

# Review of Social Services Sectoral Reforms: Efforts and Ideas

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The Soviet legacy in Belarus encompasses a well-structured social security system<sup>1</sup>. The system was based on the formal principle of equitable distribution of performances whereby those in active occupation were obliged to support inactive persons by paying statutory social insurance fees. Governmental agencies in charge of social security programs were responsible for ‘correct, timely and fair’ distribution of these funds among the needy. With time, numbers of those eligible for the same portion of funds provided via the ‘correct and timely’ distribution grew, and caused it to change into a cumbersome system of various welfare and social benefits that expanded far beyond low income groups. At the same time, a shrinking portion of funds continued to target the low income groups intended as their initial beneficiaries.

For this reason, the general public broadly supported the idea of restoring ‘social justice’ during the first few years of Belarus’ newly gained independence, the time also marked by a shakedown, effectively leading to a collapse of the former social security system. This idea is reflected in the period’s liberal programs of social security reforms. Notably, early ideas for social security reforms were much less radical than reforms proposed in other aspects of the country’s life at the time.

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<sup>1</sup> The system was based on the principle of the so-called Leninist employee insurance program (гл. В. И. Ленин, ПСС., т. 21, с. 146–149.) – universal and comprehensive coverage provided from central and local government funds. The system was financed by contributions of workers and employees and from general State revenue.

Documented reform proposals, discussed below, are to be seen in election platforms of political parties and presidential candidates, independent experts' research papers and in government programs.

## Political party platforms

The 'Adradzhenne' Belarusian Popular Front (BPF) was the first political party to offer a social security reform plan as an alternative to government programs. The plan included measures to:

- phase out benefits and privileges for civil servants;
- guarantee minimum subsistence income and index it to inflation;
- provide employment guarantees;
- retain free-of-charge healthcare services and increase government funding for the healthcare sector;
- promote physical education and sports and enhance their role in improving the population's health;
- raise pensions in line with average income levels;
- raise childcare benefits;
- set up a State agency for social, career and creative assistance to and moral support for disabled persons, orphans and single-parent children;
- increase support for Belarus' eastern regions;
- convert public housing into private property that may be inherited, and provide soft loans for housing construction;
- reform the prison system and offer societal rehabilitation options to former inmates.

The document calls for introducing a broad social security system hinged on the principle of social justice. Its main goal is to guarantee the right to social security and welfare by means of comprehensive public support for all vulnerable groups, from disabled persons to retirees to former inmates. The platform is based on the idea that the government is capable of providing any amount of social support in tune with the needs. The paper works on the premise rooted in Soviet-style delusions of equality and social justice.

This was followed by a BPF program of May 30, 1993, and the Declaration of Program Goals and Principles of the United Democratic Party of Belarus, adopted in November 1993.

Both documents called for building a ‘social market economy’. They were drafted in response to growing social and economic instability.

The BPF program sought to guarantee social justice not only for the disabled, retirees and large families, but also in terms of the general economic environment. It proposed equitable distribution of the fiscal burden, but failed to specify how to achieve this. The program called for fair privatization and transfer of State property to private individuals, but did not offer ideas on how this could be done.

The program stated a need to support low income groups and maintain the nation’s health. For the first time, mention was made of targeted assistance as an alternative to non-specific social benefits. It highlighted the need for raising retirement age and introducing health insurance schemes. A recommendation was made that private hospitals should be allowed to operate alongside the state-owned ones. Overall, the program may be said to be an attempt to formulate and define some social policy principles.

The Declaration of Program Objectives and Principles of the United Democratic Party of Belarus defined social security as a system of state guarantees that can be relied upon ‘only in situations where individual efforts are insufficient or fail for valid reasons’. Among the practical steps, the Declaration suggested granting tax exemptions to charities and associations of disabled persons.

However representing different (national-democratic and liberal) views on social security, both programs called for a shift towards targeted social assistance.

Political party platforms developed after the presidential election of 1994 remained focused on the idea of ‘social justice’ that implied redistribution of property and socially-oriented economic policies.

In particular, the Civic Party platform, adopted at the founding conference in December 1994, proposed measures to slow down the opening of income gaps. The measures proposed to levy real estate tax, prioritize spending to assist the

needy, expand the range of payable services in healthcare and education, and raise utility rates and public transport fares.

The Civic Party platform adopted in October 1995 envisaged the same measures. The platform's social package included housing, healthcare, youth, culture and science policies.

Inconsistency in Belarusian liberalism reveals itself in a combination of measures to support the jobless: along with unemployment benefits, suggestions were made to take steps such as offering community work, and retraining laid-off workers. The platform called for real estate tax becoming a more important factor in funding social security programs. The document is also notable for its leftist definition of taxable property as one originating from 'the enrichment of a group of individuals in effect of imperfect legislation'.

In housing policy terms, the platform calls for providing low income households with what is referred to as 'social housing'. Among other measures is the provision of soft housing loans and tax exemptions on funds invested in housing projects.

The liberal platform warrants free healthcare services combined with the development of State health insurance schemes.

Measures to support youths included offering soft loans for youth housing development projects and promoting employment of students during summer vacations.

Unlike the above-mentioned program documents, the Civic Party platform bears striking similarities to Alyaksandr Lukashenka's election platform which stipulates many identical provisions. Both platforms call for building an effective and dynamic social market economy. Parallels can also be found in program documents of other political parties such as 'The Program of the Belarusian Party of Labor – the Society's Path to Democratic Socialism' (March 1996), The Program of the 'Narodnaya Hramada' Belarusian Social Democratic Party (June 1996), and The Program of the Belarusian Communist Party (March 1999).

It was the similarity of positions on social security reform and other issues, along with the majority of voters' ignorance of the content of these platforms that made political parties so indistinct and unpopular.

## Presidential candidates' election platforms

Electoral platforms of Alyaksandr Lukashenka, Stanislau Shushkevich, Zyanon Paznyak, Vasil Novikau and Alyaksandr Dubko reflect the whole spectrum of political views on State-sponsored social policy.

Lukashenka's platform braudishing the slogan: 'To Shield the People from Disease', called for establishing an extensive social security net. Measures included implementing a subsistence wage to which the minimum wage should be indexed; introducing a progressive income tax scheme to prevent the gap between the rich and the poor from widening; satisfying the minimum need for free housing, health services and medicines; offering loans to youths and young families for housing, property, as well as for training and retraining; providing state subsidies and low interest-bearing loans for housing construction in relation to size of household income and wealth etc.

Economic mechanisms proposed for attaining these objectives included strict price controls that implied enforcing criminal punishment on individuals in managerial positions in case of their failure to comply with price control regulations. The platform called for channeling construction industry efforts towards satisfying the population's need for housing, and making it a top priority sector in terms of funding.

Shushkevich's platform called 'State, Democracy, Market – a Path to Prosperity' was similar to the program put forth by the United Democratic Party of Belarus that called for targeted social assistance. A novelty was, among others, to suggest a move to turn over some public property to pension funds.

'The Economic Platform of Presidential Candidate Zyanon Paznyak' also favored targeted assistance. In addition, it suggested that the government pursue an active policy of supporting vulnerable groups, and take active steps to raise salaries and income of public sector employees. Unlike other candidates, Paznyak wanted housing policies to focus on constructing individual houses, with the government assuming responsibility for building adequate infrastructure. He also called for establishing mortgage lending institutions, giving greater financial independence to local authorities in carrying out social programs

and allowing them to use land tax revenue to that end. Paznyak stressed that collective and state-owned farms should not act as local administration. Their contribution to social security programs should boil down to prompt payment of the land tax. In terms of the political spectrum, Paznyak's ideas could be positioned halfway between those of Lukashenka and Shushkevich.

Dubko's 'This Country Needs a Good Stewart' program was aimed at restoring the Soviet system and vesting the future president with extensive powers. Dubko suggested providing veterans, pensioners, disabled persons, large and low income families with monthly food rations at fixed subsidized prices. The platform said that the State should guarantee employment, public housing, free healthcare services and cheap clothing for children. It failed, however, to outline a mechanism of how to put these ideas to work.

It should be stressed that the programs were prepared in the midst of a deep financial and social crisis of the early 1990s. Therefore, the candidates' election success largely depended on their approach to tackling social and welfare problems.

Lukashenka's platform outperformed others in the 1994 presidential election because it clearly indicated social issues and efforts to embark on so as to attain social policy objectives specified in the BPF's initial platform. Lukashenko's proposal that the government should give priority to social policies did not, however, materialize in the course of the subsequent social and economic reform.

Election platforms of Mikhail Chyhir and Zyanon Paznyak in the opposition-organized alternative elections in 1999 proposed minor adjustments to the social security system of the late 1990s that was built on the principles of 'developed socialism' laid down in Lukashenka's election platform.

### **Social services sector: reform concepts and programs devised by independent experts**

One should bear in mind that independent teams were formed on the basis of a coalition of experts associated with the UCP, Social Democratic parties and the BPF. Since these teams' conceptual ideas were generated by one man,

Leanid Zlotnikau, all these programs<sup>2</sup> suggested shifting the focus of social policies from social justice to social solidarity.

Independent experts recommended that a reformist government, if ever formed in Belarus, should move from the existing social protection system towards a social insurance system by means of establishing pension and health insurance schemes.

The authors believed that a pension insurance scheme should encourage people to earn money and set aside savings, while health insurance should prompt people to greater care of their health. The experts thought that Belarus could copy the health insurance scheme that was being established in Poland, but the government should continue financing health services for people with chronic diseases and subsidize some medicines.

The program found flaws in the existing social security system that was based on minimum subsistence guarantees. It called for narrowing the scope of social security to ensure adequate funding. For that purpose, the amount of welfare transfers (pensions, student allowances, and child support allowances) should not fall below minimum subsistence levels. Other priorities included retaining public transport subsidies at 40 to 50 percent of operating costs, with private and state-owned transport operators entitled to equal subsidies.

The program pointed out that the households should fully cover utility costs when the GDP reaches twice the 1999 level. GDP growth should facilitate transition towards targeted assistance. The government would have one year to abandon price controls. The pre-conditions for this exercise should be very simple. Beneficiaries would include large and single parent families, elderly persons and those who lost the capacity to take up employment.

<sup>2</sup> See: Предложения по формированию экономической политики (этап стабилизации), approved in June 1996 by the Committee on Economic Policies and Reform of the 13<sup>th</sup> Supreme Soviet. Белорусский рынок. № 23. 1996; Концепция и программа экономических реформ (Национальный исполнительный комитет), «Народная воля», 19 лютага. 1998 г.; Беларусь – альтернатива XXI, «БР», № 51. 1999; № 1. 2000; Стратегия для Беларуси, «Народная воля» 25 жніўня. 2000.

## Government programs for social services reforms

All government-sponsored social security programs were revolving around the same idea. Their objectives indicate that the government realized there was a need for a social security reform. The reform may be said to be defined by the tenet of modernization.

This goal is clearly stated the National Strategy of Sustainable Development of the Republic of Belarus, approved by the Council of Ministers on March 25, 1997. The objectives which all these programs have in common are the following:

- rationalize social security policies;
- plan social security measures;
- raise living standards;
- provide level playing field in socioeconomic conditions for various social groups;
- raise labor productivity;
- streamline state institutions.

Apart from that, the program sets out the underlying goals:

- restructure the economy;
- regulate the business environment;
- develop the science, education and health sectors;
- boost the birth rate and life expectancy at birth.

The table below illustrates a shift in official social policies. The table compares proposals of BPF 'Adradzhenne' with the national social protection strategy referred to by the Belarusian leader in his speech to the National Assembly, in particular in the section entitled 'State Social Policies and Social Protection of the Population'. The speech is not quoted verbatim, yet makes its point clearly.

Table 11.

BPF program (1989)	Lukashenka's speech (2002)
<p>Cancel benefits and privileges. Fair distribution under public scrutiny. Subsistence minimum guarantees. Employment guarantees.</p> <p>A rise in pensions under close public oversight.</p> <p>Better financial incentives for mothers to have and raise more children. Establishing state centers for labor and societal rehabilitation of and moral support for the disabled and assistance to orphans and single-parent children.</p> <p>Devote particular attention to eastern regions. Convert state and municipal/council housing into private property subject to inheritance. Improve prison conditions and guarantee societal rehabilitation of former inmates.</p>	<p>Cancel benefits and privileges. Fair distribution under public scrutiny. Subsistence minimum guarantees. Retrain the unemployed. A rise in pensions via a combination of state guarantees and personal liability for generating risks in manufacturing. Better financial incentives for mothers to have and raise more children. Passing a package of laws dealing with the provision of pensions, state pension schemes, and introducing mandatory occupational accident insurance.</p> <p>Devote particular attention to Chernobyl-hit areas. Enhance social justice in healthcare and find additional non-public sources of financing the healthcare system. Promote sports, tourism and healthy lifestyles.</p>

The table shows the government's shift toward a market-oriented understanding of individual rights and duties and social responsibilities of the State. At the same time, Soviet-style declarations are excessively focused on.

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## The Social Services Sector Today

### Healthcare

by Andrei Yekadumau

Over the past few years, the Belarusians saw the mortality rate and the incidence of diseases rise sharply.

The Ministry of Statistics and Analysis figures for 1990–2002 indicate that general health status has been worsening and life expectancy has shortened.

The health of residents of Chernobyl-stricken areas remains a serious problem. The incidence of diseases, for instance of thyroid, has been on the rise.

The Belarusians' health worsened not so much due to environmental factors, however, as due to inefficiencies in the monopolized State healthcare system. The government hampered the development of private healthcare services, while still being unable to provide effective free-of-charge healthcare.

On the one hand, healthcare is suffering from increasing penury, and access to services for low income groups has become limited. On the other, the authorities have been throwing stumbling blocks at investments in private healthcare and research, with public healthcare losing its highly skilled professionals in effect.

In addition, many public health services are no longer free of charge. Hospitals charge patients for drugs, consumables and surgeries. Health benefits for residents of radiation-contaminated areas have been reduced due to shor-

tage of funds. That led to increased incidence of diseases and a higher mortality rate.

**Table 12. Disease Incidence**

Indicators	Years		
	1990	2001	2002
Total population, in thousands (beginning of year)	10188,9		9950,9
Life expectancy at birth	71,1	68,5	
Life expectancy at birth (women)	75,6	74,5	
Life expectancy at birth (men)	66,3	62,8	
Congenital malformations*	6	9	
Neurological and sensory organ disorders*	265	491	
Blood diseases*	14	24	
Cardiovascular diseases*	116	189	
Tumors*	49	73	
Infectious and parasitic diseases*	308	375	
Skin and connective tissue diseases *	245	393	
Skeletal system and connective tissue diseases*	188	366	
Number of newly registered diseases 000s	5638	7169	

\* Newly registered cases per 1,000 cases.

In 2002, the Council of Ministers passed a directive on minimum healthcare guarantees that restricted the range of free-of-charge services to primary medical and sanitary aid, emergency aid for certain conditions, aid to mothers giving birth at maternity hospitals and aid to children under 18.

The government actually acknowledged the crisis of the free-of-charge healthcare system, one that remains largely unchanged from the Soviet era.

### **Social security system**

Belarus' situation is unique in terms of social support for people who cannot cope with their financial problems. Governments of the world's richest co-

untries provide support for only 7 to 12 percent of the population. As Ministry of Labor and Social Security statistics indicate in Belarus, 40 to 43 percent are entitled to social assistance.

In absolute figures, assistance is very slight: 6,000 rubles (ca. \$3) a month on the average. Rarely does assistance reach 100,000 (\$50) per person. The government spends much on welfare and social assistance the final effect of which is negligible. In addition, the social security system is stretched by having to combine general social transfers, benefits for various groups of employees and retirees, and subsidies for goods and services. The system of benefits lacks structure and rationale. The Ministry of Labor and Social Security says that the government provides some 300 benefits to various groups. Many of these are purely notional, thus eroding confidence in the authorities.

The system cannot cope with the task of distributing resources to benefit the needy, and represents too heavy a burden for the public, manufacturing and financial sectors. It also encourages people to parasitize at public expense.

Chernobyl benefits are a separate expenditure item. Six percent (381.8 bn rubles over the past three years) of total expenditure was spent on alleviating the Chernobyl disaster consequences. Ca. 70 percent of this is spent on social support of the affected population. Now, the government is seeking to encourage residents in the contaminated areas to earn their own living. Yet, it would cost a lot to change farm specialization to produce crops that do not absorb radioactive substances, or switch to animal farming because this implies new equipment supplies. The government program, however, does not address this problem.

In response to the systemic crisis in social services, the government devised a targeted assistance program which has been tested since 2001. Targeted aid is eligibly available to traditionally vulnerable groups – large and single-parent families, the elderly and the disabled. More than 278,000 people, or 1.6 percent of the population, received targeted assistance over the two years. The percentage of those truly in need of support appears to be higher, considering that well-developed countries support 7 to 12 percent of the population.

The amount of social assistance becomes more and more inadequate vis-à-vis the real needs of low income groups.

Over the last few years, the government has short-listed eligible beneficiaries and adopted a directive 'On the System of State Targeted Social Assistance' aimed at establishing a targeted support system. It has moved to reform the inefficient social security system, but lacks resources for creating an effective one, an effort impossible without systemic macroeconomic reforms.

Measures to rearrange the social security system proposed in 2003 – in transition to targeted social assistance – would allow the government to trim expenses, but will not provide adequate support for people who need it. According to the Ministry of Labor and Social Security, 694,700 Belarusians, or 7 percent of the population, are eligible for targeted assistance under the aforementioned directive. The government set a low poverty line at a monthly per capita income of \$24.6. The government guarantees in-kind or financial aid to bring income up to a stipulated minimum.

As before, the taxpayers will not be consulted on how the outstanding funds should be spent. It is largely anyone's guess what portion of these funds, if any, goes to those in need. Inconsistent efforts to modify the social security system, with the old system of benefits being preserved, albeit in reduced format, delayed its collapse, but failed to address the root cause.

### **Pension system**

Under the 1993 pension law, the Belarusian government pays what is known as 'occupational' and 'social/welfare' pensions, as described below.

The main type of 'occupational' pensions are old-age benefits paid to more than 80 percent of the retirees. Belarus has more than 2.6 million people entitled to pensions, i.e. 26 percent of the population.

Under the law, men are eligible for benefits at the age of 60, with no less than 25 years in active employment, with the age of 55 for women having at least 20 years' worth of occupation. Benefits may be claimed five to ten years prior to the statutory retirement age by ca. 20 occupational groups.

The size of pension depends on the average compensation earned over the last five years spent in employment and the maximum wage in the last 15 years.

## **‘Social’ pensions and disability and survivor benefits**

Belarus’ redistribution pension system provides universal coverage and is based on the solidarity and pay-as-you-go (PAYGO) principles. ‘Occupational’ pensions are funded from employers’ contributions of 35 percent of the payroll, and by employees who pay a 1-percent tax. Benefits to the military, police, civil servants, and Chernobyl-affected population, and ‘social’ pensions are financed from general state revenue.

In 2002, public spending on pensions totaled eight percent of the GDP. Officially, benefits depend on years in service and the wage, but in fact differences are small. Benefits paid to half of the retirees are below the poverty line (\$2 per person per day), yet the average pension in Belarus is close to half of the average monthly remuneration (43 percent in 2002). The pension law provides for indexing pensions to the average monthly remuneration, but pensions usually lag behind the inflation rate and price hikes.

The pension system in Belarus depends on external factors such as the number of contributors, contributions, and income of the working-age population. The solidarity-type system is a heavy tax burden on enterprises. It has proved to foster unemployment and growth of the informal sector (estimated at 60 percent of the GDP) as employers neglect their system contributions. This is precisely the missing revenue side of the social tax equation. Moreover, the share of household income generated by salaries dropped from 53.6 percent to 50.2 percent in the first quarter. The social tax is not levied from sources of income other than payroll. At the same time, as the number of loss-making enterprises rises and their debt to the Social Security Fund grows, the government finds it more difficult to meet payments to pensioners.

International experts believe that the public redistribution program would be effective in a situation of a long, sustainable economic growth and a favorable demographic situation, i.e. one of having at least one pensioner per ten contributors. Such conditions do not apply to Belarus. In fact, the number of contributors has been shrinking. In 1990, the manufacturing sector employed 5.15 million people against 4.42 million in 2001. Some 900,000 went ‘missing’,

presumably into the informal sector, and evade taxation. The number is expected to top the 1 million mark in 2003.

The demographic situation exacerbated the pension system crisis. The number of new retirees increased to 131,500 in 2002 from 18,300 in 2001. There is no chance of the situation changing for the better. In 2020, the proportion of working-age people in Belarus is expected to stand at 57.1 percent, where the retirees will make up 27.8 percent and children just 15.1 percent.

So far, Belarus has a surplus of immigrants. However, no new jobs have been created, the number of industrial workers has been shrinking and the SME sector is stagnant. If these trends continue, there will be one pensioner per one worker in the country in 2020.

Other pension system problems are related to retirement age, the extensive range of occupational groups entitled to early retirement benefits, effective payment of benefits to those still in active occupation, and the emphasis on employers and employees funding the pension system.

Belarus has one of the world's lowest retirement ages – 60 years for men and 55 years for women. The average retirement age is even lower as many categories may stop working earlier. Thus, the average effective retirement age is 58 years and 10 months for men and 53 years and 11 months for women. On the average, men receive pensions for 14 years and women for 23 years.

At present, there are more than 20 categories of those eligible for early retirement, i.e. 25 percent of all new pensions in the last few years. This is twice the 1990 registered figure.

It turns out that all employees make the same contributions, but some of them may claim benefits five to ten years earlier than others. This depletes the level of old-age security in the country.

## Housing and utilities

The majority of Belarus' current housing stock was built after World War 2, with only 6.9 percent of residential space built before 1945<sup>3</sup>.

<sup>3</sup> Figures here are quoted after the 1999 census; more recent official statistics are not available, as yet.

Multi-storey apartment buildings of ‘the first mass housing construction series’ called the ‘Khrushchovki’, as they were built at the time of the Soviet leader Nikita Khrushchev, were erected in late 1950s and early 1960s to accommodate the increasing number of migrants from rural areas. More than 2.2 million people, or 22.7 percent of the country’s population, live in multi-storey apartment buildings constructed between 1960 and 1980. Some 1.8 million people, or 18.5 percent of the population, are inhabitants of multi-storey apartment houses erected in the 1980s.

Slightly over one million people, or 10.6 percent, live in individual houses built after World War 2, and another one million, or 10.4 percent, in individual homes built between 1960 and 1980.

Housing stock quality depends on the quality of input construction materials. At present, 52.6 percent of the tenants live in prefabricated concrete buildings, and 39.2 percent live in multi-storey brick houses. It is common knowledge that the prefab concrete houses wear out faster.

Not everyone can afford a separate housing unit. In 1999, 574,000 people lived in dormitories and 401,000 in municipal/council housing (the *kommunalki*) with the kitchen and bathroom shared with other tenants, or in barracks. This is 9.7 percent of the total population and 13.1 percent of urban residents. More than half of dormitories and municipal buildings were erected in the 1960s and the 1970s. Conditions there are much worse than in self-contained apartments, let alone individual houses. Considering that, since 1996, the country has built an equivalent of just one third of the housing stock available at the end of WW2, one in ten residents would have to live for a long time in conditions that can hardly be called civilized.

As the official statistics have it, there are 21.6 meters of housing space per resident in Belarus. This, however, is not the true picture. In fact, inhabitants of self-contained apartments have 18.5 square meters of space per person, inhabitants of municipal dwellings have 12.3 square meters per person, and those in dormitories have just 10.6 square meters per person. Those living in individual houses have 25 square meters of space per resident.

The urban housing stock is managed and maintained by a network of Housing Maintenance Enterprises (HMEs) accountable to the Housing Ministry and city/town authorities. Privately owned condominiums and cooperatives manage a negligible fraction of ca. 5,000 houses.

Utilities, i.e. maintenance and repair of buildings, supply of heat, water, gas, electricity, sewage and garbage disposal, are provided by operators residing partly in the municipal system and partly controlled by state-owned conglomerates. All these enterprises are subsidized by the government.

The utility and housing management market remains a State monopoly. Consumers may not select the scope of services provided and do not know what the real costs are. In addition, consumers are deprived of any rights as they have no contract with providers, and there is no legislation to guarantee their rights. That is why, tenants have no tools to get HMEs to satisfy their needs, or at least force them to provide services that they are entitled to under regulations governing the utilities and municipal services industry.

The pricing structure is very complicated and obscure. Various ministries and state-owned conglomerates set quotas of use, while utility and housing rates are set by the Ministry of the Economy, regional and Minsk city executive committees and local authorities.

In 2001, the government adopted a timetable to phase out subsidies and increase cost recovery on maintenance and utility expenses from tenants, scheduled to reach 100 percent before 2004. Cross-subsidies applied in connection with heating, electricity and gas services to households totaled 532.6 billion rubels (\$385.3 million) in 2001.

There are four groups of customers who pay different utility rates:

1. households;
2. public establishments, catering, consumer and housing maintenance enterprises;
3. agricultural enterprises;
4. industrial, construction, business and other enterprises.

Big consumers such as the industries pay three to four times the household rate. At the same time, the cost of supplying energy to big consumers is well be-

low the cost of supplying small quantities to households. Businesses in Western Europe and the US pay lower rates than the residential segment.

Meanwhile, the government has been raising household rates ahead of the timetable. In early 2003, households were paying 62 percent of the utility costs out of their own pocket, a figure that the government scheduled for the year-end. Households pay much more for gas supply and garbage disposal than these services really cost. Meanwhile, the government failed to ensure an adequate average salary rise to soften the impact to the residential segment. The average salary was equivalent to \$109 in mid-2003, whereas the government had intended to raise it to \$143 in 2003. Household expenses on utility and housing services jumped two- or threefold in the last two years.

Thus, the current situation in the housing sector provides no incentives for new housing construction, repairs of old housing stock, energy efficiency and cost recovery, just as it does not encourage residents to assume responsibility for their dwellings.

# Social Services Sectoral Reforms: Causes and Rationale

by Andrei Yekadumau

## Healthcare

Belarus' Soviet legacy comprises a free-of-charge healthcare system, with a range of privileges for various population groups. The government's reluctance to reform the sector and the conservation of the Soviet system of allocating health services served to back the authorities' populist policies. However, the level of free-of-charge health services can no longer be sustained because of insufficient funding. At the same time, the private market of health services, including the informal sector, has been developing spontaneously, while the state-sponsored healthcare system has been deteriorating.

The government's general policy aimed at squeezing as much funding as possible out of the private sector slowed down the development in the private healthcare system. As state-run health facilities resort to fee-for-service payment methods, they face tough competition from private providers.

Although the private health services market undermines the state monopoly, the Belarusian authorities cannot outlaw private practice altogether, because it helps to ease the financial strain on the state-owned healthcare system.

Users have to pay twice for services provided by state-owned healthcare facilities – they pay taxes and fees when using the actual service. Taxpayers have no say on public funds allocations as the budgeting process is not transparent.

In its bid to retain monopoly over healthcare, the government has come to a deadlock where it may no longer provide quality health services, while the private sector is not in a position to change the situation for the better. The government's move to cut the range of freely provided healthcare and expand the use of fee-for-service methods of payment has not helped to improve quality; instead, it increased the burden on low income groups. In addition, the state monopoly in the health sector will not encourage providers to cut prices.

Given the slow pace of market-oriented reforms and administrative mechanisms for allocating services and privileges, the informal segment is unlikely to shrink. Therefore, the level of services available to individual users depends not only on their income, but also on their social status, position and access to privileges.

Despite the absence of a health insurance development strategy, changes in the healthcare sector will continue, albeit without appropriate government oversight. The market of private services will develop in parallel and at the expense of the state-sponsored health sector, but without guarantee of availability to low income groups, who will find access to effective, quality health services to be increasingly difficult. If no dramatic changes are made in healthcare, it will not be able to satisfy the population's need for health services, and the mortality rate and diseases will be on the rise.

## **Social security**

Belarus' social security system is ineffective, as proven by the fact that numbers of people who need benefits is rising, while the benefits are insufficient to meet their needs.

Some 7.5 million out of the 10 million Byelorussians are entitled to one form benefit or another. The government spends \$2 billion a year, or 14 percent of the GDP, on fighting poverty, but the number of claimants does not drop.

The social security system is ineffective because the funds are stretched, and their distribution is inadequate. There is no effective mechanism for targeted support. Because of subsidies to staple foodstuffs, public transport, housing

and utilities, much of the assistance goes to those who do not need it effectively. The system is prone to abuse.

On gaining independence, Belarus opted for preserving the old social security system, and even to increase the scope of benefits rather than build an effective new system. Now, the government has run out of funds to continue these paternalistic policies.

The mechanism of allocating benefits is very complicated and obscure. To cope with social security expenditure, the government raises taxes, thus forcing contributors to conceal their income and encouraging employees to claim benefits rather than increase their official income. Therefore, the government contributed to fostering parasitical attitudes, including among people still in active employment.

As a result, people regard allowances as guaranteed extra pay to top their wages, pensions and student allowances. Benefits are not viewed as incentives to act, but rather as compensation for low wages in the state-owned sector. Such mentality is the main cause behind high numbers of claimants.

The government seeks to retain its monopoly over the allocation of benefits and ignore advantages of the market economy that gives most people an opportunity to earn a living. In contrast to official declarations, benefits have been gradually eroding. This increases public discontent with public policies.

### **Pension system**

The Belarusian authorities have taken some inroads towards the pension system's reform. The government endorsed a pension system reform plan in April 1997. The plan calls for establishing a three-tier system. The first tier consists of disability and survivor benefits paid out of the government's annual budget. The second tier is made up of mandatory individual accounts, and the third tier is voluntary individual accounts.

Since about 80 percent of the elderly in Belarus are entitled to 'occupational' benefits, if the reform is carried out these benefits will be made up of the minimum pension paid to anyone with the required years of service (ca. 20 years),

and an additional individual benefit contingent on the average taxable salary for the whole service period.

On January 1, 2003, the government adopted a regulation introducing a notional pre-defined contribution scheme for the State-run PAYGO tier where each insured has a hypothetical personal account made up of all contributions made during his/her working life. This was a step to tie pensions to contributions.

This is the technical side of the reform. In practical terms, the reform calls for eliminating state monopoly in the pension services market. As long as the Belarusian pension fund is managed by the government, individual accounts will be notional rather than real-term. Contributions paid by employees into the fund are redistributed among the retirees immediately. At the same time, the government has not announced any plans to raise the social tax, although such a step is likely. It may, however, escalate social tension. Even if the State decides to give up its monopoly under certain conditions, this will not automatically address all problems in the pension system.

Belarus needs to establish an effective inflation-proof individual account scheme in an inflationary environment of ca. 40–50 percent per annum.

Currently, there are 2.62 million people eligible for retirement benefits, i.e. 26.2 percent of the population, or 58.2 percent of people in active employment. The employee-to-pensioner ratio has dropped to 1.7 in 2003 from 2.2 in 1990. This puts Belarus at a major disadvantage, since the ratio is much higher in many other Central and East European countries – 2.3 in Poland and 2.7 in Slovenia.

2001 saw the first retirement of baby boomers born between 1945 and the early 1960s. Therefore, the number of retirees is likely to rise in the next few years. The proportion of retirees (60 for men and 55 for women) in Belarus is likely to rise to 28 percent in 2020 from 21.3 percent in 2000.

The pension expense-to-GDP ratio rose from 8.5 percent in 1995 to 9.5 percent in 2001. The Social Security Fund accounts for 12 percent of GDP.

A wide range of occupational groups are entitled to early benefits, such as people working in hazardous conditions. At present, there are more than 20 categories of those entitled to early benefits; they total 33 percent of all pensioners. They can claim benefits five to ten years before reaching retirement age.

These legal provisions encourage employees to seek early retirement rather than work productively. Those entitled to 'occupational' pension at the age of 55, excluding retired military, police and KGB servicemen, make up for 13.5 percent of the total number of pensioners.

The Social Security Fund has no reserves, as it struggles to meet current payments. It is acceptable international practice for a pension system to have a three-month reserve of funds for a risk-free operation.

The Belarusian government has no long-term strategy to meet its financial commitment to present and future pensioners. An annual Social Security Fund equals close to half of the consolidated annual budget. A pension system malfunction may cause the regime to collapse and trigger off a deep social crisis.

A reform of the pension system will reveal latent unemployment, thus leading to reducing the number of contributors and swelling numbers of beneficiaries.

Financial strain on the Social Security Fund, caused by the increasing number of pensioners and shrinking labor force, will force the government to raise employers' social security contributions, now at 35 percent of payroll. Therefore, labor cost may increase. This may impair competitiveness of Belarusian goods and encourage illegal (unregistered) employment, or force employers to conceal or understate employee salaries.

The Social Security fund is in need of additional sources of funds. The government would find it very difficult to source them from an unreformed economy given the absence of proceeds from the sale of industrial enterprises and land.

The government's efforts to set up the notional defined contribution scheme cannot improve financing of the Social Security Fund. The measure should be regarded as a necessary, albeit initial step to transform the solidarity system into a system of individual accounts.

The government has considered the idea of raising retirement age to 65 for men and 60 for women. The step is reasonable but, consequently, only a fraction of the country's male population would live long enough to reach retirement. The measure would certainly trigger public protests and could rock current or future political set-ups.

Thus, pension reform delays entail the following threats:

- redistribution will remain unfair as part of the money due to 'ordinary' pensioners goes to privileged groups;
- living standards of pensioners will decline further due to benefits being scant;
- life expectancy at retirement may fall;
- the Social Security Fund may collapse.

The reform should eliminate or reduce the risks. Its main purpose is to establish an effective and fair system on a par with international social security standards.

## Housing

The state of repair of the housing stock is one of the country's most serious problems. It is necessary to draw a line between urban and rural housing. The rural housing stock is unlikely to cause major problems for national policies in a foreseeable future. Firstly, because the service life of properly maintained individual homes is much longer, secondly because the government is not committed to renovate or repair owner-occupied homes and, thirdly, in 2002 the country had 120,000 vacant houses, of which 99 percent in rural areas, including just 0.3 percent in areas contaminated by radioactive substances. Clearly, a crisis of the rural housing stock is not anywhere near.

The state of repair of the urban stock is a cause for major concerns. Most of the multi-storey residential buildings in medium-sized and large cities were erected between 1960 and 1990. 73% of apartment dwellers live in such houses. Just 6 percent of multi-unit houses were built after 1991.

As per current regulations, the prefabricated concrete buildings erected in the first mass housing construction series (the 'Khrushchovkas') can serve 40 years without repairs; other prefab concrete structures can serve 50 to 70 years depending on type. Brick houses can be used for more than 100 years without an overhaul. Ca. 55 percent of the apartments commissioned between 1960 and 1980 are in the prefab concrete category. Most units built during the first

mass housing construction series require overhaul now or will need it in the next five to seven years. Occupancy in those buildings beyond their stipulated service time can be hazardous. There have already been a few cases of structural items most vulnerable to wear and tear collapsing (e.g. balconies).

However, a deep housing stock crisis should not be expected to arise before 2020s or 2030s, the time when the lifecycle of most un-serviced prefab buildings is expected to run out.

Communist Party promises to provide each household with a self-contained housing unit were dissipated with the party's collapse.

The current government is also failing to tackle the housing issue – it has not set up housing lending schemes, just as it kept away foreign banks that offer such services. Residents cannot afford investing their savings in long-term housing projects, and there are many obstacles within the construction industry as well. At the same time, swelling numbers of those in need of housing may severely destabilize the social and political arena in the immediate future.

In 2001 municipal authorities repaired 313,500 square meters of urban residential space, i.e. 0.23 percent of the total stock. If coupled with owner-occupied homes renovated at owners' expense, the share totals 0.26 percent.

Notably, apartment tenants, with the exception of those in housing cooperatives, have been required to contribute to the impending overhaul since 1999. However, the funds are not deposited in bank accounts; they're used to bridge current budget gaps. In other words, tenants pay today to have their house repaired in 380 years. They have paid a lot already. The figure for 2003 is equivalent to \$50 million.

On the heels of the pension system, akin to a pyramid scheme, the authorities are devising a new bogus scheme where ca. 6 million residents pay their bills, with just few being lucky enough to have their houses repaired. It should be remembered that in 1991 the authorities pocketed some 145 million then-Soviet rubles (\$235 million at the-then official exchange rate) set aside by housing cooperatives for major repairs. If the government fails to spend as initially intended, 4,500 multi-storey buildings will be stripped of any maintenance funds at all.

If the problem is not addressed immediately, accidents caused by depletion may be expected in five-ten years in buildings of the first mass housing construction series, and within another ten years in other prefabricated concrete structures.

The government's plan for phasing out cross-subsidies in the utility sector foresaw a 4–5 percent cost cut as a result of lower rates for industrial enterprises. This means that the plan was intended to increase efficiency in the industries rather than encourage energy resource conservation or establish a sound economic relation between the tenants and utilities and housing services providers. However, utility rates for industrial enterprises have not decreased. Therefore, the enterprises failed to cut costs or raise wages. Staple goods and services have not become cheaper, therefore the overall tax burden on the population remains the same, while the utility and housing maintenance rates rose sharply. Some single pensioners living in large apartments and large low income families have problems meeting their bills. A further rise in rates would lead to an insolvency crisis and aggravate social tensions.

The cost of supplying running water, heat, power and gas to multi-storey buildings is too high. The greater the output of a public utility, the higher subsidies it receives from the municipality.

Equipment in utility companies is worn out, obsolete and should be replaced or modernized to reduce energy consumption and prevent accidents. In the future, upgrade programs will call for a considerable rise in funding, and may lead to a further rise in utility rates. Given the increase in spending on maintenance, major repairs, retrofitting and insulation of houses, the utility bill is likely to take up a considerably larger share of household expenses.

Utility bills will not go down and services will not improve without economic mechanisms being put in place to boost efficiency. In absence of appropriate changes, the quality of housing services will remain poor, the housing and utility system will be increasingly hazardous to operate, and people would have to bear the increasing burden of the inefficient housing sector.

# Ideal Model of the Social Services Sector

# 3

## Goal, rules and conditions of sectoral reforms

Belarus' social services sector in the transition period should encompass healthcare, social security, the pension system and housing maintenance and utility services.

Reform objectives include establishing a system of institutions that warrant quality health services and adequate old-age pensions, provide social security for the needy, and offer utility and housing maintenance services at affordable prices.

The guiding principles of the social sector reform should be:

- a) efficiency;
- b) social justice that rules out allocation of benefits to those who do not meet certain criteria;
- c) availability and affordability of services guaranteed by various means (salaries, wages, pensions and social assistance).

The general condition for implementing the principle of efficiency should be to reduce overheads in each sector, transfer the infrastructure to private hands or mixed management involving local authorities, and review benefits and social security contributions. Social programs should be financed by the central and local authorities, employers, employees and charities.

During the reform, all social sector's functions should be transferred to local authorities. Central government should be responsible for regulation, statistics and analysis, personnel training and the provision of research data. It would be advisable to combine various regulatory authorities responsible for healthcare, pension system and social security in one ministry, and thus cut down on staffing in administration.

The sections below outline measures that should be taken in each segment of the social sector in line with the above-mentioned principles.

## **Healthcare**

The healthcare reform should prioritize encouraging people to take care of their own health.

Freely available services should include visiting a doctor, emergency aid in all health facilities irrespective of ownership, treatment for epidemic diseases in hospitals, and treatment of low-income patients at public health facilities. Other services should be paid for by patients or health insurance funds. The government should advocate a legal and economic set-up for developing health insurance schemes.

During a transition period of eight to ten years, local authorities may finance additional free-of-charge services for low income groups. To improve quality, the government should create incentives for private healthcare establishments.

## **Social security**

The first step is to revise eligibility criteria for awarding social benefits and merge all social security funds.

Eligible beneficiaries should be those who, for a number of reasons, have no other income to live off or whose income is below the subsistence minimum. These are non-working disabled persons, large families with incomes below the subsistence minimum, people in retirement age with low pensions and the temporarily unemployed. All other benefits should be stopped.

The social security system should be funded by the government, while contributions computed as a share of the payroll should be replaced by a tax. The social security expenditure item should be protected from subsequent budget cuts.

### **Pension system**

Within five to ten years, it is necessary to set up non-state pension funds. These funds should accumulate contributions of employers and employees. Before accumulating sufficient amounts of money, the funds may be managed by local authorities or local authorities and companies. Most likely, these should be regional funds with largest local enterprises becoming their major shareholders.

The current pension system should remain in place for some time while, at the end of the reform, pensions should be directly contingent on the claimant and his/her employer's contributions. Contributions should constitute ca. 3–5% of wages provided that the income tax is reduced.

### **Housing**

Despite its complexity, the housing sector reform should be implemented over a relatively short period. The reform should be aimed at full recovery of housing maintenance and utility costs from tenants, and building a system of billing per unit/household.

Providers of housing maintenance and utility services should be immediately privatized, i.e. by long-term lease. The primary target for privatization should encompass transportation services and housing management enterprises, while regional suppliers of power, heat and electricity can be reformed gradually. The profit margin in the housing and utility sector should not exceed the average profit margin prevalent in the economic environment. Local authorities and consumer organizations should monitor profit margins in the sector.

Targeted housing allowances provided from social funds should protect vulnerable groups. Towards the end of a three-to-five year transition period, consumers should be in a position to cover housing maintenance and utility costs fully.

The social services sectoral reform as a whole and its adaptation to the market environment will take between five and ten years. The reform's duration will depend on the sector's initial condition.

The main idea of the reform is to restructure and privatize housing management enterprises and make the transition to market-oriented management principles.

## **Priorities, stages and financing of social services sectoral reforms**

The goal of the reform is to achieve European standards of living. The main indicators to determine the standards are life expectancy and life quality. The reform should cover healthcare, social security, the pension system and the municipal/council housing sector. The reform should aim at boosting efficiency and ensuring social justice, including equal access to social assistance and social and welfare services.

Measures to attain these objectives include privatization of all social sector institutions that may be privatized, cutting administration costs, and monitoring demand for social services. Since most services are delivered specifically to households, the local authorities should shoulder responsibility for the reform and for maintaining the social sector in normal condition.

### **Healthcare**

The following steps should be taken within two or three years to reform the health sector.

All clinics and hospitals that provide services for a fee should be transformed into joint-stock companies and leased to the staff, with a staff option to buy out the lease.

The government should encourage tax allowances and lower office rental rates to foster the opening of new private clinics. It may retain control of health facilities operating as part of public scientific research institutions.

For some time, the existing clinics should be managed by municipalities, yet with the use of the fee-for-service payment method. The system of general practitioners and specialists should be transformed into a mixed GP-cum-specialist system. Unlike in the current system, where each patient is assigned to a particular doctor, the mixed system should offer patients a choice. At the early stage, patients should be given an opportunity to choose from among doctors who work under contracts with clinics of their due jurisdiction and, in a more distant future clinics, too, should be given the freedom of choice, subject to available opportunities to contract any doctor on terms and conditions applicable to any legal contract.

Physicians practicing as general practitioners should be allowed to obtain a license for private practice outside their clinic of due jurisdiction.

With the exception of emergency cases, patients should be referred to specialists only on the GP's recommendation. Care at specialized clinics and hospitals should be provided both on patients' request and GP's recommendation.

Local authorities should set up medical commissions to oversee performance of general practitioners, monitor the quality of service, control prices and suggest methods of payment for services. Under close supervision of the above-mentioned commissions, local authorities should set up medical aid (Medicaid) funds to purchase services of general practitioners, specialists, clinics and hospitals.

The most important aspect of the health sector reform is the establishment of a fair and equitable payment system. At the early stage, the funds should collect monies allocated by the central and local governments and fees charged by health facilities for their services.

Prior to such payment system being launched, local authorities should have at least one year's notice to set up local insurance funds to accumulate contributions from local residents aged over 18. The contributions may be withheld by employers or paid by the beneficiaries themselves. Student health insurance fees should be paid by education facilities, the government, or withheld by other sources of funds that provide for their tuition (bank loans, charity funds,

parents and disposable income). By the same token, employment centers should pay insurance fees for the jobless entitled to benefits.

Each resident would be issued with a health insurance policy to be used to obtain medical care outside of his/her domicile, regardless of reasons for claiming services elsewhere than indicated by home address.

Since it takes some time to accumulate enough funds to purchase health services for the general population, the purchasing functions should be shared between authorities, insurance funds and patients.

At the early stage, Medicaid funds should purchase services of local doctors in the patient's due medical jurisdiction and up to 50 percent of services of GPs. Insurance funds should cover up to 50 percent of services provided by specialized clinics and health facilities. Wealthier individuals should also bear the other half of the costs. The insurance funds' share in purchasing treatment for those with medium income should be higher, between 60 and 70 percent, and up to 80 percent for low income beneficiaries. The insurance funds' coverage should not exceed the individual account balance by more than 30–40 percent.

A system thus structured flags up the issue of those who – for valid reasons – cannot support their individual accounts from personal income. A solution may be to collect health insurance fees from all persons under 50 upon the insurance scheme's launch. Medicaid funds would cover 100 percent of services by local doctors within one's medical jurisdiction and up to 80 percent of the healthcare costs in specialized establishments for those under 18 and over 50. The same applies to the disabled regardless of age. Therefore, the respective shares of Medicaid, insurance funds and patients will depend directly on their disposable income, government subsidies and possible donations.

All uninsured residents capable of taking up employment may rely on Medicaid funds for services of local doctors within their medical jurisdiction. Medicaid and insurance funds would not purchase medicines from pharmacies, with the exception of epidemic and particularly serious diseases. Pharmaceuticals and treatment for such diseases should be government-funded.

Regulations governing insurance funds may provide for allowances to be paid to beneficiaries on reaching certain age, provided they have a positive outstanding balance on their individual accounts.

The health sector reform should be governed by a special law that would stipulate a procedure for establishing insurance and Medicaid funds, as well as central and local budget allocations for healthcare. The law should define indicators used to assess the performance of the healthcare system as a whole, and local health facilities in respective medical jurisdictions regardless of ownership. Key indicators should include life expectancy, infant mortality, incidence of serious diseases, the total amount and proportion of expenditure out of Medicaid and insurance funds, and patients using healthcare services. The indicators should discourage providers from overcharging patients or limiting access to adequate care.

It is necessary to raise salaries of medical workers to 130–150 percent of the average wage, provided that the monies allocated to the Medicaid scheme and insurance funds are spent effectively.

Public healthcare expenditure should require commitment of ca. eight to ten percent of the total consolidated budget expenditure.

### **Pension system**

The pension system reform is necessitated by insufficient social security provided to retirees, the falling worker-to-pensioner ratio, and the need to ease the strain that the current high social tax of 35 percent puts on the economy.

Belarus should gradually transform the centralized state pension system into one based on individual accounts. In other words, people should take care of their own future pensions. At the same time, the government should bear the cost of pensions for those who, for some reason, failed to set aside money for old age.

The pension reform may take as long as eight to ten years because, apart from the time factor, it requires that a specific economic environment should be in place. Considering that changes in the public pension scheme are extremely

unpopular with the general public, efforts should start now to make people realize that they should be saving money for retirement once they turn 18.

The first step towards this goal would be to specify what types of pension schemes and sources of funds for pensions will be present in the reformed system, followed by enacting laws, setting up economic mechanisms to safeguard savings on private retirement accounts, and decisions as to who will manage these accounts.

On the basis of experience in countries that have been reforming their pension systems, and primarily Estonia, the following types of benefits seem to be recommendable in Belarus.

'Occupational' pensions payable at a specified age and directly related to the size of salary earned over a specified period of service and years worked. The eligibility criteria should be set out in a law, which may be based on Belarus' legislation currently in force.

The following arguments speak in favor of the existing legislation. Firstly, laws are generally in line with their declared objectives. And, secondly, the pension system should be conservative as most of the retirees are accustomed to laws in force during their active employment.

Therefore, considering the budget and non-budget resources available, the average 'occupational' benefit may amount to 70–80 percent of the average remuneration and the benefit formula should be based on the premise that people do not usually work longer than 35–45 years. The formula should include a basic minimum level of 50 percent of the salary earned over a period of five to ten years, with one percent added for service in excess of 20–25 years, if the retirement age difference for men and women is retained.

Depending on resources available, the stipulated minimum service time may be shortened by one year, for instance, in order to increase the bonus for extra service and the overall amount of benefit.

Old-age benefits are minimum pensions guaranteed to those who reach specified age regardless of years of service. This pension is paid to a relatively small group who, for one reason or another, has not achieved the minimum length of service. The benefit formula should be in a relation to 'occupational'

pensions. The pension should account for 40 to 50 percent of the average salary, with no extra allowances added. The old-age pension would constitute two thirds of the 'occupational' benefit, which is fair and would boost the propensity to save up for one's future benefits.

Disability benefits may be claimed by those who lost fully or partially their capacity to work from the age of 18. The benefits should be granted to all disabled persons on reaching 18 years of age, irrespective of whether they are supported by other wealthier family members, live in low income families, or receive care at healthcare or other facilities. The benefits should be financed from State or local governments' revenue. The benefits should be calculated in such a way as to accommodate the claimants' need for food, clothing, utilities and medicines. Therefore, they should be slightly above old-age benefits, at ca. 50 to 60 percent of average remuneration.

In cases of workers losing the capacity to work due to an occupational accident, benefits are financed by the employers until beneficiaries reach retirement age. These benefits should equal the beneficiary's average salary. At retirement age, those with a disability caused by an occupational accident receive an 'occupational' pension.

'Survivor' benefits should be paid to children under 18 who lose a parent on the condition that the average household income per capita is below the average remuneration level. 'Survivor' benefits are very similar to social security benefits and are designed to prevent social inequality. The size of a survivor benefit may vary, but it should not be higher than the nation's average wage. It may be in relation to the lost parent(s)'s monthly income. It is possible to provide for the benefit to be claimed irrespective of the other parent's or custodian's income, if the other parent has suffered while in duty. If a parent's loss is linked to his/her employment contract-related circumstances, the benefit may be funded by the employer regardless of their form of ownership.

All types of non-standard/privilege benefits, such as higher pensions granted for outstanding services, should be abolished. Supplementary services should be rewarded by high salaries, later to be taken into account when computing the pension.

Retirement age should be set statutorily in relation to life expectancy and the nation's health. The current retirement age – 60 for men and 55 for women – is optimal for Belarus. Benefits could be claimed earlier in selected occupational groups with hazardous working conditions, or for those with sufficient number of years of service, such as 35 for men and 30 for women.

Belarus should set up a network of pension insurance funds to keep records of retirees entitled to one or several benefits and manage individual accounts where contributions or regular pension subsidies are deposited. Benefits should not be capped.

In the first few years of the reform, the funds may and, indeed, should be run by the State and be region-specific, and reflect the country's administrative division. The only condition is that the funds should not be fragmented. Given the country's current administrative structure, the government should set up regional pension insurance funds. This should not be too labor-intensive or costly as there already is a system of establishments in Belarus to administer retirement benefits.

Also, the government should create incentives for private pension funds which should cover all retirees entitled to occupational benefits in the future. The main advantage of private pension funds is that, apart from merely collecting contributions, they invest money and generate capital gains. Therefore, along with paying pensions to contributors, these funds should guarantee that the outstanding individual account balance not claimed as benefit payments may be inherited by legal successors.

The state-run regional pension insurance funds can be founded by large enterprises operating in the region. As private sector funds develop, members of state-run pension funds may transfer their individual accounts to private funds.

A company that withholds private fund contributions from employee earnings should also transfer the employer's share of contributions. The pension reform implies replacing employers' contributions to the so-called social insurance funds with much smaller contributions to pension funds. All social assistance should be funded from general tax revenue.

Pension funds should be financed from: a) general State revenue in proportion to earlier contributions into centralized and non-budgetary funds, b) employers' contributions in proportion to the payroll, and c) employees' contributions.

As an employee's service period during which he/she contributes to the public PAYGO system shrinks, the market share of the public scheme will decrease while the private sector's share will rise.

Full transition will take approximately 40–45 years, i.e. with the final disappearance from the system of retirees who began working in the pre-reform public PAYGO pension scheme. It is possible to speed up the transition by budgeting transfers to private pension funds equivalent to benefits payable to those who retire in a given fiscal year.

Particular care should be taken to develop a legal framework for private pension funds to govern fund management, investment activity, the payment of benefits and inheritance rights.

In general, legislation should include the following basic provisions.

Private pension funds should be established as joint-stock companies, with local authorities holding a controlling stake. Their supervisory boards should include representatives of non-governmental organizations, or parties with voting rights, or factions present in local governments. The requirement for the State to hold a controlling stake may be abandoned once the pension reform is complete and enough experience is gained in operating a modified pension system. The legislation must specify explicitly what type of investments the private pension funds are allowed to make in the domestic financial market (e.g. only in Treasury bonds and bank deposits). No more than 15–20 percent of the total assets should be allowed to be held in bank deposits.

Old-age, disability and 'survivor' benefits may be financed by state-run pension funds, or transferred to social security agencies for the period until the beneficiary retires.

## Social security

The role of social security is similar to that of the pension system, since both are designed to provide financial assistance to those who are not involved in producing goods or supplying services, and who have no subsistence income.

The purpose for the social security reform is to ensure transition from the former ('Socialist') system of assistance, which was an integral part of the centralized distribution system, to targeted social support.

It would be difficult to reform the former system because of its extensive coverage and multitude of forms. For instance, government subsidies to keep low retail prices of staple goods (bread, dairy products, sugar etc.) are a form of social assistance provided regardless of the final beneficiaries' income. It would be better to start by drawing a line between the old and new functions of social security. Therefore, the first step should be to stop paying all budget-funded social benefits and identifying groups that need social support.

There are two notable types of social benefits: financial assistance provided in the form of regular allowances, and services provided by various facilities such as hospitals, health resorts, old age homes etc. It is necessary to make sure that financial benefits and services provided by various facilities under social assistance do not duplicate each other.

With these requirements in focus, the key elements of the social security system should primarily be to provide assistance to families that bear high costs of performing what is essentially their seminal social function. In particular, these are large families with more than two children. Assistance should be provided in the form of regular benefits regardless of family income. Assistance may also be provided to large low income families so as to bring their income up to the country's average. Other forms of assistance are possible such as vacations for entire families or the children.

Secondly, assistance should target the non-working population (retirees, disabled persons) who bear the additional cost of health services that may not be borne out of private income. Social security agencies may pay treatment bills for such people, including pharmaceuticals and treatment at health resorts. Social workers may also provide at-home services to those beneficiaries.

Thirdly, social assistance should cater to people who suffered losses or damage due to the State defaulting on its public functions. Claimants may include crime victims, if the perpetrator is not found or is in no position to pay damages. The amount of such assistance depends on the extent of damage and the nature of crime. For instance, social security funds may reimburse crime victims for expenses incurred to recover good health and compensate for a part of damages to victims of burglary.

Fourthly, social assistance may be available to people who find themselves in critical circumstances regardless of cause (homeless or temporarily out of work), and who are not entitled to other benefits. To assist these people, social security agencies should run a network of welfare facilities such as shelters, shops, canteens, where they can obtain accommodation, clothes and food.

To ensure that assistance effectively targets the needy, social security agencies should have an extensive network and operate under strict control of the authorities and public and non-governmental organizations. In areas where real assistance is provided, social workers should form the backbone of a social security network. Local social security agencies are entirely responsible for the allocation of money provided by local governments for social assistance. They should manage all social facilities within their area.

Local authorities, non-governmental organizations and political parties represented in local councils should form boards to supervise and provide guidance to social security agencies. These may be the same boards that supervise the pension system as both have largely the same sources of funds (local revenue), goals (supporting low income people), and beneficiaries (pensioners and disabled persons).

Charities should play a special role in the social security system. Since the authorities may not interfere with their activity, they should seek to establish effective cooperation by creating a legal framework and providing statistics on people in need.

Towards completion of market-oriented economic reforms, charitable organizations may assume some functions of the public social security network in providing assistance beyond the public system's confines.

## Housing maintenance and utilities

The housing services sector will be part of the social service sector only for a limited period. The reform aims at ceasing to provide services free of charge, as was the case before. However, the housing and utilities reform implies changes in the social service sector, and should be seen against a broader context of economic reforms.

In the Soviet economy, housing subsidies were part of a universal distribution system based on public ownership of the housing stock, land and infrastructure. Since most of public housing has been privatized, the archaic system of subsidies is in need of changes aimed at establishing adequate economic relations in the housing management sector. Considering inefficiency and high cost of the current housing management system, the reform should be put to work in the shortest possible period, probably two to three years. There is an urgent need to determine how many households will be entitled to housing benefits when utility rates rise.

Services provided by Housing Management Enterprises include electricity, heat, water and gas supply, the cleaning of common areas, garbage disposal, maintenance of sewage mains, water and heat supply systems and elevators.

The first step should be to decide what part of the housing stock should be in private hands vs. run by municipalities. The private sector should include privatized housing, as well as real estate and land owned by companies. Municipalities should manage public housing and other buildings, including land occupied by these buildings.

The second step is to transform the HMEs and similar organizations into public/joint-stock companies. The companies should lease and buy out all municipal property that they need for managing and maintaining housing in the long run. They should become owners of municipal housing units to be rented to tenants.

The third stage consists in transforming utility companies into joint-stock companies.

Tenants and companies should contract services, rates and payment terms with HMEs. The HMEs should contract utility companies and services providers.

Tenants, condominiums and companies should have an opportunity to select HMEs or, alternatively, contract providers directly.

HMEs should provide local authorities with information on the cost of maintenance services and utilities, so that the latter may decide whether tenants in a certain area need some sort of assistance. The authorities may decide to pay a portion of the bill, especially at the early stage of the reform, or offer assistance to certain categories of residents in the form of coupons used to pay housing and utility bills only.

Local authorities should also fix all housing and utility rates, including occupancy rent. For that purpose, regional executive authorities should establish special economic boards to fix local rates as a function of the national average cost of electricity, gas, heat and water, and the average profit margin prevalent in the country's economy. Such pilot economic boards are already operating within regional authorities and have some experience.

The principle of social justice calls for phasing out all public transport subsidies as transport services are not used by all to the same degree. Additional expenses for public transportation may be offset for certain groups of people via higher pensions and benefits, so that consumers will have a choice of taking a public bus, or simply walking.

In short term, local authorities should sell off public transport operators, with the exception of the rail operator whose privatization needs parliamentary approval. The authorities should take a cautious and well-considered approach to privatization of the Belarusian Railroads due to the size of assets and its role in the nation's economy.

The government should encourage competition among transport companies so that they provide better and cheaper services.

It should be noted that Belarus' housing management infrastructure and public transportation services are ready for market-oriented reforms. Many enterprises have already been transformed into joint-stock companies, however still controlled by the State. The main goal is to increase cost recovery from tenants and make housing management enterprises profitable.

Reforms in the social services sector, especially in the healthcare system, by means of privatization will certainly be controversial for the larger part of the general public and some politicians. Therefore, efforts should be taken to communicate reform goals and objectives clearly via the mass media, with support from positive experience gained in pilot projects.

The current government may take steps to reform selected segments of the social services sector, and a future democratic government would have to adjust its program to the resulting circumstances. Deterioration of the economic environment may trigger off more problems for the reformist government.

KAMUNIKATI