Assessment of State Benefits to Disabled Citizens and Poor Families in the Kyrgyz Republic

Observations and a Way Forward

Commissioned by UNICEF

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Final Report

May 2008

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List of Acronyms

GMCL	Guaranteed Minimum Consumption Level
DFID	Department for International Development
KHIS	Kyrgyzstan Household Integrated Survey
MLSD	Ministry of Labour and Social development
OECD	Organisation for Economic Co-operation and Development
SMB	Social Monthly Benefit
UMB	Unified Monthly Benefit

Executive Summary

The consultancy reviewed state benefits provided to disabled citizens and poor families in the Kyrgyz Republic from a poverty reduction perspective. Current legislation of the Kyrgyz Republic acknowledges entitlement to two types of state benefits, the Social Monthly Benefit (SMB) supporting people with disabilities or otherwise unable to work, and the Unified Monthly Benefit (UMB), supporting poor families. Available evidence on the incidence of the Social Monthly Benefit suggests that it is not explicitly focused on poverty reduction as there is only partial correspondence between the incidence of the disadvantage and poverty. The Guaranteed Minimum Consumption Level (GMCL) defines the maximum levels of transfers within the UMB. However, in its current form the GMCL falls well below the poverty line. The selection of beneficiaries under the UMB can be improved, leading to improved poverty reduction effectiveness.

Income maintenance schemes are often considered as 'best practice' social assistance in OECD countries, by supplementing household income to a social minimum. However, a number of limitations of the UMB are evident when it is compared to similar schemes in OECD countries: measuring income in Kyrgyz is difficult as the majority of the population lives in rural areas where incomes are variable and drawn in kind; the GMCL is fixed by the available budget and well below the poverty line; the benefit is only paid to households with children; there are high costs (money and time) involved in demonstrating eligibility for the benefit.

In examining the selection of UMB beneficiaries we consider three key policy areas: i) errors of inclusion and exclusion; ii) the disparity between consumption and UMB eligibility and; iii) duration of the UMB.

Firstly, in relation to errors of inclusion and exclusion, to date, discussion on improving the targeting of the UMB has centered around reducing errors of inclusion. Whilst this is important, particularly in terms of securing wider public and political support for the programme, minimising errors of exclusion should be prioritised in order to maximise the poverty reduction effectiveness of the UMB.

Secondly, when examining consumption and UMB eligibility we find that eligible households are spread across all deciles of consumption. If the UMB is to reach those in poverty, eligibility should concentrate on the bottom decile (the poorest). Households above the 2nd decile of potential per capita household income should not be eligible. There are two possible explanations for the apparent mismatch between eligibility and estimated consumption. Firstly, the tool used by the MLSD to assess eligibility is ineffective in identifying households with low consumption and; secondly the selection tool is implemented incorrectly.

Finally, in considering the duration of the UMB, we suggest the importance of distinguishing different 'types' of poverty. Effective social assistance interventions should aim to address both persistent and transient poverty, by prioritising long term poverty while at the same responding to transient or temporary poverty with the aim of

preventing these households from falling into persistent poverty. The UMB is provided for one year, subject to review in the event of changes in the circumstances of beneficiaries. Regular review of eligibility provides some flexibility in the application of the UMB. Flexibility in the duration of entitlements is important in addressing chronic and transient poverty.

Recommendation and Options for Reform

Recommendations for and options for reform of the current benefit system are centred around improving the poverty reduction effectiveness of the UMB. Options fall under three main categories; i) improving the poverty reduction effectiveness of the UMB; ii) utilising the social passport; iii) developing a pilot programme.

Improving the poverty reduction effectiveness of the UMB

Strengthening the poverty reduction function of the UMB requires a broad perspective that considers the range of state benefits as a whole and, in addition to selection, pays attention to issues of design, level and duration of benefits.

Building on the positive features of the current provision of state benefits in Kyrgyz, short, medium and long term challenges are identified. Short term challenges involve streamlining and improving the effectiveness of the UMB. Medium and longer term challenges involve adapting existing benefits to address 'new' forms of poverty and strengthening coordination of poverty reduction and human development programmes.

In improving the financial arrangements and budgetary allocations for the UMB it is important to consider ways in which the budgetary allocations to the UMB could be sustained and expanded in 'bad' times. The formula for the distribution of state benefits should also be clarified. Finally, improving the effectiveness of the other programmes operated in the MLSD could generate extra resources that could be re-directed towards an effective UMB that is targeted on poverty reduction.

In examining the variable level of the UMB, it would make sense in terms of costs for both the MLSD and beneficiaries, to replace the variable benefit with a fixed benefit. The potential gains and losses from this change could be examined through a pilot programme in select rayons.

Previous studies on improving the selection of beneficiaries have focused on minimizing errors of inclusion. Further attempts to perfect the existing selection methodology are unlikely to produce measurable gains in terms of poverty reduction. Alternative selection methodologies should be considered that could be tested in the context of a pilot. Ideally these methods will: minimise errors of exclusion as well as errors of inclusion; minimise adverse incentives to work; develop a ranking of households from poorest to moderately poor; be easily observed by programme managers but not easily manipulated by potential beneficiaries; ensure transparency and accountability.

Utilising the social passport

As an effective tool already in use, the Social Passport could be used as a basic tool for the selection of beneficiaries and the monitoring and evaluation of all social assistance benefits in the Kyrgyz republic.

Developing a pilot programme

Proposed changes in the selection of beneficiaries should be tested thoroughly. A pilot study, involving districts with different levels of extreme poverty, and different delivery capacity, could provide important learning and lessons to be fed back into the design process. A baseline survey of households in the areas of the pilot also needs to be developed to help provide robust estimates of impact. The evidence of impact that the pilot can provide could be used to strengthening public and political understanding and support for social assistance programmes that are focused on poverty reduction.

Introduction

Objectives and Methodology

The consultancy was commissioned by the Ministry of Labour and Social Development (MLSD) and UNICEF and supported by the UK Department for International Development (DFID). The main purpose was to conduct an assessment of state benefits to children and families in the Kyrgyz republic from a poverty reduction perspective. Findings from our field work, combined with a review of relevant documentation, led us to examine the Unified Monthly Benefit (UMB) along with other components of the state benefit system including the Social Monthly Benefit (SMB) and the Social Passport. Particular attention is paid to the recent desk review "*Assessment of cash transfers and children in the Kyrgyz Republic"* which provides detailed analysis of the incidence and effectiveness of the UMB.

Purpose of Meetings

In meetings with MLSD staff, we reviewed the current state benefit system, discussed capacity issues and considered opportunities to improve the current system by identifying a preliminary process of reform. We shared with ministry colleagues some experiences of social welfare system design and reform in other countries. In a visit to the social protection department in Issyk-Ata rayon and municipality, we saw both how the benefit system operates at the local level and, the conditions recipients are living in.

In a number of meetings held with the desk review consultants, we examined the findings of their review in detail and identified some issues that could be addressed in subsequent drafts. Development partners provided their perspectives on the current benefit system, an in outlining their areas of work and interest, we identified potential areas for collaboration between stakeholders.

Finally, the consultants attended a round table workshop which discussed the findings of the desk review and identified recommendations to be considered by the MLSD in the reform of state benefits. A number of district level officials attended the meeting providing valuable insights into the impact of potential reforms at the local level.

Structure of this report

Section 2 of the report analyses the main features of state benefits in the Kyrgyz Republic in the context of poverty reduction, with particular attention paid to the UMB. This analysis leads us to recommendations and options for reform, outlined in section 3. These include: improving the poverty reduction effectiveness of the UMB; utilising the social passport; developing a pilot programme and; the enabling environment. This includes a risk analysis ensuring that recommendations and options consider the enabling environment appropriately.

1. Analysis of State Benefits and Poverty Reduction

State benefits, design and rationale

The Ministry of Labour and Social Development is responsible for the administration of state subsidies, state benefits, and for the provision of social services. This section considers the extent to which state benefits currently reduce poverty, and their potential to do so in the future. In particular we consider:

(i) the design and rationale of state benefits;
(ii) the level of the UMB;
(iii) the selection of beneficiaries; and
(iv) the duration of benefits.

State benefits are the largest programme in the MLSD in terms of budget allocation and number of beneficiaries. Two very different types of state benefit are provided. The Unified Monthly Benefit (UMB) provides an income supplement to eligible families in poverty, and the Social Monthly Benefit (SMB) is paid to individuals belonging to groups classified as being disadvantaged. In 2006, 481,325 individuals received the UMB compared to around 50,000 individuals receiving the SMB. The SMB, however, accounted for 30% of the state benefits budget (KSG 331.46 m), compared to the UMB which received the remaining 70% (KSG 770.69 m).

The Social Monthly Benefit (SMB) aims to *compensate social groups suffering from specific disadvantage*, mainly persons with disability, major illness, older people without a pension, and orphans. Full details on the eligible groups and the level of the benefits, are provided in Table 1. The rationale of the SMB programme is to provide support for people affected by acute disadvantage. The benefits under the programme are intended to compensate people for the financial burdens associated with disadvantage and to promote full social participation, thus helping reduce social exclusion arising from disadvantage. Although in some cases the forms of disadvantage covered by the SMB lead to poverty, the available evidence on the incidence of the SMB suggests that there is no direct correspondence between disadvantage and poverty. Some people with disadvantage are in poverty, but many of them are not. The SMB is therefore not directly focused on poverty reduction.

Table 1 Social Monthly Benefits, beneficiary categories and transfer level, October 2007	
Category of beneficiary	**Monthly transfers**
Children	
Survivor benefit for children without pension	KGS 415
Full orphans (in case they have no right to pension)	KGS 672.5
People with Disabilities	
Children-invalids with infant cerebral palsy	KGS 930
Children-invalids	KGS 672.5
Children infected with HIV/AIDS	KGS 772.5
Invalids since childhood 1st group	KGS 930
Invalids since childhood 2nd group	KGS 672.5
Invalids since childhood 3rd group	KGS 415
Invalids from common disease without pension rights, 1st group	KGS 672.5
Invalids from common disease without pension rights, 2nd group	KGS 415
Invalids from common disease 3rd group	KGS 257.5
Older people	
Aged citizens with no right for pension	KGS 320.5
Aged citizens of mountainous regions with no right for pension	KGS 415
Mother heroines with no right for pension	KGS 672.5
Source: Desk Review, *Assessment of cash transfers and children in the Kyrgyz Republic*	

The Unified Monthly Benefit (UMB) is targeted at low income households with children of a school age up to 16 years of age, students of general education institutions upon completion of their education up to 18 years of age, students of primary vocational schools, secondary vocational school and universities up to 21 years of age. The level of the benefit is calculated as the difference between a measure of per capita household income and the Guaranteed Minimum Consumption Level (GMCL). Table 2 describes the schedule of benefits in greater detail. The UMB, therefore, looks to supplement household income ensuring that households achieve a social minimum (See Box 1 for a comparison of income maintenance schemes in OECD countries and the UMB). Although the UMB is more directly focused on poverty reduction than the SMB, some features of its design and implementation limit its poverty reduction effectiveness (discussed in more detail below.)

Table 2 Unified Monthly benefits, beneficiary categories and transfer levels. October 2007

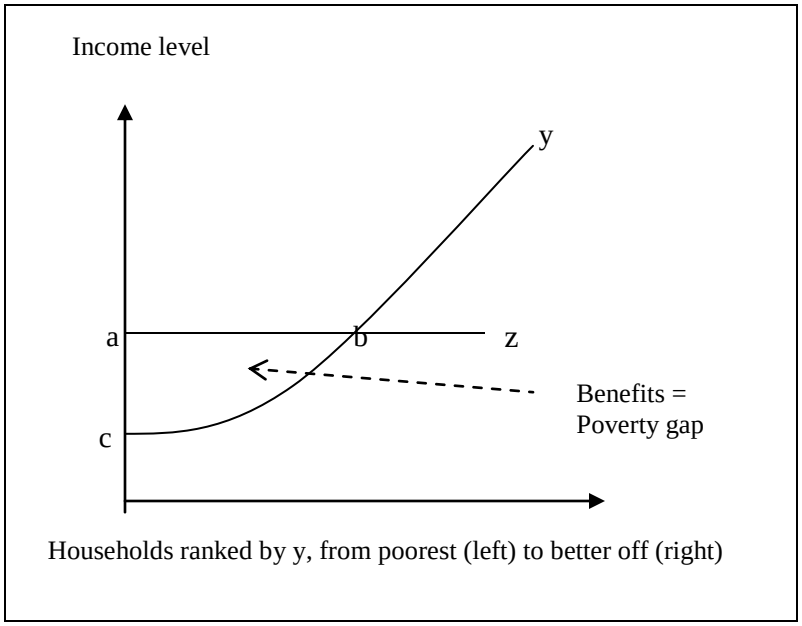
UMB benefits are focused on low income families, defined as having per capita estimated household income (PCHI) below the Guaranteed Minimum Consumption Level (GMCL). In October 2007 the GMCL= KSG175

Category of beneficiary	**Monthly transfers**
Single fixed transfer:	
Children at childbirth	300% GMCL
Monthly fixed transfer:	
Triples and higher multiple births aged 0-16 (each child)	150% GMCL
Twins (per child) aged 0-3	100% GMCL
Children aged 0-1.5	100% GMCL
*Monthly variable transfer (*entitlement valid for one year):	
Children aged 1.5-16; and children aged 16-18 at general school; and young adults aged 18-21 at post-school education (secondary, vocational, professional)	GMCL - PCHI
Pensioners	GMCL - PCHI
Invalids	GMCL - PCHI
Per capita estimated household income includes reported after tax income from all sources (income from employment, property, land, pensions and some transfers). Income from land is estimated using agricultural productivity averages. Income from livestock is not included.	
Source: Desk Review, *Assessment of cash transfers and children in the Kyrgyz Republic*	

Box 1. Income maintenance schemes in OECD countries and the UMB

Income maintenance schemes are often considered as 'best practice' social assistance in OECD countries. They provide income supplements for households in poverty in order to ensure households achieve a socially defined minimum level of income. Figure 1 shows how the schemes operate. Low income households are ranked according to their household income *y* along the horizontal axis, from the poorest on the left of the axis, to the richest on the right hand side of the axis. The *y* line in the Figure shows the income of households before any benefits are paid. The z line shows the poverty line, the minimum level of household income as defined in a particular society. The difference between household income *y* and the poverty line *z* is the poverty gap for a particular household, which can be aggregated across all households in poverty (the area 'abc' in the figure). An income maintenance scheme pays each household in poverty a benefit equivalent to the difference between household income *y* and the poverty line *z*, (the household poverty gap). The programme budget, assuming perfect targeting, is the area 'abc'.

Figure 1 Income maintenance schemes



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A number of limitations of the UMB are evident when it is compared to similar schemes in OECD. These include:

(i) Measuring household income will always result in some errors. Income is often under-reported in household surveys, especially when means tests[3] are used, as respondents have an incentive to under-report their income. It is difficult to measure income accurately in Kyrgyz as the majority of the population in poverty lives in rural areas where incomes are variable and often drawn 'in kind'.

(ii) the GMCL is fixed by the available budget and is well below the poverty line;

(iii) the benefit is paid only with respect of children;

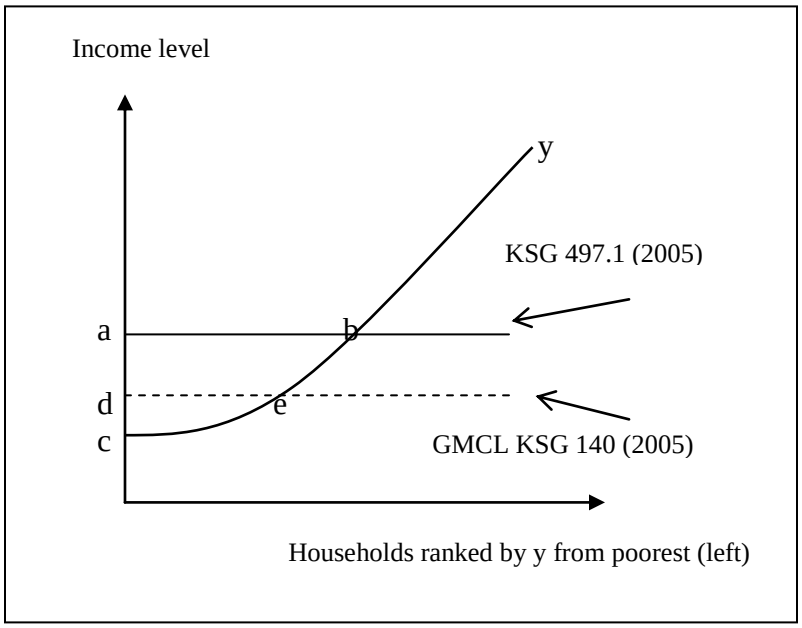
(iv) there are compliance costs (money and time) associated with the process of demonstrating eligibility for the benefit; these are likely to be higher, as a share of current household income, for the poorest households.

Figure 2 shows the extreme poverty line at KSG497.1 in 2005 and the GMCL at KSG140 in the same year. The *y* line shows household income and the GMCL line indicates the maximum benefit level. With perfect targeting, i.e. no errors in measuring household income, and assuming benefits are paid to all household members, the UMB budget will be the area 'dec' in the figure. This is insufficient to bring households up to the extreme poverty line, although account must be taken of other benefits, in cash and in kind, provided by the state to households in poverty. The UMB budget fails to cover fraction 'abde' of the poverty gap. Fiscal space, and

[3] Means tests determine eligibility for social assistance on the basis of household income, and/or assets.

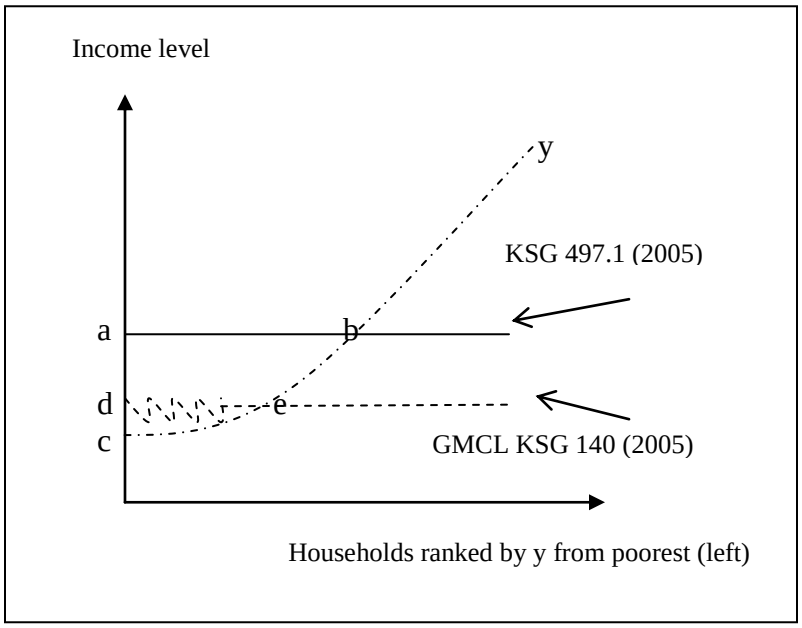
the economic conditions which influence it, set hard limits to government action in this context.

Figure 2 Kyrgyz UMB assuming perfect targeting



The fact that the UMB is only paid to children is represented in Figure 3 as a jagged line 'de' as households receive a fraction of their poverty gap only in respect to children, older people and people with disabilities. The broken line y represents household income if measured with error.

Figure 3 Kyrgyz UMB applied to children only



Level of the UMB

The Guaranteed Minimum Consumption Level (GMCL) is central to the setting of benefits within the UMB. The UMB provides both fixed single transfers and variable transfers (see Table 2). Fixed transfers are calculated as a multiple of the GMCL[4] whereas the UMB variable transfers are equal to the difference between the GMCL and the per capita income of the household.

The GMCL is calculated by predicting the number of beneficiaries for both the UMB and SMB against available financial resources. The formula used for this calculation is:

$$GMCL = \frac{\text{Funds available} + [12 \times \text{predicted n}^{o} \text{ of UMB beneficiaries} \times \text{average monthly income of UMB beneficiaries}]}{(\text{UMB beneficiaries} + 1.39 \times \text{SMB beneficiaries}) \times 12}$$

The GMCL, therefore, can be more accurately described as an indicator of a maximum level of UMB support given available resources than a socially defined consumption minimum. In its current form, the GMCL is limited as a tool for poverty reduction because:

(i) The GMCL is substantially below the food poverty line (See Box 1),

(ii) Its level is fixed by the government's budgetary allocation to state benefits, and the numbers receiving state benefits. As a result, it is likely to be pro-cyclical, that is, lower when the economy is not performing well (the numbers of the poor rise and tax revenues fall), and more generous when the economy is growing. An effective safety net would need to do precisely the opposite and be counter-cyclical.

(iii) The current formula used to calculate the GMCL implies that budgetary allocations appear to prioritise the SMB as the amount of resources available for the UMB is, on paper, effectively a residual after the SMB benefits have been accounted for. The prioritization of the SMB over the UMB in the budgetary allocation process could reduce the poverty reduction capacity of UMB. For example, assume that the total budget for state benefits is constant over time, and that the number of UMB beneficiaries and their average income remains unchanged. In this case, an increase in the number of SMB beneficiaries would reduce the GMCL and therefore the capacity of the UMB

[4] The different types of fixed transfers have specific rationales. The child birth benefit (suiunchu) is rooted in traditional forms of assistance in Kyrgyz. The benefit for children aged below 1.5 years of age is associated with parental leave. The benefit fo twins and triplets compensates these households for higher costs associated with multiple births.

to reduce poverty. In practice, this formula may not be applied directly as the government allocation takes account of the number of UMB beneficiaries and makes a judgment on the GMCL considering available resources.

Selection of UMB beneficiaries

In examining the selection of UMB beneficiaries, we consider three key policy variables:

(i) Errors of inclusion and exclusion
(ii) The disparity between consumption and UMB eligibility
(iii) Duration of the UMB

Errors of inclusion and errors of exclusion

The desk review[5] highlighted high inclusion and exclusion errors in the UMB. Examining a study comparing UMB eligibility estimated from household survey data (consumption predicted by expenditure) with eligibility based on UMB selection procedures (consumption predicted from income), the review found that some households receiving the benefit are not eligible given their location in the distribution of per capita consumption (errors of inclusion, where households are wrongly included in the programme); while at the same time some eligible households in the lowest decile of per capita consumption are not receiving the benefit (errors of exclusion, where households are wrongly excluded from the programme). As the two methods for estimating eligibility were different, the measures of inclusion and exclusion errors should be taken as indicative only. Table 3 below reproduces the findings from the comparison of eligible and recipient households using data from the KHIS 2005. Analysis was conducted at both the household level (eligible and recipient households are identified as those having at least one beneficiary) and at the individual level.

Table 3 **Analysis of targeting effectiveness – KHIS 2005**

Deciles of estimated per capita household consumption	Household level			Individual level		
	% eligible	% receiving	Share of all recipients	% eligible	% receiving	Share of all recipients
1	15.0	30.1	20.8	16.2	35.3	23.1
2	14.5	26.6	18.0	15.5	28.0	17.8
3	10.1	18.7	12.8	12.2	22.1	13.9
4	8.3	21.2	14.5	10.2	22.1	13.0
5	2.6	25.3	17.4	3.0	29.4	18.1
6	3.4	13.3	9.1	3.5	13.3	7.5

[5] Shamsia Ibragimova (2007) Assessment of cash transfers to families and children in the Kyrgyz Republic, Desk review Report, August

7	3.1	7.0	4.8	3.4	8.1	4.4
8	0.7	1.9	1.3	0.6	2.2	1.1
9	1.9	0.8	0.6	2.0	0.9	0.5
10	2.2	0.9	0.6	3.0	1.4	0.6

Source: Shamsia Ibragimova's additional tables
Eligibility is based upon (i) estimated potential household income (following the income indicator used by the MLSD in its assessment of eligibility to UBM, including reported income from all activities, substitution of missing income where an activity is reported, plus estimated income from land); (ii) on whether households meet categorical requirements for eligibility (whether they have children of school age). *Receipt* is self-reported receipt of UMB.

With the proviso noted above, the figures presented in Table 3 raise some important issues:

(i) Relatively higher levels of eligibility and receipt in the lower deciles of estimated potential per capita household income.

(ii) Eligible households are spread across all deciles of consumption. If the UMB is to reach those in poverty, eligibility should primarily be concentrated in the bottom two deciles (the poorest), and households above the 2nd decile of potential per capita household income should not be eligible. The latter are included because the income measure used to assess eligibility (especially predicted income from land and from missing income generating activities) is significantly different to real consumption levels. Under-reporting of income for the purposes of the means test could also explain the inclusion of the higher deciles.

(iii) The figures in Table 3 show significant errors of inclusion, as the share of the decile population reporting receiving UMB is consistently higher than the share of the population eligible. This demonstrates that the eligibility selection is problematic.

(iv) The low share of the bottom deciles estimated to be eligible for the UMB suggests limitations in the usefulness of the income measure in the context of poverty reduction. The poorest households may fail to meet the categorical requirements for entitlement, for example through lacking children of school age. However, the low share of eligible households in the lowest deciles of consumption indicate that the current eligibility requirements miss a high proportion of households with low levels of consumption (85% in the lowest decile of consumption).

(v) Finally, we cannot ascertain fully the extent of the errors of exclusion as the table does not report on the share of eligible households actually receiving the benefit.

Indicators of consumption could provide a more accurate measure of living standards than income. While incomes often vary over time, households will often attempt to keep consumption steady through saving and borrowing. On paper, the UMB explicitly aims to ensure a Guaranteed Minimum Consumption Level, but in practice a different set of variables than consumption are used to identify those in poverty. It is important to recognise that consumption will always be measured with error, and especially in the context of implementing means tests..

Taking the consumption measure in the Table 3 as reflecting living standards, and with the proviso noted, we can conclude that the poverty reduction effectiveness of the UMB in its current form could be significantly improved.

To date, discussion on improving the targeting of the UMB has centered on reducing errors of inclusion. Whilst this is important particularly in terms of securing wider public and political support for the programme, minimising errors of exclusion should be prioritised in order to maximise the poverty reduction effectiveness of the UMB. As demonstrated in Table 3, only a small proportion of poorest households (in the lowest decile of consumption) are receiving the UMB (30.1%) and even a smaller proportion are eligible (15%).

Explaining the disparity between consumption and UMB eligibility

There are two possible explanations for the apparent mismatch between eligibility and estimated consumption. Firstly, that the tool used by the MLSD to assess eligibility is ineffective in identifying households with low consumption and secondly; that the selection tool is implemented incorrectly.

The aim of the UMB is to support households with deficient consumption, and therefore the objective of the selection instrument should be to identify households with consumption levels below the GMCL. However, the selection instrument currently used by the MLSD does not attempt to measure consumption, but focuses instead on a mix of actual and predicted income. Ideally, the focus of selection should be on a measure of household consumption, but as noted above this is hard to measure in practice.

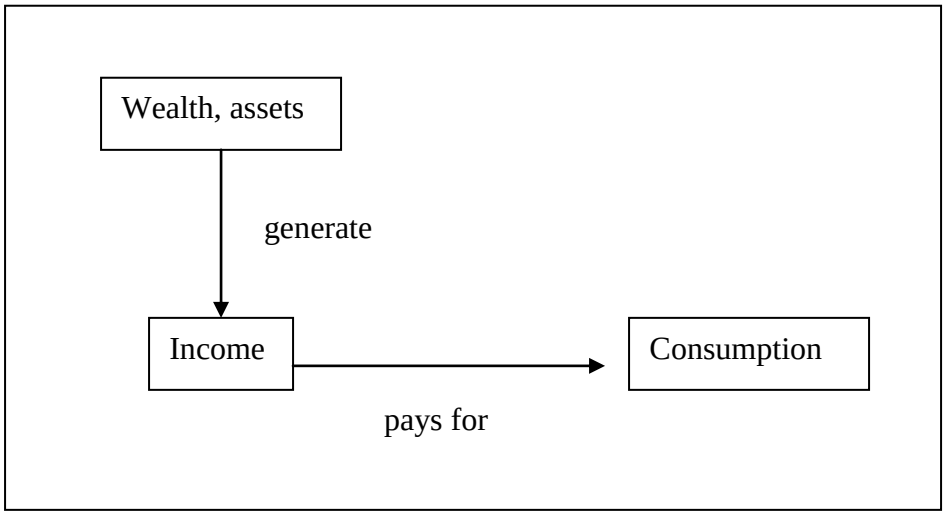
A second best approach would be to focus on household income on the assumption that a given level of income could be translated directly into a set of goods and services. Here it is assumed that the goods and services needed by poor households could be reliably purchased in the market. The difficulty with this second best approach is that estimating household income in rural areas poses significant challenges as households rely on a range of livelihood strategies, many of which are not monetized (such as household production for own consumption), with large variation over time and location (for example due to seasonality or remoteness respectively).

Given the difficulties involved in obtaining accurate measures of income, a third best approach is used in practice. The selection tool does collect information on all sources of income, but this is supplemented with information on household productive assets. The

further assumption here is that assets could be translated into income, which in turn could be translated into consumption of goods and services. In sum, the instrument actually used by the MLSD involves measures of actual income received by households as well as a measure of potential income based on estimates of land holdings and local land productivity. In practice, therefore, the selection tool relies on a mix of observed income and assets to arrive at a measure of potential income, which in turn is expected to result in a given measure of household consumption.

The accuracy of the selection tool in identifying households with large deficits in consumption will necessarily depend on the extent to which land assets can be accurately and reliable be translated into income flows and, furthermore, on the extent to which the predicted income flows could be accurately and reliably translated into consumption. Figure 4 below shows the links between assets, income and consumption.

Figure 4: Links between assets, income and consumption



A different rationale involving incentives can be suggested using a mix of income and assets to measure consumption deficiency. Eligibility conditions could provide incentives for potential beneficiaries to alter their behaviour to achieve eligibility. A focus on consumption for the purposes of eligibility could generate perverse incentives. Elibility based on children weight for example, could lead to deliberate underfeeding to meet the condition. A focus on income could provide incentives for effort minimization. In this context, taking account of productive assets for eligibility purposes is less likely to generate adverse incentives. In addition, assets can be measured more accurately and cheaply than income. The issue with this alternative rationale is that there is no information available to suggest that potentially adverse incentives of measuring income of consumption are likely, or strong.

In fact, attempting to minimise errors of inclusion by relying of measures of potential earnings may actually increase errors of exclusion[6]. Poor households may have assets, such as land, but lack access to capital or labour to generate the income predicted by the selection tool. The same applies to households that are 'labour poor', for example female headed households with infants, or elderly households with children, or households in which adults are unable to work due to illness. Errors of exclusion are higher when selection relies on land holdings as those households lack assets to make the land productive.

There is little evidence emerging from the desk review and other studies, that discretion in the application of the selection tools at the local level might be responsible for the disparity between consumption and UMB eligibility. If anything, discretion at the local level may work to reduce errors of exclusion. There is evidence emerging from these studies that compliance costs associated with application for the UMB could deter very low income households (particularly those in remote rural areas) from applying. This is particularly the case in remote rural areas. Existing legislation allows for the free issuance of UMB eligibility certificates for households in extreme poverty and unable to afford the associated costs. The 2003 CASE beneficiary survey did not find a strong concern among existing beneficiaries that the compliance costs were sufficiently high to prevent them from applying. However, it is important to examine also whether eligible non-beneficiary households find these costs a barrier to applying for the benefit.

To date, analysis of the selection tool in the various reports and reviews examined has focused primarily on its *effectiveness* in reducing inclusion errors. Assessments of the *efficiency* (including costs and benefits) of the selection tool are lacking. It will be important to assess whether the resources used in the selection of beneficiaries could be deployed more successfully in alternative ways. The evidence suggests that the differences existing between the poorest quintile and the next poorest are hard to observe and measure, and that as a consequence it is probably costly to identify households consistently across income and consumption measures (See Box 2).

In summary, some of the main issues arising in the analysis of the selection of UMB beneficiaries include:

- The current selection tool used by the MLSD relies on a mix of income and asset measures to identify households with low consumption levels.
- This is a problematic approach to adopt because of the implicit assumptions about translating assets into income, and in turn income into consumption.
- The current design of this tool prioritises minimising inclusion errors over exclusion errors.
- There are no indications that in practice, the implementation of the selection tool is responsible for errors of inclusion, if anything local discretion may work to

[6] See David Coady, Margaret Grosh, and John Hoddinott, *Targeting of Transfers in Developing Countries. Review of Lessons and Experience* (Washington DC, 2004) for further examples.

reduce errors of exclusion. However, compliance costs for low consumption households are a concern.

- Differences between the poorest quintile and the next poorest quintile are hard to identify consistently across income and consumption measures. Developing tools to make a discrete (yes/no) distinction between the extreme poor and the moderately poor will be complex, costly, and perhaps ineffective.

Box 2. It is feasible to distinguish the poorest from the poor?

The desk review provides evidence that attempts to identify the poorest decile of consumption, or income might be costly and ineffective as differences among households in the poorest decile and those in deciles immediately above it are marginal. Table 4 from the desk review, cross-tabulates households by consumption and income, with data from the KHIS 2005.

Table 4: Cross-tabulation of income and consumption quintiles. KHIS 2005

Income Quintiles / Consumption Quintiles	1	2	3	4	5	Total
1	0.383	0.349	0.182	0.061	0.026	1
2	0.320	0.286	0.219	0.119	0.056	1
3	0.155	0.171	0.277	0.308	0.089	1
4	0.111	0.144	0.186	0.287	0.272	1
5	0.031	0.045	0.139	0.228	0.557	1
Total	1	1	1	1	1	1

Source: Desk Review, *Assessment of cash transfers and children in the Kyrgyz Republic*

The table shows that over 70 percent of those in the bottom decile of income are spread fairly evenly in the bottom two deciles of consumption; and around the same share of those in the bottom decile of consumption are spread more of less evenly in the two bottom deciles of income. This suggests that it should be relatively easy to identify the poorest 40% of the population with either consumption or an income measure. However, it is difficult to identify the poorest 20% in a way that is consistent across the two measures. Using the lowest quintile of *income* will exclude over 60% of the population in the lowest consumption quintile, and if we use the bottom quintile of *consumption* we would exclude over 60 percent of the lowest income quintile.

Duration of the UMB

The duration of the benefit is a third key policy variable. Once granted, the variable UMB is valid for one year, unless it is not collected for a period of six months, in which case entitlement is suspended. Two different issues relating to the duration of the UMB are important to consider. Firstly, avoiding beneficiary dependency of benefit has been seen as an important factor in the design of the UMB. As a result, entitlement requirements have been tightened, including making entitlement dependent upon capacity to earn income and restricting entitlement to one year. The second issue is that the fixed duration of the benefit makes it less effective in reducing, and responding to, short term poverty. We discuss both of these issues here, beginning with issues around poverty.

When considering duration, it is important to make a distinction between different 'types' of poverty. Long term or *persistent poverty* typically has a lasting negative effect on household well being by depleting accumulated assets, both physical and social, and transferring disadvantage to younger generations. It is usually caused by the absence of productive capacity in households, or due to life course factors such as the arrival of children, or old age.

In this sense, it can be distinguished from *transient poverty*, which is largely due to short term contingencies such as unemployment or sickness. Effective social assistance interventions should aim to address both persistent and transient poverty, by prioritising long term poverty while at the same time responding to transient or temporary poverty with the aim of preventing these households from falling into persistent poverty.

For households in persistent poverty, fixing support for a period of one year might not be sufficient to improve their situation over the long term. Households with limited labour capacity (for example female headed households with young children or with elderly members) could benefit from support committed for a longer period of time. To some extent, the SMB targets resources on individuals with long term disadvantage.

Economic liberalisation brings with it another type of poverty namely *contingency based poverty*. Variation in economic performance and employment, or illness, or natural disasters, can threaten household livelihoods in the short run. In rural areas, this is associated with variations in demand and prices for agricultural products, and restrictions on the availability of capital and credit to acquire production inputs such as seeds, equipment, and labour. The current eligibility and fixed duration arrangements of the UMB limit its capacity to address contingency-based poverty.

The fixed duration of the existing UMB limits its poverty reduction capacity suggesting that greater flexibility in the design and duration of the social assistance benefits is needed. Of particular concern is its inappropriateness in supporting poor households in rural areas with land assets but no capital who are currently excluded from support. A more flexible approach that takes account of the different nature of contingency-based and persistent poverty is required to target poverty more effectively.

2. Recommendations and Options for Reform

This section identifies options to improve state benefits in the Kyrgyz Republic. The options fall under three main categories:

(i) Improving the poverty reduction effectiveness of the UMB;
(ii) utilising the social passport;
(iii) developing a pilot programme

A risk analysis of these options is conducted to ensure options for reform consider the enabling environment.

Improving the poverty reduction effectiveness of UMB

Previous reviews of the UMB have focused on improving the selection of beneficiaries through modifying the selection tool used by the MLSD. Whilst this is an important issue, strengthening the poverty reduction function of the UMB requires a broader perspective. In particular, it is necessary to consider the range of state benefits as a whole and, in addition to selection, it is important to pay attention to issues of design, level and duration of the benefits. When discussing selection, and given that previous reviews have focused on errors of inclusion, we outline a more comprehensive analysis by emphasising the primary importance of errors of exclusion.

The current provision of state benefits in Kyrgyz has several positive features:

- Government has over the last ten years allocated on average 1% of GDP to state benefits.

- Recent economic growth has ensured a significant reduction in poverty (especially extreme poverty), and has provided government with additional revenues. This creates a positive environment, and opportunities, to ensure a sustained reduction in poverty in Kyrgyz.

- The MLSD has an effective administrative structure with social protection specialists at the Ministry linking well with central government, and district level structures, including social affairs committees at the village level. The MLSD also has the capacity to deliver benefits, with social protection specialists at all levels of public administration, including the village level.

- The focus of state benefit support is largely on children, and involves investment in human development at a key stage in the life course and has positive gains for the reduction of persistent intergenerational poverty.

- The current UMB does reach this important and very vulnerable group, and broadly resources are skewed towards the poor and poorest.

The challenge, therefore, is to use these positive features in the strengthening of the poverty reduction effectiveness of state benefits. It is helpful here to identify short, medium and long term challenges.

- Short term challenges involve;
    - streamlining and improving the effectiveness of the UMB, especially
        - exploring ways to re-design the UMB to achieve maximum poverty reduction effectiveness, through a pilot programme;
        - and strengthening the policy formulation, design, and monitoring and evauation capacity of the MLSD.

- Medium and longer term challenges involve
    - adapting existing benefits to address 'new' forms of poverty - especially those arising from unemployment, demographic change, and migration -, and
    - achieve a stronger coordination of poverty reduction and human development programmes. In particular, the linkages and synergies existing between the MLSD and the Ministries of Health and Education.

Improving financial arrangements and budgetary allocations

The current funding arrangements for the UMB, budgetary allocations to the Ministry and the GMCL formula, have one limitation, namely in the absence of discretionary government action, the level of the UMB is pro-cyclical, that is, it faces downward pressures in 'bad' times, and upward pressures in 'good' times. It is important to consider ways in which the budgetary allocations to the UMB could be sustained and expanded in 'bad' times.

It is also important to review the formula for the distribution of the state benefits budgetary allocations for the UMB and the SMB, with a view to assess the extent to which UMB budgetary allocations are responsive to demand.

Of all the programmes under the control of the MLSD, the UMB has the greatest potential to poverty but at present, it receives only about 58.6% of annual budgetary allocations. Improving the effectiveness of the other programmes under the Ministry could generate extra resources for an effective UMB targeted on poverty reduction.

Towards a fixed UMB

The variable level of the UMB seeks to cover the gap between the per capita estimated household income of children and the GMCL. However, evidence shows that this gap is measured with large errors and at considerable cost in resources both for the MLSD and potential beneficiaries. Against a context in which differences in standards of living among the poorest diverge only marginally, it would make sense to consider replacing the variable benefit with a fixed benefit. This could create large savings in resources

otherwise used to measure this gap. It may also work to reduce the incentives for applicants to miss-report their income, and ensure a more transparent process for beneficiaries. The potential gains and losses from this change could be assessed initially through an analysis of the distribution of income and consumption in the lowest 40% of the population, and operationally through a pilot in selected rayons.

The level for the fixed benefit could be set at the mean poverty gap existing between the average consumption of the lowest decile (quintile) and the GMCL, or alternatively, the poverty gap existing between average consumption of the lowest decile and the consumption level of the 11^{th} percentile (21^{st} percentile). Using the 2005 Household Survey, it should be possible to provide estimates of these and alternative levels of a fixed UMB benefit.

Improvements in the Selection of Beneficiaries

A number of previous studies and reviews have focused on the selection tool used by the MLSD to identify beneficiaries. The weight of evidence suggests that this tool is highly problematic in its current form. It produces large inclusion and exclusion errors and its application absorbs a large proportion of the time available to specialists at the rayon and village levels. The reviews have focused on minimizing inclusion errors, for example, proposals to include livestock in the calculation of potential income.

However, there are strong reasons to believe that further parametric improvements to the selection tool are unlikely to produce measurable gains for poverty reduction effectiveness. Reasons include:

- Minimising exclusion errors should be the priority from a poverty reduction perspective.

- The current selection tool aims to measure *capacity* to earn income, rather than *actual* income, or even actual consumption. It is therefore, insufficiently aligned with the real target of the selection process, i.e. to identify households with *consumption* below the GMCL.

- In practice, the differences in standards of living among the lowest 40% of the population are hard to identify consistently across income and consumption measures.

Instead of attempts to perfect the existing selection methodology, alternative selection methodologies should be considered that could be tested in the context of a pilot. Ideally, alternative methodologies will :

- Minimise errors of exclusion as well as errors of inclusion;

- minimise adverse incentives to work, use of household assets, and savings;

- develop a ranking of households from poorest to moderately poor, rather than a categorical discrimination of poor and non-poor;

- use a set of indicators that can be easily observed by programme managers but cannot be easily manipulated by potential beneficiaries;

- ensure transparency and accountability, especially in the context of managing support for the programme among policy makers.

Further analytical and policy work will be needed to identify alternative selection methodologies to be assessed in a pilot. This will involve three strands of work:

(i) a detailed simulation of alternative methodologies using existing household survey data sets and exploring selection methodologies against consumption measures, and ex ante poverty reduction outcomes under alternative methodologies;

(ii) an assessment of existing MLSD capacity to implement alternative methodologies, and identification of capacity building activities;

(iii) policy engagement and consultation with policy makers and political representatives.

Utilising the Social Passport

The Social Passport could be used as a basic tool for the selection of beneficiaries and the monitoring and evaluation of all social assistance benefits in the Kyrgyz Republic. It has the advantages that it is already in use, social protection specialists have been trained to collect the required information and update the form, and it appears to be considered a very useful tool at the village and rayon levels. Finally, there is a good ownership and use of the Social Passport among MLSD officials at all levels

To ensure the Social Passport is an effective tool, there is a need to:

- examine (with existing household survey and administrative data), a set of variables which could help identify with accuracy households in poverty, including providing a ranking of households according to the depth of their poverty (see Box 3 for a description of proxy means tests used as a selection tool);
- match the information requested in the social passport to the set of variables identified above;
- test an upgraded social passport in several villages within rayons, to examine the effectiveness and ease of use of the tool.

Box 3. Proxy means tests: Developing an instrument for identifying beneficiaries of social assistance

Proxy means tests are proven to be effective in selecting beneficiaries for poverty reduction programmes. Information collected from households relating to their socio-economic status enables them to be ranked from poorest to moderately poor. The information collected reflects variables found to be accurate in identifying correlates of poverty from nation-wide household survey data. The information collected captures more or less permanent variables, thus avoiding income variables which can be manipulated and generate adverse incentives. Analysis of the information collected produces a value for an index for an individual household. Revising the household information on a regular basis provides information of changes in its socio-economic status.

In 1987, Chile introduced a decentralized instrument, FICHA CAS ('Form CAS') for ranking households according to their deprivation. This is now used when assessing households applying for social assistance programmes. It involves a visit by a programme officer to the household, and the completion of a short questionnaire focused on 13 variables on 4 dimensions: housing, education, employment, assets. The information collected is fed by the programme officer into a software programme that calculates the value of an index of deprivation for the household. Scores below a cut-off point entitle the household to a range of public support, including pensions, water subsidies, housing subsidies, free school meals, etc. The score is valid for 2 years, at the end of which household in further need of support are visited again. The cost of the selection process is estimated at US$3.5 per household and the costs are shared across the different programmes supporting those in poverty.

Developing a pilot programme

It is important to ensure a thorough testing of the proposed changes in the selection of beneficiaries, and to the design of the UMB. A pilot provides opportunities to measure the impact of interventions, under the current system, there is no evidence of, or means of testing the *impact* of social benefits on beneficiaries. A pilot study, involving a range of districts with different levels of extreme poverty, and different delivery capacity, could provide important learning and lessons to be fed back into the design process.

To help provide robust estimates of impact, a baseline survey of households in the areas of the pilot needs to be developed. This should include households who will receive the re-designed benefit and some of those who will not initially receive it, followed by one or more evaluation surveys collected on the same households one year after the start of the pilot programme. An example of information that could be made available is a comparison of household consumption and health status before and after the pilot programme, and across beneficiaries and non-beneficiaries.

A pilot programme would also help the MLSD learn valuable lessons regarding the delivery of the benefits, capacity needs for scaling up, and also develop capacity for monitoring and evaluation. Finally, by demonstrating that social assistance programmes can work and achieve their objectives, public and political understand and support for, poverty reduction will be strengthened.

3. Risk analysis

To ensure recommendations and options for reform are realistic and achievable, we have conducted a risk analysis of the main issues affecting the enabling environment.

Table 4: Risk Analysis

Issue	Mitigation	Risk
Beneficiary needs not being met during process of reform	Needs of existing beneficiaries guaranteed during the process of reform.	High
Lack of understanding on the process and objectives of reforms	Participation of stakeholders all stages of the reform process and clear communication lines established.	Medium
Resistance to reforms including: parliamentarians through concerns that reform will no meet the needs of their constituents; Government staff at all levels, through concerns with change in roles and responsibilities and job	• Communication and participation • Clear plans developed outlining outcomes of the reform i.e. beneficiaries met, timing etc..	Medium

security; recipients through fear of loss of benefits.	• Meet beneficiary needs during reform • Consultation with MPs	
Insufficient commitment from stakeholders for the process of reform.	Communication, participation and developing a sense of shared responsibilities for reform outcomes.	Medium
Lack of partnership: If both Government departments and development partners work in isolation both within themselves and with each other, opportunities to pool resources, experiences and to identify complementarities in programmes may be missed and duplication of effort may occur.	• Partnership frameworks established including, donor forums	Low
Changes made in isolation: UMB reforms not linked to complimentary social benefit reforms and other relevant sectors.	• Framework developed linking state benefits • Social benefit reforms linked to other, complimentary sectors (e.g. health, education) through the central poverty and/or growth process.	
Speed of reform: Reform occurs to quickly, resulting in poorly designed systems, inadequate consideration of the number of factors required for sustainable change. Conversely, reforms occur too slowly resulting in momentum and commitment to the process being lost and baseline information and situation analysis being rendered out of date	Development of a clear and realistic time frame for the process of reform including immediate, interim and long-term measures and the identification of milestones	Low
Funding shortfalls: caused either directly through any identified additional needs not being met, or through inadequate redirecting finance from existing budgets.	• Separate the budget allocation of the UMB and SMB • Increase the budget allocation of the UMB • Rationalise use of existing resources therefore saving funds • Examine avenues of support from development partners	Low
Financial liabilities are not properly forecast within budget constraints and		Low

priorities		

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4. Annex

Annex 1: Summary of Findings

State benefits, design and rationale
• State benefits absorb about two thirds of the MLSD budget, and include the Social Monthly Benefit and the Unified Monthly Benefit • The implicit rationale of the SMB is to compensate people affected by disadvantage, especially those affected by disability and major illness, old age, and orphanhood. • The UMB is an income maintenance scheme, aiming to cover the gap existing between current income and a guaranteed minimum level for households in extreme poverty
Level of the UMB
• The GMCL is not a social minimum but an indicator of the maximum level of support to poorest households given budget allocations. It is well below the food poverty line. • The formula for the calculation of the GMCL ensures that allocations to the UMB are residual after SMB benefits have been taken account of. • This also implies that, in the absence of purposive government policy, the level of the UMB is pro-cyclical.
Explaining the disparity between consumption and UMB eligibility
• The current selection tool used by the MLSD relies on a mix of income and asset measures to identify households with low consumption levels. • This is a difficult approach to administer, as it assumes that income and potential income can be translated reliably into actual consumption. • The current design of this tool prioritises minimising errors of inclusion over minimising errors of exclusion. • There are no indications that the implementation of the selection tool is responsible for errors of inclusion, if anything local discretion may work to reduce errors of exclusion, however, compliance costs for low consumption households are a concern. • There are indications that the differences existing between the poorest quintile and the next poorest quintile are hard to identify consistently across income and consumption measures. Developing tools to make a discrete (yes/no) distinction between the extreme poor and the moderately poor will be complex and costly.
Duration of the UMB
• The variable UMB covers poor households for one year. This might be too long for contingency-based poverty, and too short for persistent long-term poverty.