conflict, continuing ethnic tensions, based on the experiences and grievances of the war, can provide another set of constraints to social safety net design. For example, they make any form of interethnic redistribution and cross-subsidies difficult to implement. Likewise, they can lead to labor market segmentation through ethnic discrimination. Furthermore, they have powerful political implications, as the federation in Bosnia and Herzegovina shows, where attempts at building joint institutions--and countrywide social safety nets are such institutions--have the potential to put the peace process on hold and require careful maneuvering.

III. The Challenges and Implications for Social Protection: Constraints Related to Violent Conflict

This section attempts to spell out the kind of constraints and challenges violent conflict poses for different social protection mechanisms and what the policy implications are. They include issues as diverse as displacement, demobilization and war veterans, disability, the changing role of women, the role of humanitarian aid, the lack of statistical data, and the corruption and politicization of the economic sphere. The constraints relating to the ethnic nature of conflict are examined in the following section.

Displacement

The ethnic wars in Eastern Europe and Central Asia have almost always led to massive displacement problems. While hundreds of thousand of people were pushed across external borders and became refugees, a growing number of people become displaced within the recognized national boundaries of their own country (IDPs). Table 2 gives the United Nation's High Commissioner for Refugee's (UNHCR's) displacement data for the year 2000 and shows the percentage of those displaced in the total population.

Table 2. Refugees and Displaced Persons in 2000

Country	Refugees	Asylum-seekers	Returned refugees	Internally displaced	Returned IDPs	Various	Total population of concern to UNHCR	Total population	Percentage of total population of concern to total population
Armenia	280,591	-	-	-	-	-	280,591	3,827,000	7.3
Azerbaijan	287 ⁶	3,376	27	572,451	-	51,649	627,790	8,052,000	7.8
Bosnia and Herzegovina	38,152	80	18,715	518,252	59,347	-	634,546	3,923,000	16.2
Croatia	22,437	19	20,716	34,134	15,494	-	92,800	4,460,000	2.1
Georgia	7,620	-	81	272,101	284	100	280,186	5,460,000	5.1
Russian Federation	26,265	691	37	490,650	70,000	753,882	1,341,525	145,542,096	0.9
Yugoslavia, Federal Republic of	484,391	12	124,514	267,500	-	85,000	961,417	10,616,000	9.6

Source: UNHCR and World Bank data.

The Challenges

Displacement is long term: Displacement in Eastern Europe and Central Asia is of a long-term nature.⁷ It is notable that, with the exception of Russia and Chechnya, all countries in table 2 have seen the beginning of their displacement problem a number of years ago and are still struggling with it today. Displacement in Armenia and Azerbaijan has been going on for 14 years; that in Croatia, Georgia, and the Federal Republic of Yugoslavia for 11 years; and in Bosnia and Herzegovina for 10 years.

Not only during armed conflict, but also in case they cannot return for many years, refugees and IDPs usually form the most vulnerable part of society. They are typically without decent accommodation and access to proper education and health care. Furthermore, they are completely uprooted and without any access to those essential coping mechanisms open to closely-knit communities (for example to find employment or share housing and food). A survey conducted by the International Federation of the Red Cross and the Red Crescent Societies (IFRC) in Georgia documents the difficult socioeconomic situation of IDPs: IDPs and especially those living in collective centers remain poorer than the rest of the population, regardless of governmental IDP assistance (IFRC 2000). A higher likelihood of poverty among IDPs compared to the rest of the population has also been documented for Azerbaijan (World Bank 1997). At the same time, the responses to displacement that are typically available are inadequate to deal with prolonged displacement problems. Supplying humanitarian aid to those IDPs and refugees living in collective centers and perhaps paying a

⁶ This represents the number of refugees who arrived in Azerbaijan in the year 2000. The 1999 figure was about 220,000, which represented ethnic Azeri refugees from Armenia who both the Azeri government and the UNHCR do not consider to return. The UNHCR has, therefore, dropped these refugees from its record.

⁷ The distinction between internally displaced people and refugees in the conflict countries in the region becomes less important, because in those countries with a large number of refugees (Armenia and the Federal Republic of Yugoslavia), the refugees belong almost exclusively to the ethnic group of their host countries and intend to stay there (and expect to be naturalized). While elsewhere in the world refugees provide a distinct problem because they are expected to return one day, this is not the case here and the challenges in dealing with refugees and IDPs, namely settlement and self-reliance, are similar.

flat-rate benefit financed out of the state budget to every one is adequate for brief displacement crises such as that of Kosovar refugees in Albania and the Former Yugoslav Republic of Macedonia in 1999. In the case of long-term displacement it locks individuals up in a vicious circle of dependency that is increasingly difficult to break with every month displacement continues.

Social assistance: Some countries might want to choose to grant a special benefit for IDPs out of the general budget for political reasons⁸. In this case IDPs place a further claim on a social safety net system that already struggles to remedy poverty induced by the transition. If generous, such assistance can eat up a significant part of the social assistance budget that could otherwise be allocated to fighting transition-induced poverty among the rest of the population. Even where countrywide numbers of displaced people appear manageable, this may not be the case regionally. If IDPs are highly concentrated in overly poor areas, the social safety net there can hit crisis point. For instance, war-induced displacement often fuels urbanization: IDPs and refugees move to the urban centers, because they think they have the greatest options for income generation there. While a one-size-fits-all benefit for IDPs is vulnerable to criticism from an equity point of view, it is also clearly inefficient in the case of prolonged displacement, because some IDPs may find outside opportunities of generating income over time.⁹

Labor market: Internally displaced persons tend to be severely disadvantaged in finding employment, because they lack the all-important network of contacts necessary to find a job in the tight post-war labor market.¹⁰ Not surprisingly, unemployment rates usually are higher among IDPs than among the rest of the population. The IFRC survey in Georgia shows that today the unemployment rate among IDPs in private accommodation is about twice as high as that of the general population, while that among IDPs living in collective centers is about three times as high. The situation is especially tense in urban centers, because displaced people often move to urban areas. Displacement also often drives labor market segmentation: displaced people often engage in self-employment such as small-scale street trading that is not attractive to other groups of people. This has implications also for wages: IDPs tend to earn less than non-IDP workers.

Policy Options

When displacement is short-term, it can and should be treated as a temporary issue and assistance should be mainly of an emergency type. People are supplied with humanitarian aid, medical services, and education--mostly by (international) humanitarian organizations--which can be supplemented by a public benefit for IDPs. The issue becomes more complex when displacement continues over a longer period and where the possibility of return in the near future is in doubt. Both Georgia and Azerbaijan struggle with a displacement problem that has been ongoing ever since the armed clashes in Abkhazia and Nagorno-Karabakh, and there is little hope for imminent return. Likewise, in Bosnia and Herzegovina more than half a million people remain internally displaced--six years after the Dayton Peace Accords,

⁸ For example Georgia has a special monthly allowance for IDPs, while IDPs in Bosnia and Herzegovina do not receive any special benefit from their governments.

⁹ In a situation of widespread poverty, distinct targeting of IDPs may trigger serious political problems by driving a wedge between the IDP community and the rest of the population.

¹⁰ In many countries refugees are not officially entitled to work.

which were meant to guarantee the return of refugees.¹¹ For these people who survive on irregular humanitarian aid and other coping mechanisms, another assistance strategy is needed--one that focuses more on generating self-reliance and helps the displaced to integrate more in their host communities.¹²

- *Creating conditions conducive to return:* Although the return of refugees and internally displaced persons is almost exclusively dependent on the political will of the parties to the conflict, several of the underlying structural issues lie in the realm of social protection. Anti-discrimination legislation may help counter widespread discrimination in the labor market against ethnic minority returnees, although it is dependent on the power of the rule of law, the functioning and the reliability of the judicial process, and people's awareness of their rights. Likewise, pensioner returnees need entitlement security in the case of multiple pension systems. Social fund-financed reconstruction activities can be designed such that they pay special attention to the rehabilitation of returnee houses.
- *Focusing on employment generation for IDPs:* The longer displacement persists, the more important it is to enable IDPs to become more self-reliant and less dependent on a one-size-fits-all and typically low IDP benefit plus occasional humanitarian food aid. Because IDPs often are significantly disadvantaged when it comes to finding employment and because unemployment tends to be positively related with poverty, there may be a point in tackling IDP poverty with measures aimed at generating employment and increasing income from other sources--both for wage and self-employment. Because wage employment is more prevalent in urban areas, attempts should be made to increase the employability of IDPs through training programs or facilitate their job search. In rural areas, where self-employment in agriculture is most common, IDPs can raise household income through improving access to land and to higher quality land in particular. Furthermore, IDPs in rural areas also might benefit from agricultural training to improve the productivity of land use. Donor-financed reconstruction activities are tools to provide employment opportunities early on, at least in the short-term.

In case there is political pressure to address displacement-induced poverty with a special benefit aimed at IDPs, the following options could be considered to ensure a minimum of efficiency and equity.¹³

- *Integrating vulnerability criteria for cash benefits for IDPs and the rest of the population:* As long as cash benefits are awarded on the basis of categorical targeting, vulnerability criteria for IDP and nonIDP communities could be integrated in the longer term so as to allow those vulnerable households (IDP and nonIDP) without any member able to work to receive a poverty benefit. Vulnerable groups in the nonIDP community tend to be single pensioners, children without

¹¹ At the end of the war, the figure stood at 1.1 million IDPs.

¹² This may be impossible, though, if the integration is prevented for political reasons: in both frozen conflicts in Azerbaijan and Georgia, the political leaderships are opposed to the concept of (even a temporary) integration of IDPs, as this is seen to compromise the right to return.

¹³ This is based on the argument that for administrative and financial reasons, post-conflict transition countries should choose indicator targeting for cash benefits at least in the short term. Means testing could then be introduced over time, once administrative and financial pressures ease.

both parents, families with all members disabled, and the rural population.¹⁴ The set of criteria could be widened to include families residing in designated collective centers, large families, and women-headed households--in short those groups of IDPs that are extremely vulnerable. However, in the short-term a narrow revenue base and limited funds available for poverty alleviation may render an integration of IDP benefit and other types of social assistance unaffordable.

- *Introducing self-targeting mechanisms:* In the light of extremely narrow public finances, there is a case for introducing mechanisms to target exclusively those households that are truly vulnerable instead of creating a one-size-fits-all IDP benefit. This could be done through a scheme under which IDPs do not automatically qualify for assistance but would have to register for it again every year at the social welfare offices. The additional advantage would be that the beneficiary list is always up to date and leakage is minimized. Alternatively, the IDP allowance in full or in part could be tied to participation in public works programs.

The answer to the question when IDP assistance should be integrated into an overall social assistance depends on the specifics of the individual situation a country finds itself in. However, if a displacement problem is protracted, if there is widespread poverty in the rest of the population, and if the resources channeled to IDPs constitute a large share of the social welfare budget and if this budget is unable to cover all vulnerable groups in society, then there is a case to be made to integrate the IDP assistance. The challenge is to create a social safety net that, while addressing the special vulnerability of IDPs, does not do that at the expense of other vulnerable groups in the rest of the population. Furthermore, apart from targeting inefficiencies, distinct IDP assistance at the expense of assistance to other vulnerable groups in society carries the additional political problem that it may drive a wedge between the local population and the IDP communities and create alienation. When designing a system of indicator targeting, certain displacement-specific indicators could be included, for example whether a household lives in a collective center.

Demobilization, Veterans, and Disability

Demobilization is concerned with the transition of former combatants from military to civilian life. It is crucial for two reasons. First, the precarious public finance situation dictates a reduction of armies inflated with combatants in wartimes to free up resources for other pressing needs. Second, a reduction in the size of armies is an important step toward more security; it is a key first confidence-building measure between two former warring parties. But it also has security implications within the jurisdiction of one party: by lowering the number of people under weapons and by returning them to civilian life, the post-war situation is stabilized.

The Dayton Peace Accords for Bosnia and Herzegovina defines demobilization as “removing from the possession of these personnel all weapons, including individual weapons, explosive devices, communications equipment, vehicles, and all other military equipment. All personnel belonging to these Forces shall be released from service and shall

¹⁴ This reflects the three major poverty risk factors in transition countries: employment status, age, and location (World Bank 2000).

not engage in any further training or other military activities” (General Framework Agreement for Peace, Annex 1A, Article IV, 5b). However, this is only one part of the story.

The Challenge

The lesson from demobilization programs throughout the world is that demobilization is a complex exercise in that programs are dependent on a number of situation-specific characteristics. First, it has to take account of the background and identity of the individual soldiers (UNDP 2000). Age, gender, educational background, and years spent in service influence a demobilization program as much as whether the soldiers are professionals or freedom fighters or whether they emerge as winners or losers from the war. Lastly, such programs are also dependent on the overall political and security context in the country and the willingness of combatants to become demobilized. Successful demobilization addresses these issues and times assistance according to needs. No two demobilization programs are alike.

One can conceive of assistance for veterans as a means of “buying” support for the peace process from them. Therefore, a successful and sustained demobilization process requires, beyond collecting weapons, active assistance for former combatants to adjust to civilian life. If they for example fail to find employment and stay isolated in between the military and the civilian sector without having access to either, demobilization can easily escalate into armed troubles or the return of soldiers to banditry, due to the widespread continued availability of firearms especially among former combatants. Here is a key challenge for social protection in a post-war setting: to help facilitate the former soldiers’ transition from military service to civil employment. Demobilization has important implications for both labor markets and nascent social safety net systems.

Labor markets: The key goal of successful demobilization is to help former combatants re-integrate into public life and enable them to earn their living in the civilian labor market. However, due to outdated skills and difficulties in adapting to civilian life, former combatants are especially disadvantaged in the tight post-war labor markets in transition countries. This applies in particular to those former soldiers from lower ranks who already had low levels of skills and therefore difficulties in the civilian labor market before the war. There is a high likelihood, therefore, that former combatants will move straight from duty to long-term unemployment. As a result, former combatants may become dependent on social assistance, some form of humanitarian aid, or, if they qualify, on veterans’ assistance.

Social assistance: In some countries, veterans’ assistance tends to constitute a large part of social assistance. This is understandable given the high vulnerability of war veterans and especially those with severe disabilities. There often is a public consensus that those who have sacrificed a lot in defending their people should be adequately compensated and deserve special protection. The veterans’ case is often pressed by a powerful lobby, and politicians realize that it is politically opportune to yield to that pressure--not least to show their patriotic credentials. However, very often the scope of benefits and services do not match the public funds available. Furthermore, categories of entitlements often tend to be wide and spread further with time. Families of fallen soldiers often become entirely dependent on government assistance, because the wives now heading the households are unable to work.

Pensions: Often the veteran pension system is run separately from the civilian one, which is inefficient. Likewise, veteran pensions tend to be unsustainably high and unaffordable. Furthermore, demographic change due to a shrinking of the male working-age

population through combat-induced death and disability can have a severe impact on the sustainability of pay-as-you-go pension systems. Together with low contribution collection the worsening ratio of contributors to pensioners complicate pension reform by leading to problems of liquidity and payment arrears.

Policy Options

Social protection should be concerned with helping those former combatants who are able to work to find employment and with providing those who cannot with a social safety net. As a first start, while soldiers are awaiting discharge, the authorities in charge of the demobilization program need to survey individual needs and backgrounds so as to provide the right kind of assistance to every soldier.

Reinsertion: In the following reinsertion phase, former combatants should be supplied with a transitory “safety net package” in form of cash, vouchers, or in kind transfers such as shelter or food to bridge the gap between demobilization and reintegration. However, in practice, this reinsertion support takes the form of a veterans’ benefit that is not limited in time and given out regardless of whether the individual is able to work or not. This leads to veterans’ assistance schemes that are both massive in size and in administrative requirements.

- *Differentiating veterans’ assistance according to need:* By adapting across-the-board veterans’ assistance, the government can give useful incentives to able-bodied veterans to become self-reliant. For instance, the availability of veterans’ assistance to those who are able to work could be shortened to cover only the reinsertion period. A one-time lump sum of about 12-to-24-months worth of benefit could be given out to bridge the gap from military to civilian employment or to provide starting capital for self-employment (Gregson 2000). While many (partly) disabled would not be able to work in manufacturing, they may very well be able to do a service job. Full and generous veterans’ assistance should then be limited to those who are severely disabled and unable to work. The availability of veterans’ assistance should, therefore, be tied to need and not to entitlement due to past service per se. Veterans able to work should, however, still be able to access social services such as counseling and advisory services.
- *Social services:* War veterans require, on top of material support, special advisory and counseling services to help them deal with post-traumatic stress disorder and other psychological problems stemming from their combat experience, in order to facilitate reintegration into civilian life and their families.

Reintegration: Successful reintegration of able-bodied veterans implies reintegration into the workforce. It therefore relies on providing an individual with the right skills to improve his or her chances to find employment.¹⁵

- *Employment-generation:* Former combatants require special support in finding employment. This includes training programs to update their skills or generate new and needed ones, while job information and the provision of contacts can also help. Furthermore, there is scope for the government providing incentives for prospective

¹⁵ However, successful reintegration is also dependent on influences outside social protection, such as a quick return to economic growth.

employers to hire demobilized soldiers, like short-term contracts that are exempt from payroll taxes. Furthermore, social-fund operations could be geared toward focusing on employing former combatants. An example for supporting the reintegration process is a labor redeployment project in Bosnia and Herzegovina, which finances counseling and employment and training services for demobilized soldiers.¹⁶

- *Back to school for the young generation:* War and mobilization often drags young and gifted people out of education. In order to give them a well-deserved second chance but also to raise the country's human capital, there is a good case to be made for providing scholarships for higher and further education especially aimed at young former combatants.

Disability: Disabled veterans usually receive, apart from their situation-specific requirements (such as for psychological treatment), higher benefits than disabled civilians. While aligning benefit levels may not be possible for political reasons, civilian disabled should not be treated as a second class.

- *Simplified and integrated disability criteria:* In order to make the system both fairer and more efficient, disabled people should be awarded assistance regardless of whether they are civilian or veterans or whether their disability is war-induced or not. Likewise, disability criteria should be simple and applicable to both disabled civilian and veterans. Disability categories should be clear and limited in number to avoid confusion. Moreover, unlike the current practice in many post-conflict transition countries, the benefits should be disbursed through one source, most likely the social welfare ministry to avoid "double-dipping" and to cut back on administrative expenditure.
- *Disability-centered training and rehabilitation:* Disabled with both military and civilian backgrounds should benefit from integrated rehabilitation and training programs so as to enable them to participate fully in public life and become as self-reliant as possible.

Women

War changes the role of women in society. First, women take over responsibilities of heading the households during the war, while men are away on military duty. Second, combat casualties among the male working-age population significantly change gender demographics.¹⁷ Women are left assuming a new role as the productive base for restarting the economy and as provider for the family. Likewise, there is evidence that women often adapt more readily to stresses of the post-war life than men and therefore take over responsibility for income generation when the men do not (Buck 2000). However, the changed role of women in society can have a productive impact on the peace process. Women typically are more likely to act as agents for change and in the rebuilding of social capital.

¹⁶ Bosnia and Herzegovina Pilot Emergency Labor Redeployment Project

¹⁷ However, households can be female-headed not only because of the husband's death but also because of war-induced family disintegration, for example when the spouses are from different ethnic groups.

The Challenge

A number of challenges for social protection emerge to take account of special vulnerabilities of women and to strengthen their role.

Labor market: War-induced demographic change raises the share of women in the labor market and leave many women in the role of the provider for the family. However, women often are disadvantaged in the labor market both in term of finding employment and in terms of wages they receive. This can drive labor market segmentation. For instance in Georgia, female IDPs predominantly run unofficial small-scale trading activities (Buck 2000).

Social assistance: Women face the often-impossible task of balancing both caring for children and generating income to feed them. As a result of this and their disadvantage in the labor market, female-headed households are more likely to be reliant on public social assistance and support from other, third sector sources. This is especially the case for those female-headed households who are suffering from displacement and the associated disadvantage in accessing other coping mechanisms. Women can be subject to very special war atrocities such as rape, trafficking, and domestic violence.

Policy Options

Social protection has to take account of the changing role of women in post-conflict societies. There is a need both to improve their chances in the labor market and to provide well-targeted assistance to those who are unable to act both as caregiver and income-provider for the family at the same time.

- *Skills training and employability:* Women should benefit from specialized skills training taking account of their needs and strengths to enhance their chances in the labor market. Other interventions aimed at raising women's employability and self-reliance include for example targeted microcredit programs.
- *Social assistance targeting:* If the social assistance system operates with categorical targeting for cash benefits, female-headed households should be one such category to take account of their higher likelihood of poverty.
- *Social services* should offer female-specific counseling and advisory programs targeted at the special vulnerabilities among women. These services need to be offered in a consistent way across the country, and social workers should receive special training to enable them to offer these services.
- *Participation:* Social fund operations should ensure that women's voices are heard at all stages of a project and take account of their needs as well as take advantage of their special role in the building of social capital.

Children and Young People

War has a profound impact on young people. While it is beyond the scope of this paper to analyze its extent and nature, there are a few important aspects from a social protection point of view.

The Challenge

Young people, both children and young adults, are particularly affected by the disruptions of war. Very often their upbringing and socialization are impeded; for example, life during the siege of Sarajevo was isolated, and many young people suffered from “backwardness” once they were able again to engage with their peers from other countries.

Loss of years of schooling: Mobilization and the overall circumstances in war severely disrupt the education of young people. Military service means that schooling or higher education is interrupted or put off indefinitely, while a lack of heating, electricity, and material or the severity of the fighting renders meaningful school instruction impossible. As a result, there is a danger that war leaves one generation with insufficient skills (and pronounced traumata), which, if not addressed, may leave them dependent on some kind of social assistance for their entire life.

Young former soldiers may face great difficulties in dealing with the trauma and stress stemming from experiences in battle and have particular problems in reintegrating into civilian life.

War orphans and children from dysfunctional families: Furthermore, war leaves an enhanced number of children without (adequate) parental care, which the social welfare system has to accommodate at a time when it is severely ill prepared to do so. Institutionalized care tends to suffer from low funds and may represent an outdated, communist approach, while foster care and adoption remains unaffordable for many people and social services are underdeveloped. In a post-war situation there is a particular risk that children end up on the street when timely support is not provided.

The notion of war taking youth’s best years is evident in many ways. However, precisely because of this sense of loss, young people can become important pro-peace process driving forces. They may want to avoid perceived mistakes of their parent generation or just strive to return to normality as quickly as possible. Special support for them is a key challenge also in the light of political economy and peace strategy considerations.

Policy Options

- ***Skills enhancement and know-how transfer:*** The need for additional schooling for young demobilized soldiers has been mentioned above. Moreover, special skill training with a focus on newly developed technologies and job profiles not only can improve young people’s chances in the labor market but turn them into leaders in the resumption of economic activity. Young people may be more prone to start their own businesses if they are supplied with the right skills and know-how.
- ***Innovative approach to child welfare:*** Support for children deprived of parental care has to be based on de-institutionalization tied to community integration, on improvements in environment and incentives for prospective foster caregivers, and on supporting existing intra-family coping mechanisms. Usually the extended family is the first instance to take care of a child without parents, and specially targeted financial and advisory support for those families may enable them to afford caring for a child long-term. There is an urgent need to improve and specialize advice and counseling to dysfunctional families so as to prevent children from having to rely on foster or institutionalized care.

- *Counseling for young people and children:* Children need special advice and support to help them overcome war-induced trauma and stress so as to enable them to make the best out of their post-war opportunities. The same applies to very young former combatants. Social services should therefore offer counseling programs especially targeted for them.
- *Leadership skills:* Social funds should examine how they can foster the young generation's participation and their role in leading their communities and developing social capital. Furthermore, if projects are "owned" by the young, their sustainability is more secure long-term.

Humanitarian Aid and Its Phasing Out

During war a significant share of the population tends to live on humanitarian emergency assistance. For example, by the end of the war in Bosnia and Herzegovina, about 80 percent of the population was at least partly dependent on emergency food aid and medical and other supplies from international humanitarian aid organizations (World Bank 1996).

The Challenge

Despite improvements in food supply and declining prices resulting from a resumption of commercial transport and receding obstacles to trade after the cessation of hostilities, many people will remain vulnerable and dependent on humanitarian assistance at least initially. This dependency owes to their limited purchasing power and will only decrease when people can return to their old jobs, find new ones, or when alternative assistance mechanisms are in place. Most aid agencies do not terminate operations as a ceasefire is in place, but continue their projects over a few years if needed. However, while some aid organizations continue operating humanitarian projects such as soup kitchen or the distribution of food parcels for the very vulnerable, most either increasingly shift activities more into the development sector or withdraw entirely at some point.¹⁸ Phasing out of emergency humanitarian aid can lead to a shock, especially in countries where a big part of the population relies on it. Therefore, social safety net design after the end of violence has to be mindful of the role of emergency humanitarian assistance plays and what happens once it is phased out.

Social Assistance: While the majority of the population is usually able to substitute emergency humanitarian aid with income from employment and other economic activity once the security situation allows, there always remain vulnerable groups who are not able to participate in income generation. The key challenge for the nascent social safety net is, therefore, that it will have to fill many of the gaps left by phased-out humanitarian aid.

Policy Options

It is important that the government, the international funding bodies, and the implementing partners start early with planning the transition from emergency humanitarian aid to more long-term development assistance and a stronger role of the state in providing social assistance.

¹⁸ However, refugees, who usually are precluded from participating in income-generation activities, remain more or less entirely dependent on humanitarian aid. Therefore, often a humanitarian aid infrastructure remains in place as long as refugees are being hosted in a second country (Croatia and refugees from Bosnia and Herzegovina is a case in point).

- *The social safety net takes over:* Over time, the public social safety net will take over many, if not all, functions humanitarian assistance fulfilled during and immediately after the war. Vulnerability criteria that were in use by the humanitarian organization should be studied by the social safety net designers and, if possible and sensible, could form the core of the new vulnerability criteria for social assistance. Especially when relying on indicator targeting (as will be probably be the case in every transition country emerging from conflict), the experience and criteria of humanitarian operations can be of help. A donor-financed emergency social fund to provide targeted cash benefits to the most vulnerable could bridge the gap between humanitarian aid and the creation of a sustainable and effective social safety net.¹⁹
- *Continued interaction with the third sector:* The legacy of the humanitarian aid intervention during conflict is a growing openness of the former communist public system to dealing with nongovernmental and third-sector agents. In the former Yugoslav republics, the Centers for Social Works, the main social services delivery mechanism before the war, were used for the distribution of humanitarian aid. This new openness toward interaction should be preserved and built upon, for example with regard to public-private cooperation in social service delivery. Operating soup kitchens to help the very vulnerable is a possibility for a (local) NGO to complement the state social safety net. In the Bosnian cities of Travnik and Prijedor, municipal welfare boards bring local government and third sector organizations together to determine the local needs for assistance and to develop joint strategies to meet them. However, the share of third sector involvement in social welfare delivery is heavily dependent also on the overall operating conditions for NGOs. In order to foster NGO involvement the state should provide the right incentives, for example by adopting a hands-off approach by facilitating NGO registration procedures and exempting pro bono NGOs from paying taxes.²⁰
- *Further aligning humanitarian assistance and development aid:* This is a long discussed yet unresolved issue in post-conflict reconstruction. The gap between humanitarian and development aid is difficult to bridge for a number of reasons. First, the culture and attitudes within organizations in the two different fields is traditionally different, and problems are being approached in different ways. Second, the organizational structures and circumstances are different: operational timeframes for humanitarian aid are much shorter than those for development aid. However, these problems are being overcome through encouraging more exchange of staff between humanitarian and development organizations, while budget lines are being further aligned. For example, the European Community Humanitarian Aid Office, the European Union's funding arm for humanitarian aid, operates budget lines of up to 18 months for nonemergency humanitarian aid.²¹ In some cases the United Nations' World Food Program is linking food aid with more long-term developmental activities (see box 1). Likewise, many NGOs have begun to build up expertise and operate in both fields. Often the same NGOs shift their operations from emergency humanitarian aid to development assistance in the course of post-

¹⁹ For example, such a fund was part of the World Bank's 1996 Emergency Recovery Project in Bosnia and Herzegovina (World Bank 1996).

²⁰ The pro bono distinction is necessary, because in transition countries one can often find many private organizations calling themselves NGOs, however without pursuing any pro bono activities.

²¹ Budget lines for the European Community Humanitarian Aid Office's extreme emergency aid remain at three to six months.

conflict reconstruction. For example, organizations like the Danish Refugee Council or the Norwegian Refugee Council both provide emergency food aid and run microcredit and income-generation projects to support the self-reliance of displaced persons.

Box 1: Linking Humanitarian Aid and Development: Food-for-Work Projects of the World Food Program in the Southern Caucasus

Although the mandate of the United Nations' World Food Program (WFP) is limited to ensure food security and to fight hunger in the world by supplying emergency humanitarian food aid, the organization has also been venturing into more developmental territory over the last few years. With Food-for-Work (FFW) activities the WFP is trying to link food supply with infrastructure rehabilitation to raise agricultural productivity.

In FFW projects people receive food in exchange for participating in activities such as land irrigation and drainage rehabilitation and bridge and road repair. The goal is to enable local communities to better use existing land and foster self-reliance through small-scale agriculture as a main coping mechanism. However, FFW projects sometimes also cover nonagricultural activities such as school rehabilitation or engaging people in agricultural training activities. The food can either be distributed to individual families or be used for example in soup kitchens for old people.

In what is similar to typical social fund practice, the WFP initially conducts an awareness campaign in the designated areas and holds open community meetings. Local authorities then come up with proposals and beneficiary lists that are assessed by WFP staff. The criteria for assistance are both nutritional and rehabilitation needs. Upon signing a project agreement with the WFP, the local authorities are responsible for providing the labor, security, and most of the material. Food is being disbursed upon the achievement of predetermined benchmarks, and the WFP monitors closely.

Even years after the violence in Armenia, Azerbaijan, and Georgia, there is still more demand than can be met in the three countries. Only after other sources of cash income for households become available, demand is likely to fall. At the same time, FFW activities are limited in scope in that most of the input for the reconstruction work has to be supplied by the local authorities themselves, because the WFP has virtually no budget for that. However, other workfare programs can pick up from where FFW reaches its limits, for example by paying workers in cash and by making more extensive reconstruction material available.

Statistical Data Collection

War can leave a country both without reliable poverty data and without a functioning system to collect them. Pre-war pension contribution data may get destroyed or be inaccessible because of remaining frontlines. Likewise, previously collected poverty data is made obsolete by war, because poverty profiles change and new vulnerable groups emerge. More importantly, war can destroy previous statistical office structures or remaining frontlines may render the collection and exchange of countrywide data impossible in the immediate aftermath of war. However, reliable poverty data and social indicators are essential, once the overwhelming demand for assistance of wartime recedes. In light of very narrow funds available for social welfare and the associated need for precise targeting, an accurate statistical poverty profile is essential. In particular, this is a necessary precondition for the politically delicate setting up of a transparent system based on interethnic social redistribution.

- *Restart of statistical office operations:* A key priority is to get the statistical office operative again to restore statistical data collection and evaluation capacities. This requires some degree of technical and financial support from donors. In particular,

if the conflict leads to the emergence of two separate entities, there may be the need to design a statistical office infrastructure from scratch.

- *Data exchange:* Where the political status quo does not allow the introduction of a countrywide statistical data collection infrastructure, the various actors should ensure that they at least ensure unimpeded data flow across regions and subdivisions so as to produce a consistent poverty and social profile of the entire country and to avoid double-counting in data-reporting systems.
- *Resumption of statistical data collection:* Donor-financed and -supported social and poverty assessments should serve as the basis for creating transparent systems of redistribution.

Corruption, State Capture, and the Unofficial Economy

Transition countries in general fight with pronounced problems of corruption and state capture. War and the associated heightened degree of anarchy tend to exacerbate this. First, fighting corruption has hardly been high on the agenda of post-communist nationalist leaders in the climate of increasing ethnic tensions. Second, war creates a state of lawlessness in which corruption and illegal economic activity are usually used to finance the war effort as well as bolster the coffers of those leading it.

The Challenge

A large informal sector: Corruption and state capture thrive on underdevelopment, a weak civil society, and the absence of the rule of law. However, the causality moves the other way round as well. In the face of prohibitive taxes and regulation, complemented by the need to bribe officials in return for state approval, businesses face a strong disincentive to operate in the formal sector. Continuing political control of economic activity is particularly bad for small business formation, which is the key driving force of growth in transition. As a result, much of economic activity takes place in the informal sector (Johnson, Kaufmann and Shleifer 1997). Indeed, as table 3 shows, the unofficial economy in war-affected and corruption-prone Azerbaijan and Georgia is significantly larger than elsewhere in the region.

However, informal economic activity does not necessarily prevent corruption. While firms avoid paying taxes and complying with regulations, they may still have to pay bribes. Moreover, when operating outside the official realm, they have to rely on protection of private and sometimes criminal agents and are thus constantly walking the thin line between criminal and noncriminal activities (Johnson, Kaufmann and Shleifer 1997). This is especially the case in a post-conflict situation, where security is in question and public law enforcement underdeveloped.

A negative effect on public finances: The size of the unofficial economy has an important effect on public finances and the strength and ability of government to provide public goods such as law enforcement or a social safety net. First, much of economic activity and employment does not generate tax income. As a result, low tax collection and low contributions to the pension fund and other forms of social insurance (if they operate at all) put the sustainability of the social safety net in doubt. Second, a lack of scrutiny also induces a nontransparent way of handling public finances: the whereabouts of those limited amounts of taxes collected often remain unaccounted for and raises deep public skepticism against the government as a useful actor to assist people in need.

Table 3. The Share of the Unofficial Economy in Selected CIS Countries, 1995

<i>Economy</i>	<i>Unofficial GDP as a percentage of total GDP</i>
Azerbaijan	60.6
Belarus	19.3
Georgia	62.2
Kazakhstan	34.3
Moldova	35.7
Russia	41.6
Ukraine	48.9
Uzbekistan	6.5

Source: Johnson, Kaufmann and Shleifer (1997).

Policy Options

Sustainable social safety net reform relies on improving public finances and on making the tax collection and budgeting process more transparent. This implies the need to rid a country of rampant corruption associated with a post-war environment. While fighting corruption and state capture lies outside of social protection realm, there are certain implications for social protection.²²

- *Hands off informal activity in the short run:* Over time, not least in the interest of improving public finances, much of the economic activity taking place in the informal sector has to move to the formal sector. In the short run, however, cracking down on informal activity may be counterproductive, because this may push especially small and medium-sized businesses out of business. The outcome of this would be less, not more employment.²³
- *New actors:* In the light of corruption and state capture, there is a case for attempting to introduce a social safety net that relies on new actors instead of reviving the old redistributive statist social welfare system. For example, by introducing more third sector engagement in supporting the vulnerable, inefficient and corrupt state administrations can be circumvented. Likewise, empowering local communities and driving decentralization with extended use of social fund-type operations will foster democratization civil society. A strengthened civil society will lead to more scrutiny of the government record and the political environment will be less conducive to corruption.
- *Building social capital:* In the light of corruption of central and local government and state capture, empowering local communities becomes an essential part of social safety net reform. There are a number of potential projects aimed at restoring social capital, such as social funds and community development projects, which are being used and should be used in a post-war environment. War does not automatically destroy social capital, but it can transform it. Sometimes, war brings communities closer together to deal with an adverse environment together.

²² One of the most important responses, legal reform, lies outside the realm of social protection.

²³ The implicit assumption here is that the “replacement wage” from informal employment is no impediment to the development of formal labor markets. This may not hold for some very lucrative criminal activity.

However, in a first step, the intra-family bonds tend to be strengthened for example by the pooling of resources, which can happen at the cost of community cohesion. This is especially the case in clan societies. A post-war environment may require a different kind of social fabric than that of a war. For instance, while having coped well with war within a family, post-war reconstruction requires cooperation and empowerment of communities across family lines. Sometimes war leaves communities in shock and too lethargic to respond to the immediate reconstruction needs. Social fund projects need to be designed such as to generate the necessary minimum of social and organizational capital and build it along the way (for example, by making use of the demonstration effect and through learning by doing).

IV. The Challenges and Implications for Social Protection: Constraints Related to Ethnic Tensions

While the outcomes of conflict as portrayed in previous sections have an impact on the depth of the crisis, they do not necessarily affect the design of the social safety net. War and destruction of physical, human, and social capital worsen the situation by raising the vulnerability of the population and lowering the state's ability to confront it, but essentially the social protection mechanisms remain the same. This changes when constraints related to the ethnic nature of conflict are brought in.

Post-War Interethnic Tensions

In some countries, such as Armenia and Azerbaijan, conflict has led to a complete separation of the two ethnic groups, and, because return is increasingly improbable, this separation may remain. However, there are also cases where there is some refugee and IDP return, where ethnic minorities remain in one jurisdiction or where, following a peace agreement, two former warring ethnic groups are lumped together.²⁴ There are two possible outcomes: (i) within one jurisdiction two ethnic groups entertain their own distinct political institutions instead of merging them into one and (ii) ethnic minorities remain disadvantaged and discriminated against and lack their own representation. In either situation continuing ethnic tensions, based on the experiences and grievances of the war, provide another set of constraints to social safety net design, in that they make any form of interethnic redistribution and cross-subsidies difficult to implement.

The Challenge

The unpopularity of interethnic redistribution: In shared jurisdictions there may be pressure to decentralize both tax collection and social protection to the regional or even municipal level where ethnic homogeneity is highest, so as to avoid having to share funds with the other ethnic group. Ethnic groups that do not want to share funds with the former enemy will resist any attempt to introduce a statewide social protection system and cross-subsidies or to take ethnic minority needs into account. Bosnia and Herzegovina is a case in point, where to date both Bosnian Croats and Bosnians operate separate pension systems (see box 2) and where

²⁴ Examples for the first case are the Gali district in Abkhazia, which has seen a number of waves of IDP returnees from the other side of the front line. The latter case is exemplified by the Bosnian-Croat Federation in Bosnia and Herzegovina.

social welfare provision is devolved to the lowest layers of government.²⁵ In other countries, government authority in the regions is limited, and local leaders collect taxes with no intention of passing them on to the central government.²⁶

Box 2: Three Separate Pension Systems in Bosnia and Herzegovina

The constitutional framework of the Dayton Peace Accord divides the state of Bosnia and Herzegovina into two entities, the Bosnian-Croat Federation (FBH) and the Republika Srpska (RS). As a result of this, the country emerged from the war with more than one pension system. However, Bosnia and Herzegovina today has not only two but three separate system: one in the RS and two in the FBH, the former countrywide system in Sarajevo used by the Bosnians and a Croat one based in Mostar. More than six years after the federation was created, ethnic tensions and political differences still make the integration of the Mostar and the Sarajevo funds impossible. Even worse, until recently the pre-war earnings records centralized in Sarajevo were not accessible for the Mostar and the RS pension funds, and they were awarding pensions either based on earnings proxies or as flat benefits.

In March 2000, the three pension funds signed an agreement to improve the exchange and coordination of data, such as contributor history information. It is a precondition for moving on to awarding differentiated pensions based on actual individual contributions. It furthermore helps track those people who have registered illegally for two pensions and facilitates IDP return by allowing returnees to continue receiving their pension from the same fund regardless of their place of residence. As a basis for this, the FBH and RS post banks introduced a mechanism enabling pension funds to send pensions through local post offices to the recipients across entity lines.

However, while this is an important step toward normalizing relations between the entity pension funds, it falls short of what is desirable for the federation, namely the integration of both the Sarajevo and the Mostar funds, which is still being resisted.

This kind of uncoordinated decentralization may even hinder the development of a consistent approach to social safety net design within ethnically homogeneous parts of the country. This can result in different ministries being responsible for planning and implementing social welfare measures, and it may prevent a clear prioritization of those measures and lead to leakage and "double-dipping."²⁷ If anything, poverty may end up being fought inconsistently even within one ethnic group, resources are not used efficiently and, worse, different levels of poverty across the country become engrained.

Pensions and social assistance: Traditional solidarity mechanisms reaching across ethnic lines may simply be politically unacceptable to the electorates. Taxpayers and pension-contributors may feel uneasy about benefits being paid out to former enemies from a budget or fund they have been contributing to. In the case of the former Yugoslav republics, a pre-war system of interethnic redistribution that was perceived as unfair eventually contributed to the disintegration of the country and the outbreak of hostilities.

Potential threat to the peace process: Post-conflict situations can be distinguished between those in which peace appears durable and those where peace is fragile or where there

²⁵ Bosnian Croats push for further decentralization of responsibilities in the social welfare sphere to lower levels of government, such as cantons and municipalities, where both income levels and ethnicity are more homogeneous. The Bosnians, who are overall worse off than the Croats, instead want to strengthen service delivery and revenue collection on the federation level so as to allow them to ensure cross subsidies (Fox and Wallich 1997).

²⁶ For example, although not of an ethnic nature, the conflict between the Georgian region of Adjara and the central government in Tbilisi has led to Adjara not passing on taxes but rather demanding extra payments from the central budget.

²⁷ Not surprisingly, the case of the FBH exemplifies this.

are widespread perceptions that even changes to a peace deal are possible.²⁸ As long as peace remains fragile and a resumption of violence is possible and cooperation between two ethnic groups is minimal, the introduction of integrated social protection systems and interethnic solidarity mechanisms may not only be politically unviable but can even become dangerous; policies of redistribution from one ethnic group to the other can increase the likelihood of new conflict in that one group may perceive that they are unfairly taxed to support the former enemy. Here a post-conflict situation can quickly become a pre-conflict situation. If a peace settlement has been imposed by the outside world, either through political or military pressure or by purchasing peace with the promise of massive international aid, the public acceptance of peace may be low and cross-subsidies all but impossible to “sell.”

Decentralization leading fragmented risk pools: Inevitably, this decentralization of social safety nets to small and ethnically homogeneous subdivisions within one jurisdiction will lead to fragmented risk pools. Poor subdivisions will end up with insufficient social protection, and social safety nets are not an adequate instrument anymore to deal with deepening regional poverty. A lack of communication between different pension funds may result in “double-dipping”: in the administrative turmoil in the aftermath of ethnic conflict pensioners (especially those who have relocated during the war) register illegally for two pensions from two different pension funds.

It is obvious that this kind of decentralization is very different from that which is championed as a way to reform post-communist administrations elsewhere in Eastern

Europe and Central Asia to take decisionmaking and implementation closer to the people. The key difference is that it does not follow a well-designed plan that involves all layers of government and ensures that central government retains a role in policy design and coordination. Instead, subdivisions effectively decide to ignore a weak central government structure and take matters into their own hands.

Labor markets: Continuing ethnic tension are highly likely to lead to discrimination in the labor market against ethnic minorities. Apart from leaving members of the minority ethnic group facing a higher likelihood of unemployment and therefore poverty, this leads to labor market segmentation, because in the absence of opportunities in the formal labor market ethnic minorities may have little other option but self-employment.

Social funds or community-driven development: The crisis of the state in fulfilling its role as a provider of social welfare in the face of conflict-related constraints makes the concept of community-driven development and in particular social investment funds an attractive tool. Social funds are very adaptable to different situations and can be designed to meet the special post-war requirements, such as infrastructure rehabilitation, employment generation, assistance with decentralization, or the empowerment of local communities.

²⁸ An example of the first case is Croatia, where peace is durable, a return to violence very unlikely, and where the public, both Croatian and Serb, does not perceive any likelihood of changes to the nature of the peace settlement. The second type is exemplified by Bosnia and Herzegovina, where continued substantial disagreement between Bosnian Croats and Bosnians over the implementation of the federation create threats to the peace process and may make a resumption of hostilities possible. Many Croats, at least, believe that the final word on the status of the federation has not been spoken and that a rewriting of the Dayton Peace Agreement could provide them with their own ethnically homogeneous entity. As a result, their willingness to create joint institutions is limited.

Furthermore, social funds have sometimes been hailed as a tool to build bridges between two ethnic groups formerly at war. Indeed, in case of the Kosovo Community Development Fund, the building of intrerethnic bridges has been added to the goals of the project. As will be shown, however, this may not be universally the case and the workability of social funds is tainted by ethnic tension constraints.

Interethnic tensions and targeting: The question here is whether social funds by their design actually manage to target the most vulnerable regardless of their ethnic background. Is community-based social welfare really doing a better job at reaching across the ethnic divide? There is no reason to believe that local and community leaders will be less driven by ethnic concerns and policies of nationalism and ethnic hatred than those on the national level. Social funds may actually fail deliver in two different ways. First, proposals for road repair in a village may leave out those streets leading to minority houses, regardless of need. The village leadership may just ignore the needs of the minority. Second and even worse, entire minority communities may be left out: a mono-ethnically-run social fund may disregard proposals from ethnic minority communities.

Alternatively, proposals from ethnic minority villages may not be forthcoming in the first place, because they do not expect to gain support from a social fund run entirely by the other, majority ethnic group. For instance, in Kosovo there is little scope for Serbian villages to benefit from the Kosovo social fund in a situation where Albanian social fund staff actually avoid visiting Serbian villages on security grounds. Furthermore, social funds may not only fail to mitigate entitlement failure and social exclusion on ethnic grounds but rather foster separation and fuel conflict. Certain infrastructure intervention may for instance rather help to segregate communities than to knit them together. Likewise, a perceived unfair treatment from social fund officials may deepen suspicions on the minority side.

The longer term: Therefore, the expectation that a social fund may bridge the ethnic divide per se is not warranted after closer inspection. This holds especially for the very short term in a climate of continuing ethnic hatred and even violence. However, this may change over time. There are actually signs that in the longer term, community-driven development tools such as social investment funds can indeed help to bridge inter-ethnic gaps and contribute to a successful peace process. For instance, nine years after a ceasefire and with a peace deal still absent, the Georgian Social Investment Fund (GSIF) has recently begun to operate in South Ossetia (see box 3). Once open ethnic tensions start to recede and interethnic communication becomes possible, a social fund can be a tool for conflict transformation in a “multi-track diplomacy” framework.²⁹ By allowing nongovernmental agents to deal with apolitical, economic, and infrastructure reconstruction matters, a social fund enables two former warring factions to make first contacts and build bridges.

Policy Options

The formal safety net and labor markets: The constraints induced by the ethnic nature of conflict make many first-best social protection solutions unworkable, and second-best

²⁹ The notion of “multi-track diplomacy” is built upon the realization that different actors and actions are needed at different times during a peace process. In this framework, track 1 represents diplomatic actions on the governmental level, while track 2 or informal diplomacy includes professional, nongovernmental conflict resolution and interaction in business, culture, and economic matters between nongovernmental agents (World Bank 1999a). A social fund would fit into track 2.

solutions are the only ones that are available. They have to take account of both the requirement to reach ethnic minorities and countering the absence of cross-subsidies or both.

- *Caution in pushing for interethnic redistribution:* Intense pushing for increased interethnic redistribution and the merging of pension and social assistance schemes can be counterproductive. From a political economy point of view, it may be better to wait for real political will to emerge over time--otherwise there may be a threat to the peace process. In the meantime, ensuring greater harmonization of the different systems to facilitate a possible later merger may be a better strategy. In particular, mechanisms for exchanging information between different funds need to be set up to ensure entitlement security of pensioners who move residence and to avoid pensioners registering for more than one pension.

Box 3: The Georgian Social Investment Fund in Breakaway South Ossetia

In operation since 1996, the Georgian Social Investment Fund (GSIF) supports the rehabilitation of social infrastructure in Georgia. It covers the repair of school buildings, water supply systems, irrigation systems, hospitals, as well as roads. Its approach builds on the active participation of the local population in the selection of projects through open community meetings as well as the rehabilitation, maintenance, and operation of facilities by the local communities. Every project is cofinanced by the GSIF and the local communities, who can provide input either in form of cash, materials, or labor.

So far the GSIF has been in operation throughout the territory held by the Georgian government and has, dependent on the relative social needs, financed projects in every district. However, ethnic conflict has kept the GSIF out of the breakaway territories of South Ossetia and Abkhazia. However, recently South Ossetia opened up when both the authorities in Tskhinvali, South Ossetia and the Georgian government gave the GSIF the go-ahead to start operations there.

GSIF officials organized a seminar to introduce their work in Tskhinvali last year and held open-community meetings in 30 villages. Subsequently 15 Ossetian and 14 Georgian villages in the region sent in proposals for rehabilitation projects in their communities, and, at the time of writing, the appraisal process is ongoing. The GSIF has drafted special rules for project implementation. The invitation for tenders is to be published in both Georgian and South Ossetian newspapers. While bidding is open to contractors both from South Ossetia and Georgia proper, only those with a Georgian license are admitted. The payment is in cash--in Georgian lari and not in the Russian rubles that circulate in South Ossetia. The acceptance of these rules by all parties involved as well as the reports from GSIF staff on constructive relations with local communities and the South Ossetian authorities mark a further step in the process of normalization of relations between the two former warring sides.

- *Introducing new labor code and labor legislation:* As part of a general overhaul of the pre-war socialist social welfare system, a new labor code should include provisions outlawing ethnic discrimination in the labor market. However, a necessary precondition for implementing the code is the existence of a functioning court system.³⁰ New labor legislation should moreover be structured such as to spur employment generation.
- *Pensions for returnees:* Allow relocating pensioners access to the pension system operated by their ethnic group if the pension system merger is politically

³⁰ While this may be doubtful in a post-ethnic-conflict country developing a reliable and fair legal system whose development should be high on the political reform agenda. On the other hand, the Ombudsman in Bosnia and Herzegovina is an example of where antidiscrimination cases sometimes generate enough public attention and are resolved in a positive manner.

unacceptable. This will promote return. It will also, however, rely on an integrated mechanism of transferring finances between different parts of the country, which may take time to establish.

- *Flat pensions or not:* Very limited administrative capacities and funds compounded by potential problems in accessing individual work records across (former) front lines may leave policymakers with few other options but to introduce flat pensions independent of work history and contribution record. Other transition economies that have chosen flat pensions initially used social assistance to address old age poverty. However, as long as countrywide social assistance remains difficult to implement for ethnic tension reasons, it may be worth thinking about how pensions could be used for redistribution purposes (if there remains one single pension system reaching across ethnic lines). That would imply differentiating pension levels not according to individual contributions but according to need.
- *A reliable statistical data collection system that is “owned” by all sides of the conflict:* Reliable social indicators and poverty data are a precondition for discussing possible equalization in tax policy or targeting mechanisms. Redistribution can only be based on transparency of poverty and vulnerability analysis and on pure economic arguments. For example, in countries where interethnic redistribution was nontransparent and based mainly on political considerations and therefore perceived by many as unfair, any attempt at re-establishing a system based on interethnic solidarity has to be apolitical and transparent (the former Yugoslav republics are a case in point).

Social funds are a useful tool in post-conflict social protection--depending on their design:

- *Addressing ethnic tension constraints in social fund design:* Donor influence and monitoring can try to ensure that social funds are designed such that they do in fact target the most vulnerable independent of their ethnic background. Social fund staff and project implementing committees comprised of representatives of various ethnic groups can exemplify the need for new partnerships and be a first step toward bridging the interethnic gap. It also ensures that all sides are heard and that funds are allocated in a fair manner to all ethnic groups.
- *Geographical targeting* can ensure that a certain amount of funds go to those areas where many ethnic minority communities reside and allows for a transparent distribution across those subdivisions that are loath to share formal social welfare institutions. As the experience of social funds elsewhere shows, the use of poverty maps and targets for a progressive allocation of resources across subdivisions can address diverging poverty trends (World Bank forthcoming). However, regardless of the design of a social fund, interethnic tensions will probably always instigate one-sided allocation decisions as well as accusations of neglect on based on ethnic grounds.

Informal coping mechanisms: With the formal social safety net running into ethnic-tension-driven difficulties, the poor will continue to rely on some of those informal coping mechanisms that were available during the war. Those coping mechanisms typically include (i) reliance on small-scale agricultural production, (ii) merging households, (iii) nonpayment of public service bills, (iv) remittances from abroad, (v) sale of personal belongings, and (vi) unregistered and informal work.

- *Hands off:* At the very least, public intervention should not be in the way of those coping mechanisms that are legal. For example, remittances from abroad should be allowed to flow freely and should not be taxed away. Likewise, as mentioned before, at least initially the informal sector (and especially that of a small-scale nature such as petty trading) should not be reigned in, but allowed to grow and become formal over time (as long it is not criminal).
- *Building on informal coping mechanisms:* Poverty alleviation strategies should build on existing informal coping mechanisms where possible. For example, fostering the productivity of small-scale agriculture through training and the supply of equipment could be one such option. Improving displaced persons' temporary access to high-quality land can help them become more reliant. Incidentally this may also counter urbanization by providing demobilized soldiers and displaced people with a source of income in rural areas.

V. Social Protection in Post-War Bosnia and Herzegovina and Georgia

Bosnia and Herzegovina and Georgia represent two different cases of a post-ethnic-conflict environment. Bosnia and Herzegovina faces the task of implementing a peace agreement and stitching the country together again in the face of continuing ethnic enmity which complicates the reform of the welfare state. With the conflicts in South Ossetia and Abkhazia effectively “frozen” and without a solution for them in sight, Georgia is trying to deal with a massive displacement problem and overall dire social conditions due to effective economic stagnation.

Bosnia and Herzegovina

Bosnia and Herzegovina emerged from the 1992-1995 war with its economy quite literally in ruins. Output had collapsed massively and economic activity was at a near standstill, infrastructure had been destroyed, and a significant part of the population was displaced. The resulting deep social crisis, manifested in about 80 percent of the population being dependent on emergency food aid for survival by the end of the war (World Bank 1996), called for the reform and introduction of a range of social protection measures. Social protection reform had and has to take place in a climate of continuing ethnic tensions in both entities, the FBH and the RS, although less so in the RS because of its higher ethnic homogeneity.

Post-war emergency recovery and reconstruction: In the immediate aftermath of the war Bosnia and Herzegovina, and in particular the IDP community in both entities, relied much on abundantly available international humanitarian aid to deal with its social crisis. First and foremost, this included the massive food aid program by the WFP and the UNHCR as well as a multitude of NGOs that had fed the country during the war. The World Bank included an Emergency Social Fund into its Emergency Recovery Project to provide minimal levels of cash assistance for the poorest households in 1996 and introduced projects aimed at helping former combatants reintegrate into civilian life. Public works and employment programs as well as multisectoral projects with an emphasis on quick employment generation and institution building were aimed at easing the unemployment crisis.

Since the end of the war in 1995, Bosnia and Herzegovina has witnessed an economic boom, with the economy growing at an average of 40 percent annually between 1995 and

1999 (see table 4) and inflation remaining in the single-digit range. Much of this growth came on the back of massive donor funding for reconstruction activities. However, donor funding, which has been receding over time, does not seem to have put the economy on a sustainable growth path and has not resulted in sustained job creation. Unemployment remains high with estimates of around 36 percent (UNDP 1999). More long-term labor market recovery has had to rely on structural reforms and on ensuring the right incentive for job creation.

Table 4. Bosnia and Herzegovina: Annual GDP Growth in Percent

1996	1997	1998	1999	2000
86.9	36.7	14.9	12.81	9.6

Source: World Bank data.

Long-term post-conflict reconstruction: The generous social safety net Bosnia and Herzegovina inherited from Yugoslav times required as much far-reaching reform after the war as it had before, in order to make it supportive and consistent with the overall effort to put the country onto a sustained growth path. Social protection reform forms part of an ambitious structural reform program the country embarked upon in 1998 aimed at creating a unified economic space. Improving the environment for job creation through ridding the labor market from stifling regulations and taxes surviving from Yugoslav times and fighting labor market discrimination along ethnic lines through implementing new and more rigorous provisions is at the core of more long-term social protection reform.³¹ Furthermore, continuing labor redeployment from the military to the civilian sector is being supported by the provision of counseling and training programs for former combatants.³²

Social assistance reform aims, first of all, at raising the resources to operate a system as well as at focusing cash benefits on the most vulnerable and making the system sustainable. However, encouraging the retargeting of resources away from those groups with special political protection such as veterans (who receive a disproportionate share of public social welfare in both entities) is proving tricky. Part of the agenda is also the consolidation of funding for the Centers for Social Works, which are spread all over the country and are well-placed to deliver social services locally.

Pension reform has proved particularly tricky. Bosnia and Herzegovina emerged from the war with three separate pension systems in place (for more on this see box 2). As with social assistance, reforms aim at readjusting entitlements to available resources to make the systems sustainable. They furthermore push for a greater coordination among the three systems and even integration of the two funds in the federation. In general, institutional reform aimed at improving tax collection and budget management are at the core of successful social protection reform.

³¹ Discrimination in the labor market included, among other things, widespread firing of ethnic groups during and immediately after the war as well as predominant recruitment of members of the majority ethnic group; for details see OSCE (1999).

³² Bosnia and Herzegovina Pilot Emergency Labor Redeployment Project

Difficult political economy environment: However, much of this agenda remains unimplemented. The structural reform drive is held back by continuing interethnic enmity and opposition to social safety nets built on interethnic redistribution, by vested interests in favor of the status quo as well as by the misplaced perception that Bosnia and Herzegovina could continue to rely on outside financial support. As long as the country remains governed by those nationalist forces that have plunged the country into war and have grown comfortable controlling their stretches of territory, there is little readiness to create or strengthen joint institutions even within the federation. Moreover, the nationalist parties have no interest in deregulating the economy and in transparent privatization, because many public enterprises serve them well as cash cows. Social welfare provision in the federation has partly been decentralized to the lowest layer of government where the ethnic homogeneity is highest and the need to share funds with the former enemy lowest. Nationalist politicians and managers remain loath to allow back former citizens and employees of different ethnic group. Hundreds of thousands remain displaced in both entities, and return has rarely moved beyond the symbolic. Only the loss of power of those parties resisting the implementation of the peace accords seems to offer the chance to break this deadlock.

Community development: While the immediate and politically highly charged aftermath of the war may not have provided the right environment for community-driven development projects such as social funds, political stabilization and beginning interethnic reconciliation open up possibilities for this kind of policies. Indeed on the back of a certain degree of interethnic tolerance, a community development project like the Bosnia and Herzegovina Community Development Project recently initiated in Bosnia and Herzegovina becomes an important tool in bridging the ethnic divide and developing social trust. Its objectives are to improve basic communal services for low income and poor communities in underserved municipalities as well as governance and local government capacity to deliver services. Mobilizing local communities to pressure local government to be more accountable can be seen as a timely and important means of fostering pro-peace constituencies at the grassroots level to help break up the resistance to the implementation of the peace accords.

The example of Bosnia and Herzegovina vividly shows how difficult and long-term a task post-war political stabilization can be. It highlights how formal social safety net reform can be constrained by ethnic enmity and how dependent it is on a conducive political economy environment. Moreover, as long as the country remains a difficult and politically unstable business environment with cumbersome and complex registration procedures, stifling taxes, regular and nontransparent inspections, and an inefficient judicial system potential foreign investors stay away--with negative consequences for a recovery in the labor market.

Georgia

Georgia's history since 1989 has been dominated by civil war, economic turmoil, a chronic lack of political stability, and a persistent social crisis. Most importantly, secessionist movements following the disintegration of the Soviet Union and Georgian independence instigated the eruption of violent ethnic conflict in Abkhazia and South Ossetia that led to the displacement of more than 300,000 people--a problem the country is continuing to struggle with today. Both wars have not been brought to a conclusion yet and peace agreements remain elusive. However, while the situation in Abkhazia remains very volatile and skirmishes along the frontline are a regular phenomenon, the conflict in South Ossetia is slowly being overcome and confidence is rising.

The fall of communist central planning and the resulting crises have led to a massive output collapse (see tables 1 and 5). However, the country has not seen a post-war boom similar to the one in Bosnia and Herzegovina. Georgia's growth performance has worsened after a brief period of high growth in 1996 and 1997 and stood at a mere 1.9 percent in 2000. In comparison with Bosnia and Herzegovina, Georgia has not received nearly as much outside donor support and is struggling with making up for the gaps of receding humanitarian aid supplies. At the same time, the Georgian government has been in an acute fiscal crisis ever since independence and chronically cannot afford to meet all of its obligations. The economic crisis of the early 1990s with hyperinflation and a fiscal collapse largely eroded the social protection system. From 1995 onward, as the budgetary situation improved slightly, the Georgian government began to increase cash benefits and to improve targeting (for instance by raising the retirement age by five years to relieve the pension fund). However, with tax collection continuing to be low and corruption being rampant, cash social benefit levels remain low.

Table 5. Georgia: Annual GDP Growth in Percent

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
-12.4	-20.6	-44.8	-25.4	-11.4	2.4	10.5	10.7	2.9	2.9	1.9

Source: Aslund (2001); World Bank data.

Importance of the informal safety net: Today, large parts of the population remain impoverished. The number of households in Georgia that fall below the poverty line lies between around 40 and 11 percent depending on which poverty line is chosen (World Bank 1999b). Urban poverty is more widespread, deeper, and more severe than rural poverty, although there are wide regional differences. In rural areas, the agricultural sector has turned out to be a crucial safety net in the years of crisis and has absorbed surplus labor. Furthermore, informal coping mechanisms such as migration, petty trade, subsistence gardening, merging households, as well as family connections to find employment have taken over a big role in helping households making ends meet.

The formal safety net focuses on displacement: The very rudimentary current government social safety net policies include pensions, a family poverty benefit for the very vulnerable,³³ special pensions for war veterans and law enforcement officers and an allowance for IDPs. By Georgian standards, the IDP allowance is generous, because although it only covers about 5 percent of the population, it represents more than 20 percent of all social welfare expenditures. However, IDPs are significantly disadvantaged in finding employment and suffer from lower household income than the rest of the population even when including the IDP allowance (not least since the allowance is paid out very infrequently) (IFRC 2000).

Politically delicate displacement problem: Dealing with the displacement problem becomes ever more politically delicate for the government. Strongly upholding the IDPs' right to return to the contested territory of Abkhazia, the Georgian government does not want

³³ Single pensioners, children without both parents, and households where all members are disabled.

to send out the wrong signal in fostering the integration of those IDPs in their current host communities--even if it is only for the time being. The existence of nearly 300,000 IDPs from Abkhazia in Georgia proper provides the government with an important bargaining chip and helps it to secure international backing for a resolution of the conflict on its terms. It has, therefore, until now been content to allocate the allowance to the IDPs and continue to house about half of them in public collective centers. However, this policy of preserving an emergency-type situation has been ongoing for nine years and is proving increasingly inadequate. At the same time, the strong emphasis of the social safety net on the displaced means that very few resources remain for supporting the other vulnerable groups in society, which may result in enmities between those groups and the IDPs. Given this, the UNDP and the World Bank have encouraged the Georgian government to shift its approach to dealing with the IDP problem more toward improving the IDPs' self-reliance and their chances in the labor market, while underlining the IDPs' right to return when conditions allow.

One important part of the Georgian social protection system is the GSIF, which has been in operation since 1996. Its main objectives are to support the rehabilitation of social infrastructure throughout the country, to foster decentralization by inviting the active participation of the local population in the selection and implementation of the project and to support the development of small businesses and foster employment creation. Projects include the repair and reconstruction of roads, schools, hospitals, and water and electricity supplies. Although its operations were initially confined to the territory controlled by the Georgian government, the GSIF has recently initiated projects in breakaway South Ossetia and is becoming a tool to overcome the ethnic conflict there (see box 3).

Employment is the key to poverty alleviation in Georgia and strong economic growth is a precondition for job creation (World Bank 1999b). Georgia will stand the best chance of recovery if it provides the right conditions and incentives for investment. However, this is closely interlinked with a solution to the two conflicts, in particular that in Abkhazia, and a successful attempt at making Georgia a more stable and predictable place. Protecting the rule of law, fighting corruption, making government more transparent, and ensuring the security of all citizens everywhere is thus to be seen as part of a consequent attempt at poverty alleviation.

VI. Conclusion

Ethnic conflict adds to the considerable challenges and constraints transition countries are facing when they reform social safety nets during the post-communist transition. While war makes people poorer and more vulnerable, the state is even less able to fulfill its role in poverty alleviation. Furthermore, interethnic tensions in a post-conflict situation leave many traditional formal social safety net instruments unworkable.

Those constraints notwithstanding, there is an open window of opportunity for wholesale change of the social protection framework because of the complete breakdown and the delayed recovery. Namely, politicians face the choice of either re-establishing the pre-war socialist policies, which, on the face of it, are hardly affordable, or pushing ahead with bold reforms aiming at promoting employment and an efficient social safety net.

Labor markets: Generally a social protection strategy has to rely on improving the individual's self-reliance through enhancing his or her opportunities in the labor market. Unemployment is one of the main social dislocation and both due to war and the transition.

However, employment is the key poverty alleviation mechanism where the welfare state is slender or nonexistent, not least for vulnerable groups such as IDPs and war veterans. In Bosnia and Herzegovina in the immediate aftermath of war, public works programs have proved a useful tool both to provide employment and a first source of income for people and to repair and reconstruct public infrastructure.³⁴ However, employment in public works programs is short term and not sustainable. It can, therefore, only serve as an impetus in the restart of economic activity, while long-term job creation is better served through improving the flexibility of the labor market, supporting private sector-led growth, and investing in employment and training programs that support long-term employment.

Social Assistance and Pensions are potentially constrained by political opposition to interethnic redistribution and cross-subsidies. Decentralization of social safety nets to small and ethnically homogeneous subdivisions within one jurisdiction will lead to fragmented risk pools and persistent inequality between regions. Where interethnic redistribution is politically unwanted, separate social assistance and pension systems should be harmonized to facilitate later closer cooperation or merger. If and when ethnic tensions recede sufficiently to allow increasing redistribution across ethnic lines and a proper attempt at social safety net reform can be made, formal social assistance and pension systems should be simple and easy to administer and transparent and limited to meet the needs of the very vulnerable. In the meantime, social protection should follow a do-no-harm approach to those coping mechanisms surviving from the war.

Social funds have the advantageous feature that they are very adaptable to different and extreme situations and can be used as an emergency as well as a long-term development tool. Their potential to help building social capital does not mean, however, that they are a panacea to build bridges across the ethnic divide. As all other social safety net instruments, they need a minimum of interethnic tolerance to work and be anchored in a somewhat stable peace process.

Social services face high demand from special vulnerable groups such as children; very young former soldiers; or women who are victims of rape, domestic violence, or trafficking and need to be equipped to deal with them in a consistent way across the country.

Timing: The post-war situation can be distinguished into two separate periods: the initial emergency and stabilization period and the more long-term reconstruction period. As has become apparent in this paper, each period requires a different set of social protection policies and priorities. The initial post-war period is dominated by attempts to stabilize the situation and lay the ground for economic recovery. Soldiers need to be demobilized and reintegrated, displaced people need to be helped to return, and infrastructure needs to be repaired. Social protection policies form part of emergency measures to deal with the immediate social dislocations; public works programs absorb people from the vast pool of the unemployed or the army and initiate reconstruction, and emergency social assistance funds step in where the first gaps in humanitarian aid coverage emerge. However, most of the social welfare provision in this period is still covered by humanitarian aid.

A more long-term reconstruction period requires, the political situation and stability permitting, more long-term and structural reform measures. Apart from engaging in large-

³⁴ Bosnia and Herzegovina Emergency Public Works and Employment Project.

scale reconstruction of infrastructure and buildings, reformers may want to lay foundations for new sustainable social safety nets and build flexible labor markets and reliable institutions. However, these reforms are dependent on the nature of the political process in a post-ethnic-conflict society, which tends to be subject to constant disruptions. This is why in some post-conflict countries in the region we see long delays in tackling the structural problems of building a new and sustainable social welfare system.

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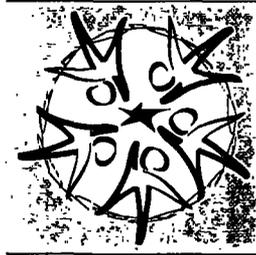
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Summary Findings

This paper is an attempt to shed some light on issues relating to social protection in transition countries emerging from ethnic conflict. It analyzes how constraints posed both by conflict itself and its ethnic nature affect social protection policies and suggests ways out. Both conflict and continuing ethnic tensions thereafter affect labor markets, as well as render social safety net policies difficult to implement. Instead, policymakers often have to resort to second-best solutions. In particular, in the light of precarious public finances, a limited ability of the government to provide services and assistance and ethnic tensions massively constraining social safety nets, people will continue to rely on many wartime coping mechanisms. Social protection design has to be mindful of this and may even build on these mechanisms. Furthermore, employment—formal and informal—needs to take over a key poverty alleviation role in a post-ethnic-war environment. The resulting main social protection policy implication, therefore, is to create the right conditions for the labor market to absorb those able to work.

HUMAN DEVELOPMENT NETWORK

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