

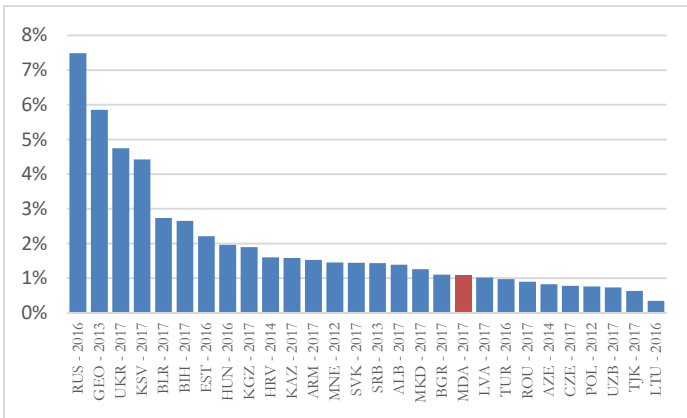


Social assistance spending in Moldova is low compared to its peers and tilted towards categorical programs. In a context where poverty is relatively high and opportunities for the poor to generate income are scarce, this raises concerns about allocative efficiency. The main means-tested program—Ajutor Social—has very low coverage, its benefits are inadequate, and there are little incentives for social assistance beneficiaries to seek jobs. Changing the design of Ajutor Social and tightening its linkages to activation and social services would strengthen its effectiveness and adequacy.

Moldova’s Social Assistance Spending is Low, and of Low Effectiveness

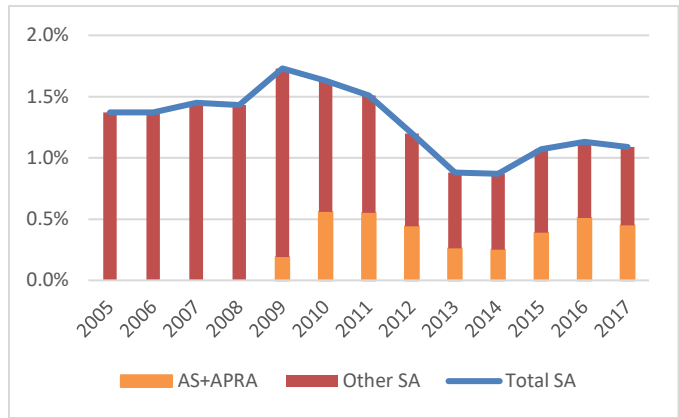
Moldova’s spending on social assistance is among the lowest in the Europe (Figure 1). Poverty in Moldova at 14.7 percent¹, on the other hand, is high, in particular among vulnerable groups, such as families with multiple children and single-parent families. Moreover, social assistance is still dominated by categorical benefits, and the share of means-tested programs, such as the main anti-poverty program (Ajutor Social (AS)) and the cold-season benefit (APRA) have begun to decline (Figure 2). These programs together use about 0.45 percent of GDP or 40 percent of the social assistance budget.

Figure 1. Spending on Social Assistance in the Region, Percent of GDP



Source: ASPIRE database World Bank.

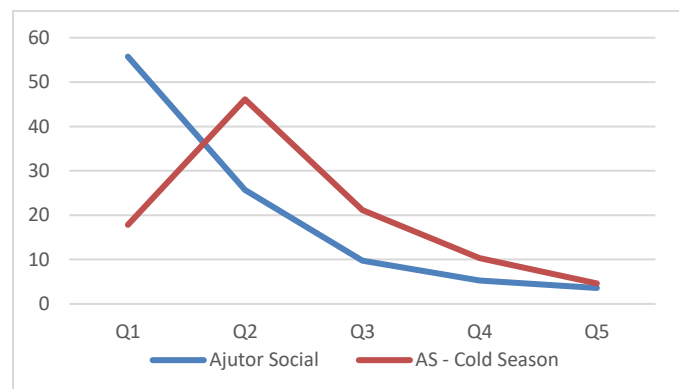
Figure 2. Social Assistance Budget, 2005-17, Percent of GDP



Source: SPeeD database World Bank.

The AS is one of the best targeted programs in the country.² The majority of AS beneficiaries are the poorest families, and leakages (benefits that go to relatively better-off families) are low. APRA program builds on the AS but uses a higher income threshold for eligibility. Thus, APRA will not cover the poorest households that are outside of the AS, and some of its budget will go to households that are relatively better off than those targeted by AS. As a result, around 80 percent of the APRA budget goes to better-off households (Figure 3). Most of APRA goes to households consisting only of pensioners, a group that has lower poverty rate than the average, and much lower than other vulnerable groups. A new cash transfer, electricity benefit, considered by the government would also target pensioners, and would not help as much other poor households.

Figure 3. Budget Distribution of AS and APRA per Income Quintiles



Source: World Bank simulation based on HBS 2018.

While AS helps reduce poverty, given the budget allocated, its support for the most vulnerable groups is inadequate. While the program reduces poverty by about 3.8 percentage points (Table 1), levels of poverty among the most vulnerable groups, such as multi-children and single-parent families, are still among the highest. The poverty rate of multi-children families is almost twice as high as the national poverty rate. This is firstly explained by the design of the program: the AS is using adult equivalency formula

¹ Calculated with subsistence minimum per adult equivalent as a poverty line

² The childcare benefit is also well targeted.

that allocates more benefit to families that have more adults than children.³ However, there are also second-order effects that benefit groups less poor than the average.

Namely, the largest share of the AS budget goes to households that consist of only able-bodied adults: poverty in this group is already below the average (Table 2). Conversely, while poverty is highest in families with several children, this group does not receive a

Table 1. Effect of Ajutor Social and APRA on Poverty Reduction in Moldova

Poverty (official SM per adult eq)	Pre-Ajutor Social	Post Ajutor-Social	Post AS and APRA
Total	18.5%	16.7%	14.7%
Working	16.5%	14.9%	12.6%
Child	23.6%	20.9%	20.2%
2+ adults and 1 child	16.1%	14.9%	14.9%
2+ adults and 2 children	19.1%	16.5%	15.9%
2+ adults and 3+ children	37.8%	32.8%	30.8%
1 adult and child(ren)	25.4%	22.9%	22.2%
Able-bodied adults	17.0%	15.3%	14.6%
Only pensioners	14.8%	14.2%	7.8%
Mixed adults	15.9%	14.4%	13.2%

Source: Simulation on the basis of HBS-2018, World Bank

commensurate share of the budget. Allocating a larger share of the budget to this group would produce more equitable results. Also, even when the program supports a poor family, the benefit is often too low to lift the family out of extreme poverty. This is because the Guaranteed Minimum Income (GMI) threshold the program uses to determine the benefit amount is much lower than the subsistence minimum used to determine extreme poverty.⁴ Finally, while the program has some inclusion errors, what is far more worrisome is that some of the poorest are

excluded due to low program budget. An estimated 77 percent of the poor do not receive the benefits (undercoverage).

Table 2. Budget Distribution of AS and APRA per Specific Group

	Ajutor Social	APRA
2+ adults and 1 child	13.2%	5.2%
2+ adults and 2 children	17.5%	3.9%
2+ adults and 3+ children	18.5%	3.6%
1 adult and child(ren)	15.2%	4.6%
Able-bodied adults	19.6%	9.0%
Only pensioners	9.9%	64.8%
Mixed adults	6.1%	9.0%

Source: Simulation on the basis of HBS-2018, World Bank

Program Redesign and Simplification for Better Results

Same resources could be spent more effectively. Since multi-children and single-parent families have the highest poverty rates, the program's budget could be used more efficiently by increasing the coefficient for children. Further efficiency gains could be achieved by revising the parameters of the program so that vulnerable household members (children, non-able-bodied adults) would get a higher threshold than those able to work. If the coefficient of able-bodied adults was reduced to 0.5, and coefficient for non-able-bodied adults and children went up to 1 (while retaining existing additional coefficients for disability), within the same budget, the overall poverty rate would decline by 2 pp, while child poverty would be reduced by 7 pp compared to the current rate of 20 percent. In such a scenario, there would be smaller benefits for families with more able-bodied adults, while families with children would receive better support.

If there are additional resources available, they should be used for AS strengthening. As APRA program reaches larger number of families, this allocation is perceived as "fairer". However, there are two issues with this approach. One is that APRA is built on top of AS and all design shortcomings of AS would be multiplied. Second, pensioners would benefit disproportionately from APRA even though as a group their poverty rate is already lower than the average. Increasing APRA benefit (from 350 to 500 lei as currently discussed by the government) and the threshold (from 1.95 to 2.2) would lead to a 50-percent expansion of the APRA budget. Using this budget to increase the GMI threshold in the AS program instead would lead to a 3 pp lower poverty rate.

The AS program is criticized for both anecdotal leakages and inadequate support for the poor.⁵ Exclusion from both AS and APRA programs is very high: AS covers only about 20 percent of the poorest quintile (APRA covers 25 percent, and a larger portion of this program goes to the second quintile). Together with a low adequacy of support, relative incidence of the benefit (the share of the benefit in total disposable income) is only 8 percent for the poorest. There are a number of reasons why this is happening. Some are related to data issues, such as difficulties in checking the family composition (e.g. unregistered marriages or grown children living with parents), or document requirements that are difficult for the poor (e.g. undocumented leasing of property leading to inability to prove residency). The World Bank has formulated a number of policy recommendations to mitigate these challenges, such as minimizing the documents required whenever possible and obtaining required information from official databases.

Contact: Roman Zhukovskiy (rzukovskiy@worldbank.org), www.worldbank.org/en/country/moldova

³ To determine the benefit amount, AS program calculates adult equivalency by assigning a coefficient of 1 for the first adult in the family, 0.7 for every other adult, and 0.5 for every child. So, a family of three, consisting of adults only would have an adult equivalency of 2.4, a couple with a child 2.2, and a single parent with two children 2.0. Higher adult equivalency would lead to a higher benefit all else equal.

⁴ For the first half of 2019, the average subsistence minimum was 2,028.3 lei, while the GMI threshold was 1,025 lei.

⁵ Applying the methodology for determining the AS eligibility on the Household Budget Survey for 2018 suggests that about 33 percent of households receive the benefit while they should be ineligible, while 77 percent of the eligible for the benefit report that they do not get it. Many of the ineligible families could not pass the test of being employed or registered as unemployed. At the same time, a significant number of the poor is not captured by the program.