Preventing and reducing poverty in times of crisis – the role of non-contributory cash transfers

Background paper for the UN Conference on Social Impact of the Economic Crisis in Eastern Europe, Turkey and Central Asia, Almaty, 7-8 December 2009

Petra Hoelscher[1], Gordon Alexander[2] and Wolfgang Scholz[3]

'The world has not yet learned from past experience on how to avoid making the same mistakes… The key question is …..'to address issues in a systemic manner to prevent the recurrence of crises.'

Supachai Panitchpakoi, UNCTAD Secretary General, Address to Parliamentarians on the Global Economic Crisis May 2009

Abstract

The social impacts of the global economic crisis are only slowly beginning to be felt in Eastern Europe, Turkey and Central Asia. Many countries in the region have tried to protect social spending during the crisis. Some countries have adjusted or expanded coverage, duration and levels of social benefits. Few countries however have made concerted use of employment and social protection policies to mitigate any social impact. This paper assesses the effectiveness of social protection systems, focusing on non-contributory cash transfers as arguably one of the most important vehicles of social protection in a crisis, especially in economies with large informal sectors. The analysis of existing legal provisions and entitlements for their potential to prevent poverty in families with children shows that in many countries family benefit packages have a negative net balance on families with children compared with childless couples. These findings help to explain the persistence of higher poverty risk of families with children across the region. This paper argues that the prospect of economic recovery offers an opportunity to reconsider the direction of social protection in the region and calls for a new 'social consensus' centred on a more coordinated approach between social insurance, categorical benefits and social assistance.

1. Introduction

The sharpest period of the global economic and financial crisis may well be over. Signs of meaningful recovery are beginning to be seen globally as stimulus plans have begun to show effects. Commodity prices have once again begun to rise. Many countries are projecting a return to economic growth in 2010. But the crisis is not yet behind us.

Many parts of the region are still dealing with the immediate consequences of the severe downturn. There is still considerable vulnerability to faltering of the global economy, a possibility of new speculative bubbles, or further twists in the re-bound of major regional economies. The shape of the recovery is still largely undetermined. Within the region, the hydrocarbon exporting countries were the first to be hit by the crisis, along with countries particularly open to foreign trade and investment. The crisis has since spread to the countries in the Caucasus and Central Asia as large scale job losses took place in key sectors of Kazakhstan and Russia and remittances from migrant labour fell precipitously.

[1] UNICEF Regional Office for CEE/CIS
[2] UNICEF Regional Office for CEE/CIS
[3] ILO

The social impacts of the crisis are only slowly beginning to be felt. While 2009 household survey data will only become available in 2010, it is likely that rising unemployment, underemployment and loss in wages are leading to rising poverty levels. Research in Turkey and Kazakhstan suggest that families are already feeling the impact of the economic crisis and are trying to cope by switching to lower quality food, cutting non-essential spending and borrowing money. However, against the background of persistently high levels of poverty and vulnerability in many countries even small losses in income are difficult to cope with if they are not mitigated by effective social protection measures.

Many countries in the region have tried to protect social sector spending during the crisis and some have adjusted the levels of social assistance, unemployment benefits and pensions or expanded coverage and duration of social benefits. At the same time, however, some countries experience massive losses of tax and social contribution revenue, threatening the financial basis of social protection systems. It is still too early to assess the effectiveness of these measures in mitigating the social impacts of the crisis. However, the earlier performance of existing social protection systems indicates the potential for these measures to address new and persisting vulnerabilities.

Assessments of the effectiveness of social protection systems in preventing and reducing poverty show how little prepared countries are to prevent significant social consequences in the wake of economic crisis. Taking the example of non-contributory cash transfers – categorical benefits and social assistance – this paper shows how too narrow targeting of social benefits and incomplete social protection system reforms undermine the effectiveness of cash transfer schemes. While social reform processes began during the transition period of the years of strong economic growth, they have not been sufficiently used to develop effective and reliable systems.

As countries move into recovery, there is an urgent need to enter into a debate on what social protection should achieve in each country and to use the recovery period as time for moving towards more effective systems. Simple adjustments in social protection measures in response to the crisis will not be enough.

This paper is a contribution to such a debate. It discusses the current state of social protection against the background of the global economic and financial crisis and makes policy recommendations for the development of more comprehensive social protection systems in Eastern Europe, Central Asia and Turkey.

The main focus of the analysis is on non-contributory social protection measures as one of the main vehicles for reducing and preventing poverty of vulnerable groups of the population. Vulnerability to poverty is linked to family composition – with children having a higher poverty risk in most countries – as well as geographical disparities and lack of formal employment (UNICEF 2009). Hence the analysis covers an assessment of pre- and post-transfer poverty rates as well as model family analysis, looking more closely at the efforts governments are making in preventing poverty among families with children. The value of child benefit packages, including benefits, taxes and typical costs for childcare, health and education are assessed for different family types at different income levels.

The final section looks ahead to what could be the political process of moving towards such future oriented social protection systems

The analysis is based on questionnaire responses received from national informants across the region, focusing on the social impacts of the economic crisis, government responses and information

on family-related social protection measures. The questionnaires and the model family analysis have been prepared by Jonathan Bradshaw and Emese Mayhew at the University of York, UK.

Definitional issues

The need for social protection is universal. Old age, child birth, accidents, ill health, disability, and unemployment are among the risks that can lead to and are exacerbated by poverty and social exclusion. The universality of social risks is reflected in the inclusion of the right to social security and an adequate standard of living in a number of fundamental human rights instruments, including the Universal Declaration of Human Rights (paras. 22 and 25), the UN Convention on the Rights of the Child (art. 27) and the ILO Convention 102 on Minimum Standards of Social Security. Social protection encompasses the set of measures – cash transfer schemes and social services – put in place to mitigate these social risks and to prevent and reduce poverty (Human Rights Council 2009, Joint Statement[4]).

ILO, more specifically, defines social security as covering 'all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from (a) lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; (b) lack of access or unaffordable access to health care; (c) insufficient family support, particularly for children and adult dependents; (d) general poverty and social exclusion (ILO 2009, 57).

Traditionally social protection systems combine social insurance, contributory and tax-funded schemes. Contributory benefits aim at providing income security to workers and their dependents, while non-contributory, tax-funded social benefits redistribute resources to broader groups of the population (categorical or universal benefits) or poor people (social assistance) (Townsend 2007).

Reliable and 'predictable' benefits and services to poor and vulnerable groups have direct impacts on the well-being of children and adults. They enable households to better manage risks and avoid desperate measures such as taking children out of school or selling livestock that could have long-term consequences and lock families into a cycle of poverty. Contrary to common perception cash transfers to the poor do not discourage the take-up of work and create dependency but provide a secure basis on which families can invest in building their own business or find stable employment, especially if social protection measures are linked to active labour market policies (OECD 2009).

Poverty trends

The impacts of the crisis on poverty rates across the region are not yet clear. Even as recovery begins, the social impacts of the crisis may still be unfolding as labour markets take time to recover and pressure on government expenditure may affect social provisions. To date, no household survey data is available that could give detailed information on poverty trends from 2007 through to 2009. However, it is estimated that, as a result of the crisis, across the whole European and Central Asia region, 15 million more people may move into absolute poverty in 2010. A further 23 million may become vulnerable to poverty. By 2010, the World Bank expects the poverty headcount (using the $PPP 2.5 poverty line) to be about 2.4 percentage points higher than it would have been if the trajectory had continued as before (World Bank 2009). In projections covering the period up to 2014,

[4] 'Joint Statement on Advancing Child-Sensitive Social Protection' by DfID, Help Age International, Hope & Homes for Children, IDS, ILO, ODI, Save the Children UK, UNDP, UNICEF and the World Bank. June 2009.

Horvath et al. (2009) likewise show a sharp increase on all poverty indicators for 2009/2010 with poverty projected to remain at high levels or to only slightly decrease over the next five years.

Depending on where poverty lines are drawn, in countries with moderate poverty rates such as Russia, Ukraine, Belarus and Azerbaijan the nature of poverty is relatively shallow with large numbers of households living just above poverty thresholds. In such settings, poverty rates can rise quickly as the effects of unemployment tip households back into poverty. On the other hand, poverty tends to be deep in countries such as in Armenia, Georgia, Moldova and Central Asia (except Kazakhstan) where levels of poverty are high. The impact of the crisis in such settings is interacting with other systemic problems of repeated vulnerability to natural disaster and weak capacities in governance in some countries (Dabrowski et al. 2009).

In the wake of the crisis, the dynamics of poverty might change in many countries. Very poor groups of the population may not initially experience much deterioration of their situation as their situation is already dire and many are already detached from the labour market. With rising unemployment and wage arrears new groups of the population become vulnerable to poverty. Weak provision of unemployment benefits on the one hand and very narrow targeting of social assistance on the other hand leaves many of the newly poor without any support to tide over income losses. Though experiences from previous crises suggest that many people may move into the informal sector, it is not yet clear whether the informal labour market can absorb the decline in formal employment or if it is also hit by the crisis.

Children have consistently experienced higher levels of poverty than other groups, a gap that did not close during the 'good years' of 2003-2007. Evidence from previous crises suggests that these gaps will continue or may widen unless specific social protection policies are adopted to address them. There are different trends in inequality emerging in the region. After a rapid increase in the early 1990s inequality has stabilised, often at a high level. During the current crisis, levels of inequality, paradoxical though it may seem, have in some countries been reduced as income losses hit higher income groups harder than poor people. In other countries, however, inequality is considered to have stayed high or risen further (Milanovic 2009). The effect of economic downturn in a given country are determined by the interaction of both poverty and inequality levels.

Main channels of transmission of social impacts and household coping strategies

The downturn in the labour market and pressure on public expenditure causing wage arrears particularly in the public sector are the most direct channels through which the crisis affects livelihoods of families across the region. As the ILO background paper on decent employment shows, many countries experience a sharp increase in registered unemployment. Older age groups and young people are overrepresented among those becoming unemployed or experiencing forced cuts in working hours. The greatest declines in regular employment are reported in industrial centres and the construction sector. Knock-on effects are being felt in other sectors. While the number of registered unemployed is increasing, many are not entitled to receive unemployment benefits due to their engagement in the informal economy.

In countries such as Ukraine in mid-2009 as many as 21% of adults reported losing jobs (either themselves or their family members). Many workers indicated having been sent on administrative leave or are working shorter working weeks. Overall, 61.8% described the impacts of the crisis as considerable, 18.2% even as catastrophic (Omnibus data, National Academy of the Sciences of Ukraine 2009)

High prices of food and other essential goods continue to put pressure on household budgets. Although the overall tendency has been towards a lowering of food prices, prices remain at a higher level than at the beginning of the food crisis in 2007.

Families respond to income losses both by trying to raise additional income and by cutting down on expenditure. Strategies during the 1990s consisted of sale of assets, taking on double jobs, and shifts to the informal sector. Many families turned to small subsistence household plots and increased reliance on family support networks to see families through difficult times. Families initially reduce expenditure on non-essential items or switch to buying cheaper and lower quality good and food stuffs. (Murrugarra, Signoret 2003) In Turkey, poor households have cut back on time spent with social networks and substituted expensive items in their diet (World Bank, UNICEF 2009) Only when these strategies are no longer sufficient families are forced to reduce food intake, delay necessary medical treatment or withdraw children from education (Harper 2009).

The CEE/CIS region is so far the only region in the world experiencing a substantive downturn in remittances in response to the crisis especially because of the downturn in the Russian labour market (World Bank 2009). Return migration on a large scale is not yet occurring. With the lack of alternatives at home, migrants prefer to stay abroad but are no longer able to send remittances with the same regularity or of the same value back to families. Reports from Kyrgyzstan, still not yet facing the full impact of the crisis, underline that declining remittances have heightened vulnerability of migrant families in disadvantaged regions. Migration is no longer an immediate option for poor families, with households consisting of pensioners and children dependent on social assistance at levels that are very low (Helpage 2009). In some countries migrants and ethnic minorities are faced with a rise in xenophobia and racism which may originate in but is linked to and exacerbated by the crisis. Against this background, migration as coping strategy like in previous crises is likely to play a much lesser role because of its global scope and substantially lower availability of jobs.

Cuts in provision of health and education have not yet been seen on large scale but are beginning to occur in some countries. Informal payments for health and education services as well as costs for transport, already barriers of access for the poor, are reported to have risen. Likewise access to drugs and medicines, with price rises of 10-15 % in the price of imported pharmaceuticals as a result of exchange rate changes along with increases in premiums of health insurance (WHO 2009). Russia is among the countries trying to counteract these developments. It has directly purchased medicine equivalent to 12.2 bn Rubles from the Federal budget in 2009 in order to maintain health care standards for the poor.

In addition the combination of rising unemployment and deterioration of living standards may lead to additional stress and risky behaviour such as alcohol abuse, a rise in family violence, suicides, and drug use (Stilman 2003).

2. The state of social protection in Eastern Europe, Central Asia and Turkey

The crisis highlights the need for strengthened social protection systems that are able to respond quickly and effectively to both already existing and new vulnerabilities. Gaps in provision and difficulties to effectively prevent and reduce poverty become more apparent as countries struggle to mitigate the social impacts of the crisis. The time of recovery is the time to address these problems more systematically and to ensure that countries become better prepared for any future shocks or economic downturns.

Countries inevitably deal with the social impacts of economic crisis based on their existing social protection system and the reform trajectory they are on. This section gives an overview of reform processes during the transition period and reviews current government responses to mitigate the social impacts of the crisis.

Social protection in transition: the lost consensus

Going back to the roots of social protection in the late 19th century but particularly to the time after WWII, the make-up of comprehensive social protection systems gradually replaced existing social assistance schemes which were perceived as fragmented and ineffective in protecting workers from poverty since they were low in value and coverage. Social insurance gained importance as a cost-effective strategy to reach broader coverage of social benefits for workers while universal categorical benefits provided support to vulnerable populations who were because of their age or disabilities outside the labour market (Townsend 2007). It is true that the vision of 'good societies' differed widely between liberal, conservative and social democrat political parties and these are reflected in the balance and weight of different components of social protection systems.

The broad aim however remained the achievement of greater equality in life chances and living conditions and the elimination of social risks across the life cycle (Esping-Andersen 2003). In recent years, the differences between EU welfare systems are becoming less clear. The EU Social Inclusion process has strengthened processes of peer review and support among Member States and agreement on common objectives for reducing poverty and promoting social inclusion help countries develop clearer strategies for achieving better outcomes for poor people, children and vulnerable populations. Nevertheless, the Social Inclusion Process is a soft instrument and there is no common EU social policy that could achieve equally effective and resourced social protection systems across Member States.

In transition countries, however, the trend has been in another direction - one of divergence, away from a prior state socialist consensus about what constitutes a 'good society' towards contrasting perspectives on the balance between the state, the market and individual responsibility, and very different views on the role and set-up of social protection systems.

During the early years of transition, a sharp rise in unemployment as a result of economic restructuring led to a shift towards informal labour markets; periods of political instability (and in some countries conflict) led to income insecurity and a rise in poverty that could not be mitigated by systems that primarily relied on guaranteeing full employment. The initial response in many countries was to rapidly introduce new social protection measures, including cash transfers, not least to consolidate the transition towards democratic forms of government. Examples were extensive early retirement policies and unemployment benefits.

The expansion of cash benefit systems was however only temporary. During the second wave of reforms, countries moved away from former universal and essentially adequate social welfare schemes. 'Targeting', 'safety nets' and the idea of social protection as 'last resort' reflected views not only of economic but also of social reforms. This was accompanied by a re-definition of poverty from being based on subsistence minimum standards to one following the global World Bank definition of a calorie based extreme and slightly higher 'total' poverty line (see box).

Universal and categorical benefits were negatively associated with the earlier Soviet privilege system that combined categorical benefits for vulnerable groups and a broad range of benefits for war veterans and citizens recognised to have given special services to the state. As a system these were

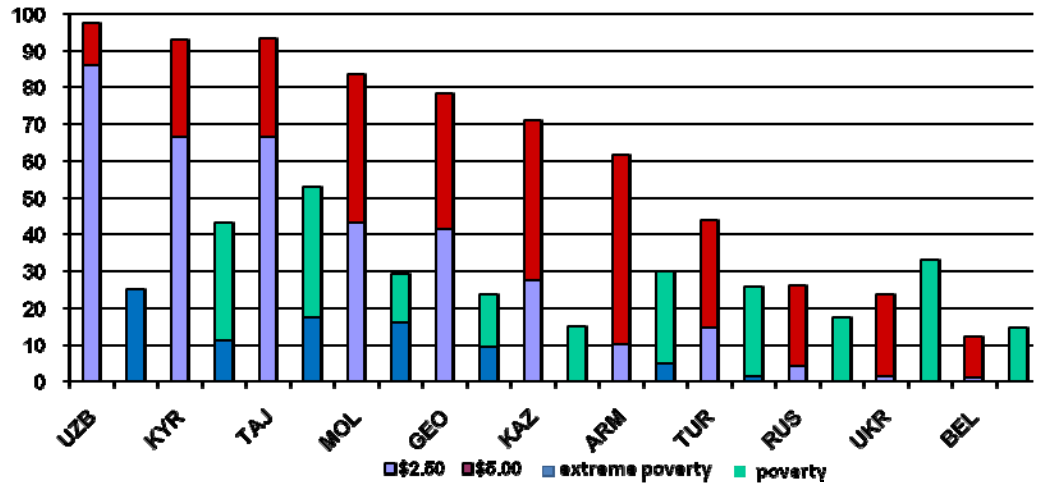
expensive, biased towards the better-off and ineffective in reducing poverty. In a number of countries the pendulum therefore went to the other extreme, bringing cuts in spending on social services, the erosion of benefit levels and a deterioration of family and child benefits by making them subject to means tests, behavioural conditionalities or time limits. More recently, a number of countries introduced generous child birth grants as a measure to increase fertility rates. While being universal such grants are not able to improve families' living standards in the long run (Stubbs 2008, Cerami 2009, Barrientos and DeJong 2004).

BOX 1: Defining poverty

The World Bank globally in their national poverty assessments uses an 'extreme' poverty line representing the costs of about 2100 calorie consumption per day and a 'total' poverty line adding a non-food component based on consumption patterns of people just above the extreme poverty line. In practice the higher poverty threshold is roughly 1.5 times the food poverty line [example]. Both these poverty lines are very low and do not sufficiently take into account the basic needs for clothing, shelter, heating and utilities that are essential for survival in countries with cold climates. Other poverty measures such as households' ability to make ends meet or material deprivation give substantially higher poverty rates. Applied to middle income countries the World Bank consumption poverty lines may capture some extremely marginalised groups but miss the broader groups of the population that struggle to make ends meet.

In their regional analyses, the World Bank does not use the global $ 1.25 a day ppp food poverty line but $ 2.50 ppp as extreme poverty line for transition countries, half of it accounting for food, the other half for non-food items. A higher threshold of $ 5 a day is used as poverty line for middle income countries to capture vulnerability in lower income transition countries (World Bank 2008). Regional poverty analyses show very different poverty rates than country assessments.

Chart 1: Poverty and vulnerability across CEE/CIS



Source: World Bank PovCalNet data base, survey years 2003-2005, except Armenia: National Statistical Service (2008), 2005 data used for comparison, national data: World Bank Poverty Assessments and National Statistical Offices

In view of contributory social protection programmes, reforms of pension and health care are under way in a number of countries, re-balancing contributory and tax-based provisions as well as addressing the implications of demographic changes and ageing societies in many countries. The

current economic crisis and budgetary pressures may lead to changes though that could set back reforming systems by as much as a decade and some countries may have to start the process – partially or fully – all over again.

Due to the long history of full employment guarantees during the earlier period of socialism, the female labour participation rate was relatively high and maternity benefits reasonably developed already at the time of the Soviet Union. On the other hand, in most countries except Russia, Belarus and Kazakhstan, insurance against occupational accidents and diseases are still based on the principle of employers' liabilities. Unemployment benefits tend to be very low with benefit levels often being determined based on a fixed percentage of the minimum wage which does not necessarily reflect the level of wage increases during the economic growth period prior to the crisis. Also, unemployment benefits are not yet linked to active labour market policies to (re-)integrate recipients into the labour market. Across the region social insurance provisions tend to suffer from complex administrative structures and poor coordination. Against this background social reform processes are focused on better coordination and integration of schemes. Ukraine, for example, is working towards better integration of social insurance schemes into a joint fund and a corresponding single social insurance payment as well as the introduction of health insurance (Molodikova 2008).

The following table shows the variety of contributory and non contributory benefits in place, broadly reflecting a similar range of measures that would be found in Western European countries but much of these provisions have been eroded and with high levels of informal employment, it is less clear what the underlying vision is of what social protection should achieve.

Table 1: Social protection measures across the region

		ARM	AZE	BEL	GEO	KAZ	KYR	MOL	RUS	TAJ	TUR	TKM	UKR	UZB
contributory	Unemployment	x	X	x	x	x	x	x	x	x	x	x	x	x
	Pensions	x	X	x	x	x	x	x	x	x	x	x	x	x
	Disability/work injury	x	X	x	x	x	x	x	x	x	x	x	x	x
	Maternity	x	X	x	x	x	x	x	x	x	x	x	x	x
	Health insurance	x	X		x		x	x	x		x	x		
non-contributory	Social assistance	x	X	x	x	x	x	x	x	x		x	x	x
	Basic pensions	x	X	x	x	x	x	x	x	x	x	x	x	x
	Maternity			x								x		
	Birth grant	x	X	x		x		x	x	x		x	x	
	Child benefits			x				x				x	x	
	Housing/energy subsidy		X	x		x	x		x	x		x	x	x
	Tax breaks for families			x		x	x		x			x		

The picture is one of a mix of measures from different stages of reform that continue to co-exist: a range of categorical benefits, subsidies and privileges carried over from the previous system, narrowly targeted social assistance schemes introduced over the past 5-10 years, sometimes also replacing previous categorical benefits, and in some countries, child birth grants which aim at increasing fertility rather than poverty reduction.

Many social assistance schemes are mainly targeting families with children (e.g. Tajikistan, Moldova, Armenia) while broader child benefits have been abandoned by most countries. Where child benefits are still in place they are targeted to young children. Benefits for very large families have not been included in this matrix as their target group is very small. Contributory programmes have

been maintained during the transition period but have lost real value over time and while still in place they no longer are effective tools for preventing and reducing poverty. There is no clear pattern in regard to health insurance – some countries, e.g. Kazakhstan, introduced health insurances but returned to a tax funded health system while others are currently moving towards an insurance based system. Taxation is rarely used as instrument for redistributing resources – only five countries grant tax breaks for families with children.

Government responses to mitigate the social impacts of the crisis

The 2008-2009 financial crisis took most countries in the region by surprise. Few therefore were able to mount an organised social response to the crisis. Many governments in the CIS, including Russia and Armenia, did however quickly and publicly commit not to reduce social expenditure during the crisis, and to protect the vulnerable. This in itself is a major shift from the experience of crisis in the 1990s.

The bulk of resources has continued to go to financial institutions and to infrastructure, while the sustainability of public spending, especially in the social sector has come under question. Abrupt deterioration of public finances is leading some countries, e.g. Moldova and Kazakhstan, to undergo real cuts in public expenditure of 10% to 20%, putting pressure on sectoral budgets. Pressure is also growing to find efficiency gains of public spending that translates into calls for greater targeting of social assistance to the extremely poor.

No country has raised taxes in response to the crisis but Armenia has intensified tax collection efforts. Georgia and Tajikistan, on the other hand, have introduced tax cuts while Kazakhstan and Kyrgyzstan have, independently of the crisis, recently introduced new tax codes. It remains to be seen how these new regulations are interacting with the current economic situation.

A number of countries have tried to maintain employment as far as possible through measures to encourage enterprises to hold onto labour and through direct support to small and medium enterprises. Kazakhstan has introduced temporary public works schemes. The introduction of more active employment measures can be seen in Turkey with the introduction of vocational training particularly for young people and women and in Russia with proactive measures in companies planning mass-dismissals, including vocational training, creation of temporary jobs, relocation of employees and the support of self-employment and start-ups. Overall employment measures have predominantly focused on support to companies while groups who are disadvantaged in the labour market, especially young people have not been in focus.

Measures to directly mitigate the social impact of the crisis have tended to concentrate on (very modest) topping up of pensions, unemployment benefits and social assistance schemes, and in some case to expand eligibility or extend the duration of benefit receipt. Georgia has modestly increased pensions and TSA and is expanding coverage with newly covered groups receiving a much lower benefit. At the same time, a generous child birth grant was abolished for recipients of Targeted Social Assistance (TSA). In Kyrgyzstan social assistance and pensions were likewise topped up while minimum pensions and minimum wages were increased in Azerbaijan. Ukraine, Kazakhstan and Russia have increased unemployment benefits and taken steps to expand coverage. In Moldova the crisis is interacting with ongoing major social protection reform processes, shifting from categorical to means-tested benefits[5].

[5] Information from UNICEF national informants.

Government responses to the crisis, whether as part of a crisis plan or as individual measures are generally temporary. And unless part of an ongoing reform process, these represent minor adjustments to existing policies. Within social protection, changes to cash transfer schemes at the times of crisis can only be as effective as existing structures, effectively highlighting the strengths and weakness of the system. Countries that have largely preserved the earlier system had features that proved protective in the current crisis. Those that had incomplete reforms or low coverage of social assistance have not been able to be mobilised quickly and effectively to respond to the crisis.

Some countries have introduced measures that are likely to have negative effects on welfare of vulnerable groups. These include de-indexing minimum wages and pensions from inflation. With drops in revenue generation, policy makers are under pressure to introduce increases in user fees and co- payments, reduce benefit packages and tolerate longer waiting times. Further rounds of real cuts cannot be ruled out.

The role of non-contributory cash transfers in reducing and preventing poverty in times of crisis

Non-contributory cash transfers – categorical benefits and social assistance – constitute the most direct form of redistribution of resources towards the poor and vulnerable as well as towards families with children. They are of especially great importance in countries with high levels of informal labour where many people remain excluded from regular social insurance and contributory schemes. While effort is being made to expand social insurance to the informal labour market much of the discussion around poverty reduction and the reform of social protection systems in Eastern Europe, Central Asia and Turkey has been concerned with non-contributory cash transfers – moving away from a legacy of privileges towards residual social assistance schemes.

Against the background of economic crisis, tax-funded benefit schemes are crucial in mitigating social impacts. Ideally they act as automatic economic and social stabilisers. Adjustments in benefit levels and eligibility however can only be as effective as the existing programme – where cash transfers are not able to make a difference in the lives of the existing poor they are unlikely to respond effectively to new vulnerabilities (Ehmke and Skaletz 2009).

Case studies: three trajectories of reforming non-contributory cash transfers

Reforms of cash transfer systems in Eastern Europe, Central Asia and Turkey have broadly followed three different patterns: some countries have broadly maintained the previous Soviet system and mainly made adjustments in the design of specific programmes rather than the overall set-up of the system. On the other hand there are countries which embarked early on comprehensive reforms of social assistance and other tax-funded cash transfers and moved towards streamlined but narrowly targeted programmes. In between these two patterns are those countries that have undertaken reforms in some areas but where reforms have so far remained incomplete.

Examples for these three groups of countries are Belarus, Armenia and Kyrgyzstan.

Belarus has maintained a comprehensive and well-funded social protection system that has gradually evolved during the transition period. The system combines insurance based allowances, tax breaks, social services and a range of non-contributory social benefits with a strong focus on families with children. The most substantive reform happened at the end of 2007 when the number of privileges and benefit schemes were cut back (though many still exist) while eligibility for social

assistance was expanded. Benefits are indexed to the Subsistence Minimum Budget (SMB – USD 85) which is updated every three months. There is a mix of universal, categorical and means-tested cash transfers. Belarus is one of the very few countries in CEE/CIS that has a generous universal child benefit targeted to children under 3 (at 80% of SMB – USD 68). Benefits for families with older children, however, are means-tested and are received by only one in ten children. As in Russia, Ukraine and some other countries with low birth rates, a child birth grant is paid to young mothers. Targeted social assistance, introduced in 2001, and categorical benefits e.g. for people with disabilities complement the package. While the basic system appears to be very clear a range of additional top-up benefits and subsidies for different groups of families may lead to complex and inefficient administrative procedures. Though generous for families with children, social assistance and unemployment benefits on the other hand are paid at very low levels (roughly 20% of SMB) and do little to protect vulnerable groups from poverty. In response to the economic crisis however eligibility for social assistance has broadened and an increase of unemployment benefits is considered[6].

Armenia is an example for a country that has proceeded far in reforming its social protection system. At the beginning of the 1990, the prevailing system was a mix of privileges – categorical benefits to vulnerable groups and benefits to citizens who rendered some special services to the state (war veterans, certain professional groups etc.) – and humanitarian assistance following the 1988 earthquake and economic collapse. Between 1992 and 1995, almost 80% of the population received humanitarian assistance. Since the mid nineties, a system for assessing households' vulnerability was established, which became the basis for the introduction of a Poverty Family Benefits System in 1999, replacing both state compensation and humanitarian assistance. Vulnerability was assessed through an initial means-test and documentation proving disabilities, home ownership etc. In addition a proxy means test was done during a home visit by a social service specialist. The resulting vulnerability score determines eligibility for the different non-contributory social benefits. Budget allocation to the programme almost halved between 1999 and 2002 from USD 40 m to USD 23 m. As a consequence it was decided to target benefits more narrowly to families with children by no longer counting adult family members in the calculation of benefits (beyond the base benefit). Many pensioners became ineligible in the process, a trend that had to be counteracted with special provisions. Unlike many other CIS countries, Armenia succeeded in shifting away from a privilege based benefit system and streamlining different social assistance schemes into one system. However, funding for the social assistance part of the scheme (family benefits and lump sum financial assistance) is low at 0.9% of GDP or 4.7% of total public expenditure. Currently benefits have low coverage, with 75% of poor people not receiving benefits. This is partly due to low budget allocations and a therefore very low eligibility threshold, but also because of the high thresholds for families to prove their eligibility, high administrative requirements, and a perceived lack of transparency in decision making and lack of information about the scheme in parts of the population. On the whole, social assistance has very little impact on poverty rates, though it does reduce poverty among recipients. Despite being severely hit by the economic crisis, Armenia managed to maintain current social sector spending and ensure the reliability of cash transfers (Minaysan and Ghukasyan 2005, Martirosyan 2008, NSS Armenia 2008).

Kyrgyzstan also has introduced a targeted social assistance scheme that co-exists with the old system of privileges. As in Armenia, the Kyrgyz government initiated welfare system reforms during the mid 1990s with the objective to simplify cash transfer programmes, reduce costs and target the poorest and most vulnerable groups of the population. In 1995 the government introduced two programmes, the Unified Monthly Benefit (UMB) and the State Minimum Benefit (SMB) (Upadhyaya and Ouchi 2006). UMB is a 'last resort' cash transfer targeted to children under 16 in poor families, including a child birth grant, a benefit for children below 18 months and a benefit for children

[6] Information received from national informant.

between 18 months and 16 years. The benefit is received by 14.6% of the population. SMB is a categorical benefit scheme for vulnerable groups of the populations such as people with disabilities, orphaned children or elderly who do not qualify for the insurance-based pension scheme. SMB are not means-tested and received by 6.5% of the population. Benefit levels are very low. UMB is determined by the gap between household income and the Guaranteed Minimum Consumption Level – which currently represents just 30% of the extreme 2100 cal poverty line. Unsurprisingly, even for the poorest groups of the population UMB amounts to only 7% of total household income and poverty reduction impacts are negligible. The low benefit levels are reflected in very low spending on the scheme. Spending on UMB and SMB has been reduced from 0.74% of GDP in 2007 to less than 0.5% in 2009. Administration is expensive with costs estimated to be 15%. The introduction of new benefit schemes has not led to a significant reduction of the old system of privileges – 38 different types of privileges are still in place and funded with 0.37% of GDP in 2008[7]. In response to the crisis, the government has increased UMB transfers, and is continuing reform processes to make cash transfers more effective.

The snapshots of cash transfer schemes in Belarus, Armenia and Kyrgyzstan suggest different reform challenges but also different levels of adaptability to times of crisis. Belarus appears strong in its potential to prevent poverty of families with children while at the same time the system may struggle to respond in a flexible and coordinated manner to new vulnerabilities. Armenia has proceeded far in reforming and streamlining social assistance schemes but is investing too little to effectively prevent and reduce poverty. The same applies to Kyrgyzstan where a reform of the system of privileges could free up much needed resources for poverty related benefits.

Adequate budgets, coverage and adequacy of benefits, and the integration and coordination of the different social protection programmes within the three pillars are crucial factors for the effectiveness of social protection but at the same time belong to the most challenging undertakings in the reform process.

3. How effective are non-contributory cash transfers in reducing and preventing poverty?

Much of the public debate around cash transfers focuses on their targeting efficiency, i.e. how many of the beneficiaries belong to the poorest groups of the income distribution. The focus remains on the inputs into the system rather than on the outcomes for poor people. If cash transfers aim at the prevention and reduction of poverty, then the crucial question is how well they are achieving this goal, both in the design of programmes and in regard to actual living standards. This section discusses the effectiveness of non-contributory social protection measures in two areas: the impact of cash transfers on poverty rates and the potential of existing legal provisions and entitlements to prevent poverty of families with children.

[7] Information received from national informant.

The impact of cash transfers on poverty rates

Data on the impact of the economic crisis on poverty rates and changes in the mitigating effects of cash transfers is not yet available. For most countries the most recent available data is from 2007. How are changes in poverty and adjustments in social assistance going to affect the poverty reduction impact of cash benefits? The hypothesis is: not very much, unless countries embark on substantial reform processes.

Currently social assistance schemes across the region have little impact on general or child poverty rates while pensions provide stronger protection for households, including families with children.

Table 2: Impact of cash transfers on poverty rates, 2007

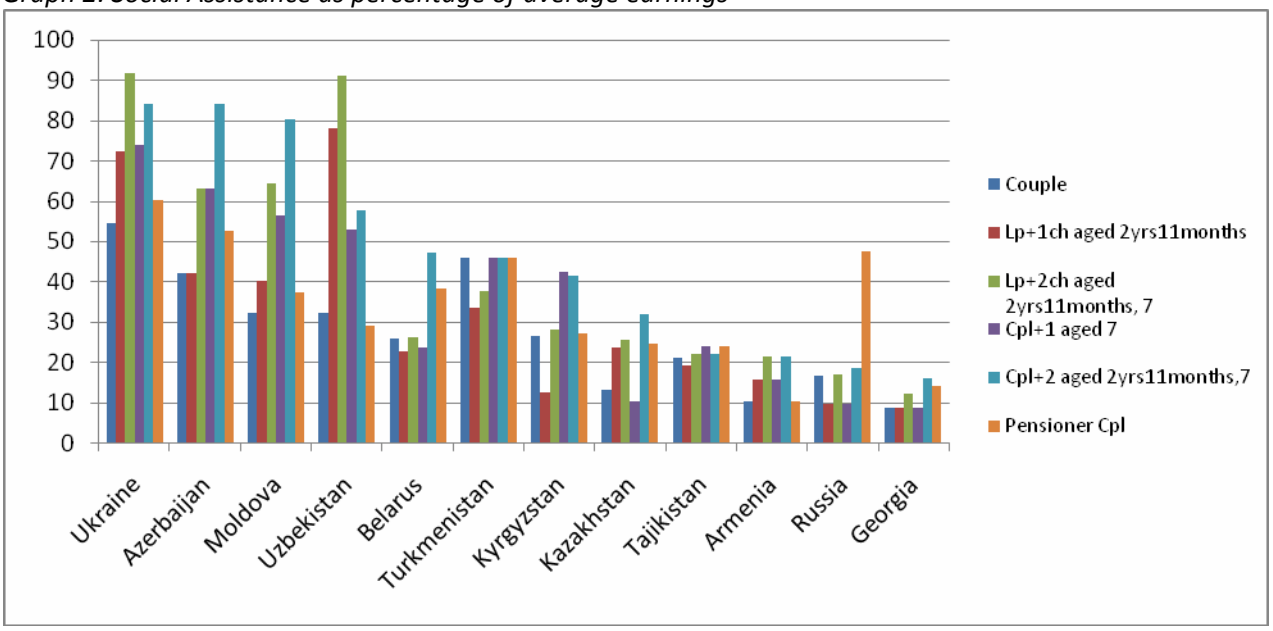
	Pensions		Social assistance	
	pre-transfer	post-transfer	pre-transfer	post-transfer
general poverty				
Belarus	25 %	14.7%	16.4%	14.7%
Moldova	37.7%	25.8%	26.8%	25.8%
Armenia	31.2%	25.0%	26.4%	25.0%
child poverty				
Kyrgyzstan	56%	43%	46%	43%
Georgia	33%	28%	30%	28%
Armenia	34%	26%	30%	26%

Sources: Belarus: HBS data, poverty line: 60% of median disposable resources; Moldova: Ministry of Economy and Trade of Government of Moldova (2008), national absolute poverty line; Kyrgyzstan: UNICEF Kyrgyzstan 2009, WB total poverty line; Georgia: Bradshaw et al. 2008, WB total poverty line, Armenia: NSS (2009), WB total poverty line; Chzhen (2009), WB total poverty line; child poverty rates refer to HH with children

Currently no country is effective in reducing poverty through social assistance programmes, although pensions do help to reduce poverty. Social assistance in Armenia has higher impact on poverty rates of children than of adults, reflecting targeting towards families with children.

A very low poverty threshold goes along with low benefit levels and programme coverage in most countries. Graph 2 shows social assistance as percentage of average earnings for different model families. Those countries that have proceeded furthest towards narrower targeting of benefits also have the lowest benefit levels. Interestingly, the analysis also shows how governments are setting priorities. Ukraine, Azerbaijan and Belarus stand out as being the most generous towards families with children. Other countries pay similar amounts regardless of family size of composition. Belarus and Armenia provide very low levels of social assistance to pensioners, while pensioners in Russia receive much more than other family types.

Graph 2: Social Assistance as percentage of average earnings



Source: Bradshaw & Mayhew 2009

The smaller the target group of a benefit scheme, the more difficult it becomes to distinguish between those below and those above the eligibility threshold (and hence inclusion and exclusion errors). As a result, application and validation procedures become complex and demanding in terms of administrative capacity, staff time and costs. Unless special support services are in place, it becomes more difficult and costly for poor people to comply with these requirements so that the poorest and most marginalised groups may not be brought within the ambit of such programmes.

In a number of countries, Targeted Social Assistance programmes determine eligibility based on a score assigned to a family through a proxy means test. Cut-off points are often chosen based on available resources - rather than actual needs of families - and are therefore often set very low. Proxy means tests tend to be less able to respond to changing incomes than to deprivation measured in terms of lack of basic goods or housing problems – in many cases unemployment alone will not make a family eligible for social assistance. It takes time until a family reaches a degree of impoverishment that allows them to obtain benefits.

With unemployment benefits often not being effective and not reaching workers in the informal labour market, there is currently no stabilising mechanism in place to rapidly respond to job and income loss. Expansion of eligibility to social assistance schemes would improve coverage of the 'old' poor but is unlikely to benefit newly vulnerable groups of the population. Current government measures to adjust benefits to mitigate the social impacts of the crisis may therefore not be effective.

Pensions have greater impact on poverty reflecting substantially higher benefit levels and greater coverage of pensions. In multi-generation households, assuming all incomes are pooled, pensions are the transfer that makes the greatest difference for children too. Against this background, the top-up of pensions in response to the crisis can be protective for poor as well as newly vulnerable households.

Government efforts to prevent poverty of families with children

There are many reasons why non-contributory cash transfer schemes fail to make a decisive impact on poverty. Some of these may be linked to problems in the administration of benefits and barriers to access. The question is however also how benefits are designed and in what ways the set of existing measures, understood as the legal provisions and entitlements, is effectively redistributing resources. A better understanding of how systems work can help identify bottlenecks and shape not only current crisis responses but also the direction of future reforms.

Children are across the region one of the groups at highest risk of poverty. Large households, families with a parent in unemployment or underemployment and families living outside the big urban cities are much more likely to live in poverty than the general population. Where income is tight, the birth of a child can make it difficult for families to make ends meet. Child poverty however poses a great risk not only for the development of children but also to society as a whole. Among others, poverty is linked to poor health and education outcomes and with it the risk that children are unable to escape the cycle of poverty and social exclusion.

In an effort to prevent child poverty and compensate families for some of the costs related to having children, many governments are taking measures to target transfers in cash or kind towards families with children. The analysis presented here maps out both the child benefit packages available to families with children and the costs that are typically occurred by families with children.

Box 2: Model Family Analysis - Methodology

The method of analysis for comparing social protection schemes – model family analysis –has been used for many years by the OECD to compare social protection packages in its *Benefits and Wages* series. Bradshaw et al. have undertaken a series of studies since 1980 to compare child benefit packages, social assistance, child support and policies for lone parents in Europe. This is the first time this approach is being used in CEE/CIS countries[1].

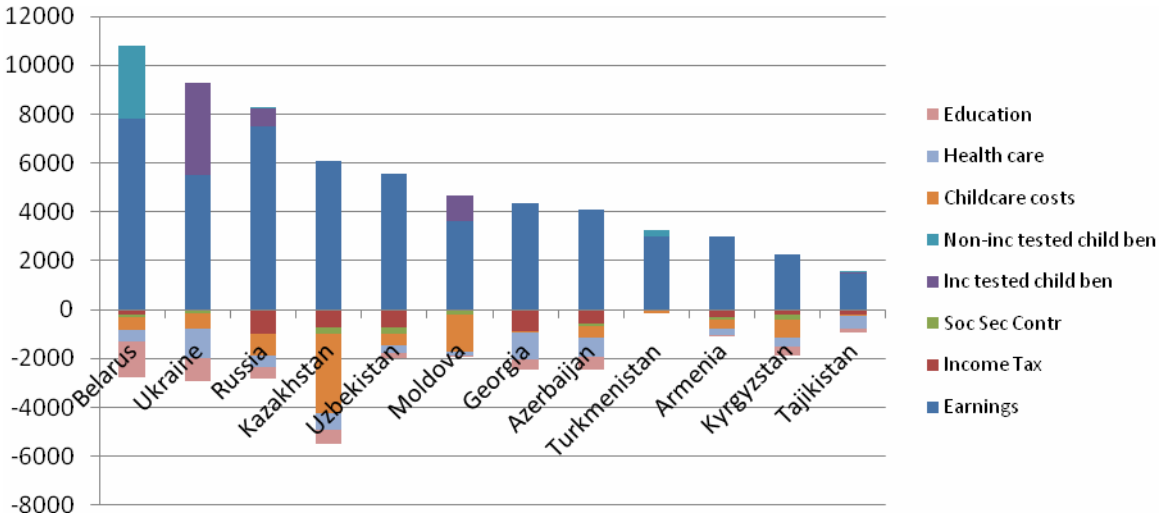
The analysis relies on national informants[1] to provide information on the tax/benefit system in their own countries based on the legislation in force in June 2009, at the height of the crisis for many countries though in some cases before any adjustments to benefits may have taken effect. In order to compare like with like, they estimate what a set of standard model families would receive, at a specified set of earnings levels, in the way of a specified set of taxes and benefits that make up the child benefit package. The package that this study is taking into account includes tax benefits for children, income and non income related child benefits, housing benefits, exemptions from local taxes, direct childcare subsidies, the value of health charges and benefits, the value of education charges and benefits, child support (where it is guaranteed) and other benefits such as social assistance.

The value and composition of child benefit packages

Very few countries provide families with sufficient financial support, tax breaks or free access to basic services in a way that would compensate for basic child- related costs. In most cases there is too little state effort to prevent child poverty, and ensure real accessibility of health care, education and child care for every child.

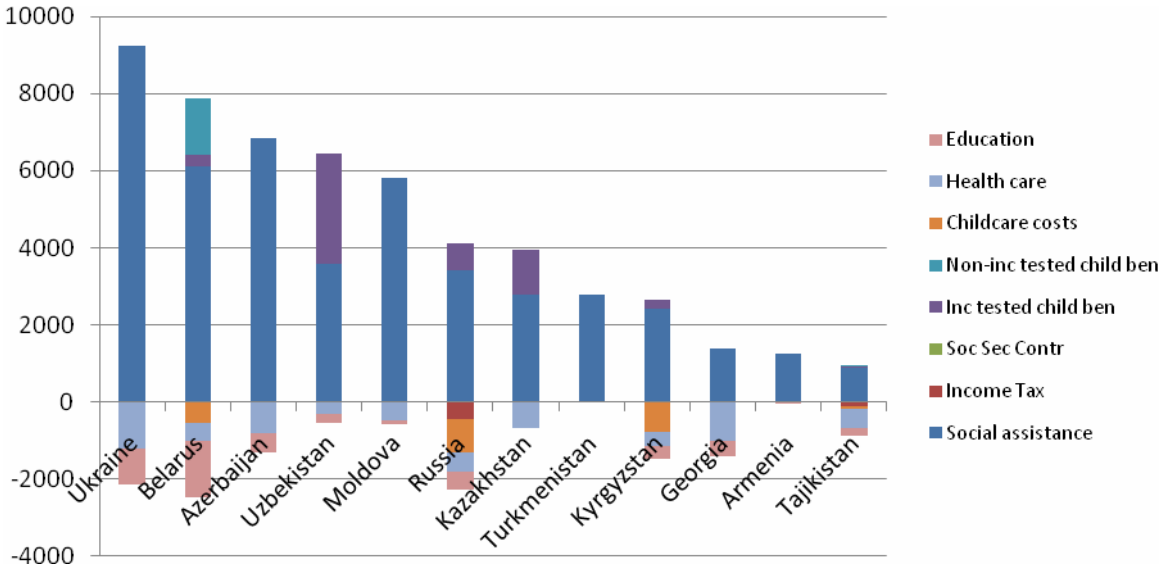
The following two graphs give an overview of the child benefit packages for a couple with two children (one child under 3, the other 7 years old) with one adult on half average earnings and the other family with no earnings and receiving social assistance.

Graph 3: Family income for a couple + 2 children on half average earnings



Source : Bradshaw and Mayhew 2009

Graph 4: Components of child benefit package for a couple +2 children on social assistance



Source : Bradshaw and Mayhew 2009

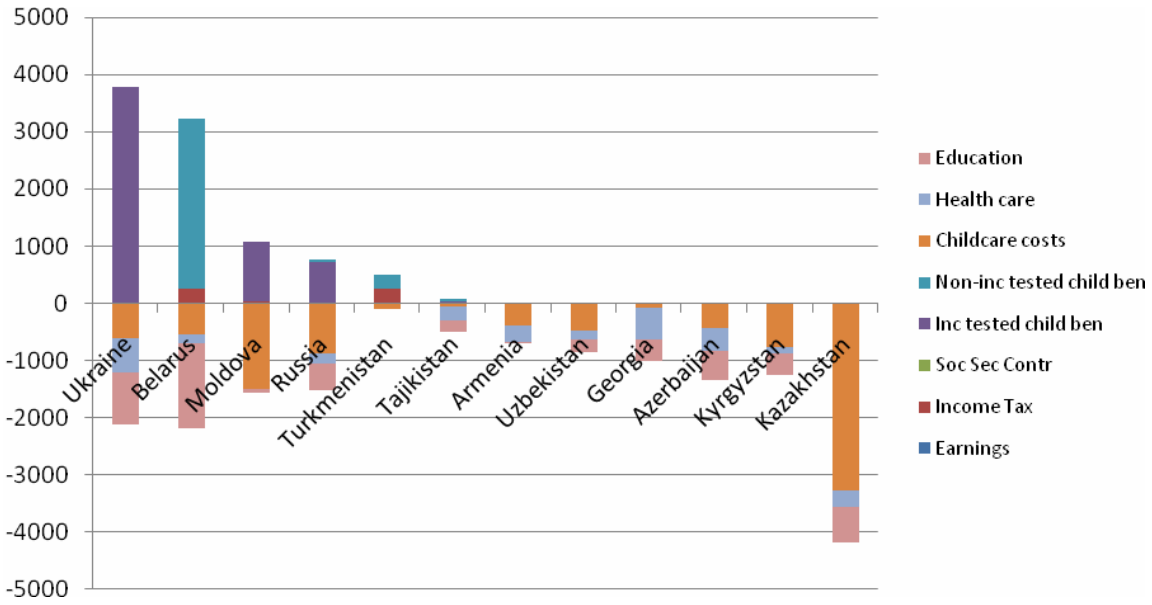
Only Belarus maintains moderate universal child benefits, which are paid for children under the age of three. The countries of the Western CIS also have means-tested child benefits, while in Armenia the general social assistance scheme is geared towards families with children and no extra provisions are made. Uzbekistan has a means-tested child benefit that is narrowly targeted and only reaches families receiving social assistance. The other countries have no specific benefits for children.

Across all countries, families with earning pay some form of income tax and/or social security contributions though these differ widely across countries. In countries with flat rate taxes such as Georgia, the tax burden appears very high for low income families compared to other countries. Costs for childcare, health care and education amount to more than half of family incomes in Georgia and Azerbaijan but weigh heavily on low-income families in other countries too.

For families on social assistance, Armenia and Turkmenistan are the only countries where access to health care, child care and education are formally free for poor families. In some other countries on the other hand, including Tajikistan and Georgia the child-related costs for families completely offset and cancel out any government effort. But in other countries, too, the costs of having children are hardly compensated by social assistance, leaving little resources for food and other basic needs.

The real value of child benefit packages becomes clear when they are compared to the taxes and benefits of childless couples on the same income. The graph shows that compared to households without children the balance of costs and benefits is negative for the Caucasus and most Central Asian countries with only Ukraine and Belarus having a clearly positive benefit package for families with children.

Graph 5: Child benefit package, difference from childless couple, half average income, PPPs



Source : Bradshaw and Mayhew 2009

The negative net balance of child benefit packages across much of the region helps explain the higher poverty risk of families with children. Especially for low-income families taxation and the cost of services can become unaffordable. Taking into account categorical benefits and social assistance, taxation has not yet been sufficiently utilised in transition countries to finance cash transfers or to provide tax benefits to families. Partly this may be due to the persistently high share of informal labour across the region. On the other hand a number of countries have moved to flat rate taxes that are highly regressive and do not generate sufficient tax revenue.

To become more effective in preventing the poverty of families with children governments should at the same time reduce the cost of services and improve the living standards of families. For instance, in education the cost of school uniforms, books and materials, as well as indirect costs for transport,

tutoring or informal payments can become prohibitive for poor families with children. Access to child care that would equally support the development of children and enable parents to better balance work and family responsibilities is too expensive for families in most countries and often not available at all in rural areas. Child benefits on the other hand can be very effective in reducing child poverty and provide families with a reliable source of income that helps them to ensure adequate nutrition, health and education for their children.

Similar to the analysis of the actual impact of cash transfers on poverty rates the assessment of child benefits suggests little scope for governments to mitigate the social impacts of the economic crisis through minor adjustments to benefit levels and coverage. The disadvantage of poor families manifests in income poverty and barriers to services alike and more government effort is needed to support families with children and break the intergenerational transmission of poverty.

Entitlements to benefits do not equal actual coverage. Many families with children do not benefit from social assistance and child-related benefits even though they are entitled. Common barriers are lack of information, living in remote areas, lack of necessary documentation including birth registration and the costs and time needed to apply for benefits. The mapping of entitlements therefore has to be understood as a 'best case scenario' with the real situation likely being worse the less income families have and the more excluded they are.

4. Towards recovery and building of modern, future oriented social protection systems

It is too early to assess the ultimate social impact of the crisis on the countries in the region. We do not know what will happen in the coming year, and what the recovery will look like. Very much will depend on individual crisis characteristics of different sets of countries as well as the current state of their social protection systems.

The main body of analysis focused on the effectiveness of non-contributory cash transfers as the part of the social protection systems that is concerned with reducing poverty and supporting vulnerable groups of the population that are not sufficiently covered by formal social insurance programmes.

The analysis showed that in most countries, while achieving efficiency gains, the direction of social protection system reforms has not helped the poor to escape poverty and has little potential to mitigate social impacts of the crisis in a sustainable way. As countries are moving towards recovery this is a good time to take a fresh look on the future of social protection systems in the region.

A new social consensus

Poverty reduction during the first half of this decade had been driven by economic growth rather than by strong social policies. The move away from categorical benefits towards narrowly targeted social assistance schemes was based on views that sustained economic growth can solve the problem of poverty and that only last-resort measures are needed for those who are left out. The crisis points to the risks of this strategy – new groups of people are falling into poverty while the 'old' poor have little perspective of improving their situation. Paradoxically, the narrower benefits are targeted to the poor, the less likely they are to reduce poverty and inequality. Social protection for the poor often becomes poor social protection (Korpi and Palme 1998).

International experiences challenge the myths that adequate social benefits discourage job take-up, create dependency or are spent on alcohol or non-essential goods. Research rather shows that predictable income leads to more engagement in the labour market, as well as to better health and education outcomes for children (OECD 2009, Delany et al. 2008, Haarmann et al. 2008).

The costs of not ending poverty, in particular child poverty, on the other hand are enormous. Studies in the UK and US estimate the economic costs for society in the range 1-1.5% of GDP in terms of lost earnings, and social costs at around 4% of GDP, taking into account the impacts of childhood poverty on health, education and risky behaviours (Blanden et al. 2008).

There is need for a new social consensus and a renewed debate about what is a 'good society' and what is needed to achieve this. Social protection should be re-focused on the objective of mitigating social risks, reducing and preventing poverty.

What does it take?

Social protection systems need to be balanced between contributory programmes, universal categorical benefits and targeted support to the poor. To be effective in reducing poverty and fostering social inclusion, benefits need to achieve good coverage, be predictable and adequate to make a difference in living standards, be accessible for eligible persons and easy to administer. To become sustainable, systems have to be designed so that all members of society contribute to its financing and have a stake in its future.

All countries in the region already have a mix of different measures in place. These are however often not integrated and coordinated within a broader strategy and not sufficiently resourced to achieve a substantial reduction in poverty. The task is therefore not so much building a social protection system but rather to re-assess the full range of existing but often fragmented measures and move them into a set of stream-lined, coordinated and adequate benefits.

The best and most sustainable pathway out of poverty is gainful employment. Even as economies begin to recover, unemployment and engagement in informal labour will remain high for some time to come. It is crucial that countries put into place a package of activating labour market policies, including job creation, access to unemployment benefits and employment services, microcredit, well-designed public work schemes, training and adult education programmes that ensure access for young people as well as marginalised groups of the population. The Global Jobs Pact, adopted at the International Labour Conference in 2009, sets out some of the policy options countries can choose.

Not everybody though is going to be integrated into the formal labour market or able to earn enough to make ends meet for their families. Active employment policies have to be complemented by a set of coordinated and integrated cash transfers that together are able to reduce and prevent poverty and mitigate social risks. The ILO-led UN initiative of establishing a social protection floor highlights the mix of benefits and services that need to be in place to provide such an adequate level of social security to society.

For the region, pending a detailed costing, a social protection strategy could comprise of

- an expansion of social insurance programmes to those not yet covered to provide access to health insurance, pensions, and unemployment benefits,
- child benefits, initially paid to families with higher than average poverty risk (e.g. families with two or more children or specific age groups);
- basic tax-financed pensions and disability benefits for all those not otherwise covered;

- basic income grants paid to adults in disadvantaged regions to simplify cash transfer provisions in areas with very high poverty rates.

Experiences in Western European as well as developing countries show that simple targeting mechanisms such as categorical benefits to groups at a higher poverty risk (e.g. child benefits) or geographical targeting to poor areas can be highly effective in reducing poverty. The guiding question behind these programmes is 'Who are the poor and where are they?' Benefits should be based on an adequate national poverty line, reflecting the costs of a basket of food and non-food items as well as the overall living standard of society.

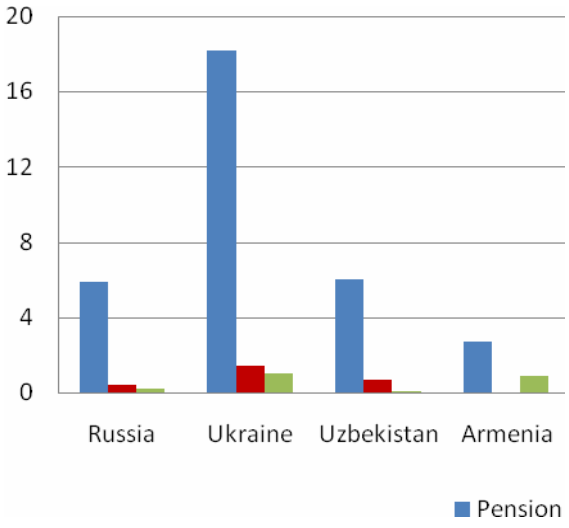
Reforms towards a more effective social protection system take time. They can start with parts of the package and can systematically expand within and across programmes as more resources become available.

What does it cost?

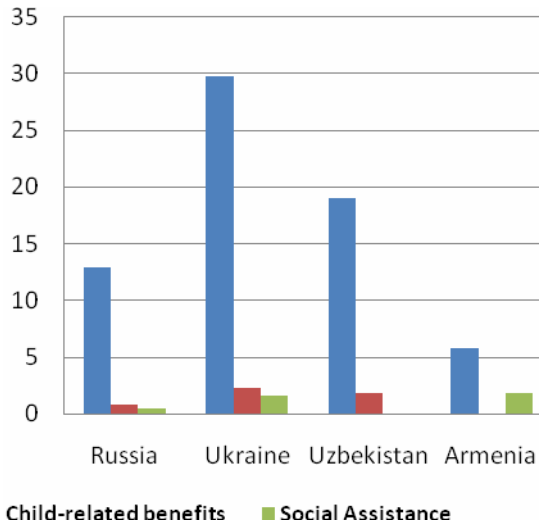
As countries navigate the crisis, the fiscal environment is likely to remain highly constrained. The move towards more inclusive and effective cash transfer programmes does come at a cost. In 2007, EU countries spend 12-31% of GDP on social protection with an average of 26.9% for the EU 27. All countries that manage to reduce pre-transfer poverty rates (including pensions) by between 40-70% spend more than 18% of GDP on social protection measures. Spending on social protection across Eastern Europe, Central Asia and Turkey on the other hand ranges from less than 5% to 19% of GDP. However, much greater shares of these resources go to pensions than in the EU 27[8].

Graph 6: Spending on pensions, social assistance and child-related benefits

Expenditure as % of GDP



Expenditure as % of total public expenditure



Social assistance and child related benefits receive very little funding, not only compared to pensions but also in international comparison. Many resources could be freed up by tackling the reform of the privilege system, duplicating schemes and benefits that have been eroded to an extent that makes

[8] All EU data Eurostat & ESSPROS, CEE/CIS data IMF.

them negligible. Simpler targeting mechanisms help save on administrative costs and are easier to manage where administrative capacities are weak.

But governments also need to make room within fiscal space. The main obstacle to putting effective social protection systems into place is political and hence a question of priorities. There is still need for further debate in society on the purpose of social protection and a new vision for an equitable future of society.

Effective social protection systems are fundamental for achieving inclusive economic growth, a long-term commitment to investing in human capital and the future of society.

Politically, changes in social protection systems have not been easy. The economic crisis could be the opportunity that creates space for the move towards modern and future-oriented social protection systems.

5. References

Alam A. et al. (2005): Growth Poverty and Inequality. Eastern Europe and the Former Soviet Union. World Bank

Barrientos, A. and J. DeJong (2004): Child poverty and cash transfers. London: CHIP.

Blanden, J., K. Hansen and S. Machin (2008): The GDP cost of the lost earning potential of adults who grew up in poverty. Joseph Rowntree Foundation.

Bradshaw, J. and E. Mayhew (2009): Child benefit packages in CEE/CIS countries in 2009. A report for UNICEF. Geneva.

Bradshaw J. and D. Richardson (2009): An index of child well-being in Europe. In: Journal of Child Indicators Research.

Bradshaw, J., Chzhen, Y., Gugushvili, D., Hoelscher, P. (2008): Child poverty in Georgia. Contribution to World Bank Poverty Assessment.

Chzhen Y. (2009): Child poverty in Armenia. Analysis of the 2008 Household Budget Survey. Draft Report. UNICEF.

Cornia A. Sipos S. (1991) Children and the Transition to the Market Economy. Social Safety Nets and social Policies in Central and Eastern Europe. UNICEF

Cornia A . Stewart F. (1993). Two Errors of Targeting Innocenti Occasional Papers, Economic Policy Series, Florence

Cornia A. (2009) Global financial crisis and children in EE-FSU: a roadmap to analyze its potential impact. University of Florence

Dabrowski, M., R. Mogilevskiy, B. Andjelkovic, A. Chubrik, I. Sinitsina, P. Wozniak (2009): challenges and trajectories of fiscal policy and PFM reform in CEE/CIS: A practical guide for UNICEF's engagement. Geneva: UNICEF.

Delany, A., Z. Ismail, L. Graham, Y. Ramkissoon (2008): Review of the Child Support Grant: Uses, implementation and obstacles. UNICEF.

Ehmke, E. and M. Skaletz (2009): Strengthening social security in economic crises. The need for a social protection floor. Friedrich Ebert Stiftung Briefing Paper 14, October 2009.

Esping-Andersen, G. (2003): Towards the good society, once again? Paper at the 4th International Research Conference on Social Security. Antwerp, 5-7 May 2003.

European Commission (2008): Child poverty and child well-being in the EU. Current status and ways forward. Brussels: European Commission.

Frazer, H. and E. Marlier (2007): Tackling child poverty and promoting the social inclusion of children in the EU. Key lessons. Synthesis report. European Commission.

Haarmann, C., D. Haarmann, H. Jauch, H. Shindondola-Mote, N. Nattrass, M. Samson and G. Standing (2008): Towards a basic income grant for all. Basic income grant pilot project assessment report, September 2008. BIG Coalition.

Harper, C., Jones, N., McKay, A. and Espey, J., (2009), Children in times of economic crisis: Past lessons, future policies, Background Note, London: ODI

HelpAge International (2009): Constant crisis. Perceptions of vulnerability and social protection in the Kyrgyz Republic.

Horvath, B., A. Ivanov, M. Peleah and M. Popisilova (2009). The human development impact of the global crisis in Central, Eastern and Southern Europe and the CIS. Draft working paper. UNDP Bratislava Regional Centre.

Human Rights Council (2009): Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the right to development. Report of the independent expert on the question of human rights and extreme poverty, Magdalena Sepulveda Carmona. 27 March 2009.

Korpi, W. and J. Palme (1998): The paradox of redistribution an strategies of equality: Welfare state institutions, inequality and poverty in the Western countries. LIS Working Paper No 174.

ILO (2009): Tripartite meeting of experts on strategies for the extension of social security coverage. Extending social security to all. A review of challenges, present practice and strategic options. Geneva 2-4 September 2009.

ILO (2009). Recovering from the Crisis A Global Jobs Pact. Geneva

IMF (2009): Outlook Caucasus and Central Asia May

Lindert and Schwarz (2009), ECA Knowledge Brief: Social Protection Responses to the Global Economic Crisis in ECA World Bank

Lokshin, M. and Yemtsov, R. (2004) Household Strategies of Coping with Shocks in Post-crisis Russia. Review of Development Economics Feb 2004, Vol. 8 Issue 1

Martirosyan, N. A. (2008): Armenia's current practice of targeting social assistance and analysis of development prospects. Yerevan: USAID.

Milanovic, B. (2009): Reform and inequality during the transition. An analysis using panel data 1990-2005. Policy Research Paper. World Bank.

Minasyan, A. and H. Ghukasyan (2005): Targeting state social assistance to the most needy: The Armenian experience. Paper prepared for the 3rd International AIPRG conference on Armenia. 15-16 January 2005. Washington: World Bank.

Ministry of Economy and Trade of the Government of Moldova (2008) Report on poverty and policy impact 2007. Chisinau.

Molodikova, I. (2008): Trends in the field of social policies and welfare reforms in Ukraine and Moldova. Background report. Rome: CeSPI.

Murrugarra E. Signoret J. (2003): Vulnerability in Consumption, Education and health : Evidence from Moldova during the Russian Crisis. World Bank Policy Research Working Paper 3010

NSS Armenia (2008): Social snapshot and poverty in Armenia. Yerevan: NSS.

OECD (2009): Promoting pro-poor growth: social protection. Paris: OECD

Redmond G. (2008) Childrens Perspectives on Economic Adversity. A Review of the Literature. Innocenti Research Centre Discussion Papers, Florence

Richardson, D., P. Hoelscher and J. Bradshaw (2008): Child well-being in Central and Eastern Europe and the Commonwealth of Independent States. In: Journal of Child Indicators Research.

Stillman S. 2003: Health and Nutrition in Eastern Europe and Former Soviet Union during the Decade of Transition: A Review of the Literature**,** Paper for CESifo Conference on Health and Economic Policy, Munich

Stubbs, P. (2008): Promoting child-sensitive social protection in CEE/CIS. Working Paper. UNICEF Regional Office for CEE/CIS. July 2008.

Townsend, P. (2007): The right to social protection and national development. Lessons from OECD experience for low-income countries. Discussion paper. Geneva: ILO

UNICEF (2009): Innocenti Social Monitor 2009. Child well-being at a crossroads: Evolving challenges in Central and Eastern Europe and the Commonwealth of Independent States. Florence: UNICEF Innocenti Research Centre.

WHO (2009): Health in times of global economic crisis. Implications for the WHO European Region. March 2009.

World Bank (2009): The Crisis Hits Home : Stress Tests on Households. Washington: World Bank.

World Bank, UNICEF, TEPAV (2009) : The Economic Crisis and the Welfare of Families. Results from 5 Urban Centres. Ankara

6. Annex: Methodology of model family analysis

The model family analysis was prepared by Jonathan Bradshaw and Emese Mayhew at the University of York, UK.

Model family analysis uses national informants (in this case Social Policy Officers in UNICEF country offices) to provide information on the tax/benefit system in their own countries. In order to compare like with like, they estimate what a set of standard model families would receive, at a specified set of earnings levels, in the way of a specified set of taxes and benefits that make up the child benefit package. The information is entered into a set of data matrices and these are used to explore the level and structure of the child benefit package, converted to a common currency or expressed as a proportion of average earnings.

The family types included in this study are:

- Childless couple (for a base line)
- Lone parent with one child aged 2 years and 11 months
- Lone parent with two children aged 2 years and 11 months and 7
- Couples with one child aged 7
- Couples with two children aged 2 years and 11 months and 7
- Pensioner couple (social assistance case only)

The earnings cases included in this study are:

- One earner half average earnings
- One earner average earnings
- No earners and receiving social assistance/minimum income scheme.
- Pensioner couple on social assistance/minimum income scheme

The package that this study has taken into account includes:

- Tax benefits for children,
- Income related child benefits,
- Non income related child benefits,
- Housing benefits,
- Exemptions from local taxes,
- Direct childcare subsidies,
- The value of health charges and benefits,
- The value of education charges and benefits,
- Child support (where it is guaranteed),
- Other benefits such as food stamps or social assistance.

There are advantages to the model family method. It enables comparisons of like with like to be made, and the results can be produced quite quickly. It also enables comparisons of the level and structure of the benefit package and how it varies by family type, earnings, number and ages of children and before an after housing and childcare costs. It is also possible to use the data to make estimates of notional marginal tax rates and replacement rates (and the OECD use their *Benefits and Wages* series mainly with the latter in mind).

There are also a number of problems with the method. There are limits to the number of model families, income levels and parental employment permutations that can be covered. This means that the comparisons have to be illustrative rather than representative.

The method also gives a picture of the situation that should exist given the existing formal rules and laws. It does not represent how these rules and laws operate in practice and, although it can, it does not often attempt to take account of the non take-up of cash benefits. Nevertheless there is value in taking account of what the state seeks to do – it represents the intention of public policy.

Also there are particular problems in representing the education and health benefit elements of the package. But by far the most difficult problem is the treatment of housing costs and benefits[9]. Housing costs vary by tenure, age, size and location of the dwelling, and in the case of some countries, by the length of occupancy. In the case of owner occupiers they also vary by the age of the mortgage and the interest rate. In our earlier studies using this method we asked national informants to specify a 'typical' housing cost for their country, but found that it was too variable to compare like with like. So we eventually followed the OECD method of taking rent as 20 per cent of national average earnings and then estimating housing benefit payable on that rent. This is not a very satisfactory solution because it means that rent does not vary with the size of the dwelling or income - 20 per cent of average income is far too low for better off families and far too high for poorer families. This is a problem without an adequate solution, but there is no denying that it is a serious one, given that housing benefits are such an important part of the child benefit package in many countries.

[9] Bradshaw, J. and Finch, N. (2004) Housing benefits in 22 countries, *Benefits*, 12, 2, 87-94.