STRENGTHENING SOCIAL PROTECTION FOR CHILDREN

COUNTRY REPORT: Analysis and recommendations for a more equitable and efficient child benefit system
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The views expressed in this study are those of the authors and do not necessarily reflect the policies or views of UNICEF.
UNICEF would like to thank the two primary authors of the report Dr. Ludovico Carraro and Rodolfo Beazley of Oxford Policy Management (OPM) for their thorough research and recommendations for the benefit of the most vulnerable children.

This report also benefitted from the collaboration with Boge Bozinovski and Growing for Knowledge (GfK) (who implemented various data collection exercises), Suzana Bornarova (who helped in the interpretation and assessment of the current laws of child protection and social assistance, the design of the quantitative research instruments and gave comments on the report), and two of our Oxford Policy Management colleagues, Luca Pellerano (who worked on design of the quantitative survey and provided comments on this report) and Sabine Garbarino (who worked on the design, implementation and analysis of the Focus Group Discussions).

We are also grateful to the social assistance and child protection departments of the Ministry of Labour and Social Policy for their comments and factual corrections of earlier drafts of this report, as well as for sharing administrative data on the benefits. We would especially like to thank Elizabeta Kunovska for her continuous support in providing the researchers relevant data and technical assistance.

We would like to acknowledge the support received from Violeta Krsteva and Stase Nolev of the national State Statistical Office for access to the Household Budget Survey and for providing relevant explanations on the interpretation of the survey data.

Finally, special thanks to the people who agreed to be interviewed and provided information on their experiences in the access and use of the various child and social assistance benefits.
The objective of this study is to assess the current system of child benefits in the former Yugoslav Republic of Macedonia, with the primary goal of understanding to what extent this financial assistance is reaching the poorest members of the community, and whether these payments are adequate to meet the needs of children. Building on this assessment, the study recommends specific reforms that could decrease the level of child poverty and improve coherence in the existing policies. This study was conducted by Oxford Policy Management (OPM), under contract to UNICEF Skopje.

While not all the child benefit payments assessed in this study were designed with the specific primary objective of poverty reduction, the perspective of this study is to assess whether child benefits reach the poor and reduce poverty, thereby improving the lives of the most vulnerable children. This perspective is used to highlight the impact of the policies and whether the rules and policies are consistently applied. Therefore, findings do not necessarily represent a policy or implementation failure, but an opportunity to question the policy design.

The study employed a combination of quantitative and qualitative research methods, analysing secondary data as well as collecting primary data. The main instruments of the analysis were: a critical review of the current legislation; analysis of administrative data from the Ministry of Labour and Social Policy (MLSP) and national representative household surveys; an ad hoc survey of beneficiaries; and a rapid qualitative appraisal (RQA).

Administrative records containing information about the number of beneficiaries and the relative total budgetary cost of each category of benefits were used to evaluate the relative importance of each benefit, their coverage and evolving cost in core budgetary resources over time. Furthermore, a large part of the
STRENGTHENING SOCIAL PROTECTION FOR CHILDREN

The analysis done in this report uses the 2010 State Statistical Office Household Budget Survey (HBS) data. The ad hoc survey of a representative sample of 730 households of the main benefits provided information about application processes, adequacy and use of the benefits and beneficiaries’ satisfaction with the different components of the programmes (i.e. payments). Moreover, as part of the same survey, staff from the Centers for Social Work (CSW) were interviewed in order to find out their opinions regarding the efficiency and adequacy of the administration of the different types of child benefits. The RQA had the objective of deepening our understanding of the quantitative analysis. Through carefully formulated qualitative questions applicants, non-applicants, former and actual recipients of various types of benefits were asked to share their personal experiences when applying for benefits, their level of satisfaction with the overall administration of the child benefits system, and their perception of the incidence of stigma and discrimination by the authorities and society as a whole.

This research primarily focuses on the most important child-related benefits: child allowance (CA), parental allowance (PA) and social financial assistance (SFA). The CA is provided to all families whose total family income falls below a specific financial threshold and is designed to help meet costs associated with raising a child until the age of 18. The PA is paid monthly to all mothers, regardless of family income, for the third live born child after 31 January 2009. SFA is available to all unemployed individuals of working age and ability, with the amount provided tied to total household income (See Box 1.1, for a description of each of these benefits).

For CAs, this study shows that the number of beneficiaries has been falling rapidly, that the benefit is not reaching the poorest households with children, and that the amount seems inadequate for meeting basic needs. The number of families that received CAs decreased from 20,265 in 2008 to 12,092 in 2010, a reduction of 40% in only two years. With only one out of five beneficiaries among the poorest 10% of the population, this social transfer is not going to those who would benefit the most. Interestingly, the CA has substantially better targeting of families in the second decile, where two out of five eligible beneficiaries receive the benefit. There is a great need to improve the design of the regulations for allocation of child benefits, since only 26% of the poorest 10% with children are eligible to receive the CA.

In contrast, the SFA more effectively targets the poorest and the larger amount of the assistance provided constitutes a more meaningful portion of the income of the poorest decile. Simulations of the design of such benefits show that, in the lowest decile, average transfer amounts of SFAs to all eligible households in that decile would be 669 MKD/month (approx. 10.7 euro) per adult, which represents almost 140% of the monthly income (pre-transfers) of those households. For CA, the average cash transfer represents only 28% of the income of the eligible families in the poorest decile.
Reasons for the CAs’ limited utility can be found both in design and implementation issues. There are design issues that undermine the policy’s objective of covering the expenses incurred in the upbringing and development of children in poor families. These constraints are: 1) the requirement that beneficiaries (one of the parents) must be in the formal workforce or receive unemployment benefits. This requirement and excludes the poorest families whose members are not in the formal sector and never had a position which qualified for unemployment compensation; 2) when calculating income for eligibility, nuclear families rather than households are considered for the income base; 3) informal income is not entirely captured when assessing eligibility; and 4) benefits are capped at a very low level which means that the impact decreases as the number of household members increases.

There are also several implementation shortfalls. The most relevant ones are that people seem to be misinformed about the eligibility criteria and that the application process appears to be very complex and costly. Furthermore, there is also a perception that these benefits are not allocated in accordance with transparent or objective criteria. Finally, there are no transparent complaint mechanisms and some applicants are not even informed about the results of their applications. The MLSP is already tackling some of these problems through various investments in the administrative system, but our findings report what was revealed in the study carried out in the first half of 2012.

When it comes to PA, our findings suggest it is not targeted at the poor and its escalating budgetary obligations may become a serious financial burden. Although it should be noted that child poverty reduction was never an explicit direct objective of this benefit, it is worth emphasizing its potential impact on the poor. The PA is a new benefit, but it is already the costliest scheme linked to children, and one of the costliest within the social protection portfolio as a whole. Assuming that all eligible households receive the corresponding benefits, estimates show that in less than 10 years’ time PA’s annual budget will be close to 3.17 billion MKD (€51.7 million). This amount represents 0.75% of the current GDP and is almost five times CA’s budget and twice the SFA’s budget. In Section 4.3 of this report, this potential budget is contrasted with regional evidence and it is shown that PA would account for a higher share of GDP than almost any other single programme with similar characteristics.

However, it is important to highlight that PA and CA have different objectives. While the CA is targeted at the poor and is designed to help meet the costs associated with raising a child, the PA is a universal benefit that aims at fostering population growth. Nevertheless, the fact that the PA is not targeted at the poor does not mean it cannot be used and analysed as a poverty reduction tool. First, the PA targets relatively large-size families, which on average tend to be poorer. Second, the PA’s amount is high enough to have a substantial positive impact on the welfare of poor beneficiaries.
Simulations using the HBS dataset were conducted for this study in order to test alternative designs that could address some of the sources of inefficiencies raised. An important objective of such simulations is to test feasible polices and, for that purpose, the costs of such reforms are also taken into account.

In light of the results of these simulations, the analysis of the current performance of child benefits and the lessons learned in other countries, this report proposes a series of core reforms.

**Our findings show that the PA is very costly.** Given the significant size of the projected PA expenditure, the benefit, if not restructured, will prove to be a very costly entitlement, and a long term drain on core governmental resources. Moreover, since estimates show that there are almost 9,000 households that are eligible for both benefits, the main recommendation of this study is to combine elements of CA with elements of the PA.

**This new programme, which for simplicity is referred at as child protection allowance (CPA), would be a progressive version of the current PA and could be effectively presented as an improvement of the original PA design.** From this point of view, the CPA would extend the benefits to households with one or two children, though with lower amounts than for households with three children or more. Moreover, in order to assure the sustainability of the new programme, relatively better-off households would be excluded.

**Nonetheless, in order to ensure the CPA’s success, the inconsistencies in the design and implementation of the CA should be addressed.** As the CPA will target relatively worse-off households, all the current inefficiencies of CAs targeting will need to be addressed. The CA would be more effective if the benefits formula took into account household income rather than family income and by implementing mechanisms for checking the real income of applicants. Moreover, targeting and coverage can be significantly increased by de-linking CA’s eligibility from current or former employment status. These very same reforms will need to be implemented in the new CPA.

**Simulations show that the CPA could obtain better results for the same, or for an even lower cost.** If the CPA targets the poorer 50% of households with three children or more and uses an improved version of CAs current eligibility criteria for households with fewer children, then the budget required for such CPA would be 27% less than a fully scaled-up PA and CA. Under this scenario, the percentage of eligible beneficiaries from the poorest decile would go from 20% to 41% and coverage in the first decile would increase from 18% to 54%.

**We are aware that such reforms would need time to be implemented; they represent more a vision than an immediate implementable reform,**
especially in the current macroeconomic context. This is why we propose to reach the vision in a phased manner, suggesting goals that could be worked towards in the short term, medium term and long term.

In order to provide detailed recommendations about the implementation of the CPA, further analysis is needed. Such a study would need to take into account all the flaws of the current system that are presented in this report, as well as undertake an assessment of feasible implementation strategies that respond to the characteristics and the capacity of the system. Such an analysis is beyond the objectives of this report, however, the Ministry of Labour and Social Policy has informed us that it plans to undertake such a study in the near future.
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With the limited resources available, it is a key that benefits are designed to most effectively and efficiently meet the needs of the poorest families.
## Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CA</td>
<td>Child Allowance</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
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<td>CSW</td>
<td>Centre for Social Work</td>
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<td>FGD</td>
<td>Focus Group Discussion</td>
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<tr>
<td>HBS</td>
<td>Household Budget Survey</td>
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<tr>
<td>MKD</td>
<td>Macedonian Denar (1€ = 61.5 MKD, as of December 2012)</td>
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<tr>
<td>MLSP</td>
<td>Ministry of Labour and Social Policy</td>
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<td>OPM</td>
<td>Oxford Policy Management</td>
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<td>PA</td>
<td>Parental Allowance</td>
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<td>PFA</td>
<td>Permanent Financial Assistance</td>
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<td>RQA</td>
<td>Rapid Qualitative Appraisal</td>
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<td>SCA</td>
<td>Special Child Allowance</td>
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<tr>
<td>SFA</td>
<td>Social Financial Assistance</td>
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<td>SSO</td>
<td>State Statistical Office</td>
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OPM was contracted by UNICEF to conduct an assessment of the system of child benefits in the former Yugoslav Republic of Macedonia, with the primary objective of understanding to what extent child benefits reach the poor, and whether they provide adequate amounts for children’s needs. Building on this assessment, the study also provides possible scenarios of reform that could improve the effectiveness and efficiency of the child benefit system to address the needs of the country’s poorest families and children.

Although the authors of this report are aware that currently not all child benefits have the objective of reducing poverty, the perspective of this study is to nevertheless assess their impact on poverty reduction. This is done not to highlight policy and implementation failures, but to explore alternative and more efficient options, and what could be achieved at similar budget levels.

UNICEF also hired a survey company (GfK) to conduct primary data collection to inform the study and complement the information provided by current statistical and administrative data on child and social benefits.

The main counterpart and partner in this study is the MLSP and the study particularly seeks to provide evidence to guide and support a future revision of the child protection law related specifically to the child benefits analysed in this study.

The study was undertaken between August 2011 and June 2012 and employed a combination of quantitative and qualitative research methods, analysing secondary data as well as collecting primary data. The main instruments of the analysis were the following:
• **A critical review of the current legislation.** This analysis drew on child and social protection laws and on relevant secondary legislation (i.e. rulebooks). Such legislation provides information about the objectives and the design of child and social protection benefits and is therefore a fundamental reference for this study. In the analysis, we highlight some inconsistencies and overlaps between these two laws which affect the performance of the programmes.

• **The analysis of administrative data from the MLSP and existing nationally representative households surveys.** Administrative records containing information about the number of beneficiaries and budget, among other matters, are used to have an understanding of the relative importance of each benefit, their coverage and evolution over time. Furthermore, a large part of the analysis done in this report uses the 2010 HBS data. This database is the main source of information for poverty measurement and analysis in the former Yugoslav Republic of Macedonia. Its sample is representative of households nationwide. The HBS’s strengths include the information contained on income and consumption expenditure in addition to household demographics, education, dwelling characteristics, land and durable assets ownership, subjective poverty and the so-called ‘minimum income question’. Therefore, HBS data are used mainly for replicating eligibility conditions and analysing targeting of the benefits’ design, coverage and potential costs of each scheme. Simulations about alternative policy scenarios are also based on this data.

• **An ad hoc survey of beneficiaries** of the main benefits provided information about application processes, adequacy and use of the benefits and beneficiaries’ satisfaction with the different aspects of the programmes (i.e. payments). In this survey, a representative sample of beneficiaries of CAs, Special Child Allowances (SCAs) and SFA were interviewed. A total of 730 households from 12 municipalities were interviewed. Moreover, as part of the same survey, Centres for Social Work (CSW) staff were interviewed in order to find out their opinions about the application processes and benefits.

• **The RQA** had the objective of deepening the understanding of the quantitative analysis in order to hear the voices of applicants and non-applicants and better understand their experiences with the administration of child allowances. In particular, eight focus group discussions (FGDs) were undertaken with different ethnic groups (Macedonians, Roma and Albanians) in both rural and urban locations.
The methodologies, sampling and objectives of the above instruments are described in more detail in the annexes.

**The main goal of this study is to assess the system of child benefits and to propose evidence-based policy recommendations.** The assessment done in this investigation consists of comparing the performance of each benefit with its objectives, and to evaluate the system as a whole. For that purpose, aspects like coverage of the poorest, the distribution of beneficiaries along the income distribution and the adequacy of the benefits are studied. The analysis makes an effort to focus separately on issues related to the design of the system (i.e. how it should work based on the legislation) and those concerning the actual implementation with its inevitable difficulties and problems.

As a background for understanding the report, we start by providing in Box 1.1 a short description of the main child and social benefits existing in the country, while the rest of the report is structured as follows: In Section 2, we summarise and comment on the most relevant trends and figures in regard to beneficiaries and expenditure on child and social benefits. These figures come primarily from the study of administrative data provided by the MLSP and, when useful, such information is complemented with statistics from other sources. The main purpose of this section is to provide a context for the subsequent analysis. Section 3 summarises the results of the legislative review of both the child protection and social protection laws and respective secondary legislation, highlighting some inconsistencies and overlaps between these two laws. This analysis is based on the report ‘Review of the Legislation on Social Protection and Child Protection’ (Carraro and Beazley, 2011), which provides a more detailed review of the legislation. Then, in Section 4, we analyse the design of CA and PA and compare them with SFA. Using the HBS dataset we study the targeting efficiency, coverage and adequacy of the benefits and detect the design failures that undermine the performance of those benefits. In Section 5, we study the implementation of child allowances.

Our estimates indicate that CA has a low take-up, particularly among the poorest, which suggests that besides the design failures there are aspects of the implementation that represent an obstacle for many eligible families. This analysis draws on the information from the RQA and the survey of beneficiaries. Section 6 provides recommendations based on our assessments of the design and implementation of child benefits, on the simulations done and on broader international experience. The principles inspiring the recommendations are maintaining budgetary costs to something manageable and, at the same time, trying to improve targeting efficiency and the impact of child benefits on poverty. Finally, in Section 7 we present the conclusions of the study.
Box 1.1 Description of social and child benefits

According to the Law on Child Protection published in the Official Gazette, No. 170 from 29 December 2010, the rights to social protection include: 1) Child Allowance (CA); 2) Special Child Allowance (SCA); 3) lump-sum financial aid for a newborn; 4) Participation; and 5) Parental Allowance (PA) for second, third and fourth child. This study focuses on the first two and the last one (PA for the third child), as they are the most important ones in terms of coverage and amounts of the benefits.

Child allowance is considered in national legislation to be a child’s right and is provided as a financial benefit for covering part of the expenses for the upbringing and development of the child. It is exercised depending on the child’s age and financial situation of the family (Art. 15 and Art. 18). The right to CA is provided to children until the age of 18 if they attend school regularly. The material situation of the family is assessed according to the income earned by all family members: a family must have a per capita income lower than 2,415 MKD (€39)², and, in the case of single parents, lower than 4,226 MKD (€69). Furthermore, a family can only receive CAs if one of the parents is employed or receiving unemployment benefits. The amount of the benefit is 740 MKD (€12) for a child up to 15 years old or until the child is a regular elementary school student and 1,175 MKD (€19) for a child between 15 and 18 years old or until the child is a regular high school student. The benefit is capped and therefore eligible families can receive a maximum of 1,870 MKD (€30) (Art. 23).

Special child allowance is a monthly cash benefit for children with special needs who have physical and/or mental disabilities up to 26 years old (Art. 24). This is not a means-tested benefit. The assessment of the type and degree of disability is done by an expert body. The amount of this benefit is 4,346 MKD (€71) (Art. 27) per child.

Parental Allowance is a benefit exercised by the mother for the third child born alive after January 2009. This benefit is paid monthly for a period of 10 years and amounts to 8,048 MKD (€131). The objective is to foster population growth while covering part of the expenses for the upbringing and development of the child. This is not a means-tested benefit. A previous version of the law also established parental allowances for the second and fourth child in municipalities with a relatively low birth rate. However, the law was subsequently changed, but such allowances are still paid for those who claimed them in the short period the old version of the law was in place.

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¹ Annex A shows a summary of the main features of each benefit.

² A further explanation on theoretical grounds could be the loss of formal employment among those eligible for child allowances, since, as we will explain in more detail later, this is a requirement for the receipt of child allowances. However, overall this appears unlikely to explain such a drastic decline.
The Law on Social Protection published in the Official Gazette, No 79 from 24 June 2009 states the following rights: 1) Social Financial Assistance (SFA); 2) Permanent Financial Assistance (PFA); 3) Third-person care financial assistance; 4) financial assistance for a mother who gave birth to her fourth child; 5) financial assistance for a person who, by the age of 18, has a status of orphan or child deprived of parental care; 6) one-time financial assistance and assistance in goods; 7) financial compensation on top of salary for part-time work due to care for a child with physical or mental difficulties; 8) financial assistance for social housing; and 9) right to healthcare protection. This study focuses on the first three rights, which are the most important ones.

**Social Financial Assistance** is intended for a person with working ability and a household which is materially unable and which cannot provide funds for subsistence (Art. 46). The amount of payment is 2,140 MKD (€35) per month (Art. 47), increased by a coefficient of 0.37 for each additional member up to five household members. The benefit is the difference between the amount established as welfare financial assistance and the total income of the family. If that difference, and hence the subsequent assistance is lower than 100 MKD (€1.6), the household is not paid any SFA. After the end of the third year the amount is reduced to 50% of the entitlement.

**Permanent financial assistance**⁴ (PFA) is a benefit for people that are unable to work and are materially unsecured (Art. 57). A materially unsecure person is any person with no income or whose income is lower than 5,000 MKD (€81) per month. A person is considered unable to work if he/she has mental or physical disabilities. Single women during pregnancy and people older than 65 years old are also eligible if they are materially unsecured.

**Third person care financial assistance** The amount of this benefit is established depending on the scope of the need for a third person’s help and care. The amount of the welfare financial allowance for personal care goes from 3,702 MKD (€60) to 4,185 MKD (€68) depending upon factors that include the level of disability and the relative income of the family, among others.

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3 A plausible explanation is that the trends in applications might have been affected by the introduction of PAs and that some families eligible for PA might have given up CA.

4 In situations where the mother is deceased, or otherwise unable to take care of the child, the parental allowance is awarded to the father. In all other cases, it is the mother who receives the allowance.
Even though it has only recently been introduced the parental allowance is already the child benefit that constitutes the largest share of total child benefit expenses. The total cost of this specific benefit will also grow faster than all other related benefits.
This section presents the main trends in regards to the number of recipients and the budget of child and social protection benefits in the last five years. These figures come primarily from the study of administrative data provided by the MLSP and, when useful, such information is complemented with statistics from other sources. The main purpose of this section is to provide the context for the subsequent analysis.

In relation to child benefits, the most noticeable trends that administrative records show are, on the one hand, the accelerated growth in the number of PA and SCA beneficiaries and, on the other, the dramatic fall in the number of CA beneficiaries. The number of families that received the CA decreased from 20,265 in 2008 to 12,092 in 2010, which is a reduction of 40% in only two years. Such a trend is counterintuitive looking at the performance of the economy in those years, i.e. it is very unlikely that the average economic situation of families eligible for CA improved by such a magnitude as to explain the substantial reduction in the number of beneficiaries. Moreover, there were no major changes in the legislation that regulates CA that could explain such a fall. However, one possible explanation is the change in which wages are calculated: since 2009 payments for food and transportation as part of employment contracts have been included in the calculation of wages, which affected people’s eligibility. This change is reflected as an increase in real income and therefore some families that were eligible before 2009 might have become ineligible afterwards.\footnote{A further explanation on theoretical grounds could be the loss of formal employment among those eligible for child allowances, since, as we will explain in more detail later, this is a requirement for the receipt of child allowances. However, overall this appears unlikely to explain such a drastic decline.} The results of the CSW survey confirm that there has been a substantial decrease in
CA applications. According to CSW staff, the main reason for the observed change is indeed the new way of calculating gross salaries. Moreover, CSW staff also suggested that there were no significant changes in the legislation or the processes that affected the applications.⁶

**Meanwhile, the number of SCA beneficiaries grew at an accelerated pace.** In 2007 there were only 4,664 families that were beneficiaries of SCA, while three years later that number grew up to 6,203. This means that the number of families receiving benefits for disabled children increased 33% in three years. Such growth in SCA raises some questions, since it is unlikely that the incidence of child disability has changed by such a magnitude in the last few years. Instead, such a trend might be explained by different certification procedures in which child disability is assessed, although we were not aware of any formal changes introduced during this period.

The PA was introduced starting from 2009 and, unsurprisingly, the rapid growth of its beneficiaries is explained by the design of the programme. Only mothers, (and, in certain cases fathers),⁷ of a third child born since January 2009 can claim PA benefits. The number of families receiving PA went from 1,030 in 2009 to 4,086 in 2010.

![Figure 2.1 Number of families that are beneficiaries of child benefits (2006–2010)](source: Based on administrative data provided by the MLSP and the State Statistical Office (SSO).)

The evolution of the child protection budget reflects the expansions and contractions of the number of beneficiaries in each scheme (see Figure 6 A plausible explanation is that the trends in applications might have been affected by the introduction of PAs and that some families eligible for PA might have given up CA.

⁷ In situations where the mother is deceased, or otherwise unable to take care of the child, the parental allowance is awarded to the father. In all other cases, it is the mother who receives the allowance.
2.2). It is nevertheless striking to observe the massive increase in PA’s share of total expenditure for all child protection related benefits (from 33% to 60%). Even though it is still a new benefit, the PA is already the child benefit with the highest cost. Moreover, according to its design, the number of new beneficiaries for this benefit will increase over in the next few years, thus escalating further its budget for another seven to eight years. Following the decrease in the number of CA beneficiaries its budget fell as well, both in real and nominal terms.

**Figure 2.2 Annual budget on child protection (2006–2010) (million MKD)**

Source: Based on administrative data provided by the MLSP.

**In relation to social protection benefits, the number of beneficiaries of the main benefit, SFA, has been steadily decreasing since at least 2006.** Although, in terms of the absolute size of the benefit, it is still the most important intervention in the social protection budget, the number of SFA beneficiaries fell by 23% from 2006 to 2010. Similar to the increase in the benefits for disabled children (SCA), transfers to disabled adults and other financially insecure people have increased (PFA) by 12% from 2006 to 2010.
Table 2.1 Beneficiaries of social benefits (2006–2010)

<table>
<thead>
<tr>
<th>TYPE OF SOCIAL BENEFIT</th>
<th>Average no. of beneficiaries (households)</th>
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<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Social Financial Assistance (SFA)</td>
<td>64,970</td>
</tr>
<tr>
<td>Permanent Financial Assistance (PFA)</td>
<td>5,016</td>
</tr>
<tr>
<td>Cash assistance for recipients of third-person care</td>
<td>21,511</td>
</tr>
<tr>
<td>Health protection</td>
<td>5,323</td>
</tr>
</tbody>
</table>

Source: Based on administrative data provided by the MLSP.

Another important trend is tied to changes in the use consumer price index (CPI) and the wage index as factors in the size of benefit calculations, as these indices have implications for the way benefits and thresholds are updated over time. Currently, thresholds and benefit values are updated based on the level of inflation. In 2011, benefits increased by the level of inflation observed in 2010 (although a caveat is that, for child benefits, the updating is done ad hoc every year, but the intention of the legislator is to do it based on CPI – see Section 3).

In the past, however, child benefit calculations were tied to the wage index. Usually in situations of normal economic expansion, wages increase at a higher rate than CPI, whereas on economic contraction the opposite occurs. Figure 2.3 shows trends in the last 10 years in the country. The only anomaly reported in the graph is the huge increase in wages that occurred in 2009. However, rather than representing an actual increase, the change is due to the new inclusion in the total wage calculation of food and transportation contributions made by the employer.

Figure 2.3 Evolution of CPI and wage index (2000–2010)

Source: SSO, Statistical Yearbook of the Republic of Macedonia
This section reviews the national legislation on social protection and child protection and highlights some inconsistencies and overlaps between these two laws. Emphasis is placed on the interaction between laws and on the benefits that reach a relatively large share of the population. This is based on the report ‘Review of the Legislation on Social Protection and Child Protection’ (Carraro and Beazley, 2011), which provides a more detailed review of the legislation. The findings of this review are presented below and Annex A shows a summary of the main features of each benefit.

In general terms both laws are very complex, which tends to create duplications and inconsistencies: “Eligibility for child allowance is very complex and includes income criteria as well as a long list of categorical criteria for both parents and children. The eligibility criteria for child allowance alone are much more complex than the personal income tax legislation which covers almost 20% of budget revenues as compared to child allowance which covers about 0.5% of government expenditure” (Verme, 2004).

One of the most important inconsistencies found is that, in practice, the CA is restricted to people that are currently working or whilst receiving unemployment benefits\(^8\) qualifying it as a contributory benefit; however, the Law on Child Protection does not explicitly indicate this and the rulebooks express this restriction in an ambiguous manner. This is a very relevant issue because, as it is currently implemented an important share of the population, particularly the very poor, are excluded from CAs without the clear support of the legislation.

\(^8\) The duration and amount of unemployment benefits is determined according to the number of months of employment, as well as the salary received. To receive unemployment benefits, a person must have been employed for a minimum of 9 months. Unemployment benefits can be received for a maximum of 12 months, and are limited to a maximum of 80% of the average net salary paid in the last previous month.
The diversity of methodologies used for the selection of beneficiaries of income-based benefits leaves room for unequal treatment. The fact that some of the benefits described above are based on household income and that, at least to some extent, their targeted populations overlap suggests that the targeting criteria should be better coordinated. However, currently there is no unique formula for selecting the beneficiaries of different programmes. The main sources of diversity are: 1) what is considered as income and what is disregarded in the calculation of the income base; 2) the eligibility income threshold; 3) considering the family or the household for the income-base calculation; and 3) the use of different equivalence scales. (See Annex E).

The income base, as a determinant of eligibility, is calculated differently for each category of benefits. For example, according to the Law on Social Protection, when determining the PFA, PA is considered income, while CA, SCA, and the lump-sum financial aid for newborns are not (see Table 3.1). However, in the determination of eligibility for CA, PA is not considered income. Therefore, a priori, households receiving PA have less chance of being eligible for the PFA than for CA. On the other hand, the Law on Child Protection states that, when determining the income base for the CA, PFA is considered income, while this is not the case for SFA. Moreover, as PA is not a means-tested programme it can be cumulated with all other benefits.

Table 3.1 Benefits considered income for the income-base calculation of the SFA, PFA, and CA

<table>
<thead>
<tr>
<th>Benefit</th>
<th>SFA</th>
<th>PFA</th>
<th>CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child allowance</td>
<td>N</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Special allowance</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Lump-sum financial aid for newborn</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Parental allowance</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Social financial assistance</td>
<td></td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Permanent financial assistance</td>
<td>N</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Personal care allowance</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

Note: N = No, Y = Yes

Source: Carraro and Beazley (2011)

---

9 This table has been checked by the MLSP in order to guarantee its accuracy.
**Income thresholds also differ significantly.** Although, strictly speaking, SFA is not a child benefit, it is granted to low-income families and therefore supports children in these families. The threshold of the SFA is 2,140 MKD (€35) for a single person and it increases by a coefficient of 0.37 for each extra member (up to the fifth member). However, the income threshold of the CA is 2,415 MKD (€39) *per capita* and 4,226 MKD (€68) for children of single parents. Thus, the threshold of the CA is much higher than the SFA’s. In the same line, the PFA considers that a household is materially unable if incomes are lower than 5,000 MKD (€81) per family member, which again differs from the thresholds just mentioned. Although it is justifiable to set thresholds at different levels on the basis of the different objectives of such programmes, the rationale for using different metrics (i.e. very stringent equivalence scales on one side and a *per capita* approach on the other) are not clear. Equivalence scales should enable the assessment of the needs of different households and should be common across the legislation, and then within common assessments different thresholds could be set.

**Another source of differentiation is if either the family or the household are considered for the income base.** Income-based child benefits and the PFA consider the family (parents and children) as the unit for calculating the income base. However, in the case of SFA it is households that are the units. According to the Law on Social Protection, “household shall mean a community of family members and other relatives who do not have a legal obligation for mutual dependency, who mutually contribute, manage and spend” (Art. 45).

**It is important to highlight that the use of the family as the unit for calculating the income base can be problematic.** When considering only the nuclear family, other household members that may contribute to and consume from the same budget are ignored. For example, according to the CA legislation and rulebooks, grandparents are not included in the income base, even if they live together and share the same budget. However, if they do not have income but consume from the household budget, the per capita income of this family would appear higher than the actual per capita resources available in such a household. On the other hand, if grandparents have a permanent income source, for example pensions, the per capita family income would show up as lower than the actual resources available to the household, as it ignores their contribution to the household budget.

**Limits to total benefits are so low that they even affect most common size households.** According to Article 23, CA gives 740 MKD (€12) per child up to age of 15 years old and 1,175 MKD (€19) for a child between 15 to 18 years old, with a maximum limit of 1,870 MKD (€30) in total. Therefore, a family with two children, one between 15 and 18 years old and one below 15, should receive 1,915 MKD (€31), but instead receives the maximum (1,870 MKD). As a consequence, large families, which tend to be poorer, are somewhat worse
off. On the other hand, they are more likely to qualify given the per capita threshold approach, which does not take into account the economies of size.

The Law on Child Protection is somewhat unclear regarding the conditions attached to some benefits. In relation to CA, the law indicates that “child allowance is a child’s right” (Art. 15); however, this benefit is conditional on regular school attendance, which is somewhat contradictory to the notion of right. Moreover, PA is also granted on the condition of regular schooling, health check-ups and vaccinations, which are conditions that de facto are not always applied.

Currently, receipt of the child allowance is restricted only to people who are working or receiving unemployment benefits.
Assessment of child benefit designs

This section studies the designs of CAs and PAs and compares them with SFA. The effects of such designs on targeting and coverage of the poorest and the adequacy of the benefits are also analysed. The focus is on people eligible for the benefits, rather than on recipients. We therefore study the targeting, coverage and other dimensions of the eligible population, rather than of current beneficiaries. However, we analyse recipients when looking at adequacy and when comparing the relative conditions of the beneficiaries of different programmes. Eligibility is simulated using the HBS, thus reproducing whether a household is eligible for the benefit using data collected in the survey and replicating the different eligibility criteria as stipulated in the legislation (income below threshold, presence of children and their age, employment condition, etc.). Issues related to implementation, or to what extent those eligible become recipients, are studied in the next section. It is also important to highlight that the HBS does not have a representative sample of recipients of CAs and it is therefore not possible to undertake a full analysis of actual targeting and coverage.

4.1. CAs and SFA beneficiary incidence analysis

In this section we analyse CA targeting (relative to the income distribution) and coverage and compare it with the SFAs. As we are interested primarily in the progressiveness of this intervention, we use per adult equivalent income deciles as the welfare measure to test both targeting and coverage. This means dividing the population into 10 groups with equal quantities of households per group (decile) and ranking these 10 deciles from the poorest (decile 1) to the richest (decile 10). In our context, an analysis of the targeting of a programme implies studying to what extent the eligible population belongs to the
target group. For instance, if CA aims at reducing child poverty, its targeting would be perfect if all the eligible households were among the poorest (lowest deciles): all eligible households are within those most in need. However, programmes’ design might exclude some of the poor and include instead some households that are less poor. Independently of the distribution of eligible households between poor and non-poor, coverage is another important aspect to analyse. This means studying how many households are reached by the intervention within a group of interest. Hence, we would like to know, for instance, how many households with children in the poorest decile are eligible to receive the benefit. Programmes could have good targeting but little coverage (or vice versa) and it is important to check both such dimensions.

**SFA has relatively good targeting**, as almost 62% of its eligible beneficiaries are in the lowest decile of the income distribution and, considering only households with children, the percentage is 57%. Overall, more than 70% are in the first two deciles, showing that leakage to the non-poor goes in line with similar programmes in the region (e.g. the MOP in Serbia, the Croatia Social Allowance, the Minimum Income Guarantee in Romania – see World Bank 2010).

**CA has an unusual targeting for an income-based programme.** Only 20% of the beneficiaries are among the poorest, a percentage that doubles for the second decile. Thus, CA has substantially better targeting of families in the second decile rather than in the first one. Moreover, estimates show that almost 14,000 households with children who are in the poorest decile are eligible for SFA but not for CA. This number falls to 2,346 for households in the second decile.

Figure 4.1 Distribution by income deciles of population targeted by CA and SFA.

Source: Own estimates using 2010 HBS data.

Note: The sum of the 10 deciles is equal to 100%.
Data collected in the survey of beneficiaries also indicate that the SFA targets poorer households than CA. Figure 4.2 below shows the distribution of the beneficiaries of CA and SFA ordered by their poverty level. It is important to note that this figure is different from the previous one as it only looks at beneficiaries and orders them by their relative welfare. The result is that most beneficiaries of CA are in the upper deciles, while SFA recipients are on the lower side of the distribution.

**Figure 4.2. Distribution of CA and SFA beneficiaries**

In line with these findings, SFA beneficiaries seem to be much more in need than CA beneficiaries. Almost 70% of SFA beneficiaries answered that during the month previous to the interview, at least one member of the household had eaten a smaller meal because there was not enough food. Moreover, SFA beneficiaries answered that the absolute minimum income that their households would need to make ends meet is 24% lower than the one indicated by CA beneficiaries (see Table 4.1).

In order to have a welfare ranking of the households interviewed, a principal component analysis was undertaken. This consists of: (1) identifying variables that are correlated with the aggregates; (2) reducing the number of such variables in order to maximise their variance and obtain a set of uncorrelated principal components; and (3) estimating the prediction of those variables in a regression model. Information gathered about assets, expenditure, income, employment and education was used to develop this model.
Table 4.1 Coping strategies

<table>
<thead>
<tr>
<th>coping strategy</th>
<th>CA</th>
<th>SFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of households where at least one member ate a smaller meal because there was not enough food</td>
<td>0.33***</td>
<td>0.68***</td>
</tr>
<tr>
<td>Proportion of households where at least one member ate fewer meals (skipped a meal) in a day because there was not enough food</td>
<td>0.30***</td>
<td>0.63***</td>
</tr>
<tr>
<td>Proportion of households where at least one member went to sleep at night hungry because there was not enough food</td>
<td>0.24***</td>
<td>0.56***</td>
</tr>
<tr>
<td>What is the monthly income level which you personally consider to be absolutely minimal for your household?</td>
<td>26236.14***</td>
<td>19903.33***</td>
</tr>
</tbody>
</table>

Source: Own estimates using data from the survey of beneficiaries.

Note: Degree of significance: Asterisks (*) indicate that an estimate is significantly different to the relevant comparator. *** = 99%; ** = 95%; * = 90%.

In relation to coverage, SFA also has much better coverage than CA among the poorest population. Almost 70% of people in the lowest decile are eligible for SFA, a figure that rises up to 78% when considering only households with children. However, in the case of CA, only 26% of the poorest with children are eligible for such a benefit. Furthermore, the unusual pattern of CA can be also seen in Figure 4.3: CAs are more likely to be received by people in the second rather than in the first (poorest) decile.

Figure 4.3 CA and SFA coverage: (a) deciles 1 and 2 of the income distribution; (b) by deciles 1 and 2 of the income distribution of households with children.

Coverage refers to ‘theoretical coverage’ as per simulated eligibility, not actual coverage.
It is important to highlight that this analysis is very sensitive to the income considered for the eligibility. In practice, although regulations require considering ‘real income’, both programmes do few checks on the income declared by the household. Thus, it is very likely that applicants underreport their incomes, especially when it comes to informal incomes such as remittances, self-employment, earnings from informal employment, etc., and this could well decrease the targeting results.

### Table 4.2 SFA and CA eligibility and budget by income calculation

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>Households / families</th>
<th>People</th>
<th>Annual budget (million MKD)</th>
<th>Annual budget (in million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>37,581.7</td>
<td>218,019.0</td>
<td>659.7</td>
<td>10.7</td>
</tr>
<tr>
<td>CA (with informal income)</td>
<td>25,038.3</td>
<td>153,105.5</td>
<td>459.3</td>
<td>7.5</td>
</tr>
<tr>
<td>SFA</td>
<td>49,792.5</td>
<td>221,271.6</td>
<td>1,826.6</td>
<td>29.7</td>
</tr>
<tr>
<td>SFA (with informal income)</td>
<td>24,383.0</td>
<td>116,530.4</td>
<td>885.8</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Source: Own estimates using HBS data.

In relation to the adequacy, estimates show that SFA benefits are much higher than CA’s and that they represent a larger percentage of the income of the poorest. Among the poorest 10% of the population, simulations show that SFA’s average transfer to eligible households would be 669 MKD (€11) per adult equivalent, which represents almost 140% of their income. For CA, the average cash transfer would represent only 28% of the income of the eligible families in the poorest decile. Moreover, SFA’s average benefits for the lowest decile is twice the amount of CA’s cash transfer, (see Table 4.3). However, it is important to remember that CA’s income calculation might be...
biased by the fact that it is the nuclear family (i.e. parents and children) that is considered for the income base instead of the household, which would include all people living together regardless of strict family relationships.\textsuperscript{12}

These estimates are in line with the findings of the survey of beneficiaries. According to that survey, 60\% of CA beneficiaries declared that the transfer is ‘not significant’ in relation to the household income. In line with this, FGD participants frequently stated that the application costs are too high compared to the actual benefits (see Box 4.1). However, almost half of SFA beneficiaries regarded the transfer as ‘very significant’ and only 32\% considered it ‘not significant’. It is important to note that this does not mean that the amount of the benefit is satisfactory or sufficient to meet households’ needs.

<table>
<thead>
<tr>
<th>Table 4.3 Adequacy of SFA and CA benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decile</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>CA</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>SFA</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: Own estimates using HBS data.

A different way of analysing the adequacy of the benefit is to compare the amount of the transfer with the essential expenditures that households face. For instance, according to the survey of beneficiaries we know that CA beneficiaries spend 1,559 MKD (€25) per month per child on education (fees, transport, food at school, etc.) and health (medicines, consultations, transport, etc.). Therefore, since a household with one child could receive a maximum of 1,115 MKD(€18), the transfer would not cover these essential expenses. The difference becomes even larger when we consider the amount given to the second and other children, where a lower percentage of essential expenses are covered.

\textsuperscript{12} As highlighted in Section 3, when assessing eligibility for CA the nuclear family is considered for the income base instead of the household as in SFA. Deciles were constructed using the household’s income. This can thus bring some distortions. It means that households in decile 1, the poorest ones, might not be the same as the families in such a decile. As a consequence, CA targets poor families but here its performance is evaluated according to its capacity to reach poor households. There are two arguments to support this method; first, as households are, by definition, united where income is shared, it makes more sense to use them rather than families for the income calculation. Second, as the SFA uses households, if we change calculation methods with families we will translate the problem from one benefit to the other. In the end, the problem arises from comparing two benefits with different income calculations.
Regarding the use of the benefit, more than half the CA beneficiaries indicated that they had spent the money of the last transfer on food. Other common uses are purchasing clothes (both for children and adults) and expenditures related to children’s education. In the case of SFA, however, more than 70% answered that they had spent the last transfer on food, which is consistent with the fact that these are poorer households.

**Box 4.1 Voices: it is not worth it**

“Is it worth 700 MKD (€11) a month to gather all the documents? I don’t think so.” (Father of two children (aged nine and 12), Bitola, potential beneficiaries)

“You’ll put all of your effort into getting all the documents done and in the end you don’t get anything. What is even worse, they don’t tell you the reason why you have been rejected. You’ll spend a lot of money and at the end if you receive anything, you’ll get very little money.” (Single mother of one child, Bitola)

Source: Authors’ analysis, RQA.

**4.2. The effects of CA design**

In this section, we study the effects of different aspects of the CA design. The purpose is to understand how each aspect of the design contributes to the low performance of the benefit described above. This analysis is based on simulations of alternative scenarios done with HBS data.

According to the analysis presented in previous sections, there are some specific issues in CA’s design that are not coherent with the overall policy’s objective of covering at least part of the expenses incurred for the upbringing and development of children in low-income families (defined as such based on the income threshold). Such issues are the following:

- informal income is not entirely captured when assessing eligibility;
- the condition related to employment is very binding, especially for the poorest families;
- families are used for the income base instead of households; and
- benefits are capped at a very low level, negatively affecting not only large but also common size families.

As it was previously highlighted, methods for checking the real income of applicants seem not to be accurate enough and therefore leakage in CA is relatively high. Applicants tend to under-declare their informal income in order to be eligible for the benefit and, as a consequence, resources are
not efficiently allocated. To show this, we re-produce eligibility based on the current legislation, but in a first scenario we assume that only formal income is fully declared and in a second scenario we assume that full income is reported. Estimates show that, in the assumption of full income reporting, CAs targeting of the first decile grows from 20% to 28% and in the second decile grows from 42% to 53%. Moreover, the total disbursement for CAs calculated as if all eligible families receive the transfer would be reduced from 659.7 million MKD (€10.7 million) per year to 459.3 million MKD (€7.5 million).

Of course, this is only a simulation but it shows that adopting measures to fully verify incomes would have the scope to improve targeting and reduce budget expenditure. For instance, a proxy means test could be employed to identify suspicious cases and thus trigger further checks.

Probably the most important weakness of CA identified is that it does not reach a significant proportion of the poorest families. Simulations show that errors of exclusion can be significantly reduced if eligibility for CA is de-linked from employment status. As mentioned earlier, currently, CA is restricted to people who are working or receiving unemployment benefits. Estimates prove that the unusual pattern in CAs targeting and coverage, meaning that figures for the second decile are much higher than for the first, is essentially explained by this restriction. The number of eligible households doubles when de-linking eligibility from employment status. Moreover, coverage in the first decile would increase from 18% to 31% and the percentage of beneficiaries in the first decile would grow from 20% to 65%. Naturally, such an improvement in targeting and coverage would require a substantially higher budget. In practice, it is primarily households receiving SFA with children who are denied CAs. However, if CAs are established as a right of the child living in families with income below a certain threshold, this benefit should be granted also to SFA recipients, as these by definition are even poorer than the current recipients of CAs. Indeed, the legislation correctly stipulates that income from CAs should be excluded from the income calculation when assessing eligibility for SFA. As it currently stands, the implementation of CAs is not fair since it gives more to relatively better-off households.

As highlighted in Section 3, the use of the family as the unit for calculating the CA income base creates many distortions. When considering only the family, other household members that may contribute to, and draw on, resources from the same budget are ignored. International experience suggests that means-tested benefits are usually targeted to households, especially in countries where information about incomes is not entirely reliable. As households are, by definition, units where income is shared, income support programmes tend to target them instead of families. This is the case with SFA.

Finally, maximum amount of CA that can be received by a family is very low, which means that families with more children receive lower per
capita transfers. Currently, a family can receive a maximum of 1,870 MKD (€30). This ceiling not only reduces the per capita benefits of large size families but also of common size families; even families with only two children can see their benefits capped. Hence, we consider that CA is drastically capped because, starting from families with three children, the ceiling has a progressively larger impact. In relation to large size families, as those households are often the neediest ones, the maximum limit reduces the impact of the programme.

Simulations show that if in 2010 CA had not been capped, the annual budget would have been 26% higher. It is also interesting to note that the capping goes exactly in the opposite direction of the new PA, giving rise to divergent aims. It should be noted that such contradictions also emerge in other European countries and are often the result of the policies of different governments (political parties with opposite views) or the evolving social and economic contexts (a period in which budget cuts are required vs. another of relatively strong economic growth), but it is nevertheless important to try to tackle them when the opportunity arises.

To sum up, in this section we analysed different aspects of CAs design and their effects on its performance. We highlighted substantial contradictory issues within the child protection law and also with the social assistance law. From a legislative point of view, the biggest complication is that the relevance of the ‘employment requirement’ cannot be relegated to the rulebooks. It is in blunt contradiction with the declared objective as expressed in the law. Therefore, it is either necessary to clearly redefine in the law the objective of CAs and thus expressively state the ‘employment requirement in the law’ or get rid of this requirement in the rulebooks.

On grounds of fairness and overall legislative coherence, the second would appear to be preferable. Furthermore, it would be important to address the current contradiction of drastic capping of CAs and the generous PAs. In fact, on the one hand, capping discourages population growth, starting to affect families with three or more children and, on the other hand, PAs do exactly the opposite. Therefore, in order to improve CA coherence, improve fairness, coverage and also its impact, the issues highlighted in this section need to be addressed. Later, we provide more specific recommendations on possible ways to deal with these design failures.

4.3 Parental Allowance

The objective of the PA is to foster population growth while covering part of the expenses for children’s upbringing and development. PA is a benefit exercised by the mother of the third child born alive after January 2009. This transfer is paid monthly, for a period of 10 years and in the amount of 8,048
It is a universal benefit and a family policy that seems to encourage proper parenting through the conditions on school attendance, health check-ups and vaccinations.

A review of international cash transfer programmes for children/parents indicates that impacts on fertility, if existent, are non-intended effects as both in developed and developing countries such policies tend to aim at supporting children’s upbringing. Still, there is no conclusive international evidence that supports the effectiveness of cash transfers for fostering population growth. International evidence regarding the effects of family benefits on fertility is mixed. While some studies emphasise that cash transfers, when associated with other complementary family policies, can increase fertility (Luci and Thevenon, 2011), others highlight that results are mainly limited by numerous methodological issues that make the analysis of the impact of policies on demographic behaviour particularly difficult (Gauthier, 2001). In their study of social assistance reform in the US, Grogger et al. review the evidence of how policy changes affected fertility and come to the conclusion that there is no convincing evidence of an impact. Furthermore, literature about cash transfer programmes in developing countries has also analysed this issue and international evidence suggests that, if there are any effects, these are only modest (Fizbein and Schady, 2009). Moreover, economic theory suggests that if there is an impact on fertility, this tends to be significantly lower for relatively better-off households.

Nevertheless, in relation to PA’s design, perhaps it is even more important to reflect on two key aspects: the amount of the transfer and its universality. The consequences of both aspects are becoming apparent due to the significant increase in the number of beneficiaries since the starting date of implementation (January 2009). First, when compared to all the other existing benefits, the amount of the benefit is large. Given that it is not means tested, in a few years it will imply a huge fiscal cost. Our simulation models show that if the PA had been introduced in 2001, under the same conditions, using the population estimates available from the State Statistical Office, the burden on the state would have been very high, and in 2011 (following a ten years implementation period) it would have represented a fiscal cost equivalent to 0.75% of the GDP. Second, given that the current design is likely to become a significant fiscal burden, and that there are inconsistencies in the design and coverage of CAs, it is worth analysing the savings that moving from a universal approach to a targeted one would imply.

Even though it is a relatively new benefit, PA has become the most important child benefit, at least from a budgetary perspective. As Figure 4.2 shows and it is highlighted in Section 2, in 2010 the PA became the most

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13 This amount corresponds to the year 2010.
14 Our estimates indicate that a fully scaled-up PA would cost 3,169 million MKD/€51.5 million per year. According to official statistics, Macedonian GDP in 2011 was 423,862 million/€6.9 billion.
costly child benefit. The main reason for this growth is the fact that its amount is much higher than all the other benefits. According to the legislation, the maximum CA benefit that an eligible family can receive is 1,870 MKD (€30) per month, which represents just 23% of the PA transfer. Moreover, families with disabled children are entitled to a special allowance of 4,202 MKD (€68) per disabled child per month, which is also lower than the PA amount, even though the financial costs associated with meeting of such a child can be significant.

The PA is already the child benefit with the highest budgetary cost, and a cost that continues to grow, even though it has only recently been introduced. Only mothers of a third child born alive since January 2009 are entitled to PA. According to administrative records in 2010 there were only 4,086 beneficiaries. However, as time goes by, eligible households will constantly grow, implying a growing fiscal burden.

Simulations were made using the HBS data in order to calculate the number of eligible households by dropping the condition of being born after January 2009. In other words, we calculated the number of eligible households assuming that the programme had started in 2000. Therefore, by 2010 all households with a third child younger than 10 years old would have been eligible to receive the transfer. Even though this is a simulation, it provides a forecast of the costs that the programme will imply when the condition of being born after January 2009 becomes unbinding (by the year 2018). According to those estimates, if all eligible households had received the third-child PA, the 2010 annual budget would have been 3,169.97 million MKD (€51.5) million. This amount represents 0.75% of the GDP and is almost five times CAs budget and twice SFA’s, if we simulate that all eligible households receive the corresponding benefits.

Figure 4.4 presents social expenditures as a percentage of the GDP in different countries of the region. According to these numbers, PA at its full potential would account for a greater percentage of GDP than all means-tested interventions or all child and family allowances in neighbouring countries. The following exercise can show the magnitude of the fiscal burden. Let us consider the expenditures in 2010 in the following programmes: SFA (1,473,927,027 MKD (€24 million)), Cash assistance for third-person care recipients (1,175,113,689 MKD (€19.1 million)), and CA (17,687,632 MKD (€288,000)). If we add to those expenditures the cost of the fully scaled-up PA, the expenditure on last-resort social assistance and family and child allowance would represent 1.38% of the GDP. As can be inferred from the graph below, in this scenario the country would be the one with the highest expenditure on this type of social assistance (as % of GDP) in the region.
The PA already implies a high fiscal burden. Even when it is halfway from its full implementation, estimations show that PA’s 2012 cost if all eligible families receive the transfers almost doubles CA’s budget and represents more than 60% of SFA’s annual potential expenditures. According to the simulations done, it is likely than in 2012 total budget allocations for PA alone would reach 1.15 billion MKD (€18.7 million).

Besides the budgetary implications and in line with the universality of the benefit, PA is not well targeted. Although child poverty reduction is not the explicit aim of PA, it is still arguable whether it was the original policy intention to provide such large untargeted transfers, while many poor households with children do not receive assistance. In the scenario where all households with a third child younger than 10 receive the benefit, only one-quarter of the transfers would go to the poorest 10% of the population.
Figure 4.5 Third-child PA’s simulated targeting

Source: Own estimates using HBS data.

Once again, the above figures are obtained from simulations using HBS data and they simply show the percentage of families with three or more children across the country income distribution.

Given that it is very unlikely that PA would have an impact on the decision of relatively well-off households to have more children, and given the inconsistencies that the policy has when compared to the capping of CAs and their low coverage, the design and structure of the benefit should be considered to ensure that the limited budgetary resources available are used effectively to address the needs of the poorest families.
The maximum amount of the child allowance is very low, and is not tied to a recipient family’s total number of children. This means that families with more children, who are often among the poorest, receive lower per capita payments.
Based on administrative records 13,866 households received CAs in 2010. However, estimates using the HBS show that approximately 37,500 households were eligible in the same year. Even acknowledging that replicating the eligibility criteria in HBS dataset implied making some assumptions that can affect the results, such a huge gap suggests that there are significant implementation failures that result in the exclusion of almost two-thirds of eligible households from CAs. This finding is in line with the dramatic reduction of CA beneficiaries in recent times reported in the administrative records. The case of SFA is different; estimations based on HBS data indicate that there are approximately 49,700 eligible households, while administrative records show that there were 45,138 beneficiaries in the last month of 2010. Thus, SFA seems not to have major take-up issues.

As a consequence, the implementation of child benefits needs to be studied and reformed in order to improve the impact of such policies. As the HBS does not have a good representation of beneficiaries, there is no direct way of studying benefits’ take-up with such a dataset. For that reason, this section draws on the survey of beneficiaries, including the interviews with CSW staff, and on a RQA in order to be able to assess the implementation of CA.

According to the results of the interviews with CSW staff, the overall process of application for CA seems to be complex. More than half of the CSW staff interviewed assessed the process as ‘fairly complex’, while 36% considered it ‘very complex’. Some of the recommendations for improving this process highlighted by the staff are: 1) Certificates of employment of individuals working for private companies should be presented only once, not each year in the recertification; 2) Governmental agencies (IRS, Cadastre,
MOI) should be interconnected so that applicants do not need to go from one institution to another looking for the documentation; 3) Some documents overlap (i.e. an applicant needs to present both a Certificate of Citizenship and a Birth Certificate, which contain more or less the same information); and 4) Training of CSW staff.

The survey of beneficiaries provides valuable information about the implementation of CA; however, it is important to be cautious when analysing the results. As people interviewed were those who actually succeeded in the application process, the results are somewhat biased in the sense that it is natural that they have a better opinion of the application process than those who were not considered eligible.

In general terms, beneficiaries seem to be satisfied or at least neutral regarding the CA application process. Satisfaction levels are virtually the same between rural and urban areas; however, Macedonian beneficiaries seem to be slightly more dissatisfied than Albanian and Roma ones (see Table 5.1).

During the process, applicants go to the CSW more than three times, on average, and spend around 1,000 MKD (€16) in order to get all the documentation required. Moreover, a few beneficiaries are dissatisfied with the quality of the information given by the CSW about the benefit and the application process; however, only 18% of the beneficiaries became aware of CAs through the CSW.

Despite all the documentation required, beneficiaries do not consider gathering such documentation to be particularly difficult, even in rural areas (only 10% consider it very difficult and 6% difficult). However, both Albanian and Roma applicants assess the collection of documentation as being slightly more difficult than Macedonians (see Table 5.2). Certificates of birth for children and of citizenship for parents are the most difficult documents to collect.

Table 5.1 What is your general level of satisfaction with the application process?

<table>
<thead>
<tr>
<th></th>
<th>MACEDONIAN</th>
<th>ALBANIAN</th>
<th>ROMA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very satisfied</strong></td>
<td>38</td>
<td>12</td>
<td>9</td>
<td>62</td>
</tr>
<tr>
<td>%</td>
<td>17.4</td>
<td>23.1</td>
<td>25.7</td>
<td>19.0</td>
</tr>
<tr>
<td><strong>Somewhat satisfied</strong></td>
<td>72</td>
<td>15</td>
<td>8</td>
<td>106</td>
</tr>
<tr>
<td>%</td>
<td>33.0</td>
<td>28.9</td>
<td>22.9</td>
<td>32.4</td>
</tr>
<tr>
<td><strong>Neutral</strong></td>
<td>69</td>
<td>20</td>
<td>13</td>
<td>104</td>
</tr>
<tr>
<td>%</td>
<td>31.7</td>
<td>38.5</td>
<td>37.1</td>
<td>31.8</td>
</tr>
<tr>
<td><strong>Somewhat dissatisfied</strong></td>
<td>30</td>
<td>3</td>
<td>2</td>
<td>41</td>
</tr>
<tr>
<td>%</td>
<td>13.8</td>
<td>5.8**</td>
<td>5.7*</td>
<td>12.5</td>
</tr>
</tbody>
</table>
Table 5.2. How difficult was it to gather all necessary documentation for the application?

<table>
<thead>
<tr>
<th></th>
<th>MACEDONIAN</th>
<th>ALBANIAN</th>
<th>ROMA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very difficult</td>
<td>21</td>
<td>6</td>
<td>4</td>
<td>32</td>
</tr>
<tr>
<td>%</td>
<td>8.8</td>
<td>11.3</td>
<td>10.8</td>
<td>9.1</td>
</tr>
<tr>
<td>Difficult</td>
<td>22</td>
<td>4</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>%</td>
<td>9.2</td>
<td>7.6</td>
<td>13.5</td>
<td>8.8</td>
</tr>
<tr>
<td>So and so</td>
<td>121</td>
<td>38</td>
<td>19</td>
<td>193</td>
</tr>
<tr>
<td>%</td>
<td>50.4**</td>
<td>71.7***</td>
<td>51.4</td>
<td>54.7</td>
</tr>
<tr>
<td>Easy</td>
<td>60</td>
<td>4</td>
<td>7</td>
<td>76</td>
</tr>
<tr>
<td>%</td>
<td>25.0**</td>
<td>7.6***</td>
<td>18.9</td>
<td>21.5</td>
</tr>
<tr>
<td>Very easy</td>
<td>16</td>
<td>1</td>
<td>2</td>
<td>21</td>
</tr>
<tr>
<td>%</td>
<td>6.7</td>
<td>1.9**</td>
<td>5.4</td>
<td>6.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>240</td>
<td>53</td>
<td>37</td>
<td>353</td>
</tr>
<tr>
<td>%</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Own estimates using data of the Survey of Beneficiaries.

Note: Degree of significance: Asterisks (*) indicate that an estimate is significantly different to the relevant comparator, *** = 99%; ** = 95%; * = 90%.

Although useful, this information is limited for two reasons: (i) it comes from a quantitative survey, which by design employs closed questions and thus provides only limited insight into the reasons behind low take-up; (ii) eligible households that have not applied for CAs (potential beneficiaries) were not interviewed, thus excluding the group for which the question of low take-up is most relevant.

Therefore, a small qualitative assessment was conducted to quickly gain a better understanding of the reasons why people who are eligible for CAs do not apply, as well as to explore sensitive issues around the social exclusion of certain ethnic groups.

Hence, the main objective of the RQA was to deepen understanding of the quantitative analysis and to hear the voices of applicants and non-applicants and their experience with the administrative system of CAs. The basic assumption of this small qualitative study is that eligible people do not apply for the benefit because the costs incurred by the applicant – both financial
and non-financial – outweigh the benefits. This is in line with standard cost–benefit reasoning, according to which agents will participate in a welfare programme if the potential gains of claiming the benefit are high enough to offset the costs.15 The gains from claiming benefits are mainly related to the level of benefits and the expected duration of the entitlement. To understand the costs incurred by the applicant, the RQA considered three main categories of costs:

1. **Information costs**: information about the existence of CAs, eligibility criteria and the application procedure;

2. **Application costs**: time to gather documentation, financial costs to pay for documentation, transport costs, opportunity costs for the time the applicant cannot work; and

3. **Social and psychological costs**: discrimination, stigmatisation, unequal treatment of specific subgroups (e.g. ethnic minorities) or incompetence of administrative staff, which can lead to unequal treatment of beneficiaries.

### 5.1 Information costs

There is a general lack of information on CAs compared to other benefits. For example, people seem far better informed about the SFA. As is to be expected based on the findings in the HBS, potential beneficiaries know little about CAs and eligibility criteria. Moreover, there seems to be an information divide between people living in urban centres, in particular Skopje, and more rural areas. People in Skopje seem to have more experience dealing with government administration and have learnt a certain ‘administrative literacy’; thus, many of them say the process is easy and clear. Others do struggle with obtaining information and are very unsure which documentation is needed and thus rely more heavily on the CSW.

Moreover, there is a significant amount of confusion about eligibility and criteria, which prevents people from applying. For instance, some people tend to confuse old rules and criteria with current ones.

**Information provision by the CSW**: In order to get more information, people go to the CSW where they ask questions about eligibility criteria and what documents to provide. Unfortunately, the CSW staffs occasionally add to the existing confusion by providing inaccurate information. Moreover, information rarely seems to be offered voluntarily to applicants and in many cases people feel they are bothering staff, rather than exercising their right. Not surprisingly, there seem to be significant differences between Centres for Social Work. For example, in Tetovo people complained they do not get a list of documents they need to supply, while in Skopje and Bitola this seems to happen. In Shutka, some people have heard of a leaflet on benefits provided by an NGO.

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15 See Hernaz et. al. (2004).
Information channels: Most people learn about CAs from their extended family, neighbours or friends. Few reported that they have been informed by the school, at work or by the unemployment agency (where some go regularly in order to get the ‘blue card’ which gives people access to health insurance). None of the FGD participants said they had learnt about CA on radio, TV or other media, although people do report having heard about the PA on TV.

Friends’ and family’s experience with CAs is an important factor influencing the decision to apply. If people know of others who receive the benefit, they feel encouraged that they are able to apply for and receive CAs. If people know of negative experiences, or they do not know people who receive CAs, they assume their application will be turned down. It is probably safe to assume that this can result in a situation where people belonging to a certain group, community or social network are discouraged and do not apply. In extreme cases this results in reaching incorrect conclusions, whereby potential recipients believe they, as a group (usually based on ethnicity), will not be able to receive CAs.

According to FGD participants, useful information channels for potential recipients of CAs would be employers, schools and TV. In one case, a FGD participant was informed about CAs by a midwife after she gave birth, which seems an easy way to get information to people from the time children are born.16

Box 5.1. Voices: Information

“I was given all of the information at the CSW. I was given a printed document where everything I need was written down. It was neat and understandable and I was told that when I have the documents I should come.” (Single mother of one child (age eight), Bitola, passive beneficiaries)

“The criteria for CAs are to be employed; you need to have a salary from 6,000–7,000 MKD (€98 - €113) and then you are eligible for CAs.” (Unemployed single mother of two children (ages 10 and 14), Bitola, potential beneficiaries)

“We are only informed from the rumours; we listen to other people about what and how things should be done.” (Father of two children (ages nine and 12), Bitola, potential beneficiaries)

“I went [to the CSW] and I asked but because I am unemployed I was rejected. The first and basic point is to be employed. They told me to get a job and then to come. I haven’t been there since.” (Father of two children (ages nine and 12), Bitola, potential beneficiaries)

16 This would be similar to the UK, where pregnant women and new mothers (this seems to be particularly targeted at mothers, not fathers) are given a whole pack of information about local support services and benefits.
“I know a lot of people who don’t know about CA and I think they are eligible and if they apply they will probably receive it.” (Unemployed mother of two children, ages five and 10, Skopje, passive beneficiaries)

“At the CSW they’ve prepared a document on which it is written what we should do. The criteria and the documents required are written too and that is pretty clear.” (Unemployed mother of one child, age 10, Skopje, passive beneficiaries)

“I haven’t been to the CSW but there are people I know that applied and didn’t receive CA. No one received CA from the people I know.” (Unemployed young mother of two children, Skopje, potential beneficiaries)

“If you ask something they will yell at you and they will tell you that you have everything written on the paper and it’s clear.” (Mother of two children, Bitola, passive beneficiaries).

5.2 Application process

Findings from the RQA showed that the application process is generally regarded as time-consuming and expensive. Significant sums of money are spent on acquiring documentation and transport. While many FGD participants say the amount of the benefit is not worth spending the time and money needed for the application (as well as being unsure about the outcome), others did say they could not afford to spend 1,500 MKD (€24) (see Box 5.2 for applicants’ views).

People seem to be paying around 1,500 MKD (€24) for all the documentation. All FGD participants reported they had to pay for documents and only one person among all the FGD participants had heard, incorrectly, that documents are now supposed to be free of charge. The document for cadastre income seems to be more expensive than the others (both in terms of financial and non-financial costs incurred to obtain it). Reports of bribes seem rare but do exist (‘offering some coffee’ was mentioned at times). Transport costs are another significant financial hurdle, especially because applicants tend to go to the CSW several times (to get initial information, to submit documents, to submit further documents which were missing the first time, to provide further documentation and so on).

17 It is important to underline that in most cases applicants are required to submit photocopies of documents which has significantly reduced the cost of application. Nevertheless, there are, as our research shows, significant costs to applicants regardless of this fact.

18 The real cost of documents is reflected in the statements of the participants. Documents from the cadastre office are twice the price of the majority of other required documents (300 MKD (€5) compared to 150 MKD (€2.5), such as birth certificates, national identification documents, marriage/divorce certificates etc.
People do spend a considerable amount of time at the CSW waiting until they can either get information or submit their application (while other people with friends in the right places do not tend to wait or receive information with a simple phone call). Applying for CA appears to be very time consuming, with some people reporting going to the CSW and other state institutions (where they need to ask for certain documents) every day for an extended period. Opportunity costs are therefore considerable.

There is agreement that the most expensive and most difficult document to get is the cadastre one (from the Internal Revenue Office). No other document was singled out as being difficult. It is more the overall hassle to go from one office to the next in order to collect all the documentation required that prevents people from applying or makes them give up in the middle of the process.

In some groups people told us about a certain deadline that, if missed, meant documents would need to be submitted again with one then having to wait a long time until the application is considered. Moreover, it was reported that some people know about those deadlines early enough while others (who are not well connected) learn too late and miss them. In the legislation, such a deadline does not really exist; the only thing that comes to mind is the deadline for the renewal of the benefit, but that should not prevent the starting of a new application. However, it is also possible that deadlines are used by some CSWs to manage their work.

Box 5.2 Voices: application process

“After the visit we went to collect all the documents. It was expensive: 150 MKD (€2.4) for one document, 150 MKD for the other.” (Mother of one child, Bitola, passive beneficiaries)

“And if you are late in submitting the documents you have to do it all over again to retrieve the documents. You wait too long for each document.” (Mother of two children, Bitola, passive beneficiaries)

“You need to dedicate yourself to it for two weeks.” (Single mother of one child, Bitola, passive beneficiaries)

“When I applied I had to pay for everything and it was so expensive, but nowadays I think that some documents are free of charge and it isn’t so expensive. I paid around 1,500–1,800 MKD (€24–€29).” (Unemployed mother of two children (ages five and 10), Skopje, passive beneficiaries)

“We know that a lot of documents need to be done to apply; you have to go several times to the centre. The costs are very big and we can’t cover them; we don’t have enough money to pay for the documents, transport, etc.” (Unemployed father of two children, Tetovo, potential beneficiaries).
“It happened to me when I applied for CAs. I went several times to the centre and every time I went there they would say to me that I had another document missing. I just don’t understand why they didn’t tell me from the start about all the documents but every time I go there something is not right with my documents. I spent a lot of money on my documents, and again after all that struggle and after all the money I paid, they told me that I am not allowed to take CAs this year but should get it from the next year.” (Unemployed mother of three children, Tetovo, potential beneficiaries)

Source: Authors’ analysis, RQA.

5.3 Social and psychological costs

Participants of FGDs highlighted their perception that discrimination and favouritism are one of the main obstacles for applying for CAs. These barriers take various forms, including a perception of discrimination based on ethnicity, language, poverty and favouritism. In addition, in some cases CSW staff seem unable to cope with the need for support and information on the applicants’ side.

Applicants seem to be discriminated against on the ground of their ethnicity (awareness of who is Roma, who is Macedonian and who is Albanian is obvious in all parts of society) and language (e.g. who does not speak Macedonian well enough) but also poverty per se. Appearances seem to matter a lot: people in all groups reported that staff at the CSWs tell them that they are not wearing the appropriate clothes, meaning some applicants borrow nice clothes from friends before they visit the CSW.

Box 5.3 Voices: ethnic discrimination

“I see that Roma are treated the worst.” (Mother of one child at school age, Bitola, passive beneficiaries)

“People are humiliated, separated into rich and poor, Roma and others. And they let people they know jump the queue.” (Mother of two children, Bitola, passive beneficiaries)

“In my opinion it’s very hard for a Macedonian to receive something from the state and from the CSW as well. I think that even if I apply there is no chance of getting it, because I know who receives such benefits [Albanians]. We know who is responsible and who is in charge of the CSW [Albanians]. The Ministry hardly gives money to Macedonians.” (Father of one child (age 12), Skopje, potential beneficiaries)

“[… ] There is a sheet on the door with some points which we have to
According to FGD participants, it is all about having connections and knowing someone in the right places. These connections can be via friends, family or a political party affiliation. If you know someone, things are easy; you do not have to wait in line, you can file applications over the phone, get documents easily and you will be informed about approaching deadlines well in advance. The majority of applicants lack these connections, which often reinforces discrimination (see Box 5.4).
Box 5.4 Voices: knowing people in the right place

“If you have friends you won’t have any problems. It personally happened to me; with the help of a friend I avoided waiting rows and got the job done out of turn.” (Mother of two children, Bitola, passive beneficiaries)

“There are people who have friends in political parties; they use these party connections and that’s how they receive CAs.” (Father of two children, one at school age, Skopje, passive beneficiaries)

Applicants argued that in some cases CSWs are understaffed and that the staff available do not have the right training. In general, applicants acknowledged that staff are overworked; however, in some cases, they were accused of being on breaks when they are not supposed to be, talking on the phone to friends, etc. Some FGD participants reported that they felt humiliated by CSW staff and feel ashamed when they apply for CAs.
This section provides recommendations based on our assessments of the design and implementation of child benefits, on the simulations done and on broader international experience. The principles inspiring the recommendations are maintaining budgetary costs to something manageable, and at the same time trying to improve targeting efficiency, the impact of child benefits on poverty and also ensure legislative coherence. Overall, we envision two main options of reform. The technically best scenario would be to merge CA into an expanded PA creating a new programme that here for simplicity is going to be referred to as Child Protection Allowance CPA. This could also be presented as an evolution and improvement of the original PA. An alternative and gradual way forward is to undertake smaller improvements to both programmes. Based on our assessment of the current implementation failures identified in the study, we also provide some general suggestions for improving the implementation of the legislation; although we are aware the MLSP is already implementing a series of reforms. Finally, we suggest a possible timeframe for such reforms.

6.1 The vision on feasible reforms

In recent years, MLSP has been promoting and investing in various administrative changes aimed at improving the efficiency of child benefits administration. Some of these investments are: 1) new software for the administration of benefits by the CSWs; 2) the licencing of CSW workers; 3) a functional review of the CSWs, aimed at systematically detecting known weaknesses (for instance staff shortages and lack of adequate training); and 4) a plan for improving the dissemination of the various programmes and communication with the beneficiaries.
Although these investments and instruments are very relevant, if the government is aiming at creating a system that effectively and efficiently protects the poorest children, such policies would be more effective if combined with structural reforms in the design of the key programmes and their coordination.

6.1.1 Merging CA and PA

There are reasons to believe that merging CA into PA can produce a more coherent policy, increase the impact of the child protection system and also produce budgetary savings. Currently, PAs and CAs appear to have divergent aims; while there are dramatic restrictions and caps on the amount of CAs, PAs move in the opposite direction. Looking at these two benefits together could resolve this inconsistency and the double converge on the assistance to the overlapping group.

Estimates show that there are almost 9,000 households that are eligible for both benefits. Moreover, if CA design is improved as recommended here, such overlaps would increase significantly. Second, sooner or later the PA will need to be reformed as it is likely to become a significant fiscal burden (see Section 4.3). Moreover, CAs are a de facto ‘declining’ benefit and are heavily associated with the past. Therefore, we see that merging CA into PA could be a good opportunity for dealing with inefficiencies in both programmes and more specifically a way to contain overall costs, improve targeting and streamline administrative costs and procedures. This could therefore also be a way of selling the reform, incorporating CA in a reformed and augmented PA. Indeed, this would guarantee the opportunity to maintain the importance of PA (and at the same time explain the changes.

The basic idea is to merge CA into PA, with the new CPA offering a solution for all families with children. It will operate like a reformed CA for households with one or two children and like the PA (with an additional income threshold) for households with three children or more.

For households with one or two children, CPA will work like an improved version of the CA’s current targeting mechanism: eligibility is no longer linked to employment status, households instead of families are considered for the income-base calculation of eligibility,\(^{19}\) efforts to capture informal income are implemented\(^{20}\) and current income thresholds for CA are maintained. Transfers to these households would be equal to the maximums that such households could receive under CAs current design. Regarding households with three children or more, they would be entitled to a scheme similar to PA,\(^{19}\) However, in order to maintain the family policy objective, children should be of the same parents, but in the calculation of the income threshold all household members will be taken into account.\(^{20}\) For example, by verifying declared income through some proxy indicators and eventually triggering further checks.
although in order to assure the sustainability of the new programme relatively better-off households would be excluded (once again household and not family income would be the basis for determining whether they are eligible based on the income test). Table 6.1 summarises how CPA could work.

Table 6.1 Merging CA into PA: the proposed design of CPA

<table>
<thead>
<tr>
<th># Of children</th>
<th>Eligibility criteria</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 or 2</td>
<td>(1) The same income thresholds as CA</td>
<td>(1) 1,154 MKD (€18.7) to households with one child</td>
</tr>
<tr>
<td></td>
<td>(2) Eligibility is not linked to employment status</td>
<td>(2) 1,829 MKD (€29.7) to households with two children</td>
</tr>
<tr>
<td></td>
<td>(3) Households are considered for the calculation of the income base instead of families</td>
<td>These amounts are equal to the maximums that such households could receive under CA's current design</td>
</tr>
<tr>
<td></td>
<td>(4) Applicant’s informal income is captured</td>
<td></td>
</tr>
<tr>
<td>3 or more</td>
<td>(1) Income below a certain threshold</td>
<td>(1) The same amount as PA (8,177 MKD) (€133)</td>
</tr>
</tbody>
</table>

At a first stage, we propose merging CA into PA, but not fully integrating them. The difference between merging and integrating is that in the first case the new programme will still have two schemes with significant differences between each other. However, at a later stage integration would imply having a more coherent and unified programme. Although integration is the main goal, we believe that it should be achieved gradually and start with a process of merging the two programmes.

Simulations show that this proposed version of CPA can obtain better results for the same or even a lower budget. Budgets are simulated assuming in all scenarios that every eligible household actually receives the benefit, thus ignoring implementation problems. In Table 6.2, three different scenarios for CPA are compared with CA and PA in terms of numbers of eligible households and people, poverty targeting (percentage of beneficiaries and coverage in the first two deciles) and budgets. CPA scenarios differ in the household income threshold used for the eligibility of households with three children or more. In the first scenario, only households with three children or more and a monthly income per adult equivalent below 8,620 MKD (€140) are eligible. Such a threshold is the median income, meaning that only the poorer 50% would be eligible (in 2010 this was equivalent to 8,620 MKD per adult equivalent). The remaining two thresholds were selected to cover only the poorest 40% and 25% of households. In relation to the current designs in Table 6.2, PA scaled up represents the outcomes for a fully scaled-up PA, i.e. when the requirement that only children born since January 2009 are
eligible would become unbinding (by the year 2018). The 2012 column refers to estimates corresponding to potential costs and outcomes in the present year.

Results show that a CPA that targets the poorer 50% of households with three children or more and uses an improved version of CA’s current eligibility criteria for households with fewer children would be 27% cheaper than a fully scaled-up PA and CA. Under this scenario, targeting of the poorest decile would go from 20% to 41% and coverage in the first decile would increase from 18% to 54%. Moreover, considering the 2012 simulated PA’s costs, there is a CPA design (at a lower income threshold, 5,555 MKD (€90) per month) that is only 4% more expensive than PA and CA. In all scenarios, targeting and coverage of the poorest improves substantially.

### Table 6.2 CPA simulations and results

<table>
<thead>
<tr>
<th></th>
<th>Current designs</th>
<th>Simulations (CPA)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CA</td>
<td>PA Scaled up</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Households</td>
<td>37,582</td>
</tr>
<tr>
<td></td>
<td>People</td>
<td>218,019</td>
</tr>
<tr>
<td>Budget (annual, million MKD)</td>
<td></td>
<td>659.7</td>
</tr>
<tr>
<td></td>
<td>Budget (annual, million €)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Targeting (%)</td>
<td>Decile 1</td>
</tr>
<tr>
<td></td>
<td>Coverage (%)</td>
<td>Decile 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decile 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decile 2</td>
</tr>
</tbody>
</table>

Source: Own estimations with HBS data.

At a later stage, when feasible, CPA should move towards a more integrated programme. This means that differences between the benefits that households with one or two children and the other ones receive should be smaller. For the same reasons, the gap between the income thresholds for the eligibility of these two groups of households should be reduced and made equivalent. This integration will enhance the equity and coherence of the programme.
6.1.2 Other recommendations

The fact that some social and child benefits are based on household income and that their targeted populations overlap, at least to some extent, suggests that they should be coordinated. Such coordination would improve the impact of both benefits at a lower cost. Some of the reforms recommended in this line are:

- **Eligibility assessment for SFA and CA or CPA should be consistent.** It is advisable that all social assistance programmes use the same method of calculating the income of applicants. This means that they should consider the same sources of income, the same household/family members and identical equivalence of scales. This consistency will prevent the distortions that different measures can cause.

- **CA/CPA should have a higher income eligibility threshold.** SFA should remain as the ‘last-resort benefit’, with a lower threshold than CA or CPA. In this way, SFA would still be targeted exclusively to the poorest, while CAs will target a broader group of low-income households.

- **SFA beneficiaries with children should automatically receive CA/CPA benefits.** If SFA has a lower threshold and hence is targeted at the poorest, households with children that are eligible for such a benefit should also be entitled to CA/CPA.

International experience shows that there are many ways of updating social benefits. There are countries that update benefits based on CPI, others that use wage indexes or some combination of wage index and CPI, and others establish every year the value of the benefits and relevant thresholds.\(^{21}\) It is difficult a priori to determine what is the best approach since this depends on the specific situation of each country. Nevertheless, it is important to clarify what are the possible risks associated with the different choices: automatic updates pose the risk of unpredictable budgetary requests, which is true both for links to wage indexes or CPIs. In recent years, inflation has been relatively low in the country, but there is no guarantee that the same trend will remain in future. The possibility of some discretionary adjustment on an ad hoc basis does not necessarily imply negative adjustments; on the contrary, over the years in France benefit rates increased above the level of CPI thanks to such ad hoc adjustments. In a scenario of sustained economic growth, using exclusively CPI to uprate the benefits (and keeping other things constant) might

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\(^{21}\) For instance, in the UK measures of inflation are used to increase social assistance benefits, but income disregards in income support are updated on an ad hoc basis. In Slovakia, for some time the Minimum Subsistence Level, the basis for social assistance, was updated using the lower between the increase in CPI and a wage index. The Statutory Minimum Income in France (after 1970) was updated both for changes in prices, increases to manual workers’ pay and at the government’s discretion. In Moldova, the social support benefit is increased on an ad hoc basis every year.
increase the level of inequality and relative poverty and instead guarantee against absolute poverty (see the interesting report published by the Joseph Rowntree Foundation on this issue in the UK, Sutherland et al. 2008). However, the possibility of making ad hoc adjustments over a certain number of years should be given special consideration, especially in transitional economies.

**It is also recommended to update benefits and thresholds by CPI and to leave room for ad hoc increases on top of the price adjustment.** The arguments for this recommendation are: i) current legislation and benefit updates seem to have a preference for updating by CPI; ii) wage adjustment can imply substantial fiscal burdens; and iii) ad hoc top-ups will provide the government with the chance of increasing benefits when the budget allows it.

In order to keep costs manageable, we have not recommended dropping the cap on CA’s benefits, but this clearly contradicts the policy of PAs. The problem would be overcome if CA and PA are merged.

### 6.2 Recommendations for improving the implementation of child benefits

In order to provide detailed recommendations about improving the implementation of CA, further analysis would be required. Such a study would need to take into account all the flaws of the current system that are presented in this report and do an assessment of feasible strategies that respond to the characteristics and the capacity of the system. Such analysis is beyond the objectives of this report; however, we would like to highlight some general and basic recommendations that could be taken into account and consider whether and to what extent they are already addressed by the on-going improvements and changes that the MLSP is implementing:

1. **Provide CSW staff with proper training.** Both applicants and CSW staff highlighted that they need to be better trained for their duties. People often go to the CSW when they face any problem without even knowing the kind of services that a CSW can provide. Thus, CSW staff are in many cases the entry point of the social assistance system. In order to successfully deal with that demand, staff needs to be accordingly trained. In some cases, the work of the staff is actually closer to the responsibilities of social workers than regular civil servants.

2. **CSWs should have the number of staff needed to deal with the demand.** It has been reported both by beneficiaries and by staff that in some cases they are understaffed, which obviously affects the whole application process. This MLSP indicated that they are already planning to further assess the adequacy and distribution of CSW staffing.

3. **Applicants should be well informed about the process.** One of the main findings of the RQA is that applicants are misinformed about
the process, and some households also appear not to know about CAs. Currently, application forms have the list of documents required attached; however, this does not seem to be enough. For instance, many applicants said that documents are sometimes rejected because they are not in the right format. Hence, applicants should be informed about all the requirements so that they do not have to go back and forward with the process (i.e. documents’ format, where should they get those certificates from, validity of the documents, how to fill in the forms, etc.). Moreover, applicants should also be informed about the length of time that the process takes and, of course, about the criteria. Overall, this suggests that it is necessary to implement an adequate public campaign informing people both about CAs’ rules of eligibility and more detailed information about the application process. Of course, this could be easier in the event of an augmented PA (i.e. the CPA). It should be noted that the MLSP indicated that the ministry is making dedicated efforts to ensure that potential applicants are better informed.

4. **The number and cost of documents required seem to be one of the major obstacles. We recommend that such a list is revised and that it should be kept to a minimum.** Moreover, when possible, governmental entities should be responsible for transferring documents from one institution to another, instead of leaving this burden to applicants. However, it is important to guarantee that this should be done in such a way that will not delay the process. The MLSP has indicated that they are currently making dedicated efforts to address this issue. Furthermore, relevant documents and certificates should be free of charge or provided at a nominal cost for CA applicants and candidates should be informed of this.

5. **There should be a transparent mechanism for filing complaints and, of course, applicants should be informed about the result of their applications.**

6. Finally, we would like to highlight two important aspects of child benefits implementation that are not related to the application process. **As misinformation is one of the key obstacles to take up, we recommend carrying out information campaigns.** People seem to know about child allowances mainly due to rumours, which are frequently faulty. As a result, it seems that many eligible families do not apply for child related allowances.

7. In the survey of beneficiaries, 61% of CA recipients declared that payments are ‘sometimes’ delayed. Even though this does not seem to happen frequently, it can be a major problem for a family that does not have enough means. As a consequence, it is important to monitor and verify that payments are made on time.
6.3 Tentative timeframe for the reforms

The reforms proposed are very ambitious and, naturally, they should be implemented gradually. In particular, reforms are difficult because of the current macroeconomic context in the country and more generally in the region and this should be taken into account. Furthermore, policy design changes would also not succeed if human resources and administrative systems (infrastructure) are not in place and capable of implementing them. Therefore, the overall direction undertaken by the MLSP of first investing in a functional review of the CSWs and in administrative systems (such as the new computer system) is correct, but could nevertheless be accompanied by a medium- and long-term vision. Therefore, a possible scenario of reforms could be divided into three stages: short-, medium- and long-term reforms.

In the short term, i.e. within the next year, we recommend the following:

- to speed up the investments and changes that the MLSP is already undertaking in various implementation aspects (IT system, functional review and subsequent plan of investment, licencing of CSW workers, etc.) and consider whether the current changes are also addressing the issues highlighted in the previous section (i.e. dissemination campaigns, communication with the beneficiaries, list of documents required of applicants, etc.);

- start discussing the vision of an expanded PA (i.e. the CPA) and thus justify its transformation into a means-tested benefit, even though at a relatively high income threshold (it is important to start this reform now, since every year the number of beneficiaries increases and more people would be affected by a later cut) and freeze the increase of the benefit, leaving it at its current nominal value (of course this would require a change in the legislation); and

- provide an extra amount to households with children who qualify for SFA.

In the medium term (two to three years), the reform could move to an actual merging of CA into PA as described above, thus involving the following:

- considering households instead of families for the income base;

- de-linking eligibility from employment status; and

- carrying out further improvements in the coordination with SFA and other benefits.

Finally, in the long term, these reforms should be consolidated and the system should move from a ‘merged’ version to an integrated system. Integration will imply having a more coherent and unified programme, so that amounts of benefit for households with one, two, three or more children would be more consistent (without a large jump in the benefit amount).
Conclusions

The primary reason to begin the assessment of the child benefits system was to determine its effectiveness and efficiency in reaching the most vulnerable children. Reforming the system in place is recommended given the outstanding needs, as well as international evidence of the importance of social benefits in alleviating poverty, and the actual and potential budgetary impact of the current child benefit system. The identified shortcomings are matched with concrete recommendations to ensure that the available resources reach those children who need them most.

The system of child benefits faces a number of design and implementation challenges that undermine its performance. In particular, in this study we show that those inefficiencies worsen the targeting and reduce the take-up of CAs, and that PA is becoming very expensive, potentially requiring the government to make difficult choices and reducing other expenditure. We present and simulate the effects of a series of recommendations to deal with these inefficiencies and hence improve the performance of the overall system.

Merging CA and PA can increase the impact of the child protection system with budgetary savings. First, CA and PA have some potential overlaps in the sense that they have some common targeted households. Second, sooner or later PA will need to be reformed as it is likely to be financially very costly. Therefore, we see that merging CA with PA could be a good opportunity to deal with the inefficiencies in both programmes and more specifically a way to contain overall costs, improve targeting, streamline administrative costs and procedures, and therefore also act as a way of selling the reform. Indeed, it could offer the opportunity to de facto maintain the importance of PA (not backing down from some political promises) and at the same time revive CAs, which are decreasing drastically. Moreover, the sooner PA is reformed the better, as fewer families are going to be already entitled to the benefits.
However, in order to assure the success of the merged programme, it is necessary to deal with all the inconsistencies in the design and implementation of CA and to drop PA’s universalism. As shown in previous sections, CA, and therefore a new programme that combines CA and PA, can improve its efficiency by considering households instead of families as the income base and by implementing mechanisms for checking the real income of applicants. Moreover, targeting and coverage can be significantly increased by de-linking eligibility from employment status. From the PA side, in order to assure the sustainability of the new programme relatively better-off households should be excluded.

Simulations show that the proposed programme can obtain better results for the same or even a lower budget. Results show that a new programme that targets the poorer 50% of households with three children or more and uses an improved version of CAs current eligibility criteria for households with fewer children would be 27% cheaper than a fully scaled-up PA and CA. Moreover, its potential targeting among the poorest would increase from 20% (CA’s current potential targeting) and 24.5% (PA’s fully scaled up) to 42%, with coverage of the lowest decile going from 18% and 19% to 54% respectively.

After successfully merging CA and PA, the new programme should make some further improvements in order to increase its equity and coherency. In other words, when feasible, the new programme should move from just merging CA and PA towards an integrated system. However, we believe that integration should be achieved gradually by starting with the merging of the current programmes.

Although our main recommendation is to merge CA and PA, we are aware that this cannot be achieved in the short term. For this reason we propose to implement the reform gradually and provide a tentative timeframe for the overall reform. In the short term, it should be possible to speed up the administrative improvements that the MLSP has already started that are aimed at improving the efficiency and resources of the CSWs, but at the same time start discussing the vision of a merged CPA and reforming PA by putting an income eligibility threshold and freezing the benefit value. In the medium term, CA and PA could actually be merged and in the longer term fully integrated.
References


Bristol, Policy Press.


### Characteristics of social and child benefits

<table>
<thead>
<tr>
<th>TYPE OF BENEFIT</th>
<th>ELIGIBILITY CRITERIA</th>
<th>BENEFITS</th>
<th>OTHER RELEVANT ASPECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Law on Child Protection</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Child allowance</strong></td>
<td>Up to 18 years old</td>
<td>740 MKD for a child up to age of 15 years or until the child is a regular elementary school student in</td>
<td>Equivalence scale: per capita</td>
</tr>
<tr>
<td></td>
<td>Regular schooling</td>
<td>1.175 MKD for a child up to age of 15 to 18 years or until the child is a regular high school student.</td>
<td>Amounts will be valid when the country joins the European Union</td>
</tr>
<tr>
<td></td>
<td>Family’s incomes per member up to 2.415 MKD and 4.226 MKD for children of single parents</td>
<td>Maximum: 2.415 MKD</td>
<td></td>
</tr>
<tr>
<td><strong>Special allowance</strong></td>
<td>Up to 26 years old physically or mentally disabled</td>
<td>4.346 MKD per child</td>
<td></td>
</tr>
<tr>
<td><strong>Lump-sum financial aid for new born</strong></td>
<td>First newborn or adopted Macedonian child</td>
<td>4.829 MKD</td>
<td></td>
</tr>
<tr>
<td><strong>Participation</strong></td>
<td>Depends on the material situation of the family</td>
<td>The cost of care and education and leisure and recreation for children in public institutions for children</td>
<td></td>
</tr>
<tr>
<td>TYPE OF BENEFIT</td>
<td>ELIGIBILITY CRITERIA</td>
<td>BENEFITS</td>
<td>OTHER RELEVANT ASPECTS</td>
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<td>---------------------------------</td>
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<td>--------------------------------------------------------------------------</td>
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<tr>
<td>Parental allowance for a child</td>
<td>Mother of a third born child (since 1 January 2009)</td>
<td>This benefit is paid monthly, for a period of ten years and in the amount of 8,048,00 MKD</td>
<td>This right cannot be exercised or gained if:</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>- the mother has not performed the obligatory medical examinations and checks during her pregnancy</td>
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<td></td>
<td></td>
<td></td>
<td>- the obligatory vaccination of the child is not performed</td>
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<td></td>
<td></td>
<td></td>
<td>- the child does not attend school regularly</td>
</tr>
<tr>
<td>Social Financial Assistance</td>
<td>Working ability</td>
<td>2,140 MKD and 0.37 for each additional family member, up to five members in the family as maximum.</td>
<td>The social financial assistance right beneficiaries may be engaged in realization of public works up to five days in a month, as well as for realization of seasonal works and other temporary work</td>
</tr>
<tr>
<td></td>
<td>Household which is materially unable and which cannot provide funds for subsistence</td>
<td>After the third year the amount is reduced a 50%</td>
<td></td>
</tr>
<tr>
<td>Permanent financial assistance</td>
<td>Unable to work</td>
<td>3210 MKD for the beneficiary for one co-beneficiary the amount for the beneficiary increases by 0.40</td>
<td>People older than 65 years old and single woman during pregnancy are entitled to this benefit</td>
</tr>
<tr>
<td></td>
<td>Household which is materially unable (revenues are lower than 5000 MKD per family member)</td>
<td>for two or more co-beneficiaries, the amount for the beneficiary increases by 1.0.</td>
<td></td>
</tr>
<tr>
<td>Financial assistance for help and care from other person</td>
<td>Person older than 26 years old that is in need of care by a third party</td>
<td>From 3,702 MKD to 4,185 MKD</td>
<td>Care recipients include blind people, immobile and with mental disability, etc</td>
</tr>
</tbody>
</table>
A large part of the analysis done in this report uses the HBS data (years 2009 and 2010, though the most recent data is presented in the tables). This database is the main source of information for poverty measurement and analysis in the country and its sample is representative of households nationwide.

The HBS’s strengths are in the collection of information about income and consumption expenditure. This is achieved through a diary, which is kept for 15 days by the household to record detailed expenditure and incomes. Furthermore, the HBS collects information about household demographics, education, dwelling characteristics, land and durable assets ownership, subjective poverty and the so-called ‘minimum income question’.

In relation to social welfare, the HBS has a special module on social protection. However, such a questionnaire is relatively limited, in that it groups together in two questions the receipt of all types of child benefits and then in a separate question, all social assistance benefits. Moreover, since beneficiaries of social welfare are not a specific parameter used in the sampling design and the percentage of beneficiaries in some cases is relatively small, the HBS cannot provide a representative estimate of beneficiaries.

In order to verify the quality of data, we conducted a number of internal and external validation checks. First, aggregated data were compared with other sources (i.e. national accounts). Similarly demographic variables, household size, and socio-economic conditions were contrasted with other reliable statistics. Second, regarding internal validations, several consistency checks were conducted.

22 Each household is asked about the minimum income they need to make ends meet. This is a subjective assessment of needs that is directly dependent on the household’s living standards, although the relationship tends to be a concave function (with a declining marginal increase of minimum income as the household’s income increases).
done. For example, it was verified that only elderly people receive old-age pensions. Moreover, we looked at the robustness of income and consumption aggregates by generating consumption and income patterns. Finally, we also checked that the dataset did not have fieldwork mistakes (i.e. respecting the skip pattern) or data entry errors (i.e. outliers).

It is important to highlight that we found that the HBS questionnaire captures a lot of relevant information and that the dataset is consistent and well structured. However, as users of this dataset and having experience with similar surveys conducted in other countries, we presented to SSO a brief note with some recommendations in order to improve the HBS’s quality and usefulness. Such recommendations are detailed below.

**Consumption aggregate and recall periods.** One of the main objectives of the HBS is to properly capture and measure household consumption to construct weights for the Consumer Price Index (CPI), but also to provide estimates to be used in national accounts statistics. However, SSO also uses HBS data for welfare analysis and in particular for poverty estimates based on the consumption aggregate. When the consumption aggregate is used for welfare analysis, the aim is not exclusively to produce national averages but, more specifically, to make crucial comparisons between different households. In order to do welfare analysis, consumption expenditure must be measured using adequate recall periods matching the frequency with which households make purchases or consume items.

Currently, the recall period is 15 days for all items. While this is adequate for food consumption, since frequency of consumption/purchases for food is well captured in such period, it is largely inadequate for non-food items, such as the payment of utilities, the purchase of clothes, expenditure for health, education, etc. For non-food items, such a short recall period creates some fictional distortions. For instance, even when household circumstances are exactly the same, the expenditure declared by a household interviewed in the first two weeks of the month might be substantially different from another one interviewed in the second half of the month just because utility bills and other expenditures occurred in the first part rather than the second part of the month.

International best practice in the construction of consumption expenditure aggregates suggests that recall periods should be adjusted to the frequency of purchase of the items. Therefore, for certain items the recall period could be one month, for others the last three or six months, and for very un-frequent items the last 12 months.

If the SSO intends to continue to use the HBS to measure poverty, we would strongly recommend re-designing the questionnaire, maintaining the 15-day diary but also adding questions that recall expenditures before the interview. OPM has successfully advised other statistical offices to make exactly this
type of transition from a short observation period to the introduction of recall modules.

Furthermore, on the consumption aggregate the HBS is currently unable to produce an estimate of imputed rents for owners living in their dwelling. It would be recommended to develop the HBS questionnaire to provide the grounds to make such estimates.

**Household relationships and marital status.** Currently, the questionnaire does not provide the necessary information to clearly identify the relationships among household members and identify nuclear families within households. For instance, it is not possible to know the relationship between a head’s grandchild and daughter/son. Moreover, the questionnaire does not capture the marital status of household members.

Since for many different analyses it is important to distinguish between families and households, we would recommend adding questions that identify father/mother’s ID of household members as well as the marital status of household members and eventually the ID of the spouse/partner.

**Employment, income from self-employment and remittances.** The question capturing employment currently condenses too much information and it is also missing some important aspects. For instance, an unemployed person should be classed as someone who has been actively looking for a job, not someone that just declares themselves to be unemployed.

We recommend the following sequence of questions:

- It might be better first to ask if the person worked more than X hours during the last X days.

If yes, then understand the type of work done (formal, informal, self-employed, paid or not) and the sector (manufacturing, agriculture, etc)

If no, then ask if he/she has actively looked for a job in the last X days (if yes, then the person can be categorised as unemployed) and can also ask about unemployment benefits.

If no, then ask why they didn’t look for a job (pensioner, ill, student, worked at home, etc.)

- If considered important, on top of these questions it would also be possible to ask about ‘work on their land’.

Related to the above questions, income from self-employment in agriculture and non-agriculture could also be better captured. However, we are aware of the usual trade-off between the advantage of more detailed information and its impact on the length of the questionnaire. Nevertheless, even though other questionnaires such as LFS and SILC might investigate employment and collect information on income in more depth, it would be important to ensure some consistency and comparability.
Finally, in the roster it could be possible to identify household members working abroad, with such identification being followed up with some questions on remittances.

**Social protection module.** In order to have a better understanding of the effects of social protection, we recommend disaggregating question 1 of this module. An example of the detailed information required is reported below:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAs</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>SCA</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>SFA</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Unemployment benefit</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>CCT for secondary education</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Energy subsidy</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>PFA</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Carer’s allowance</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Disability pension</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>PA</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Assistance for new born babies</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Benefit from War Veterans Department</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
In March 2012, a survey of beneficiaries was conducted in order to obtain information about different aspects of CAs, SCAs, and SFA. GfK did the fieldwork and OPM was in charge of designing the survey.

A total of 730 households were interviewed, from which 46% were beneficiaries or ex-beneficiaries of CA, 20% of SCA, and 34% of SFA. Both beneficiaries and ex-beneficiaries were interviewed.

The sampling procedure consisted of a multi-stage clustered sampling design. First, 11 CSWs were randomly selected to provide an appropriate representation of diverse contexts of operation of the benefit (in the country there are 30 inter-municipal CSWs). Then, beneficiaries and ex-beneficiaries to be interviewed were randomly selected from CSW records. The preparation of the sampling framework for CA and SCA required visiting each CSW, as there is no centralised database for this group of benefits.

The survey gathered basic demographic and socio-economic information at an individual level, as well as data related to the benefits. In particular, respondents were asked about their perception of the application process and the benefit itself, uses of the transfer and its adequacy, and different aspects like payments, stigma, inspections, transportation, etc.

During the visits to CSWs for sampling purposes, semi-structured interviews were conducted with CSW directors and staff in charge of CA, SCA and SFA. These interviews collected information about their views regarding the application process and the demand and coverage of each benefit.
According to the SSO, 13,866 households received CA benefits in 2010. However, estimates using the HBS show that 37,581 households were eligible in the same year. This suggests that there are significant implementation failures that result in the exclusion of almost two-thirds of eligible households from CAs.

The RQA was undertaken in order to follow up on the reasons behind this low take-up of CAs. While low take-up is researched in the survey of active and passive beneficiaries,\(^{23}\) that information is limited for two reasons: (i) it is a quantitative survey and by design its closed questions provide only limited insight into the reasons behind the low take-up; and (ii) eligible households that have not applied for CAs (potential beneficiaries) were not interviewed, thus excluding the group for which the question of low take-up is most relevant.

A small qualitative assessment was thus well placed to quickly gain a better understanding of the reasons why people who are eligible for CAs do not apply, as well as to explore sensitive issues around the social exclusion of certain ethnic groups.

Therefore, the main objective of the RQA was to deepen the understanding of the quantitative analysis and to hear the voices of applicants and non-applicants and their experience with the CA administration system. The basic assumption of this small qualitative study is that eligible people do not apply for the benefit because the costs incurred by the applicant – financial and non-financial – outweigh the benefits. This is in line with standard cost–benefit

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\(^{23}\) Passive beneficiaries = those who have applied but do not receive benefits or whose benefits have been suspended. Potential beneficiaries = those who are eligible but have not applied (this could also include people who have given up in the middle of the application process).
reasoning, according to which agents will participate in a welfare programme if the potential gains of claiming the benefit are high enough to offset the costs. The gains from claiming benefits are mainly related to the level of benefits and the expected duration of the entitlement. To understand the costs incurred by the applicant, the RQA considered three main categories of costs:

1. Information costs: information about the existence of CAs, eligibility criteria and the application procedure;

2. Application costs: time to gather documentation, financial costs to pay for documentation, transport costs, opportunity costs for the time the applicant cannot work; and

3. Social and psychological costs: discrimination, stigmatisation, unequal treatment of specific subgroups (e.g. ethnic minorities) or incompetence of administrative staff, which can lead to unequal treatment of beneficiaries.

D.1 Methodology

FGDs were chosen as the qualitative survey tool to explore the large non-take-up of benefits. Although FGDs cannot be used to generalise or make statements about the whole population, they are a useful tool for answering specific questions in more depth and, in our context, exploring the potentially complex reasons behind non-take-up. Moreover, given the sensitive nature of the topic – in particular social costs related to the behaviour of administrative staff or ethnicity-based discrimination – FGDs are an appropriate tool providing a platform for people to express their views. They also allow people who usually would not have spoken at larger meetings to make their voice heard.24

To enable homogenous groups to express their views freely and in line with good practice, separate FGDs were undertaken with different ethnic groups: Macedonians, Roma and Albanians. In addition, separate FGDs were undertaken with potential and passive beneficiaries. Moreover, in order to take into account the different constraints faced by applicants from more remote locations (e.g. transport costs), locations were purposefully selected to represent both, rural and urban settings. A total of eight FGDs were undertaken as follows:

24 “A focus group discussion is an organized discussion (with specific goals, structures, time frames, and procedures) by homogenous groups of people on a subject of interest. Focus group discussions are characterized by open-ended questioning and free ranging discussion.” (Holland 2006. Tools for institutional, political, and social analysis of policy reform. A Sourcebook for development practitioners.)
• Two FGDs with Roma (Shutka, Skopje) – passive and potential beneficiaries;
• Two FGDs with Albanian (Tetovo) – passive and potential beneficiaries;
• Two FGDs with Macedonian (Skopje) – passive and potential beneficiaries; and
• Two FGDs with Macedonian (Bitola) – passive and potential beneficiaries

While the FGDs in Bitola and Tetovo took place in the town itself, participants living outside the town were purposefully selected to explore the financial and non-financial costs related to distance to the CSW.

In order to structure the FGDs, separate interview guides containing open-ended questions were developed for passive and potential beneficiaries. Questions were asked to explore applicants’ experiences on the different costs, i.e. information costs, application costs and social costs.

A participatory tool called ‘Most Significant Change’ was specifically tailored in order to structure the group discussion. While traditionally used in participatory monitoring and evaluation,25 ‘Most Significant Change’ was adapted as qualitative method for generating stories of change amongst passive and potential beneficiaries. Used in a group setting it can encourage participants to prioritise, justify and explain their stories of change, producing a rich narrative discussion. In the context of CAs, ‘Most Significant Change’ was used for participants to discuss their experience or story about applying or deciding not to apply for CAs. For the group of passive beneficiaries (who have applied but were rejected), the focus of ‘Most Significant Change’ was placed on their experience interacting with the CSW staff. This had the advantage of potentially sensitive issues around preferential treatment or social exclusion being discussed in pairs before presenting stories to everyone in the group.

25 Davies, R. and Dart, J. (2005) ‘The Most Significant Change Technique: A Guide to Its Use.’ Funded by CARE International UK; Oxfam Community Aid Abroad, Australia; Learning to Learn, Government of South Australia; Oxfam New Zealand; Christian Aid, UK; Exchange, UK; Ibis, Denmark; Mellemfolkeligt Samvirke (MS), Denmark; Lutheran World Relief, USA. Available at http://www.mande.co.uk/docs/MSCGuide.pdf
Although we can only measure consumption and income at the household level, we are ultimately interested in assessing the living standard of each person, so that we can compare people’s welfare even when they live in households of different composition and size. Assumptions on equivalence scales and economies of size are made exactly for this purpose and represent an attempt to measure people’s need.

Although there are equivalence scale parameters used for international comparisons, it is important to assess whether such parameters are adequate for the specific country under analysis. In fact, equivalence scales depend on consumption patterns prevailing in the country, which are influenced by the structure of prices and subsidies. For example, expenditure for certain types of items or services can be considered quasi-public goods, so that no matter how many people live in the same household everyone can equally benefit from it. Items and expenditure for quasi-public goods and services are durable items, utilities and dwelling maintenance. Similarly, costs of compulsory education affect how we should treat the needs of children. In countries where education is heavily subsidised by the government, children costs are generally much smaller than those for adults.

There are different methodologies that can be used for the estimation of equivalence scales: classical econometric models (Engel and Rothbarth), the subjective approach and budget standards. None of them is without some limitations, reflecting the fact that ultimately the very concept of an equivalence scale is in itself an approximation. Here we use a subjective poverty line to estimate equivalence scales in the country.
The approach presented here makes use of a specific question asked in the HBS and commonly known as the ‘minimum income question’ (MIQ) or ‘minimum spending question’ (depending on how the question is phrased). Each household was asked to report a monthly amount of income that would meet their essential needs. Answers to such a question are used to determine a ‘subjective poverty line’. Rather than considering as poor all people that have an actual income below their declared subjective minimum income, in order to determine the poverty line it is necessary to elaborate the answers from the MIQ to assure consistency in the definition of the poverty line. The poverty line is determined using subjective responses but it results in one poverty line that tries to compare consistently all people. In particular, it is expected that the answer to the MIQ will be an increasing function of actual income, and the poverty line is usually determined at the intersection between the declared minimum subjective income and the actual income, adjusting for household characteristics that influence this relationship. A simplified relationship between minimum income and actual income is presented in Figure E.1.

In order to determine the subjective poverty line, it is necessary to estimate a regression model in which the subjective minimum income is estimated as a function of actual income, household composition variables and other variables that could influence the answer to the MIQ.26

Moreover, determining the subjective poverty line using the regression model also allows the estimation of economies of size and equivalence of scale, since the subjective poverty line can be computed for different household types. The advantage of this methodology is that it calculates equivalence scales focusing specifically at the lower part of the distribution, thus making it particularly useful for social assistance benefits.27

26 It is generally also necessary to adjust for a potential selectivity bias if there are households who do not answer the MIQ.

The regression model was estimated for different household types and controlling for location, education of household head and number of earners.

The average implicit equivalence scales are reported in Table E.1 and are obtained by comparing the subjective poverty lines of different households against the benchmark of a single-person household. It is important to take with care these results because in some cases we have very few observations (see single adult with child) and also because ‘subjective parameters’ differ from what theoretical needs are (although very similar results are obtained using the 2009 HBS data). In a context of setting equivalence scale parameters for social assistance, we should not determine a parameter for what people generally consume but what they ought to consume.

Nevertheless, these results suggest that equivalence scales in the country appear to be closer to the new OECD scales (1 for the first adult, 0.5 for other adults and 0.3 for children) rather than the old ones (1, 0.7, and 0.5). Currently, the SSO is using the old OECD equivalence scales. Furthermore, one specific difference is the treatment of people of pensionable age for which the computed parameter is around 0.8, while it is implicitly considered equal to 1 by the equivalence scales used for poverty analysis. However, overall the adopted adjustment for equivalence scales goes in the right direction.
### Table E.1 Subjective poverty lines and implicit equivalence

<table>
<thead>
<tr>
<th>Subjective poverty line</th>
<th>Implicit equivalence scales</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adult</td>
<td>Child</td>
</tr>
<tr>
<td>One adult</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>18745</td>
<td>1</td>
</tr>
<tr>
<td>Working age</td>
<td>23184</td>
<td></td>
</tr>
<tr>
<td>Pension age</td>
<td>16696</td>
<td>0.72</td>
</tr>
<tr>
<td>Two adults</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>29194</td>
<td>0.56</td>
</tr>
<tr>
<td>Working age</td>
<td>31637</td>
<td>0.36</td>
</tr>
<tr>
<td>Pension age</td>
<td>26955</td>
<td>0.61</td>
</tr>
<tr>
<td>Three adults</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>41030</td>
<td>0.59</td>
</tr>
<tr>
<td>Four adults (or more)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>47685</td>
<td>0.51</td>
</tr>
<tr>
<td>Adult and two (+) children</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>41215</td>
<td>0.39</td>
</tr>
<tr>
<td>Couple and one child</td>
<td>37883</td>
<td>0.27</td>
</tr>
<tr>
<td>Couple and two children</td>
<td>40896</td>
<td>0.20</td>
</tr>
<tr>
<td>Couple and three (+) children</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>44480</td>
<td>0.18</td>
</tr>
<tr>
<td>Three adults and one child</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three adults and two (+) children</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>48070</td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculations of the authors based on the 2010 HBS.
The regression model that was used to estimate equivalence scales has the following general framework:

\[ \ln(miq) = \beta_0 + \beta_1 \ln(cons) + \beta_i(\text{household type}) + \beta_j(\text{control variables}) + \epsilon \]

It is important to note that the various control variables are important in determining appropriate comparisons between household types but do not have to be included in the calculation of subjective poverty lines. Instead, subjective poverty lines for different household groups were computed using the following formula:

\[ Pline_i = \exp \left( \frac{\beta_0 + \beta_i Htype_i + 0.5\sigma^2}{1 - \beta_i} \right) \]

Then, such values were adjusted by multiplying by the ratio of the mean subjective household poverty line (using all explanatory variables) and the weighted sum of the above poverty lines.
In this study we use both income and consumption aggregates to approximate households’ welfare. However, in order to find which one represents a better proxy, a principal component analysis was done. This analysis consists of: (1) identifying variables that are correlated with the aggregates; (2) reducing the number of such variables in order to maximise their variance and obtain a set of uncorrelated principal components; (3) estimating the prediction of those variables in a regression model; and (4) comparing the correlation of this prediction with the actual values of income and consumption aggregates.

As suggested before, in order to do welfare analysis, consumption expenditure must be measured using adequate recall periods. Currently, the recall period is 15 days for all items. While this is adequate for food consumption, since frequency of consumption/purchases for food is well captured in such period, it is largely inadequate for non-food items. For that reason, an alternative consumption aggregate was estimated, excluding infrequent expenditures (i.e. utilities, expenditure on health, education, etc.).

The results of the principal component analysis show that income is a better proxy of welfare than consumption. The correlation between the per adult equivalent consumption calculated by SSO and the predicted value is 0.40, when using the alternative way of measuring consumption is 0.41, and finally the correlation reaches a value of 0.55 when considering income (on a per adult equivalent basis).