

Reducing Fraud, Error and Corruption (EFC) in Social Protection Programs

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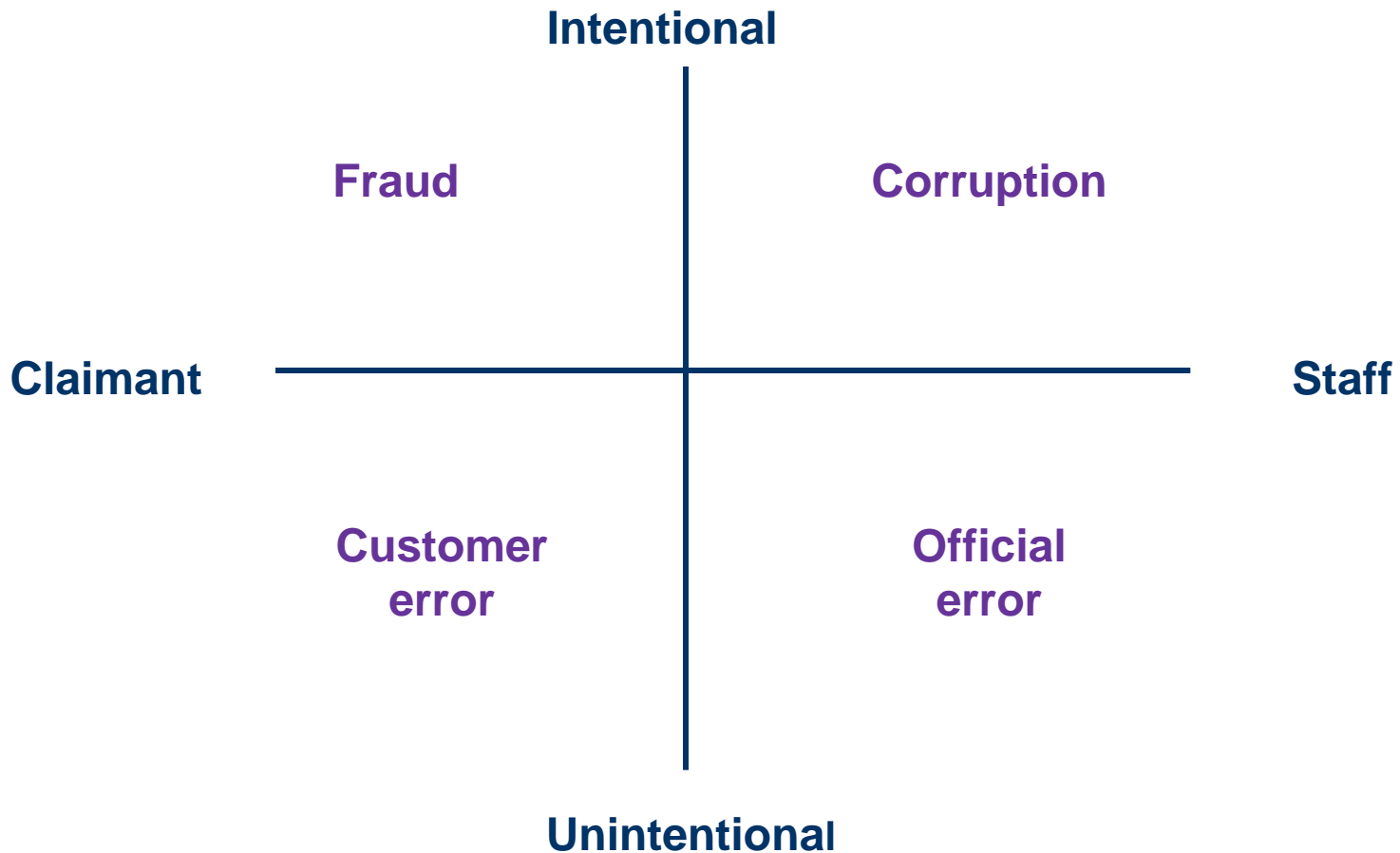
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EFC in Social Protection (SP): The good and the **bad**

- GOOD: Most SP benefits are paid correctly, and most beneficiaries & program staff are honest.
 - Most benefits are paid to the right beneficiary, in the right amount, at the right time
- **BAD: But not all. Some of the program budget is lost to error, fraud and corruption (EFC). Unavoidable**
- A good system to prevent, detect and deter EFC can minimize it
- Need to find the right balance:
 - Do not scare good-standing beneficiaries!

What is error, fraud and corruption (EFC)? Definitions



How much social protection spending is lost to EFC?

- Fraud and error rates range between 2 and 5% of overall social protection spending in high-income countries (see Table below*)
- Rates are higher for means-tested, income-replacement and disability programs: between 5-10% of program expenditures
- ... Likely even higher in countries where EFC was not a priority

2 A comparison of fraud and error rates in countries studied¹

As % of expenditure/payments	UK (2004-2005)	Canada (1994, 2003)	Ireland (2004)	New Zealand (2001)	USA (2003)
Total Fraud and Error	2.3%	3.5% ('94)	-	2.7%	-
Fraud and Error in Housing Benefit	5.2%	-	-	-	3.6%
Fraud and Error in Income Support	5.3%	3.5% ('03)	-	-	5.07%
Fraud and Error Old Age, Disability	4.9%, 0.1%, 1.9% ²	-	7%	-	0.53%

Source: National Audit Office (2006) Benchmarking international EFC

How can you reduce the share of SP funds lost to EFC?

1. Focus on large budget programs which are risk-prone to EFC
2. Develop an end-to-end system to reduce EFC: **prevent, detect, deter and monitor**
3. Use the system !!!

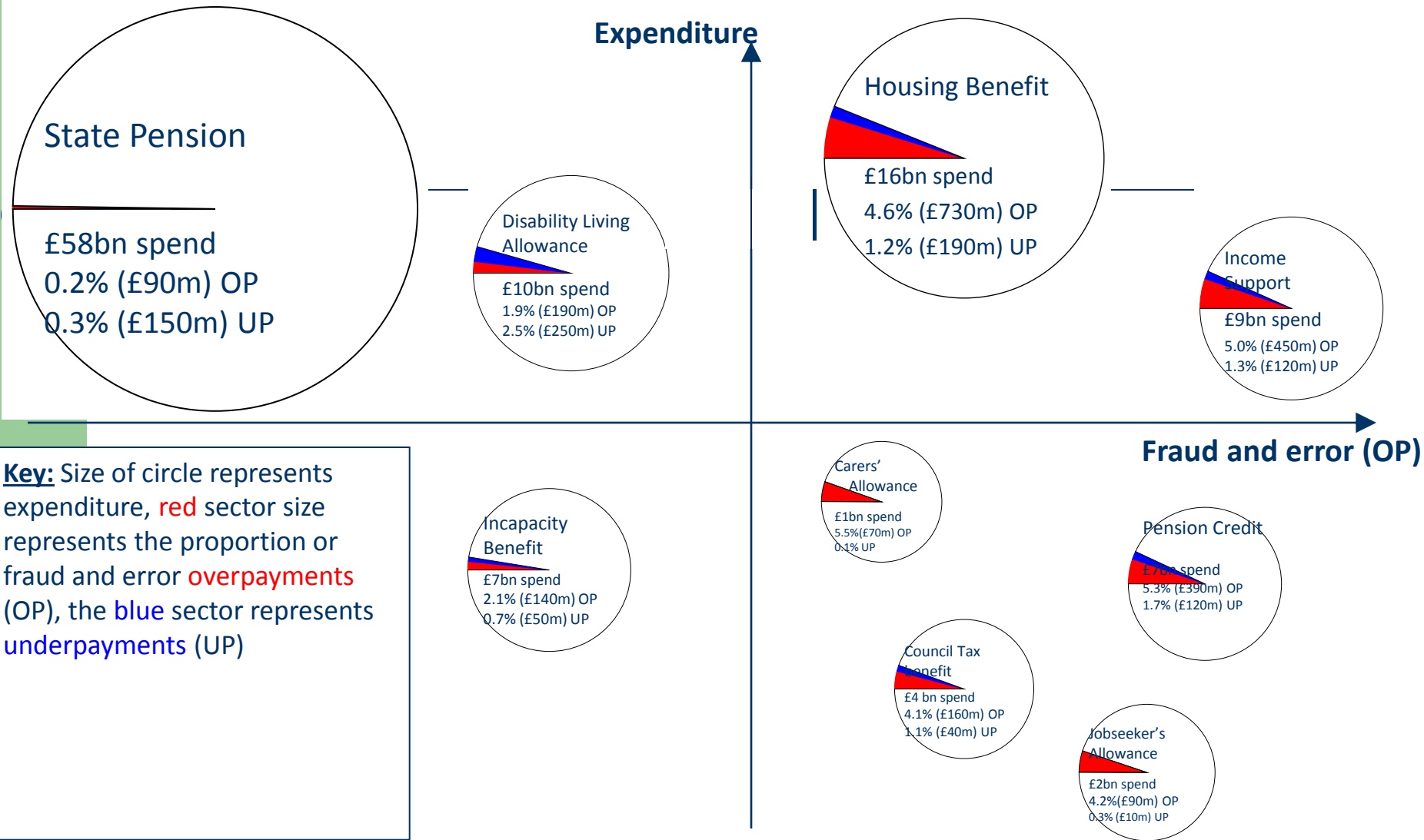
Rule #1: Be Strategic !!!

Focus on large budget programs which are risk-prone to EFC

Context information: UK and Romania

- UK population (2011): 63 million
- Recipients of SP benefits: about 50% of the population
- SP spending: $\frac{1}{4}$ of Govnt. spending
- Types of SP programs:
 - Old-age, survivorship, disability pensions;
 - Unemployment benefits
 - Social assistance programs (mostly means-tested)
- Romania's population (2011): 20 million
- SP recipients: about 70% of the population
- SP spending: about 12% of GDP, $\frac{1}{3}$ of Govnt. spending
- Types of SP programs:
 - Old-age, survivorship, disability pensions;
 - Unemployment benefits
 - Social assistance programs (categorical & means-tested)

Example from United Kingdom: Focus on large risky benefits



Note: Expenditure, fraud and error in DWP benefits

How do you start when you do not know which programs have larger EFC rates?

- Identify SP programs prone to higher risk of EFC
- Key question: When is fraud profitable?
- Cost–benefit analysis
- Benefits: Net Present Value of the future stream of benefits (* ease of defrauding the program)
- Cost: (\$\$\$, non-monetary costs)
 - Monetary: Probability of being caught * Sanctions
 - Non-monetary: Shame, stigma

Example: Which program is worth defrauding?

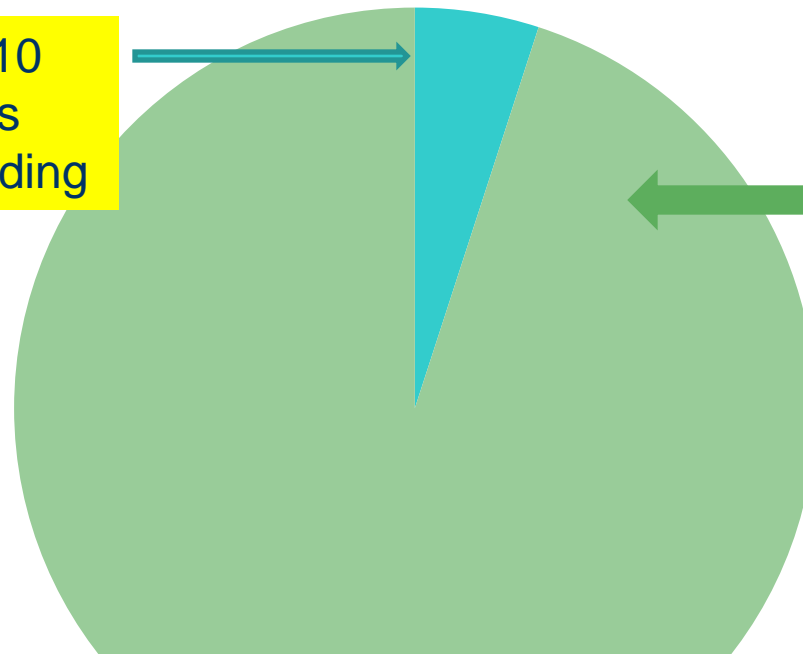
Program	TSA	Disability Allowance
Benefit Level (LCU) / month	100	100
Recertification	Every six months	Every 3 years (temporary disability)
Interest rate	12% per annum	12% per annum
Benefit stream:		
Nominal gains	600	3600
Net value*	586	3088

Net Present Value:
benefit stream adjusted for the timing of the payments and interest rate

Example from Romania (I): Focus EFC resources on cash transfers

Share in Assistance Spending, 2010

Focus before 2010
on social services
= 5% of SA spending



Focus after 2010
on cash transfers
= 95% SA spending

- Social services
- Cash transfers

Before 2010, Romania focused its “social inspectors” almost exclusively to check whether the social services’ institutions were meeting minimum quality standards

Example from Romania (II): Focus SI's on high-value, high risk programs

- Five large programs are subject to annual inspections:
 - Disability allowances and **invalidity pensions** (income replacement)
 - Child raising (maternity leave) benefit (income replacement)
 - Guaranteed Minimum Income program (means-tested)
 - Heating benefit (means-tested)
 - Family benefit (means-tested)
- Combined spending of social assistance programs:
2.3% of GDP
- Total social assistance plus disability pension spending:
4% of GDP

What institutional structures you need to combat EFC?

In the UK:

- Frontline staff: prevention
- Specialized units (detection):
 - Compliance team
 - Fraud Investigation Service (about 3000 persons)
 - Recovery unit

In Romania:

- Frontline staff: prevention
- Specialized units:
 - Social inspection team (about 300 persons)

Rule #2: End-to-end Approach

Put in place a comprehensive system to combat EFC:

Measures to prevent, detect, deter and monitor EFC

Comprehensive menu of activities 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

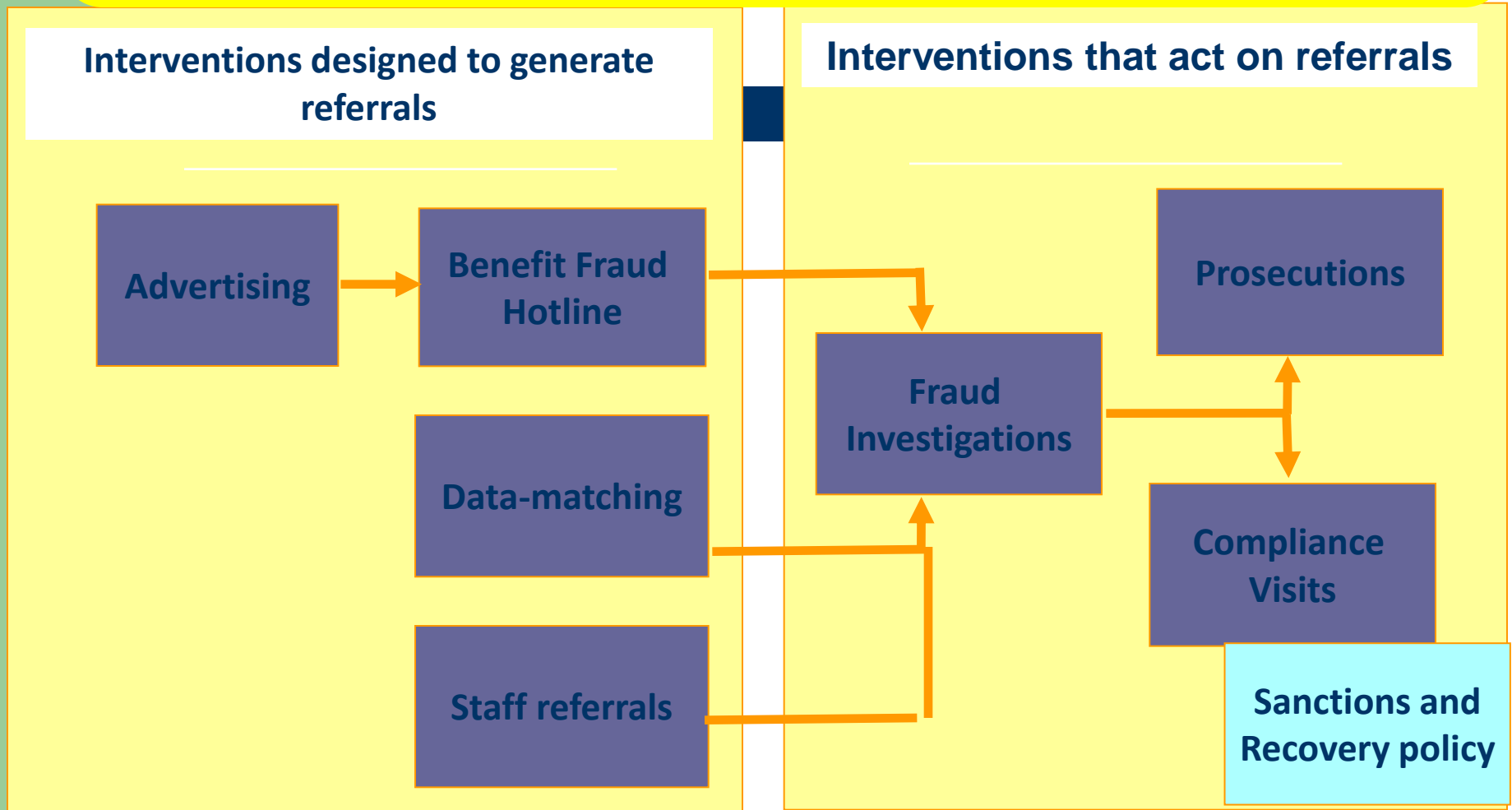
Deterrence

- Sanctions

Monitoring

- Often linked to performance management

Example from United Kingdom: System to detect and correct EFC



Romania: Combating EFC in Social Assistance and Disability Pensions

- Step 1: Large sample benefit reviews in 5 risk-prone programs (2010-2011)
 - Detection of irregularities (errors or suspicion of fraud), remedial actions
 - Monitoring system tracking the implementation of remedial measures, every 3 months
 - Identification of legislative gaps → improvements in legislation (sanctions, investigative powers) and operational procedures
- Step 2: Identification of irregularities through data matching (2012-2013)
- Next steps: Development of risk-profiles based on the results of the benefit reviews (2013-2014)

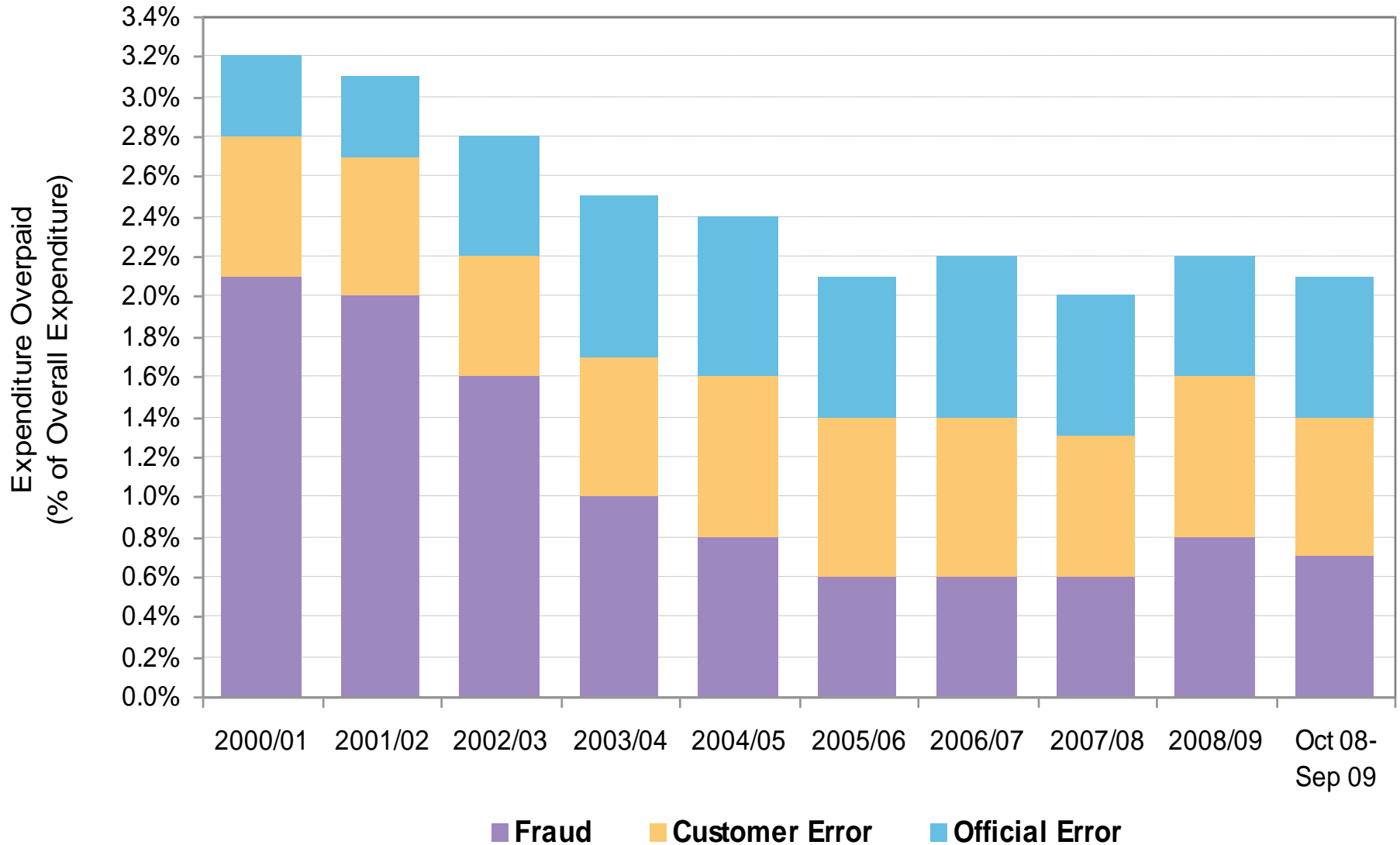
Romania: Developed an effective EFC system in three years ...

Thematic are:	Situation at baseline (2010)	Target (2013/2014)
Sanction and recovery policy	<p>Each SP benefit has its own sanctions policy</p> <p>Sanction/inspection not based on cost-benefit or severity</p> <p>Weak recovery policy</p>	<p>Same sanction for the same offence across programs</p> <p>Larger sanctions for larger offences, repeated offences</p> <p>Effective recovery policy</p>
Investigative powers for the social inspector	<p>Incomplete powers</p> <p>Focused on the service provider, not on suspect beneficiaries</p>	<p>Stronger powers</p> <p>Clear oversight mechanisms to prevent abuse</p>
Database cross-checks	<p>Occasional, ad-hoc</p>	<p>Routine, regular, clear procedures to detect irregularities</p>
Risk-profiling and risk-based inspections	<p>Based on the experience of the social inspectors</p>	<p>Derived from analytic models</p>

Rule #3: Use the anti-EFC system

Typical question:
Does it pay off?

UK: Reduction in EFC after adopting Comprehensive Strategy (2000)



Romania: Started with large-scale inspections of risk-prone benefits

- Large sample inspections
- Checks all beneficiary files
- In-depth investigations (home/employer's visit, with physicians and police) for suspect files
- Time-to-completion: 1 to 3 months
- Follow up visits in 2-3 months, to check whether the recommended corrections / sanctions have been implemented

Romania: The results of thematic inspections (2010/11)

Program	Files checked (# and % of total)	In-depth investigations	% irregularities detected
GMI	283,200 (100%)	n.av.	24.5%
Heating benefits	417,500 (30%)	n.av.	2.5%
Family benefits	10,855 (small %)	100%	36%
Child Raising Benefit	184,180 (100%)	0,1% (home visit, employer visit)	10%
Disability allowances & pensions	241,000 (30%)	50440	Results difficult to interpret (change in legislation)

Romania: Type of irregularities detected in selected benefit

- Guaranteed Minimum Income program (means-tested)
 - Income under-reporting
 - Assets (exclusionary filters) under-reported
 - Family composition (more members)
- Disability allowance program (categorical)
 - Blind people who subsequently have passed the driving license test (2,317 persons)
 - Large number of disabled people with same medical condition and certifying physician
 - Disability certificates signed by persons without appropriate competences to certify disability

**Does this approach work in
low- & middle- income countries
(LICs and MICs)?**

Yes, it does.

A thick, dark blue horizontal bar with rounded ends, positioned below the text "Yes, it does.".

Promising approaches for LICs and MICs

- Use the power of information technology:
 1. Data cross-checking
 2. Risk-profiling of likely fraudulent or erroneous claims

Questions and Answers