

MAASTRICHT
GRADUATE
SCHOOL of
GOVERNANCE

How to Improve Access to Social Protection for the Poor?

Lessons from the Social Assistance
Reform in Latvia

Franziska Gassmann

**Working paper
MGSOG/2006/WP2005/002**

September 2005

**Maastricht University
Maastricht Graduate School of Governance**



Maastricht Graduate School of Governance

The 'watch dog' role of the media, the impact of migration processes, health care access for children in developing countries, mitigation of the effects of Global Warming are typical examples of governance issues – issues to be tackled at the base; issues to be solved by creating and implementing effective policy.

The Maastricht Graduate School of Governance, Maastricht University, prepares students to pave the road for innovative policy developments in Europe and the world today.

Our master's and PhD programmes train you in analysing, monitoring and evaluating public policy in order to strengthen democratic governance in domestic and international organisations. The School carefully crafts its training activities to give national and international organisations, scholars and professionals the tools needed to harness the strengths of changing organisations and solve today's challenges, and more importantly, the ones of tomorrow.

Authors

Dr. Franziska Gassmann

Maastricht Graduate School of Governance

Maastricht University

Email: franziska.gassmann@governance.unimaas.nl

Mailing address

Universiteit Maastricht

Maastricht Graduate School of Governance

P.O. Box 616

6200 MD Maastricht

The Netherlands

Visiting address

Kapoenstraat 2, 6211 KW Maastricht

Phone: +31 43 3884650

Fax: +31 43 3884864

Email: info-gov@governance.unimaas.nl

This paper analyzes whether the introduction of a guaranteed minimum income (GMI) in Latvia in 2003 improved the access for the poor to social assistance, and discusses the factors influencing the development and implementation of a new policy. The former system was characterized by a multitude of state and local benefits and privileges, that was unfair and ineffective in reaching the poor. The analysis of empirical (household budget survey) and administrative data indicates that targeting of local social assistance benefits has slightly improved following the introduction of the new legislation. However, coverage with the GMI is limited and municipalities still have preference for other types of social assistance benefits. Difficulties in identifying the poor based on income, the discretion of the social worker at the local level, the low level of the GMI and the persisting notion of the 'undeserving poor' are some of the causes influencing the policy outcome. The paper analyzes the factors contributing to the performance of the reformed social assistance system and provides lessons for other countries in similar circumstances.

Keywords: poverty, social protection, targeting, Eastern Europe

INTRODUCTION

Why is it so difficult to design social protection policies that effectively support the poor? It is not that the intentions are wrong or missing, rather, it is a whole set of factors that influence the success or failure of a specific policy design. When the Latvian Government decided to reform their social assistance system in 2003, the hopes were high for the new concept that introduced a Guaranteed Minimum Income (GMI) for the poor. The OECD (2003), for example, expected considerable improvements in the performance of Latvian social assistance policies after the introduction of the new *Law on Social Services and Social Assistance*. This paper analyzes whether the introduction of the GMI improved the access for the poor to social assistance, and, more generally, what explains the remaining targeting inefficiencies.

The previous social assistance system was characterized by a multitude of different local benefits. Only few households received benefits, but what they received was sizeable. The system was not transparent and with wide variations between municipalities in terms of available benefits, eligibility levels and benefit size. State social benefits (mainly family allowances) were more pro-poor and more effective in reducing poverty than the targeted local benefits. Boeri (2000) had a point stating that a lot of the policy reforms implemented in Central and Eastern Europe early during the transition were just examples of bad policies. Too many schemes were providing too few cash transfers. New schemes were added to the existing ones instead of replacing old systems with completely new ones.

The analysis in this paper is using both household survey data and data from administrative sources. Results indicate that the targeting performance has indeed improved, but the amount of leakage is still considerable, both in terms of errors of inclusion and exclusion. One could say that the groups receiving the benefits are the right ones, but the selected households are not always the poor. Coverage with the GMI is limited and municipalities still prefer other types of social assistance benefits. Difficulties in identifying the poor play a major role in the performance of means tested benefit systems. Local incentives and political support for the reform are some of the major causes influencing the policy outcomes. The poor should prefer universal benefits in order to be ensured of support in the long-run. As various authors have stated, programs for the poor are indeed frequently poor programs (Sen, 1995; Gelbach & Pritchett, 1997).

The paper is organized as follows: it starts with a summary of the reforms of the Latvian social assistance system since independence. After a short introduction to the data and methodology used, results of the empirical analysis are presented. First, the poverty profile, and secondly, an analysis of the beneficiaries of social assistance benefits, comparing current benefit incidence levels with results in the past. Subsequently, the results are discussed. What explains targeting inefficiencies of local social assistance benefits, or, in other words, what could be changed in order to facilitate access of the poorest to social protection in Latvia and other countries in similar circumstances. The

discussion is structured around the problems of identifying the poor, local incentives, political support and the political economy of means-tested benefits.

SOCIAL ASSISTANCE REFORM IN LATVIA

As in much of Eastern Europe and the former Soviet Union, the Latvian social security system prior to independence in 1991 was characterized by low wages, subsidies, family benefits, pensions and institutional care for the elderly and disabled. The needs of a country in transition proved to be different from a planned economy where employment was virtually guaranteed and price subsidies applied to many goods. One of the first changes implemented by the Government of Latvia in 1991 was the splitting of central, regional and local responsibilities with respect to social assistance and social care provision. This gave municipalities discretion in the actual benefit disbursement and the obligation to co-finance the benefits with 50 percent. A means-tested benefit was introduced based on a specified consumption basket. Municipalities, though, faced difficulties implementing the law. Only few resources were allocated for a benefit that was considered to be too high and the administrative regulations were regarded as overly complicated and unenforceable.

1996 - 2002

In 1995, the Parliament passed a set of laws on social security that became effective in 1996. Parallel, the Government initiated an administrative reform encouraging municipalities to merge and phase out the regional government level in 1998.¹ The goal of social assistance according to this new legislation was *'to guarantee social protection to those inhabitants who are unable to overcome certain difficulties of life and who do not receive sufficient help from any other person. Social assistance activities create a safety network for persons who do not receive sufficient income from work, social insurance payments or state social benefits, and who fulfill the duty of co-participation'* (Ministry of Welfare, 1998:59). Material social assistance was provided through state and local social benefits. State social benefits are mostly categorical benefits, such as family and child care benefits. Local social assistance benefits are means-tested and targeted to poor families. They can be either in cash or in kind. A housing benefit, funeral and social care allowances supplement the locally financed social assistance benefits.² Within the boundaries of the law, municipalities were free to determine the kind of benefits they provide, eligibility rules and benefit levels, as well as the proportion of the municipal budget to be spent on social assistance.

¹ At that time, the administrative division of Latvia knew 26 raions, 7 cities and 562 municipalities with a total population of 2.5 million inhabitants. The reform has not yet been finalized.

² For a detailed description of the various benefits and other parts of the social protection system at that time: Ministry of Welfare (1998); Gassmann (2000).

In 1998, local social assistance benefit expenditures were 13.7 million LVL, which was equal to 0.4 percent of GDP, and in 2001, 15.5 million LVL (0.3 percent of GDP) (Ministry of Welfare 2002, 2003). Looking only at the social benefit for needy families – the main income support benefit – expenditures decreased from 4.3 million LVL in 1996 to 1.1 million LVL in 2001 (Ministry of Welfare 1999a, 2002). Municipalities preferred to replace the social assistance benefit for low income households with other benefits, such as medical benefits, benefits for special care, and provisions for free food (see table 1). In terms of number of recipients, we observe a parallel decline with respect to recipients of the social benefit for low income families, from 157 thousand recipients in 1996 to 64 thousand in 2001.

[table 1]

Municipalities differed considerably in the menu and size of benefits they offered to poor families and individuals. Although eligibility criteria were set by the Cabinet, the central Government could not enforce compliance with the regulations. The municipal autonomy led to much variety across the country in terms of eligibility criteria, benefit levels and application procedures. Studies assessing the social assistance system using Household Budget Survey data concluded that the system was neither effective nor was it transparent. A special survey analyzing the perceptions of the population with respect to local social assistance policies in 1998 showed that a majority of the population was not well informed about the services and benefits local social assistance offices had to offer to poor households (Gassmann, 2000). Those actually claiming social assistance benefits did not belong to the households that were most in need of assistance. Local social assistance benefits did indeed not reach the poor. According to data from the CSB (1997, 1998), average per capita local assistance benefits were highest in the richest income decile. Milanovic (1999) came to the same conclusion. Social assistance and unemployment benefits are either neutral or slightly pro-rich. The only consistent pro-poor transfers are family allowances. Milanovic further concluded that the probability of a poor person receiving a local social assistance benefit was about two percent in 1998. According to a study of the Ministry of Welfare (1999b), households with children and able-bodied household members are the poorest and receive the least support compared to the pensioners and disabled, which are wealthier on average and receive more assistance.

A new approach?

After three years of preparation, the Latvian Government introduced the new Law on Social Services and Social Assistance on January 1, 2003.³ It introduced a new system of municipal social benefits and defined the responsibilities of local and central Governments in the provision of social assistance

³ Preparations for the new law started already 1999 in the context of the Latvia Welfare Reform Project of the World Bank. See, e.g., Gassmann (2000) for an assessment of the introduction of a single benefit. Piloting of the new benefit started in July 2000.

and services. The objective of the new law is to provide a cost efficient social assistance system that eliminates poverty by providing targeted support to the most needy inhabitants and that promotes the integration of socially vulnerable groups into society.⁴ The main innovation is the introduction of a Guaranteed Minimum Income (GMI) to ensure a minimum income for the poorest. The benefit is income-tested with a minimum level defined annually by the Cabinet of Ministers (15 LVL per capita in 2003⁵). Municipalities are free to increase the minimum level according to local needs and financial resources. Eligibility is assessed in two steps. First, the applicant has to prove that average family income per capita over the past three months was less than half the minimum wage (35 LVL in 2003). Secondly, the GMI is only granted if the average family income per capita over the past three months is below the GMI level. The benefit paid is the difference between actual family income and GMI, up to a maximum of three times the value of the state social security allowance.⁶ The benefit is granted for three or six months, with the possibilities for renewal.⁷

Municipalities are free to provide other benefits (housing benefit, emergency benefit or others) after all GMI needs have been satisfied. Local social assistance benefits are still fully funded from the local government budgets. One aim of the new law was streamlining of the numerous benefits that existed across municipalities under the former law, thereby making the system more effective, equitable, simple and transparent. In practice, the scope of benefits existing next to the GMI still strongly varies: in some municipalities the number of benefits has indeed decreased, while in others the introduction of the GMI has not resulted in a reduction of the benefit menu (Gassmann & Sowa, 2004). In 2003, 19.2% of the population received a local social assistance benefit, and 3.3% of the population received a GMI benefit according to the administrative data from the SAF.⁸ However, these figures mask the large variation between municipalities or districts and cities. For the GMI, the percentages vary between zero in Ventspils and 7.4% in the Daugavpils district, and with respect to local social benefits in general, the values are between 11.6% in Riga and the Balvu district. Table 2 presents the figures at district and city level. There is only a weak relationship between the share of benefit recipients and the share of needy persons.⁹

[table 2]

⁴ Note that we concentrate on social assistance only in this paper. The law also governs the provision of social services at the local level. State social benefits (e.g. family allowances) are no longer governed by the Law on Social Services and Social Assistance. A separate Law on State Social Benefits has been introduced at the same time.

⁵ This level was raised to 18 LVL in 2004 and 21 LVL for 2005.

⁶ Except for families with children complying to the requirements agreed with the municipal office.

⁷ Families with able-bodied adult household members: 3 months; households without able-bodied members: 6 months. Note that registration with the local employment service is an eligibility condition.

⁸ Note that the 19.2% also includes the GMI beneficiaries.

⁹ The estimated coefficients for the share of needy persons is 0.10 in case of the GMI, and 0.77 for local social assistance benefits, both significantly different from zero (single OLS regression model with administrative data).

DATA AND METHODOLOGY

The empirical analysis in this paper is based on data from the Latvian Household Budget Survey (HBS), which is implemented by the Central Statistical Bureau of the Republic of Latvia (CSB). The HBS is a continuous survey with a monthly rotating sample. Sampling is based on two-stage stratified random sampling. The results are nationally representative. The survey consists of an extensive questionnaire collecting information on the household and the individuals living in the household, a diary that has to be kept during two weeks recording information on daily household expenditures and a recall survey collecting information on the purchase of durable goods and other less frequent purchases. The HBS has been implemented yearly since 1996. For the present analysis, the data from 1997, 2000 and 2003 are used.

Since its first full round in 1996, the HBS has changed several times in terms of sample size and instruments used. Therefore, the results are not fully comparable. In 1997, the survey contained complete information on 7,717 households, while in 2003, full survey information was obtained for 3,631 households. Another change concerned the diary keeping period, which was reduced from one month to two weeks in 1998. Over the years, the various modules of the questionnaire and the diary have been refined and improved, taking into account changes in the society, such as with respect to social transfers. The most recent redesign of the HBS dates back to 2001 (Lapins et.al., 2002).

The second data source used in this paper are administrative data for 2003 collected by the Social Assistance Fund (SAF) on the number and type of local social assistance benefits. These data are used to gauge the results of the survey data analysis and to compare the benefit performance at a more local level than the survey data would allow.

Using the HBS data, a poverty profile is established for. According to the objectives of the *Law on Social Services and Social Assistance*, the poorest households should theoretically be the ones that are receiving targeted social assistance benefits. Following the aims of this paper, poverty is defined by the two eligibility levels as determined in the legislation. A profile of the benefit recipients (based on survey data) identifies the main beneficiaries and provides an indication of the effectiveness of the new policy. Econometric models are used to assess the significance of various factors influencing the probability of receiving a social transfer, and to identify the determinants of differences in local social policy implementation using administrative data. All estimates based on survey data take into account the survey design and the results are weighted accordingly.

The results based on the survey have to be interpreted with caution. The information provided by the respondents on income from different sources are most probably incomplete and underestimated. For the poverty analysis and the ranking of households according to their standard of living we use total household expenditures as welfare indicator. However, caution is required when assessing the effectiveness of social transfers, which are part of the household income. Comparing estimated benefit incidence level with data from administrative sources shows the magnitude of the

problem (Table 3). According to the administrative data, municipalities spent 2.6 mio LVL on GMI benefits and 33.2 mio LVL on local social assistance benefits (including GMI). Estimating the respective amounts using the survey data provides yearly values of 0.2 mio LVL for the GMI and 7.2 mio LVL for local social assistance benefits.

[table 3]

WHO ARE THE POOR?

In a study analyzing poverty in Latvia in the second half of the nineties, Gassmann (2000) established that the most vulnerable households were those living in rural areas, large households, households with three or more children, households where the breadwinner is young, unemployed or has only a low educational level, and households that depend mainly on income from agriculture and social transfers (except pensions). This profile corresponded with findings from other authors (Milanovic, 1998; World Bank, 2000; Fofack & Monga, 2004).

Poverty in 2003 has a similar face as at the end of the 1990s. For the present analysis we use three different poverty lines: the level of the GMI in 2003 (15 LVL per capita), the value of half the minimum wage (35 LVL per capita), and a relative poverty line equal to 60% of the median income or expenditure. For reference purposes, we calculate poverty rates using both household income and expenditures as welfare indicator in table 4. Throughout the remainder of the paper, the analysis is based on total monthly household expenditures, including the consumption of goods and services from own production and goods received free of charge. Except for the suspected underreporting of income, more theoretical arguments, as the permanent income hypothesis, and the idea that utility is derived from the actual consumption of goods and services further support the preference of expenditures above income. We chose to measure poverty based on per capita values. Poverty rates based on expenditures adjusted for economies of scale and household consumption are presented in the tables for reference purposes. The choice for per capita values is driven by the eligibility rules for local social assistance benefits. Average per capita income is compared with the eligibility threshold, which is on a per capita basis as well. However, the presence of economies of scale and the influence of the household composition are limited in Latvia.¹⁰

Not even one percent of the Latvian population qualifies as ‘expenditure’ poor if 15 LVL is taken as poverty line (table 4). The respective poverty rate based on income is two percent. 11% lives with less than half the minimum wage (14% based on income). The very poor are living in rural households, in large households and in households with children. Single parent families also have a high poverty risk. The negative correlation between poverty risk and age also holds in 2003. The older

¹⁰ See for a more detailed discussion of the sensitivity of the poverty measures to the application of equivalence scales in Latvia: Gassmann (2000) and Fofack & Monga (2004).

the person, the lower the risk of living in poverty.¹¹ Children are the most vulnerable group of all. Households where the main income is from agriculture are also very vulnerable. A low educational level remains an indicator for an increased poverty risk. Following the economic status of the breadwinner, the highest poverty risk have the self-employed (including the farmers), and others, such as unemployed, disabled and others outside the labor force. As at the end of the nineties, Latgale remains one of the poorest regions, although the probability of being very poor is higher in Zemgale in 2003. Riga and the metropolitan region, on the other hand, have the lowest poverty rates.

[table 4]

Due to data limitations, it is not possible to evaluate poverty dynamics or distinguish between the transient and chronic shares of overall poverty. One could argue that the transient poor are those just below the poverty line, assuming that they move in and out of poverty. The chronically poor would be those that have welfare levels relatively far below the poverty line, disabling them to cross the poverty line easily. Dercon (2002) estimated that about 20 – 60% of average poverty can be classified as transient. He further says, that these values are mostly probably overestimated. In our case, the chronically poor are those households that qualify as very poor in the current analysis. These are the households that are eligible to receive structural income support in form of the new GMI benefit. However, within the total group of ‘needy’ - those with a welfare level of less than half the minimum wage - the very poor comprise only 9%.¹²

DO THE BENEFITS REACH THE POOR?

One of the reasons for reforming the social assistance system in Latvia was the ineffectiveness of the old system in reaching the poor. The new law should ensure that only eligible households and individuals would receive local social assistance benefits. More specifically, since families with children were identified as very vulnerable with a high poverty risk, the new law should better targeted this group and ensure that they receive income support. We first analyze benefit incidence by poverty status of the recipient households. Subsequently, we look at whether demographic characteristics of a households determines the probability of receiving a benefit.

[table 5]

¹¹ Earlier poverty profiles led to the same conclusion (Gassmann, 2000; World Bank 2000). The fact that the elderly do not have an above average poverty risk is can be explained by comparatively high pensions (high replacement rate), and a low average income of the working-age population (low wage level). Note, that this conclusion does not change when applying equivalence scales to the calculation of poverty rates.

¹² 15% in case of per capita income and 6% in case of adjusted expenditures.

In terms of the share of the poor receiving local social benefits, targeting in 2003 has improved compared to 1997, but in terms of money reaching the poor, the performance has even worsened. Table 5 presents some key indicators measuring the targeting effectiveness of local social assistance and state social benefits. In 1997 and 2000, under the previous law, only very few households received local social assistance benefits, but what they received was substantial. In 2003, one tenth of the households received a social assistance benefit, but the average benefit size is reduced to six Lats per month on average. The percentage of households receiving state social benefits remained constant over the years, while the average benefit size increased slightly. Benefit incidence among the poorest 20 percent of households is somewhat higher than the national average for local social benefits, and considerably higher for state social benefits. Both benefits are slightly pro-poor based on the share of total benefits received by the poorest 20 percent of households. State social benefits are more pro-poor considering that about a third of the total benefit amount goes to the poorest 20 percent of households. The discrepancy between the share of total transfers received by the poorest has increased since 1997.

[table 6]

A more detailed analysis of the targeting effectiveness of local social assistance benefits and state social benefits in 2003 is presented in table 6. State social benefits are reaching more poor households. More than half of the poorest decile receives a state benefit. The lower state social benefit incidence in richer households is mainly due to the presence of fewer children in these households. Correspondingly, poor households get also a higher share of the total transfer value of state social benefits. Local social assistance benefits are only received by 16% of the poorest ten percent. The leakage of local social assistance benefits is considerable. 27% of the total transfer value goes to the richest 40% of households, and almost 30% goes to the middle-income households. The average benefit size of local benefits is almost equal across the welfare distribution, whereas the value of the state benefits is highest in the lowest welfare quintile. Taking into account that local social assistance benefits are targeted to needy households, i.e. households with average per capita income below half the minimum wage (35 LVL per month), households of the second and higher quintile should not have received targeted benefits.¹³

Analyzing benefit incidence by poverty status of the households, table 7 shows that two thirds of the very poor are receiving some kind of state social benefit, and 42% receives local social assistance. The GMI, which is explicitly targeted to households that are very poor, is received by 16% of this group. Note, that overall, not even one percent of the households claimed to receive GMI benefits, while it should be a little more than three percent according the administrative data. 82% of

¹³ Remember that the poverty rate corresponding with this threshold is 11% based on expenditures, and 14% if based on income.

the actual GMI recipients are not eligible in terms of their average per capita welfare level. Considering all local social assistance benefits, 88% of recipient households do not belong to the poor.

[table 7]

What can be said about the demographic characteristics of the recipients? Results for the GMI have to be interpreted cautiously due to the very small sample. Having said that, large households with five or more members, households with two or more children and households with a breadwinner outside the labor market, but not retired, are among the main beneficiaries. Single parent households have an equal chance of receiving a GMI as other family types. Overall, 93% of all GMI recipients are households with children. Only 33% of the recipients of local social assistance benefits are households with children. Groups with a high benefit incidence are one-person households, large households, households with two or more children and households with an old breadwinner (60+). Analyzing recipients by family type, single parent households have an above proportionate chance to get a benefit. However, 50% of the all recipient households are 'other' families (families with more than two adults, multi-generational families, etc.). Considering beneficiaries of state social benefits, 94% are households with children. This is quite logical considering the types of benefits concerned (family allowances and other family benefits cover most of the state social benefits). While location has not influence on the probability that a households receives a GMI or another social assistance benefit, it is relevant for state social benefits. The benefit incidence rate is higher for rural households.

Next, we estimated the influence of several factors on the probability of receiving local social assistance benefits using a logistic model of the form

$$Prob [y_i = 1 | x_i] = \gamma(\beta X_i)$$

With y_i as the dependent binary variable, γ representing the logistic cumulative distribution function, X_i a vector of independent variables, and β a vector of parameters to be estimated (Greene, 1997). We specified five different models (table 7). The first two models are based on the level of household welfare. Model (1) uses the welfare quintiles based on average household expenditures per capita as explanatory variables and model (2) uses the natural logarithm of household expenditures per capita. Table 8 presents odds ratios and standard errors. In case of instrumental variables, an odds ratio smaller than one indicates a lower probability of receiving a benefit than the base case, and an odds ratio larger than one indicates a higher probability compared to the base case. For example, households belonging to the fifth quintile have about a 50% chance of receiving a local social

assistance benefit compared to households of the third quintile (base case), all else being equal. Note that the underlying coefficients of the other quintiles are not statistically significant from zero.¹⁴ However, household welfare in terms of average expenditures per capita is relevant. Households with higher expenditure levels have a lower probability of receiving a benefit, and the variable remains relevant in the more extensive models. The question whether regional affiliation plays a role is only partly confirmed. Compared to the Riga region, the probability of receiving a local social assistance benefit is lower in all regions. However, in the most comprehensive model (5), the difference is only significant in two regions, Zemgale and Vidzeme. Other factors increasing the probability that a household is receiving a local social assistance benefit are its urban location, a breadwinner that is a pensioner or is unemployed, a breadwinner that is female and older than 60, or the presence of children. Having a pensioner as main breadwinner increases the probability of receiving a benefit with a factor of 2.5 compared to a household with a working breadwinner. Households with children have a similarly high chance. Although some of the included variables are highly significant as determinants for benefit receipt, the models are not very powerful in explaining the variance. The predictive power remains weak also for the extensive model. Other factors must be influencing the probability of receiving a local social assistance benefit.

[table 8]

DISCUSSING THE RESULTS

Although the targeting performance of means-tested benefits has improved since the introduction of the new *Law on Social Services and Social Assistance*, the amount of leakage is still considerable, with both errors of inclusion and exclusion. Other countries seem to have been more successful in reforming their targeted social assistance programs and improving the targeting effectiveness. In Romania, for example, the poorest twenty percent of the population received more than 75% of the means-tested benefits in 1999, and in Bulgaria, 68% of all means-tested benefits went to the poorest twenty percent in 2001. In Estonia, 37.7% of all means-tested benefits was received by the poor in 2000, although benefit incidence was only 12.3% (Fox, 2003). If we consider all local social assistance benefits as means-tested benefits, benefit incidence among the poorest twenty percent in Latvia was 14% , and they received 25% of total local social assistance benefits in 2003 (table 4). The question is, what explains the targeting inefficiencies of local social assistance benefits in general, and the GMI in particular? Or, in other words, what could be changed in order to facilitate the access of the poorest to social protection in Latvia and other countries in similar circumstances?

¹⁴ Coefficients for quintiles do not become significant when including other variables into the model. We decided to continue with the ln(per capita expenditures) since its predictive power was slightly higher than the quintiles.

Targeting social assistance benefits is a complex operation. Following Atkinson (1995), the capacity of the Government to target depends on the available information, the extent to which this information can be verified, the administrative capacity and the behavior of the recipients. Factors influencing the performance of means-tested targeting system (means-tested social assistance policies) are closely related to the political economy of targeting. On the one hand are economic problems, such as selection, information and incentives, and on the other hand is the political support that affects the programs, but which is in turn also affected by the program (Sen, 1995). Studying the targeting efficiency of 122 anti-poverty programs in 49 countries, Coady, Grosh and Hoddinott (2004) derived key determinants that enhance the probability that targeting is successful in a country: a country with higher income, with a government that is held accountable and with higher inequality. Latvia belongs to middle-income countries with a high level of inequality.¹⁵ However, if high inequality goes together with a tight income distribution, as is the case in Latvia, targeting is not facilitated. The chance for errors of inclusion or exclusion around the eligibility level is high and a small change of the eligibility threshold can have a tremendous impact on the number of eligible households.

The following discussion is structured around the problems of identifying the poor, local incentives, political support and the political economy of means-tested benefits.

Identifying the poor

The problems of selection and information are closely connected. One of the first conditions for a successful identification of the poor using a means test is that the means of a household or individual can be (easily) assessed and verified at reasonable costs. In the case of Latvia, total household income reported by the applicant is used as the indicator to determine benefit eligibility. The right to receive a social assistance benefit is assessed by the local social employee. The usefulness of formal income for assessing benefit eligibility depends on several factors: the size of the informal economy, the share of income in cash in the total income, and the inclination of the population to report their true income. The latter is especially important in the absence of income registers (e.g. tax register), where the information provided by the applicant can be verified.

Underreporting of income is not uncommon in Latvia as the previous analysis has shown. This is not only a statistical problem. High social security taxes are an incentive for some employers and employees to report lower wages than actually paid. Cases, where employees are officially paid the minimum wage with the additional salary given in an envelope, are still not uncommon in Latvia. The OECD (2003) writes in a report on labor markets and social policies in the Baltic countries, that the value of the average wage on which social insurance contributions are paid is 91% of the average wage from employer surveys in Latvia (p.75). Even this figure is an overestimate according to the

¹⁵ Whether the government can be classified as accountable is hard to say. So far, the government coalitions were not particularly stable considering the rather frequent changes in political power. But as such, the governments were held accountable for their deeds.

OECD. About 20% of the private employees earn more than employers report for statistical purposes (p. 61). Taking into account that eligibility for local social assistance benefits is linked to the minimum wage, unequal access to these benefits may be the result.

Another problem is income received in kind. In a country as Latvia is the share of income in kind still substantial, especially among the poorer households.¹⁶ Valuing income in kind is difficult. But assessing eligibility only based on formal income may wrongly prove some households as eligible.

An important role in the selection process is for the local social worker. The presence of professional social workers is beneficial for the targeting performance towards the poorest. Econometric analysis of the administrative data for 2003 indicates that in municipalities with trained social workers the share of GMI recipients is slightly higher.¹⁷ This also confirmed by Rajevska (2004), who states that targeting results are better in towns and cities than in rural areas due to the presence of professional workers. Especially in smaller, mostly rural, municipalities social assistance and services are the task of a municipal employee in charge of social assistance. This staff member has to take the decision whether or not an applicant is entitled to receive a benefit. This decision is not necessarily based on a means test (only), but also on the subjective assessment of the applicant's situation and behavior by the social service employee. Personal attitudes and prejudices may play a role. Especially in small communities where 'everybody knows everybody' the temptation is strong to use this presumed knowledge in granting benefits, thereby jeopardizing the fair and unbiased treatment of the client. Attitudes and prejudices of the employee may prevent an objective assessment, as may the familiarity with the client prevent the client from applying at all. In a study on the perceptions of the Latvian population towards social assistance, 23% said that they will not apply for social assistance although they would need it. Asked for the reason, 40% said that they do not think that the local social assistance office will help them (Gassmann, 2000:161).

Attitudes of the social employee stand not on their own. They are related to attitudes prevailing in the society. Coming from a command economy with a state taking care of its citizens from cradle to grave, and an ideology that 'poverty' is a self-inflicted tragedy, the Government was confronted with the difficult task of developing a new social protection system while the population was still thinking in old terms. Some of these old values are hard to eliminate. According to these values, some groups of the population 'deserve' to receive support from the state more than others. The most prominent examples are pensioners and the disabled.¹⁸ However, the 'undeserving' are usually the most vulnerable groups.¹⁹ In the view of the society it is their own fault that they ended up

¹⁶ A survey in 1998 showed that more than 70% of Latvian households engage in activities producing goods and services for own consumption (Gassmann, 2000:127).

¹⁷ See table A-2 in the annex for the results of the model.

¹⁸ This is not unlike to another familiar misconception that pensioners are the poorest. A public belief that is not supported by empirical evidence in many transition economy in Central and Eastern Europe.

¹⁹ Think of broken families, drug addicts (including alcoholics), homeless, former prisoners, etc., most desperate in need of social support.

in a dire situation. They do not comply to the norms and values of the society, and they are not trying hard enough to make ends meet. An indication for the persistence of old values in Latvia in the second half of the nineties is given in a study on seven countries by Lipsmeyer (2003) on the attitudes of the public to welfare policies in a post-communist context. According to this study, 98% of the Latvian respondents think that it is the Government's responsibility to ensure a decent standard of living for the elderly. 97% support that the Government ensures access to health care for the sick. 77% find that it is the Government's responsibility to support the unemployed, and 67% support the Government's role in reducing income differences. Unfortunately, social assistance programs or anti-poverty policies as such were not subject of the survey. In terms of Government spending, almost half of the respondents is against spending more on unemployment programs (57%), but a large majority is supporting spending more on pensions (91%) and health care (89%). The priorities are slightly changing when considering the answers of different age-groups and different income levels. While all age-groups favor health policies, the old are especially in favor of pension policies and the younger groups think that the government has a responsibility in education policies. The poorest households are the least negative regarding unemployment benefits, but the middle income households are the least supportive. In this respect, the local governments in Latvia are choosing for policies that are supported by a majority of the public.

The difficulty in identifying the poor based on a means test can be an argument for the preference of other targeting methods, such as categorical targeting, or for the provision of universal benefits. Leaving universal family benefits aside for the moment, within the targeted benefits we can distinguish between benefits that are means-tested, the GMI benefit, and benefits that are more targeted towards specific groups, such as medical care benefits for the sick, or the provision of free food to children. Local policies under the previous law mirrored the preference of local governments to identify eligible groups benefits instead of individually assessing a household's needs. In the latter case, the social worker has to make judgments about the individual behavior, whereas in the former situation this is not necessary. This facilitates the work of the social worker and relieves her from the responsibility to approve or reject an application. However, targeting by group violates the rights of those clients that do not belong to the identified group, which is a discriminatory and unfair treatment of these clients (OECD, 2003).

Local incentives

The complete decentralization of the administration and financing of targeted social assistance benefits for the poorest is another factor influencing the effectiveness of the policy. Theoretically, decentralized systems are better capable of assessing the needs of the poor. Communities differ in terms of needs of vulnerable groups and in terms of the preference whom to help first. The staff at the local level knows its clients better. The disadvantages of allocating the decision making power to the local level are possible local corruption and the local elites that might monopolize the benefits

(Alderman, 1998). Although the local level usually has better information on their clients, they may also have problems observing households that live far from the center. Research on Albania showed that households far from the social assistance center received more social assistance, and this was not because they were poorer (Alderman, 1998). One could use the same argument for explaining that the higher share of benefit recipients in cities is due to the anonymity coming along with living in the city. Social workers do not know their clients personally and have to trust completely on the information provided by the client.

Under the previous law on social assistance, municipalities could interpret the legislation freely, with the effect that citizens were treated differently across the country. Access to a targeted social assistance benefit differed between local governments. Under the new law differences still exist. Field visits showed that seemingly similar municipalities have quite different numbers of GMI recipients (Gassmann & Sowa, 2004). Policy makers tend to forget that the legislation has to be implemented at the local level. No regulation is written so tight that no room for interpretation is left. The central government has no real leverage to enforce the strict implementation of the laws and regulation at the local level since the financing mechanism is completely decentralized as well.

The presence of trained social workers is also important for the implementation of decentralized policies that are governed by national regulations. De Neubourg & Morris (1999) point out that complex administrative requirements make the local implementation of policies difficult, especially in a situation with a shortage of trained social workers. Although most municipalities in Latvia do have computers, only a few use specialized software for the benefit administration. Most offices still keep paper files and registration books (Gassmann & Sowa, 2004; Rajevska, 2004).

Targeted social assistance benefits are in Latvia for 100% financed from local budgets. The influence of the central government on policy implementation at the local government level is limited. Braithwaite, Grootaert and Milanovic (2000) found better targeting performance in countries that had nationally financed social assistance benefit systems. According to Fox (2003), successfully targeted programs need at least some national financing and central monitoring and evaluation in order to ensure the effectiveness of the targeted policies. Municipalities have no incentive to oblige to national rules and minimum standards.

Political support

Local governments had no interest in giving up their discretion in determining who should receive a targeted social assistance benefit. As Rajevska (2004) writes, many local politician perceived it as a threat that they had to give up the liberty of allocating benefits as they pleased, a habit especially popular before elections. The development of the new *Law on Social Assistance and Social Services* took a long time, not least because of the resistance of the municipalities, both poor and rich, against the idea of reducing the number of different benefits basically down to one targeted benefit for the poor. Local municipalities have no incentive to target the benefits strictly to the poorest. Local

politicians prefer recipients that also have electoral power. Elderly do vote, children do not vote. The link works the other way around as well. Local politicians may be prone to pressure from strong interest groups or from the local elite that want to divert public funds for their own needs. Bardhan and Mookherjee (2000) showed in a theoretical paper that the weakness of the electoral process allows the local elite to capture more public funds. The poor have a lower political awareness, while the wealthier are more inclined to form interest groups. They argue that regions with high poverty rates have more severe targeting failures.

Keeping a maximum of discretion in local policy implementation is one of the reasons for the low level of the GMI, although municipalities argued that lack of local funds would not permit to set the GMI at a higher level. The size of the targeted benefit and the financing mechanism may also have an impact on the targeting performance. The level of the GMI is comparatively low.²⁰ During the pilot, the eligibility level was 21 LVL per capita. Many poor municipality considered this amount to be too high. Negotiations between the Cabinet, the Association of Municipalities, the Trade Union and the Confederation of Employers ended in a compromise: the minimum amount for the GMI was set at 15 LVL for 2003 (Rajevska, 2004). Municipalities were free to set a higher level. Following a first evaluation of the Ministry of Welfare at the end of 2003, 16 municipalities used a higher eligibility level (Ministry of Welfare, 2003). The main argument of the municipalities for reducing the GMI level after the pilot phase was the lack of funding in the local budgets. Analyzing administrative data of the composition of local social assistance benefits across municipalities questions the argument of insufficient funds for the GMI. The figure below shows the allocation of total local funds spent on social assistance benefits across districts and cities. GMI benefits and emergency benefit take a minor part of the budgets compared to other local social assistance benefits. Assuming that municipalities satisfy all GMI needs before allocating other benefits, lack of funds is not a plausible argument for the low level of the GMI. The problem is rather a distributional one. In order to bring all people up to a level of 35 LVL, at least 28 mio LVL would have been necessary in 2003.²¹ For comparison, 33 mio LVL was the total amount spent on local social assistance benefits based on administrative data (SAF 2003). Bringing everybody up to 15 LVL would cost 0.8 to 4.6 mio LVL per year, depending on the indicator used. Total expenditures on GMI benefits were 2.6 mio LVL.

[figure 1]

Are programs for the poor poor programs?

The debate whether universal or means-tested benefits are better in alleviating poverty is a long-standing one. Whole welfare states have been classified based on their preference of universal versus

²⁰ Depending on the opportunity costs of potential beneficiaries, take-up rates may be lower. In that case, the low level of the benefit is also working as a self-targeting mechanism.

²¹ That is the sum of the weighted poverty gaps based on total household expenditures per capita. Taking household income as indicator, the necessary funds to close the gaps would have been 42 mio LVL (HBS 2003).

means-tested social protection. The main advantages of universal benefits versus means-tested benefits are lower administrative costs and greater political support. Arguments against universal benefits are that they are in essence a subsidy of the middle class and expensive, and that only a small proportion reaches the poorest (Moene & Wallerstein, 2001). For the use of means-tested benefits speaks that they use scarce resources most efficiently. However, this goes along with comparatively high administrative costs. Another negative feature of most means-tested benefits are high marginal tax rates for beneficiaries crossing the eligibility threshold and faced with the withdrawal of the benefit.

Several authors have argued that the optimal policy for the poor is not necessarily a policy that targets benefits as narrowly as possible (Moene & Wallerstein, 2001; Gelbach & Pritchett, 1997; Atkinson, 1995; Sen, 1995). Moene and Wallerstein (2001) state that the impact of targeting on the political support makes a strongly residual welfare state unsustainable in the absence of altruistic voters. The budget allocated to targeted benefits may end up in a downward spiral. The more targeted the benefit, the scarcer the resources become. Theoretically, some degree of targeting is optimal to maximize social welfare. However, when introducing feedback effects, the statement does not hold anymore according to Gelbach and Pritchett (1997). Changes in the degree of targeting have second round effects on the size of the available budget if the budget is politically determined. Including second round effects into the model reduces the share for the poor when targeting is introduced. Targeting is not optimal under a political feasibility constraint. Social welfare is maximal by spending nothing on targeted benefits.

The introduction of strict targeting in Latvia reduced the available budget at the local level. Municipalities managed to keep the level of the GMI as low as possible during negotiations with the Cabinet. Although more households benefit from the GMI than from the previous benefit for needy families, the allocated amounts are much lower. The results above have also shown that state social benefits, examples of universal benefits, perform better. They reach more poor households and have a stronger poverty reducing effect.

Targeting based on a means-test was a new concept for the countries coming from a Soviet type welfare state. A characteristic of the planned economy was a social protection system that accompanied its citizens almost from cradle to grave. For all basic needs was foreseen. The safety net provided guaranteed employment, though for low but secure wages, generous family benefits, social insurance linked to employment and free or subsidized basic necessities. Poverty was officially non-existent, and those that were not able to cope had to blame themselves. With the collapse of the system and the following decline in output, the rise of unemployment and the fall of real income, a new type of safety net was needed for those that could not easily adapt to the new circumstances. Governments had to set up a new social protection system, but the population was still thinking in old terms.

CONCLUSIONS

The results presented in the paper have to be interpreted with caution. One year is actually too short a time to evaluate a new policy. Start-up problems and transition periods may have had an impact on the performance of some municipalities. The very low level of the GMI in 2003, together with serious underreporting of income render the analysis of the survey data problematic. Income remains a troublesome indicator not only from a statistical point of view but even more importantly from an administrative perspective.

The present analysis has shown that the targeting performance of the benefits for the poor has improved after the recent reform of the social assistance system in Latvia. However, there is still considerable leakage and the majority of local social assistance benefits is going to non-poor households and individuals. Municipalities prefer to target groups rather than means. Problems with asymmetric information partly justify such an approach. However, while the groups benefiting most from local benefits are the right ones, if compared with the poverty profile, targeting misses to find the poor within these groups. No hard conclusions can be drawn on the performance of the GMI benefits because the sample size in the HBS is too small. State social benefits are more effective in reducing poverty. The provision of family allowances remains to be an effective instrument to reach the poor in the Latvia, because families with children have a significantly higher poverty risk.

Possible reasons why a policy is not working can be related to (i) the policy design, e.g. choice of the wrong policy instrument to achieve the objective, (ii) the lack of political support, and (iii) problems related with policy implementation. Starting with the latter, the central Government has hardly any leverage to influence the policy implementation at the local level. Monitoring and evaluation of local policies remains difficult. The shortage of trained social workers is partly responsible for the variation between municipalities in terms of treatment of the clients, the preference for certain benefits, and compliance with administrative requirements. The lack of political support for the GMI is best seen in the very low level of the GMI upon which everybody could agree. Municipalities were not interested in its introduction because they feared a loss of discretion with respect to benefit allocation. The analysis shows, that the municipalities succeed in pursuing their goals. The variety of available local benefits has hardly gone down in most municipalities. The level of the GMI is so low that the total value is only a small part of total local funds allocated on benefits. Lack of political support and policy design are closely related. In a democracy it happens only rarely that first-best policy solutions find the approval of a majority. The policy design changes throughout the political decision-making process. Boeri, however, has a point when speaking of bad policies in transition countries. He argues that the Governments applied an incremental approach to reforms, instead of completely abolishing old norms and regulations and replace them with new ones (2000:183). Indeed, the new *Law on Social Services and Social Assistance* has not completely

abolished old norms. It left sufficient space for the local authorities to keep most of their numerous benefits in place. The GMI is just another one.

The analysis of the recent introduction of a strictly means-tested benefit provides some lessons for other countries in similar circumstances. The political economy cannot be underestimated in the process of policy reform and implementation. Politicians are interested in winning their next elections and prefer to support those that bring them votes. The very poor are not 'sexy' enough in that respect. They have no voice and do not form interest groups. There is no prestige to be gained by supporting the most vulnerable groups in society. As such is social protection more supportive for those households just below the poverty line, while it misses to address effectively the very poor living in deep poverty.

An optimal policy for the poor does not target benefits very narrowly, because political support for such benefits may erode over time. Arguing this way would actually indicate that the poor in Latvia should be satisfied with the current situation. The fact that many benefits are going to the non-poor is eventually beneficial for the poor and ensures the sustainability of the current benefit level.

The presented evidence and arguments speak in favor of universal benefits as an effective poverty reducing policy. Administrative costs are considerably lower because efforts to verify the information provided by the applicant are not necessary. Means testing remains problematic in a country with a sizeable informal economy or hidden income. The role of the social worker at the local level is decisive in a decentralized system. They are responsible at grass-root level that those in need are treated fairly and have equal access to social protection across the country. Investments in the training of existing employees and the education of new social workers will pay out in the future. Currently, municipalities have no incentive to better target local benefits. As long as they are completely funded from local budgets, there is little the central level can do to further decrease the number of available benefits and improve targeting efficiency and effectiveness of social assistance benefits aimed at the poor. Some share of national financing may provide sufficient leverage to streamline policies at the local level. Maybe, the very poor will then get a larger share of the pie.

REFERENCES

- Alderman, H. (1998), 'Social Assistance in Albania', *LSMS Working Paper*, # 134, The World Bank, Washington DC.
- Atkinson, A.B. (1995), 'On Targeting Social Security: Theory and Western Experience with Family Benefits', in Walle van de, D. and K. Nead (eds.), *Public Spending and the Poor*, Johns Hopkins University Press, Baltimore.
- Bardhan, P. and D. Mookherjee (2000), *Decentralizing Anti-Poverty Program Delivery in Developing Countries*, University of California, Berkeley; <http://globetrotter.berkeley.edu/macarthur/inequality/papers>
- Boeri, T. (2000), *Structural Change, Welfare Systems, Labour Reallocation*, Oxford University Press, Oxford.
- Braithwaite, J., Grootaert, C. and B. Milanovic, (2000), *Poverty and Social Assistance in Transition Countries*, St. Martin's Press, New York.
- Central Statistical Bureau of Latvia (1997), *Household Budget in 1996*, CSB, Riga.
- (1998), *Household Budget in 1997*, CSB, Riga.
- Coady, D., Grosh, M. and J. Hoddinott (2004), 'Targeting Outcomes Redux', in *The World Bank Research Observer*, 19(1), pp. 61-85.
- Deaton, A. (1997), *The Analysis of Household Surveys. A Microeconomic Approach to Development Policy*, Johns Hopkins University Press, Baltimore and London.
- Dercon, S. (2003), *Risk and Poverty : a selective review of the issues*, draft, University of Oxford.
www.economics.ox.ac.uk/members/stefan.dercon
- Fofack, H. and C. Monga (2004), 'Dynamics of Income Inequality and Welfare in Latvia in the Late 1990s', *World Bank Policy Research Working Paper*, # 3336, The World Bank, Washington DC.
- Foster, J.E. (1984), 'On Economic Poverty: A Survey of Aggregate Measures', in *Advances in Econometrics*, 3, pp. 215-251.
- Fox, L. (2003), 'Safety Nets in Transition Economies. A Primer', *Social Protection Discussion Paper*, # 0306, The World Bank, Washington DC.
- Gassmann, F. (2000), *On the Verge of Poverty. Welfare and Economic Transition in Latvia*, Universitaire Pers, Maastricht.
- Gassmann, F. and A. Sowa (2004), *Development of a Methodology for Monitoring Poverty and Social Exclusion*, Final Report, Ministry of Welfare, Riga.
- Gelbach, J.B. and L.H. Pritchett (1997), 'More for the Poor is Less for the Poor: the Politics of Targeting', *Policy Research Working Paper*, The World Bank, Washington DC.
- Greene, W.H. (1997), *Econometric Analysis*, 3rd edition, Prentice Hall International, London.
- Lipsmeyer, C.S. (2003), 'Welfare and the Discriminating Public: Evaluating Entitlement Attitudes in Post-Communist Europe', in *The Policy Studies Journal*, 31(4), pp. 545-564.
- Milanovic, B. (1998), *Income, Inequality and Poverty during the Transition from Planned to Market Economy*, The World Bank, Washington DC.
- (1999), *Social Transfers and Social Assistance: An Empirical Analysis using Latvian Household Surveys*, Background Paper for the World Bank Poverty Assessment, mimeo.
- Ministry of Welfare of the Republic of Latvia (1998), *Social Report*, Ministry of Welfare, Riga.
- (1999a), *Social Report 1999*, Ministry of Welfare, Riga.
- (1999b), *Overview on Pilot Project Development*, mimeo.
- (2002), *Annual Social Report*, Ministry of Welfare, Riga.
- (2003), *Overview on GMI Benefit Payments in September*, mimeo.
- Moene, K.O. and M. Wallerstein (2001), 'Targeting and political support for welfare spending', in *Economics of Governance*, 2(2001), pp. 3-24.

Neubourg de, C. and S. Morris (1999), *Safety Nets and Lifelines: Social Assistance Policy in Transition Economies*, Paper prepared for the ILO World Labour Report 1999, International Labour Organisation, Geneva, mimeo.

Lapins, L., Vaskis, E., Priede, Z. and S. Balina (2002), *Household Surveys in Latvia*, mimeo.

Latvijas Vestesis (2002), *Law on Social Services and Social Assistance*, 168.19.11.2002, mimeo

OECD (2003), *Labor Market and Social Policies in the Baltic Countries*, OECD, Paris.

Rajevska, F. (2004), 'Social Safety Net in Latvia', in *Politika un Sociologija*, Latvijas Universitates Raksti, 663, pp. 40-59.

Sen, A. (1995), 'The Political Economy of Targeting', in Walle van de, D. and K. Nead (eds.), *Public Spending and the Poor*, Johns Hopkins University Press, Baltimore.

StataCorp (2003), *Stata Base Reference Manual*, Release 8, Stata Press, College Station (TX).

World Bank (2000), *The Republic of Latvia Poverty Assessment*, Report 20707-LV, The World Bank, Washington DC.

ANNEX

Table 1. Local social assistance benefits, amount and number of recipients

	1997		2000		2001	
	Amount Mio. LVL	number of	Amount Mio LVL	number of	Amount Mio LVL	number of
		recipients thousands		recipients thousands		recipients thousands
benefits for low income families	1.23	106.9	1.07	60.8	1.07	63.7
housing benefit	5.47	243.5	4.57	171.6	4.82	158.3
benefit for care	0.04	1.4	0.21	5.6	0.38	4.8
funeral allowance	0.50	15.8	0.50	13.3	0.52	13.9
provision of food and free meals	2.68	130.3	3.35	158.4	3.54	147.5
medical benefits	1.15	102.6	1.50	82.2	2.07	89.8
benefits for raising children			1.18	81.2	0.58	46.8
other purposes			1.90	153.4	1.56	93.5

Source: Ministry of Welfare 1999a, 2002.

Table 2. Percentage of municipal benefit recipients by cities and districts, 2003

Cities	Percentage of the population receiving:		Percentage of persons with 'needy' status	Districts	Percentage of the population receiving:		Percentage of persons with 'needy' status
	GMI	Any local benefit ¹			GMI	Any local benefit ¹	
Ventspils:	0.0	26.8	1.67	Ogres rajons:	0.6	22.7	6.19
Jūrmala:	1.1	13.9	1.07	Valkas rajons:	1.0	24.0	8.95
Daugavpils:	2.0	25.0	0.48	Talsu rajons:	1.2	14.7	7.40
Jelgava:	2.1	13.2	0.81	Ventspils rajons:	1.2	25.5	13.53
Rēzekne:	2.6	13.2	1.50	Saldus rajons:	1.4	19.1	7.13
Liepāja:	3.0	33.2	1.50	Limbažu rajons:	1.7	18.4	5.62
Rīga:	4.5	11.6	1.62	Bauskas rajons:	1.8	23.7	3.12
				Gulbenes rajons:	2.0	26.3	4.34
				Cēsu rajons:	2.0	14.4	3.74
				Liepājas rajons:	2.1	26.6	5.61
				Dobeles rajons:	2.2	21.3	4.30
				Valmieras rajons:	2.4	19.1	9.52
				Tukuma rajons:	2.8	19.6	8.48
				Rīgas rajons:	2.8	26.0	7.09
				Madonas rajons:	2.8	16.9	6.10
				Jelgavas rajons:	3.1	23.1	4.62
				Balvu rajons:	3.1	35.1	2.40
				Kuldīgas rajons:	3.1	19.8	5.46
				Alūksnes rajons:	3.7	27.3	2.28
				Preiļu rajons:	3.9	28.5	6.86
				Aizkraukles rajons:	4.1	23.7	1.76
				Jēkabpils rajons:	4.6	19.8	4.59
				Krāslavas rajons:	5.2	26.5	5.05
				Ludzas rajons:	5.4	20.8	5.90
				Rēzeknes rajons:	7.0	31.3	7.06
				Daugavpils rajons:	7.4	27.5	3.78

Source : Own calculations using administrative data from the SAF. Population data from CSB.

Notes:

1 Includes GMI.

Table 3. Benefit incidence level based on survey and administrative data, 2003

	Benefit incidence	
	(Beneficiaries as a percentage of the total population)	
	HBS 2003	SAF 2003
Local social assistance benefits	12%	19%
GMI benefit	0.9%	3.3%
State social benefits	51%	25%*

Source: Own calculations with data from HBS 2003 (CSB) and the SAF.

* In 2001. This figure is an underestimate due to incomplete information on the number of beneficiaries for some of the benefits. Own calculation based on data from MoW (2002).

Table 4. Poverty measures for various poverty lines using different welfare indicators, 2003

	Average expenditures per capita			Average income per capita			Average expenditures per adult equivalent		
	Poverty			Poverty			Poverty		
	Poverty rate	Poverty gap	depth	Poverty rate	Poverty gap	Poverty depth	Poverty rate	Poverty gap	depth
<i>Poverty line = 15 LVL</i>									
Total	0.95	0.18	0.05	2.10	1.07	0.82	0.31	0.03	0.01
urban	0.43	0.09	0.03	1.38	0.70	0.49	0.16	0.02	0.00
rural	2.04	0.36	0.10	3.61	1.84	1.50	0.62	0.06	0.02
<i>Poverty line = 35 LVL</i>									
Total	10.51	2.88	1.19	13.81	4.26	2.20	5.01	1.28	0.48
urban	7.08	1.85	0.73	9.68	2.86	1.45	3.28	0.84	0.31
rural	17.69	5.02	2.14	22.47	7.19	3.77	8.63	2.21	0.82
<i>Poverty line = 60% of median expenditures</i>									
Total	19.88	5.85	2.54	19.12	5.95	2.98	19.54	5.34	2.26
urban	13.76	3.85	1.63	13.77	4.11	1.99	13.79	3.63	1.51
rural	32.71	10.03	4.45	30.33	9.82	5.03	31.60	8.94	3.83

Source: Own calculations using data from the HBS 2003 (CSB).

Notes:

1 Welfare indicators are average monthly income or expenditures per household per capita or adjusted to adult equivalents (Scale: First adult = 1; other adults = 0.7; children = 0.5).

2 Poverty measures are based on the Foster-Greer-Thorbecke (1984) class of poverty measures. $FGT_{\alpha} = 1/n \sum_{i=1}^q [(z - y_i)/z]^{\alpha}$, $\alpha > 0$; with z = poverty line, y_i = income of the poor i , q = number of people living below the poverty line, n = total population and α is a parameter. $\alpha = 0$ provides the poverty rate (headcount); $\alpha = 1$ calculates the poverty gap, i.e. the average income shortfall of the poor as a proportion of the poverty line; $\alpha = 2$ is a measure for the severity of poverty, giving more weight to the poorest.

Table 5. Overview on benefit incidence and distribution for local social assistance and state social benefits

		1997	2000	2003
Percentage of households receiving	Local SA benefits ¹	1.4%	0.9%	11%
	State social benefits	34%	33%	34%
Percentage of the poorest 20% receiving	Local SA benefits	1.5%	1.2%	14%
	State social benefits	46%	46%	47%
Share of total benefits received by the poorest 20% of households	Local SA benefits	28%	36%	25%
	State social benefits	30%	33%	32%
Average monthly benefit size per recipient household	Local SA benefits	LVL 19	LVL 26	LVL 6
	State social benefits	LVL 10	LVL 12	LVL 16

Source: own calculations using data from the HBS 1997, 2000 and 2003 (CSB).

Note:

1 Local social assistance benefits are means tested. State social benefits are categorical benefits, such as family allowance, child care benefit, birth grant, guardian allowance, state social benefits, etc..

Table 6. Targeting effectiveness of state social benefits and local social assistance benefits, 2003^{1,2}

	Poorest 10%	Decile II	Quintile II	Quintile III	Quintile IV	Richest 20%	Total
Benefit incidence (percentage of group receiving a benefit)							
State social benefit	51.91 (2.62)	42.39 (2.68)	35.04 (1.99)	29.90 (1.62)	33.46 (2.30)	26.88 (2.15)	34.49 (1.23)
Local social assistance benefit	16.16 (2.08)	11.09 (1.80)	14.28 (1.58)	11.89 (1.92)	10.00 (1.85)	6.25 (1.23)	11.21 (1.12)
Share of total transfers received by each group (percentage)							
State social benefit	20.17 (2.35)	12.33 (1.53)	18.52 (1.67)	15.42 (1.55)	19.24 (1.67)	14.33 (3.13)	100.00
Local social assistance benefit	16.50 (3.43)	8.90 (1.99)	28.27 (5.40)	19.24 (4.52)	15.29 (3.06)	11.81 (2.90)	100.00
Average size of the benefit per month per household – only recipient households (LVL)							
State social benefit	21.97 (1.45)	16.48 (1.15)	14.97 (0.89)	14.59 (1.24)	16.30 (1.08)	15.10 (1.13)	16.42 (0.49)
Local social assistance benefit	6.95 (0.82)	5.47 (0.72)	6.75 (1.33)	5.51 (1.57)	5.22 (0.44)	6.45 (0.81)	6.08 (0.51)

Source: Own calculations using data from the HBS 2003 (CSB).

Notes:

1 Households are ranked according to their average monthly household expenditures per capita. The percentages in the table refer to households, not individuals.

2 Figures between parentheses are standard errors, taking into account survey design. The observed differences between groups are statistically significant at the 1% level, unless otherwise indicated.

Table 7. Are the benefits going to the needy? Benefit incidence and composition of recipients, 2003^{1, 2, 3}

	Benefit incidence			Composition of recipients		
	Local social		GMI benefit ⁴	Local social		GMI benefit ⁴
	State social benefits	assistance benefits		State social benefits	assistance benefits	
Very poor	66.71 (10.54)	42.11 (10.86)	16.05 (8.39)	1.28 (0.31)	2.49 (0.87)	17.69 (8.86)
Poor	50.26 (3.03)	14.29 (1.96)	2.05 (0.84)	10.83 (1.34)	9.48 (1.81)	25.26 (8.74)
Not poor	32.98 (1.11)	10.74 (1.18)	0.37 (0.11)	87.88 (1.44)	88.03 (2.18)	57.05 (8.79)
Total	34.49 (1.23)	11.21 (1.12)	0.60 (0.15)	100.00	100.00	100.00

Source: Own calculations using data from the HBS 2003 (CSB).

Notes:

1 The percentages in the table refer to households, not individuals,

2 Figures between parentheses are standard errors, taking into account survey design. The observed differences between groups are statistically significant at the 1% level.

3 Poverty is based on average total household expenditures per capita per month (y_i). Poverty lines indicating the very poor: $y_i < 18$ LVL; poor: $18 \text{ LVL} \leq y_i < 35 \text{ LVL}$; not poor: $y_i \geq 35 \text{ LVL}$.

4 Sample size is very small (n=27).

Table 8. What factors increase the chance of receiving a local social assistance benefit?^{1, 2, 3}

	(1)	(2)	(3)	(4)	(5)
--	-----	-----	-----	-----	-----

	Odds ratio	s.e.								
Quintile I	1.169	0.203								
Quintile II	1.234	0.221								
Quintile IV	0.823	0.130								
Quintile V	0.494***	0.085								
Ln (per capita exp)			0.625***	0.073	0.533***	0.048	0.778*	0.108	0.719***	0.089
Kurzeme					0.779	0.223			0.860	0.235
Zemgale					0.461***	0.123			0.546**	0.156
Latgale					0.581**	0.141			0.675	0.166
Vidzeme					0.406***	0.110			0.468**	0.139
Rural area							0.566***	0.099	0.714**	0.122
Breadwinner with higher education							0.984	0.162	0.968	0.156
- vocational education							1.056	0.298	1.104	0.320
- basic education							0.994	0.169	1.039	0.185
- less than basic education							0.844	0.256	0.856	0.256
Breadwinner is pensioner							2.566***	0.470	2.479***	0.449
- unemployed							1.996***	0.490	1.961***	0.476
- other							1.831*	0.565	1.755*	0.546
Breadwinner is female, 18-39							1.122	0.221	1.115	0.217
- male, 40-59							0.870	0.217	0.854	0.217
- female, 40-59							1.350	0.278	1.338	0.285
- male, 60+							1.504*	0.357	1.459	0.338
- female, 60+							2.055**	0.566	2.060***	0.545
Household with child(ren)							2.371***	0.356	2.380***	0.353
Ln (household size)							1.237	0.181	1.214	0.179
ROC ⁴	0.579		0.584		0.630		0.689		0.703	
# of observations	3631		3631		3631		3631		3631	

Source: Own calculations using data from the HBS 2003 (CSB).

Notes:

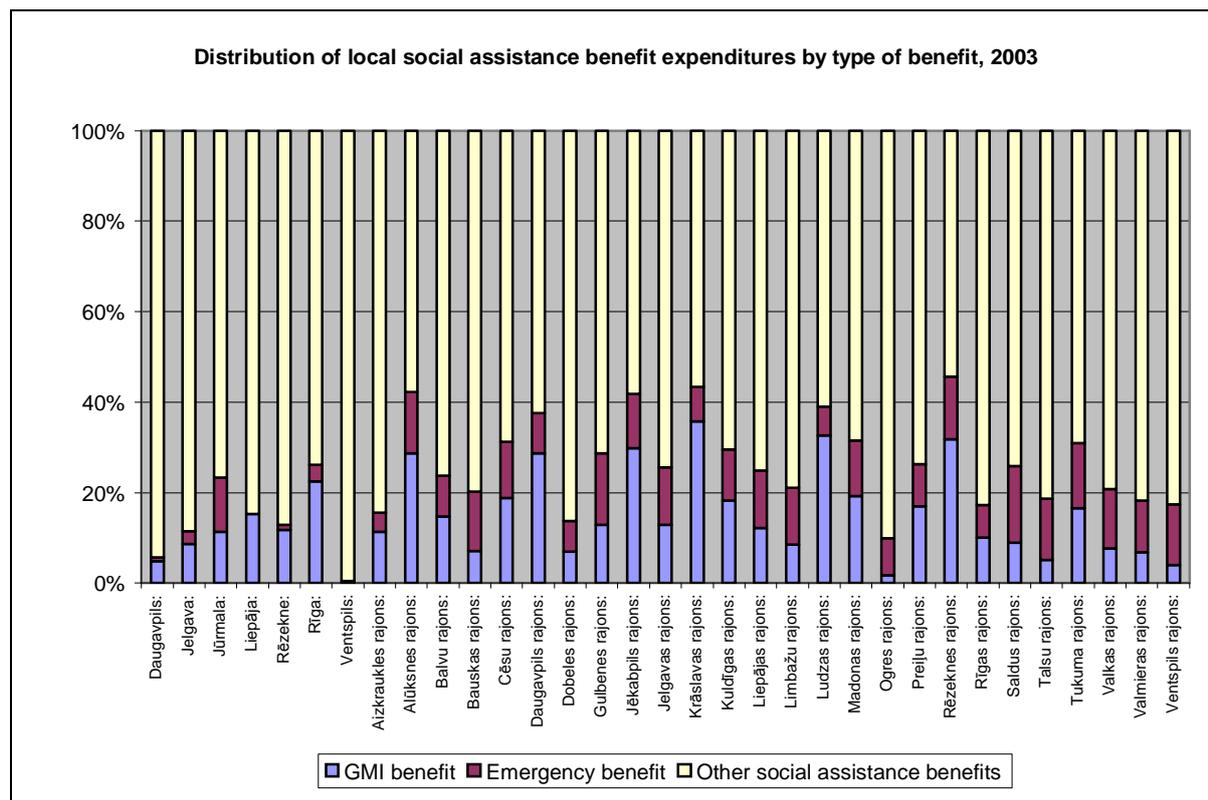
1 Logistic model estimated with maximum likelihood taking into account survey design. The results are presented as odds-ratios. Statistical significance levels of the underlying coefficients: *** significant at the 1% level; ** significant at the 5% level; * significant at the 10% level.

2 Dependent variable: 1 = household received local social assistance benefit; 0 = household did not receive benefit.

3 Omitted variables: Quintile III (based on per capita expenditures), Riga region, urban location, main breadwinner with secondary education, main breadwinner is working, main breadwinner is male and between 18 and 39, household with no child(ren).

4 ROC (Receive Operating Characteristics) is a measure of the predictive power of the model. A model with no predictive power has ROC = 0.5, and a perfect model has ROC = 1 (StataCorp, 2003).

Figure 1



A-Table 1. Poverty profile, 2003¹

		Poverty incidence ² (headcount ratio per group)						Composition (share in the total population)
		Per capita expenditures ³			Adjusted expenditures ⁴			
		very poor	poor	not poor	very poor	poor	not poor	total
Region	Total	0.95 (0.23)	9.56 (1.26)	89.49 (1.35)	0.31 (0.13)	4.70 (0.72)	94.99 (0.76)	100.00
	Kurzeme	1.16 (0.48)	8.65 (1.69)	90.19 (1.88)	0.31 (0.17)	6.85 (1.75)	92.84 (1.69)	12.06 (3.92)
	Zemgale	2.69 (1.07)	12.65 (1.63)	84.66 (1.83)	0.69 (0.57)	8.49 (1.62)	90.82 (1.70)	14.97 (3.72)
	Latgale	0.79 (0.42)	16.74 (1.81)	82.46 (1.93)	0.62 (0.43)	6.31 (1.23)	93.07 (1.40)	19.35 (5.73)
	Vidzeme	0.96 (0.53)	14.55 (2.30)	84.49 (2.38)	0.23 (0.17)	6.35 (1.39)	93.43 (1.41)	15.16 (3.21)
	Rīga reg	0.28 (0.11)	3.06 (0.83)	96.67 (0.89)	0.04 (0.04)	1.09 (0.37)	98.87 (0.38)	38.46 (9.44)
	Age	0-14	2.20 (0.62)	14.69 (1.81)	83.10 (2.02)	0.52 (0.25)	7.02 (1.17)	92.46 (1.21)
	15-24	1.11 (0.42)	11.13 (1.71)	87.75 (1.87)	0.57 (0.32)	4.68 (0.98)	94.75 (1.12)	14.72 (0.53)
	25-49	0.90 (0.21)	9.22 (1.28)	89.88 (1.34)	0.30 (0.14)	4.34 (0.71)	95.35 (0.76)	35.56 (0.48)
	50-64	0.60 (0.22)	7.42 (1.22)	91.98 (1.28)	0.15 (0.11)	4.27 (0.78)	95.59 (0.80)	18.12 (0.48)
	65+	0.14	6.56	93.30	0.08	3.85	96.07	16.54

		(0.08)	(1.13)	(1.15)	(0.06)	(0.80)	(0.81)	(0.66)
Household size	One	0.10	5.15	94.75	0.10	5.15	94.75	9.36
		(0.10)	(0.90)	(0.91)	(0.10)	(0.90)	(0.91)	(0.41)
	Two	0.61	5.62	93.77	0.21	3.31	96.47	23.30
		(0.26)	(0.95)	(1.04)	(0.13)	(0.73)	(0.76)	(1.00)
	Three	0.72	5.82	93.46	0.34	2.55	97.11	25.70
		(0.27)	(1.18)	(1.21)	(0.22)	(0.56)	(0.62)	(0.86)
	Four	0.51	8.81	90.68	0.26	3.98	95.76	23.16
		(0.36)	(1.62)	(1.67)	(0.26)	(1.08)	(1.12)	(0.97)
	Five or more	2.66	22.89	74.44	0.56	10.12	89.32	18.48
		(0.95)	(3.14)	(3.35)	(0.45)	(1.91)	(1.97)	(1.50)
Number of children	No children	0.40	6.05	93.55	0.20	3.43	96.37	47.08
		(0.16)	(0.92)	(0.96)	(0.12)	(0.61)	(0.64)	(1.56)
	One child	0.83	7.20	91.97	0.38	3.87	95.76	29.43
		(0.32)	(1.34)	(1.39)	(0.24)	(0.96)	(1.01)	(1.11)
	Two children	1.08	14.58	84.34	0.46	5.73	93.81	17.29
		(0.68)	(2.64)	(2.76)	(0.46)	(1.44)	(1.52)	(0.94)
	Three children	3.06	30.72	66.21	0.00	12.11	87.89	4.48
		(1.85)	(4.91)	(5.10)	0.00	(3.34)	(3.34)	(0.60)
	Four or more children	11.29	40.30	48.41	1.47	24.01	74.52	1.72
		(5.34)	(7.85)	(8.53)	(1.48)	(7.47)	(7.57)	(0.36)
Family type	Single person	0.10	5.15	94.75	0.10	5.15	94.75	9.36
		(0.10)	(0.90)	(0.91)	(0.10)	(0.90)	(0.91)	(0.41)
	One adult with children	4.18	8.06	87.75	0.79	8.50	90.71	2.85
		(1.88)	(2.49)	(3.22)	(0.80)	(2.81)	(2.95)	(0.21)
	Couple without children	0.08	4.20	95.72	0.08	2.54	97.38	15.13
		(0.08)	(0.92)	(0.93)	(0.08)	(0.63)	(0.64)	(0.73)
	Couple with children	1.13	9.23	89.64	0.21	4.32	95.46	24.74
		(0.51)	(1.40)	(1.55)	(0.15)	(1.00)	(1.00)	(1.22)
	Other types	1.10	12.37	86.53	0.45	5.26	94.29	47.92
		(0.34)	(1.83)	(1.91)	(0.24)	(0.95)	(1.02)	(1.40)
Age and sex breadwinner	Male, 18-39	1.15	11.84	87.01	0.32	4.60	95.08	26.59
		(0.56)	(1.95)	(2.12)	(0.25)	(1.09)	(1.14)	(1.02)
	Female, 18-39	0.49	11.25	88.26	0.22	5.38	94.40	10.42
		(0.36)	(2.28)	(2.33)	(0.22)	(1.75)	(1.77)	(0.52)
	Male, 40-59	1.35	7.36	91.30	0.49	3.48	96.03	25.52
		(0.54)	(1.52)	(1.65)	(0.37)	(0.77)	(0.88)	(0.97)
	Female, 40-59	1.00	10.19	88.81	0.26	5.49	94.25	15.09
		(0.38)	(1.69)	(1.80)	(0.20)	(1.34)	(1.38)	(0.71)
	Male, 60+	0.53	4.56	94.91	0.14	3.50	96.36	10.91
		(0.40)	(1.14)	(1.14)	(0.14)	(1.01)	(1.02)	(0.50)
	Female, 60+	0.34	11.59	88.08	0.20	7.13	92.67	11.47
		(0.21)	(2.19)	(2.21)	(0.15)	(1.58)	(1.60)	(0.60)
Economic status breadwinner	Employee	0.35	7.79	91.86	0.11	3.20	96.69	65.08
		(0.14)	(1.20)	(1.24)	(0.08)	(0.63)	(0.66)	(1.66)
	Employer, self-employed, farmer	2.07	9.43	88.50	0.72	4.04	95.25	10.11
		(1.01)	(2.34)	(2.52)	(0.61)	(1.35)	(1.48)	(0.99)
	Retired	0.48	10.06	89.47	0.19	5.70	94.11	20.23
	(0.24)	(1.48)	(1.49)	(0.11)	(1.10)	(1.12)	(0.79)	
	Other	9.08	32.81	58.12	2.82	23.06	74.12	4.57

(3.34) (4.40) (4.81) (1.87) (4.08) (4.33) (0.59)

Source: Own calculations using data from the HBS 2003 (CSB).

Notes:

1 Figures between parentheses are standard errors, taking into account survey design. The observed differences between groups are statistically significant at the 1% level, unless otherwise indicated: * significant at the 5% level; ** not significant.

2 Poverty incidence measures the number of poor people as a share of the total. It can be interpreted as the risk of living in poverty for an individual belonging to a specific group or living in a household with certain characteristics.

3 Poverty measure based on average total household expenditures per capita per month (y_i). Poverty lines indicating the very poor: $y_i < 18$ LVL; poor: $18 \text{ LVL} \leq y_i < 35 \text{ LVL}$; not poor: $y_i \geq 35 \text{ LVL}$.

4 Poverty measure based on average total household expenditures per equivalent adult (first adult = 1; second and other adult = 0.7; children = 0.5). Poverty lines indicating the very poor: $e y_i < 18 \text{ LVL}$; poor: $18 \text{ LVL} \leq e y_i < 35 \text{ LVL}$; not poor: $e y_i \geq 35 \text{ LVL}$.

A-Table 2. Factors explaining differences between municipalities in allocating GMI benefits, 2003¹

	Model 1			Model 2		
	Estimated coefficient	Standard error	P>t	Estimated coefficient	Standard error	P>t
Ln (population)	0.5224	0.1121	0.0000	0.3186	0.1110	0.0040
Share of population > working age	0.0468	0.0513	0.3620	-0.0106	0.0497	0.8310
Population per professional worker				-0.0001	0.0000	0.0000
Presence of professional worker (dummy)	-1.1180	0.4035	0.0060	0.0193	0.4180	0.9630
Share of ethnic Latvians in the population	-0.0088	0.0086	0.3100	-0.0348	0.0090	0.0000
Official unemployment rate	0.1782	0.0410	0.0000	0.1668	0.0392	0.0000
Share of people with status of needy	0.0845	0.0250	0.0010	0.0928	0.0239	0.0000
Participated in pilot (dummy)	-0.0499	0.5546	0.9280	-0.2467	0.5311	0.6420
Constant	-3.4656	1.6904	0.0410	1.4512	1.7595	0.4100
Number of observations	533			533		
Prob > F	0.0000			0.0000		
Adj R-squared	0.1492			0.2219		

Source: Own calculations using administrative data from the SAF. Demographic data from CSB.

Notes:

1 Models estimated using OLS regression, weighted by the size of the municipality. Dependent variable: Share of GMI recipients per municipality.

Maastricht Graduate School of Governance

Working Paper Series

List of publications

2008

<i>No.</i>	<i>Author(s)</i>	<i>Title</i>
001	<i>Roelen, K. and Gassmann, F.</i>	Measuring Child Poverty and Well-Being: a literature review
002	<i>Hagen-Zanker, J.</i>	Why do people migrate? A review of the theoretical literature

2007

<i>No.</i>	<i>Author(s)</i>	<i>Title</i>
001	<i>Notten, G. and C. de Neubourg</i>	Relative or absolute poverty in the US and EU? The battle of the rates
002	<i>Hodges, A. A. Dufay, K. Dashdorj, K.Y. Jong, T. Mungun and U. Budragchaa</i>	Child benefits and poverty reduction: Evidence from Mongolia's Child Money Programme
003	<i>Hagen-Zanker, J. and Siegel, M.</i>	The determinants of remittances: A review of the literature
004	<i>Notten, G.</i>	Managing risks: What Russian households do to smooth consumption
005	<i>Notten, G. and C. de Neubourg</i>	Poverty in Europe and the USA: Exchanging official measurement methods
006	<i>Notten, G. and C. de Neubourg</i>	The policy relevance of absolute and relative poverty headcounts: Whats in a number?
007	<i>Hagen-Zanker, J. and M. Siegel</i>	A critical discussion of the motivation to remit in Albania and Moldova
008	<i>Wu, Treena</i>	Types of Households most vulnerable to physical and economic threats: Case studies in Aceh after the Tsunami
009	<i>Siegel, M.</i>	Immigrant Integration and Remittance Channel Choice

2006

<i>No.</i>	<i>Author(s)</i>	<i>Title</i>
001	<i>Gassmann, F. and G. Notten</i>	Size matters: Poverty reduction effects of means-tested and universal child benefits in Russia
002	<i>Hagen-Zanker, J. and M.R. Muñoz Castillo</i>	Exploring multi-dimensional wellbeing and remittances in El Salvador
003	<i>Augsburg, B.</i>	Econometric evaluation of the SEWA Bank in India: Applying matching techniques based on the propensity score
004	<i>Notten, G. and D. de Crombrughe</i>	Poverty and consumption smoothing in Russia

2005

<i>No.</i>	<i>Author(s)</i>	<i>Title</i>
001	Gassmann, F.	An Evaluation of the Welfare Impacts of Electricity Tariff Reforms And Alternative Compensating Mechanisms In Tajikistan
002	Gassmann, F.	How to Improve Access to Social Protection for the Poor? Lessons from the Social Assistance Reform in Latvia