

*Counterpart International, Inc./LIESAP
Center for Strategic Studies and Reforms (CISR)*

**Evaluation of Social Assistance
to Population through
the Nominative Targeted Compensations Program**

Findings of the Study

The study was carried out with financial support of USAID/Low Income Energy and Social Assistance Project. The views expressed herein are those of the authors and do not necessarily reflect the views of the USAID or the Government.

Chisinau, January 2003

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Abstract

Targeting of social assistance at the most vulnerable groups of society is apparently one of main challenges of reforms in transition economies. Republic of Moldova is a good example of a country challenged to design a social assistance system under hard budget constrains and in conditions of economic depression and poverty expansion.

This paper attempts to assess how successful Moldova has been in the achievement of efficient targeting, using the official sources of information the results of sociological examination of the Targeted Compensation (NTC) Beneficiaries, and data from the National Households Budget Surveys. The core of this paper is evaluation of efficiency of social assistance to the targeted population through the NTC programme. A special emphasis has been put on the necessity to improve the social assistance in the context of the Moldova's Economic Growth and Poverty Reduction Strategy.

Introduction

The Republic of Moldova, as the majority of post-soviet countries in transition, found itself in a situation when lingering economic crisis, reduction of incomes of the population and of employment expanded the poverty zone that became a mass and permanent phenomenon. These circumstances have forced the Parliament and Government of the country to revise the system of social assistance inherited from the central planning system. Unfortunately, this work was undertaken under conditions of increasing financial stringency and acute lack of funds. Therefore, the targeting of scarce resources to support the most indigent has become the main challenge in the reform of the social protection system in this country.

Since the middle of the 90's Moldova has taken actions – such as improvement of the legal basis and institutional structure – to reform the system of social assistance for the needy population. At present, the system includes different types of social assurances, targeted compensations, support of institutions for handicaps, pensioners and children, social services for those incapable to work, and material aid financed from different sources, including the fund of social support of the population and charity.

Along with resources of the state, there are other means used for social support – those granted by international organizations and donor-countries. Government of the United States of America through the United States Agency for International Development (USAID) concluded in September 2001 an agreement with the Government of the Republic of Moldova on collaboration in implementation of the Counterpart International, Inc.'s Low-Income Energy and Social Assistance Project (LIESAP). Along with consulting services and technical re-equipment of the National House of Social Insurance and its territorial bodies, the project foresees financial support of expenditures for payment of targeted compensations to certain categories of the population entitled to such compensations under the Law on Special Social Support of Some Categories of the Population #933-XIV of April 14, 2000, and Decision of the

Government on Targeted Compensations for Some Categories of the Population # 761 of July 31, 2000.

The present study was done on the initiative of the Counterpart International, Inc.'s Low-Income Energy and Social Assistance Project (Counterpart/ LIESAP) in order to evaluate the existing since 2000 system of Nominative Targeted Compensations (NTC) for Some Categories of the Population (about 250 thou NTC beneficiaries) and to examine its improvements.

The study consisted of two consecutive stages:

- a) In the first stage, a *Survey* based on the Sociological investigation of the NTC beneficiaries was done. Its purpose was to obtain information directly from beneficiaries on both the existing procedure of setting and payment of social compensations, on living conditions and incomes, as well as on proposals on further improvement of the social assistance system;
- b) In the second stage, a *Study* was realized based on official information (Ministry of Labor and Social Protection, National House of Social Insurance, Ministry of Economy, Ministry of Finance) and on data from the National Households Budget Surveys, which compared needs, as well as volume and structure of incomes of the NTC beneficiaries with the respective indices for the total population in order to study unsolved issues and their policy implications.

Methodology and organization of the research were coordinated by the customers – Counterpart / LIESAP project.

The structure of the paper is as follows. Section 1 reviews the main features of the present Moldovan system for social support, its organization and financing; it was shown why the payment for public utilities is the most critical item of expenditures of the population in conditions of increasing tariffs and low incomes. Section 2 evaluates efficiency of actions undertaken by the Government during the 90's to render social assistance to the population due to multiple rises in prices of energy resources, as well as its orientation at refusal from the system of benefits in favor of the targeted social program. Section 3 discussed an attempt to critically evaluate the existing setting and payment of the NTC, and it also contains a comparison of amount and structure of the NTC beneficiaries' incomes to the overall population. Necessity to improve the social assistance strategy was substantiated there. In the Conclusion, some policy implications are discussed and some suggestions for further research are offered.

The research was carried out during October – December 2002.

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1. Problems of Social Assistance in a Transition Economy

1.1. Social Assistance Scheme in Moldova – Key Feature and Financing

Transition to market economy and errors in implementation of the reforms have considerably aggravated social and economic situation of the population of Moldova. There are two most significant trends, the evolution of which in the long run have determined the current situation in the domain of material security of the population:

- considerable reduction in real income of the majority of the population, especially, in traditional types of income – salaries and pensions; here, the long lasting economic crisis played the key role which resulted in triple reduction of the volume of GDP and a large-scale unemployment;
- rapid and unjustifiably considerable income differentiation of the population, which was in many respects brought on by errors in the reforms and weakness of the state as a subject of social protection, that led to a great difference in remuneration of labor by sectors of economy, incomes of population of big, small towns and villages; and appearance of new considerable, and often illegal, incomes.

The consequence of this is alien to the past phenomena poverty that became a key social and economic problem; it is still acute notwithstanding the renewal of upturn in the economy since year 2000. As a result, the present situation in the social development of Moldova is characterized both by increase of negative social events rooted in the past (disability, alcoholism, traumatism etc.) and by evolution of new processes – mass poverty, unemployment, homeless children, forced migration etc. This indeed has resulted in a drastic increase of population that became in need of social support.

At the same time the range of employers' and trade unions' provision of social functions has considerably narrowed; their responsibility for performing these duties has decreased.

In these circumstances the state involvement in social protection of the population becomes of critical importance.

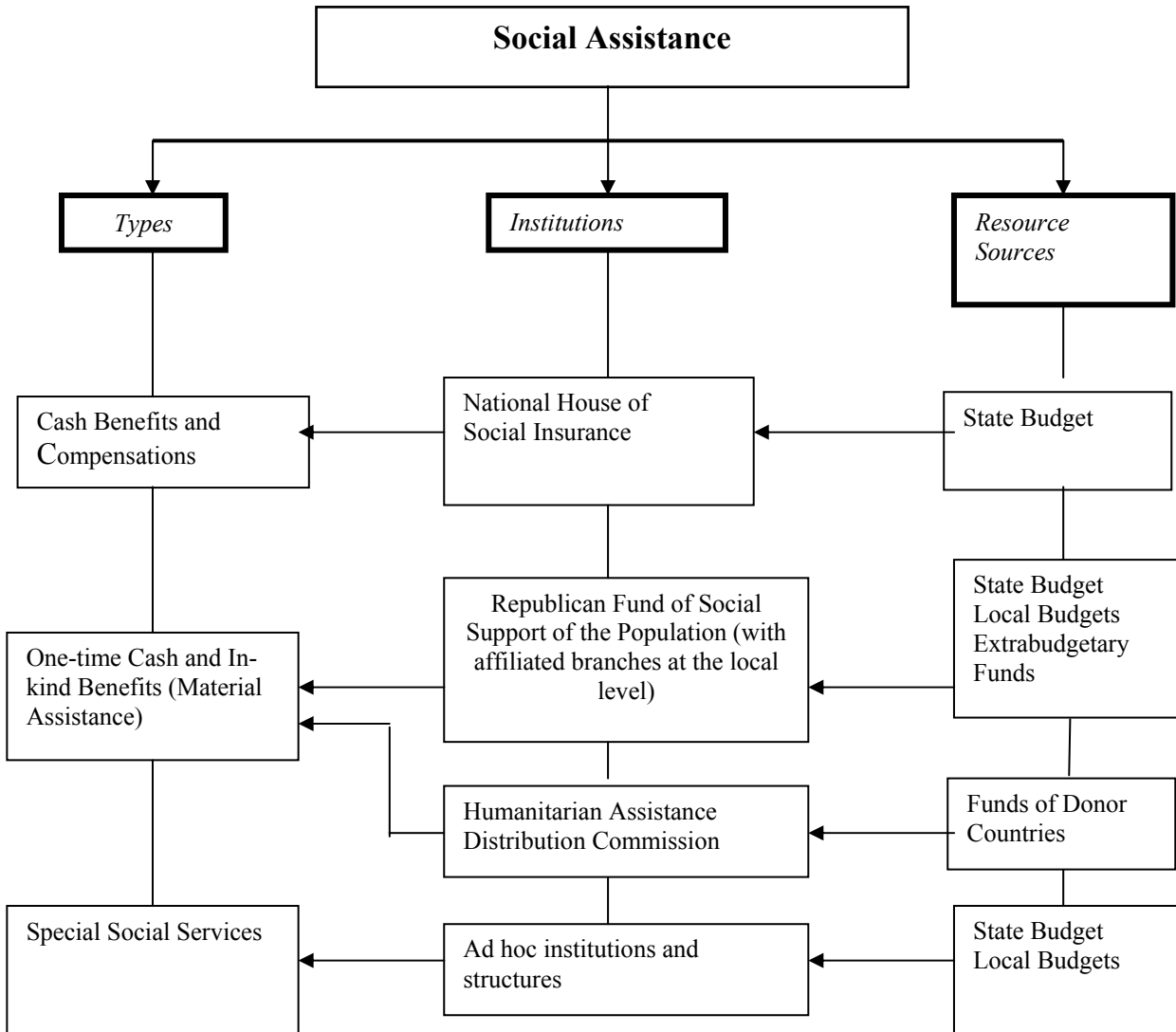
The situation is aggravated by the fact that the legislative acts currently in force in Moldova make the state the single institution providing for social protection. Participation of other subjects (employers, the citizens themselves, non-governmental organizations), as a rule, is not accounted for. This approach sets the state tasks, the complexity and extent of which are incommensurable with the available resources.

As a result, the absolute volumes and growth rates of social commitments of the state are significantly greater than its financial potential, leading to at least four types of consequences:

- political, resulting from the state losing credibility due to failure to carry out the guaranteed social protection of the population;
- financial related to diversion of considerable state financial resources, that strain the creation of the prerequisites for economic growth, and extremely inefficient use of those resources;
- socio-economic caused by the lack of an appreciable impact of the system of social protection upon the standards of living of the needy population;
- social and psychological, caused by growth of social parasitic attitude, social apathy, marginalization of the society, etc.

Drastically changed social and economic situation required introduction of new, adequate measures aimed at supporting the most vulnerable sections of population. For this purpose, there were taken measures to reform the system of rendering social assistance. The system is shown in *Chart 1* in the most generalized form.

Chart 1. System of the social assistance in the Republic of Moldova



In the above chart only those elements are reflected that are governed and regulated by the state. Various funds, charitable organizations, economic agents that allocate funds for social assistance also collaborate in the area of social protection, yet the information about their activities is not systematically collected and therefore it is not easy to assess their contribution to building-up the national system of social assistance.

At present, the social assistance to the population of the Republic of Moldova is rendered through the following instruments:

- a) *Cash benefits and compensations*. They include social pensions to the disabled children, the pensions for disabled from their childhood, compensations for those who lost bread-winners; child support; benefits for veterans and disabled veterans; compensations and

material assistance for the persons suffered as a result of Chernobyl Atomic Power Station accident; nominative targeted compensations for payment for public utilities; transport charges compensations for persons with functional disorders. Funds are allocated from the state budget – they arrive as transfers into the state social insurance budget. These funds are accumulated in the Pension and Compensations Fund and Family Protection Fund respectively (both are components of the state insurance budget) together with the funds received from social insurance. Spending of these funds in form of cash benefits and compensations is carried out in accordance with the laws currently in effect and other statutory acts regulating monetary assistance to various categories of the population.

- b) *One-time material assistance.* It is provided as one-time aid (in-kind and partially pecuniary aid) to the most indigent citizens – single old people, families with many children, the disabled, etc. Financial means for material assistance are being formed based on the state and local budgets as well as extrabudgetary sources and accumulated in the off-budgetary Republican Fund of Social Support of the Population which has branch-offices at the local level. Material assistance is rendered on the basis of needs of applicants. Another kind of material assistance is humanitarian assistance from foreign donors that is administrated by the governmental commission and local commissions. It is directed to needy citizens (without testing their income) and to the state establishments that render social services (hospitals, schools, boarding schools, etc.). Reception of the foreign humanitarian assistance is fulfilled in accordance with the bilateral treaties. Granting and allocation of humanitarian assistance give rise to a number of problems related to financing of the expenditures for its transportation and storage, cost assessment of assistance, the role authorities of the state and non-government structures in its allocation and reception, procedures of allocation, targeting etc.
- c) *Special Social Services.* They are rendered by institutions of special type for the disabled, aged persons, persons with mental diseases. These institutions (boarding schools for retarded children, republican centers of rehabilitation of the disabled, veterans and pensioners, psychoneurological boarding-schools) are financed from the state and local budgets. Other types of social services are aimed at helping single aged persons, that need care, and at organizing free canteens. They are mainly financed from budget resources and partially using funds of economic entities and non-governmental structures.

In the 90's there were some important changes in the organization of social assistance:

- New types of assistance appeared such as one-time material assistance in pecuniary and in-kind forms, free canteens services etc. along with the traditional ones;
- There appeared new institutional structures that provide for rendering of social assistance (Republican Fund of Social Support of the Population with affiliated branches at local level, State Commission on Distribution of Humanitarian Assistance);
- There was an expansion of functions of national territorial structures for rendering assistance to socially vulnerable groups of population (aid to single aged persons from the side of departments of social service).

New types and institutions of social assistance aim at individualization of the assistance. This is important and corresponds to the main goal of reform of the system – targeting the assistance to those who are in the deepest need and who are unable to cope with critical situations in life.

However, the share of new types of social assistance and structures dealing with its distribution is not substantial yet. They are financed to a large extent from non-government sources at the expense of foreign donors, economic agents, non-government organizations (free canteens, temporary material assistance). According to the “Annual Social Report. 2001” (the Ministry of Labor and Social Protection of the RM) in 2001 the total funds allocated to social assistance for the population (with the exception of the humanitarian assistance) was 374.7 million MDL (*see: Table 1*). Expenditures for rendering new types of assistance (temporary material assistance, care for old people at home, canteens of social assistance) was 18.6 million MDL, or only 5% of all the national expenditures on social assistance.

Without underestimation the importance of new types of social assistance and services of specialized social institutions, it’s worth mentioning that within the system of social assistance to the population, both in future and as it is at present, its traditional types – cash benefits and targeted compensations – are the most important. Today, they are received by rather a large number of citizens; the major part of the funds allocated for social assistance is directed for the financing of these types of assistance. In 2001 it was 255.5 million MDL, i.e. almost 70% of the total assistance.

Table 1. Distribution of national expenditures by types of social assistance in 2001

	<i>Expenditures</i>	
	<i>Million MDL</i>	<i>% of the total</i>
<i>Social Assistance – total</i>	374,7	100,0
including:		
• cash benefits and compensations*	255,5	68,2
• temporary material assistance	16,4	4,4
• services of social institutions and provision of prosthesis to the disabled	90,1	24,0
• services of care for old people	2,2	0,6
• services of health rehabilitation and sanatorium-and-spa treatment	10,5	2,8
• social assistance canteens	0.0	0.0

* without administration expenses

Source: “Annual Social Report. 2001”

The current procedure of granting cash benefits and compensations is characterized by a number of rather serious problems and the main ones among them are the following:

- lack of a special budget (benefits and compensations rendered in form of social assistance are included in the state social insurance budget);
- unstable financing – excessive annual variations of allocations for these goals;
- category approach for granting the major part of benefits and compensations.

At the first sight, financial problems prevail over the others. However, they quite adequately reflect drawbacks in organization of social assistance as a whole.

At present, benefits and compensations granted through social assistance are included in the state social insurance budget. Thus, the Fund of Pensions and Benefits accumulates monthly state benefits for disabled veterans; veterans of the WW II and members of their families; targeted compensations for public utilities payment; compensations and cash benefits for participants of liquidation of damages of Chernobyl APP accident and others. In 2002 the total volume of these social payments represented almost ¼ of all the payments effected from the Fund of Pensions and Compensations (23% of the budget approved for 2002). Through

the Fund of Protection of Families with Many Children there are effected payments of one-time grants for child's birth and benefits for children for uninsured persons that form the major part of the resources of this Fund (62% in year 2002). On the whole, payments through social assistance represented 20% of the total social payments effected from the social insurance budget of 2002.

The fact that the budgets of social insurance and of social assistance are not separated hinders development those two systems which should perform entirely different functions:

- social insurance system should insure the population, accumulate insurance premiums and provide correspondent payments at insured event (old age, disability, maternity, unemployment, death);
- social assistance system should provide support (pecuniary, material or in the form of special social services) to the poorest and most vulnerable groups of the population that are not able on their own to manage the critical situation of life.

The systems of social insurance and of social assistance a priori must operate on different principles and apply different mechanisms. The unified budget in certain cases leads to automatic application of principles and mechanisms of social insurance to the area of rendering social assistance. Thus, the same types of benefits as those that are granted and paid in the system of social insurance are paid from the funds assigned for social assistance. These are one-time benefits for birth of a child and monthly benefits for rearing a child under 1.5 year-old (without testing the family income). 24% of all funds of the Fund of Protection of Family with Children are allocated for payment of these benefits (according to the Fund budget for year 2002). Although, the volume of these benefits for the uninsured is lower than for the insured, the question arises as to whether application of these types of compensations in the system of social assistance, the criteria of determination of their respective volumes and the extent of targeting are expedient and efficient. These questions will remain open until the budgets and the systems of insurance and social assistance are separated.

In our opinion the fact that there is no separate budget of system of social assistance prevents from:

- well-grounded determination of necessary financial resources;
- singling out the contingents of persons who are really in need of financial aid, and developing and implementing a corresponding register;
- rationalizing the types of benefits and compensations, as well as the forms and terms of their submission;
- transparent and effective administration of the process of granting financial aid, as a whole.

Budget dependence of the social assistance system has a rather negative effect on the volume and stability of its state financing. During the last five years, annual financing varied greatly: thus, if as compared to 1997 in 1998 it reduced by 2,2 times, in 2000 as compared to 1999, on the opposite, it increased by 2,7 times (*see: Table 2*). Such fluctuations cannot be explained only unstable socio-economic developments. Also relative share of the total expenditures for financial aid for the population in relation to GDP shows considerable fluctuations – from 3.4% in 1997 to 1.0% in 1999. Let us note that there was no growth in volume and share of these expenditures in GDP in 2000 and 2001, although economic growth in these years has already been recorded.

Table 2. National expenditures for rendering financial aid to the population (transfers to the budget of compulsory social insurance)

	1997	1998	1999	2000	2001	2002, <i>approved</i>
Expenditures* – total, million MDL	305,5	136,9	124,8	334,5	300,5	392,3
Expenditures – total, million USD	66,4	25,4	11,9	27,0	23,3	29,1
Expenditures % of GDP	3,4	1,5	1,0	2,1	1,6	1,7
Index of real expenditures, % against last year**	Increase 10,4 times	41,5	65,6	Increase 2,0 times	81,7	118,7

* include also administrative expenditures, payment of pensions

** taking into account the inflation

Source: “Annual Social Report. 2001”; Law on State Budget for 2002; “The Republic of Moldova in figures. 2001”, Department of Statistics and Sociology of the RM

Unfortunately, in all those years there was a tendency of periodical reduction of real allocations for benefits and compensations. Under these conditions they could not fully play the role of social shock-absorbers. However, the problem is not so much in the lack of budget funds as in their rational use.

Provision of social assistance is regulated by many laws, government decisions etc., that are constantly revised and supplemented. At present their complete and concurrent implementation cannot be provided with the financial resources of the state. One of the reasons of this lies in that the planning of expenditures for social aid to the population is not based on clearly determined requirements of the really needy population but instead on the category-based social programs.

Thus, the Law on State Budget for year 2003 reads that “during preparation of the budget the emphasis was put on the state protection of socially vulnerable sections of the population”, that “the budget allocation for this section is determined by special attention attached to improvement of social protection of the population and decrease of poverty level”. At that, financing of expenditures listed in this paragraph of the budget also refers to programs that do not pertain to social protection of the population – “Additions to pensions for special services to their country”, “Pensions for deputies of Parliament, members of Parliament and governmental employees”. We believe that these programs are to be financed through other sections of the state budget.

All budget programs of social assistance are traditionally category-based (with the exception of the program of benefits for children from 1.5 to 16 year-old, that provides for the testing of the family income). The most expensive among them is a program of targeted compensations for payment for public utilities representing 54% of the total national expenditures for social assistance in year 2002 and 53% in 2003). It is worth mentioning that many categories of beneficiaries of targeted compensations are also given financial assistance within the framework of other programs that provide payments for veterans of war, persons who suffered from Chernobyl Atomic Power Station accident, etc. It is also necessary to consider that some categories of beneficiaries are granted tax privileges (*see: Table 3*).

Table 3. Some categories of beneficiaries of targeted compensations, that are provided with other types of pecuniary aid and tax privileges

<i>Categories of beneficiaries of nominative targeted compensations</i>	<i>Benefits and compensations</i>	<i>Tax privileges</i>
Disabled veterans	monthly state benefit	exempted from land-tax and real estate tax granted privileges for payment of personal income tax
Disabled in consequence of Chernobyl APS accident	annual one time material assistance for treatment one time compensation for damage to the health	exempt from land-tax and real estate tax granted privileges for payment of personal income tax
Veterans of WWII and their spouses	monthly state benefit	
Families with 4 and more children	monthly benefit for a child under 1.5 year-old monthly benefit for children from 1.5 – 16 year old (on the basis of income testing)	
Families of the persons died in consequence of participation in liquidation of damages of Chernobyl APP accident	monthly compensation for incapacitated members of the family annual one time material assistance for children	exempt from payment of land-tax and real estate tax
Single pensioners		exempt from payment of land-tax and real estate tax

In this situation it is rather difficult to obtain real evaluation of the total volume and effectiveness of social assistance received by certain categories of population (including the beneficiaries of nominative compensations) from all sources and from different institutions. The situation is being even more aggravated by that the information necessary for analysis is spread among different departments and organizations.

Thus, it is beyond dispute that the current organization of social assistance in Moldova is not a system-based at all, because:

- *there is no consolidated legal base* (social assistance is regulated by many unrelated laws; government decisions and other normative acts which are aimed at different categories of people);
- *funds allocated by the state is very unstable*, planning of allocations is carried out by summing up the expenses by separate programs of social support of different categories of population;
- *there is no independent financial budget of social assistance*, appropriate expenditures and payments are effected through budgets of different systems, mainly through the system of social insurance;
- *criteria of needs have not been developed* and, therefore, *are not applied*; efficiency of the category-based approach has not been examined;
- *structures and organizations* that take part in rendering social assistance, *act on their own without coordination of the measures taken*.

Therefore, the need to establish an effective and transparent system of social assistance is considered by the Government to be one of the most important directions of social policy improvement.

1.2. Payment for Public Utilities as a Heavy Burden for the Population

Since early 90-s prices for energy, which is almost entirely imported, sharply increased. In the past, the domestic price for energy had been much lower than the world prices (because the economy was an integral component of a single national economic complex of the USSR that provided access to cheap energy resources). The current prices for energy reach the level of the world market prices, and the rate of growth of the former considerably exceeds that rate of growth of energy prices that the developed countries underwent during the oil crises in 1973-1974 and 1979-1980.

These processes caused inevitable increase in rates of public services rendered to the population. From 1995 to 2002 they increased for natural gas by 3.0 times, for electric power – by 7.0 times, for potable water – by 10.9 times, for waste-water disposal system – by 11.0 times, for heat energy – by 12.3 times, and for public services and maintenance of dwelling houses – by 90.5 times (Table 4).

Table 4. Trend in public utilities tariffs in 1995-2002

	<i>Unit</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Electric power	bani/kWh	10	15	24	25,5	50	65	68	69,7
Heat energy	MDL/G calorie	19,00	28,50	70,00	189,00	233,00	233,00	233,00	233,00
Natural gas	MDL/1000 m ³	281,47	281,47	454,00	638,00	926,00	972,30	972,30	857,70
Potable water	MDL/m ³	0,18	0,30	0,42	0,53	0,62	1,54	1,96	1,96
Discharged water*	MDL/m ³	0,06	0,10	0,14	0,18	0,20	0,52	0,66	0,66
Cost of public services for 2-room apartment (3 persons)	MDL	99,45	150,77	314,23	424,66	505,34	567,91	-	-

* as of November 30, 2002

Source: Ministry of Economy of the Republic of Moldova

During this period the rate of growth of money income of the population was less. This fact called forth a considerable drop in purchasing power of main types of money incomes of the population, salary and pension, for payment of consumed public services and energy.

In 1995 one average monthly salary paid for consumption of 1432.0 kWh of electricity; while in 1999 – only 609.2 kWh, or 2.4 times less. Though in 2002 the purchasing power of salary has increased, nevertheless, it remains 1.6 times lower than in 1995. Even worse is the situation of pensioners. One average monthly pension in 2000 bought only 130.9 kWh.

Fall in purchasing power of average monthly salary and pension in 1995-2002 expressed in terms of costs of electricity was 1.6 and 2.8 times respectively; of heat energy – by 2.8 and 4.9 times (for natural gas, the purchasing power of salary increased by 46.0% and pension purchasing power dropped by 18.4%), see Table 5. Note that about 2 G calorie per month is needed for heating of a 2-room urban standard apartment. If we assume that pensioners spend their pensions only for payment for heating of their apartments, then, beginning with 1998 their average monthly pension has not been sufficient to pay for central heating even of a 1-room apartment.

Table 5. Purchasing power of salary and pension expressed in terms of consumption of energy in 1995-2002

Years	<i>for one average monthly salary</i>			<i>for one average monthly pension</i>		
	<i>natural gas, cubic meter</i>	<i>electric power, kWh</i>	<i>heat energy, G calorie</i>	<i>natural gas, cubic meter</i>	<i>electric power, kWh</i>	<i>heat energy, G calorie</i>
1995	508,7	1432,0	7,5	228,4	643,0	3,4
1996	664,7	1247,3	6,6	277,5	520,7	2,7
1997	484,1	915,8	3,1	182,4	345,0	1,2
1998	392,5	982,0	1,3	131,5	329,0	0,4
1999	328,3	609,2	1,3	89,4	165,6	0,3
2000	486,4	627,5	1,7	87,5	130,9	0,4
2001	534,0	763,5	2,2	139,7	199,7	0,6
2002*	742,5	913,6	2,7	186,4	229,4	0,7

* 9 months

Calculated on the basis of Monitorul oficial al Republicii Moldova, a.1995, N 21, art.157; a.1996, N 28, art.216; a.1997, N 19-20, art. 240; a.1997, N 43-44, art.469; a.1999, N 106-108, art.940; a.2000, N 94-97, art.849; a.2001, N 114-115; Anuarul statistic al Republicii Moldova, a.1996, p.37; Republica Moldova, 1999, p.17-18; Republica Moldova. Breviar statistic, 2001, p.22-23; Situația social-economică a Republicii Moldova in ianuarie-septembrie a.2002, Chisinau,2002.

Permanent increase of rates of public utilities that takes place against the background of low living standards of the population makes payment for these services ever more difficult for the population. This is evidenced by results of public surveys: when paying the public utilities and energy almost half the households declares they constantly experience difficulties: 1/3 of households occasionally encounter these problems and only less than 1/5 of households have never confronted with such problems (*see Table 6*).

The extent of difficulties for payment for public utilities is not the same for households in urban and rural areas. In towns 3.3 times more households have never experienced difficulties for payment for public utilities than households in villages. Better situation of rural households is reflected in that that only 36.0% of them constantly face problems with payment for public utilities and energy while in towns this comes to 62.6%. Different extent of problems is specific for different urban settlements. In smaller towns the problem is not as acute as in big ones. However, those facts are related, first of all, to poor availability of public utilities in houses (and apartments) of villagers and inhabitants of other towns than in large towns.

Table 6. Distribution of households in relation to the extent of difficulties for payment for public utilities and energy carriers, %

	<i>never encountered</i>	<i>encountered occasionally</i>	<i>constantly encountered</i>
Total households	19,9	33,3	46,7
Locality of households:			
- town	8,3	29,1	62,6
including big towns	8,4	22,4	69,2
other towns	8,2	37,2	54,6
- villages	27,8	36,2	36,0
Type of household:			
- with disabled	15,8	30,3	53,8
- with pensioners	21,1	31,1	47,8
- with four or more children	17,3	28,4	54,3

Households with pensioners, disabled people, and with four and more children are less protected as refers to payment for public utilities and energy. The unit weight of those who constantly experience problems for payment for these services in the households with pensioners is higher by 2.4% than it is on average for the total population of household; in the households with disabled – by 15.2%; for the households with four and more children – by 16.3%.

The difficulties experienced by the population in meeting payments for public utilities and energy made it necessary to reinforce social protection of the low income population. This was done through adoption of the Law of the Republic of Moldova on Special Social Protection of Certain Categories of the Population # 933-XIV of April 14, 2000.

2. New Approaches to Reforming the Social Assistance System

2.1. Initial Attempts of the Government to Solve the Problem (1997-1999)

Reduction of living standards of the population, decrease of their real incomes, with accruing increase of the public utility rates by the middle of 90-s, demanded that the state takes measures for social protection of the low income sections of the population. Striving for solving this task the Government approved the following methodological measures:

- targeting of compensations by limiting beneficiaries only to the low income sections of the population;
- determining the contingent of targeted compensation beneficiaries by use of criteria of an average monthly income of one member of the family or by a priori inclusion into certain categories of the low income population;
- observing some principles of social justice that becomes apparent, in particular, in establishment of differentiated rates for heating of dwelling in relation to size of houses and apartments.

In late 90's the above-mentioned measures were applied in various combinations

Thus, from March 1, 1997, following increase of electricity rates from 15 up to 20 bani per 1 kWh, heating rate – from 28.50 MDL to 37.00 MDL per 1 G calorie and the natural gas rate – from 324 MDL to 454 MDL per 1000 m³ (see Table 7) the *Government Decision # 231, March 10, 1997* introduced monthly targeted compensations for certain categories of population whose average monthly income (calculated per one member of family) did not exceed 3 minimal salaries or 3.6 minimal old-age pensions (taking into account compensations included in the pensions). A monthly compensation rate per one person in the heating season amounted to 3.2 MDL for gas used for heating; 3.6 MDL for heat energy and 3 MDL for electric power.

Table 7. Growth of rates of heat carriers in 1995-2002

	<i>Natural gas</i>	<i>Electric Power*</i>		<i>Heat energy</i>
		<i>Town</i>	<i>Village</i>	
from March 1, 1995	281,47	10	8	19,00
from May 1, 1996	281,47	15	12	28,00
from March 1, 1997	324,00	20	16	37,00
from June 1, 1997	454,00	24	24	70,00
from August 1, 1998	407,00	25,5	25,5	116,00
from October 1, 1998	370,00	25,5	25,5	-
from March 1, 1998	370,00	25,5	25,5	126,00
from November 1, 1998	638,00	42	42	189,00
from July 1, 1999	926,00	50	50	233,00
from April 1, 2000	872,30	65*/57**		233,00
from April 1, 2001	972,30	68*/65**		233,00
from August 1, 2002	857,70	72*/65**		233,00

* Delivered to all the categories of consumers from Joint Stock Company RED (Distributive network) Centru, RED Sud and RED Chisinau municipality.

** Delivered to all the categories of consumers from Joint Stock Company RED Nord, RED Nord-Vest.

Source: Monitorul oficial al Republicii Moldova, a. 1995, N 21, art.157; a.,1996, N 28, art.216; a.1997, N 19-20, art. 240; a.1997, N 43-44, art.469; 1999, N 106-108, art.940. a.2000, N 94-97, art.849; a.2001, N 114-115.

It soon turned out, however, that effectiveness of those measures was extremely low, as the amount of compensation allowed the beneficiaries to pay only for 9.3 m³ of natural gas and 0.1 G calorie of heat energy for dwelling heating, and 15 kWh of electricity. The effect of these compensations for social protection of the low income population was insignificant: according to consumption rates of natural gas for heating of private houses, the value of compensation was of equivalent to the cost of natural gas necessary for heating less than 1 sq. m area of dwelling.

Government Decision # 231 (1997) established the following categories of the population eligible for compensations: persons (including pensioners) who are granted privileges in payment for gas, electric and heat energy; the unemployed; the employed and families with 3 and more children. Practically, this Decision applied to all categories of population which could become potential beneficiaries of the compensations. At the same time it declared that from now on the principle of targeted social assistance will be observed based on the criterion (monthly income) of compensations payment when energy tariffs increase.

Regulation on the Procedure of Payment of Monthly Targeted Compensations (Attachment # 3 to Government Decision # 231 as of March 10, 1997) named institutions that would effect payment of compensations. Those were: for pensioners – offices of social security and family protection; for the employed – their employers; for the unemployed – centers for population employment. 35 mil MDL (or 0.97% of the consolidated budget expenditures) were allocated for compensation payment in the state budget for 1997 and 49 mil MDL were allocated in the budget of social insurance.

Implementation of this Decision proved difficult, however, because of ambiguity related to a clear and methodologically correct definition of average monthly income. Regulation on Procedure of Monthly Payment of Targeted Compensations said only that calculation of this wage should be made in accordance with Government Decision # 548 as of August 30, 1993. However, neither that Decision, nor the following amendments of it, set up a base for an objective calculation of one of the most important components of a family income – the income gained from a private household plot and allotment. As the procedure of calculation of the amount of average monthly total revenue of a family was not fully elaborated and it did

not take into account all components of income, it drastically decreased the effectiveness of application of the planned targeting measures in practice.

Three months later, from June 1, 1997 a new increase of energy rates followed. The natural gas rates increased by 40.1%; electricity rates for urban population increased by 20.0% and for rural population – by 50.0%; heat energy rate increased by 89.2%. Such sharp increase of rates in a very short period of time demanded new measures of social protection of the population. For this purpose, the Government Decision # 512 as of June 15, 1997 “on Rates and Prices for Natural Gas, Electric and Heat energy and Measures for Social Protection of the Low Income Sectors of the Population” was adopted. It was based on the same principles as Decision # 231.

The innovation, compared with the previous procedure, of payment of monthly targeted compensations consisted in differentiation of compensations in relation to the average monthly income.

This innovation made it possible, to a greater extent than before, more towards social justice and targeting of compensation payment. Thus, compensations for natural gas used seasonally for dwelling heating (apartment, house) varied from 3.10 MDL for monthly income from 131 to 150 MDL per person up to 20.76 MDL for the income less than 100 MDL. The compensation set this way allowed people to pay from 6.8 m³ up to 45.7 m³ of natural gas, i.e. monthly use of consumption rate for heating of private houses is 10 m³ per 1 m² of heated area, compensations ranged between equivalent to 0.7 m² and 4.6 m² of a dwelling.

The electricity compensations also contributed to the reinforcement of social protection of population with low income; compensations provided for payment of monthly electricity consumption at the rate of 4.6 kWh in towns and 6.3 kWh in rural areas, with the average per capita income from 131 to 150 MDL per month, and respectively at the rate of 30 kWh and 40 kWh for incomes of less than 100 MDL. Orientation towards social equality in setting of compensations for the consumed heat energy showed through the fact that their volume for the families that dwelled in a one-room apartment with the average per capita income of less than 100 MDL were three times greater than compensations for families with the income from 131 to 150 MDL; for those who lived in two-room apartment - 4.9 times greater and for three-room apartment - 5.1 times greater.

Nevertheless, even the maximum compensation payment for the consumed heat energy for families with average per capita income of under 100 MDL, living in a one-room (60.0 MDL), two-room (54.0 MDL) and three-room (96.0 MDL) apartments did not compensate for the cost of consumed heat. For the heat energy consumption for heating of one-room apartment at a level of 1 G calorie; two-room apartment – 2 G calorie; three-room apartment – 3 G calorie and at the set heating rate of 70 MDL per 1 G calorie, the difference between the cost of the consumed heat energy and its maximum compensation for dwelling in a one-, two- and three-room apartment was respectively 10, 86 and 114 MDL.

Government Decision # 988 as of October 24, 1997 “on Amendments and Additions to Government Decision of the Republic of Moldova # 512 as of June 5, 1997” introduced an additional measure that substantially reinforced social protection of population regarding payments for consumed energy. The measure consisted in that the expenses related to the increase of heat energy rates were fully compensated to the population as a whole. The amounts required for reimbursement of these expenses, calculated as a difference between the new rate (70 MDL per 1 G calorie) and the rate paid by the population for heat energy (37

MDL per 1 G calorie) that was in effect till June 1, 1997 were transferred from the state budget directly to companies that provide population with heat energy.

We should note that these categories of population which enjoyed privileges in payment for gas, electric and heat energy continued to enjoy those privileges and, moreover, depending on the average monthly income per member of family, they became also eligible for monthly targeted compensations.

Since the financial situation of the power system of Moldova continued to aggravate, the state budget for 1998 stipulated compensation for losses that the energy supply companies suffered because of granting the above-mentioned privileges for certain categories of the population.

Next ordeal for the economy, the state budget and population of Moldova resulted from regional financial crisis of 1998, when owing to the devaluation of Moldovan MDL (October 1, 1998) rates for natural gas and electricity again increased; on November 1 the heating rates and on December 24 a considerable increase of the rates for all the types of energy carriers followed.

These rates rises made it necessary to provide social protection, first of all, to population with low income, by directing rather limited state funds to payment of compensations for consumption of those energy carriers (within the mark) the rates of which increased more than others, namely, of natural gas and heat energy.

Thus, *Government Decision # 1080 as of October 26, 1998* introduced new measures for social protection that allowed the population to partially compensate their additional expenses, first of all, for payment for the consumed heat energy and natural gas for heating.

As for monthly targeted compensations for electricity payments, their rates and procedures of payment remained unchanged (i.e. as in the *Government Decision # 512, June 5, 1997* and *# 988, October 24, 1997*). Those, previously applied, targeted compensations for seasonally consumed gas for heating of dwelling, which depended on the total average monthly income calculated per one member of the family, were not large even for low income families. It was considered expedient, when granting the compensations to give up needs assessment in relation to the incomes, and to return to application of allowances for payment for gas by rates of total heated area that was already used in 1994 (*Decree of the President of the Republic of Moldova # 30 as of February 2, 1994 "on Additional Measures for Social Protection of Pensioners"*).

Actually, regarding the compensation for natural gas used for heating, *Decision # 1080* introduced into the practice of social protection a category-based principle that observed social equality by granting allowances for certain categories of population for payment for heating of a set social norm of dwelling area. Thus, in reality, distribution of natural gas for heating was carried out at the rate that was decreased by 50%. When natural gas consumption exceeded the above-mentioned rates, payment was made in accordance with the set rates for natural gas.

Since November 1, 1998, for payment of heating in apartments (houses) connected to the central heating systems, the rate of 37 MDL per 1 G calorie (i.e. the rate that was in effect till June 1997) was applied for payment for heating within 9 m² of total area per every person domiciled in those apartments (houses); for the space above this norm the newly set rate was applied. At that, for families that consist of one or two pensioners as well as for

families of one pensioner and children under 16 year-old, the payment for heat energy at the rate of 37 MDL per 1 G calorie was applied for heating of 27 m² of total area of the apartment (house). Next attempt to improve the mechanism of social protection at payment for public utilities were the measures stipulated by *Decision # 106 as of February 2, 1999*. According to it the area norm for which a reduced rate was applied (37 MDL per 1 G calorie) increased up to 12 m² per every domiciled person and for families consisting of pensioners, pensioners with children it increased up to 30 m².

The procedure of applying the reduced rate for heating of 12 m² of total area per one person (37 MDL per 1G calorie) and the new rate (233 MDL per 1 G calorie) for the rest of dwelling area was carried out in conformity with *Government Decision # 128 as of February 2000* in the heating season from November 1999 till March 2000.

Such tangled maneuvers of the state, continuous corrections of government decisions and changes in mechanisms of calculations and payments of social compensations for public utilities were involuntary. However, this could not last forever – the contradiction between broad construction of the contingent that was in need of benefits, on the one hand, and the limited financial resources of the state, on the other hand, became too obvious.

2.2. Transition from the System of Benefits to the Targeted Social Programs (2000)

Within the general reformation of the social protection system of the Republic of Moldova in the second half of the 90's its two most important components - social insurance and social assistance – have separated.

In May, 1991, the Parliament approved Strategy of Social Assistance System Reform and oriented it towards “coherence and more complete satisfaction of wants of needy individuals and families that are not able to provide themselves for; creating a sound, in the terms of taxation, system that shall be oriented towards people’s needs with due consideration of the state resources”.

The following items were considered to be main ideas of the reform of social assistance system: clear targeting of granting both cash and non-pecuniary benefits through testing mechanisms for this purpose; decentralizing the social assistance system, increasing the importance of local authorities in allocation of social assistance; strengthening capabilities of central and territory structures of the system of social assistance by development of information technologies, implementing systems of identification of social assistance beneficiaries (individuals and families), increasing a level of organization of rendering social assistance considering the procedure of its granting, making out documents and benefit payment; monitoring of efficiency of various types of social assistance and reallocation of resources among them; etc. (see: Law of the Republic of Moldova # 416-XIV of May 28, 1999).

Starting such fundamental reformation of the social aid system, the Government had to act in real conditions: low income of majority of the population, limited financial resources and institutional capacities. Taking all this into account, search for compromises between *coverage* (share of poor who get allowances), *targets* (share of funds allocated for allowances that are received by poor citizens) and *efficiency* (share of allowances as compared to average expenses of households) was inevitable. Besides, it was necessary to pay attention to the heritage of previous social assistance programmes and post-socialist mentality of majority of the population.

The Government is forced to implement reformation of the social protection system in such conditions, when the population still remembers the former socialist system, which provided for a high-level protection, that the population wants to enjoy at the present as well, in spite of economic depression, reduction of employment and limited state budget resources for social assistance.

Nonetheless, the Parliament and Government decided to make fundamental changes – to give up the system of benefits introduced during the soviet era. In the Republic of Moldova at the beginning of 2000 there were 447540 persons entitled for benefits (circa 12% of the population) in 37 categories. Total cost of benefits was estimated to be 36755 mil MDL (30 mil USD)¹, only 207 mil MDL of which (17 mil USD) were provided for by the state budget. Large part of these means was directed to benefits in the area of public utilities.

Unlike other regions of the world, in post-Soviet countries, including Moldova, where large investments were made in the infrastructure in the past, the poor have full-scale access to utility services. Thus, in Moldova (2001) almost 100% of households are connected to electricity supply system; natural gas or gas-cylinders are available to 71,8%; telephones to approximately 60%; and central heating, hot water and running water to – 30,0%-33,0% of households. At the same time, multiple increase of tariffs that took place during the 90's at the time of reduction of income of the majority of the population created serious problems for the population.

Being aware of that the situation is unstable, the Government and Parliament made several actions for its stabilization. Based on experience of 1997 – 1999 of rationalization of social assistance in this area, the Parliament approved targeted compensations scheme and revoked benefits introduced by previous laws and decisions of the Government in April 2000.

In their stead, *Law on Special Social Protection of Some Categories of the Population # 933-XIV of April 14, 2000*, stipulated granting of targeted compensations for public utilities payment (electric energy, natural gas used for heating, liquefied natural gas in cylinders used for cooking, coal and firewood), which are considered to be the most difficult to pay for.

Targeted compensations program, which since the second half of 2000 covered more than 250,0 thou persons of 9 categories at first and later - 11, meant to strengthen efficiency of social protection of the population of scanty means in the field of payment for public utilities and energy resources based on the following criteria: importance of compensations for payment for public utilities and electric energy; timeliness and completeness of compensations received; accessibility to the system of compensations.

Law of the Republic of Moldova on Special Social Protection of Some Categories of the Population # 933-XIV of April 14, 2000, is still in effect (with amendments introduced by the Law # 477-XV of September 28, 2001).

It should be mentioned that the given Law defines targeted compensations as a pecuniary payment that is made instead of the previously set benefits for public utilities payment. It is the first act to provide for a distinct definition of a single pensioner – a person who lives in an apartment alone and has no children, or has children under the age of majority or children that belong to a category of persons entitled to compensations under the given Law.

¹ Source: Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia. World Bank, 2000, Chapter 9

In accordance with the Government Decision # 761 as of July 31, 2000, compensations are paid to the following categories of the population:

1. Disabled of groups I and II regardless of the reason of their disability;
2. The following categories of disabled of III-rd group with a disability group established without time-limit;
 - a) labor veterans;
 - b) individuals recognized as disabled as a result of severe injuries, traumas or wounds, occurred during execution of military duties;
 - c) participants of the military actions for defending the integrity and independence of the Republic of Moldova;
 - d) victims of political repressions during the period of 1917-1990;
 - e) former prisoners of concentration campuses and ghettos;
3. disabled children under 16 years;
4. disabled from childhood;
5. participants of WWII and their spouses, depending on circumstances;
6. persons whose status is equal to that of the veterans of WWII;
7. families (parents, or spouses, who did not get married for the second time, or their children until the age of adolescence) of individuals who were lost on execution of service duties and deceased as a result of participation in the liquidation of Chernobyl Atomic Power Station consequences;
8. single pensioners;
9. families with four or more children under 18;
10. persons that worked in the back areas during the WW2;
11. persons that were in Leningrad during its blockade.

Targeted compensations are being set depending on normative cost of monthly consumption:
 - at the rate of 50%: invalids of groups I and II (except invalids of group II due to general or occupational disease, labor injury); invalids since childhood of groups I and II; persons listed under paragraphs from c) to h);

- at the rate of 25%: invalids of group II due to general or occupational disease, labor injury; invalids since childhood of group III; persons listed under paragraphs b) and i).

Specific amount of targeted compensations for payment of public utilities are the following:

Table 8. Amount of targeted compensations for payment for public utilities

Type of service	Amount, MDL	
	50%	25%
1. Electric energy, monthly, per one counter (60 kWt/h)		
1.1 Persons using electric ovens, monthly, per one counter (100 kWt/h)	22,00	11,00
2. Public utilities, monthly, per one person	27,00	14,00
2.1 Cold water and sewerage		Depending on the rate used in a given locality
2.2 Elevator	2,00	1,00
2.3 Maintenance or renting of the house	3,00	2,00
2.4 Municipal disposal of garbage at private or departmental houses	1,00	1,00
2.5 Gas for ovens	4,00	2,00
2.6 Gas oven, gas heater in premises with central heating, but without centralized hot water supply, during the time of heating (5 months)	13,00	7,00
3. Thermal energy, per one person, monthly, during the time of heating (5 months)	112,00	56,0
4. Natural gas for heating and cooking, using individual sources, per one person, monthly, during the time of heating (5 months)	146,00	73,00
5. Liquefied gas in cylinders, monthly, per one person	13,00	7,00
6. Coal, once per year, per one person (1 t)	360,00	
7. Firewood, once per year, per one person (1 cubic m)	64,00	
8. Hot water, monthly, per one person, during the time of heating (5 months): municipalities of Chisinau and Baltsi	22,00	11,00

Targeted compensations are paid directly to beneficiaries from the state budget through the National House of Social Insurance. 212909,0 thou MDL were provided for these goals in 2002, which makes up 54,3% of the total amount of means transferred from the state budget to the National house of social insurance for payment of pensions, allowances and compensations.

Thus, the existing social protection system in the field of payment for public utilities is based on the categorical approach, according to which the compensations are paid to specific categories of the population. This suggests that the given model is transitional that leads to the other one, which to a larger extent will be oriented at real needs of the population.

3. Arguments for Improvement of the NTC System: through Transition from Category-Based System to the Needs-Based One

3.1 Critical Evaluation of the Existing Setting and Payment of Nominative Targeted Compensations (NTC)

With a view to evaluate efficiency of the existing since the middle of 2000 system of targeted compensations for payment for public utilities and energy resources, the Center for Strategic Studies and Reforms carried out in October 2002 a special sociological research that covered 1200 beneficiaries of such compensations in municipalities of Chisinau and Baltsi, 6 small towns and 15 villages of different territorial zones of the country. Main conclusions of the survey are as follows:

1. *Compensations received by certain categories of the population* in accordance with law # 933-XIV of April 14, 2000, cover whole range of utility services necessary to support minimal living conditions for people – electricity, heat, water. Mostly are presented compensations for payment of electricity – they are received by 96,1% of beneficiaries, natural gas – about 60%, central heating – 32,9%, hot water – 18,5%, cold water – 50,4%, money for coal and firewood is received by more than 40% of all NTC beneficiaries. Majority of beneficiaries receive compensations in the amount of up to 50 MDL per month, most of which is spent to pay for energy resources (electricity, gas, fuel).

Positive attitude of the population to the system of nominative compensations is to a large extent determined by the fact that in the structure of average available income of one member of a households who receives nominative compensations, the share of compensations for payment for energy and utility services comprises 10,6% in urban and 16,8% - in rural areas.

Most (92,2%) beneficiaries of nominative compensations use cash for the specified purposes – paying for utility services; and only 5,3% - for other purposes. Money given to buy coal and firewood is mostly used by the population for “other purposes” (clothes, medicines, etc.).

2. *Most beneficiaries of nominative compensations are satisfied* both with the procedure for setting categories (76,6%), and with the quality of work in the territorial agencies of the National Social Insurance House and Savings Bank.

During January – September 2002 the Savings Bank provided for a monthly payment of 94-97% of all targeted compensations and payments made in the country.

However, the analysis shows that delays in payment of nominative compensations occur, and as a rule they happen at the beginning of the year, when a “campaign” of certifying eligibility of citizens for nominative compensations is going. During the period of analysis (October) such delays existed with one fifth of beneficiaries: 11,2% - about one month, and 8,2% - from 2 to 9 months. Among those not satisfied with the procedure for setting categories the highest percentage of dissatisfaction – 23-27% - is in the groups of disabled, war veterans and families with many children. The prevailing reason for dissatisfaction is the need to confirm annually the properties that would not change in the lifetime of the beneficiary of nominative compensations,

In terms of relations with the National Social Insurance House and the Savings Bank 13,5% of beneficiaries indicated the time spent to prepare necessary documents, 68,0% - delays in payments, and 17% - lines and lack of time to receive nominative compensations, which leads to that the receipt of compensations is postponed for the future. Nevertheless, only 11,1% mentioned problems with preparation of documents, the majority (75,1%) receives nominative compensations within 1-3 days, and 6% - within one week. There are some differences in evaluation of the efficiency of bodies of the National Social Insurance House and the Savings Bank in urban and rural areas.

3. *Beneficiaries of nominative compensations in the system of family relations:* 2/3 of these citizens live in families consisting of two (24,6%), three (14,5%), four and more persons (27,4%). At the same time there is a significant share of those (33,8%) who live alone. It is important that half of beneficiaries of nominative compensations live together with able-bodied persons, and compensations of the beneficiaries serve as sources of additional income for family budgets. The other part (single persons) – are on their own and need specific attention of the social protection services.

According to the analysis, 1/3 beneficiaries of nominative compensations have disabled dependents, and in categories 3), 5) and 8) – one dependent, while in category 7) they on average have 4 dependants.

4. *Characteristics of living conditions of beneficiaries of nominative compensations are quite different.* On the one hand (heritage of socialism), in most cases they have lodging, and on the other hand, they do not have any money to maintain it. Moreover, after privatization of housing in 90-s, now 89,9% of beneficiaries live in private apartments, and in villages – in houses, and only 5,4% - live in state owned or departmental housing.

Quality of housing of nominative compensations does not differ significantly from that of other citizens of Moldova. Almost all of them have electricity (96,9%), running water (60,3%), and natural gas (53,7%). In spite of the fact that housing of 61,2% of beneficiaries of nominative compensations consists of two-three rooms (and only 11,4% have one room) only 3-5% of them receive additional income from renting out their apartments or houses.

5. *Sources of income.* Beneficiaries of nominative compensations have various property statuses (from Members of the Parliament to very poor citizens), drastically differing in the level of prosperity. As a whole, beneficiaries of nominative compensations have three the most important sources of income: pensions – 63,0%, salaries – 19,6% and income from property – 5,3%.

According to the aggregate estimates by beneficiaries of nominative compensations, the total amount of cash income of their families in the last month (September 2002) comprised 480.7 MDL, while an average salary in the national economy in September 2002 was 733 MDL. Relatively well-to-do are 16.8% of beneficiaries' families, which have income equal to or close to the volume of minimal consumer budget, which for September 2002 was 1055 MDL. Meanwhile, income of the others is lower than the basket. However, it is indicative that one fourth of respondents due to various reasons failed to indicate the amount of monthly income. Partially, it can be explained by their self-employment or involvement in the informal sector of the economy.

The poverty in Moldova differs from the poverty in many other countries by the fact that after privatization of land in 1998-2000 both rural and urban beneficiaries of nominative compensations had been receiving income in kind (on average by the contingent of nominative compensation more than 40% of respondents have this type of income). 50.9% of beneficiaries said they have homestead land or a suburban plot (0.06 – 0.3 hectares), and 40% of rural beneficiaries of nominative compensations have a land parcel (on average 1.4 hectare).

Land property makes it possible to keep cattle and poultry in the household. They are kept by 41.3% of beneficiaries including 12.8% that have horned cattle, 17.3% - pigs, 11.2% - sheep and goats, 45.5% - poultry.

Other sources of income for beneficiaries of nominative compensations are: aid from their relatives (for 27.4%) as well as humanitarian assistance (for 23.9%). But at the same time it becomes evident that humanitarian assistance in the country has not been oriented yet towards those in extreme need.

Difference in estimate – by the degree of importance – of sources of income of a beneficiary of nominative compensations in towns and rural area lies in that for the former the first source is pension and then incomes from land property and subsistence farming. Nevertheless, nominative compensations in both cases are of great importance for life-support.

During the survey beneficiaries of nominative compensations and employees of local administration made some suggestions for improvement of the system of social assistance in the country (*see Appendix, §3.7*). From the quantitative point of view, most of them are aimed at improvement of the category-based system of nominative compensations that has been in effect since 2000. In essence, a clear statement of the problem of needs is the most important to be guided by the total income of the NTC beneficiary's family, i.e. to *consider the extent of poverty of people*.

3.2. Comparison of Available Incomes of the NTC Beneficiaries with the Overall Country's Population Based on National Households Budgets Surveys

In order to estimate the extent of orientation of the existing since the middle of 2000 system of compensations for payment of public utilities and energy resources toward the most indigent sector of the population there was undertaken an analysis of this problem based on information unified by the National Household Budget Survey database for 2001. Main conclusions of this analysis are the following:

1. Families that receive compensations for payment of public utilities and energy resources are not necessarily the most indigent in the country. Moreover, they have higher disposable income, than the average for the whole totality of the country's households. In urban areas average per capita income reaches 335,30 MDL a month, which is more than the average income for the totality of urban households by 13,7% (table 9). In rural areas beneficiaries of compensations have monetary income of 213,17 MDL, which is by 1,6% more than the average for all rural households. Thus, families enjoying compensations are in better living conditions than other households.

Table 9. Average disposable income per one household (HH) member, MDL

	<i>Urban</i>		<i>Rural</i>	
	<i>All HH</i>	<i>HH enjoying compensations</i>	<i>All HH</i>	<i>HH enjoying compensations</i>
Total disposable income	294,81	335,30	210,29	213,17
of which:				
<i>Social payments</i>	31,70	146,25	26,65	63,26
including:				
- pensions	27,67	87,83	24,08	25,25
- unemployment benefit	0,08	0,00	0,04	0,00
- allowances to mothers with many children, etc. for children	0,46	1,14	0,47	1,86
- benefits for WWII veterans and their widowed spouses	0,68	16,11	0,01	0,00
- compensations for payment of communal services and energy resources	1,03	35,38	1,51	35,83
- other social payments and allowances	1,78	5,79	0,54	0,32

2. Average per capita amount of social payments received by households enjoying compensations is 146,25 MDL in urban areas and 63,26 MDL in rural ones, which correspondingly is by 4,6 and 2,4 times more than for the whole totality of households. This excess is characteristic to all types of social payments (except for an unemployment benefit) in urban areas and to the majority of them in rural areas. Especially considerable is a gap between amount of compensations for payment of public utilities and energy resources. As compared to the whole totality of households, compensations for households enjoying them that live in urban areas is 34,3 times more and for those who live in rural areas - 23,7 times more.

3. Compensations for payment of public utilities and energy resources play an important role in formation of disposable incomes in households that receive those incomes. Within the average per capita income of these households practically every tenth MDL in urban areas and every sixth - in rural ones – come from compensation payments of this type. At the same time, “contribution” of compensations to disposable incomes of all members of the whole

totality of households is very insignificant – only 0,4% in towns and 0,7% in villages (*table 10*).

Their share is also rather large within social transfers of households enjoying compensations. For members of these households living in towns it makes up 40,3% and for those living in rural localities - 56,7%, while the average in urban and rural areas is 3,2% and 5,7% respectively. In rural localities the importance of compensations within social payments of households enjoying compensations prevails over the other types of social payments, while in urban areas they are second to pensions.

Table 10. Structure of average disposable income per member of HH, %

	<i>Urban</i>		<i>Rural</i>	
	<i>All HH</i>	<i>HH enjoying compensations</i>	<i>All HH</i>	<i>HH enjoying compensations</i>
Total disposable income	100,0	100,0	100,0	100,0
of which:				
<i>Social payments</i>	10,8	43,6	12,7	29,7
including:				
- pensions	9,4	26,2	11,5	11,8
- unemployment benefit	0,0	0,0	0,0	0,0
- allowances to mothers with many children, etc. for children	0,2	0,3	0,2	0,9
- benefits for WWII participants and their widowed spouses	0,2	4,8	0,0	0,0
- compensations for payment of communal services and energy resources	0,4	10,6	0,7	16,8
- other social payments and allowances	0,6	1,7	0,3	0,2

4. Such situation is, to a certain extent, determined by different importance of sources of income of different households. In urban localities, within the disposable incomes of the whole totality of households incomes from employment prevail – those are salary, etc. (60,9% of their amount), while social payments make up only 10,8%. And, on the contrary, social payments prevail in the families that receive compensations (43,6% of their disposable incomes), while incomes from employment come next within structure of their incomes - 28,2%. In rural areas, both within the whole totality of households and those that receive compensations, incomes from agriculture production are more superior to social payments within incomes of their budget.

5. Amount of compensations varies considerably by quintiles of disposable income. Amount of compensations per one member of the most well-off households from the V quintile is 2,63 MDL that is 8,8 times more than amount per a member of the poorest households from the I quintile group - 0,30 MDL (*table 11*). This is another proof of the lack of proper orientation of the existing system of compensations at the most indigent population.

Table 11. Average per capita income of HH members by quintile groups, MDL

	Quintiles of disposable incomes				
	I	II	III	IV	V
All households					
Total disposable income	51,82	124,33	179,46	261,40	589,51
of which:					
<i>Social payments</i>	10,47	25,61	31,83	38,34	36,24
including:					
- pensions	9,58	23,68	28,97	35,49	29,23
- unemployment benefit	0,00	0,11	0,05	0,10	0,00
- allowances to mothers with many children, etc. for children	0,36	0,68	0,49	0,25	0,55
- benefits for WWII participants and their widowed spouses	0,00	0,00	0,01	0,19	1,09
- compensations for payment of public utilities and energy resources	0,30	0,76	1,69	1,31	2,63
- other social payments and allowances	0,23	0,38	0,62	1,00	2,74
Households enjoying compensations for payment of public utilities and energy resources					
Total disposable income	58,37	123,59	180,25	259,91	546,74
of which:					
<i>Social payments</i>	27,70	40,90	76,57	93,47	168,45
including:					
- pensions	14,40	17,01	38,66	55,96	74,19
- unemployment benefit	0,00	0,00	0,00	0,00	0,00
- allowances to mothers with many children, etc. for children	0,28	1,08	3,65	1,44	0,61
- benefits for WWII participants and their widowed spouses	0,00	0,00	0,00	0,00	22,18
- compensations for payment of public utilities and energy resources	13,02	22,70	33,45	31,51	68,48
- other social payments and allowances	0,00	0,11	0,81	4,56	2,99

6. “Inclusion error” - households that are not in extreme need are included into the category of beneficiaries of compensations. It is confirmed by the fact that there is a significant income differentiation among the households that in accordance with the laws in force became eligible for obtaining compensations. Furthermore, an extent of disparity among them even exceeds the one of all aggregate of households. If on average a quintile coefficient of differentiation was 11.3, then it reached up to 15.5 among the beneficiaries of compensations. At that, the higher is the income of recipients of compensations the bigger is the size of compensations per one member of the household. So if in I quintile group it makes up 13.02 MLD then in Y quintile - 68.48 MLD or by 5.8 times more (table 11).

7. Evaluating the efficiency of the existing system of social protection of population in need, it is important to take into account distribution of social payments and allowances (without pensions) by quintile groups of disposable income. This evaluation shows that 5,7% of all social assistance fall to 20% of the poorest population, while 20% of the most well-off persons accumulate 43,6% of all social assistance granted to the country’s population (table 12).

As for the certain types of social assistance, the most considerable inequality takes place regarding benefits to the WWII participants and their widowed spouses. Out of the total amount of these compensations households of the I and II quintiles account for a statistically insignificant value, while households from the V quintile group - 84,8%. Distribution of incomes in form of allowances for mothers with many children and other allowances for children is more even (quintile coefficient of differentiation is 1,5).

There are rather significant differences in the quintile distribution of volumes of compensations for payments of public utilities and electric carriers: 20% of the poorest households dispose of 4.5% of the total value of compensations while 39.2% of all the compensations fall on 20% of the most well-to-do households.

It should be added that distribution of both non-pecuniary and humanitarian assistance the main purpose of which is to provide support to those in extreme need also has poor targeting – in terms of MLD the households of Y quintile receive by 13.1 times more of such assistance than families of I quintile group.

Table 12. Quintile distribution of households incomes, %

	Quintiles of disposable incomes				
	I	II	III	IV	V
All households					
Total disposable income	4,3	10,4	14,8	21,7	48,8
Social payments and benefits, pensions	7,4	18,2	22,2	27,1	25,2
Social payments and benefits without pensions	5,7	13,4	18,1	19,3	43,6
Benefits for mothers with many children, etc. for children	15,3	29,6	20,9	10,7	23,6
Benefits for WWII participants and their widowed spouses	0,0	0,0	0,5	14,7	84,8
Compensations for payment of public utilities and energy resources	4,5	11,5	25,2	19,6	39,2
Social payments and benefits without benefits for children and social compensations	3,2	18,5	13,2	34,7	30,3
Non-pecuniary social and humanitarian aid	4,7	6,6	10,2	16,8	61,7
Households that receive compensations for payment of public utilities and energy resources					
Total disposable income	2,9	9,0	19,6	23,4	45,1
Social payments and benefits, pensions	4,0	8,6	23,8	24,0	39,8
Social payments and benefits without pensions	3,8	9,9	23,3	18,9	44,1
Benefits for mothers with many children, etc. for children	2,1	11,8	59,2	19,4	7,5
Benefits for WWII participants and their widowed spouses	0,0	0,0	0,0	0,0	100,0
Compensations for payment of public utilities and energy resources	4,5	11,5	25,2	19,6	39,2
Social payments and benefits without benefits for children and social compensations	0,0	0,0	5,7	67,6	26,7
Non-pecuniary social and humanitarian aid	0,0	2,6	21,1	31,4	44,9

8. Comparison of situation in urban and rural areas shows that within the whole totality of households correlation depending on average per capita compensation, unlike disposable incomes and social payments, turns out to be more favorable to rural areas – in rural households the average amount of compensations is 1,5 times higher than in towns (table 9).

The same is true for the totality of households, members of which receive compensations is in the same situation. Their average per capita amount in rural households (35,83 MDL), although a little, but still is higher than in towns (35,38 MDL).

9. Level of social protection of urban population as regards payment for public utilities and energy resources directly depends on the size of urban localities. Inhabitants of large towns (Chisinau, Baltsi) are in better conditions. They have 2,2 times higher average per capita income and the amounts of compensations that they receive are higher than those received in small towns. Amount of compensation per one member of the whole totality of households is 1,45 MDL in large towns, which is 3,2 times higher than in small towns (table 13).

Table 13. Average disposable income per one household member dwelling in different localities, MDL

	All households			Households that receive compensations for payment of public utilities and energy resources		
	Large towns	Small towns	Villages	Large towns	Small towns	Villages
Total disposable income	384,17	173,49	210,29	355,54	210,15	213,17
of which:						
<i>Social payments</i>	35,26	26,85	26,65	145,58	150,34	63,26
including:						
- pensions	29,01	25,84	24,08	85,44	102,61	25,25
- unemployment benefit	0,03	0,15	0,04	0,00	0,00	0,00
- allowances to mothers with many children, etc. for children	0,65	0,19	0,47	1,32	0,00	1,86
- benefits for WWII participants and their widowed spouses	1,18	0,01	0,01	18,71	0,00	0,00
- compensations for payment of public utilities and energy resources	1,45	0,45	1,51	33,38	47,73	35,83
- other social payments and allowances	2,94	0,21	0,54	6,73	0,00	0,32

As for households that receive compensations, average per capita amount of compensations in small towns (47,73 MDL) is by 1,4 times more than it is in large towns. But the share of households that include citizens enjoying compensations is different in different types of localities. If in large towns there are 33,5% of households, which members receive compensations, then in small towns there are 4,4% of them and 62,1% - in villages. This predetermines distribution of compensations by their amount among households situated in different localities: 22,6% of all compensation payments for public utilities and energy resources fall to large towns, 5,2% to small towns and 72,1% to villages (table 14).

Table 14. Distribution of disposable incomes of households situated in different localities, %

	All households			Households that receive compensations for payment of public utilities and energy resources		
	Large towns	Small towns	Villages	Large towns	Small towns	Villages
Total disposable income	33,4	11,1	55,5	34,8	3,3	61,9
Social payments and benefits, pensions	25,9	14,6	59,6	40,7	6,8	52,5
Social payments and benefits without pensions	42,1	4,7	53,2	33,3	4,3	62,4
Benefits for mothers with many children, etc. for children	29,3	6,2	64,5	19,3	0,0	80,7
Benefits for WWII participants and their widowed spouses	96,2	0,5	3,2	100,0	0,0	0,0
Compensations for payment of public utilities and energy resources	22,6	5,2	72,1	22,6	5,2	72,1
Social payments and benefits without benefits for children and social compensations	51,0	6,7	42,4	100,0	0,0	0,0
Non-pecuniary social and humanitarian aid	69,1	2,9	28,0	80,2	0,0	19,8

10. Amount of compensations in households that receive them varies by types of households. Their largest value was recorded in households that include pensioners. These households situated in urban and rural areas dispose of compensations that are respectively by 1,7 and 2,0 times higher than those in families that have no pensioners but include persons belonging to other categories of the population entitled to compensations (table 15). Average per capita amount of compensations in families with disabled persons and those with many children (4 and more children) is smaller than in the other households that receive compensations due to larger number of family members.

Table 15. Average per capita amount of compensations for payment of public utilities and energy resources in households enjoying compensations, MDL

Type of HH	All HH	Urban	Rural
HH that include:			
- <i>disabled persons</i>			
yes	30,42	28,35	31,44
no	44,17	53,87	41,72
- <i>pensioners</i>			
yes	50,57	44,01	55,34
no	27,52	25,55	28,02
- <i>children</i>			
4 and more	25,93	-	25,93
no children	57,18	12,01	70,36

11. Compensation payments positively tell upon distribution of households by quintiles of their incomes. If we exclude compensations from disposable incomes, then not only incomes will decrease there, but there will take place a shift of households towards quintiles with a lower disposable income level. For the whole totality of households this process will cause decrease of number of the most well-off households from the Y quintile group and increase of number of the poorest households from the I quintile. Among households with different characteristics the households situated in small towns and villages will experience quite similar changes (table 16). Other households are divided into two groups. The first group includes households that will “shift” the most within the higher part of income distribution due to exclusion of compensation payment from their disposable income. These are

households situated in large towns and households with pensioners. The other group includes households with invalids and 4 and more children. These are families that will be affected at the greatest extent by exclusion of compensation payments, since these are households with disabled persons and 4 and more children for whose incomes the compensation payments are the most significant.

Table 16. Distribution of households by quintile groups, %

		Quintiles of disposable incomes				
		I	II	III	IV	V
All HH	a)	15,3	19,1	20,1	22,9	22,6
	b)	15,5	19,4	20,0	22,8	22,3
Large towns	a)	8,3	12,8	14,2	21,5	43,2
	b)	8,6	13,1	14,0	21,7	42,7
Small towns	a)	21,7	26,2	20,4	18,4	13,3
	b)	21,9	26,2	20,5	18,2	13,2
Villages	a)	15,9	19,4	22,2	24,8	17,7
	b)	16,1	19,7	22,2	24,6	17,5
HH with invalids	a)	13,1	22,8	23,0	22,0	19,1
	b)	14,0	23,9	23,1	21,2	17,8
HH with pensioners	a)	8,9	20,6	24,2	28,0	18,3
	b)	9,0	20,9	24,3	28,0	17,8
HH with 4 and more children	a)	45,7	22,2	23,5	1,2	7,4
	b)	50,7	22,2	18,5	1,2	7,4

a) including compensation payments
b) excluding compensation payments

These are the most generalized conclusions obtained from comparison of amount and structure of disposable incomes of households that include citizens receiving compensations, and the whole totality of households covered by the survey (Household Budget Survey, 2001) of the state statistical bodies. The conclusion is simple – system of compensations needs further improvement.

3.3. Necessity to Rationalize the Social Assistance System in Context of the Poverty Reduction and Economic Growth Strategy

Moldova's main policy objectives for the nearest future are to sustain growth, alleviate poverty and reduce the debt burden. According to the report on state of the world economy (World Bank, 2001), the Republic of Moldova belongs to the group of 66 countries with lower income. According to poverty indicators (percent of persons with an income lower than 2.15 USD per day, GDP per capita etc), at the end of 90-s Moldova takes the lower place, after Tajikistan, among 24 countries of post-socialist European and central Asian countries in transition. Many of these countries implement programs of economic growth and poverty reduction.

Government of the country approved in April 2002 the preliminary version of the *Economic Growth and Poverty Reduction Strategy Development*. Its final version must be prepared till March 2003, which future execution will be supported by the IMF, WB and other donors.

Starting from the current socio-economic setting, this Poverty Reduction and Growth Strategy should determine objectives and tasks, legal and administrative environment, major policies and measures for development of sectors and regions, mobilization of resources of growth and poverty reduction. In the end, such strategy should ensure stability and continuity of the reform policy in a country.

By working out a general strategy of poverty reduction in the Republic of Moldova, the following circumstances should be taken into consideration:

- The general, thoroughgoing character of total poverty in the country;
- The lower economic growth rate, than the expected one, needed for the fundamental solution of the problem (6 – 7 % of growth rate of GDP);

A great part of the population of the Republic of Moldova register an income that is not sufficient to cover at least the minimum of subsistence or to ensure minimum of consumption. According to the data of the Department of Statistics, in 2001 - 85.3% of the population has an income that was lower than the living-wage; 51.2% has an income that does not cover at least ½ of the living-wage.

At the same time, social product decrease and insufficient rate of its development objectively limit reduction of such mass poverty. These circumstances will last for a mid-term perspective. Large-scale changes are necessary in order to expand employment expansion and increase incomes of both the population and the state.

According to these circumstances, the Social Assistance System should not be oriented on the general coverage of the population, but on a limited group of persons, which are in a drastically poor situation and that are unable to solve these problems by themselves because of the lack or an extremely low level of income, or that are restrained in their actions because of their health or age.

It is important to realize the fact that even if we will create an effective Social Assistance System, the total amount of benefits and compensations will be reduced by the rate of economic growth. At the same time, the effect of social assistance could intensify greatly (and increase according to the rate of economic growth) if the assistance will be directed to the most vulnerable social groups in the first place.

The actual system of Social Assistance System in the Republic of Moldova is essentially based on the equalizing principle of distribution, used in the past. During the socialistic period of time, the equalizing principle of primary earnings distribution has been complemented by the distribution of fringe benefits (different social payments). The differentiation of the population according to their income was really insignificant. Nowadays, the population differentiation according to their earnings and income is significant. But the Social Assistance System still bears the principle of equalization (the categorical system), besides one of its most important issues is to *flatten out the inequality prosperity status and in the distribution of the Social Assistance* means in favor of the population with lower income.

The Household Budget Surveys data shows that the operative Social Assistance System does not solve this problem. The problem consists not only in the bare distribution of social aid - 1.3% of the available average revenue of householders in 2001. The financial aid (benefits and compensations) is not distributed among the most vulnerable social groups, but among the well-off people: per 20% of the less independent people in 2001 the distributed financial aid was 5.8% of the amount of financial aid, when per 20% of the not very needy people - 45.9%.

If at least 80% of the financial assistance would be distributed to those who are in extreme need, than:

- The income gap of 20% of the most prosperous and 20% of the most indigent householders would decrease from 11.4 to 9.3 times.

- The average mean income of 20% of the most vulnerable people would exceed that received in fact by $\frac{1}{4}$ (about 24%).

The necessity to redirect the social financial aid towards the most vulnerable social groups is obvious. But in order to redirect the system, one should know the contingent of the eventual beneficiaries. But criteria and poverty line in the Republic of Moldova are not specified yet.

The Department of Statistics and Sociology quarterly determine the minimum amount and the percent of householders with an income per capita lower than $\frac{1}{2}$ of the given minimum – those householders are considered to be indigent. According to the data of the Department, in 2001 the poverty was widespread in the small towns and villages, families with 4 and more members, as well as in families with 2 or more children.

Another source is the “Annual Social Report 2001” (of the Ministry of Labor and Social Protection) showed that $\frac{1}{4}$ of the population of Moldova was in extreme need (the poverty limit consists of 50% of the average consumption s of the population). The most difficult is the poverty issue of people living in the southern regions, small villages, families with many children, persons with a low level of instruction, unemployed, part-time workers, as well as workers with a low income (4 of 10 of poor people have a job).

Thus, according to these sources, as well as to sociologic reports, it could be drawn the conclusion that the poverty rate, the marginal poverty included, is very high, and the structure of vulnerable social groups is very diversified.

It is obvious that that there are indigent persons in every country as well as in the developed countries. Therefore the effectiveness of poverty reduction strategies depends in each of them on how exactly are determined the persons in extreme need, the vulnerable groups and how exactly are chosen the strategy of social assistance.

We suppose that in the case of the Republic of Moldova, in order to implement the system of social assistance for the most vulnerable social levels, there should be solved a range of difficult problems. Let us examine the most important of them.

1. *The changing of the beneficiaries of allowances and nominative compensations issue.* The new target (aid of poor people by their living place) is still poorly implemented by the new Social Assistance System. According to the new target strategy, there are great exclusion and inclusion mistakes. In order to decrease them, it is necessary to change the composition of beneficiaries, by increasing the share of vulnerable people. The settlement of this problem touches on the interests of many people and families that actually receive different social aids. The drastic change of category of people that will receive social assistance will lead to the people discontent. Moreover, there are categories of beneficiaries that could not be excluded or transferred to another social assistance system (persons disabled since birth, invalid children, persons and families that suffered due to the Chernobyl Atomic PowerStation accident, WWII participants).

So it would be more rational to make an “inventory” of all types of financial assistance rendered now based on criteria of the new system (the needs) and decide whether to preserve benefits or change conditions of their receipt (for example, through establishment of the beneficiaries’ income evaluation).

2. *The establishment of the nominative compensation in the case of necessity (poverty) issue.*

The necessity in introduction of such compensation is conditioned by the fact that the allocation of nominative compensations corresponds to the goal of overcoming poverty. The use of such a benefit in the social assistance system will decrease the number of exclusion cases in the entire system. But its implementation should be preceded by the establishment of the poverty rate, determination of the number of potential beneficiaries share and the amount of the needed financial sources, a clear definition of the requirements for a nominal compensation etc. One makes preparatory work for this purpose. The creation of a methodological, legal, financial and organizational framework could be done within one additional year. The preparatory work could be hastened by the entering into force of the law on the living-wage, the update of instructions on its calculation as well as to enable the different Government institutions (Ministry of Labor and Social Protection, Ministry of Economy, Ministry of Finance, Department of Statistics and Sociology) to calculate and prepare all the necessary documents in order to introduce the nominative compensation.

3. *The amount of benefits and nominative compensations issue*

Nowadays there are no any systematical records in order to grounding the value of different social compensations. It is difficult to estimate how a particular nominative compensation will solve the existing problem and how it will influence the financial situation of the beneficiary. Many nominative compensations are very small, but the increase in value of different social aids are made in different periods of time in a different way, so the beneficiary of one type of compensations in different periods of time find themselves in better or worse situation in comparison to other beneficiaries. Therefore, it is necessary to elaborate and implement a reasonable system of nominal compensations calculation that would regulate the conditions and sequence of nominal compensations review. It is advisable in some cases to differentiate the value of the nominative compensation according to the beneficiaries' income (for example in the case of compensations for the children)- that would be a step towards the implementation of social aids distribution and a good experience for the future allocation of other social benefits.

4. *Beneficiaries record issue*

The keeping of a single record of social payments beneficiaries would optimize the entire system. At present, many persons and families that are in extreme need do not receive any financial aid, but others (among them are people that with low incomes as well as people who are not in indigent situation) receive many types of nominative compensations, the amount of which is very differentiated. Introduction of personified (for family, household) record keeping would permit:

- To monitor the total amount of financial aid, distributed to different beneficiaries;
- To constantly receive the information in order to evaluate the influence of some compensations on different groups of beneficiaries;
- To make and implement the grounded proposals on sorting the types and value of compensations as well as the requirements for their beneficiaries.

Besides that, it is important to have a record of persons that should be a mandatory requirement for the distribution of nominative compensation, which value and terms should be much differentiated.

5. *The access of the indigent persons to the educational system and to medical services issue.*

It is well known that the great part of educational system and medical services are chargeable and expensive. Moreover, to benefit of such services one should burden additional payments – to get drugs, textbooks etc. All these facts limit the access of persons with low income to the educational system and medical services that in fact negatively influence their health and

their educational level does not permit them to step out of the poverty by themselves. In Moldova there are no solutions for such kind of problems.

The authorities that deal with the implementation of social assistance system could come with proposals in solution of these problems, because the educational and medical frameworks face a lot of other specific difficult goals and issues. Nowadays, institutional and judicial system is ready for the coming into force of the mandatory medical insurance from July 1, 2003. It is expedient to use this system to facilitate the access of persons with low income to medical services. A part of the money that will be collected from the mandatory medical insurance will be directed to subsidize the additional payments of the persons that are in extreme need - payments for the services and drugs which cost exceed the free of charge services included in the package. One should elaborate the system and forms of assistance, as well as to provide social assistance for children from vulnerable families to perform their studies.

6. *The institutional organization approach*

In order to create an effective social assistance system it is necessary to improve not just the types of benefits and nominative compensations, but also their management system. At present the following institutions are responsible for the management in this field: the Ministry of Labor and Social Protection, Department of Social Assistance and its local branches, National Fund of Social Support of the Population, National House of Social Insurance and its local branches, local administrations. Their cooperation is not always satisfactory.

Taking into consideration the difficulties and the social importance of the issue that should be solved by the institutions of social assistance it would be rationale to reorganize the management system. One of the options is to found a Social Assistance Center through integration some of the existing institutions within its framework. Social Assistance Center will have the goal to solve the common issues on the development of the social assistance system (to elaborate the policy, monitoring, the common beneficiaries record, work out the methods, instructions etc) and to have subordinate divisions that will work with people that will apply for, the beneficiaries of the assistance, local organizations, and local authorities.

One of proposals for discussion is to transfer all functions related to social protection entrusted with the NHSI and its local branches to the Department of Social Assistance and its local bodies, and, at the local level, to unite social assistance boards and funds of social support of the population.

7. *Financial problem*

The Social Assistance System should have a stable and differentiated financial foundation. This goal could be achieved if ones would allocate a separate budget for the Social Assistance form the national budget of social insurances. Ones should elaborate and establish a distinct order of the interrelationship of this budget with the national budget.

The Social Assistance Center should be responsible for the administration of this budget, which should also be in charge for the attraction of other, non-budgetary funds - foreign investments, non-governmental organizations, and legal entities etc. In order to attract funds of nongovernmental institutions there is necessary to have effective and transparent social assistance programs. In the near future the "Benefits for persons in need" program could have the leading role in the performance of this plans, that corresponds at the most to that goal and it not just very actual, it is also has a future perspectives.

These are the most important issues of the Social Assistance System reform that are going to be solved in the nearest future. There are already some premises for that: during the 1997 – 2002 years some experience was gathered, the problems became clearer and now the goal is obvious- to increase the number of applicants, as well as the national economical situation has a tendency to growth and to become stable.

Conclusions and policy implications

The empirical work presented in the paper, although at early stage, has shed light on both the conditions of functioning of Nominative Targeted Compensations Program, implemented in the Republic of Moldova since year 2000, and the main issue of further improving of the social assistance system in the country. Although it is a short-term study (October – November 2002) still several clear conclusions and policy implications have-emerged from the analysis.

1. In 90-s in Moldova the market transformation took place under social-political and financial-economic crises, due to this fact, the state performance of its inherent social functions turned out to be outside the scope of its power. The state had to abandon the socialistic system of social guarantees; it narrowed the range of the state social functions to the maximal extent, having shifted the survival problem onto the shoulders of the citizens. In that period of time the self-employment, including employment both in foreign countries and in a widely spreading gray sector of the economy which provided a source of additional income, became a kind of a shock-absorber of weakening of the state social protection institutions. Foreign financial and humanitarian assistance played a great role in giving social support to the population.
2. As economic and budget has been stabilizing, there appeared conditions for stimulation of the state role in counteraction to the expansion of poverty and scanty incomes. The extent of this task could be estimated by the fact that according to the evaluation of the World Bank, made in 1997, about 37% of the population of Moldova were under the absolute poverty line. At the same time, the budget problems were aggravated by the fact that 37 categories of the population, a large number of which were set on extra-economic criteria, were eligible for the privileges, with the total amount of privileges of 25-30 million US dollars a year.

Right after the adoption by Parliament (May, 1999) of *Strategy of Social Assistance System Reform*, there were carried into effect the *Law on Special Social Protection of Certain Categories of the Population (April, 2000)* and the corresponding *Government Decision (July, 2000)* that canceled the privileges for energy consumption and public utilities by limiting the contingent of targeted compensations to 9 (and later – 11) categories of the needy population. This law superseded 100 statutory acts that had been in force and in conformity with which more than 1.2 million people were qualified for privileges and compensations. In 2001 in accordance with the new law, the nominative compensations at the total amount of 204 million Moldovan MDL were received by 260.6 thousand people. After the two years of implementation of such a large-scale and important for the population program, it seems to be legitimate to bring forward a question of a preliminary estimate of its efficiency, detection of inclusion errors (“assistance to the wrong ones”) and exclusion errors (“those really in need do not get any assistance”).

3. Based on information obtained from 1200 NTC beneficiaries living in 2 municipalities, 6 towns and 15 villages of different territorial zones of the Republic of Moldova (*see Appendix*), one can conclude that transition from the system of benefits to the targeted compensations system during 2000-2002 was successful and the population perceived on the whole positively the Government's attempt to switch from the leveling principle of social assistance to the targeted one.

Most beneficiaries of nominative compensations are satisfied both with the procedure for setting categories (76,6%), and with the quality of work in the territorial agencies of the National Social Insurance House and Savings Bank. Compensations received by the population in accordance with the Law cover whole range of utility services necessary to support minimal living conditions for people – electricity, heat, water. Mostly there are granted compensations for payment of electricity – they are received by 96,1% of beneficiaries, natural gas – about 60%, central heating – 32,9%, hot water – 18,5%, cold water – 50,4%, money for coal and firewood are received by more than 40% of all NTC beneficiaries. Positive attitude of the population to the system of nominative compensations is to a large extent determined by the fact that in the structure of average disposable income of one member of a households that receives nominative compensations, the share of compensations for payment for energy and utility services comprises 10,6% in urban and 16,8% - in rural areas.

At the same time, it was discovered that the existing under the Law # 933-XIV of April 14, 2000, system of compensations has shortcomings. Some of them can be alleviated operatively, in the process of improvement of the existing system: alleviation of problems during preparation of papers necessary for compensations (11.1% of respondents), delays during payment of compensations (1-9 months – 19.4% of respondents), improvement of work of territorial bodies of the National House of Social insurance, Banca de Economii and medical examination. Presence of reserves in this area is confirmed by the fact that only during the first half of 2002 NHSI discovered 3,6 thou of invalids with incorrectly formalized papers; 17.0% of invalids had not their disability confirmed. Besides, the number of disabled persons of I and II groups was cut down by 51% and 36%. As for the III group, it was raised by 44%. As a result, savings were of 6 mil MDL.

Further on, timeliness of payment of social compensations directly depends on presentation of lists of beneficiaries by the NHSI territorial bodies to branch offices of the Banca de Economii (monthly) with concurrent transferal of financial means for their provision. At that, this implies possible cases of payment of targeted compensations set again as well. But, in practice, this mechanism sometimes fails. The reason for such situation is the process of transferal of financial means meant for compensations per se. thus, during the 9 months of 2002, the Ministry of Finance transferred to the NHSI 168,0 mil MDL or 94.4% of the assigned sum (181,8 mil MDL), 144,8 mil MDL or 86.2% of which the NHSI, in its turn, transferred to the Banca de Economii. During the same period, branch offices of the Banca de Economii paid targeted compensations to the amount of 190,0 mil MDL (at the expense of accumulated rest). It should be mentioned that, in defiance of the current procedure, branch offices of the Banca de Economii pay compensations to the family members or relatives of the beneficiary of compensation, who present payment receipts without any formalized proxy. There are cases when NTC beneficiaries are no longer present at place of residence and other violations. Banca de Economii for payment of targeted compensations receives commission of 0.8% and 0.5%, including cash payments for acquisition of coal, firewood, liquefied gas in cylinders, except for municipalities of Chisinau and Baltsi and a series of Transnistrian villages. At that, state budget foresaw for payment of bank interest for compensations payment in

2000 – 0,64 mil MDL, in 2001 – 1,61 mil MDL and in 2002 – 2,66 mil MDL. Thus, there is direct evidence of that availability of reserves for saving of budget means allocated for payment of targeted compensations.

4. *Characteristics of living conditions of the NTC beneficiaries are quite contradictory.* On one hand (heritage of socialism), in most cases they have lodging, and other hand, they have no money to maintain it. After privatization of housing in 90-s, now 89,9% of beneficiaries live in private apartments, and in villages – in houses, and only 5,4% - live in state owned or departmental housing. Quality of housing of the NTC beneficiaries does not differ significantly from that of other citizens of Moldova. Almost all of them have electricity (96,9%), running water (60,3%), and natural gas (53,7%). In spite of the fact that housing of 61,2% of beneficiaries of nominative compensations consists of two-three rooms (and only 11,4% have one room) only 3-5% of them receive additional income from renting out their apartments or houses.

Sources of income are as follows. NTC beneficiaries have various property statuses (from members of the Parliament to very poor citizens), drastically differing in the level of prosperity. As a whole, NTC beneficiaries have three most important sources of income: pensions – 63,0%, salaries – 19,6% and income from property – 5,3%. At the same time, “economic potential” of about 40% of families of the NTC beneficiaries is reinforced by land allotments or farmland, excess of dwelling space leased out or employment in informal sector of the economy (trade, construction, agriculture).

It is characteristic for Moldova that after privatization of land in 1998-2000 both rural and urban beneficiaries of nominative compensations have been receiving income in kind (on average by the contingent of nominative compensation more than 40% of respondents have this type of income). 50.9% of beneficiaries said they have homestead land or a suburban plot (0.06 – 0.3 hectares), and 40% of rural beneficiaries of nominative compensations have a land parcel (on average 1.4 ha). Land property makes it possible to keep cattle and poultry in the household. They are kept by 41.3% of beneficiaries including 12.8% that have horned cattle, 17.3% - pigs, 11.2% - sheep and goats, 45.5% - poultry. Other sources of income for beneficiaries of nominative compensations are: aid from their relatives (for 27.4%) as well as humanitarian assistance (for 23.9%).

5. Shortcomings of the current targeted compensations system in a generalized form are:
- Principle of determination of persons requiring social support from the state is based on principle of separate categories starting from their services to the state or according to the set benefits due to illness (principle of categories) that existed under the centralized planned economy;
 - During determination of amount of targeted compensations, there are used existing norms of service consumption calculated according to obsolete norms, without taking into account the data on consumption in apartments/houses that have counter (of water, gas, thermal energy counters);
 - During determination of amount of targeted compensations under the current legislation, there are not taken into account decentralization of communal and housing complex and transfer of price-and-tariff formation for its separate services to the local level (judetses, districts). Furthermore, given availability of different suppliers of electric energy (Union Fenosa, RED Nord and RED Nord-Vest) tariffs for 1 kWt/h also vary by zones they service;
 - There are also shortcomings in determination of categories of those in need. Thus, there is no clear definition which persons that worked on the home front are entitled to targeted compensations; there are difficulties in determination of the category of single

pensioners, invalids, especially in case of informal place of residence in other locality, families with many children (for instance, if the matter concerns guardianship of children) and other deficits;

- According to the current Law on Special Protection of Some Categories of the Population, specific amounts of targeted compensations are revised as tariffs and prices change as of the 1st of January of the respective year. But, as experience of 2001-2002 showed, central bodies of government dispose only of data on changing tariffs for electric energy and prices for coal and firewood, while there were done no changes of tariffs and prices for other public utilities during the mentioned years due to both the difficulty of discovery of their change and imperfection of mechanism of compensations recalculation by territories and so they were set by the country's average.

The existing system of benefits in form of targeted compensations for payment of public utilities and electric energy based on the principle of categories, when social aid is rendered to citizens according to their formal affiliation with one or another social group without taking into account their needs does not solve the problems of social protection of the population, leaving outside aged people, young families, numerous persons employed in rural areas, the unemployed. The new system of targeted housing compensations (benefits) should be based on the principle of application and be determined in dependence of family's income.

6. The two-year experience (successful, on the whole) of realization of the Law on Special Protection of Certain Categories of the Population (April 2000) leaves open the issue of the extent to which principle of categories (on which the Law is based) allows rendering of social aid to those in real need.

Thus, collations and calculations carried out on the basis of the database of Surveys of Budgets of Households for year 2001 show that the families that receive compensations for payment of public utilities and electric power do not necessarily belong to those in extreme need in the country. Moreover, they have a higher rate of disposable income than the average for the aggregate of the country household. In urban area in those families the available average disposable per capita income made up 335.30 MDL per month in year 2001 that exceeds the average income for the aggregate of urban households by 13.7%. In villages beneficiaries of compensations the monetary income of 213.17 MDL which is by 1.6% higher than it was on average for all the rural households.

Amount of compensations is highly differentiated by quintiles of arranged incomes. The amount of compensations per one member of the most well-to-do households out of V quintile, makes 2.63 MDL which is by 8.8 times more than it is of members of poor households out of I quintile group – 0.30 MDL.

The main conclusion drawn from the analysis of budgets of households is that there are significant and unjustified in respect to social justice differences in the quintile distribution of volumes of compensations for payments of public utilities and electric carriers: 20% of the poorest households dispose of 4.5% of the total value of compensations while 39.2% of all the compensations fall on 20% of the most well-off households.

Simple comparison of the above-mentioned data with parameters of the real poverty zone leads to the conclusion that selection of composition of the NTC beneficiaries' categories is not necessarily linked to determination of real financial status of persons and families enjoying compensations and other types of assistance. On the one hand, the NTC

beneficiaries now include persons who are in zone of extreme poverty permanently (single pensioners and families consisting of the disabled). On the other, as in other post-soviet countries, current practice does not lack political tinge, which is evident from setting of social aid to some categories of citizens without taking into account financial status of their families (compensations to victims of political repressions during 1917-1990, participants of military operations for protection of territorial unity and independence of the country and some other). Without calling in question moral motives of assistance to persons that suffered during historical process, nonetheless, by virtue of limited financial resources assistance to such persons should be made conditional upon their real financial situation.

7. Priorities of the nearest future for the Republic of Moldova are creation of conditions for sustainable economic growth and counteraction to poverty expansion. Main prerequisites for narrowing of the poverty zone in the country are production growth and, on this basis, expansion of sources of financing of social activities of the state. Starting from this, the main social reference point of the Poverty Reduction and Economic Growth Strategy should become labor activization of human potential of the country and creation of favorable climate for entrepreneurship. And the complementing component is creation of an effective system of social protection of the disabled members of the society, first of all.

Draft of the Law on Social Assistance was adopted through the decision of the Government # 997 of July 24, 2002. It is noteworthy that it preserves contradiction between declarations on rendering of social assistance to the most indigent persons and factual preservation of categories of its beneficiaries. Thus, article 5 of the draft stipulates that “(i) right for social aid belongs to citizens of the Republic of Moldova depending on gross per capita revenue”. Article 7 “Categories of beneficiaries” lists 9 categories of persons and families, including along invalids, aged persons, families with many children, etc. a category of an unclear redaction – “other persons in difficult (?) situation”.

Difficult economic situation of the country does not allow presuming that realization of large-scale social programmes is possible in the nearest years. At the same time, given distinct coordination of activities of different departments (the Ministry of Labor and Social Protection, NHSI, Ministry of Finance, Ministry of Economy, etc.) and thorough checking of eventual consequences of the designed changes, task of rendering of the social assistance to the most indigent groups of the population can be successfully solved based on current financial grounds as well. The indispensable prerequisites of the success of reforms movement towards this direction are their proper institutional design and legislative maintenance.

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