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## THE POLITICAL CONTEXT OF THE PENSION REFORM AND THE LINK “RESEARCH – POLICY”

The link between policy and research in the social area, between policymakers and researchers has not been a subject of special studies and evaluations in the Bulgarian literature in the last years. It is still a “blank space” becoming much pronounced against the enlarging and deepening interest of academia outside Bulgaria<sup>1</sup>. Hence, the main goal is to clarify the political context which made feasible the pension reform and thus opened broader “policy window” for researchers and the practical use of their professional expertise and research results.

JEL: H11; J26

The political, economic and social need for radical reformation of the pension system in Bulgaria was obvious even at the beginning of the 1990s – practically almost immediately after the fall of the communist regime. With small exceptions, the political parties declared the need for changing the existing pension insurance and included it as a priority in their program documents. However, due to a number of reasons – mainly of political and economic character, that reform was delayed. The delay, the advancement towards reforming the pension model respectively directly influenced the nature, content and intensity of the link between research and policy, between researchers and policymakers<sup>2</sup>, and thus – the possibilities of research to influence policy.

Regarding the policy cycle<sup>3</sup>, the political decision to practically (*de facto et de jure*) advance towards the preparation (design) and implementation of the

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<sup>1</sup> See *Crewe, E., J. Young*. Bridging Research and Policy. Context, Evidence and Links. Overseas Development Institute, ODI Working Paper 173, 2002; *De Vibe, M., I. Hovland, J. Young*. Bridging Research and Policy: An Annotated Bibliography. ODI Working Paper 174, 2002; *Nutley, S., I. Walter, H. Davies*. From knowing to doing: A framework for understanding the evidence-into-practice agenda. Discussion Paper, University of St. Andrews, 2002; *Nutley, S., I. Walter, H. Davies*. Research impact: a cross sector review (Literature review). University of St. Andrews, 2003; *Coleman, D*. Policy Research - Who Needs It? 1991; *Garrett, J., Y. Islam*. Policy Research and the Policy Process: Do the twain ever meet? Gatekeeper Series N 74, International Institute for Environment and Development (IIED), 1998; *Maxwell, S*. Is Anyone Listening? GDNNet [<http://nt1.ids.ac.uk/gdn/tools/respol.htm>].

<sup>2</sup> For the purposes of the present article, the term “policymakers” covers representatives of the executive and legislature at national level who “make” policy (*policy makers*) and make decisions (*decision makers*).

<sup>3</sup> The following elements (stages) of the policy cycle are considered: defining the problems and “making agenda” – constructing (formulating) the policy and different alternative decisions – selection of

reform was made in 1998. Its practical implementation started at the beginning of 2000 when the Mandatory Public Insurance Code (MPIC) was enforced.

Which were the main parameters of the political background at the end of the 1990s making possible the pension reform, the opening of a broader "policy window" for the researchers, and the use of their professional experience and results from the studies? The answer to this basic question covers first of all clarification of: the macro political background; the specific context of policymaking; the decisive moments in the political process; the implementation, by paying attention to the role of the policymakers and their way of thinking. The answer would be more pronounced if the differences of the political background parameters from the end and the first half of the 1990s, as well as the conditions for implementing the pension reform are juxtaposed.

*The political stability* became a main characteristic of *macro-political* context after the spring of 1997 when early general elections were held and the right-to-center coalition of the United the Democratic Forces (UDF) won parliamentary majority. The Ivan Kostov-led government (Ivan Kostov was a leader of the Union of Democratic Forces), deemed to be a right-to-center government, was elected. That cabinet was the first one to carry out a full four-year term after 1990 (till the spring of 2001). Till then the political volatility was one of the typical characteristics of Bulgarian political life. After 1989, 7 governments assumed power: three left-to-center one (1989-90; 1992; 1995-97), one right-to-center (1991-1992), one transitional coalition (1990-91) and two caretaker governments, appointed by the President (November 1994 – January 1995 and February – April 1997). Therefore, practically, the average life of one government was only of one year each. After the elections in the spring of 2001 the executive power was assumed by the incumbent government led by Simeon Saxe-Coburg Gotha (the National Movement Simeon II in coalition with the Movement for Rights and Freedoms).

It is obvious that in the first 7-8 years after the beginning of the political and economic changes at the end of 1989, Bulgaria turned to be unprepared (intended or not) to rationally manage the deep crisis. The then political elites failed to (could not or did not want) quickly develop and use instruments to counteract the crisis and achieve *positive results* for the larger part of the population thus securing public support. On the contrary, the early 1990s were a period dominated by processes of national wealth redistribution and formation of new economic and political authority centers<sup>4</sup>. The political volatility, the spreading anomie and economic insecurity created favorable environment for the transformation processes – essential for the beginning of the Bulgarian transition.

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decisions and policy design – implementation – monitoring and evaluation (see *Crewe, E., J. Young. Op. cit., p. 6*).

<sup>4</sup> For details see Human Development – Bulgaria 1995. National Report, chapter 2 "Economic stratification and impoverishment of the population. UNDP, Sofia, 1995.

So, the political stability after 1997 and the parliamentary majority supporting the Ivan Kostov-led government, along with the right-oriented UDF policy, were among the main political prerequisites for the decision to prepare and practically start a radical reform of the pension system. For the first time in modern Bulgarian history, a government grasped in practice (rather than in words or declarations) the need for radical reforms both in the area of social insurance, and the entire social welfare system.

Over 70% of the interviewees (experts and policymakers)<sup>5</sup> outline the existence of political will, responsibility and readiness of the governing party as a strong factor for starting the preparation and the practical reformation of the pension system. The stable political majority allowing the adoption of laws (some respondents point at the negative impact of the opposition in that respect) is also specified as such a factor.

In addition, attention is paid to the positive impact of political factors such as:

- Consensus in the society over the need for reforms (40% of the interviewees);
- Involvement of the social partners as an active part in the reform process and their support by that time within the framework of the national social dialogue (35% of the interviewees).

The opinion of one of the interviewed experts supports and summarizes the above conclusions: *“The main political prerequisites and factors that made the pension reform possible are:*

- *The reformist mindset of the right-wing government, having stable support in Parliament;*
- *The readiness to assume political responsibility for the restrictive decision on the reform;*
- *Drawing the trade unions and the employers’ organizations to the side of the reformists and in the very process of reform preparation;*
- *Weak and shirking responsibility left-wing opposition not offering any alternative.”*

The achievement of *economic stability* is another important element of the macro-political context. The financial stabilization in the country was attained after the introduction of the currency board regime. After several years of sustained slump in the economic growth (by 11,7% in 1991 and 7,3% in 1992), unstable boom in 1994-95 and subsequent drop (by over 10% in 1996), a GDP growth was registered in 1998 and 1999 by 3.7 percent and 2.3 percent respectively. The trend persisted in the following years when the GDP increased by 5,4% in 2000, by 4,1% in 2001, and by 4,9% and 4,3% in the next two years. Inflation was also curbed

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<sup>5</sup> 20 experts and policymakers actively involved in the preparation and implementation of the pension reform were interviewed in the period May – June 2004 within the study. The selection of respondents was in compliance with the need for studying the broadest possible circle of viewpoints of both sides – researchers and policymakers.

and after the extreme rates of 310,8% in 1996 and 578,6% in 1997 its rates shot down to the insignificant 1% and 6,2% for 1998 and 1999 respectively. The consumer prices crept up at slow rates in the next four years – by 11.4%, 4.8%, 3.8% and 5.6% respectively.

It is by no chance that almost all interviewees define the economic stabilization as an important factor making the pension reform possible. However, researchers emphasize more on macroeconomic factors, which accelerated reform (general liberalization of the economy, economic decline and succeeding stabilization, budget deficit) and made impossible the "subsidized alternative" of the reform. Managers more frequently indicate internal economic factors of the pension reform – insurance fund deficit, reduction of the economically active population (respectively fiscal base), etc.

Another economic prerequisite (negative this time) for advancement towards the pension insurance reform was the high rates of internal and external debts<sup>6</sup>. The state and state-guaranteed debts (covering "Internal state and state-guaranteed debt" and "External state and state-guaranteed debt") totaled BGN 19 631.5 million in 1999, constituting 82% the GDP. The state periodically issued (and still issues) state securities to finance the budget deficit and the structural reform. Their return is guaranteed and, as a rule, is above the base interest rate. The introduction of capital pension insurance schemes run by pension insurance companies with legally limited conservative portfolio (with an obligation to purchase state securities) appeared as a possible source of state debt financing under the currency board. The external debt (BGN 16.668 million by the end of the 1990s or 70% of GDP) was largely credited by the international financing institutions, which (mainly the IMF) were directly related to the country macroeconomic stabilization. Restriction and efficiency increase of public spending were part of the stabilization policy. Therefore these institutions, and the World Bank in particular, which directly committed itself to the reformation of the social sphere and alleviation of the social consequences from the reforms since the beginning of the transition, insisted on the radical reformation of the pension system and supported (technically and financially) the government efforts in this respect.

All interviewees point out the role of these *international institutions* as an important component of the political context that made the radical change in the Bulgarian pension model possible.

The World Bank impact is related to two aspects of its activity – the studies in the area of pension insurance and the technical assistance for administrative capacity improvement in Bulgaria. Some respondents simultaneously indicate the significant impact of the World Bank and the IMF, meaning the participation of both institutions in defining the macroeconomic parameters and the general stabilization

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<sup>6</sup> This factor attracts the attention of other authors as well (see *Muler, K.* The Political Economy of Pension Reform in Central and Eastern Europe. – In: *Reforming Public Pensions. Sharing the Experiences of Transition and OECD Countries.* OECD, 2003, p. 38).

country policy – the balance of the pension fund has always been an important condition for the credit agreements of these institutions with the government. All respondents also outline the role of the United States Agency for International Development, as the pension reform is a priority in the bilateral cooperation between Bulgaria and the USA and substantial support was provided during the period of the reform. The standardizing institutions, like ILO and the EU *acquis communautaire* come at third place.

*The social-economic and financial features of the pension system* were another important element of the context, in which the start of the reforming itself became possible:

1. *The financial crisis of the pension insurance expressed itself in:*

- Budget deficit – the deficit in the entire social insurance budget totaled some BGN 23 billion in the period 1991-94 or about 1/5 of the pension expenditures. The negative balance between annual revenues and expenditures ranged between 10% and 20% of the pension expenditures.

- Substantial role of “the other sources” and first of all, of the subsidies from the national budget as a revenue source for the social insurance. For example, the share of the national budget constituted almost 25% in 1991, about 20% in 1993-94 and between 5% and 15% in the next years.

- Decreasing share of own revenues and mainly revenues from insurance contributions. Despite the substantial insurance burden, the revenues from that source decreased from 95.5% in 1990 down to 81.8% in 1996 and 78.8% in 1999.

- Planning a deficit budget as early as in the laws. The National Budget Act projected in 1995 (for the first time ever) a planned deficit in the overall social insurance budget amounting to BGN 9.6 billion;

- Currently updating of the social insurance budget in certain years (e.g. in 1996);

- Loan-like interest-free transfers from other insurance funds – e.g. from the Professional Qualification and Unemployment Fund (1996-97).

2. *Increase in dependency coefficients* that largely define the financial sustainability of the pension system. They have constantly deteriorated their values over the entire last decade of the 20<sup>th</sup> century. For example, the pension dependency coefficient (a ratio between the number of pensioners and number of insured persons), starting from 54.3% in 1990 increased to 69.2% in 1997 and 83.3% in 1999; in 2000 it was over 100% (it means that one insured person “supports” one pensioner, which is a very heavy pension burden). The worsening of that pension system feature is a direct consequence from the depopulation and ageing, as well as from decreasing employment on the national labor market (the number of employed dropped by 1,285.5 thousand persons between 1990 and 1998).

3. *Increasing burden of pension expenditures.* In the conditions of economic stagnation and drastic GDP decline in the first half of the 1990s, the share of pension expenditures in the GDP increased and exceeded the 10% limit (in 1993).

That social insurance system development had a strong reverse impact on the overall economic crisis and was the main reason for the budget deficit increase. That share started decreasing in the middle of the decade (down to about 6.2% in 1997) mainly due to the above-described pension system stabilization measures. However, after 1998 it started growing again, indicating the exhausted potential of the measures.

The pension system proved to be one of the largest expenditure items of the national budget with the share of the expenses for social insurance standing at 19.3% in 1990, at about 27% in 1991-93 and near 28% in 1994. It turned into a hostage to a restrictive budget policy, but also was an important factor for the financial stabilization of the country.

4. *Pensions of small amount with low purchasing power.* The reduced share of expenditures for pensions is related to a considerable decline in the incomes and the living standards of the pensioners. It is mainly expressed in: a slump in the real-term pensions; a decrease in their purchasing power; a decrease in the replacement coefficient. For example, the real-term decrease in the pensions the late 1990s was by over  $\frac{3}{4}$  times as against 1990. The replacement coefficient of the average pension against the average salary was 0.303 in 1996-97 as against 0.328 in 1990. So, "a pensioner" became a synonymous to "poor" in that period in Bulgaria. The low living standards of the pensioners and of large parts of the population gave rise to societal requirements and expectations about the future pension system. This notion is outlined by the interviewed persons.

The interviewed experts and policymakers also relate the need and the inevitability of the pension reform to the condition of the existing (then) pension system:

*"The existing legislation was fit for other conditions."*

*"The existing pension system was not effective, e.g. high contributions were paid (being a prerequisite for great expectations), but the pensions were low. It discredited the pension system and triggered social tension".*

The respondents share the opinion that "the low pensions, high contributions, heavy pension burden" being immanent features of the old pension model would have led to an imminent financial downfall, which necessitated and made possible the search for and the practical implementation of radical changes.

*The exhaustion of the former pension model and the risk of quick financial destabilization of the old pension system* are assessed as a significant factor, but with relatively weaker impact in comparison with the subjective factors such as expert potential and political will. This opinion is a solid argument in support of the preliminary supposition of this study that the interrelation between research and policymaking is of great import to Bulgaria, rather than a concomitant phenomenon in a process, necessitated by the inevitable economic indispensability to reform the pension system and, perhaps first of all, create a favourable political environment.

Further, some respondents provide the following explanation for the balance between the economic and political factors: *“The old pension system did not collapse entirely; we did not reach a situation of not being able to pay the pensions. The perspectives for financial crisis referred to a far future. So the political factors have stronger impact than the economic and financial ones.”*

In this context, *the public expectations* are not regarded as a factor with much influence on reforming the political context (an opinion shared by about half of the respondents). Some even define the impact as negative, i.e. the overexposed expectations of the population partly appeared to be an obstacle for the reform.

*The available comparatively clear ideas and concepts* for reforming the pension system, however, are assessed as a strong factor with positive impact on the immediate preparation (1998-99) and the start of the pension reform (2000) by almost all interviewees – about 90%.

Similar is the assessment of the importance of the *availability of qualified experts*. Some respondents stipulate that there were no qualified experts at the beginning of the reform, but as a result of the interaction the level of cognizance increased: *“The training of experts was part of the pension reform, so we cannot claim there were sufficiently qualified specialists, when it started.”*

The role of *personal commitment to the reformation of the pension system of a part of the political elite by that time* is very highly appreciated. Therefore it may be categorically *concluded* that the personal factor, the existence and contribution of political and public leaders with strong motivation and will for change is important and to some extent decisive driver for the successful management and implementation of the pension reform.

*The political liberty* was one of the most important prerequisites for interaction between science and practice. Most respondents highly appreciate the level of political liberty in the country in the reform period. However, one-fourth of them define the level as “average”.

*The media and academic liberty* as a component of the political context in the 1990s (and afterwards, of course) was in general at a level guaranteeing freedom of opinions and independence of pension system and reform research. The media gradually became the independent “fourth estate”, which (to a certain extent) objectively informed the public and provided a tribune for various individual, institutional, corporate and other opinions. It is no chance that the interviewed experts and policymakers highly appreciate freedom of speech (media liberty) and freedom of scientific research.

Yet, though in conditions of academic liberty, essential peculiarities were typical of the development of science and the potentials for research in the early 1990s:

- Budget support for the state-run research departments with the Bulgarian Academy of Sciences was curtailed substantially;
- Academic research departments were closed down reducing the number of people who dealt with scientific research was reduced, including the area of humanities;

- A number of researchers moved from science to politics (executive and legislature). Sometimes, some of them returned to research activities, and the experience accumulated in the field of politics improved their research and facilitated the link between researchers and policymakers;

- The so-called "institutional" (to various ministries) research institutes dealing with sectoral studies were closed. For example, the Labor Institute to the Ministry of Labor and Social Policy was closed in 1991, and the Institute of Social Insurance and Social Assistance to the same Ministry – in 1994 (established in 1992); the Institute of Finance to the Ministry of Finance was closed at the beginning of the 1990s;

- Practical stoppage of the inflow of young researchers to the academic structures dealing with scientific research in humanities (including economics and sociology);

- Substantial expansion of the university sector and widening of the financial independence of higher schools.

All these features limited the possibilities for comparatively calm, comprehensive and „forerunning“ research activities demanded by the political elite and practitioners: *“Referring to scientific research, it is no less important that the results reach those who should use them”*.

However, even in these conditions, the main academic and university research centers in the area of social insurance and social policy were preserved in general. These were the Institutes of Economics and Sociology to the Bulgarian Academy of Sciences; the Academy of Economics – Svishtov, the University of National and World Economy – Sofia. Some units dealing with analytical and research activities related to the elaboration of specific policies were preserved, though very reduced, within the framework of the state institutions<sup>7</sup>. That was an important institutional prerequisite for maintaining the link “research – policy (practice)”.

Given these limitations and the relatively weak demand, the role of the researchers in that period of “maturation” of the pension reform in its Bulgarian version was mainly related to: accumulation of knowledge, evaluations and ideas; participation in the development of “interim” strategic documents (e.g. the White Paper – 1992-93); outlining and establishment in the public space of a circle of researchers and research centers with potential to contribute to the preparation of the pension reform; building and using basic forms of interaction with policymakers – roundtables, discussions, seminars, conferences, publications and appearance in media.

Nongovernmental organizations (NGOs) of the “think tank” type gained position with the development of the third sector and the civil society in Bulgaria.<sup>8</sup> They performed (and still perform) various studies in the area of the social protection of the population. The development of their activities – especially in the

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<sup>7</sup> For example to the Ministry of Labor and Social Policy, to the Social Insurance General Division (NSSI after 1996), the Center for Economic Analysis and Forecasts.

<sup>8</sup> Examples: Center for the Study of Democracy, Center for Liberal Strategies, Club “Economika 2000”, Center for Economic Development, Institute for Social and Trade Union Studies to the CITUB and CL “Podkrepa”, etc.

first half of the 1990s, was possible mainly due to the demand for their services by external institutions and donors (the World Bank, OECD, UNDP, USAID, etc.). The results of the NGOs' studies were used by many national institutions. The development of such organizations, studies and financing – most often based on market principles, gave opportunities for preservation and development of the research potential (part of the academic researchers moved to the third sector) and for accumulation of “new, modern, demanded” knowledge to be used for the design and implementation of the pension reform.

The strong position of the third sector contributed to the development of the civil society in the country. It in turn created favorable prerequisites for accepting the need and the inevitability of the pension reform, and its preparation with the involvement of numerous stakeholders.

The development of the social dialogue in the country<sup>9</sup>, the involvement of the social partners in the social policy formation, the introduction of tripartism in the management of some insurance funds (e.g. unemployment insurance, public insurance) were also part of the political context that boosted the demand for research outcomes and researchers' expertise.

It also refers to the social insurance area, where the culture of the use of that experience expanded and improved. The various stakeholders justified their positions by study outcomes and calculations (statistical, actuary, etc.) made by researchers and research centers.<sup>10</sup>

*The specific context of pension insurance policy formulation and reformation* was created in the above-outlined general macro-political context. Under the influence of the described political, economic and social external and internal factors, the importance of the pension reform for the society increased very much. It was quite obvious that the reform was at risk of being fatally belated, and its further delay only enhanced the risks and made it less affordable for the society. For example, the actuary estimates, made in 1999 for the reform preparation indicated that if nothing changed in the pension system, a serious financial destabilization of the public insurance would soon arise, and would threaten the formal operation and payment of pensions.

It is no chance that the prevailing part of the respondents indicates that the reform “was belated” or “was done at the last possible moment”. The pension reform has been launched 10 years after the start of the transition to market economy and that provides grounds to talk about delay:

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<sup>9</sup> See Шопов, Г. Състояние на социалния диалог в България. European Training Foundation (Turin, Italy). Sofia, Human Resource Development Center, 2002.

<sup>10</sup> It may be exemplified by the actuary estimates made by the NSSI in relation to the preparation of various pension reform options – estimates accessible to all stakeholders. The CITUB representatives widely used the results from the work of the researchers from their trade union institute for social studies. The outcomes of the Dutch Government-funded study performed by Club “Economika 2000” were also used in designing the second pension pillar.

*"The main economic, demographic and social-economic factors had worse parameters at the moment of commencing the reform in comparison with the beginning of 1990s. That made the transition to the pension reform much painful and difficult".*

*"Had the reform been launched 10 years earlier ... it would have been carried out more easily."*

On the other hand, the respondents defining it as timely clarify that similar delay is observed in other countries in a process of liberalization. These explanations are provided mainly by respondents-researchers.

More than half of the respondents define the reform as "radical". About one-third define it as moderate. Some respondents assess it at the time of adopting the new legislation as "a radical change" and four years later they define it as "moderate". They attribute the change in the opinion to the fact that extreme liberal ideas for minimization of the insurance contributions and limiting re-distributive processes in favor of low-income groups appeared in the public space. Other respondents emphasize that the compromises with the initial positions were made for the sake of reaching consensus: *"That was inevitable, consensus was needed and they ceded some main parameters."* In this context, the assessment of the reform as "moderate" should be interpreted as rather "balanced", i.e. rendering account of effectiveness considerations and adequate social protection.

However, all interviewees support the assessment that the pension model change was absolutely inevitable and indispensable:

*"The problems of the system were clear and conceived. The change was necessary even at the beginning of the transition and if it was reformed on time, it might have been much carefully thought about, planned, developed and justified at the expert level. And the most important of all – it would have been more gradually developed in time and therefore much affordable for the high-age generations."*

*"If the reform was implemented earlier, a smoother transition and larger public support would have been attained."*

*"The pension reform was well-timed in a sense that was launched "at a narrow escape". Today we witness the immense problems before the pension reforms in Italy and France. It was "a narrow escape" also because the expenditure-cover system was about to collapse and any delay could prove to be lethal and also because a unique situation existed – all social partners supported the pension reform. Or, according to the theory of Social Policy Minister Neykov – "with socially-oriented policy, the opportunities for implementing different things look like windows which open and close. If one misses the moment when the window is still open, then one cannot go through a closed window. In our case, the pension reform was carried out while the window was still open."*

The parliaments and governments until 1997 undertook partial measures and changes directed primarily to financial stabilization of the pension system within the existing (inherited from the socialism) pay-as-you-go model. With a view of the policy cycle of the pension reform, the actions reached preparatory stages – identification of problems, formulation of possible decisions for reforms and policies in the pension

insurance area (e.g. the elaboration of the White Paper in 1992-93). Due to the above political-economic and social reasons, however, there was no advancement to the practical radical reformation of the pension system. That limited (a) the demand for expertise and outcomes offered by researchers to policymakers; and (b) the opportunities of the researchers to actively supply their experience and scientific outcomes.

The political will and actions for reforming not only pension insurance, but also for modernizing the social protection were clearly pronounced at the end of the 1990s. Within two years, for example, the Law on Employment Promotion and Unemployment Protection (1997), the Social Assistance Law (1998), the Mandatory Health Insurance Law (1999) and the Labor Security Law (1999) were adopted and enforced. They set the legal frameworks for restructuring and improving the social protection system in the country. So, the pension reform was in line with the radical transformation processes.

The character of this reform in terms of design and practical implementation is defined as “radical” by the prevailing part of interviewed experts and policymakers.

*“The reform was radical even because it introduced “the three-pillar” social insurance system – it introduced the capital-funded insurance scheme for the persons born after December 31<sup>st</sup>, 1959 and because (together with the Supplementary Voluntary Social Insurance Law) opened the doors also for the private initiative in the social insurance. Today, when the social insurance is attacked by all kinds of “experts”, its critics still keep silent about exactly these entirely radical aspects of the 1998-99 pension reform.”*

*The political decision of the late 1990s to advance to the preparation and implementation of the pension reform boosted the demand for and use of expert knowledge and assessments. It opened “new policy windows” before researchers and before their potential to influence the formation of the pension insurance policy. It explains the fact that researchers formed about 1/3 of the working group that developed the Pension Reform Strategy and the Mandatory Public Insurance Code (MPIC). The leader of the working group (Yordan Hristoskov) is also a prominent researcher (holder of Ph.D. degree in Economics, Senior Research Fellow at the Institute of Economics to the Bulgarian Academy of Sciences, and lecturer). His experience of a researcher was combined with rich experience as a policymaker who formed and implemented the social policy in the 1990s: Vice Minister of Labor and Social Policy and Head of the National Employment Service, Minister in the interim government of R. Indjova and councilor on social policy to the President of the Republic of Bulgaria Zhelio Zhelev.*

Many researchers involved in the working group had similar experience – of researchers and policymakers. That fact was an additional prerequisite for the more successful transmission of scientific knowledge in strategic documents and laws regulating the pension reform.

Key figures from the central legislative and executive power had decisive contribution to the “specific political context” formation at the end of the 1990s. They were, above all, the Minister of Labor and Social Policy (Ivan Neykov), the

Chairperson of the Parliamentary Committee on Labor and Social Policy (Svetlana Diankova) and the NSSI Governor (Nikolay Nikolov).

The Minister of Labor and Social Policy initiated the establishment of a working group on the pension reform and “designed” its activities. He presided over most of the sessions, which were open for the main stakeholders (members of all parliamentary groups, social partners, and representatives of state institutions, private insurance and pension-insurance companies). Minister Neykov already had experience as a policymaker – minister in the interim government of St. Sofiansky (1997), CITUB Leader, legal expert in labor law and participant in the establishment of the trade union insurance company “Doverie”. These circumstances facilitated his dialogue with the social partners to some extent (nationally represented trade unions and employers’ organizations), and with the representatives of the insurance companies involved in the working group sessions. His participation in many national and international forums in the 1990s, where researchers, policymakers, social partners and other participants many times discussed social policy and social insurance problems, in particular, helped the approximation of different positions and building of trust between the Minister (being one of the leading policymakers) and the working group researchers.

The role of these key figures is underscored by the interviewed experts and policymakers: *“I will just mention the role of Minister Ivan Neykov and Yordan Hristoskov around whom a remarkable team was consolidated.”*

Ms. Svetlana Diankova, the Chairperson of the Parliamentary Committee on Labor and Social Policy, played a key role in the pension reform. She managed to masterfully balance the interests of individual groups – trade unions, employers, representatives of pension-insurance companies and to find agreeable decisions on key reform issues. Following that approach, she succeeded in gaining wider political support in the process of preparation and adoption of the new pension legislation.

The then NSSI Governor participated with his expert and political experience (of a vice minister and governor of the insurance institute), and by involving the NSSI expert resources in designing the reform.

*Therefore, it may be generally concluded that:*

- The idea for the creation of such a group involving experts from state institutions, researchers, policymakers, foreign experts, representatives of the social partners, of insurance companies and other stakeholders;
- Its work format (permanent nucleus joined by other experts in compliance with the specific problems);
- The presence of leaders combining specific professional, research and policy experience and high motivation;
- The open character of the sessions and working materials accessible to all participants and interested institutions; involvement of Members of Parliament in the more important session, etc.;
- The work with the media (the reform media strategy projected regularly briefing journalists and their “training” in the design of the new pension model);

- The maintaining of a constant ‘hot line’ with the public by organizing meetings to present the main reform parameters and solicit proposals and critical remarks so that negative attitudes against the reform are evaded;
- The availability of clear political support of the working group by the governing majority;
- The expert and financial support by international financing institutions (above all the World Bank and the USAID),  
proved to be key prerequisites for building and reaching *consensus* even at the working stages of the policy cycle, and for the overall successful preparation and implementation of the reform in the pension insurance area.

That approach allowed the discussions on the Pension Reform Strategy and the draft MPIC Bill in Parliament (prepared by the working group and adopted by the Government) to target important details that affect different political and corporate interests. However the entire design of the new pension model and the reform parameters were not questioned. So, it may be said that Bulgaria chose parliamentary-corporate style of pension reform.<sup>11</sup>

The available political consensus on the design and the steps for implementing the pension reform, the preservation of the parameters of the overall social-economic and political conditions, the momentum gained in the implementation of the reform and the first results, and the fact that the leader of the working group was appointed by Parliament to be the next NSSI Governor were part of the prerequisites for the new government led by Saxe-Coburg Gotha to continue and develop the policy of changes. The examples refer to the introduction of the minimum insurance thresholds and mandatory registration of the labor contracts (2003), codification of the legal matter regulating the social insurance through the adoption of the Social Insurance Code (2003).

However, policymakers much less demanded researchers at the stage of the *practical implementation of the reform*. The experts of the state institutions and their managers had a decisive role. The “political windows” before the researchers began to narrow at that policy cycle stage. Ex-post assessments of some reform results were carried out episodically<sup>12</sup>.

Given the policy cycle and the role of the various key figures in developing and intro-ducing the new pension system, the following issues were crucial for the Bulgarian case:

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<sup>11</sup> See *Muler, K.* Op. cit., p. 35.

<sup>12</sup> See for example “Social Assessment of the Impact of the Pension Reform on Risk Population Groups” – a study funded by UNDESA and implemented in 2000 by the nongovernmental organization Club “EconomiKa 2000”, *Шопов, Г.* Финансова стабилизация на пенсионната реформа в период на реструктуриране. Sofia, 2001; *Шопов, Г.* Bulgarian Pension System in Restructuring. - In: Ten Years of Economic Transformation, Vol. III. Kari Liuhto (ed.). Laaperanta University, 2001; *Tafradjyiski, B., D. Staykova, G. Shopov, P. Loukanova.* The Pension Reform in Bulgaria – Two Years After the Start. Discussion Paper N 64, Tokyo, Japan, Institute of Economic Research, Hitotsubashi University, etc., 2002.

- The clear rationale about the need, the meaning and the content of the reform and the transition to a new pension insurance system, the clear definition of the profits and losses incurred by the changes from the various stakeholders’ viewpoints;
- The selection of appropriate persons and a team to prepare and implement the reform;
- The pace of the reform;
- The momentum for developing and closing the policy cycle.

In this respect and as part of the political context, there are reasons to maintain that until 1996-97, the changes in the pension system and the carried out policy of changes respectively, were of piecemeal and unsystematic nature. However, some of those had an important preparatory role for the “real” reform, the mounting and implementation of which reform (as a decisive moment for the political process in the area) was launched in the late 1990s and the early 21 c.

*“The pension reform does not start on a certain date and “at once”. Different changes in the old system have been introduced over the years, e.g. individual pension coefficient (1996); requirement for considering the entire insurable length of service (1996). Besides, the stages were designed correctly, incl. the preparation of the administration and strengthening of the management capacity. The building of information system was an extremely important preparatory moment and a prerequisite.”*

*The stakeholder analysis* allows the identification of the main stakeholders, systemization of their interests (largely described above) and defines the type and level of their influence on the pension reform on the basis of expert evaluations. Therefore, it is possible to more pronouncedly, structurally and comparatively outline various parameters of the reform political context.

The following matrix presents the main stakeholders during the period (may be the most important) of making the political decision and advancement towards the preparation and implementation of the pension reform in Bulgaria (1998-2000).

Stakeholder Matrix

Stakeholders	Main interests (regarding the pension reform)	Type of influence (regarding the pension reform)*	Level of influence (regarding the pension reform)**
Governing coalition (UtdDF) – the legislature	Keeping pre-election promises Modernizing the social safety net Maintaining economic and political stability in the country Personal commitment of leading policymakers	+	5
Governing coalition (UtdDF) – the executive	Maintaining economic and political stability in the country Modernizing the social safety net Financial stabilization of the pension system Ensuring grounds for higher living standards of the pensioners Personal commitment of top managers	+	5
Parliamentary opposition	Political dividends Maintaining economic stability	-	3

National Social Security Institute	Modernization and financial stabilization of the pension system Ensuring grounds for higher living standards of the pensioners	+	4
Social partners – trade unions	Modernizing the pension system Reducing the insurance burden on the insured persons Ensuring grounds for higher living standards of the pensioners	+	4
Social partners – employers	Modernizing the pension system Reducing the insurance burden on employers	+	4
International financing institutions – WB, IMF, USAID	Modernization and financial stabilization of the pension system Maintaining economic and political stability in the country	+	5
International “standardizing” institutions – ILO, ISSA, EU	Modernizing the pension system Introducing international pension insurance standards in the Bulgarian model	+	4
Researchers	Publicity and practical incorporation of their scientific (research) outcomes in the new pension model and the pension reform strategy Influencing the formation of the pension insurance policy Increasing the public status Personal commitment	+	3,5
Insurance and pension-insurance companies	Introducing the three-pillar pension system Developing the capital market in Bulgaria Greater freedom in performing pension-insurance activities	+	3,5
Population: *present pensioners *future pensioners	Higher pensions Lower insurance payments + higher future pensions	- -	0 0
Working group to the Minister of Labor and Social Policy	Modernization and financial stabilization of the pension system Incorporating personal and institutional research outcomes in the new pension model and the pension reform strategy Reaching preliminary expert and political consensus on the reform parameters Ensuring publicity and public support for the intentions to reform the system	+	5
Leaders (“champions”)	High personal motivation and commitment to the pension reform Willingness to realize own expert and political ideas for the parameters of the new pension model	+	5

\* - The type of influence is: *positive* (+); *negative* (-) or *neutral* (~)

\*\* - The level of influence is evaluated on the basis of a 5-level scale:

- 1 - no influence
- 2 - limited influence
- 3 - moderate influence
- 4 - strong influence
- 5 - very strong influence

*Note.* The definition of the type and level of influence are based on expert evaluations.

The stakeholder analysis (based also on the preceding text in the first, descriptive part of the study) provides grounds for the following main *conclusions*:

1. Despite the difference in interests, the prevailing part of stakeholders by the end of the 1990s supported the reform and positively influenced its preparation and practical implementation.

2. The governing coalition in the central legislature and executive, i.e. where decisions are made – in Parliament and in the Government, has the strongest and the most immediate influence. Therefore, the existing political will and desire are the most important factors shaping the political context of the reform and providing possibilities for opening “a window” for social insurance researchers and experts.

3. Practically, the final beneficiaries of the pension reform – present and future pensioners had the most limited influence on its parameters. They were able to influence it indirectly, mainly through the nationally represented trade unions and employers’ organizations. In general, their expectations were contradictory (“we want immediate increase in pensions and reduction in insurance contributions”) and in a sense impeded the reform. However, it should be explicitly mentioned that there was no clearly expressed and organized public resistance against the deep change in the social insurance.

4. The working group to the Minister of Labor and Social Policy was the most direct way for the research ideas and results to reach policymakers and the remaining stakeholders. Besides, even at the working level, that group was the forum (mechanism) for consensus on issues about which different opinions are shared by the stakeholders<sup>13</sup>. The members of the working group also participated in the discussion on the Pension Reform Strategy and the draft Mandatory Public Insurance Code in the parliamentary committees. The leader of the working group and some of its members participated in training seminars for journalists. That defined the high degree of influence of that temporary, but also very important structure.

5. The researchers, as stakeholders, had comparatively strong positive influence – mainly in the reform design (reported also in the interviews with the experts and administrators/policymakers). They made use of the “window” opened for them by the policymakers.

6. The key figures making decisions (the so-called “champions”), very much motivated and committed to the preparation and implementation of the pension reform were the then Minister of Labor and Social Policy, the then chairperson of the Parliamentary Committee on Labor and Social Policy, the then NSSI Governor and last but not least – the working group leader.

7. The fact that despite the differences in the stakeholders’ interests, consensus and public support for the pension reform prevailed meant that the

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<sup>13</sup> A typical example is the moment, in which the representatives of trade unions and employers’ organizations in a direct discussion, lasting several days, clarified the time frame for distribution of the insurance burden between insured people and insurers.

timing for its implementation was good. Such an environment increases the demand for research ideas and outcomes and allows the building of a real bridge between research and policy, in favor of researchers, policymakers, final and direct beneficiaries of the change in the pension model.

8. The existing political will and public consensus for a radical change of the pension model creates favorable environment for a successful bridge between research and policy, between researchers and policymakers. The bridge itself is in favor of all main stakeholders and represents a specific form of the “*win-win-win relationship*”, because:

*The researchers* have opportunities to realize their ideas and thus to influence the parameters of the change; to enhance public confidence in research, researchers and the relevant institutions;

*The policymakers* form and carry out justified, evidence based policy corresponding to pre-election programs and personal commitments, and also easily accepted by the public;

*The beneficiaries* obtain better results from better justified, better prepared and balanced policy that modernizes pension insurance and targets improvement of the social protection.

Building on the analytical review of the political context it may be concluded that even belated in a way, the radical pension reform in Bulgaria became possible as a result of the formation of favorable political, social and economic conditions at the end of the 1990s. No matter that from a scientific-research and expert perspective the need for deep reforming the pension model was clear and doubtless even in the first third of the 1990s, the decisive issue was the availability of favorable macro-political conditions, of political consensus and decision for practical design and implementation of a new pension model in Bulgaria. The possibilities (“window”) for higher demand of research outcomes in this area and for more active role of the researchers in the earlier (preparatory) stages of the reform open just then. The Bulgarian practice confirms that when policy decisions and policy have more or less routine and/or reactive nature<sup>14</sup>, the possibilities for the researchers to influence policymakers are more limited. The situation changes and the role of researches enhances when the political decisions and policy target deeper reforms, as it is the case of the transformation of the Bulgarian pension model at the turn of the 21<sup>st</sup> century.

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<sup>14</sup> At the beginning of the 1990s, the social policy in Bulgaria was forced to resolve ad-hoc many severe and hard problems related to the social protection of the population and above all – the increasing scale of poverty and unemployment. Then the policy had largely reactive nature.