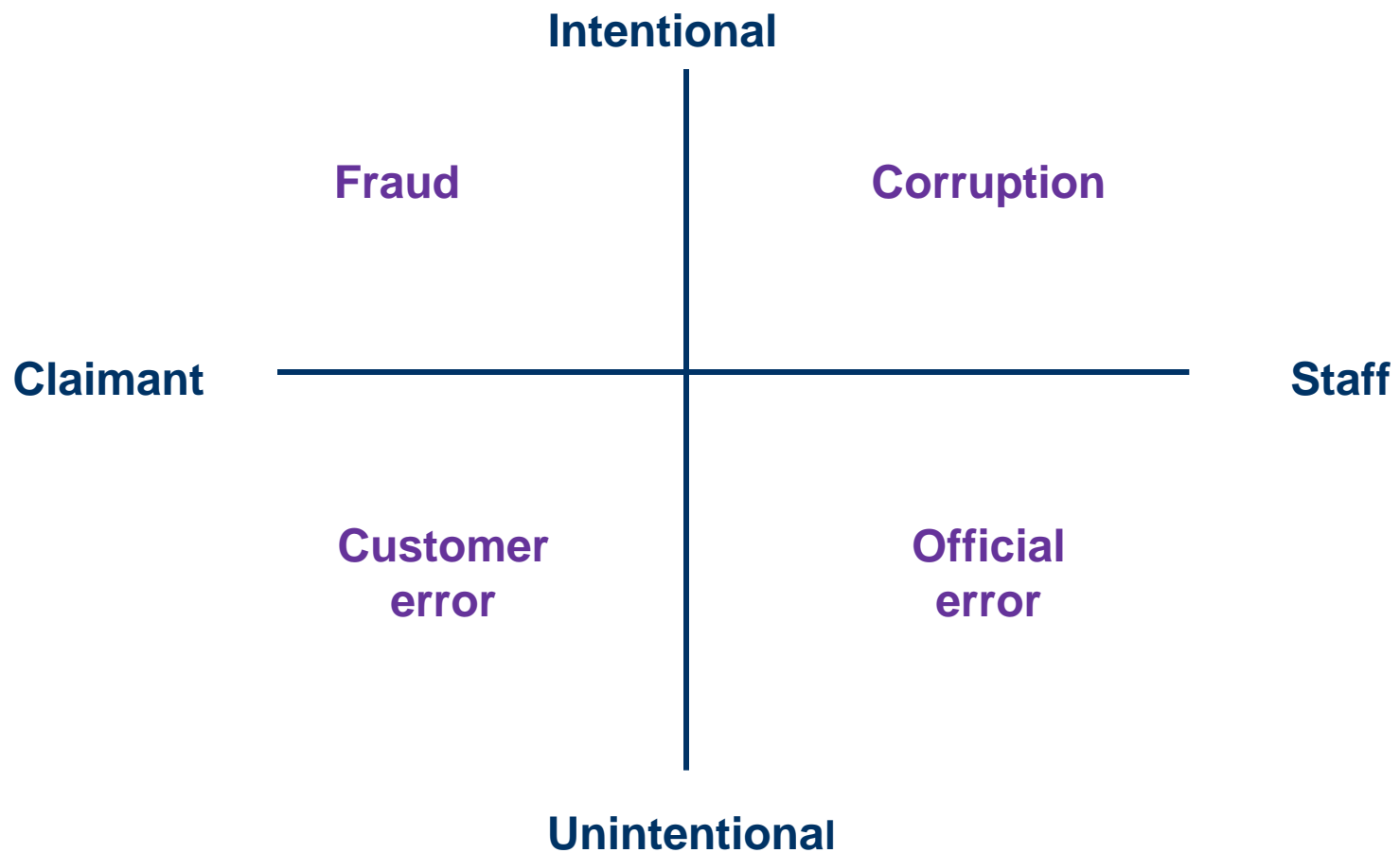


Reducing Fraud, Error and Corruption in Social Protection Programs

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Workshop on **Fraud and Error Control in Social Protection Programs**, Washington DC, May 16-17 2007

What are we talking about? **Definitions**

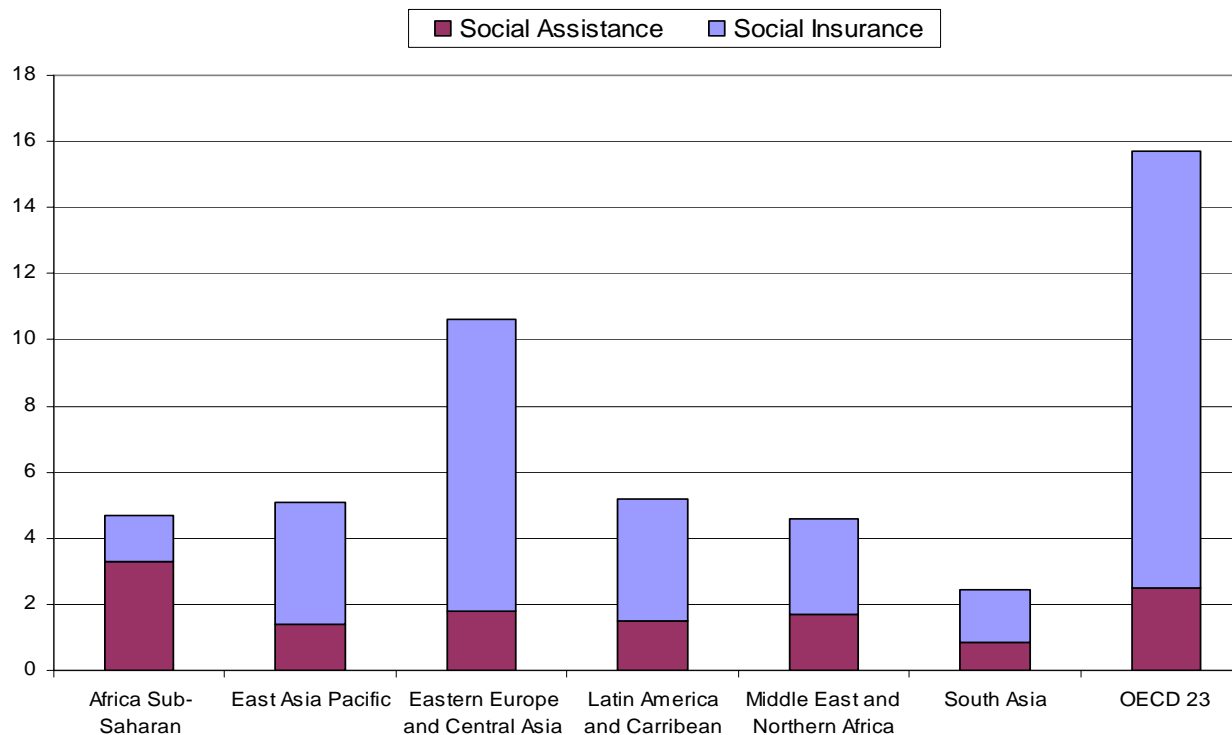


Importance of Mechanisms for Control of Fraud, Error and Corruption (FEC)

- Ensure efficient use of public resources
- Guard against political manipulation
- Ensure program credibility, and thus maintain public support

SP Programs channel large volume of resources, mostly in cash

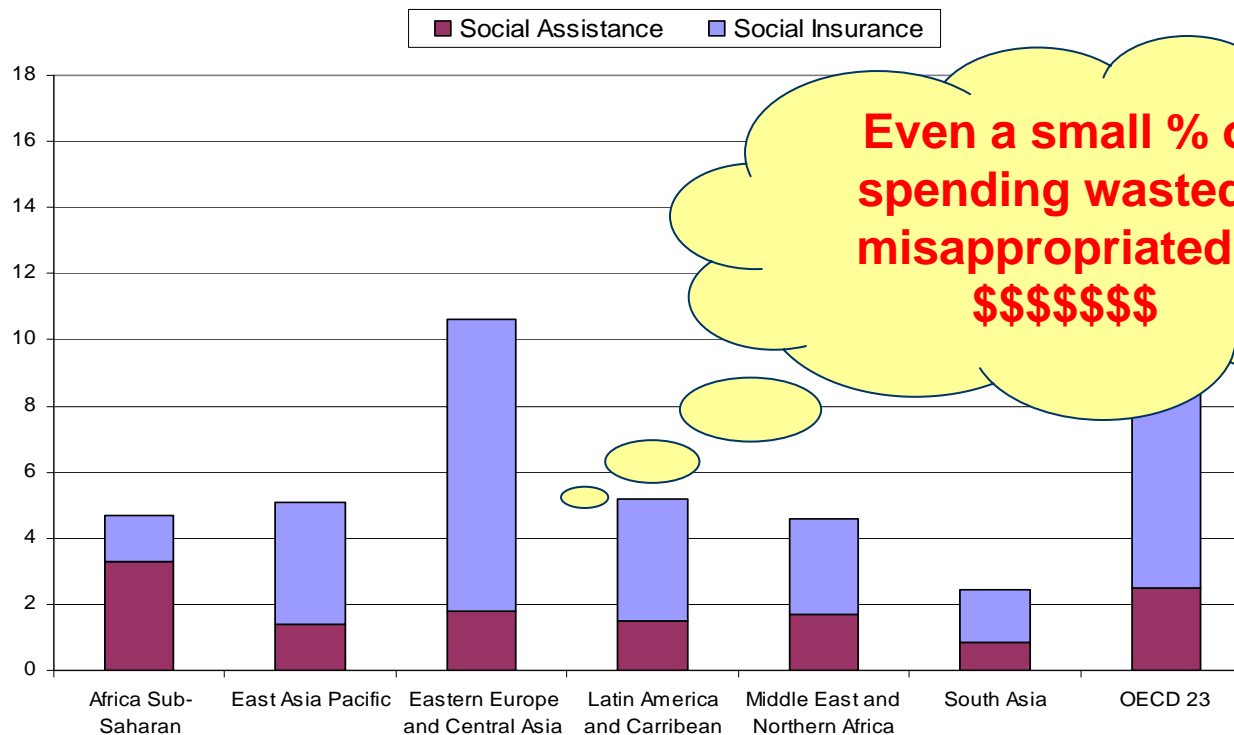
Social Protection Spending as a % of GDP



Notes: Data on 75 countries taken from WB Public expenditure reviews or other similar work. We used OECD-23 since OECD countries such as Poland and Mexico are already accounted for in the regional averages. OECD data from the OECD Social

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Implementation Challenges

- Number of participants and payments is large
- Responsibilities shared across different departments, agencies, levels of government
- Fraud seems a victimless crime
- Typically high visibility national initiatives

Some programs have bigger problems than others, none is immune to FEC

- India shows high irregularities:
 - 31.6% IAY (housing); GOI audit 2003;
 - 53.5% for SGSY (credit) GOI audit 2003;
 - Up to 90%? SGRY (employment program) - Administrative data suggests that 31.3 million man-days of work were generated in 2001-02, while the NSS data for 2002-03 suggests that less than 3 million man-days were generated.
- Polish disability pensions (Hoopengardner 2001): no overall fraud rate, but qualitative study documents price of false sick day at PLN10, and of disability certificate for 9 months as PLN 3000.
- US Food Stamps – runs rates of overpayments of about 4% (historically up to 10%), underpayments around 2%;
- No equivalent studies for LAC or ECA social assistance

What can you do? Let's Start with the Conclusions!

If you want to reduce FEC, you can!

- No program immune from error or even some degree of fraud, even with best controls
- ... but having solid mechanisms to measure, prevent, detect and deter FEC helps
- Use of multiple instruments strengthens the system
- Particularly important with decentralized implementation
 - Introduce incentive-based systems, with appropriate rewards and penalties

No ready-made solution, No magic bullet

- Adequate program accountability and control depend on interaction of variety of mechanisms
- Programs are not isolated within country and reflect character of overall national governance

What you can do to reduce the level of fraud, error and corruption (FEC)

- Use program design to minimize incentives and opportunities for FEC
- Set up adequate administrative procedures
- Align institutional responsibilities well
- Use transparency and communication well

Use program design to minimize incentives and opportunities for FEC

- Make program budgets consistent with eligibility criteria to eliminate opportunities for bribery;
- Simple eligibility criteria imply little discretion and opportunity for bribery, where complexity is necessary reinforce the program with quality control mechanisms
- Conditionalities can guard against ‘ghost’ beneficiaries
- Eliminating intermediaries reduces potential diversion of funds – move funds from treasury to bank accounts

Set up adequate administrative procedures

- Ensure processes are defined
- Ensure staff and resources are adequate to carry out the functions for FEC control / reduction
- Establish sensible tolerances
- Set up adequate grievance, appeal, ‘whistle-blower’ protection systems
- Institute quality control procedures
- Take action against miscreants with real penalties

Institutional Responsibilities

- Delivery involves actions by and interactions among different entities
- Incentives must be aligned with roles
 - Reliance on third parties (local government, health and school officials)
 - Role of civil society organizations
- Definition of responsibilities

Use Transparency and Communication Well

- Ensure eligibility rules, benefit levels, and rules are clear to staff, to clients, to public
 - This reduces error and fraud
 - This reduces unwarranted appeals or complaints

Overall Country Governance

These mechanisms do not exist in a vacuum. What is the institutional context ?

- What are relations between federal and local governments?
- What is the traditional role of the supreme audit institutions? Independent, listened to?

Mechanisms for Controlling Fraud, Error and Corruption

Top Down

Public disclosure of information on program (including participants)
 0800 call centers
 Cross-checking data bases
 Spot checks (random sample) to measure compliance with procedures
 Data Mining
 Special audits (payment system), role of private audits to ensure compliance with requirements
 Supreme audit institutions
 Commissions to follow-up on allegations
 Public prosecutors
 Sanctions on government officials or participants

Bottom up

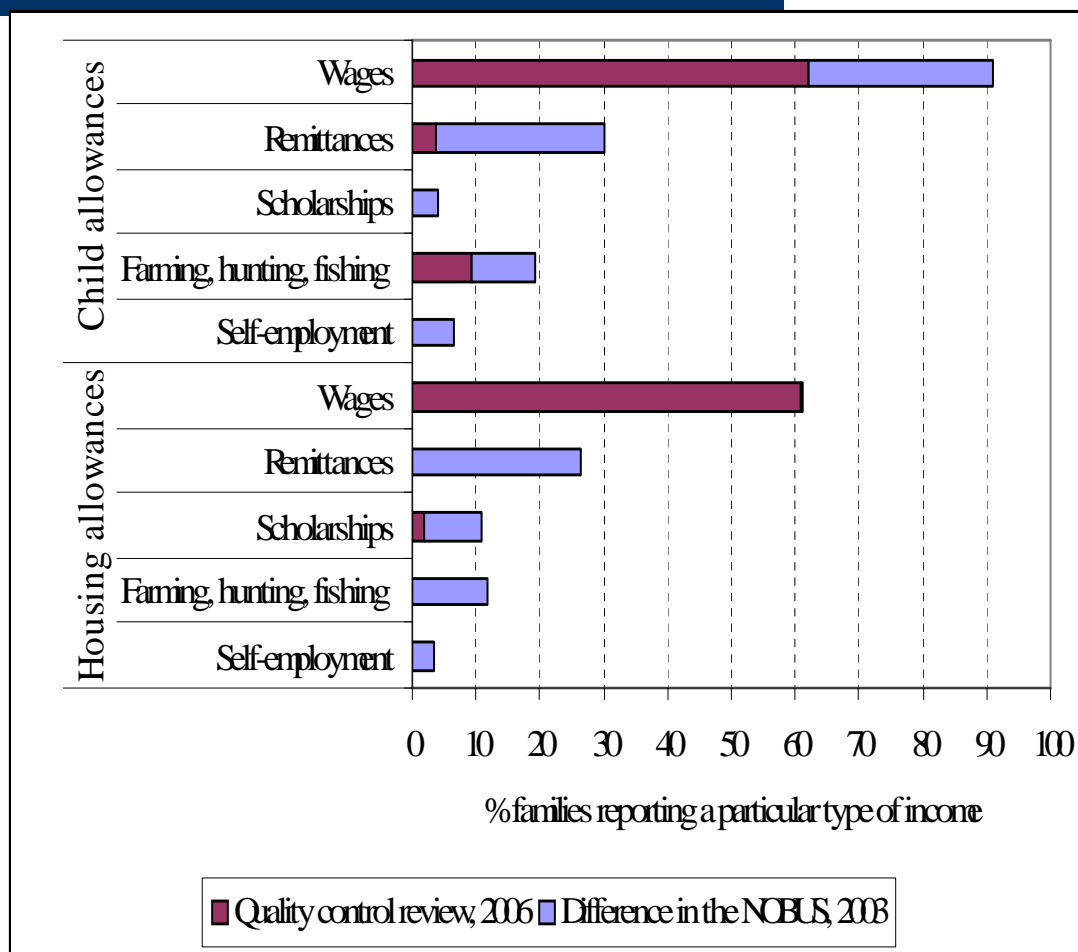
Neighborhood/municipal commissions with civil society, beneficiary participation
 Committees of beneficiaries
 Oversight by Civil Society Organizations
 Citizen oversight at municipal level

That's a lot of tools, what do we take away?

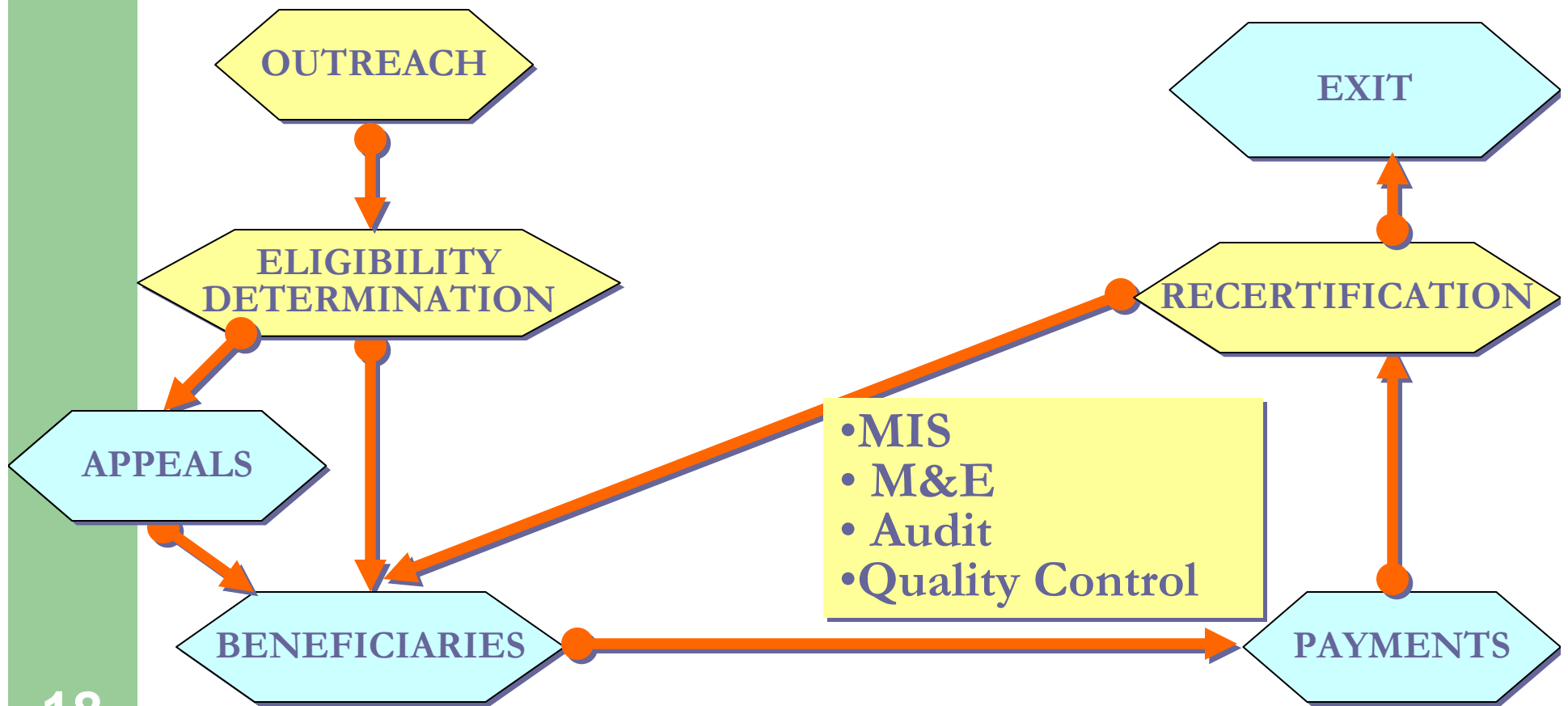
- Some investments have synergies with other metrics of program success – e.g. cross-checking data with other systems may both reduce fraudulent claims and lower transactions costs for legitimate claimants.
- Sometimes control of FEC comes at a cost to other goals – simplifying eligibility or benefit criteria helpful to FEC agenda, but reduces the ability of the program to pay just enough to just the right people.
- Need a balance between tools
 - Russian example of missing tools
 - Framework for thinking through balance of tools

Russia, Income-tested programs

- Quality control ensures that files are complete, but not that information reported by clients is accurate.
- In fact households under-report much income
- Targeting results quite mediocre



Key phases influencing the level of fraud and error, transfer programs



Use FEC lenses on critical phases of the program

| Phase | Recommendation |
|---|---|
| <i>Institutional Design</i> | Define lines of authority and accountability, including administration and service delivery. Align incentives and financing, particularly for intergovernmental responsibilities. Identify risks and remedies up front. |
| <i>Eligibility, Recertification</i> | Minimize inclusion and exclusion errors. |
| <i>Conditionality</i> | Balance accuracy and the burden of verification. Examine reasons for non-compliance. |
| <i>Payment processes</i> | Improve monitoring of cash flows and control procedures. |
| <i>Management Information Systems (MIS)</i> | Strengthen framework to analyze and design MIS systems. Promote the crosschecking of enrollments with other databases. |
| <i>Internal quality control</i> | Expand process evaluation, feed-back loops, and correction mechanisms within programs, particularly through spot checks. |
| <i>Appeals and complaints</i> | Handle complaints and appeals appropriately and in a timely manner, and publish program data. |
| <i>Financial management and auditing</i> | Define payment accounting and reporting requirements. Focus audits on risks. Include supreme audit institutions. |
| <i>Procurement</i> | Closely supervise implementation of large service contracts. |

Lessons and trends

- In OECD countries
- In client countries

OECD Experience with Control of F&E

- Lessons: Virtually impossible to be error-free, but important to have focus and mechanisms
 - In the US Food Stamp Program, error rate was 8.4% (1999-2003), with a declining trend – actions taken
 - UK Jobcentre plus – Losses due to fraud and error dropped from 10% in September 1998 to 7% in November 2002
- Trends:
 - Move from *ex ante* to *ex post* control
 - Developed stronger processes of internal control
 - Impact of improved technology
- Challenges:
 - How to maintain control in systems with more delegation and more autonomous agencies involved?
 - Move from relative certainty of checking regularity and legality of each transaction > more efficient but relative uncertainty of verifying proper operation of systems.

Trends from client countries

- greater complexity in eligibility and payment structure
- greater use of technology, at least in MICs
- more explicit thought on transparency
- greater attention to implementation issues

Findings from the WB CCT Control & Accountability Study

- In Bank-financed CCT programs in LAC, basic control systems are in place and potential risks being handled adequately (no fiduciary “red flags” uncovered)
- Variation in performance and practices across countries
- Good practices:
 - Operational audits – Colombia, Jamaica
 - Spot checks – Argentina
 - Role of Supreme Audit Agencies, municipal performance incentives and indicators – Brazil
 - Database cross checks – Argentina
 - Evaluations – Argentina, Brazil, Colombia, Ecuador, Jamaica
- Lessons:
 - Need for continuous review of status *and nature* of risks; Where are programs moving over time?
 - Potential to help our clients on controls *and* strategy

Course Objectives

- Review the mechanisms and instruments used in OECD and client countries to reduce the level of corruption, fraud and error in SP programs
- Brainstorm on how to use these instruments in our lending or advisory work with clients

Workshop's Agenda

Today

11:00-13:00 **Mechanisms to Control Fraud and Error in SP Operations in 9 OECD countries**, *Christian van Stolck*, Rand Europe

13:00-14:00 Lunch break

14:00-16:00 **Reducing Fraud and Error in the UK: What it takes?**, *David Barr*, Head of Fraud and Error Strategy Division, Department for Work and Pensions, UK

16:00-17:30 **Reducing Fraud and Error in Unemployment Insurance Programs**, (*Milan Vodopivec*, WB)

Tomorrow

9:00-10:30 **Instruments to Strengthen Control and Accountability in Social Protection Programs: Random Spot Checks in Colombia; Call Centers in Argentina**; (*Theresa Jones*, WB)

10:30-11:00 Coffee break

11:00-13:00 **Enhancing Accountability in Ethiopia** (*William Wiseman*, WB) and **Brazil** (*Kathy Lindert*, WB)

13:00-14:00 Lunch break

14:00-16:00 **Strengthening the MIS in Social Protection Programs: A Toolkit** (*Cesar Baldeon*, *Maria Dolores Arribas-Banos*, WB)

16:00-17:30 **How to improve Control and Accountability Mechanisms in Social Protection Programs?**

Emerging Elements of GAC Implementation Plan

