

Conditional cash transfers and their impact on children (Hungary, 8-9 October 2015)

Conditional cash transfers in Estonia¹

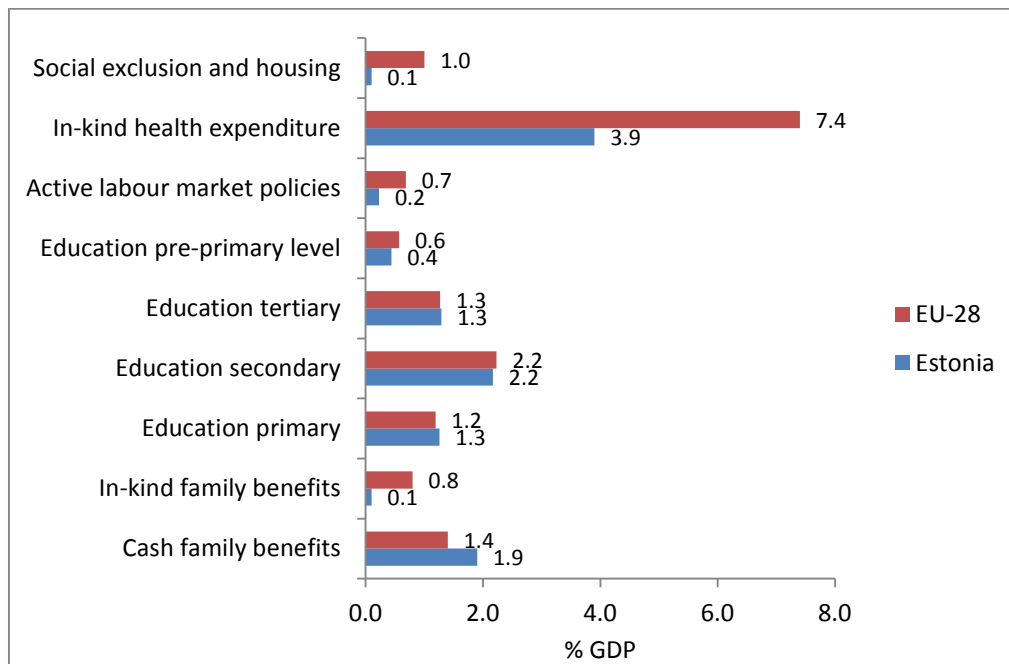
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1. Introduction: Background and Context

Spending on social policy

Estonian belongs to the group of EU countries that spends relatively little on social protection. In 2011 it spent about 16 % of GDP on social protection, while the EU-28 average was 28 %. As a proportion of GDP and compared to the EU average, Estonia spends considerably less on health services (3.9 % vs. 7.4 % of GDP), very little on in-kind family benefits (0.1 % vs. 0.8 %), active labour market policies (0.2 % vs. 0.7 %) and social exclusion and housing (0.1 % vs. 1.0 %). At the same time, spending on cash family benefits exceeds the EU average (1.9 % vs. 1.4 %). Spending on education is comparable to the EU-average.

Figure 1. Public expenditure on social investment categories (% of GDP), 2011



Source: Eurostat database, last accessed 19 January 2015

¹ Prepared for the Peer Review in Social Protection and Social Inclusion programme coordinated by ÖSB Consulting, the Institute for Employment Studies (IES) and Applica. and funded by the European Commission and Praxis Center for Policy Studies.

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The Peer Review benefitted from the input by the Estonian Ministry of Social Affairs, especially Kristiina Kamenik, Hede Sinisaar, and Hanna Vseviov.

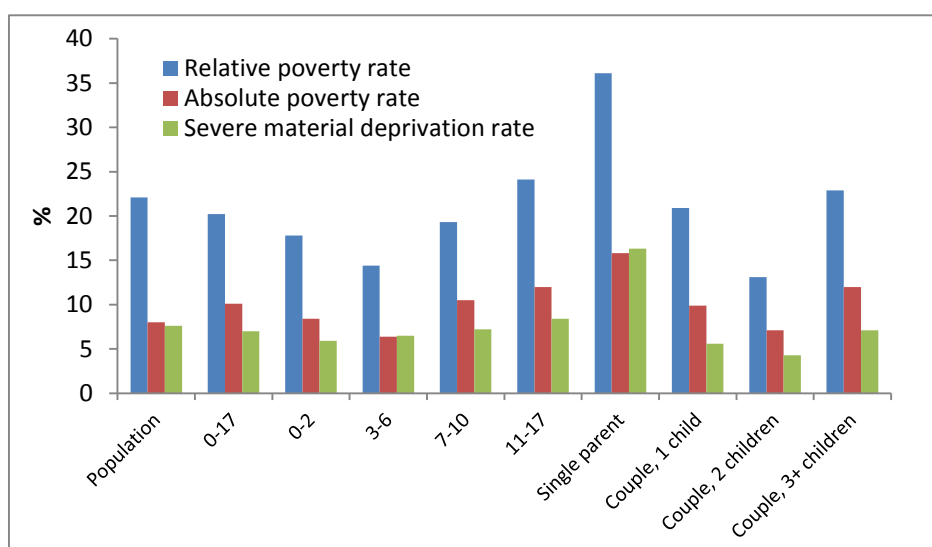


Poverty

The risk of poverty is highest among single parent households (see Figure 2). The absolute poverty rate of a single parent household is more than two times higher compared with a couple with 2 children (16 % vs. 7 %) and the difference in relative poverty rate is even higher (36 % vs. 13 %).

Regarding age, the poverty rate is highest among children aged 11-17 and smallest for children aged 0-2. The main reasons of the low poverty rate among the youngest age group are high family benefits that are targeted to the first years of birth (maternity benefits, birth allowance, and parental benefits). In addition, the share of single parent households is smallest in this age group.

Figure 2. Relative (at-risk-of-poverty) and absolute poverty rates among total population, children in various age groups and household types in 2013



Source: Statistics Estonia, on-line database, last accessed 21 September 2015

School drop-out and educational outcomes

According to the Ministry of Education and Research annual drop-out rate has been around 0.2 % from the basic education and around 1-1.4 % in secondary education in 2010-2014 (see Table 1). The low drop-out rate has been achieved with the help of supporting measures and services.² Drop-out rates from the vocational education (20.2 % in 2013/2014) and higher education (17 % in 2013/2014) are considerable higher. Studies suggest that the high drop-out rate from vocational education is mainly due to inadequate career counselling and result dissatisfaction by students with their chosen topic.³

² Source: Haridus- ja Teadusministeeriumi valitsemisala arengukava "TARK ja TEGUS RAHVAS" 2015-2018, https://www.hm.ee/sites/default/files/tark_ja_tegus_rahvas_2015_2018_final.pdf

³ Source: "Praxise teemapaber töökäte puudusest". Valimised 2015. Praxis Center for Policy Studies. <http://www.praxis.ee/wp-content/uploads/2015/02/Teemapaber-tookate-puudusest.pdf>



The cumulative proportion of early leavers from education and training is close to the EU-target 10 %.⁴ In 2013 it was 9.7 %, in 2014 11.4 %, partly due to the change in the methodology.

Table 1. School drop-out rates

	2010/2011	2011/2012	2012/2013	2013/2014
Basic education	0.2 %	0.2 %	0.2 %	0.2 %
Secondary education	1.4 %	1.4 %	1.0 %	1.1 %
Vocational education	19.5 %	19.8 %	20.2 %	

Source: Ministry of Education and Research

http://www.hm.ee/ehis/statistilised_tabelid/download.php?file=alus_yld_oppeasutused_oppurid.xlsx;

http://www.hm.ee/ehis/statistilised_tabelid/download.php?file=kutse_oppeasutused_oppurid.xls

Last accessed on 23 September 2015

Educational outcomes tend to be different for students from different social backgrounds. According to the OECD PISA study Estonia belongs to the group of countries with comparatively narrow gaps between high and low performers.⁵

Utilisation of early childhood education and care services

In Estonia, all local governments are obliged to ensure for children aged 1.5-7 (under the mandatory schooling age) a place whether in pre-school institutions or in non-educational child care. There is no obligation to provide child care services for children younger than 1.5 years. In Estonia, the cost of the service does not depend on whether the parent is participating in employment or not. In the situation where the parent has difficulties with payment for a kindergarten place and/or food they can apply for support from the local authority.

In 2012, 18 % of children less than 3 years old were attending formal childcare (14 % for 30 or more hours per week and 4 % less than 30 hours). In the age group from 3 years to minimum compulsory school age, 93 % attended formal childcare (83 % of them attended 30 or more hours per week and 10 % less than 30 hours). In 2014 the participation has increased to 21 % (age group 0-2) and 94 % (age group 3-6). As the EU-27 relevant averages were 28 % and 83 % in 2012, respectively, from an international perspective, Estonia seems to need to increase formal childcare for the youngest age group. (See Bouget et al., 2015. Annex 3, Table A3.1 and Table A3.2.⁶)

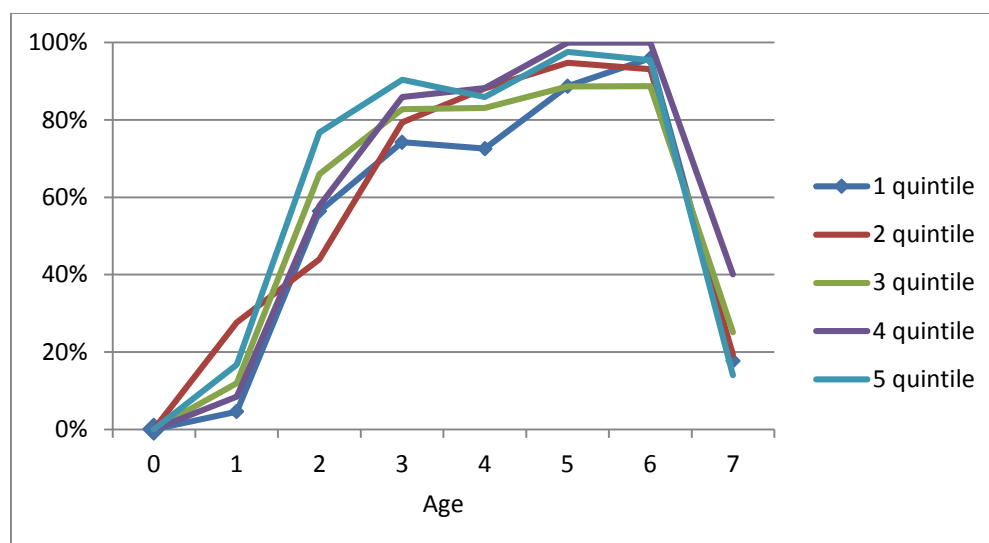
⁴ Eurostat indicator t2020_40 - Early leavers from education and training by sex - % of the population aged 18-24 with at most lower secondary education and not in further education or training.

⁵ Source: OECD (2013), PISA 2012 Results: Excellence Through Equity: Giving Every Student the Chance to Succeed (Volume II), PISA, OECD Publishing. <http://dx.doi.org/10.1787/9789264201132-en>, Figure II.2.2

⁶ Bouget, D., Frazer, H., Marlier, E., Sabato, S. and Vanhercke, B. (2015), Social Investment in Europe: A study of national policies, Annex 3 – Selection of indicators, European Social Policy Network (ESPN). Brussels: European Commission.



Figure 3. Utilisation of early childhood education and care services by age and household income quintile, 2011



Source: Estonian Social Survey 2011 (National version of SILC), author's calculations

There are some differences in the utilisation of ECEC services by household income level. At the age of 5 and 6 almost all children in the fourth and fifth quintile use child care services, the participation rate is higher than 95 %. At the age of 3 and 4, the participation rate is above 70 % in all income quintiles. The lowest income quintile shows lower participation in ECEC for children aged 3-5.

2. Benefits to families with children in Estonia

Estonia's child and family policy focuses on five objectives which derive from the Strategy of Children and Families 2012-2020: positive parenting, child rights, child protection, adequate income support, and reconciliation of work, family and private life. The main purpose of the strategy is to improve the well-being and quality of life of children and families in order to encourage higher birth rates. Reducing child poverty is one of the current and past governments' priorities resulting in the increase of universal child benefits and means tested family benefits.

Estonia has a universal family benefit system combined with targeted measures to families in bigger need. As there is a shortage of ECEC places for young children, emphasis is also put into establishing new nursery and kindergarten places. Benefits targeted to the first months after the birth of the child are relatively high.

There are various types of benefits and services for families with children in Estonia:

- State family benefits that mainly depend on the age and number of children, such as child allowance, childcare allowance, childbirth allowance, allowance for one parent of a family with 7 and more children, single parent child allowance. It means that Estonia has a universal family benefits system where more support is provided to families with young and with many children.
- State means-tested family benefits that depend both on the household income and on the number of children.



- Benefits that compensate periods while parent is out of the labour market and which depend on the parent's previous earnings – maternity benefit, parental benefit, care benefit for nursing a child younger than 12 years old who is ill, etc.
- Tax allowances and deductions depending on the number of children or on the expenditures on children.
- Free or subsidised services for children (e.g. subsidised school meals; free health care, including dental care; subsidised childcare in kindergarten, etc.).
- Benefits and services provided by local municipalities – additional birth allowances, additional social assistance benefits, child's school allowance (at the beginning of the school year), etc.
- Special benefits for disabled children.
- Subsistence benefit, which is a means-tested social assistance benefit, guarantees a minimum income to all residents after paying for minimum housing costs. Subsistence benefit includes additional top-up for single parent households.

3. Conditional cash transfer programmes targeted to children

There are only few conditional cash transfers targeted to children in Estonia. "Conditional transfers" means here that benefits are related to the specific behaviour of parents or children.

Education

Extension of child allowance

There is the extension of eligibility for child allowance to children in fulltime education who are over the upper age limit of standard eligibility. Child allowance is a monthly allowance paid from the birth of the child until he or she attains 16 years of age. If the child goes to basic school, high school or vocational school which operates on the basis of basic education or if the child with no basic education goes to vocational school, he or she will be paid the allowance until attaining the age of 19. When the child attains the age of 19 years, the allowance shall be paid until the end of the school year. Child allowance is paid for the first and second child in a family in amount of EUR 45 (will be EUR 50 starting from 1 January 2016, EUR 55 from 2018 and EUR 60 from 2019). Child allowance is paid for every third and consequent child in a family and amounts to EUR 100 (for families with three and more children an additional benefit will be paid from 2017 – EUR 200 for a family with 3 to 6 children and EUR 370 for a family with 7 and more children.)

In addition to the extension of child allowance, until 2008 there was a school allowance which was an annual universal non-means-tested non-taxable benefit paid to families where there are school-age children to help them with the start of the school year. It was paid out in August, in general. It was abolished from 1 January 2009. Now several local governments pay school allowances, but these are unconditional, the child must simply be included in a list of pupils.

Support in post-secondary education

Students of vocational schools may also receive a study allowance conditional on their achievements and needs. "Study allowance is divided into a basic allowance and a special allowance. The basic allowance is paid on the basis of the study results of the student and it can be applied for by the students in stationary studies or the students studying on the basis of a full time study curriculum which has state commissioned study places. The precondition is that the student may not have



exceeded the standard period of study of the curriculum. Study allowances are granted to an estimated 50 % of the students studying in the state commissioned education. From the special allowance fund allowances can be granted to the students who are in a difficult economic situation. The procedure for the use of the special allowance fund shall be approved by the board of the educational institution.”⁷

Training is also supported via tax system. Training expenses (e.g. fees for registered hobby courses, university courses) are tax-exempt, either students or their parents can deduct these from their taxable income up to a certain limit.

Health

There is no universal scheme that would relate cash transfers to visits to a doctor, but it has been discussed in public. In 2011, the Estonian Family Doctor's association presented a proposal that child allowances might depend on visits to family doctors.⁸ This was a reaction to few cases where young children have not been properly treated, because of parents not taking them to a doctor.

Although regular check-ups of children are among the obligations of family doctors in Estonia, there are no negative consequences for parents if they do not take their child to a doctor.

An objection to this idea to link family benefits to visits to a doctor by a high level policy maker was that this would not help the poorest families. More efficient option would be that a family doctor should make a home visit to the family.

Local governments may make their own conditions, including providing conditional cash transfers, but these are rare. For example, the capital city Tallinn has a birth grant EUR 320 on the condition that the pregnant woman must have been regularly monitored by a doctor.

Previous labour market participation

In Estonia, the size of several cash benefits depends on the previous employment history of a parent.

Parental benefit (*vanemahüvitis*) is the most generous benefit in the Estonian family benefits system. Formally it is meant to compensate for labour income not received by a stay-at-home parent after a child birth. The size of the benefit is calculated according to the applicant's average monthly gross income taxed with social tax (i.e. earnings) in the previous calendar year (generally 100 %). Persons who did not receive any earnings (e.g. non-working students) are paid the parental benefit at the parental benefit rate, which is slightly lower than minimum wage. Persons whose average monthly income in the previous year was less than or equal to the minimum wages are paid the parental benefit in the amount of the minimum monthly wages. The maximum amount of the monthly benefit is three times the average monthly income taxed with social tax in the calendar year before.

Maternity benefit (*sünnitushüvitis*) is one of the benefits for temporary incapacity for work, regulated by the Health Insurance Act (*Ravikindlustuse seadus*). It is paid to insured persons in the event of pregnancy and maternity leave. A pregnant woman has the right to receive maternity benefit for 140 calendar days or, in the case of a multiple birth or delivery with complications, for 154 calendar days if the

⁷ Source: EURYDICE “Early Childhood and School Education Funding – Estonia” https://webgate.ec.europa.eu/fpfis/mwikis/eurydice/index.php/Estonia:Early_Childhood_and_School_Education_Funding#Financial_Support_for_Learners

⁸ Jukko Noonni “Perearstid tahavad lapsetoetuse siduda arstivisiitidega”, 2 June 2011, Eesti Päevaleht Online.



pregnancy and maternity leave of the woman commences at least 30 calendar days before the estimated date of delivery as determined by a doctor.

Housing

One of the good measures in supporting families in need is the national home benefit for large families. The purpose of the benefit is to improve and update the living conditions of families with four or more children. Different activities are supported: renovation, reconstruction, extension, acquisition, reimbursement of the housing loan (except interest payment) etc. The maximum grant for a family with 4 to 7 children is up to EUR 7,000 and for a family with 8 or more children up to EUR 14,000. From the next year the benefit will also be paid for families with 3 children and the maximum amount of the benefit will be increased.

Empirical evidence

Unfortunately there are almost no studies on the effects of these conditional cash transfers.⁹

On the other hand, Estonian experience with means-tested benefits suggests that take-up rates of means-tested benefits are quite low, due to either information problems or possible stigmatizing effects. For example, in case of means-tested family benefits, introduced in June 2013, the take-up of benefits turned out to be considerably lower than estimated, only about 21 %.¹⁰ Similarly, a means-tested scholarship in the post-tertiary education, introduced in 2013, was targeted to 30 % of the students, but the take-up rate turned to be only about 15 % of students.¹¹

4. Discussion

Estonia has used conditional cash transfers to a very limited extent. The conditional cash transfers used in Estonia have not been implemented to change the behaviour of parents, but rather related to maintain equal opportunities of children. For example, the payment of child allowance is extended when the child continues to study after the age of 16, or students in higher education from poor households have additional study allowances, the fees of children's hobby courses are deductible from taxable income, etc. There is no published evidence whether these transfers have targeted investment into children in a cost-effective way.

Estonia has relied on a universal family benefit system with recent introduction of means-tested benefits to better target children in need. Conditional cash transfers would require monitoring of the behaviour of the parents or children, but this would be a costly activity for local governments. The capacity of local governments, on the other hand, varies considerably in Estonia and may hinder the efficient implementation of more complex benefit schemes.

⁹ It has been shown that generous parental benefits, which depend on previous earnings, have increased (declared) earnings of young women before their pregnancy. (Võrk, A, Karu, M., Tiit, E-M. (2009) Vanemahüvitis: kasutamine ning mõjud tööturu- ja sündimuskäitumisele 2004-2007. (*Parental benefits: impact on labour market and fertility behaviour 2004-2007*). Praxis Working Papers 1/2009)

¹⁰ Ministry of Social Affairs. Statistics on means-tested family benefits. Personal communication. 14 September 2014.

¹¹ Haaristo, Hanna-Stella; Leppik, Cenely, 2015. Vajaduspõhise õppetoetuse uuring. Tallinn: Poliitikauuringute Keskus Praxis.



Current evidence does not suggest that educational achievements would depend too much on parents' socio-economic status in Estonia that would necessitate the introduction of any further negative incentives into the family benefit policy. Unequal participation in early education and child care is more related to supply side factors, such as deficit of child care for children younger than three years old, rather than to demand side factors.

In areas where the decisions of parents are important, for example, deliberate non-vaccination of children in Estonia, the negative or positive incentives must be quite substantial to have any influence on parents' decisions. Even with incentives there is a risk that disadvantaged households will end up having lower cash transfers and undesirable behaviour.

To conclude there is no evidence based on Estonian experience that either means-tested or universal conditional cash transfers would be an effective way of motivating families to increase human capital investment in their children. Our experience with means-tested benefits suggests that there might be potential negative effects, such as low take-up and welfare stigma.

