Overview

- Moldova experienced rapid economic growth, accompanied by significant progress in poverty reduction and shared prosperity.
- Growth driven mainly by remittances and pensions, to a lesser extent by higher wages in nonfarm sectors rather than employment growth.
- As one of the poorest countries in Europe and Central Asia, Moldova needs to continue the progress by addressing structural challenges:
  - Inequalities in access to education, health and services;
  - Weak labor markets, especially in the rural non-farm sectors;
  - Aging demographics that undermine fiscal sustainability of pensions;
  - Volatility in remittance and agriculture incomes due to economic and climatic shocks.
Objective

- Assess recent trends and drivers of poverty changes and shared prosperity performance (Twin Goals) and the potential challenges for further progress.

- Focus on Twin Goals:
  - Poverty trends at the national poverty line
  - Growth in consumption of the bottom 40 percent of population

- Derive results mainly from Household Budget Survey 2007-2014, combined with the Labor Force Survey and other background studies.
Progress in poverty reduction and shared prosperity in Moldova
Poverty has significantly declined in Moldova between 2007 and 2014

World Bank regional poverty lines (2005 PPP) and national poverty line

<table>
<thead>
<tr>
<th>Year</th>
<th>&lt;$2.50</th>
<th>$2.50-$5.00</th>
<th>$5.00-$10</th>
<th>&gt;$10</th>
<th>National pov line</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>12%</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>2008</td>
<td>38%</td>
<td>36%</td>
<td>38%</td>
<td>40%</td>
<td>12%</td>
</tr>
<tr>
<td>2009</td>
<td>38%</td>
<td>39%</td>
<td>38%</td>
<td>40%</td>
<td>12%</td>
</tr>
<tr>
<td>2010</td>
<td>26%</td>
<td>26%</td>
<td>40%</td>
<td>38%</td>
<td>12%</td>
</tr>
<tr>
<td>2011</td>
<td>22%</td>
<td>22%</td>
<td>43%</td>
<td>38%</td>
<td>12%</td>
</tr>
<tr>
<td>2012</td>
<td>17%</td>
<td>17%</td>
<td>42%</td>
<td>40%</td>
<td>12%</td>
</tr>
<tr>
<td>2013</td>
<td>13%</td>
<td>4%</td>
<td>36%</td>
<td>38%</td>
<td>12%</td>
</tr>
<tr>
<td>2014</td>
<td>3%</td>
<td>3%</td>
<td>38%</td>
<td>47%</td>
<td>12%</td>
</tr>
</tbody>
</table>
…as well as the depth and severity of poverty

Poverty depth

- Measured as the average distance between the welfare of the poor and the national poverty line.

Poverty severity

- Measured as the average square of the distance between the welfare of the poor and the national poverty line.
Consumption growth among the less well-off supported inequality decline

Consumption per capita growth

Consumption per capita inequality
Progress in shared prosperity was also remarkable, compared to other countries in the region.
Yet, regional disparities persist

**Poverty rates by urban/rural**


**Poverty rates by region**

- Central: 30.3% (2007), 25.8% (2008), 21.9% (2009), 18.4% (2010), 16.3% (2011), 11.4% (2012), 10.4% (2013), 5.0% (2014)
- South: 31.3% (2007), 29.7% (2008), 24.9% (2009), 20.9% (2010), 16.3% (2011), 11.4% (2012), 7.5% (2013), 3.8% (2014)
- Chisinau: 31.3% (2007), 29.7% (2008), 24.9% (2009), 20.9% (2010), 16.3% (2011), 11.4% (2012), 7.5% (2013), 3.8% (2014)

Using national poverty line.
Moldova is still one of the poorest countries in Europe
What drove poverty reduction and shared prosperity?

- Economic growth
- Labor markets
- Public transfers
- Remittances
What drove poverty reduction and shared prosperity?
The role of economic growth
Economic growth was volatile, but positive...

GDP growth (%)

Real GDP index (2007 = 100)
…and pro-poor overall

GDP and consumption growth

Consumption growth by percentiles
What drove poverty reduction and shared prosperity?

The role of labor markets
Employment has declined in Moldova, driven by falling labor force participation.
This decline is partly explained by migration...

**Reason for unemployment or inactivity, aged 15–64, 2014**

- **Female**
  - Education: 6%
  - Disease: 47%
  - Voluntary inactive: 22%
  - Off season agriculture: 18%

- **Male**
  - Education: 20%
  - Disease: 39%
  - Voluntary inactive: 1%
  - Off season agriculture: 25%

**Adult population abroad working or looking for work**

- **2007**
  - Population 15+, working or looking for work abroad (left): 250 thousand people
  - As share of population 15+: 7.0%

- **2014**
  - Population 15+, working or looking for work abroad (left): 350 thousand people
  - As share of population 15+: 10.0%
… and by moves to informality and lower quality employment

Agriculture employment and low-intensity farming

Share of low-intensity agriculture among adults (aged 15+)

0% 5% 10% 15% 20% 25% 30% 35%

2006 2007 2008 2009 2010 2011 2012 2013 2014

Agriculture as % all employment

% adults working in agriculture for less than 20 hours a week

2007 2008 2009 2010 2011 2012 2013 2014

Poor B40 Non-poor T60
Labor market outcomes are weaker for the poor, who are concentrated in agriculture sector.
The agricultural sector has a dual structure, and many farmers do not have the potential to commercialize.

Structure of the agricultural sector by farm size, 2011
(smallholder <3 ha.)

- <0.5 ha, 51.0%
- 0.5-1 ha, 20.0%
- 0.5-3 ha, 22.6%
- 3-50 ha, 6.1%
- >50 ha, 0.3%

Smallholder farms are three times more likely to switch to subsistence farming than to commercial farming, partly due to:

- Underdeveloped land market that limits land sales or rentals;
- Demographic aging and emigration resulting in less labor supply;
- Limited support for market integration and mechanization or productivity improvement.
However, wages have increased

**Average monthly salary earnings for employees**

**Real average wage growth index, %, 2007=1**
Poverty declines related to the labor market were mostly from non-agricultural earnings.

Decomposition of changes in poverty, by income source:

- **Agri employment**
  - 2007-2010: -0.5
  - 2010-2014: -0.2

- **Agri earnings**
  - 2007-2010: 3.1
  - 2010-2014: 3.0

- **Non-agri employment**
  - 2007-2010: -0.1
  - 2010-2014: 0.1

- **Non-agri earnings**
  - 2007-2010: -0.3
  - 2010-2014: 0.4

- **Pensions**
  - 2007-2010: 0.0
  - 2010-2014: 0.0

- **Social assistance**
  - 2007-2010: -0.2
  - 2010-2014: -0.2

- **Remittances**
  - 2007-2010: 0.0
  - 2010-2014: -0.1

- **Other**
  - 2007-2010: 0.0
  - 2010-2014: 0.0
What drove poverty reduction and shared prosperity?

The role of public transfers
Pensions also had an important role, while social assistance is targeted but small in coverage.

### Income structure by poverty status

<table>
<thead>
<tr>
<th></th>
<th>Non-poor 2007</th>
<th>Poor 2007</th>
<th>Non-poor 2014</th>
<th>Poor 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor income</td>
<td>19</td>
<td>21</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Agriculture income</td>
<td>26</td>
<td>34</td>
<td>26</td>
<td>34</td>
</tr>
<tr>
<td>Pensions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remittances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### Income structure of the poor by areas

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Labor income</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Agriculture income</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Pensions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remittances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Poverty declines related to public transfers clearly show the role of pensions

Decomposition of changes in poverty, by income source

- Agri employment
- Agri earnings
- Non-agri employment
- Non-agri earnings
- Pensions
- Social assistance
- Remittances
- Other
What drove poverty reduction and shared prosperity?

The role of migration and remittances
Migration, especially from rural areas, resulted in a surge in remittances…

Remittances as a share of GDP, 2014

Remittances as a share of household disposable income, %

[Bar charts showing remittances data for various countries and years.]
...and helped lift people out of poverty

Household welfare ranking before (left) and after (right) remittances, 2014
Poverty declines related to remittances show their role, particularly after the crisis.
Can this progress be sustained?

Challenges remain

Spatial and cross-group inequalities + Risks to sustainability
What challenges remain?

Spatial and cross-group inequalities
Rural populations are poorer

Location of the poor and non-poor

<table>
<thead>
<tr>
<th></th>
<th>Non-poor</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>54%</td>
<td>27%</td>
</tr>
<tr>
<td>2014</td>
<td>54%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Monthly income per capita (2005 PPP) by location, 2014

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th>Small towns</th>
<th>Big cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>81%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Non-poor</td>
<td>54%</td>
<td>20%</td>
<td>26%</td>
</tr>
</tbody>
</table>

- 81%: Other
- 19%: Remittances
- 17%: Social assistance
- 13%: Pensions
- 20%: Agriculture income
- 26%: Non-agri labor income

Moldova Poverty Assessment 2016
Poverty is concentrated among larger households with children and elderly

**Poverty rate, by household composition**

- Dotted line: HH with children and elderly
- Solid line: HH with children
- Dashed line: HH with elderly
- Gray line: HH without children or elderly
- Blue line: Elderly-only HH

**Dependency ratio by poverty status**

- Bar chart for young dependency ratio:
  - Non-poor: 10%
  - Poor: 40%

- Bar chart for old-age dependency ratio:
  - Non-poor: 10%
  - Poor: 20%
The less well-off have less access to services, related to their concentration in rural areas....
…. and lower human capital (education and health)

Level of education of among poor and non-poor adults

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-poor</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>51%</td>
<td>28%</td>
</tr>
<tr>
<td>2014</td>
<td>53%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Healthcare access and spending are lower among the poor

- The bottom 20 utilize less health services and frequently forgo treatment when in need because of knowledge and financial barriers.

- The health care financing system fails to provide protection from catastrophic health payments, and out-of-pocket health spending can push the vulnerable into or deeper into poverty.
What challenges remain?

Increasing risks to sustainability of growth and progress in poverty reduction
Demographics: the population of Moldova is shrinking and aging…

Population growth and composition

Old age and child dependency ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Child dependency ratio</th>
<th>Old age dependency ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>Europe &amp; Central Asia</td>
<td>Moldova</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2060</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Children: 24% (2000), 17% (2015), 17% (2030)
- Working age: 66% (2000), 71% (2015), 67% (2030)
- Elderly: 10% (2000), 12% (2015), 15% (2030)
... which, combined with low labor force participation, put pressures on households and the pension system

**Adult (15+) inactive to active ratio, 2013**

**Pensioners to contributor ratio**
Remittances: unsustainable drivers of poverty reduction and shared prosperity

[Graph showing remittances as a share of GDP over time]
Volatility: climate shocks, affecting agricultural sector where the poor are concentrated
Moving forward
Addressing these challenges once and for all is critical for sustainable growth, poverty reduction, and shared prosperity

- Given the limited expected role of remittances and pensions in driving progress, strengthening domestic labor markets is critical.

- Enhancing the conditions in rural areas for development of the farm and non-farm sector, including access to services.

- Mitigating structural challenges: aging, regional disparities and vulnerability of the poor, through wider coverage of service delivery and public transfers.
Upcoming analytical work will look into some of these issues more in depth

- Moldova Systematic Country Diagnostic, aims at exploring the constraints, overall in the economy, to sustainable reductions in poverty and progress in shared prosperity (Fall 2016)

- Jobs Diagnostic, explores labor demand and supply constraints (Fall 2016)

- Economic Security of the Elderly, explores the aging challenges of Moldova and policy options (Fall 2016)
Thank you.

María E. Dávalos
Tu Chi Nguyen