



**Ministry of Labor and Social
Development of the Kyrgyz
Republic**



Effectiveness of Benefits to Families and Children in the Kyrgyz Republic

Bishkek, Kyrgyz Republic
2008

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List of abbreviations

MLEC – medical - labor expert commission

MSEC – medical-social expert commission

SB – state benefit

GMCL – guaranteed minimal consumption level

SPLIF – social passport of the low-income family

UMB – unified monthly benefit

MSA –monthly social allowance

CDF – Comprehensive Development Framework

CRC – Convention on the Rights of the Child

CPI – Consumer Price Index

KR MLSD –Ministry of Labor and Social Development of the Kyrgyz Republic

KR NSC – National Statistical Committee of the Kyrgyz Republic

Summary

This report provides analysis of the results of evaluation of the efficiency of money payments to low-income families and children in the Kyrgyz Republic. This research is basically focused on analysis of efficiency of the state benefits, particularly, payments to low-income families – a unified monthly benefit (UMB) - because the main beneficiaries of this benefit are children (95% of UMB recipients). The evaluation research on the targeted financial aid delivered to families and children, including analysis of criteria of eligibility for a benefit, represents a certain step towards improving access by needy families to social security programs and achieving their welfare and, most importantly, the welfare of the child.

The research was conducted by the experts of the Center for Social and Economic Research “SocEconic” by request of the Ministry of Labor and Social Development of the Kyrgyz Republic and with the financial support of UNICEF. During research we used the basic legislative acts, general official statistical data of the National Statistical Committee and KR Ministry of Labor and Social protection, the findings of the Integrated Household Survey (NSC, 2005), the results of the Survey of state benefit recipients conducted by “SocEconic” in February of 2008.

For the years of independence of Kyrgyzstan, the situation of people’s welfare, which is determined by poverty indicators, became the most critical issue. Since the poor population has low income and social protection programs have limited resources, the need arises for the search of new approaches to government support programs, able to promote efficient use of available resources. The annual volume of funds allocated for welfare payments during 1998-2006 was fluctuating within 0,7-1% of GDP. At that, for the past 9 years, the volume of government funds for welfare payments increased by 2,5 times in nominal value.

In 1998, over half of the population was in the category of poor citizens whereas almost one-fifth was living in extreme poverty. During 1998-2005, the number of poor citizens showed almost 20% reduction whereas *extreme poverty level* for the same period decreased by 2,1 times and was 11,1% in 2005. Poverty in the republic is predominantly a rural phenomenon, possibly, because two-third of the population lives in rural area. The gap between urban and

rural population living below extreme poverty line was 1,4 times in 1998 and further increased in the subsequent years (in 2005, the gap grew more than double).

Large families having 3 and more children under age 16 are more exposed to poverty risks. This tendency remains despite reduction in general and extreme poverty. The highest poverty level is observed among the households having three adults and three and more kids (66,2% - in 2005 and 78,7% - in 1998). Families having three and more kids account for 72% of the extremely poor households. Examining the indicators for poverty change based on the family composition, we can see that poverty reduction normally takes place in the households with no children or those having 1-2 kids. It is predominantly children who live in poverty, not the adults or aged people, because children account for one-third of the population; over half of them live in poverty and every seventh child lives in extreme poverty.

In order to provide the guaranteed government support for low-income groups and to simplify the ways of social benefit delivery, the welfare reform was launched in the republic in 1995. The Government started fulfilling its obligations for support of low-income groups which was demonstrated by adoption of the Law "On state benefits in the KR" (5 March 1998, №15). The law provides for two main types of state benefits paid out *in a pecuniary form*:

unified monthly benefit to low-income families and citizens (UMB),

social allowances to:

disabled children;

persons disabled since childhood;

disabled adults not eligible for pension security;

children who lost the breadwinner, not eligible for pension security;

aged citizens, mothers-heroines (mothers of 10 and more children), not eligible for pension security.

Under the law, unified monthly benefit are assigned to low-income population in order to increase their welfare and reduce poverty, whereas monthly social allowances are paid regardless of the peoples' welfare level.

Overall social transfers cover almost half of the population living on the territory of the republic. Almost every third family depends on the material aid from relatives and acquaintances and every ninth receives low-income monthly benefit. Some of the families are concurrent recipients of several types of benefits. At that, UMB is the most demanded type of benefit.

The target group of the state benefit recipients remains sizeable for years. Comparing indicators for extreme poverty and UMB recipients, we can observe the on-going reduction of extreme poverty and insignificant changes in the number of UMB recipients. For that reason, examining the system of UMB distribution, we focused on the following important aspects:

Errors that occur during exclusion of people from the category of UMB recipients;

Errors that occur during inclusion of people into the category of UMB recipients;

Differences between actual family income and declared income.

Analysis of the extremely poor population receiving state benefits shows that the existing system of benefit distribution allows for errors during inclusion and exclusion of the poorest persons into the Government Social Assistance Program.

Low-income benefits (UMB) are granted to 17,6% of the population, of whom 95% are children. The largest number of UMB recipients lives in rural area (91,2%). From 1998 to 2005, the number of UMB recipients decreased by 1,7%, whereas the level of extreme poverty almost double reduced. One-third of extremely poor people are UMB recipients, while in 1998 they accounted for 19,7%, which makes up one-fifth of the extremely poor population. The average UMB rate per a recipient increased from 51 soms in 1998 to 89

soms in 2005 or by 1,7 times despite that inflation showed almost 2,3 times growth for the same period.

There are significant problems of underevaluation of the population's aggregate income used in UMB decision-making as a criterion for poverty evaluation. The sample survey of the households conducted by the NSC in 2005 showed that the average income of the UMB recipients exceed the Guaranteed Minimum Consumption Level (GMCL) virtually in most regions; on the contrary, the data of the Ministry of Labor and Social Development showed that the amounts of income were much lower than the GMCL.

The results of evaluation of the targeted social security confirm that the existing problems (1998) remain both in terms of target criteria and the program implementation. Only one-third of the extremely poor population actually receives benefits which proves high error level in exclusion of extremely poor persons from the category of UMB recipients (almost 70%). At that, the level of errors for inclusion turned out to be lower as only 12% of not poor population are benefit recipients.

According to the criteria for determining aggregate income used by the MLSD, only one-fifth of the extremely poor population is eligible for a benefit. Along with the poor groups, the category of persons eligible for a benefit includes people that are not poor (3,6%). Examining the level of peoples' consumption and their eligibility for the benefit by deciles, we can also state that all groups include people eligible for the benefit.

If we include potential earnings from livestock into aggregate income, the number of eligible people among the extremely poor population decreases only by 1,2%, which proves that inclusion of income generated from livestock makes little impact on errors occurring during inclusion of the people into the category of the UMB recipients.

Among those extremely poor and receiving the benefit, almost every sixth beneficiary is not eligible for the UMB. In reality, almost half of extremely poor people actually eligible for a benefit do not receive the UMB (9,9 of 23%). Hence, the existing system for identifying needy people does not allow at the moment to identify those who really need aid, and it has serious risks of losing its purpose, which is *to ensure the targeted delivery of social assistance to extremely poor population*.

In February 2008, surveys were held in three regions of the republic among 135 households receiving UMB and social allowances. The survey results showed that less than half of the families was receiving UMB during 1-4 years and one-quarter of them – from 5 to 10 years. Unfortunately, it was found out that one-fifth of the UMB recipients were beneficiaries for over 10 years. These results suggest existence of chronically poor families among beneficiaries of low-income benefit. However, in some cases it could be explained by dependents' mentality. Apparently, there is a need to solve this problem by creating flexible programs that include effective measures of social support for low-income individuals given the existing types of poverty: *short-term or long-term poverty, chronic poverty*.

Since the existing system of poverty evaluation criteria does not allow for reduction of the level of *errors during exclusion* of extremely poor people from the list of benefit recipients, the necessity arises for setting new criteria. Apparently, evaluation of poverty based on families' aggregate income does not allow for identifying really poor families for the reason of possible income concealment. Maybe, we can use new indicators as additional criteria for determining peoples' welfare such as assets available, property, housing conditions, and composition of the family (families composed of the disabled or aged people or those having disabled children).

Introduction

For the years of independence of the Kyrgyz Republic, population's welfare determined based on poverty indicators became the most critical issue. As poor population has very low income and social security programs have limited resources, the necessity arises to look for new approaches to the system of government support able to increase the effective use of available resources.

The evaluation research on the targeted financial support for families and children as well as on eligibility criteria represents a certain step towards improving access by needy families to social protection programs and promoting their welfare and, most importantly, the welfare of children.

In the Kyrgyz Republic, the social protection system has the ramified trend. The existing system to some extent addresses basic risks resulting from illnesses, disability, child birth and delivery, old age, breadwinner's demise, unemployment and reduction of population's welfare, particularly, families having children, etc.

Apart from this, the Government continues granting incentives and compensations which have been organized according to the categorical principle since the Soviet times. The incentives are granted to various categories of population in kind and in money, i.e. the beneficiaries enjoy free transportation, communal services, etc.

Since 1995, the Kyrgyz Republic has created the system of social support for low-income families and lone (single) citizens. Nonetheless, the poverty level in the country remains quite high: in 2006, population whose aggregate consumption was below extreme poverty line accounted for 9,1% of the population or 572,4 thousand people (NSC, 2007).

During this research, the following issues were examined:

1. Evaluation of needs encompassing social security sphere and poverty condition in the country:
 - Social and economic condition of the republic;
 - Poverty condition in the country.
2. Review of the social aid arrangements showing effectiveness of benefit payments:
 - Legislative framework for the government social support of poor population;
 - Types of the aid provided;
 - Ways of the aid delivery;
 - Effectiveness of the aid provided.
3. Evaluation of the capacity showing efficiency of the stakeholders involved into the system of social security and benefit payments.

The following materials were used during the research:

- basic legislative acts regulating the issue in question;
- general official data published by the NSC and provided by the KR Ministry of Labor and Social Development;
- results of the Integrated Survey of Households conducted by the NSC in 2005;
- results of the Research on Government Aid Beneficiaries held by the Center for Social and Economic Research "SocEconic" in February of 2008;

- Results of the meetings held with the officials of the Ministry of Labor and Social Development (Head Office and Rayon Departments for Social Security).

I. Social and economic situation and poverty in the Kyrgyz Republic

1.1. Current social and economic conditions in the Kyrgyz Republic

The economic system of the Kyrgyz Republic developing despite all difficulties of the transition period remains socially oriented. Solving very complicated and interrelated problems of the economic reform, the Government continues to pay special attention to social security.

The social security in the republic represents the system of social and economic arrangements that guarantee:

- citizens' welfare security in their old age, during their temporary disability, in case of breadwinner's demise;
- granting benefits and incentives to the families that have a relatively low average per capita income, etc.

Population of the Kyrgyz Republic as of the end of 2006 made up 5 mln. 138 thous. people; of them 35% is urban population and 65% are rural residents. Almost half of the population in the republic belongs to the category of the poor and are in need of social support. The rural regions of the country are the poorest. Despite the observed trend of poverty reduction, this problem remains very critical for the republic.

Government resources allocated for social support of low-income families are limited. Under these circumstances, the problem of optimization of the social security spending becomes particularly crucial. It is rational to transfer to the targeted delivery of aid to only the neediest population, thus increasing effective use of the funds allocated for social support.

Since 90-s, the republic has been undertaking reforms in various fields, including reforms in the sphere of social security aimed at improving its efficiency and promoting the targeted aid delivery.

As was pointed out in the Country Development Strategy (2007-2010), in its review of the current situation, the tough economic policy allowed for maintaining macroeconomic stability. During 2003-2006, the economy was annually growing by 4,1% on average, whereas inflation rate was 4,3%. Population's real income increased by 21% for the given period. At the same time, along with the economic growth the overall unemployment keeps growing, reaching 8,1% in 2005¹.

Major social reforms were aimed at search of adequate funding, improvement of the targeted delivery of social aid, increase of the level of social security. Despite the measures undertaken by the Government during 2003-2005, aimed at increase of the salaries to on-budget workers as well as welfare benefits, pensions and other aid, financing and population's income remain extremely low. In 2006, after the Guaranteed Minimal Consumption Level was increased to 175 soms, the average annual rate of social allowances became 457 soms while the single monthly allowance was fixed at 124,0 soms per recipient. At that, the average rate of social allowances versus average per capita income made up 41%, while the share of UMB was just at 11%.

¹ Results of the Intergrated Household Survey, 2005.

The literacy level in the republic remains high as in the previous years and as of beginning of 2006 the literacy indicator showed 98,7%. During 2003-2005, 95% of children were attending schools (1-9 classes).

Child support remains one of the most critical problems in the country. According to various estimations, the republic has over 10 thousand neglected children, over 23 thousand working children, and 20 thousand children miss schools.

Table 1: Social and economic indicators, 1998-2006.

	1998	2002	2003	2004	2005	2006
Constant population (<i>evaluation as of beginning of the year</i>), thous. people	4806,1	4946,5	4984,4	5037,3	5092,8	5138,7
Urban population	1674,7	1726,5	1729,9	1757,4	1790,6	1799,4
Rural population	3131,4	3220	3254,5	3279,9	3302,2	3339,3
Proportion of urban residents in total population	34,8	34,9	34,7	34,9	35,2	35,0
GDP in current prices, in mln. soms	34181,4	75366,7	83871,6	94350,7	100899,2	113175,6
GDP growth rates, (<i>in % to the previous year</i>)	102,1	100,0	107,0	107,0	99,8	102,7
Consumer Price Index (<i>in % to the previous year</i>)	110,5	102,0	103,1	104,1	104,3	105,6
Money income (average per capita per month)	295,2	706,3	772,5	827,4	955,9	1111,5
Average salary, <i>in soms.</i>	840,6	1684,4	1916	2240,3	2612,5	3270,0
Average rate of pensions assigned, <i>soms.</i>	377,7	560,9	615,8	668,0	729,0	906,0
Average rate of the social benefit, <i>soms.</i>	147,7	312,1	367,3	368,5	364,7	457,0
Average UMB rate, <i>soms.</i>	41,9	90,4	92,9	87,9	88,4	124,0
Minimal consumer budget, <i>soms per capita</i>	799,3	1404,8	1540,4	1725,9	1836,6	2527,5
Population literacy, %	97,3	98,7	98,7	98,7	98,7	98,7
School attendance by children (1-9 classes) of the corresponding age	90,0	94,6	94,8	94,9	95,9	...
Unemployment, %	...	12,5	9,9	8,5	8,1	...

Source: KR NSC Publications: «KR Social Development, 1997-2001». – Bishkek, 2002; «Living standard in the KR, 2002-2006, Bishkek 2007; «CDF/MCP: statistical indicators of development of the Kyrgyz Republic and its regions».- Bishkek, 2007.

Political and social-economic reforms in the period of market economy building along with activation of the social phenomena gave rise to processes that were principally new for the republic such as poverty, unemployment, homeless children, forced migration characterized by constant increase of people that needed social support.

As a result, the role of the Government in the sphere of social security increased. This process triggered intensive development of the national social legislation providing for increase of the population categories recognized as socially vulnerable, expansion of the list of social payments, benefits, compensations and services (social aid).

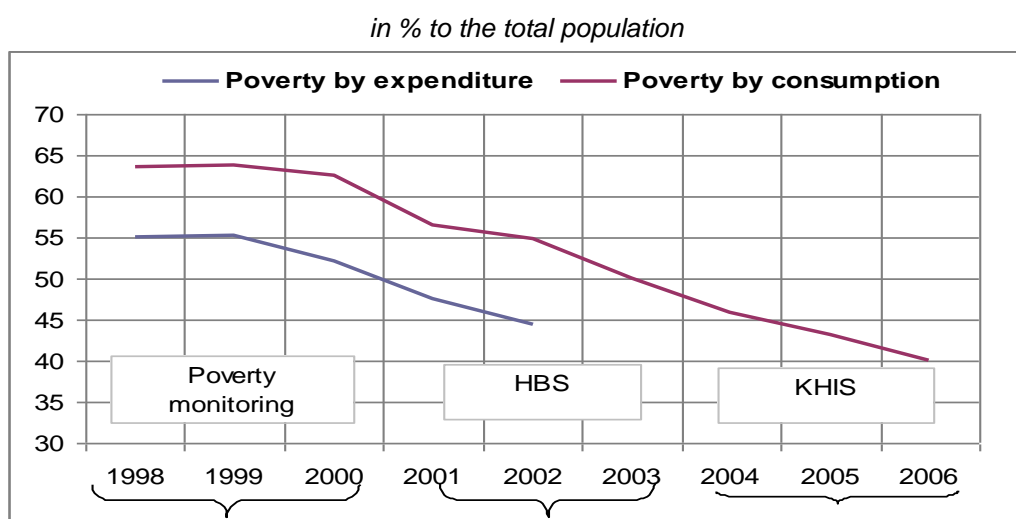
1.2. Review of poverty and poverty measuring indicators used in the Kyrgyz Republic

In many respects, poverty has a lot of common features both in different regions and in different social groups. Poverty indicators virtually depend on indicators for population's welfare used in evaluation of poverty level, under which the tendencies of undergoing changes remain the same.

In 1998, over half of the country population found themselves in the category of poor people and one-fifth of the population was in the condition of extreme poverty (Table 2). In the subsequent years, annual reduction of people in the poor category has been observed regardless of the welfare evaluation methods used, although poverty indicators estimated based on household consumption are higher than the poverty indicators that are based on expenditures, which can be seen on Graph 1.

By 2003, the poverty level went down by almost 14% as against the previous years on both welfare indicators. Poverty reduction trend remained in the subsequent years. During 2004 - 2006, proportion of the poor population decreased by 10%.

Graph 1. Change of poverty indicators for a number of years (income-based and expenditure-based evaluation)



Source: NSC and WB Publications

Poverty reduction in 2000 (up to 52%) was caused basically by the complex of economic and social measures undertaken by the Government and aimed at promoting peoples' welfare.

Poverty in the republic is predominantly a rural phenomenon, possibly, because two-third of the population lives in rural area. The highest poverty level was registered in 1998 (63,6%), particularly, in rural area (71,3%). The gap between urban and rural population living below poverty line was registered at 1,4 times in 1998, which grew in the subsequent years.

Table 2. Level of poor population based on place of residence (1997-2005), %²

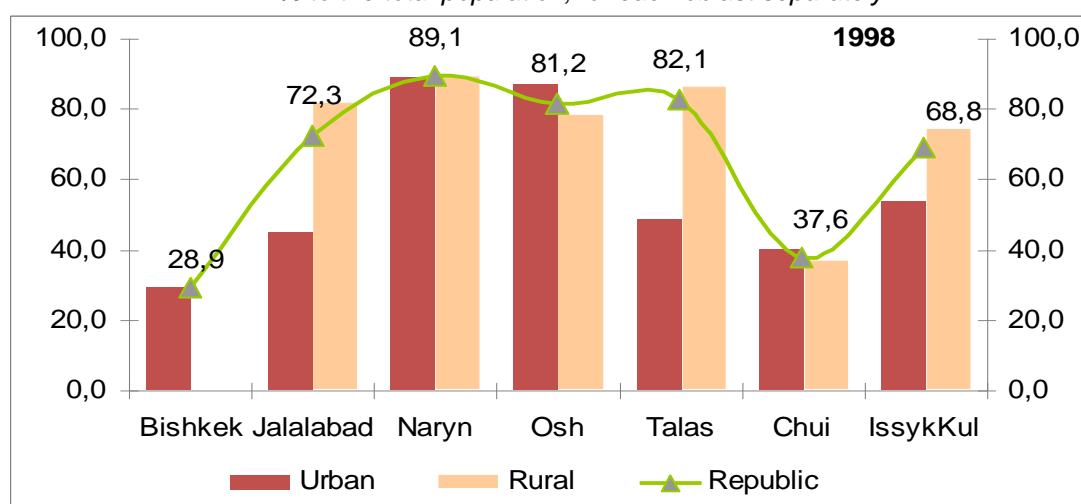
	Total		Urban area		Rural area	
	poor	of them, very poor	poor	of them, very poor	poor	of them, very poor
Expenditure-based poverty evaluation						
1997	43,0	14,9	22,1	5,0	55,3	20,7
1998	54,9	23,0	42,2	18,3	62,4	25,8
1999	55,3	23,3	42,4	17,1	60,0	25,6
2000	52,0	17,8	43,9	12,7	56,4	20,5
2001	47,6	13,5	41,2	9,6	51,0	15,6
2002	44,4	13,8	39,6	12,0	47,0	14,7
2003	40,8	9,4	31,5	5,0	45,7	11,7
Consumption-based poverty evaluation						
1998	63,6	23,0	50,7	18,3	71,3	25,8
2001	56,4	24,7	45,4	17,7	62,3	28,4
2002	56,2	23,3	45,7	20,1	61,8	27,8
2003	49,9	17,2	35,7	10,2	57,4	21,0
2004	45,9	13,4	28,3	6,9	55,5	16,9
2005	43,1	11,1	29,8	6,5	50,8	13,8
2006	39,9	9,1	26,7	5,5	47,7	11,3

Source: NSC publication "Social development of the KR"

Poverty distribution by regions of the republic is characterized by the fact that all oblasts, other than Bishkek city (28,9%) and Chui oblast (37,6%), have larger proportions of the poor population as compared to the nation-wide indicator (63,6%).

Graph 2. Poverty level by regions of the republic in 1998 (consumption-based)

in % to the total population, for each oblast separately



Source: processed data of the household survey. Poverty monitoring survey– 1998.

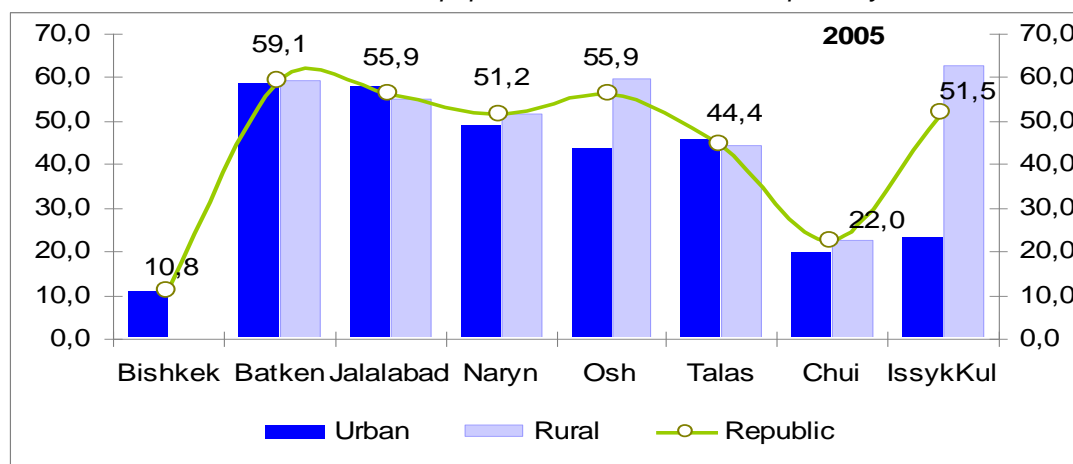
² Poverty indicators for 1997-1998 were calculated by using data of the sample survey of 3000 households under the WB Poverty Monitoring Project. Poverty level in 1999 was determined based on the sample survey of 3000 households under the WB Energy Supply Project. 2000-2002 – results of the regular sample surveys of the budgets of 3000 households. Poverty level for 2003–2005 was evaluated by using the data of the integrated survey of the households and workforce (5016 households).

Poverty level in the republic decreased by 1,5 times compared to 1998 (Graph 2). The most substantial poverty reduction is observed in Bishkek (by 2,7 times), Talas oblast (1,9 times) and Chui oblast (by 1,7 times). Poverty reduction process goes slower in other regions (1,3–1,5 times).

Poverty diffusion by regions remains different. In 2005, the highest poverty level was observed in Batken oblast (59,1%), Osh and Jalal-Abad oblasts (55,9% in each) (Graph 3).

Graph 3. Poverty level by regions for 2005 (consumption-based)

in % to the total population, for each oblast separately



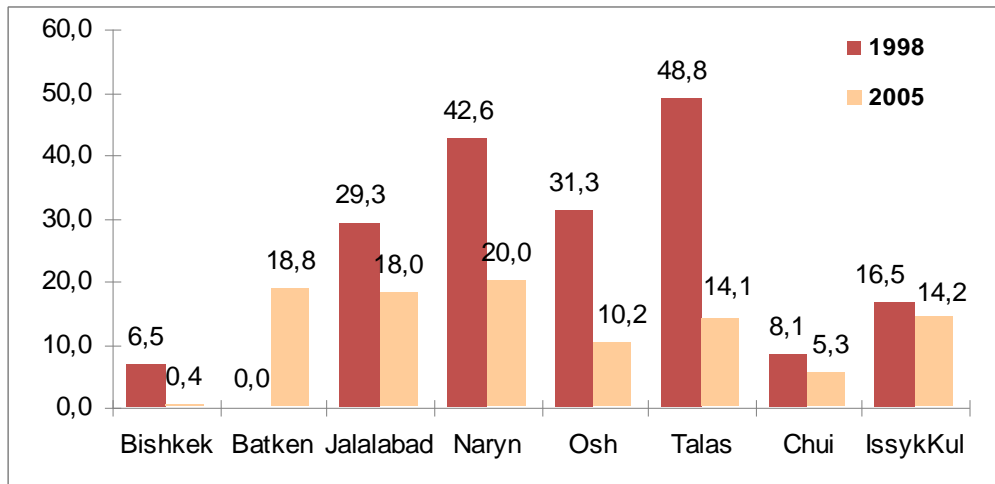
Source: processed data of the Kyrgyz Integrated Survey of Households -2005.

During 1998-2005, *extreme poverty level* in the republic overall decreased by 2,1 times and made up 11,1% in 2005. A steady reduction of both the poor and extremely poor citizens is observed almost in all regions of the republic except for Jalal-Abad oblast where extreme poverty indicators for the last two years exceeded almost by 5-6 percentage points the indicators of 2004 (Graph 4).

A substantial extreme poverty reduction is observed in Bishkek (by 15,7 times), in Talas oblast (3,5 times) and Osh oblast (3,1 times). Albeit, Osh oblast might not actually have significant reduction of extreme poverty since a virtually large proportion of extremely poor population was living in Batken oblast which before (in 1998) was part of the Osh oblast in the administrative-territorial pattern. This presumption is grounded on the fact that extreme poverty level in Batken oblast almost double exceeds the indicators of Osh oblast.

Graph 4. Change of extreme poverty level by regions of the republic

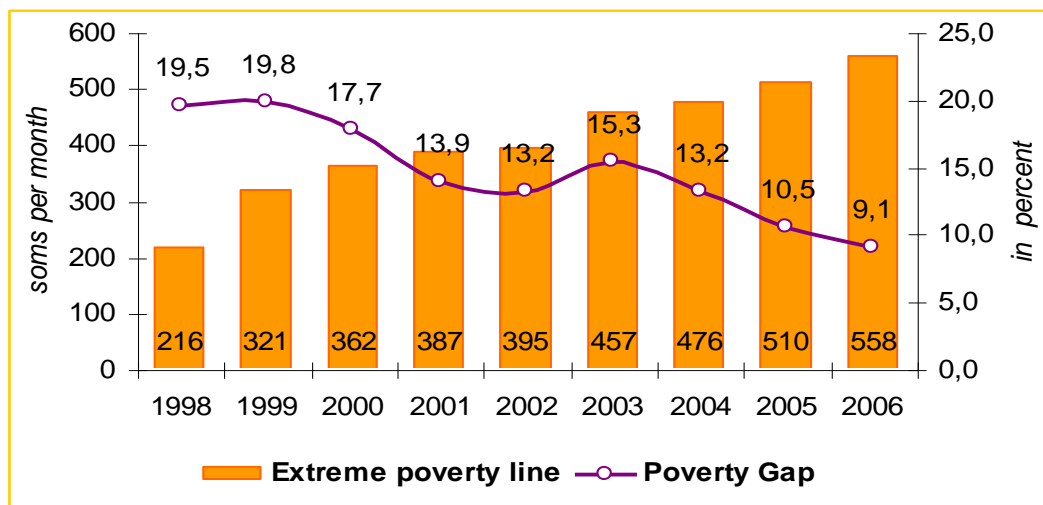
in % to the total population, for each oblast separately



Source: processed data of the Kyrgyz Integrated Survey of Households -2005.

Poverty depth indicators are the evidence of population's welfare growth resulting in poverty reduction in the republic. We can observe reduction in the share of deficit of funds (poverty gap) that are necessary for population to reach the extreme poverty line.

Graph 5. Change of extreme poverty line and poverty gap level, 1998-2006

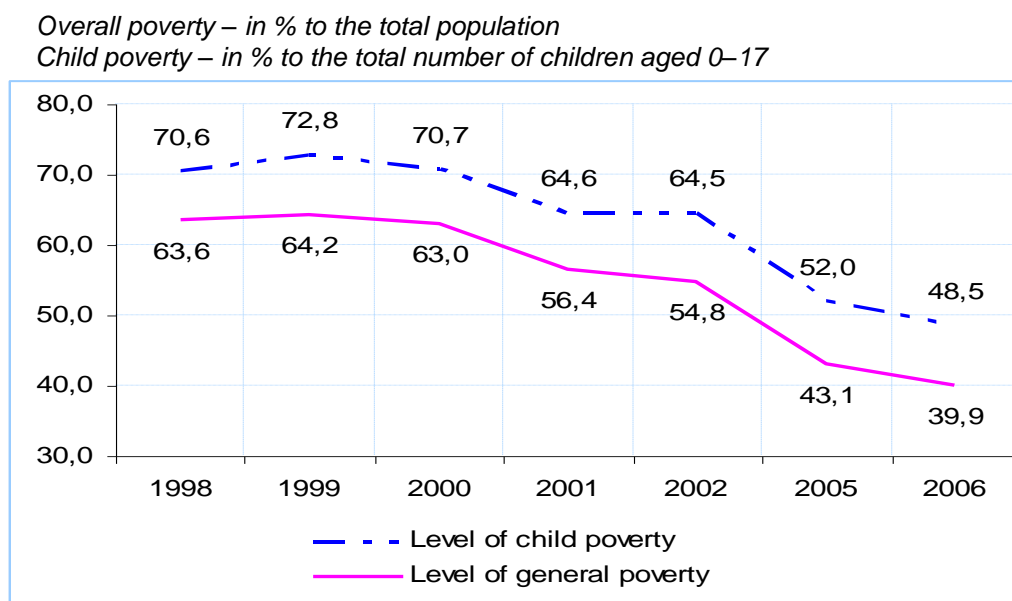


Source: NSC Publication «CDF/MCP: statistical development indicators for the Kyrgyz Republic and its regions», Issue 4. - Bishkek, 2007.

1.3. Major characteristics of the families living in poverty and in extreme poverty

Around 35% of the population in the republic are children aged 0-16. Large households having many children most often find themselves in the category of poor families. It should also be noted that more than 95% of UMB recipients are children aged 0-16. The trends for child poverty reduction are similar to reduction trends for general poverty.

Graph 6. Changes in the levels of child poverty and general poverty, 1998–2006



Source: « Child Poverty Dynamics in Kyrgyzstan» (Center for Child Poverty Research - CHIP, 2005), NSC publication «Living Standard in the KR 2001-2005 & 2002-2006».

Analyzing data of Table 3, we can infer that the larger the family is, the higher poverty level it has. The households having 3 and more kids under age 16 are more exposed to poverty risks. This tendency remains despite the general and extreme poverty reduction. Thus, in 2005 the highest poverty level was registered in the households composed of three adults and having three and more children (66,2%). In 1998, the highest poverty level was observed in the families composed of four adults and having three and more children (86,1%). Examining poverty changes given the family composition, we can see that noticeable poverty reduction was taking place mainly in those households that either had no children or had 1-2 kids only.

Table 3. Poverty level based on household composition, %

Composition of a household	Total		Poor		Of them, very poor	
	1998	2005	1998	2005	1998	2005
1 adult and 0 children	6,8	9,7	15,3	4,1	1,5	0,1
1 adult and 1-2 children	2,7	2,8	39,8	6,1	3,4	1,1
1 adult and 3 + children	1,2	1,5	75,6	64,9	39,6	14,7
2 adults and 0 children	10,5	10,0	19,8	6,8	2,8	2,4
2 adults и 1-2 children	15,7	11,4	37,9	18,3	9,8	1,6
2 adults and 3 + children	14,4	15,6	71,5	55,7	23,1	16,9
3 adults and 0 children	4,3	4,4	19,5	18,4	2,4	0,9
3 adults and 1-2 children	8,5	5,6	42,3	22,4	6,8	1,9
3 adults and 3 + children	6,7	3,7	78,7	66,2	23,2	18,3
4 + adults and 0 children	3,8	3,4	33,7	16,4	5,6	3,6
4 + adults and 1-2 children	13,3	26,6	64,1	40,5	18,6	7,4
4 + adults and 3 + children	11,9	5,2	86,1	60,6	43,1	22,3

Source: Estimations based on sample survey results on poverty monitoring (PM) -1998 and Integrated Household Survey-2005.

Since poverty reduction impacted basically childless households or those having only 1-2 kids, it is quite logical that the coefficients of dependents' burden per one able to work adult in extremely poor households turned out to be higher, especially, in rural areas (Table 4).

Table 4. Household composition and coefficient of dependents, people

	Family size		Children		Adults		Aged people		Coefficient of dependents	
	1998	2005	1998	2005	1998	2005	1998	2005	1998	2005
Total	5,2	4,0	2,2	1,5	2,7	2,1	0,4	0,3	2,2	1,5
<i>including:</i>										
not poor	4,7	3,3	1,8	1,1	2,6	1,9	0,4	0,3	1,9	1,2
poor	5,8	5,4	2,7	2,5	2,8	2,5	0,3	0,3	2,5	2,1
of them, very poor	6,1	6,0	3,1	3,1	2,7	2,6	0,3	0,3	2,9	2,3
Urban area	4,2	3,3	1,5	1,2	2,4	1,9	0,3	0,3	1,6	1,4
<i>including:</i>										
not poor	3,8	2,9	1,2	0,9	2,3	1,7	0,3	0,3	1,3	1,2
poor	4,9	5,0	2,0	2,2	2,7	2,5	0,3	0,3	2,0	2,3
of them, very poor	4,2	5,5	1,5	2,8	2,4	2,4	0,3	0,2	1,6	2,9
Rural area	5,8	4,5	2,6	1,8	2,8	2,3	0,4	0,3	2,5	1,5
<i>including:</i>										
not poor	5,4	3,8	2,1	1,3	2,8	2,2	0,4	0,3	2,4	1,2
poor	6,2	5,5	3,0	2,6	2,8	2,5	0,4	0,4	2,7	2,0
of them, very poor	6,5	6,2	3,4	3,2	2,7	2,6	0,3	0,4	3,0	2,1

Source: estimations based on results of sample surveys PM-1998 and NSC publication «Living Standard in the Kyrgyz Republic, 2001-2005».- Bishkek, 2006.

These results suggest that it is predominantly **children** who live in poverty, not the adults or the aged people. This presumption is confirmed by the following data. 33,2% of the population are children aged under 16; over half of them lives in poverty and every seventh child lives in extreme poverty. Over two-third of the households have one and more children, and increase of children in the household is accompanied by monotonous growth of general and extreme poverty levels regardless of their place of residence (Table 5). Thus, poverty level among the households having one child was registered at 17,5%, whereas in the households having five and more children the risk of poverty exposure increases by almost 5 times (85,3%). Large families having many children are more exposed to extreme poverty (21 times increase) compared to the households having one child (37,7 versus 1,8%).

Table 5. Poverty given the number of children in a household, 2005*in % to the corresponding category of households*

	Households having				
	1 child	2 children	3 children	4 children	5 and more children
Total	35,4	29,2	21,4	10,0	4,0
not poor	82,5	56,9	44,8	26,9	14,7
poor	17,5	43,1	55,2	73,1	85,3
<i>of them, very poor</i>	1,8	8,4	15,1	22,8	37,7
Urban area	44,2	31,6	16,7	6,6	1,0
not poor	84,3	72,3	58,5	23,1	11,0
poor	15,7	27,7	41,5	76,9	89,0
<i>of them, very poor</i>	1,5	5,1	11,8	21,1	43,4
Rural area	29,9	27,6	24,4	12,1	5,9
not poor	80,8	45,8	38,9	28,2	15,1
poor	19,2	54,2	61,1	71,8	84,9
<i>of them, very poor</i>	2,0	10,8	16,6	23,4	37,1

Source: NSC Publication «Living Standard in the Kyrgyz Republic 2001-2005». - Bishkek, 2006.

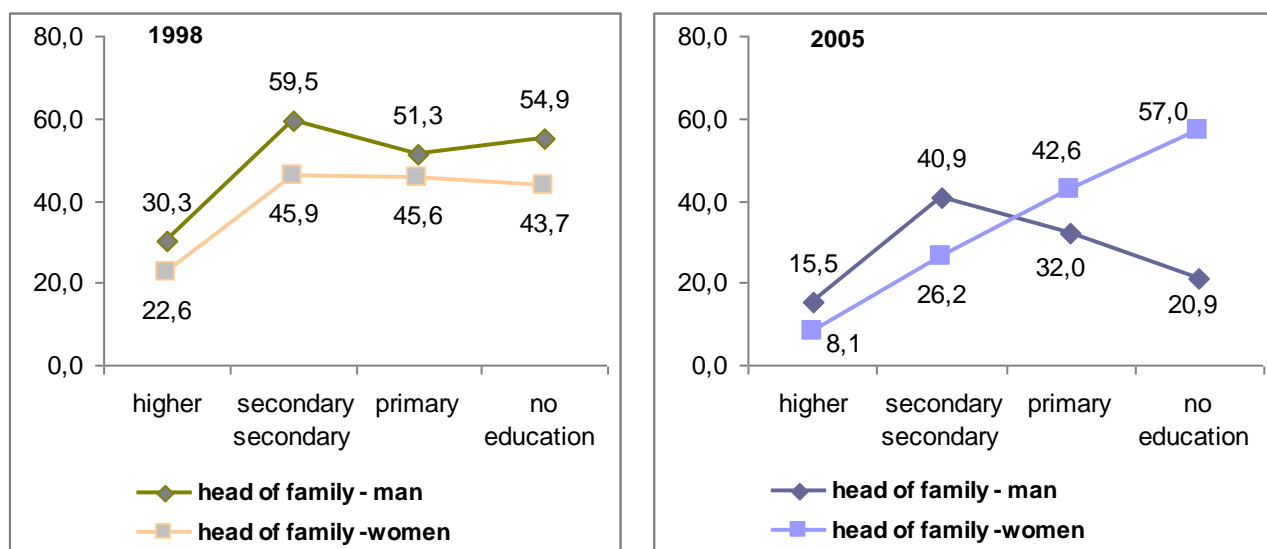
Hence, we can infer that poverty problems incidental to a large number of children may pose a serious threat to the society development as the *burden of dependents* increases on the working members of households along with increase of the decicit of funds necessary for satisfying basic needs, which in turn may entail growth of potential population groups applying for government support in the form of single monthly allowances.

Characteristics of the heads of households are another important factor determining poverty.

In most cases, household heads are the main breadwinners in the family. Therefore, it is significant to point to the impact made by the household heads' education on the welfare of their families. *The households headed by university graduates have much lower poverty level* as opposed to the households whose heads have primary education or have no education. As years pass, this factor becomes more influential in the welfare of the families, particularly, those headed by university graduates, which is shown on Graph 5. The households headed by females who have no even primary education or are absolutely illiterate are the most vulnerable. The results of the household survey held in 2005 showed that poverty level among the families headed by men with primary education or without education decreased substantially compared to the situation observed in 1998. This may possibly be explained by labor migration to other countries where construction and service workers are in demand and people may not have university degree but nonetheless may get the salary higher than in the republic.

Graph 7. Poverty level given the sex and education of the family head

in % to the corresponding group of household heads given their education level



Source: Estimations based on sample survey results on poverty monitoring (PM) -1998 and Integrated Household Survey-2005.

Overall in the republic *the households headed by women turn out to be less poor than the men – headed households*. The survey results for several years show that this trend remains steady not only for poor households but for extremely poor households as well. However, when making analysis of the trends of changes, we can observe annual decrease in proportion of households headed by women for the period of 1998 - 2002. Then, beginning from 2003, a steady growth of women-headed households is observed. The reason, once again, can be explained by migration outflow of the able to work citizens leaving the country in search of a job. Apparently, for that reason, we can observe reduction of differences in poverty indicators between the households headed by men and those headed by women.

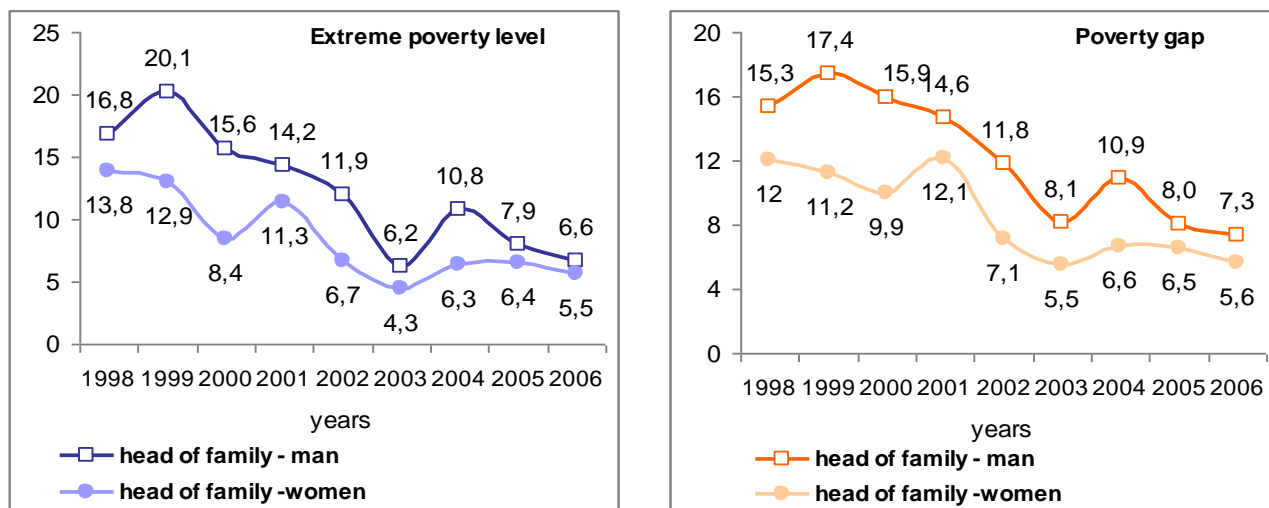
Table 6. Poverty level given the sex of the family head, %

	1998	1999	2000	2001	2002	2003	2004	2005	2006
A male family head									
Total	69,6	71,5	66,0	74,3	74,6	66,5	66,3	66,5	65,3
<i>Including:</i>									
not poor	54,2	50,4	52,2	50,6	59,2	67,1	60,7	65,1	67,1
poor	45,8	49,6	47,8	49,4	40,8	32,9	39,3	34,9	32,9
of them, very poor	16,8	20,1	15,6	14,2	11,9	6,2	10,8	7,9	6,6
Poverty depth	15,3	17,4	15,9	14,6	11,8	8,1	10,9	8,0	7,3
Poverty sharpness	6,9	8,4	6,8	5,9	4,8	2,8	4,3	2,6	2,4
A female family head									
Total	30,4	28,5	34,0	25,7	25,4	33,5	33,7	33,5	34,7
<i>Including:</i>									
not poor	63,3	65,8	67,7	57,6	74,2	77,6	74,6	73,7	72,6
poor	36,7	34,2	32,3	42,4	25,8	22,4	25,4	26,3	27,4
of them, very poor	13,8	12,9	8,4	11,3	6,7	4,3	6,3	6,4	5,5
Poverty depth	12,0	11,2	9,9	12,1	7,1	5,5	6,6	6,5	5,6
Poverty sharpness	5,6	5,7	4,0	4,8	2,9	1,9	2,5	2,2	1,8

Source: NSC Publication: «Social development of the KR for 1997-2001». – Bishkek, 2002; «Social development of the KR, 2000-2004». -Bishkek, 2005; «Living standard in the KR, 2001-2005». - Bishkek, 2006.

Poverty reduction in the men-headed households was exceeding the pace of reduction in the households headed by females, which is shown on Graph 8.

Graph 8. Changes in the level of extreme poverty and poverty gap indicator given the sex of the household head, %



Source: Estimations based on results of the sample surveys of the households, Kyrgyz Integrated Household Survey -2005

Worsening of the welfare of some population groups and their inclusion into the category of poor households was due to *job loss by the able to work population* making them unemployed. According to official data of the KR State Committee for Migration and Employment, the level of registered unemployment was at 3,3% in 2005 which is higher by 0,4% than the 1999 level. Unemployment level is higher among women as opposed to men. The largest number of unemployed is typical for the age group of 18 to 49.

At the same time, it should be noted that the level of overall unemployment calculated by applying the ILO methodology fluctuates within 12,5– 8%. The number of unemployed has uneven distribution by regions of the republic. During 2002-2005, reduction of the number of unemployed was observed virtually in all regions of the republic. Substantial decrease in the number of unemployed during 2002-2005 was observed in Bishkek (almost double) and in Batken oblast (by 7,3%). In 2005, the highest unemployment level was observed in Chui (13,9%) and Batken (13,4%) oblasts. The lowest unemployment levels were registered in Osh (4,2%) and Talas (4,0%) oblasts (Table 7).

Table 7. Overall unemployment level

in % to the total of active population

	2002	2003	2004	2005
Republic	12,5	9,9	8,5	8,1
Batken oblast	20,7	16,8	15,9	13,4
Jalal-Abad oblast	9,5	6,4	6,7	6,2
Issyk-Kul oblast	9,3	9,7	7,7	7,0
Naryn oblast	11,8	8,9	7,2	8,0
Osh oblast	5,8	5,3	4,3	4,2
Talas oblast	5,1	5,0	4,1	4,0
Chui oblast	15,7	16,5	13,9	13,9

	2002	2003	2004	2005
Bishkek	20,4	12,1	9,6	9,5

Source: NSC publication «CDF/MCP: statistical development indicators for the KR and its regions». – Bishkek, 2007.

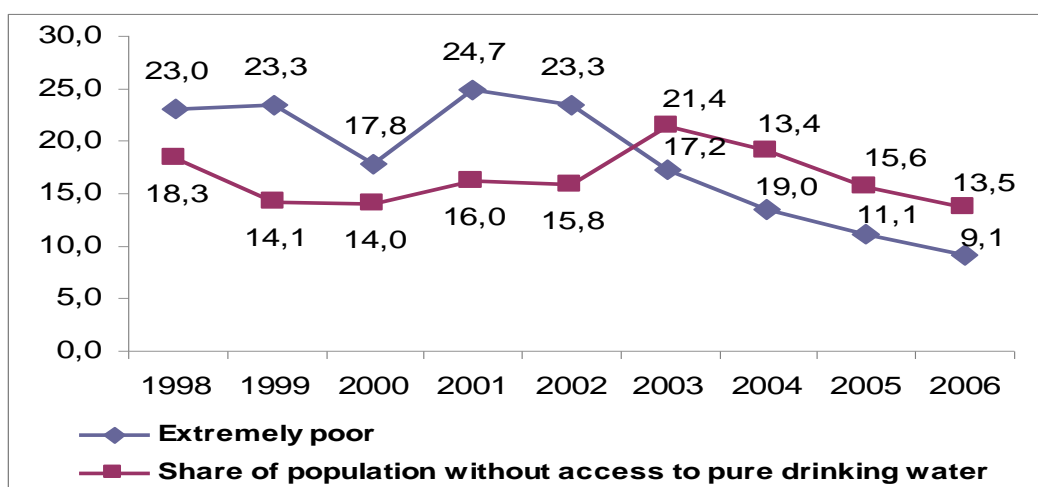
Non-monetary characteristics of poor families include accessibility of health care, food for children, life expectancy, number of visits to hospitals or access to specific health care services (such as pre and postnatal care) or accessibility of modern child vaccination as a resource for future health condition.

We compare the changes in extreme poverty indicators and access by the entire population to various services. However, the publications lack the indicators for access to services, particularly, by poor and extremely poor groups. That is why, we can make a conditional presumption that limited access to essential services is due to the deficit of financial resources available with poor and extremely poor population. After we made this presumption, we can draw certain parallels between the changes taking place in the indicators for extreme poverty and access to essential types of services.

Examining changes in the indicator for access to pure drinking water, we can see positive trends since 2002; we can observe parallel reduction of the proportion of population that has no access to good quality water and reduction of extreme poverty (Graph 9).

Graph 9. Proportion of population having no access to good-quality drinking water, 1998-2006

in % to the total population



Source: NSC publication «CDF/MCP: statistical indicators for development of the KR and its regions» and «Living Standard in the KR, 2002-2006» Bishkek, 2007.

We can also see that accessibility of pure drinking water has been improving annually in all regions of the republic (Table 8).

Table 8. Access to pure drinking water, %

Oblast	1998	1999	2000	2001	2002	2003	2004	2005
Republic	81,7	85,9	86,0	84,0	84,2	78,6	81,0	84,4
Batken oblast	-	-	71,8	56,3	52,7	59,7	64,0	71,6

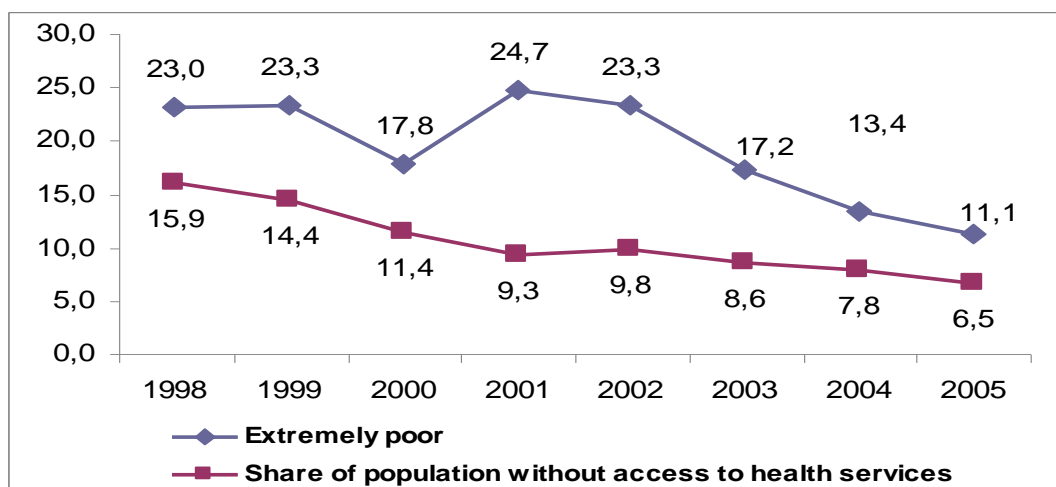
Oblast	1998	1999	2000	2001	2002	2003	2004	2005
Jalal-Abad oblast	54,9	88,5	86,9	81,2	85,2	67,4	74,2	92,9
Issyk-Kul oblast	95,9	89,2	100,0	99,8	100,0	87,3	85,2	95,9
Naryn oblast	70,1	74,3	93,3	90,3	89,3	74,3	77,8	88,1
Osh oblast	64,9	55,1	63,4	65,8	65,9	62,0	65,1	59,3
Talas oblast	85,8	57,1	99,9	99,9	99,6	97,5	97,3	97,3
Chui oblast	98,7	97,8	100,0	100,0	99,2	99,8	100,0	96,1
Bishkek City	97,9	91,6	100,0	100,0	100,0	100,0	100,0	100,0

Source: NSC publication «CDF/MCP: statistical indicators for development of the KR and its regions» and «Living Standard in the KR, 2002-2006» Bishkek, 2007.

The indicator for health care accessibility as well as extreme poverty line show annual decreasing trend which is the evidence of a reduced number of people that have no opportunities of using medical services. Apparently, health care reforms that took into account insolvency of the poor population helped, to some extent (almost double), to reduce the number of people who had never applied for health care service before or never bought pharmaceuticals because of expensive prices (Graph 10).

Graph 10. Access to health care services, 1998-2005.

in % to the total population



Source: NSC publication «CDF/MCP: statistical indicators of development of the KR and its regions» Bishkek, 2007.

Improved access to health care is observed in virtually all the regions of the republic. A substantial reduction of the people who had no access to health care was observed in 2005 in Naryn oblast as against 2002 (4,4 times), in Jalal-Abad oblast (3,3 times) and in Bishkek (2,7 times). However, examining dynamics of the change trends for accessibility of health care services, we can see that first almost all regions experienced improvements in health care accessibility and annual reduction of people not visiting medical institutions because of high prices or remoteness. But then from 2003-2004, the reverse picture is observed, proportion of people not applying for medical services increases. And finally in 2005 we see improvements in accessibility of health care virtually in all regions of the republic except for Talas oblast where proportion of people not applying for medical care increased compared to the previous year by almost 3% (Table 9).

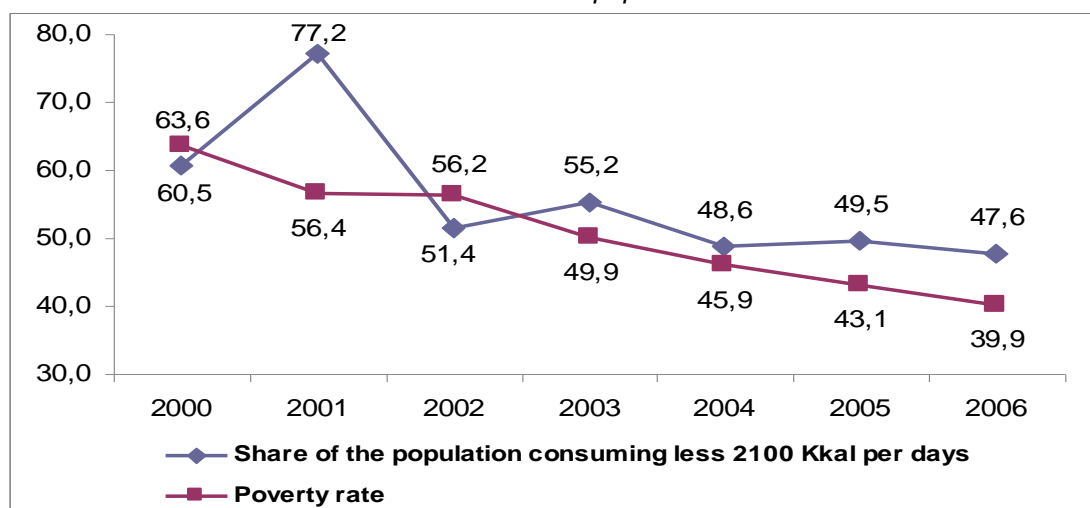
Table 9. Proportion of population having no access to health care services, %

Oblast	1998	1999	2000	2001	2002	2003	2004	2005
Republic	15,9	14,4	11,4	9,3	9,8	8,6	7,8	6,5
Batken oblast	-	-	7,7	7,2	6,1	10,8	8,2	4,0
Jalal-Abad oblast	-	-	7,2	7,1	2,5	2,3	3,1	2,2
Issyk-Kul oblast	-	-	12,5	6,6	2,0	2,7	7,0	6,4
Naryn oblast	-	-	12,4	11,8	7,7	9,5	5,5	2,8
Osh oblast	-	-	6,9	4,7	13	9,3	6,8	4,8
Talas oblast	-	-	10,3	10,7	7,6	5,2	7,2	10,0
Chui oblast	-	-	27,1	20,2	17,4	16,1	17,8	17,4
Bishkek City Council	-	-	16,7	15,2	18,9	8,2	7,1	6,1

Source: NSC publication «CDF/MCP: statistical indicators for development of the KR and its regions» -Bishkek, 2007.

Reduction of the poor population is accompanied by parallel reduction of the population consuming 2100 kilocalories per day. Since the extreme poverty line in the republic represents the value of the food basket of 2100 kilocalories per day, we can see that even the moderately poor or not poor population at times consumes less than the required volume of calories as is shown on Graph 11.

Graph 11. Proportion of population consuming less than 2100 kilocalories a day
in % to the total population



Source: NSC publication «CDF/MCP: statistical indicators for development of the KR and its regions» - Bishkek, 2007.

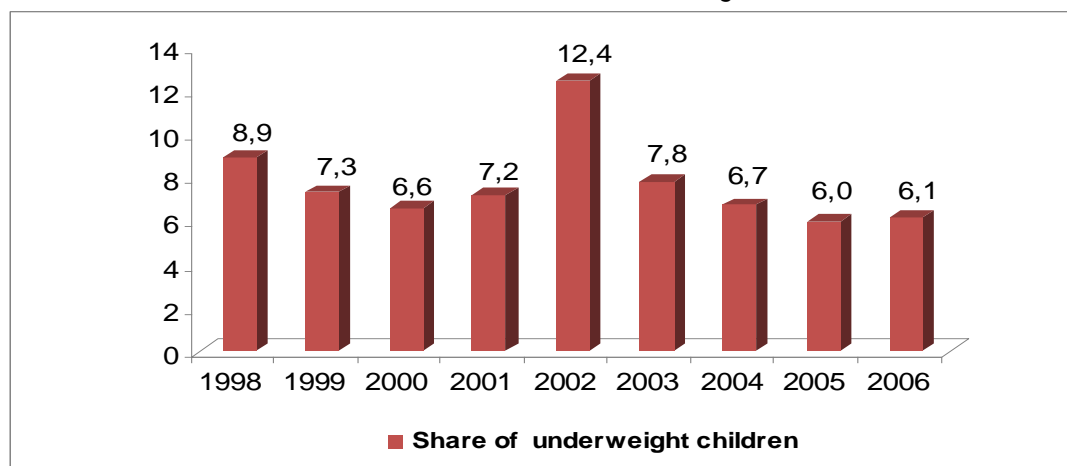
The indicator for growth deficit in child height and weight is one of the most significant extreme poverty indicators posing threat to health, normal growth opportunities, and welfare.

Proportion of children whose weight is below the norm remains sizeable. This is very much due to the fact that children in average consume only 90% of the volume of calories required (according to NSC data). Although for the last years we can observe reduction in proportion of children whose weight and height lag behind, but the rates of reduction are insignificant

except for the year of 2002 when in several regions (Batken, Jalal-Abad, Osh oblasts and in Bishkek) the indicator rocketed for unexplainable reasons. We can presume that it was caused, to some extent, by extreme poverty growth in 2001 (24,7%), which led to increase of large families having many children, unable to purchase foodstuff and provide healthy food for their children (Graph 12).

Graph 12. Proportion of children suffering underweight

in % to the total number of children aged 1-6



Source: NSC publication «CDF/MCP: statistical development indicators for the KR and its regions» - Bishkek, 2007.

Proportion of children attending schools (1-9 classes), albeit with a slight reduction, remains high (95,9%). Although children living in Osh oblast are of concern, because proportion of children attending schools there went down from 96,3% in 2000 to 88,8% in 2005 (Table 10).

Table 10. School attendance by children (1-9 classes) of the corresponding age, %

Oblast	1998	1999	2000	2001	2002	2003	2004	2005
Republic	90,0	89,5	95,9	95	94,6	94,8	94,9	95,9
Batken oblast	...	92,1	98,9	97,2	94,8	93,6	92,6	92,6
Jalal-Abad oblast	90,3	89,2	96,9	95,9	95,3	94,8	94,6	95,1
Issyk-Kul oblast	89,9	89,3	94	93,7	94,4	96,3	96,7	97,6
Naryn oblast	92,2	91,3	98,6	97,3	97,6	96,8	96,8	96,1
Osh oblast	91,6	90,8	96,3	95	93,4	90,0	89,3	88,8
Talas oblast	91	89,6	97,8	95,5	96,3	96,3	96,2	96,5
Chui oblast	89,5	89,6	95,6	95,7	98	100,8	103	106,4
Bishkek City Council	82,7	83,6	89,7	88,7	74,2	90,0	93,2	98,2

Source: NSC publication «CDF/MCP: statistical development indicators for the KR and its regions» - Bishkek, 2007.

Examining data on school attendance by children, accesibility of pure drinking water and health care, we can infer that the lower levels are observed in the poorest regions.

Summarizing the results of poverty analysis and studying the main factors impacting people's welfare, we can state the following:

- slightly less than half of population of the republic lives in poverty;
- poverty is a rural phenomenon;
- large families having many children are much more exposed to poverty risks;
- one-third of the families are headed by women, the poverty level in these families being lower than in the men-headed families;
- job loss makes a substantial impact on the family welfare;
- accessibility of education, health care and pure drinking water has been improving to a certain extent which is apparently the result of good reforms in health care and water supply systems; the living standard has also been improving which is supported by poverty and extreme poverty reduction data for a number of years.

Nonetheless, poverty remains a critical problem in the republic. The existence of poverty undoubtedly requires government interference in order to smooth out social problems arising in the country.

II. Overview of existing situation of cash social transfers in the Kyrgyz Republic

2.1. Overview of social assistance in the Kyrgyz Republic

2.1.1. Main objectives of cash transfers

One of the most important problems of social security at present is the assistance **to the poor**. The need for this type of assistance increased particularly in families with many children and one-parent families. The reason is that the amounts directed to these families by social consumption funds (free rehabilitation of children, free medical aid and free education) are not always accessible.

The permanent growth of population in need for state support pushes the Government to undertake measures on increasing the welfare of low income families. Certainly, cash transfers disbursed out by the public agencies, even being not so big, still allow low income families to obtain resources for the payment of primary services (electricity, water etc) and for schooling of children etc.

The Republic implements different state social programs aimed at improvement of targeting and effectiveness of the assistance to the poor. The most important (in sense of expected social effect and budgetary expenditure) were an introduction of the unified monthly benefit (UMB), housing subsidies, prices discount and compensation for payment of energy, socially protected prices.

The law “On the state benefits in the Kyrgyz Republic” provides the basics of the social protection system in the country. According to this law, state benefits are social guarantees to family, citizens as well as to unable to work people who do not have right for the pension.

The process of the social guarantees allocation has a centralized nature and is carried out with the participation of the majority of administrative structures of the government including the Government, the Jogorku Kenesh (parliament), ministries and agencies as well as regional structures (appendix 1)

Thus, in order to provide guaranteed social support to the low income population and to simplify the system of social transfers’ allocation, the reform of the social protection system was started in 1995. The Decree of the President of KR УП №329 of 6 September 1994

introduced unified monthly benefit (UMB) to low income families and citizens instead of previously paid state benefits to families having children, social pensions and compensation for bread and bread products.

In November 1997, the amendments to the Regulations on benefits calculation were introduced and approved by the Ministry of Labour and Social Protection agreed with the Ministry of Finance, Ministry of Agriculture and Water Resources, State Agency on Land Resources and National Statistical Committee.

In February the Legislative Chamber of Jogorku Kenesh approved the Law on the state benefits (hereafter referred to as Law), which was signed by the President on 5 March 1998, №15.

The objective of these payments is to provide targeted state support to the low income groups of population ensuring a vitally needed level of consumption up to some level – special social standard (Guaranteed minimum consumption level - GMCL).

2.1.2. Types of cash payments

The Ministry of Labour and Social Development of the Kyrgyz Republic (MLSD) is responsible for rendering social support to low income citizens of the country. This support can have different forms:

- Payment of state benefits,
- Improvement in access to financial and material resources,
- Involvement in public works etc.

The types of support related to direct disbursements to families from the state budget are strictly regulated; criteria of allocating different types of state support including the most massive one – the Unified Monthly Benefit (UMB), is closely connected to limited budget possibilities. It is evident that the UMB can not and should not cover all residents of the country which can be considered as poor. Consequently, the number of the UMB beneficiaries can not be interpreted as the number of the poor in the country.

The Law «On state benefits in the KR» provides for an assignment and payment of two main types of the state cash benefits:

- unified monthly benefit to low income families and citizens (UMB);
- social allowances to:
 - children invalids,
 - invalids since childhood,
 - adult invalids not eligible for pension security,
 - children which have no bread-winner, not eligible for pension security
 - old age citizens, mother– heroies not eligible for pension security .

2.1.3. Procedure of assigning the unified monthly benefit (UMB).

According to the Law “On the state benefits”, the UMB is allocated taking into account the vulnerability of the family after the verification of its aggregate income. The UMB is assigned if:

- aggregate per capita family income is less than the GMCL;
- the family has members eligible for the benefit.

People who do not have the right for the UMB (article 7):

- able bodied family members;
- unable to work citizens enjoying full state support.

2.1.4. Procedure of assigning the monthly social allowances (MSA)

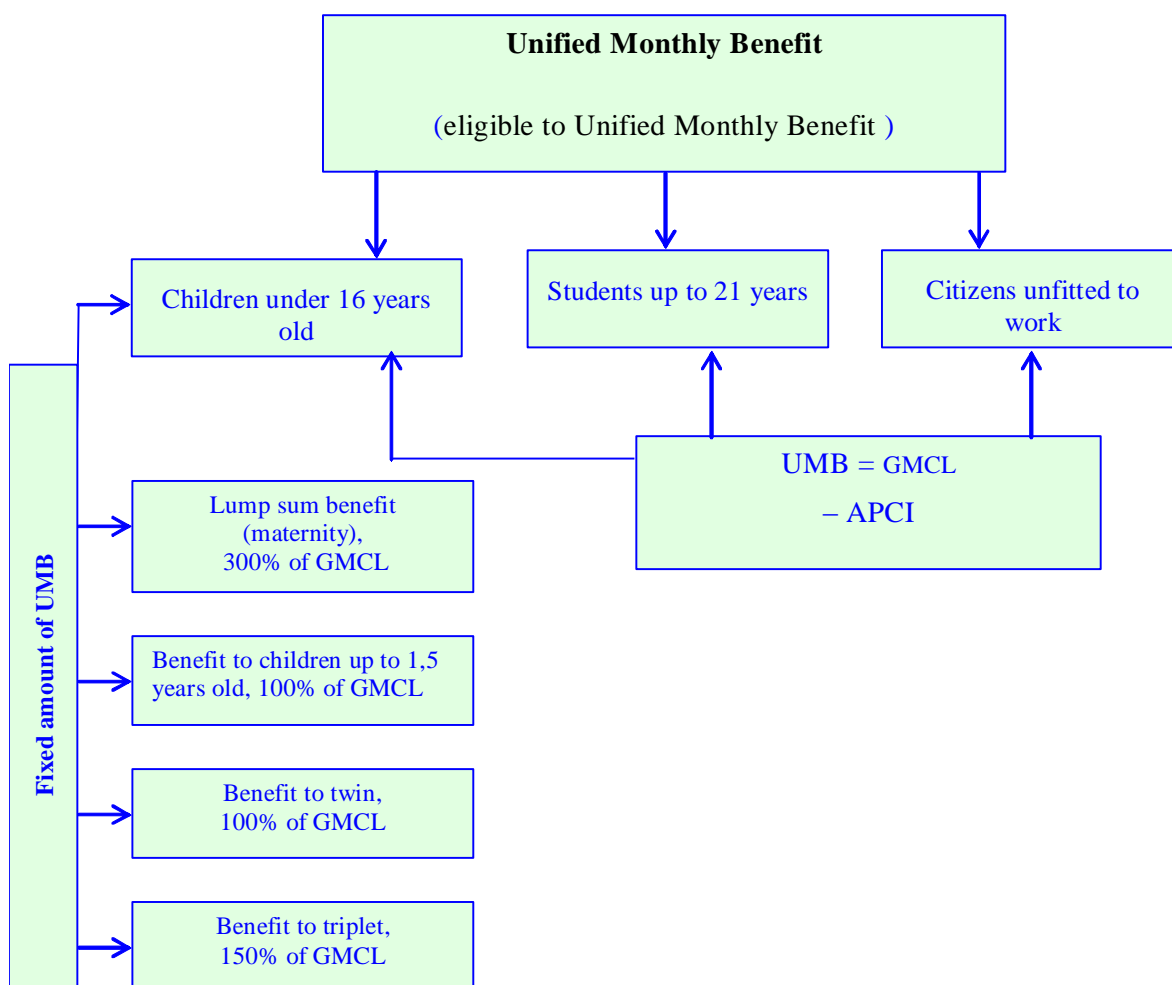
Social allowance is the financial support of the government aimed at resolving the problems of population groups which do not have right for the pension, and is assigned as a fixed multiple of the GMCL irrespective of average per capita income of the family.

2.1.5. Target groups receiving state benefits

The Law defines the categories of persons having the right for state benefits, the procedure of assignment, its sizes, deadlines etc. (schemes 1 and 2).

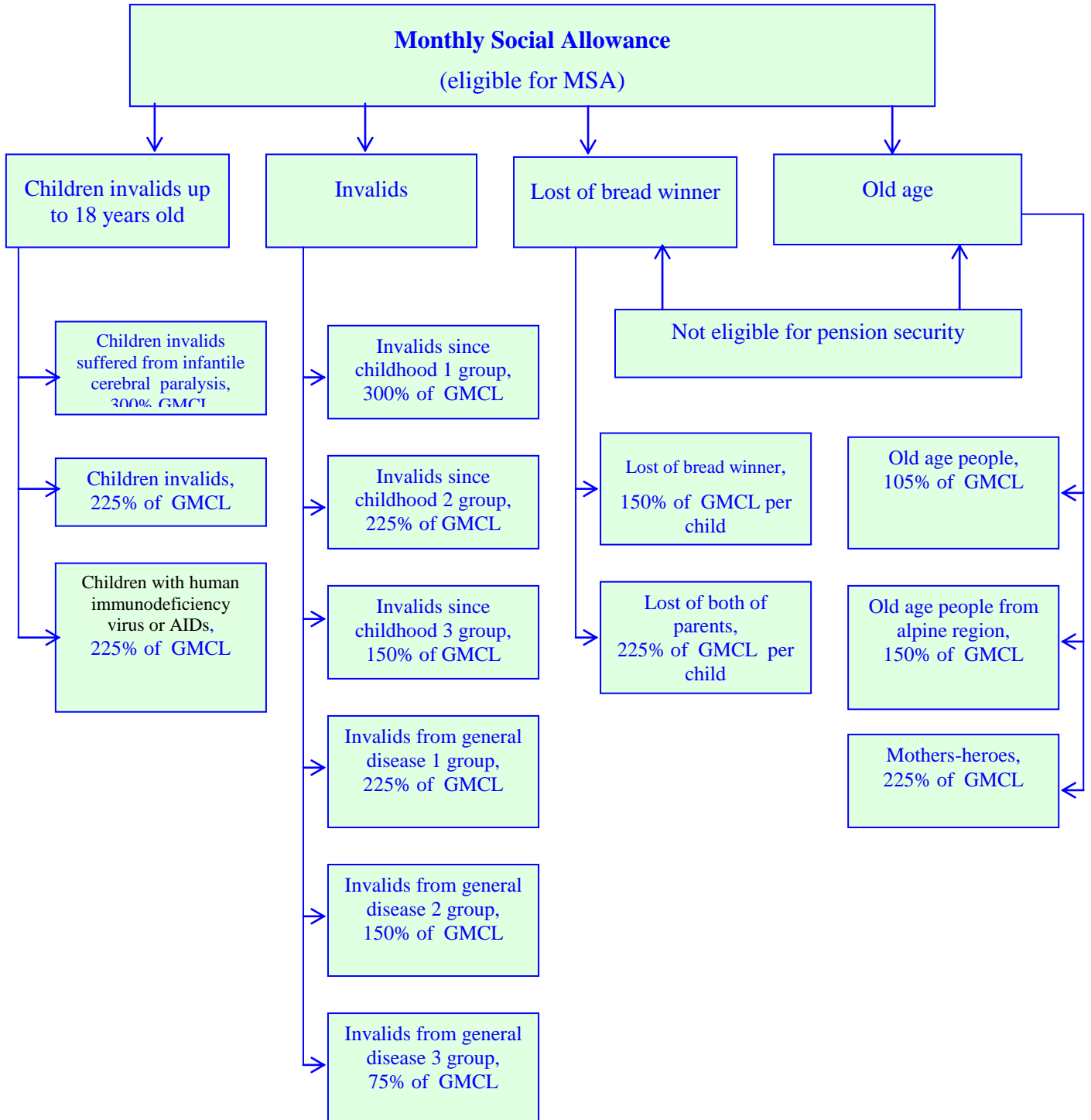
According to article 7 of the Law "On state benefits" the following groups of people have the right for the unified monthly benefits:

Scheme 1



According to article 10 of the law the on state benefits in KR the following people have right for MSA:

Scheme 2



2.1.6. Procedure of definition of the Guaranteed Minimum Consumption Level

The Governmental resolution of 29 April 1998 defines a formula, which allows calculating the guaranteed minimum consumption level in accordance with the four main indicators:

- Available budgetary funds directed to social assistance (1,5% of GDP);
- Assumed number of benefit recipients;
- Assumed average income of UMB beneficiaries;
- Assumed number of social allowance recipients.

The exact formula is as follows:

$$mcons = \frac{Funds + 12 * UMBrec * I_{pc}}{(UMBrec + 1.39 * SBrec) * 12}, \quad (1)$$

where *Funds* – allocated volume of the budgetary resources, equal to 1,5 % of GDP;
UMBrec – assumed number of UMB beneficiaries;
SBrec – assumed number of social allowances' beneficiaries;
I_{pc} – assumed monthly income per capita among the number of UMB beneficiaries.

Figure 12 reflects the number of months during which the UMB should be paid, then 1.39 means an adjustment factor, which shows the average size of social allowance.

2.1.7. Procedure of defining the average size of the UMB

When a household has an income per capita less than guaranteed minimum consumption level and has at least one member of family has the right for the UMB, then the household is considered as eligible and the total amount of benefit is calculated according to the following formula:

$$UMB = (mcons - I_{pc}) * MR, \quad (2)$$

where *UMB* – UMB;
mcons – guaranteed minimum consumption level;
I_{pc} - monthly income per capita;
MR – number of members of household having right for UMB.

Thus, the amount of the benefit constitutes the difference between monthly per capita income and the GMCL, but only for dependent family members eligible to the UMB.

2.1.8. Procedure of revealing the families which require state support and assignment of benefits

According to the law of the KR, in order to receive state social assistance in the form of state benefits a person or his/her representative should apply in writing to the organs of social protection at the place of residence or registration.

The household living in the urban arrears and pretending to state benefits should apply for assignment of state benefits to rayon (municipal) social protection department at the place of residence (registration). Rural inhabitants may apply to the ayil okmotu.

The information on family composition, income and property (in particular, information on land and garden plots size) is stated in the application.

Since 2000 the MLSD uses so called SPLIF filled up for each poor family as a tool to define targeted group of population.

The social passport of low income family (hereafter referred to as SPLIF) is filled up by a leading social protection specialist of the ayil okmotu or municipal social department unit on the basis of the verification of the living conditions of poor families applied for the social support.

In accordance with standard regulations «On status of the leading specialist on social protection in ayil okmotu (village administration)», approved by the governmental resolution of 23 February 2004, N91, the leading specialist deals with:

- Receiving of documents for state benefit assignment;
- Consultations and assistance at home;
- Verification of the authenticity of delivered certificates on income, family's composition and other documents required for assignment of state benefits;
- Registration of additional sources of income, land plot size, number and types of the livestock and poultry;
- Transfer of received and checked documents to the rayon (urban) department (unit) of the social protection.

The changes in the property or social situation of the families for which SPLIFs were filled up systematically (not less than one time per semester) are fixed in the SPLIFs. SPLIF is closed only in case a family has gone out of the poverty (after that SPLIFs are kept in ayil okmotu or urban department of the social protection for 3 years).

A leading social protection specialist of ayil okmotu is responsible for keeping, updating, verifying the authenticity of data, reporting on SPLIF. The authenticity of the data, put up in SPLIF, is confirmed by a head of the family for whom this document was filled up. There is a conclusion of the ayil okmotu commission (3-5 people from the number of ayil kenesh, veterans of war and labour, representatives of farmer, women and other organizations appointed by the head of ayil okmotu), which confirms the material situation and level of vulnerability of the family.

SPLIF contains following basic information on:

- family composition;
- availability and type of land plots;
- availability of livestock and other assets;
- sources and sizes of income of family members;
- categories of privileges enjoyed by the family member;
- indicators by which it is possible to define the poverty reasons etc.

To fill up the SPLIF information which can be confirmed documentarily is used (on land plot, privileges, diseases), as well as information received in course of interview with the family; the latter particularly concerns many components of income.

The UMB is assigned on the basis of data from the SPLIF and the application according to more strong criteria where the guaranteed minimum consumption level (GMCL) is a basis of selection.

After applying, the specialists of the social protection departments make calculations of the aggregate per capita income. The UMB is assigned by the decision of the organs of the social protection at the place of residence of the applicant. The information presented by the applicant can be checked through additional verification (inspection of the commission) of social protection organ.

The applicant can be refused in the state benefit in the following cases:

- applicant is not poor at the time when the issue of UMB assignment is considered;
- delivery by applicant of incomplete and (or) inauthentic information;
- lack of registration at the place of residence and applying.

The allocation of the state benefits can be cancelled in case of:

- there is an increase in the income of the family which receives the UMB;
- discrepancy in the information presented by applicant is revealed;
- delay in the notification about previously presented information;
- long term non payment;
- death of the beneficiary;
- movement to the other place of residence etc.

A decision of the social protection organ to cancel state social assistance may be appealed in the senior organ of social protection or in court.

After assignment of the state benefit the dossier on the applicant's family is transferred to the centres for calculation and payment of benefits for further processing of data and execution of payments for families to which the benefits had been assigned.

The staff of the centres for calculation and payment of benefits in oblasts prepare an instruction for each beneficiary separately and transfer them to the post offices because the delivery of benefits is made in the post offices at the place of residence of the beneficiary.

According to the opinion of different experts conducting researches in the area of social assistance to the poor groups of population, the focus is put on the fact that the methodology to define the poor based on SPLIF, where per capita income is used as an indicator of the family welfare, is the most acceptable. The advantage of this indicator is that it has fewer components in comparison with indicators of expenditure or consumption and simpler for the definition. In most cases there is a problem to define actual income of the population. Families receive their income not only in cash but also in kind, i.e. in the form of food products from garden plot and livestock for their own consumption. The format of the SPLIF provides for an option to register two forms of the income but in practice a lot depends on how the poor themselves take into account their income and what they understand when they answer to the question about income from garden plot, land plot, livestock/poultry etc. As long as they have an incentive to understate their income (in order to be eligible for benefits) we can assume that very often they would hide their actual income (from sale of agricultural production or from entrepreneurial activity etc)

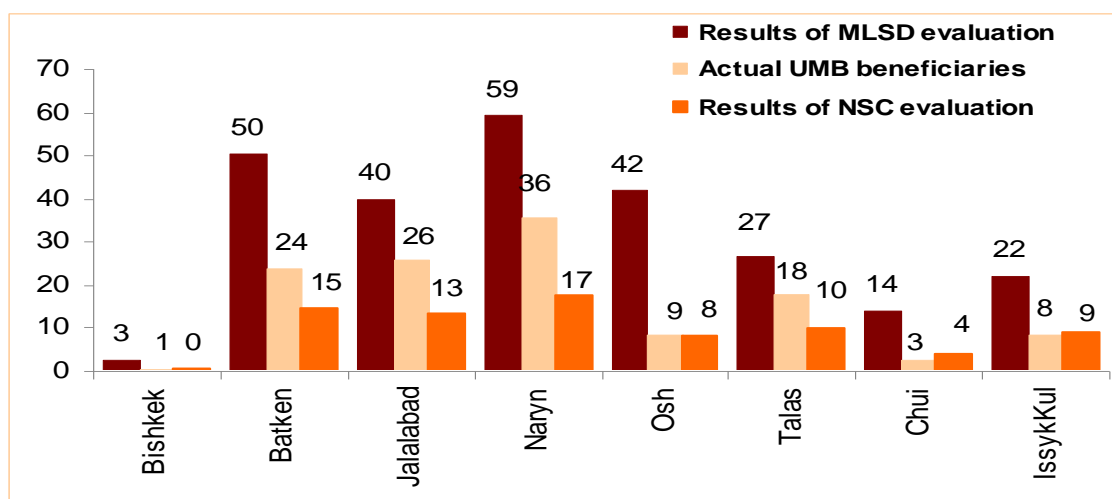
Alongside with the problem of the registering the population income, it is necessary to pay attention to the fact that the population does not consider self made products as an income. Apparently, there is a need to explain to the population that self made products for own consumption is also the family in-kind income which should be assessed and registered while the aggregate per capita income is calculated. Nevertheless, there are difficulties with an exact assessment of these types of income. The factors when some families having land, can not cultivate this land and to receive the same harvest because it is impossible to assess the contribution of all family members to the cultivation taking into account the number of children can be referred to these difficulties.

In fact, there are some differences between the poverty level indicators assessed according to the data of the SPLIF and actual benefit recipients:

- UMB is assigned to the citizens of the Republic as well as to citizens from other countries which are members of the International agreements ratified on the territory of the KR;
- SPLIF is filled up on persons actually living in the household including people without citizenship.

Comparing the poverty level assessed by the MLSD with the extreme poverty level assessed by the NSC, one can see that these indicators have significant discrepancies (almost by 4 times). These results (graph 13) may allow us making an assumption that the MLSD can not cover all sources of income to define the welfare level of families applying for the UMB. The reasons why there are problems to make an exact assessment of aggregate family income were analyzed above. That is why, especially today the use of the GMCL in order to define the poorest family is the most adequate method.

Graph 13. Indicators of the extreme poverty level, calculated by the NSC and MLSD³
in % to total number of the household in each region



Source: MLSD data and elaboration of 2005 sample household survey, conducted by NSC.

Against this situation in the development of social protection system and available possibilities of the MLSD, the use of the SPLIF data is one of the most adequate tools allowing to assess the welfare of the population and ensure the most targeted social protection of the population. At the same time there appears a need to revise the methodology of state benefits assignment in order to cover truly vulnerable group of population.

As state benefits allow extremely vulnerable groups of population to have relatively small amounts of money for special needs, the government is systematically working on the improvement of the benefits' assignment methodology.

Taking into account the specificity of methods used by the MLSD to define the vulnerable population, the application of povert data from the SPLIF on a wider aggregate (region or the whole country) would be done with some caution.

³ **NSC of the KR** assesses the poverty level on the basis of results obtained from Integrated survey of 5016 households. The household welfare indicator is the cost of their annual consumption. **MLSD of the KR** assesses poverty level on the basis of social passports filled for applicants. The familt welfare is defined on the basis of aggregate income.

2.2. Review of the state benefits funding

According to article 6 of the Law «On the state benefits in the Kyrgyz Republic», the source of state social assistance to citizens are the funds of the Republican budget. Besides the payment of state benefits, vulnerable families and citizens receive one off financial support from the local self-governance organs. The volume of funds allocated for this purpose is different depending on financial capacity of the local self-governance organs (LSG).

2.2.1. Expenditure related to delivery /receipt of cash payments

According to the Instruction, the payment of state benefits by the institutions of the Ministry of transport and communications and social protection organs of the Kyrgyz Republic (point 1.7) to beneficiaries is made «with a delivery at home to the place of registration (in exceptional cases to the place of the actual residence) or in the post office», that is why we can assume that transport cost depending of the place of household location may be either zero or negligible. Thus, the cost of one way travel may vary from KGS 5 to 10. In addition, the formulation of budget on the payment of state benefits also includes post office expenses which account for 2% of the total estimate.

The total amount of state benefit payments amounts to 70% of total expenditure of the Government allocated from the annual state budget for social assistance. In order to have a general picture, we can examine data received from various sources during the last nine years. As the table 11 shows, privileges for utilities are also important item of the budget making on average 20-25% of all funds directed to social assistance.

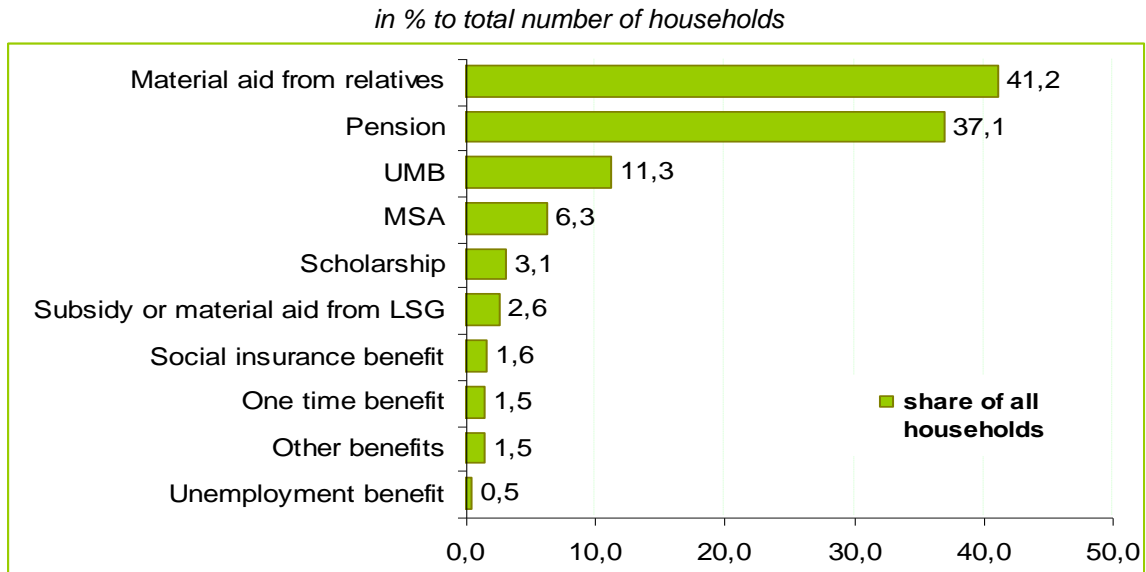
Table 11. Funds allocated from the state budget for social security (1998-2006), current data

	State benefits	Benefit beneficiaries	Privileges for utilities	Main Department of MLSP
	Mln.som	Thousand people	Mln.som	Mln.som
1998	242,90	616,50	65,36	0,61
1999	419,00	522,80	93,94	1,01
2000	362,63	542,18	104,33	1,05
2001	348,58	512,30	130,74	1,54
2002 (11)	772,28	573,90	102,83	1,61
2003	774,01	492,98	...	2,22
2004	726,87	524,02	...	3,13
2005	728,03	510,56	166,73	2,69
2006	1102,16	538,23	184,30	3,69

Source: Report "Effectiveness of targeted social assistance", March 2000 (data for 1998-1999); Report "Beneficiary assessment of the UMB, socially protected prices and housing subsidies" (data for 2000-2002), July 2003, Reports of the Central Treasury of the MoF, submitted to EC (data for 2003-2004); data from MLSD (2005-2006).

In general, about half of the population of the country is covered by social transfers (graph 14). Each third family depends on material assistance from the relatives and friends and each ninth receives Unified monthly benefit as low income family.

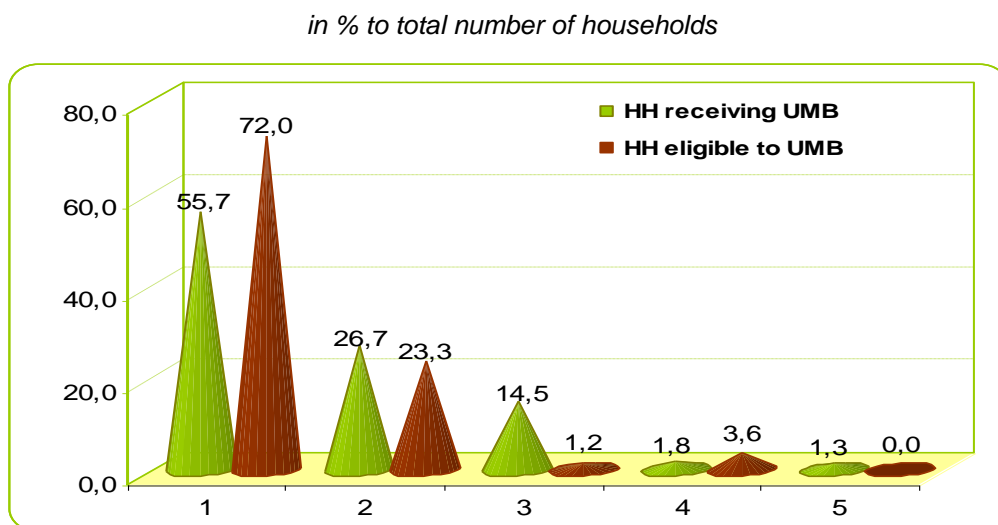
Graph 14. Coverage of the population by state social transfers and material support from relatives and friends



Source: processed data of the Integrated Household Survey held in 2005 by NSC.

Moreover, some families receive several types of benefits at the same time, which is confirmed by the results of the 2005 sample household budget survey. Thus among the households being the UMB beneficiaries each sixth family receives 3 types of benefits, whereupon among the families, really having right for the UMB, there were 10 times less such families. Therefore only 1/5 of families having the right for the UMB actually receive it. In our opinion, if these benefits were systemized and families received only one type of benefit it would be easier to manage these benefits from the administrative point of view.

Graph 15. Distribution of households – UMB beneficiaries and households eligible to UMB by number of received benefits



Source: processed data of the Integrated Household Survey held in 2005 by NSC.

Based on the above situation and the data of table 12, we can make a conclusion that the UMB is the most required benefit; at the same time since 1998 the volume of expenditure for the UMB in comparison with the social allowances has been steadily reducing. The social allowances are assigned on the basis of specific and evident indicators of the negative situation regardless any consideration of the income while the UMB is assigned taking into account the situation in the family after registration of all sources of aggregate income.

An increase in the expenditure on payment of social allowances (table 12) is related not only to the increase in the size of GMCL but in some cases the Government takes decisions to increase the size of the social allowances by fixed extra charges. Thus, during 2002-2005 the size of GMCL remained unchanged though in 2003 the Government increased the amounts of the social allowances by 20%. As a result, the increase in the size of UMB is related only to increase of the size GMCL, whereupon the amounts of social allowances are increasing at quicker rates because of additional decisions of the Government. As a result there is an incompatibility in the payment of survivor's pensions and social survivor's benefits. Thus, the size of the social survivor's allowance paid from the Republican budget to children amounted to KGS 315 and to full orphans – KGS 472,5 per child. The average size of survivor's pension paid by Social Fund amounted to KGS 238 in 2006. This situation provokes righteous complaints from those affected, because children who had lost their non working parents received highest state support than children whose parents had low paid job. Moreover, this situation leads to abuses when remaining parent tries by all means to receive survivor's benefits for children.

Table 12. Actual funds used for state benefits payments, current data

Year	UMB		Social allowance		Total state benefits
	Mln.som	%	Mln.som	%	Mln.som
1998	359.16	87.5	51.10	12.5	410.26
1999	286.15	81.9	63.14	18.1	349.29
2000	281.79	84.2	52.74	15.8	334.53
2001	264.61	71.3	106.10	28.7	370.72
2002	668.18	82.2	144.16	17.8	812.34
2003	568.05	73.4	205.96	26.6	774.01
2004	504.20	69.4	222,67	30.6	726.87
2005	497.02	68.4	229.98	31.6	727.00
2006	770.69	69.9	331.46	30.1	1102.16

Source: MLSD and MoF of KR.

On the other hand, increased expenditures on payment of social allowances are accompanied by annual growth in the number of invalids (table 13). According to MLSD data, during the last years a permanent growth in the number of invalids including children was observed, this had a direct impact on the increase in the number recipients of social allowance. Thus, in 2006 social allowances were paid to 41 thousand invalids since childhood which is 1.4 times more than in 2000 and the number of survivor's beneficiaries during the same period increased about 3 times. As a result of this trend there are some anxieties linked to some proposals. Is this situation linked to the health of women during pregnancy? Can we admit that children are traumatised during the delivery due to bad quality of medical services? Can we admit that the staff of the Medical Commissions issues disability certificates for some payment? The answers to these questions can be obtained after conducting specialized reviews. At present we have only some assumptions which

require attention from the governmental structures involved in the system of the state support to the children – invalids from childhood.

Table 13. Dynamics of number of social allowance beneficiaries in the Kyrgyz Republic

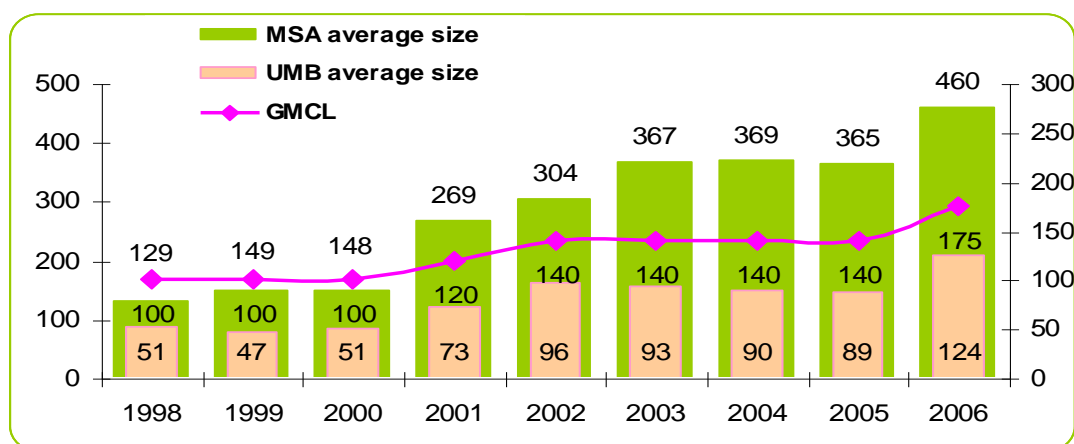
	2000	2001	2002	2003	2004	2005	2006
Total number of social allowance beneficiaries, people	38736	41946	47212	49332	52054	55354	56924
<i>of which</i>							
Invalids from childhood	29961	31913	35285	35855	37510	39340	41043
Invalids from general disease	1103	1292	1572	1889	2248	2528	2636
Survivor benefit recipients (per each family member unable to work)	3772	5091	6939	8408	9357	10822	10783
Persons of pension age not eligible for pension	3740	3490	3236	2991	2753	2485	2288
Mothers - heroes	160	160	180	189	186	179	174

Source: MLSD KR.

In general, during 1998 – 2000 there was a trend of dynamic reduction of financial resources for payment of the state benefits alongside with a reduction in the number of UMB beneficiaries. One of the reasons behind this trend was increased income of population which had a positive impact on the reduction of extreme poverty level and the number of UMB beneficiaries. The same trend was observed in 2002-2005, when the size of GMCL remained unchanged and the average size of UMB and number of beneficiaries declined (graph 16). Certainly, the increase in the income of population has a direct impact on the reduction in the UMB average size since it is calculated as a difference between the size of GMCL and aggregate income per one family.

Graph 16. Changes in the average sizes of GMCL, UMB and social allowances,

Som per month per one beneficiary



Source: MLSD data.

Timely payment of social transfers is one of the indicators of the effectiveness of the targeted social assistance as scheduled delivery of these transfers is of extreme importance for poor families because they use it to cover vitally important livelihood expenditures. The data on arrears in the payment of budgetary resources allocated to state benefits during 1998-2006 is presented below. (table 14).

According to the data during the period under review, state benefits were often paid with a delay and partially in kind (by food products).

While in-kind payments were a necessary measure for the state budget, they opened the way for different machinations and the effectiveness of the social transfers decreased. That is why the trend to reduce the share of in kind payments observed since 2000 is a positive fact.

During the last 2 years the practice of in kind payments was completely abandoned. On going reforms in accordance with the EC FSP Policy Reform Matrix resulted in cash disbursements.

Table 14. Resources approved by budget for payment of benefits assigned by MLSD and arrears, current data, mln.som.

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Accrued funds	410,3	349,3	362,6	498,6	863,3	774,0	726,9	728,0	1102,2
Arrears	103,7	0,0	22,6	172,6	18,3	11,6	21,8	97,2	47,8
Share of arrears in accrued funds	25,3	0,0	6,2	34,6	2,1	1,5	3,0	13,3	4,3
Payments in kind	220,7	226,0	113,0	108,4	98,0	113,8	176,6	0,0	0,0
Share of in kind payments in accrued funds, %	53,8	64,7	31,2	21,7	11,3	14,7	24,3	0,0	0,0

Source: MLSD data.

The review of dynamics in the size of state benefit, poverty level and GMCL shows that these changes in the period of 1998-2006 were different. According to table 15, the changes in the GMCL size do not correspond to changes in the general and extreme poverty lines. Thus, the level of the state support was increased during the years not so difficult for the population, but only when the budget resources were available. For example, as a result of the financial crisis in 1998, a significant increase of the extreme poverty line by κ 2000 (by 1,6 times) was recorded due to high inflation rate whereupon GMCL was increased for the first time only in 2001 (by 20%) after the approval of the Law on state benefits.

Table 15. Change in the number of UMB beneficiaries and total amount of resources allocated from the state budget, 1998-2006 .

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Guaranteed minimum consumption level (GMCL) som a month	100,0	100,0	100,0	120,0	140,0	140,0	140,0	140,0	175,0
Extreme poverty line, som a month	203,2	216,3	320,8	351,5	358,9	457,5	476,3	497,1	558,0
General poverty line, som a month	337,5	359,2	532,7	584	596,3	727,7	757,6	790,6	860,4
Minimum consumer budget, som a month	799,3	1097,1	1205,3	1316,5	1404,8	1540,4	1725,9	1836,6	2527,5
CPI of food products, %to previous year	116,7	145,5	110,2	100,1	102,0	106,0	102,8	109,9	106,8
Average amount of UMB per month per 1 beneficiary	41,9	50,2	48,3	65,7	90,4	92,9	87,9	88,4	124,0
Number of UMB beneficiaries, thousand	583,4	487,5	503,4	470,3	527,1	443,7	471,9	455,3	481,4

	1998	1999	2000	2001	2002	2003	2004	2005	2006
people									
Total amount of resources for UMB payment per month, <i>Mln/ som.</i>	29,9	23,9	23,5	22,1	55,7	47,3	42,0	41,4	64,2
Total amount of resources for UMB payment per year, <i>Mln/ som.</i>	359,2	286,2	281,8	264,6	668,2	568,1	504,2	497,0	770,7

Source: NSC publication "CDF/MDG: Statistical indicators of the development of KR and its regions". - publication 4. – Bishkek, 2007; MLS data.

Table 16 shows the dynamics of the actual number of UMB beneficiaries from 1998 to 2006 with an average size of accrued benefits and data breakdown by oblasts.

According to article 4 of the Law, GMCL size should be revised on a yearly basis taking into account the size of the Minimum consumer budget⁴. In other words, state benefits could be indexed according to the price dynamics on order not to lose its spending power. However, we do not observe any dynamic growth of the GMCL size because the revision of the size of GMCL is done irregularly.

Table 16. Number of UMB beneficiaries and average size of benefits by oblasts (1998-2006), current data

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Batken oblast									
Number of UMB beneficiaries, thou. people	...	...	49,0	53,6	62,3	59,6	60,8	64,0	66,7
Average size of UMB, som.	...	...	55,5	58,1	94,1	96,9	94,2	105,8	149,3
Jalal-Abad oblast									
Number of UMB beneficiaries, thou. people	160,0	143,5	141,7	139,6	172,6	133,2	148,1	152,9	152,1
Average size of UMB, som.	40,1	50,3	43,5	57,4	80,2	76,4	64,9	90,6	97,0
Issyk-Kul oblast									
Number of UMB beneficiaries, thou. people	45,4	31,4	30,2	27,1	25,7	20,3	22,2	22,2	22,3
Average size of UMB, som.	40,5	59,9	47,8	71,5	91,0	90,9	92,7	94,7	119,7
Naryn oblast									
Number of UMB beneficiaries, thou. people	57,0	52,3	54,0	48,8	51,9	49,2	45,9	45,0	46,6
Average size of UMB, som.	68,5	64,9	73,9	97,1	128,6	145,9	145,4	144,6	188,7
Osh oblast									
Number of UMB beneficiaries, thou.	262,4	215,1	178,6	155,2	168,3	143,2	156,4	135,9	157,6

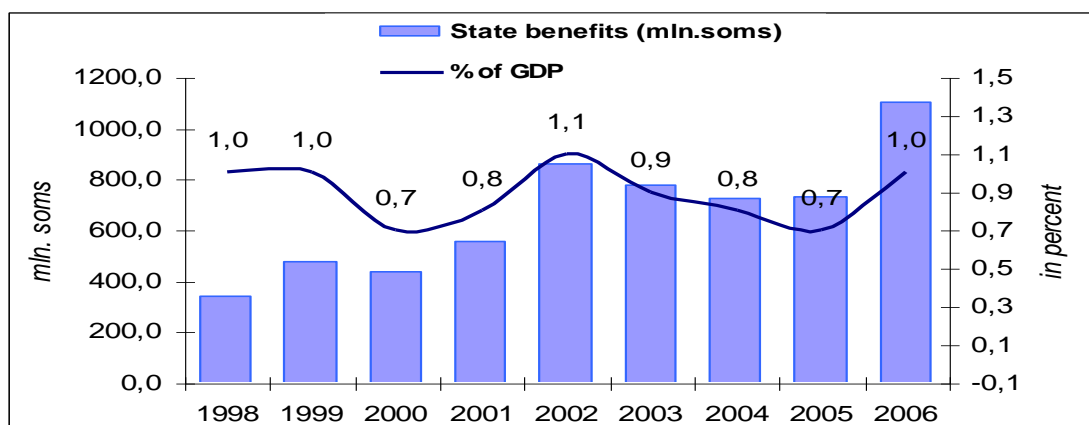
⁴ The value of the minimum consumer budget was recalculated on a monthly basis (on a quarterly basis since 2006) based on growth of prices for goods and services.

	1998	1999	2000	2001	2002	2003	2004	2005	2006
people									
Average size of UMB, som.	38,2	44,6	42,7	63,9	89,0	90,4	90,5	65,8	124,8
Talas oblast									
Number of UMB beneficiaries, thou. people	33,0	23,9	30,0	27,7	29,2	23,7	25,4	23,1	24,6
Average size of UMB, som.	51,8	52,2	47,0	68,6	96,5	96,9	96,2	93,4	123,6
Chui oblast									
Number of UMB beneficiaries, thou. people	21,0	16,7	14,5	13,4	12,8	10,9	9,4	8,7	8,2
Average size of UMB, som.	50,2	59,4	51,8	66,7	74,1	81,7	91,7	79,1	117,7
Bishkek city									
Number of UMB beneficiaries, thou. people	4,7	4,6	5,4	4,9	4,4	3,7	3,6	3,5	3,3
Average size of UMB, som.	45,6	37,3	35,5	74,1	55,8	100,7	85,6	74,5	124,7
Republic									
Number of UMB beneficiaries, thou. people	583,4	487,5	503,4	470,3	527,1	443,7	471,9	455,3	481,1
Average size of UMB, som.	41,9	50,2	48,3	65,7	90,4	92,9	87,9	88,4	124,0

Source: MLSD.

After a significant reduction in the number of state benefit recipients following the UMB introduction in 1995, an annual volume of allocated resources for payment of the state benefits in the period of 1998-2006 fluctuated within the range of 0.7-1% of GDP, although during the last 9 years the volume of state resources allocated for payment of benefits increased 2.5 times in nominal terms. This situation confirms that the government of KR continues to keep the level of the state support in the limits of an achieved level (1% of GDP), although this target is always reached. (graph 17).

Graph 17. Share of public expenditures on social assistance in general volume of the GDP



Source: Data on state benefits payment are presented by MLSD, the assesment of share the state benefits in the GDP is made by authors.

However, above data are not sufficient to verify the effectiveness of benefits. In fact, it is necessary to:

- See if there are any administrative problems and check financial effectiveness of the program;
- Understand whether criteria elaborated by MLSD work and were defined poverty;
- Understand if there are problems with the program's implementation

Further, it is useful to know whether some of the poorest are not included in the program, do not receive benefits. In case these poor families receive benefits how it helps increase the level of their poverty, whether this help is effective, are there delays in payment significant and widely spread?

A valuable source of information to analyze the effectiveness of social protection (UMB) is 2005 household survey conducted out by the National Statistical Committee. This survey covers 5 016 households throughout the Republic, and was clearly broken down by oblasts, urban and rural areas to show the situation in the country as a whole. In addition to the information about families receiving benefits in the survey, the survey contains data on household composition, assets, activities, consumer expenditure, agricultural activity, utilities' expenditure, health and education.

Despite the sampling approach used, the results of 2005 survey can be used to make an appraisal of the data for the entire country. For example, the analysis of household data allowed us making a conclusion that 14.6% of total population receive UMB.

In any case, as it was seen from the previous tables, the MLSD carries out statistics concerning the number of UMB beneficiaries on the basis of the actual number of accrued benefits. That why there is an option to compare survey data with actual data of MLSD. In table 17 these data are shown by oblasts. As we can see, the results of 1998 and 2005 surveys are practically identical to actual distribution of UMB beneficiaries.

Table 17. Comparison with actual number of households – UMB beneficiaries with a survey data (1998, 2005)

Oblast	Oblast population, thou. people		UMB beneficiaries, thou. people		% of beneficiaries in oblast population		Survey's indicators, % of beneficiaries		Standard error	
	1998	2005	1998	2005	1998	2005	1998	2005	1998	2005
Batken	...	416	...	64,0	...	15,4	...	26,4	...	0,07
Jalal-Abad	872	954	160,0	152,9	18,4	16,0	9,9	14,1	1,80	0,04
Naryn	267	266	57,0	45,0	21,3	16,9	11,4	30,0	4,06	0,09
Osh	1510	1292	262,4	135,9	17,4	10,5	15,5	26,2	4,24	0,04
Talas	210	213	33,0	23,1	15,7	10,9	6,9	17,1	3,16	0,08
Chui	769	753	21,0	8,7	2,7	1,2	1,5	0,4	0,57	0,01
Issyk-Kul	432	427	45,3	22,1	10,5	5,2	6,9	7,3	1,97	0,04
Bishkek city	609	795	4,1	3,5	0,8	0,4	0,5	1,6	0,39	0,01
Republic	4 668	5 116	583,4	455,3	12,5	8,9	8,5	14,6	1,36	0,02

Source: MLSG and elaboration of data of household survey of NSC (1998 and 2005).

These results allow taking decisions on reliability and importance of using survey data to study the situation with the payment of benefits. Data available from the MLSD statistics do

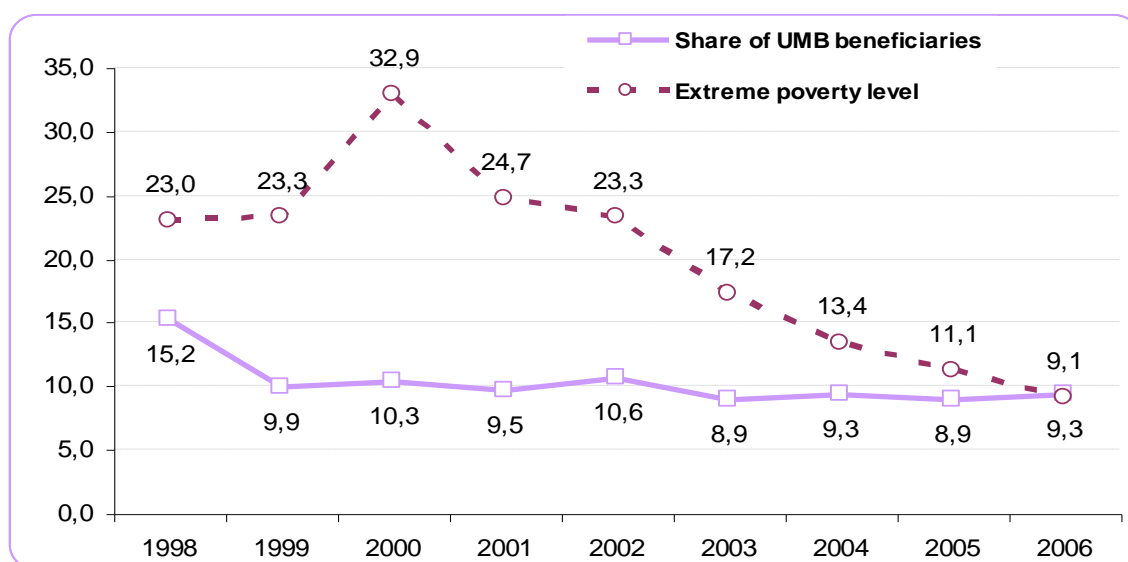
not allow evaluating the effectiveness of social protection. In fact, this survey was used to define welfare indicator based on consumer expenditure and poverty analysis in the country. The consumer expenditures were carefully calculated by unifying expenditure on food and assessment of expenditure on consumption of self-made products as well as all non food components (expenditure on utilities, durable goods and other non food products). Aggregate consumer expenditure (consumption), even not ideally calculated, and are known in the international practice as authentic welfare indicators. In this analysis they are taken as «true» assessment of financial welfare and will be used to calculate inclusion and exclusion errors checking if the poorest always receive benefits as well as whether relatively well-off do also receive them. As the survey may provide sufficient information to analyze the situation with errors of inclusion and exclusion of population from social assistance programs, we can use the methodology applied by the MLSD to define aggregate income of the population and see whether the criteria or relevant program implementation based on these criteria are appropriate or inappropriate to provide targeted social assistance to the poorest population.

2.3.1. Errors of exclusion and inclusion

A *targeted group* of recipients of the money payments in the form of state benefits remains substantial every year. Comparing the indicators for extreme poverty and the UMB recipients, we can observe the on-going reduction of extreme poverty and slight changes in the number of the UMB recipients. The indicator trends on Graph 18 demonstrate improvements in coverage of extremely poor people with state benefits in the last years.

Graph 18. Proportion of UMB recipients and extremely poor population, 1998-2006

in % to the total population



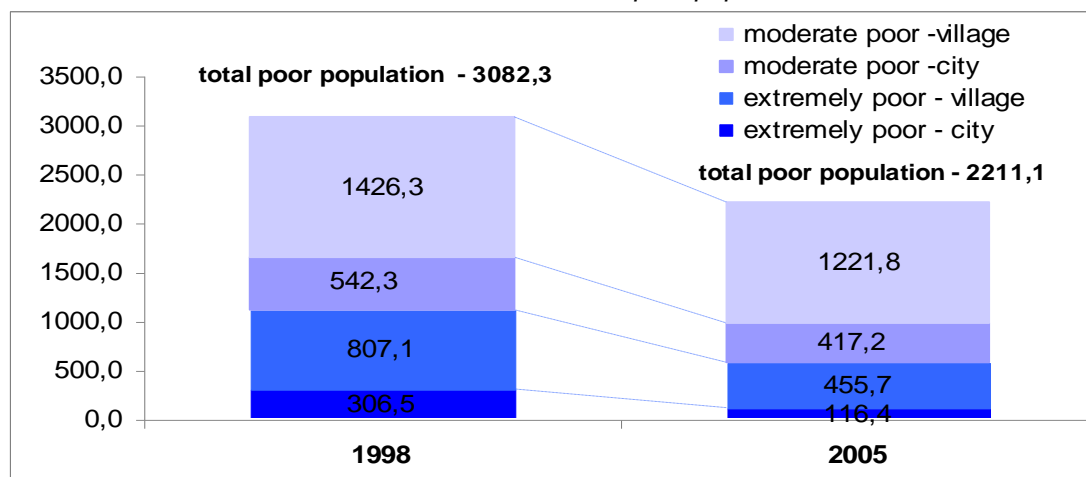
Source: Data of the KR Ministry of Labor and Social Development and National Statistical Committee

Let's examine thoroughly changes in the groups of poor and extremely poor population for the period under study. Evaluation of the poverty indicators shows that, both in absolute and relative values, most of the poor and extremely poor people live in rural areas. Distribution of poor and extremely poor people based on their place of residence shows that 70% of the total poor population lives in rural areas (Graph 19). Hence, the villagers are the main recipients of single monthly allowances. Towns account for less than one-third of the

moderately poor population⁵. Proportion of moderately poor population living in rural area is always higher than proportion of moderately poor townspeople (2,6 times in 1998 and almost 3 times in 2005). In 1998, over one-third of the poor population both in villages and in towns was represented by extremely poor citizens. By 2005, proportion of extremely poor population almost double decreased, while moderately poor population experienced only 20% reduction. A substantial reduction of extremely poor population is observed among townspeople (2,6 times), a bit slower reduction goes in rural area (1,8 times). As a result, in 2005, extremely poor population was represented by one-fifth of poor townspeople and one-third of poor rural residents.

Graph 19. Distribution of moderately poor and extremely poor population

in % to the total poor population



Source: Estimations are based on the results of sample surveys: Poverty Monitoring -1998 and Integrated Household Survey-2005.

In order to understand correlation between the trends of extreme poverty reduction and number of UMB recipients, we shall carefully examine these two indicators.

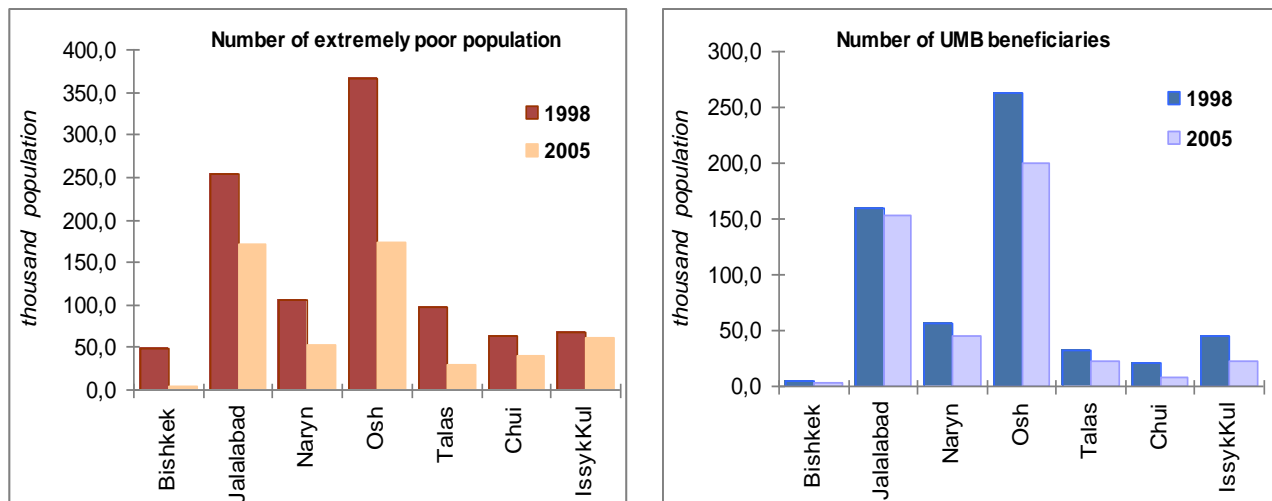
Extreme poverty level in the republic overall was high in 1998 registered at 23%, while proportion of the UMB recipients was 12,5%, or to put it differently, state benefits covered only half of extremely poor population, whereas in 2005 these two indicators had the following values: 11,1% - extremely poor and 8,9% - the UMB recipients. It leaves an impression that virtually larger proportion of extremely poor population is lately a beneficiary of the government support (around 85%). But we should not ignore the fact that extreme poverty went down almost half, while the number of UMB recipients reduced only by 1,7%.

Examining changes of indicators for extreme poverty and the UMB recipients by regions, we can see substantial reduction of extremely poor population in Bishkek (15 times), in Talas oblast (3,2 times), in Osh and Naryn oblasts (2 times). In other regions extreme poverty reduction goes at a slower pace: in Chui and Jalal-Abad oblasts - by 1,5 times and only by 12% in Issyk-Kul oblast (Graph 20). But the trends of reduction in the number of the UMB recipients by regions substantially lag behind the indicators for extreme poverty. Moreover, reduction trends are somewhat different from the rates of reduction in proportion of extremely poor population which theoretically is a potential beneficiary of government allowances. For example, we can see a substantial reduction of UMB recipients in Issyk-Kul oblast (more than double) although this region accounts for a UMB reduction in proportion of extremely poor people (by 12% only), whereas in Osh oblast we can observe a reverse picture: a

⁵ *Moderately poor population* is the population whose average per capita consumption is higher than the extreme poverty line, but lower than the general poverty line.

significant reduction of extremely poor population (double) and insignificant reduction among UMB recipients (17%).

Graph 20. Changes in proportion of extremely poor population and number of UMB recipients by regions

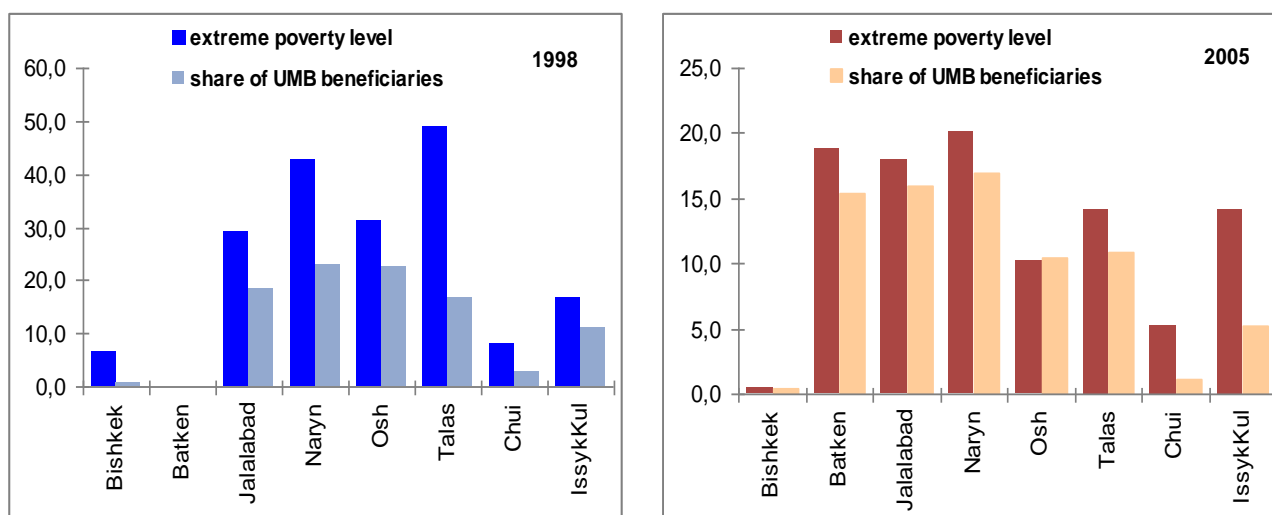


Source: Estimations are based on the results of sample surveys: Poverty Monitoring-1998 and Integrated Household Survey-2005. Data on UMB recipients were provided by the KR Ministry of Labor and Social Development.

Comparison between the number of UMB recipients and proportion of extremely poor population by regions also shows that in 1998 the government support covered around half of extremely poor population almost in all regions. While in 2005, in most regions, only one-sixth of extremely poor people were beyond the system of government support, except for the Osh oblast where the number of UMB recipients was a little bit over the number of extremely poor people (Graph 21). These results give an impression that the system of social aid has tendencies of dynamic improvement towards broader coverage of the extremely poor families.

Graph 21. Proportion of UMB recipients and extremely poor population by regions, 1998 and 2005

in % to the total population in the corresponding region



Source: Estimations are based on the results of sample surveys: Poverty Monitoring-1998 and Integrated Household Survey-2005. Data on UMB recipients were provided by the KR Ministry of Labor and Social Development.

However, based on the above-given analysis of targeted social aid provided to extremely poor population, we can possibly presume that the current system of social aid has still problems resulting in errors during inclusion of the extremely poor people into the government social aid program and exclusion from it.

There are different reasons explaining the cases when people eligible for a benefit do not receive it or, on the contrary, when those not eligible are beneficiaries. These problems are basically incidental to evaluation of the aggregate income of families applying for the government support.

In the earlier conducted research «Evaluation of Efficiency of the Targeted Social Security in the KR» the authors⁶ came to conclusion that under evaluation of the aggregate income of the family applying for a benefit leads to errors during inclusion into the social aid program or exclusion from it, and as a result, reduces efficiency of the targeted social payments.

Deciles-based evaluation of the targeted social aid delivery to population confirms that the existing problems (1998) in terms of criteria for targeted delivery and in program implementation remain.

Thus, data on both the theoretical recipients (eligible households and persons) and actual recipients (household recipients and individual recipients) contain important information. Particularly, when we compare them with the poorest groups or with the people who, given a “correct” welfare measure, fall into the lowest, middle or upper levels of distribution.

If we examine the issue of eligibility for a benefit, we have an opportunity to understand the level of efficiency of the MLSD-determined criteria, but if we check the number of actual recipients, we may find out restrictions in application of the rules used by the MLSD.

By using the welfare indicator which is based on full aggregate consumption we divided the entire population into quintiles and deciles on the scale from the poorest to the wealthiest groups of population⁷.

Based on these data for each quintile, we identified four different groups: 1) proportion of actual recipients by quintiles; 2) proportion of persons eligible for a benefit by quintiles; 3) proportion of actual benefit recipients in the total number of beneficiaries; 4) proportion of the persons eligible for a benefit against the total of eligible citizens.

If UMB delivery were ideal, percentage of recipients and eligible members would be equal to 100% in the 1st quintile and 0% in upper quintiles. The same would be true for the proportion of recipients against their total number: 100% in the first quintile and 0 in all the rest of the quintiles. However, most of researchers and government experts are well aware that it is virtually impossible to achieve the ideal target delivery of government allowances – an error percentage will always be there. Conducting this evaluation, we can identify these errors so that to see how many people are eligible for a benefit and receive it in the high income quintiles (errors of inclusion) and how many people in the first quintile are not eligible and are not UMB recipients (errors of exclusion). We can make a number of presumptions, namely, that very wealthy households do not show fully their incomes and thus become eligible for a benefit, and that some people with little consumption do not fall under the current criteria of the Ministry of Labor and Social Development. In order to check the accuracy of these presumptions we can examine the results of evaluation given in Tables 18 and 19. The

⁶ Ludoviko Carraro and Shamsia Ibragimova, March 2000

⁷ Each quintile (decile) has the same number of people, making 20% (10%) of population. Usually, the number of households is more in the upper quintiles (deciles) reflecting the smaller size of the wealthy households.

results of the 1998 survey show that in the 1st poorest quintile the number of households having eligible members substantially exceeds (64,2%) the number of households that have actual UMB recipients (20,4%). According to the 2005 data, the households with eligible members in the 1st quintile almost double decreased (15,01%) compared to the households having actual UMB recipients (26,9%). Hence, the tendency of inconsistency between the number of UMB recipients and the number of eligible people still remains.

According to evaluation results for 2005, population's eligibility decreases in the upper quintiles, although when applied to 20% of the wealthy population, the criteria for determining aggregate income used according to the MLSD methodology show that around 3% of the households in upper quintiles are still eligible for a benefit. We can infer that families despite having very high consumption per person may indicate that their family income is less than 140 soms per month (in 1998 - 100 soms). We can further note that among 20% of the poorest population around 85% families are considered not eligible for a benefit. Therefore, we can presume that the errors in eligibility criteria are mainly explained by differences between the aggregate income calculated based on the MLSD methodology and consumption evaluated by the NSC using the World Bank methodology.

Considering the proportion of actual beneficiaries, we can notice the existence of significant problems in program implementation which are more obvious in lower quintiles. In 1998, only 11,7% of 34,9% eligible persons were receiving allowances, while in 2005 the situation was reverse - of 31,7% recipients only 15,9% were eligible (Table 19).

Table 18. Evaluation of targeted social support for population by quintile distribution (household approach, %)

Quintile	Proportion of actual recipients by quintiles		Proportion of eligible members by quintiles		Proportion of actual recipients of the total number of recipients		Proportion of eligible persons of the total eligible members	
	1998	2005	1998	2005	1998	2005	1998	2005
1 (lowest income group)	20,40	26,86	64,16	15,07	26,81	36,76	35,39	39,94
2	19,10	18,34	40,80	7,97	25,14	27,63	22,54	23,25
3	21,77	14,93	34,47	3,23	28,63	25,53	19,03	10,70
4	11,57	3,70	25,00	2,52	15,23	7,50	13,80	9,90
5 (highest income group)	3,18	0,84	16,74	2,73	4,19	2,58	9,25	16,21

Source: processed data of the Household Survey of 1998 and Integrated Household Survey of 2005

Table 19. Evaluation of targeted social support by quintile distribution (individual support), %

Quintile	Proportion of actual recipients by quintiles		Proportion of eligible members by quintiles		Proportion of actual recipients in the total of recipients		Proportion of eligible persons in the total eligible members	
	1998	2005	1998	2005	1998	2005	1998	2005
1 (lowest income groups)	11,66	31,72	34,88	15,90	27,37	40,92	35,07	48,27
2	10,98	22,10	23,09	11,22	25,82	26,91	23,25	32,18
3	12,44	21,63	19,52	3,26	29,22	25,59	19,64	9,08
4	5,71	5,19	13,76	1,99	13,43	5,51	13,85	4,98

Quintile	Proportion of actual recipients by quintiles		Proportion of eligible members by quintiles		Proportion of actual recipients in the total of recipients		Proportion of eligible persons in the total eligible members	
	1998	2005	1998	2005	1998	2005	1998	2005
5 (highest income group)	1,77	1,14	8,13	2,48	4,17	1,07	8,18	5,48

Source: processed data of the Household Survey of 1998 and Integrated Household Survey of 2005

The same data were calculated for population based on decile distribution, which can be seen on Tables 20 and 21. We can see from the results given in these tables that the above-described situation by quintiles is supported overall by the results of decile distribution.

Table 20. Evaluation of targeted social support based on decile distribution (household approach), %

Decile	Proportion of actual recipients by deciles		Proportion of eligible members by deciles		Proportion of actual recipients in the total of recipients		Proportion of eligible persons in the total of eligible members	
	1998	2005	1998	2005	1998	2005	1998	2005
1 (lowest income group)	18,07	30,43	69,61	16,27	11,88	19,53	19,20	20,21
2	22,72	23,72	58,71	14,02	14,93	17,24	16,19	19,73
3	18,50	16,55	43,29	9,12	12,18	11,94	11,96	12,74
4	19,71	19,99	38,32	6,92	12,96	15,68	10,58	10,51
5	19,22	19,46	34,32	2,47	12,65	16,00	9,47	3,93
6	24,32	10,73	34,63	3,94	15,99	9,52	9,55	6,77
7	14,33	5,83	25,19	3,74	9,41	5,79	6,94	7,18
8	8,83	1,65	24,81	1,35	5,82	1,71	6,86	2,72
9	4,02	0,61	18,98	1,99	2,65	0,79	5,24	4,98
10 (highest income group)	2,34	1,01	14,51	3,27	1,54	1,79	4,01	11,22

Source: processed data of the Household Survey of 1998 and Integrated Household Survey of 2005

Table 21. Evaluation of targeted social support based on decile distribution (individual approach), %

Decile	Proportion of actual recipients by deciles		Proportion of eligible members by deciles		Proportion of actual recipients in the total of recipients		Proportion of eligible persons in the total of eligible members	
	1998	2005	1998	2005	1998	2005	1998	2005
1 (lowest income group)	9,73	35,32	36,66	16,25	11,42	23,12	18,44	25,04
2	13,59	28,01	33,09	15,53	15,95	17,79	16,63	23,23
3	10,52	22,11	23,68	12,15	12,37	13,89	11,93	17,97
4	11,45	22,08	22,50	10,23	13,45	13,03	11,32	14,21
5	10,58	29,35	19,00	3,05	12,43	18,07	9,56	4,42
6	14,30	13,26	20,04	3,50	16,79	7,52	10,08	4,67

Decile	Proportion of actual recipients by deciles		Proportion of eligible members by deciles		Proportion of actual recipients in the total of recipients		Proportion of eligible persons in the total of eligible members	
	1998	2005	1998	2005	1998	2005	1998	2005
7	6,85	8,06	13,86	3,35	8,03	4,39	6,96	4,30
8	4,58	2,17	13,67	0,56	5,40	1,12	6,89	0,68
9	2,08	0,93	9,23	2,04	2,44	0,46	4,65	2,40
10 (<i>highest income group</i>)	1,47	1,37	7,02	2,98	1,73	0,60	3,54	3,08

Source: processed data of the Household Survey of 1998 and Integrated Household Survey of 2005

The reason for the 1998 situation was that many poor households were unable to apply for a benefit because they were living far from the rayon departments of social security. Other reasons may be explained by complicated submission procedures or chargeable services which could be unaffordable for citizens. These presumptions become stronger if we take into consideration a percentage proportion of actual recipients (3rd column), we can compare them with the household members eligible for a benefit (4th column): proportion of recipients is higher in the middle of distribution.

The situation developing for the last years, in 2005 in particular, shows that the problems of distant location of the Social Security Departments from the place of residence of the poor population were solved by including a social support specialist into the permanent staff of ayil-okmotu (local self-government), thus, improving accessibility of benefits for population.

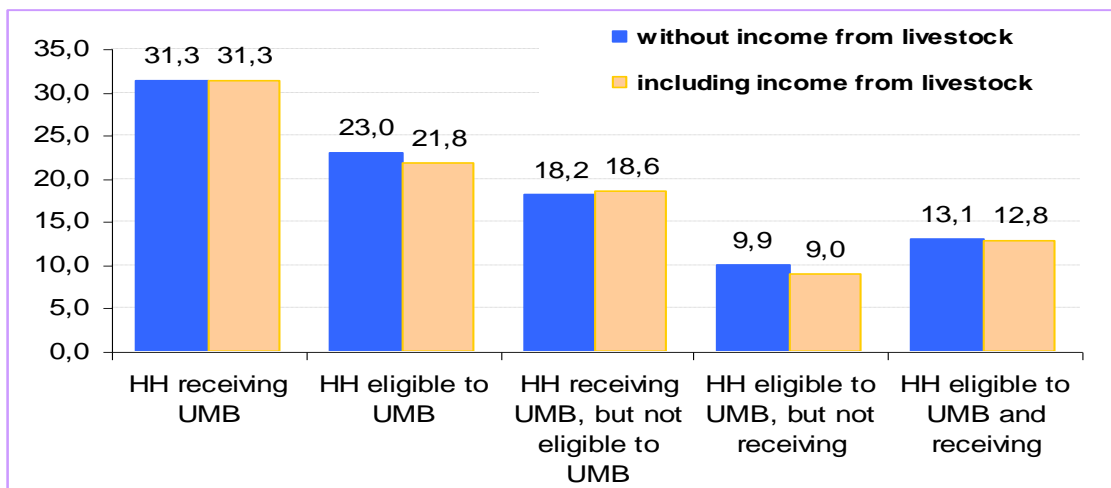
In order to see the extent of fluctuation of the indicators characterizing targeted social support, we examined the following scenarios of extremely poor population distribution by different categories:

- households actually receiving the benefit;
- households eligible for receipt of UMB;
- households not eligible for UMB, but actually receiving it;
- households eligible for UMB but not receiving it;
- households eligible for UMB and actually receiving it.

The above-given criteria were examined also given potential income from cattle breeding included into aggregate income. The results received show that only one-third of extremely poor population actually receives government allowances. At that, according to the criteria used by the MLSD for determining aggregate income, slightly more than one-fifth of extremely poor population is eligible for a benefit, and given the income from cattle breeding, their proportion decreases by 1,4%, thus, demonstrating little impact of income from cattle breeding on calculation of aggregate income for extremely poor population. Being in the category of extremely poor people and receiving a benefit, almost every sixth recipient falls into the category of not eligible for UMB. Almost half of extremely poor people eligible for a benefit do not receive unified monthly benefit (9,9 of 23%). Of the total number of extremely poor households that are eligible for a benefit, slightly more than 13% of the population receives it (Graph 22).

Graph 22. Distribution of extremely poor population under different evaluation scenarios

in % to the total of extremely poor population

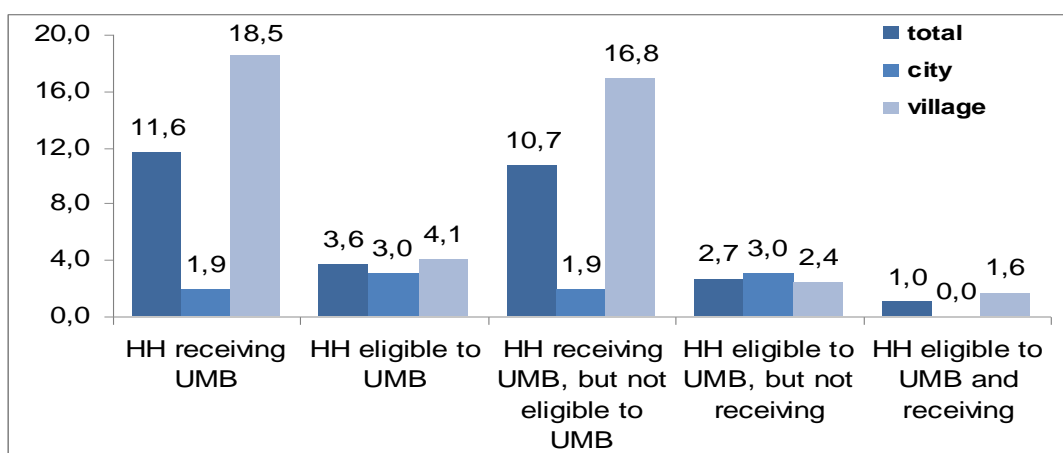


Source: processed data of the Integrated Household Survey of 2005

The above-given scenarios of distribution among benefit recipients or eligible families were applied to not poor households. The results received once again prove that the existing system of poverty evaluation does not allow for ensuring the targeted social support for population. It was found that 12% of better-off people were receiving the benefit, their proportion particularly turned out to be high among not poor rural population (18,5%). When determining eligibility for UMB by using the current methodology of aggregate income assessment, 3,6% of better-off population falls into the category of eligible ones (Graph 23).

Graph 23. Distribution of not poor population under different evaluation scenarios

in % to the total population of not poor households



Source: processed data of the Integrated Household Survey of 2005

Making analysis of efficiency of the targeted social aid and given the above-stated tendencies, we can presume that the existing system of social aid delivery in the republic

runs the risk of losing its purpose which is to ensure targeted delivery of social aid to extremely poor population.

2.3.2. Analysis of income formation by UMB recipients

According to the data of the Ministry of Labor and Social Development, the average UMB rate is annually increasing, while the number of UMB recipients may decrease and then increase again. Given that methodology for granting UMB has never been changed since 1998, we can presume that reduction of UMB recipients is basically achieved through a good internal audit. At that, the growth of the number of UMB recipients, as is given in the Midterm Budget Framework (MTBF) for 2007-2009 prepared by the Ministry of Labor and Social Development, is basically related to the factors such as:

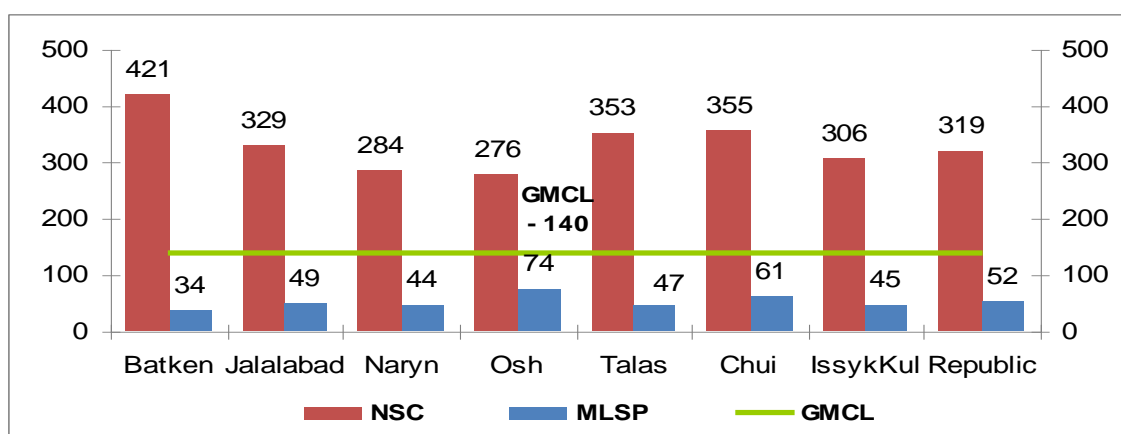
- increase of population on account of birth growth;
- improvement in public education and outreach activities informing population on the existing social security measures;
- growth of the disabled;
- unemployment growth, also by including the owners of 0,05 hectares of irrigated land into the list of unemployed (before owners of 0,01 hectares were accounted).

Virtually all the above-given data once again confirm the existence of substantial problems of underevaluation of the population's aggregate income which is used as a criteria for identifying the needy and granting UMB.

Along with presumption that larger portion of income of the poor groups is generated in kind, we should make another presumption that some families intentionally conceal their actual income in order to receive allowances.

The results of the household sample survey held by the NSC in 2005 also pointed to the existence of the problem of under evaluation of the UMB recipients' aggregate income. Graph 24 shows that the average income of UMB recipients sampled by the NSC exceeds the Guaranteed Minimal Consumption Level virtually in most regions, although according to the MLSD, the amounts declared are below the Guaranteed Minimal Consumption Level. The highest excess of average income over Guaranteed Minimal Consumption Level was registered in Batken oblast (12,3 times) and Talas oblast (7,6 times), the lowest difference was found in Osh oblast (3,7 times).

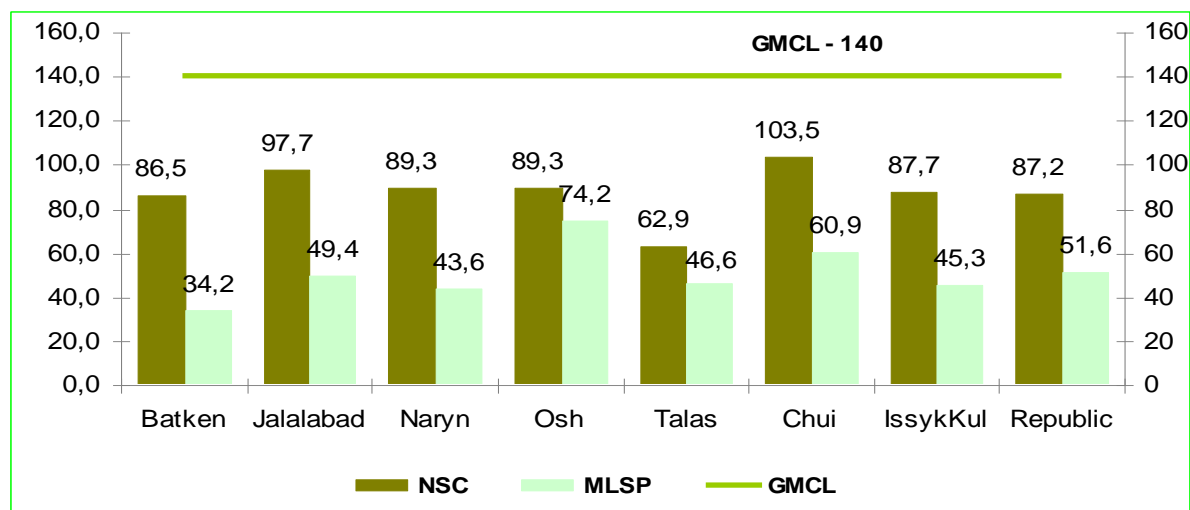
Graph 24. Per capita income of actual UMB recipients, soms per month



Source: processed data provided by the officials of the Ministry of Labor and Social Development; processed data of the Integrated Household Survey of 2005

In order to check the accuracy of evaluation of the poor families' income, we made estimations of the aggregate income of the families based on the MLSD data and data of the NSC Household Sample Survey applying current methodology. In other words, we took into account all incomes of the families, including presumptive income from plant cultivation at the prices of 1997 used by the MLSD for assigning the UMB. The results received from two absolutely different data sources had no sharp differences (Graph 25).

Graph 25. Per capita income of the population eligible for UMB, soms per month

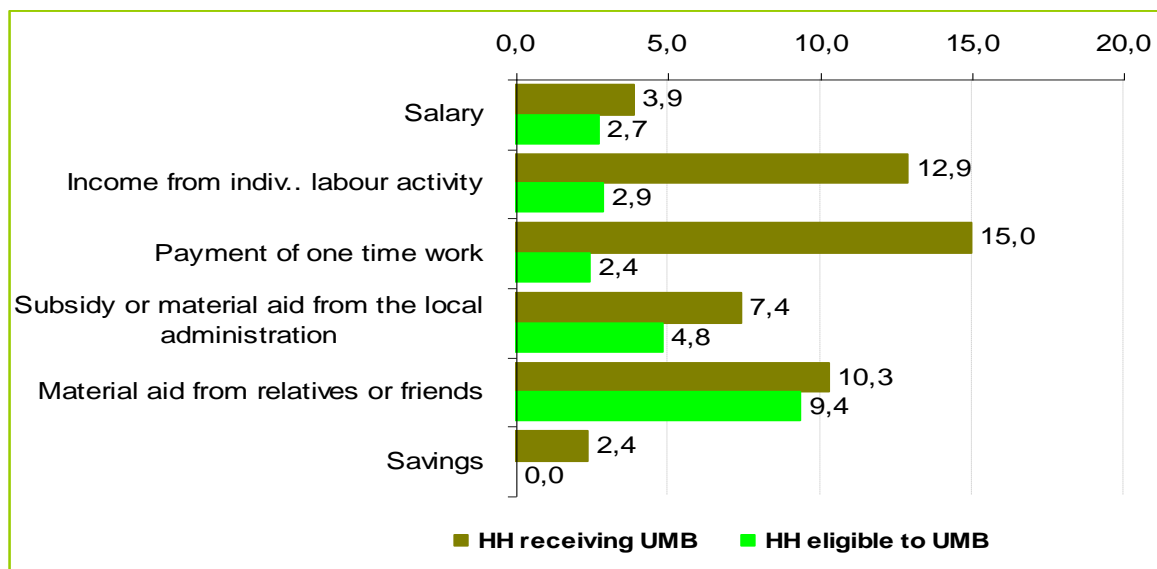


Source: processed data provided by the officials of the Ministry of Labor and Social Development; processed data of the Integrated Household Survey of 2005

Apparently, excess of the number of benefit recipients over eligible citizens is explained by the facts of concealment of actual income in order to receive allowances. There are a number of income sources such as income from individual entrepreneurial activity, payment for one-time works, aid from relatives or acquaintances, and savings which in most cases can fall into the category of hidden information. The above-listed incomes earned by families can actually be accounted if an applicant will not conceal them when filling out the application form. However, in reality, in order to receive the benefit, some applicants do not show these incomes. The presumption that the UMB beneficiaries can conceal incomes which are not documentarily supported become stronger when you find out (Graph 26) that actual beneficiaries carry out individual entrepreneurial activity and perform one-time works 6-7 times more than those eligible for a benefit. Also, among the UMB recipients we can identify the households that can afford making savings (2,4%).

Graph 26. Sources of household income

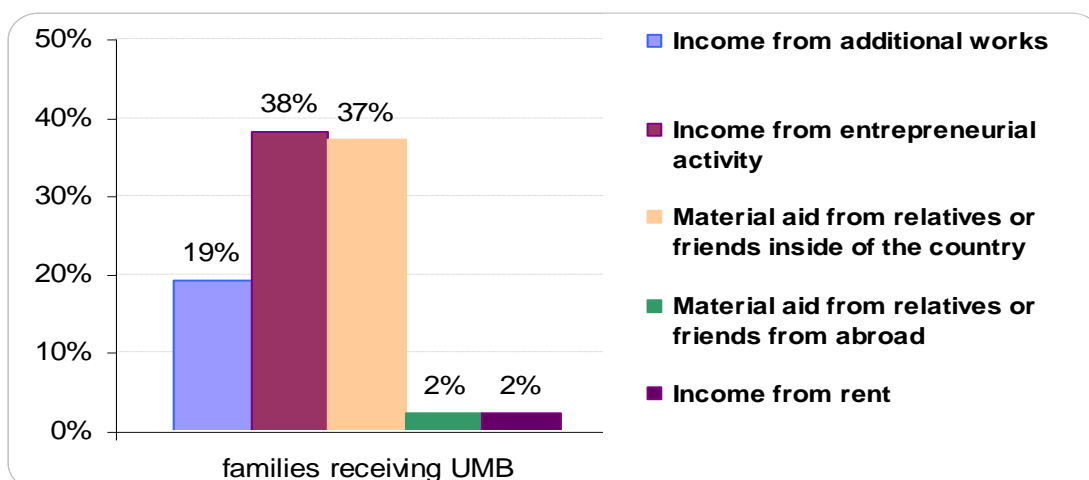
in % to the total number of households



Source: processed data of the Integrated Household Survey of 2005

Another proof of assumption about concealed income was obtained during the sample survey among recipients of government allowances in February 2008 (Graph 27). Over one-third of the families receiving unified monthly benefit apparently concealed some sources of income such as income from entrepreneurial activity and income received as a material aid from relatives. One-fifth of the UMB recipients concealed incomes received as payment for various extra works. If families – UMB recipients – had indicated those sources of income during submission of the application to Social Security Service, the average per capita income in these families would have been higher than the Guaranteed Minimal Consumption Level and they would have been denied the UMB. Hence, the results of the research of the UMB recipients showed that virtually every sixth family would have been denied the government social support if the applicants honestly showed their incomes.

Graph 27. Proportion of families showing conditionally concealed sources of income



Source: sample survey of 86 households or 94 families receiving single monthly allowances, February 2008

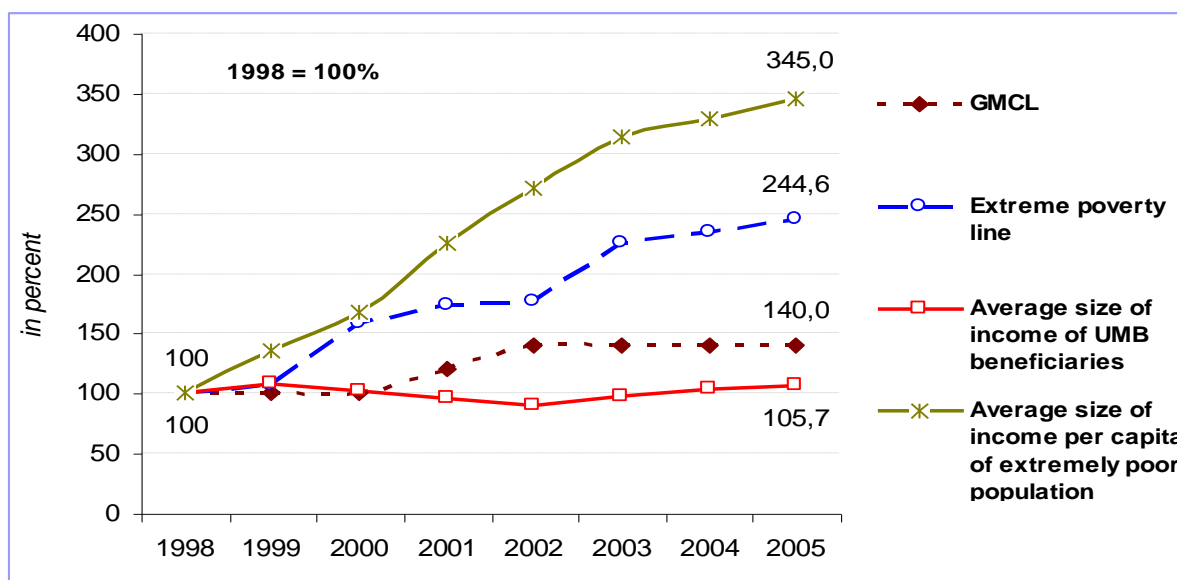
Hence, we can presume that most of income of the poor population comes in kind which is hard to account. Consequently, the problem of social aid delivery to really needy families still remains.

One of the significant factors pointing to obsolescence of the system of assigning government allowances (UMB) is that the government has not revised the coefficients of potential income from plant cultivation since 1998; also, aggregate income calculation takes no account of the potential income generated by population from cattle breeding. These coefficients were very important for estimation of the real income of UMB recipients as most of them were rural residents. As was mentioned above, for most of rural families potential income from agricultural activity is the only source of income.

Thus, the findings of the household sample survey showed that from 1998 to 2005 the income of the poorest population in the 1st quintile increased 3,5 times in nominal value. At that, the average size of UMB recipients' aggregate income evaluated based on MLSD criteria increased for the same period by 5,7%. The value of an extremely poor line annually adjusted to the price dynamics increased 2,4 times (food price index double increased) whereas the average Guaranteed Minimal Consumption Level showed only 40% growth (Graph 28).

As a result, examining growth of these indicators we can state unambiguously that increase of the Guaranteed Minimal Consumption Level takes no account of inflation processes. Moreover, the identification of needy population takes no account of inflation processes either. The evidence is the weak increase of UMB recipients' average income.

Graph 28. Dynamics of changes of the indicators used for assigning UMB



Source: estimations made by authors based on the MLSD and NSC data

If the rates of the Guaranteed Minimal Consumption Level were inflation adjusted, their potential values would have been higher than the values that actually registered as of 2006.

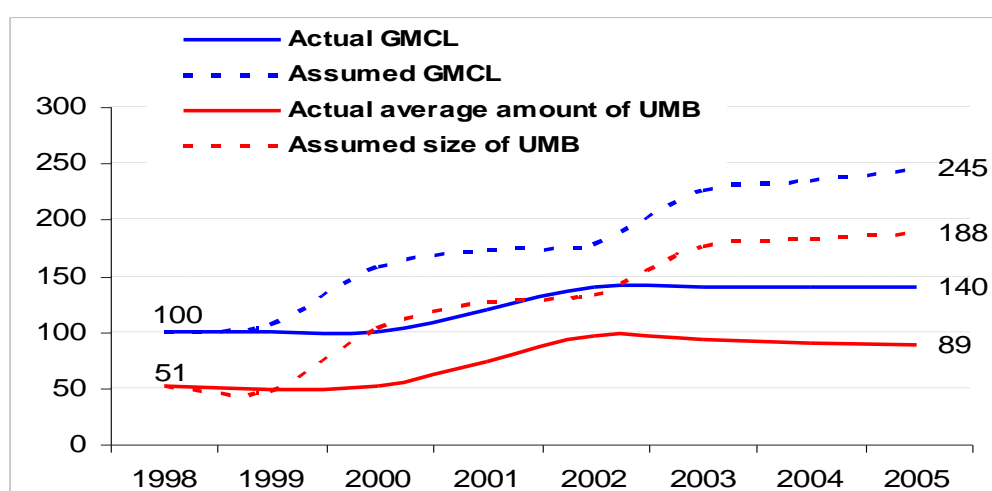
Along with inflation processes, it is worth taking into account the fact that the Guaranteed Minimal Consumption Level represents the monetary part of an extremely poor line. Given complexity of evaluation of the households' consumption which apart from the monetary income evaluates consumption of the products of the households' own production, it was suggested in 1998 to use the "guaranteed minimal income" as criteria for identifying needy people. This indicator was determined at almost half the value of an extreme poverty line

since the share of income of the population living below extreme poverty line was equal to exactly half of their consumption. It would have been logical to use this above-suggested approach during revision of the Guaranteed Minimal Consumption Level. However, it never happened in practice.

For example, in 2005 extreme poverty line was equal to around 497 soms, whereas the share of income of the population living below this poverty line made up around 49% in their total consumption. Using the methodology suggested in 1998, we can determine that by the year of 2005 the Guaranteed Minimal Consumption Level could be 245 soms. We should keep in mind inflation processes when evaluating population's aggregate income, including potential income from their agricultural activity.

Graph 29. Projections of the suggested GMCL and UMB rates

soms per month per recipient



Source: projections made by the authors

Study of the researches covering different time periods and suggesting different approaches in evaluation of efficiency of the targeted social support shows that all researchers point to the problem of UMB assigning and its administration. Also, we can observe certain changes in evaluation of differences between the number of UMB recipients and the number of eligible families. This situation proves that, as time passes, the sources and sizes of income declared by population change, the same is true about the family composition.

In our opinion, use of indirect methods of poverty evaluation based on easily identified formal characteristics (such as education level, number of children, occupation, etc.) can make the targeted social payments more concentrated on the most needy households and help to avoid expensive procedure of thorough inspection of the family's income and property. A set of such features could be determined by applying statistical methods based on representative survey of the households in each specific region. Unfortunately, the current KR law on government allowances does not provide for the use of indirect methods of poverty evaluation. This research may help to determine new indicators of the welfare of the population claiming to be eligible for UMB benefit.

2.3.3. Characteristics of the family receiving the UMB

It is important to determine whether the families – recipients have special characteristics which help them to be included into the social aid program. The purpose of this analysis is to summarize the useful information on eligible members who can be systematically excluded from the program and to find the facts of partial attitude to certain categories of population.

The allowances are mainly sent to rural areas where 25% of population are UMB recipients compared to 4,3% in urban areas; this distribution reflects poverty distribution, 74% of it being a rural phenomenon.

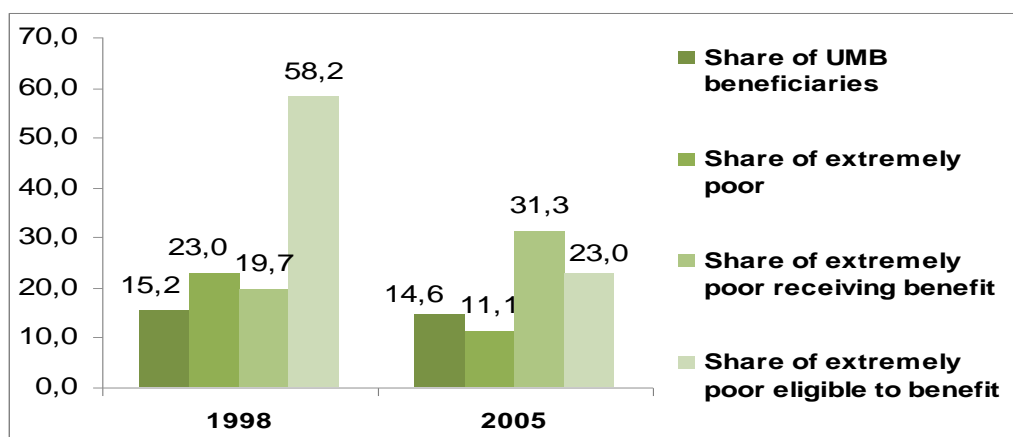
The results of the 1998 Sample Survey of Households showed that only one-fifth of the poorest people were receiving the benefit, despite that over 58% of the extremely poor people were eligible for the benefit. The results of evaluation held based on 2005 data found that over one-third of the extremely poor people received the benefit, while only one-fifth of them were eligible.

The similar analysis held in regions would be interesting for comparing actual recipients and eligible households among the extremely poor. However, due to the UMB number of cases in the 2005 Survey this task was unfeasible.

Even presuming that the social support is aimed at the poorest people indeed, we find that the share of the poorest households receiving the UMB is quite low (Graph 30).

Graph 30. Receipt of the benefit and percentage of the poorest, 1998 & 2005

in % to the total eligible population



Source: processed data of the Household Survey held in 1998 & 2005.

An important and distinctive characteristic feature of the low-income citizens is a large size of the household. On Table 22 we can see the average size of the households among the poorest ones, both receiving UMB and those eligible. The average size is larger in the families referring to the poorest, while in the eligible households and those receiving the benefit the average goes down (in standard error estimations we always accounted the form of the research: 2-step stratified sampling).

Table 22. Family size, UMB and extreme poverty

	Family size			
	The poorest	Families receiving the benefit	Families eligible for the benefit	Total population
Average, <i>people</i>	6,00	5,64	4,62	3,99
Standard error	0,58	0,44	0,78	0,17

Source: processed data of the Integrated Household Survey held in 2005

Anyway, the size of the households eligible for the benefit or receiving it is higher than the average size of the household in the country, but it does not only reflect the characteristics of the poor people. According to the rules for assigning UMB, the UMB is actually a child benefit. To support the opinion that young families suffer partial attitude, we made assessment of the average age of the household head. The average age among the poorest is 48,5, while among the households receiving benefits it goes down to 45,7 (the difference is statistically insignificant).

We can also research the correlation between the education level of the head of a household, extreme poverty and UMB recipients. Table 23 shows that a larger percentage of the benefit recipients are in the families in which the head has a complete secondary education, although this does not reflect the tendencies for the poorest. In principle, percentage of extremely poor families among those headed by the person with no secondary education was less than 9%, while the families in which the household head has a secondary education diploma almost reached 17%. This result allows for presumption that the education level could be useful criteria for the UMB eligibility.

Table 23. Education of the head of a household and UMB, %

	Education level of the head of a household			
	No education	Incomplete secondary	Secondary education	Higher education
The poorest	3,69	16,64	8,83	0,91
Families receiving the benefit	10,35	5,31	12,37	4,83
Families eligible for the benefit	3,11	0,21	6,23	4,02
Proportion of the total population	3,35	5,38	70,07	21,20

Source: processed data of the Integrated Household Survey held in 2005

Other characteristics of the families – benefit recipients, which do not reflect results applicable for extreme poverty, is the sex of the household head. The households receiving the benefit and headed by men account for 13,1%, while in the households headed by women this indicator decreases to 4,84%. The same indicators among the poorest households make up 7,89 and 6,43% respectively (Table 24).

Table 24. Sex of the head of a household and UMB, %

Sex of the household head	The poorest	Families receiving benefits	Families eligible for the benefit
Men	7,89	13,10	5,43
Women	6,43	4,84	5,13

Source: processed data of the Integrated Household Survey held in 2005

2.4. Results of the mini-research of the recipients of state benefits

The analysis of efficiency of the targeted social aid shows that the system of state benefits to the most vulnerable groups is the largest government social aid program. However, we are certain that under the current economic conditions these benefits do not satisfy the needs of the really poor population. The funds allocated for social support covered only 15% of the population in 1998 or almost 66% of extremely poor population; while in 2005 it was found that UMB covered more people (around 15% of the eligible groups) than the actual number of extremely poor people (over 11%).

Given the current condition in the republic characterized by the shadow economy, high poverty level, growth of labor migration outside the republic as a result of unemployment, we can infer that the current system of social support does not encompass all people that really need this support. However, at present the existing mechanism of social aid is the best, and the work continues on improving the targeted delivery of benefits for the purpose of transfer from conditional methods of welfare evaluation to direct ones that include new poverty evaluation criteria.

The measures aimed at improving the targeted delivery of social aid to needy groups of population encompass the following directions:

- improved public education and outreach;
- inspection of the living conditions of the households eligible for the UMB or receiving it;
- development of the adequate social policy and use of research findings on living standards of the population in the country.

In February 2008, surveys were conducted in three regions of the republic among 135 households receiving UMB and social benefits. The goal of the research was to track the public perception, knowledge and use of social services by beneficiaries of the program of state benefits.

The following key results were obtained:

- Over 70% of families that knew, before receiving the state benefit, about the opportunity of applying to government bodies for financial or humanitarian aid, answered that they had received the information in Rayon Social Security Departments or in ayil-okmotu – 50% of respondents, and one-fifth of the respondents learnt of it from friends and relatives.
- 90% of respondents indicated that they were regularly receiving allowances (every month). In rare cases, the families indicated that they were receiving allowances once in two months or once in three months.
- Most families (over 56%) receive allowances at the post-office. Less than 40% of the families have them home delivered by the postman.
- Almost all UMB recipients think that the amounts of the allowances allocated by the Government are not sufficient to cover their essential needs.
- Allowances are basically used for purchase of food (over 85% of families), purchase of food and medicines (over 13% of families), purchase of food and payment of electricity bills (around 9% of families). Although these allowances are mainly paid for children under age 16, not all families were using these child benefits as per their intended purpose, i.e. only one-third of the families were purchasing clothes and footwear for children and around 25% of families were spending that money on

school-books. There were cases when families were spending child benefits on tillage of land plots, cattle breeding or transportation.

- Less than half of the families have been receiving the UMB during 1-4 years and one-fourth of the families have been receiving it from 5 to 10 years. Unfortunately, it has been found that one-fifth of the UMB recipients have been beneficiaries for over 10 years. These results suggest that either among beneficiaries of government low-income allowances there are chronically poor families or the social aid system develops dependents' mentality.
- UMB recipients are of the view that the allowances helped them to improve nourishment (over 35%), improve nourishment and receive health care (7,7%), improve nourishment and housing conditions and give education to children (over 16%).
- One-fourth of the families think that thanks to allowances their welfare improved to some extent; while two-third of them thinks that their welfare level had no changes. At that, they should have been suggested that but for these allowances they would hardly been able to improve nourishment or housing conditions, or educate their children. Given this, we can assume that the population has grown addicted to benefits and does not give a thought about the importance of this money for their budget. Apparently, the rates of benefits are so insignificant that beneficiaries do not view them important as their incomes generated from other sources could be much higher.
- While half of the families find the work of the local bodies of social security and postal service satisfactory, the other half thinks it is good.
- 70% of respondent families showed displeasure with the UMB rates of allowances. One-fifth of the UMB recipients said that they did not like that social service system required a lot of documents and certificates to be collected.
- Beneficiaries said that they had to pay to the officers of social security department or ayil-okmotu for assigning the benefit, although one-tenth of the families said that they had paid for certificate issuance upon officers' request. One-third of the families said that they had paid just for the blank forms and five respondents answered that they had paid in order to expedite issuance of certificates. It should be noted that most of certificates necessary for the issuance of the benefit are free. Around 8% of the families said that they had paid over 50 soms for issuance of necessary certificates.
- Only one-third of the families knew about the duties and obligations of the officers of the local self-government, akimiat or the government system; and one-fifth of the families had difficulties in answering this question. Over 12% of the families received financial aid (money, foodstuff, etc.) from the local community.
- In order to increase the welfare of the poor population the republic has been developing the system of micro crediting based on the social mortgage for the last decade. For this purpose, UMB aid groups have been established trained by the UNDP volunteers. Unfortunately, only UMB portion of the respondent families (15%) knew about this system.

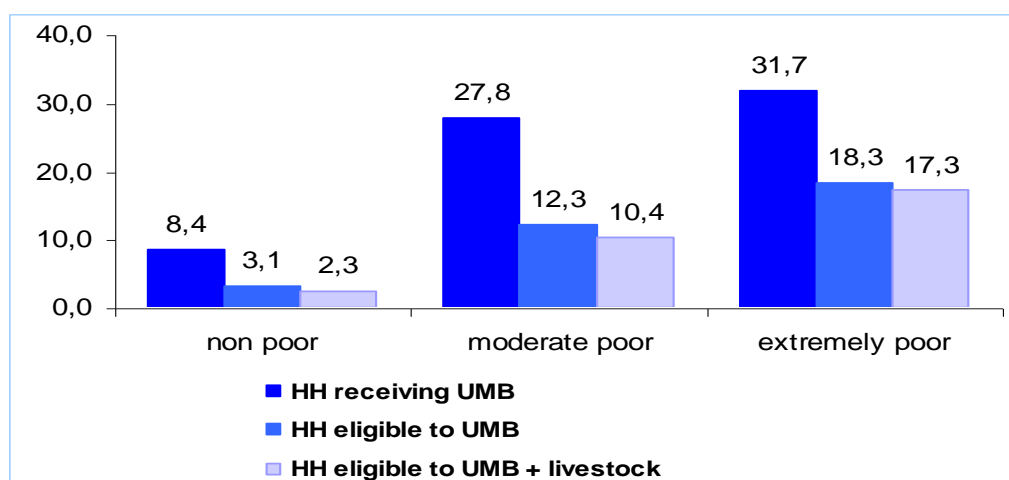
During analysis of the current situation of money social payments and study of the main factors impacting the efficiency of these payments, the following was found:

- The Government undertakes the obligation to support low-income population which is demonstrated by adoption of the law on state benefits in the Kyrgyz Republic.

- From 1998 to 2005, the number of UMB recipients decreased by 1,7%, while extreme poverty level showed almost double reduction.
- The average UMB rate per recipient increased from 51 soms in 1998 to 89 soms in 2005 or by 1,7 times, although inflation grew almost 2,3 times for the same period.
- 17,6% of the population (eligible for the UMB) receive single monthly allowances, of them, around 95% are children.
- The largest number of UMB recipients lives in rural area (91,2%).
- One-third of extremely poor population receives the UMB, while in 1998 their proportion was 19,7% or one-fifth of the extremely poor population.
- Evaluation of efficiency of the benefit payments shows that it is necessary to improve the methods of poverty evaluation. In other words, the existing criteria for poverty evaluation proved not effective enough, which is supported by the fact that only one-third of the needy people receive UMB. Hence, we can state that errors during exclusion of the extremely poor people from the social aid system are still high (around 70%, Graph 31).
- From among not poor people, over 8% receive UMB, which proves the existence of errors on inclusion into the social aid system of the people that are not eligible (Graph 31).
- Inclusion of potential income from cattle-breeding into family aggregate income may reduce proportion of the people eligible for the benefit among extremely poor people by 1% only, and by 2,7% - among not poor and moderately poor people. At that, the errors of inclusion of the better-off people into the category of the eligible UMB recipients remain, albeit their proportion is quite low (3,1%). Moreover, inclusion of the income from cattle-breeding allows concealing this error by 0,8% only.

Graph 31. Distribution of population receiving UMB and eligible for UMB based on the welfare level

in % of the eligible population in each group

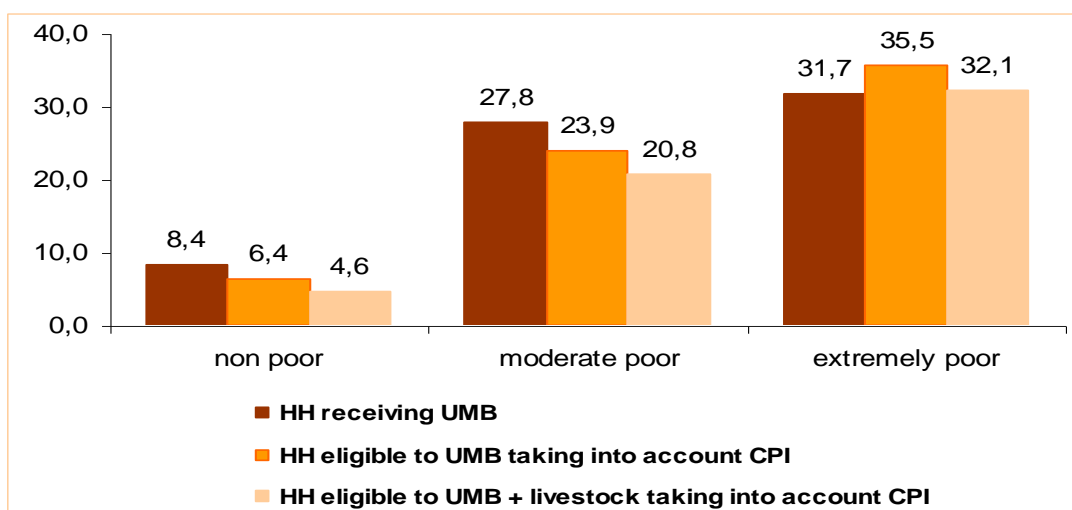


Source: processed data of the Integrated Household Survey - 2005.

- Even if we presume that the Guaranteed Minimum Consumption Level and potential income from plant cultivation were adjusted for inflation, the problems related to errors of inclusion into the social aid program and exclusion from it remains. Graph 32 shows that the UMB coverage of extremely poor population almost double increases if we use the current methodology of assigning the benefit, CPI adjusted. Thus, over

35% of extremely poor population falls into the category of the families eligible for UMB, while the proportion of eligible people was 18,3% only, when no adjustment for inflation was made. At that, certain risks may arise related to almost double increase of errors on inclusion of the better-off population into the category of the UMB recipients (from 3,1 to 6,4%). Compared to the high level of errors on inclusion, the risks of errors on exclusion prove insignificant to some extent.

Graph 32. Distribution of families receiving UMB and eligible for UMB, inflation adjusted given their welfare level



Source: processed data of the Integrated Household Survey held in 2005

- Since the existing system of criteria for poverty evaluation does not allow for reduction of errors during exclusion of extremely poor people from the list of benefit recipients, the necessity arises in determining new criteria. Apparently, poverty evaluation via assessment of the families' aggregate income does not allow for identifying really needy families due to the risk of income concealment. It is possible to use new indicators as additional criteria for determining population's welfare such as assets available, property, housing conditions, family composition (families composed of the disabled or the aged persons, or having disabled children).

III. Appraisal of Potential for the Efficiency of Structures in Social Protection and Cash Payment

3.1. State Benefits Procedures to Beneficiaries

In February, 2007 the Ministry of Labour and Social Protection was renamed into the Ministry of Labour and Social Development of the Kyrgyz Republic (KR MLSD or Ministry) and became the member of the new government. It is a central executive body of the government, provides state policy as well as governs social development and labour and covers the following issues:

- rise in level of life and in personal income
- rise in labour payment, in provision of pensions and in social service
- rise in labour conditions and protection, in social partnership and in labour relations

- rise in population policy and social protection of population, including family and children support as well as the support of the senior

Besides the Ministry is the body that manages the working of other public administration bodies.

MLSD KR, as it is stipulated by the Law on state benefits, is to exercise supervision and to fix and pay benefits.

Under its imposed functions the Ministry is to implement social assistance and social service package; which is free of charge or with full- or part-payment to all the people in need, including state benefit assignment and payment. It is to develop and implement actions on ad hoc social protection of population, of the disabled, and measures to support family units, children and other sectors of population that are in need of social protection

The Ministry coordinates its lower and territorial bodies with other republican bodies of executive government as well as with institutions of local self governance, public and other organizations and structures that are independent on organizational and legal base (appendix 1).

The united system of the KR MLSD is of senior staff of the Ministry, lower departments, boarding houses, centres of social payment as well as territorial and other departments.

Lower departments of the KR MLSD and their territorial and other departments include the following:

1. Main Department of Social Protection and Humanitarian Aid
2. Social Protection Departments in Regions⁷, Bishkek and Osh;
rayon and municipal departments of social protection;
disabled children's boarding-houses and custodial institutions;
State Benefits Calculation and Payment Centers (SBCPC)
3. Territorial State Labour Inspections
4. Medical and Social Expertise and Disabled People Rehabilitation Center
5. Social Development and Entrepreneurship Institution
6. Orthopaedic Articles Enterprise of the Republic

State budget finances maintenance costs for senior, territorial bodies and lower organizations of the Ministry.

The staff engaged in administrating state benefits is partly financed by budget of the Republic, which provides social assistance, and to a certain extent by local budgets.

The Effectiveness of the Social Assistance in the Kyrgyz Republic Report supplies some data on the number of employees engaged in the system of the Ministry, 1999, July 1. The number was of 2142 people, including heads of departments, assistants, book-keepers and other specialists. Of those 27 people were at Main Department of Social Protection, 337 people were at regional centers and departments and 15 people were at departments in Bishkek. All the staff of regional and municipal departments was of 1763 people. The average number of employees at each regional department was of 5 people: a head of department, an assistant to head and 3 specialists.

At the end of the year 2006 the number of employees engaged in the system of social protection at regional and municipal departments was of 882 people. 255 employees were directly engaged in the issues of state allowances in regions and 159 employees are responsible for providing benefits. Alongside with that there are specialists (119) engaged in

⁷ Since 2008, January 1 the structures have been abolished

the issues of social protection, particularly - assistance to the senior who are alone. 27 people, including heads of departments, assistants, a book-keeper are at Main department of Social Protection and Humanitarian Aid.

Since 2001 leading specialist at Ayil Okmotu have been supporting specialists at regional departments of social protection to proceeding applications from family units in order to receive benefits.

Ayil Okmotu ought to have appointed the position in order to simplify the procedure of the UMB assignment for families applying for state social assistance and thus has cut the running costs. It is especially significant for households in remote regions. It should be noticed that the leading specialist at Ayil Okmotu is administratively independent on the staff at regional and municipal departments. The official duties are to collect documents and to deliver them to regional department of social protection, which provides assignment.

In rural area, it is now possible for every member of family with moderate means to make an applicant and to submit required documents to a leading specialist of social protection at Ayil Okmotu. In urban areas, low-income families have an opportunity to directly apply for a rayon department of social protection. Here the documents are examined by the staff and a benefit is assigned. The report, after making the decision on state benefit to be granted, is made by Social Protection department. The report is addressed to State Benefits Calculation and Payment Centers (SBCPC)

Benefits are paid according to the Requirement on State Benefit Payment by Agencies of the Ministry of Transport and Communication (MTC) and Bodies of Social Protection of the Kyrgyz Republic approved in July, 1998. The Requirement (article 1.1) says that the benefits are to be paid by social protection agencies such as State Benefit Payment Centers, rayon and municipal departments of social protection; and the benefits are to be paid to the beneficiaries only at the agencies of the MTC. Benefits are paid (article 1.9) "according to schedule made by agencies of communication together with bodies of social protection and co-coordinated by the banks". Post taxes for sending and delivering benefits are paid "according to the rates approved by the MTC and co-coordinated by the Ministry of Finance of the Kyrgyz Republic".

For example, 2002, October 22, the MLSP and the MTC made the Agreement on State Benefit Payment and Other Compensations by communication agencies. According to article 2.1. "Kyrgyz Pochtasy" opens bank accounts to operate with benefit payment funds. According to article 3.1.2. of the Agreement, providing that the benefits are paid by payment in kind, MLSP is obliged to deliver state benefits "according to the list approved by the resolution of the Government of the Kyrgyz Republic (KR) and to the orders by the Government of KR, as well as to the prices approved by State Committee for Anti-Monopoly Policy at the Government of KR"

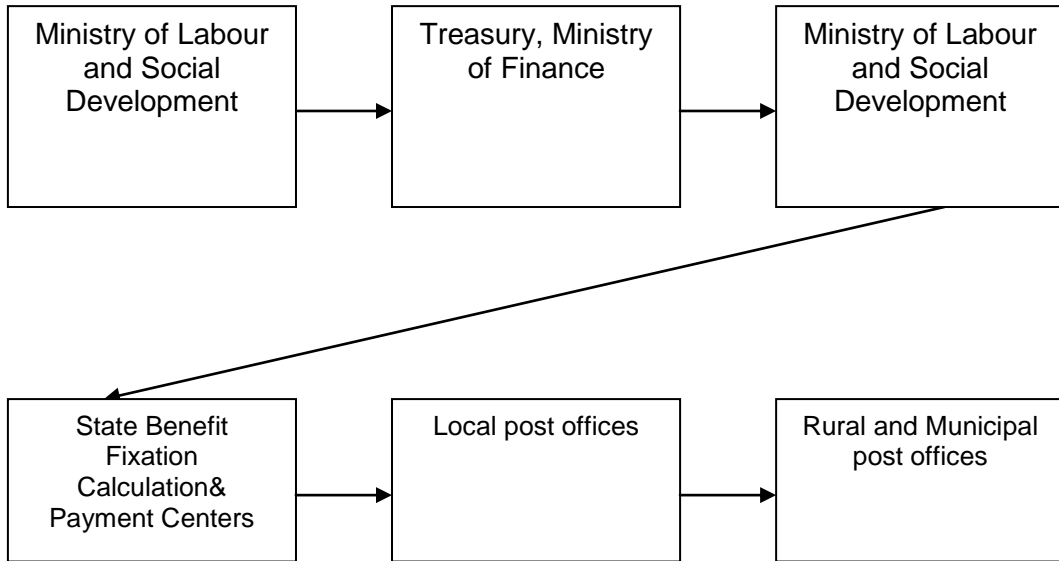
State Benefit Payment Centers opens personal bank account for every family according to the benefit payment reports. For each personal account there is a payment order which is to be sent to local post offices to make a benefit payment. An eligible applicant can receive the benefit payment at the nearest post office.

As it is stated above there are following organizations involved to the benefit payment process:

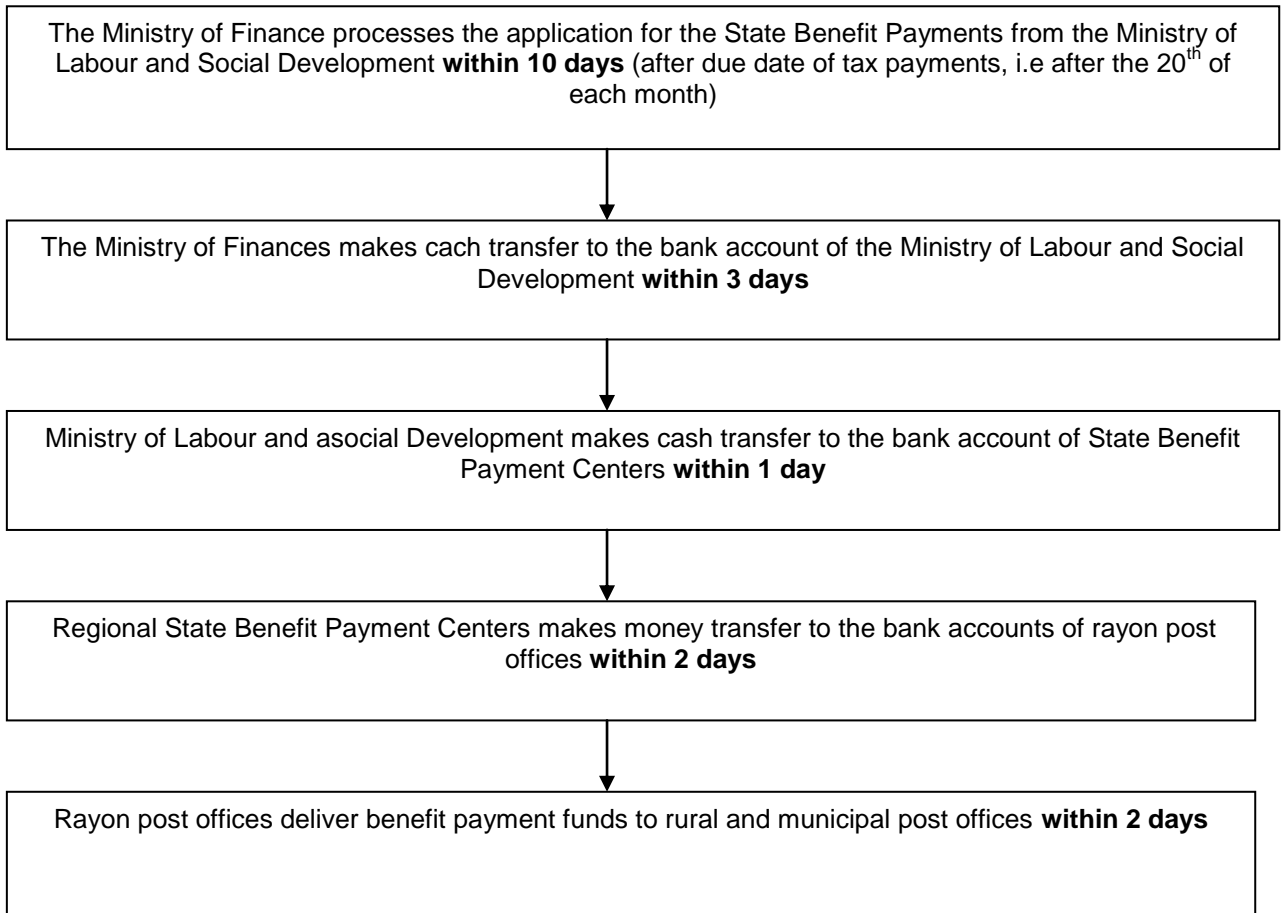
- Government of KR;
- Ministry of Finance of KR;
- Ministry of Transport and Communication of KR;
- Ministry of Labour and Social Development of KR, and its offices in regions, rayons and municipalities;

- State Benefit Payment Centers;
- Ayil Okmotu
- “Kyrgyz Pochtasy” post offices

Scheme 3: State Benefit Payments Process (Centralized version)



Deadlines to pay State Benefits



Each Department of Social Protection in rayons makes data base on beneficiaries. To do this necessary software "Social" has been introduced in every region for data base on beneficiaries. Unfortunately, unproductive information has reflected in the inefficient software instillation because of the employee turnover

As there has been no information on state benefit payment, including either articles at the site of the MLSD or study reports with the information provided by regional computer data base, it might be suggested that the activity of social protection agencies is currently of significance In regions the actual situations are likely different.

The analysis of the computer information in rayons as well as careful consideration over the causes of the problem would improve processing benefit payments.

From the staff meetings⁸ at rayon Department of Social Protection it is obvious that the majority of the specialists properly understands their responsibilities and duties (Appendix 2). For instance, there are only 2 or 3 applicants with claims per month. It takes 2-3 days the staff to process such claims. Despite proper records of the benefit payments there are still problems to automatically process primary information. This leads to manual processing and subsequently to 3-5 day delays to allocate benefits.

The staff of the rayon Department of Social Protection faces the following problems:

- The applicants for benefits don't submit complete package of the necessary documents;
- The Legislation doesn't consider specific local conditions;
- The absence of electronic communication impedes information exchange with Main Department. High costs and low quality of fax transmission add to the problem of information exchange.

The staff from Social Protection bodies says that they are in need of in-service training. Evolving social and economical challenges in the country requires new skills and knowledge from social protection specialists to help the population to overcome these challenges. It is very important to provide and improve ad- hoc assistance to the population alongside with further training for the staff of social protection bodies.

.The specialists from rayon (municipal) Department of Social Protection regularly cross check family units, enterprises and organizations to prevent frauds in documents and income hiding. Cross checking enables to assign the benefits to those who are truly in need of assistance from the government.

3.2. Needs Assessment in Social Protection

The 2006-2008 Strategy of the Ministry of Labour and Social Protection reflects the present challenges in social protection and the ways to address them.

One of the challenges is the inefficient system to assign benefits. For example, the system doesn't allow the proper calculation of family unit income when assigning the EEP benefits. It is necessary to review the current method in assessing the needs of those who apply for the benefits from the government.

⁸ When providing the study there have been hold staff meetings at regional departments of social protection in Osh (Aravanskiy rayon and Osh) Jala-labad (Suzaksiy rayon, Batken (.Isphana city and Lyalyakskiy rayon), Issuk-Kul (Tonskiy и Aksuyskiy rayons, Karakol), Chuy (emin and Sokuluk rayons), Naryunskiy (Naryn rayon)

The manual processing of social passport data is the other problem for the system. When manually analyzing the data the primary information from the passports is being lost.

On the contrary, processing primary information automatically (SPLIF) and developing database (DB) to save this information will facilitate objective analysis and easy decision making to meet deadlines. As well as these will open an opportunity to use resources efficiently and bring them to those who are in need of social assistance.

Because social protection specialists are lack of knowledge on regulations and standards acts there are some cases of law violation when assigning state benefits. Low salaries lead to high turnover in staff. Regular in-service training is the very important way to solve the problem of low qualification among the staff of social protection bodies.

Finally, there is obvious lack of financial resources to make a smooth transition to ad-hoc type of social assistance and in accordance with the legislation. Ad hoc type of social assistance has lead to the restrictions on the amount of the payments and on the eligibility requirements.

Apparently besides the income estimation and family spendings there should be additional criteria on vulnerability to determine potential benefit recipients. The majority of the Central European countries - which have a bigger budget in comparison to Kyrgyzstan - has such additional criteria in legislation to define well-being alongside the family spending.

According to the experience in Armenia the following criteria allow assessing the family need in social assistance. They are

- members of the family who are referred to specific social categories;
- the number of family members incapable of working;
- place of residence
- housing conditions
- personal vehicle
- family enterprise or business
- decision from the residential social service center or local bodies of self governance on the issue of social and economical situation in households
- aggregate family income

These criteria for ad hoc social assistance are present in legislation of Armenia and some Central European Countries (appendix 4). They are very popular there because it is very easy to determine social categories, income, housing conditions, and etc.

It is possible to introduce additional restrictions on the eligibility for beneficiaries not only by assessing the family current income but also by considering the assets of the family including expensive durable ones. The survey on house hold budgets shows that not every family with low (poor) income can be referred as family with acute asset deprivation. According to the sampling household survey data, more than half of the low income family has gardens, land plots and cattle.

To be full and complete this report lacks some documents on human resources involved to processing the benefit payments, on costs to deliver the benefits to recipients, on economical effectiveness, and information on support from Mass media and NGOs. As well as there were no computer databases on SPLIF, reports on financial bank systems development.

IV. Conclusion

The report has attempted to assess the effectiveness of cash payment for families and children in the Kyrgyz Republic and it analyses the UMB, which is certainly the most significant benefit over the country though it is not only one form of social assistance.

In fact the Republic sees half the population covered by different kinds of social transfers despite the fact that each tenth family in poverty receives money assistance from the relatives who have left for abroad and are working migrant.

Specific proceeding has been taken by the government of the Kyrgyz Republic in order to examine the ad-hoc needs system. As it is shown by the analysis there are still some significant areas in order to develop the system. Payments in kind have entirely been suspended over the last two years. Alongside with that UMB amount is still moderate and the ad-hoc proceeding outcome keeps on far from being rather considerable – the percent of the beneficiaries who are not sturdily in poverty is more than half. Meanwhile the majority of low income people continue to be out of the system and according to the current criteria it is obvious for implementation program challenges to be very urgent.

When taking away beneficiaries' income out of the amount of income in UMB is made then the increase of extreme poverty level becomes no more than 0,4% thus it says that the amount of the UMB is moderate and poverty reduction level does not succeed in achievement.

To schedule income from livestock-breeding insertion is not sufficiently efficient in order to have inclusion error minimized further since the indicator reduces the number of population with the right on UMB to only 1, 4% or no more than 10 000 people.

The results of the study show that attempts to minimize errors to include people in the number of beneficiaries by the way of appraisal of aggregate income and aggregate income from farming and other incomes, which are out of examination, in fact lead to the increase of errors in the system of state benefits.

With the method to define the need and to precede it by quintile group distribution, we are certain that there is necessity to review criteria to define family in order to be included in beneficiaries group. Less than half the needed have the right to receive benefits in quintile1, and the other half the family with the category of the right to receive the UMB, in fact according to spending level is not poor because they are out of well-provided quintile group (5,5% - in the richest 5 quintile)

If it is suggested that among 40% of poor population there are beneficiaries with the right to receive it, then it turns out to be that the rest 60% of population, which is not poor, is allocated almost the third of means that is to pay UMB.

Table 25. Results of the survey

Index	quintile distribution group					
	1	2	3	4	5	In all
<i>Average state benefit amount , som per month</i>						
Monthly social allowance	207	160	151	269	262	211
Unified Monthly Benefit to low income family and citizens	200	212	212	107	81	196
<i>Average land plot size, in hundred part per a member of the family</i>						
Household receiving UMB	16,6	20,7	18,9	16,9	44,1	18,6
Household with the right on UMB	9,1	14,6	10,3	16,6	9,2	11,6

Index	quintile distribution group					
	1	2	3	4	5	In all
<i>Average land plot income, som</i>						
Household receiving UMB	73,04	83,93	89,82	66,83	203,92	81,14
Household with the right on UMB	48,69	66,40	51,78	26,83	43,48	54,34
<i>UMB share in use, %</i>						
Household receiving UMB	7,1	5,4	4,3	2,2	1,7	5,5
Household with the right on UMB	8,4	10,8	9,1	4,8	2,0	9,0
<i>Benefit Coverage, %</i>						
Household receiving UMB	40,9	26,9	25,6	5,5	1,1	100
Household with the right on UMB	48,3	32,2	9,1	5,0	5,5	100
<i>UMB Amount Distribution into GDP quintile, %</i>						
Household receiving UMB	38,1	30,3	28,5	2,8	0,4	100,0
Household with the right on UMB	47,0	45,0	7,8	0,0	0,2	100,0

Source: processed data of the Integrated Household Survey held in 1998 and 2005

Alongside with that comparative analysis of the situation to distribute benefits to population of poverty level has positive tendencies. In 2005 the coverage of beneficiaries from quintile1 increased almost to 1,5 if to be compared with 1998. That says that there is improvement of the challenge related to taking away potential beneficiaries out of the system UMB. Moreover, the number of beneficiaries (who are from well-provided group (the 5th quintile)) has been cut down to 4. In this case it might be said that progressive results are the evident of minimizing error insertion. (table 26)

Table 26 . Actual Beneficiaries Share of Total Beneficiaries Number
in % to UMB Total Beneficiaries Number

Quintile	1998	2005
1 (the lowest income)	27,37	40,92
2	25,82	26,91
3	29,22	25,59
4	13,43	5,51
5 (the highest income)	4,17	1,07

Source: processed data of the Integrated Household Survey held in 1998 and 2005

The study of the administrative structure of the MLSD has allowed defining the following characteristics.

The administrative structure of the MLSD with its rayon and local levels is well-built and it has longstanding experienced specialists engaged in the system of social protection. Specialists in social protection have been appointed to the positions at Ayil Okmotu and that has given an opportunity for the challenge to be addressed – it has become possible for the remote regions to make use of benefit system for population in poverty.

The benefit payment has ceased to be paid in kind and that has provided the process of corruption to be reduced.

The SPLIF introduction is a constructive factor to make database on population in low income

Though, state social assistance system in the Kyrgyz Republic contributes to the poverty reduction, nevertheless the system is currently not capable of providing effective assistance in

order to address the challenges of poverty reduction and thus there is a great number of reasons related to that. Among the motivations it is possible to take into consideration the following factor: while the majority of regions over the Republic are in the state of subsidy it would see lack of opportunity to finance programs on social assistance to the population and it is the regions in which the challenges of poverty are becoming the most outstanding. Consequently, in order to distribute significant part of the assets of short financing in the favour of poor family it is necessary to consider mechanisms in alternative to select those who are in need of the support provided by the government.

According to our point of view the experience of Armenia is most likely to be recommended as the best instrument to define needs since the systems of the Republics are historically alike and the reason for that is they are both the countries of the former Soviet Union.

Glossary

State benefit - unified monthly benefit to low income family and citizens and monthly social allowance

Inable to work people - children under sixteen, people who are approved by Medical and Social Expertise and Disabled People Rehabilitation Center (MSE DPRC) to be incapable for work and pension age people

Aggregate income – the sum of assets received by family members during period under report. It is production activity incomes, property and current transfers (pensions, scholarship, benefits, moneyed assistance and other compensation)

Aggregate income per capita – aggregate family income calculated per month or per year for each member of the family

Low income family – a family with the income for each member of the family that is under GMCL

To define the needs - study of all the recourses of family income (citizens) that is necessary to assign unified monthly benefit

Month - calendar month.

Year – period of 12 months.

SPLIF – social passport of low-income family with the information on different social categories and groups of population who are in need of social assistance. It is useful for defining the degree of social protectability for population of local community and the level of the satisfaction of the social demands. It is fulfilled in order to clarify the most indigent groups of population, the authenticity of the incomes and in order to provide ad-hoc social assistance

Composition of a family – people who live together and are the relatives who have common household and common budget

Guaranteed Minimum Consumption Level – it is a social standard **annually** stipulated by the government of the Kyrgyz Republic and calculated on the base of the budget and the state of economy with consideration to a minimum of consumer budget. With the means of subsidy it allows low-income family and people to have a vital consumption level.

To study the structure of variational series of population distribution it is necessary to calculate the meanings of characteristics, which divide all the distribution units into equal numbers

These meanings of characteristics are called quartile, quintile and decile.

Quintile - divides population distribution into 5 equal parts by 20%

Decile – the meaning of the characteristic in the series of population distribution that is equal to the tenth share of quantity of totality in 10%

Poverty Prevalence Index (poverty level) is defined as the share of population with spending volume less than poverty line. If there is spending calculation per capita for each household; the household and all its members are poor then spending level per capita is lower than poverty level index.

Extreme poverty level is fixed at the spending level, lower of that, even though all the resources are for food, it is impossible to supply a minimum of the need of calories.

Total poverty level – is a minimum of spending level with consideration as food as non-food needs.

Poverty level is defined by the next formula

H – share of poor population

q – number of poor population

n – total population

Extreme Poverty Distribution Index is defined as a share of population with spending volume less than extreme poverty line.

Poverty Gap Index (income deficit or spending deficit) in percent, measures the distance between poverty line and real spending level of population in poverty and show the expenditures needed in order to put up each household to the level of poverty line.

Poverty Gap or poverty gap index might be calculated by the following way:

$$PG = \frac{1}{n} \sum_{i=1}^q \left(1 - \frac{y_i}{z}\right),$$

Where

y_i – spending volume of population in poverty

z – poverty level

n – population quantity

Squared poverty gap is defined by Foster – Greer- Torbekker Index (P_2) to reflect weighted average bias of poverty population income from the size of poverty line.

The calculation to the poverty severity index is made by the way of assessing aggregate poverty of the meaning of poverty depth that the poor have and who are weighted themselves to themselves (to rise to the second power.) Squared poverty gap assessing is stipulated by the following formula:

:

$$P_2 = \frac{1}{n} \sum_{i=1}^q \left(1 - \frac{y_i}{z}\right)^2$$

Living Standard of Population - is defined by the possible spending scale of material welfare and service within the monetary income average per capita and assessed by statistic methods on the base of information made by budget survey: 3000 households have been surveyed (monthly, quarter, annually)

Aggregate Household income – includes all the kinds of monetary income as well as the cost of assets in kind given by the subsidiary household, joint gardening and vegetable gardening of farms in order to be made use of them. The production from the subsidiary household is taken into consideration apart from expenditures to its making.

Household monetary income - is a sum of money assets received from all the members of household. It is salary and wage, income from labour activity, pensions, scholarship, allowance payments and other additional payments, interests, dividends, rent and other incomes from ownership, assets from selling the production of the subsidiary household and other resources of assets.

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Construction of the Income Aggregate

The income aggregate is calculated on the basis of the MLSP criteria, therefore it does not entirely correspond to the usual income aggregate, which normally includes not only cash income, but also estimations of in-kind income. The main differences are: 1) income from livestock: whereas in a proper income aggregate livestock is included, the regulations approved by the MLSP do not allow including livestock; 2) the adjustment for regional price differences: price differences have been considered in the consumption aggregate and in the following poverty analysis, but are not considered in the income aggregate of the MLSP. Price differences between *oblasts* and urban/rural areas are substantial, for instance in Bishkek the cost of a comprehensive food basket is 1.17 times higher than the average national cost of the same food basket, while in rural Naryn and Talas the ratio falls to 0.91. At the same time it is necessary to mention that food basket in Osh and Batken oblasts is by 8% higher than the average national cost of the same food basket, when in 1998 this indicator was lower by 8%.-9%.

It is well known that in a poverty analysis the consumption aggregate has substantial advantages in comparison with the income aggregate. Advantages are both theoretical and practical: income generally changes with a higher probability than consumption, and its changes do not always imply a welfare change in the same proportion. Moreover, the substantial difference between consumption and income lies in the information provided in the consumption aggregate that partly also reflects the use of resources that can be moved over time through savings/credit or investment/dis-accumulation. Therefore, consumption tends to be more stable, because despite income variability households are able to smooth consumption. Besides the discussed theoretical arguments, there are practical aspects in preferring consumption to income. The income aggregate is often more difficult to calculate than the consumption aggregate. In fact, because of the widespread risk and the precarious conditions, the poor tend to be involved in many different activities, without specialising in one certain occupation. The Consumption aggregate is a useful alternative to the income aggregate in dealing with household survey (ex-post analysis). Calculating the consumption aggregate becomes much more difficult and arbitrary practice when we consider building up a safety net. Therefore, in order to identify the poor the solution is to refer to income.

In calculating income for our country, where agriculture is still the main income source and often constitutes a main activity of subsistence, the big challenge is to find practical ways to estimate income from farming activities.

In order to do so, the MLSP uses special tables that calculate a standard monthly income level per each 100 sqm of land. These tables contain coefficients that vary in relation to *oblast* and *rayon* and the type and use of land (whether the land is a farm irrigated or not irrigated, or garden plots and vegetable allotment irrigated or not irrigated) (see appendix C for a detailed note on this calculation).

Up to 2007 these coefficients differed by oblasts and rayons as well as by types and use of the land (garden plot or land plot of irrigated or non irrigated). Since 2007, the coefficients were revised and approved for oblast level only. Unfortunately, because of lack of data on prices at the rayon level, it was impossible to distribute coefficients taking into account differences between rayons. Because this review uses sample households survey data for 2005 to calculate income from agricultural activity we applied coefficients valid up to 2005.

It is very important to see the difference between aggregate income and aggregate consumption. The matrixes of transition were developed for this purpose where population quintiles are compared by aggregate per capita income with the quintiles by aggregate per capita consumption (tables 27 and 28).

Table 27. Transition matrix between consumption and income aggregate, 1998

quintile		Income aggregate					Total
		1 st group with the lowest income level	2	3	4	5 th group with the highest income level	
Consumption aggregate	1 st group with the lowest consumption level	0.330	0.290	0.186	0.078	0.039	1
	2	0.243	0.233	0.258	0.178	0.062	1
	3	0.168	0.202	0.244	0.237	0.104	1
	4	0.145	0.161	0.181	0.261	0.267	1
	5th group with the highest consumption level	0.114	0.113	0.132	0.246	0.528	1
Total population		0.174	0.187	0.191	0.198	0.249	1

Source: Elaboration of data from the 1998 household survey.

Table 28. Transition matrix between consumption and income aggregate, 2005

quintile		Income aggregate					Total
		1 st group with the lowest income level	2	3	4	5 th group with the highest income level	
Consumption aggregate	1 st group with the lowest consumption level	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
	5th group with the highest consumption level	0.031	0.045	0.139	0.228	0.557	1
Total		0.200	0.199	0.201	0.201	0.200	1

Source: Elaboration of data from the 2005 household survey.

Information available in the survey allows us to estimate income from livestock, and to include this component in the total aggregate. This aggregate differs from the aggregate income defined by the MLSD, as the above component is included. This new aggregate can be compared with the consumption in order to verify whether the inclusion of livestock brings the two aggregates closer. As table 29 shows, when we calculate a new transition matrix, new income aggregate produces small improvements.

Table 29. Transition matrix between consumption and income aggregate with livestock, 1998.

Quintile		Income aggregate					Total
		1 st group with the lowest income level	2	3	4	5 th group with the highest income level	
Consumption aggregate	1 st group with the lowest consumption level	0.373	0.327	0.163	0.060	0.031	1
	2	0.217	0.242	0.296	0.166	0.063	1
	3	0.166	0.174	0.244	0.265	0.104	1
	4	0.128	0.152	0.169	0.278	0.272	1

Quintile		Income aggregate					Total
		1 st group with the lowest income level	2	3	4	5 th group with the highest income level	
	5th group with the highest consumption level	0.116	0.104	0.127	0.232	0.529	1
	Consumption aggregate	0.166	0.183	0.187	0.207	0.257	1

Source: Elaboration of data from the 1998 household survey.

Table 30. Transition matrix between consumption and income aggregate with livestock, 2005.

Quintile		Income aggregate					Total;
		1 st group with the lowest income level	2	3	4	5 th group with the highest income level	
Consumption aggregate	1 st group with the lowest consumption level	0.371	0.371	0.164	0.069	0.025	1
	2	0.342	0.262	0.219	0.124	0.053	1
	3	0.145	0.184	0.317	0.267	0.087	1
	4	0.108	0.142	0.180	0.299	0.272	1
	5th group with the highest consumption level	0.033	0.040	0.123	0.240	0.564	1
	Consumption aggregate	0.200	0.200	0.201	0.200	0.200	1

Source: Elaboration of data from the 1998 household survey.

Income can be further analysed by distinguishing among the different sources of income and looking at the different composition of income by quintiles. We consider the income aggregate as calculated by the MLSP (table 31 and 32), then we analyse the aggregate which includes income from livestock (table 33 and 34).

Table 31. Sources of income by quintiles, 1998.

(in shares)

Population quintiles	Income categories						
	Income from labour						
	dependent workers	self-employed	Pensions	Social transfers	Agricultural activities	Private transfers	Capital
1	0.1915	0.0236	0.3693	0.0178	0.3529	0.0442	0.0005
2	0.3603	0.0382	0.2767	0.0197	0.2610	0.0432	0.0010
3	0.4320	0.0490	0.2936	0.0183	0.1638	0.0397	0.0036
4	0.5982	0.0502	0.1558	0.0097	0.1222	0.0589	0.0051
5	0.5742	0.0845	0.1674	0.0242	0.0685	0.0728	0.0084
Total	0.5174	0.0621	0.2060	0.0187	0.1310	0.0592	0.0056

Source: Elaboration of data from the 1998 household survey.

Table 32. Sources of income by quintiles, 2005*(in shares)*

Population quintiles	Income categories						
	Income from labour						
	dependent workers	self-employed	Pensions	Social transfers	Agricultural activities	Private transfers	Capital
1	0.3184	0.3224	0.1227	0.0154	0.1407	0.0728	0.0076
2	0.4097	0.2790	0.1185	0.0068	0.1137	0.0629	0.0095
3	0.4768	0.2796	0.0921	0.0089	0.0833	0.0511	0.0081
4	0.5082	0.2390	0.0987	0.0054	0.0481	0.0855	0.0150
5	0.5778	0.1773	0.0843	0.0061	0.0325	0.0862	0.0358
Total	0.4985	0.2352	0.0970	0.0075	0.0653	0.0762	0.0205

Source: Elaboration of data from the 2005 household survey.

We can clearly see how poorer households depend more on agriculture and also that social transfers are received with small differences across all quintiles. Incomes from labour become more relevant for higher quintiles. Capital income is received only by the highest quintile.

Table 33. Sources of income by quintiles including livestock, 1998*(in shares)*

Population quintiles	Income categories							
	Income from labour							
	dependent workers	self-employed	Pensions	Social transfers	Agricultural activities	Private transfers	Capital	Livestock
1	0.2228	0.0233	0.3175	0.0192	0.2245	0.0436	0.0000	0.1491
2	0.3162	0.0307	0.2234	0.0124	0.1978	0.0409	0.0012	0.1773
3	0.4265	0.0338	0.2134	0.0158	0.1196	0.0338	0.0036	0.1534
4	0.5028	0.0454	0.1464	0.0077	0.1060	0.0491	0.0040	0.1385
5	0.4929	0.0791	0.1545	0.0226	0.0779	0.0649	0.0077	0.1003
Total	0.4496	0.0539	0.1790	0.0162	0.1139	0.0514	0.0049	0.1310

Source: Elaboration of data from the 1998 household survey.

Table 34. Sources of income by quintiles including livestock, 2005*(in shares)*

Population quintiles	Income categories							
	Income from labour							
	dependent workers	self-employed	Pensions	Social transfers	Agricultural activities	Private transfers	Capital	Livestock
1	0.3012	0.3050	0.1160	0.0145	0.1331	0.0689	0.0072	0.0541
2	0.3893	0.2652	0.1126	0.0064	0.1081	0.0598	0.0090	0.0496
3	0.4587	0.2690	0.0887	0.0086	0.0802	0.0492	0.0078	0.0379
4	0.4926	0.2316	0.0956	0.0052	0.0467	0.0829	0.0146	0.0307

Population quintiles	Income categories							
	Income from labour							
	dependent workers	self-employed	Pensions	Social transfers	Agricultural activities	Private transfers	Capital	Livestock
5	0.5608	0.1720	0.0819	0.0060	0.0316	0.0836	0.0347	0.0294
Total	0.4804	0.2267	0.0935	0.0072	0.0629	0.0734	0.0197	0.0362

Source: Elaboration of data from the 2005 household survey.

Finally in table 35 and 36, we show the mean and the median income by *oblasts* and urban/rural areas. We also display standard errors calculated on the basis of specific sample design (two stage-sampling and strata). As expected, income is substantially lower in rural areas, and the mean and median values by *oblasts* reflect the different regional economic conditions and their general level of poverty. Bishkek and Chui are the areas with higher income, while Naryn, Osh and Talas are the poorest. Mean income in Osh is particularly low, but standard error there is higher compared to other regions.

Table 35. Mean and median income by urban/rural areas
(in som)

	1998			2005		
	Mean	Standard error	Median	Mean	Standard error	Median
Urban	3517.0	313.5	2624.0	11826,6	11686,3	8972,8
Rural	1937.9	114.2	1325.0	7347,3	6973,9	5552,7
Total	2529.0	126.2	2065.0	8992,9	9252,3	6785,6

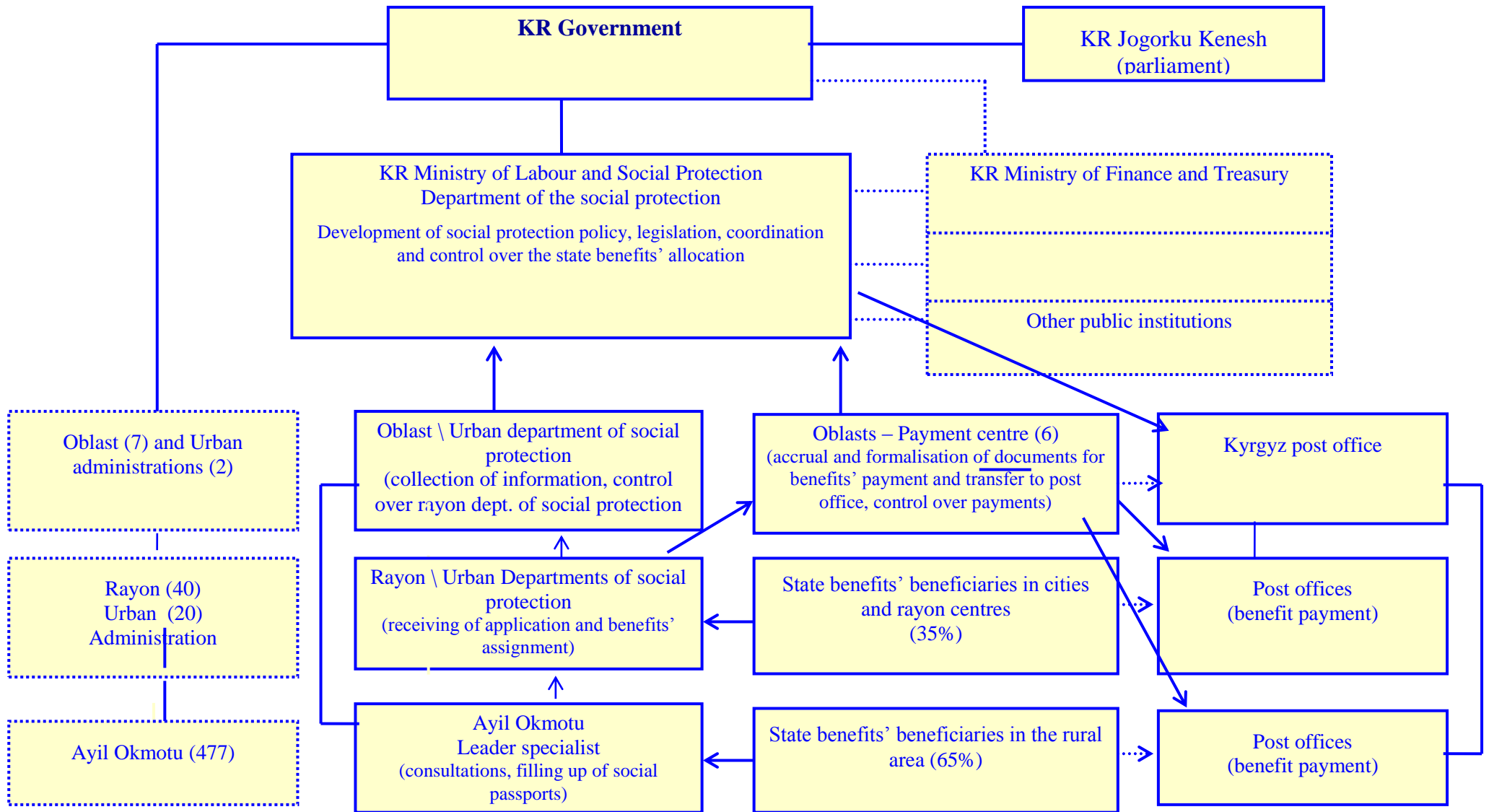
Source: Elaboration of data from the 1998 household survey and Integrated household survey from the 2005

Table 36. Mean and median income by oblasts
(som)

	1998			2005		
	Mean	Standard error	Median	Mean	Standard error	Median
Batken	...	...	...	9365,6	10818,9	6003,8
Jalal-Abad	1530.6	148	1317	7203.6	4467.5	5869.8
Issyk-Kul	2507.7	93.6	1882	5769.2	4406.2	4248.1
Naryn	1522.1	148.2	1617	6803.1	5143.1	5552.7
Osh	1678.7	144.5	1333	7626.4	8768.8	5583.6
Talas	1327.4	174.5	1867	5940.9	4409.4	4827.0
Chui	3265.6	438.4	3733	9821.8	8745.9	8449.3
Bishkek	5249.2	116.9	4162	15427.5	13555.3	12129.0
Total	2529.0	126.2	2065	8992.9	9252.3	6785.6

Source: Elaboration of data from the 1998 household survey.

**Administrative and territorial system of the Republic
And main institutes involved in the state support of the poor strata of population and citizens**



Information on meetings with the staff of the subdivisions of the MLSD KR.

In order to study the administrative structures of the Ministry of Labour and Social Development which deal with the assignment and payment of the state benefits there were a few series of meetings with the specialists of social protection departments at the rayon level.

During the mission to Jalal-Abad and Osh oblasts there were meetings with the staff of rayon social protection departments and payment centre.

In early October meetings with the staff of the social protection department of Osh city, oblast social payments centre and social protection department of Aravan rayon were held. In connection with the change of ministerial structure, oblast departments were abolished and cancelled their functioning starting from October 2007.

We also had meetings with the specialist of the social protection department of Suzak rayon of Jalal-Abad oblast.

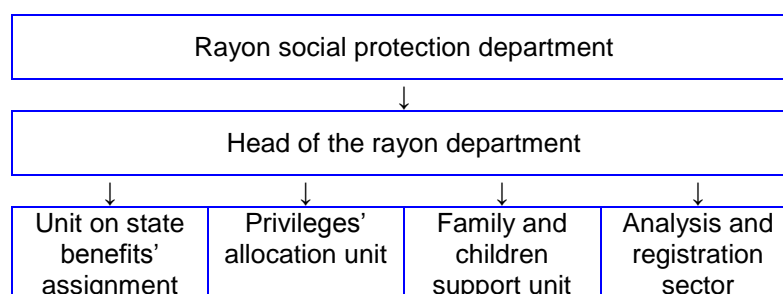
In February 2008 meetings with the staff of the Social protection departments and specialists of the ayil okmotu in Batken oblast (Lailak rayon and Isphana city), Naryn oblast (Naryn rayon) and Chui oblast (Sokuluk Rayon) were held.

In mid-March 2008 we visited rayon social protection departments of Issyk-Kul oblast (Ton and Aksuu rayons, Karakol city) and Chui oblast (Tokmok city and Kemin rayon).

The main issues discussed were:

- structure of departments
- Work experience of departmental staff (education, term of service, how in practice the assignment of state benefits is done etc.)
- How the payment of state benefits is done (oblast social payments centres)
- Difficulties and problems in the work

Structure of the rayon social protection department of the Ministry of labour and Social Development



The majority of the staff in the municipal and rayon social protection departments, as well as the Centre of social services have been working in the system of the social protection for 5 years and more. The average age of the staff is between 30 - 50 years. Head of the departments and units graduated from high schools. Specialists appointed for the position of senior or leading specialist graduated from high schools or special vocational school.

During the meetings with the staff of municipal and rayon social protection department we saw how they use the information from SPLIF in their work. If the family has right to the state

benefit, the application is submitted with the social passport. Some data in the application duplicates information in SPLIF, which to a some degree increase the workload on the specialist. In our opinion, it is necessary to revise the format of SPLIF and the application in order to exclude the same questions.

Data from the application is entered into computer. A special software "Social" is used. Although the specialists of the social payments centre said that the staff of social protection departments underwent training in the use of software, but the problem of inaptitude of using of this program remains. At the same time, it is necessary to focus attention on the fact that information received from SPLIF is processed and analysed manually without using any sort of software.

The majority of the state benefits' unit staff mentioned the problems related to targeting of the benefits. Due to the fact that the Law on state benefits in the KR does not provide for taking into account different situations allowing to refuse the assignment of the benefit, they are obliged to assign state benefits to low income families though they know that this family was not poor. For example, a family has more than 100 heads of goats and at the same time receives UMB because the income from livestock is not recorded in the aggregate income. As a result the risk of exclusion errors highly increases. Another example is related to the availability of the passport. Very often the applicants declare that they do not have identity documents or they do not have any registration. This problem results in exclusion errors as such people are excluded from the system of state benefits.

Amounts of state benefits in the last years.

On 25 July 2005 the government of the Kyrgyz Republic approved the resolution №311 «On increase of the Guaranteed minimum consumption level» since January 1, 2006 up to KGS 175, previously it was KGS 140.

After increase of GMCL up to KGS 175 since January 01, 2006, the sizes of benefits amounted to:

1. UMB

Categories of UMB beneficiaries	Size of benefit with GMCL – 140 Until 1.01.2006	Size of benefit with GMCL - 175 Since 1.01.2006
Maternity allowance (Birth)	420 som	525 som
per capita benefit to twins up to 3 years old	140 som	175 som
per capita benefit to triplets and more up to 16 years old per capita	210 som	262,5 som
Infant allowances < 1.5 year old	140 som	175 som
Benefit for children is assigned up to 16 years old (pupils of educational institutions until graduation but not more than 18 years old)	In the amount of difference between GMCL and average per capita income of family	In the amount of difference between GMCL and average per capita income of family
Benefits to students of primary vocational schools, students of secondary and high vocational situation up to 21 years old	In the amount of difference between GMCL and average per capita income of family	In the amount of difference between GMCL and average per capita income of family
Benefit to people of pension age	In the amount of difference between GMCL and average per capita income of family	In the amount of difference between GMCL and average per capita income of family
Allocation to invalids	In the amount of difference between GMCL and average per capita income of family	In the amount of difference between GMCL and average per capita income of family

2. MSA

Categories of MSA beneficiaries	Size of benefit with GMCL – 140 Until to 1.01.2006	Size of benefit with GMCL - 175 Since 1.01.2006
Children –invalids suffering from Infantile encephalic paralysis	504 som	630 som
Children - invalids	378 som	472.5 som
Children with human immunodeficiency virus or AIDs	378 som	472.5 som

Categories of MSA beneficiaries	Size of benefit with GMCL – 140 Until to 1.01.2006	Size of benefit with GMCL - 175 Since 1.01.2006
Children born from mothers with human immunodeficiency virus	378 som	472.5 som
Invalids since childhood 1 group	504 som	630 som
Invalids since childhood 2 group	378 som	472. 5 som
Invalids since childhood 3 group	252 som	315 som
Invalids of general disease, 1 group	378 som	472. 5 som
Invalids of general disease, 2 group	252 som	315 som
Invalids of general disease, 3 group	126 som	157.4 som
Old age citizens in absence of right to pension	176 som	220.4 som
Old age citizens of alpine regions in absence of right to pension	252 som	315 som
Mothers - heroes in absence of right to pension	378 som	472. 5 som
Benefits to children lost bread winner in absence of right to pension	252 som	472.5 som
Children lost both of parents in absence of right to pension)	378 som	472.5 som

Measures undertaken in 2006-2007 in order to improve the methodology of assignment and payment of state benefits

- 1 Since 1 January 2006 the size of GMCL was increased from KGS 140 up to 175 in accordance with the resolution of the government of 25 July 2005, №311.
- 2 Regulation “On procedure of definition of aggregate income of citizens (family) for the assignment of the UMB” was approved by the resolution of the Jogorku Kenesh dated 25 June 2007, №1934-III. In the definition of the aggregate family income, the Regulation excludes all types of social allowances and unemployment benefit the aggregate income as well as introduced norms of income from land and garden plots according to 2004 prices. The Regulation entered into force since the 1st September 2007.
- 3 The presidential decree dated 27 September 2007, № 432 «On bonuses to the amount of the monthly social allowances» since the 1st October 2007 provides the following bonuses:

Categories of beneficiaries	Actual size of monthly social allowance	Bonus, som	New amount with bonus som
Children–invalids suffering from Infantile encephalic paralysis	630	300	930
Children with human immunodeficiency virus or AIDs	472.5		772.5
Children born from mothers with human immunodeficiency virus	472.5		772.5
Invalid since childhood	630		930
Children invalids	472.5		672.5
Invalid since childhood, II group	472.5		672.5

Categories of beneficiaries	Actual size of monthly social allowance	Bonus, som	New amount with bonus som
Invalid from general disease of I group with no right to pension	472.5	200	672.5
Mothers-heroes with no right to pension	472.5		672.5
Full orphans with no right to pension	472.5		672.5
Invalids since childhood, III group	315	100	415
Invalid from general disease of the 2 nd group, with no right to pension	315		415
Invalid from general disease of the 3 rd group, with no right to pension	157.5		257.5
Old age citizens with no right to pension	220.5		320.5
Old age citizens of mountainous regions with no right to pension	315		415
Children lost bread winner with no right to pension	315		415