



- ***The current social safety net is insufficient to address chronic poverty and to mitigate economic shocks.***
- ***A greater fiscal emphasis on means-tested programs would modernize the system, facilitate social resilience and poverty prevention.***

Why does social assistance in Belarus need change?

Belarus's extensive reliance on the public sector as key provider of social protection is no longer sustainable. Since the early 2000s and up to 2008, strong economic growth and the central role of the public sector helped Belarus achieve remarkable progress on poverty reduction. The public sector has provided essential indirect means of social assistance, such as guaranteed jobs in the state-owned enterprises sector, price controls, and indirect energy subsidies. However, this model has become increasingly ineffective in providing both economic growth and social protection. The recession of 2015-2016 exposed the structural weaknesses of the Belarusian growth model with household incomes stagnating. The risks are due to domestic structural rigidities: as more SOEs become financially distressed, the role of the public sector as a key provider of social protection is diminishing.

There is a need to reorient Belarus's system of social assistance for addressing poverty and as a buffer for economic shocks. While Belarus spends about 2.5 percent of GDP on social assistance – above the regional average of 2.2 percent – the composition of social safety net (SSN) programs is lopsided, preventing the system from functioning as an effective and adaptive social safety net. Child-related benefits consume about 70 percent of the total SSN expenditures, with disability benefits and non-contributory pensions being the second and third largest spending category respectively. Only 3 percent of total SSN expenditures goes towards means-tested assistance, and the total expenditures on unemployment benefits is negligible.

Strengthening the reach of means-tested social assistance is an important policy instrument to reduce vulnerability and inequality. While the range of social assistance programs available in Belarus is extensive, the income replacement rate from social assistance for needy households is low when compared to other countries in Europe. The World Bank's study '*Fiscal Incidence in Belarus*' conducted in 2017 shows that cash and in-kind benefits make up around 4 percent of disposable income for the bottom 10 percent of households by income, and only around 1 percent for the second income decile. These low rates suggest that the current mix of social assistance programs under-provides poverty relief and would not be adequate in the event of adverse economic shocks.

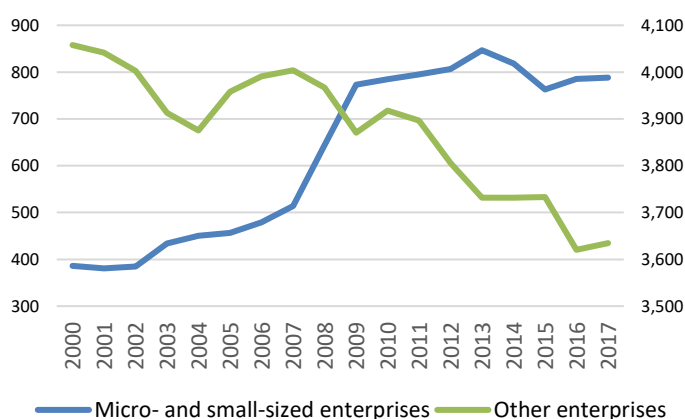
Towards a modern system of direct social assistance

Well-designed social safety net systems act as a mechanism with two key functions, namely for, (i) protection – to minimize poverty and protect incomes for vulnerable households; (ii) prevention – to prevent rise of poverty by extending support during economic changes, and thus making the reform process more orderly for the population. SSNs can, therefore, reduce uncertainty of adverse consequences of reforms whether it is higher cost of utility tariffs or rise in unemployment during structural reforms. Thus, SSNs are a crucial policy instrument available to policy-makers for managing economic changes.

The current system of social support in Belarus can be strengthened, while addressing concerns related to benefit dependency. One of the shortfalls of the targeted income support is the high rate of exclusion of working poor households. This can be addressed by strengthening the monthly Targeted Social Assistance Program (GASP), which is a means-tested cash benefit for low income families by: (i) increasing the coverage and generosity of the GASP monthly payments; and (ii) ensuring that the incomes of beneficiaries on social assistance increase when they get jobs, through financial work incentives and employment support. This is not always the case if the benefit is withdrawn at the same rate as increased earnings. Estimates show that such measures would require additional resources but could still be affordable and cost-effective in terms of poverty reduction.

Turning the monthly payments under the GASP into a flagship SSN program would be an equitable approach to addressing poverty and building resilience. Expanding the monthly cash component of the GASP program to all poor households and increasing the generosity of support could make this program a key tool for combating poverty while ensuring households' resilience to future economic shocks. A careful redesign of the benefit structure could minimize benefit dependence and strengthen work incentives.

Figure 1: Dynamics of Employment in MSEs vs. non-MSEs, thousand people



Source: World Bank Staff calculations based on Belstat data.

Expansion and integration of GASP, unemployment assistance and active labor market measures are essential for supporting economic reallocation of labor as Belarus turns towards market-oriented economic development. The evidence shows that between 2000 and 2017, micro- and small-sized companies (MSEs)—which are largely private entities — have high capacity for labor absorption (see Figure 1). However, the current social protection system is inadequate to support reallocation of labor towards more productive sectors; the expenditures on unemployment benefits and active labor market measures are negligible. This requires policy and fiscal effort to substantially increase coverage of the unemployment benefits, the GASP program and the active labor market measures.

The partial reform of utility subsidies has led to increasing household cost of utility services, also requiring effective social assistance measures. Going forward, without effective social assistance, the shock from full-cost recovery pricing can be substantial. Households in the bottom decile spend about 17 percent of their income on utilities. Around 27 percent of the households are energy poor, that is, they spend more than 10 percent of their incomes on utilities. In comparison, energy poverty rates are 6 percent in Poland, 5 percent in Serbia. However, the current Housing Utilities Subsidy (HUS) program—Belarus’ means-tested energy assistance program—is extremely small in coverage and budget. The HUS program, because of very restrictive eligibility requirements, covers only 0.5 percent of the population and accounts for barely 0.0012 percent of GDP. A more targeted approach to address energy affordability is to focus subsidies to vulnerable groups. One way to achieve this objective is through a strengthened HUS currently in place in Belarus.

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