

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

Report No.: AB4375

<b>Project Name</b>	Afghanistan Pension Administration/Safety Net Project
<b>Region</b>	SOUTH ASIA
<b>Sector</b>	Compulsory pension and unemployment insurance (100%)
<b>Project ID</b>	P113421
<b>Borrower(s)</b>	GOVERNMENT OF AFGHANISTAN
<b>Implementing Agency</b>	The Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD)
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	December 4, 2008
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### 1. Key development issues and rationale for Bank involvement

Afghanistan is one of the poorest countries in the world with income per capita hovering around US\$300 and an estimated 42 per cent of the population living below the national poverty line. Many more live on the edge of poverty and are vulnerable to a variety of shocks including extreme seasonal variations in food production and ongoing security threats. For many years to come, the majority of Afghan households will be poor or exposed to risks that result in poverty.

At present, Afghanistan does not have effective safety net programs to reach the chronic poor or to protect those affected by various shocks. Existing government interventions are small, both in terms of beneficiaries and spending. Lack of administrative capacity results in inefficiency and poor targeting. The result is a major gap in the range of policy options available to the Government in its bid to reduce poverty and achieve its development goals.

The only major type of consumption smoothing program is the formal pension scheme, which covers only public sector employees and the armed forces, including the police. Despite this low coverage, the demographics of the civil service combined with the coming wage hikes (as part of Pay and Grading reform implementation) are projected to result in a large pension liability. In addition to the fiscal challenge, the administration of the pension system is antiquated and inefficient making it difficult to translate policy reforms into practice on the ground.

This project will support the efforts of the Government to set up an administrative platform that allows for planned pension reforms to be effectively implemented. Aiming at implementation of a common administrative platform for benefit delivery, the project would also develop the capacity for policy design and administration of a safety net program aimed at reducing poverty.

On the administrative side of pensions, systems are weak and financial management lacks transparency. The system is managed by the Pension Department of the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD), with the head office in Kabul. Operational

arrangements and capacity of the department are weak. The record-keeping is still a manual process. Applying for a pension takes a long time, is cumbersome, and highly centralized. The current staff is not equipped to properly manage a modern pension program and the Ministry is ill-prepared to design and implement necessary reforms.

Aside from pensions, MoLSAMD also manages the program of cash benefits for the disabled and survivors of martyrs as the main instrument of income support for the victims of past conflicts. Operationally separate, the program shares the same deficiencies with the civil service pension scheme. There seems to be no viable strategic planning, no robust mechanisms ensuring adequacy of benefits, and no clear budgeting procedures.

Apart from the cash benefits for the disabled and the survivors of martyrs, Afghanistan does not have an extensive public safety net program in place. There are, however, a few donor-driven safety net programs, e.g., the food aid program of WFP with the objective of providing support to the poor, including during emergencies. At the same time, MoLSAMD manages various skill development programs and provides social care services (some supported by donors or implemented by NGOs). Various other ministries also operate programs with implications for the sector. However, coordination across these social protection programs is very poor and the MoLSAMD does not have a thorough understanding of the donors' and the NGO's programs and social protection programs operated by other Ministries.

The Government has recently laid out its vision of reforms in the social protection sector in the Afghan National Development Strategy (ANDS) - both in the pensions and safety net areas. The document indicates that a comprehensive reform of the pension system remains a priority. It sets objectives as improved old-age protection of the current civil servants and fiscally sustainable pension scheme. Among the immediate and important priorities is the enhancement of administrative capacity of the Pension Department. As another important step towards the implementation of the ANDS strategy in the social protection sector, the Government is keen to develop a basic safety net program to both protect the chronic poor and help those affected by shocks (e.g., the recent food price increases) and be suited to the Afghan country context. This program would need to be selected from a menu of cash and conditional cash transfers that would need to be designed, with implementation modalities and piloted and evaluated for potential scale-up in the future and some systems built synergistically with the pensions and other cash payment systems.

Furthermore, the Ministry also has a broader role to play in coordinating the overall social protection policy and programs in the country. ANDS, therefore, envisions a role for MoLSAMD to help prioritize the activities and resources in the social protection area. The Ministry's capacity, however, remains weak. Various donors have already engaged with the Ministry in providing assistance to the capacity building and program formulation. Although, it will still need to develop capacity to design and implement safety net programs that is currently non-existent.

Over the past three years, the World Bank has provided support to design of the government pension reform program in the form of Technical Assistance (TA). The effort focused on fiscal analysis and financial projections of the system and various reform options, as well as basic operational analysis of the system. No other donors have been working on the issues of pensions directly. The work supported by the Bank has led to formulation of the project to implement the reform of the public pension system. The Bank is seen by the Government as an agency that

possesses significant technical expertise needed for success of such undertaking. Indeed, the Bank possesses an extensive record of involvement with work on pension policy and administration reform internationally. Given extensive Bank's expertise in design and implementation of safety nets both in the region and internationally, the Bank would also help the Government prepare an implementation program for an effective basic safety net, based primarily on a (conditional or unconditional) cash transfer program, to address chronic poverty and vulnerability.

## **2. Proposed project development objective(s)**

The development objectives of this 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 to deliver social protection programs. In this context, specific project development objectives will be to:

- (i) improve the administrative capacity of the public pension program; and by doing so, ensure effective implementation of the new Pension Regulation that introduces fiscally balanced pension system for the public sector employees;
- (ii) develop the design and implementation arrangements for a scalable basic safety net program; and
- (iii) develop policy and administrative capacity of MoLSAMD in design and management of safety net and pension programs, including design and utilization of a common administrative platform of benefit delivery.

## **3. Preliminary project description**

The proposed activities will have four principal components corresponding to the objectives above:

### **③ Pensions**

- (i) ***Systems and institutions building for the new pension system (\$5.2 million).*** Develop and implement a workable program of reform of the administrative arrangements of the pension program, in coordination with various activities of modernization of the public sector operation.

Activities will include: (a) evaluation of existing systems and processes of the pension program and design of new mechanisms of benefit delivery; (b) development of strategy for administrative integration with the pensions for families of Martyrs and Disabled; (c) design and implementation of the new IT system for the pension department (including software development, licenses, hardware procurement, back up system development, communication systems, etc.); (d) outsourcing of IT system maintenance; (e) strengthening systems of pension contribution deduction from payroll, accounting, record keeping, monitoring, and compliance (in coordination with the Tax Department, the Treasury, and the Civil Service Commission); (f) digitizing of records of the old system; (g) securing basic office infrastructure in Kabul and in the Provincial offices; and (h) securing stable electrical supply in the Kabul office of the Pension Department.

- (ii) ***Pension payouts (\$7.1 million).*** Provide funds for partial payouts of pensions to selected group(s) of members of the old scheme to reduce the outstanding fiscal liabilities.

Activities will include: (a) development of the process of selection of beneficiaries of the payouts; (b) design, implementation, and monitoring of the payout process (including public information campaign), as well as (c) cash payments to the eligible retirees (e.g., cohorts 80+).

Payments will be made to the existing registered pensioners (or their survivors) in receipt of regular benefit. All payments will be made in banks on the basis of personal checks issued by the Pension Department (in line with current practices) against a specially designated public account.

### ③ *Safety nets*

#### (iii) *Safety net design and policy development (\$3 million, incl. \$1.5 million cash grant for pilots)*

Activities will include: (a) a comprehensive review of existing Government and donor finances safety net programs (coverage, benefits, administration, financing) for their potential to serve as a basis for developing a basic safety net for the long term; (b) design and implementation of pilot schemes – administration, financing, operating procedures – for a basic safety net program that would provide support in cash or in kind to a pre-determined subset of very poor households, evaluation of results, and recommendations for expansion on a national scale; (c) strengthening the ability of the MoLSAMD in further developing and prioritizing the SP policy framework, including improving its capacity to coordinate information and approaches in the sector across donors; (d) implementation of the supporting information systems (as an add-on module to the IT system of the pension payments) with a longer term view to link information systems of various programs; and (e) development of public information/outreach programs.

### ③ *Capacity Building*

#### (iv) *Implementation support and institutional capacity building (\$0.7 million)*. Ensure adequate capacity in the policy analysis and program management.

Activities will include: (a) design and implementation of training programs for management and staff; (b) regional/international workshop participation/study tours; (c) establishment of the Social Protection Policy, Monitoring and Evaluation Unit; and (d) overall project implementation support.

The components above will involve procurement of services of local and international consultants as well as procurement of goods.

## **2. Safeguard policies that might apply**

This is a category C project. No safeguard policies are expected to apply to the proposed project.

### 3. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	16
Total	16

### 4. Contact point

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