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PUPROSE AND PROCESS OF PENSION REFORM

Case study Macedonia

Marija Risteska PhD

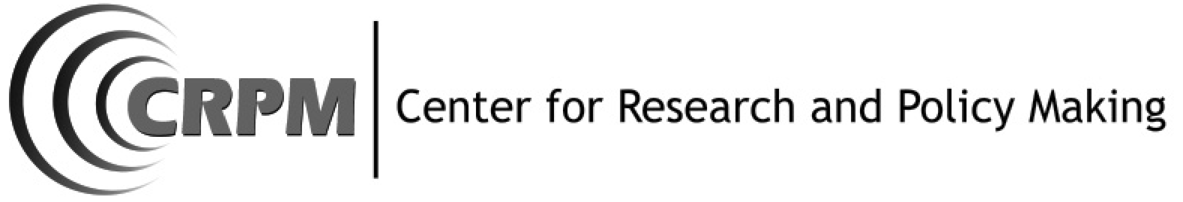

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Table of contents:

Acronyms and Abbreviations **4**

Glossary **5**

1. Introduction **8**

1.1. Challenges of pension schemes across Central and South Eastern Europe **9**

1.2. Solutions for troubled pension schemes in transitional democracies **11**

2. Policy transfer- theoretical framework for explaining the policymaking **14**

2.1. Models of pension schemes promoted by international organizations **15**

2.2. The role of the World Bank in pension reform in transition democracies **17**

3. The purpose and process of pension reform in the Republic of Macedonia **19**

3.1. The purpose of the pension reform **19**

3.2. The process of the pension reform- the impact of the World Bank **22**

3.3. What is being transferred- three pillar pension system **27**

4.Conclusions **31**

5. Bibliography **34**

Acronyms and abbreviations

CEE Central and Eastern Europe

CEFTA Central European Free Trade Agreement
(Czech Republic, Hungary, Poland, Slovakia, Slovenia and Romania)

EU European Union

IGO International Governmental Organization

ILO International Labor Office

IMF International Monetary Fund

ISSA International Social security Association

OECD Organization for Economic Cooperation and development
(Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxemburg, the Netherlands, new Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United kingdom and the United States)

PDF Pension and Disability Fund

PAYG Pay-as-you-go, a method of financing whereby current outlays on pension benefits are paid out of current revenues from a tax, usually a payroll tax

SEE South Eastern Europe

Glossary

Actuarial fairness:
a method of setting insurance premiums according to the true risks involved

Benefit rate:
the ratio of the average pension to the average economy-wide wage of covered wage

Defined benefit:
a guarantee by the insurer or pension agency that a benefit based on a prescribed

Defined contribution:
a pension plan in which the periodic contribution is prescribed and the benefit depends on the contribution plus the investment return

Full funding:
the accumulation of pension reserves that total 100 percent of the present value of all pension liabilities owed to current members

Pay-as-you-go:
a method of financing whereby current outlays on pension benefits are paid out of current revenues from a tax

PUPROSE AND PROCESS OF PENSION REFORM

Case study Macedonia

Policy transfers from international organizations

1. INTRODUCTION

Ageing populations are a global phenomenon. Ageing and its inevitable effect on the future liabilities of the State are the same in every country. The level of pension development, however, differs significantly from country to country. As might be expected, the transformation of Central and Eastern European Countries (CEE) and South Eastern European Countries (SEE) from command market economies to open market economies has placed pension reform at the top of their agendas. Public pensions have also attracted much attention in Western Europe, mainly due to ageing and to stagnating productivity. Though, all countries follow one general pattern of reform, many universal, as well as local factors influence the developing reforms. They include: "changes in the age structure of the population; fundamental structural changes of the employment situation linked to globalization processes; integration of the former socialist countries into the world distribution of labor; and rapid changes of the financial markets" [1].

The considerable differences in the economic conditions and political development of Eastern and Western European states suggest that comparisons of policy reform are nonsensical. In line with the working assumption of policy analyses that different conditions lead to different solutions, we would expect that policy alternatives in Western and Eastern European countries would diverge in important ways. And yet, a comparison of recent pension policy reform proposals demonstrates the range of solutions to current problems facing aging populations and social security programs that no longer are affordable, in both Eastern and Western Europe, to be curiously similar. What is more, the designs of pension systems adopted in almost all Central and Eastern European countries resemble markedly. How can we account for this convergence? The central thesis of this paper is that in the process of modernizing pension schemes, the theory of policy transfer can be used as a theoretical framework that could explain the global diffusion of fully funded pension systems.

This provides further evidence of Blyth's (2001) argument about the primacy of ideas in shifting policy systems. International institutions (OECD, World Bank, and IMF) have reinforced this primacy of economics over politics, providing models and advice that governments may have greater or lesser freedom to follow, as argued by Jacoby (2001). The combination of these two perspectives provides important insights into the dynamics of pension policy reform in both Eastern and Western Europe.

Since the involvement of the international organizations in the field of pension policy is crucial for the pension reform, especially in the transition democracies, this paper presents the developments in pension reform in Central and Eastern Europe with particular stress on purpose and process of pension reform in the Republic of Macedonia. The paper does not aim to evaluate specific reforms but to illustrate the role and influence of the World Bank in the process of policy-making in the pension area. Thus the Macedonian case of pension reform has been chosen to be studied here. The analysis has three parts. Part one describes the pension schemes which were inherited by CEE governments from the socialist period, the impact and challenges of transition on pension's financing and the role of changing demographics on scheme costs in the decades ahead. Also, this part of the paper sketches the reforms undertaken across the region during the 1990's. Part two focuses on the theory of policy transfer and the models of pension schemes that the International Organizations (World Bank, EU, COE, OECD and ILO) promote to the national Governments in CEE. Especially the role of the World Bank in enforcing its pension policy scheme across transitional democracies is being analyzed here, since the WB is the only international organization really present and strongly influential in the region. The third part gives insight of the purpose and process of the pension reform in the Republic of Macedonia, being a

1 W. Schmahl, "Fundamental decisions for the reform of pension systems", International Social Security Review, Vol.52.3/99

mixture of voluntary actions undertaken by the Macedonian Government and coercive pressures from the World

Bank. The Macedonian case of pension reform is a case of policy transfer, therefore the nature of the transfer, the actors involved in the process, the mechanisms they use and the degree of the transfer are analyzed in this part of the paper.

1.1. Challenges of pension schemes across Central and South Eastern Europe

As we grow old we work, produce and earn less and therefore need a secure source of income to see us through life. Societies and governments have developed mechanisms to provide income security for their older citizens as part of the social safety net for reducing poverty. Those arrangements are formal and are created to provide sustainable income in old age. However since pension schemes are dependent on socio-economic developments, increasing life expectancy, and changes in the working pattern, regular modifications are needed. In recent years, the theme reform of public pension schemes was implying to the fundamental structural changes to statutory systems of public pensions, rather than modifications to the existing schemes. The challenge of the reform is to devise a new system and transition path that is acceptable for the old, who have been led to expect more, while also being sustainable and growth enhancing for the young.

Pension schemes have three main functions: saving, redistribution, and insurance. In practice, the newly designed pension systems address the above-mentioned functions through three different financing and managerial arrangements:

1. Public pay-as-you-go plans: *the government has the responsibility to finance, manage and insure public pensions. It offers defined benefits that are not actuary tied to contributions and usually finances them from payroll tax.*
2. Occupational plans: *privately managed pensions offered by employers to attract and retain workers. They are facilitated by tax concessions and regulated by the government.*
3. Personal saving and annuity plans: *are fully funded defined contribution plans. Workers save when they are young to support themselves when they are old. Since benefits are not defined workers bear the investment risk on their savings.*

The trajectory of the reform, as discussed by Pollitt and Bouckaert (2000), leads from a starting point **α** (alpha) to a future state of affairs **Ω** (omega). Every reform is projected in a scenario of the reform, which consists of initial state, the trajectory and the future state. In the area of public management reform the scenario is usually not fully worked out. However, the importance of the pension system implies every state to have a fully worked out scenario of reform compels.

The initial state (α) of the pension reform in Central and Eastern Europe were the traditional pay-as-you-go systems inherited from the socialistic period. In the countries members of OECD, pay-as-you-go scheme is dominant in securing pensions. The basic characteristic of the pre-transition pension schemes in CEE and in SEE was the state's large role in providing retirement benefits: "pensions were the major responsibility of the government, which mandated, financed, managed and insured public pensions"[2] . Pensions were financed on a pay-as-you-go basis through transfers of funds from state-owned companies to a social-security budget within the state budget, as opposed to the OECD member states where the pension systems were financed through contributions assessed on professional in-

2 World Bank, "Averting the old age crisis", Policy research report, Oxford University Press, 1994

come and salaries. The second characteristic was the retirement age, which in the CEE countries was lower than those in OECD member states: male workers retired at age 60 with 25 years of service, while women retired at 55. The third characteristic was the calculation of benefits, which commonly were calculated at a fixed percentage of a worker's reference income for a minimum number of years, often with a flat rate component and/or a benefit maximum. This was also used as a technique in Denmark, Finland and the Netherlands, whereas pensions in Belgium, Norway, Sweden, Germany and Italy are earnings-related (Palme, Swensson1997, and Schmäl 1999). This scheme was created to redistribute real income, both across and within generations.

In the beginning of the 1990's the CEE and SEE countries started the transition, which brought many extremely unfavorable developments on the labor market: sharp increase of open and hidden unemployment, decreasing labor force participation and increasing poverty. "In 1995, the average unemployment rate was 12.5 per cent in CEFTA[3] and Southeast Europe. In CEFTA countries, the percentage decline in employment was greater than that in output (with the exception of the Czech Republic), while in other countries the drop in unemployment was less, reflecting hidden unemployment in the form of shorter working hours or unpaid leave. While many transition countries have now had two to six years of output recovery, employment has continued to shrink or stagnate."[4] As reported by International Labor Organization (ILO), in four countries – the Czech Republic, Hungary, Poland, and the Slovak Republic – five million jobs have been lost since 1989.

Table 1. Employment in selected countries as a percentage of 1989 levels (1989=100)

	1991	1993	1995	1997	1998
Albania	97.5	72.7	79.0	76.9	76.6
Bosnia and Herzegovina	58.1	9.9	10.1	34.4	36.4
Bulgaria	81.6	73.8	75.2	72.3	71.2
Croatia	88.5	76.5	73.9	73.4	..
Czech Republic	93.6	89.7	92.8	92.4	90.2
Hungary	86.8	72.1	69.3	69.1	70.3
Poland	90.1	84.3	86.7	82.4	..
Romania	98.5	91.9	86.7	82.4	..
Slovakia	85.9	80.4	80.7	81.5	81.2
Slovenia	88.7	81.3	79.1	78.6	78.7
FYR Macedonia	95.6	86.2	73.9	66.8	65.0
Estonia	96.4	84.5	78.3	77.4	..
Latvia	99.3	85.6	74.3	73.7	74.1
Lithuania	99.7	93.4	86.4	87.7	87.0
Moldova	99.0	80.7	80.0	78.7	77.7
Ukraine	98.3	94.1	93.3	88.8	87.7

Source: Economic Commission for Europe and United Nations, Economic Survey of Europe (1999, No. 3), Appendix Table B.5.

These developments had negative impact on pension schemes: the number of contributors fell and benefit payments increased, creating a widening financial gap. The number of scheme contributors declined by 30 per cent in Bulgaria, 45 per cent in Latvia, and over 60 per cent in Albania, while less severe losses occurred in the Czech Repub-

3 Central European Free Trade Agreement, members of the agreement are Czech Republic, Hungary, Poland, Slovakia, Slovenia and Romania

4 M. Augusztinovics, "Pension Systems and reforms in the transition countries", Economic Survey of Europe (Economic Commission for Europe and UN), 1999. Vol.3, p.91

lic, seven to eight per cent, and the Slovak Republic, five per cent[5]. These differences reflect numerous factors affecting the respective economies, including differences in the past economic capacities and structures as well as economic policies. "Among the factors that played a role were the degree to which the various economies opened themselves to trade with world markets and the degree to which local economic structures were linked and interdependent with those of the Soviet Union."[6]

As could be noticed from the above mentioned, the inefficiency of the pension schemes in CEE and SEE countries is a result of the changes in the labor market and not of the changes of birth and death rates, even though pay-as-you-go pension schemes are often described to be vulnerable to demographic shifts. However, the ageing population is a far more serious problem in Western Europe where the birth rate is dropping, and mortality age is increasing dramatically. In Central and South Eastern Europe there are many projections, which show that the proportion of the elderly will increase by a third in many currently demographically "young" countries, while the young population will contract significantly. How these projected rates will impact on pension schemes depends heavily on economic and labor market factors, such as employment opportunities, conditions of work, policy decisions for pension benefits etc. However, the demographic changes should not be ignored as a factor, which in great extent, influence pension reform both in Western and Eastern Europe by the decline of contributors to the pension systems.

Social protection systems of the CEE and SEE countries, although in some cases with delays in the payment of pensions, until the mid 1990s continued to deliver benefits despite their incredible economic, social and political environments. However, as it is reported by the International Labor Organization in 1997, "some existing programs of social protection no longer appear affordable, at least in their present form."[7] Thus in almost all of these countries significant changes have already been introduced and further, more fundamental reforms are currently being undertaken.

1.2. Solutions for troubled pension schemes in transitional democracies

In the mid and late 1990s, most CEE countries undertook major pension reforms; but the pace of decision-making and implementation has differed markedly from country to country. In some countries, legislation has been approved and is now being implemented (e.g., Hungary, Poland, and Latvia), while in others debate is still underway (e.g., Slovakia, Slovenia). [8]

There are two approaches in the process of reforming pension systems in CEE countries. The first approach includes different measures and mechanisms for making the pay-as-you-go pension systems sustainable. Some of those measures include: separation of pension funds from the state budget; introduction of indexation mechanisms; uniformisation of public pension schemes through abolishment of privileges based on occupation; increases in the retirement age; tightening of the generous eligibility conditions for disability pensions; and introduction of regulations for voluntary supplementary pension provisions. In almost all countries a separate pension budget, account or fund, which is distinct from the state budget has been introduced. The remaining measures aim at the restructuring of existing pension schemes through an increase in the retirement age and revision of benefit formulas. "Some CEE countries

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5 R.Palacious, M.Rutkowski and X.Yu, "Pension reform in transition economies", World Bank, Washington D.C., June 1999

6 Michael Cichon, Krzysztof Hagemejer and Markus Ruck, International Labor Office, Central and Eastern European Team, "Social protection and pension systems in central and eastern Europe", Working paper No.21, December 1997

7 International Labor Office, Central and Eastern European Team, "Social protection and pension systems in central and eastern Europe", Working paper No.21, December 1997

8 The progress of pension reform in 25 transition democracies is presented in Table 2, page 10

are also seeking to improve collection of contributions through so-called unified collection systems conducted by a single enforcement agency which collects contributions to fund social security schemes. These systems are being developed in Latvia, Lithuania and Poland and proposals are under consideration in Slovakia and the Ukraine."[9]

Although, actuarial projections show that if all the above mentioned changes are implemented, the present pay-as-you-go schemes (PAYG) could be sustainable in the future, many countries nevertheless started pursuing the second approach in pension reform, i.e. the establishment of new private arrangements. Unlike the fully funded pension systems introduced in Latin America in Central and South Eastern Europe the objective is to structure mixed pension systems under which the future retirees will receive benefits both from the public scheme and from the second mandatory pillar consisting of commercially-managed individual saving accounts. The publicly managed pension plan is designed to meet the basic needs whereas the privately managed personal accounts are designed to satisfy the high demand of middle and upper income groups. This mixed system is created to provide the three basic functions of the pension scheme: redistribution, saving and insurance. The redistribution is obtained through the publicly managed pension plan, funded on the pay-as-you-go basis. The saving is enabled through the personal saving accounts, privately managed and fully funded. And both pillars jointly provide the insurance, thus they are mandatory by law or based on collective agreements, so private pensions are closely integrated into the overall pension system. As opposed to the CEE and SEE countries, in OECD countries with a dominant earnings-related public pension scheme, such as Belgium, Germany and Italy, membership in a private pension scheme is voluntary. Additionally to the public and private pension schemes, some countries from the region introduced a third voluntary pillar that enhances the insurance function of the pension system. This third pillar consists of personal saving plans managed by private company and fully funded by the ones that will decide to contribute to this financial arrangement. So, this system separates the redistribution from the saving function as opposed to the pre-transitional pay-as-you-go system that provided all three functions through one pillar. Nevertheless the privatization process of the pension scheme is noticeable, though it is also recognized that public management and financing are clearly needed to address the redistributive side of the old age security programs.

9 E. Fultz and M.Ruck, "Pension reform in CEE: An update on the restructuring of national pension schemes in selected countries", ILO, 2000

Table 2: Progress of Pension Reform in 25 Transition Economies

Country	Fundamental Reform Program			Second Pillar Introduction			Major First Pillar Reform			Major Third Pillar Introduction		
	In preparation	Approved	Legislated	In preparation	Approved	Legislated	In preparation	Approved	Legislated	In preparation	Approved	Legislated
Hungary			•			•			•			•
Latvia		•			•				•		•	
Kazakhstan			•			•			•			
Poland			•			•		•				•
Croatia			•			•		•			•	
Romania	•			•			•			•		
Macedonia			•			•			•	•		
Russia	•			•			•				•	
Slovenia	•			•				•		•		
Bulgaria			•			•			•		•	
Czech Rep.	•								•			•
Slovak Rep.								•				•
Ukraine			•	•			•				•	
Armenia			•						•	•		
Georgia	•								•		•	
Lithuania			•						•		•	
Estonia									•			•
Albania									•			•
Kyrgyz Rep.	•								•	•		
Uzbekistan	•						•			•		
Azerbaijan	•						•			•		
Moldova	•						•				•	
Belarus							•					
Bosnia & Herc							•			•		
Tajikistan							•					

Source: Michal Rutkowski "A new generation of pension reforms conquers the East"

2. POLICY TRANSFER - A THEORETICAL FRAMEWORK FOR EXPLAINING THE POLICY-MAKING

In recent years there has been a growing interest in the study of policy convergence (Coleman 1994), policy diffusion (Majone 1991), policy learning (P. Haas (ed.) 1992) and lesson drawing (see Rose 1991). All refer to different forms of policy transfer- "a process in which knowledge about policies, administrative arrangements, institutions etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place"[10]. Dolowitz and Marsh are the authors who led the efforts to develop a model of policy transfer. They have drawn together a general framework of heterogeneous concepts including policy diffusion, policy convergence, policy learning and lesson drawing under the umbrella heading of policy transfer, which mainly draws on the work of Rose (1991, 1993), Bennett (1991a,b), Robertson (1991) and Wolman (1992)[11]. Policy transfer is thus used as a generic concept, which encompasses quite different understandings of the nature of policy development.

Dolowitz and Marsh have provided an extremely useful framework- a map of the process of policy transfer. That framework is designed to incorporate every form in which policy transfer occurs, thus the following classification is made: 'voluntary', 'perceptual', and 'direct' or 'indirect' coercive policy transfer. These classifications were made in order to explain why country a would want to transfer policy b. According to Dolowitz and Marsh (1997), 'voluntary transfer' implies that rational, calculating actors desire a change and actively seek policies to satisfy their needs. Coercive transfer, on the other hand, occurs when policy makers are forced by the actions of outsiders to engage in transfer"[12]. Dolowitz also differentiates 'perceptual transfer' based on 'feelings of being left behind' when policy makers perceive themselves as having fallen behind the international community. Yet when involved in policy transfer actors have different options to choose. As Rose identifies, there are different degrees in policy transfer: copying, emulation, hybridization, and synthesis. Countries could incorporate policies or programs by copying without any changes; but countries could reject copying in every detail and accept that the particular program elsewhere provides the best standard for designing legislation at home. Hybridization and synthesis involve combining elements of programs found in two or more countries to develop a policy best suited to the emulator.[13]

Table 3: A model of Policy transfer (adapted from Dolowitz and Marsh)

Why transfer?	Who transfers?	What is transferred?	Where from?	Degree of transfer?
Voluntary Coercive Perceptual	Bureaucrats Elected officials Consultants	Three-pillar pension scheme	Other countries International organizations	Copying Emulation Inspiration Mixtures

Source: Richard Common, Public management and policy transfer in Southeast Asia, 2001 " Is policy transfer analysis a useful mode of enquiry in political science? p. 30

10 Dolowitz and Marsh, "Who learns what from whom: a review of the policy transfer literature, Political studies 1996, p.344
11 Mark Evans and Jonathan Davies, "Understanding policy transfer", Public Administration Vol.77, No2, 1999, p.363
12 David P. Dolowitz and David Marsh, "Learning from abroad: the role of policy transfer in contemporary policy-making", Governance: An international journal of policy and administration, Vol. 13, January 2000
13 R. Rose, "What is lessons-drawing?" 1993, p.21

Globalization strongly affects the ability of individual states to make policies that are appropriate to their particular political, economic and social contexts. Governments struggle with their new environments and face problems that are linked to every other problem, which makes the policy transfer even more appealing because it offers a 'short cut' or a 'quick fix' to those problems. International Governmental Organizations (IGO's), such as the OECD, EU, IMF, World Bank, UN and its various agencies, are increasingly playing a role in the spread of ideas, programs and institutions around the globe. These organizations influence national policy-makers directly, through their policies and loan conditions, and indirectly, though the information and policies spread at their conferences and reports. That makes the IGO's agents of coercive policy transfer. Yet in the countries where they face a strong and organized opposition to their influence or the implementation of their programs is not ensured by the loan conditions, the IGO's play a role of servers of ideas.

Even though the main objective of the International Governmental Organizations is policy diffusion among the member states, in the case of modernizing pension systems, one can argue that about both policy diffusion and policy transfer occurs. Policy transfer is the conscious adoption of a public policy from another state, organization, or agency. Ideas and policies may be diffused, but for the transfer to occur they must be adopted and implemented.

The central thesis in of this paper is that in the process of modernizing pension schemes the theory of policy transfer can be used as a theoretical framework for explaining the global diffusion of fully funded pension systems. Thus the policy transfer is used as an independent variable to explain the policy making in the process of reforming the pension system in Macedonia. The World Bank is regarded to be agent of both the voluntary and the coercive policy transfer that emerged in all CEE countries including Macedonia. Thus, the objective of this paper is to see why modernization of the pension scheme in Macedonia is needed, what factors are currently challenging the pension system, who participates in the process of reform, what is the role of international organizations, think-thanks and consulting firms, what is the degree of policy transfer, what is being transferred and finally how the process of pension reform is conducted. Therefore, in line with this objective, the main questions in this study will be: does the policy making in the process of reforming the pension system in Macedonia basically involve policy transfer from the World Bank; and does such a policy transfer impose shifts from the public funded pension system to combination of public and fully funded (private) pensions?

2.1. Models of pension schemes promoted by international organizations

Analysis of pension schemes and recommendations for their reform have been on the top of the agenda of international organizations in recent years. Although pension policy is an integral part of the social policy mandate of the International Labor Office (ILO), and the International Social Security Association (ISSA), one can notice the recent involvement of the World Bank and International Monetary Fund (IMF). The Organization for Economic Cooperation and Development (OECD) traditionally is concerned about the social policy in its member states, but comprehensive and fundamental statements on pension reform are new department. The European Union on the other hand leaves the social policy in the competence of its member states.

Whereas the OECD encourages exchange of ideas and programs among the member states, the World Bank focuses on programs of concern to developing countries. The World Bank report "Averting the old age crises: Policies to protect the old and promote growth", presented at the annual World Bank meeting in Madrid 1994, made the organization's worldwide involvement in the issue of old-age provision into a much-discussed and sometimes contro-

versial subject.[14] The report favors a three-pillar model of old-age provision. According to this model, the functions of income protection and income redistribution should be separated in both administration and financing. Income distribution should be taken over by the public system financed taxes or contributions, while old age saving should be done under the second pillar, which should be fully funded and privately managed. The third pillar should allow anyone who wants further protection to accumulate capital privately to provide for their old age.

The OECD approach is different from other international organizations since it is a research body which analyses economic issues and formulates policy recommendations, but does not give credits or finance projects, as the World Bank does. The OECD does not have to specify all the details of a reform project and negotiate them with the borrower because "it does not enter into any financial risk,"[15]. In early 1998, the OECD published its study "Maintaining prosperity in an ageing society" in which the organization stresses the need to contain the expenditure of statutory social security systems. According to OECD's calculations, the balance of financing statutory pensions in most member states will go into a sustained deficit in about ten years' time. Thus, a legal framework within which alternative provision options can operate must be established. Here OECD's recommendations coincide with those of the World Bank, advocating a second pillar of fully funded old age savings.

The vision of the European Commission on social matters is not clear cut. The European Union so far has focused only on building the European common market leaving the social dimension out of its competence. However, EU has given strong financial support to the pension reform in many CEE, SEE and "wider Europe" countries through programs like PHARE or TACIS. The Union also remained to be the only international actor that did not back up any concrete model of pension scheme but continued practicing the "open model of coordination"[16] in social policy. This led to conflicting interests and persuasions which prevented the European Union to bring strong presence into the CEE and SEE countries leaving the ground free for other influences, mainly those coming from the World Bank and IMF.

The Council of Europe has always been a supporter of human and social rights as well as social integration. The efforts put in the adoption of the Social Charter did not have a strong impact on the member states but merely had a symbolic importance for the development of social policy in Europe. It is interesting to see that the Council of Europe also plays a significant role in diffusing the values and proposals shared by the International Labor Organization in those countries where the ILO does not have permanent representation.

The International Labor Organization has been rather skeptical about the proposals coming from the World Bank and OECD. The World Bank and the OECD are interested in supporting the reforms of pension systems, because pension funds are the only domestic sources of capital available for long- term investment, whereas ILO is opposed to this use of social security systems as a tool of capital market development. Also ILO is strongly involved in the taxation as one of the social policy aspects through which benefits are financed. They object to direct and indirect taxation imposed upon the poor who cannot access to the benefits later. International Labor Organization (ILO) and International Social Security Association (ISSA) in the past have set their sights on considerable higher provisions than the World Bank.

General observation in all analyses of the pension reforms undertaken in Central and South Eastern European countries is that the World Bank and its model of three pillar pension system has been embraced in almost all countries in the region with exception of Slovenia, Romania and the Czech Republic.[17] Analysts argue that this development

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14 World Bank, "Averting the old age crisis", Policy research report, 1994

15 Monika Queisser, "Pension reform and international organizations: from conflict to convergence", International Social Security Review, Vol.53 2/2000, p.41

16 Member countries prepare and share with one another material on status, reform concept, and progress in selected policy areas, including pensions and exporting best practices to accession countries

17 Slovenia and the Czech Republic did not have big public debt and didn't need foreign financial assistance to balance

is a result of the comprehensive approach of the Bank, promoting a concrete pension model, supported by favorable loans, which can decrease the public depth of the countries-clients of the Bank.

2.2. The role of the World Bank in pension reform in transition democracies

If we accept marketization and privatization as the central objectives of the international institutions, the reform measures in the area of pension policy, promoted by the World Bank in the beginning of the 90's, appeared to mirror the effects and the efforts of the conservative governments of the West. The headquarters of many international institutions, based in the USA, were unlikely to remain immune from the local political climate. We can only speculate that a broad epistemic community may have been at work in Washington DC that encompassed the international financial institutions, think-tanks and the US Government. Biersteker (1995:186, quoted in Richard Common's "Public management and policy transfer in Southeast Asia", 2001) remarked that 'there was a pronounced interest in the willingness, especially on the part of the US Government to use the Fund and the Bank to force changes in developing country's economic policy.' As Held and McGrew (1993:272) argue 'these organizations are at the centre of a continual conflict over the control and direction of global policy' and have acquired 'entrenched authority' over the years. In particular, World Bank loan conditions, which involve changing the pension policies and have further impacts on the developing country's economy are 'designed to ensure execution of a contract' and are reminiscent of public choice theory (Mosley 1991:65). The top direction of the Bank is explicitly committed in the "Washington consensus":

> *The 'Washington Consensus' on economic policy was founded in 1980s by US economic officials, the IMF, and the World Bank. It emphasized liberalized trade, macroeconomic stability and getting prices right. Once the government got out of the way, private markets would produce growth….(Stiglitz 1997/1998)*

Furthermore, the international organizations are not consistent in their approach to reform the pension system. For instance, Friedman (1995:80) argues that "the World Bank shifts from all-out privatization promoted and pushed in Latin America, to a serious support for both public and fully funded pillars of the pension system for the transition democracies in Central and South Eastern Europe". Haas attempts to explain these shifts in the basic philosophy of the World Bank by changes in consensual knowledge, common interests and the existence of 'stable coalitions' of power in the donor countries in the CEE and SEE. But the new vice president of the bank, Professor Stiglitz, has defined this shift as the replacement of the 'Washington consensus' by the 'post-Washington consensus':

> *The post- Washington consensus ……must be owned by the developing countries…it can not be based in Washington…. [The new consensus means that] we also have broader goals: ensuring that development is environmentally sustainable, equitable, and democratic…(also Stiglitz 1997). In the 'post Washington consensus' many salutary elements may be identified as, for instance, an increased openness to more perspective policy –making; the will to bring the state closer to the people, to strengthen the voice function of the NGO sector; more emphasis on environmentally- friendly growth; more emphasis on the state's role in investing in the future via education, technological innovation and heightened awareness about poverty relief. These efforts of the Bank are certainly welcomed.*

In regard to pension policy, the post-Washington consensus did not change the former convictions of the Bank. The underlying philosophy of marketization and privatization has remained the same. The role of the World

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their public expenditures. Additionally, in these countries the announcement of the reforms in the pension system that will introduce the private pension scheme received great opposition from the trade unions. All these pulled back the reforms of the pension system. However, nowadays Slovenia and the Czech Republic are considering the adoption of the notional defined pension scheme that recently has been implemented in Sweden and is promoted as a 'best practice' model by OECD.

Bank in the process of pension reform in the transition democracies in Central and South Eastern Europe is that of an agent who diffuses policy ideas. The policy idea being the three pillar pension system, designed for the pension reform in Latin America in the 80's, is used by the Bank to serve the above mentioned philosophy of marketization and privatization in CEE and SEE countries. Through its involvement in this policy area, the World Bank is ensuring that the funds from the individual accounts of the contributors can be invested and thus the capital market will be strengthened in the countries that are clients of the Bank.

In the course of the pension reform the World Bank is using its own funds in the form of loans and credits given to the clients, but it is also managing foreign assistance to the pension reform in these countries. Trust funds coming from the European Union and individual governments are usually administered by the World Bank due to the comprehensive approach which the Bank has in the process of reforming pension systems by promoting a concrete model (the three pillar pension scheme) supported with the needed financial assistance for designing, introducing and implementing the model. In accordance with the 'Washington consensus', the US agency for investment and development (USAID) in coordination with other implementing partners is also involved in the process of reforming pension systems. The role of USAID is to keep pension reform experts and staff constantly deployed in the countries where the Bank is assisting the reform process, giving technical assistance to the Governments to implement the three pillar pension system. [18] USAID supplies the Bank's mission teams (pre-assessment, assessment, evaluation missions) with requested data and sets up projects for developing the capital markets of the aid receiving countries through the process of pension reform. Thus if the Council of Europe has a role in diffusing the values and proposals shared by the International Labor Office, than USAID has a role in diffusing the three pillar pension system promoted by the World Bank in the countries of Central and South Eastern Europe.

18 Interview with Mitchell Wiener, Macedonia financial sector strengthening project, USAID office in Skopje

3. PURPOSE AND PROCESS OF PENSION REFORM IN R. MACEDONIA

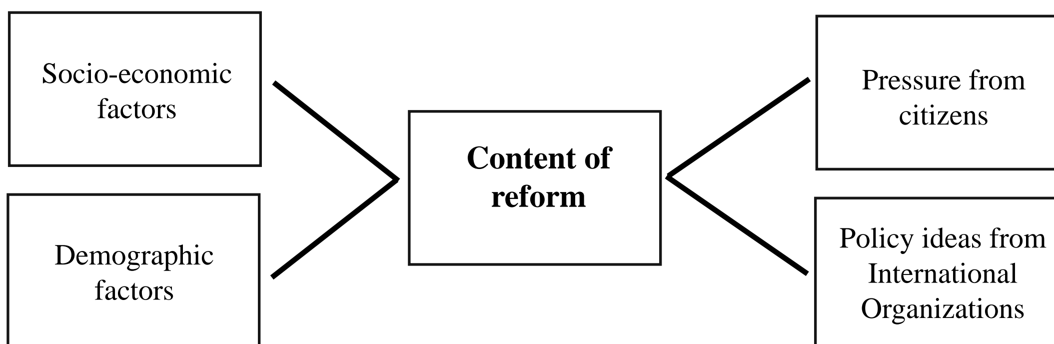
The Macedonian pension system exists for 50 years. The system was created at earlier stage when the population was younger and was developed to redistribute the income among generations of employed citizens by providing mandatory pension and disability insurance for all of them. For 40 years the pension system, financed on pay-as-you-go basis[19] , has been successful. Just when the Macedonia's pension system has begun to mature, the [20]conditions conducive to a successful pay-as-you-go scheme, started to disappear. Population growth started to stagnate, fertility rates began to fall and life expectancy continued to increase. At the same time, due to the transition from command to market economy, the employment rate went down. As a result, today the country spends more on pensions and creates more public deficit then before. Consequently, the enormous public deficit and other global economic forces that affect the structure of the working pattern influenced the slow wage growth. Therefore the reform of the pension system is high on the political agenda of the last two Governments of Macedonia.

Purpose of pension reform in R. Macedonia

A larger part of old persons in the total population means an increased number of retirees, while an increased life time expectancy causes longer use of pension. On the other hand, the unfavorable economic conditions: the high unemployment accompanied by the decrease of the fertility rate, impact on the contributors number in a long term period. The ratio between the contributors and retirees is very important for a PAYG system, because the benefits for the current retirees are paid with the contributions from the current contributors. Contributor's decline and the raise of the number of pensioners strongly impacts on the sustainability of the traditional pay-as-you-go funded scheme and influence the debate about the urgent need of reform of the pension system. Thus in this chapter we focus on the reasons why the pre-transition Macedonian pension scheme had to be reformed, what were the challenges to the old system and how they influenced the design of the new pension system.

For more precise identification of the forces involved in the process of pension reform in this paper the framework-conceptual map of reform provided by Pollitt and Bouckaert is used. It can be noticed from the diagram that four factors strongly influence the content of pension reform in Macedonia. These are: socio-economic factors, demographic factors, pressure from citizens and policy ideas from International Organizations (World Bank).

Figure 1



Adapted from Pollitt and Bouckaert, "Public Management Reform", 2000, Oxford University Press

19 Pay-as-you-go (PAYG): in its strictest sense is a method of financing whereby current outlays on pension benefits are paid out of current revenues from a tax, in the Macedonian case, a payroll tax
20 The two crucial variables for pay-as-you-go pension systems are: population growth and real wage growth

The key factors that explain why Macedonia decided to reform its pension scheme is summarized in line with the previously mentioned division of forces that have a strong impact on the content of reform presented in Figure 1.

1. Socio-economic factors:

• **Loss-making companies, workforce redundancy and bankruptcy procedures**. *The transition from command to market economy led to an increasing number of enterprises that work with a loss, to workforce redundancy and to a growing number of bankruptcies. According to the official data, 43 public companies are making losses, thus 30 860 workers were made redundant and unpaid contributions to the pension fund amounted to EUR 77.115.604*[21] *. Furthermore, 339 companies declared bankruptcy, which also had an impact on the difficulties and the deficit in collection of contributions.*

• **Raising unemployment.** *In the same time the unemployment rate went higher. It went up for 30 % in 7 years. Compared with all the countries, analyzed in the Augusztinovics's economic survey of Europe, the Republic of Macedonia has the biggest employment drop throughout the period from 1991 to 1998. In 1998 almost 35 % of the population was unemployed.*

• **Raising number of pensioners.** *As a result of the aging of the population, rise in life expectancy and favorable retirement eligibility criteria, the number of pensioners went high. The data from the Pension and Disability Fund show that merely in ten years (1990-2000) the number of pensioners went up for 69%.* [22]

• **Decline in the number of contributors.** *The number of contributors fell and benefits payments increased, creating a widening financial gap. While the number of scheme contributors declined by 30 per cent in Bulgaria, 45 per cent in Latvia, and over 60 per cent in Albania*[23]*, in Macedonia the ratio between contributors and pensioners according to the official statistics was the following:*

Table 4. Ratio between contributors and pensioners in Republic of Macedonia

Year	Employed in public sector, private sector and farmers	Pensioners	Number of pensioners per 1000 contributors	Ratio contributors to pensioners
1990	571.419	166.224	291	3.4
1991	534.887	180.749	338	3.0
1992	531.083	193.294	364	2.7
1993	503.010	210.537	419	2.4
1994	468.632	216.834	463	2.2
1995	427.658	219.307	513	2.0
1996	403.820	222.726	552	1.8
1997	381.723	227.099	595	1.7
1998	370.869	232.216	626	1.6

21 Source: Pension and Disability Fund, Overview of the loss making and bankrupted companies, last updated 30.06.2003

22 Source: Pension and disability insurance fund of Republic of Macedonia, Presentation overview, Skopje 2001 / R.Palacious, M.Rutkowski and X.Yu, "Pension reform in transition economies", World Bank, Washington D.C., June 1999

23 R. Palacious, M. Ritkowski and X. Yu, "Pension reform in transition economies", World Bank, Washington DC, June 1999

1999	374.025	235.839	631	1.6
2000	366.906	240.221	657	1.5
2001	351.009	247.200	704	1,4
2002	332.728	249.421	750	1,3

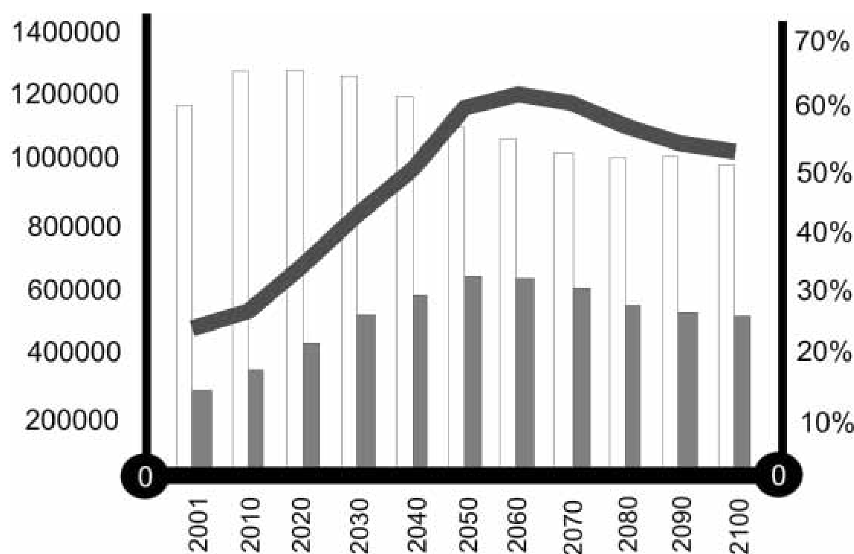
Source: Pension and disability insurance fund of Republic of Macedonia, Presentation overview, Skopje 2002

From the table above, one can notice that the ratio between contributors and pensioners has decreased from 3.4 to 1.5, which portrays a very serious situation where one and a half employed person from his/her salary is paying the pension of one pensioner. The international standard for sustainable pension scheme is to have at least three people that pay the pension of a pensioner, but every system strives for even bigger ratio, i.e. in Sweden the ratio between contributors and pensioners goes up to 7.

• **High pension expenditures.** *30% of the Government's expenditures in 1997 are used for pensions, which makes pension expenditures in Macedonia to be among the highest in the region, primarily due to the high replacement rate and generous eligibility and benefit structure.*

2. Demographic factors:

• **Demographic shifts.** *Macedonia is regarded to be a "young country" because 30% of the population is under 20, but estimations say that the elderly will increase over 70%, from roughly 13 to 23% of the population in just 20 years.*[24] *The ratio of the group of working age of population rises from current 24.6% to 59.6% in 2060 and than decreases to 51.8% in 2100.*



Source: Pension and disability insurance fund of Republic of Macedonia, Presentation overview, Skopje 2001

From the graph above, we can notice that the number of working age population increases in the first 20 years of projection, and than continuously decreases as a result of the low rate of fertility. On the other side, the old age population continuously increases during the 60 years and than slowly decreases. This is a result of the extension of the life time of people due to improved life conditions, the progress of the medicine, improved medical services, etc.

24 E. Fultz and M.Ruck, "Pension reform in CEE: An update on the restructuring of national pension schemes in selected countries", ILO, 2000

3. Pressure from citizens:

• **Sustainability.** *In 1993 there was the largest delay of pension payments of about two pensions, which made the public more aware of the need of a more sustainable pension system. Political forces that shaped the decision making process, put the focus on reform of the pension scheme due to the pressures from citizens because more than 40% of the voters are either pensioners or about to be pensioners.*

• **Fairness.** *Pension benefits for retirees often varied greatly. Because old-age benefits were based on a worker's 15 highest earning years, two Macedonians with equal lifetime incomes who had paid equal amounts of taxes could receive very different pension benefits. This formula discriminated in favor of higher paid white-collar workers with peak-earning years at the expense of blue-collar workers with relatively stable earnings.*

3.2. Process of pension reform- the impact of the World Bank

The serious financial situation in which the Pension Fund has found itself in 1993, and the constant decline in the ratio between contributors and pensioners in R.Macedonia has rushed the state officials to search for alternative solutions to these problems and eventually to start with a reform of the pension system. The financial institutions (World Bank, IMF etc.) were anxious to help Macedonia in the process of reforming the pension system, since it is closely linked to the overall balance of the state's financial expenditures. In terms of pension reform, the most obvious source of assistance was the World Bank, an institution that put strong and visible pressure on Macedonia as in the rest of the CEE and SEE countries. This fits into the model of division of forces that influence on the pension reform in R. Macedonia as a forth factor-policy ideas from international organizations- that was left out from the previous chapter.

At first the existing pension system was criticized by the World Bank as too broad, as giving too little to too many, as being not sustainable and as failing to conform to sound actuarial principles. The real propagandizing activity of the Bank started in 1993 when the Macedonian pension system was faced with the most serious crises caused by the delay in paying the pension benefits to pensioners for two months. That is when the IMF and the World Bank pressured the Government to make macro financial balance of the expenditures and start up the so called parametrical reforms of the pension scheme. The parametrical reforms were undertaken in order to accommodate the difficulties in sustaining the traditional PAYG system. In the period between 1993 and 1998 many typical solutions were enforced to respond to the increased fiscal pressure by stepping up the contribution rate and by increasing the retirement age. At the end of 1993 the contribution rate increased from 18% to 20%. With the Law for pension and disability insurance that entered into force on January 1 1994 several restrictive measures were undertaken regarding retirement eligibility criteria, the most significant of them being: increase of the retirement age, i.e. from 60 to 63 years of age for men and from 55 to 60 years of age for women; estimation of the pension base as an average during the whole career, instead of the 15 most favorable ones; lowering of the percentage for pension determination from 85% to 80% of this average; repeal of the possibility to "buy" years of contributions as an option for fulfilling the eligibility criteria for retirement, etc. Other restrictive changes were introduced in 1995 that continuing the decrease of social elements of the system.[25] All these have been in line with the monetarist approach that the World Bank and IMF have taken in most of the transi-

25 Changes included revoking: the right to a money allowance for care and support of others; right to using social standard funds by the beneficiaries and the right to the funds for improvement of the protection of the disabled; providing resources for cash benefits on the basis of remaining working capacity by the employer; adjustment of the pensions according to the increase of wages in non-economic sector in the country; transferring the expenses for payment of the pensions to be covered by the beneficiaries etc.

tion countries in Central and South Eastern Europe. Abandoning solidarity and privatizing pension schemes has been the heading under which the Bank's philosophy was enforced in the transition democracies, and the above mentioned measures were just a first phase of the comprehensive approach that the World Bank has in the process of pension reform in R. Macedonia.

According to many reports of the World Bank, unlike Latin American reforms, which are heavily focused on a funded pillar, transition economies are increasingly likely to end up with mixed systems that balance advantages of intergenerational solidarity with advantages of long-term individual mandatory savings. Thus the World Bank in R. Macedonia, as in the rest of the CEE and SEE countries pushed for a multi-pillared pension system that encompasses both the public and fully funded (privately) financed and managed pillars of a pension scheme, accompanied with additional insurance for those who require it. This model of mixed pension systems can be regarded as embedded policy strata of the Bank at the level of the region. In the context of an ageing population, in OECD countries the fully funded pension schemes also constitute a viable alternative to pay-as-you-go pension schemes.

Recognizing that the World Bank has a strong impact and a role of an important actor in this area, we must identify the key policy diffusion mechanisms that it is using in the Republic of Macedonia and in the region and determine the type of policy transfer that occurs in the process of pension scheme reform.

The World Bank and other supranational organizations that have an interest in this policy area are 'vulnerable to being portrayed as facilitators of a new colonialism based upon foreign capital' -as argued by Held (1992:69) - therefore they do not impose policy but influence and disseminate 'good practice'. This is achieved by informal networks reinforced by meetings and forums provided by the international organizations. The World Bank, being the agent of policy transfer in the Macedonian case of pension reform, generates a 'high quality information' flow about its three-pillar pension scheme to participants at seminars, conferences, study trips, held in the country and abroad, for the Steering Committee of the Macedonian Government empowered to manage the reform of the pension system. Joint seminars and study trips that the Bank organized for Government officials, representatives of the pension fund, financial experts and other stakeholders in the Macedonian pension reform, and other participants coming from every country in the region [26] were "designed specifically to promote homogenization of the participants at the forum around the policy discussed there, rather than discussing opportunities for policy exchange"[27] . However, the key assumption here is that policy learning by any state is voluntary, not enforced.

Another mechanism of policy transfer employed by the World Bank is the persuasive power of reform rhetoric. This fits into Dolowitz and Marsh's category of perceptual transfer. This is where policy learning is triggered by perceptions of 'falling behind' or failing to be part of an international consensus. These perceptions may be especially caused when participating in a forum with states where the reform is already ongoing, such as the seminars and conferences organized by the World Bank and mentioned above. Arguably, the most appropriate model for Macedonia came from countries with similar levels of economic and social development-the countries from CEE and SEE that transit to democracy and market economy and have already adopted the World Bank's model of pension scheme. Therefore, voluntary and coercive transfer cannot be neatly dichotomized when one examines the activities of the World Bank. There are instances where the Bank appears to be more coercive in its approach to disseminate ideas and practice. The Bank needs to be ensured that the 'best practice' will be implemented rather than merely encouraging the state for implementing the favored idea, model, or practice. Thus, the Bank provides substantial funds for the whole process of designing, enforcing and implementing the model promoted by the World Bank. The two financial arrangements that were most often given to transition countries, including R. Macedonia, in the process of reforming pension systems are the following:

26 like the seminars held in US(1998, 2002), Poland(1998), Latvia(2000), Croatia(2002), Bulgaria(2003)
27 as argued by Risse- Kappen 1995, p.31

- **Investment credits** = *given to the government if certain conditions are reached and the money can be used only for implementation of a detailed design of policy matrix; the money is transferred in two or more installments and for each of them 'no objection' approval must be received from the Bank*
- **Adjustment operations credits** = *given for direct support of the budget; income transfer program based on means-tested eligibility criteria; usually given in the form of technical assistance for capacity building of the institutions of the country-client of the Bank*

Both the IMF and the World Bank have given 'structural adjustment loans' to Macedonia, but much less is known by researchers about the conditions of the loans of the IMF, than those of the Bank since they are handled confidentially. As discussed above, these financial arrangements are 'designed to ensure execution of a contract' and in many respects are coercive in their nature. This fits with the Dolowitz and Marsh's category of conditionality. In the Macedonian case of pension reform we can say that a certain degree of conditionality occurs when particular steps in the reform process are incorporated in the loan conditions (see below). Still, the loan conditions do not determine which model of pension scheme the country should eventually adopt. This leaves the Government with a degree of freedom to choose voluntarily the version of pension policy best suited to the situation in Macedonia.

The problem for recipient countries is that the consequences of coercive policy transfer can be negative. By following the prescriptions of the international organizations, the result for transition countries may be an 'inappropriate pension scheme' based on an "expatriate model which has been developed in the context of big business, industrial society and metropolitan government…."(Smith 1992:17). Furthermore, Held (1992:72) acknowledges the perils of coercive transfer when he says that "it should be a question of learning rather than of direct transplanting: differences in political culture, levels of economic development, country size and bureaucratic capabilities will determine which reforms are feasible." Even the World Bank in this respect advocates certain adjustments in the model promoted by its officials. Retirement age, replacement and contribution rates are some of the characteristics under which the pension schemes differ in different countries in CEE and SEE. But the readiness of the economy to embrace and the stability of the market to sustain the newly designed pension schemes are still some of the issues that worry experts in the region. In Macedonia particularly, trust in the banking system is rather low and the new second pillar of the pension system envisages personal saving accounts in private pension funds. Furthermore, only banks and insurance companies are empowered by law to establish private pension funds. Therefore the success of the new pension system is seriously put into question. This fits in the category of inappropriate policy transfer as discussed by Dolowitz and Marsh. The possibility for uninformed transfer (another category of policy failure that fits in the Dolowitz and Marsh's model of policy transfer) to occur in the Macedonian case of pension reform is very small. The Steering committee of the Macedonian government, empowered to manage the reform, has looked into the cases of Latvia, Croatia, Bulgaria, Poland and Hungary, and "made thorough analysis of their new pension systems, which itself drew lessons not to adopt some of the drawbacks of their legislative framework." [28] And finally, knowing that the three-pillar pension system is fully worked out program it is hard to believe that some of the elements that made the new system successful elsewhere may not be transferred in Macedonia. "We have followed all the prescriptions of the World Bank in combination with the recommendations of our consultants and it cannot lead us to an incomplete transfer." [29]

But the source of coercion may not be the World Bank. As Onimode (1999:30, quoted in Richard Common's "Public management and policy transfer in Southeast Asia", 2001) points out that 'the Bank and the Fund claim that they do not impose anything- countries run to them and invite them to become involved in their economies', as is the case with the Macedonian pension system reform. The Macedonian government has requested assistance for the

28 Zorica Apostolska, Director of the Agency for supervision of the fully funded pension scheme, Interview taken in July 2003

29 Liljana Poposka, Financial Director of the Pension and Disability Fund, Interview taken in July 2003

reform of the social sector programs which has been included as an integral part of the World Bank's Country Assistance Strategy (CAS). The broad goals of the strategy are to stimulate economic activity through the consolidation of fiscal gains and the promotion of private sector development. In accordance with various documents of the Bank, a reform of the social sector programs, particularly pension reform, will improve long term viability of the pension fund and will move to a fully-funded (private) pension pillar, which is identified by the CAS as critical for achieving the above mentioned objectives. These goals are in compliance with both the 'Washington consensus' and the Bank's philosophy for marketization and privatization of the pension policy.

The technocratic elites within the countries- clients of the Bank- can also act as a source of pressure for policy reversal and thus are given 'crucial international backing from the IMF and the World Bank' as it is argued by Biersteker (1995:186, quoted in Richard Common's "Public management and policy transfer in Southeast Asia", 2001). "Domestic structures mediate, filter, and refract efforts by transnational actors and alliances to influence policies in various issue areas"[30]. Transnational actors need to gain access to the system and then contribute to winning policy coalitions in order to have policy transferred. The state still retains considerable power to decide whether or not transfer should occur, but this depends on the relative strength of the domestic state structure and the levels of influence that the technocratic elites have in the process of policy decision-making. But, as might be noticed, the World Bank and other transnational actors can primarily win or create, educate technocrats with a strong belief in their policy and then support them through the process of transferring and implementing the policy in question. In the Republic of Macedonia the World Bank has started its involvement in the pension reform through giving adjustment operation credit for building evaluation capacity within the Government and Pension and Disability Fund. This resulted in establishing the Actuarial Unit in 1995. The Unit, using an actuarial model makes short-term and long-term projections of revenues and expenditures of the Fund, under the projected demographics and economic development trends and their variations, within the different assumptions for the pension policy. These projections are used for the aims of the pension system reforms, which are undertaken by the Ministry of Labor and Social Policy and by the Pension and Disability Insurance Fund of Macedonia. The first projections of the Unit, portrayed crises in the long run and required immediate action. This crisis approach drew attention to problems with the existing scheme and created the will to address them. Thus, we can say that the projections, done by the Actuarial Unit of the Pension Fund, which has been trained by experts from the World Bank, had a great impact on the very decision for starting more fundamental structural reform of the public pension system. On the basis of the reports and the recommendations from both the Bank and the Actuarial Unit of the Pension Fund, 'even though all measures undertaken in a period 1993-1998 had positive effects'[31] in a direction of the financial consolidation of the Pension Fund, in 1997 the Government required and the World Bank gave a new adjustment credit (Social Sector Adjustment Credit) for designing a pension reform program, including the actuarial forecasting and economic planning of the reform and drafting the legislation required to underpin the reform. So the World Bank created its own pro coalitions within the institutions of the state and thus got support for the implementation of their goals by the technocratic elites.

The World Bank and other international organizations will only have influence within a state if they are invited by the political elites. What often appears to be an example of coercive policy transfer can be quite the opposite. Thus the role of international organizations in policy transfer is an ambiguous one. States retain considerable autonomy in deciding whether or not they will allow themselves to be influenced by them. However, when the states are faced with a huge public debt and an unsustainable pension scheme, the credits and loans provided by IMF, World Bank and others seem to be very appealing and confirmation with the global strategy of these transnational actors in the area of pension policy do not seem to require big efforts. In Macedonia the governing elites adopted the legislation that regulated the new pension scheme with relatively little question. The Steering Committee which managed the reform was firm in its position that no other alternative program than the three-pillar pension system was possible. By the

30 as argued by Risse- Kappen 1995, p.25
31 i.e. lowering the imbalance between its current revenues and expenditures

time that the Labor Union and other interest groups started to oppose the new system, the Macedonian blueprint had been adopted by the Parliament. This development is a result of the non-corporatist approach of the interest groups in the country and the weak civil society that is characteristic for every transition democracies. The Labor Union is the only contra coalition objecting to the abandoning of the solidarity elements of the pension system. Thus the Union negotiated the implementation of the newly adopted pension system to be postponed for another year.

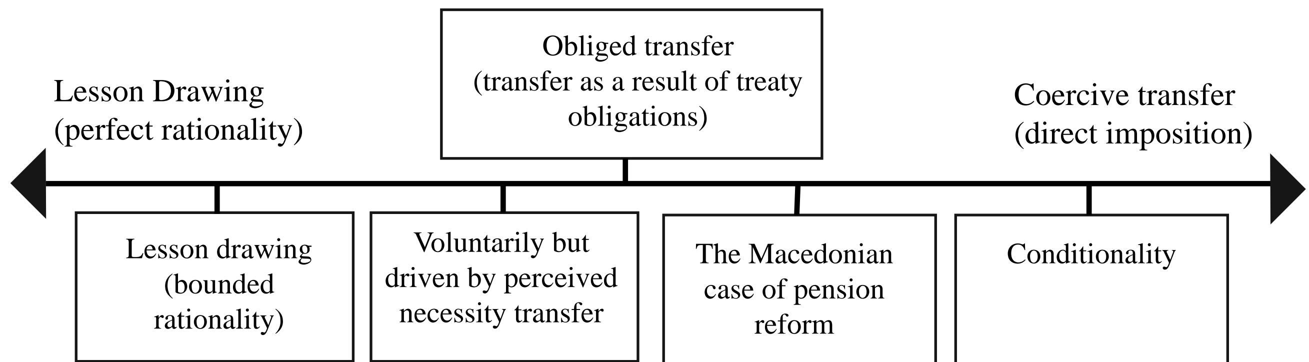
Finally, key policy diffusion mechanism is the activity of external agents, consultancy firms, think-tanks and other members of the epistemic community which are guiding the change in pension policy in the countries that transit towards democracy in CEE and SEE. Consultancy firms and think-tanks may be very influential because they can bring professional expertise, opinion, knowledge and recommendations to the Government and at the same time can remain independent from the policy ideas of international organizations and foreign governments. The presence of the epistemic community in the process of pension reform in the region, as well as in the Republic of Macedonia, has been dominant, due to the lack of capacity within the government officials to conduct the reform process on their own. In Macedonia experts and consultants gave various kinds of technical assistance to Government and Pension Fund officials in every stage of the process. It must be noted that all engaged in the reform process have been selected and appointed by the Steering Committee for the reform of the pension system from the list of consultancy firms and experts provided by the World Bank. “When international organizations, such as IMF and the World Bank get involved in the policy transfer, they often recommend that particular consultants be hired.”[32] The consultants and experts hired in the course of the reform have been paid from the financial assistance that the Bank gave to the Government of Macedonia, thus one can argue about their independence from the global policy strata that the Bank has in this policy area, though, to an extent, they can also make different policy recommendations.

So, if we say that in the process of reforming the pension scheme in the Republic of Macedonia policy transfer has occurred, than the World Bank is the agent of the policy transfer. Since the Government requested financial assistance and invited the World Bank to give its recommendations and policy ideas in the process of reforming the pension system, the transfer can be perceived as a combination of voluntary and coercive actions. The coercion is especially noticeable in the conditionality of the arrangements that the Bank offered to the Government of Macedonia, where detailed steps of how the reform will develop are regulated. However, the Government remained free to choose the policy design itself. Nevertheless, the applied model was chosen as a result of the perception that the country is lagging behind the rest and was as much an effort to homogenize the pension systems in the region. Thus the transfer can be regarded to be mainly voluntary and perceptual, with some indirect coercive elements incorporated in the loan conditions of the Bank.

To establish simple a distinction between voluntary and coercive transfer is to oversimplify the process of pension reform. Therefore, Dolowitz and Marsh has conceptualized transfer as lying along a continuum that runs from lesson drawing to direct imposition of a program, policy or institutional arrangement. The process of pension reform in Republic of Macedonia starts with lesson drawing, scanning programs in effect in the rest of the CEE and SEE countries. But as a result of the Bank’s involvement in this reform process, by giving technical assistance and giving loans with specific conditions, the reform of the pension system in Macedonia is placed further from the lesson-drawing end of the continuum. Adapted continuum of the process of pension reform in Republic of Macedonia shows that the transfer in this case involves voluntary, perceptual and coercive elements.

32 David P. Dolowitz and David Marsh, “Learning from abroad: the role of policy transfer in contemporary policy-making”, Governance: An international journal of policy and administration, Vol. 13, January 2000

Figure 2: Application of the Dolowitz and Marsh's concept of policy transfer continuum: Policy transfer continuum- from lessons drawing to coercive transfer



3.3. What is being transferred – Three pillar pension system

The pension reform in the Republic of Macedonia was officially initiated in 1997, when a project for pension system reform was set up within the Ministry of Labor and Social Policy. The project was managed by a Steering Committee consisting of representatives from the Macedonian Government, in particular the Ministry of Labor and Social Policy, experts from the Pension and Disability Fund, representatives from the Ministry of Finance and the National Bank of Macedonia. The project for pension system reform was financed through the financial assistance programs of the World Bank, the Dutch Government and USAID. The Committee was given an objective to reduce the financial requirements of the public system and to introduce a fully-funded scheme. With the new pension scheme it was intended to empower individuals to take greater responsibility for their own retirement, but at the same time, to sustain the government's important role in the statutory pension system. Government must provide a basic "safety net" pension and set up an effective regulatory mechanism. The social protection of retired persons is simply too important for the government to leave pension arrangements to the prudential behavior of individuals and market forces. To make the system sustainable means to reduce dependency on, but not to eliminate the strength of intergenerational solidarity. Thus, the central feature of the reform program is the funded pillar, which coexists with a reformed PAYG pillar.

The project was divided into several phases:

- **Development of an exact design of the pension reform program.** *The Steering Committee for pension reform was entitled to develop the ultimate design of the reformed pension system. This involved identifying steps that need to be taken towards a full reform of the pension system. "For the public system design issues involve retirement age, age exclusive retirement, penalties for early retirement, separation of the disability system and indexation. For the privately managed scheme the issues involve eligibility, contributions, retirement benefit options, retirement age, guarantees and taxation"*[33] ;
- **Development of an actuarial capacity to inform the selection of the pension reform design.** *Actuarial capacity to model or simulate financial implications/costs for a transition to a fully-funded pension system under particular demographic and economic scenarios had to be developed;*

33 World Bank, Project appraisal document for Social Sector Assistance Credit for FYROM, 1997

- **Development of an action plan for transition.** *The transition to a funded system has to be financed. Thus different financial options had to be developed. This involved full assessment of the financial and insurance capacity of the Pension Fund, the surplus that the Fund could gain under alternate scenarios of economic growth and evaluation of the Government potential to finance the transition process;*
- **Development of a public information campaign.** *An essential part of the reform strategy is to mobilize public support. Thus it necessary to design, test and implement a public information campaign in order to explain the objectives and implication of the overall reform program;*

This project was set up in coordination with the World Bank, and financed through its Social Sector Adjustment Credit, approved in 1997. Within the project the Macedonian Parliament adopted legislation that regulated the new design of the pension system. The World Bank also coordinated the financial support and the technical assistance coming from other donors, like the Dutch and the Japanese governments. Every stage of the project was required to get 'no objection' approval from the Bank. "If the conditionality set by the World Bank was not met, subsequent trenches of the credit would not have been transferred." [34] Since the content of the project signed by the World Bank and the Macedonian Government, described the steps in details one can argue whether the Steering Committee was independent in the process of decision-making or was just implementing the prescriptions written in the project.

What was the content of the message that has been spread? In a World Bank working papers: 'escaping the fatal logic of the pay-as-you-go monopoly and moving to a system that allows taking advantage of capital market developments—without, at the same time, eliminating pay-as-you-go advantages' has been identified as crucial for the Macedonian reform of the pension system. Thus, in March 2000, the new law that regulates the reformed pension system was adopted. The new system was introduced under the heading of "three-pillar pension system" and consists of:

- *The first pillar, compulsory and financed on PAYG basis*
- *The second pillar, compulsory and fully funded*
- *The third pillar, voluntary and fully funded*

According to this scheme, eligible for a retirement benefit are contributors with 64 years of age (for men), i.e.62 years of age (for women) and minimum 15 years of pension service. The employers provide funds for the pension and disability insurance rights and the persons insured under Pension and Disability Insurance Law. The contribution rate is 21.2% of the gross salary for contributors who will remain in the mono-pillar system. Those who will choose or by law belong to the two-pillar system are going to contribute with 14.2% of the gross salary for the PAYG pillar and 7% of the gross salary for the second, fully funded pillar. This means that the contribution rate of 21.2% is just divided between the two pillars.

The contribution of 14.2% of the gross salary will be collected and managed by the public Pension and Disability Insurance Fund, which will use the funds for paying the pensions to the present and future pensioners. This corresponds to the very definition of the pay-as-you-go technique of financing: current pension benefits are paid out of current revenues from a tax, in the Macedonian case, a payroll tax. These funds are going to be used for paying the family and disability benefits, as well as part of the old-age pension. The additional 7% of the contribution rate will be initially paid to the public Pension and Disability Insurance Fund, which is responsible to transfer the funds to the private company for pension fund management. Every individual will have her/his own personal investment account operated by afore mentioned private companies and audited by the Agency responsible for providing security for the funds in the second pillar. Contributors will also have the right to transfer funds from one into other company for pension fund management.

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34 Rajna Krtova Cemerska, Social Sectors Program officer, World Bank Office Skopje, Interview taken in July 2003

The third pillar is designed to provide additional protection for people who want more income and insurance in their old age. It consists of personal savings plans managed by a private company and fully funded by the persons deciding to become contributors in this financial and administrative arrangement. Thus, the third pillar operates on a voluntary basis without a defined contribution rate and depends on the decision of every individual.

Table 5. Model of the new Macedonian pension system

Country	Type of scheme	Financial system	Administration	Participation
Macedonia	Mixed Defined benefit Defined contribution Undefined contribution	Mixed Pay-as-you-go Funded Funded	Public Private Private	Mandatory Mandatory Voluntary

Macedonia decided to mainly proceed with the traditional defined benefit pension scheme. With the defined benefits scheme, the pension formula is defined in advance, and the rest of society takes the risk if the economy does not do well, as opposed to defined contributions scheme, where contributions are specified and ultimately determine future benefits, even though there is uncertainty about future rates of return. Thus, this scheme depends on the market in great extent and is characteristic for the second pillar of the Macedonian pension scheme. A further observation is that the contribution rate for the public pension fund (gets 14,2% of the contributions) is higher than the one that flows into the two private pension funds (7% are transferred there). This leads to the conclusion that Macedonia, in the process of pension reform was not strongly favoring a fully-funded, privately-managed pension scheme. Is it because Macedonia is still transiting from a command to a market economy and does not have a fully developed private sector, capital markets and trust in the banks?

The system mirrors the approach of the World Bank to build mixed pension schemes in the region. It cannot be argued that the Macedonian pension system is identical with the rest of the schemes employed in Bulgaria, Croatia, Poland, Hungary etc., since all of them differ with regard to the replacement and contribution rates, the retirement age and the transition mechanisms. The systems are rather similar and in general have the same design, the design that has been promoted by the World Bank in its publication "Averting the old age crises" published in 1994, but we cannot speak of policy convergence. Convergence theory is "the idea that whatever their political economies, whatever their unique cultures and histories, the "affluent" societies become more alike in both social structure and ideology".[35] Globalization increases the likelihood of convergence, but important differences remain between the ways in which states respond to the policy problems created by globalization.

The World Bank continued to contribute to the process of pension reform in the Republic of Macedonia. It gave credit for a pension reform technical assistance project, which aimed to building the capacity within the Ministry of Labor and Social Policy and the Pension Fund. The project was set up to ensure that the achieved outcomes[36] from the project financed through the Social Sector Adjustment Credit can be sustained and the future reforms carried out in a professional and organized manner. The project was implemented through technical assistance from a team of international experts and through training and involvement of foreign and local consultants, including lawyers, economists and media specialists. "During the course of the project foreign consultants were able to transfer a great deal of knowledge about principles and options for reforming pension systems. And as a result of that, the financial plan developed by the Actuarial Unit was accepted by the Government and the World Bank, which demonstrates the increased capacity of the Ministry of Labor and Social Policy and the staff of the Pension Fund."[37]

35 Richard Common, Public management and policy transfer in Southeast Asia, 2001 " Is policy transfer analysis a useful mode of enquiry in political science? p. 10

36 the legislative framework for the new pension scheme and the financial plan for the transition towards fully funded pension system

37 World Bank, Implementation completion report for Pension reform technical assistance project for FYROM, 2002

The new Macedonian pension system was designed to be operational on 1 January 2004. But the implementation process has not started yet. The World Bank has approved and made effective a new investment loan (Social protection investment loan) in 2004 for supporting the implementation of the design of the afore described pension scheme, so delays in its enforcement can be expected. The World Bank has interest in ensuring that the design, developed under the two previous projects of the Bank, will be functional. Therefore, "financial assistance for the transition period will be provided to the Macedonian Government and further support in terms of technical assistance to the staff of the Pension Fund will be given". [38]

So, if the message of the World Bank in the process of pension reform in the Republic of Macedonia was to escape from the pay-as-you-go monopoly and to favor marketization and privatization of the pension scheme, than the three pillar pension scheme is a thorough answer of the Macedonian Government to the requirements of the Bank. However we cannot say that the model applied in Macedonia is copied from the World Bank's report promoted in 1994, but has been designed according to the political and economic reality of the state. Thus if we discuss the degree of the policy transfer, one can argue about emulation and not copying of the policy idea. The Macedonian Government accepted that the three pillar pension system, applied in almost all other countries in the region, provides the best standard for designing legislation at home, but rejected transplantation of the model in every detail. Even though authors argue that copying and combining of the policy programs can be applicable in the process of policy- making, in the process of pension reform in Republic of Macedonia the emulation is crucial not only in the agenda-setting but also in the policy formulation and implementation stage of the policy-making process.

38 Rajna Krtova Cemerska, Social Sectors Program officer, World Bank Office Skopje, Interview taken in July 2003

4. CONCLUSIONS

Pension schemes are long-term programs. A comprehensive assessment of the effectiveness of a particular system can be made only after a generation has completed its working and retirement periods, which means after 70 years or more. But the future of pension schemes is evolving very rapidly and as we have seen from the example of Macedonia, often pension systems do not live up to 70 years in order to be evaluated. However, that does not prevent governments to design programs that appropriately address the challenges with which their systems are being faced.

The pension systems in most Central and East European countries are already unsustainable, thus their Governments are reforming the schemes that provide income in old age. At first they have developed various measures in order to adjust the public pension schemes to the new realities, but when it became clear that the systems would not be sustainable in the long term, due to demographic changes, further, more fundamental reforms were initiated. In this respect we can divide the countries into two groups: 1. those that adopted or are adopting a private pension pillar within their existing public pension scheme (Poland, Hungary, Bulgaria, Estonia, Latvia, Croatia, Macedonia); and 2. those that vigorously debated against privatization of the private pension schemes (Czech Republic, Romania, Slovenia). In all these cases the origins of the pension reforms are closely linked to an increasingly poor performance of the old system, based on a pay-as-you-go monopoly.

The rush for pension reform poses a challenge to the international organizations which in this globalizing world act as agents of policy diffusion. The key issue is to move ahead quickly with an appropriate package. The World Bank in this respect has the most comprehensive approach promoting a concrete model of pension scheme, supported by favorable loans, which can decrease the public debt of the countries. Consequently, this model of pension scheme has appeared to be appealing to the transition countries from the region because it provides financial assistance for the period of reform and the transition towards a fully-funded pension system. Benefits of the Bank's increasing involvement in assisting this new generation of pension reforms are hard to overestimate. "The Bank serves future generations, including those who are now children. Let them smile when they retire." [39] Or does it serve its top direction explicitly committed in the "Washington consensus": marketization and privatization? Should governments get out of the way in the pension policy area, so that private markets would produce growth?

Macedonia is one of the 'clients of the Bank' and appears to adopt system that combines public managed pension plan designed to meet the basic needs with privately managed personal saving accounts to satisfy the high demand of middle- and upper-income groups. The system was promoted for the first time in 1994 in a World Bank's publication "Averting the old age crises". The scheme provides the three basic functions of a pension scheme: redistribution, saving and insurance. The redistribution is obtained through the publicly managed pension plan, funded on a pay-as-you-go basis. The saving is enabled through the personal saving accounts, privately managed and fully funded. And the insurance is provided jointly by all pillars, but secured with the third voluntary pillar. So, this scheme separates the redistribution from the saving function by introducing the two pillar system where the main theme is that they are mandatory regulated, meaning that in future they will still require government management or regulation. Therefore public management and financing are clearly needed to address the redistributive side of old age security programs. Yet saving and insurance could be addressed through private plans that are mandated and regulated by Government. This demonstrates that the World Bank's model of a pension system has been adopted in Macedonia, as in the rest of the countries from the region, but also shows that the Government's involvement in the pension policy area has been weakened but not completely abandoned. This is due to the great trust that the citizens have in the state and the rather weak capital market economy. So even though the World Bank provided a model and advice, the Government of Macedonia had greater freedom to follow, by adapting the model to the economic and political realities of

39 World Bank, Averting the old age crises, 1994

the state. However one should ask whether the process of pension reform and the adoption of this particular model of pension scheme would have happened anyway, without the Bank.

In the Macedonian case, a policy program- the three pillar pension system- is transferred. The World Bank is an agent of that policy transfer because the Macedonian officials did not know anything about this model until the World Bank got involved in 1993 and did not begin to take in its possible relevance until later (1997). By using the theory and model of policy transfer provided by Dolowitz and Marsh in the course of this analysis it can be concluded that the policy transfer is a useful explanatory variable. The framework explains what the origins of the program are, why it is applied, who is involved, what are the type and the degree of the transfer and what mechanisms are used in the process of transferring the policy program. Especially useful is the continuum as a heuristic devise to understand that the policy transfer is a continuous process that does not always involve direct imposition of a policy program. Usually the cases analyzed are placed between the two ends of the continuum, which was also proved with the case analyzed here. The transfer that occurred in Macedonia is a combination of voluntary, perceptual and coercive policy transfer according to the model provided by Dolowitz and Marsh. The process of pension reform in the Republic of Macedonia has voluntary elements, because the policy makers voluntarily were engaged in the search for solutions for the challenges of the old pension system and remained free to choose the policy design and the time frame within which it will be implemented. The process has elements of perceptual policy transfer because the policy makers were left to feel behind a trend in pension policy applied in almost all other countries in the region. Finally, the process of pension reform has coercive elements because the World Bank put specific conditions for every installment of the financial assistance given to the Government of Macedonia in favor to the model that has been promoted by the Bank as 'best practice' for the transition democracies in CEE and SEE . The policy program that is applied in the Republic of Macedonia actually denotes the direction that the Macedonian policy-makers and the World Bank wish to take- building a capital market economy through the privatization of the public sector. Thus, we can also say that the transfer of the World Bank's model of pension scheme can also shape a broader policy change.

The World Bank used many mechanisms that increase the flow of knowledge in the given policy area, which leaves the impression that the international organizations have the potential to undermine the decision-making capacity of individual states. Pension sector managers are required to have an international perspective and this perspective may be supplied and shaped by international organizations. This view is in accord with the globalization thesis that predicts development of a global bureaucracy. Both influence and imposition by the World Bank in the pension policy area appear to be unmistakable in the globalization of the fully funded pensions in individual countries. The opportunity for private funds to merge with foreign private pension funds and to invest the funds at their disposal in foreign countries also reveals the potential of building super-powerful financial centres that can influence the economy of individual countries in the future.

Of more concern here is the negative impact of the international organizations on developing countries, Macedonia being one of them. Cooper (1997:187) argues that 'few of the reforms do anything to relieve developing countries from the pressures of international debt challenges' and that 'many systems remain more or less the same as before with slight modifications, some of them create even bigger debt towards the international financial organizations that give them loans and credits in order to finance the reform processes'. The government (and society) also remained relatively handicapped by the dearth of policy analytic capacity both inside and outside the Government. This requires significant policy innovation within the institutions themselves in order to provide for their own survival. If policy "think-tanks" are formed, they can offer an independent assessment of policy proposals and generate alternatives which might not emerge from competitors in the political arena because of their stake in the short-term and institutionally consequential politics of particular decisions, as envisaged by Clark (1996:123). This could also bring change in the approach of the international governmental organizations not to be 'one size fits all-minded', but to adapt their approach in assisting the policy making to the 'real situation' of the country- which is the recipient of that assistance.

Policy transfer as a theoretical framework opens a wide range of possible lesson drawing experiences to the transitional democracies. If they cannot learn from their previous experience "because the post-communist regimes are founded on a rejection of a Soviet-style regime"[40] , they should consider drawing lessons from others. 'The scholarly literature on "transitology" and "consolidation" have taken on new life, with the East European cases sparking a vigorous debate on the possibility of a general theory of democratic transitions' (Bunce 1995a, Bunce 1995b) envisaging that the example that the CEE and SEE countries should look at, are the Latin American and South European transitions(Spain and Portugal). However, it is my point of view that these transitions are inappropriate to compare and one should be very careful when transplanting ideas and programs carved especially for the Latin American countries into the post-communist European states. The realties in both regions are just too different for comparison and we could end up comparing apples with oranges. Thus the opportunity for lesson drawing from the Latin American and South Eastern European experiences should be used in a direction of further policy innovation. Policies invented at home, even they bear many similarities with policies adopted in other parts of the world, enhance the possibility of success, since they do not involve clear copying or transplanting, but are designed to fit the country's reality. However, scanning globally could also help avoid some of the mistakes and problems in the process of policy decision-making and policy implementation with which others were faced previously.

Furthermore, it would be useful to document the transmission of policy relevant knowledge and ideas among governmental and interest organization across national boundaries, especially in the pension policy area. This may allow us to develop hypotheses about the importance of institutional location for the influence exercised by actors both within states and across state boundaries. Here we should not isolate from the knowledge and experiences of Western European countries, for the post-war division of Europe not to remain as prominent today in political research as it did twelve years ago even though many scholars of Western Europe have taken an interest in Eastern Europe since 1989.

This is a particularly relevant direction for research, especially in view of given the growing importance of European integration as a source of policy convergence not only with Western Europe, but as Ágh (1996) emphasizes, also in South Eastern Europe, as these countries attempt to fulfil the criteria for eventual membership in the European Union. Democratic politics require not only free and fair elections; there must also be the possibility of programmatic and policy alternatives so that electoral choices have substantive meaning. And when 40% of the voters are pensioners or citizens that are about to be retired, pension schemes are one of the issues on the political agenda that attract most attention.

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