

Comparable
data 28
countries

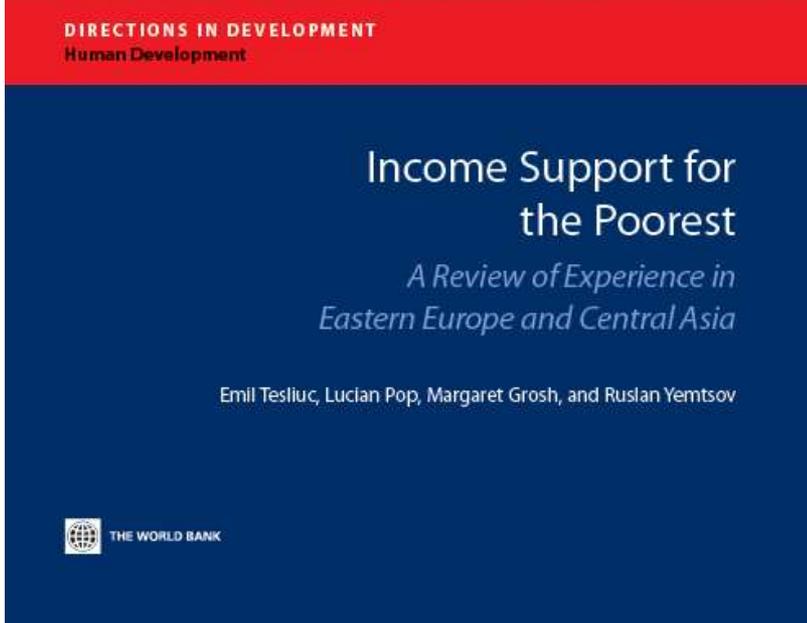
Detailed
case studies

Insight on How to
Treat Hard and Easy
to Verify Incomes



GMI formula
and balances
to strike

Targeting
Costs:
Conceptual
treatment,
methods, data



Illustrations
of cutting
edge work
on MIS and
EFC

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

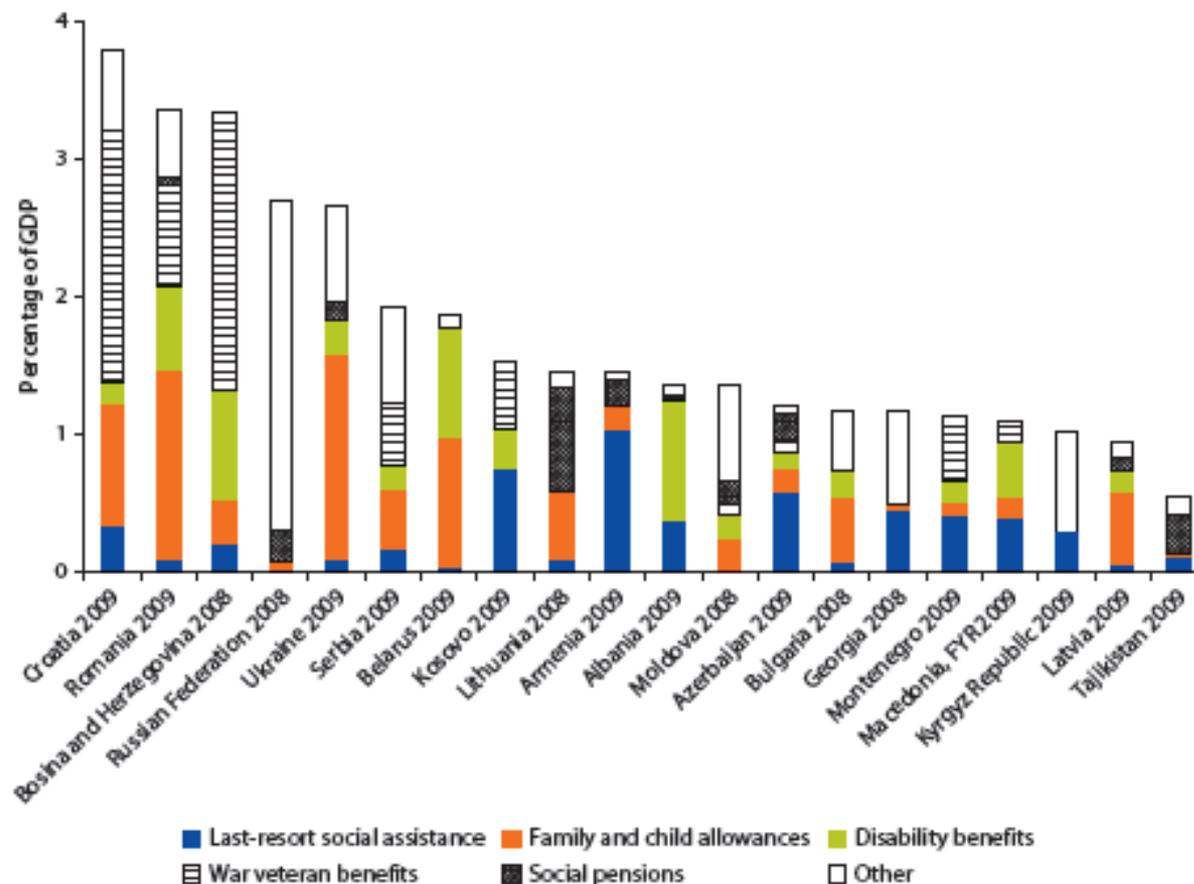
- LRIS programs are effective
- But in many countries are too small, there are sound reasons for them to play a larger role in social policy
- The active agenda of reform is still alive – with various countries moving to ‘best practice’ in some aspects of implementation, such as targeting, MIS, control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

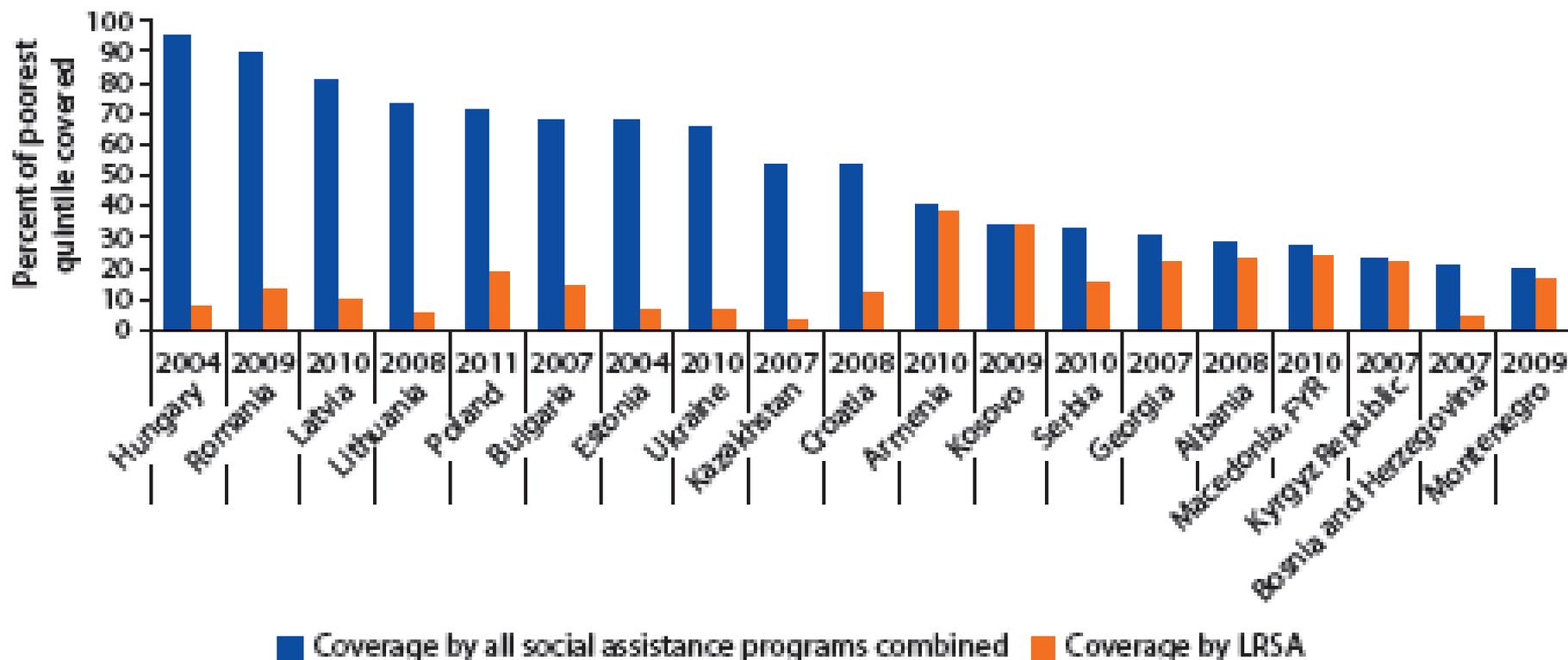


Source: Europe and Central Asia Social Protection Expenditure and Evaluation Database (SPeED), World Bank, Washington, DC, <http://intranet.worldbank.org/WBSITE/INTRANET/INTCOUNTRIES/INTECA/INTOFFVICEPRE/0,contentMDK:23170361~pagePK:64168332~piPK:64168299~theSitePK:4381828,00.html>.

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

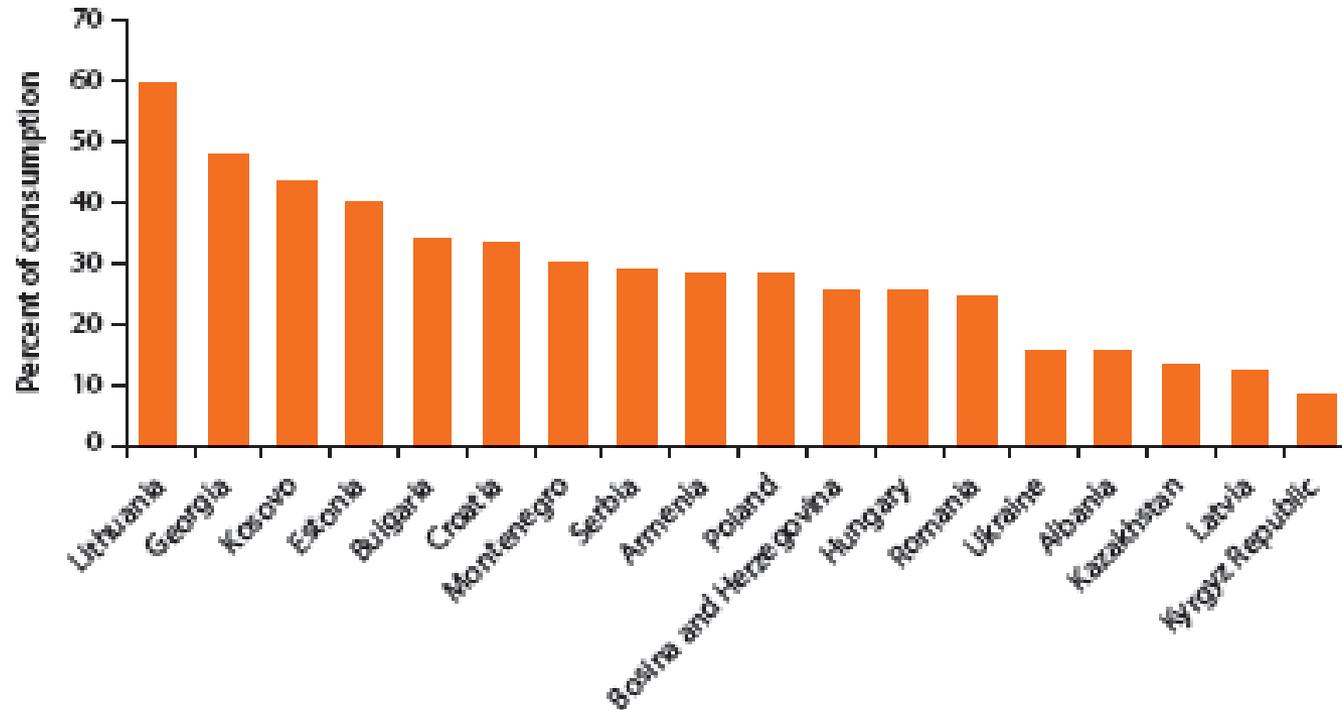


Source: Calculations based on Eastern Europe and Central Asia Social Protection Expenditure and Evaluation Database (SPEED), World Bank, Washington, DC (see figure 2.1).

Note: For the list of program names see table 2.1. LRIS = last-resort income support; LRSA = last-resort social assistance.

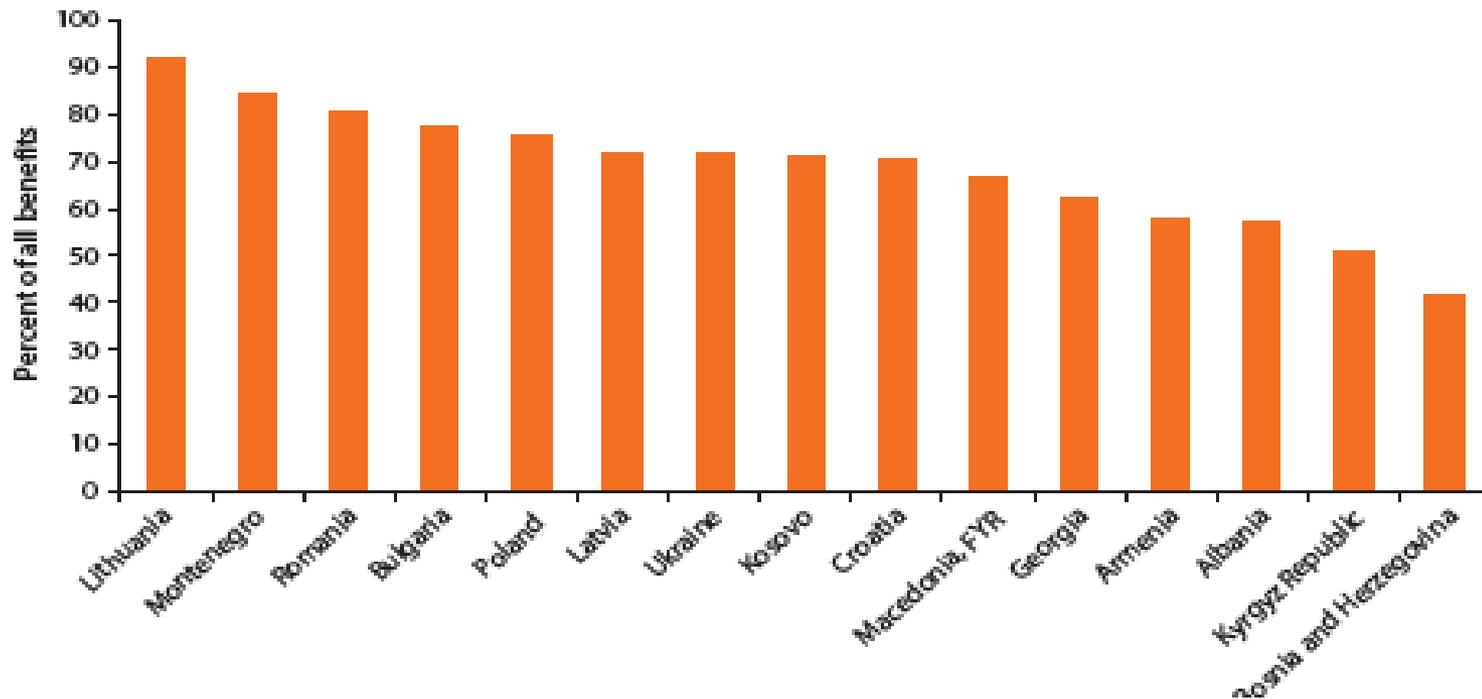
Generosity is Mostly Moderate to Low

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

Figure 2.4 Share of LRIS Benefits Going to the Poorest Quintile in Eastern Europe and Central Asia, Latest Data Available

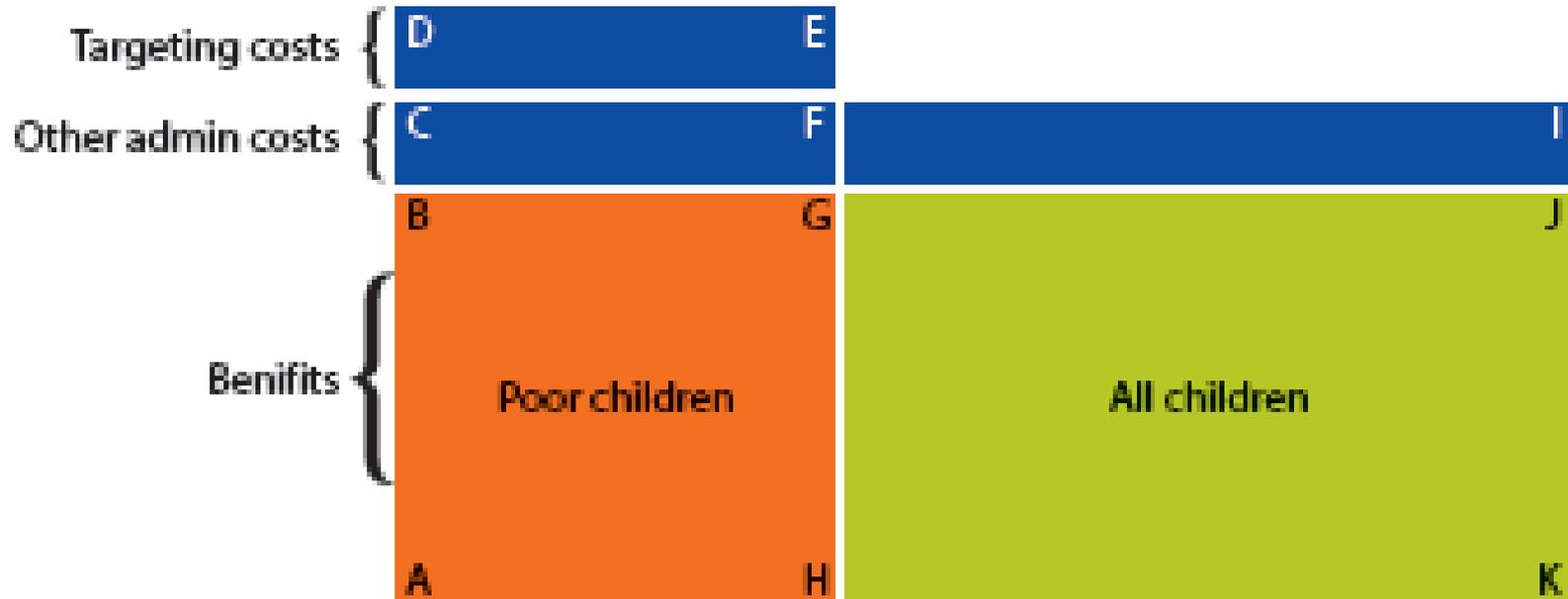


**Means Testing is the Predominate Targeting Method
for LRIS in ECA**

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

	<i>Albania</i> 2005	<i>Armenia</i> 2006	<i>Bulgaria</i> 2004 ^a	<i>Bulgaria</i> 2007 ^a	<i>Kyrgyz</i> <i>Republic</i> 2006	<i>Lithuania</i> 2005	<i>Romania</i> 2003 ^b	<i>Romania</i> 2005
Total program cost (%)	100	100	100	100	100	100	100	100
<i>Of which (%)</i>								
Benefits	92.8	97.8	90.1	83.8	90.7	93.5	89.1	92.9
Total administrative cost	7.2	2.2	9.9	16.2	9.3	6.5	9.9	7.1
Cost-transfer ratio	0.078	0.023	0.109	0.193	0.103	0.069	0.109	0.077

Source: Based on World Bank administrative costs surveys.

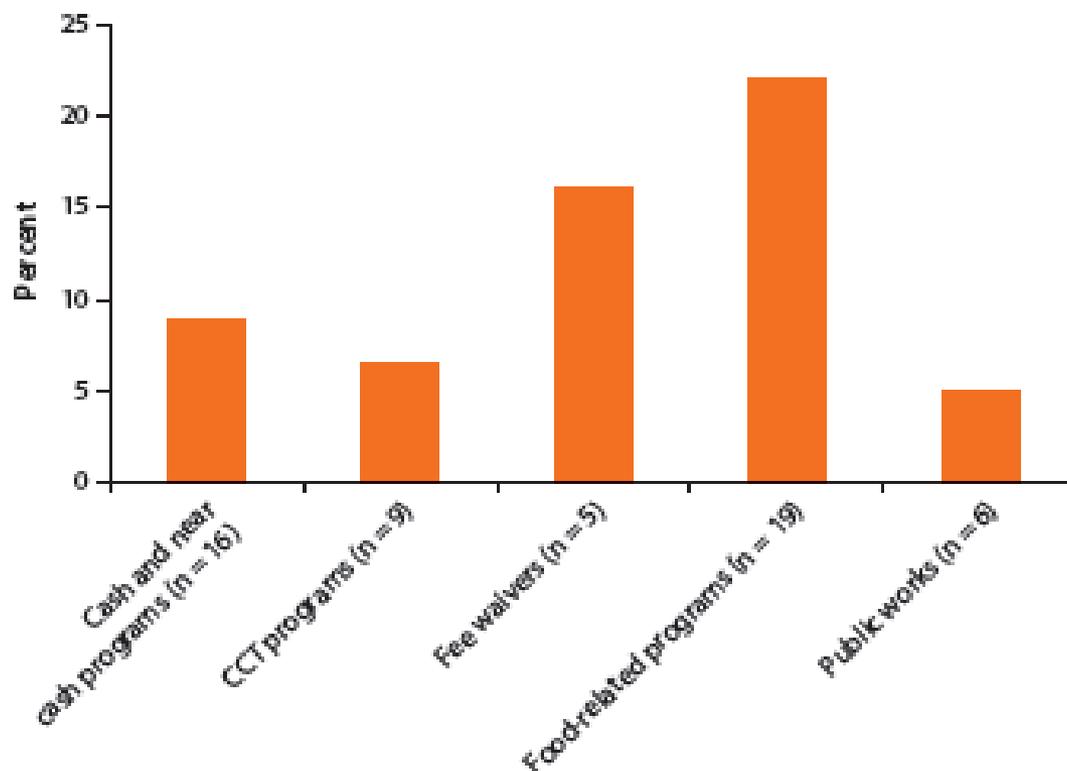
Note: This table is based on a series of country surveys of administrative costs developed by the authors. LRIS = last-resort income support.

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.

Income is Complex and Some is Hard to Verify

Table 4.1 Types of Incomes Included in the Comprehensive, Economic Definition of Income

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

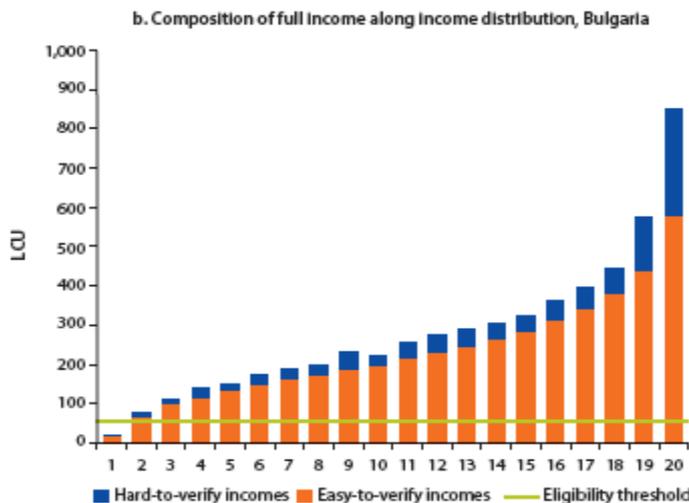
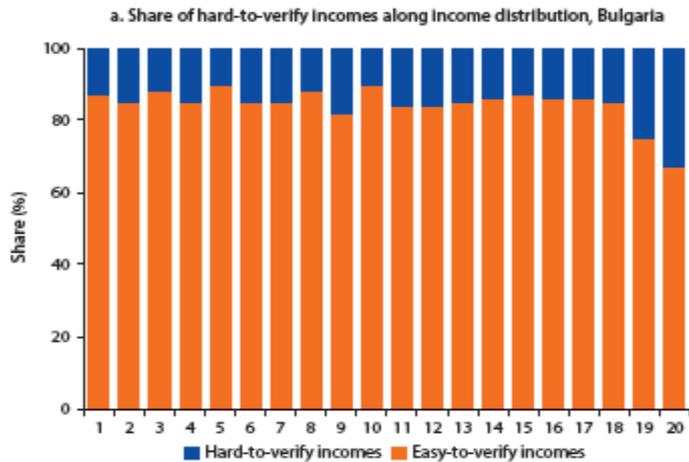
 Easy to verify

 Hard to verify

Empirics on Hard and Easy to Verify Income

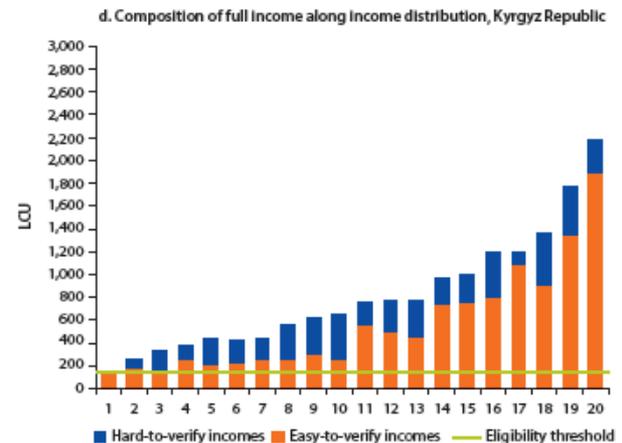
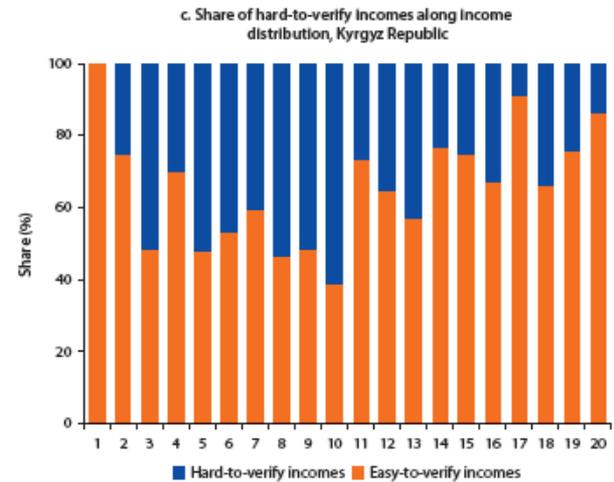
Bulgaria

Figure 4.1 Composition of Household Income over the Welfare Distribution



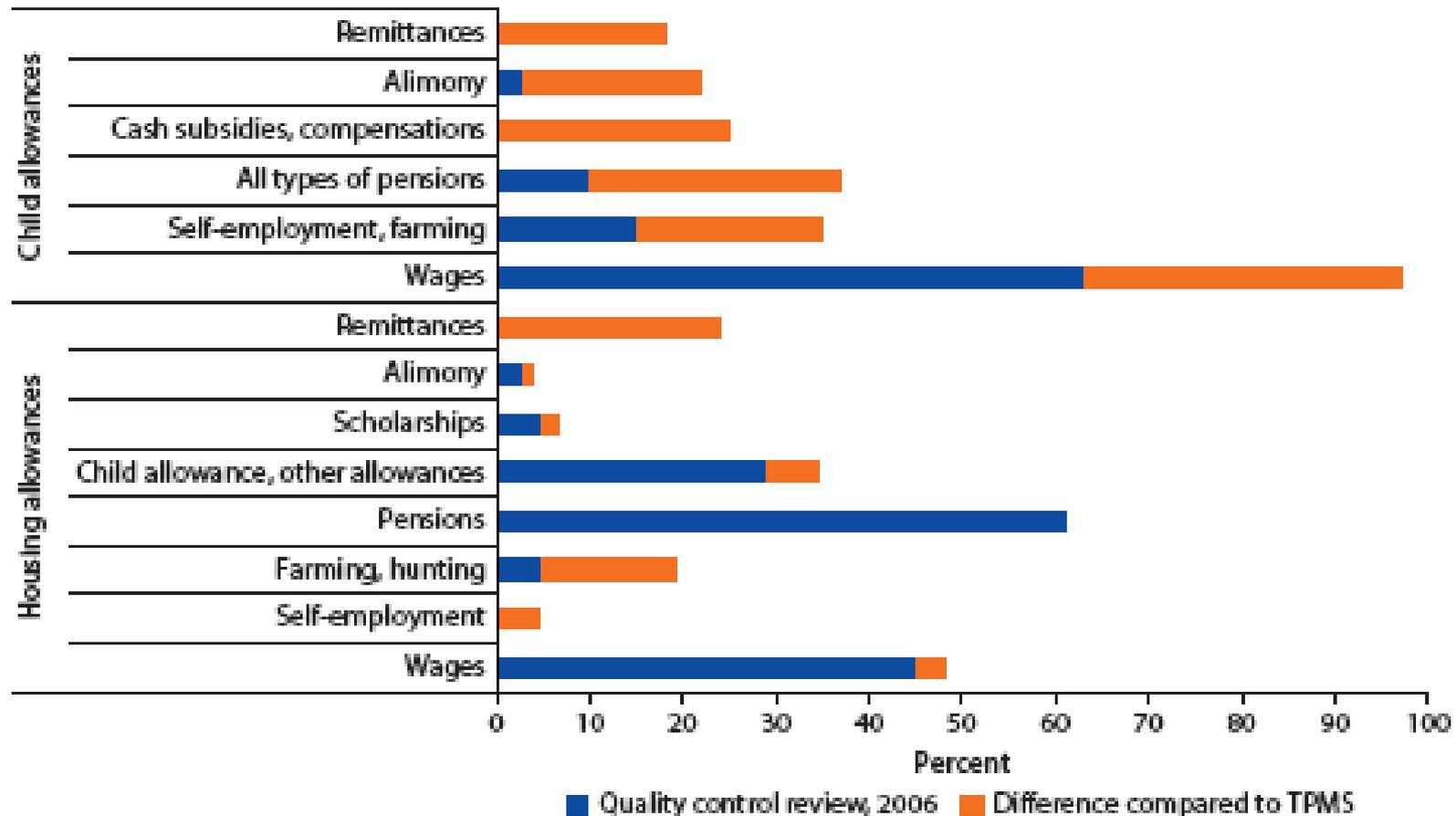
Kyrgyz Republic

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



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



Document name

Identification

Application statement

Certificate of family composition, number of family members

Marriage certificate

Bill of divorce

Birth certificate for children under age 2 years and from ages 2–8 years

Certificate of disability (I, II, III group)

Certificate from place of learning for students up to age 23 years

Confirmation of orphanage (one-side, two-side)

Certificate of the status of unemployment

Confirmation on being an aged pensioner

Confirmation on being pregnant (up to 20 weeks)

Confirmation of being single, disabled pensioner

Certificate on salary amount

Certificate of size of pension (labor, social, and so on)

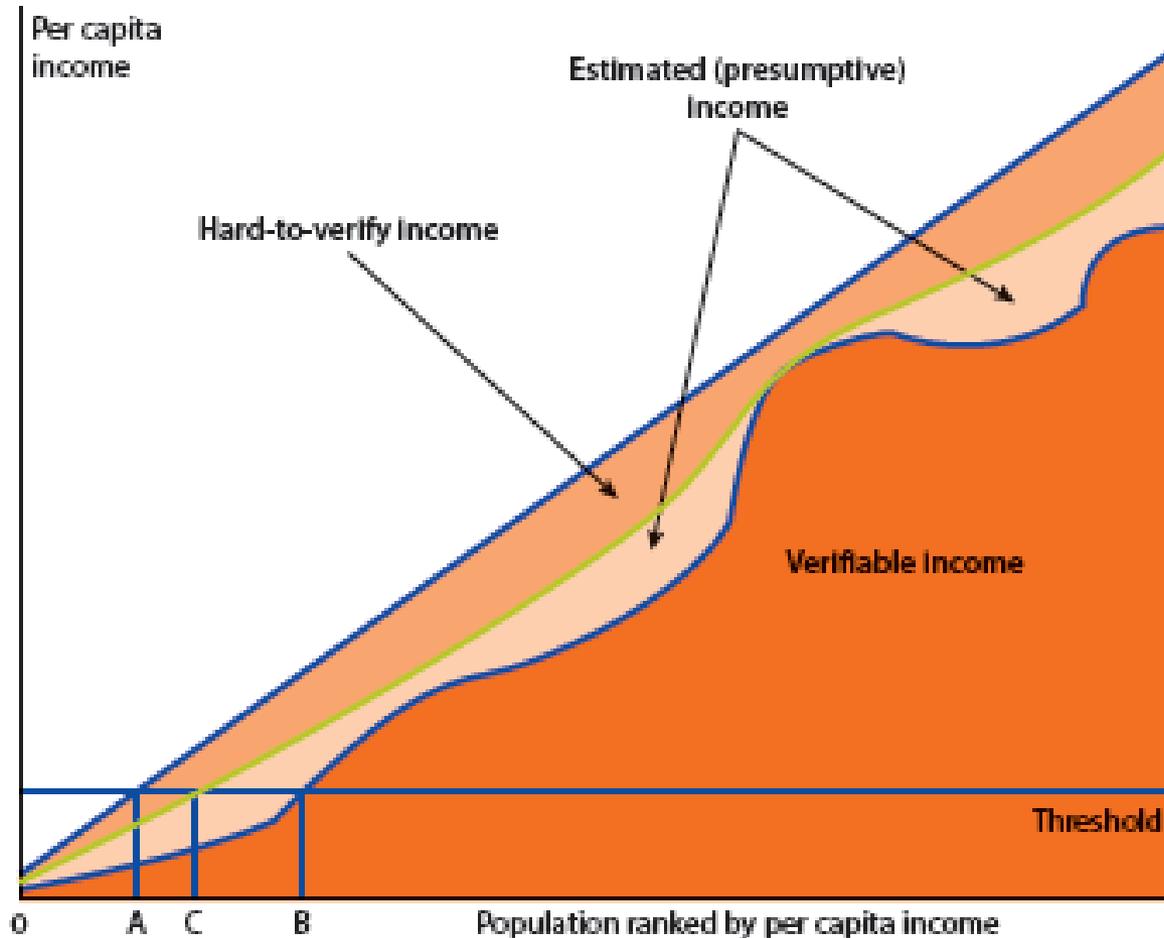
Certificate of size and type of land, amount of livestock in peasant farm or in personal homestead land

Documentation or Cross-Checks Useful

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

b. Income test under hybrid means test approach

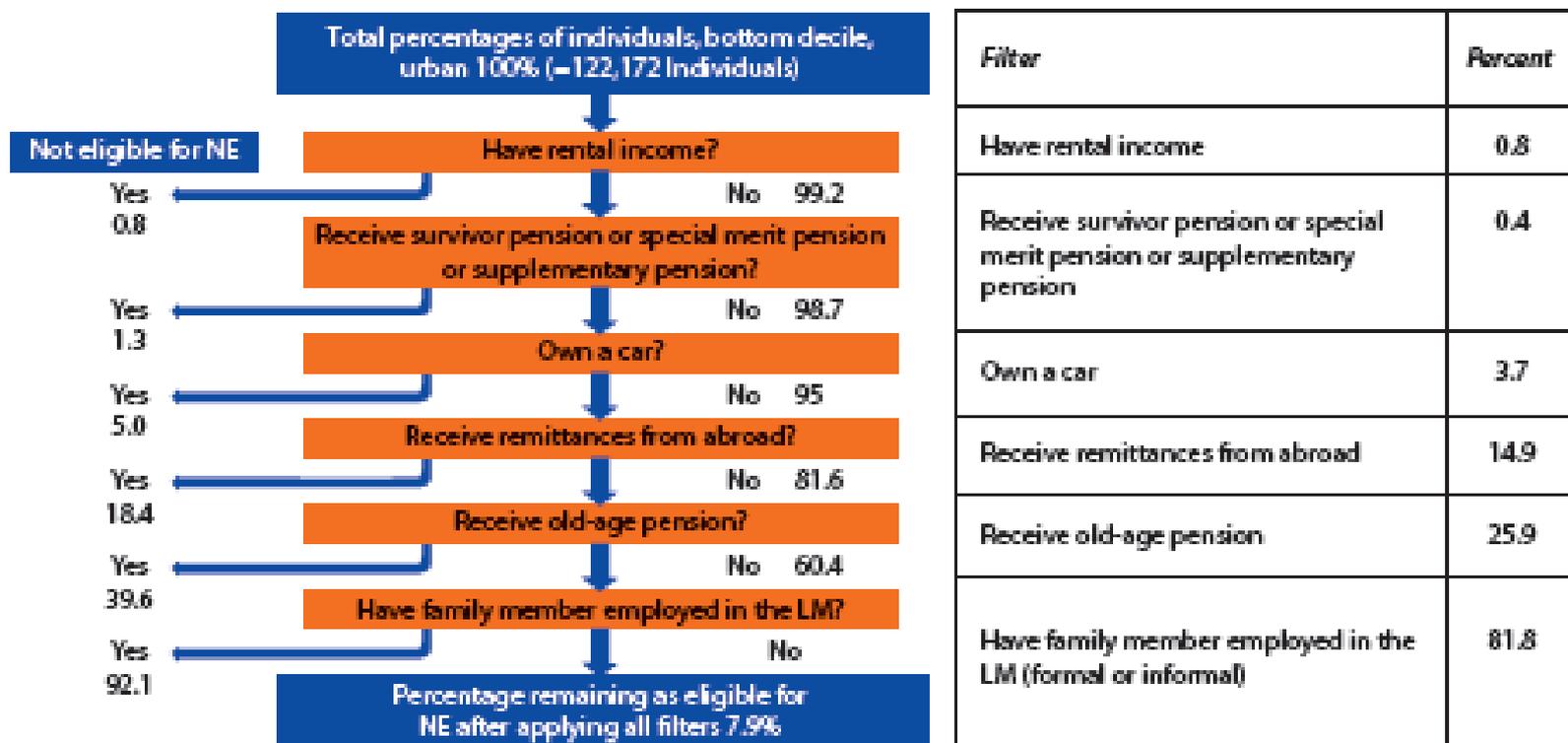


Source: Tesliuc, Leite, and Petrina 2009.

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

Percent



Source: Reproduced from World Bank 2010.

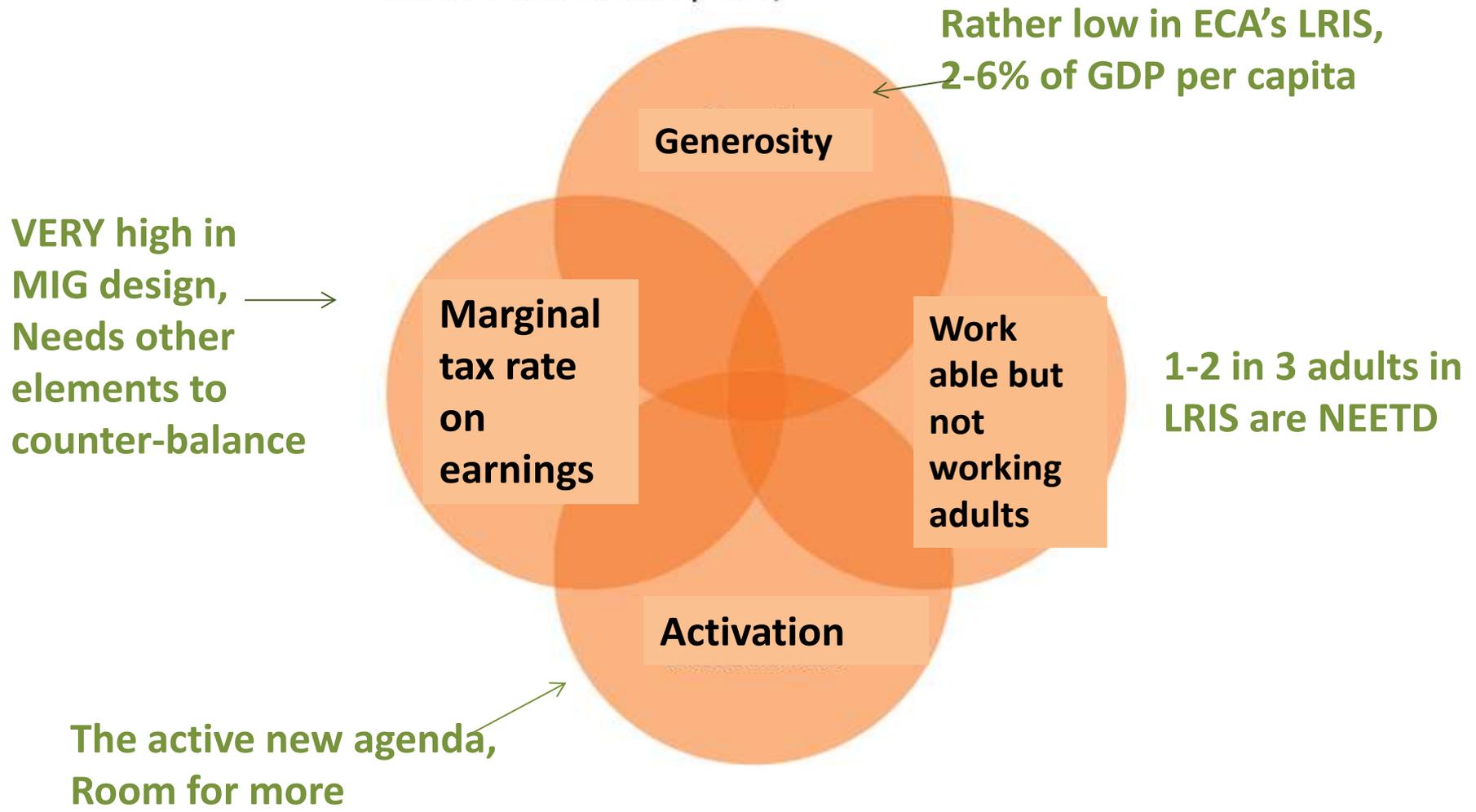
Note: The figure indicates the cumulative effect of the one-off filters in excluding individuals in the bottom decile in urban areas. The percentages present the exclusionary impact of each filter individually. NE = Ndihma Ekonomike.

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



Eligibility Thresholds Need to be Kept Up-to-Date

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

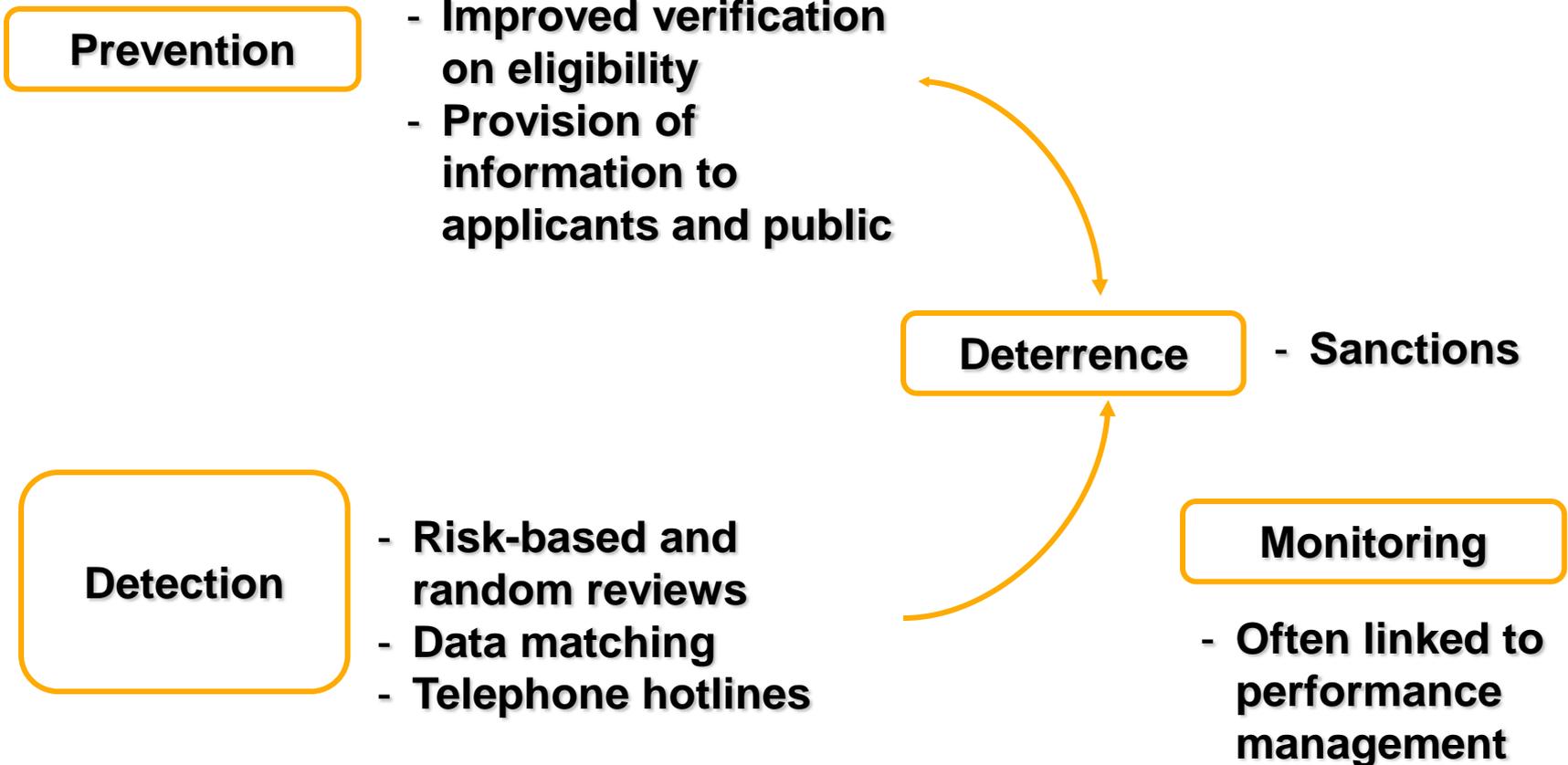
Thresholds should be:

- At least indexed to inflation
- Consider linking to a concept that reflects living standards
 - share of average labor earnings or
 - share of median income

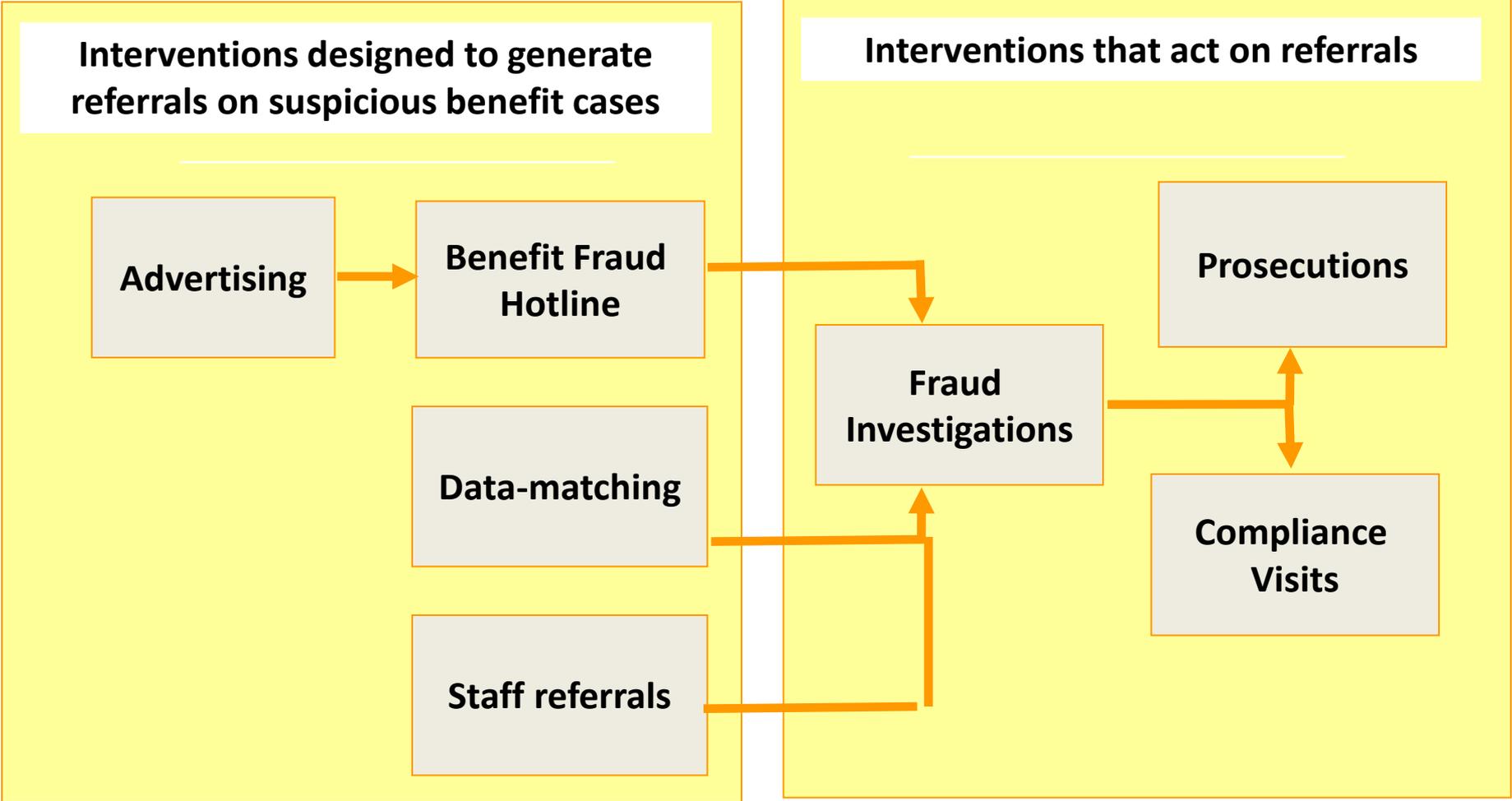
The Basics on Error, Fraud and Corruption (EFC):

- 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



Develop a comprehensive system to detect and correct EFC



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