

Chapter V. Social Protection and Poverty*



The Republic of Belarus has a well-developed system of social support. More than 14% of GDP or 31% of the consolidated budget expenditure in 2002 were channeled to social assistance and insurance programs. In addition it is estimated that quasi-fiscal social transfers by enterprises were equivalent to about 2-3% of GDP. In the absence of these direct social protection transfers, poverty would have been higher. Social transfers are generally distributed progressively, but we found that several programs inadequately cover the poor, while entailing substantial leakage to the non poor.

The social protection system is almost universal, covering about 4 in 5 persons. Basically, benefits accrue to both poor and rich households, to those who are in need and those who can fend for themselves. Due to this large coverage, most social protection benefits are small compared to household consumption needs. Pensions are found to be the most adequate benefit, in part because of a strong policy of indexing pensions to real wages. Child allowances are also found to provide adequate protection, but they reach only 30% of poor households.

To generate a larger reduction in poverty within the same resource envelope, there is scope for rationalization of privileges, consolidation, and improvements in social assistance program design. The government has already launched a bold program of phasing out untargeted privileges. It has also piloted a Targeted Social Assistance (TSA) program. The innovations in means testing, targeting and one-stop action initiated under the Targeted Social Assistance (TSA) program are in the right direction and could be expanded further.

5.1 Overview of the Main Social Programs

The details of Belarus' many social programs and policies, including entitlement criteria, recipients, funding and other relevant issues are discussed in the technical background paper on this topic in Volume II of the report. In this section we provide an overview.

Similar to other transition countries, social protection programs in Belarus are regulated through a complex system of laws and regulations. These programs have several components: (i) *social assistance* programs, such as family and child allowances; housing allowances; targeted social assistance benefits; (ii) *subsidies* (both explicit paid by the government, and implicit borne by the producers of the goods and services); (iii) *social privileges* (discounts on utility tariffs, transport fees, and so on) designed to help individuals or households cope with income risks or situations of chronic poverty; and (iv) *social insurance* schemes, such as mandated insurance for unemployment, old age (pensions), disability, survivorship, sickness, etc., which are designed to help mitigate income risks. The social assistance system is characterized by a large number of categorical benefits and subsidies organized into at least 77 privileges, at least 34 categorical groups and at least 43 different subsidies. Over 80% of the country's population are receiving some sort of benefit (excluding pensions, scholarships and the like). About half the population receives social assistance benefits, but the average benefit is only around BYR 6,000 per month (or US\$ 3). Even this low average is influenced by a few high values (reaching up to more than BYR 100,000 per person), with the median transfer around BYR 3,000 – 4,000. Several social benefits are linked to the Budget of Subsistence Minimum (BSM) which is recalculated by the MLSP on a quarterly basis.

* This chapter based on the findings reported in Kuddo and Tesliuc (2003).

The programs are regulated by at least 100 laws, 11 ordinances and 70 decrees by the President of the Republic of Belarus, over 900 resolutions by the Governments of the ex-USSR, ex-Belarusian Soviet Socialist Republic and the Republic of Belarus, about 50 regulatory acts by ministries, and over 60 decisions by local governments. The programs are also financed from multiple sources: state and local budgets, Social Protection Fund, Employment Fund, and resources of public enterprises and organizations. Program administration is fragmented. Different ministries and administration levels are responsible for separate programs, various benefits and social services.

In addition, some of the prices on goods and services are still controlled by the administrative pricing policy. The Law "On Pricing" from May 10, 1999 is in effect. Prices are a mixture of state-controlled and free prices. A total of 19 state agencies, six regional executive committees and the Minsk City Executive Committee are empowered to oversee the pricing of an overly broad range of goods. Approximately 3,000 enterprises are presently included in the national and regional lists of monopolists and the prices for the goods and services they produce are regulated in accordance with anti-monopoly legislation. An average of 81 % of goods is subject to state prices control. The survey of economic entities revealed that in 2002, 66 % of the respondents were affected by pricing controls to a varying degree.

This complex regulatory and delivery system results in rather high expenses for the social security system.

A large share of GDP is redistributed through social programs. Annual allocations for various social transfers to the population amounted to 14.5 % of the GDP (Republican and local budget transfers to the population, and expenditures of the Social Protection Fund), and 31.4 % of the general budget in 2002. By international standards, this is a considerable amount. Quasi-fiscal transfers via enterprises also continue to play an important role in social protection. The value of social expenditures carried out by enterprises according to explicit or implicit Government mandates are estimated at about an additional 2-3 % of GDP in 2002.

5.2 Assessing the Poverty Impact of Social Protection Transfers

The poverty impact of social assistance programs is often evaluated using three common measures – coverage, targeting, and effectiveness. *Coverage* or *outreach* is the share of the poor who receive the benefit; *targeting* is the share of expenditures from the benefit that is received by the poor; the efficiency of targeting of social assistance can be assessed by looking at the two types of targeting errors: non-payment to poor households (exclusion errors) as the under coverage rate or the percentage of poor who do not receive social assistance, and payment to non-poor (inclusion), the leakage rate or number of non-poor recipient households as a percentage of all recipient households; and *effectiveness* or *adequacy* is the share of the benefit relative to household expenditure. In the section below we try to assess these issues separately, but given that the dimensions are closely related to each other, the sub-sections sometimes overlap.

In addition to addressing the above issues as we assess the poverty impact of social transfers, we will also look at work incentives which will be an important issue if cash benefit programs provide a reasonable level of benefit and income thresholds (means tests) are used for determining program eligibility. Keeping the level of benefits low (relative to the average or minimum wage) will create fewer work disincentives, but will also be less effective in pushing households out of poverty. The duration of benefits is also a key question, as is benefit dependence.

(a) Coverage or outreach

From the wide range of cash benefits and social services included in the system of social protection, we focus our analysis on pensions, Chernobyl benefits, child allowances, scholarships, unemployment benefits, privileges and a set of various benefits with smaller coverage grouped within one category, “other state subsidies and benefits” (e.g. maternity, burial, etc.). To assess the extent of informal networks in helping households to mitigate risks we look also at *remittances*, the financial assistance the households receive from relatives or friends not living with family or from charitable organizations.

Belarus’ social protection interventions have extensive coverage. According to the 2002 HIES, social protection transfers reach 81% of the Belarusian households (Table 22). *Privileges* have the highest outreach, 61% of the households receiving at least one of the following privileges or discounts: meals, public transportation, housing and utilities allowances, fuel, electricity discounts, telephone, vouchers to holiday centers, medicines, children day care. *Pensions* have the second largest outreach, 55% of households benefiting from at least one of the main five types of pensions (old age, disability, survivor’s, military or social). *Child allowance* is the next major program with large participation, one fifth of the population living in households benefiting from child allowance. Other programs with moderate coverage of the population are *Chernobyl benefits* and *scholarships*, each benefiting almost 7% of the population. The *Targeted Social Assistance* (TSA) program, at the time of the survey, was implemented on a pilot basis, with low budget and coverage.

Table 22. Outreach of Main Social Protection Programs, 2002

Type of Benefit	Outreach of SP benefits		Benefit Per Recipient HHs. Rubels IV O-2001			Importance
	% of Population Covered by Benefits*	% of Households Receiving Benefits	Average Benefit per Household	Median Benefit per household	Coefficient Of Variation	Share in total SP Transfers** %
Social Protection, o.w.	81%	81%	67,030	60,746	0.62	100%
Pensions	46%	55%	81,593	67,719	0.29	82.0%
Chernobyl benefits	7%	8%	1,510	1,139	0.94	0.2%
Child allowances	19%	12%	23,012	20,491	0.61	5.1%
Other state subsidies and benefits	9%	8%	13,985	11,453	1.66	2.0%
Scholarships	7%	5%	12,510	9,404	0.66	1.1%
Unemployment benefits	3%	2%	5,692	3,914	2.91	0.2%
Privileges	62%	61%	8,235	2,691	2.93	9.3%
Remittances	43%	39%	16,731	8,600	2.73	

* Beneficiary Households weighted by household size; ** Social Protection Transfers without remittances

Source: Belarus Household Income and Expenditure Survey, 2002

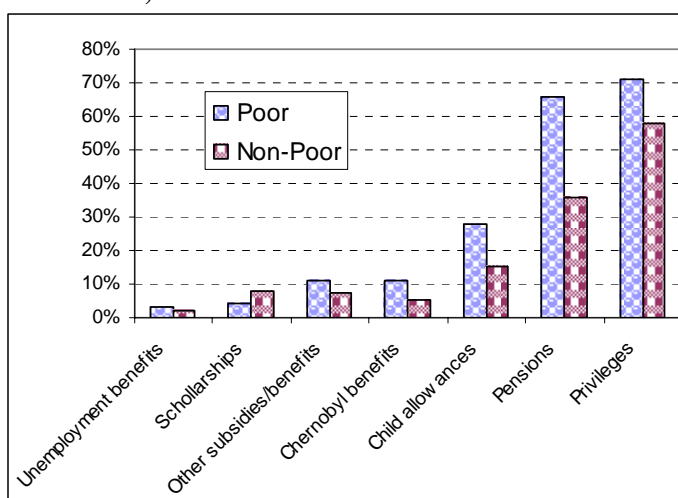
Private transfers are also important, with 39% of households counting on remittances from friends or relatives to cope with income, health, weather or other shocks that may affect the household’s ability to smooth consumption. Remittances are equivalent to 12% of total social protection transfers.

Belarus’ coverage of the population with pensions is the same as in Poland, Hungary, Romania or Bulgaria but there are important differences with regard to other benefits. While in the selected countries less than one third of the households depend on social assistance and other non-contributory benefits, in Belarus over 65% of the population receive at least one type of privilege, price discount, subsidies, Chernobyl benefits or financial assistance. The child allowance program, however, has a very low coverage in Belarus compared to other countries, except Serbia. This may be due to the fact that in Belarus the child allowance for children over three

years old is means tested while in other countries child or family allowances tend to have a universality feature. The low take-up ratio for child allowance could also be a sign of relatively low benefit level compared to the cost for the applicants.

Whatever the assumption, privileges have the highest coverage of the poor followed by pensions and child allowances. In assessing how well social transfers reach the poor per se, a first step involves accurately identifying *which households would fall below the poverty line before receiving these transfers*. The aim is to determine what household welfare would have been without government interventions. We experiment with three possible counter-factuals for the without-transfer welfare level: i) the actual or post transfer consumption (a hypothesis that presumes a total crowding out of social protection, that is, without social protection nothing would happen to consumption as households will work more hours or supply more labor and/or receive help from relatives or friends); ii) the actual consumption minus 50% of the transfers (a hypothesis that presumes that the net gain out of social protection is equivalent to 50% of the transfers, that is, without the transfers consumption will be the post transfer consumption less 50% of the transfers); and iii) the actual consumption less the entire amount of the transfer (a hypothesis that presumes there is no crowding out, that is, in the absence of social protection transfers the household will do nothing and their consumption will be diminished by the entire amount of the transfers).

Figure 16: Coverage of the Poor vs. Non-Poor Households, 2002



Source: Belarus Household Income and Expenditure Survey, 2002

Despite public belief that privileges are untargeted and do not necessarily have a poverty alleviation focus, the survey data suggest that they are the benefits with the highest coverage of the poor (Figure 16), between 63% to 73% of the poor population (under the assumption of no crowding out) benefiting from them. Equally true is that this high coverage of the poor is achieved at the cost of high inclusion error: almost 60% of the non-poor population also receive privileges.

Gaps and duplication exist in program coverage. Overall, the non-pension social protection system has good coverage of the poor and moderate overlap among programs (Table 23). Four out of five poor households are covered by the system, 40% of them receiving multiple social assistance benefits. However, the

Table 23. Gaps and Duplication in Non-Pension Social Protection Programs

Share of Population Benefiting from, %	Poor	Non poor	Total
No benefit	19	34	29
Only one benefit	50	50	50
Cernobil benefits	2	2	2
Child allowances	6	5	5
Other social assistance	1	1	1
Privileges	41	42	42
Multiple benefits	31	17	21
Total	100	100	100

Source: Belarus Household Income and Expenditure Survey, 2002

system has significant leakage to the non-poor. Two in three non-poor households are covered by social assistance programs, with one quarter of them cashing in multiple benefits. At the same time, among the poor “rejected” by the system, we found households headed by individuals with low education, headed by able-bodied individuals without children or living in smaller households. Pensioner-headed households are less likely to be left out compared to workers. Among two poor households with similar characteristics, the chance of being covered by social assistance programs is similar for those headed by males vs. females, or among those living in rural vs. urban areas.

(b) Pro-poor targeting

Transfers are in general very progressive. We also investigate how effectively the social protection system redistributes income, i.e. transfers resources from the rich to the poor. If the poorest groups receive a larger share of program benefits than the share of the group in total population, the transfer is well-targeted and *highly progressive*. A social program that transfers more than 20% to the poorest quintile will be highly progressive. If the poorest groups receive a larger share of program benefits than the share of the group in total consumption, but less than the share of the group in total population, the transfer is *mildly progressive*. A social program that transfers 8-20% to the poorest quintile can be regarded as mildly progressive. If the poorest groups receive a smaller share of program benefits than the share of the group in total consumption, the transfer would be termed regressive. Progressive social protection programs reduce inequality, and contribute to the reduction in poverty as well.

Most social protection programs in Belarus are highly progressive. We performed sensitivity analysis of these results using different counterfactuals of pre-transfer consumption (based on current consumption, consumption - 50% of transfers, consumption - 100% of transfers). The poor get a higher share in population than the non-poor for the last two counterfactuals, and slightly more than their share of population – which means highly progressive still – if we rank households on post-transfer consumption. Among the programs with the best targeting performance are the child allowances, pensions and Chernobyl benefits. Scholarships have the poorest targeting performance (Table 24).

**Table 24. Benefit Incidence Analysis of Main Social Protection Programs
(share of program benefits by consumption group)**

	Total	Poverty status		Without transfers Quintiles*				
		Poor	Non poor	1- Poorest	2	3	4	5- Richest
Distribution of SP Transfer by Group								
Social Protection	100%	50%	50%	34%	23%	18%	13%	11%
Pensions	100%	52%	48%	35%	24%	18%	13%	10%
Chernobyl benefits	100%	50%	50%	33%	25%	18%	12%	12%
Child allowances	100%	52%	48%	37%	23%	19%	14%	7%
Other state subsidies and benefits	100%	35%	65%	26%	17%	20%	17%	20%
Scholarships	100%	16%	84%	8%	13%	17%	32%	30%
Unemployment benefits	100%	42%	58%	17%	30%	16%	6%	31%
Privileges	100%	41%	59%	27%	20%	19%	17%	17%
Remittances	100%	16%	84%	9%	12%	20%	20%	39%
<i># of Individuals in the group</i>	<i>100%</i>	<i>33%</i>	<i>67%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>
<i>HH Consumption</i>	<i>100%</i>	<i>17%</i>	<i>83%</i>	<i>8%</i>	<i>14%</i>	<i>18%</i>	<i>23%</i>	<i>36%</i>

Note: *welfare groups are based on a counterfactual consumption (HH consumption - 50% of SP transfers)

Source: Belarus Household Income and Expenditure Survey, 2002

Targeting performance not so good compared to other countries. In other countries in the region, targeted poverty-reduction programs achieve higher targeting performance than social assistance programs in general in Belarus. In Armenia, Romania, Kyrgyz Republic or Serbia, the share of benefits captured by the poorest quintile goes from 50% to 65% of total spending under the program. Some of these programs are means-tested: they restrict benefits to households whose income or assets are above a certain threshold (Serbia, Romania, Kyrgyz). Other programs use proxy-means test – household scores computed based on a formula that takes into account a few household characteristics highly correlated with poverty status – to select eligible households. Such methods can increase the targeting performance of social assistance benefits.

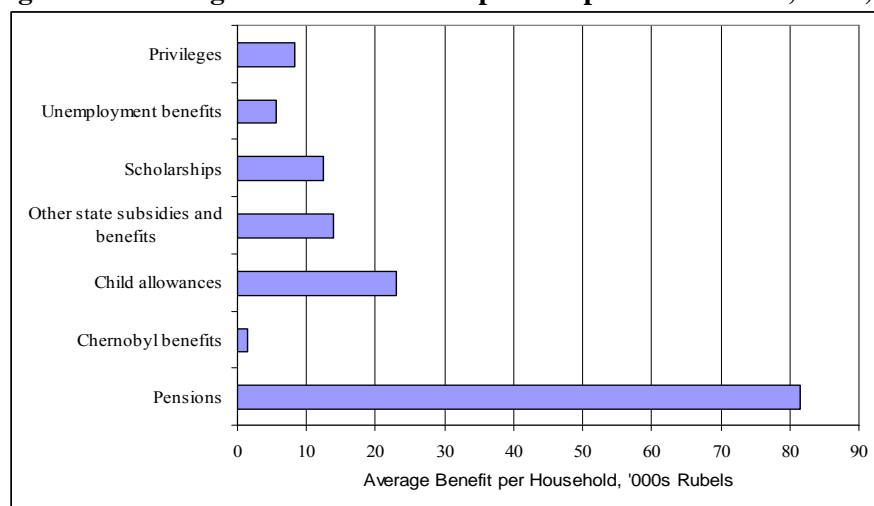
The preceding analysis suggests that in spite of the high volume of resources channeled through the social protection system, the government's efforts appear to be weakly targeted towards those in need. The Targeted Social Assistance program – the only program that attempts to focus resources to the neediest households – accounts for too small a share of budgetary resources to make a difference. Most other programs use categorical targeting criteria, with less efficient outcomes.

(c) Poverty reduction effectiveness

The importance of Belarus' social protection programs for poverty reduction comes not only from its extended outreach, but from its sizable contribution to the income of the poor and extreme poor.

There is considerable variation in the average benefit level per household across programs (Table 22 above and Figure 17 below). *Pensions* provide the highest average benefits for households, consistent with their role to provide replacement incomes contingent on socially insured risks. They represented about 82% of the total social protection transfers received by households in 2002. The *child allowance* is the next most important household benefit both in terms of absolute amount and relative share in total transfers. *Privileges*, as suggested by the household's own estimation of the financial value of various privileges, discounts and subsidies, are not very important in absolute terms, but because of their pervasive coverage, they account for a large share in total transfers after pensions (above 9% of total social protection transfers). A

Figure 17. Average Size of the Benefit per Recipient Household, BYR, 2002



Benefits in constant prices of IV Q 2001.

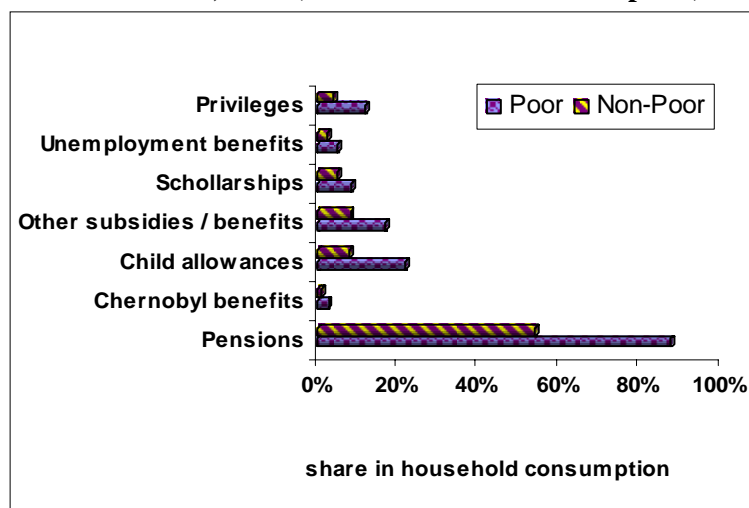
Source: Belarus Household Income and Expenditure Survey, 2002

sharp decrease in the share of population covered by *Chernobyl benefits* can be noticed in 2002, following a thorough reform of these benefits in 2001. With 50% less beneficiaries in 2002 compared to 2001, the relative share of these benefits in total household's social protection transfers represented less than a half percentage point.

In contrast, there is little variation of benefit levels *within* programs (for example, between the pension receipts of different pensioner households), with the exception of privileges and unemployment benefits. *Pensions* are distributed rather evenly across recipient households, the variation in terms of average pension benefits per household being very low. While pensions reflect length of service and wage level prior to retirement, benefits at the top and the bottom of the pension distribution have indexation coefficients resulting in a compression of the distribution. This could be perceived as socially unfair especially for old age pensioners with longer service records and could weaken worker incentives to contribute to the system. Small differentiation in pension benefit level has been observed in all the CIS countries. *Privileges* exhibit the largest variation among recipient households. In 2002 a household received on average about BYR 8,000 per month (US\$ 5.5) from privileges, however 50% of the recipient households benefited from less than one third of that amount. *Unemployment benefits* display large variation among households consistent with the program's design that intends to cover lost wages, which are expected to differ from one individual to another.

Social transfer benefits are more important for the poor vs. the non-poor. The social transfers and privileges, especially pensions, account for a larger share in the consumption of the poor than for the non-poor (Figure 18).

Figure 18 Adequacy of Program Benefits, Poor vs. Non-Poor Households, 2002 (benefits as a % of consumption)



Source: Belarus Household Income and Expenditure Survey, 2002

The welfare of the poor and extreme poor is crucially dependent on social protection transfers. To illustrate this, Table 25 compares the income from social transfers with the household consumption before the receipt of social protection benefits. Pensions, social assistance benefits and privileges account for 27% of average household consumption, but for 45% of the consumption of the *poor* and 52% of the consumption of the *extreme poor*. Assuming that 1 Ruble reduction in the transfer entails a similar reduction in household consumption (there is no mitigation or coping), social protection benefits represent 59% of the pre-transfer

consumption of the poor, and 70% of the non-poor. Assuming that 1 Ruble reduction in the transfer entails a 0.5 Rubles reduction in household consumption (there is some coping), social protection benefits represent 62 % of the pre-transfer consumption of the poor, and 78 % of the extreme poor.

Table 25. Importance of Social Protection Benefits for the Consumption of Poor and Extreme Poor Households

	Total	Cs after receipt of SP benefits		Cs - 50% SP		Cs - 100% SP	
		poor	extreme poor	poor	extreme poor	poor	extreme poor
Household Consumption, o.w.:	100%	100%	100%	100%	100%	100%	100%
Social Protection, total	27%	45%	52%	62%	78%	59%	70%
pensions	22%	34%	37%	53%	66%	51%	61%
Chernobyl benefits	0.1%	0.1%	0.2%	0.1%	0.2%	0.1%	0.1%
child allowances	1.4%	5.5%	9.0%	3.3%	4.4%	2.5%	2.7%
other state subsidies and benefits	0.5%	0.7%	0.8%	0.9%	1.2%	0.9%	1.0%
scholarships	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
unemployment benefit	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%
privileges	2.5%	4.2%	5.2%	4.7%	5.6%	4.3%	4.7%

Note: Cs stands for consumption. Cs - 50% SP is the counterfactual consumption determined from current (observed) consumption less 50% of the social protection transfers. Cs - 100% SP is the counterfactual consumption determined from current (observed) consumption less 100% of the social protection transfers.

Source: Belarus Household Income and Expenditure Survey, 2002

In the absence of social protection benefits, poverty would increase substantially (Table 26). Assuming that 1 Ruble reduction in the transfer entails a 0.5 Rubles reduction in household consumption (there is some mitigation or coping), for example, there would be 1.8 times more poor people, and 2.8 times more extreme poor people. Distribution-sensitive poverty measures, such as the poverty gap or severity, will increase even more.

Table 26. Simulated Increases in Poverty in the Absence of Social Protection Transfers

	Observed Poverty	Cs - 50% SP		Cs - 100% SP	
		Counterfactual Poverty	Counterfactual/O bserved	Counterfactual Poverty	Counterfactual/O bserved
	(1)	(2)	(3) = (2)/(1)	(4)	(5) = (4)/(1)
Total Poverty					
Poverty Headcount (P0)	18.5%	33.2%	1.79	45.0%	2.43
Poverty Gap (P1)	0.037	0.101	2.76	0.217	5.94
Consumption gap of the poor	20%	30%	1.54	48%	2.45
Poverty Severity (P2)	0.011	0.046	4.09	0.149	13.28
Extreme Poverty					
Poverty Headcount (P0)	7.0%	19.5%	2.77	33.9%	4.82
Poverty Gap (P1)	0.012	0.057	4.69	0.169	14.00
Consumption gap of the poor	17%	29%	1.69	50%	2.90
Poverty Severity (P2)	0.004	0.026	7.03	0.121	33.03

Note: Cs stands for consumption. Cs - 50% SP is the counterfactual consumption determined from current (observed) consumption less 50% of the social protection transfers. Cs - 100% SP is the counterfactual consumption determined from current (observed) consumption less 100% of the social protection transfers.

Source: Belarus Household Income and Expenditure Survey, 2002

Which programs are most efficient at protecting the poor against the risk of poverty? One way to focus on the poverty effectiveness of various programs is to estimate the amount of resources spent in order to reduce the poverty gap of the program beneficiary by 1 Ruble (Table 25). A cost-benefit ratio is thus computed for each program, where (i) the program benefits were measured as the reduction in the poverty gap due to the program; and (ii) the program costs are

the total receipts under the program²¹. The resulting ratio gives the numbers of Rubles spent per 1 Ruble reduction in the poverty gap (Table 27). The lower the figure (preferably close to one), the better is the outcome. Assuming the targeting performance would not change with the size of the program, the Government may reduce poverty keeping the same level of social protection spending by transferring resources from programs with higher cost-benefit ratios toward programs with lower ratios.

The analysis suggests that the child allowances and pensions are the best instruments from the set of current programs to fight poverty and extreme poverty. Scholarships and the unemployment benefits are the least efficient means to reduce extreme poverty.

**Table 27. Cost-Benefit Analysis of Selected Social Protection Programs
of Rubles transferred by the program/ 1 Ruble reduction in poverty gap**

Total Poverty	Total Poverty	Extreme Poverty
Social Protection	2.0	2.9
Pensions	2.0	3.0
Chernobyl benefits	3.9	9.7
Child allowances	1.7	2.8
Other state subsidies and benefits	4.3	9.6
Scholarships	7.7	28.9
Unemployment benefits	3.0	10.2
Privileges	3.4	7.0
Remittances	4.5	8.6

Source: Belarus Household Income and Expenditure Survey, 2002

None of the social protection programs implemented in Belarus in 2002 are close to the “perfect program” benchmark in terms of coverage or targeting. The indicators of coverage, absolute target incidence, and relative target incidence (importance/adequacy) all reveal important information about the effectiveness of the programs. This section seeks to combine those multiple indicators for a more comprehensive review of these programs, in particular with respect to their effectiveness in reducing poverty. Figure 19 plots in a single graph the three related concepts of coverage, absolute target incidence, and adequacy for various social protection programs based on a simulated model that classifies the poor based on a counterfactual of consumption (i.e., in the absence the transfers). The x-axis presents the coverage of the poor. The share of total benefits received by the poor is plotted on the y-axis (absolute target incidence). Adequacy is captured by the size of the “bubbles” in the graphs.

A “perfect” program would be located on the upper right-hand side of these graphs, with a large bubble (equal to the size of the poverty gap before the transfer). None of the programs appear to meet the “ideal” criteria. This is not a deficiency of the Belarus social protection system; such programs are difficult to design and implement. However, the more programs are close to that quadrant, the better the social protection system is at reducing poverty efficiently, that is minimizing the amount of budgetary resources spent for one Ruble reduction in the poverty gap.

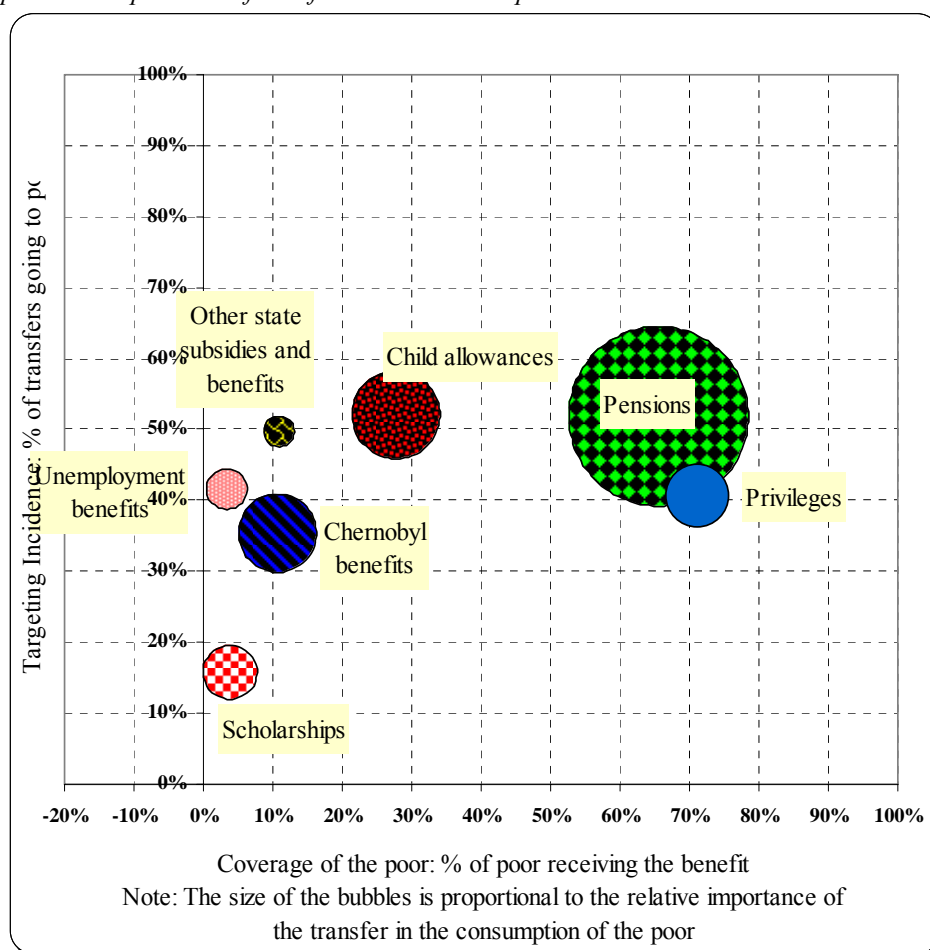
²¹ Due to limitations in the HIES data, the program cost includes only the amount of benefits received by the beneficiaries (as reported or assessed by the beneficiary). This means that neither administrative costs nor other take-up costs (registration costs, travel to the social assistance office, etc.) are taken into account.

From a poverty alleviation perspective, pensions have an important role in mitigating the risk of poverty. A reduction in the pension adequacy may result in a large number of poor pensioners, given that pensions constitute the principal income source for this group, while other sources of income are almost non-existent (unlike in most other transition countries).

Child allowances and other social assistance benefits have the best targeting performance, but the benefit adequacy of child allowances is smaller, and their coverage of the poor is low. Unlike them, untargeted programs such as privileges have larger coverage of the poor. The least contribution to the poverty reduction agenda are from the scholarships. As discussed in an earlier chapter, a reassessment of the system may be warranted, to better target it toward the poor in order to break the inter-generational transmission of poverty.

Figure 19. Adequacy of Program Benefits, Poor vs. Non-Poor Households, 2002

Overall effectiveness of main social transfers: coverage of the poor, targeting of funds to the poor and importance of benefits in their consumption



Source: Belarus Household Income and Expenditure Survey, 2002

5.3 Improving the Efficiency of Social Transfers

In recent years, the Government of Belarus has taken important steps to reforming the existing social assistance system. We focus on two major examples here: the Targeted Social Assistance Program (TSA) and the reforms to generalized utility subsidies.

Targeted social assistance pilot proved to be promising. Starting from January 2001, a new system of targeted social assistance (TSA) was introduced. In comparison to the previous system, TSA is focused on assistance to those families that fall short of a certain guaranteed minimum income (GMI) per family member and fulfill a large number of requirements and conditions. The Government has simultaneously started to revise the existing – categorical – system of social benefits. At first, guaranteed minimum income (GMI) was set at 50 % of the crisis (subsistence) minimum. Beginning October 2001, it was increased to 60 % of the crisis minimum. The increase in the GMI has turned out to be unsustainable. During the first 9 months of 2002, due to absence of the working mechanism for redistribution in some regions, the available resources were already overspent. This raised questions about the sustainability of the system and about the definition of the eligibility criteria.

As a response to these questions, following the Resolution of the Council of Ministers of Belarus “On Measures for Unified Targeted Social Assistance System Implementation” issued on February 11, 2002, the social assistance pilot was carried out in the Osipovichi district, Mogilev region, to appraise the approaches incorporated in the Strategy for the Implementation of the Unified Social Assistance Program.

- *Level of benefit.* The new draft decree of the Cabinet of Ministers establishes the threshold for the targeted social assistance as 60% of the subsistence minimum, and the benefit level is determined as the gap between the actual per capita income of the household and the established threshold.
- *Duration.* The maximum duration of benefit payment is established at 6 consecutive months following the date of application.
- *Eligibility criteria.* The basis for income calculation is total household incomes during the last six months prior to submission of application. An employment test is applied, e.g., targeted assistance is not provided to non-working able-bodied population who are not registered at the national employment services (except citizens who take care of a child under 3, disabled child under 18, disabled first group or elderly household members at age 80 and above; etc.). Other excluded categories include, for example, households in possession of land but not utilizing it for agricultural production.

Several lessons have been learnt through the implementation of the pilot program.

- The pilot confirmed that the system of income/means testing is difficult to implement because of flaws in evidence presented by the applicants. Assessment of incomes especially from non-wage and/or from informal sources might still be one of the major problems in evaluating the real welfare status of households. Nonetheless, means testing still constitutes a better way of targeting than relying on categorical or geographic criteria.
- Also a unified application form has been introduced, and a “one-stop shop” approach was applied to certain benefits. The benefit was administered by the same social service, e.g., no additional staff was hired or new units created. The pilot also confirmed that the administrative burden and administrative costs of the social services related to the introduction of TSAP did not increase, partially due to the fact that the eligibility criteria were unified, and a one-stop approach was applied.
- For the first time, the equivalence scale was used to calculate the level of per capita household incomes. However, most applicant families were living in dwellings (houses)

without any modern conveniences, and thus common consumption of especially utilities is not so typical to these families.

- Although no family was denied from the benefit due to “excessive” assets in the family, the experience of the pilot showed that the criteria, such as the year of purchase of expensive durables, were not precise enough to judge about the informal and unregistered incomes of the household.
- An evaluation of the economic potential of the household, e.g. how active the able bodied family members are themselves to improve their living conditions, as a tool to assess the status of eligibility, also provided a valuable lesson.
- The pilot also confirmed that there is a need for professional social workers to assist the clients and monitor the actual status of applicant or beneficiary families. Although social workers are visiting the families of beneficiaries, their authority is quite limited and undetermined.

Utility cross-subsidies are being reduced gradually. Cross-subsidization of municipal services is still common in Belarus: firms are charged for utilities at higher rates than domestic consumers. Reduced prices and tariffs on energy for some categories of consumers (mainly households) means increased costs of energy inputs for other categories (primarily industrial producers). Cross-subsidies have negatively affected both the enterprises of the fuel and energy sector. In 2001, the burden of subsidies on heat energy, electricity and gas, shifted from households to industrial producers constituted: BYR 227.5 billion for heat energy, BYR 188.9 billion for electricity, and BYR 116.2 billion for gas. The level of compensation from the average weighted tariffs for utility services supplied to households in January-December 2001 made up only 23% of the estimated real costs of these services for 2001.

- The government is in the process of phasing out cross-subsidization of consumers of energy resources. From the beginning of the 2002/2003 heating season in November, the government finally started to move on with utility tariffs reform. Average utility prices grew by 190% during 2002, and utility payments reached the level of 10% of consumption expenditures by the end of the year (6 % on average in 2002), compared to only about 4.3 % in 2001.
- Reduction of cross-subsidies are expected to go hand in hand with the adequate growth of household incomes relative to the increase of prices (tariffs) on utilities. The government is expecting that in 2001-2005, real household incomes will grow by 58-63 %, and real wages by 80-85 %, which would be sufficient to offset the impact of the utility tariff increase. This direct comparison between wage increases and utility increases on the grounds of poverty reduction may, however, once again jeopardize the viability of enterprises since these wage increases are largely brought about via administrative wage increases not linked to productivity increases.
- A more appropriate social protection measure in response to the reduction of utility subsidies is the means-tested housing subsidy (primarily to defray the cost of utilities for up to 3 months in the year) introduced by the government in 1994. Since the utility tariffs were administratively controlled by the Government, and were kept low until 2002/3, very few households applied for the benefit. For example, between January-August 2002, 36,400 households received the housing allowance, on average BYR 8,800 per household per month (around US\$ 4). With the shift in policy to reduce the untargeted generalized price subsidy, we can expect the applications to this program escalating. The relevant government decree

on housing subsidies was updated on November 14, 2002, and the family share of monthly utility payments for housing subsidies was raised from 15 to 25 % of total household income.

- The means-tested housing subsidy system allows a “price subsidy” to be targeted to those who need it the most and thus allows the Government to improve the efficiency of public spending relative to the untargeted subsidy in place before.

5.4 Policy Recommendations

The social protection system plays a very important role in mitigating the risk of poverty in Belarus, mainly due to the volume of resources it channels. Without direct social protection transfers, poverty and inequality would have been higher. Yet the poverty reduction impact achieved is not commensurate to the level that should be expected given the large magnitude of resources devoted to these programs. This is largely because of the multiple, fragmented nature of the benefits and the weak or absent targeting, which leads to many programs benefiting those who need assistance *and* those who do not. Resources tend to be “churned” rather than redistributed: most resources go back to the same households that pay the taxes required to finance social benefits. Even programs that have explicit poverty reduction goals inadequately cover the poor, while entailing substantial leakage to the non poor. Much is being done already—and can be deepened further—to address these weaknesses of an otherwise generous social protection system.

- *Child allowances.* Families with children under age 16 are numerous, they are nurturing the future of the country, and their ability to engage in the labor market is constrained. Yet *child allowances*, which is one of the best performing social programs, still covers less than 30% of the poor and provides far less adequacy of benefits than pensions. Thus, efforts to improve the pro-poor coverage and adequacy of the child allowance may be considered a high priority.
- *Social Protection Fund.* Special attention should be dedicated to pensions, whose legislated function is to provide social insurance for contributors and their dependents, to not depart from their role as instruments for mitigating social risks, and become another redistributive or coping mechanism. Furthermore, freeing the Social Protection Fund from the obligation of financing non-pension benefits (child allowances, maternity and birth-related benefits, health-related vacations) will restore the financial equilibrium and incentives the workers to contribute, should the number of corporate tax payers increase, following market reforms.
- *Payroll taxes.* Social contributions are high, 35% of payroll paid by employers plus 1% paid by employees. For individual entrepreneurs and legal entities, in July 2002, the mandatory pension contribution has been set as 30% of their incomes, and for other social payments, 6% of their total incomes, but the tax base is not less than the level of subsistence minimum per capita. Consolidating the set of social transfer programs and improving their targeting would enable the state to reduce the tax burden on enterprises, thereby facilitating economic growth.
- *Privileges.* Privileges can be divided into two types (i) those for veterans of war and labor, disabled workers and (ii) those for members of particular occupational groups (such as the police, military, MPs, judges, attorneys and custom officials). Though public opinion is favorable about war veterans, it is not favorable to occupational privileges. Yet the recipients represent powerful constituencies and as such occupational privileges are difficult to be removed. One option—which has already been adopted by the Belarusian authorities—could be to place these benefits within the budgets of the respective employing agencies and ideally

cash out as wage and salary compensation as incentive for worker retention and quality. A similar approach is undertaken by the Ukrainian Government.

- *Targeted Social Assistance.* Currently it is difficult to assess the poverty alleviation impact of the TSA program, since the HIES does not have any question to collect information on program participation or benefits. Given the intention to expand this program, we highly recommend improving the monitoring of the program and plan a baseline survey²² as a prerequisite for a thorough future impact evaluation.
- *Means testing.* Despite difficulties of measuring non-formal incomes, means testing is still likely to be a better option for Belarus than categorical or geographical targeting of social protection transfers to poor people. Geographic targeting or targeting using household or individual characteristics will entail substantial inclusion and exclusion errors. This is because groups with the highest risk of poverty represent a small share of the total poor, while the largest share of the poor is found among large socio-economic groups such as workers or pensioners, who also include households that are not necessarily poor.

²² The most economical option would be to modify the HIES to collect information on the program and over sample potential program participants. Alternatively, a survey of program participants can be implemented in parallel with the main survey, who will provide the control group.