



# Hybrid Means Testing Pilot

**SARP: Social Assistance Reform Project**

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# Excerpts from SARP's Terms of Reference (1): Problems



During the past several years, while developing this project, the MOLSP has conducted a number of analytical surveys and Pilot Projects that have revealed many unsolved problems, which include:

- A lot of time and effort are required for processing applications, verifying documents and determining SA (social assistance) eligibility
- Frequent changes are made in the level of various social assistance benefits and the rules for eligibility
- Different criteria are used to evaluate family income status in determining its eligibility for different types of SA



## Excerpts from SARP's Terms of Reference (1): Problems (cont.)



- Lack of public access to information about the current system of social protection – either about the legislative basis of SA or the administrative procedures used to process applications
- SA programs do not fully cover the poorest; available financial resources appear to be used in an unsatisfactory manner and programs do not meet the poverty reduction target



## Excerpts from SARP's Terms of Reference (2): Pilots



Prior to taking decisions on changes in the mechanisms of provision of SA, the Government wants to study their social, economic, and fiscal impacts by implementing pilot projects in selected regions of Ukraine:

- Pilot #1: Cashing out housing subsidies based on standard rates
- Pilot #2: Cashing out housing and utilities privileges
- Pilot #3; Introducing uniform households means testing criteria for granting all types of SA, and improving the methods of calculation of family's income



## Excerpts from SARP's Terms of Reference (2): Pilots (cont.)



- Pilot #4: Strengthening the institutional capacity and legal framework of social inspectors, and broadening their functions and competences
- Pilot #5: Ensuring interaction between pilot SA offices and employment centers in terms of record keeping, employment and skills upgrade of the able-to-work members of socially vulnerable families



# Excerpts from SARPS's Terms of Reference (3)

## Tasks



1. Develop recommendations concerning the mechanisms to be implanted within the framework of the Pilot Projects based on international experience
2. Propose unified criteria for family status evaluation in determining its eligibility for SA
3. Suggest improvements for the calculation methods of family's total income for all types of SA
4. Design a program for information and explanatory activities to be conducted among population and local self-government institutions in pilots' locations



## Excerpts from SARPS's Terms of Reference (3): Tasks (cont.)



5. Prepare training materials on new piloted approaches, and deliver training to the personnel of the labor and SA offices
6. Monitor and evaluate impacts of the pilot projects, and study the public opinion
7. Write policy papers outlining options to improve SA regulations





# Excerpts from SARP's Terms of Reference: Output



By the end of the project all Pilot Offices will:

- Operate as model SA offices with streamlined processing of applications
- Provide adequate SA
- Provide an expanded range of services to assist the clients in (re)entering the labor market, and achieving financial independence
- Disseminate information about SA in order to increase awareness of SA programs





# HMT: Tasks (1)



HMT (Pilot #3): Introducing the HMT method (hybrid means testing) for granting all types of SA, and improving the methods of calculation of family's income

1. To use existing **international best practice** experience in order to improve targeting of SA benefits in Ukraine
2. To elaborate and test an **HMT methodology** in terms of its completeness, accuracy, efficiency/effectiveness, verifiability, and feasibility



## HMT: Tasks (1) (cont.)



3. To secure internal **consistency, clarity and transparency** of the means testing procedures; to clarify all definitions of terms used in the means testing procedure and minimize subjectivity of declaration of applicants and judgments of civil servants
4. To formulate a **proposal concerning all kinds of regulations** necessary for the pilot implementation
5. To take account of **advice and feedbacks from social inspectors** and other workers of SA offices as well as to arrange **training** and provide guidance and support to social inspectors in order to facilitate their work and improve its effectiveness; an important instrument for increasing this effectiveness will be the so-called **client profiling**



## HMT: Tasks (2)



6. To help achieve **uniformization/harmonization** of all SA benefits (to apply a uniform approach to household material status assessment and to all kinds of SA grants)
7. To help **assess impacts** of SA reforms (improvements in income verification, use of client profiling, harmonization of benefits, introduction of different thresholds for benefit entitlements, and possibly other new targeting rules) on:
  - Poverty indicators
  - Income inequality indicators
  - Budget expenditure on benefits
  - Quality of services provided to clients of SA offices
  - Efficiency of social inspectors
  - Costs of maintaining SA offices



## HMT: Tasks (2) (cont.)



8. To set up a **database** consisting of all information collected during field surveys, and processed/analyzed by the staff of SA offices and SARP's experts
9. To arrange an **information campaign** which should involve all stakeholders about the pilot activities and its outcomes, as well as to initiate a **public dialog** on all issues related to the pilot



# HMT: Background (1)



Hybrid Means Testing has been chosen for piloting for several reasons:

- It has proved to work properly in various countries using means-testing procedures
- It has been found efficient by analytical works on Ukrainian household data, and
- It may also be useful for “client profiling” which helps identify suspicious cases for inspections



## HMT: Background (1) (cont.)



The pilot will be carried out in selected SA offices located in the following oblasts:

1. Luganska
2. Mikolayevska
3. Cherkaska
4. Chernivetska
5. Chernigivska





## HMT: Background (2)



- The HMT method will be applied to income estimation for the sake of all benefits which are currently processed by the SA offices.
- Initially the pilot will last three months and will not have a direct impact on actual benefit payments. This will come eventually after evaluation and correction of the new approach.
- The pilot would be accompanied by a desk-study exploring additional household surveys.
- Separate piloting will be undertaken regarding the work of social inspectors and the cooperation between the SA offices and labor offices. Efforts will be made to coordinate these three pilots in a way that they will support each other and avoid unnecessary duplications.





## HMT: Background (3)



HMT implies that the total income consists of:

- i. easy-to-verify incomes, EVI, such as official wages, pensions and allowances, and
- i. hard-to-verify incomes, HVI, derived for instance from self-employment, land plot use or informal activities

It assumes that means testing relies on the assessments of the total household income calculated as:

- a sum of EVIs and HVIs, as reported by a claimant, and
- a sum of EVIs, as reported by the claimant, and HVI, as imputed from the HMT model on the basis of HVI indicators



### Income imputation

Benefit claimants provide information on their main personal and household characteristics which are found to be important determinants of incomes, in particular:

- Demographic and social characteristics of a claimant and his/her family members (such as sex, age, education, family status, etc)
- Work related data (employment status, and type of work contract)
- Ownership of selected durables (car, color TV, and freezer)
- Information on dwellings and utilities (surface, # of rooms, and equipment)
- Location of dwellings, and
- Ownership of land plot and livestock



## HMT: Background (4) (cont.)



SARP experts estimate coefficients for all indicators based on the **2006 Ukraine Household Budget Survey Data** (provided by the State Statistics Committee). The coefficients are used to convert the indicators into respective fractions of imputed income.



## HMT: Background (5)



Example of income imputation by means of the HMT method  
Estimation of total monthly income of a hypothetical family  
Prices as of January 2009 (adjusted for inflation)

Indicator	Coefficient/person [hryvnia]	Unit	Income [hryvnia]
BASE income	581.72/month	1	581.72
Entrepreneur	16.66	1	16.66
Construction	72.28	1	72.28
Spouse self-employed	59.41	1	59.41
Motorcycle	39.88	1	39.88
New color TV	16.54	1	16.54
Room size	2.12/sq. m.	20	42.40
Two+ earners	96.04	1	96.04
Children, 0-2 years	-75.14/child	1	-75.14
Children, 3-6 years	-86.35	2	-172.70
Number of elderly	43.37/elderly person	1	43.37
Electricity	0.11/UAH spent/month	15	1.65
Telephone	1.91/UAH spent/month	10	19.10
Residence in Kyiv	44.51	1	44.51
Total income/person		SUM	<b>785.72</b>
Total family income	785.72	6	<b>4714.32</b>



## Pilot design

- The pilot will be carried out at selected five regional SA offices starting from April 2009
- Initially the field work will last three months and will be followed by the evaluation stage
- After adjustment and correction, a new round of a pilot might be implemented



## HMT: Background (6) (cont.)



### Pilot participants

- Benefit claimants: will provide information on their incomes and main individual and family characteristics necessary for the income imputation and for the total income assessment
- Workers of social offices: will collect and process information
- Social inspectors: will verify material status applicants selected, in part, with the use of 'client profiling' and partially randomly



# HMT: Background (7)



## Client profiling

- Total amount of incomes reported by a claimant is compared with the total income assessed using HMT imputation
- A large difference between the two numbers, imputed versus actual, signals a need for checking a claimant by social inspector





## HMT method usefulness

- Social inspectors will provide their estimates of actual incomes of randomly selected households, based on in-site inspections
- Comparison of the actual income estimates (by social inspectors) with the estimates generated by means of the method currently used by the SA offices and those produced by the HMT method will enable an evaluation of the effectiveness/usefulness of the HMT method



# Pilot implementation:

## Phase 1. Preparatory stage



- Elaboration of main points of a regulatory document which will implement the pilots
- Elaboration of income indicators and coefficients
- Preparation of a questionnaire
- Elaboration of procedures, including computer toolkit, for data collection and data processing
- Preparation of training materials (guidelines, instructions, and codes).



# Pilot implementation:

## Phase 1. Preparatory stage (cont.)



- Training of social workers and social inspectors
- Development of the methodology for examination of pilot results\
- Preparation of information campaign
- Preparation of the monitoring and evaluation indicators and procedures



## Pilot implementation: Phase 2. Data collection



- Using a questionnaire for all information needed for HMT
- All necessary income indicators as well as household incomes split into an EVI part and HVI part should be provided by claimants
- The pilot would cover the household per-capita monthly income, derived from the annual figures



## Pilot implementation: Phase 2. Data collection (cont.)



- Income will be evaluated in the same way for all claimants, regardless of benefit type they apply for
- An important part of questionnaire will be its documentation which will provide all definitions and instructions needed for the filling up the forms



## Pilot implementation: Phase 2. Data collection (cont.)



There are several possibilities for arranging of filling in the questionnaire:

- filling in by the applicant in the office
- filling in by the applicant in the office or at home with help from an office staff
- filling in by the office staffer or social inspector during an interview with the applicant in the office
- filling in by the applicant through internet, and
- a mixed method combining some of the above

During the pilot, these different ways could be tested for their feasibility, efficiency and accuracy



## Pilot implementation: Phase 3. Creation of database



Social workers will input all information from the questionnaires into a PC (unless applicants themselves would be entering data to the computer). This process would go in part simultaneously with the data collection phase.

A simple PC toolkit, which provides coefficients and formulas for income imputation, will be used.

For each claimant, three income assessments (monthly, per capita) should be derived and clearly stated: (i) total income reported, (ii) reported EVI plus imputed HVI, and (iii) total imputed. All three assessments are needed for the implementation of hybrid means-testing procedures.





# Pilot implementation:

## Phase 4. Income checking



- The selection of applicants for inspection will be organized in a systemic way. It will allow for further examination of the effectiveness of “client profiling” with the use of HMT methodology.
- Two groups of inspected cases will be created. The first group will include only those claimants for whom the difference between imputed and reported incomes is large [e.g., a threshold may be set at 20%]. The second group will consist of randomly selected applicants.
- A survey of social inspectors will be arranged in order to get feedbacks related to this experiment and the usefulness of the HMT method in the format designed for this experiment.



# Pilot implementation: Phase 5. Investigation



Investigation phase will consist of:

- Checking the income imputation procedures
- Comparing outcomes of actual means-testing and simulated HMT procedures
- Examining HMT as a pure means-testing tool, and
- Verifying income imputation approach as a ‘client profiling’ method
- Verifying the usefulness of the HMT method as compared with the current means testing method



# Criteria for assessment of performance of the pilot (1)



- **Completeness:** Does this method cover all important kinds of incomes, both monetary and in-kind, and does it include all kinds of important items which should be accounted for in the estimation of the HTV kinds of incomes?
- **Consistency:** Is it internally consistent? Does it involve any kind of duplication and/or repetition?
- **Clarity and easiness:** Is the questionnaire and all procedures clear and easy to understand for the applicants, office stuffers and the social inspectors?



## Criteria for assessment of performance of the pilot (1) (cont.)



- **Accuracy:** Does this HMT method reflect a true income of applicants and works properly as a means-testing tool? Should the list of income indicators be changed? This would involve cross-checking of incomes reported and assessed with the use of HMT methodology, which could be approached by setting up a procedure of requesting social inspectors to make judgments on claimants' incomes ("In your opinion the monthly income of a given family belongs to a specified income bracket, such as: below 100 UAH, 100-200 UAH, 300-500 UAH, etc.).



## Criteria for assessment of performance of the pilot (2)



- **Honesty:** Does it enable detection of fraud and corruption? What are the main risks? Does it provide right incentives for all persons involved? Are there any additional ways to reduce the number of fraudulent cases?
- **Efficiency/effectiveness:** Does it assist the social inspector in his/her work? Is it helpful in client profiling? By applying this method is the social inspector using his/her time efficiently?
- **Verifiability:** Is it possible to independently verify all kinds of information provided by the applicants and the inspectors?
- **Uniformization:** Does it treat all kinds of benefits in a uniform way? Does it accomplish the harmonization of SA, which was one of important tasks for this pilot?





## Criteria for assessment of performance of the pilot (3)



- **Legality:** Do all procedures used in this method conform to the existing law?
- **Data organization and processing:** Is the data well organized and easily accessible for processing, updating, maintaining, etc.? Are the data safety and privacy secured?
- **Information:** Are all stakeholders of the SA well informed about this pilot? Is the effective public dialogue arranged?
- **Feasibility:** Can this method be handled by social workers, social inspectors and claimants? Is the split of income between HVI and EVI workable? Does imputation procedure involve problems?



## Criteria for assessment of performance of the pilot (3) (cont.)



- **Sensitivity:** Evaluating the impact of new thresholds or new rules for screening out applicants (incl. also recipients of the benefits which are not income tested). This issue is treated as optional.





# Potential risks of pilot implementation (1)



Accuracy of information provided by the applicant:

- Errors due to misinformation/misunderstanding of rules
- Filling in mistakes, incl. calculation mistakes, and
- Cheating/fraud

Adequacy of uniform income reporting rules (by how much they reflect and enable one to assess the effective income stream of applicant)\

- Accounting for effective living costs per family member (accomplished by application of regional (oblast-specific) coefficients
- Non-accounting for the effective costs incurred by applicant, and
- Accurate accounting of price inflation



# Potential risks of pilot implementation (1) (cont.)



## Adequacy of proxy and imputed income methods

- Stock-to-flow conversion methods
- Accounting for quality (e.g., market value of a car), and
- Price levels, price inflation



## Potential risks of pilot implementation (2)



### Accuracy of information collected from the other-than-applicant sources

- Distortions due to incomplete information
- Factual data errors
- Corruption
- Vested interests (rent seeking); program capture by elites
- Populist-type distortions (efforts to gain political support)
- Local values and beliefs (such as not-pro-poor preferences), and
- Local policy strategic targeting (priorities of budget fund spending)



## Potential risks of pilot implementation (2) (cont.)



### Accuracy of assessments by social inspectors

- Inaccurate skills
- Inaccurate information sources
- Subjectivity, and
- Corruption/fraud

### Feasibility of the pilot project

- Insufficient support for the pilot from local authorities
- Lack of interest from applicants (this pilot will not affect their benefits), and
- Work load of staff members of local SA offices; they may not be able to allocate enough time and effort to pilot's activities



## Concluding remarks



- International experience should be used in pilots, but tailored to the specificities of Ukraine.
- All piloting experiments must reflect social policy reform options considered by the Government and provide assistance in policy decision making.
- All methods, indicators and activities of SARP are being discussed with the Ministry of Labor and Social Policy, and will be implemented after a clearance from the Ministry is granted.
- They must be explicitly formulated in the regulatory documents issued by the Government of Ukraine.



## Concluding remarks (cont.)



- The activities of this pilot must be closely coordinated with the activities of other pilot projects undertaken by SARP.
- There is a need for a very close cooperation between SARP project staff members, MLSP officials, local authorities, employees of local SA offices, local NGOs, as well as local communities and SA applicants.
- The guiding approach of the pilot is gradualism and the learning-by-doing principle: the consecutive iterations of piloting should enable us to experiment with different alternatives and provide solid foundations for the SA reform in Ukraine.



# Questions and comments

