

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 61124

Project Name	Strengthening the effectiveness of the social safety net RBF SIL
Region	EUROPE AND CENTRAL ASIA
Sector	Other social services (100%)
Project ID	P120913
Borrower(s)	MOLDOVA
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Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

As one of the poorest countries in ECA, Moldova was hit hard by the global financial and economic crisis in 2009-2010. On the heels of the food and oil price crises, the global financial and economic crisis undermined all the main sources of growth of Moldova's economy in previous years—remittances, private consumption, exports, and private investment—resulting in a sharp decline in GDP and worsened fiscal imbalances. The impact of the global recession was felt heavily in the real sector with the sharp contractions in each sector and a 6.5 percent overall decline in GDP. Nonetheless, official statistics show that the overall poverty rate stayed flat from 2008-09 (at 26.3 percent of the overall population living in absolute poverty). At the same time, the rural poverty rate rose significantly (by 1.7 percentage points) from 34.6 percent in 2008 to 36.3 percent in 2009, reflecting the impact of the global crisis on the decrease in remittance-driven revenues and the declining farming revenues.¹

The global crisis exacerbated an already deteriorating fiscal position in Moldova. The economic downturn in 2009 resulted in a substantial decrease in revenues, while expenditures continued to increase both in real terms and as a percent of GDP. As such, the fiscal balance deteriorated. The recession widened the fiscal deficit from 1 percent of GDP in 2008 to an unprecedented 6.4 percent of GDP by the end of 2009. In 2010, the authorities embarked on a budget consolidation plan supported by the IMF-supported program and World Bank DPL operation. Results for 2010 suggest that the fiscal adjustment measures adopted by the Government in late 2009, combined with greater than expected GDP growth, have already reduced the budget deficit to 2.5 percent of GDP.

However, short-term fiscal consolidation has been achieved through low-quality expenditure measures. The decrease in the deficit was achieved through substantial decrease in capital spending and wage and employment freezes. Social spending (i.e., education, health and social assistance) has continued to increase. In the absence of deeper structural reform in social sectors, current expenditure

¹ "Poverty in the Republic of Moldova in 2009," Ministry of Economy, June 2010.

corrections will result in deterioration in the quality of public services and further jeopardize pre-crisis gains in economic growth and poverty reduction.

The global economic crisis has renewed attention on the importance of a well-functioning social assistance program to protect the poor, particularly during economic down turns. Although Moldova spends generously on social assistance programs compared to countries with the same levels of development, the overall effectiveness of the social assistance system is weak and characterized by fragmentation into several low-performing programs, as discussed below. Coupled with tightened fiscal space, the necessity for reforms in social assistance for an efficient and effective protection of the poor is unambiguous.

Sustainably reducing the fiscal deficit, while ensuring resumption in growth and poverty reduction, remains the main challenge for the Government. The proposed project would help the Government of Moldova address this challenge by strengthening the effectiveness of the social assistance system while gradually reducing its fiscal burden. The proposed project would help the government to create fiscal space for expanding the recently introduced poverty-targeted cash transfer, the *Ajutor Social* Program, while scaling down categorical benefits and strengthening the overall social assistance system

2. Objectives

Project Development Objective *Ref.* PAD B.2

The development objective of the proposed project is to improve the efficiency and equity of Moldova's safety net through a fiscally sustainable expansion and strengthening of the *Ajutor Social* Program.

The three key performance development indicators (PDIs) for tracking progress toward the project development objectives are grouped around three Results Areas:

- Improved Equity through increased Coverage and maintained Targeting Accuracy: Twenty-three percent of population in the poorest quintile receive *Ajutor Social* benefits and at least 65 percent of *Ajutor Social* transfers reach the poorest population quintile;
- Increased Allocative Efficiency: spending on categorical benefits reduced by 30 percent of the pre-reform [2010] level;

Enhanced Administrative Efficiency, Governance and Transparency: turn-around time for processing *Ajutor Social* applications, including verification and eligibility decision, reduced to 15 days; and losses from irregularities in the *Ajutor Social* benefits are reduced by 30 percent.

The PDO would be achieved by:

- Supporting the interim transitional costs of expanding the *Ajutor Social* Program and consolidating other benefits (nominative compensation for utilities, child benefits, disability benefits). Both measures would be needed for the fiscal sustainability of the social safety net.
- Supporting measures to strengthen the "basic architecture" of the social safety net, with a focus on the *Ajutor Social* Program. These measures would include mainstreaming the functions of program management, oversight and controls, and monitoring the institutional structure of the MLSPF; strengthening institutional roles and capacities, operating processes, and systems; and sustaining a communications campaign to promote increased awareness of the program and of the need for reforms.

The proposed project also would build the initial foundations for additional reforms aimed at promoting "graduation" of beneficiaries from poverty by linking beneficiaries to employment opportunities and helping them overcome barriers to economic and social inclusion in the long run (second-generation reform agenda).

The main project beneficiaries would be poor Moldovan households receiving the *Ajutor Social* benefits and targeted Heating Allowances (including the Roma, as discussed below), as well as recipients of other social assistance cash benefits, as a result of improved targeting outcomes.

3. Rationale for Bank Involvement

1. **The proposed project would support the implementation of the Government's reform of social assistance and the third pillar of the new Government's stabilization and economic recovery plan for 2010–11.** The plan is built on three priorities: (i) stabilizing and streamlining public finance, (ii) facilitating economic recovery, and (iii) securing efficient and equitable social protection. Building on the pilot experience with the *Ajutor Social* Program, the proposed project would address the third priority by: (a) expanding the targeted program; and (b) facilitating the gradual phase-out of some of the categorical benefits and integrating other benefits into the *Ajutor Social* Program.

In addition, the proposed project fits with the World Bank's Country Partnership Strategy (CPS) with Moldova, which is aimed at minimizing social and environmental risks, building human capital, and promoting social inclusion. Ultimately, the proposed project would contribute to country outcomes of broader inclusion and stronger social protection in Moldova.

4. Description

The proposed project would be implemented over five years, through a Specific Investment Loan (IDA credit) in the amount of US\$37 million equivalent plus government counterpart funds of approximately US\$243 million.

The proposed project would consist of two inter-related components. The first component would co-finance a share of the *Ajutor Social* and the targeted Heating Allowance benefits, as these programs scale up and as other categorical programs are consolidated and downsized. In this component, disbursements would be triggered by achievement of specific results (as discussed in more detail below). The second component would finance investments in the basic architecture of the social safety net, with a focus on strengthening the *Ajutor Social* Program, following standard World Bank procedures for investment lending. The two components are inherently linked through definition of the results framework.

Specifically, technical and systems improvements supported by Component 2 contribute to the achievement of results that would trigger disbursements under Component 1. With this approach, value-added would be generated from the interaction of the co-financing, the results framework, implementation support, direct technical investments in social safety net administration, and the deeper, longer-term partnership and engagement on safety nets reforms.

Component 1. Sustainable Expansion of *Ajutor Social* Benefits and targeted Heating Allowances (US\$243 million in project costs; US\$31 million equivalent in IDA credit). The objectives of this component are to support the sustainable expansion of targeted social benefits, while supporting the reform transition in the consolidation of categorical benefits. This component would co-finance the *Ajutor Social* Program, as well as targeted seasonal Heating Allowances (which take into account cost-of-living increases during the five winter months). The co-financing of the *Ajutor Social* program would allow its further expansion before the reform measures to reduce categorical benefits take effect and generate additional savings. This component is designed so that IDA disbursements to co-finance the expansion of targeted benefits would also be triggered by the achievement of specific results, measuring and marking improvements and rationalization of the overall social safety net in Moldova.

Component 2. Institutional Strengthening for Benefits Administration (US\$6 million). The objective of Component 2 is to support the strengthening of the “basic architecture” for the *Ajutor Social* Program and its linkages with other social safety net programs in Moldova. This support comes at a crucial moment for the *Ajutor Social* Program, since ownership and management of the program is shifting from a donor-funded consultant-based implementation model for the pilot to a mainstreamed Government program that is fully implemented within the MLSPF institutional structure. As such, this component would help develop institutional capacities needed to measure and monitor program performance to inform its everyday management and more strategic policy decisions. Since project results are aligned with the performance of the *Ajutor Social*, the improvements in the system of monitoring and evaluation of this program would also help measure the results of the proposed project. By supporting improvements in the “basic architecture” of the program, this component would contribute to achievement of the DLIs.

5. Financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	37
Total	37

6. Implementation

The proposed project’s institutional and implementation arrangements would draw extensively on the implementation set-up of the *Ajutor Social* Program, including its institutional and administrative linkages with other social protection programs.

As the central government body responsible for social assistance policy development, the MLSPF would be the lead project counterpart and a primary recipient of the technical assistance envisaged under the project. For the second project component, the implementation arrangements under the ongoing Health Services and Social Assistance Project (HSSAP) would be used. An inter-agency **Project Working Group** would be established and composed of representatives of MLSPF, NSIH, National Employment Agency, Ministry of Finance and other government agencies who are directly involved or contribute to development and implementation of social assistance policies. The role of such Group

would be to provide for a strategic link between the project content and the evolving policy framework. The Group would be chaired by the Minister of Labor, Social Protection and Family responsible for the project, and would guide implementation of the reform and coordinate inputs from various agencies and donors active in this domain. Furthermore, the **MLSPF Department in charge of the *Ajutor Social Program*** would be responsible for introducing improvements in the program management and administration supported by the project, while **Policy Analysis, Monitoring and Evaluation Department** would take charge of monitoring and reporting on policy implementation results pertinent to the project. The technical capacity constraints of the MLSPF and the two departments would be addressed through the technical assistance envisioned under the second component.

Fiduciary tasks, including financial management and procurement, would be managed by the MLSPF Department for Economy, Finance and Accounting. The capacity of that department would be strengthened by hiring individual consultants. In addition, the Court of Accounts of Moldova would carry out external audit of the proposed project, including the financial audit and performance audit which would have a different focus from year to year so as to cover all major results areas in the project.

An important part of the *Ajutor Social* implementation is under the responsibility of local governments -- the Social Assistance Departments (SADs) in raions (second tier) and social assistants in towns and villages (third tier). The weak capacity of the SADs network requires improvement. Furthermore, the social assistants need much training to effectively deliver recently established benefits to vulnerable populations. Local capacity constraints are being addressed by the HSSAP via an extensive training program and development of an integrated MIS that would cover program administration at local level. The project would capitalize on the accomplishments of HSSAP and would foster additional improvements by introducing service provision standards buttressed by incentives for local administrators to meet them.

Prior to negotiations, the MLSPF would prepare a draft Project Operational Manual (POM) that would include: (a) for Component 1, the agreed disbursement-linked indicators, individual protocols with all the details related to definition, content, measurement technique, data/information inputs and roles and responsibilities for monitoring, verifying and validating DLIs, and financial management requirements for monitoring and auditing the EEP; and (b) for Component 2, the fiduciary (financial management and procurement) arrangements and project management structure. The final POM would be a condition of effectiveness, as noted on the PAD data sheet.

With a results-based approach, monitoring and evaluation (M&E) is built into the core design of the operation. The project's results framework relies on the existing M&E system used by the MLSPF to monitor the performance of the *Ajutor Social* Program and the targeted Heating Allowances. The M&E system was established with the help of international experts and provides reliable administrative data. In addition, the Government's M&E system is being strengthened with the current HSSAP operation and would continue receiving support under the proposed project. For statistical data, the project would use the nationally representative HBS run by the National Statistics Bureau. Since disbursement would rely on verified evidence of achievement of the DLIs, the MLSPF would be required to comprehensively monitor and report the results. The Project Operational Manual would detail the protocols for data collection and certification of each DLI. It would also outline the requirements for measuring and reporting on IMIs.

7. Sustainability

The project's sustainability builds on the national stabilization and economic recovery plan, in which the GOM declared its commitment to reform the social protection system. The project would help lay the foundation for an efficient and self-sustainable social safety net in Moldova, thus contributing to one of the plan's priorities, namely, securing efficient and fair social protection.

Securing fiscal sustainability of the *Ajutor Social* Program is an integral part of the PDO. The project is designed to help the GOM create fiscal space to expand *Ajutor Social* Program. By supporting strengthening and rationalization of the current safety net system, the project seeks to assist the Government in scaling down a costly and poorly targeted program of Nominative compensations while integrating into *Ajutor Social* small benefits that have marginal poverty impact. Such a shift toward the *Ajutor Social* in the social assistance funding envelope would put the program on a sustainable fiscal path for the years to come.

In addition, sustainability is expected to arise from strengthening the *institutional capacity* of MLSPF to manage the reform and streamlining performance of the *Ajutor Social* Program at the local level. The latter is expected to be achieved by building incentives for local authorities to maintain certain service delivery standards.

The sustainability of the program is tightly connected with *political economy* issues. Preliminary analysis in of social assistance spending patterns in the Europe and Central Asia (ECA) region suggests narrowly targeted programs tend to be scaled back in size over time, becoming unattractive for politicians, especially in the periods of economic growth.² Thus, the public credibility and visibility of the *Ajutor Social* Program as the Government's flagship social program are crucial for securing its political support and preventing any future reversals. An information and education campaign accentuating the role of the program in helping people move out of poverty and establishing its "goodwill" in the eyes of the general public is viewed by the GOM as an important ingredient of the successful reform. The GOM already has made some steps to raise awareness of the program among the Moldovan population. As the reform evolves into downscaling categorical payments, these first steps will need to be strengthened. The proposed project would provide additional funding for information and public relations support with the focus on rooting the *Ajutor Social* Program in the public perception as a mainstay of the country's social safety net.

8. Lessons Learned from Past Operations in the Country/Sector

2. The proposed project builds on experience of past and recent projects in the social protection sector in Moldova. It provides an opportunity for new type of partnership with the GOM to support transformation of the *Ajutor Social* program into the Government's flagship social program by scaling up the *Ajutor Social* and consolidating other benefits and by mainstreaming the management of the *Ajutor Social* Program into the ministry's regular structure. In the past, repeated attempts to reform social safety net in Moldova were supported by various donors through provision of technical assistance. The World Bank has also supported these reforms through SILs and DPLs. In 2010, the major donors' support to social protection reforms was completed and the World Bank became the main government

² The monitoring of ECA regional trends in social safety net programs evolution suggests that, often times, "good years" bring increasing political bias toward categorical benefits, which are easy for the general public to understand and require fewer of the administrative resources associated with effective targeting. As a consequence, categorical benefits inevitably crowd out funds for programs for the extreme poor. Because of rarely revised thresholds (GMIs), such programs tend to shrink in coverage *vis-a-vis* the growing level of income in the economy. As a result, programs for the extreme poor become tiny and have difficulty delivering fast responses to economic shocks.

partner in social protection area. The proposed project builds on and extends efforts of the donors and ongoing HSSAP, which has a social assistance component. Specifically, the second component of the HSSAP is conceived to support the development of the MIS for the *Ajutor Social*. This extensive donors' support in the past and ongoing World Bank project allowed keeping the design of the proposed project simple by focusing on a few high-impact technical interventions that link disbursements to measurable results. The proposed approach responds directly to the demand for high-impact, result-oriented interventions in partnership with the GOM while it also allows providing continuous technical assistance, especially in the next stage of safety net reform.

Governance structures are crucial factors for designing project implementation arrangements. In the past, efforts to launch safety nets reform in Moldova subsided because of changes in institutional roles and the government structure. Such changes in governance structure had weakened ownership of the key policy institution that was supposed to drive the social safety net reforms. The proposed project's institutional arrangements draw on the governance structure of the MLSPF, which is directly responsible for the *Ajutor Social* Program implementation as well as for the overall social assistance system. Project funds would be allocated to technical investments to strengthen the ministry's capacity in these core functions. Furthermore, the proposed project would not rely purely on administrative inputs to strengthen oversight and controls. Rather, it would support building incentives into the social benefits administration mechanism at various levels of government.

The experience gained from results-based SILs in other countries has been taken into account in guiding the design of the proposed project (particularly from those in the social protection and human development sectors). Some such "lessons learned" include: (a) establishing a strong rationale and strategic vision for the project (see Section 1); (b) political commitment to the reforms being implemented and clear communications for the rationale for these reforms (see below on political sustainability); (c) the importance of designing the operation on the basis of thorough technical diagnostics including for the expenditure framework; (d) the importance of clearly defined results chains with measurable and verifiable disbursement-linked indicators (DLIs, IMIs) and the M&E system, careful attention to "time calibration" of achievement of expected results, and clear protocols for measuring and verifying achievement of results; and (e) the provision of on-going implementation support.

One of the key lessons learned from other projects of all types – both in Moldova and elsewhere – is the need for a strong partnership for results. Adoption of a new legislation to launch the *Ajutor Social* Program were a necessary precursor for important reforms and were supported by the Development Policy series, but too often there is only partial or inadequate implementation. The design of the proposed project is focused precisely on the implementation phase and provides a medium-term partnership with the GOM to help ensure that their ambitious reform program is implemented. The proposed project would provide the GOM with the means to design the implementation phase and to reward the results through DLI linked disbursements. In doing so, the project aims to help inculcate a culture of results monitoring in regular government practice.

9. Safeguard Policies (including public consultation)

There are no environmental issues related to this project, and none of the environmental safeguards has been triggered.

10. List of Factual Technical Documents

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