

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

Report No.: AB4981

Project Name	Afghanistan Pension Administration and Safety Net Project
Region	SOUTH ASIA
Sector	Non-compulsory pensions, insurance and contractual savings (50%); Public Administration-Other social services (50%)
Project ID	P113421
Borrower(s)	GOVERNMENT OF AFGHANISTAN
	Government of Afghanistan Afghanistan
Implementing Agency	
	Ministry of Labor, Social Affairs, Martyrs and Disabled Afghanistan
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)
Date PID Prepared	September 18, 2009
Date of Appraisal Authorization	July 12, 2009
Date of Board Approval	October 15, 2009

Country and Sector Background

1. Afghanistan is one of the poorest countries in the world with income per capita hovering around US\$300 and around 42 percent of the population living below the poverty line; an additional 20 percent are clustered just above the poverty line. Altogether, some 15 million people are poor or at risk of poverty. Poverty is highest in rural areas and among nomadic Kuchi tribes at 45 percent; urban poverty is 27 percent. Poverty correlates relate to education and employment of households heads, seasonality in rural areas, asset ownership and remoteness. Women and children, and the disabled, are the highest risk poverty groups. A combination of natural disasters, extreme seasonal variations in food production, security problems, and the recent global economic crisis drive the high levels of chronic and transient poverty in the country.

2. While economic growth will be the main prerequisite for the poverty reduction, a well-designed social protection system with its four main pillars – safety nets, social care services, social security, and employment programs – that is suitably adapted to the country context can help households mitigate and cope with the risks of falling into poverty.

3. The Afghan formal social protection system consists largely of a pension scheme for public sector employees and uniformed servicemen of the military and police, and social safety nets encompassing a number of government and donor schemes that transfer cash and in-kind benefits to various population groups. Existing government interventions, however, remain small, both in terms of beneficiaries and spending. For example, the current spending on the

public sector pension program is less than half percent of GDP (with 60,000 beneficiaries); roughly the same amount is spent on the program of benefits for families of martyrs and disabled in the conflicts (with around 220,000 survivors and 90,000 disabled beneficiaries). The main issues with social protection program implementation include lack of well-designed targeting instruments, poor coordination across programs, and weak administrative capacity.

4. The Government has recently laid out its vision of reforms in the social protection sector in the ANDS – both in the pensions and safety net areas. In pensions, the main objective is to ensure fiscal sustainability and mitigate fiscal impact of the Pay and Grading reform on the pension program, making it consistent with the broader public sector reform agenda. The reform would ensure that scarce public resources could be used for re-distributional and development programs of the Government. Among the immediate and important priorities is the enhancement of administrative capacity of the Pension Department. The strategy also recognizes that it is critically important to develop fiscally sound and well-targeted social protection interventions, including safety nets, for improving the poverty outcomes in the country.

Objectives

5. The project development objectives are: (i) improve the administration of the public pension schemes; and (ii) pilot a modest social safety net program as a first step to developing a sustainable approach to safety nets in the country. By doing that, the project will contribute to the broader ANDS objectives to build a fiscally sustainable pension system and an affordable social protection system, as well as strengthen the policy capacity and institutional framework of the MoLSAMD.

6. To meet these objectives, the project will do the following:

- (a) improve administrative capacity of the Pension Department to operate public pension schemes; and by doing so, ensure effective implementation of the new Pension Regulation that introduces a fiscally sustainable pension system for public sector employees and improve transparency of the legacy schemes;
- (b) develop a policy framework for safety nets and on that basis implement pilot activities to transfer resources in cash and/or kind to a subset of very poor households (conditional or unconditional); and use the findings from the pilot to develop a scaled up approach to safety nets; and
- (c) develop capacity in MoLSAMD to plan and administer program implementation in pensions and safety nets.

Rationale for Bank Involvement

7. The World Bank has extensive experience in designing social protection reforms in a wide variety of settings – transitional and emerging economies, developing countries and conflict and post-conflict situations. It is well-placed to provide support to Afghanistan in this area.

8. Over the past three years, the World Bank has been providing support to the government pension reform program in the form of technical assistance. The effort focused on fiscal analysis and financial projections of the pension program and various reform options, as well as basic operational analysis of the pension administration system. A comprehensive report “Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy” was delivered in June 2008. Furthermore, under the Bank’s Emergency Public Administration Project (EPAP)-II, assistance has been provided to the Government in drafting the new Pension Regulation. No other donors have been working on the issues of pensions directly. While UNDP had developed a project proposal for assessment and reform of the pension scheme for Martyrs and Disabled back in 2005, the funding was not secured promptly. The US Government-funded effort of modernization of the Afghan security sector led to formulation of some retirement provisions for the military, although with little or no coordination with the overall fiscal framework. The work supported by the Bank has led to the formulation of the project to implement the reform of the public pension system. At the point when significant donor support is needed on the implementation side of the reform, the Bank is seen by the Government as an agency that possesses significant technical expertise needed for success of such an undertaking.

9. While the pension program remains focused only on a relatively small group of the population (likely composed of mainly non-poor), the needs for the social protection and capacity building in the sector are much broader. Some donors have already recognized the need and have begun providing resources to strengthening the capacity of MoLSAMD in delivery of social protection benefits and services. The European Commission, for example, has recently initiated a social protection project with the MoLSAMD to strengthen a public-private partnership for the provision of social care services at both national and sub-national levels. It focuses on the five provincial capitals and aims at developing replicable models of service delivery and improved capacity of strategic planning and implementation. Similarly, USAID has committed to supporting the reorganization and HR reform efforts within MoLSAMD as part of the broader Government effort of the public sector administration reform. There are initiatives by UNDP to support the Ministry of Economy in its mandate to implement effective monitoring and evaluation system to track implementation progress of the ANDS, although its scope would be across all the sectors covered in the ANDS.

10. At the same time, there is a need to gradually develop a well-targeted safety net and a coherent institutional framework for it. In this, the Government, as well as donors, is looking to the Bank to provide the necessary impetus. Given Bank’s expertise in design and implementation of safety nets both in the region and internationally, the Bank would help the Government prepare a modest pilot safety net program for transferring resources (conditional or unconditional) to a selected subset of poor households. The fiscal sustainability and administrative arrangements of such a program and relevance to the Afghanistan context would be explored in designing the program. Consultations held with the Government and key donors in Kabul confirmed a strong demand for this program.

Description

11. The project will have three components: (1) pensions, (2) safety nets, and (3) project management. The pension component has two sub-components: (a) designing new administrative arrangements for the public pension system; and (b) modernization of the existing pension system. The safety net also has two sub-components: (a) designing and implementing a pilot safety net program; and (b) strengthening the institutional capacity of MoLSAMD. For the implementation of these components and the project management component, the project will provide technical assistance, training, office renovations, equipment, materials, and cash payments for pilot. The components are as follows:

Component 1: Pensions

- (a) *Designing new administrative arrangements for the public pension system (US\$2.5 million)*. This sub-component will help implement a reform of the administrative arrangements of the public sector retirement pension program, in line with activities of the broader public sector reform.

Activities will include: (i) evaluation of existing systems and processes of the pension programs and design and implementation of new mechanisms of claims processing and benefit delivery; (ii) elaboration of operational procedures, manuals and guidelines, including training for staff; (iii) design and implementation of the new Management Information System (MIS) for the Pension Department (including software development, licenses, hardware procurement, backup system development, etc.); (iv) outsourcing of the new IT system maintenance; (v) securing basic office infrastructure and stable electricity supply for the Pension Department in Kabul; and (vi) developing a strategy for effective administrative integration of the payment systems of pensions for families of Martyrs and Disabled and the public sector retirement pensions.

The MIS procurement will be implemented in two stages, whereby at the first stage, detailed system specifications will be drawn to constitute part of the tender documents for the second stage of selection of a provider to design or customize an MIS to support the claims processing and benefit payment functions.

To ensure effective implementation of the contributory mandate established under the new Pension Regulation, support will be provided to strengthening the systems of pension contribution deduction, including public information campaign and training for personnel of the budget spending units responsible for payroll processing, necessary redesigning of accounting and treasury systems, ensuring effective compliance monitoring. These activities will be implemented in coordination with the MoF Revenue and Treasury departments. The project will hire a team of consultants to develop and implement the public awareness campaign for budgetary units in support of the new contributory mandate and rules of contribution processing. The project team will also work with MoF to define needs and to provide necessary technical assistance to strengthening the contribution compliance function within the MoF, as directed to modernization of the existing monitoring and accounting mechanisms. For this purpose,

the project will provide for training and consultancy services hired by PCU. Similarly, the project will help define needs and, through the PCU, will provide required technical assistance to the Fiscal Policy Unit of MoF in strengthening budgeting and financial management of the public pension schemes.

The sub-component will provide for technical assistance; in-service training; equipment, materials and supplies related to the institution building; and some renovation works for the existing offices. Some initial preparations, e.g., on surveying operations of the existing schemes, have already been taken place under a Project Preparation Facility (PPF) advance.

- (b) *Modernization of the existing pension system (US\$0.8 million)*. This sub-component will deal with the legacy issues by systematizing and cleaning records of the old schemes. It will also enable evaluation of the project performance using beneficiary surveys.

Activities will include: (i) design and implementation of pensioners census and the life certification process; (ii) digitizing of records of the old systems; and (iii) survey of pensioners of the existing schemes to monitor reform outcomes. These activities will cover both the public sector retirement schemes (civil service, military, police, etc.) and the pension scheme for the families of martyrs and disabled.

Furthermore, the Government has expressed interest in exploring options of paying out some of the liabilities of the old public sector retirement scheme in the form of lump sums. This subcomponent will set the groundwork for this process by developing procedures of beneficiary selection for the payouts and proposing the payment mechanisms.

The sub-component will include technical assistance; in-service training; equipment, materials and supplies.

Component 2: Safety Nets

- (a) *Designing and implementing a pilot safety net program (US\$2.7 million, including US\$1.8 million benefit payments under the pilot scheme)*. This sub-component will help design a pilot safety net program and implement it over a period of two years. Towards the end of the project an operational evaluation will be undertaken to determine whether, and if so, how to scale up the scheme. The design phase was launched under the PPF advance, and it will be completed early during project implementation.

The design of the pilot includes the selection of target groups and pilot areas. It is envisaged to apply the scheme in selected districts in two groups – some relatively more developed and the other poorer ones (as defined, e.g., in terms of income, infrastructure, availability of public sector services, etc.). The most recent household survey will allow detailed poverty mapping that will facilitate site selection. This approach will allow mechanisms to be tested in different circumstances.

The design of the pilot safety net program will be reflected in a Pilot Safety Net Program Plan, to be prepared by the project, and will include the definition of eligibility and

targeting processes, organizational and institutional arrangements (centralized and decentralized responsibilities; benefit award and delivery) information management, and monitoring and oversight mechanisms. All will be tailored to local realities.

Whatever design is finally agreed on during the pilot design phase, implementation of that design would be closely monitored throughout the project, and an operational evaluation of the pilots would be undertaken to determine the feasibility of scaling up the scheme as well as the directions such a scaling up might take. The evaluation would focus on: institutional relationships; adequacy of operational processes (i.e., award and benefit delivery mechanisms); beneficiary and other stakeholder perceptions; costs and cost effectiveness of program delivery mechanisms; and unanticipated effects.

The sub-component will include technical assistance; in-service training; materials and supplies. A total of US\$1.8 million has been allocated for the payment of benefits under the pilot scheme.

- (b) *Strengthening the institutional capacity of MoLSAMD (\$0.5 million)*. The sub-component will improve capacity in MoLSAMD to (i) plan and administer its own social protection programs, including developing policies and strategies regarding eligibility, coverage goals and benefits; and using monitoring and evaluation techniques to assess program performance; (ii) develop and maintain a simple database on ongoing social protection activities, including data exchanges with the relevant external entities; and (iii) use the data base in advancing the national social protection agenda. The sub-component will include technical assistance and training, including study tours; and equipment, materials and supplies related to institution building.

Component 3: Project Management

Strengthening capacity for program management (\$1.0 million). This component will facilitate implementation of the project by using appropriate mechanisms of project management and proper tools of project progress monitoring. Activities will include: (i) consultancy services in the project management, financial management, procurement, etc.; (ii) design and implementation of training programs for management and staff; administration of the local/international workshop participation and study tours; and (iii) overall project implementation support. The component will provide technical assistance, training, equipment, materials and supplies.

Financing

	(\$m.)
Source:	
BORROWER/RECIPIENT	0
International Development Association (IDA)	7.5
Total	7.5

Implementation

12. The governance structure of the project has been approved by the President and consists of a high level Steering Committee, two Technical Working Groups — one for the pension component and another one for the safety net component, and a Project Coordination Unit (PCU).

13. The Steering Committee is chaired by the Minister of MoLSAMD and includes Deputy Ministerial level members of ministries and agencies most concerned with issues of pensions and social protection (MoF, MoWA, MRRD, IARCSC and MoLSAMD). The Steering Committee oversees project implementation and addresses inter-sectoral issues that may arise during the design and implementation of the pilot scheme.

14. The Technical Working Groups also have a broad representation of ministries and agencies concerned with pensions and safety nets, respectively. The working groups are headed by Deputy Ministers of MoLSAMD and include technical staff with good knowledge of pensions and safety net issues. Their tasks are to monitor development of project design and technical aspects of its implementation, including recommendations for adjustments to project design before they are submitted to the Steering Committee. Likewise, they review quarterly reports on project progress before they go to the Steering Committee.

15. MoLSAMD is the nodal ministry for pensions and social protection and is therefore the logical prime counterpart for project implementation.

16. MoLSAMD is assisted by a Project Coordination Unit (PCU) that has been established under supervision of the Ministry's Grant Management Unit (GMU). The GMU has been accumulating capacity in project design and implementation (e.g., in procurement, financial management, etc.), and the proposed project will greatly benefit from this experience at the very outset. The GMU is staffed with the administration, procurement, and financial management teams, along with teams supporting project design, monitoring and evaluation, and economic and financial analysis. The M&E unit of GMU, in particular, will help with implementation of the beneficiary survey to set baseline for tracking the project performance over time.

17. The PCU is staffed with local and international consultants who will work with Ministry staff on project implementation. The MoLSAMD, through its GMU, will oversee the day-to-day work on both components. On pensions, the work is coordinated with MoF (as pertains to strengthening the systems of contribution collection monitoring and accounting as well as fiscal analysis and budgeting) and the IARCSC (as pertains to coordination with a broad set of activities of the public sector reform and implementation of HR policies). On safety nets, the PCU is responsible for ensuring that activities are coordinated with the major government agencies and donors involved in the sector.

Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[]	X
Natural Habitats (OP/BP 4.04)	[]	X
Pest Management (OP 4.09)	[]	X
Physical Cultural Resources (OP/BP 4.11)	[]	X
Involuntary Resettlement (OP/BP 4.12)	[]	X
Indigenous Peoples (OP/BP 4.10)	[]	X
Forests (OP/BP 4.36)	[]	X
Safety of Dams (OP/BP 4.37)	[]	X
Projects in Disputed Areas (OP/BP 7.60)*	[]	X
Projects on International Waterways (OP/BP 7.50)	[]	X

18. No resettlement or land acquisition will take place in the project and the project will have no impact on the environment; only renovations of the existing offices, as minor civil works, will take place; therefore, the project is rated as environmental category C. At the same time, the Government will ensure that all such civil works carried under the Project are carried out in accordance with its Environmental and Social Safeguards Framework.

List of Factual Technical Documents

19. Bank Staff Assessments

Aide Memoire, Pre-appraisal Mission, June 18, 2009

Aide Memoire, Preparation Mission, January 2, 2009

Back-to-Office Report, September 10, 2008.

Back-to-Office Report, December 12, 2008

Back-to-Office Report, April 9, 2009

Project Concept Note, December 4, 2008.

Project Information Document, June 2007.

Afghanistan Interim Strategy Note, April 12, 2006

Public Sector Pension Scheme: From Crisis Management to Comprehensive Reform Strategy.
June 24, 2008

Semi-Annual Economic Brief, Economic Policy and Poverty Team, South Asia Region, The World Bank. Mimeo. 2009

Regional Social Protection Policy Review in South Asia, Human Development, South Asia Region. The World Bank. Draft. 2009

20. Other

Afghanistan National Development Strategy, Social Protection Sector Strategy, January 2008.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Strategy Note on Public Employee Pensions in Afghanistan. Ministry of Labor, Social Affairs,
Martyrs and Disabled. December 2007

Islamic Republic of Afghanistan: Poverty Reduction Strategy Paper - Progress Report, IMF Country
Report No. 08/73. 2008

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