



INVESTING IN FAMILY CARE FOR MOLDOVA'S FUTURE

THE CASE FOR MEETING MOLDOVA'S HUMAN CAPITAL NEEDS

June 7, 2023

Chişinău, Moldova



MINISTERUL MUNCII
ŞI PROTECŢIEI SOCIALE
AL REPUBLICII MOLDOVA



"Investing in family care is
a smart investment for
Moldova."

Mr. Kent D. Logsdon
U.S. Ambassador to Moldova
Financing for Better Care Conference 2023

*The Investing in Family Care for Moldova's Future:
The Case for Meeting Moldova's Human Capital Needs*
was first presented at the Financing for Better Care
International Conference held in Chisinau, Moldova.

Over +200 international and local participants in
child protection gathered to unpack the challenges
faced in ensuring adequate funding for public
financing to strengthen families and protect children.

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Need to know more? Contact Changing the Way We Care at, info@ctwwc.org or visit changingthewaywecare.org.

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ACRONYMS

AC	Alternative Care
CI	Children Institutions
CRS	Catholic Relief Services
CTWWC	Changing the Way We Care
FY	Fiscal Year
FC	Foster Care
GHR	Gerald and Henrietta Rauenhorst
GoM	Government of Moldova
LPA	Local Public Administrations
MDL	Moldovan Leu
MI	Maestral International
MoF	Ministry of Finance
MLSP	Ministry of Labor and Social Protection
MPS	Minimum Package of Services
PFBFA	Public Finance and Budgetary-Fiscal Accountability
USAID	The United States Agency for International Development



EXECUTIVE SUMMARY

This report presents an estimate of the resources required to fund the spectrum of programs and services Moldova needs to (i) prevent children from being placed in residential care; (ii) place children in safe, nurturing, and supported families; and (iii) transform residential settings into community assets that effectively meet community needs.

At independence, Moldova inherited a social welfare system from the Soviet Union that was costly and harmed children. The system was based on residential institutions that the United States and many countries in Europe began to abandon almost a century ago because evidence demonstrated the harms to children's physical, cognitive, linguistic, emotional, and social development. In many cases, the institutions had high rates of mortality, abuse, and neglect.[1] In contrast, the Soviet welfare model was based on the principle of full employment, with minimal development of the critical areas of social work, case management, and alternative care services. In short, pregnant women in the Soviet period faced two choices at delivery: keep and care for the baby, or place it in an institution.

There are both short- and long-term economic and social benefits to shifting from this legacy toward a family-centered social welfare system. **In the short term, cost savings can be realized by transitioning away from residential facilities toward community services for children and families.** Institutions are capital and resource intensive because of their round-the-clock operations, staffing requirements, and high recurrent costs for utilities, food, and other expenses. Global evidence shows that from 8–10 children can be supported through family services for every one child in an institution.[2] In Moldova, the ratio is much greater. A recent study found that Moldovan institutions for young children cost from 245,000–339,000 Moldovan Leu (MDL) per child, versus 17,185 MDL on average for family-based services.[3] **This means Moldova can serve 14 children at home for the cost of every child in an institution.**

More importantly, in the long term, **community-based social services for children and families have been shown to strengthen long-term human capital.** Human capital is defined by the World Bank as “the knowledge, skills, and health that people accumulate throughout their lives, enabling them to realize their potential as productive members of society.”[4] There is a large body of evidence that family- and community-based social services—largely unavailable when Moldova became independent—contribute to human capital by enhancing health status and educational outcomes while reducing social problems. This in turn leads to higher lifetime future earnings for today's children.

[1] Van IJzendoorn, MH, Bakermans-Kranenburg, MJ, Duschinsky, R, Fox, NA, Goldman, PS et. al. (2020). Institutionalization and deinstitutionalization of children: a systematic and integrative review of evidence regarding effects on development. *The Lancet Psychiatry*, 7:8.

[2] Ibid.

[3] Changing the Way We Care (2022). Residential institutional evaluation findings and recommendations. Retrieved May 15, 2023: EN Final Summary Residential Assessments (bettercarenetwork.org).

[4] World Bank (2023). About the Human Capital Project. Retrieved May 12, 2023: About The Human Capital Project (worldbank.org).

There are significant costs to economies and societies of inaction. When children are exposed to a range of adversities, including loss of family care, violence, abuse, and neglect, evidence shows that this leads to (i) increased health-care costs for both physical and mental health issues; (ii) higher costs to the criminal justice system, as these children are much more likely to come into conflict with the law; (iii) higher social welfare costs to address the lifelong social problems these children develop; and (iv) as suggested above, a significant drop in productivity and lifelong earnings. **A recent comprehensive analysis found that adverse childhood experiences are costing Europe and the United States an estimated \$1.3 trillion a year.**^[5]

In addition, **investing in family-centered social welfare is an important step towards Moldova's path for joining the European Union (EU).** The European Commission's *Opinion on the Republic of Moldova's Application for Membership of the European Union (June 2022)* highlighted the importance of Moldova's continued progress on deinstitutionalization and on securing other rights for children.[6] In 2021, the European Commission adopted a *European Child Guarantee* that establishes the rights of children to access key services, while outlining the need to eliminate reliance on the remaining residential institutions for children in member states.[7] **External funders (EU, World Bank, bilateral and private donors) should accordingly ensure that Moldova's social welfare and protection programs are adequately resourced to meet its current needs, as well as its long-term EU accession goals.**

Reforming care in Moldova to strengthen families and reduce reliance on institutions should not be carried out in isolation. Children and families have a broad spectrum of needs. Some of those are income related and require social protection programs that provide cash support while promoting long-term resilience, such as through labor market programs or other measures. However, the drivers of institutionalization are not only income related. An array of risks and vulnerabilities can lead to children being placed in residential institutions, including disability, mental health issues, substance abuse, and violence in the household. **There is increasing evidence that combining cash supports with social services—so-called “cash plus care”—is leading to high economic returns in some countries.**^[8] Moldova should therefore seek to coordinate, oversee, monitor, and evaluate programs and services that provide both economic and social supports to families and children facing the risk of child separation and residential placement, or that address the needs of children placed in family care from residential care.

Moldova has made significant progress in reducing its reliance on residential institutions for children, but more remains to be done. Prior to 2000, Moldova had over 17,000 children in residential care. Its commitment since then to reduce the reliance on residential care has led to impressive results, with the number of children in care now below 700.

[5] Brenner, GH (2019). How adverse childhood experiences cost \$1.33 trillion a year. Psychology today. Retrieved May 12, 2023: How Adverse Childhood Experiences Cost \$1.33 Trillion a Year | Psychology Today.

[6] European Commission (2022). Communication from the Commission to the European Parliament, the European Council, and the Council. Commission Opinion on the Republic of Moldova's application for membership of the European Union. COM(2022) 406 final.

[7] European Union. Employment, Social Affairs & Inclusion (2023). European Child Guarantee. Retrieved May 12, 2023: [European Child Guarantee – Employment, Social Affairs & Inclusion – European Commission \(europa.eu\)](https://european-council.europa.eu/media/1000000/attachment/data/00000000/16602023/child-guarantee-employment-social-affairs-inclusion.pdf).

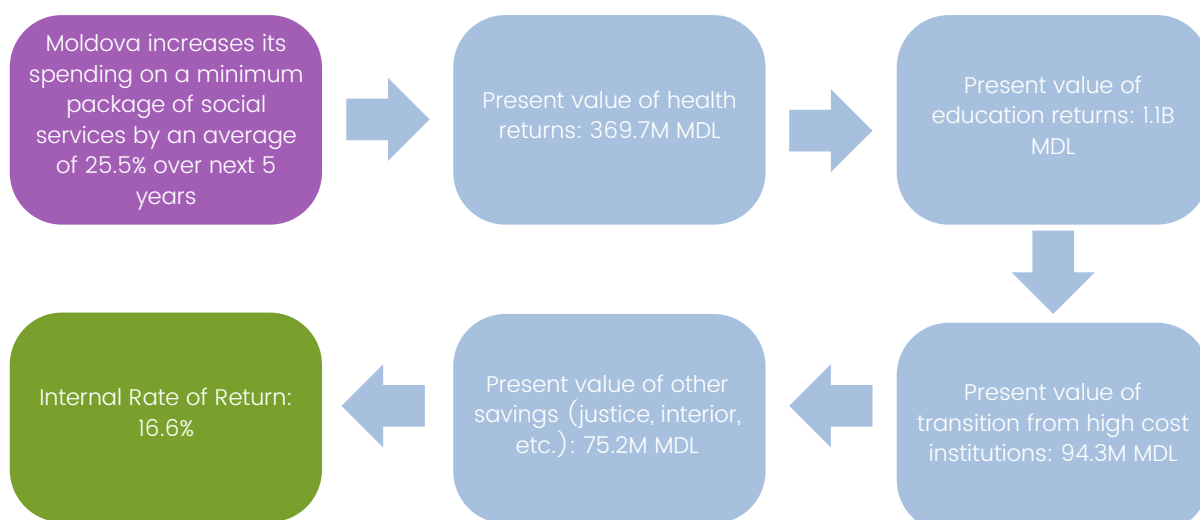
[8] Ozler, B (2020). How should we design cash transfer programs? Wold Bank Blogs. Retrieved May 12, 2023: [How should we design cash transfer programs? \(worldbank.org\)](https://blogs.worldbank.org/development/how-should-we-design-cash-transfer-programs)

A global initiative called Changing the Way We Care (CTWWC) has supported a collective impact approach to mobilize government, civil society, faith communities, and people with lived experience to work together to ensure that Moldova's child protection and care services are effective, efficient, relevant, adequately resource, and accessible to all. **Care reform is not just about deinstitutionalization.** It is about ensuring that vulnerable families receive the supports they need so that children can meet their full potential, and providing the safe, high quality, appropriate, and supported family-based alternative care options some children need, such as guardianship, foster care, and adoption.

Moldova has enacted legislation that includes a minimum package of services for children in need of care. However, informed by recent evidence highlighting the risks that contribute to family separation—and the services that can address the risks—CTWWC proposes a set of five core services to be considered as the minimum package for family care. Government Decision 800/2018 contains some of the services included in the CTWWC core services, but there are some important differences. It is informed by recent evidence . **These five services include: (i) family support; (ii) foster care; (iii) personal assistance; (iv) mobile team; and (v) respite.** This package of services represents an important step toward the social welfare provisions of the *European Child Guarantee*. They focus on supporting families, and preventing separation and violence. However, this package requires resources for implementation.

This report presents the case for investing in a more child-centered social welfare system in Moldova and provides specific estimates on the resources needed. The investment case design was developed by the CTWWC team in Moldova, and coordinated with the Moldovan Ministry of Labor and Social Policy. The report assesses the existing financing of residential and family care services, calculates the costs of primary family services such as professional parental support, family-type children's homes (foster care), personal assistance, mobile teams, respite services, and day care centers for children with disabilities. **Using the best available data, this report provides specific estimates on the financing required to provide the minimum package that Moldova's children need.**

Figure 1: Summary of Investment Case



1. INTRODUCTION

1.1 Objective

This investment case for family-based alternative care services in Moldova will present the impact of investing in child welfare on Moldova's long-term human capital. It will review existing budget allocations and expenditures for 2020–2023, and present estimated cost projections for the next five years (2024–2028) to calculate if resources are sufficient to ensure that both prevention and response mechanisms to protect children are well functioning and adequately resourced.

At independence, Moldova inherited a social welfare system from the Soviet Union that was both costly and harmed children.

1.2 Soviet legacy

The soviet system was based on residential institutions, which the United States and many countries in Europe began to abandon almost a century ago because evidence demonstrated the harms to children's physical, cognitive, linguistic, emotional, and social development.

In many cases, the institutions had high rates of mortality, abuse, and neglect.[9] In contrast, the Soviet welfare model was based on the principle of full employment, with minimal development of the critical areas of social work, case management, and alternative care services. In short, pregnant women during the Soviet period faced two choices at delivery: keep and care for the baby, or place it in an institution.

1.3 Reforms to date

The Republic of **Moldova has been on a fifteen-year journey of moving from a social welfare system based on residential care for children to one centered around family care.** There has been a dramatic reduction in the number of children in residential care, from some 17,000 before 2000 to less than 700 today. Concurrently, progress has been made in developing new laws, policies, and standards to promote family care, including the establishment of models of alternative family care. **A minimum package of care services (MPS) has been established, by law, with a focus on supporting families and preventing separation and violence.** However, there are many systemic areas that are largely undeveloped, and the current humanitarian crisis (see section 1.4) in the country has made reform of Moldova's care system an urgent priority. Resources for strengthening the system must be sought domestically and externally to secure the future of Moldova's children.

Prior to the current humanitarian crisis, **targets for de-institutionalization and the closure of residential institutions reflected in the 2014–2020 National Strategy for the Protection and Promotion of Children's Rights were not met**, in part because of the challenges faced by Local Public Administrations (LPAs) in developing and implementing programs and services to provide adequate support to effectively

[9] Van IJzendoorn, MH, Bakermans-Kranenburg, MJ, Duschinsky, R, Fox, NA, Goldman, PS et. al. (2020). Institutionalisation and deinstitutionalization of children: a systematic and integrative review of evidence regarding effects on development. The Lancet Psychiatry, 7:8.

enable family-based care of children being moved from residential care into alternative care arrangements. Such placements require comprehensive assessment, planning, monitoring, and social supports, all of which are beyond the capacity of many LPAs. Local authorities often have limited resources to address the many competing development priorities beyond social services.

1.4 Humanitarian crisis

UNHCR recorded 814,622 border crossings from Ukraine, and 107,645 refugees, since Russia dramatically scaled-up its invasion of Ukraine in February 2022.[10] The refugees from Ukraine are highly vulnerable, and the Moldovan Government, along with its humanitarian partners, has been providing extensive assistance in receiving and caring for those who decide to stay in the country.

Moldova is hosting more Ukrainian refugees per capita than any other country.

The crisis has put stressors on local communities that were already struggling to recover from the economic and social shocks of the COVID-19 pandemic.

1.5 Macroeconomic climate

These stressors are compounded by Moldova's macroeconomic situation.[11] The Moldovan economy experienced a sharp contraction in 2022 of 5.9 percent over the prior year. Inflation reached 34.6 percent in October 2022, and has only slightly moderated since. Real wages had declined by 10 percent by the end of 2022, and there were significant reductions in private investment and consumption. This led to a widening of the fiscal deficit to 5.5 percent by the end of 2022, which was in part addressed through external financing. **The macroeconomic climate in Moldova is, in general, increasing the risk of the poverty-related drivers of child placement in residential care, while also constraining the ability of the government to mobilize resources for social services.**



[10] UNHCR (2023). Ukraine refugee situation. Retrieved May 15, 2023: Situation Ukraine Refugee Situation (unhcr.org).

[11] All data in this paragraph are drawn from IMF (2023). Republic of Moldova. IMF Country Report No. 23/152.

2. RATIONALE FOR INVESTING IN FAMILY-BASED CHILD PROTECTION SYSTEMS

2.1 Legal basis

The Constitution of the Republic of Moldova guarantees the fundamental rights and freedoms of every person in accordance with the Universal Declaration of Human Rights and the other treaties to which the state is a party (Article 4). According to the same article, international treaties should prevail if they are incompatible with national laws. The Constitution guarantees special protection to the family and orphans (Article 49), protects the mother, children, and young people (Article 50), and also protects people with disabilities (Article 51). **The Government of Moldova has ratified several global human rights conventions relevant to this investment case**, such as UN Convention on the Rights of the Child (ratified in 1993), the Convention on the Rights of Persons with Disabilities (ratified in 2010) and its Optional Protocol (ratified in 2021). The U.N. General Assembly also ratified the Guidelines for the Alternative Care of Children in 2010, which seeks to outline provisions to protect the “well-being of children who are deprived of parental care or who are at risk of being so.”[12]

“The number of babies and children with disabilities in institutional care [in Moldova] is a concern.”

EU Commission Opinion on Moldova's Application for Membership, 2022

2.2 European Union accession

In the EU, and elsewhere in the world, there is growing recognition that poverty and social exclusion manifest themselves in more than just financial terms, and that **children's experiences of poverty and social exclusion are complex and multidimensional** in nature.

The EU has taken action in recent years to promote poverty prevention and investment in children to break the cycle of disadvantage, and reduce the risks of poverty and social exclusion.[13]

Investing in family-centered social welfare is an important step toward Moldova's path for joining the EU. On March 3, 2022, the Government of Moldova applied for EU Membership. On June 23, 2022, the European Council granted Moldova candidate status. The European Commission's Opinion on the Republic of Moldova's Application for Membership of the European Union (June 2022) highlighted the importance of Moldova's continued progress on deinstitutionalization and on securing other rights for children.[14]

[12] U.N. General Assembly (2010). Guidelines for the Alternative Care of Children. A/RES/64/142.

[13] Official Journal of the European Union (2013). Commission Recommendation of 20 February 2013 Investing in children: breaking the cycle of disadvantage. Online. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013H0112_04 November 2021.

[14] European Commission (2022). Communication from the Commission to the European Parliament, the European Council, and the Council. Commission Opinion on the Republic of Moldova's application for membership of the European Union. COM(2022) 406 final.

Joining the EU will provide Moldova with additional resources to invest in child welfare and protection. Once successful, EU structural funds will be made available to Moldova for the transformation of its care system. Many countries that have relatively recently acceded to the EU have used these funds to transition away from residential care, developing their social welfare infrastructure to serve children and families.

Moldova is working to align its policies and legislation with EU standards, including those that relate to child protection and care. These include, inter alia:

- Aligning legislation to the EU Charter on Fundamental Rights, which includes the provision that every child has a right to “maintain on a regular basis a personal relationship and direct contact with both his or her parents, unless that is contrary to his or her interests.” (Article 24)
- In 2021, the European Commission adopted a *European Child Guarantee* that establishes the rights of children to access key services, while outlining the need to eliminate reliance on the remaining residential institutions for children in member states.[15]
- There is a host of EU directives and regulations that have provisions to protect the welfare and well-being of children, which Moldova will need to align with. For example, the EU Directive on the Quality of Education and Social Inclusion of Children will require an inclusive approach to education for all of Moldova’s children. There are also directives and guidelines on health care, unaccompanied minors and children, children and justice, and child participation.

A recent comprehensive analysis found that adverse childhood experiences are costing Europe and the United States an estimated \$1.3 trillion a year.[16]

2.3 The costs of inaction

There are significant costs to economies and societies of inaction. While specific costs cannot be ascertained for any country, studies from around the globe are compelling. When children are exposed to a range of adversities, including loss of family care, violence, abuse, and neglect.

Evidence shows that this leads to (i) increased health-care costs for both physical and mental health issues; (ii) higher costs to the criminal justice system, as these children are much more likely to come into conflict with the law; (iii) higher social welfare costs to address the lifelong social problems these children develop; and (iv) a significant drop in productivity and lifelong earnings.

[15] European Union. Employment, Social Affairs & Inclusion (2023). *European Child Guarantee*. Retrieved May 12, 2023: [European Child Guarantee - Employment, Social Affairs & Inclusion - European Commission \(europa.eu\)](https://european-child-guarantee.ec.europa.eu/).

[16] Brenner, GH (2019). How adverse childhood experiences cost \$1.33 trillion a year. *Psychology today*. Retrieved May 12, 2023: [How Adverse Childhood Experiences Cost \\$1.33 Trillion a Year | Psychology Today](https://www.psychologytoday.com/us/blog/adverse-childhood-experiences-cost-133-trillion-a-year)

2.4 Securing short-term savings that accrue over the long run

In the short term, **cost savings can be realized by transitioning away from residential facilities toward community services for children and families.** These benefits accrue over the longer term. Institutions are capital and resource intensive because of their round-the-clock operations, staffing requirements, and high recurrent costs for utilities, food, and other expenses.

Evidence shows that from 8-10 children can be assisted through family services for every one child in an institution.[17]

A recent study found that Moldovan institutions for young children cost from 245,000 MDL to 339,000 MDL per child.[18]

However, transitioning institutions from their residential purposes to, say, a day care center, requires investment in both capital and recurrent costs. There are examples of how resources can be mobilized in the region. For example, prior to acceding to the EU, Lithuania developed and implemented a Social Policy and Community Social Services Project with the World Bank, which focused in part on transforming residential care settings for children into day services, with the children being reintegrated at home. Like Moldova today, Lithuania was highly resource constrained after independence. The World Bank provided the necessary capital for the physical transformation of the facilities, Sweden provided donor funding for technical assistance and retraining of staff, and local governments committed to funding the recurrent costs (salaries, utilities, etc.) of the new day programs.[19]

In Moldova, national funding sources are still allocated directly to institutions, so the closure and transformation of those institutions should not result in the reallocation of funds to develop locally appropriate social services aimed at family strengthening, alternative family care, and prevention of family separation. Future efforts should focus on redirecting any savings to community-based social services for vulnerable children.

Prevention programs are more cost-effective than responding to problems once they occur. By addressing the root causes of risk and providing support services to families in need, the government can prevent child protection problems from escalating. This, in turn, reduces the need for more intensive and costly remedies such as therapeutic interventions or special education programs. By supporting families and promoting healthy child development, the government can reduce the social costs associated with negative outcomes, namely, increased unemployment, crime, substance abuse, and reliance on public assistance programs, over the long term.

[17] Ibid.

[18] Changing the Way We Care (2022). Residential institutional evaluation findings and recommendations. Retrieved May 15, 2023: EN Final Summary Residential Assessments (bettercarenetwork.org)

[19] World Bank (1997). Social Policy and Community Social Services Development Project. Staff Appraisal Report. Retrieved May 15, 2023: Lithuania – Social Policy and Community Social Services Development Project (worldbank.org)

[20] World Bank (2023). About the Human Capital Project. Retrieved May 12, 2023: About The Human Capital Project (worldbank.org)

2.5 Moldova's future: investing in children's long-term human capital

More importantly, in the long term, **community-based social services for children and families have been shown to strengthen long-term human capital.** Human capital is defined by the World Bank as “the knowledge, skills, and health that people accumulate throughout their lives, enabling them to realize their potential as productive members of society.”[20] There is a large body of evidence that family and community-based social services—largely unavailable when Moldova became independent—contribute to human capital by enhancing health status and educational outcomes while reducing social problems. This in turn leads to higher lifetime future earnings for today's children.

Economic analyses show strong returns from effective child protection programs. An evaluation of U.S. child welfare programs focused on family-strengthening and preservation found benefit to cost ratios of between \$4.76 and \$20.82 for every dollar spent in successful programs.[22]

A review of 4 Swedish parenting programs found benefit to cost ratios of from 5.96 to 15.80 for every Euro invested.[21]

While it is often assumed that investments in the early years lead to higher rates of economic return, a recent analysis suggests that the returns may depend more on design and quality than on the child's age.[23] Good quality child protection programs can therefore yield returns at any age of childhood.



[21] Nystrand, C, Hultkrantz, L, Vimefall, E & Feldman, I (2020). Economic return on investment of parent training programmes for the prevention of child externalizing behaviour problems. Administration and Policy in Mental Health and Mental Health Services Research. Retrieved April 10, 2023: <https://link.springer.com/article/10.1007/s10488-019-00984-5>

[22] Washington State Institute for Public Policy (2023). Benefit-cost results. Retrieved March 7, 2023: [Washington State Institute for Public Policy](https://www.wsipp.wa.gov/ReportsPublications/Benefit-cost-results)

[23] Gelman, A (2020). Heckman curve update. Retrieved March 10, 2023: (<https://statmodeling.stat.columbia.edu/2020/08/12/heckman-curve-update-update/>)

3. THE “MINIMUM PACKAGE” OF SOCIAL SERVICES FOR CHILDREN

After the Minimum Package of Social Services for Children was originally adopted in 2012, the Government of Moldova undertook a review of intergovernmental funding mechanisms for the package in 2014. In 2018, the Government conducted a further review of funding sources for social services, with a focus on supporting families, and preventing separation and violence. However, challenges remain that make it difficult to ensure that a family-based system of care is not only enshrined in law, but also adequately resourced to be sustainable.[24]

Informed by recent evidence, including residential institution assessments, the proposed MPS would include the following services:

- Family support;
- Foster care;
- Personal assistance;
- Mobile team; and
- Respite care.

"By creating and developing social services, we, the state institutions, will invest in human capital, in healthy families, in healthy children, who will grow up and develop in families, and who will then promote the Republic of Moldova even internationally."

Vasile Cușca,
Ministry of Labor
and Social Protection of the
Republic of Moldova



4. METHODOLOGY

This investment case draws on Moldova's current public policies, public finance regulations, budget data, and other information sources to focus on the benefits of redirecting funding from residential care toward programs and services that promote family-based care. It specifically assesses the MPS to determine the share and size of sector budget allocation toward children, the number of children reached by the allocation per budget period, budget execution rates, and budgets and trends of budget allocation to children in the past three years and over the next five years. The investment case is based on a review of the existing budget allocations and expenditures for 2020–2023 for residential care for children with disabilities in six residential care institutions, as well as the estimated costs for family-based child protection services over the next five years (2024–2028) based on the proposed MPS of five services.

The team also conducted a literature review, drawing information from a comprehensive range of sources to determine what elements to include in the costing of programs and services. These include the provisions of global conventions and instruments, regional (especially EU) directives on vulnerable children and institutionalization, public expenditure reviews for Moldova, IMF and World Bank assessments, sector reports, Moldovan legislation, regulations, decisions, and related legal measures, and a broad range of materials related to the public budget.

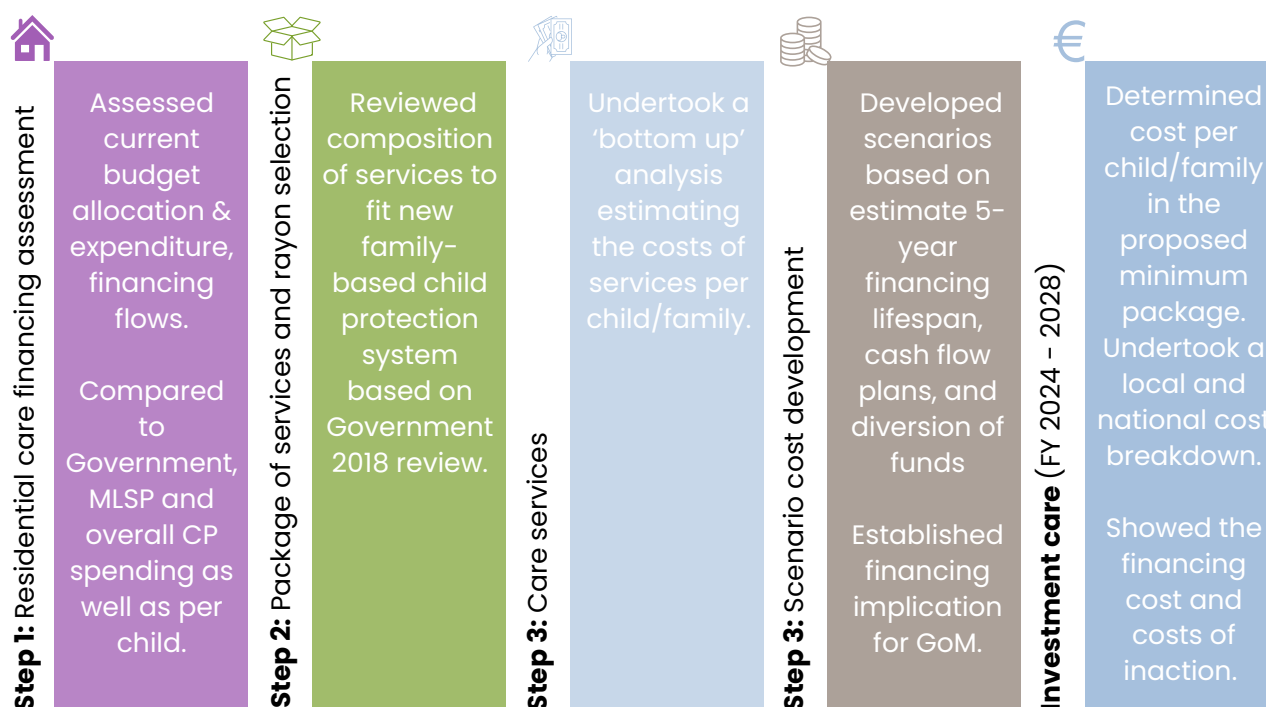
To conduct the review, this sequence of steps was followed (see Figure 2).

- Establish the framework for reports and data collection. As Figure 2 below shows, the team identified and delineated the services and interventions to be costed. (i.e., what services and interventions would be included).
- Refine and approve the data collection framework and desk review. Data collection tools were developed. The agreed data collection framework was used to structure and inform the analysis, and the data used in the investment case, to ensure relevant and appropriate estimates were generated.
- Develop the data collection tool. An MS Excel tool was developed and framed for the data collection exercise.
- Use the data collected to estimate costs. Once the MPS was defined, the costs for each element were identified based on a literature review, public expenditure analysis, and key informant interviews. MS Excel formulae were used to estimate the costs.
- Calculate actual and scenario costs. Estimated costs, as calculated using the MPS per child, were multiplied with the existing 2023 baseline by the number of children benefiting from the MPS. While undertaking this calculation, the cost for each service was determined separately. This provided a total costing figure.
- Calculation of the financing gap.^[25] The financing gap was calculated as follows: Financing gap = current allocation per child – calculated cost per child receiving the MPS, indexed for inflation and the cost of living.

[25] It is worth noting that this approach may have certain limitations in future estimates, given that demand for services can either decrease or increase.

- **Projecting costs.** The calculated costs were quantified and projected for a five-year period. Necessary assumptions were made with respect to the cost categories of the programs/activities and institutions, including inflation. Projections of some of the costs (e.g., salaries) could be made using the observed average rate for the years 2022 and 2023, and the inflation rate forecast for the Eurozone by EUROSTAT.

Figure 2: Investment case methodology



- **The return on investment for individuals, and savings for the government,** was projected, and a cost-benefit analysis conducted using the net present value method, making use of the current investment of the Government of Moldova and assumptions on labor productivity, average gross wage, inflation, and other variables. To determine the internal rate of return, the present value of the estimated investment of the proposed MPS to protect families and children was used, and its costs and benefits to calculate the overall efficiency. A benefit-cost ratio was generated, in which the values of future additional lifetime income (assumed 40 years) and government savings as benefits were discounted to the current investment. This yielded the present monetary value of future costs and benefits. The discount rate reflects society's view of how future individual and government benefits and costs should be valued relative to present ones. In Moldova's case as an EU-candidate country, a discount rate of 3 percent, based on Annex III of the European Commission's Implementing Regulation on Moldova's application, was used. In addition, a steady three percent increase in income was included in the calculations, which covers the increase in average salary and the inflation rate.

5. PUBLIC FINANCIAL MANAGEMENT SYSTEMS IN MOLDOVA

5.1 Financing social services in Moldova

The 2014 Law on Public Finance and Budgetary-Fiscal Accountability (PFBFA) No. 181, and the 2010 Law on Public Internal Financial Control (PIFC) No. 229, are the main legal instruments guiding public financial systems in Moldova. **Under these frameworks, Moldova has been successful in progressively strengthening public finance management across a wide array of functional areas.**^[26] The PFBFA outlines budgetary and fiscal principles and rules, determines the components of the national public budget, regulates inter-budgetary relationships, regulates the budgetary calendar and general budgetary procedures, and delimits competencies and responsibilities. The PIFC establishes general rules and principles for the organization of internal public finance control. The purpose of the PIFC is to strengthen managerial responsibility for the optimal management of resources according to the objectives of a public entity, based on the principles of good governance, by implementing the internal managerial control system and the internal audit activity in the public sector. **The central and local breakdowns of the public budget are presented in Table 1.**

Table 1: Central and local budget categories under the PFBFA

Consolidated central budget	Consolidated local budget
State budget	"First-level" local budgets (budgets of villages/communes, cities/municipalities, except for the municipalities of Chisinau and Bălți)
State social insurance Compulsory state health insurance	"Second-level" local budgets (district budgets), the central budget of ATU Gagauzia, the municipal budgets of Bălți and Chisinau)

The government prepares the national budget for the approval of Parliament, and executes the approved budget. The responsibilities of the different public finance management functions are outlined in Table 2. The provisions of Law 181/2014 on public finance, and budgetary and fiscal responsibility, set out the activities, milestones, and deadlines for their implementation in the budget planning and approval process, according to a specified budget calendar. The line ministries have primary responsibility for budget planning, execution, and reporting for their sectors. Central government is responsible for budgetary and extrabudgetary funds, social security funds, and nonfinancial public corporations. The budget calendar is presented in Table 3.

[26] World Bank (2022). Republic of Moldova. Public expenditure and financial accountability (PEFA) performance report including gender responsive public financial management assessment. Accessed May 18, 2023: [MD-Jul22-PFMPR+GRPFM-Public with PEFA Check_ENG.pdf](#)

Table 2: Primary responsibilities for public expenditure

Institution	Primary functions
Ministry of Finance	Budget preparation, execution and reporting Debt management Tax and customs revenue policies
Financial Inspection	Financial control
Treasury	Treasury services for public administration authorities
State Fiscal Service	Tax collection
Customs Service	Collection of customs duties, VAT and excise duties at import
Court of Accounts	External public audit

Source: World Bank (2022). Republic of Moldova. Public expenditure and financial accountability (PEFA) performance report including gender responsive public financial management assessment.

Local authorities have their own budget processes under Moldovan legislation. They prepare, manage, execute, and monitor their own budgets, which should be aligned with national policies. These budgets are organized in accordance with Moldova's territorial-administrative structure: 32 raions, 2 municipalities, UTA Gagauzia, and 896 towns. There are interbudgetary relationships between central government and all of these local authorities, except UTA Gagauzia. The government is required by law to submit the budget to Parliament, including its medium-term projections, by June 1, when local governments are informed of their budget forecast. Social services are funded from local government budgets, in part from own revenues, and in part from unallocated transfers from central government (which the local authorities can use at their discretion within the parameters of national legislation).

Table 3: Key milestones in the budget calendar

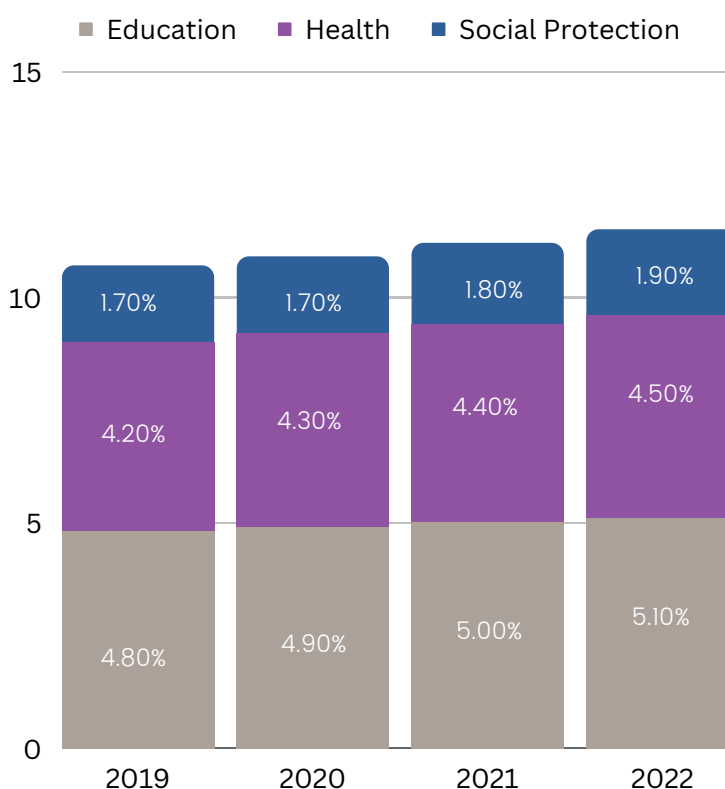
Deadline	Measure
25 February	Medium-term Budgetary Framework (MBTF) prepared, Ministry expenditure plans prepared
5 March	Macro-economic fiscal framework completed
31 March	Ministries adjust expenditure plans based on MoF/MoE ceilings
1 June	Government approves MBTF, budget circular issued
1 July	Ministries submit revised budget proposals to MoF
15 October	Government approval of budget and Parliamentary presentation
1 December	Parliamentary approval of budget

Moldova typically allocates roughly 35 percent of government expenditure to social protection. Much of that is in the form of social and health insurance. **Moldova provides a dedicated subvention to local authorities for social assistance as part of its transfers to local budgets**, which is between 1–2 percent of the total subventions provided.[27]

5.2 Social sector financing

Despite the **macroeconomic shocks associated with the COVID-19 pandemic, the funding for the social sector has increased in recent years as a share of GDP**. [28] In 2019, total funding for the social sectors was 10.7% of GDP. In 2020, this increased to 10.9% of GDP, and in 2021 and 2022, it rose further, to 11.2% of GDP and 11.5% of GDP respectively (see Figure 3). **However, this occurred against the backdrop of the sharp drop in GDP in 2022.** While Moldova prioritized social sector spending during the economic decline, the economic contraction limited any nominal budget increases the social sectors received.

Figure 3: Social sector financing trends



This meant that resources for developing the capacity of the care and protection systems remained constrained, even as the stressors on families were compounded by the pandemic.

5.3 Financing social and child protection services

According to the Law on Administrative Decentralization (435/2006) and the Law on Social Benefits for Children (315/2016) in the sphere of social protection, raions are responsible for the administration of social assistance, and the **development, and management and monitoring of community social services for socially vulnerable categories of the population**, as well as the **monitoring** of said services. As noted above, these mandates are financed from locally generated revenues within the district budgets, and state budget transfers. Two services – personal assistance and family support service – receive additional funds from special purpose transfers from the Population Support Fund (because they are included in the minimum package of social services). Apart from the expenses related to personnel, goods, and services, children placed in care receive social benefits in the form of one-off placement allowances, monthly allowances, daily allowances, and one-off allowances upon reaching the age of 18. The sources of financing by services and activities are presented in Table 4.

[27] World Bank (2022). Republic of Moldova. Public expenditure and financial accountability (PEFA) performance report including gender responsive public financial management assessment.

[28] National Bureau of Statistics of the Republic of Moldova. (2023). Statistical Yearbook of the Republic of Moldova. Chisinau, Moldova.

Table 4: Funding sources for the minimum package

Name of the service, activities	Funding source		
	Ongoing district budget funding	Special purpose transfers from the state budget	Population Support Fund transfers
"Professional parental assistance" and "Family-type children's home"			
Salaries	+		
Single placement allowance, monthly allowance, and single allowance upon reaching the age of 18	+		
Daily Allowance		+	
"Community home for children at risk" and "Fostering center for children separated from their parents"			
Salaries	+		
Goods and services	+		
Daily Allowance		+	
"Personal Assistance"			
Salaries	+		
Goods and services	+		
Social service "Support for families with children"			
Salaries	+		
Material aid to beneficiaries	+		
Guardianship			
Single placement allowance, monthly allowance, and single allowance upon reaching the age of 18		+	

Since the issuance of the 2018 Government Decision on the minimum package, financing of the MPS increased in nominal terms in recent years, from 382.7 M MDL in FY2020 to 538.4 M MDL in FY2023, a 41% increase over three years. Expenditures also increased, from **314.6 M MDL in FY2020 to 482.5 M MDL in FY2022**.

However, when compared against annual government budgets for the same years, the **financing of the MPS as a share of the government budget fell, decreasing from 0.49% in FY2020 to 0.45% in FY2023** (see Figures 4 and 5).

Figure 4: Financing trends of Minimum Package of Services (MPS) across years

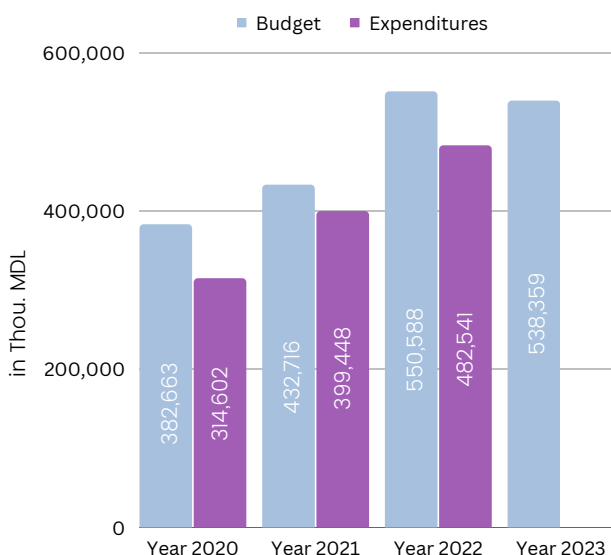


Figure 5: Minimum Package of Service as a % of the GoM annual budget

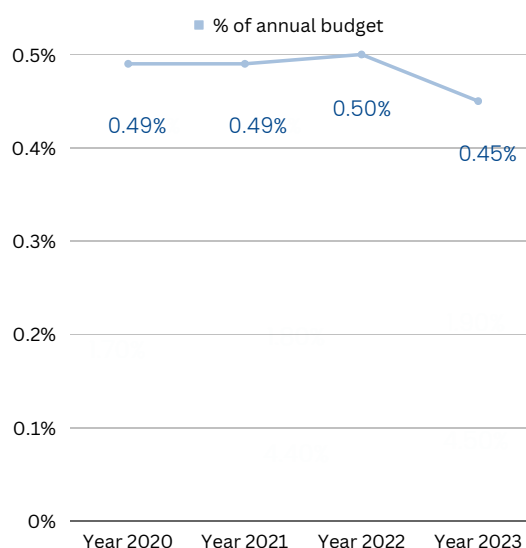


Photo credit: Schimbator Studio

Table 5 presents the budgeted and actual expenditures for each of the five services. [29] As can be seen, all services have seen an increase in budgets; however, the budgets are not being fully executed. Efficiency in spending should be improved in all social services within MPS. More analysis is needed to determine the bottlenecks in budget execution for these services.

Table 5: Budgeted and actual expenditures for the MPS, in '000s MDL

Service	Year 2020		Year 2021		Year 2022		Year 2023
	Budget	Exp.	Budget	Exp.	Budget	Exp.	Budget
Foster care: a. Professional parental assistance	49,270	43,268	52,783	45,210	56,148	48,748	66,833
Foster care: b. Supporting family-type children's homes	11,996	9,507	13,018	10,356	13,711	11,917	15,271
Personal Assistance	274,033	237,537	337,009	318,881	457,704	406,592	438,476
Social support for families with children	34,898	14,143	16,548	13,710	9,367	2,989	2,999
Social service "Mobile team"	10,776	8,685	11,787	10,064	12,186	10,937	13,493
Social service "Respiro"	1,690	1,462	1,571	1,227	1,471	1,357	1,287
TOTAL	382,663	314,602	432,716	399,448	550,588	482,541	538,359

5.4 Residential care financing assessment

This section assesses the budget expenditures and flows for residential care in Moldova. We assessed six residential children's institutions*, which are financed from the state budget. Two are subordinated to the Ministry of Health, and provide assistance and rehabilitation services for children, while two are subordinated to the Ministry of Education and Research, and provide placement and educational services for children. The last two are subordinated to the Ministry of Labor and Social Protection, and provide placement and care services for children with disabilities (see Table 6).

*There are 15 residential institutions in Moldova, CTWWC analyzed six, the other nine institutions in Moldova are either centrally or locally funded.

[29] There are two types of foster care services, Professional Parental Assistants and Family-type Children's Homes. Both share the same end goal of providing family care to unrelated children. Whilst they are currently two separate services there are efforts underway to consider combining them under the umbrella of foster care service. As such, in this document foster care considers both services under the title of foster care but in Table 5 they are separate budget line items.

Table 6: Residential care facilities by sector ministry

Line Ministry	Institution
Ministry of Health	Center for Temporary Placement and Rehabilitation for Children in Bălți Municipality Center for Temporary Placement and Rehabilitation for Children in Chișinău
Ministry of Education and Research	Auxiliary Boarding School in Anenii Noi Auxiliary Boarding School in Hîncești
Ministry of Social Protection	Temporary Placement for Children with Disabilities in Hîncești Temporary Placement for Children with Disabilities in Orhei

For fiscal year 2023, **the Government of Moldova allocated 145.8 M MDL budget for residential care institutions, which is equivalent to 0.2% of the total annual government budget.** This represents an over 68 percent increase in expenditures since 2020 (89.1 M MDL). The average cost per child has risen as well, from 158,800 MDL per child in 2020 to 239,400 MDL per child in 2023. The per capita cost of housing a child is highest in the Ministry of Health institutions (which have more specialized services).



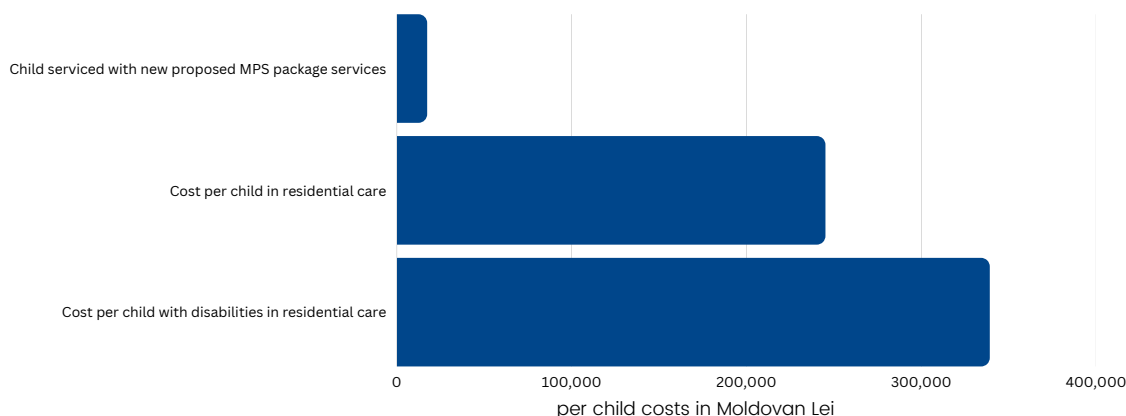
6. THE INVESTMENT CASE FOR A FAMILY-BASED CHILD PROTECTION SYSTEM

According to the 2021 statistics from MLSP, there are 33,666 children in need, or about 6.2% of children living in Moldova. Around 700 children live in institutions, of which 184 are children with disabilities. The costs of the services within the MPS, based on the methodology described in Section 4, are presented below.

Institutional care can have a negative impact on the cognitive, physical, and socio-emotional development of children, particularly during the early years of their development.[30] The UN Guidelines for the Alternative Care of Children recommend residential institutions be of limited use for all children and avoided completely for children under the age of three.[31]

This advice is based on the compelling evidence about the risks and long-term impacts of residential care on children's development.[32] The proposed MPS for family and child protection represents a cost-effective way to help children and families in need. It is estimated to cost 17,185 MDL per child, which is 14.3 times cheaper than the cost of placing a child in residential care (245,000 MDL per child), and 19.7 times cheaper than the cost of providing services to children with disabilities placed in residential care (339,000 MDL per child).

Figure 6: Cost comparison of Family and CP services and institutional care for children in Moldova



Analysis of the cost-effectiveness of the MPS indicates that investment in these services is a sound investment with high returns, as indicated in section 6.1, with savings to both individuals and government, and increased lifetime earnings as a result school participation. Each child would boost their lifetime earnings by an estimated 25,421 MDL each year, and have access to adequate health services, essential for improving the health and well-being of children. It can lead to an additional 25,334 MDL per child, and would increase life expectancy, improve health, and reduce poverty.

[30] Berens, A. E., & Nelson, C. A. (2015). The science of early adversity: is there a role for large institutions in the care of vulnerable children? *The Lancet*.

[31] UN-General Assembly (2010), Guidelines for the Alternative Care of Children, A/RES/64/142.

[32] Browne, K. (2009). The risk of harm to young Children in institutional care. Save the Children

An analysis was conducted on the resources required to fund the MPS as redefined in the Population Support Fund Law no. 827/2000 and the State Budget Law no. 205/2021. Table 7 shows that **funding all five services adequately would require 578.5 M MDL for 2024**, of which 545 M MDL would be in the form of recurrent costs, and 33.5 M MDL in one-off development costs.

Table 7: Funding required for the MPS (FY2024)

Family and Child Protection Services	Recurrent ('000s MDL)	Development ('000s MDL)	Total budget ('000s MDL)	% of annual budget (FY 2023)
Professional parental assistance service + Supporting family-type children's homes	278,080	239	278,319	0.23%
Personal assistance service	225,558		225,558	0.19%
Social support service for families with children	23,790	23,616	47,407	0.04%
Social service "Mobile team"	15,383	2,348	17,731	0.01%
Social service "Respiro"	2,223	7,312	9,535	0.01%
Annual Estimated Costs	545,034	33,515	578,549	0.48%

Medium-term costs for all five services were estimated. These show that the funding gap to adequately fund family child protection services is 87 M MDL for the first year, growing to 141.7 M MDL in the fifth year.[33] More details on each service can be found in the cost model developed for this investment case and available on request. Table 8 shows the breakdown of new investments, while Table 9 shows the funding gap.



[33] Calculation includes only MPS services costs and not the residential and MLSP CP costs.

Table 8: Current projections for the MPS vs. actual needs

	2023 (‘000s MDL)	2024 (‘000s MDL)	2025 (‘000s MDL)	2026 (‘000s MDL)	2027 (‘000s MDL)	2028 (‘000s MDL)
Recurrent Costs (human resources, utilities, supplies, etc.)						
Professional parental assistance	276,244	278,080	249,523	220,109	226,713	233,515
Support service for families with children	23,098	23,790	24,504	25,239	25,996	26,776
Personal assistance service, proportional to the number of children	218,988	225,558	232,324	239,294	246,473	253,867
Mobile team	13,493	15,383	15,845	16,320	16,810	17,314
Respite services	2,159	2,223	14,781	28,091	42,185	43,451
Subtotal – Recurrent Costs	533,982	545,034	536,977	529,053	558,177	574,923
Development Costs (infrastructure, renovations, equipment, etc.)						
Professional parental assistance		239				
Support service for families with children		23,616	50,622	79,227	81,604	84,052
Mobile team		2,348	2,418	2,491		
Respite services		7,312	7,531	7,757		
Subtotal– Development Costs		33,515	60,571	89,475	81,604	84,052
TOTAL COSTS	533,982	578,549	597,548	618,528	639,781	658,975
% of FY 2023 Budget	1.2%	1.3%	1.3%	1.3%	1.4%	1.4%

Table 9: Funding Gap

	2023 (‘000s MDL)	2024 (‘000s MDL)	2025 (‘000s MDL)	2026 (‘000s MDL)	2027 (‘000s MDL)	2028 (‘000s MDL)
Existing financing	446,181	459,567	473,354	487,554	502,181	517,246
Scenario with new MPS introduction*	533,982	578,549	597,548	618,528	639,781	658,975
Additional financing required by GoM	87,801	118,982	124,194	130,974	137,600	141,729

* Residential financing includes an approved budget for 2023 for 6 residential institutions subordinated to MLSP, MH, ME. In the year 2026 only two institutions will remain that host children with disabilities.

** Child protection financing consists of the approved budget for family and child protection at MLSP (84.8 M MDL) and the amounts approved in the Rayon budgets for the following social services: professional parental assistance (66.8 M MDL), family-type children's home (15.2 M MDL), support service for families with children (23.1 M MDL), personal assistance service, (219 M MDL), Mobile team (13.5 M MDL).

6.1 Moldova direct savings in medium and long term

Investment in **family-based child protection services brings both direct and indirect benefits and savings to the state and individuals**. The direct effect would be higher income leading to **higher consumption and gross value added**, and ultimately **increased tax revenues**, in addition to the velocity of money and the expenditure multiplier. **Indirect effects are** more difficult to measure, but lead to **better health and well-being**, which in turn lead to **higher productivity and income**.

Other areas that benefit from investing appropriately in family-based child protection services are **the juvenile justice system, police, detention centers, and prisons**. Cost savings can also be achieved by reducing the need for courts to intervene in cases of child abuse and neglect, and by reducing the cost of medical and mental health care, juvenile justice, and correction centers.

6.2 Potential future returns (income, tax yields, future savings in government sectors)

The proposed MPS is expected to be a profitable investment once those children receiving the MPS enter the labor market. It is estimated to yield **a return on investment within 3.5 years,[34] with an internal rate of return of 15.69%, and a net present value of 35.9 billion MDL**.

Transitioning children from institutional to family and child protection services allows more children to be reached with the same investment. For example, for almost the same investment to serve 598 children in residential care, 33,666 children, or 6.2% of all children in Moldova, can be reached with the MPS. **The net present value of those returns is 94.3 million MDL**.

[34] Authors calculation on Education and Health returns in lifetime earnings and savings in Health, Justice, Correction centers and police.

One of the tangible investment benefits children can leverage from is participation in school. A World Bank study on the economic impacts of COVID-19 on human capital found that children who lost school time during the pandemic were more likely to experience learning loss and fall behind their peers.[35] The study also found that children who were able to catch up on lost school time were more likely to improve their academic performance.

We estimate that the ability of children to participate in school will boost their lifetime earnings by an estimated 25,421 MDL per child per year. This assumes that a child gains 0.5 percent in lifetime earnings for every month of school attended, a figure roughly based on the estimated education losses ensuing from the COVID-19 pandemic. If we use a figure for average labor productivity of 40 years, multiplied by average salary, **the current nominal returns to Moldova are projected at 1.13 B MDL.**

The increase in lifetime earnings for children who participate in more school is a conservative estimate. The actual increase of lifetime earnings could be higher, depending on several factors, such as the child's academic ability, and the quality of the school they attend. **The increase in lifetime earnings is just one of the benefits of increased school participation. Other benefits include improved health, reduced crime, and increased civic engagement.**

Access to adequate health services is essential for improving the health and well-being of children. **It can lead to a range of benefits, including increased life expectancy, better health, and a reduction in poverty.** One way to measure the benefits of improved access to health services is to consider the potential savings and revenues that can be generated if children live healthier lives. These savings and revenues can be measured using the World Health Organization's (WHO) universal measures of disability and mortality, namely disability-adjusted life years (DALYs) and life years lost (YLLs).[36] A DALY is a measure of the overall burden of disease, considering both the number of years of life lost due to premature death and the number of years lived with disability. YLLs are a measure of the number of years of life lost due to premature death. If an individual has reduced productivity, the losses can be quantified in terms of lost years of productivity at the individual level, and lost tax revenue at the state level. For example, if an individual cannot work because of a disability, he or she misses out on many years of potential income. This has a negative impact on individual income, and on tax revenue for the state. By improving children's health, we can reduce the number of DALYs and YLLs, and increase productivity. This leads to income, savings, and revenue for both the individual and the state.

Using a recent study by Daroudi et. al., it was assumed that the average value of a DALY in Moldova is **0.34 times GDP per capita**. [37] Moldova's GDP per capita in 2021 was 92,935 MDL (equivalent \$5,230.70 USD), which means that the average value of a DALY in Moldova is 31,669 MDL.

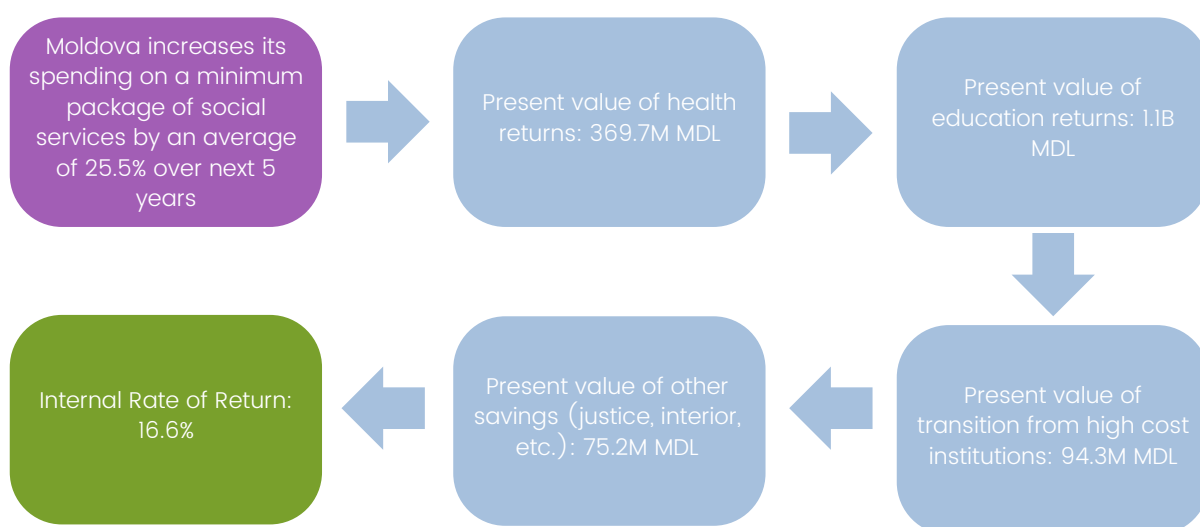
[35] World Bank (2023). How COVID-19 eroded human capital and what we can do about it. Retrieved May 26, 2023: [Collapse & Recovery: How COVID-19 Eroded Human Capital and What to Do About It \(worldbank.org\)](https://www.worldbank.org/en/publication/collapse-and-recovery-how-covid-19-eroded-human-capital-and-what-to-do-about-it). [36] DALYs are a measure of the total burden of disease that considers both the number of years of life lost to premature death and the number of years lived with disability. YLLs are a measure of the number of years of life lost to premature death.

[37] Daroudi, R., Akbari Sari, A., Nahvijou, A. et al. Cost per DALY averted in low, middle- and high-income countries: evidence from the global burden of disease study to estimate the cost-effectiveness thresholds. *Cost Eff Resour Alloc* 19, 7 (2021). <https://doi.org/10.1186/s12962-021-00260-0>

If 6.2% of children (33,666) added 3 years to their life expectancy as a result of access to the MPS, this would save 11,446 DALYs. The value of these DALYs saved for three years of increased life expectancy would accrue for 369.7 M MDL on annual basis (equivalent of \$6.92 M in today's USD). Note that this is only a rough estimate. The actual benefits measured in other sectors could accrue for higher income at both the individual and government levels.

Figure 7 summarizes the above economic benefits and the internal rate of return (IRR) from investing in the MPS. The 16.6% IRR is roughly equivalent to the 17% IRR generated through one of the most robust longitudinal studies on returns on an early childhood development program in the U.S.[38] While figures vary by context, it is roughly equivalent to what investors might seek from a 20-year medium-risk investment in a private sector opportunity.

Figure 7: Summary of Investment Case



[38] Belfield CR, Nores M, Barnett WS, Schweinhart L. The High/Scope Perry Preschool program: Cost-benefit analysis using data from the age-40 follow-up. *Journal of Human Resources*. 2006;41(1):162-190.

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