Comparable data from 28 countries

Detailed case studies

Insight on How to Treat Hard and Easy to Verify Incomes

Targeting Costs: Conceptual treatment, methods, data

GMI formula and balances to strike

Illustrations of cutting edge work on MIS and EFC

Income Support for the Poorest
A Review of Experience in Eastern Europe and Central Asia

Emil Tesliuc, Lucian Pop, Margaret Grosh, and Ruslan Yemtsov
Chapter Guide

Introduction
The Role of LRIS in ECA
Institutions and Rules
Eligibility
Benefits and requirements
Accountability (MIS, EFC)
Administrative Costs
Lessons and Conclusions
Big Messages

For ECA

– LRIS programs are effective
– But in many countries are too small, there are sound reasons for them to play a larger role in social policy
– The active agenda of reform is still alive – with various countries moving to ‘best practice’ in some aspects of implementation, such as targeting, MIS, control of error and fraud, activation – and others yet to adapt them

For Rest of the World

– Means or hybrid means testing is feasible in economies with sizable informal sector and reasonable administrative capacity
– We would not recommend the GMI formula
– These cases discussed add to wider know-how on many other issues
In ECA LRIS Spending is Small, has small but variable role within social assistance

Figure 2.1 Social Assistance Spending by Main Types of Programs, 2008–09


Note: Data from Russian regions cannot be disaggregated and are represented as ‘other’, but last-resort income support constitutes a sizable share of this aggregate. GDP = gross domestic product.
Coverage of LRIS is very low, even among the poor

Figure 2.3 Share of Poorest Quintile Covered by All Social Assistance and by LRIS, Latest Data Available

Source: Calculations based on Eastern Europe and Central Asia Social Protection Expenditure and Evaluation Database (SPeeD), World Bank, Washington, DC (see figure 2.1).

Note: For the list of program names see table 2.1. LRIS = last-resort income support; LRSA = last-resort social assistance.
Generosity is Mostly Moderate to Low

Figure 2.6 Benefits as a Share of Post-transfer Consumption of Beneficiary Households in the Poorest Quintile, Eastern Europe and Central Asia
Incidence is Highly Progressive, though there is room to improve

Means Testing is the Predominate Targeting Method for LRIS in ECA
Targeting Requires Administration

- Compared to universal programs, targeted programs will have
  - higher administrative costs as share of total costs
  - but lower total costs

Illustration of Costs for Targeted or Universal Child Allowance
Despite the programs’ complexity, administrative costs in ECA’s LRIS are not so high.

Table 7.2 Administrative Costs of LRIS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total program cost (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Benefits (%)</td>
<td>92.8</td>
<td>97.8</td>
<td>90.1</td>
<td>83.8</td>
<td>90.7</td>
<td>93.5</td>
<td>89.1</td>
<td>92.9</td>
</tr>
<tr>
<td>Total administrative cost</td>
<td>7.2</td>
<td>2.2</td>
<td>9.9</td>
<td>16.2</td>
<td>9.3</td>
<td>6.5</td>
<td>9.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Cost-transfer ratio</td>
<td>0.078</td>
<td>0.023</td>
<td>0.109</td>
<td>0.193</td>
<td>0.103</td>
<td>0.069</td>
<td>0.109</td>
<td>0.077</td>
</tr>
</tbody>
</table>

Source: Based on World Bank administrative costs surveys.

Note: This table is based on a series of country surveys of administrative costs developed by the authors. LRIS = last-resort income support.

a. In Bulgaria, the survey was implemented using the same methodology in 2004 and 2007.

b. In Romania, a similar survey was implemented in 2003, but without taking into account the administrative costs at the central level. The cost-transfer ratio of 9.9 percent in 2003 is slightly underestimated.
And compare well internationally

Figure 7.1 Share of Administrative Costs in Program Budget
Median value by type of program, selected programs

Source: Grash et al. 2008.
Note: CCT = conditional cash transfer; n = number.
## Table 4.1 Types of Incomes Included in the Comprehensive, Economic Definition of Income

<table>
<thead>
<tr>
<th>Type of income</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from wage employment</td>
<td>Wage income in cash or in kind, including from seasonal and occasional work</td>
</tr>
<tr>
<td></td>
<td>Bonuses</td>
</tr>
<tr>
<td>Nonfarm self-employment income</td>
<td>Earnings in cash or in kind from sale of output*</td>
</tr>
<tr>
<td>Farm and agricultural income</td>
<td>Earnings from the sale of crops*</td>
</tr>
<tr>
<td></td>
<td>Earnings from the sale of processed crop products*</td>
</tr>
<tr>
<td></td>
<td>Earnings from the sale of animal products*</td>
</tr>
<tr>
<td></td>
<td>Consumption of self-produced food*</td>
</tr>
<tr>
<td>Income from transfers</td>
<td>Social insurance pensions</td>
</tr>
<tr>
<td></td>
<td>Unemployment benefits</td>
</tr>
<tr>
<td></td>
<td>Social assistance and noncontributory benefits in cash or in kind</td>
</tr>
<tr>
<td></td>
<td>(child allowances, disability benefits, and so on)</td>
</tr>
<tr>
<td></td>
<td>Scholarships</td>
</tr>
<tr>
<td></td>
<td>Private interhousehold transfers in cash and in kind, remittances</td>
</tr>
<tr>
<td></td>
<td>Charity</td>
</tr>
<tr>
<td>Income from capital and assets</td>
<td>Income from renting out dwellings, land, equipment, and consumer durable goods</td>
</tr>
<tr>
<td></td>
<td>Interest on savings, dividends</td>
</tr>
<tr>
<td></td>
<td>Revenue from sale of land, livestock, buildings, and durable goods</td>
</tr>
<tr>
<td></td>
<td>Income from lottery and gambling</td>
</tr>
<tr>
<td>Other income</td>
<td>Other</td>
</tr>
</tbody>
</table>

*Easy to verify*

*Hard to verify*
Empirics on Hard and Easy to Verify Income

Bulgaria

Kyrgyz Republic

Figure 4.1 Composition of Household Income over the Welfare Distribution

a. Share of hard-to-verify incomes along income distribution, Bulgaria

Figure 4.1 Composition of Household Income over the Welfare Distribution (continued)

c. Share of hard-to-verify incomes along income distribution, Kyrgyz Republic

b. Composition of full income along income distribution, Bulgaria

d. Composition of full income along income distribution, Kyrgyz Republic
Household do Under-Report Incomes

Figure 4.3 Share of Beneficiaries Reporting a Certain Type of Income in Their Application for a Social Assistance Program versus in a Household Survey

- Remittances
- Alimony
- Cash subsidies, compensations
- All types of pensions
- Self-employment, farming
- Wages
- Scholarships
- Child allowance, other allowances
- Pensions
- Farming, hunting
- Self-employment
- Wages

Legend:
- Quality control review, 2006
- Difference compared to TPMS
Linking different government data sets can reduce costs to government and to household of verifying family status and incomes.
Imputations Often Used to Impute Hard to Verify Income

![Graph showing income distribution with categories of hard-to-verify income, estimated (presumptive) income, and verifiable income, with a threshold]

Filters Sometimes Used in Targeting, Often Producing High Errors of Exclusion

Figure B4.4.1 The Effect of Filters in Excluding the Urban Poor (Bottom 10 percent) in Ndihma Ekonomike, Albania

<table>
<thead>
<tr>
<th>Filter</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have rental income</td>
<td>0.8</td>
</tr>
<tr>
<td>Receive survivor pension or special merit pension or supplementary pension</td>
<td>0.4</td>
</tr>
<tr>
<td>Own a car</td>
<td>3.7</td>
</tr>
<tr>
<td>Receive remittances from abroad</td>
<td>14.9</td>
</tr>
<tr>
<td>Receive old-age pension</td>
<td>25.9</td>
</tr>
<tr>
<td>Have family member employed in the LM</td>
<td>81.8</td>
</tr>
</tbody>
</table>

Source: Reproduced from World Bank 2010.
Note: The figure indicates the cumulative effect of the one-off filters in excluding individuals in the bottom decile in urban areas. The percentages present the exclusionary impact of each filter individually. NE = Ndihma Ekonomike.
Guaranteed Minimum Income

Benefit Formulae

• Gap formulae used, often with adjustments for various other factors

• Should get most poverty reduction per $ spent

• But is complex

• And may discourage work effort
  - Evaluation evidence fairly scarce
Controlling Disincentives Effects is a Balancing Act

Figure 5.1 Factors Determining the Extent to Which Social Assistance Transfers Cause Work Disincentives and Dependency

- Generosity
- Marginal tax rate on earnings
- Workable but not working adults
- Activation

Rather low in ECA’s LRIS, 2-6% of GDP per capita

VERY high in MIG design, Needs other elements to counter-balance

1-2 in 3 adults in LRIS are NEETD

The active new agenda, Room for more
Eligibility Thresholds Need to be Kept Up-to-Date

Erosion of thresholds over time has been an important factor in shrinking programs.

Thresholds should be:

- At least indexed to inflation
- Consider linking to a concept that reflects living standards
  - share of average labor earnings or
  - share of median income
The Basics on Error, Fraud and Corruption (EFC):

• Most SP beneficiaries are honest - but not all
• Perfection is not possible – but EFC can be kept low
• Each program should strive to achieve high level of program compliance:
  – Pay the right beneficiary, the right amount, at the right time
• Need to find the right balance:
  – Too much emphasis on EFC could deter eligible beneficiaries from applying
  – Too little emphasis on EFC can waste resources and undermine the political economy of support for the programs
Use a multi-pronged approach to combat EFC

Prevention
- Improved verification on eligibility
- Provision of information to applicants and public

Detection
- Risk-based and random reviews
- Data matching
- Telephone hotlines

Deterrence
- Sanctions

Monitoring
- Often linked to performance management
Develop a comprehensive system to detect and correct EFC

Interventions designed to generate referrals on suspicious benefit cases

- Advertising
- Benefit Fraud Hotline
- Data-matching
- Staff referrals

Interventions that act on referrals

- Prosecutions
- Compliance Visits
- Fraud Investigations
MIS is the backbone of it all

• Need rudimentary MIS for listing and paying clients
• More sophisticated MIS allows:
  – Cross-checking for verification of incomes and better targeting
  – Underpins profiling for control of error and fraud
  – Can allow phased benefit reduction and linkages to activation programs to counter disincentive effects
  – Allows linkages among programs for more integrated and effective social protection