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Evaluating the performance of means-tested benefits in Bulgaria

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ABSTRACT

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Using household survey data and microsimulation techniques, we analyse the performance of three means-tested benefits in Bulgaria. We find that the transfers reach a small proportion of households with incomes below a relative poverty line, they have high non take-up rates, and large proportions of the recipients are neither poor nor entitled to receive the benefits. Unsurprisingly, although an important income source for poor households, the benefits have a very small impact on reducing the poverty rates. We show that our results are robust to potential underreporting of benefit receipt in the household survey. Finally, we analyse the effect of five reform scenarios, one of which fiscally neutral, on poverty and find that there is a large scope for policy improvement. *Journal of Comparative Economics* 000 (2016) 1–17. Institute for Social and Economic Research, University of Essex, Wivenhoe Park, Colchester, CO4 3SQ, UK.

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1. Introduction

In recent years, poverty¹ has been increasing in Bulgaria, rising in relative terms from 14 percent in 1999 to 21 percent in 2012 and in absolute terms from 1.2 million individuals in 1999 to 1.5 million individuals in 2012, despite a fall in the total population. In 2012, relative poverty in Bulgaria was among the highest in the EU, with an average poverty rate across the 28 member states of 17 percent. One of the reasons is the small impact that social transfers in Bulgaria have on poverty, estimated to be among the lowest in the EU. This poor performance of the social transfers may in turn partly reflect low levels of expenditures on social protection—in 2011 the total spending on social protection in Bulgaria was 16.9 percent of

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GDP, compared to an EU average of 28.3 percent, while the spending on means-tested benefits was only 0.7 percent of GDP in Bulgaria relative to 3 percent of GDP on average in the EU² – but may also be due to poor design or implementation.

This paper provides a comprehensive assessment of the performance of means-tested benefits in Bulgaria using household survey data and microsimulation methods. We look at the largest three means-tested benefits in Bulgaria—the heating allowance (HA), guaranteed minimum income (GMI) and child allowance (CA)—and evaluate their performance in terms of targeting and poverty reduction. Several targeting issues are addressed. We measure the degree to which benefits are not taken-up by the entitled population (non take-up) and to which non-entitled are among the benefit recipients (leakage). For those benefits which are means-tested, and therefore ought to target individuals on low incomes by design, we estimate how many of the poor are not being awarded with a benefit (exclusion of the poor) and how many among the recipients are in fact not poor (inclusion of the non-poor).³ We show that our results on targeting are robust to underreporting of benefit receipt in the household survey data. Finally, we estimate the effect of the benefits on poverty.

Addressing targeting issues and thus understanding why benefits are not claimed by the entitled (or why they are received by the non-entitled) is important because this affects programme implementation and limits the extent to which policy goals can be achieved. Furthermore, if the reasons for not receiving are involuntary, such as imperfect information, high transaction costs or stigma, the groups intended to be targeted are not being treated equally by the welfare state (see, for a discussion, Oorschot, 1991). Equity issues will also arise if unintended and non-poor beneficiaries are awarded with a benefit, while the entitled and poor are excluded.⁴ If such issues are present, policy makers cannot anticipate the true effect of policy interventions.

The paper enriches the analysis on the performance of means-tested benefits in Europe by providing some of the first estimates of non take-up and leakage for an Eastern European country. Although there is a variety of means-tested benefits in Bulgaria to protect those at risk of poverty, to date there has been little empirical evidence on how successful these benefits are in reaching and protecting them (although see World Bank, 2009)⁵. In particular, the ability of the programmes to target specific population groups (those entitled to the benefits) has remained unknown. Although there is a large literature estimating non take-up of means-tested benefits and trying to understand the drivers of this behaviour (see, for example, Mangiavacchi & Verme, 2013; Bargain et al., 2012; Matsaganis et al., 2010), leakage rates have been rather neglected in the literature (for some exceptions see Benitez-Silva et al., 2004, and Kleven et al., 2011).

In this analysis, we make use of household survey data combined with a tax and benefit microsimulation model. The former, namely the European Union Statistics on Income and Living Conditions (EU-SILC), tell us which households are receiving benefits in 2007; the latter allows us to identify the households in the EU-SILC that are entitled to receive means-tested benefits (as well as estimate the financial value of these entitlements). The tax-benefit microsimulation model used here is the Bulgarian component of the EU-wide microsimulation model EUROMOD (for more information on EUROMOD, see Sutherland & Figari, 2013). In addition, after analysing the status quo, we simulate five reform scenarios to the existing benefits (one of which fiscally-neutral) as a way to explore the impact of policy changes on poverty and the scope for policy improvement.

Our main findings are as follows. First, we find that most of the spending and beneficiaries of the social assistance benefits, HA and GMI, come from the left tail of the income distribution. However, the programmes reach a very small proportion of the households with incomes below the relative poverty line. Recipients of the child benefit, CA, are distributed almost evenly across the deciles of the income distribution, due to its generous income-test. However, the benefit fails in providing income support to all poor households with families with children, leaving 30 percent of them unreached by the transfer. Second, we find that more than 40 percent of the intended beneficiaries of HA and GMI, and 30 percent of the intended beneficiaries of CA, do not take up benefits to which they are entitled.⁶ We also find that a large proportion of beneficiaries report incomes which exceed the income-test threshold, and so should have disqualified them from entitlement. These results raise serious concerns about the quality of programme implementation. Third, the three benefits have negligible effect on the poverty rate: less than a 1 pp reduction. Moreover, we show that poverty rates would remain broadly unchanged even under a scenario of 100 percent benefit take-up and no leakage to the non-entitled. These results put Bulgaria among the worst performers in the region in terms of targeting the vulnerable and reducing poverty (see Avram, 2013). Finally, we

² All figures from Eurostat database, “At-risk-of-poverty rate by poverty threshold, age and sex (indicator: ilc_li02)”; “At-risk-of-poverty rate before social transfers (pensions included in social transfers) by poverty threshold, age and sex (indicator: ilc_li09)”; “Expenditure - Tables by functions, aggregated benefits and grouped schemes - in % of the GDP (indicator: spr_exp_gdp)”.

³ The definition of being poor is defined with respect to the relative poverty line, which is 60% of the median equivalised household disposable income.

⁴ Depending on the policy rules, the entitled and poor can be overlapping groups but not necessarily the same. The same is valid for the non-entitled and non-poor.

⁵ To the best of our knowledge, this is the only extensive empirical analysis on social assistance benefits in Bulgaria. The study provides an evaluation of the performance of social transfers in Bulgaria and it finds low levels of coverage among the poor with high levels of inclusion of non-poor recipients. However, the analysis does not provide any estimates on benefit non take-up and leakage, i.e., the number of entitled who do not claim the benefits or the number of non-entitled among the benefit recipients.

⁶ Reasons for non take-up of benefits come from both the demand and supply side. Due to stigma, high transaction costs (long waiting time, queues etc.), and the low level of the benefits, entitled individuals could consider the application process too complicated or too costly and decide not to apply for the social transfers (Moffitt, 1983). On the supply side, excessive bureaucracy or complicated programme design can mean that benefits are not provided to the intended population (see Currie, 2006).

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