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FISCAL SPACE ANALYSIS BEFORE AND AFTER THE IMPLEMENTATION OF A PROXY MEANS TEST

Republika Srpska

May, 2014

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1 Introduction

This report aims to present an evaluation of the fiscal impacts of implementing alternative targeting methods to reallocate selected non-contributory cash benefits in RS. It is based on data provided by the Ministry of Labor, the Ministry of War Veterans and Disabled Persons' Protection and the Ministry of Health and Social Welfare as well as by the Centers of Social Work (CSW). The first part presents an overview of the macroeconomic trends in RS, the second, crucial, part contains the long-term estimates that include the fiscal impact of the implementation of the proxy means testing (PMT), while the report's third part reviews the administrative costs of the PMT implementation.

The earlier reports explored the current allocation of non-contributory cash benefits in the entity, targeting accuracy and benefit adequacy after reallocation of some of these benefits through new targeting mechanisms, as well as the winners and losers of the reform. Besides carrying out an entity-level analysis using HBS 2011 data, the last report explored the impacts of the reform on municipal level using a recently compiled data set which allows for analysis at the municipal level.

The present report analyzes the current fiscal situation of social benefits in RS and explores the fiscal implications of reallocating selected non-contributory cash benefits through a poverty alleviation program using a PMT.

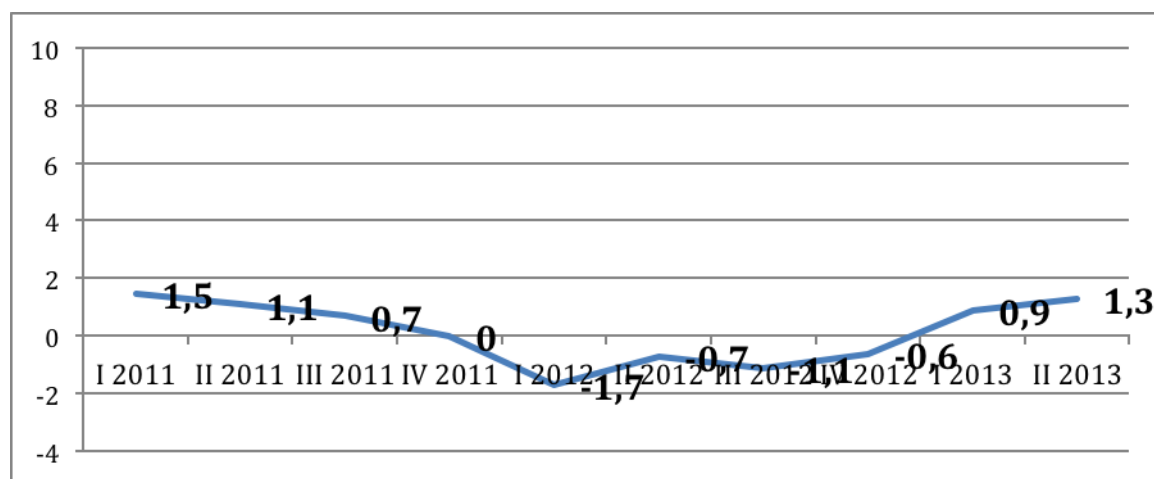
This report constitutes part of the project "Development, testing and implementation of new methodology(ies) for targeting of budgetary benefits in Bosnia and Herzegovina" and is linked to a number of formerly completed reports within the framework of this project. It was prepared by a team from the Maastricht Graduate School of Governance: Franziska Gassmann (Team Leader), Daphne François, Eli Stoykova, and Sonila Tomini, with the cooperation of IBHI consultants: Žarko Papić, Stevo Pucar, Mira Čuk i Fahrudin Memić.

2 Background – macroeconomic trends in RS and social benefits

After a 3% recession in 2009 in Republika Srpska, the two subsequent years yielded very modest economic results, expressed in the growth rates of 0.8% in both years. However, the renewed contraction of the GDP in 2012 was particularly detrimental. In this year, the Republika Srpska GDP contracted by 1.1%. This GDP contraction was caused by unfavorable global economic trends, particularly in the EU, where most countries that are the exports market for RS goods were in recession.

Following the contraction of 2012 GDP, the macroeconomic situation somewhat improved in 2013. This expansion was primarily a consequence of the expansion in the EU countries and, consequently, of good results of export-oriented companies. In Q1 and Q2 2013, GDP rose by 0.9% and 1.3%, respectively.

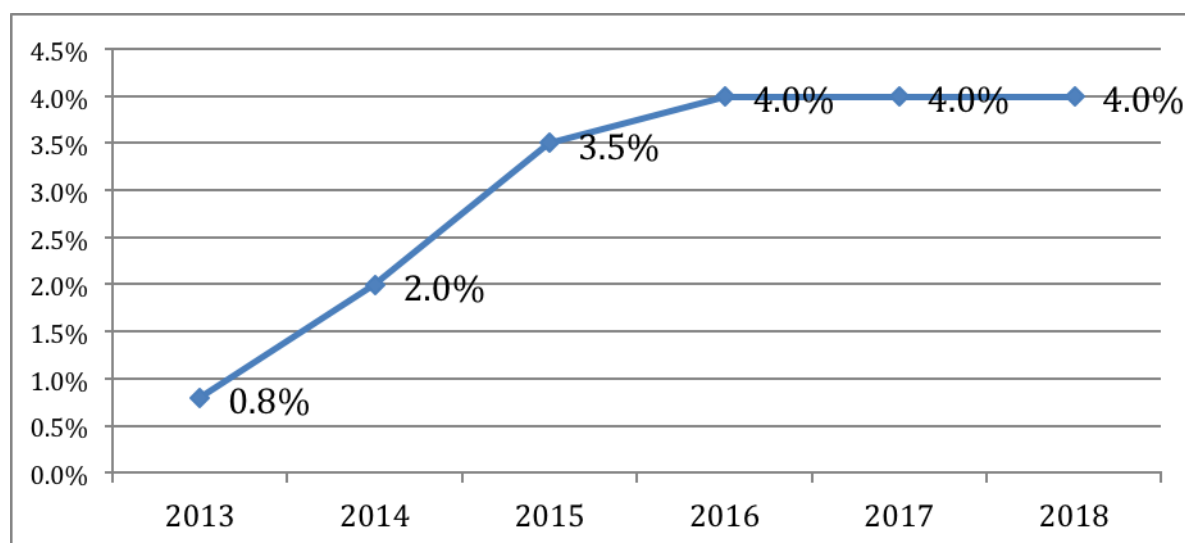
Graph 1. Republika Srpska GDP growth, by quarters (in %)



Source: Republika Srpska Statistics Institute

This data reveals that RS exited the recession that prevailed in 2012, but also that this recovery was very modest. With the economic growth at around 1%, it is more of a stagnation than a meaningful recovery. Particularly because this current development does not and cannot have a more significant impact on the labor market, where only a minor improvement is noticeable.

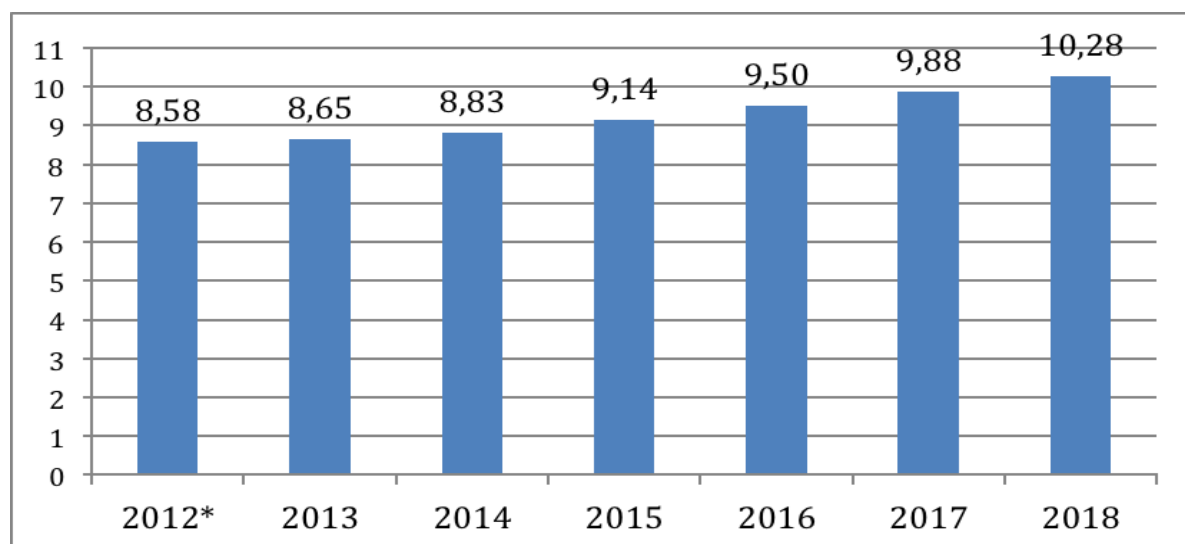
As far as the projections for the future economic growth, in February 2014 the International Monetary Fund published the growth projections for BiH through 2018. According to these projections, a mild growth is expected in 2013, with a steady increase of the rate of GDP growth in the 2014-2016 period and maintenance of the 4% growth rate in the 2016-2018 period.

Graph 2. IMF projections of the real GDP growth rate in BiH (in %)

Source: IMF (2014), Fifth Stand-by Arrangement Review, IMF Country Report No. 14/39, Washington, February 2014, available at <http://www.imf.org/external/pubs/cat/longres.aspx?sk=41317.0>

As the IMF, according to available information, generates projections only for the level of BiH, we shall take this projection as relevant to the real GDP growth of Republika Srpska. In accordance with this projection, Republika Srpska GDP will rise from 8.6 billion KM in 2012 to 10.3 billion KM in 2018.

This information is of exceptional significance to us for future projection of non-contributory social benefits. On the one hand, the economic growth offers broader possibilities for escaping poverty, while on the other, ensures greater availability of funds to support those who remain below the poverty line.

Graph 3. RS real GDP on the basis of the IMF's projections for BiH (in billions of KM)¹

Source: IMF (2014), Fifth Stand-by Arrangement Review, IMF Country Report No. 14/39, Washington, February 2014, and authors' calculations

* The absolute amount for 2012 RS GDP was obtained from the Republika Srpska Statistics Institute

¹ 2012-2018 cumulative GDP growth would be 19.7%.

2.1 Fiscal situation

It must be noted that the 2012 recession had a very hard impact and that it further exacerbated the state of RS public finances. Namely, due to the GDP contraction of 1.1% in 2012, public finances shrank, public expenditures rose and the debt expanded, resulting in the increased budget deficit of 2.2%. In this situation, the mild recovery in 2013 has had little impact.

Table 1. RS consolidated budget, 2007-2012 (in GDP %)

	2007	2008	2009	2010	2011	2012
Revenues (in % of GDP)	39.7	38.5	37.5	38.9	42.5	42.5
Expenditures (in % of GDP)	33.5	35.4	40.3	41.1	38.9	41.2
Overall budget surplus/deficit (in % of GDP)*	0.4	-0.8	-6.6	-5.0	-0.7	-2.2

Source: CBBH

* The total deficit includes the obligations to repay internal and foreign debt

We should also consider the fiscal policy in RS and BiH and its outcomes. In both RS and BiH, the fiscal policy has been restrictive to a considerable extent, in an attempt to balance the budgets as soon as possible. It reveals a simple approach, promulgated by the international financial institutions, primarily the IMF, about the necessity to raise revenues and reduce and restructure expenditures. In itself, this approach is not inappropriate.

However, the mode of its implementation here further aggravates our situation. Namely, the revenues may be increased in two ways – through a policy where economic growth generates higher tax revenues, or a policy of increasing the tax burden to collect higher tax revenues. We chose the latter approach, which raises public revenues in the short term, but, long-term, destimulates the economy and consequently causes dwindling tax revenues.

With respect to expenditures, the policy is extremely restrictive, a policy of austerity. Frequently, the arguments advanced in support of the strict fiscal austerity are wrong, derived on the basis of a simple comparison with the need of an overindebted household to save. It needs to be noted that this analogy is inappropriate due to its extreme oversimplification of the situation, which leads to mistaken conclusions.

Instead of the strict fiscal austerity policy, the economic growth stimulus policy should be at the forefront. That approach would stimulate the economy, incentivize creation of new companies, and stimulation of the economy increases employment. The primary problem is not that the so-called fiscal adjustment policy, or austerity policy aimed to place public finances under control is wrong. On the contrary, it is often necessary, particularly with regard to administrative costs, but a rigid austerity policy is validated by the repayment of loans and not for ensuring a path to economic growth and providing for citizens through employment.

The issue at stake here is that this policy in implementation is not adequately supported by other policies that might bring about economic growth. Multiple policies should be implemented concurrently, as this is a process that needs to unfold simultaneously. The

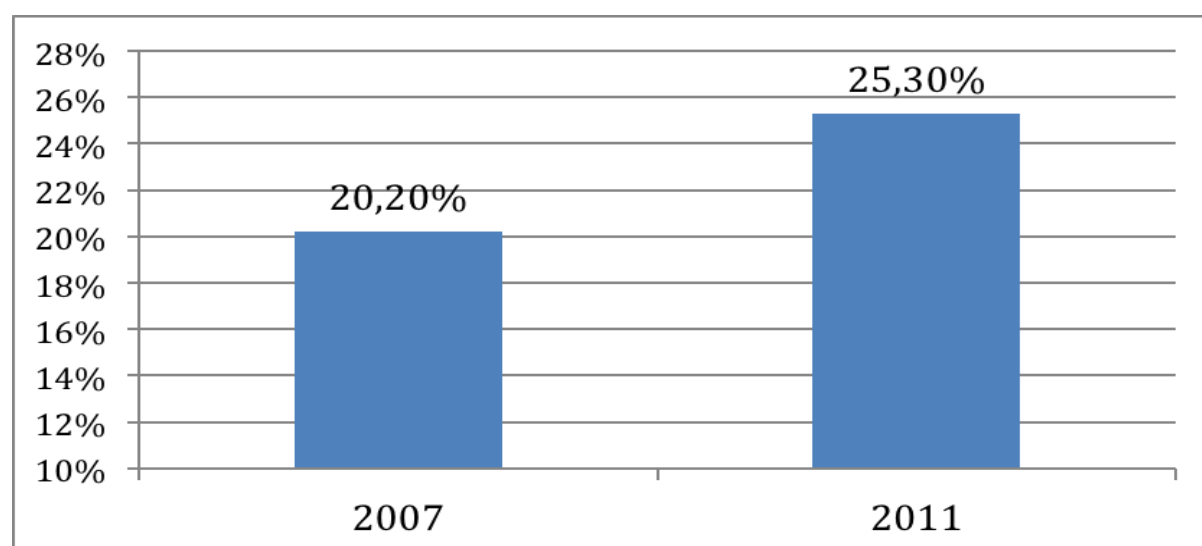
insistence on harsh fiscal discipline cannot, in itself, be a way out of the crisis. It lacks the necessary scope to generate the needed economic growth. In the present situation, its effects are exhausted on improving figures, but the essential problem of insufficient growth persists, and even worsens.

2.2 Social benefit trends

Social policy is one of the policies that should act concurrently and actively to enhance the living standards of the population. The entire society is paying the bills for the current crisis, but the burden of the economic failure is not shared by all its members in the same way, because the burden of the failure is not shared by everyone equally.

This crisis impacts the population below or at the poverty line to a much greater extent. According to the absolute poverty line of 205 KM² per capita, around 15% of the population was poor in Republika Srpska in both 2007 and 2011. This means that the number of people in deepest poverty did not change much during this period.

Graph 4. RS population below the absolute poverty line of 238 KM



Source: Poverty in BiH – Trends and Achievements, IBHI, Sarajevo, 2013

However, according to an absolute poverty line that is only 33 KM higher, i.e. 238 KM,³ we can see that there is a significant number of people who had not been poor in 2007, but who slid below the poverty line in 2011.

Therefore, there is a major increase in poverty during the current crisis period, which needs to be mitigated and reduced to the extent possible. In Table 2, we can see how much RS allocates for social benefits.

Table 2. RS social benefits, 2007-2012 (in % of GDP)

	2007	2011	2012
Permanent cash benefit	0.15%	0.19%	0.25%
Child and family care	0.46%	0.67%	0.63%

² Source: IBHI, MGSOG. Poverty in BiH in 2011 – Trends and Achievements and Indicators of Adequacy of Targeting Non-Contributory Social Protection Transfers in BiH 2011, June 2013, p 14.

³ Source: the same.

Persons with non-war related disabilities	0.05%	0.09%	0.14%
Civilian victims of war	0.07%	0.08%	0.08%
Veterans' benefits	2.28%	1.90%	2.29%
TOTAL	3.01%	2.92%	3.39% ⁴

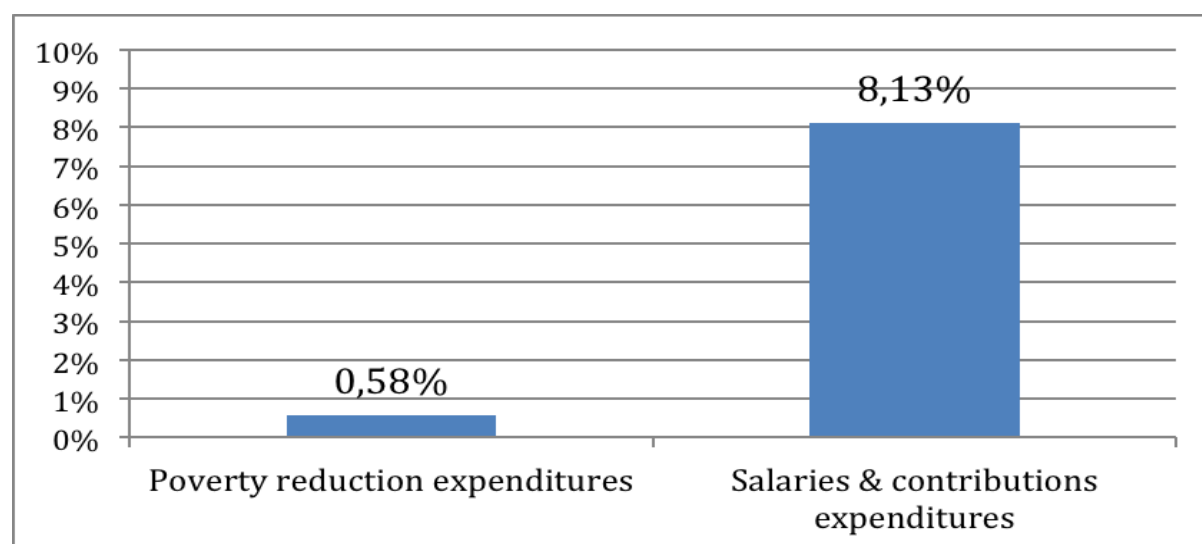
Source: Administrative data

In RS, the veterans' benefits strongly dominate the cash transfers not based on contributions. In 2007 the veterans' benefits accounted for as much as $\frac{3}{4}$ of all non-contributory funds allocated for social protection, while in 2011 and 2012 this share dropped to around two-thirds, which is still very high.

However, how proactive is our social policy? We can determine this on the basis of the share of social benefits that are really used for poverty alleviation, relative to those with another function. Namely, of all other types of social benefits in RS, only the cash benefit for socially vulnerable (21.4 million KM in 2012) and the child-care allowance (excluding maternity leave, 28.1 million KM) are the benefits with the exclusive purpose to alleviate poverty, totaling 49.5 million KM in 2012. All other benefits have different purposes, including the status-based allocation, equalization of opportunities etc.

When the expenditures for benefits exclusively intended for poverty alleviation are examined, we find that they are very low. The striking conclusion is that very little funds are channeled to the poor, which contradicts the previous claims that expenditures for social protection are excessive.

Graph 5. Poverty alleviation benefits relative to wages in RS (in % of GDP)



Source: Administrative data

This is particularly evident when this level of expenditure is compared with public spending on wages and contributions for the public sector employees. Namely, expenditures for public sector wages and salaries were 14 times higher than the expenditures intended for poverty reduction. If these expenditures were cut by one-half of the percentage point (e.g. from 8.1%

⁴ In FBiH this percentage is 3.47%, and on the level of BiH it is 3.39%

to 7.6% of GDP), the funds available for the poor would almost double. Such a move would not be impossible or unthinkable, but, on the contrary, very possible and imaginable.

The economic growth envisaged by the IMF permits consideration of various options for allocation of budget funding. These options will permit us to draw conclusions about a solution that would be optimal for our conditions. The following available options will be considered:

- current restrictive approach, reflected in maintenance of the same level of funding for these benefits in the amount of around 292 million KM throughout the period;
- maintaining the same share of 3.39% of GDP throughout the period;
- raising the funds earmarked for poverty alleviation.

The first option assumes “freezing” of the absolute level of benefits at the current level throughout the period. The prevailing goal would be to create savings of budget funds in order to balance the budget and reduce the budget deficit.

Table 3. The projection of RS social benefits, 2012-2018, assuming the same level of funding is maintained in the absolute amount (in % of GDP)

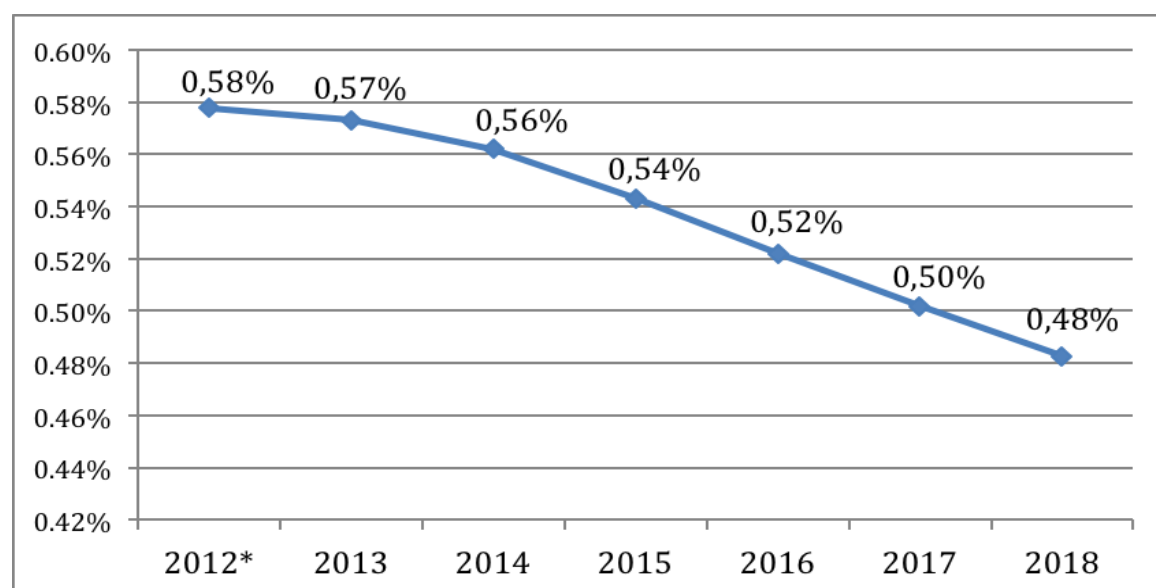
	2012*	2013	2014	2015	2016	2017	2018
Permanent cash benefit	0.25%	0.25%	0.24%	0.23%	0.23%	0.22%	0.21%
Child and family care	0.63%	0.63%	0.62%	0.60%	0.57%	0.55%	0.53%
Persons with non-war related disabilities	0.14%	0.14%	0.14%	0.14%	0.13%	0.13%	0.12%
Civilian victims of war	0.08%	0.08%	0.08%	0.07%	0.07%	0.07%	0.07%
Veterans' benefits	2.29%	2.27%	2.23%	2.15%	2.07%	1.99%	1.91%
TOTAL	3.39%	3.37%	3.31%	3.19%	3.07%	2.95%	2.84%

Source: Authors' calculations on the basis of the IMF projections and 2012 administrative data

The Table presents the projection of the RS social benefits for 2012-2018, assuming the funding is maintained on the same level of approximately 292 million KM. As the GDP will increase from 8.6 billion KM to 10.3 billion KM in 2018, we see that the share of both individual and cumulative social benefits in GDP is declining.

The share of total benefits dwindles from 3.39% of GDP in 2012 to 2.84% of GDP in 2018. This reduction of the share in GDP was particularly pronounced if we separate out the benefits that directly target the poverty reduction (cash assistance for socially vulnerable and the child-care allowance).

Graph 6. Poverty alleviation benefits with maintenance of the same level of funding in the absolute amount (in % of GDP)



Source: Authors' calculations on the basis of IMF projections and 2012 administrative data

The share of benefits directly targeted for poverty reduction has shrunk from 0.58% of GDP in 2012 to 0.48% of GDP in 2018. However, it must be noted that, according to the research conducted within the project, the current level of funding allocated for poverty reduction is inadequate relative to large needs of the poor and that this form of saving of budget funds would be socially and economically unacceptable.

Another option assumes maintenance of a constant share of all categories of benefits in the GDP, throughout the period. The goal here is not the savings in themselves, but the savings might mean maintaining a certain attitude towards these types of benefits.

Table 4. Projection of RS social benefits, 2012-2018, assuming constant share of the GDP (in million of KM)

	2012*	2013	2014	2015	2016	2017	2018
Permanent cash benefit	21.45	21.60	22.03	22.81	23.72	24.67	25.65
Child and family care	54.47	54.86	55.95	57.91	60.23	62.64	65.14
Persons with non-war related disabilities	12.37	12.46	12.71	13.15	13.68	14.23	14.80
Civilian victims of war	6.7	6.75	6.88	7.12	7.41	7.70	8.01
Veterans' benefits	196.72	198.08	202.05	209.12	217.48	226.18	235.23
TOTAL	291.73	293.75	299.62	310.11	322.51	335.41	348.83

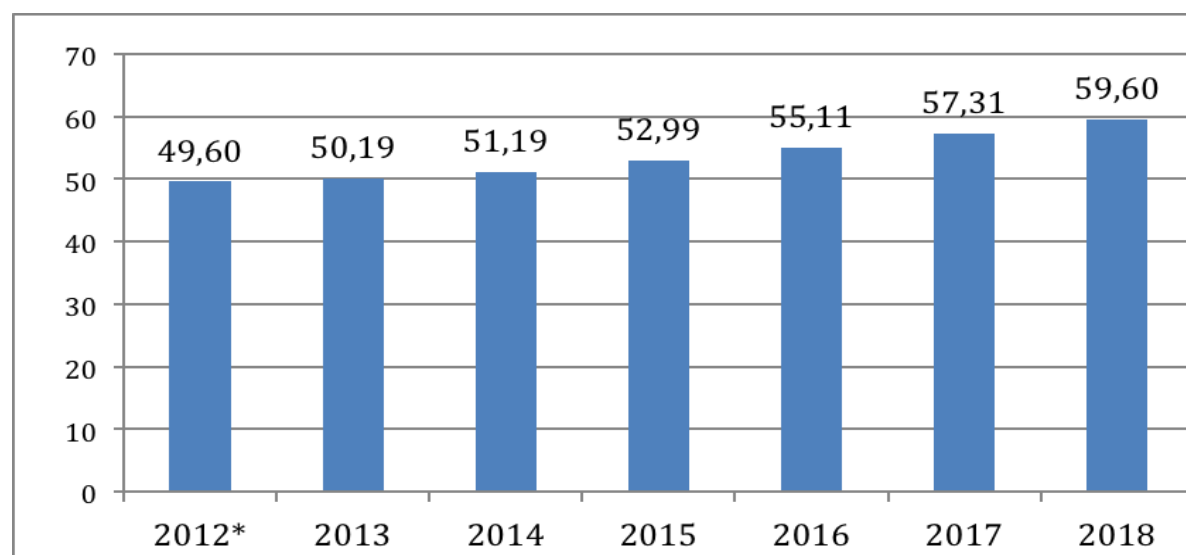
Source: Authors' calculations on the basis of the IMF projection and 2012 administrative data

The amount of total benefits is increased from 292 million BAM in 2012 to 349 million BAM in 2018. If we separate the benefits which are directly targeted at poverty reduction (material assistance for the socially vulnerable and child allowance), we also see an increase there.

In Table 4 there is a projection of RS social benefits, 2012-2018, assuming the constant share of GDP of 3.39%. Because of the GDP increase from 8.6 billion KM to 10.3 billion in 2018, we see that absolute amounts of both individual and cumulative social benefits in GDP are increasing.

The amount of total benefits increases from 292 million KM in 2012 to 349 million KM in 2018. If we exclude the benefits directly targeting poverty alleviation (cash benefit for the socially vulnerable and the child-care allowance), a measure of increase is also evident here.

Graph 7. Poverty reduction benefits with constant share of GDP (in millions of KM)



Source: Authors' calculations on the basis of the IMF projections and 2012 administrative data.

The amount of benefits allocated directly for poverty reduction raises from 49.5 million KM in 2012 to 59.6 million KM in 2018. However, here also it must be noted that, according to the research conducted in the framework of the project, and as we will see below, this increase is too low for the needs of the poor.

The third option worth considering is a considerable increase in the level of the budget funds allocated for poverty reduction. This reallocation of funds would be extremely important. The current increase and broadening of income inequality is shifting the entire social welfare level downwards: it contributes to economic slowing; makes it less desirable to live in a society characterized by drastic income differentials and much less general security. The suspicion and the sense of absence of justice (which is a definition of injustice), as a consequence of poverty, disillusionment, inadequate social status, in time is transformed in many members of the society into bitterness, that is easily turned into the fuel for potential disputes in the society. The society filled with such dissatisfaction has poor prospects for economic growth, but much greater for social tension and community conflict.

Reallocation to benefit the poorer social strata to ensure faster growth of their incomes might be a considerable moral and material impulse to economic growth, as it increases the purchasing power of more people, which also increases consumption that stimulates overall economic growth. Therefore it is of extreme importance to maintain a proactive social policy, contributing more not only to the poor, but to the society as a whole.

3 Methodology of the assessment of the fiscal consequences before and after implementation of the proxy means testing

3.1 Data

This report uses 2011 budget data provided by the Ministry of Labor, War Veterans and Disabled Persons' Protection, Ministry of Health and Social Welfare and the Centers of Social Work in RS for calculation of the total budget for non-contributory benefits in RS as well as budgets for reallocation in scenario II and III. The data were retrieved from one of the previous reports: *"Non-Contributory Cash Benefits in BiH – What Works and What does not (I)"*.

In addition, for the purpose of population ranking and identification of beneficiaries the report uses data from the 2011 Household Budget Survey, which is the main tool to measure poverty and monitor living standards in Bosnia and Herzegovina. The HBS 2011 sample was composed using two-stage stratified random sampling, resulting in a final sample of 7.400 households (4.611 in the Federation of Bosnia and Herzegovina (FBiH), 2.437 in the Republika Srpska (RS), and 352 in District Brčko).

3.2 Scenarios

In our analysis of new targeting methods we simulated three different scenarios. In the scenarios the current non-contributory benefits are replaced either by a combination of a categorical (rights-based) and needs-based transfers (scenario I in Box 1) or by only needs-based transfers (scenario II and III in Box 1). This report focuses on the fiscal impacts of scenario II and III given that each of these scenarios replaces different benefits with a poverty-alleviation program, resulting in different budgets to be reallocated based on the current needs. The budget for scenario II includes most civilian transfers, except for long-term care and support benefits and is significantly smaller than scenario III. The budget for scenario III includes all benefits of scenario II and adds the budget of several veterans' benefits to that.

Box 1. Simulated scenarios

Scenario I

- Budget: all civilian non-contributory benefits and child care allowance benefits.
- Transfers replaced by: (i) categorical (rights-based) transfers for the disabled and for children up to the age of six; (ii) needs-based transfer targeting individuals in the poorest households.

Scenario II

- Budget: most civilian benefits, except for long-term care and support benefits for the disabled.
- Transfers replaced by: a single needs-based program targeting individuals living in poor households.

Scenario III

- Budget: scenario II plus the amounts spent on the veteran's personal disability benefits, additional material support and veteran's survivor dependent benefits.
- Transfers replaced by: a single needs-based program targeting individuals in poor households, equal to scenario II.

3.3 Targeting method

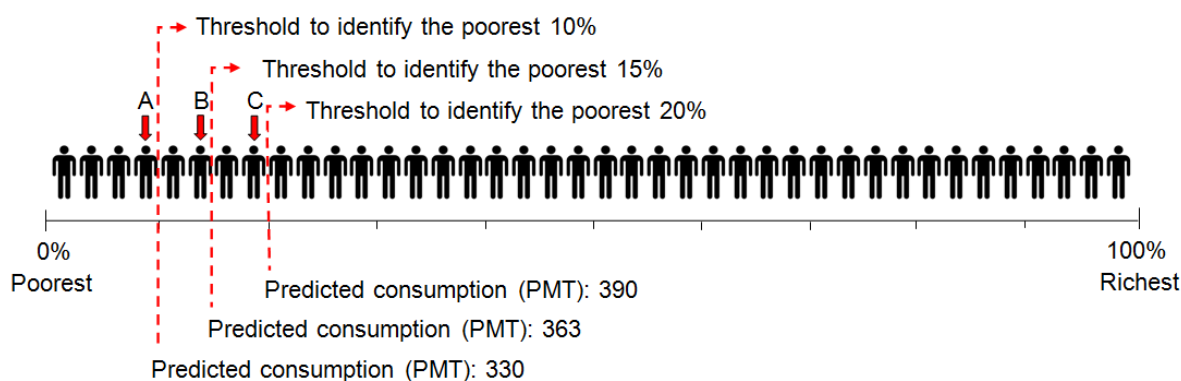
The alternative targeting methods analyzed in previous reports included categorical targeting, a method based on electricity expenditures and a Proxy-Means-Test (PMT). Of these methods a PMT consistently showed the best results in both entities. Therefore, this report uses a PMT for targeting the poorest 10, 15 or 20% of the population in RS.

3.4 What we do in our analysis

In section 4.1 of the report we provide an overview of the current fiscal situation of non-contributory social benefits in RS. In section 4.2 we zoom in on those benefits that will feed into the budgets for reallocation to the poor in scenario II and III. Subsequently, in section 4.3 we assess the fiscal consequences of reallocating the budgets in scenario II and III with a poverty alleviation program that targets the poorest 10, 15 or 20% of the population and aims to bring their consumption up to a specific threshold.

In order to do this, we first rank the total population on a relative scale from 0 to 100 percent (from the poorest to richest) on the basis of their predicted consumption, which we derive using the PMT-model estimated in the reports “*New Targeting Methods for BiH*”, Part I and II” (see Figure 1). In the next step, we apply the thresholds which allow us to identify the poorest 10, 15 and 20% of the population. For example, the threshold to identify the poorest 10% of the population is equal to the predicted consumption of the richest person belonging to this group (see Figure 1, person A). All persons with a predicted consumption below this threshold (also called cut-off) belong to the poorest 10% of the population.

Figure 1. PMT thresholds to identify the poorest 10, 15 or 20% of the total population in RS



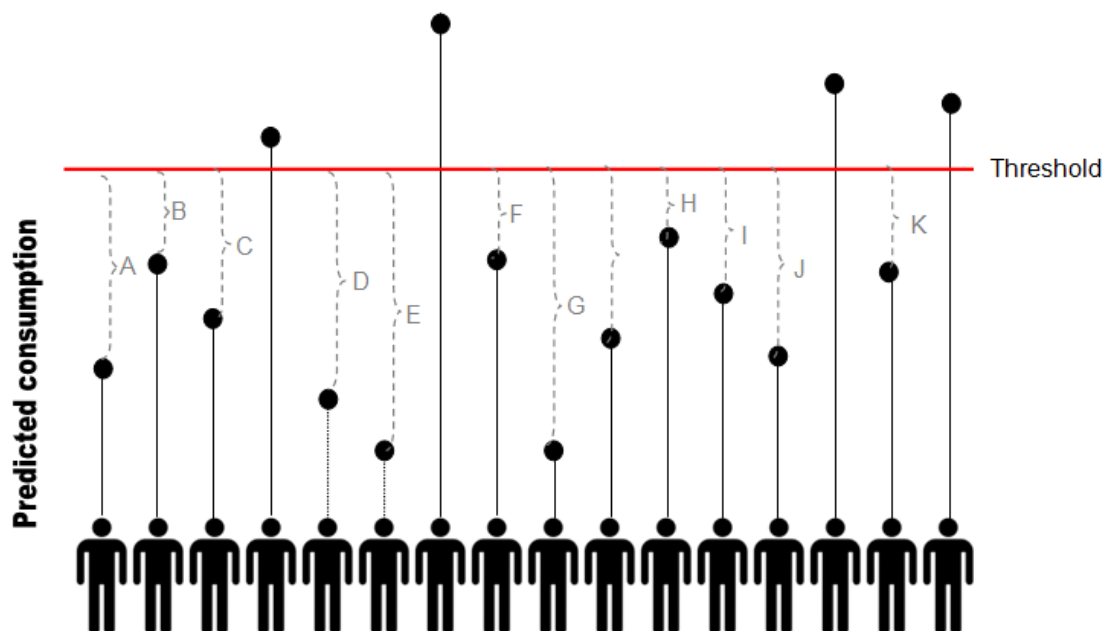
Source: Developed by authors

Having determined the estimated cut-offs to target the poorest 10, 15 and 20% of the population, we define three program objectives: to lift the poorest (1) 10%, (2) 15% or (3) 20% to their respective thresholds. Subsequently, the total amounts of money necessary to reach these objectives can be calculated. For instance, in order to calculate the total amount of money needed to lift the predicted consumption of the poorest 10% to the 10%-threshold, we first calculate the difference between the 10%-threshold (330 BAM per person monthly)⁵

⁵ Note: The Relative Poverty Line for RS, measured on the OECD 1 equivalency scale, according to the BiH 2011 Household Budget Survey data, was 308 KM per adult equivalent per month. In accordance with this poverty line, 13.9% of the population in RS was poor, i.e. if we assume there are 1,326,991 inhabitants in RS, around 184 thousand

and the predicted consumption of each individual belonging to this group. Subsequently, we add up these amounts. The total amount we call the “program gap”. In Figure 2, the total program gap would amount to the sum of A + B + C + D + E + F + G + H + I + J + K.

Figure 2. Calculation of the total program gap



S

ource: Developed by authors. Note: • symbolizes the predicted consumption of each household.

Finally, in section 4.3 the average program gap - i.e. the program gap per targeted individual - is calculated by dividing the total program gap by the number of eligible individuals. In order to give an idea of the extent to which the budget of each simulated scenario would be able to bring poor individuals closer to their respective thresholds, the average program gap is then compared to the average benefit level for each scenario.

inhabitants are poor. The relative poverty line level in KM and the levels of program thresholds in KM cannot be compared because the level of consumption of relatively poor persons from the 2011 BiH Household Budget Survey is determined on the basis of the survey budget data, while the level of consumption of the persons in the program is established on the basis of the results of the proxy means testing.

4 Presentation and interpretation of results

4.1 Current budget for non-contributory social benefits

Table 5. Total budget for civilian and veteran's non-contributory social benefits in RS, 2011

	Total annual amount (in KM)	Total monthly amount (in KM)	In % of NCB	In % of RS GDP
1. Veteran's disability benefits	164,062,155	13,671,846	64.91%	1.89%
<i>Personal disability benefit (PDB)</i>	48,638,312	4,053,193	19.24%	0.56%
<i>Long term care and support (LTC)</i>	3,926,960	327,247	1.55%	0.05%
<i>Additional material support ⁽¹⁾</i>	3,592,000	299,333	1.42%	0.04%
<i>Additional material support ⁽²⁾</i>	4,079,180	339,932	1.61%	0.05%
<i>Orthopedic benefit</i>	5,713,290	476,108	2.26%	0.07%
<i>Survivor dependent benefit (SDB)</i>	86,139,818	7,178,318	34.08%	0.99%
<i>Other</i>	11,972,595	997,716	4.74%	0.14%
2. Civilian victims of war	6,852,825	571,069	2.71%	0.08%
<i>Personal disability benefit (PDB)</i>	3,026,325	252,194	1.20%	0.03%
<i>Long term care and support</i>	297,000	24,750	0.12%	0.00%
<i>Allowance for family members unable to work</i>	186,000	15,500	0.07%	0.00%
<i>Additional cash assistance</i>	284,775	23,731	0.11%	0.00%
<i>Allowance for single parents</i>	13,988	1,166	0.01%	0.00%
<i>Survivor dependent benefit (SDB)</i>	3,044,738	253,728	1.20%	0.04%
3. Non-war persons with disabilities	7,931,881	660,990	3.14%	0.09%
<i>Long term care and support</i>	7,427,687	618,974	2.94%	0.09%
<i>Allowance for work training</i>	504,194	42,016	0.20%	0.01%
4. Child protection*	57,774,987	4,814,582	22.86%	0.67%
<i>Child care allowance</i>	22,924,625	1,910,385	9.07%	0.26%
<i>Maternity benefit</i>	29,830,510	2,485,876	11.80%	0.34%
<i>Other</i>	5,019,852	418,321	1.99%	0.06%

5. Social assistance	16,145,851	1,345,488	6.39%	0.19%
<i>Permanent financial assistance</i>	<i>2,729,281</i>	<i>227,440</i>	<i>1.08%</i>	<i>0.03%</i>
<i>One-off transfers</i>	<i>1,383,836</i>	<i>115,320</i>	<i>0.55%</i>	<i>0.02%</i>
<i>Placement in a host family</i>	<i>1,542,301</i>	<i>128,525</i>	<i>0.61%</i>	<i>0.02%</i>
<i>Placement in social protection institution</i>	<i>6,617,962</i>	<i>551,497</i>	<i>2.62%</i>	<i>0.08%</i>
<i>Home care and assistance</i>	<i>481,812</i>	<i>40,151</i>	<i>0.19%</i>	<i>0.01%</i>
<i>Health insurance</i>	<i>1,542,302</i>	<i>128,525</i>	<i>0.61%</i>	<i>0.02%</i>
<i>Additional rights</i>	<i>1,848,357</i>	<i>154,030</i>	<i>0.73%</i>	<i>0.02%</i>
<i>Other</i>	<i>504,194</i>	<i>42,016</i>	<i>0.20%</i>	<i>0.01%</i>
TOTAL budget for non-contributory benefits RS	252,767,699	21,063,975	100.00%	2.9%

Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW. Note: The budget excludes administrative costs. *The budget for child protection is contributory, but it is distributed to anyone who has the right to child protection, irrespective of whether this person contributed to the child protection fund or not.⁽¹⁾ Additional material support for veteran's PDW recipients not receiving LTC.⁽²⁾ Additional material support for veteran's PDW recipients receiving LTC.

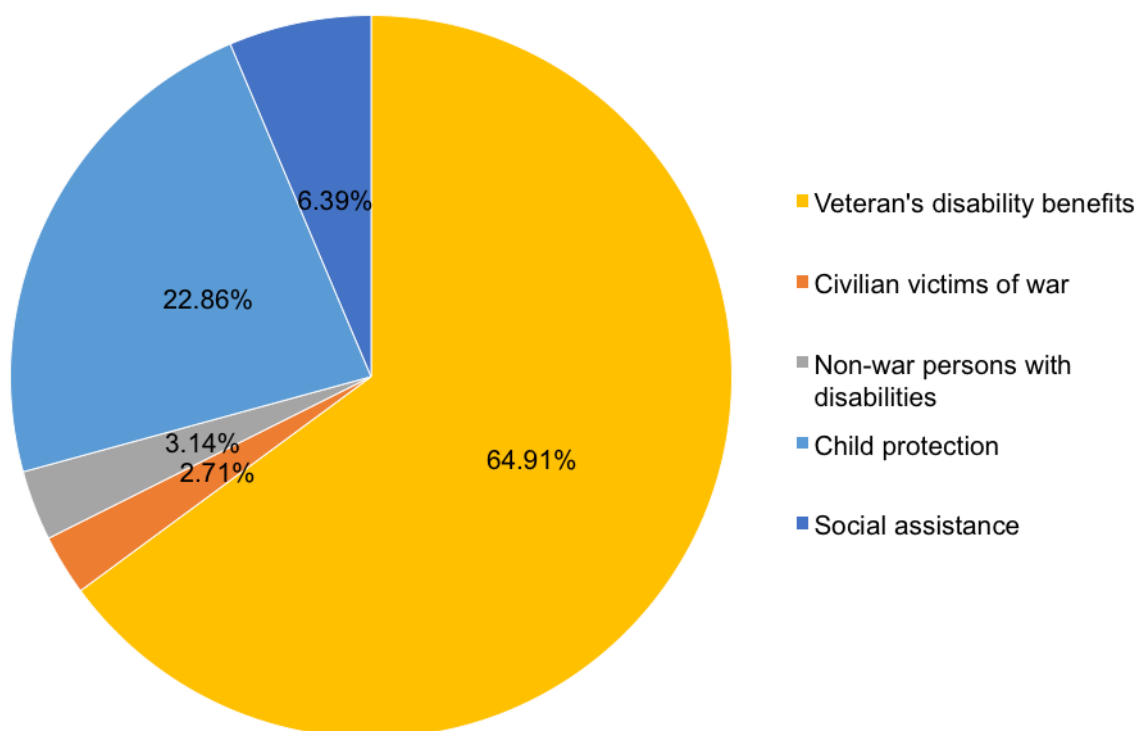
Table 5 shows the total budget spent on non-contributory social benefits by benefit category in RS in 2011. The table distinguishes between five benefit categories: (1) veteran's disability benefits, (2) civilian victims of war, (3) non-war persons with disabilities, (4) child protection and (5) social assistance. Besides cash benefits, "non-cash" benefits are included, such as home care and assistance and placements in host families or social protection institutions.

The total annual budget spent on non-contributory social benefits of approximately 253 million BAM represents 2.92% of the GDP. More than half of this amount – 64.9%, or 164 million BAM – is allocated to veteran's benefits. The various civilian benefits, including disability benefits for civilian victims of war and non-war disabled persons, child protection benefits, and social assistance benefits, altogether constitute 89 million BAM, or 35.1% of the total budget (see also Figure 3).

Looking exclusively at civilian benefits, the budget for child protection takes up the largest share – it amounts to almost 22.9% of the total budget for non-contributory benefits. 2.7% of the total budget goes to Civilian Victims of War (CVW), 3.1% to persons with non-war related disabilities and 6.4% is currently allocated to different kinds of social assistance benefits, part of which is distributed to the poor.

Note that the overall majority of funding for child protection benefits in RS (approximately 95%) comes from contributions, but child protection benefits are distributed to any eligible parents irrespective of whether or not they contributed to the child protection fund. The rate of contributions is set at 1.5% of gross personal revenues. The remaining funding comes mainly from transfers from the Ministry of Health and Social Policy and the Ministry of Family, Youth and Sports. The largest part of the budget for child protection is allocated to maternity benefits, either for employed or for unemployed mothers.

Figure 3. Budget by benefit type, as a share of total budget for non-contributory benefits in RS, 2011



Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW.

4.2 Budgets to be reallocated in scenario II and III.

In scenario II and III several existing benefits are being abolished and replaced with a single new program targeted at the poor, i.e. a social assistance program. The total budget for reallocation through this new program equals the sum of the amounts allocated in 2011 to the existing benefits that are abolished in scenario II and III respectively. The composition of the budget for each scenario is described in detail below.

Scenario II

Table 6. Total budget for scenario II, 2011

	Total annual amounts (in KM)	Monthly amounts (in KM)	In % of NCB	In % of GDP
1. Veteran's disability benefits				
L--- X No benefits included from this category	-	-	-	-
2. Civilian victims of war				
L--- V Personal disability benefit (PDB)	3,026,325	252,194	1.20%	0.03%
L--- V Additional cash assistance	284.775	23.731	0.11%	0.00%

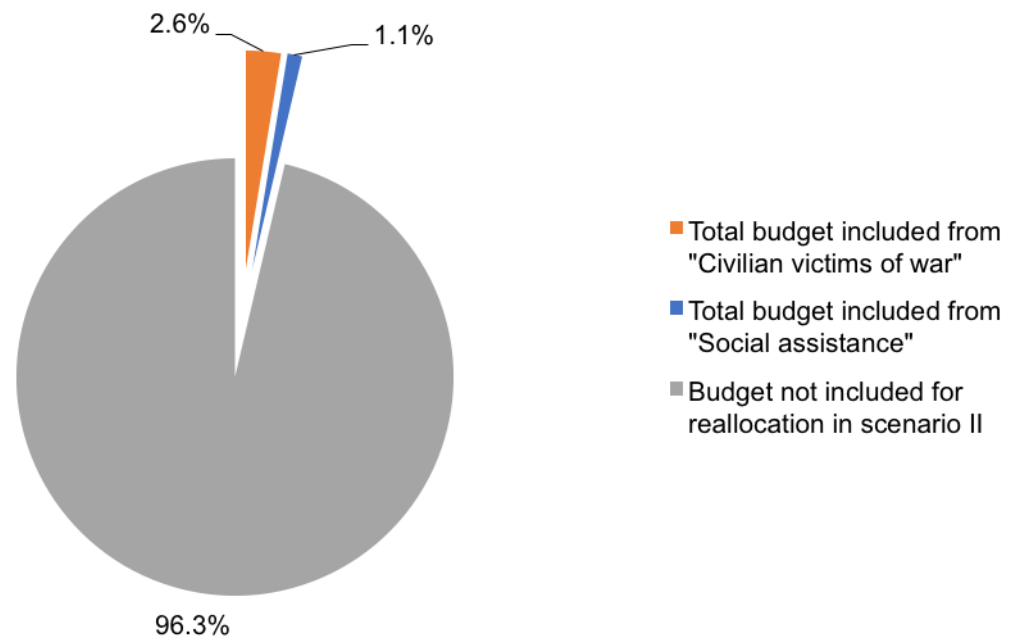
L--- V Allowance for family members unable to work	186,000	15,500	0.07%	0.00%
L--- V Allowance for single parents	13,988	1,166	0.01%	0.00%
L--- V Survivor dependent benefit (SDB)	3,044,738	253,728	1.20%	0.04%
TOTAL budget included from this category:	6,555,825	546,319	2.59%	0.08%
3. Non-war persons with disabilities	-	-	-	-
L--- X No benefits included from this category	-	-	-	-
4. Child protection	-	-	-	-
L--- X No benefits included from this category	-	-	-	-
5. Social assistance				
L--- V Permanent financial assistance	2,729,281	227,440	1.08%	0.03%
TOTAL budget included from this category:	2,729,281	227,440	1.08%	0.03%
TOTAL budget for reallocation in scenario II	9,285,106	773,759	3.67%	0.11%

Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW.

Note: From categories "veteran's benefits", "non-war persons with disabilities" and "child protection", no benefits are included in the budget for this scenario. From "civilian victims of war" and "social assistance" only a selected number of benefits is included; totals for these categories are smaller than their total budgets shown in Table 1.

Table 6. lists the benefits that would be replaced with a poverty alleviation program in scenario II and the amounts that were allocated to these benefits in 2011, as well as the resulting total budget for reallocation through a new social assistance program. Veteran's disability benefits, benefits for non-war persons with disabilities and child protection benefits are not touched in this scenario. From category 2 "Civilian victims of war", all benefits except for those aiming to create equal opportunities (i.e. long-term care and support and the orthopedic benefit) are included, yielding a total budget of 6,555,825 BAM. From category 5 "Social assistance", permanent financial assistance is included, adding another 2,729,281 BAM to the total budget in scenario II. The total budget to be reallocated in this scenario amounts to 9,285,106 BAM per year or 773,759 BAM per month.

Figure 4. Budget to be reallocated in scenario II as a share of the total RS budget for civilian and veteran's non-contributory benefits



Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW.

Figure 4 shows the total budget to be reallocated in scenario II as a percentage of the total budget for civilian and veteran's non-contributory benefits. While 3.67% of the total budget for NCB is included in this budget, a major share - 96.3% - is not touched.

Scenario III

Table 7. Total budget for scenario III, 2011

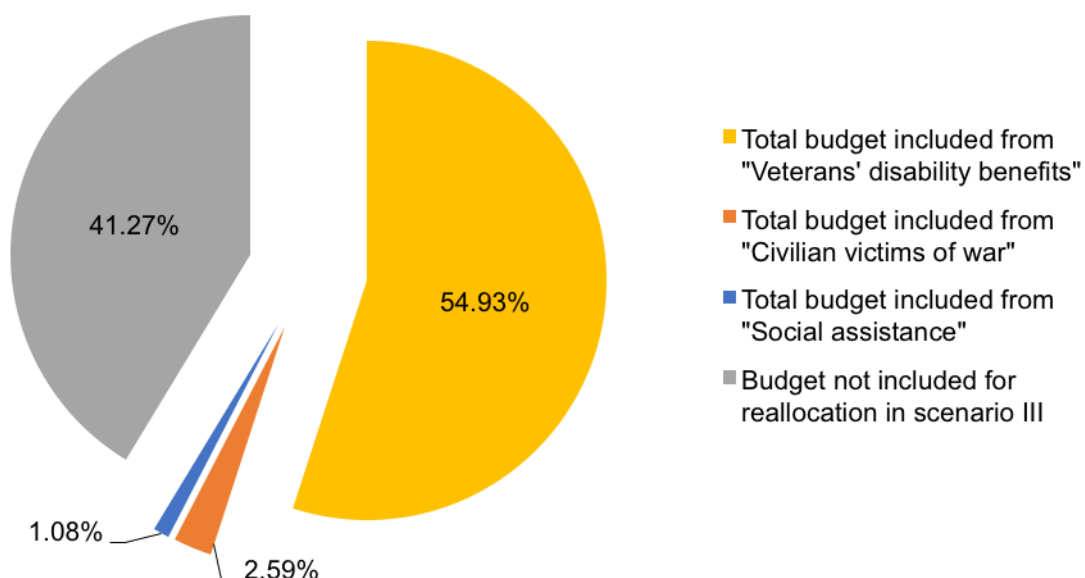
	Total annual amounts (in BAM)	Monthly amounts (in BAM)	In % of NCB	In % of GDP
1. Veteran's disability benefits				
L--- V Personal disability benefit (PDB)	48,638,312	4,053,193	19.24%	0.56%
L--- V Additional material support ⁽²⁾	4,079,180	339,932	1.61%	0.05%
L--- V Survivor dependent benefit (SDB)	86,139,818	7,178,318	34.08%	0.99%
TOTAL budget included from this category:	138,857,310	11,571,442	54.93%	1.60%
2. Civilian victims of war				
L--- V Personal disability benefit (PDB)	3,026,325	252,194	1.20%	0.03%
L--- V Additional cash assistance	284,775	23,731	0.11%	0.00%
L--- V Allowance for family members unable to work	186,000	15,500	0.07%	0.00%
L--- V Allowance for single parents	13,988	1,166	0.01%	0.00%
L--- V Survivor dependent benefit (SDB)	3,044,738	253,728	1.20%	0.04%
TOTAL budget included from this category:	6,555,825	546,319	2.59%	0.08%
3. Non-war persons with disabilities				
L--- X No benefits included from this category	-	-	-	-
4. Child protection				
L--- X No benefits included from this category	-	-	-	-
5. Social assistance				
L--- V Permanent financial assistance	2,729,281	227,440	1.08%	0.03%
TOTAL budget included from this category:	2,729,281	227,440	1.08%	0.03%
TOTAL budget for reallocation in scenario III	148,142,416	12,345,201	58.61%	1.71%

Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW. Note: From categories "non-war persons with disabilities" and "child protection" no benefits are included in the budget for this scenario. From "veteran's benefits", "civilian victims of war" and "social assistance" only a selected number of

benefits is included; totals for these categories are smaller than their total budgets shown in Table 1. ⁽²⁾ Additional material support for veteran's PDW recipients receiving LTC.

While the budget for scenario II does not include any veteran's benefits, the budget for scenario III includes all veterans' benefits not intended for creation of equal opportunities for disabled veterans (see Table 7). As a result of the fact that benefits in this category are relatively generous, the total budget in this scenario is considerably larger than in scenario II. It amounts to 148,142,416 BAM per year, or 58.61% of total non-contributory benefits in RS (see also Figure 5).

Figure 5. Budget to be reallocated in scenario III as a share of the total RS budget for civilian and veteran's non-contributory benefits



Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW.

A note on the budget data used

As already mentioned in section 3.1, the above-calculated total budgets to be reallocated under the new social assistance program in scenario II and III are based on administrative data provided by the ministries and CSWs in RS. In each scenario, the amounts spent in 2011 on those benefits that would be replaced by one single social assistance program are added up, resulting in the budget available for reallocation in scenario II and III respectively.

While 2011 administrative data inform us on what the RS government and CSWs spent on the benefits to be replaced, data from the 2011 HBS inform us on the total amount of money households claimed to have received for those benefits. Table 4 shows a comparison between calculated total budget amounts for scenario II and III acquired from administrative data as well as extrapolated from the 2011 HBS.

When comparing amounts obtained from administrative budget data to extrapolated amounts from household budget surveys, the latter are usually smaller. This is due to households not reporting their income, not revealing their true income, not remembering it or because of seasonal effects. However, when comparing the total budget for civilian victims of war obtained from 2011 administrative data to the total budget extrapolated from HBS 2011 data, the situation is the opposite: the administrative budget is considerably smaller than the extrapolated amount of benefits received. As a result, in scenario II the administrative budget amounts to only 58% of the extrapolated budget (see Table 8). In scenario III, the difference between the administrative budget and the extrapolated budget is as expected: the latter is smaller than the former.

Table 8. Comparison of the budget derived from administrative data to the budget extrapolated from HBS 2011 data.

<i>Scenario</i>	<i>Budget:</i>	<i>Budget:</i>	<i>Budget:</i>	<i>Difference</i>
	<i>Administrative data 2011</i>	<i>Administrative data 2011</i>	<i>Extrapolated from HBS 2011</i>	<i>(in % of the extrapolated budget)</i>
	<i>Annual</i>	<i>Monthly</i>	<i>Monthly</i>	<i>Monthly</i>
Scenario II	9.285.106	773.759	1.342.210	58%
Scenario III	148.142.416	12.345.201	5.463.415	226%

Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and on HBS 2011.

4.3 Comparing available budgets with the money needed to reach the program objectives

In paragraph 3.4, we formulated three objectives for the new social assistance program: (1) to bring the estimated consumption of the poorest 10% up to the threshold of 330 BAM monthly (i.e. the consumption of the richest person belonging to the poorest 10% of the population); (2) to bring the estimated consumption of the poorest 15% up to the threshold of 363 BAM monthly (i.e. the consumption of the richest person belonging to the poorest 15% of the population); or (3) to bring the estimated consumption of the poorest 20% up to the threshold of 390 BAM monthly (i.e. the consumption of the richest person belonging to the poorest 20% of the population). On the basis of the thresholds and the estimated consumption of each population member, we calculate the total amount of money that would be needed to reach these objectives, i.e. the program gap (for explanations, see paragraph 3.4).

Table 9 shows the number of beneficiaries and the total annual program gap when targeting the poorest 10, 15 or 20% of the population. It can be seen that the program gap is smallest when the program is targeted at the poorest 10% of the population – given that the smaller program size implies a lower consumption threshold and the number of individuals to be targeted is comparatively smaller.

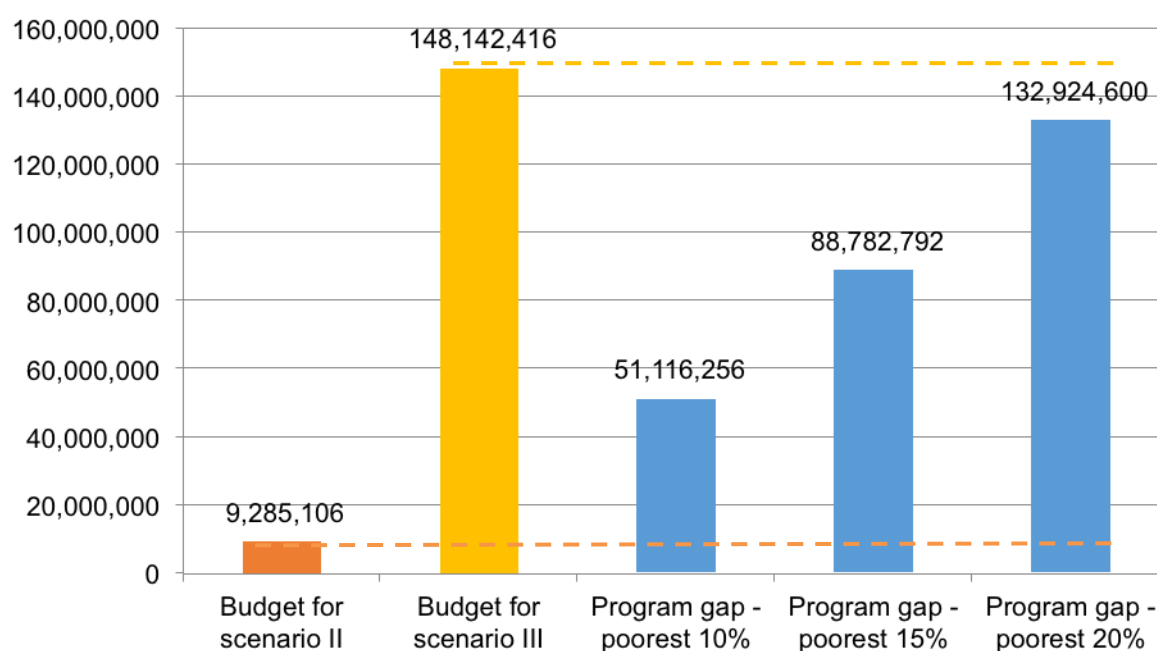
Table 9. *Annual* program gap, three program sizes, RS, 2011

Program size	Estimated number of beneficiaries	Total annual program gap (in BAM)
Targeting the poorest 10%	106,065	51,116,256
Targeting the poorest 15%	158,895	88,782,792
Targeting the poorest 20%	212,278	132,924,600

Source: Authors' calculations based on HBS 2011.

From section 4.2 we have seen that total annual budgets available for the new social assistance program amount to 9,285,106 and 148,142,416 BAM per year in scenario II and III respectively based on administrative data. Figure 6 compares these budgets to the total annual program gap when targeting the poorest 10, 15 and 20% of the population. The budget in scenario II is much smaller than the total program gap for any of the three program sizes: it amounts to approximately 18% of the total program gap when targeting the poorest 10% of the population and is less than 18% when targeting a larger share of the population. However, the budget for scenario III is larger than any of the total program gaps for the three program sizes.

Figure 6. Comparison of budget scenarios and program gaps for three program sizes in RS, annual amounts in BAM



Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW and HBS 2011 data.

From Figure 6 we can conclude that the budget in scenario II is negligible compared to the size of the three program gaps. Due to the fact that only very few of the existing non-contributory benefits are included for reallocation, which have on average relatively low benefit levels, the budget is most likely too small to achieve any significant impacts on poverty in RS. The size of the budget in scenario III on the other hand, seems large enough to close the program gap in the entity as a result of adding several veterans' benefits to the budget of scenario II. However, given the fact that it is highly unlikely that veteran's benefits would become subject to any reform in the near future due to their historical roots and the resulting political tension surrounding them, this scenario is included merely for illustrative purposes.

4.4 Benefit levels

Table 10. Average gap by target group, *monthly*

Targeted population (in %)	Total program gap (in 1,000 BAM)	Estimated number of beneficiaries	Average program gap per beneficiary (in BAM)
Poorest 10%	4,260	106,065	40
Poorest 15%	7,399	158,895	47
Poorest 20%	11,077	212,278	52

Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW and HBS 2011 data.

Table 10 shows the total monthly program gap and the number of beneficiaries for a program size of 10, 15 and 20%. Using this information, the average program gap per beneficiary can be calculated by dividing the total program gap by the number of beneficiaries, which is also shown in the table. For instance, when targeting the poorest 10% of the population, the average monthly gap amounts to 4,260,000 BAM/106,065 beneficiaries = 40 BAM. This means that, in order to fill the total program gap, all individuals belonging to the poorest 10% of the population should on average receive a benefit of 40 BAM monthly.

Table 11. Average benefit level per targeted individual (in BAM and in % of average gap), scenario II, *monthly*

Targeted population (in %)	Total budget scenario II (in 1,000 BAM)	Estimated number of beneficiaries	Average benefit level per beneficiary using budget in scenario II (in BAM)	Average program gap per beneficiary (in BAM)	Average benefit in % of average program gap
Poorest 10%	773.76	106,065	7.3	40	18.2%
Poorest 15%	773.76	158,895	4.9	47	10.5%
Poorest 20%	773.76	212,278	3.6	52	7.0%

Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW and HBS 2011 data.

In addition to the average gap per targeted individual based on the total program gap, Table 11 shows the average benefit level per targeted individual we can afford with the budget to be reallocated in scenario II. Under this scenario, average benefit levels are only a fraction of the average program gap, i.e. of the average benefit level we would need to bring the poorest 10, 15 or 20% up to the desired respective consumption thresholds. They amount to 7.3, 4.9 and 3.6 BAM respectively for a program size of 10, 15 and 20%. As described in the previous chapter, the small budget and the resulting low benefit levels in scenario II are the product of the limited number and relatively low benefit levels of existing benefits that are being replaced.

Table 12. Average benefit per targeted individual (in BAM and in % of average gap), scenario III, *monthly*

Targeted population (in %)	Total allocated budget scenario III (in 1,000 BAM)	Estimated number of beneficiaries	Average benefit per beneficiary in scenario III (in BAM)	Average program gap per beneficiary (in BAM)	Average benefit in % of average gap	Generated savings in scenario III (in 1,000 BAM)	Generated savings in scenario III (in % of total budget)
<i>Neutral budget</i>							
Poorest 10%	12,345.2	106,065	116.4	40	289.8%	-	-
Poorest 15%	12,345.2	158,895	77.6	47	166.9%	-	-
Poorest 20%	12,345.2	212,278	58.1	52	111.4%	-	-
<i>Smaller budget + savings</i>							
Poorest 10%	4,242.6	106,065	40	40	100.0%	8,102.6	66%
Poorest 15%	7,468.1	158,895	47	47	100.0%	4,877.1	40%
Poorest 20%	11,038.5	212,278	52	52	100.0%	1,306.7	11%

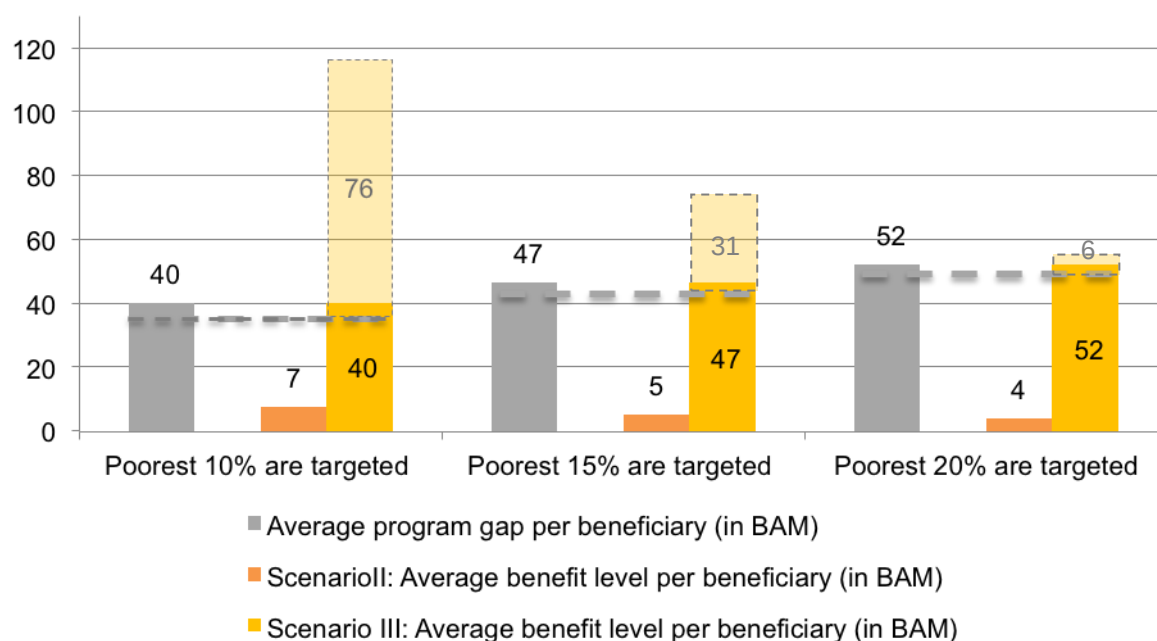
Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW and HBS 2011 data.

In addition to benefits included in scenario II, the budget in scenario III includes veteran's benefits and is thus significantly larger (see Table 12). Consequently, if this budget would simply be allocated to all the beneficiaries identified by the PMT, it would allow for very high benefit levels. However, setting the average benefit level higher than the average program gap would be unjustified and inefficient since the aim of the program is to bring the beneficiaries to a certain threshold indicating a sufficiently high level of consumption. For instance, for a program targeting the poorest 10% of the population the benefit level would amount to 116 BAM per month per person, which is almost 3 times the size of the average gap.

Therefore, instead of keeping scenario III budget-neutral, the large amount of money to be reallocated in this scenario allows for generating savings.⁶ A logical procedure would be to set average benefits at a level equal to the average program gap per beneficiary. Subsequently, savings can be calculated by multiplying the number of beneficiaries by the average benefit level and subtracting this amount from the available budget in scenario III. For instance, when targeting the poorest 10% of the population, savings would amount to $12,345,200 - 40 * 106,065 = 8,102,600$ BAM. They would amount to 4,877,100 and 1,306,700 BAM in case of targeting the poorest 15 or 20% of the population respectively.

⁶ Note that our results are based on the assumption of perfect implementation. Most likely, results are therefore overestimated.

Figure 7. Average monthly program gap and average monthly benefit level per beneficiary (in BAM)



Source: Authors' calculations based on RS budget data for 2011 provided by the Ministries and CSW and 2011 HBS data.

Figure 7 summarizes the situation. While average benefit levels in scenario II are negligible, in scenario III the budget is sufficiently large to set the average benefit level equal to the level of the average program gap. Average savings per beneficiary in scenario III are depicted in dotted lines. The figure also shows the effect of increasing the share of the population that is targeted while maintaining the same budget: for a larger program size, the total number of beneficiaries as well as the total program gap and the average program gap increase, while the average benefit level decreases.

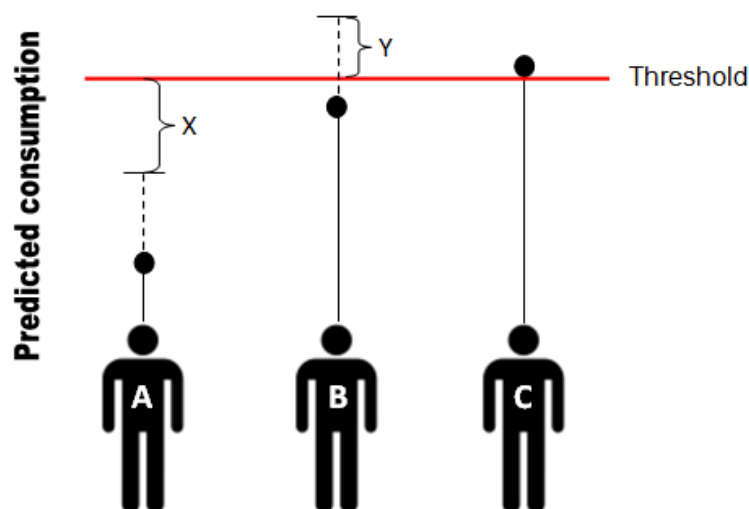
4.5 Underlying assumptions

There are several reasons why the results from the analysis in this report should be interpreted with caution. In the first place, our analysis is based on the assumption of perfect implementation of the new social assistance program. In reality, implementation is rarely ever perfect. Persons meeting the eligibility criteria for a benefit might not receive it due to non take-up rates, fraud, errors in data collection, etc. On the other hand ineligible persons might also receive benefits.

Secondly, in our analysis we calculate average benefit levels, which we would simply provide as flat benefit to everyone who is eligible for the program. However, a flat benefit is not the most efficient benefit type to bring the consumption of poor individuals up to a specific threshold, because such benefits are rather imprecise in channeling the money to where it is needed most (see Figure 8). While person A's consumption might still be considerably lower than the threshold after receiving a transfer (see X), persons B – with a pre-transfer consumption just minimally below the poverty line – might have a consumption higher than the poverty line after the transfer (see Y). In fact, the post-transfer consumption of person B would be higher than the consumption of person C who was ineligible for a benefit because his / her pre-transfer consumption was higher than the threshold, in spite of being only marginally richer than person B. The total amount of money “spilling over” the threshold can be seen as leakage, since it does not contribute to reaching the program goal of bringing the consumption of the poorest 10, 15 or 20% up to their respective thresholds.

An alternative option, taking into account differences in the depth of poverty between different beneficiaries, is to allocate progressively graduated benefits. The level of such benefits is higher for poorest of the poor and lower for those closer to the poverty line. However, allocating graduated benefits might be more administratively demanding and therefore more costly. In addition, in case the targeting method is highly inaccurate in predicting the actual consumption of households, i.e. mistakenly categorizing many households as “(very) poor”, graduated benefits might even increase leakage.

Figure 8. Allocation of flat benefits



Source: Developed by authors. Note: • pre-transfer consumption; - - flat benefit.

Finally, with regard to the total program gap, the above calculations are a simple sum of the individual differences between the estimated consumption of each person belonging to the poorest 10, 15 or 20% of the population – the target groups – and the consumption thresholds for each of these groups. They do not account for the fact that – for instance, when targeting the poorest 10% of the population – part of the 10% of the population we actually reach are not part of the targeting group, while at the same time part of the poorest 10% are excluded. This is due to inefficiencies of targeting methods, i.e. the error of inclusion (or leakage of the program) and the error of exclusion (undercoverage of the program). Inclusion error or leakage occurs when benefits are provided to a non-poor household; the PMT-estimated consumption of this household falls below the threshold to identify the poorest 10, 15 or 20%, but based on its actual consumption is not poor. On the other hand, exclusion error or undercoverage is the failure to provide benefits to a poor household or individual; the PMT-estimated consumption of this household is higher than the threshold to identify the poorest 10, 15 or 20%, but based on its actual consumption it is poor. In fact, evidence shows that aggressive targeting can increase significantly the exclusion and inclusion error.⁷ We realize that not taking into account such errors leads to overoptimistic outcomes of our scenarios. Thus, as a result of targeting inefficiency, it is likely that the amount of money we would actually need to cover the poorest 10, 15 or 20% of the population would be larger than the total program gap.

⁷ While inclusion error poses fiscal risks (by spending more than necessary to reach a particular group of the poor), the exclusion error poses social risks. If systematically excluded, households may fall into poverty and the social costs generated from this may exceed many times the fiscal savings.

5 *Assessment of administrative costs of introduction of proxy means testing*

The activities in the social protection domain are carried out by the social protection institutions. Most institutions in Republika Srpska are public institutions established by the Government of Republika Srpska or by units of local governments. Certain tasks may be performed by other stakeholders, such as private institutions, non-governmental organizations, religious communities, as well as other physical and legal persons.

A center for social work is a social protection institution established by a unit of local government and entrusted to pass first-instance decisions on exercise of the rights in the domain of social, child and family protection. Centers for social work exercise public powers in fulfilling this role, which grants them special status and functions not enjoyed by other implementers in the social protection system. In addition to their role of an agency with public powers, the centers for social work are also a specialized agency performing a range of specialist tasks in the implementation of social protection and social work, of family and child protection, such as: monitoring and identification of social needs of citizens, proposing and taking measures to address social needs of citizens and strengthening of social protection, stimulation, organization and coordination of the professional and voluntary services etc.

There are 45 centers for social work in Republika Srpska, with five more in the process of establishment. Another 11 local communities have not established centers for social work, although there is a legal requirement to establish such centers in all units of local government, which remains a focus in intensive activities.

The funding of activities and provision of conditions for operations of a center for social work in Republika Srpska is provided by the founder from the budget of the given unit of local government. Republika Srpska has no responsibilities in this domain, although it aids and supports the activities of the centers for social work through some measures of development and strengthening of social protection. The entity's role and contribution are greater in the segment of training and development of the staff's specialist skills. Various programs and individual activities organized and conducted by the line ministry reinforce the specialist capacities of the staff in the centers of social work for better implementation of relevant policies and laws.

The costs a center for social work incurs in the processes of delivering its services include the staff costs (staff salaries, including contributions and taxes), as well as the costs of goods and services, which include all material costs required for the performance of the center's activities (heating, electric power, other utilities, communication services, software programs, procurement and maintenance of equipment, office supplies, bank fees, transportation costs, staff education and training costs etc.).

In addition to the centers for social work, there are other participants that take part in the process of implementation of applicable laws, second-instance bodies such as the line ministry, which conducts second-instance procedures and provides expert assistance in application of laws, and the Republika Srpska Public Child Care Fund, a second-instance body in the implementation of child care, collects revenues, makes disbursements to beneficiaries and manages the entire process of child care.

Social protection of civilian victims of war and beneficiaries of the veterans' and disabled persons protection is directed by the administrative departments in the units of local government and the line ministry. Major units of local government establish special

departments for the veteran' and disabled persons' protection to perform these tasks, or channel them through general administrative departments. Performance of these tasks incurs labor costs as in the centers of social work.

The levels of administrative costs of performance of social protection carried out in the social protection system on the level of the centers of social work and the Public Child Care Fund were analyzed in this document for three years (2010, 2011 and 2012) to assess what changes in administrative costs may result from application of the proxy means testing. The data used was published in the bulletins on social, child and family care of the Republika Srpska Ministry of Health and Social Protection, or obtained directly from the Republika Srpska Public Child-Care Fund.

5.1 Human resources in the social protection system of Republika Srpska

The centers for social work and social protection services employ specialized employees (social workers, lawyers, psychologists, special-education professionals, pedagogists, sociologists and social pedagogists). In addition to specialist staff, the centers employ associates (educators, nurses, medical staff, sports activity organizers etc.), as well as support staff in charge of administrative, finance and logistical tasks, maintenance of hygiene etc. An overview of the total specialist staff in the centers of social work and departments that carry out social protection tasks is presented in Table 13

Table 13: Employees in centers of social work

Year	Total employees	%	No. of special staff	%	Other staff	%
2010	574	100	335	58	239	42
2011	555	100	328	59	227	41
2012	585	100	349	60	236	40

Employee skill composition is at a high level, because professional staff hold university and junior college degrees, while the age distribution has been significantly improved through employment of younger, recently graduating professionals, as a result that one-third of all professional staff have work experience of not more than five years.

Prevailing economic trends and imbalances arising in the budgets of the units of local government led to limitations of employment in the public service, however, in practice the units of local government continued to hire public service and administrative unit staff, with a result that the number of staff in the centers of social work is also rising.

The computation of the human resources in the social protection system should include the staff of the Republika Srpska Public Fund Child Care Fund, which employs 31 staff, of whom 58% hold university or junior college degrees. A possible scenario that includes the protection of civilian victims of war into social protection should incorporate the staff in the administrative departments of the units of local government who handle these affairs, which, according to some estimates, means around 30 staff with university and junior-college degrees.

The sum total of human resources available for planning and organizations of social protection tasks is some 659 employees. When comparing the number of staff with the number of beneficiaries of individual cash benefits in the system (in 2011, 36,323 through centers for social work, 33,000 in child care and 4,430 civilian victims of war), there are 105 beneficiaries per employee. This ratio should be taken with some reservation, as the calculation of employees includes all staff, but does not cover all social protection services provided by professional staff in the centers for social work. Regardless, it must be noted that social protection employs a large number of employees and that all local communities possess organizational capacities for planning and implementation of these tasks.

5.2 Resources for implementation

In social protection implemented through centers for social work, the funds allocated for distribution to beneficiaries can be separated out from the operational funding for these agencies. The overview of these funds is presented in Table 14.

Table 14: Resources for social protection

Year	Total amount	%	Total benefits	%	Operational funding	%
2010	36,306,861.00	100	24,510,888.00	68	11,795,973.00	32
2011	39,380,599.00	100	26,301,966.00	67	10,046,605.88	33
2012	48,131,411.85	100	33,859,706.79	70	14,586,665.50	30

A more considerable increase of funding in 2012 was a result of the implementation of the new Law on Social Protection, which increased the benefit levels. The full implementation of this law began in 2013, so that the trend of increasing share of funds allocated for benefits will continue in 2013 and beyond, regardless of increases in the number of staff.

The Republika Srpska Child Care Fund directed around 4.21% of its total revenues, or 2,371,646 KM for administrative cost expenditures, i.e. for the operation of the Fund's administration. When these funds are added to the administrative costs of the centers for social work, the percentage of allocations for administration rises by several percentage points. The funds used to cover labor costs on the tasks related to exercise of the rights of civilian victims of war are not separated out in the budgets and they may only be estimated on the basis of the average spending in the centers for social work. Staff salaries account for around 70% of administrative costs, so for some 30 employees covering these affairs this cost may have been around 400,000 KM in 2011.

When the total administrative costs are compared with the number of beneficiaries across all systems, the administrative expenditures per beneficiary were around 173.00 KM in 2011. Here we must not forget that this includes costs for all activities, i.e. that these costs include the costs of social services (assessments, accommodation, day care, socio-therapeutic and rehabilitative work, independent living services), for some 20,000 beneficiaries, of whom some receive multiple services.

It is very difficult to assess whether this is too much, as no comparisons are feasible. It is certain that the salaries in the centers for social work are lower than in the administrative units of local governments or in other health care or educational institutions, as well as in

social protection institutions that provide accommodation services. Also, numerous centers lack adequate working conditions, which means that the costs for goods and services are effectively lower than real needs.

5.3 *Implementation of the proxy means testing and administrative costs*

A change in the nature of social benefits shall also be reflected in the implementation process. Channeling of benefits towards a greater number of the poor and enabling those capable to work who lack own resources to overcome poverty and who cannot find security for themselves and their families in other social security systems to receive cash benefits will expand the number and scope of beneficiaries of the social protection cash benefit. Over 70,000 persons (heads of households) in Republika Srpska are expected to apply for the benefit, although the distribution of beneficiaries will shift from single-person households towards households with more members and more children. Increase of the number of beneficiaries and replacement of multiple benefits in different systems with a single benefit in one system shall create the need to increase the number of staff working on social benefits in the centers for social work. A more marked increase in the number of applicants for cash benefits is expected particularly in larger local communities with greater number of beneficiaries. This need may be met by merging of available staff (from the centers for social work, the Public Child Care Fund and administrative departments of the units of local government) that work on these tasks and by a more efficient organization, which might repurpose significant number of other (support) staff for implementation of the new poverty alleviation program. This primarily concerns administrative staff, who, with additional training, may work on admission tasks, including assisting the beneficiaries in filling applications, data entry, distribution of decisions etc. With such an approach to rational and efficient use of resources, the increase in the number of employees would be minimal (up to maximum 5%), which would directly cause an increase of administrative costs related to the program implementation by around 700,000 KM. It is clear that staff salaries account for the greatest share of the costs (around 70%), while all other costs are lower.

The new targeting model shall necessitate development of an appropriate software program, and this issue is being addressed through the Component II of the Social Safety Net and Employment Support Project. This is the Component 'Strengthening of the benefits administration and monitoring', with the subcomponent of 'Development and implementation of functional registries'. This will strengthen the social protection information system – SOTAC, which will permit management of applications, verification of qualification, management of approvals, rejections and disbursements, as well as real-time linking of the centers for social work, municipal departments for veterans and disabled persons protection and responsible (line) ministries for internal and external cross-checks, with preservation of historical data, as well as provide analytical possibilities on all levels of operation. The centers for social work and the line ministry will not bear the cost of development of this software. In parallel with the software development, the same component will train the key staff for the program's implementation, who can in turn continue to disseminate these skills to their colleagues.

The same project component shall provide 45 computers for each existing center for social work, which represent the basic form of work equipment. It should be noted that all centers received new computers last year through a cooperation of the Ministry of Health and the Public Child Care Fund and these computers may be made available for implementation of the new software.

In this way, only very few centers for social work shall have the need for additional equipment, and therefore new administrative costs will be limited.

The implementation of the new model will at the outset require administrative services and departments to be better equipped with vehicles and be covered for transportation costs due to the increase in site visits. Procurement of vehicles for the centers for social work may become possible through reallocation of resources within the units of local government and by special programs that would be supported by the Government, units of local government and donors.

The office costs related to office supplies and other costs do not represent a significant item in the overall administrative costs.

Involvement of various participants, processing and consolidation of data in one place and the support of the above mentioned project will allow significant rationalization of administrative costs which are realistic in implementation of the new targeting model. The greatest role in this process will have to be borne by the management, who need to develop the work organization and task allocation in a planned and systematic fashion on the basis of efficient resource allocation. Auxiliary tools for the management will be the development of work procedures with clear and detailed standardized procedures, the information system and staff training. But, beforehand, the management shall have to carry out an analysis of the human resources in the organization and, through appropriate human resources management, allocates tasks efficiently, as well as to group the tasks into appropriate organizational units. For this reason, in the preparation stage special attention must be devoted to inclusion of the management of the centers for social work into the process of implementation of the model and into developing their capacity for the upcoming tasks. Adoption of a regulation that would prescribe a single organizational model and standards for all centers for social work on the level of Republika Srpska would also constitute support to the management in the centers of social work.

6 Conclusion, policy recommendations

The aim of this report was to present an evaluation of the fiscal consequences of implementing alternative targeting methods when reallocating selected non-contributory cash benefits in RS. Reallocation of these benefits was considered using a poverty alleviation program targeted through a PMT based on two different budget scenarios.

The results showed that the total annual program gaps, when targeting the poorest 10, 15 or 20% of the total population in RS, amount annually to 51.1, 88.8 and 132.9 million BAM respectively. When targeting the poorest 10% of the population, this means that the benefits allocated through the new social assistance program would need to increase the aggregated consumption of this group by a total of 51.1 million BAM per year to make them reach their respective consumption threshold of 330 BAM monthly (i.e. the consumption of the richest person of this group). For the poorest 15 and 20% the same principle applies.

The monthly average program gap of the social benefits based on the actual number of the beneficiaries is 40, 47 and 52 BAM respectively for the targeted 10, 15 and 20 percent poorest of the population. When comparing these amounts with average benefits levels in both scenarios we can observe some significant differences between the expected average benefits and the estimated program gap. In scenario II the benefit levels seem very low to make any concrete effort in alleviating poverty. Comparing with the poorest 10%, the situation gets even worse for the poorest 15 and 20% where the ratio of benefits over average program gap decreases to 10.5 and 7.0%. A different kind of situation is observed in scenario III where such ratios are even higher than 100% (the exact average amount required to make everybody reach the estimated consumption level of the least poor person of that group). Hence, benefit levels are much higher. This is mainly due to the fact that the total budget available is much higher than in scenario II. It most likely has the potential to have significant impacts on poverty in the entity.

However, despite the fact that the situation in scenario III looks much better than in scenario II, neither of the scenarios consider the effect of implementation and targeting inefficiencies. In reality, it is likely that the amount of money we would actually need to cover the poorest 10, 15 or 20% of the population would be larger than the total program gap. Taking this into account, scenario III would most likely perform better in pulling people out of poverty as a result of its larger budget. However, given the fact that it is highly unlikely that veteran's benefits would become subject to any reform in the near future due to their historical roots and the resulting political tension surrounding them, this scenario is not likely to be implemented.

Recommendations:

The fiscal implications of abolishing different sets of existing benefits with a poverty alleviation program targeted through a PMT cannot be thoroughly analyzed without taking into account the actual take-up rates, case load and administration costs.

In addition, budgets in different municipalities are differently affected. The report “Evaluation of new targeting methods based on pilot survey data for Bosnia and Herzegovina” showed that the winners and losers of the reform will not only vary with the scenario chosen but also by the municipality where people reside. This is due to the fact that the PMT was calibrated on entity level (i.e. to identify the poorest 10, 15 or 20% of persons in the entity), not on municipal level. The report showed that municipalities like Banja Luka will have fewer people eligible for benefits under the new program, whereas in other municipalities like Teslic, Bijeljina and Nevesinje the number of beneficiaries increases as a result of a lower living standard there.

Taking these aspects into consideration, it is highly recommended to first carry out a pilot.

Finally, the fiscal policy associated with the redesigning of the program should take into account not only the total budget allocated to a certain local government unit but also other indicators such as: (i) indicators from standard of living measurement surveys (e.g. the local poverty headcount and poverty gap), (ii) other socio-demographic factors like the size and composition of families, education of household heads, as well as (iii) economic factors like the unemployment rate in that particular area, etc. The consideration of such factors in the allocation formula of the funds to the local government units may help increasing the efficiency of the poverty alleviation program and reduce both inclusion and exclusion errors.