MOLDOVA

PATHS TO SUSTAINED PROSPERITY

A Systematic Country Diagnostic

WORLD BANK GROUP

Report No. 107502-MD

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August 2016

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CURRENCY EQUIVALENTS

(Exchange Rate as of August 15, 2016)

Currency Unit

US$1.00 = MDL 19.7648

Weights and Measures: Metric System

ABBREVIATIONS AND ACRONYMS

BEEPS	Business Environment and Enterprise Performance Survey
DCFTA	Deep and Comprehensive Free Trade Agreement (EU)
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
NBM	National Bank of Moldova
NCFM	National Commission for Financial Markets
OECD	Organisation for Economic Co-operation and Development
PISA	Program for International Student Assessment (OECD)
PPP	purchasing power parity
SOE	state-owned enterprise

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co–Task Team Leaders:	María E. Dávalos; Ruslan Piontkivsky

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Team members and acknowledgments

This report has been prepared by a World Bank team led by María E. Dávalos (co–Task Team Leader, Poverty and Equity Global Practice) and Ruslan Piontkivsky (co–Task Team Leader, Macro Fiscal Global Practice) and including Marcel Chistruga (Macro Fiscal Global Practice) and Tu Chi Nguyen (Poverty and Equity Global Practice), in collaboration with Kartick Kumar (International Finance Corporation). The full World Bank team working on the report included Carolina Odobescu, Marianne Grosclaude, Laura Bonzanigo, Anna Olefir, Margo A. Hoftijzer, Fabrice Karl Bertholet, Arcadie Capcelea, Tuukka Castren, Brett E. Coleman, David S. Bernstein, Elena Georgieva-Andonovska, Maya Gusarova, Oleksii Balabushko, Kimberly D. Johns, Stephen Rimmer, Alaka Holla, Elvira Anadolu, Dino Leonardo Merotto, Adrian Scutaru, Olivier P. Fremond, Pinki Chaudhuri, Sophia V. Georgieva, Kirsten Hommann, Julia Smolyar, Victoria Levin, Mirey Ovadiya, Lily Begiashvili, Maria Claudia Pachon, Winston Yu, David Michaud, Susanna Smets, Simon Ellis, Elena Lungu, Sanda Liepina, Georgiana Pop, Violane Konar-Leacy, Tarik Sahovic, Felicia Pricop, Jana Krajcovicova, Harald Jedlicka, Lucas Gortazar, Olga Kupets, Holly Benner, Stavros Stavrou, and Anatol Gobjila.

The report has been prepared under the overall guidance of Qimiao Fan (former Country Director), Ivailo Izvorski (Practice Manager, Macroeconomics and Fiscal Management Global Practice), Carolina Sánchez-Páramo (Practice Manager, Poverty and Equity Global Practice), and Alexander Kremer (Country Manager). The team would like to also thank Faruk Khan, Feng Zhao, Ludmilla Butenko, and Ana Maria Mihaescu, as well as the Systematic Country Diagnostic Central Support Team for their guidance.

The team is grateful for comments received from Nandini Krishnan, Gallina Andronova Vincelette, David Michael Gould, and the teams across the World Bank who participated at the concept note and decision meetings. The report has been enriched by several rounds of internal discussions, as well as in-country consultations with government, policy research groups, development partners, and civil society organizations.

Executive Summary

Moldova, the poorest country in Europe, has made significant progress in reducing poverty and promoting inclusive growth since the early 2000s. Economic growth has been largely consumption-driven and fueled by remittances. Poverty changes are largely derived from remittances and pensions. Employment has fallen, limiting the role of labor markets in improving living standards. Given that the growth in remittances and pensions will continue to slow, sustainable progress requires a new growth model driven by higher private sector growth and job creation (pathway 1: creating more and better jobs), accompanied by urbanization, and better connectivity and inclusive access to economic opportunities and services (pathway 2: building up and protecting the stock of assets of the population). For Moldova to navigate these two pathways, the report identifies six critical priorities. The top three include governance challenges that affect both pathways: (1) strengthening the rule of law and the accountability of institutions, particularly to unlock the main constraint identified to firm growth and job creation, (2) improving the efficiency and equity of service delivery, for an enabling environment for firms and individuals to access better economic opportunities across Moldova and particularly in rural areas,, and (3) increasing the quality, equity, and relevance of education and training systems, so that Moldovans may become well prepared to access productive jobs. Priority areas also include (4) improving the business regulatory framework, (5) ensuring sound macroeconomic and fiscal management, and (6) reforming the social protection system, particularly pensions. The solutions must reflect Moldova's specificities: its geography and openness, its legacy, and its demographics.

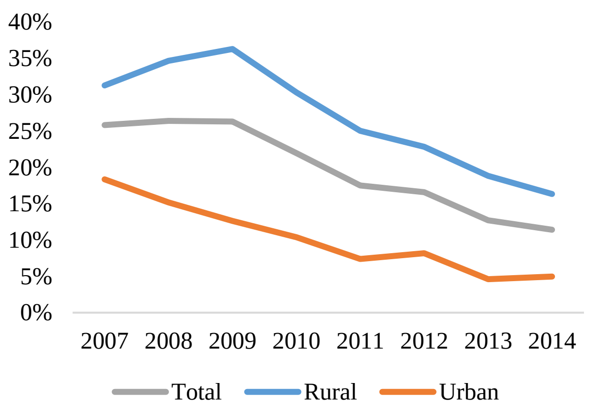
* * *

The economy of Moldova has grown rapidly in the past decade, and growth has been accompanied by significant progress in reducing poverty and boosting the welfare of the less well off, namely, the bottom 40 of the consumption distribution (shared prosperity) (the bottom 40). Since the early 2000s, the economy has expanded by an average of 5 percent a year. Defined according to the national poverty line, poverty declined substantially and stood at 11 percent in 2014, compared with 26 percent in 2007 and much higher levels earlier in the decade. Consumption growth among the bottom 40 was consistently higher than the average consumption growth across the population. In recent years, however, the country has faced many new adversities, from the financial sector crisis revealed in 2014 and a series of summer droughts, to the economic slowdown in the European Union (EU) and the Russian Federation on which Moldova is highly dependent for trade and remittances.

Moldova is considered unique in its openness, its demographics, and its legacy, which, combined, characterize the past development and future prospects of the country. It is a landlocked country, and Moldova's small size (a population of 3.6 million) and central location (bordered by the EU and close to Russia) have contributed to it being an open economy. Foreign trade represents 120 percent of gross domestic product (GDP), surpassing regional peers of similar size. Remittances account for a quarter of GDP, among the highest shares in the world. Nonetheless, large-scale emigration, combined with decreasing fertility rates, has hastened the pace of aging in Moldova. Moldova's legacy as part of the former Soviet Union is reflected in an ethnically diverse population, highly fragmented local administration, and the unresolved status of Transnistria, a frozen conflict.

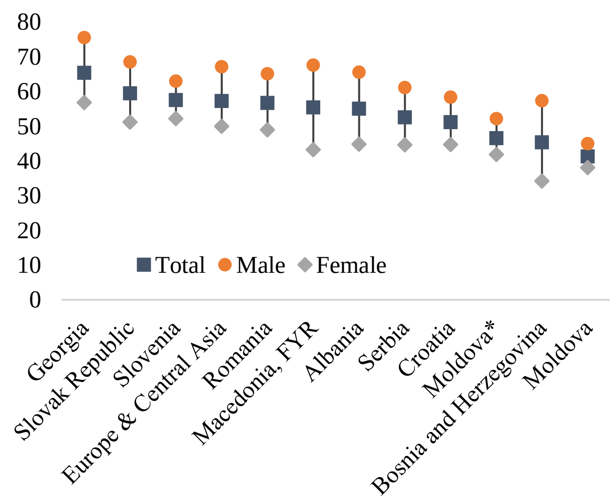
This report takes a close look at the drivers of past progress and identifies the priorities if Moldova is to sustain progress in inclusive growth in the future. It finds that, despite progress, poverty remains a rural phenomenon (Figure E1), with large differences across regions in access to services, assets, and economic opportunities. The diagnostic shows that the overall progress in poverty reduction so far has been driven largely by remittances and pensions. Remittances have made a significant contribution to domestic income, which has fueled private consumption and, together with exports, ignited economic growth. Remittances, mainly going to rural areas where many of the poor are, have also contributed to poverty reduction and the welfare improvement of the bottom 40. Pensions have also played an important role in raising incomes among the population, although mainly in urban areas. At the same time, employment has declined, led by falling labor force participation rates among both men and women which have reached very low levels compared to other countries (Figure E2). This declining labor supply is largely explained by a combination of greater emigration flows, the segment of the inactive who have future migration plans, and informal workers who drop out of the labor force, all symptoms of low labor demand and very limited availability of good jobs. In fact, the lack of jobs and the wage differential with richer country neighbors continue to motivate emigration. Increases in nonagricultural wage income, rather than job creation, have contributed to inclusive growth in Moldova.

Figure E.1. Poverty reduction, Moldova (national poverty line)



Sources: World Bank 2016a; ECAPOV database harmonization as of April 2016, Europe and Central Asia Team for Statistical Development, World Bank, Washington, DC.

Figure E.2. Labor force participation rate, Moldova and comparators, 2014 (ages 15+)



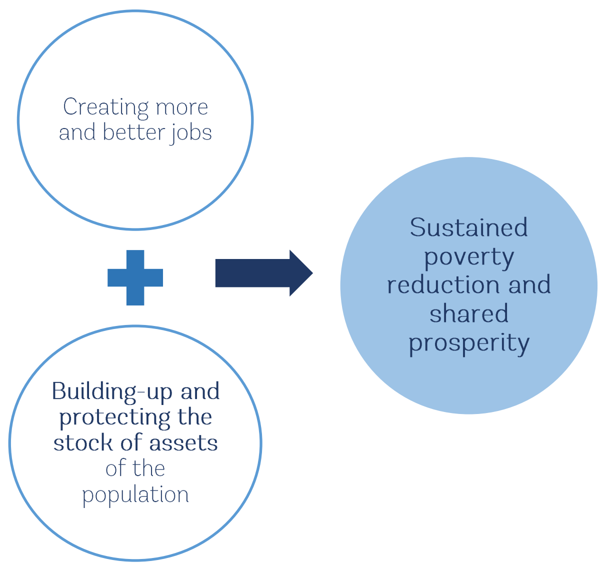
Sources: Moldova National Bureau of Statistics; WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.
Note: Moldova* = excludes from the labor force people who are working or looking for work abroad. These people are counted as inactive. Moldova = the official labor force participation rate.

The uncertainty about the drivers of poverty reduction and shared prosperity of the past can jeopardize the sustainability of future progress. Given the economic slowdown in migrant destination countries and the eventual detachment of long-term migrants, remittance growth will continue to decline. Similarly, substantial informality, low labor force participation, and demographic aging will increase the dependency ratio of the pension system, while reducing system coverage, thereby limiting the role of pensions in welfare improvement. Finally, because the economy is open and depends significantly on agriculture, Moldova is highly vulnerable to external demand and climate-related shocks. It is also subject to potential risks because of high external debt and political instability.

Sustainable progress requires a rebalancing of the growth model for Moldova. As the impact of remittances and public transfers moderates, this growth model needs to be increasingly driven by higher private sector growth and job creation, accompanied by urbanization, better connectivity and inclusion for equitable access to economic opportunities and services. For this, the report proposes two pathways to achieving the World Bank's twin goals of reducing poverty and expanding shared prosperity, as follows (Figure E.3):

- Promoting private sector–led job creation and higher productivity.
- Ensuring that individuals have the human capital stock and ability to take on the new jobs and that they are protected from shocks that could affect their living standards.

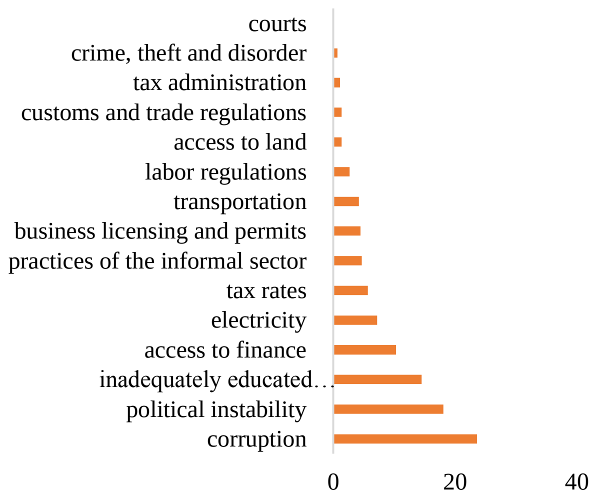
Figure E.3. Pathways to the twin goals, Moldova



The report explores the main constraints as Moldova navigates the two pathways toward reducing poverty and boosting the welfare of the bottom 40. It finds as follows:

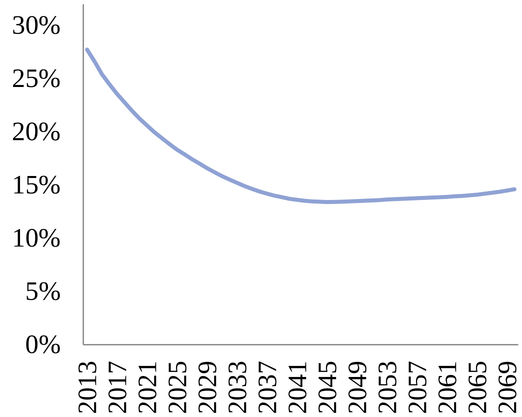
- **Firms face multiple obstacles to creating jobs**. The obstacles relate to (a) the access to inputs such as infrastructure services, finance, and human capital; (b) the regulatory environment, including specific sectoral regulations, particularly in the financial and energy sectors, and regulations influencing trade integration; and (c) the implementation of regulations, with substantial challenges in terms of rule of law (Figure E.4), the judicial system, financial sector weaknesses, and unfair competition, as well as pressures affecting sound macroeconomic management.
- **The population is not well prepared for a modern labor market**. The reasons for the lack of preparation include the poor quality, equitability, and relevance of education and training and the barriers and disincentives to work. The latter are, in some cases, more pronounced among women. Building up the stock of human capital is additionally hampered by poor access to services, reflecting the low quality of institutions and inefficient public spending. These constraints are systematically more severe in rural areas. Furthermore, households are increasingly vulnerable to shocks, including climatic shocks, and social protection systems are not yet adequate to protect them. Pensions, in particular, are becoming increasingly inadequate (Figure E.5).

Figure E.4. Biggest obstacles facing firms, by percent of firms, 2013



Source: World Bank calculations based on data in BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

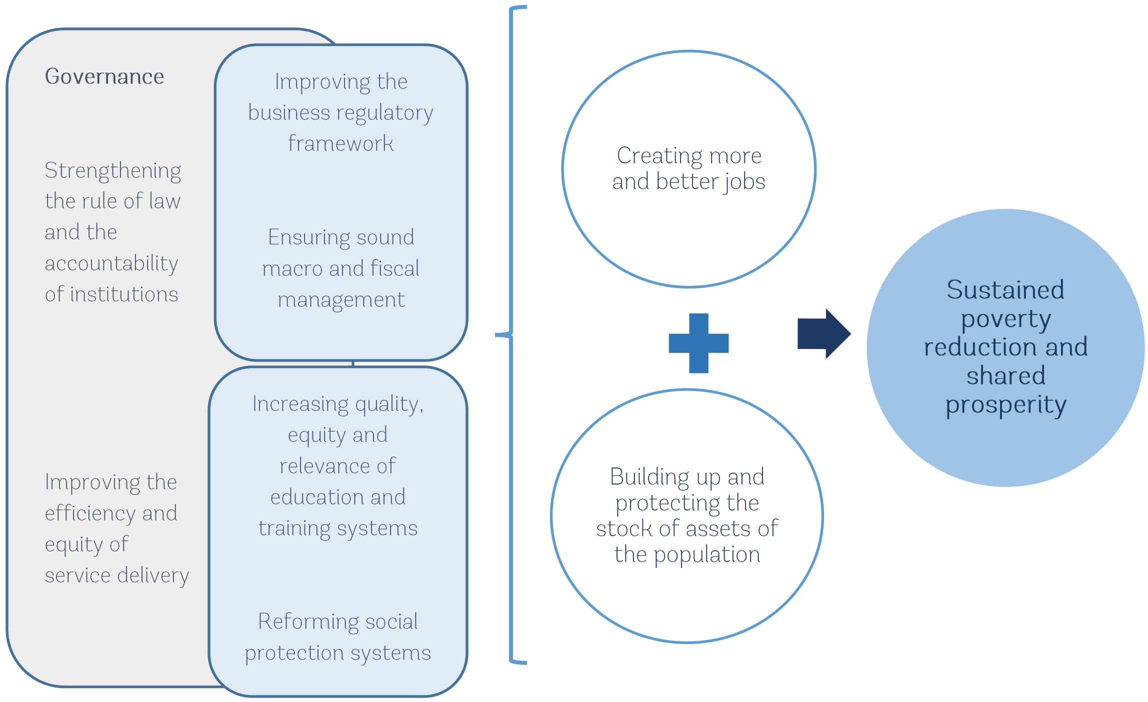
Figure E.5. Pension replacement rates (ratio of old-age pension to average wage)



Sources: World Bank 2016b; World Bank calculations based on data of the Pension Reform Options Simulation Toolkit and of the National Social Insurance House.
Note: For the toolkit, see World Bank (2010).

Six priorities are identified in the effort to create jobs and to build up and protect the stock of assets among the population, with the ultimate goal of reducing poverty and boosting shared prosperity in a sustainable manner. Figure E.6 shows that the challenges in governance strongly emerge in following the two pathways and as top priorities. This suggests that the rule of law and the accountability of institutions should be strengthened, including in the financial sector, as governance-related indicators have deteriorated and corruption is cited as the main constraint to operations by firms. In addition, the efficiency and equity of service delivery should be improved, since limited access to services, especially in rural and remote areas, has contributed to social exclusion. Raising the quality, equity, and relevance of education and training systems is a top priority as well, as education and training systems are not keeping up with labor markets or producing good-quality, equitable educational outcomes. Supporting priorities include reforming the social protection system, particularly pensions, improving the business regulatory framework, and ensuring sound macroeconomic and fiscal management. By creating non-farm job opportunities in rural areas, especially for the large share of farmers with limited potential to commercialize, and by promoting urbanization, connectivity and equitable service delivery, these priority areas can increase economic opportunities for those in rural areas, where the poor are concentrated.

Figure E.6. Priority policy areas and pathways toward the achievement of twin goals, Moldova



The solutions across priorities must reflect Moldova's specificities. The geography and openness of the economy, the legacy of the past, and demographic factors permeate the diagnostic. *Openness* represents the background for Moldova's shift from migration- to competitiveness-based growth. The territorial and ethnolinguistic fragmentation of the country and the high share of the rural population (*legacy*) are the context of the spatial disparities and deficiencies in service provision. Similarly, the rapid shrinking and *aging* of the population cannot be detached from discussions on fiscal pressures, pensions, productivity, and labor market participation. Moldova is unique, and so must be its pathway to prosperity.

I. Introduction

Moldova is a small lower-middle-income European economy. The country declared its independence from the Soviet Union on August 27, 1991 and is considered an intermediate modernizer in the transition to a market economy.[1] Its population is estimated at 3.6 million, although many expect that this will be adjusted downward after the publication of the 2014 population census. Moldova is a relatively resource-poor economy: 57 percent of the population was living in rural areas in 2014.[2] With a gross domestic product (GDP) per capita of $4,754 in 2014 (2011 purchasing power parity [PPP]) and a regional poverty headcount ($5 a day, PPP) of 41 percent, Moldova is one of the poorest countries in the region and the poorest country in Europe.

Moldova's growth performance over the last 20 years has been volatile, but, overall, it has been growing rapidly. There have been three distinct growth episodes in recent years: a period of adjustment and sharp decline in economic activity in 1995–98, high economic growth—at an average of 5 percent a year—in 1998–2008, and, after the global financial crisis of 2008–09, in which the economy was greatly affected, the highest cumulative GDP growth of all regional partners, averaging 5.4 percent in 2010–15. Annex A presents key macroeconomic indicators on Moldova during this last period.

In the context of high economic growth, Moldova has made significant progress in reducing poverty and boosting shared prosperity. After a sharp increase in poverty in 1999 because of the financial crisis in the Russian Federation (the poverty rate rose by around 20 percentage points, to 71 percent), the national poverty rate declined substantially, from 68 percent in 2000 to 27 percent in 2004. Based on a different measurement method, poverty shrank by more than half between 2007 and 2014, from 26 percent to 11 percent. Moldova has also showed good performance in promoting shared prosperity, with 4.8 percent growth in consumption among the bottom 40 percent of the consumption distribution (the bottom 40) in 2009–14, compared with 1.3 percent across the entire population.

An adverse external environment, a summer drought, and a banking crisis hindered economic growth and the growth prospects in Moldova in 2015. First, the deep recession of eastern partners and the trade restrictions Russia imposed on imports from Moldova sharply reduced remittances and cut Moldova's exports to Russia in half, while exchange rate rebalancing led to higher inflation. Second, hot weather and low precipitation caused a double-digit decline in agricultural GDP. Indeed, weather shocks, particularly droughts, have taken a toll in the past decade: from 2000 to 2012, the country experienced four devastating droughts (2000, 2003, 2007, and 2012). The annual economic loss caused by natural disasters was 3.5 percent to 7.0 percent of GDP and even higher in some instances. Finally, a banking crisis brought on by massive fraud in three banks lowered confidence in the banking sector, leading to significant interest rate increases and reduced credit to the private sector. The monetary and fiscal cost involved in rescuing the three insolvent banks (amounting to 12 percent of GDP) led to higher public debt and lower foreign exchange reserves, damaged business confidence, and reduced the macroeconomic buffers against economic shocks. The economy contracted by 0.5 percent in 2015, and growth was projected to be limited in 2016.[3]

[1] Arias et al. (2014).
[2] Moldova National Bureau of Statistics.
[3] World Bank (2016c).

European integration has anchored the government's policy reform agenda since 2009, but political instability and corruption have slowed the pace of reform. Negotiations between Moldova and the European Union (EU) on an Association Agreement and a Deep and Comprehensive Free Trade Agreement (DCFTA) began in 2010 and were concluded on June 27, 2014, with the signing of both documents. Visa-free access for Moldovan citizens travelling to the Schengen area went into effect in April 2014. However, periodic breakdowns in pro-European coalitions made progress uneven. A series of short-lived governments stalled the progress of reform, particularly the modernization of public administration. The resulting high turnover of civil servants in key institutions led to inconsistency in the reform agenda, establishing additional barriers to reform through governance challenges and corruption.

Governance challenges have continued to take center stage. Transparency, accountability, and corruption have emerged as crucial concerns. Moldova's position in the Transparency International corruption perceptions index has deteriorated since 2012, falling from 94th to 103rd among 175 countries in 2015, and trust in institutions is low.[4] According to the 2014 Eurobarometer Survey, 31 percent of Moldovans identified corruption as the most important issue facing the country, compared with an average of 12 percent in the European Neighbourhood and Partnership East Region and 0 percent in Georgia.[5] More recently, 87 percent of citizens stated that corruption is a big problem in Moldova (October 2015). Corruption in Moldova is also becoming more sophisticated. State capture and grand corruption are becoming more prevalent, as exemplified by the banking fraud revealed in November 2014 that involved the loss of the equivalent of 12 percent of the country's GDP. Three Moldovan banks participated, and a former prime minister was subsequently arrested. The links between business and political power have eroded the independence and effectiveness of many regulatory and accountability institutions. Demonstrations to protest the banking scandal and grand corruption more generally that began in spring 2015 continued when approximately 20,000 people protested in Chișinău in September. The protesters raised tent cities outside government buildings and Parliament.

This Systematic Country Diagnostic seeks to identify the key constraints and opportunities in the effort to sustain progress toward the twin goals in Moldova (Box 1). The twin goals adopted by the World Bank are *reducing poverty* and *boosting shared prosperity*. Beyond the traditional goal of poverty reduction, the shared prosperity goal captures two key elements, economic growth and equity, and focuses on fostering income and consumption growth among the bottom 40 percent of a country's population. Thus, improvements in the shared prosperity indicator require that growth reaches the less well off. The diagnostic exercise relies on existing knowledge and evidence, complemented by additional analysis, to propose priority areas where the country might reduce poverty and boost shared prosperity in a sustainable manner.

Box 1. What is Systematic Country Diagnostic?

The Systematic Country Diagnostic is an evidence-based diagnostic exercise that is upstream of the World Bank Country Partnership Framework and that provides the analytical underpinnings for the Country Partnership Framework discussions. It is conducted by the World Bank and involves technical consultations with national authorities and other stakeholders, including civil society, development partners, and academia. The diagnostics

[4] CPI (Corruption Perceptions Index) (database), Transparency International, London, http://www.transparency.org/research/cpi/overview.
[5] Eurobarometer (database), European Commission, Brussels, http://ec.europa.eu/COMMFrontOffice/PublicOpinion/.

are joint products of the World Bank, the International Finance Corporation, and the Multilateral Investment Guarantee Agency.

Its objective is to address the question: *what are the most critical constraints (and opportunities) facing a country in accelerating progress toward the goals of ending extreme poverty and promoting shared prosperity in a sustainable manner?* Interpreted in a particular country context, these goals can refer to the notion of alleviating the poverty and enhancing the welfare of those at the bottom of the distribution, for example, the bottom two quintiles. The diagnostic is meant to be a concise report based on the best possible analysis, drawing on available evidence, and not limited a priori to areas or sectors where the World Bank is currently active or expects government demand.

The remainder of this document is organized as follows. Section II presents three key contextual factors that make Moldova different from other countries in the region and the world. Section III describes Moldova's progress toward the twin goals in the past decade, and Section IV unpacks the drivers of the progress. Section V lays out some challenges to sustainability. Sections VI and VII present the core of the diagnostic of the main constraints on sustainable progress. Section VIII outlines the priorities if Moldova is to reduce poverty and boost shared prosperity. Section IX provides details on the knowledge and data gaps identified in the report.

II. What makes Moldova unique?

Relative to other countries, three main factors make Moldova unique and shape the current context and performance of the country as well as the policy options available to achieve sustainable progress toward the twin goals: geography and openness, demographics, and legacy.

Geography and openness

Moldova is a small country. With a population of 3.6 million and a size of 33,800 square kilometers, Moldova is one of the smallest countries in Europe. Bordered by the EU to the west (Romania) and by Ukraine to the north and south, the country is landlocked.

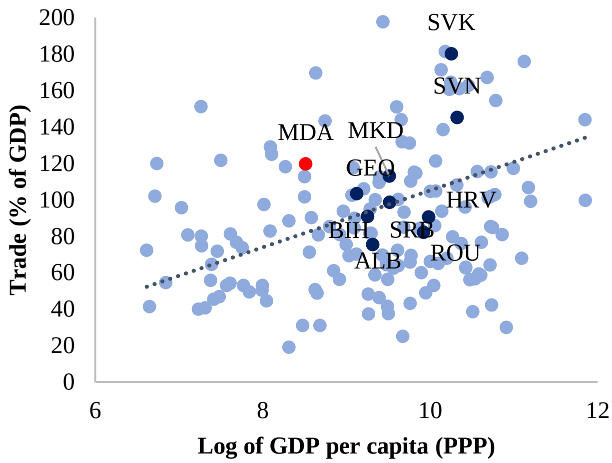
Moldova is an open economy. Moldova is highly integrated into the global marketplace, exceeding the levels of openness of other countries at comparable income per capita. Figure 1 shows that Moldova is more open and more integrated into the global economy than expected given its development level. Indeed, with a trade-to-GDP ratio of 120 percent, Moldova's trade openness surpasses that of regional peers of comparable size, such as Albania, Georgia, and Serbia. However, most of the trade openness is explained by the high share of imports, including the energy imports on which Moldova is almost entirely dependent.[6] In addition, because of the possibility of the free movement of people both to the EU and to the countries of the Commonwealth of Independent States, Moldova is highly open in terms of international mobility.[7] Beginning with the year 2000, official statistical data on migration show an almost threefold increase in the

[6] Moldova is in the 95 percentile worldwide in the share of imported energy, at 96.2 percent of the energy used.

[7] The share of citizens holding dual nationality has increased incrementally since the 2002 passage of a law allowing dual nationality. An estimated 2.4 million Moldovans are eligible for Romanian citizenship, of whom over 300,000 have taken advantage of the opportunity, and between 800,000 and 1.5 million have applied. The Commonwealth of Independent States was formed when the former Soviet Union dissolved in 1991. It now consists of nine full members. All are former Soviet Republics: Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, and Uzbekistan.

number of migrants, totaling 340,000 by the end of 2014 (equivalent to a quarter of the economically active population in 2014).[8] Remittances from Moldovans abroad represent the equivalent of a quarter of Moldova's GDP, one of the highest shares in the region and the world (Figure 2).

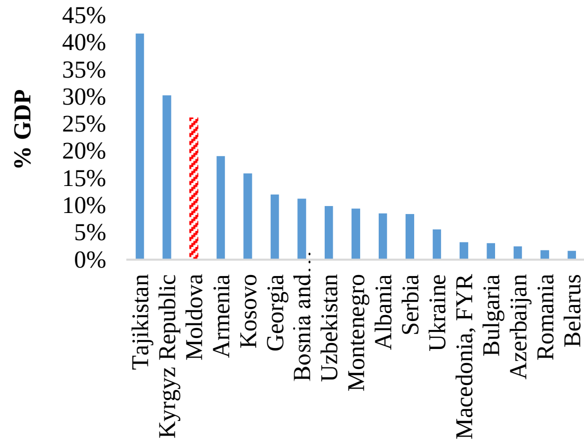
Figure 1. Openness to trade, 2014



Source: WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

Note: The panels plot the relationship between trade openness and GDP per capita for all countries in the world. Relevant comparators are labeled. The curve shows the expected trade openness for a given per capita income.

Figure 2. Remittances as share of GDP, 2014



Source: Development Economics Prospects Group, World Bank.

Demographics

The population of Moldova has been shrinking since the country's independence in 1991 and at a much faster pace than other countries in Europe and Central Asia. From 1990 to 2015, the population dwindled by 21 percent (Figure 3), which is likely an underestimation given the lack of recent census data.[9] Three concurrent trends contributed to this: emigration among the youth population, sharply declining fertility rates, and slow progress in life expectancy. Declining fertility rates stem from decreasing child mortality and high modern contraceptive uptake, as well as from the increase in wages and in educational attainment among women, which raised the opportunity costs of children.[10] Longevity, on the other hand, has been slowed by unhealthy behaviors (smoking and drinking) and low access to health care.[11] If these trends continue, Moldova can expect to see its population shrink by another 31 percent, or a reduction of 1.2 million people, by 2060. The future Moldovan population would, as a result, be much smaller and older.

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[8] There is a huge discrepancy in the number of Moldovan migrants presented in various sources; some argue as many as 1 million people may be working abroad.

[9] The population of Moldova, estimated by the United Nations, does not include Transnistria. See World Population Prospects: The 2015 Revision (database), Population Division, Department of Economic and Social Affairs, United Nations, New York, http://esa.un.org/unpd/wpp/.

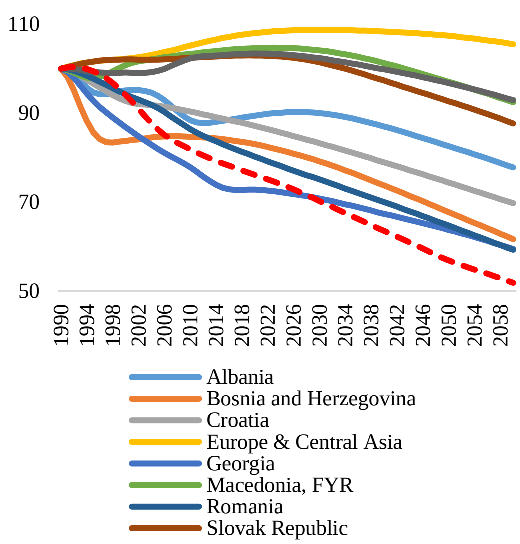
[10] Billingsley (2008).

[11] For details, see World Bank (2016b).

The average age would increase from 38 in 2015 to 47 in 2060. In the same period, the share of the elderly would more than double, to 27 percent, and women in their 60s and 70s would account for a major part of the population.

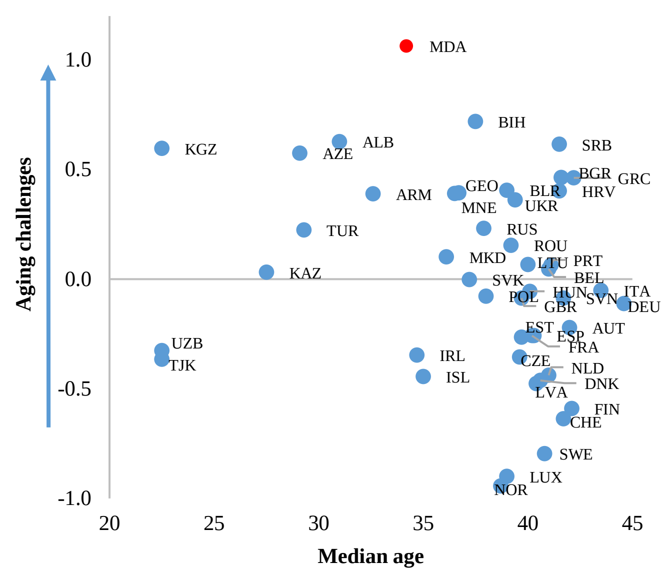
Moldova faces the starkest demographic challenges of the Europe and Central Asia region. A ranking of all the countries in the Europe and Central Asia region in terms of eight socioeconomic indicators related to aging shows that Moldova is in the most challenging situation (Figure 4).[12] Its fertility rate in 2015 was among the lowest in the region, and its net emigration was among the highest. These two factors have resulted in a steady decrease in the working–age population. In addition, Moldova's labor force participation rate is particularly low, with 1.5 inactive adults (aged 15 and above) for every active one. This high dependency ratio, together with relatively high old-age morbidity and mortality rates—in 2012, life expectancy at birth was 59 years among men and 66 among women in 2012, compared with 65 and 69, respectively, in the region—represents a substantial challenge.

Figure 3. Population projections, 1990 = 100



Source: World Population Prospects: The 2015 Revision (database), Population Division, Department of Economic and Social Affairs, United Nations, New York, http://esa.un.org/unpd/wpp/.

Figure 4. Aging challenges index



Source: Bussolo, Koettl, and Sinnott 2015.

Note: Figure 3: the population forecast beyond 2015 is based on the medium fertility, normal mortality, and normal migration scenario. This scenario assumes that fertility rates follow a trend from high to low then fluctuate around the replacement rate (2.1 children per woman) and life expectancy at birth and that migration follows the historical trends of each country and similar countries in the region. For Moldova, the estimates are taken from the 2012 Revision, which does not include Transnistria. Regional averages are simple averages. Details on the indicators included are supplied in the text.

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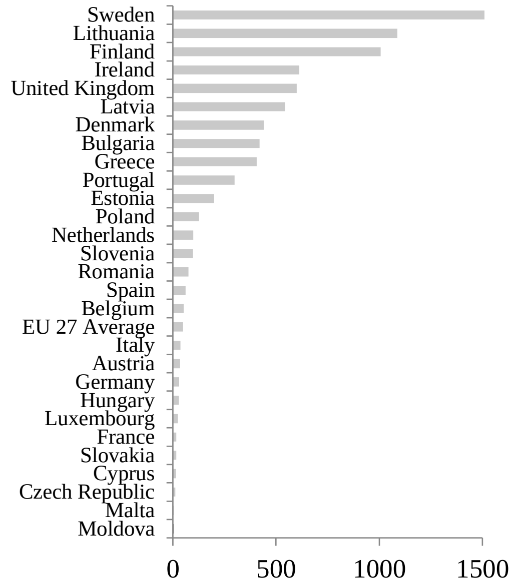
[12] The indicators include the total fertility rate, healthy life expectancy, net immigration, the economic dependency ratio (the ratio of the inactive to the active among the 15+ population), PISA scores in science, gross debt as a share of GDP, the ratio of relative poverty among the elderly (ages 65+) to the young (ages 15–24), and the ratio of voting participation among the elderly to the young (Bussolo, Koettl, and Sinnott 2015).

Legacy

Moldova is characterized by territorial, political, and social fragmentation, a legacy of the country's history. Moldova's current government structure, which has resulted from the reversal of a previous reform of the administrative-territorial organization, is characterized by suboptimally small local governments. Despite a small and shrinking population, there are 35 top tier local administrative jurisdictions (including 2 cities, 32 *raions* [districts], and the Autonomous Territorial Unit, Gagaúzia) and 896 bottom tier jurisdictions.[13] Half the rural bottom-tier municipalities have fewer than 2,000 residents, and more than a quarter have fewer than 1,500 residents. Moldova's municipalities are also small in terms of land area. Their median land area of about 3 square kilometers means the average municipality is much smaller than peer municipalities and also much smaller than local administrative units in EU member states (Figure 5). Furthermore, Moldova's urbanization process has been slow (unlike other countries at a similar income level), and the share of rural residents in the total population has increased: 57 percent of the population reside in rural areas, a higher share than in many other countries in the region.

Figure 5. Average municipal area (square kilometers) in the EU27 and Moldova, 2011



Source: Dexia/CCRE Council of European Municipalities and Regions, National Statistics.
Note: EU27: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

Moldova's ethnic and linguistic diversity has also shaped the development of the country.[14] Moldova's population comprises, alongside ethnic Moldovans and Romanians, a number of other ethnic groups, including Ukrainians, Russians, Gagauz, Bulgarians, and others, who account for about 22 percent of the population. Similarly, around 25 percent do not speak Romanian/Moldovan as their first language.[15] The 2004 census revealed that about 15 percent of households have mixed nationality, and a much larger number of households—around 35 percent—may have a mixed ethnic background. Political and electoral preferences are influenced by membership in ethnic groups. Popular opinion remains divided between two supranational entities, the EU and the Eurasian Economic Union. Opinion polls show roughly equal

[13] This does not include five raions in Transnistria.
[14] On August 31, 1989 the Moldovan language, which is written in the Latin script and shares the same literary standard as Romanian, was declared the official language of the country. Previously, Russian had been the official language of the Moldavian SSR, while Moldovan, written in the Cyrillic script, was also taught in schools and used widely informally. Russian is still the predominant language of all national minorities in Moldova (about a quarter of the population), who typically attend Russian-language schools, though some also take additional courses in their mother tongue (Bulgarian, Gagauz, Ukrainian).
[15] 2004 census.

numbers of supporters of each option.[16] At the same time, this diversity has harnessed economic ties and access to markets in various larger regional economies such as Romania, Russia, and Ukraine.

Furthermore, Transnistria, located in the eastern part of the country, remains a frozen conflict. Having declared independence from Moldova in 1990, Transnistria has no international recognition, and the status of the region remains unresolved and subject to ongoing settlement negotiations (Box 2).

Box 2. Transnistria

Transnistria remains in unresolved status, but dialogue continues. Authorities in Transnistria, the territory of the Republic of Moldova located on the eastern side of the Nistru/Dniestr River, proclaimed the area an autonomous republic in 1990. In March 1992, violence erupted and escalated into a five-month civil war. Transnistria operates as a de facto state, but is not recognized by any international party. This situation has continued to weigh on Moldova's development path, including on negotiations for the EU-Moldova Association Agreement and DCFTA.

The resumption of dialogue—the 5 + 2 settlement process—in February 2012, after stalling for six years, provides an opportunity for progress on the settlement process, although recent developments in eastern Ukraine and Transnistria's difficult economic situation due in part to wider regional challenges are new sources of risk.[a] The framework for international support for the settlement process is based on confidence-building, seen as cementing the positive developments in the negotiation process. Confidence-building measures and negotiations brokered by the Organization for Security and Co-operation in Europe play an important development function in keeping infrastructure and supply networks open between the regions and eastward.

Assessing poverty, poverty reduction, and broader development needs in the Transnistria region has been a challenge because of the lack of reliable household survey data. Some human development indicators (for example, on HIV prevalence) reveal that development challenges may be significantly starker in Transnistria. Transnistria also comprises diverse ethnic language groups; about a third of the population are estimated to be Romanian/Moldovan speakers. The education system and curricula in Moldova and Transnistria are diverging, which obstructs the mobility of young people in tertiary education, jobs, and so on. Enhanced social and economic cooperation on both sides of the Nistru/Dniester River can only serve to increase resilience in the face of escalating conflict in the future.

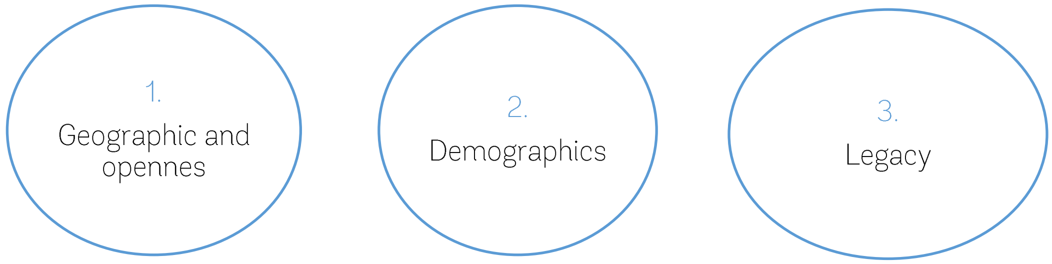
a. Moldova, Russia, Transnistria, Ukraine, and the Organization for Security and Co-operation in Europe are direct participants in this process, and the United States and the EU act as external observers. Ukraine assumed the chairmanship of the Organization for Security and Co-operation in Europe in 2013, and additional momentum was expected at that time.

Contextual and structural factors have shaped the country's development and its prospects and suggest appropriate comparator countries for Moldova to facilitate the core diagnostics of this report (Figure 6). Benchmarking Moldova's performance using countries with which it shares commonalities can strengthen the analysis and be a powerful input into identifying the main constraints facing the country. To identify comparators in a transparent way, a set of indicators aligned with Moldova's country factors have been selected: population (for *size*), trade and remittances as a share of GDP (for *openness*), fertility rates (for *demographics*), and rural population share (for *legacy*). Driven by these indicators and selected thresholds, the comparator countries selected from a worldwide pool of countries are Albania, Bosnia and Herzegovina, Croatia, Georgia, the former Yugoslav Republic of Macedonia, Romania, Serbia, the Slovak Republic, and Slovenia.[17] The comparator countries are limited to the Europe and Central Asia region

[16] See, for example, "Public Opinion Survey: Residents of Moldova, September 29–October 21, 2015," International Republican Institute, Washington, DC, http://www.iri.org/sites/default/files/wysiwyg/2015-11-09_survey_of_moldovan_public_opinion_september_29-october_21_2015.pdf.
[17] The comparator countries have been selected based on their similarities to Moldova along contextual factors, as follows: fertility

because countries in other regions of similar size and openness have not reached the same level of population aging.

Figure 6. Contextual and structural factors, Moldova



III. How has Moldova fared in advancing toward the twin goals?[18]

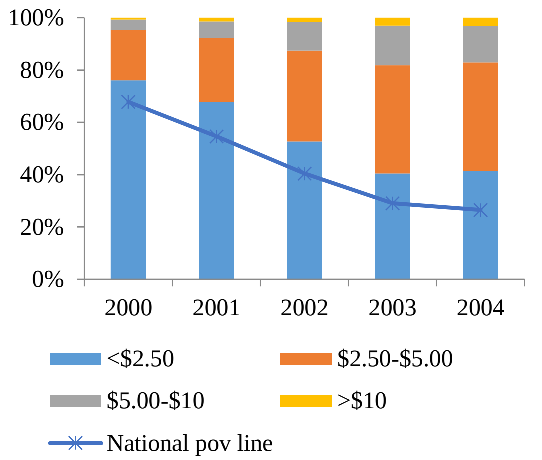
Moldova has made significant progress in reducing poverty. Before the Russian financial crisis of 1999, the consumption-based national absolute poverty rate stood at 52 percent. This skyrocketed to around 71 percent in 1999.[19] Poverty declined significantly after that economic shock, from 68 percent in 2000 to 40 percent in 2002 and 27 percent in 2004. Poverty measured at the regional extreme and moderate poverty lines, calculated at $2.50 a day and $5.00 a day, respectively, also showed a downward trend. Moderate poverty declined, for example, from 95 percent to 83 percent in the first half of the 2000s (Figure 7). Despite a change in the methodology for poverty calculation in 2006 that limits comparability with poverty in previous years, poverty rates continued the downward trend (Figure 8). From 2007 to 2014, national poverty fell by more than half, dropping from 26 percent to 11 percent, although the global financial crisis and climatic and external shocks decelerated the downward trend. The regional poverty lines portray a similar picture of progress. The depth and severity of poverty in Moldova have also declined in the past decade and a half.

rates below the replacement rate (indicating population aging), trade and remittances as share of GDP in the top 40 percent of the world (indicating openness), rural population share in the top 50 percent of the world (indicating administrative and social structure), population of less than 20 million, and not an island country. The factors selected are based on the Find My Friends v. 2.43 tool developed by Faya Hayati.

[18] Annex B provides more information on poverty trends and the profile of the poor.

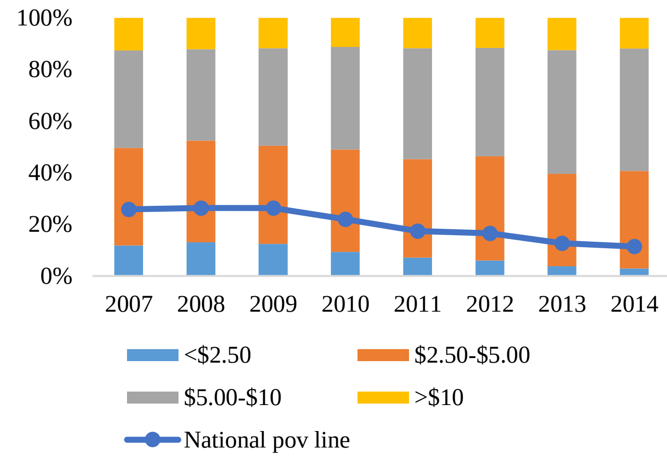
[19] With a poverty line of MDL 1,256 per adult equivalent per year in 2014.

Figure 7. Poverty headcount ratio, 2000–05 (national and regional poverty lines)



Sources: World Bank 2016a; household budget surveys.

Figure 8. Poverty headcount ratio, 2007–14 (national and regional poverty lines)

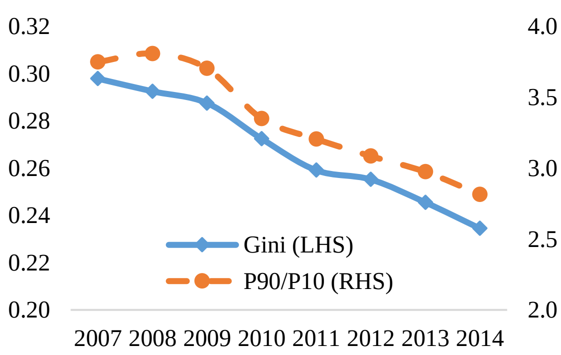


Sources: World Bank 2016a; household budget surveys.

Upward economic mobility in Moldova underlies the observed trends in poverty. During the last decade, a large share of poor households was able to improve their living standards and escape poverty, while few nonpoor households fell into poverty. Since the domestic financial crisis, the share of people who have been persistently stuck in poverty is low, and churning—the phenomenon of people exiting and reentering poverty even repeatedly—seems to be limited.[20]

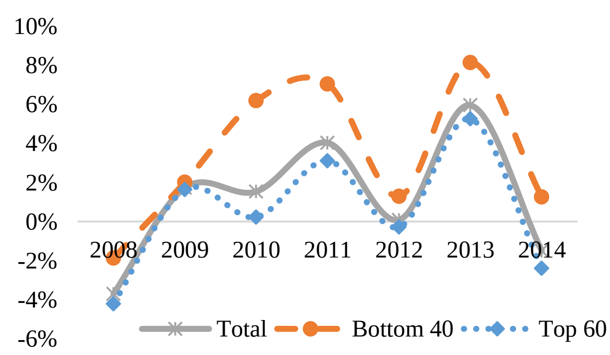
The performance of Moldova in reducing inequality and boosting shared prosperity has also been positive. Inequality fell, and the Gini coefficient went from 0.30 to 0.23 between 2007 and 2014 (Figure 9). The consumption growth of the bottom 40—the indicator of shared prosperity—averaged 4.8 percent over 2009–14, compared with an average 1.3 percent across the entire population (Figure 10). Relative to other countries in the region, the performance of Moldova in promoting shared prosperity has been good (Figure 11).

Figure 9. Inequality indicators, Moldova, 2007–14



Sources: World Bank 2016a; household budget surveys.

Figure 10. Consumption growth among the bottom 40, 2008–14



Sources: World Bank 2016a; household budget surveys.

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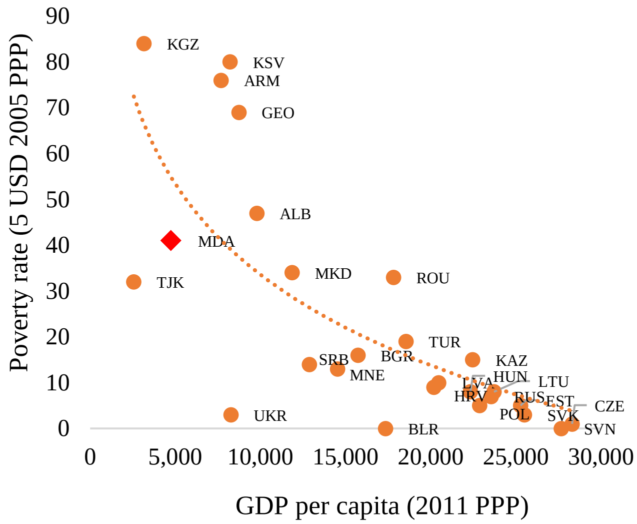
[20] World Bank (2016a).

Figure 11. Growth in income and consumption among the bottom 40 and the total population (shared prosperity indicator), Europe and Central Asia

Sources: World Bank 2016a; ECAPOV database harmonization as of April 2016, Europe and Central Asia Team for Statistical Development, World Bank, Washington, DC.

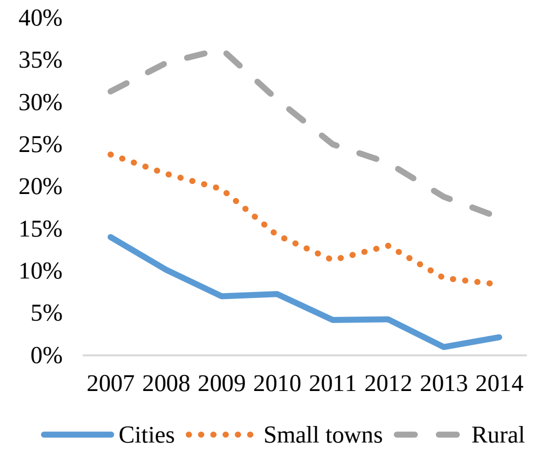
This progress notwithstanding, Moldova is one of the poorest countries in the region and the poorest country in Europe. GDP per capita was $4,754 (2011 PPP) in 2014, which is lower than in most countries in Europe and Central Asia. Its regional moderate poverty rate ($5.00 a day) stands at 40.7 percent, only surpassed by a few countries in the region (Figure 12). Furthermore, a large share of the population—44.6 percent—was concentrated among the vulnerable ($5.00–$10.00-a-day consumption), meaning that they are not poor, but at risk of falling back into poverty.

Figure 12. GDP per capita and moderate poverty headcount ($5-a-day), Europe and Central Asia, 2013



Sources: World Bank 2016a; ECAPOV database harmonization as of April 2016, Europe and Central Asia Team for Statistical Development, World Bank, Washington, DC; WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

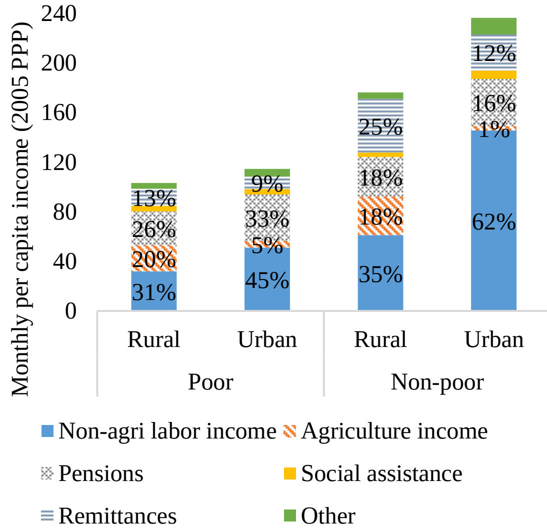
Figure 13. Poverty headcount in urban and rural areas, 2007–14



Sources: World Bank 2016a; household budget surveys.

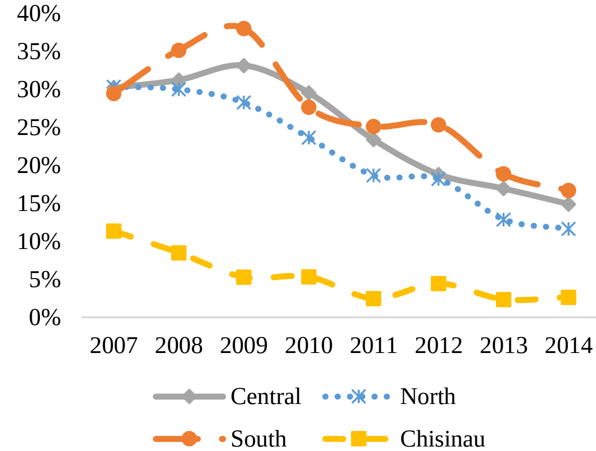
Poverty in Moldova remains a rural phenomenon, and large spatial disparities remain. The rural poverty rate stands at 19 percent, compared with 5 percent in urban areas (Figure 13). While 57 percent of the population lives in rural areas, 84 percent of the poor are concentrated there. The poor and nonpoor in rural areas rely more on agriculture and remittances for income relative to their urban counterparts, who derive more income from nonagricultural employment (Figure 14). Thus, rural areas felt the shock of the 2007 drought much more than urban areas, and poverty rose from 31 percent in 2007 to a peak of 36 percent in 2009, although the downward trend quickly resumed in 2010. Poverty also varies significantly between regions. The lowest poverty rate is in the capital city, Chișinău, and the highest poverty rate is in the center and southern regions (Figure 15). These two regions account for around 66 percent of the poor, but a little less than half of Moldova’s total population.

Figure 14. Income sources, by poverty status and location, 2014



Sources: World Bank 2016a; household budget surveys.

Figure 15. Poverty headcount, by region, 2007–14



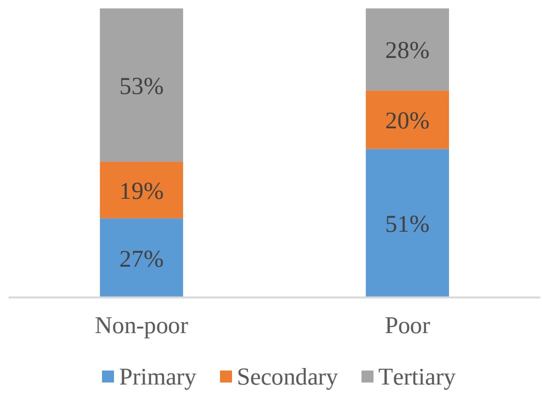
Sources: World Bank 2016a; household budget surveys.

The poor and the bottom 40 have a lower stock of human capital, limiting their income-generating opportunities. The poor and bottom 40 exhibit lower levels of educational attainment. Thus, 28 percent of the poor had attained tertiary education in 2014, compared with 53 percent of the nonpoor (Figure 16). Access to services is also particularly constrained among the poor and the bottom 40. For example, 47 percent of the poor have access to piped water, compared with 77 percent of the nonpoor.[21] Similarly, only 29 percent of the poor have access to a sewerage system, and 11 percent have toilets inside the household, whereas this share is 68 percent and 44 percent among the nonpoor, respectively. Deprivations are more severe among some population groups. The Roma, a small ethnic minority estimated to account for around 0.4 percent of the population, are deprived across more dimensions than the non-Roma in the same locality.[22]

Disparities also exist across groups. Poverty has been decreasing in recent years among all age-groups, but the elderly and children remain slightly more likely to be living in poverty. Similarly, households with members who are children and members who are elderly, as well as households consisting only of elderly members show higher poverty rates relative to the rest of the population. Poor households typically have more members than nonpoor households and significantly higher dependency ratios, especially the child dependency ratio (ages 0–14 years) (Figure 17).

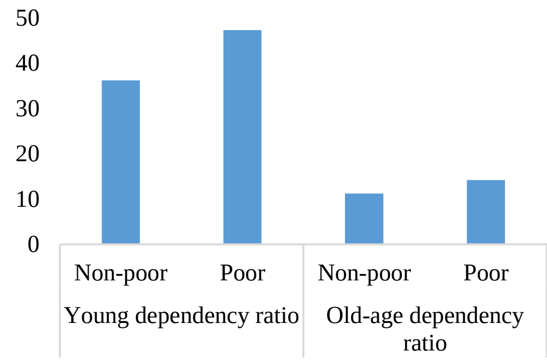
[21] Data of the 2014 household budget survey.
[22] World Bank (2016a).

Figure 16. Education level, poor and nonpoor adults



Sources: World Bank 2016a; household budget surveys.

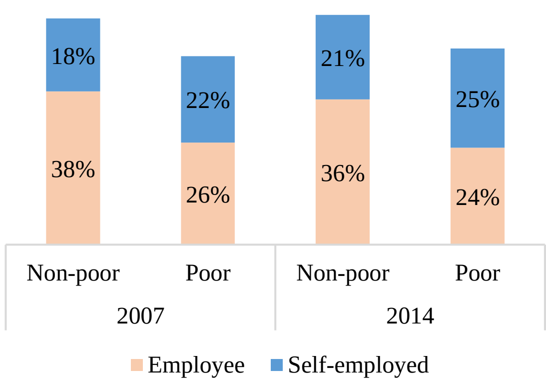
Figure 17. Dependency ratio, the poor and nonpoor



Sources: World Bank 2016a; household budget surveys.

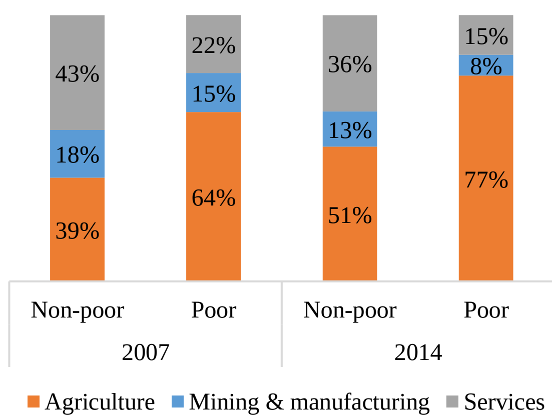
The poor and the bottom 40 also typically hold lower-quality jobs, particularly those people in rural areas. Although employment rates are low across the board, there are substantial differences in the quality of employment across socioeconomic groups. The poor are more likely to be self-employed and less likely to engage in wage employment (Figure 18) than the nonpoor, and a higher share of both groups were in self-employment in 2014 than in 2007. Even among the employed, the poor and the bottom 40 are more concentrated than the nonpoor in the agricultural sector. This is related to the higher concentration of the bottom 40 in rural areas, especially in 2014 (Figure 19). Given the high informality in agriculture compared with other sectors, this dependence on agricultural employment means that the informality rate among the poor and the bottom 40 is high. Accordingly, the reliance on agricultural income of the poor means that they are more prone to shocks related to natural hazards.

Figure 18. Employment status, poor and nonpoor



Sources: World Bank 2016a; household budget surveys.

Figure 19. Employment sector, poor and nonpoor



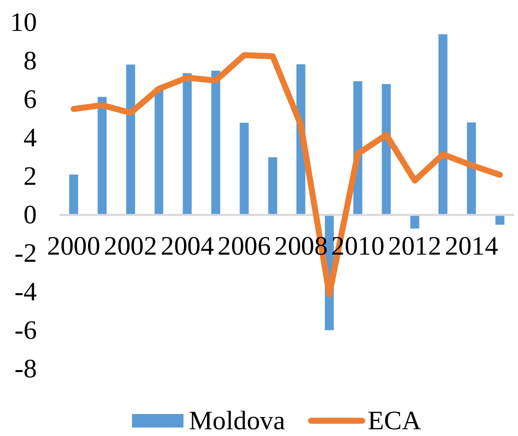
Sources: World Bank 2016a; household budget surveys.

In sum, Moldova has made significant progress in poverty reduction and shared prosperity. Nonetheless, it needs to sustain this progress to catch up with the living standards of other countries in the region. The important question is whether the progress achieved so far can be sustained moving forward given the remaining challenges, particularly the large spatial disparities revealed in the profile of the poor. Identifying the drivers of this progress is therefore key. The next section explores this issue.

IV. What has driven progress toward the twin goals?

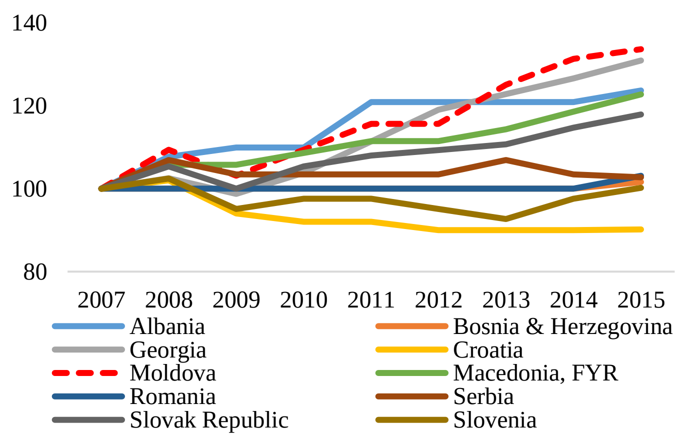
High, pro-poor economic growth has contributed to improved living standards and declines in inequality in Moldova. Moldova's economy has grown on average by 5 percent annually since 2000 (Figure 20). Compared with countries in the region, its growth performance has been stellar, even in the postcrisis period, with the exception of the drought in 2012 and the downturn in 2015 (Figure 21). The rapid economic growth translated into consumption growth for each quintile of the population in 2000–05 and 2007–14. (In Moldova, trends show that GDP growth and household consumption and income growth move in tandem.)[23] Even though growth slowed during the second period, it was particularly pro-poor, continuing the process of poverty and inequality reduction (Figure 22). Consistently, a decomposition of poverty changes between increases in mean consumption growth and changes in consumption distribution shows that mean consumption growth led the poverty changes in the first half of the 2000s, while both consumption growth and redistribution had a role in the second half and onward.

Figure 20. GDP growth, 2000–15



Sources: World Bank 2016c; WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

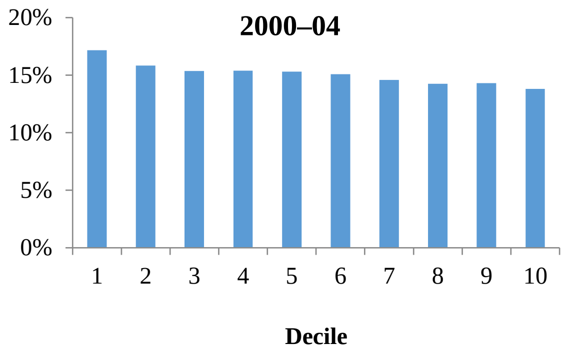
Figure 21. Real GDP index, comparator countries, 2006–15 (2007 = 100)

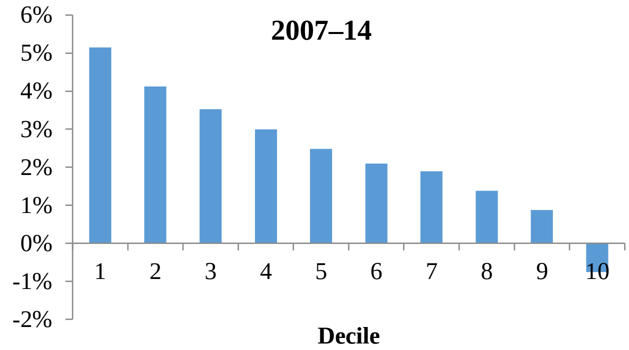


Sources: World Bank calculations; WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.; WEO (World Economic Outlook Database), International Monetary Fund, Washington, DC, http://www.imf.org/external/ns/cs.aspx?id=28.

[23] World Bank (2016a).

Figure 22. Consumption growth, by decile, 2000–04 and 2007–14

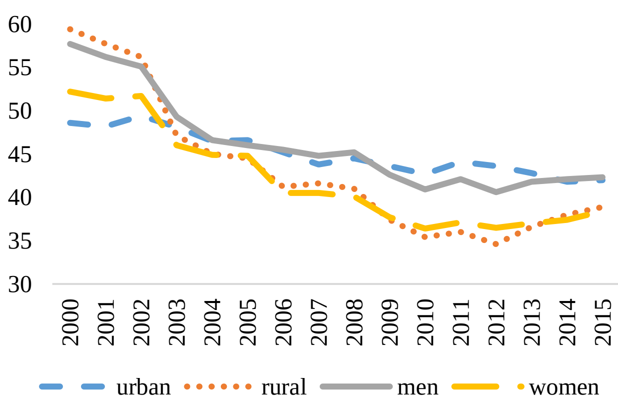




Sources: World Bank 2016a; household budget surveys.

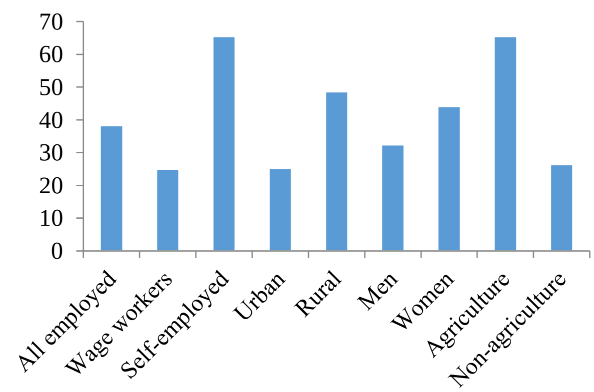
However, the high, pro-poor consumption growth experienced by Moldova was not underpinned by the creation of good jobs. Official employment rates of men and women ages 15 or above in both urban and rural areas, consistently declined over the 2000s; the average fell from 55 percent in 2000 to 39 percent in 2010. The service sector was the only sector with net new job creation in the first decade of the 2000s up to the global financial crisis in 2008–09, but the trend has faded since then. Urban areas and the service sector accounted for most of the gains in better jobs during that earlier period.[24] Since 2010, employment has remained relatively stable (Figure 23), but particularly low among women and rural residents. This stable trend masks spatial inequalities, however. Employment rose in Chișinău, while it decreased in most other regions.[25] Of equal concern is the prevalence of underemployment, especially among those who are self-employed and those who work in rural areas or in agriculture. Some of the underemployment may be voluntary, but the high level of underemployment suggests that jobs in these areas were lower quality (Figure 24).

Figure 23. Employment rates, 15+ age-group, 2000–15



Source: National Bureau of Statistics.

Figure 24. Underemployment (working less than 40 hours a week) among employed, 15+ age-group, 2014

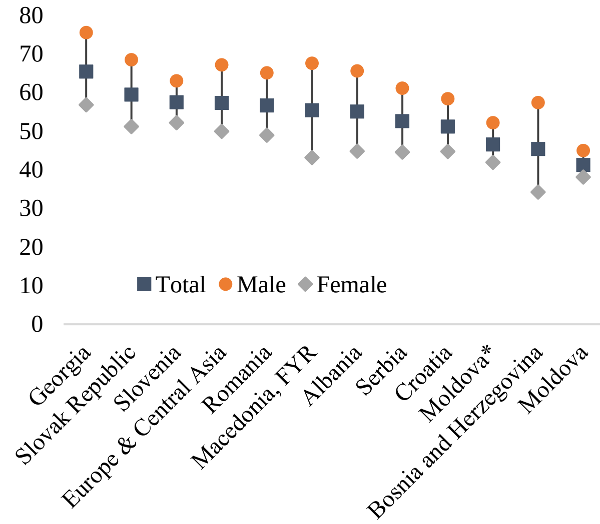


Source: Ronnås (2015) based on Moldova labor force survey.

[24] World Bank (2016d).
[25] Ibid.

The employment decline has been driven by a persistent fall in labor force participation, partly driven by migration. Moldova has the lowest labor force participation rate relative to comparator countries and the average in the countries of Eastern Europe and Central Asia. Labor force participation declined among both men and women from 60 percent in 2000 to 41 in 2014, while unemployment is low. Both young women and men were taking longer to transition to work, and they were more likely in 2015 than in 2005 to transition from school to inactivity (neither work nor school) rather than employment.[26] This decline in participation, more pronounced in rural areas, is explained by a combination of greater emigration flows (because migrant household members are officially classified as inactive), the segment of the inactive who have future migration plans, and informal workers who drop out of the labor force.[27] Even if one corrects for people working or looking for jobs abroad, Moldova's labor force participation rate is low (Figure 25), although the gender gap slightly widens given the higher migration among men.[28] Unemployment rates, meanwhile, fluctuated significantly over the period. Between 2000 and 2006, about 7–8 percent of the labor force was unemployed; the unemployment rate then fell dramatically to 4 percent by 2008, rising back to more than 7 percent by 2010 and again declining at a rapid pace to 4 percent by 2014.

Figure 25. Labor force participation rate (ages 15+) for Moldova (official definition and excluding migrants) and comparators, 2014



Sources: Moldova National Bureau of Statistics; WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

Note: The number for Moldova is the official labor force participation rate for Moldova. It excludes from the labor force people who are working abroad or looking for a job abroad. These people are counted as inactive in the official definition.

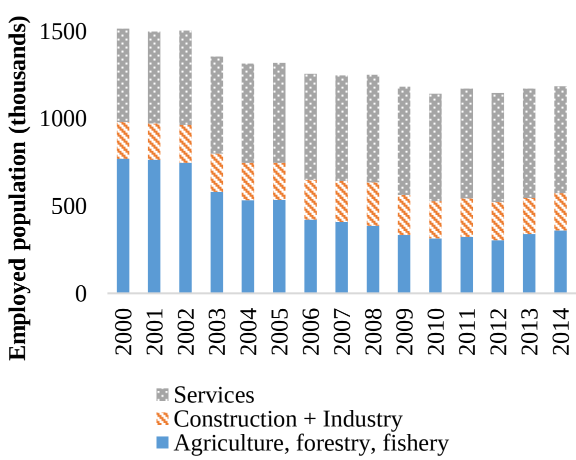
Moldova also stands out as a country with low worker productivity, reflecting an incomplete transition from a planned economy, with a large primary sector and pervasive informal employment. Informal employment is high in Moldova relative to other countries in the region. The incidence of total informal employment is around 30 percent, while it is 10 percent among wage employees, who are concentrated mostly in micro and small enterprises.[29] This reflects a large agricultural sector dominated by many small subsistence farms. Although smaller than in the past, a large share of employment remains in

[26] World Bank (2016d).
[27] Ganta (2012); World Bank (2014a).
[28] In accordance with the international recommendations currently in force, the definition of employment adopted by the National Bureau of Statistics excludes persons who worked for less than 20 hours in the production of agricultural goods exclusively for own consumption by their household or persons who render unpaid domestic or personal services to their own household. Moreover, following international definitions and to harmonize employment statistics with national accounts statistics, those working abroad are defined as inactive (Ronnås 2015).
[29] The definition of informal employment in Moldova comprises the self-employed in the informal sector, unpaid family workers, and wage workers who do not receive any of the following three benefits: (a) social contributions paid by the employer, (b) paid annual leave, or (c) sick leave (World Bank 2014b).

the agricultural sector. Over the first decade of the 2000s, the share of agricultural employment in total employment decreased, falling to 28 percent in 2010 compared with 51 percent in 2000. Both industry and agriculture saw sharp declines in employment, particularly up to 2010 (thus, there were over 450,000 fewer jobs in agriculture between 2000 and 2010), in line with changes in the productive structure of the economy: by 2010, compared with 1995, the share of the industrial and agricultural sectors in GDP had decreased 29 percentage points in favor of nontradable sectors (Figure 26 and Figure 27). The decline in agricultural jobs in the early and middle years of the first decade of the 2000s was associated with the migration of agricultural workers abroad. For instance, a 2012 survey of labor migration revealed that more than two migrants in five had worked in agriculture in their home country (43.3 percent).[30] Whereas most working-age Moldovans are still rural, an increasing share of the workforce is becoming urban, given the domestic and high international emigration from rural areas. From 2010 onward, employment in agriculture rose at the expense of employment in other sectors; the number of agricultural jobs climbed from 315,000 to 361,000 between 2010 and 2014.

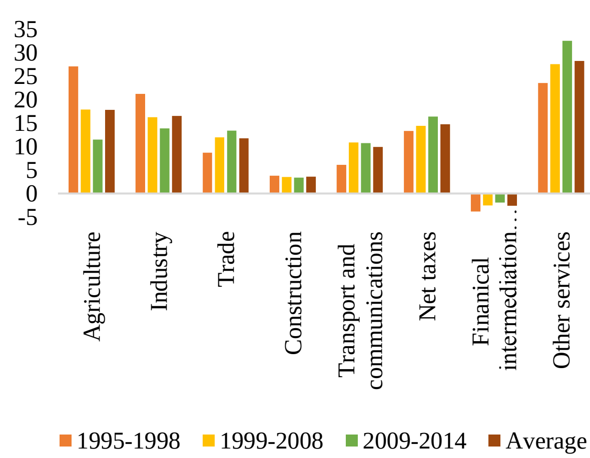
In addition, an increasing number of people are working in subsistence agriculture. Expanding the official definition of employment used in Moldova so as to include people in self-employment in agriculture for own consumption who are working less than 20 hours a week reveals that the share of people with these types of jobs rose from 15 percent of those working in agriculture in 2007 to 24 percent in 2014. This suggests that a larger share of people—mainly older people and the less well educated—now engage in unpaid, low-intensity agricultural jobs. Many of these people are likely to be among the poor.

Figure 26. Employment, by sector, 2000–14



Source: National Bureau of Statistics.

Figure 27. Shares of GDP, trends by sector, 1996–2014



Source: World Bank calculations based on national data.

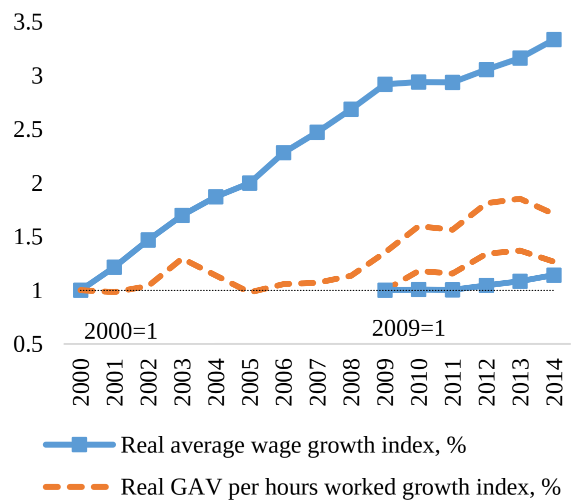
While the gender gaps in employment are relatively narrow, segregation by economic sector has given rise to gender inequalities. For instance, 75 percent of working women are concentrated in three sectors: public administration and education, agriculture, and trade and hotel services. Only 21 percent of firms

[30] World Bank (2016a).

employ women as top managers. This segregation underpins a gender wage gap of 26 percent, even in sectors in which women predominate.[31]

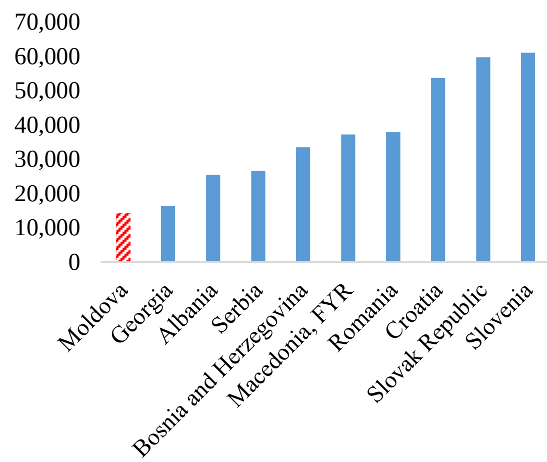
Wages have increased, but not enough to compensate for the employment trends. Throughout the 2000s, real average wages were on an upward trend, significantly exceeding the labor productivity growth and contributing to an import and consumption boom. Since 2009, the trend has reversed: wage growth has moderated and has become more sustainable, in line with (or even lagging) underlying labor productivity growth (Figure 28). Compared with neighboring countries, however, productivity is low in Moldova (Figure 29), and the relatively lower wage growth, especially in rural areas, may limit the role of labor in poverty reduction and shared prosperity. A closer look at wages reveals that the wage gap between the public and private sectors has widened in recent years, given that there has been no wage indexation in public wages since October 2014 and that wage inequalities between men and women persist, particularly in more highly skilled sectors.[32]

Figure 28. Evolution of wages and gross added value, 2000–14



Source: World Bank calculations based on national data.

Figure 29. GDP per person employed (2011 PPP), 2014



Source: WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

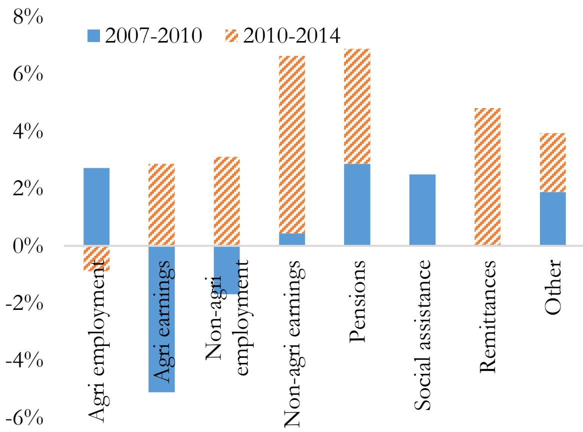
The deteriorating labor market has led to a reduction in the labor income share in the total income of the poor and the bottom 40. The slowdown in nonagricultural wage increases, the high volatility in agricultural incomes because of climatic shocks, and the limited overall employment growth resulted in a declining share of labor income among the poor and the bottom 40. Among the poor, the share of total income represented by nonagricultural labor income fell from 38 percent in 2007 to 34 percent in 2014, and the share represented by agricultural income dropped from 21 percent to 17 percent.

[31] World Bank (2014b).

[32] The gender wage gap is significant in higher-income, more highly skilled sectors. For example, it is 9 percent in agriculture and 28 percent in financial services (Spear et al. 2016).

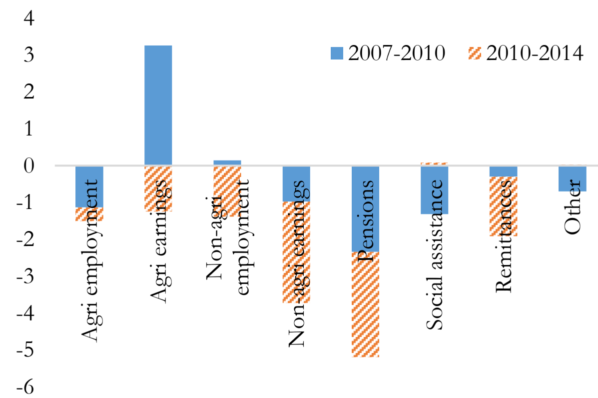
Labor markets contributed to household income growth and poverty reduction mostly through nonagricultural wages, as the quantity of jobs fell. Household income data are not available prior to 2006 to explore the dynamics in the early 2000s. Evidence from 2007 onward shows that the contribution of domestic labor income to the income growth of the bottom 40 (Figure 30) was driven by higher wages in the nonagricultural sector. However, the positive impacts were partially offset by the destruction of nonagricultural jobs between 2007 and 2010. Fluctuations in agricultural income in both jobs and earnings over the period undermined the overall contribution of the sector to household income growth. The same patterns are evident in the contribution to poverty reduction (Figure 31).

Figure 30. Decomposition of household income growth, bottom 40, by income source, 2007–14



Sources: World Bank 2016a; household budget surveys.

Figure 31. Decomposition of shifts in poverty, by income source, 2007–14, percentage points



Sources: World Bank 2016a; household budget surveys.

Employment growth and labor productivity contributed little to economic growth in line with the aggregate labor market trend of falling employment. Their contribution has actually decreased since the economic and financial crisis of 2008–09 (Figure 32). The small contribution of labor to growth distinguished Moldova among peers, including lower-middle-income countries (Figure 33). Most of the growth in the past 15 years is explained by total factor productivity and capital accumulation. The former led economic growth in Moldova. Although patterns changed following the global economic crisis – total factor productivity's contribution to GDP growth decreased, substituted by a more dynamic accumulation of capital – the role of labor remained negligible.

Figure 32. Contributions to growth, by periods

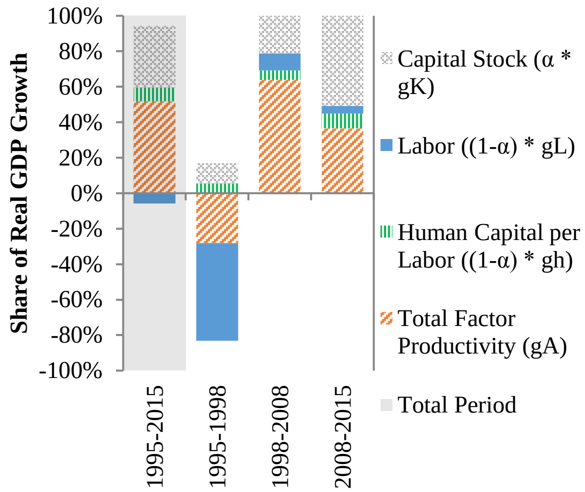
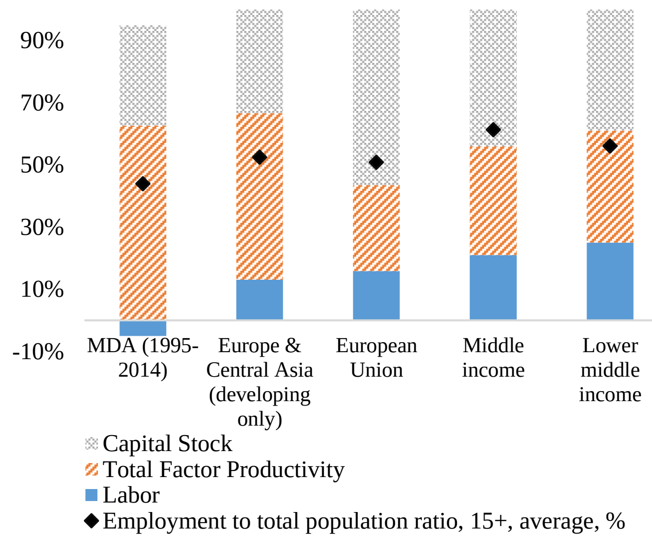


Figure 33. Contributions to growth in Moldova and peer groups, 1995–2014



Source: World Bank calculations.
Note: α = 40 percent.

If the labor market is not the main engine behind rapid economic growth and progress in poverty reduction and shared prosperity in Moldova, what is?

Progress toward the twin goals in Moldova has been underpinned by consumption-driven growth, fueled by remittances. Private consumption and, to a lesser extent, exports ignited the economic growth in Moldova in the past decades. They contributed as much as 7 percentage points to GDP growth in 1999–2008, prior to the global economic crisis Figure 34). In the 2000s up to the global economic crisis, Moldova was in the 95th percentile worldwide in private consumption growth, and today is in the 97th percentile worldwide on consumption expenditure as a share of GDP.[33] The limited productive capacity of the economy is reflected in low productivity and little employment creation. Remittance inflows were driving both the private sector consumption boom and the surge in imports of the 2000s, benefiting especially the trade and transport sector and communication services, which contributed an average 1.4 percentage points to the annual growth rate. Indeed, the dependence on remittance inflows tripled in the first half of the 2000s. The share of remittances in GDP rose from 11.5 percent in 2000 to a peak of 32.8 percent in 2006, a period of significant poverty reduction and declines in domestic employment.[34] The growth of remittances complemented the high GDP growth and made significant contributions to domestic income (Figure 35). From 2010 to 2014, for example, remittances accounted for around 21 percent of the income growth of the bottom 40 (Figure 30). They represented an important source of income for households, accounting, in 2014, for almost one-quarter of total income among the rural nonpoor (who are the most dependent on

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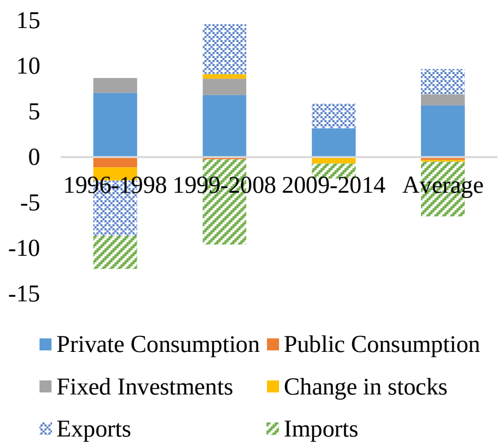
[33] Based on data in WEO (World Economic Outlook Database), International Monetary Fund, Washington, DC, http://www.imf.org/external/ns/cs.aspx?id=28.
[34] Household budget survey data of this period do not include household income data and thus cannot be used to carry out poverty decompositions or income growth exercises to determine the role of remittances.

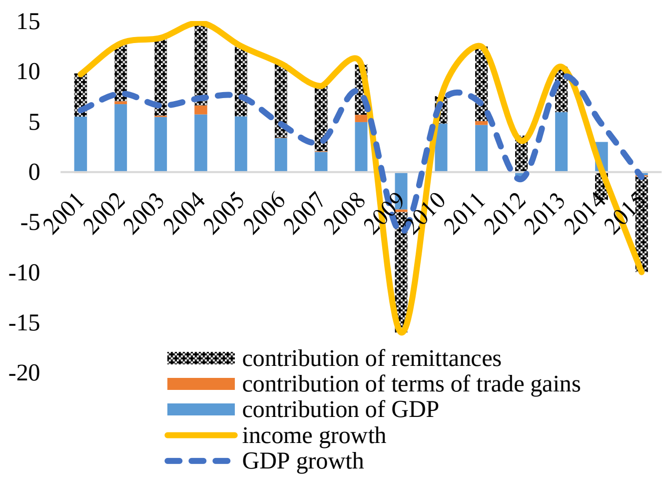
remittances). Remittances represented the second most substantial source of foreign currency, after exports, but ahead of foreign direct investment (FDI), loans, and external assistance.

Figure 34. Growth decomposition, by expenditure, 1996–2014



Source: World Bank calculations.

Figure 35. Contributions of GDP and remittances to income growth, 2001–15

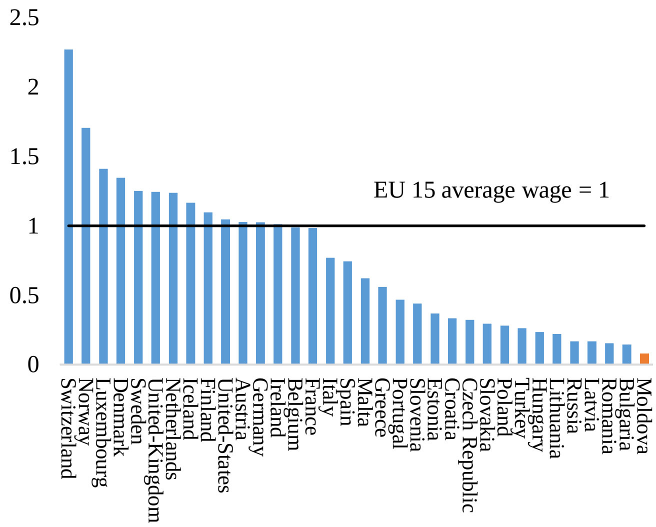


Source: World Bank calculations based on World Bank 2016c and Global Economic Monitor (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/global-economic-monitor.

Moldova's growth model triggered a cycle in which men and women migrated in search of better economic opportunities and sent remittances home that continued to support consumption-driven growth. The wage differential with richer countries in Western Europe and Russia (Figure 36) and the lack of jobs at home were likely push factors for emigration. Together with weak industrial capacity, which was producing mainly food products, and high internal demand, remittance inflows led to an increase in imports and widening trade deficits, although with no evidence of a Dutch Disease.[35] This and a lack of entrepreneurial activity undermined export growth in domestically produced products, which limited business expansion, investment possibilities, and job creation. Under these circumstances, many Moldovans continued to seek better opportunities abroad. More remittance inflows were generated, and the cycle repeated itself (Figure 37). Migration and remittances affect the labor market decisions not only of those traveling abroad for work, but also of those who stay behind: people with family members abroad show a lower probability of participating in the labor market (by around 8 percentage points), and the correlation is two times greater in the case of migrants away for a year or more.[36] Moreover, the gender differences in the jobs available were similar at home and in destination countries, so that women tended to be left behind.[37]

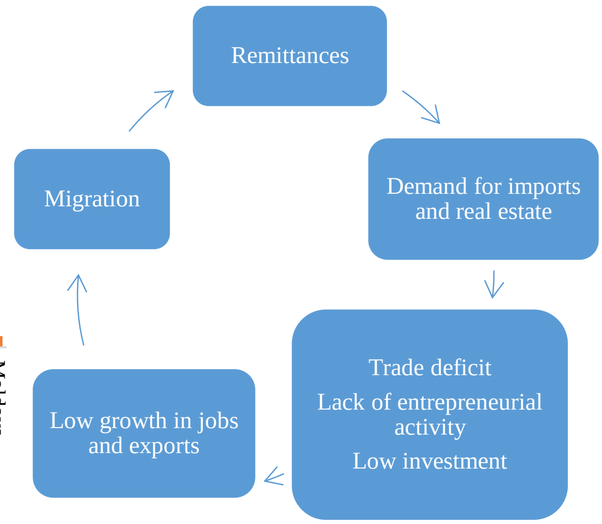
[35] Nikas and Blouchoutzi (2014).
[36] World Bank calculations.
[37] Domestic patterns of occupational segregation are repeated abroad. Women often migrate to Italy to work in care-related services, while men more often migrate to Russia, where they work especially in the construction sector (World Bank 2014a).

Figure 36. Index of wages, relative to the EU15, 2014



Source: World Bank calculations.
Note: The EU15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

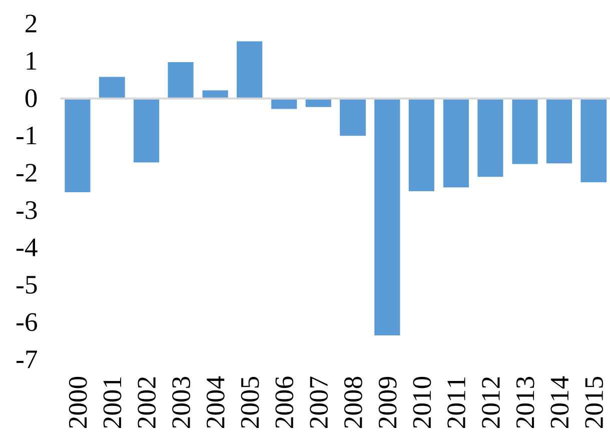
Figure 37. A cycle of remittances and migration



Source: Report analysis.

Alongside remittances, pensions have become increasingly important as an income source among households. Pension coverage is relatively wide: 73 percent of people of retirement age were receiving old-age pensions in 2014.[38] Pension spending has increased significantly. The cost of pensions rose from 5 percent of GDP to 8 percent between 2002 and 2014. This fueled an additional fiscal deficit of approximately 1 percent of GDP and growing. Accordingly, around 28 percent and 17 percent of total household income among the poor and nonpoor, respectively, derived from pensions in 2014. The pension share of income rose from 11 percent in 2007 to 18 percent in 2014, and pensions have had a major role in the increase in incomes and the reduction in poverty among the bottom 40 (Figure 30 and Figure 31). The contribution of social assistance to household income growth has been limited, but it is important for the poor and helped propel people out of poverty, particularly following the contraction in GDP in 2009.

Figure 38. Fiscal balance, % of GDP



Source: Ministry of Finance and World Bank calculations.

The fiscal proceeds of this remittance-fueled, consumption-driven economic growth have contributed to fiscal stability and the strengthening of social programs, but there is scope for improvement. Since

[38] UNDP (2015).

the 2008–09 crisis, the government has used the proceeds of economic growth to bring fiscal deficits down and to increase the allocation for public capital expenditure and social assistance. The fiscal deficit narrowed from over 6 percent in 2009 to some 2 percent in 2012–15 (Figure 38). Capital expenditure, financed by general government accounts, increased from 5 percent of GDP in 2009–11 to over 8 percent of GDP in 2014. The targeting of social assistance improved because of the well-targeted program Ajutor Social and the heating allowance, although these represent a small share of total social transfers. However, there is a scope for improvement within the overall expenditure envelope, including in the allocation of social benefits, the procurement of goods and services, capital investments, and the rationalization of employment within the public sector. In 2015, a combination of an economic downturn, tighter monetary policy, and political instability triggered an ad hoc adjustment in public expenditures and a sharp reduction in capital and other nonsalary and pension expenditure.

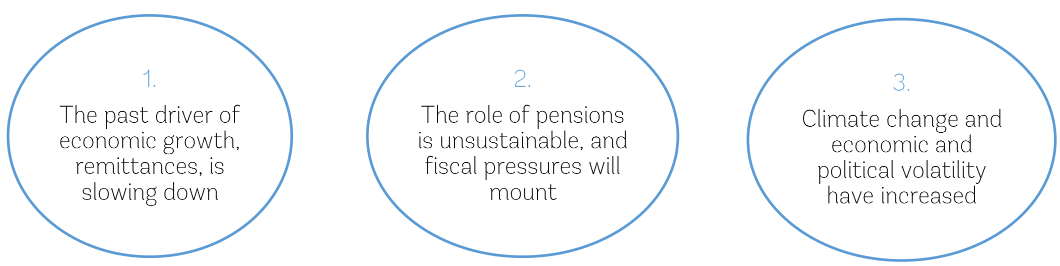
V. Can progress toward the twin goals be sustained?

Given good progress in reducing poverty and boosting shared prosperity, the emerging question is then the following: are the positive trends in the current drivers of poverty reduction and shared prosperity sustainable? The answer is probably not.

Moldova has made good progress in reducing poverty and boosting shared prosperity, but the sustainability of these and future gains is doubtful. Progress that relies on private and public transfers without job creation does not offer a sustainable path for improving the living standards of the population, particularly in the context of an aging society. Beyond concerns over the sustainability of the drivers of progress toward the twin goals, economic growth has become increasingly volatile.

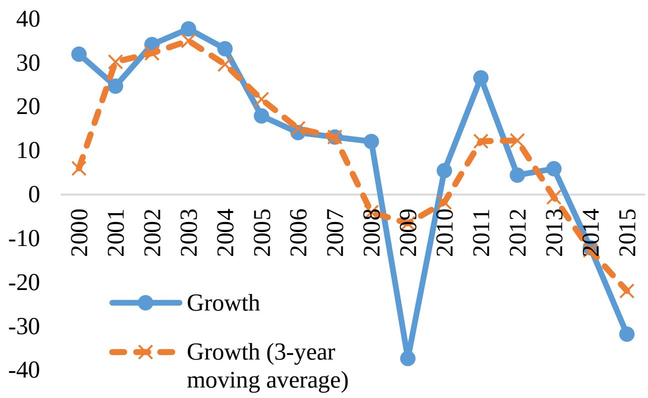
In particular, there are three critical pressure points inhibiting the achievement of sustained progress toward the twin goals (Figure 39).

Figure 39. Pressure points inhibiting sustained progress toward the twin goals



The driver of economic growth in the past, remittances, is slowing down

Figure 40. Growth in remittances, 2000–15



Source: Development Economics Prospects Group, World Bank.
Note: Growth of remittances in real values (nominal U.S. dollars deflated by the consumer price index).

The inflows of remittances will likely slow and become a much smaller contributor to economic growth and welfare enhancement in years to come. Of immediate concern is the slowdown in the EU and the recession in Russia, the two main sources of remittances to Moldova, and the resulting decline in remittances since 2013. Moldova shares this trend with other remittance-dependent countries. It saw remittances drop by almost 30 percent in 2015. The biggest reduction occurred in transfers from Russia and other countries of the Commonwealth of Independent States. Even before the recent decline, moreover, the growth of remittances had slowed over the last decade (Figure 40), and, considering a longer time horizon, the growth of remittance inflows will likely diminish further as a large share of the Moldovan population is already living and working abroad, and the attachment of second-generation migrants and subsequent-generation migrants to Moldova will likely loosen.

Migration and dependence on remittances have also raised serious social issues, which have encouraged a call for additional drivers of growth. First, in a situation of uncertain remittance inflows, a share of households may face economic stress if alternative sources of income, such as pensions and social assistance, are not sufficient to cover basic needs. Households composed of pensioners and children in rural areas are particularly at risk. Second, beyond economic concerns, children deprived of parental care seem to struggle with their emotional development, social relations, and school performance.[39] Migrants working abroad have left around 146,000 children (21 percent of all children) without one or both parents.[40] Grandparents assume the role of the main caretakers in most cases, limiting the potential for participation of these older workers in the labor market. In households in which both parents migrate abroad, older people become the responsible carers in 91 percent of cases, especially the older women, and, if one parent is abroad, 36 percent of children are being cared for by older people, even if one parent remains in Moldova.[41] Moldova's history of large-scale emigration can create social challenges in the long term as older migrants return and face difficulties in reintegration.

[39] Salah (2008); UNICEF and CRIC (2008).
[40] "Children of Moldova," United Nations Children's Fund, New York (last updated September 2014), http://www.unicef.org/moldova/children.html.
[41] Elderly living in multigenerational households in which the adult children have migrated must care for their grandchildren. The research has highlighted the extremely important role of older people in childcare and education if the parents of the children migrate for work abroad. Older people also replace the parents as legal representatives of children, having guardianship or tutorship in 34.7 percent of the multigenerational households affected by migration (HelpAge International and UNICEF 2010).

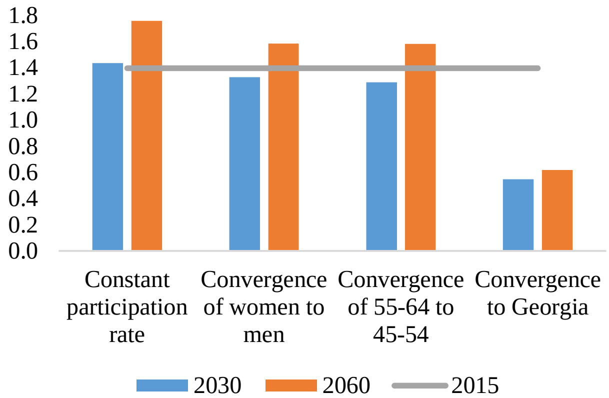
The role of pensions is unsustainable

Low labor force participation and high informality, coupled with population aging, will drive up Moldova's economic dependency ratio, straining the fiscal system and limiting the role of public transfers in reducing poverty. Because of the low (formal) employment rate, driven by an unsustainably low retirement age and the persistent decline in labor force participation among both men and women, there were 1.4 inactive adults per active adult (ages 15+) by 2015. Combined with the growing share of the elderly in the population, most of whom are inactive, Moldova already faces an exceptionally high economic dependency ratio. This is expected to persist under various scenarios in labor force participation (Figure 41), unless this manages to raise the labor force participation rate and converge toward, for instance, the labor force participation rate in Georgia, which has the highest activity rate among comparators. However, even sustaining current public spending would imply a higher fiscal burden, and may not be sufficient to provide support for the elderly population.

A shrinking contribution base would undermine the pension system's sustainability and reduce the pension coverage of the population. Pensions have played an important role in poverty reduction and shared prosperity in the past decade.[42] However, there is serious concern about the fiscal sustainability and coverage of pensions. If the system fails, this could put the population at risk that relies on the system, particularly elderly women given their longer life expectancy and low formal employment rate. Pension spending has already increased significantly: the cost of pensions doubled to 8 percent of GDP between 1999 and 2014, requiring subsidies of 10 percent of pension spending from the state budget. This level of spending is higher than the corresponding spending in many European countries that are more advanced in both economic development and population aging, such as Croatia, Estonia, and the Slovak Republic.[43] According to current demographic projections, the pension system dependency ratio (the number of pensioners per contributor) will increase from 77 percent in 2014 to a peak of 108 percent in 2055 because the future workforce, the contributor base, will be smaller than the current workforce (the future retirees) (Figure 42). This dependency ratio of the contributory pension system will eventually narrow with shrinking pension coverage given the decline in formality and in the contributions to social insurance, but this raises concerns about the risk of poverty among those left out of the pension system (see section VII). Labor migrants do not tend to contribute to the pension system, exacerbating the decreasing pension contribution rates. Furthermore, without a reform of the pension system, the average replacement rate is projected to fall steadily from 28 percent to almost 13 percent in 2047, which would be socially unsustainable.

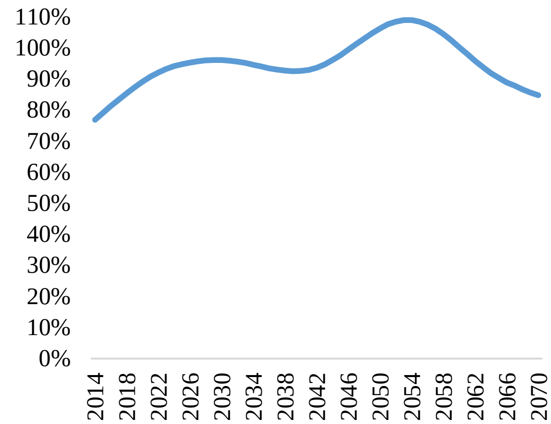
[42] World Bank (2016a).
[43] World Bank (2016b).

Figure 41. Economic dependency ratio (inactive over active population), by labor force participation scenarios



Sources: Moldova National Bureau of Statistics; World Population Prospects: The 2015 Revision (database), Population Division, Department of Economic and Social Affairs, United Nations, New York, http://esa.un.org/unpd/wpp/.
Note: The projections assume the same activity rate in 2030 and 2060 as in 2015.

Figure 42. Pension system dependency ratio (number of pensioners per contributor)



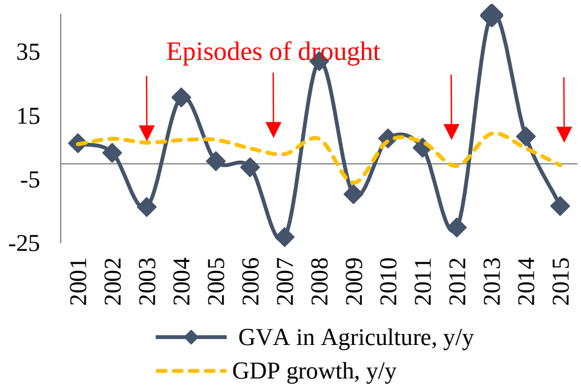
Sources: World Bank 2016b; World Bank calculations based on data from the Pension Reform Options Simulation Toolkit and of the National Social Insurance House.
Note: For the toolkit, see World Bank (2010).

The increase in the volatility of the climate and in the economy and politics

Vulnerability to climate-related shocks is substantial, and this is having an impact on the economy. Episodes of drought, most recently in the summer of 2015, are increasingly driving fluctuations in overall GDP (Figure 43) and household consumption. The severe drought in 1994 resulted in a decline in GDP by 30 percent, while the 2007 drought affected 84 percent of the country's arable land, household food security, and access to water.[44] The drought led to estimated losses in the agricultural sector of about $1 billion, or 23 percent of GDP. Drought patterns also show spatial variation. On average, northern Moldova experiences a drought once every 10 years; central Moldova, once every 5 or 6 years; and southern Moldova, once every 3 or 4 years. Drought has become more frequent and intense during the last two decades, occurring ten times (1990, 1992, 1994, 1996, 2000, 2001, 2003, 2007, 2012, and 2015), leading to significant crop losses. In 1990, 1992, 2003, and 2007, drought was observed during the entire growing season. In the remaining years, drought struck during summer.

[44] Data of the World Food Programme and Food and Agriculture Organization of the United Nations; Fay et al. (2010).

Figure 43. Added value in agriculture and GDP growth, 2001–15



Source: World Bank calculations.

The likelihood of multiyear droughts will probably increase, and, if not properly managed, the repercussions could be devastating to the economy.[45] Most climate change scenarios indicate that, in the 21st century, the country may become significantly warmer, with a mild reduction in annual precipitation. This will cause a series of mostly negative effects, including a significant reduction in the productivity of most crops; more frequent extreme weather events, such as hailstorms, late frosts, major floods, and droughts; and changes in disease incidence patterns and the spread of pests. The Notre Dame global adaptation index methodology ranks Moldova as the most climate vulnerable country in Europe based on a range of social and economic indicators, including low adaptation capacity.[46]

The agricultural sector, critical for the livelihoods of the rural poor, is highly and increasingly volatile. Climate change can impact productivity through direct losses in yields, which affect small farmers who rely on self-production for subsistence, but also through higher food prices, which affect consumers. Climate change impacts the yields of pastures and most crops, including wheat, maize, alfalfa, grapes, and vegetables. However, apple yields may remain constant.[47] The effects of climate change, if not properly managed, could therefore undermine the progress that has been made in poverty reduction, food security, and economic growth in vulnerable rural areas.

External shocks have become a growing source of uncertainty and volatility in recent years. As a small and open economy, Moldova is extremely vulnerable to external demand shocks. Beyond the effects of the economic slowdown of countries in the region, Moldova has faced restrictions on exports to Russia. In 2006, exports of wine and other alcoholic beverages, fruits, vegetables, and meat were restricted, and, in 2013–14, exports of fruits and vegetables, processed foods, wine, and meat products were restricted.[48]

Moreover, external debt is high in Moldova relative to other countries at similar income levels; it is dominated by short-term debt, making the country highly vulnerable to rollovers. The stock of total external debt reached 98 percent of GDP by the end of 2015, when short-term debt accounted for more than 60 percent (Figure 44). Private external debt dominates in the structure of debt with a share of over 70 percent, consisting mostly of short-term trade credits and longer-term borrowing in the nonbanking sector (see Table 1). Significant private sector external debt represents a rollover risk.[49]

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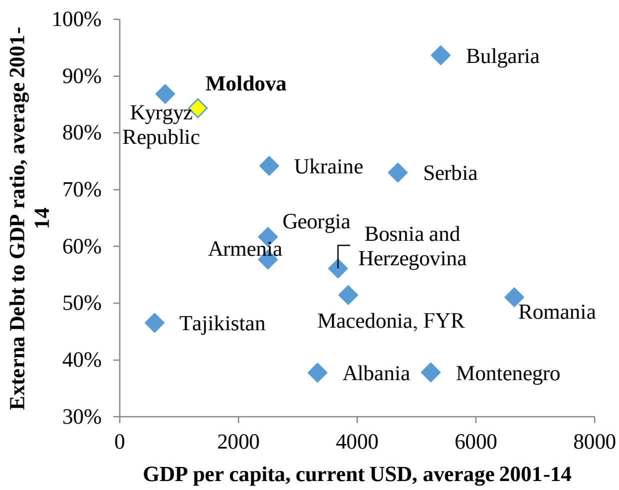
[45] Sutton, Srivastava, and Neumann (2013a).
[46] ND-GAIN Country Index (University of Notre Dame Global Adaptation Index) (database), University of Notre Dame, South Bend, IN, http://index.gain.org/.
[47] Sutton et al. (2013b).
[48] The National Bank of Moldova (NBM) estimated that the ban on wine exports resulted in a $40.7 million decrease in wine exports over a nine-month period, representing 0.5 percent of GDP.
[49] IMF (2015).

Figure 44. External debt to GDP ratio and GDP per capita, average 2001–14



Sources: World Bank calculations; WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

Table 1. Stock and composition of external debt, percent of total, 2015

	% of total	% of GDP
General government	**21.4**	**20.9**
Long-term	21.4	20.9
Central bank	**5.4**	**5.2**
Long-term	5.4	5.2
Deposit-taking corporations	**5.5**	**5.4**
Short-term	2.3	2.3
Long-term	3.2	3.2
Other sectors	**41.1**	**40.2**
Short-term	20.3	19.9
Long-term	20.7	20.3
Intercompany lending	**26.7**	**26.1**
Total external debt	**100**	**97.9**

Source: National Bank of Moldova.

The government's substantial reliance on foreign borrowing may also pose risks. While the share of public debt is relatively small (35.4 percent in 2015), it has played an important role in deficit financing in recent years. In 2010–15, an average of 64 percent of the fiscal deficit was financed by net external borrowing. While official long-term financing dominates the composition of public external debt, a large part of it represents budget support that depends on progress in the implementation of reform. Political instability and delays in reform could substantially reduce the available financing, especially because the domestic government securities market is relatively small and illiquid.

Fiscal sustainability is challenged by contingent liabilities stemming from major shortcomings in the financial sector. Joint IMF-WB debt sustainability analysis assesses Moldova's risk of debt distress as low.[50] Moldova maintained a low public debt of 30 percent of GDP until late 2014. In 2014–15, however, the government guaranteed deposits in failed banks worth 12 percent of GDP. These guarantees are to be converted into direct public debt in 2016 to be repaid over 25 years. The risks of additional contingent liabilities, especially in the financial sector, are nonnegligible, as the root causes of the previous banking crisis have not been fully mitigated. In addition, the reliance of public coffers on donor support is substantial, and corruption and slippages in the implementation of reform can lead to delays in donor financing and further reduce the government's ability to finance planned expenditure, as witnessed in 2015.

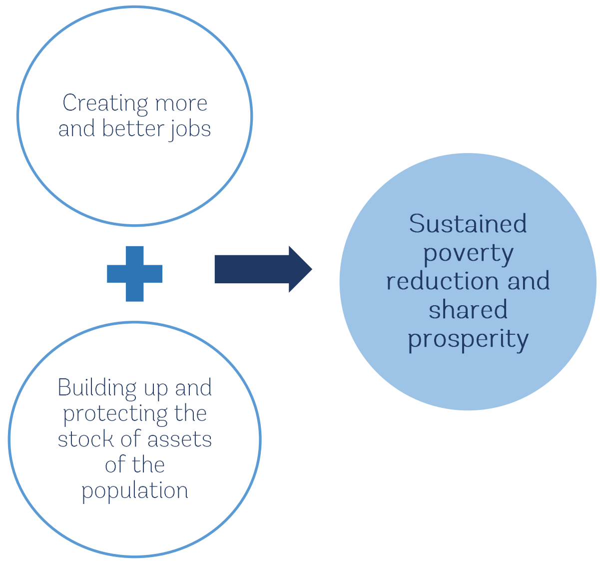
Political instability has also increased, and trust in government plummeted in recent years. The latter is linked to the banking fraud that revealed large deficiencies in the regulation, supervision, and governance of the sector (see below).

* * *

[50] IMF (2015).

These risks to the sustainability of the gains in poverty reduction and shared prosperity mean there must be new drivers of inclusive growth. Given the dwindling role of remittances and public transfers and the increasing pressures because of aging, strengthening household earning capacity is essential. In particular, the agenda should focus on (a) promoting private sector–led job creation and higher productivity (section VI) and (b) ensuring that individuals have the human capital to take on the new jobs and that they are protected from shocks to their living standards (section VII) (Figure 45).

Figure 45. Pathways toward the twin goals, Moldova



These pathways will support a rebalanced growth model in Moldova. This growth model may continue to rely on remittances, but needs to be largely driven by private sector growth and job creation across sectors, accompanied by urbanization and better connectivity and inclusion for equitable access to economic opportunities and services. Because of its cross-cutting nature, the potential role of governance in deterring progress along the two pathways must be evaluated. Issues such as the quality of institutions, the efficiency of the judicial system, the application of the rule of law, and the perceptions of corruption need to be explored.

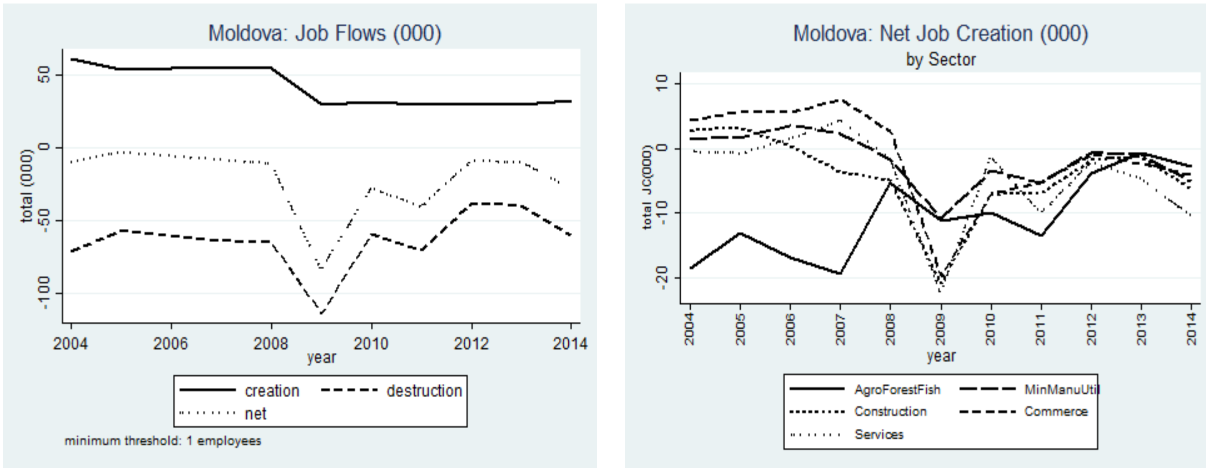
VI. Creating more and better jobs

Moldova needs to create more higher-productivity private sector jobs, particularly in the context of an aging society. This requires ensuring that (a) firms have the inputs they need to start up, survive, and expand; (b) regulations promote an environment in which firms can thrive; and (c) the implementation of regulations is consistent across sectors and firms and not distorted by deficiencies in governance.

The aggregate decline in employment is consistent with the failure of the private sector to create jobs. Firms are not creating jobs on a net basis (Figure 46, left panel), mostly because the firing firms are shrinking much more quickly than the hiring firms are expanding.[51] Until the global crisis, service and trade firms and firms in Chișinău were creating jobs, although not sufficiently to offset the job losses in agriculture and construction. Net job loss in recent years has taken place across sectors (Figure 46, right panel) and across regions. The few jobs created tend to benefit skilled older male workers in urban areas.[52]

[51] This analysis draws on World Bank (2016d) and the Financial Sector (database), World Bank, Washington, DC, http://data.worldbank.org/topic/financial-sector.
[52] World Bank (2016d).

Figure 46. Job flows and net job creation, by sector



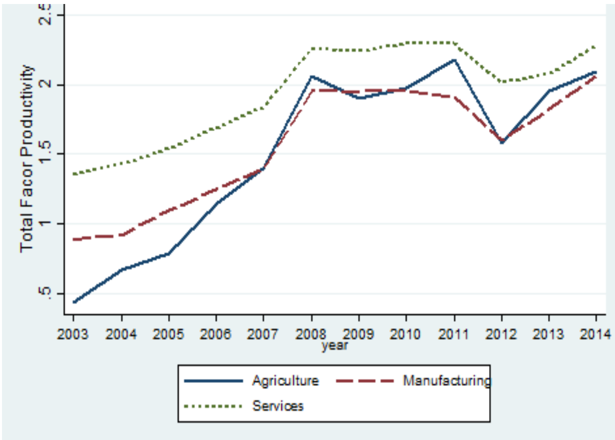
Sources: World Bank 2016d; World Bank calculations based on data from the financial reports and balance sheets of reporting Moldovan companies.

Low employment creation seems to be related to the low entry and survival rates of firms. Firm entry has declined in Moldova, and the survival rate is extremely low, particularly among small firms. Most new entrants are small and face difficulties expanding and surviving. Between 2003 and 2014, around 55.6 percent of firms with less than 10 employees exited before they had reached the fifth year of operation; 50.0 percent exited within three years. After five years, firms enjoy a higher probability of surviving and growing. These small, young firms are among the most productive. The inability of these more-productive new entrants to break through thus limits the creation of better, higher-productivity jobs and also undermines the link between a rise in productivity and higher wages that has been observed in Moldova.[53] The patterns result in an increase in the concentration of employment in large and older firms, which also tend to be public or foreign firms.

Although aggregate productivity has been increasing, evidence shows that labor has been allocated toward less-productive firms. Firm-level data, including data on commercial agricultural firms, show that productivity has been rising across sectors and is not totally explained by the shedding of jobs (as can be seen in the trends in total factor productivity).[54] The enterprise data also suggest that firms in commercial agriculture have been catching up in productivity with manufacturing firms (Figure **47**). Moreover, there are some sectors in services where workers have been allocated toward more-productive firms, but not so in manufacturing and agriculture. Data show that there are productivity gains within firms and that the gains also arise because of the net effects of labor shedding among the less-productive firms. However, the data also indicate that labor shares are shifting upward in firms with lower-than-average productivity (the cross term in decompositions in total factor productivity is negative), which may depress the future growth of higher-paying jobs because productivity-increasing firms tend to pay higher wages.[55]

[53] World Bank (2016d).
[54] Ibid.
[55] World Bank (2016d).

Figure 47. Total factor productivity, by sector



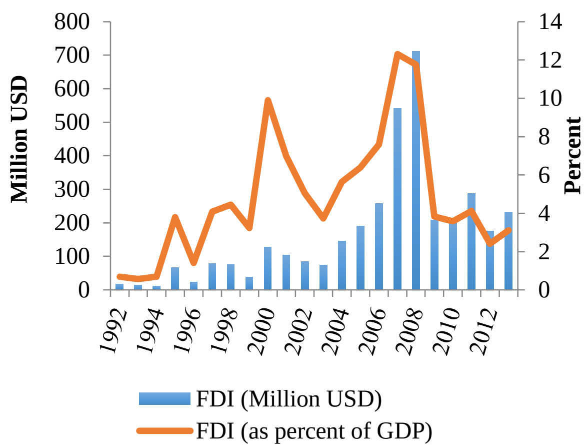
Sources: World Bank 2016d; World Bank calculations based on data from the financial reports and balance sheets of reporting Moldovan companies.

Foreign firms are among those showing higher productivity and represent an opportunity for Moldova, but FDI remains low (Figure 48). According to data of the Business Environment and Enterprise Performance Survey (BEEPS), firms in Moldova that are export-oriented and foreign owned and that innovate show productivity premiums relative to other firms of similar size, age, and sector of operation (Figure 49).[56] As such, export-oriented FDI with links to the local economy can have a positive impact on growth and job creation, but also on externalities among local firms related to learning opportunities, productivity improvements, the transfer of expertise, and access to global value chains. However, despite fiscal incentives, Moldova has performed poorly in attracting FDI. FDI inflows grew strongly between 2003 and 2008, but were severely affected by the 2008–09 global crisis and have not yet recovered to precrisis levels. At 4.4 percent, the share of FDI in GDP in Moldova in 2014 was slightly higher than the average in the region and among lower-middle-income countries. However, its performance in terms of FDI attraction is poor if benchmarked against other economies in the comparator group, such as Albania, Croatia, and Georgia.

Meanwhile, a large share of the FDI stock has demonstrated few spillovers associated with export-oriented investments. FDI in Moldova as of September 2015 was concentrated as follows: 26 percent in the financial sector, 23 percent in the manufacturing and processing industry, 15 percent in real estate and rental services, and 14 percent in wholesale and retail trade. However, a substantial part of the FDI stock may not be genuine foreign investment, but rather recycled funds of local origin seeking anonymity or the legal protection of foreign jurisdictions. For instance, a significant share of the FDI flowing into the financial sector originated from nontransparent beneficial owners, a major source of vulnerability (see below).

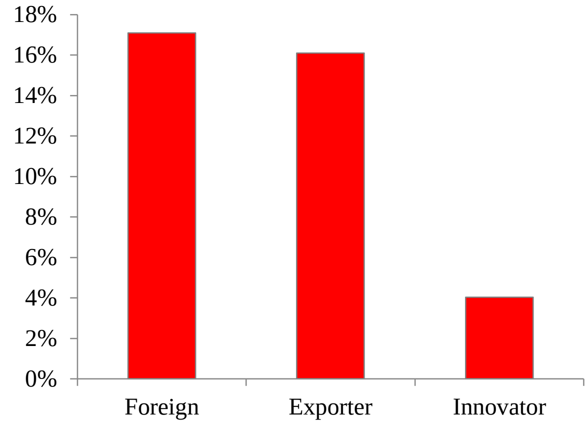
[56] World Bank (2016e, 2016f), based on firm-level data in BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

Figure 48. FDI inflows to Moldova



Source: World Bank calculation based on national statistics.

Figure 49. Productivity premiums of exporters, innovators, and foreign firms



Source: World Bank 2016e.
Note: Productivity premiums among exporters show the percentage by which the productivity of exporters, innovators, and foreign firms are higher than the premiums of nonexporters, noninnovators, and domestic firms.

In this context, to boost employment creation and thereby support inclusive and sustainable growth, the government needs to address the constraints that foreign and domestic firms, particularly smaller firms, face in trying to become established, survive, and grow. These constraints systematically affect firms and entrepreneurs across sectors. They lead to a situation in which older unproductive firms have no incentive to exit the market, while younger firms, with the potential to create jobs and be more highly productive, are unable to survive. Net job loss occurs across sectors and across regions (regions other than Chișinău presented this pattern prior to the global economic crisis), indicating that the bottlenecks holding up private sector growth are not sector specific.

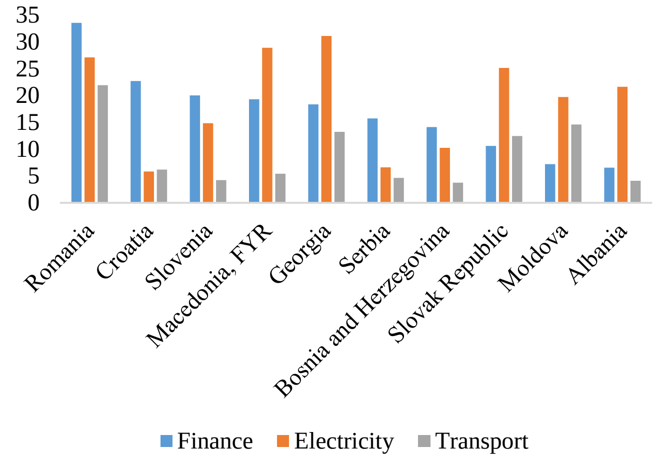
Thus, constraints in access to assets and services may limit the use by firms of productive inputs (the input gap). The environment in which firms operate may exert additional constraints related to a suboptimal regulatory framework (the regulation gap). Even if regulations are in place, firms cannot thrive if governance bottlenecks hold them back (the implementation gap). These potential gaps are interrelated in many cases and can hinder job creation and productivity growth.

Providing access to good-quality assets and services: closing the input gap

Finance

A sound financial sector that supports productive investments is essential for increased productivity and employment growth among firms. In 2013, access to finance was not reported as the main constraint by firms. Only 7 percent of businesses said that access to finance was a major obstacle, which is a relatively low rate relative to comparator countries (Figure 50). Aggregate data on credit growth also show a large expansion and indicate that Moldova compares well with regional neighbors and other lower-middle-income countries.[57] However, access to finance has likely deteriorated in recent years given the large-scale bank fraud (see below), while the boom in improper lending linked to the fraud inflated the access to finance indicators. Specifically, the banking fraud in 2013–14 (see Box 3) revealed that fraudulent loans (usually made without any economic basis, often to shell companies) amounted to 15 percent of GDP. So, credit to GDP ratios should be adjusted in 2014 and 2015 from 39 percent to 24 percent.[58]

Figure 50. Percentage of firms that identified each category of services as a major constraint to operations, 2013



Sources: World Bank; BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

Firms in Moldova rely more heavily than firms in comparator countries on internal finance for investment and for working capital and enjoy less access to loans. The BEEPS 2009 and 2013 surveys show that Moldovan firms face a financing gap that is partially filled through internal funds.[59] Indeed, almost 70 percent of all investments in fixed assets are financed using internal funds. The substantial reliance on internal funds and the high collateral requirements are associated with lower productivity. Thus, a 1 percent increase in the collateral required is associated with a productivity decline of 0.5 percent.[60]

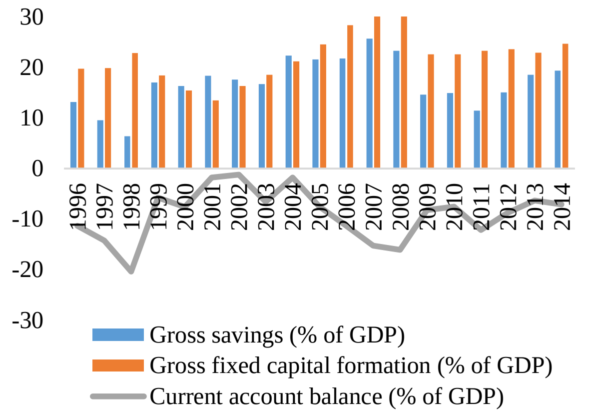
Moreover, Moldova's financial sector primarily serves large firms, while micro, small, and medium enterprises remain credit constrained. A World Bank (2013) study on access to finance found large

[57] From 2000 to 2008, credit in Moldova expanded from 8 percent of GDP to 42 percent of GDP. Following a contraction during the international financial crisis, credit expanded again, to 39 percent by 2015.
[58] Because the fraud exposed in late 2014 had been occurring for at least a few years and likely longer, the credit to GDP ratio in earlier years during this rapid credit expansion should also be adjusted.
[59] According to the BEEPS 2009 survey, 70 percent of enterprises in Moldova reported they needed a loan, compared with 60 percent in the Europe and Central Asia region and worldwide, but only 39 percent of enterprises in Moldova had a loan or a line of credit. Most enterprises therefore had to rely on internal financing, but the average capacity to finance investment internally was 56 percent of the funding needed, compared with 60 percent and 69 percent in the region and worldwide, respectively.
[60] World Bank (2016f, 2016g), based on firm-level data in BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

inequalities in access to credit between large and small firms. The credit market for large borrowers was near saturation, and the credit available to smaller borrowers was much more limited anyway: 80 percent of the credit was provided to 3 percent of borrowers, while the other 20 percent was being provided to the remaining 97 percent of borrowers. Micro and small enterprises are generally unbanked and rely on internal finance as well as small, short-term, high-interest loans from microfinance institutions and credit unions. Due to the lack of functioning capital markets, banks are not moving down-market to serve micro, small, and medium enterprises, and interest rates are high. Among these enterprises, access to finance is further hampered by weak financial reporting standards and practices among the enterprises. Yet, these small firms have the potential to become engines of job creation.

The financial sector is also important in transforming savings into investment. Both savings and investment as a share of GDP have been volatile over the last 20 years, but the share of investment has been significantly greater. Investment peaked precrisis in 2008 (reaching 34 percent of GDP), widening the savings-investment gap and leading to a double-digit current account deficit (Figure 51). Since 2009, the economy seems to have entered a new phase of lower, but stable levels of investment at a 23–24 percent interval, and the current account deficit had narrowed to 7 percent by 2014–15. Still, Moldova relies heavily on foreign savings to finance investment because the financial sector does not generate effective incentives for increasing domestic savings and channeling these savings to investment.

Figure 51. Savings and investment balance, % of GDP



Source: WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

Electricity and water

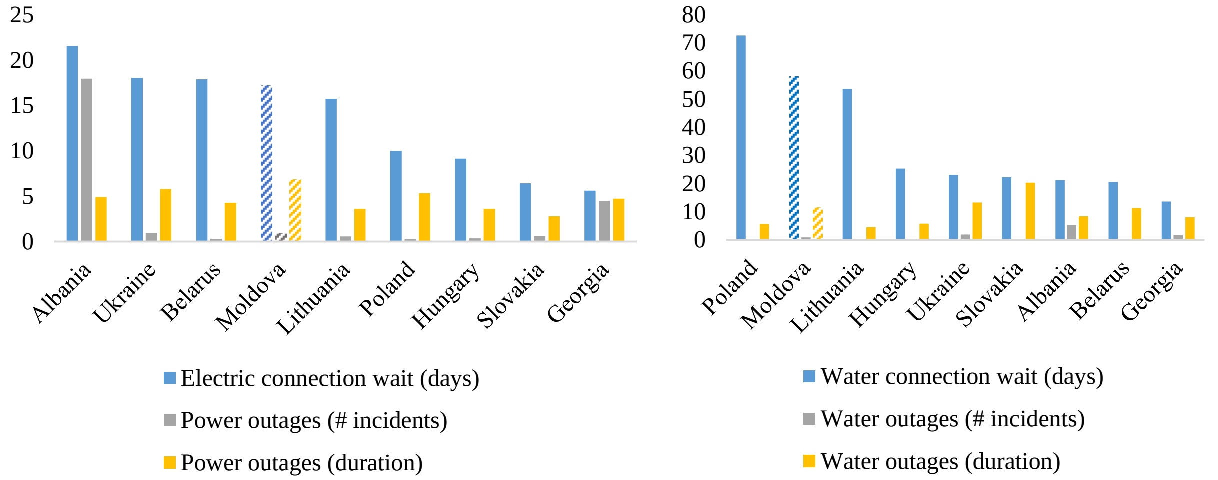
Access to core services such as electricity and water can also impact the productivity of firms. Around 20 percent of firms reported electricity as a major constraint to operations (Figure 50), and Moldova stands out in Eastern Europe as the country with the longest average power outage (Figure 52). Power outages are associated with lower productivity. Similarly, the longer a firm must wait to establish a water connection in a new facility, the greater the productivity loss. For each additional day a firm must wait to obtain water, productivity falls by 0.11 percent.[61] The quality of water and electricity services exhibits significant regional differences (Figure 53), likely a factor behind regional disparities in productivity. The poor access to services is related to the deterioration and inefficiency of Moldova's municipal utilities (see section VII).

[61] World Bank (2016f, 2016g), based on firm-level data in BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

Figure 52. Objective indicators of the quality of services, 2013

a. Electricity services

b. Water services

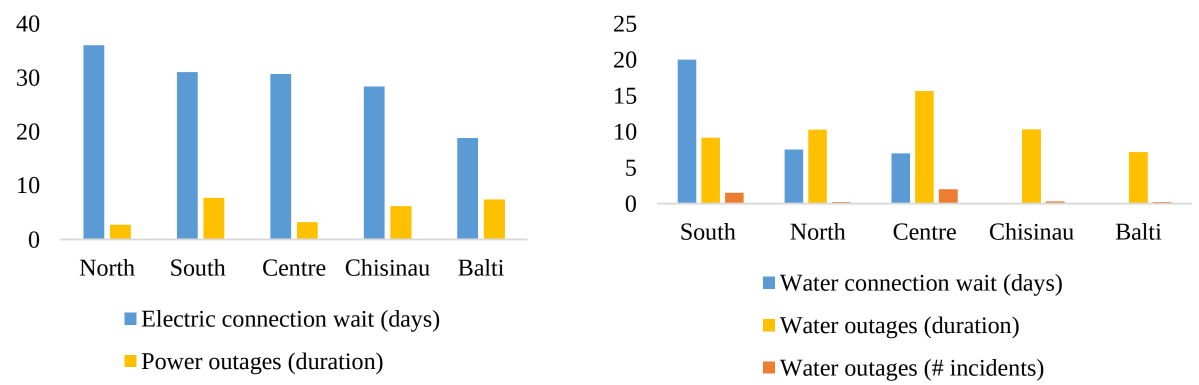


Source: World Bank calculations based on data in BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

Figure 53. Objective indicators of the quality of services, by region, 2013

a. Electricity services

b. Water services



Source: World Bank calculations based on data in BEEPS (Business Environment and Enterprise Performance Survey) (database), European Bank for Reconstruction and Development and World Bank, London, http://ebrd-beeps.com/data/.

Connectivity

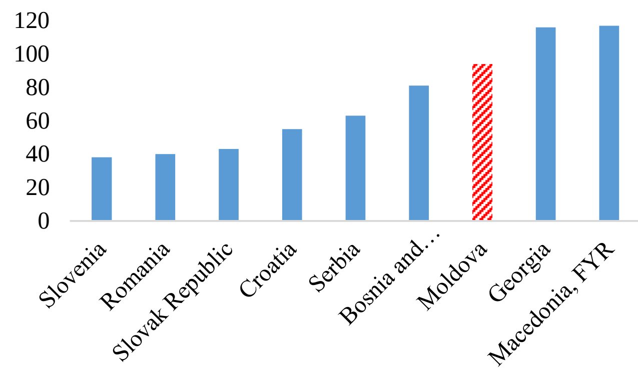
Since 2007, Moldova has slowly improved its transport and logistics performance. Moldova's ranking in the logistics performance index fell from 106 in 2007 to 94 in 2014. This limited progress was driven by improvements in customs and infrastructure (Table 2). Furthermore, the government adopted the transport and logistics strategy 2013–22 to make the transport and logistics sector an enabling factor in the development of the economy and export trade. The strategy supports the ongoing process of harmonizing the transport system and the related legislation with EU standards, legislation, and regulations (see below).[62] Despite these improvements, Moldova's performance is limited compared with peers (Figure 54).

Table 2. Logistics performance index, rank, 2007–14

	2007	2010	2012	2014
Rank	106	104	132	94
Customs	110	129	129	98
Infrastructure	128	123	98	85
Logistics Services	112	132	142	118
Timeliness	111	97	126	109

Source: World Bank based on logistics performance index survey data.

Figure 54. Rank on the logistics performance index, Moldova and comparators, 2014

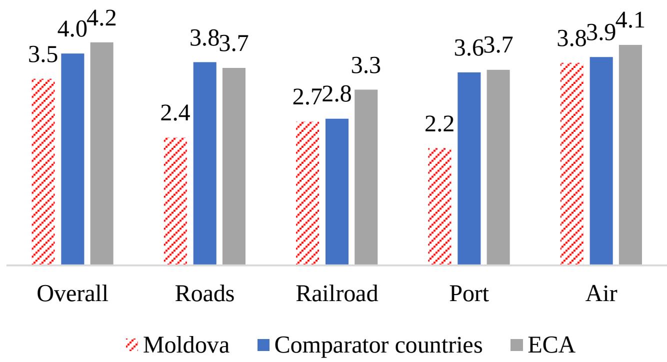


Source: World Bank based on logistics performance index survey data.

While sufficient capacity for transport and logistics exists, at least to meet current needs, the quality of the existing infrastructure has deteriorated and is currently lagging infrastructure among neighbors (Figure 55). With over 10,500 kilometers of roads, 1,200 kilometers of railway tracks, an international airport, and a large fluvial port, Moldova has an extensive infrastructure network for a country of its size. The railway density (32 kilometers of railway lines per 1,000 square kilometers) is comparable with the networks of Romania and Ukraine. The problem is that underinvestment in maintenance and improvement since the end of the Soviet era in 1992 has left the railway network in poor condition (Figure 56). It is technologically underdeveloped in Moldova relative to other countries. However, actual and projected funds for road maintenance have increased considerably and will need to increase further in accordance with the transport and logistics strategy.[63]

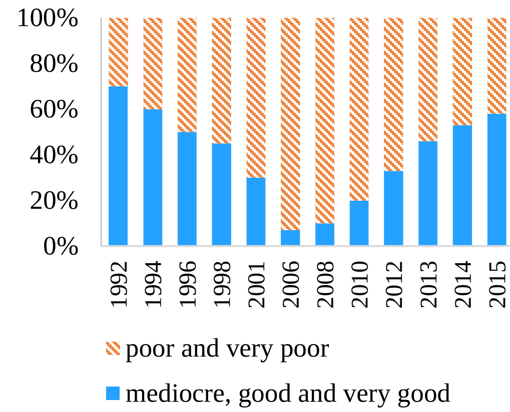
[62] The transport and logistics strategy covers issues such as trade facilitation, customs and borders, airports and aviation, ports, and maritime and river transport. This is particularly relevant in the context of the EU Association Agreement.
[63] From the inadequate levels of the 15 years through 2009 to a realistic level in 2013.

Figure 55. Quality of transport infrastructure, score 0 worst to 7 best, 2015–16



Source: GCI (Global Competitiveness Index) (database), World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-report-2015-2016/.

Figure 56. Condition of the national road network, Moldova, % of network

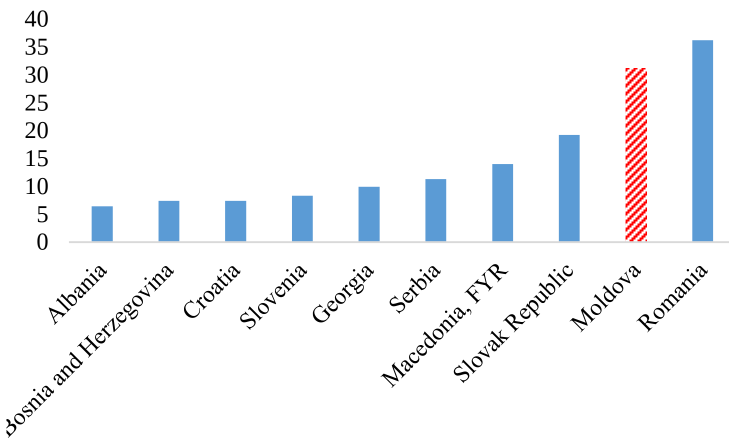


Source: World Bank calculations based on data of the State Roads Administration.

Human capital

An adequately skilled workforce is a critical asset in productivity and expansion among firms; however, Moldovans firms do not seem to find the skills they require. Almost half the firms in Moldova (46 percent) encounter difficulties on a systematic basis in seeking staff with the desired qualifications. This affects firms of all categories and sizes, including firms in agriculture, industry, transportation, and construction (57.4 percent) and large companies (58.3 percent compared with 40.2 percent among microenterprises), particularly those located in the capital (52.2 percent).[64]

Figure 57. Firms identifying an inadequately educated workforce as a major constraint, %



Source: BEEPS survey 2013.

This skills gap is not trivial for firm growth and job creation in Moldova given that more than 30 percent of firms report that skills have become a severe constraint to their growth, a greater constraint than in most comparator countries in the region (Figure 57). Accordingly, recent studies report a low-skilled labor force and the current education and training system among the key constraints to the development of private business.[65] For the country to be able to face stiffer competition including through the DCFTA with the EU,

[64] BEEPS 2013 survey.
[65] NCEM (2013).

it is essential for firms to count on a well-prepared workforce. The challenges in the education and training systems that lead to this mismatch between the supply and demand in skills is explored in section VII.

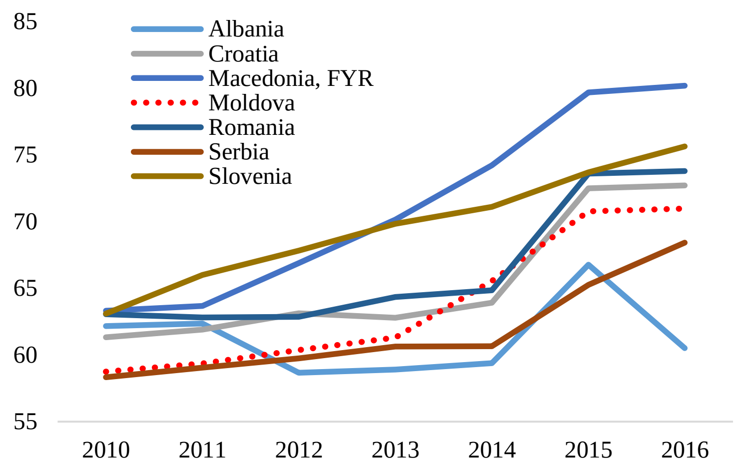
Strengthening the regulatory environment: closing the regulation gap

The overall regulatory framework

Promoting job creation requires an adequate regulatory environment for private sector investment. Easing regulatory burdens on firms and ensuring a level playing field require inspection reform and the streamlining of licenses and permits.

Moldova has made improvements in advancing the regulatory framework. It moved up to 52nd position in the 2016 Doing Business rankings (29 percent from the frontier), above many regional peers with similar or slightly higher levels of income (Figure 58). Moldova scores well on property registration (21st) and starting a business (26th). It scored 22 on a scale of 30 on the quality of the land administration index, slightly below the average score in countries of the Organisation for Economic Co-operation and Development (OECD) (22.7) and above Bulgaria (18), Romania (16), and Ukraine (15).

Figure 58. Ease of doing business, distance to the frontier, Moldova and comparators



Source: Doing Business (database), International Finance Corporation and World Bank, Washington, DC, http://www.doingbusiness.org/data.
Note: The frontier represents the top-performing economy on each indicator. An economy's distance to the frontier is gauged on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

However, the competitiveness of Moldovan firms remains limited by a business environment characterized by regulatory uncertainty and high transaction costs. Moldova's poor Doing Business rankings on dealing with construction permits (170th) and obtaining electricity (104th), followed by paying taxes (78th) and enforcing contracts (67th), illustrate persistent problems in the business environment that revolve around complex processes and procedures.[66] Companies have to handle multiple and overlapping requirements locally and at the national level in licensing, permits, and authorizations. Managing over 430 permits, licenses, and authorizations costs businesses an estimated MDL 240 million a year. At the same time, permits generate indirect costs, such as waiting times for obtaining permits, which may reach more than 60 days per firm; 92 percent of centrally issued permits, locally issued permits, and licenses do not comply with regulation principles prescribed by legislation. Furthermore, onerous business inspections create additional hurdles to business operations. Around 15 separate inspections are carried out at each business each year, and a majority of firms report that the process

[66] Doing Business (database), International Finance Corporation and World Bank, Washington, DC, http://www.doingbusiness.org/data.

seems unfair. Specifically, only 19 percent of the respondents during the Doing Business surveys in 2015 thought that businesses are treated equally by inspectors.

Sectoral regulations

Regulations in key sectors of the economy can have important impacts on all firms. This is the case in the energy and financial sectors, as well as in labor regulations.

Given the obstacle that access to finance represents for firms, financial sector regulation and supervision can be improved. The laws and regulations that currently govern the financial sector could be strengthened to reduce discretionary actions by various stakeholders that can jeopardize the transparency, stability, and functioning of the sector. In particular, these laws and regulations allow each bank's board to fulfill the interests of the bank owners rather than acting in the best interests of the bank, its depositors, external stakeholders, and other clients. For example, they do not adequately define related parties or regulate disclosure requirements, and they do not adequately enumerate the basic roles and responsibilities of bank owners, board members, and managers. Instead, they allow the role of bank boards to be determined by each bank's board charter rather than enumerating the responsibilities of the boards in law or in regulation.[67] Given the massive banking fraud in Moldova (Box 3), a sound regulatory framework in the financial sector is critical. Access to finance for MSMEs should be enhanced by strengthening laws and regulations related to secured transaction, credit information, business insolvency, and accounting standards of firms.

In the energy sector, improvements are also needed to promote the diversification of energy providers and create more competition in the sector to reduce costs and improve the reliability of supply. Practically all natural gas, including the gas used for power generation, is sourced from Gazprom, the Russian natural gas company, and 90 percent of power is purchased from Transnistria, which is not controlled by a recognized state. The Moldovan market is too small for meaningful domestic competition. Annual bilateral contracts are negotiated every year for energy imports, resulting in a nontransparent monopoly.[68] Physical investment in regional integration and a transparent and competitive import regime are therefore needed. The government of Moldova has approved in principle new power and gas interconnections with Romania.[69]

Labor regulations do not appear to be the main constraint on job creation. According to the 2013 BEEPS, only 3 percent of Moldovan firms identified labor regulations as a major constraint to business. Indeed, labor regulations ranked last in the list of all constraints reported by firms. Although labor regulations tend to be generous to employees, there are positive government plans to align the Labor Code with EU regulations.[70] There is a belief among entrepreneurs and some civil society organizations that strong maternity leave regulations (job security for up to six years) discourage the employment of women.

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[67] The Law on Financial Institutions and the Joint Stock Company Law.

[68] Although there are eight licensed suppliers at nonregulated tariffs, Energocom, a state-owned enterprise (SOE), acts as the de facto single buyer of imports from the Moldovan State Regional Electric Station (and from Ukraine until November 2014), operating also through Energocapital, a company registered in Transnistria and outside the Moldovan legal framework.

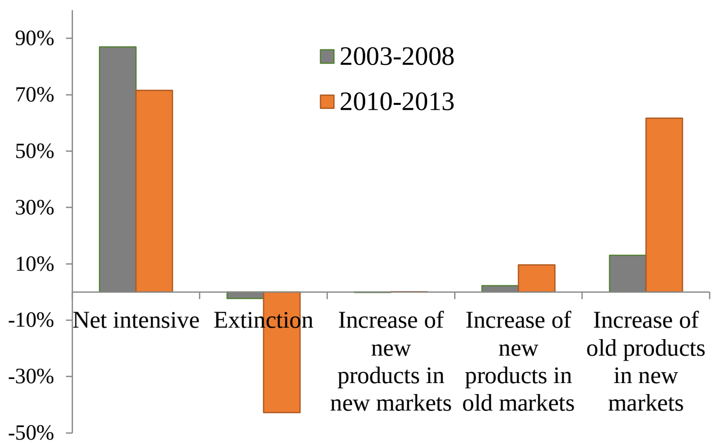
[69] Also proposed in World Bank (2015a).

[70] In November 2015, around 40 amendments were introduced in the Labor Code that sought to harmonize it with other normative acts. Some relaxed employer obligations (such as inserting conditions on the obligation for employers to offer all redundant workers reassignment in the firm), while others benefited employees (such as establishing restrictions on fixed-term contracts). The new government also proposed amendments to align the Labor Code with EU directives, including the national action plan on the implementation of the Moldova-EU Association Agreement for 2014–16.

Trade facilitation and the framework for integration

Moldova is highly integrated into global markets. The composition of the main export basket has shifted in the past decade. The share of machinery and fruits and vegetables increased at the expense of foodstuffs and textiles. Moldova has also progressively decreased its traditional export dependence on the Russian market (annex C). A steady growth in product diversification has contributed substantially to export growth. In 2010–13, 60 percent of export growth resulted from diversification in market destination, that is, more exports of the same products to new markets (Figure 59). The export basket also experienced a quality upgrade between 2003 and 2013. However, the sophistication of exports has not changed substantially in the last 10 years, and export survival rates are significantly below those of comparators.[71] Annex D provides details on Moldova's foreign trade performance relative to comparators.[72]

Figure 59. Decomposition of export growth along the extensive and intensive margin



Source: World Bank calculations based on data in UN Comtrade (United Nations Commodity Trade Statistics Database), Statistics Division, Department of Economic and Social Affairs, United Nations, New York, http://comtrade.un.org/db/.

Deepening trade and investment integration is crucial for the country's development prospects; trade facilitation promises the highest payoff. The 2014 DCFTA with the EU is a unique opportunity. Dynamic computable general equilibrium model simulations suggest that (a) the DCFTA scenarios are associated with greater economic growth, compared with other options; and (b) scenarios with higher FDI lead to better economic outcomes.[73] Moreover, trade facilitation would explain almost two-thirds of the potential greater growth accruing after the implementation of the DCFTA. Regulatory approximation with the EU is expected to reduce trade and operating costs. While the DCFTA increases the returns to trade facilitation, most of the benefits attributed in the model to the DCFTA would be derived from trade facilitation reform and are available without the DCFTA.

Moldova's performance on the Doing Business indicator for ease of trading across borders has improved, but issues remain. Moldova ranked 33rd among 189 countries in the trading across borders indicator in 2016.[74] The government formally requires seven documents to export and six documents to import, which is approximately the regional average. The time needed to achieve documentary compliance for export is 48.0 hours, while the regional average is 30.7 hours. On other indicators, Moldova is a middle

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[71] For an extensive discussion of export performance, see World Bank (2016f).
[72] World Bank (2016f).
[73] World Bank (2016g).
[74] Doing Business (database), International Finance Corporation and World Bank, Washington, DC, http://www.doingbusiness.org/data.

performer in the region.[75] Other agencies, such as the Moldova Food Safety Agency, also enforce burdensome controls. Border agency reforms may include greater automation of cargo processing, the reduction of the number of paper-based documents required, the systematic use of risk management and selectivity, more transparency in customs document requirements, and closer collaboration between customs and other border agencies.

Improving public and private sector governance: closing the implementation gap

An adequate business environment so firms can thrive and create higher-productivity jobs requires good governance, including the effective rule of law, good-quality institutions, secure property rights, and a fair justice system. In Moldova, governance-related indicators have deteriorated, and firms have suffered the consequences. This has eroded the trust of citizens. Governance is impacting private sector development through state capture, corruption, and the politicization of regulatory institutions as well as the judiciary, customs, tax services and the Competition Council.

The rule of law and the judicial system

Moldova's political and economic development continues to be hampered by high-level systemic corruption. Corruption is by far the biggest obstacle reported by firms, at 24 percent, followed by political instability (18 percent). These two indicators have deteriorated appreciably since 2009 (Figure 60). The sectors most vulnerable to corruption include the judiciary, customs, land oversight, public procurement, health care, and education.[76] In 2015, according to the Gallup World Poll, 88 percent of Moldovans perceived the business sector and the government as corrupt.[77] Similarly, Moldova's score on the control of corruption index has been consistently lower than the regional average and has deteriorated since 2012 (Figure 61). According to the Freedom House annual *Nations in Transit* study, Moldova's corruption score remained unchanged in 2013–15 at 5.75, but decreased to 6.00 in 2016, which is worse than Armenia (5.25), Romania, and Slovakia (3.75 each).[78] The 2013 Global Corruption Barometer showed that nearly 50 percent of people stated that, to a large extent, the government is run by a few big entities acting in their own best interests.[79] A similar perception applies to the independence of the judiciary (see below).[80] Since July 2016, the Economist Intelligence Unit's political instability risk rating for Moldova has risen from 65 to 70 (100+ high risk).[81] Moldova scores at the highest level of risk for quality of bureaucracy, vested interests and

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[75] Doing Business (database), International Finance Corporation and World Bank, Washington, DC, http://www.doingbusiness.org/data.

[76] According to Transparency International, corruption in the land sector ranks among the highest, after the police and judiciary. The risk of corruption is particularly high if there is a lack of defined inventory, the delimitation and management of public lands, and overlapping or unclear institutional responsibilities. In Moldova, 90 percent of state-owned lands are not assigned to any responsible institution or agency, which provides fertile ground for corruption and causes conflicts and insecurity for people with land rights adjacent to or within public lands. This also causes significant income losses among state and local authorities because of the unauthorized use of public lands and other resources and encroachment. See World Bank (2016h); CPI (Corruption Perceptions Index) (database), Transparency International, London, http://www.transparency.org/research/cpi/overview; GCB (Global Corruption Barometer) (database), Transparency International, London, http://www.transparency.org/research/gcb/overview.

[77] Gallup World Poll, Gallup, Washington, DC, http://www.gallup.com/services/170945/world-poll.aspx.

[78] Schenkkan (2016).

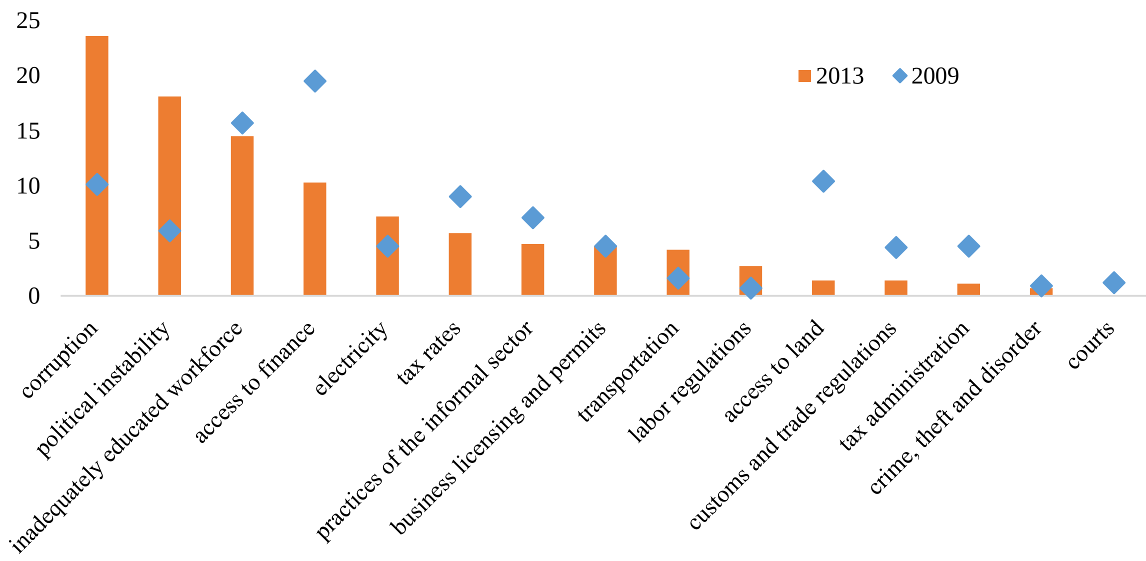
[79] GCB (Global Corruption Barometer) (database), Transparency International, London, http://www.transparency.org/research/gcb/overview.

[80] In addition, only 12 percent of respondents said they trusted the judiciary (IPP 2015). According to the BEEPS 2013 survey, only 17 percent of firms believed that Moldova's judiciary was fair, impartial, and corruption free.

[81] Business Environment: Country Forecast (database), Economist Intelligence Unit, London, http://store.eiu.com/Product.aspx?pid=1930000193&gid=0.

cronyism, and corruption. The banking system, with 93 percent of financial sector assets, has suffered from critical governance weaknesses, leading to a massive fraud in three banks and high risks in other banks (see Box 3).

Figure 60. Biggest obstacles for firms, percent of firms, 2009 and 2013

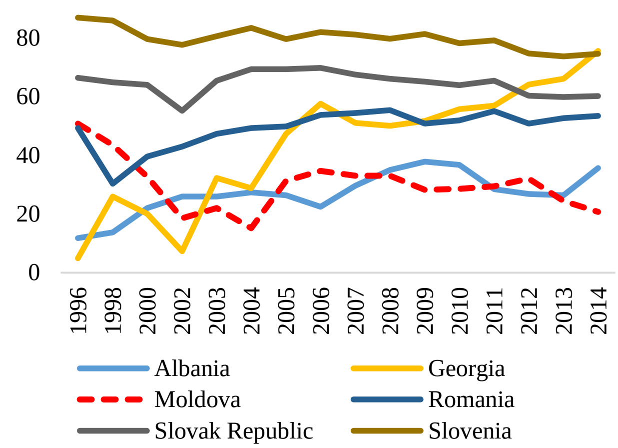


Source: BEEPS 2009 and 2013 surveys.

Moldovan firms face a corruption tax. Firms that perceive corruption as an obstacle to their operations are 5.4 percent less productive than those that do not. Moreover, firms that reported they had relied on informal payments or gifts to deal with customs officials or with courts are less productive than those that did not. Specifically, firms that engaged in bribing were between 6 and 7 percent less productive than firms of similar characteristics that did not (Figure 62). The cost of using bribes to obtain business licenses, on the other hand, is high. Firms that allegedly relied on bribes in their applications for a business license were 50 percent less productive than counterparts.[82]

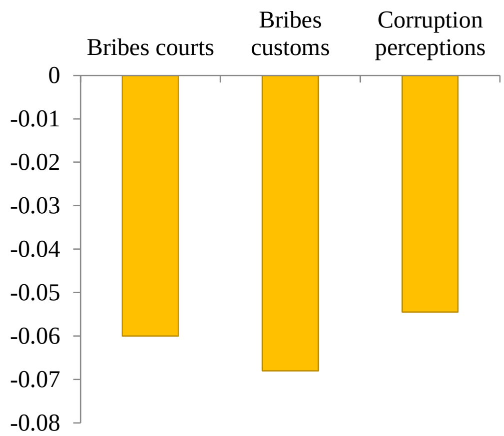
[82] World Bank (2016f). Firms reporting they have to pay bribes for government contracts also report they typically pay 11 percent of the contract value (BEEPS 2013 survey).

Figure 61. Control of corruption, percentile rank



Source: WGI (Worldwide Governance Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/worldwide-governance-indicators.

Figure 62. Productivity differences, firms affected by corruption and others



Source: World Bank calculations based on the BEEPS 2013 survey.

Low levels of trust in courts and the judicial system undermine the performance of businesses. The World Economic Forum's *Global Competitiveness Report 2015–2016* ranks Moldova 134rd of 140 countries in judicial independence.[83] Moreover, according to the latest perception survey on corruption and justice reform conducted by the Legal Resources Center of Moldova in late 2015, 68 percent of prosecutors and 81 percent of lawyers believe that corruption has remained the same or increased since 2011.[84] According to the 2013 Enterprise Survey, only 31.9 percent of economic agents in Moldova consider the courts to be reasonable, impartial, and incorrupt, compared with 38.9 percent of economic agents in Eastern Europe.[85] Business associations noted that judges seem reluctant to reach decisions in favor of businesses in commercial cases because they are afraid of political retribution.[86] Data from the same survey also appear to show that about 70 percent of economic agents do not believe the courts will protect their property rights, and this negatively impacts their intentions to invest. Moldova likewise lags its European comparators in the demand for justice services, a sign that citizens and enterprises see little value in taking disputes to court. Total cases per 100,000 inhabitants in Moldova are about half the EU average.[87]

Strengthening the rule of law is essential for private sector development. This entails the implementation and enforcement of regulations and increasing the independence of regulatory and judicial

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[83] Schwab (2015).
[84] Legal Resources Center of Moldova, "Assessing Perceptions of Judges, Prosecutors and Lawyers, October–December 2015, Summary," http://crjm.org/wp-content/uploads/2016/01/Summary-of-the-survey.pdf.
[85] Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC, http://www.enterprisesurveys.org.
[86] CPI (Corruption Perceptions Index) (database), Transparency International, London, http://www.transparency.org/research/cpi/overview.
[87] Data of the European Commission for the Efficiency of Justice.

institutions.[88] However, the implementation of judicial reform is slow. Moldova adopted an ambitious Justice Sector Reform Strategy 2011–16 for sectoral modernization.[89] However, implementation appears to have been hamstrung by low technical capacity, inadequate funding, and a critical lack of sustained, high-level commitment to action.

Box 3. A banking fraud cost 12 percent of GDP and revealed huge governance challenges

Weak governance in Moldova's financial system has severely distorted financial resource allocation, led to severe fraud, and constrained the provision of financial services to businesses and households. Specifically, a financial pyramid scheme carried out by Banca de Economii, Banca Sociala, and Unibank in 2013–14 culminated in losses that may cost the government budget the equivalent of about 12 percent of GDP. All three banks are believed to have been controlled by a Moldovan business tycoon and his associates, with senior political patronage. The origins of the crisis were in the flawed recapitalization of Banca de Economii in August 2013, when control of the bank effectively passed to private agents. However, this control was nontransparent as the ultimate beneficial owners were not disclosed. In late 2013, this group also gained control of Unibank and Banca Sociala to tap their deposits for further lending. These takeovers were also not transparent, and the ultimate beneficial owners were not disclosed. Because the ultimate beneficial owners were not identified, loans to them – which mostly were not repaid –were difficult to identify and monitor.

The alleged fraud in these three banks merely exemplifies profound weaknesses in governance in the financial sector. Changes in the control of banks have escaped the fit and proper vetting of the National Bank of Moldova (NBM), thereby allowing undisclosed parties to operate in the country's financial sector with unclear and dubious intentions. The controlling ownership of financial institutions have been changed without proper supervision, and this has involved nontransparent appointments of board members and chief executive officers. This has led to substantial blurring of the roles and responsibilities of ownership, oversight (board), and management, resulting in no clear accountability. The Joint Stock Company Law and the Law on Financial Institutions do not adequately define related parties or regulate disclosure requirements and do not adequately enumerate the basic roles and responsibilities of bank owners, board members, and managers. The boards have a particular duty to act in the best interests of all stakeholders (including depositors and the public) and to act responsibly and with integrity; in practice, however, they appear to operate primarily and often solely in the interests of owners. While banks are required to adopt a recognized corporate governance code, few banks appear to pay close attention to or disclose their compliance with this code, and NBM does not supervise and enforce compliance; moreover, the guidance on the code falls short of good practice. There is insufficient attention paid to the control environment as evidenced by the underdevelopment of critical risk control and internal audit functions.

The illicit raider attacks (that is, the capture of shares) used to gain control of the majority of the banking sector's assets illustrate other crucial weaknesses. These have been perpetrated by unidentified individuals whose subsequent de facto, related-party transactions have caused the deterioration of bank balance sheets. Raider attacks have involved the judicial system, bailiffs, and share registries. As a result, prior to the closure of the three defrauded banks, close to 80 percent of the Moldovan banking sector and 70 percent of the nonbank financial sector had come under the control of two or three undisclosed individuals.

Raider attacks have additional adverse implications for the economy. First, the financial sector has been unable to grow in a sustainable manner. Second, weak property rights, the lack of a transparent and predictable judicial

[88] CPI (Corruption Perceptions Index) (database), Transparency International, London, http://www.transparency.org/research/cpi/overview.

[89] The strategy was originally drafted for 2011–15. However, at the end of 2015, with work on preparing a new strategy barely begun, the strategy implementation period was extended to the end of 2016.

system, and the climate of impunity reduce domestic and foreign investment. Therefore, these attacks and the subsequent fraud have harmed growth and employment.

The enforcement capacity of the two financial sector regulators and supervisors—the NBM (banking supervision) and the National Commission for Financial Markets (NCFM, nonbank supervision)—has been limited by a series of court challenges and deficiencies in the law. Constitutional Court decisions in 2012 and 2013 significantly curtailed the powers of the NCFM and NBM, respectively (these powers were largely restored for NBM in mid-2014, but not yet for NCFM). In addition, NBM and NCFM board members and staff have lacked sufficient protection against personal lawsuits, while carrying out their duties in good faith. NBM and NCFM regulatory initiatives also often got backlogged in the Ministry of Justice, which has the power to require changes before these may go into effect, thus compromising NBM's powers and independence.

Despite these shortcomings in law and governance practices, NBM and NCFM could do more. Poor risk management in banks is partly caused by insufficient regulatory standards, which NBM could improve. Moreover, the Law on Financial Institutions provides the NBM with a wide range of instruments to address problems in banks or violations of regulatory obligations, particularly in the case of persistent deficiencies in the same institutions. Recommendations by NBM supervisory staff in the recent past were often tied up by the board, which failed to act on them. As a result, efforts by the NBM to address changes in control, require disclosure of ultimate beneficial owners, and take other actions were blocked to the detriment of the safety of the banking system. NCFM, the regulator-supervisor in charge of providing licenses to the 11 independent registries, does not perform fit and proper reviews upon changes in registry ownership, nor does it rigorously vet board members and chief executive officers. NCFM's supervision of the insurance sector, which has also suffered from raider attacks and other malfeasance, has also been restricted, resulting in the possible expulsion of Moldova from Europe's Green Card system of insurance.

Following the public disclosure of the alleged fraud in Banca de Economii, Unibank, and Banca Sociala in late 2014, the government, NBM, and NCFM began to take the first steps to address the governance problems throughout the financial sector. In 2015, NBM imposed special supervision in the next three largest banks and ordered them to undergo special diagnostic audits to identify potential risks. NBM subsequently suspended and ordered the sale of 44 percent of the shares of Moldova Agroindbank after finding that the shareholders were acting in concert. NBM has prepared a draft strategy to address the other issues raised by these audits. In 2016, Parliament passed legal amendments to (a) give legal protection to NBM and NCFM staff carrying out their duties in good faith, (b) eliminate the Ministry of Justice's authority to review and delay registration of NBM and NCFM regulations, and (c) create a single securities registry in NBM in which the shares of financial institutions would be registered. The authorities will need to continue the momentum of reform to (a) strengthen the bank resolution regime, (b) strengthen the independence and the regulatory and supervisory powers of supervisors, (c) adopt and implement a strengthened corporate governance framework in the financial sector, (d) establish the new securities depository in NBM and ensure the transfer of registrations and data from the 11 private registries, and (e) ensure the accountability of those institutions responsible to control fraud and other malfeasance in the financial sector.

Governance and Competition

Poor governance is also reflected in weak competitive conditions and competition policies, which are perceived to contribute to high risk among firms. Competition perception indicators of the World Economic Forum's *Global Competitiveness Report 2015–2016* indicate that, among 140 countries, Moldova ranks 103rd on the intensity of local competition, 124th on the extent of market dominance, and 135th on the effectiveness of antimonopoly policy (in each case, a low rank indicates poor performance).[90] Accordingly, investors in Moldova perceive that they face one of the greatest business risks because of the

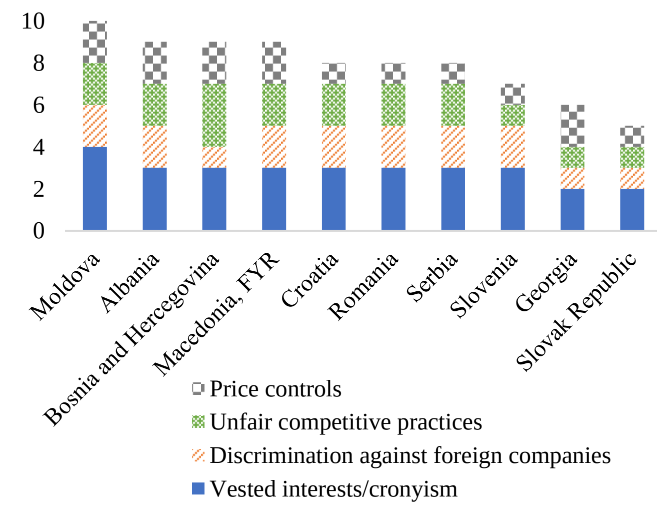
[90] Schwab (2015).

weak competitive environment with respect to neighboring countries, particularly: (a) vested interests and discrimination against foreign firms that may hinder innovation and preclude more efficient firms from gaining market share and (b) price controls and the control of other market variables that limit the benefits that firms may obtain by competing effectively (Figure 63).

Moldova's key sectors are controlled by a limited number of firms. Among the markets for manufactured goods, 15 percent are dominated by monopolies, compared with an average of 4 percent in other countries in the Eastern Europe and Central Asia region, and 20 percent of Moldovan markets for manufactured goods have a duopolistic or monopolistic structure.[91] This is consistent with the concentration of employment in larger firms and the increase in the dominance of large and older firms in employment over time. Furthermore, some prices are still regulated, especially prices for socially important domestic products, including food and nonfood products, while the margins on some of these products produced domestically cannot exceed 20 percent.[92]

Price controls and anticompetitive regulations may hamper the incentives of firms to invest and the ability of firms to thrive. In several markets, anticompetitive regulations can impose quantitative limits estimated on the basis of how much the market appears to be able to absorb, while other de facto barriers to entry are associated with discretionary licensing for the right to operate in a market (for example, accounting and auditing, software, design work).[93] At the same time, the anticompetitive practices of firms (abuses of dominant position, collusion) affect market dynamics and have negative effects on productivity, growth, and consumer welfare.

Figure 63. Business risks related to weak competition policies, by component



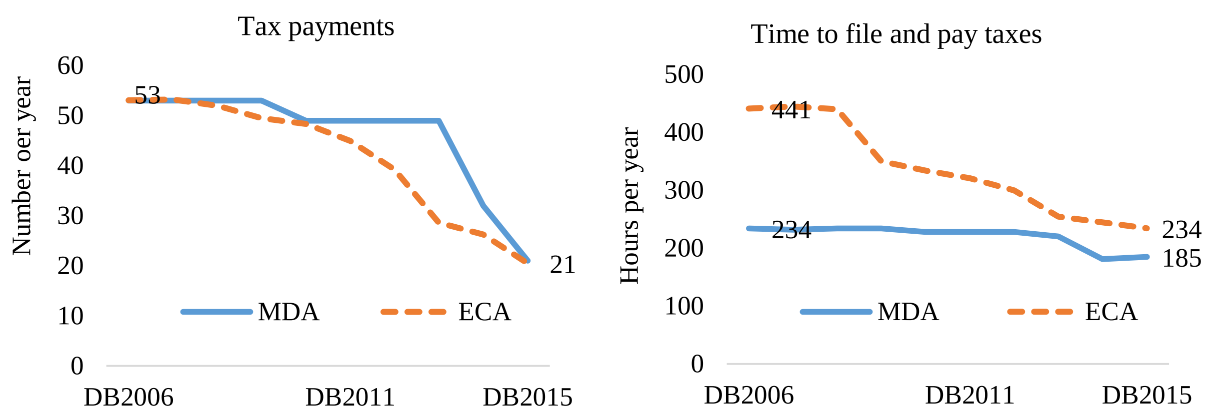
Source: Business Environment: Country Forecast (database), Economist Intelligence Unit, London, http://store.eiu.com/Product.aspx?pid=1930000193&gid=0.

Similarly, while tax administration has improved, deficiencies in capacity and governance encourage informality. Improvements in tax administration are a precondition for improved competitiveness and creating a level playing field for companies in Moldova. While some aspects of the taxpayer interface have been improved, there is considerable scope to enhance taxpayer services and increase voluntary compliance. In recent years,

91 Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC, http://www.enterprisesurveys.org.
92 See Government Decision no. 547 of 1995; annex 4, "National Program for Competition Policy and State Aid, 2015–2020," Competition Council, 2015.
93 UNCTAD (2014).

there has been substantial progress with respect to the time to comply with tax requirements (Figure 64).[94] This declining trend in compliance transaction costs has been brought about through the introduction of the e-declaration system, online payment for some taxes, and the reduction in the number of declarations. However, improvements in services are hampered by perceptions of corruption and weakness in the tax administration. According to the BEEPS, about 14 percent of companies had to pay bribes in their interaction with tax administrators. Small businesses were disproportionally affected. At the same time, weaknesses in tax administration, including inadequate attention to large taxpayers, a focus on minor compliance matters, a lack of integrity of taxpayer registration, and underdeveloped risk management throughout the tax process, promote the informal economy. This leads to unfair competition. In the 2013 BEEPS survey, 32.3 percent of companies reported they had to compete against unregistered or informal firms.

Figure 64. The administrative burden of tax compliance, Moldova and the region, 2006–15



Source: World Bank compilation based on data in Doing Business (database), International Finance Corporation and World Bank, Washington, DC, http://www.doingbusiness.org/data.

For foreign firms, the low level of investment protection is an important discouragement. Moldova has signed bilateral investment agreements with Austria, Belgium, Luxembourg, Switzerland, Turkey, and the United States, and the country's legal framework for FDI entry and establishment is close to best practice. However, the implementation of investor protections is uneven. Coupled with weak governance in the judicial system, such issues can escalate to costly international investor–state disputes. Since 1999, Moldova has had to respond to at least nine cases of international arbitration.[95] Moreover, investment promotion remains underdeveloped. The Moldova Investment and Export Promotion Organization is the national entity responsible for promoting FDI and exports. It has been in operation since 1999, but was only assigned the investment promotion mandate in 2014. A World Bank survey among foreign investors

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[94] In Moldova, it takes 185 hours to prepare, file, and pay taxes (about 21 payments a year), compared with an average of 234.3 hours in the Europe and Central Asia region (20.5 payments a year) and 175.4 hours in the OECD (11.8 payments a year). See Doing Business (database), International Finance Corporation and World Bank, Washington, DC, http://www.doingbusiness.org/data.
[95] Investment Policy Hub (database), Division on Investment and Enterprise, United Nations Conference on Trade and Development, Geneva, http://investmentpolicyhub.unctad.org/ISDS/CountryCases/172?partyRole=2.

suggests that investors often lack awareness about available investment incentives, or find the administration of incentives complex.[96]

The business environment in which firms operate is also hampered by the preferential treatment of state-owned enterprises (SOEs). SOEs continue to play an important role in the economy. They represented about 10 percent of the assets in the corporate sector and 19 percent of GDP in 2012 and have a strong presence in real estate and business services, transport, communications, and other sectors where the private sector could play a more substantial role.[97] Because the regulatory framework is not aligned with OECD best practice guidelines and because compliance with the existing regional regulatory requirements is low, SOEs do not operate efficiently or in a transparent or accountable manner. SOEs that are monopolies can manipulate the market and regulatory powers to restrict healthy competition. In some cases, SOEs compete in markets, but also perform a regulatory role in the same markets, generating clear conflicts of interest.[98] Reports have shown that SOEs that have received a large number and amount of government contracts provide substantial contributions to political parties.[99] Conventional regulations do not always effectively address SOE management problems, information asymmetries, and lack of transparency that are significant contributors to poor SOE performance. Moreover, through their control of government institutions, oligarch-owned businesses and oligarch-controlled SOEs have access to loans and subsidies and participate in public tenders that are tilted in their favor.

The implementation of competition and state aid control policies can be strengthened, particularly to combat anticompetitive conduct, tackle anticompetitive regulations in key sectors (for example, in transport, energy, and retail distribution), and minimize the competition distortions associated with unlawful state aid. This would contribute to promoting more productive resource allocations and job creation through efficiencies associated with less market distortion and through state aid that is properly managed to support regional development, the development of small and medium enterprises, and research and development. The government adopted new competition and state aid laws in 2012 in line with EU rules. The Competition Council was set up as an independent agency reporting to Parliament and started to operate effectively in 2014. Greater emphasis should be placed on eliminating and preventing the most harmful anticompetitive practices (such as hardcore cartels), pursuing sustained competition advocacy activities through the active role of the Competition Council in the design of procompetitive regulations and stronger collaboration of the Council with sectoral regulators, promoting a competition culture among businesses and civil society, enhancing state aid review to minimize firm-specific aid and its distortive effects and promote better public spending, and strengthening the Council's standing relative to the judiciary and its capacity (financial and human resources) to implement properly its mandate on competition and state aid control.

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96 World Bank (2016e, 2016f).

97 World Bank (2013).

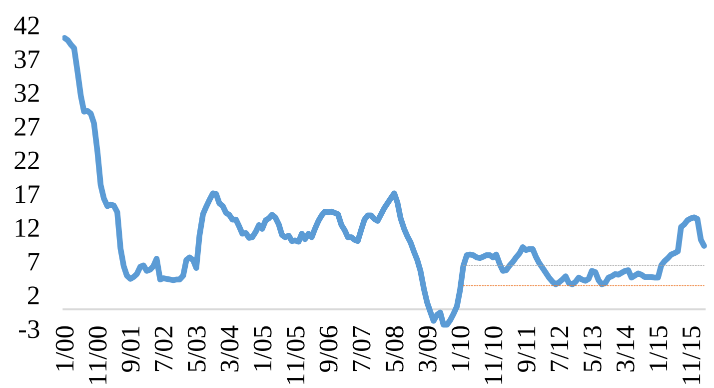
98 Two specific examples currently being assessed include the SOE that provides personal security services and acts in competition with private sector providers, while also regulating the security services industry. There are also SOEs that provide training in accreditation for certain business licenses in competition with other providers in the private sector and that also act as a regulator on the conditions and eligibility for such licenses.

99 Research has shown that, during the 2015 election campaign, the Democratic Party received donations from over 50 companies that benefited from public contracts, including RED Nord joint stock company, the main electricity distributor in the north of Moldova that was awarded a large contract valued at over MDL 1 million in 2013. Staff of another joint stock company, Moldtelecom, donated over MDL 700,000 to the Democratic Party after benefiting from contracts worth MDL 35.8 million in 2011–15. See Colun (2015). Similar links are found with donations to other political parties, including the Liberal Democratic Party and the European People's Party of Moldova.

Macroeconomic management

Moldova has recently improved macroeconomic management, but faces risks that could derail macroeconomic stability. The risks relate to weaknesses in financial sector governance and attempts to undermine the independence of NBM. NBM has shifted to an inflation targeting framework and allowed a flexible exchange rate to absorb external shocks. As a result, the level and volatility of inflation have markedly decreased (Figure 65). The government has been implementing low fiscal deficits, and kept the public debt at low levels. However, banking sector fraud significantly complicated monetary policy making in 2014–15 and led to additional public debt that will constrain the fiscal space for the medium term because of higher debt servicing. Furthermore, the sharp tightening of monetary policy in 2015 to mitigate the inflationary impact of the banking fraud led to political pressure on NBM leadership, culminating in the resignation of the NBM governor in September 2015. Given that the poor financial sector governance, the root cause of the previous banking crisis, has not been fully addressed, the risk that it will derail macroeconomic management is elevated.

Figure 65. Consumer inflation, Moldova, % year-on-year



Source: National Bank of Moldova.

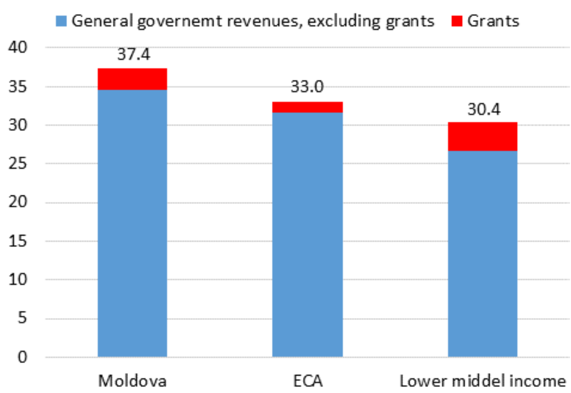
The fiscal pressures that Moldova has been facing since 2015 require a rethinking of the overall fiscal envelope. The government has been experiencing growing fiscal pressures since 2015 because of the contraction in the economy and a shortfall in external financing. To adapt to these changed circumstances, the government has been rationing expenditure. Some expenditure categories, notably capital outlays, have been cut sharply, and the government has been protecting the public sector wage bill and social protection spending. However, this may not be a sustainable solution. International benchmarking of Moldova's revenues and expenditures to peer countries and country groups suggests that, through the budget, the government spends and collects more than countries at similar levels of income per capita or other countries in the region. General government revenues were 5 percentage points higher than the regional average during 2000–14 and 7 percentage points higher than countries at a similar income level, that is, the lower-middle-income group (Figure 66). Moldova's dependence on external grants has been gradually increasing, reaching 3.7 percent of GDP in 2014. While some large countries in the region, such as Poland and Turkey, have a higher share of fiscal collections relative to Moldova, countries of similar size (Albania, Georgia, and Lithuania) and Romania show a lower fiscal load.[100]

Moldova could restructure the public budget, while supporting growth, fiscal sustainability, and the living standards of the poor and vulnerable. At 37.8 percent of GDP on average over 2000–14, Moldova's general government expenditures were 3.7 percentage points higher than the regional average

[100] World Bank (2016i).

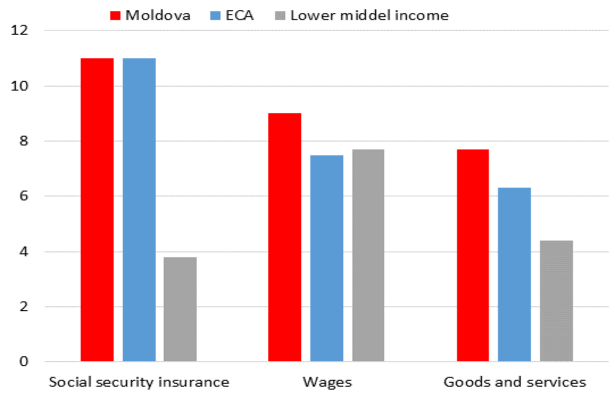
and 8.5 percentage points higher than the average in lower-middle-income countries. Overall, lower-middle-income countries with higher per capita GDP than Moldova tend to spend less than Moldova as a share of GDP. Moldova's recurrent expenditures exceed regional and income-group peers, limiting the room for much-needed public investment. Expenditures on social security, the wage bill, and purchases of goods and services were, on average, higher than in the region and in lower-middle-income countries (Figure 67). Subsidies and other transfers comprise more than half of expenditures and are among the highest such expenditures in the region. Meanwhile, substantial spending on education and health care does not translate directly into quality of service (see below).

Figure 66. General government revenue, average % of GDP, 2000–14



Sources: GFS (Government Finance Statistics) (database), International Monetary Fund, Washington, DC, http://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405; WEO (World Economic Outlook Database), International Monetary Fund, Washington, DC, http://www.imf.org/external/ns/cs.aspx?id=28.

Figure 67. General government expenditure, average % of GDP, 2000–14



Source: GFS (Government Finance Statistics) (database), International Monetary Fund, Washington, DC, http://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405.

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This section describes the potential constraints along Pathway 1; it indicates that the private sector faces major challenges in generating jobs. Access to inputs, including finance and services, is unequal across firms of different sizes and in different locations. Some of these access limitations are linked to the regulatory framework. However, the diagnostic clearly shows that the business environment is hampered by a high level of corruption, a weak judiciary, and weak competition policies.

Addressing the constraints is essential to boosting employment in agriculture and the nonagricultural sector. Increasing labor demand across sectors is crucial. Given the high concentration of the poor and the bottom 40 in agriculture and in rural areas, improving the quality of jobs and productivity in the sector is important. However, the agricultural sector has a strong dualistic structure. Among the relatively small share of farms that are commercial or have commercial potential, the focus should be on removing sector-specific and more general constraints so these farms can expand and modernize (Box 4).[101] However, most

[101] Möllers et al. (2016).

people in rural areas have little capacity to commercialize, and, among people in urban areas, the creation of nonagricultural jobs is the way forward.

Box 4. Assets and services for the agricultural sector

The fragmentation of landholdings, the limited access to finance and to export markets, and other constraints undermine the growth potential of agriculture. The agricultural sector is burdened with high informality and low productivity because of the following:

Fragmentation of landholdings and the ensuing lack of scale: Agriculture has a dual farm structure. The 2011 general agricultural census revealed that more than half the farms cultivate less than 0.5 hectares, and about 95 percent have an area less than 3.0 hectares and occupy only 26.8 percent of the total agricultural land. Smallholders have limited opportunities to commercialize and increase the size of their farms; so, many end up leasing their land (around 30 percent) or leaving a considerable share of their land fallow (up to 20 percent).[a] (Semi)subsistence farms accounted for 74 percent of all farm households and 71 percent of total agricultural output in 2013.[b] Generally, small farms show higher land productivity because of the more intense use of labor and the higher-value products (vegetables, wine, and livestock). The large commercial farms own most of the land, machinery, and resources, but offer mostly seasonal low-paid labor, which cannot provide a significant income source to rural families.

Lack of access to finance: The lack of finance is mainly caused by (a) insufficient collateral, (b) almost no available long-term loans, (c) the scarcity of support instruments to facilitate access to credit, and (d) high interest rates.[c] Low nonfarm income also means smallholders do not have sufficient savings to reinvest.[d] They usually borrow money from large local commercial farms at the beginning of the agricultural season to finance the purchase of seeds or the provision of machinery services.

Limited penetration of export markets: Moldovan agricultural products are in the low-price segment on international markets because of deficiencies in terms of quality and food safety standards. Within the sector, only large commercial farms are able to serve export markets because they specialize in the production of commodities, given their advantages in terms of low production costs, the availability of machinery, and cheap postharvest processes. Small farms, meanwhile, are less well integrated in the market because they produce mainly for own consumption and show a limited surplus of high–value added crops sold in local markets.[d]

The outdated education system: The agricultural education system is weak at every level. The agricultural professions prepared for in vocational education and training schools are the same ones taught to kolkhoz (collective) workers more than 20 years ago: tractor driver, shovel operator, grape grower, beekeeper, and so on. Because most of the agricultural population consists of family farmers, the level of specialization of vocational education and training institutions is too narrow.

Deteriorating extension services: The national extension services established in early 2000 with strong donor support are struggling to survive with inadequate resources. The network has been covering about 40 percent of the country with a focus on small subsistence farms. However, insufficient public funding since donor support dried up in 2013 has led to weakening capacities, inadequate skills, and declining coverage.

Business regulation in agribusiness: Business regulation constrains sector growth and investment. Restrictive and cumbersome regulations in input markets negatively affect the access of agricultural producers to new technology and impose additional costs on private agricultural input dealers. This results in higher prices for inputs paid by farmers. (Private sector sources indicate that the prices of fertilizers and pesticides in Moldova are at least 15 percent higher than the market reference prices in neighboring countries.) The 2013 Enterprise Survey revealed that 17 food safety authorizations have imposed costs on the private sector amounting to about $6 million, while the cost to the National Food Safety Agency to issue the relevant documents amounted to $1.5 million.[e] Improvements in the current food safety management system, including legislative harmonization as well as regulatory streamlining, are paramount to supporting Moldova's agenda to achieve EU market access.

a. Möllers et al. (2016). In most cases, one powerful large commercial farm is the sole renter in a village, which may undermine rental conditions and, in addition, prevent medium-sized farms from competing and expanding.
b. Volk et al. (2015).
c. An important condition for gaining access to a mortgage is the possession of property that has been properly registered in an authorized, secure system. In Moldova, there are still almost 600,000 pieces of property that are not registered, mainly in rural areas, and the owners and potential investors therefore do not have access to a mortgage. This limits the development of a land market and the emergence of larger and more productive farms. See also Moroz et al. (2015).
d. Piras and Botnarenco (2015).
e. Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC, http://www.enterprisesurveys.org.

VII. Building up and protecting the stock of assets of the population

Moldova needs to build up and protect the assets of the population to increase access to jobs and the productivity of the current and future population and to ensure the economic security of the elderly and vulnerable. This requires (a) preparing people for the labor market through better education, skills, health care, and access to jobs; (b) increasing the equity, quality, and coverage of services; and (c) reducing the vulnerability and improving the resilience of the population.

Preparing people for the labor market

Building up the stock of human capital—education, skills, and health—is critical to improving people's capacity to work and generate income. The diagnostic of the labor market shows that job opportunities are becoming less inclusive. Wage growth is limited to services, and urban dwellers with higher educational attainment are more likely to find (formal) jobs. Education is thus a key determinant of the access and returns to jobs. Ensuring that individuals, regardless of their socioeconomic status or other characteristics, can develop and use their human capital intensively, particularly in labor markets, requires that they be enabled to access relevant, good-quality education and training opportunities and that the barriers and disincentives they face in engaging in gainful employment be removed.

Education and skills

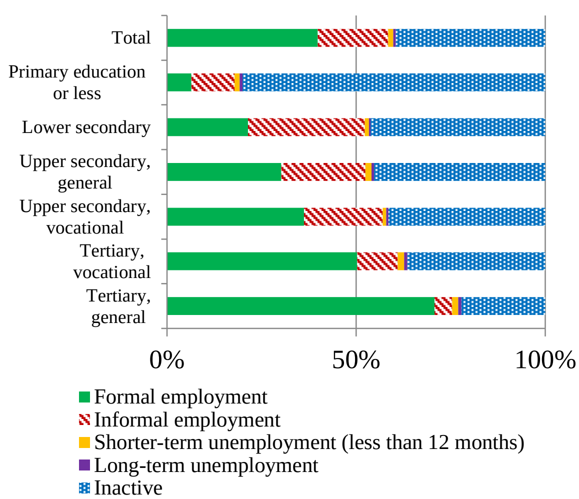
Skills development through education is a first step in increasing the opportunities for individuals to find more and better (more highly productive) jobs. The stock of human capital has expanded. A higher share of men and women are attaining secondary education, and the population is gradually becoming more well educated. The gender gap in educational attainment is small in secondary education and below, and it is widening in favor of women in higher education. There are significant returns to education in terms of finding formal wage jobs and achieving higher earnings. Figure 68 shows that the education level is positively correlated with labor market participation and also positively correlated with the formality of jobs. Among youth, educational attainment appears to have a considerable impact on the formality of employment even compared with other countries in the region.[102] Moreover, individuals with higher educational attainment are less likely to work in agriculture and more likely to work as self-employed or

[102] The difference in formal employment rates among youth (ages 15–29 years) between youth with tertiary educational attainment and youth with primary educational attainment was about 90 percent in 2013, which is the largest gap observed among countries with a legacy of central planning that are covered in the relevant survey. See Elder et al. (2015).

family workers. Important urban and rural differences exist: the share of the adult population with postsecondary education in urban areas is higher, and their returns to higher education are higher as well (Figure 69) relative to rural areas.[103]

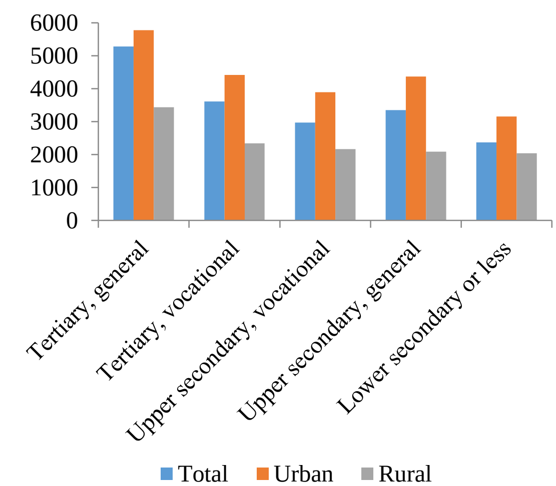
However, throughout the life cycle of individuals, the education and training system is not sufficiently geared to the skills demanded on the labor market. Issues of access, quality, equity, and relevance permeate the system. Early in the life cycle, even if there is demand for early childhood education (for children ages 0–3 years) and given how critical these years are for building up human capital, there is no legal framework or financing for the public provision of early childhood education for this age-group.[104] The lack of access to affordable good-quality childcare can also impact the access of mothers to jobs. For preschool-age children (3–6 years), discrepancies in access exist between rural and urban populations (71 percent and 82 percent gross enrolment for rural and urban children, respectively).[105]

Figure 68. Prime working-age population (ages 34–54), by educational attainment, 2014



Source: Moldova National Bureau of Statistics (online databank and statistical yearbook, based on LFS)

Figure 69. Average monthly wage, by urban or rural location and educational attainment (ages 15+), 2013



Source: 2013 labor force survey.

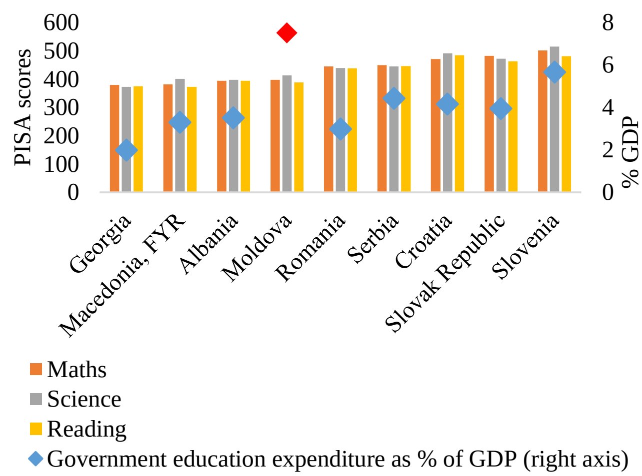
Despite the 21 percent of public spending going to education, serious gaps in the supply and quality of basic education remain, including an urban-rural divide. Moldova is in the 90th percentile worldwide in the share of public spending going to education.[106] Yet, the performance of the country's 15-year-olds in

[103] While 25 percent of the adult population in urban areas has postsecondary educational attainment, this is true of only 6 percent in rural areas (labor force survey).
[104] Investing in early childhood development is critical for education, health, and increased productivity. (See the substantial work by James Heckman, The Heckman Equation (database), Center for the Economics of Human Development, University of Chicago, Chicago, http://heckmanequation.org/.) In Moldova, the importance of early childhood education was recognized in the Education for All National Strategy, which aims to support children from disadvantaged environments who have few opportunities for early literacy and language development as well as the increasing number of children whose parents are absent because of migration.
[105] EdStats: Education Statistics (database), World Bank, Washington, DC, http://datatopics.worldbank.org/education/.
[106] Sample of 142 countries, Find My Friends Tool with data of WDI (World Development Indicators) (database), World Bank,

reading, mathematics, and science in the Program for International Student Assessment (PISA) is among the lowest in the region and more than two years behind OECD peers (Figure 70), including relative to former centrally planned economies that have similar education systems. Overall, 57 percent of 15-year-olds in Moldova lack the basic levels of proficiency in reading literacy (61 percent in mathematics and 47 percent in science) needed to participate effectively and productively in society.[107] The gaps with peers appear to be caused to a great extent by weak and outdated teaching and learning practices. PISA measures applied knowledge, while Moldova focuses on theoretical knowledge.[108] The 2015 national student assessment of 4th and 9th graders shows that the differences in performance between urban and rural students are mostly explained by the socioeconomic level of the students, particularly in 4th grade.[109] In addition, the education system has not fully accommodated ethnic language diversity, thus limiting the accumulation of human capital among some language groups in Moldova.[110]

The transition rates from lower- to upper-secondary education are generally low, and students from less well off socioeconomic quintiles tend to be tracked early into vocational training rather than academic education. In 2014/15, the gross enrolment ratio in upper-secondary education was only 54 percent, compared with 82 percent in lower-secondary education. While data may be partly distorted because of migration among students, this appears to highlight a large enrolment drop in upper-secondary education. Moreover, students in lower socioeconomic groups appear substantially more likely to move into the vocational tracks, which, in many cases, do not offer pathways to more education or training. For example, 40 percent of grade 9 students from the lowest socioeconomic quintile can expect to enter secondary vocational schools, compared with 3 percent of students in the highest quintile, where over 60 percent of students can expect to complete higher education.[111] Overall, the technical and vocational

Figure 70. Public spending on education and PISA scores, Moldova and comparators, circa 2012



Source: WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

107 World Bank calculations using PISA data.

108 There is a difference of around two years of schooling—the difference is greater among boys—in reading scores between urban children who do not belong to the bottom 40 and rural students from a disadvantaged socioeconomic background.

109 Ministry of Education (2016).

110 In regions where non-Moldovan groups are more prominent, there are not enough qualified Romanian-speaking teachers or teachers willing to help improve the quality of learning of the national language. In 2011, 10 percent of high school graduates in Gagaúzia failed to pass (that is, failed to achieve even the minimum passing score) their Romanian language exams and were in jeopardy of not graduating. Similarly, one Roma in five is unable to read or write, and about a third of Roma complete only primary education. These gaps in education can translate into disparities in human capital, which undermine the capacity to obtain quality employment (Cace et al. 2007).

111 Data from the student questionnaire of the 9th grade assessment, collected in 2015.

education and training system displays substantial deficiencies. It suffers from a weak strategic framework, poor service delivery mechanism, and, especially, an underdeveloped and ineffective oversight mechanism.[112] These characteristics are not conducive to equipping the students with the skills they need to enter and prosper in the labor market. Among the adult workforce, adult learning is underdeveloped, thus depriving the adult population of opportunities for skill upgrading, particularly important in a rapidly changing labor market.

In sum, the current education system is not considered successful in equipping students with the skills necessary to thrive in today's labor market. General education should prepare students more carefully in applying knowledge and acquiring basic cognitive skills, and technical and vocational education and training should equip students with more relevant job-specific technical skills. While no data on the matter are available on Moldova, there is reason to assume that similar systemic weaknesses also hamper higher education. In line with the responses of firms on the issue, graduates of secondary vocational education report significant mismatches between their education and the jobs open to them. Indeed, there appears to be an increasing oversupply of workers with higher education, from 11,700 workers in 2000 to about 51,000 workers in 2015. The number started rising appreciably in 2008.[113] There is also evidence of a widening education-job mismatch among workers with higher education: many are employed in areas unrelated to their fields of study. The mismatch suggests that the system of colleges inherited from the Soviet Union is not effective in meeting modern market needs and requires reform.

Overall, policies to improve the alignment of the supply of skills with labor demand are being adjusted, but additional efforts are needed to enhance the relevance, quality, and equity of education and training. For example, the government has taken steps to upgrade resource allocation by adopting per capita financing and an enabling legislative framework for general education; a reform program for technical and vocational education and training is in place and is being implemented (albeit slowly); and the ministries of education and of labor, social protection, and the family are holding discussions on establishing a quality control mechanism in continuing vocational education and training. Sustaining and advancing these reforms are fundamental to favoring equitable, sustainable gains in welfare.[114] Countries characterized by a wide range of economic conditions and social settings have demonstrated the ability to raise the quality of educational outcomes substantially and equitably despite large social disparities and limited economic resources.[115] Moldova can do the same.

Health care

Health is essential if individuals wish to participate in economic life and achieve higher productivity.[116] At 5.3 percent of GDP, the public expenditures on health care are relatively high compared with other countries in the region.

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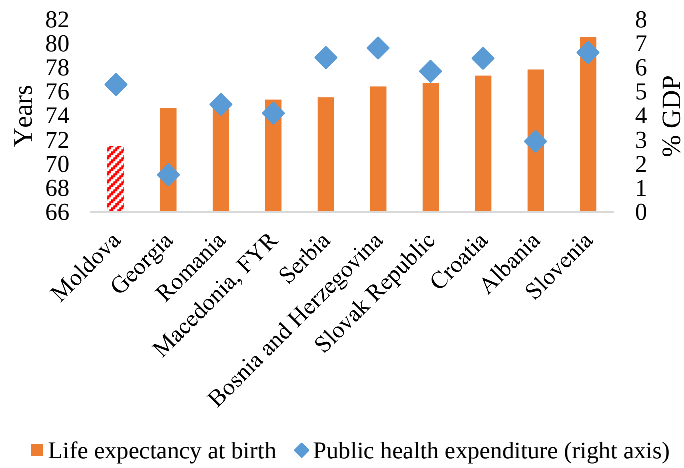
[112] World Bank (2013).
[113] In 2014, 54 percent of secondary vocational education and training graduates reported horizontal or vertical mismatches, compared with 46 percent and 48 percent of general tertiary education and postsecondary vocational education and training graduates, respectively (World Bank calculations based on data of the Moldova National Bureau of Statistics and labor force survey data).
[114] Porta et al. (2011).
[115] OECD (2010).
[116] de Walque (2014).

Nonetheless, Moldova faces a substantial disease burden. There has been significant progress in the under-5 mortality rate, now at 16 deaths per 1,000 live births, half the 1990 value. However, the country is the worst performer in terms of longevity in the Europe and Central Asia region: life expectancy at birth is lower there than in any comparator country (Figure 71), despite the high public expenditure. Life expectancy and healthy life expectancy are low (71.3 and 62.0 years, respectively) compared with other countries.[117] Life expectancy at age 60 was low, at 16.4 years, in 2015. The indicator revealed an important gender gap, standing at 14.3 years among men and 18.2 years among women in 2015. Beyond being an end in itself, low life and health life expectancies limits households' economic opportunities, particularly in the labor market, and shrinks the human capital of the country with implications to its growth prospects.

Respiratory and circulatory diseases account for the majority of the morbidity rate. Similar to other countries in Eastern Europe and Central Asia, the main causes of death in Moldova are noncommunicable diseases, namely, diseases of the circulatory system, cancers, and diseases of the digestive system, and, according to the World Health Organization, the majority of deaths in 2010 could be attributed to heavy consumption of either tobacco or alcohol.[118] According to the World Health Organization 2013 STEPS survey, 40 percent of men smoked daily in 2013, and cardiovascular disease has increased substantially; the rate of registered patients doubled between 2000 and 2014.[119] In Moldova, health outcomes are poor across the board. The number of people with various degrees of disability and chronic disease is equally distributed between, for example, the bottom 40 and the top 60. Even self-rated health status is not necessarily worse among the bottom 40 and the poor relative to the top 60 and the nonpoor.[120]

Figure 71. Public expenditures on health and life expectancy at birth, Moldova and comparators, 2014



Source: WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

Among the poorest households, financial protection against health shocks is low, and health service utilization is low. First, although more than 85 percent of the population is currently covered by health insurance, financial protection from health expenditure shock is limited, as evidenced by the high share of out-of-pocket payments in total household health expenditure. Almost half of all spending on health care comes out of the pockets of patients. Even relatively low health-related out-of-pocket payments can push

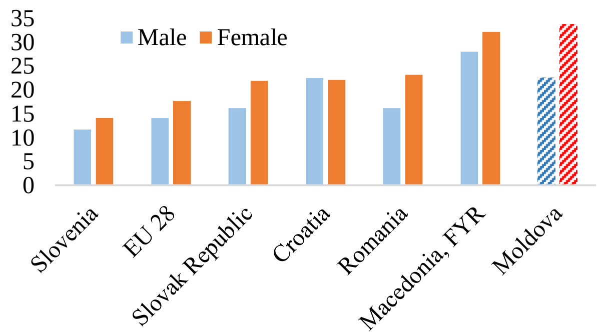
[117] World Bank (2016b).
[118] Bussolo, Koettl, and Sinnott (2015).
[119] WHO (2014).
[120] World Bank (2016c).

poor households farther into poverty. Recent evidence shows that medical expenditures pushed otherwise nonpoor people into poverty or deeper into poverty.[121] High out-of-pocket payments could reflect a number of factors, including high drug prices and lack of awareness among patients about their insurance coverage.[122] Service utilization is also low among the poorest households. According to the health utilization and expenditure survey 2013, the bottom 20 were two times less likely to report they had used inpatient services in the previous 12 months. Thus, these households were not protected, but rather were forgoing essential medical services, limiting their human capital accumulation and human capital stock.

Barriers and disincentives to employment

The share of young people not in employment, education, or training is higher in Moldova than in any comparator country (Figure 72). In 2012, of the population ages 15–29, some 34 percent of women and 23 percent of men were neither studying nor working.[123] Government estimates suggest that fewer than 40 percent of graduates are hired during the first year after university.[124] When they do find work, young people (ages 15–24) are more likely than middle-aged and older adults to be in informal employment.[125] It is possible that low wages in the available jobs or high reservation wages among the unemployed and among inactive youth act as obstacles to the search for work by graduates.[126] However, this situation largely reflects the low labor demand and labor-related emigration and can be attributed, at least partly, to skill mismatches.

Figure 72. Youth ages 15–29 not in employment, education, or training, Moldova and comparators, 2012–13, %



Source: Elder et al. 2015; Eurostat data.

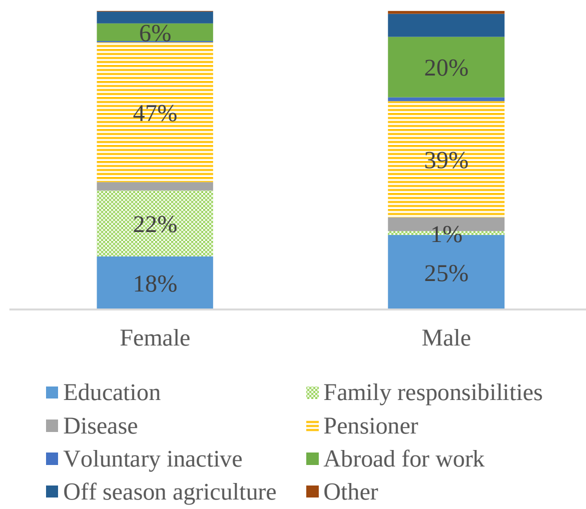
Better education and health care are not sufficient to ensure that people are able to work: the working-age population faces multiple barriers that contribute to high inactivity and labor migration. Limited access to information can affect labor market opportunities, particularly among youth.[127] Incomplete information about educational pathways, occupational options, and labor market trends can lead to suboptimal occupational decisions by youth, especially the disadvantaged. Current career guidance practices do not provide students with adequate and systematic information for making their schooling and occupational decisions. The 2014/15 Moldova Jobs and Schooling Decisions Survey revealed the presence of self-reported and objective gaps in the information about the labor market available

[121] World Bank (2015b).
[122] Spending on pharmaceuticals accounts for nearly three-quarters of out-of-pocket expenditures, according to the 2007–13 household budget surveys. Reimbursement rates for medicines are comparatively low in Moldova. Moreover, pharmaceutical regulations are at odds with international trends because substitutions with generic medicines are prohibited. Thus, even if medicine reimbursement rates were to increase, affordability might still be an issue. The World Bank (2015b) suggests that patients may not be aware of what health insurance coverage entails, specifically which services they should receive free of charge, and that this may be contributing to the anecdotally high frequency of informal payments that patients make to receive even essential services.
[123] Elder et al. (2015).
[124] Ministry of Labor, Social Protection, and Family (2012).
[125] World Bank (2014b).
[126] Elder et al. (2015).
[127] World Bank (2016j).

to 9th and 12th grade students, as well as the lack of preparedness among parents and teachers to provide relevant advice on educational and occupational decisions. Students with less well educated parents demonstrate the highest information deficits, which can exacerbate inequality of opportunity. Making existing educational and labor market information more accessible and improving career guidance tools for men and women, especially those that provide students with real exposure to the labor market, can help address the observed information gaps and improve efficiency as well as equity in education and in the labor market at a relatively low cost. This may also contribute to reducing the gender segregation in sectors of employment.

The responsibility for child- and eldercare, which falls disproportionately on women, poses an additional burden on women's labor force participation. Social norms across the region and the world impose an expectation on women as the main caregivers for the elderly, disabled, and children, and, in many countries, there is a perception of a negative association between the employment of mothers and outcomes among children.[128] In Moldova, the higher inactivity rates among women ages 25–34 suggest difficulties in combining family and work. Indeed, 22 percent of inactive or unemployed women report that family responsibilities limit their access to jobs (Figure 73), compared with 1 percent among men, and women are more likely than men to engage in unpaid care and household production.[129] Even though the gender gap in labor force participation is small, it is increasing with income, which suggests that women in richer households may be disincentivized to work, especially if the jobs available to them are often at lower wages. If formal care facilities are not in place, the burden of care on women, particularly for the elderly, could worsen in the context of an aging population. In Moldova, migration may act as an additional disincentive to work, either through income compensation or imposing care duties. Women of working age (15–64) in remittance and nonremittance households have similar educational profiles, but the former group is 13 percentage points less likely to be active. Working-age grandparents, likely mostly women, also bear some of the responsibility for caring for the children of migrants.[130]

Figure 73. Reason for unemployment or inactivity (ages 15–65), 2014



Sources: World Bank 2016b; estimates based on Moldova labor force survey.

Strengthened intermediation and employment services could improve the access to jobs among vulnerable groups, those facing employment barriers, and youth. The legislation on unemployment support benefits and services, active labor market policies, and social benefit programs all need to be reviewed and aligned to ensure that they encourage job creation and improved labor market participation

[128] Bussolo, Koettl, and Sinnott (2015).
[129] Ibid.
[130] HelpAge International and UNICEF (2010).

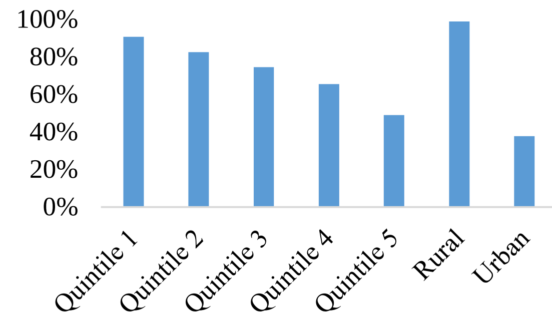
of registered job-seekers, the unemployed, and the inactive population. The financing and scope of employment services should be aligned to the needs of the population, particularly, the needs of inactive educated women, highly skilled youth, and people with fewer skills living in rural areas (Figure 68 and Figure 72). While services are limited because of budget constraints, there is no evidence that they have a positive impact on the employment status or earnings of registered job-seekers. Significant improvements are also needed to enhance the capacity of employment services to monitor and analyze labor market trends and the impact of active labor market measures and to disseminate information to end users (employers, the unemployed, educational institutions, and others). This will help reduce information gaps on labor supply and demand and skills mismatches and enhance the effectiveness of intermediation (counseling and employer outreach). The Ministry of Labor and the National Employment Agency have proposed amendments to the existing legislation on support for unemployed persons along these lines and are receiving technical support from various partners to refocus and improve their services. Over the long term, adequate financing to support these policies will be crucial.

Experts in the social protection system should review and address potential work disincentives associated with system programs. A 2014 World Bank study identified significant disincentives for formal work among low-wage earners receiving social assistance through Ajutor Social.[131] The government has therefore introduced employment-related requirements for continued eligibility. However, the pension system still includes significant disincentives for (formal) work among older workers, which is particularly detrimental in an aging society in which active labor participation among the elderly is imperative. Currently, labor force participation rates drop significantly among people ages 55 and above. Among inactive men and women in 2014 (ages 15–65), 39 percent and 47 percent are pensioners, respectively. The inactivity rate increases sharply from age 57 onward. More than 60 percent of people ages 60 and above are inactive, and the share is growing. The low retirement age may partly explain the high inactivity among the elderly, while inadequate valorization of past earnings in the pension formula may increase the incentives to informality.[132] For example, retirement ages are 62 for men and 57 for women in Moldova, while they are 65 and 60, respectively, in Albania, Georgia, and Romania; the labor force participation rate among people ages 50+ is 41 percent in Albania, 64 percent in Georgia, and 38 percent in Romania, compared with 33 percent in Moldova.[133]

[131] World Bank (2014b).
[132] World Bank (2016b).
[133] Bussolo, Koettl, and Sinnott (2015).

As in other countries in the region, Moldovans may face constraints to internal geographic mobility as part of the economy's structural transformation. According to the Life in Transition 2010 Survey and similar to other countries in the region, less than 20 percent of the population ages 18 and older has moved to a different city in the past 20 years, and about a quarter of Moldovans ages 18–64 were willing to move internally for employment.[134] Although there is significant short-term and seasonal migration (a nationwide survey estimates a total of 217,000 internal migrants in 2013, accounting for 16 percent of the economically active people in Moldova), the high rates of ownership of land and housing, particularly in rural areas in which ownership is nearly universal, may be limiting longer-term urbanization.[135] As part of land reform after the transition, as in other former Soviet republics, land was transferred from the state to private ownership, followed by the allocation of individual titles, and finally, registration of those private, individual rights. Privatization occurred quickly and was completed by 2004, but the registration process was performed later.[136] As a result, almost every rural household owns a dwelling and some land. Yet, more than a half million properties and more than 200,000 land parcels have not been registered, and, without registration, the transaction risks associated with selling or mortgaging these assets are high and potentially costly to owners.[137] Nonetheless, while property registration reduces the transaction costs, the larger hurdle for internal mobility is more likely associated with significant differences in the market value of rural and urban properties. That the majority of the population and poor households are concentrated in rural areas, where the ownership of housing and land are nearly universal (Figure 74), raises the concern that poorer households may become trapped in rural areas because their assets, mainly homes and land, are associated with a market value that is less than the equity value to the homeowners, while an equivalent home in an urban location would not be affordable. Beyond the constraint to mobility, inadequate registry can undermine owner rights and the ability of owners to capitalize on the value of their assets (for example, using land as collateral for access to finance).[138]

Figure 74. Landownership, by consumption quintile and location, 2014



Source: 2014 household budget survey.

[134] Arias et al. (2014).
[135] de Zwager and Sintov (2014).
[136] World Bank (2016h).
[137] There are an estimated 5.5 million properties in Moldova. During the First Cadastre Project (1998–2007), about 85 percent of all properties, or 4.7 million real properties, were registered, including 4.2 million through the systematic process, and 0.5 million through the sporadic procedure. Today, there are an estimated 580,600 unregistered properties (including housing plots and garden plots) in some 290 localities throughout the country. The majority of urban properties were registered during the systematic process, and any new subdivisions have likely been registered sporadically in urban areas (World Bank 2016f).
[138] Cadastral and property registers have been recognized by international organizations, namely, the Food and Agriculture Organization of the United Nations, the United Nations Human Settlements Programme, and the World Bank, as important for sustainable social, economic, and environmental development. The importance of property rights registration, valuation, and taxation are highlighted within the framework of the Sustainable Development Goals related to (a) property rights as part of poverty reduction under goals 1 (target 4), 2 (3), and 5 (7) and (b) improving the domestic capacity for tax collection under goal 17 (1). See

The increasing equity, quality and coverage of services

As described in *World Development Report 2004: Making Services Work for Poor People*, beyond health care and education services, infrastructure services such as water, sanitation, and energy directly contribute to improving human capital and thus to poverty reduction.[139] This section explores gaps in service delivery, as well as the potential underlying obstacles for more equitable, higher-quality and higher-coverage services. These obstacles may hamper access to services for households and firms. As discussed in this section, several of these challenges are also related to governance issues.

Infrastructure services

Gaps exist in Moldova in the coverage and equity of the infrastructure for basic services, particularly in rural areas where the less well off are concentrated. The previous section described outcomes in education and health care that reflect poor health and education services. Focusing on infrastructure services, Moldova is the only country in Europe which missed both the water supply and the sanitation Millennium Development Goals of reducing the proportion of people without access to such services by half between 1990 and 2015.[140] The rate of access to an improved water source rose only marginally, from 84 percent in the early 1990s to 88 percent in the latest estimate.[141] An estimated 55 percent of the population have access to piped water on their premises.[142] Drinking water quality at tap remains an issue, resulting in illness, and poses a special challenge in rural areas where most households rely on groundwater wells in which the water is not suitable for drinking.[143] Similarly, the rate of access to sanitation has risen from 72 percent to 76 percent in the last 25 years.[144] Both measures compare unfavorably with neighboring countries and represent a formidable challenge to achieving the Sustainable Development Goals.[145]

The poor and the bottom 40 in Moldova have less access to public network services such as water, sanitation, and heating (Figure 75**), and limited evidence on ethnic minorities also reveals poorer access**.[146] This may be partly because poorer households are concentrated in rural areas (Figure 76). Accordingly, access to public network services is highest in the capital region, Chișinău. While 95 percent of the population is connected to piped water in urban areas, the corresponding share is only 54 percent in rural areas, of which only 39 percent have the service within the dwelling. In sanitation, access to collective,

World Bank (2016h) for more detail.

139 World Bank (2003).

140 UNICEF and WHO (2015). Although the information is based on the country's own report, the country did meet the Millennium Development Goal on water.

141 An improved drinking water source is one that, by the nature of its construction and proper use, adequately protects the source from outside contamination, particularly fecal matter.

142 JMP (2015).

143 Among water samples, 10 percent to 14 percent fail to comply with microbiological requirements. An estimated 22 percent to 25 percent of diarrheal diseases, 15 percent to 20 percent of viral hepatitis A, and 100 percent of fluorosis are caused by poor drinking water quality (Mediu 2014). This situation is aggravated by the lack of adequate laboratories to test tap water quality regularly. See also National Center of Public Health (2013).

144 UNICEF and WHO (2015).

145 The Sustainable Development Goals not only set the bar much higher in terms of level of services, namely, safely managed drinking water that is accessible on the premises, reliable in quantity and quality, and affordable, but also in the target to achieve universal access by 2030. Similarly, the goals advocate for universal access to safely managed sanitation and to reducing by half the proportion of wastewater that remains untreated.

146 According to Cace et al. (2007), housing deprivation is much more widespread among Roma than among the rest of the population. One-third of Roma households live in an insecure dwelling, and more than 80 percent do not benefit from basic housing conditions such as potable water supply and sanitation facilities.

sewerage-based systems is rare in rural areas. Less than 20 percent of villages have some type of sewerage system in place. Only 10 percent of people in rural areas have private flush toilets within their dwellings.[147] In sum, the low urbanization level in Moldova, with an urbanization profile more similar to Central Asia than to Eastern Europe, combined with the acute spatial disparities in the provision of services, has left many without access to basic services.[148] A large share live in small settlements, pointing to the need for sectoral strategies and programs to address the particular challenges of small, remote areas.

The poor state of transport infrastructure and services limits access to key services and to economic opportunities for rural residents. Despite considerable progress in improving the national road network over the past decade, connectivity in regions and rural areas is still poor. In most rural areas, there is no public transport service, and only about half the small towns have an organized transport service of variable frequency.[149] Furthermore, the state of roads, coupled with limited transport services, may impact access to services in rural areas. Thus, as a consequence of the ongoing school optimization program, many children in rural areas will have to travel farther to school. Similarly, as the much-needed hospital reform and public hospital network restructuring takes place (discussed below), the distance between hospitals will increase, and the state of roads will become even more crucial for rapid access.

Figure 75. Share of individuals with access to services, bottom 40 and top 60

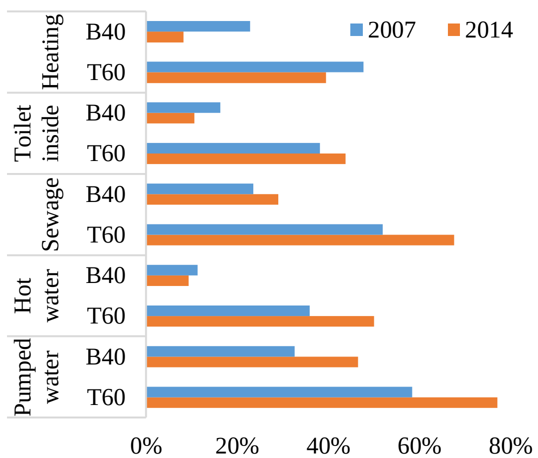
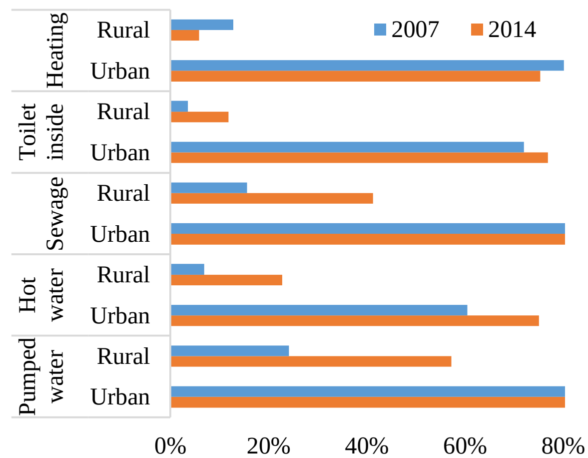


Figure 76. Share of individuals with access to services, by rural or urban location



Source: World Bank calculations based on household budget survey data.
Note: Heating refers to heating with modern fuels, that is, electricity, gas, or central heating.

Quality of institutions

Many issues related to the disparities in the access to and quality of services, particularly spatial disparities, can be traced to poorly performing, inefficient public administration. First, because of governance challenges, social capital is dwindling, including public trust, public participation, and voice and accountability. Moldova's scores on the Gallup community basics index were consistently lower than

[147] World Bank (2016g).
[148] Ibid.
[149] State Chancellery of the Republic of Moldova (2013).

those of comparator countries such as Georgia and Romania between 2006 and 2013, but there has been some improvement in the value of the index since 2010 (Figure 77).

Moldova's public administration continues to face a number of challenges in developing and implementing policies and delivering services to individuals and businesses. Starting in 2009, improvements were initiated in public administration. A new legal and institutional foundation for civil service and public administration was established; procedures in the management of the civil service were aligned with good practices recognized by the EU; and the groundwork was laid for a meritocratic civil service with a well-defined pay- and performance-management system. Since 2011, the government, through the E-Governance Center, has established a robust information and communication technology infrastructure for e-services delivery. As of 2016, the government has made available online access to information on 490 central government administrative services (of an estimated total of 570 services); electronic applications can be submitted for 112 of these services. However, business process reengineering has lagged both at the center and in local government, and is the most important public administration challenge ahead. According to the most recent review by the European Commission, Moldova made limited progress on depoliticizing and professionalizing its central public administration, in the absence of a clear strategy for public administration reform. The average salaries of civil servants remained low, and the civil service remained structurally weak due to staff moving to the private sector or to international organizations and because of corruption.[150] Interviews at line ministries indicate that the problem is especially acute in retaining graduates because of low pay, frustration about career opportunities, and a work environment that discourages initiative.[151] The continuing difficulty of attracting and retaining qualified staff in the civil service is widely acknowledged.[152] Meanwhile, inefficient, fragmented, and often corrupt service delivery increases the cost of doing business, harms growth, and limits access, especially among the poor and rural people.

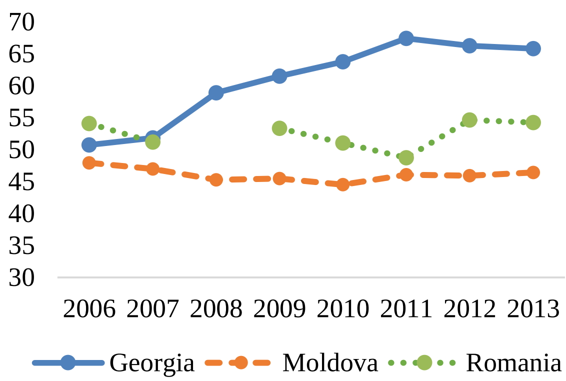
In addition, the institutional framework for water and sanitation provision undermines spatial equity because rural areas are marginalized. The national government regulates and provides most investment funding, while local governments are formally responsible for service provision.[153] Yet, none of the national water institutions have an explicit mandate to cater to the specific needs of those living beyond the reach of public utilities, and rural water and sanitation services do not have a dedicated institutional home at the national level.[154] About 50 percent of the population without service access lives in settlements of a size below 2,500 inhabitants. Thus, sector strategies, programs, and management models need to address the specific realities of small and more remote settlements. Currently, there is no specific legal framework defining accepted forms of service provision in rural areas; so, many service providers do not operate under a license or comply with any of the law's requirements, resulting in variable quality.[155] Limited attention is

[150] EC (2015, 9).
[151] From July 22 to August 1, 2014, the World Bank's Governance Practice interviewed the heads of human resource units at the Ministry of Health, the Ministry of Communications and Information Technologies, the Ministry of Regional Development and Public Works, the Ministry of Justice, and the Ministry of Youth and Sports.
[152] The turnover rate increased to 14.3 percent in 2015, compared with 10.3 percent in 2013 (State Chancellery of the Republic of Moldova 2013).
[153] Although local service delivery has been enhanced through the creation of municipal citizen information centers in 32 raions, this effort does not address equitable access to key services such as education, health care, water and sanitation.
[154] World Bank (2015c).
[155] Currently, 52 municipally owned operators provide water and sanitation services to 43 percent of the population, mainly located

given to rural areas and small towns below 5,000 inhabitants even with the recent adoption of the 2014–28 sectoral strategy.[156] This institutional gap calls for a leading agency to coordinate targeted efforts to close access inequalities and for adjustments of existing polices to take into account the special requirements of service provision in rural areas. This means taking into account the diseconomies of scale, the limited ability of rural poor populations to pay at full cost, and alternative models of service provision, ranging from community-operated systems to raion-centered systems, depending on population size and capacity.

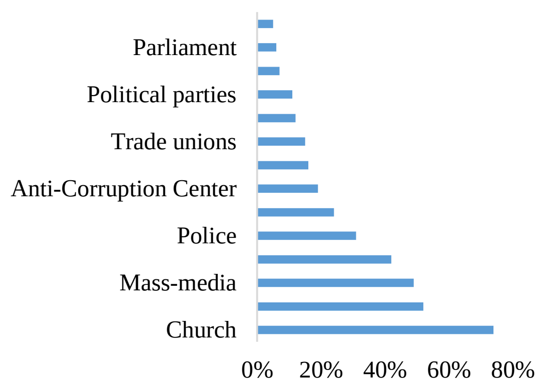
Moldovans also lack knowledge about their entitlements to services, and trust in the government has declined. Lack of understanding of available health protection mechanisms has potentially led to low utilization of services and out-of-pocket cost increases. Moldovans have been consistently less satisfied than respondents in other countries with the quality of public services, such as health care and education. Satisfaction with the education system has been declining since 2009, while satisfaction with health care has been relatively constant, at around 40 percent.[157] The political instability of recent years, including the banking scandal, has negatively impacted the population's trust in institutions. The share of people reporting they trusted the national government fell from 40.7 percent in 2006 to 14.5 percent in 2013. In a 2015 poll, only 7 percent expressed some trust or much trust in government; 6 percent, in Parliament; and 5 percent, in the president (Figure 78). The lack of accommodation for the cultural and language diversity across ethnic groups and regions partly led to the inadequate provision of services to minority groups.

Figure 77. Community basics index, Gallup World Poll, 2006–13



Source: World bank calculations based on data of Gallup World Poll, Washington, DC, http://www.gallup.com/services/170945/world-poll.aspx.
Note: The index measures satisfaction with aspects of everyday life in a community, including education, environment, health care, housing, and infrastructure.

Figure 78. Public trust, percentage of respondents saying they have very much trust or some trust, 2015



Source: IPP 2015.

in urban areas. These utility companies operate under the supervision of the national economic regulator, ANRE, as well as health and environmental agencies. The rest of the population is served by hundreds of informal, often community-based providers, or relies on self-provision. No specific legal framework or institution regulates operation in rural areas, which is a challenge given the much lower level of access and quality. As part of an upcoming village development study, the World Bank is currently conducting a countrywide review of water services beyond the reach of public utilities (World Bank 2016g).
[156] World Bank (2016g).
[157] Gallup World Poll, Gallup, Washington, DC, http://www.gallup.com/services/170945/world-poll.aspx.

Efficiency and spatial equity of spending

Inefficient public spending limits the fiscal space for improving service delivery. Funds for hospital services account for 50 percent of public health expenditure. These are spread thinly across 73 hospitals, soaking up funds that could go toward financial protection for individuals, infrastructure, equipment, and incentives for personnel. First, it is expensive to maintain infrastructure and equipment, especially if utilization rates are low. Moldova is in the 88th percentile worldwide in hospital beds per 1,000 people, and in the 73rd and 97th percentiles compared with the Eastern Europe and Central Asia region and lower-middle-income countries, respectively.[158] Second, health worker shortages imply that human resources are spread thinly across many facilities. Hospital volumes are low, which jeopardizes the quality of care because both facilities and individual providers need to perform a certain number of procedures a year to maintain skills. As in other countries, Moldova could consider stipulating minimum service volumes per hospital or incorporating these kinds of thresholds in regulations.

Improving the efficiency of spending can open up much-needed fiscal space to improve service coverage and quality, particularly in rural areas. For example, closing the coverage, quality, and equity gaps in water provision, which disproportionately affect rural areas and thus the less well off, requires much higher investment and a shift of attention toward rural areas. The 0.02 percent of GDP invested annually in the water sector in Moldova is well below the 1.2 percent to 6.0 percent recommended by the OECD for low-income countries.[159] Furthermore, only about one-third of the resources goes toward rural settlements, although these represent three-quarters of the overall needs.[160] Priority should therefore be directed toward settlements where no system was ever built, rather than the rehabilitation of existing systems.

The efficiency of public service delivery is hampered by the extremely high administrative-territorial fragmentation of Moldova and the limited capacity of local governments to raise revenues. Moldova has suboptimally small local governments (see Figure 5). By consolidating villages and decentralizing services through territorial administrative reform, the government may address the underlying issues of low institutional capacity and inefficient spending. However, there are significant political economy challenges and limited support in Parliament for this reform, including the consolidation of territories, budget controls, and discretion over budget spending.[161] In addition, local governments have limited economic capacity to generate revenues to finance service provision. They mainly rely on intergovernmental fiscal transfers and their share of income taxes (75 percent of the revenues raised within their jurisdictions). Given low economic activity (and high emigration) in rural areas, local government revenues from fees are low and have been declining as a share of total revenues. There is currently no legal framework to create new taxes

[158] Based on data in WDI (World Development Indicators) (database), World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.
[159] See OECD (2011). During 2009–13, investments represented a small contribution, only €2 per capita per year. Within the framework of the new strategy for the water sector, investment should increase to €11 per capita per year to extend water and sewerage networks, increasing the number of users connected to public water and sewerage utilities and rehabilitating and building water and wastewater treatment plants (Eptisa 2012).
[160] The frequent argument that urban utilities must be fixed before they can help improve services in rural areas might not hold given the slow pace of improvement even in the urban sector. Although the aggregate water utility performance index for urban utilities in Moldova has improved from 40 to 59 (with 100 being international good practices) according to the DANUBIS.org database, the current value is still significantly below the regional average of 69, and progress in the last five years has slowed considerably (World Bank 2016g).
[161] World Bank analysis.

at the local level. Property taxes could provide an ideal local government revenue source because they are borne mainly by residents and can be designed as a progressive tax to balance the more regressive taxes such as value added taxes. However, this requires addressing many issues related to property registration and valuation.[162] If local governments are to fulfill their service delivery mandate, they need support in both capacity and revenue.

Given the great need for investment in basic services, the government should invest in municipal infrastructure and explore the scope for private involvement.

Reducing vulnerability and improving the resilience of the population

Climate change and environment risks

Moldova's natural resource base is degrading, and climate change is likely to increase the incidence of extreme climatic events and their impact on the economy. The country's development depends to a large extent on the availability and quality of natural resources and the environment. Moldova has unique agricultural land resources that are critical to the livelihoods of many and are characterized by highly productive black soils (about 70 percent) and a high agricultural utilization rate (more than 75 percent). However, low levels of forest coverage and poor land management contribute to soil erosion, floods, and landslides, which have resulted in large areas of totally degraded agricultural lands and to a significant decline in agricultural productivity.[163] Land privatization and parceling, lack of crop rotation and antierosion measures, and nonimplementation of best practices for soil conservation have complicated the prospects of efficient land resource management. In terms of the quality of the environment, Moldova is subject to increased water pollution, especially of groundwater (the major source of rural drinking water) as well as vehicular air pollution in urban areas. Furthermore, climate-related shocks, such as droughts have made the agricultural sector highly volatile. Moldova is among countries expected to show significant water stress in 2040.[164] In this regard, the country is among those at highest risk in Europe, and the availability of water resources is considered a major challenge for future development.[165] Extreme climatic events may worsen in the future, with important implications for economic growth and consumption growth (see Figure 43). Negative GDP impacts in the next 15 years may be expected to be driven mostly by the effects of climate change on productivity through rises in temperature.[166]

The poor and the bottom 40 are more dependent on natural resources and more vulnerable to climate-related shocks, given their concentration in rural areas and in the agricultural sector. The large share of the poor living in rural areas and relying on farm income are highly vulnerable to climate

[162] The lack of complete national systematic registration impedes effective property tax collection, local development, planning, and other activities, particularly among local governments. Periodic revaluations can help reduce tax evasion and are essential to maintaining equity in property taxation and the buoyancy of tax revenues because property values fluctuate over time and across regions. Periodic revaluations also enable local public authorities to share in the increase in property values generated by economic and urban growth to which property owners have not contributed. The land sector note (World Bank 2016h) provides a deeper discussion on the importance of increasing the incomes of local governments through property taxation.
[163] Moldova also has a limited afforested area, 12 percent, while the average across Europe is about 30 percent (World Bank 2015d).
[164] Based on World Resources Institute climate models and socioeconomic scenarios, which are being used to measure the competition for and depletion of surface water in 167 countries in 2020, 2030, and 2040; see Maddocks, Young, and Reig (2015).
[165] Government of Moldova (2013).
[166] Impacts of climate change in the high-impact and high-vulnerability scenarios in Moldova, by 2030. See Hallegatte (2016).

shocks.[167] Given their low levels of productivity, a highly variable climate, and a substantial reliance on rainfed agriculture, these groups are particularly at risk of food insecurity.

It is thus necessary to ensure that the agricultural sector becomes more resilient to droughts and other climate-related shocks. The resilience of Moldova farmers is already stressed by changes in weather patterns. The combination of heat waves, droughts, and intense storms is especially disruptive. Adaptation measures implemented now would have immediate benefits in improving current yields, in addition to protecting farmers from future changes. Attempts at farm adaptation have been numerous and partially successful, but farmers believe larger investments in infrastructure are needed.[168] More generally, better management of the risks related to climate events would require a combination of (a) investment and policies that help mitigate the risks (such as irrigation and the introduction of improved seeds and technologies), (b) risk-transfer instruments (improving agricultural insurance schemes), and (c) risk-coping options. Specifically, policy changes and institutional capacity improvements that should be undertaken immediately include (a) investment in improving access to irrigation and in training farmers in water use, (b) enhancing the access of farmers to new varieties, technology, and information on resilient practices such as drought- and pest-resistant varieties and hail protection, (c) timely meteorological information, (d) investigating options to reform crop insurance to decrease administration costs and improve affordability.[169] Full cadastral and property registration is likely to improve land management and therefore reduce the vulnerability to natural disasters and facilitate disaster management and recovery.

In addition, the conservation of natural ecosystems is needed for sustainability. Proactive measures need to be taken to implement biodiversity conservation strategies through the expansion and consolidation of the protected areas in the north and center. The Second National Biodiversity Strategy and Action Plan specifies that, by 2020, protected areas will be expanded by about 8 percent.[170] Long-term adaptation measures for achieving sustainable development include an integrated landscape approach for biodiversity protection and developing river management action plans.[171]

However, reducing the vulnerability of the less well off in rural areas and promoting their economic mobility need to go beyond agricultural and climate change policies. A large share of people in the agricultural sector have little interest and potential for commercialization.[172] For these households, access to rural services, social protection, and nonfarm jobs will determine their ability to adapt to climate change.

Social protection systems

Moldova operates an extensive social protection system, with a focus on social security. The system includes both contributory social insurance and noncontributory social assistance cash benefits and social care services. In 2014, the country spent over 12 percent of GDP on multiple social protection programs, which is close to the Eastern Europe and Central Asia regional average. Social protection programs cover 55 percent of the population because of the extensive coverage of pensions.

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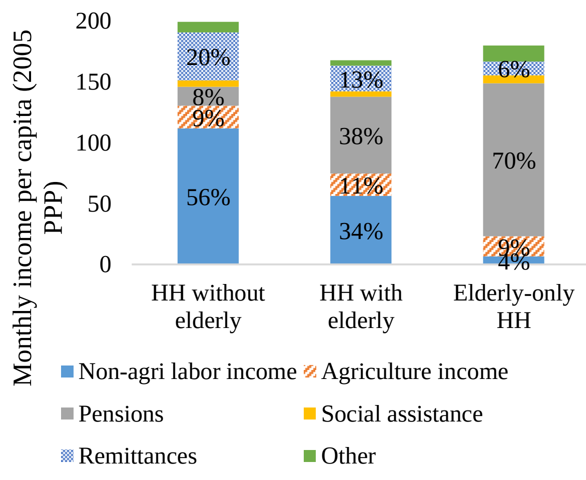
[167] World Bank (2016c).
[168] Sutton et al. (2013b).
[169] The World Bank analysis carried out by Sutton et al. (2013b) indicates that these measures have a high cost-benefit ratio and are also favored by Moldova farmers.
[170] Strategy on Biological Diversity of the Republic of Moldova for 2015–2020 and the Action Plan for enforcing it. Government Decision No. 274 of May 18, 2015, https://www.cbd.int/countries/?country=md.
[171] Government of Moldova (2014).
[172] Möllers et al. (2016).

Social assistance programs remain limited and cover only a small share of the poor. Social assistance programs (social safety nets) are not extensive. In 2014, they covered only about 14 percent of the population and 31 percent of the poorest quintile. Slightly pro-poor (34 percent of social assistance benefits accrue to the bottom 20), they are fragmented and have low targeting accuracy. Many cash benefits are provided under poorly targeted categorical programs. As a result, of the overall social assistance spending that makes up 2 percent of GDP, about 20 percent leaks to people in the top 60, and some benefits channel well above 30 percent of their budgets to more well off people. The targeted Ajutor Social and heating allowance demonstrate the highest targeting accuracy (over 70 percent of benefits are received by the bottom 20). The Heating Allowance Program, for instance, has emerged as the major safety net to mitigate the poverty impact of energy tariff increases. In the 2015–16 heating season, when residential energy tariffs rose, the program increased coverage by around 4 percent of the population.[173] Nonetheless, it remains small and covers only 9 percent of the total population. Improving the efficiency and equity of the social safety net would require consolidation of multiple categorical programs to reallocate the funds toward expanding the coverage of poverty-targeted cash transfers.

Pension outlays constitute about 8 percent of GDP, but fail to provide adequate benefits for the elderly. The level of pensions relative to wages is low. In 2013, the replacement rate was 27.0 percent, which is among the lowest gross replacement rates in the region, and is projected to fall to 13.5 percent by 2050 (Figure 80). The pension system runs a fiscal deficit, underperforms on pension benefit adequacy, struggles with compliance, and weakens the incentive to participate and contribute to the system. Aging, other demographic trends, and the low formal employment rate are exacerbating these structural issues.[174]

The economic security of pensioners is at risk given the declining coverage and the deteriorating pension replacement rate. The elderly population, which is growing, is already poorer than the total population (the national poverty rate among the elderly is 13.8 percent, higher than the national average of 11.4 percent) and is less likely to benefit from remittances. Given that more of these people live on their own (69.1 percent in 2014, up from 63.7 percent in 2007), they are increasingly dependent on pension income (Figure 79). As pension coverage decreases because fewer people are contributing (Figure 80), a growing number of the older population will be at risk of old-age poverty. Apart from high informality and low labor market participation rates, an additional challenge in providing pension coverage for farmers emerged in 2009 when their social insurance contributions became voluntary, and nearly all farmers who used to contribute dropped out of the social insurance system.

Figure 79. Income sources, by household composition, 2014

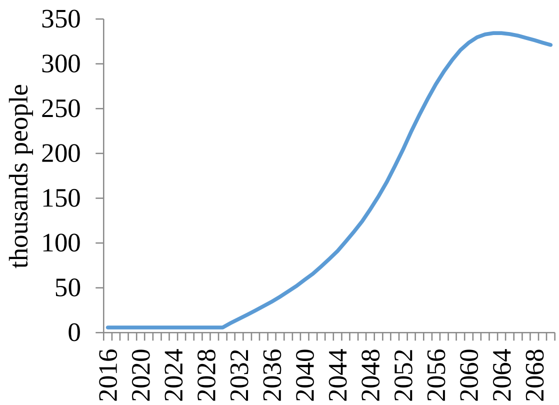


Source: 2014 household budget survey.

[173] World Bank (2016b).
[174] Ibid.

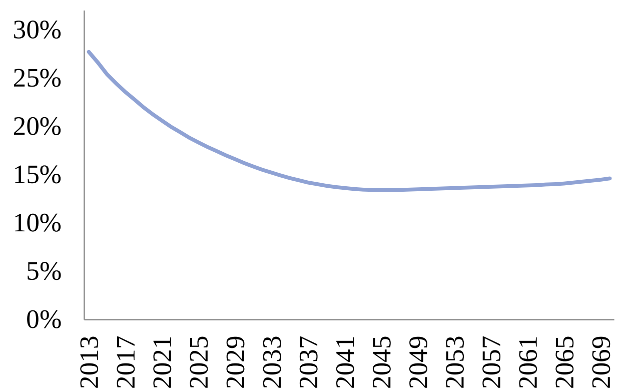
Noncontributory schemes currently cover only 1 percent of retirees. Parametric reforms of the public pension system, such as valorization of past earnings in the pension formula, indexation of pensions, and adjusting retirement ages, could help address the looming old-age poverty risks for those covered by pension insurance, thereby avoiding a sharp decline in the replacement rate (Figure 81) and easing fiscal pressures.[175] However, the fiscal space to protect those not covered by pension insurance must be provided, potentially through an efficient and equitable social assistance system.

Figure 80. Projected number of people not covered by insurance pension



Sources: World Bank 2016b; World Bank calculations based on data of the Pension Reform Options Simulation Toolkit and of the National Social Insurance House.
Note: For the toolkit, see World Bank (2010).

Figure 81. Replacement rates, ratio of old-age pension to average wage



Sources: World Bank 2016b; World Bank calculations based on data of the Pension Reform Options Simulation Toolkit and of the National Social Insurance House.
Note: For the toolkit, see World Bank (2010).

Social care is fragmented. Social services cost around 1 percent of GDP. Although Moldova has made some progress in deinstitutionalizing care and developing community-based service provision, certain services remain residential. In addition, the spatial distribution of services does not match needs; social care is decentralized to local governments, and the poorest raions have fewer resources to fund it. Moreover, local authorities frequently lack capacity to assess needs and plan service delivery. The country has made progress in engaging nongovernmental organizations to provide services. However, such service commissioning is achieved mostly by drawing on donor and external funding rather than local budgets.[176]

Access to finance is a limited option for households in seeking to protect themselves against income shocks. For example, in 2011, only 4.6 percent of households in Moldova had a bank loan, compared with 49.2 percent in Central and Eastern Europe and 21.6 percent in lower-middle-income countries.[177]

* * *

This section of the diagnostic explains the key constraints on building and protecting the stock of assets of Moldova's population. Firms need a labor force with better skills. Some groups such as rural

[175] Future pension coverage and replacement rates are projected using the World Bank's Pension Reform Options Simulation Toolkit (see World Bank 2010). The calculations are based on population and labor force participation projections and certain assumptions about wage and economic growth, as well as country-specific information about the structure of the pension system (contribution rates, pension policy, retirement patterns, and so on).
[176] World Bank (2016b).
[177] Global Financial Inclusion (Global Findex) Database, World Bank, Washington, DC, http://www.worldbank.org/globalfindex.

populations and ethnic minorities are less well connected and thus excluded from public services and economic opportunities. The poorly performing public administration, with its fragmented local structures, is partly contributing to the inefficiency of spending and the inadequacy of service delivery. Inefficient spending is also leaving little room for Moldova to invest in infrastructure, social protection, and other adaption measures to mitigate shocks.

VIII. Priorities for poverty reduction and shared prosperity in Moldova

The diagnostics presented in this report offer a backward- and forward-looking view of the progress and prospects of Moldova in reducing poverty and boosting shared prosperity. In sum, it finds as follows:

- **The performance of Moldova in poverty reduction and boosting shared prosperity has been good in the past decade and a half**. Economic growth has been high and consumption-driven, fueled by remittances. Remittances and pensions, in particular, have played an important role in the upward economic mobility of households. Given the systematic decline in employment rates, labor markets have contributed mostly through increases in nonfarm wages. The decline in employment is driven by falling labor force participation.
- **The current drivers of poverty reduction and shared prosperity are not sustainable**, given that (a) the previous driver of growth, remittances, will continue to slow down; (b) the role of pensions is unsustainable, and fiscal pressures will mount as the population ages; and (c) climate change and economic and political volatility have increased, making the economy and households vulnerable to frequent shocks.
- **These risks to the sustainability of gains in poverty reduction and boosting shared prosperity call for new drivers of inclusive growth, centered on strengthening household earning capacity**. The report proposes two pathways, as follows: (a) promote private sector–led job creation and higher productivity and (b) ensure that individuals have the human capital stock and ability to take on the new jobs and that they are protected from shocks that could affect their living standards.
- **These pathways support a rebalanced growth model for Moldova**. This growth model will be mainly driven by higher private sector growth and job creation (pathway 1), accompanied by urbanization and better connectivity and inclusion for equitable access to economic opportunities and services (pathway 2). The diagnostic identified many systematic issues that undermine the past progress along the two pathways. In the labor market, in particular, challenges to job creation center on both the demand and supply sides (Box 5).
- **Firms face multiple obstacles in creating jobs** (pathway 1). The obstacles revolve around (a) access to inputs such as infrastructure services, finance, and human capital; (b) the regulatory environment, including specific sectoral regulations, particularly in the financial and energy sectors and in trade integration; and (c) the implementation of regulations in a context of substantial challenges in the rule of law and the judicial system, unfair competition, and pressures on sound macroeconomic management.
- **People are not well prepared for a modern labor market and are highly vulnerable to shocks** (pathway 2). The reasons include the low quality, equity, and relevance of education and training and

barriers and disincentives to work. The latter are in some cases more pronounced among women. Building up the stock of human capital is further hampered by poor access to services, particularly in rural areas, reflecting the low quality among institutions and inefficient public spending. Furthermore, households are increasingly vulnerable to shocks, including climatic shocks, and social protection systems are not yet adequate to protect them. These constraints are systematically more severe in rural areas.

Box 5. A Summary: Challenges of Moldova's labor market

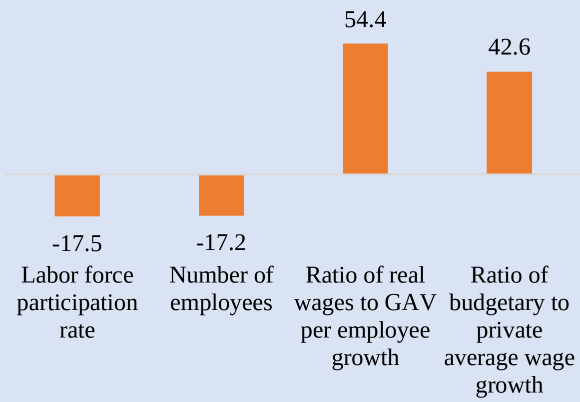
The preceding analysis has highlighted Moldova's need to move toward a private sector–led, employment-based model of growth and prosperity. Throughout the exposition, many aspects of the demand for and supply of labor have appeared as challenges to the creation of good jobs. This box pulls together these different observations of the labor market into a summary of how employment trend has been on the decline and wage growth in the private sector has been weak (Figure B5.1).

The main challenge to employment in Moldova is the lack of job creation in the private sector. Firms shrink and exit rather than expand, and firm entry has been declining. Large firms show higher survival rates and employ more people, but they are also less productive, whereas productive firms, including foreign and small domestic firms, face barriers to entry and growth. These disparities are partly a result of weak competitive conditions and poor rule of law. Preferential treatment, price and market controls, and low investment protection are some of the issues that discourage or block investments by foreign and small firms, thereby enhancing the dominance of large and older firms in key sectors, including the SOEs. Critical governance weaknesses, including corruption and the politicization of regulatory and judicial institutions, have lowered the goodwill and trust enjoyed among firms. In addition, the competitiveness of firms is hindered by regulatory uncertainty and high transaction costs: businesses are burdened with lengthy processes in obtaining licenses and permits and in undergoing inspections. The deficiencies in three key areas exemplify the regulatory and governance weaknesses and how they have limited the productive potential of firms. In the financial sector, the credit market for small firms is limited, and gaps in regulations potentially jeopardize the sector's transparency and stability. The bank fraud was a result of the flawed supervision of banks and the inadequate mandate of the role of bank owners and managers. The fraud has weakened the credit market. In the utility sector, inadequate competition keeps costs high and quality low. Moldova is highly integrated into the global market, and its trade regulations and logistics have improved, but the deteriorating quality of infrastructure hinders the connectivity of firms.

The challenges faced by firms have dampened labor demand and productivity growth, which have limited labor supply. The lack of job opportunities and the large wage differentials with neighboring countries (Figure B5.2) are the main push factors for emigration, but even if adjustments are made for emigrants, the activity rate of the domestic labor force is low relative to comparators. This vicious cycle of low labor supply and demand emerges in many areas: productive firms tend to pay higher wages, but constraints on their survival and expansion reduce job opportunities and wage growth, which reduces the opportunities and incentives to enter the labor market. This last outcome affects especially youth with high reservation wages, people with access to remittances, and women with family care responsibilities in a context of formal care facilities that are inexistent, expensive or poor in quality. Moreover, the educational system is not yet equipped to produce the skills needed by firms, resulting in mismatches between the skills that firms require to expand and increase productivity and the skills that the people have. In 2014, 37.3 percent of the employed adults are assessed to be either overeducated or undereducated for the job and up to 45.2 percent believe they are.[a] Unequal access to services affects firm productivity and individuals, especially those in rural and small settlements where institutional capacity is low and revenues are limited, thereby further hampering the ability of such individuals to access and prepare for the labor market. The rapid aging and shrinking of the working-age population have the potential to exacerbate the labor supply challenges in Moldova.

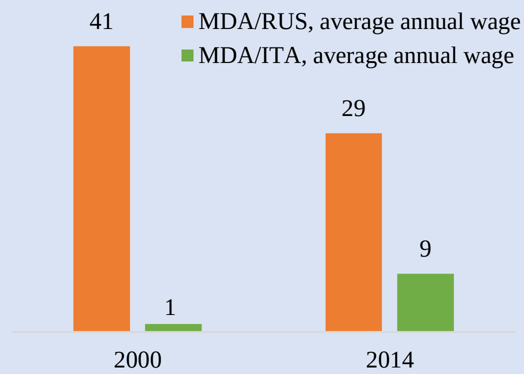
Overall, these challenges call for many reforms to address the constraints on the emergence of a more vibrant private sector that can create jobs and to remove the disincentives and barriers to work.

Figure B5.1. Employment and wage cumulative growth over 2000-15, percent



Source: World Bank calculations

Figure B5.2. Wage gap between Moldova and Russia/Italy, Moldova's average wage in percent of Russia's and Italy's wages



Source: World Bank calculations

a. Mismatch is identified based on the occupation and skills of the respondents using the ILO skill level-education level correspondence – data from the National Bureau of Statistics.

This final section uses the evidence presented in the diagnostic to identify six priority constraints that prevent Moldova from making sustainable progress toward the twin goals in the short and medium to long terms. A constraint can earn a place on the priority list if it is a foundational problem the resolution of which would unlock other related constraints, if it is a striking outlier in the benchmarking against other countries, and it appears emphatically and repeatedly in stakeholder consultations. This does not mean that there are no other challenges, but these emerged as the six main bottlenecks. Three of them emerge as particularly important challenges, with impacts on both pathways.

Priority areas for making progress toward the twin goals

The six main priorities if Moldova is to create jobs and build up and protect the stock of assets of people, with the ultimate goal of reducing poverty and boosting shared prosperity in a sustainable manner are presented in Figure 82. It illustrates that there are three top priorities if Moldova is to navigate these two pathways of creating more and better jobs and building up and protecting the stock of assets of the population. It must address important cross-cutting governance challenges on two fronts: (a) strengthening the rule of law and the accountability of institutions and (b) improving the efficiency of and equity in service delivery. Another top priority is to (c) increase the quality, equity, and relevance of education and training systems so firms may increase productivity and households may increase economic opportunities. In addition, supporting policy priorities include (d) improving the business regulatory framework, (e) ensuring sound macroeconomic and fiscal management, and (f) reforming the social protection system, particularly pensions.

Figure 82. Priority policy areas and pathways toward the twin goals, Moldova

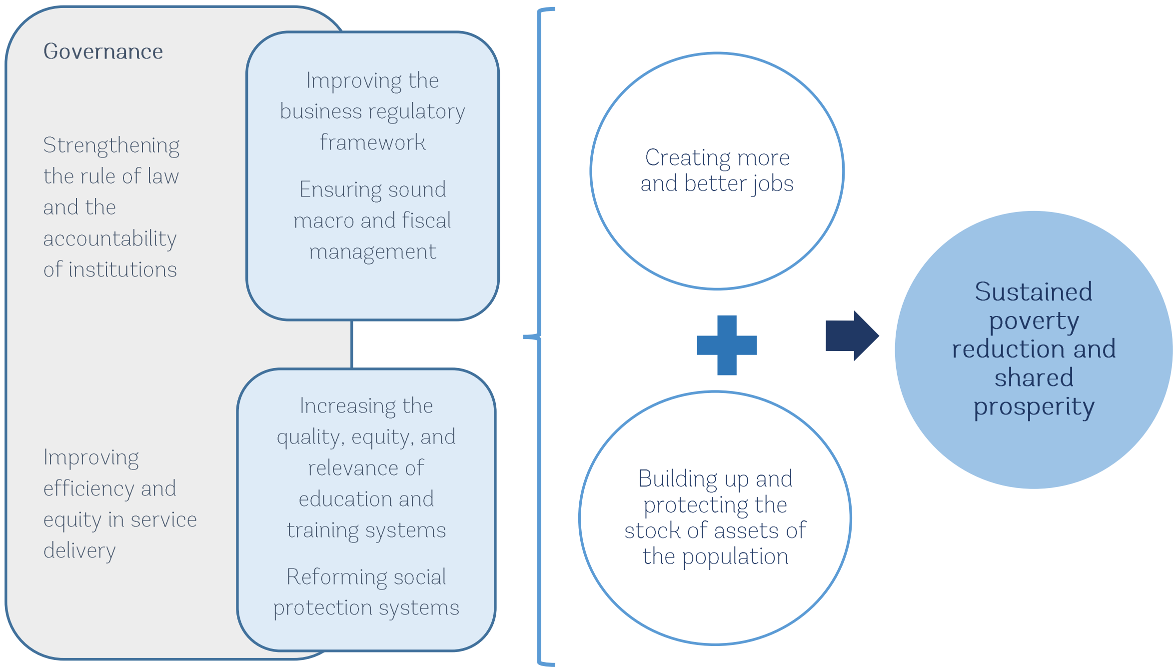


Table 3 summarizes the six priorities and includes, in broad terms, the constraints identified in the diagnostics, broad examples of a policy agenda, and the pathways through which the policy agenda can unlock the constraints. It also includes considerations on the expected timeline for impact on the twin goals. The priority areas are discussed in more detail in the following paragraphs.

1. Strengthening the rule of law and the accountability of institutions. Promoting a sound business environment so foreign and domestic private sector firms can create jobs calls for a significant improvement in governance, including anticorruption measures, secure property rights, sound justice and financial systems, and fair competitive conditions. The diagnostics reveal that governance-related indicators have deteriorated in Moldova, representing significant constraints to firms across sectors; corruption is a top constraint. Moldova also scores poorly in terms of trust in the courts and the judicial system and the intensity of local competition, all of which undermine business performance and productivity and, thus, job creation. Addressing these challenges requires action on many fronts, including but not limited to the following: (a) enhancing the independence, integrity, and accountability of the courts and prosecutors by monitoring and publishing data on justice sector performance; improving the speed and transparency of judicial decisions; and strengthening the management and utilization of justice sector resources, particularly to benefit poor and vulnerable groups; (b) strengthening competition and state aid control policies in key sectors and combating anticompetitive conduct by the private or public sector; aligning SOE governance with OECD Guidelines on Corporate Governance to improve efficiency, accountability, and transparency; (c) strengthening the independence, powers, and supervision capacity of the NBM and the NCFM; in addition, ensuring shareholder transparency and good corporate governance in financial institutions; (d) publicly monitoring the results of government reform programs to improve the accountability of government agencies; and (e) actions related to the tax system for a unified, centralized, and fair tax administration, such as harmonizing the tax system with EU directives and standards and introducing risk management for key tax administration functions—such as registration, filing, payment, and enforcement—to reduce the informal economy and improve compliance.

Table 3. Priority areas for achieving progress toward the twin goals, Moldova

Priority area	Constraints identified	Broad policy actions (examples)	Pathway for impact on the twin goals and expected timeline of impact
Top priorities			
Strengthening the rule of law and the accountability of institutions	Governance-related indicators have deteriorated; corruption is cited as the main constraint to operations by firms in the 2013 BEEPS	Unlocking this constraint calls for a significant improvement in governance, including anticorruption measures, secure property rights, sound justice and financial systems, and fair competitive conditions	Providing an enabling environment for private sector firms to grow and create more and better jobs, while also strengthening trust in institutions and accountability (short and medium or long term)
Improving the efficiency of and equity in service delivery	Limited access to services, especially in rural and remote areas, has contributed to social exclusion	Improving service delivery requires enhancing the capacity of public administration, the accountability of providers, and the efficiency of spending	Building up and protecting the stock of assets of the population, particularly human capital. Improved services can also increase the productivity of firms (short and medium or long term)
Increasing the quality, equity, and relevance of education and training systems	Education and training systems are not keeping up with labor markets or producing good-quality, equitable educational outcomes	Improving teacher performance through an adequate recruitment and retainment system; promoting the acquisition of strong generic skills throughout the educational cycle, and aligning academic curricula with market demands	Building up and protecting the stock of assets of the population, particularly human capital, in a way that is relevant for individuals to access economic opportunities and for firms to count on the skills they need (medium or long term)
Supporting priorities			
Reforming the social protection system, particularly pensions	The pension system is not adequate or sustainable	Parametric reforms of the public pension system are critical; this can be complemented with the consolidation of categorical social assistance programs to expand poverty-targeted schemes	Building up and protecting the stock of assets of the population, by protecting people from poverty and reducing vulnerability (medium and long term)
Improving the business regulatory framework	Despite improvements, there are still weaknesses in the regulatory framework that affect the ability of the private sector to expand and create jobs	Reforming the business environment includes reducing unjustifiable compliance costs (related to excessive number of licenses, permits, authorizations, certifications, and acts of registrations), and lowering the burden of inspections	Facilitating private sector growth to create more and better jobs (short and medium/long term)
Ensuring sound macroeconomic and fiscal management	Risks exist in maintaining macroeconomic and fiscal stability, especially in a country highly exposed to external economic shocks	Addressing weaknesses in financial sector governance, preserving NBM’s independence in monetary policy, carefully monitoring contingent liabilities, and improving the fiscal rule	Facilitating private sector growth to create more and better jobs (short and medium/long term)

2. Improving efficiency and equity in service delivery. The provision of equitable, good-quality services, such as transport infrastructure, energy, and water, is critical for increasing the productivity of firms and the human capital stock. Limited access to services, especially in rural and remote areas, has contributed to social exclusion, particularly to spatial (regional and urban or rural) gaps in opportunities and in the quality of life. The need for improving service delivery is linked to two issues identified as priorities: the low capacity of public administration and the inefficiency of spending.

- **Enhancing the quality of institutions.** The central and local governments continue to face challenges in attracting and retaining qualified civil servants because the work environment is burdened with corruption, and the pay is too low to compete with the private sector. Political instability and lack of transparency have also eroded public trust and participation in government service provision. Strengthening the accountability of public administration would require (a) professionalizing the civil service by competitive selection and objective evaluations, (b) establishing clear responsibilities across government agencies and regularly monitoring the quality of services based on citizen feedback, and (c) increasing digital access to central government administrative services at the local level. Such institutional changes would be conditional on the improvements in governance specified above.
- **Improving efficiency of spending.** Moldova is not a low spender on public services, but its spending is, in many cases, not efficient or not directed toward the most needed areas, crowding out the fiscal space for critical investments in other important areas and across regions. Highly inefficient health spending is an example. Moreover, the fragmentation of administrative organizations means that resources are stretched across many small local government units, many of which lack the capacity to generate revenues to finance service provision. Improving the efficiency of spending can have important complementary effects in tackling constraints in other areas as resources are freed up. For instance, redirecting fiscal resources toward providing better coverage of social assistance and increasing access to infrastructure services such as water, particularly for those in rural areas, can help mitigate the impact of climate change and other shocks to households.

Examples of policy actions include the consolidation of local units through territorial administrative reform, given the high territorial fragmentation of Moldova. Short of such structural reform in the short term, a priority should be to direct more investments toward excluded geographic areas and enhance the capacity of the local governments responsible for such areas. Other policy options include reducing the average number of documents citizens need to obtain to be eligible to apply for selected services, and improving the legal and regulatory framework for public service delivery. More broadly, other options can also be explored, including alternative models of service provision that incorporate the involvement of communities and the private sector. Policies to improve the efficiency of spending in specific sectors need to be considered. In education, for instance, policy options could include promoting efficiency and transparency in the allocation of education resources through the use of a per capita financing formula and establishing a functional education management information system covering all education levels. This can have important complementarities with the next priority area related to education.

3. Increasing the quality, equity, and relevance of education and training systems. Firms in Moldova encounter difficulties in finding workers with the desired competencies and skills. The education and training systems are not keeping up with the demand of labor markets or producing quality and equitable educational outcomes. Reforms should focus on (a) establishing a teacher recruitment system and career path that promotes teacher performance, (b) promoting the acquisition of strong generic skills from early ages and throughout the educational cycle, (c) increasing the alignment of academic curricula (by introducing mandatory occupational standards) with market demands, through better coordination with the private sector, and monitoring of information to promote skill matches in the labor market.

4. Reforming the social protection system, particularly pensions. In the context of an aging society, Moldova needs to ensure that its increasing elderly population is not at risk of poverty. The pension systems are not fiscally sustainable, underperform on pension benefit adequacy, struggle with compliance, and weaken the incentive to participate in the labor market and contribute to the system. Parametric reforms of the public pension system are critical not only for the economic security of the elderly, but also given complementarities with much-needed incentives to work. Policy actions to reform social protection, particularly pensions, include (a) introducing the valorization of past earnings in the pension formula, along with an adequate indexation pattern and lower accrual rate, and (b) gradually equalizing the retirement age at 62 and then increasing it for both genders to 65. There is room for improving social assistance programs, by consolidating multiple categorical programs to reallocate the funds toward expanding the coverage of poverty-targeted cash transfers.

5. Improving the business regulatory framework. Improving the predictability of the regulatory environment and reducing transaction costs are key if the private sector is to grow in Moldova. Despite improvements, there are still weaknesses in the regulatory framework both in terms of cross-cutting regulations and sectoral regulations in financial and energy markets that have negative spillovers in the entire private sector. Reforming the business environment—addressing, in particular, pockets of poor performance—is a priority area for Moldova. Policy options include reducing unjustifiable regulatory compliance costs carried by businesses, particularly those related to excessive numbers of licenses, permits, authorizations, certifications, and acts of registration. Moreover, policies should reduce the burden of inspections, focusing on those that are duplicative and overlapping, and not based on risk analysis and risk assessment.

6. Ensuring sound macroeconomic and fiscal management. Maintaining macroeconomic stability, especially in a country highly exposed to external economic and climatic shocks, is essential for private sector growth and for the well-being of people. While Moldova has improved macroeconomic management with the shift to inflation targeting, the repercussions of the weaknesses in financial sector governance and attempts to undermine the independence of the NBM could derail macroeconomic stability. The root cause of the previous banking crisis, financial sector misgovernance, has not been fully addressed; so, the risk of derailing macroeconomic management remains. In addition, current fiscal pressures call for a need to rethink the size of the fiscal envelope, as it spends and collects through the budget more than comparators. The authorities should preserve NBM's independence in monetary policy, while the government carefully monitors potential contingent liabilities, first and foremost, in the financial sector, but also in energy and SOE sectors. In addition, the government could improve the current fiscal rule as an anchor for sustainability and output stabilization. Promoting the development of the domestic government securities market can enable the government to finance an increasing share of its financing requirements.

Solutions across priorities must reflect Moldova's specificities. The geography and openness of the country, its legacy, and its demographics permeate the diagnostic. *Openness* will be the background for Moldova's shift from migration- to competitiveness-based growth. The territorial and ethnolinguistic fragmentation of the country and its high share of rural population (*legacy*) are the context for spatial disparities and deficiencies in service provision. Similarly, the rapid shrinking and *aging* of the population cannot be detached from discussions of fiscal pressures, of pensions, of productivity, and of labor market participation. Moldova is unique, and so must be its pathways to prosperity.

IX. Knowledge and data gaps

Although the datasets on Moldova are rich in many areas, the scope of the diagnostics is limited by three priority data gaps:

- **2014 census**: the census data were collected, but have not yet been released. The main obstacles for completing the data analysis put forward by the government relate to lack of financial resources. This data gap has important implications for the analysis, including findings on the severity of the demographics challenge, labor force participation, and key indicators on GDP per capita and poverty. At the urging of donors, the Moldova National Bureau of Statistics recently announced the recruitment of 200 consultants to finalize the census.
- **Data on Transnistria**: the lack of data on Transnistria in all aspects of the diagnostics, including survey data on the socioeconomic characteristics of the population, limits substantially what can be said about poverty, shared prosperity, and economic growth at the national level.
- **Data for minorities**: data on ethnic and language minorities are lacking, given the underrepresentation of these groups in regular household surveys and the lack of availability of recent census data.

Beyond these main data gaps, additional data and knowledge gaps exist, as follows:

Issues	Data gap	Knowledge gap
Migration and remittances	- High frequency data on migration patterns and reasons - Determinants of migration (or return) and migrant skill profiles	- Remittance sustainability: whether long-term migrants continue to send remittances and how remittance sending behavior is adjusted during crisis.
Labor markets	- Data on skills demand and supply (similar to STEPS surveys)	- Factors constraining male and female labor force participation and employment
Quality of public services	- Data on perceptions of service quality and inclusiveness - Data on hospital performance, health care costs, quality of care, and knowledge about health care coverage - Data on quality of education throughout the educational cycle	- How are citizens assessing and monitoring improved infrastructure, markets, and services - Deeper analysis on social care in view of the growing demand for such services in an aging Moldovan society - Diagnostic work on higher education
Climate change /environment	- Climate data to monitor and quantify impacts of higher temperature or extreme weather events - A mapping database on natural productivity of lands and their environmental status - The results of Shock Waves could be updated if a better household survey than I2D2 were available (see Hallegatte et al. 2016)	- Landscape restoration readiness (e.g., technical capacity, scientific knowledge, incentives) to utilize the potential for recovering severely degraded agricultural land and other landscapes - Impacts of climate change on the poorest groups (building on the modeling of the Shock Waves report; see Hallegatte et al. 2016)
Private sector development		- Sector-specific competition assessments - Assessment of impact of competition policies/state aid on productivity and job creation
Sectoral developments and others		- A market risk assessment to mitigate risks to the agriculture sector given frequent market shocks - An analysis of the gas sector similar to the power sector

Issues	Data gap	Knowledge gap
		note to explore strategic options aiming to diversify sources of supply and reduce the currently existing dependence on only one source of supply - Research and innovations related to streamlining the energy sector and ensuring power security, including by use of renewable resources - Assessments of transport modes other than roads (such as railways, aviation, and ports) in enhancing Moldova's connectivity - Governance knowledge gaps (judicial performance, the political economy of reform)

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Annexes

Annex A. Key macroeconomic indicators

Table A.1. Key macroeconomic indicators

percent of GDP unless otherwise indicated

(a) Indicator	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Nominal GDP, MDL, billion	60.4	71.9	82.3	88.2	100.5	112.1	121.9
Nominal GDP, $, billion	5.4	5.8	7.0	7.3	8.0	8.0	6.5
Nominal GDP, PPP, constant $, billion[a]	12.8	13.7	14.6	14.5	15.9	16.7	16.6
GDP per capita, $	1,525	1,632	1,971	2,046	2,243	2,244	1,822
GDP per capita, PPP, constant $[a]	3,592	3,846	4,111	4,085	4,473	4,693	4,676
Population, million	3.6	3.6	3.6	3.6	3.6	3.5	3.5
GDP, % real change	−6.0	7.1	6.8	−0.7	9.4	4.8	−0.5
Consumption, % real change	−0.9	9.2	9.4	0.9	5.2	2.7	−1.9
Gross fixed investment, % real change	−30.9	17.2	13.0	0.4	3.8	10.0	−1.2
Exports, % real change	−12.1	13.7	27.4	2.3	9.6	1.0	2.3
Imports, % real change	−23.6	14.3	19.7	2.5	4.4	0.4	−4.3
GDP deflator, % change	2.2	11.3	7.2	7.9	4.1	6.4	9.6
Consumer price index, average % change	0.0	7.4	7.6	4.6	4.6	5.1	9.7
Current account balance	−8.2	−8.3	−12.1	−8.7	−6.4	−7.1	−7.2
Trade balance	−38.8	−40.3	−40.6	−37.5	−36.7	−30.0	−38.8
Remittances[b]	20.7	21.9	22.1	25.2	25.3	24.1	21.8
Remittances, % change, $	−36.2	13.2	21.7	8.8	10.1	−4.9	−26.7
Direct investment	4.8	4.8	4.5	3.5	3.1	3.9	4.1
Terms of trade, % change	0.1	0.0	−1.4	0.8	−0.5	−1.0	5.5
External debt	79.6	81.0	76.4	82.6	83.6	82.5	97.9
Budget revenues	38.9	38.3	36.6	38.0	36.7	37.8	35.8
Grants	2.1	2.8	2.1	1.9	2.1	3.7	1.7
Budget expenditures	45.3	40.8	39.0	40.1	38.5	39.6	38.1
Wages	11.7	10.3	9.5	9.8	8.4	8.2	8.5
Transfers to population	14.3	13.5	13.1	12.6	12.0	12.0	12.5
Capital expenditure	5.1	4.8	5.2	6.3	7.1	8.5	6.5
Fiscal balance	−6.3	−2.5	−2.4	−2.1	−1.8	−1.7	−2.2
Public debt and guarantees	29.0	31.9	30.3	33.2	31.7	32.5	45.5

Source: Moldovan authorities and World Bank calculations.

a. Data are in constant 2011 international U.S. dollars.

b. From 2012, BMP6 is used.

Annex B. Key Indicators on poverty and the poor in Moldova

Table B.1. Headcount ratio and Gini, by location

	2007				*2014*			
	Poverty headcount	Poverty gap	Squared poverty gap	Gini	Poverty headcount	Poverty gap	Squared poverty gap	Gini
Total	25.8	5.9	2.1	29.8	11.4	1.5	0.3	23.4
Urban	18.4	3.6	1.1	29.4	5.0	0.5	0.1	22.7
Rural	31.3	7.6	2.8	28.4	16.3	2.3	0.5	21.6
North	30.4	6.9	2.3	27.1	11.6	1.6	0.4	21.6
Central	30.2	7.5	2.8	30.7	14.9	1.8	0.4	22.4
South	29.5	6.6	2.3	27.7	16.7	2.4	0.5	20.8
Chișinău	11.4	2.2	0.7	28.2	2.6	0.4	0.1	22.9

Sources: World Bank 2016a; household budget surveys.

Table B.2. Headcount ratio, by household and individual characteristics

	2007			*2014*		
	Poverty headcount	Distribution of the poor	Population distribution	Poverty headcount	Distribution of the poor	Population distribution
Location						
Urban	18.4	30.0	42.2	5.0	18.8	43.2
Rural	31.3	70.0	57.8	16.3	81.2	56.8
North	30.4	34.9	29.7	11.6	29.8	29.2
Central	30.2	33.2	28.4	14.9	36.7	28.1
South	29.5	21.9	19.2	16.7	28.0	19.1
Chișinău	11.4	10.0	22.8	2.6	5.5	23.6
Gender of the household head						
Male	25.9	66.1	66.0	12.1	69.6	65.9
Female	25.7	33.9	34.0	10.2	30.4	34.1
Age of the household head						
15–19	4.9	0.1	0.4	1.9	0.3	1.7
20–24	15.0	1.3	2.2	4.6	2.1	5.3
25–29	17.0	3.1	4.7	9.2	5.6	6.9
30–34	21.1	6.4	7.8	9.4	6.9	8.4
35–39	24.7	9.6	10.0	12.6	10.8	9.8
40–44	23.9	10.1	10.9	9.6	8.8	10.4
45–49	24.1	13.3	14.3	13.4	15.4	13.0
50–54	25.0	13.3	13.8	9.8	11.7	13.6
55–59	23.9	10.8	11.7	13.4	13.0	11.1
60–64	28.7	5.9	5.3	14.7	25.2	19.6
65+	35.5	26.1	19.0			
Education of the household head						
Primary	41.4	40.4	25.2	21.1	42.0	22.7
Secondary	26.8	17.5	16.9	12.0	18.5	17.7
Tertiary	18.8	42.1	57.9	7.5	39.5	59.7

	2007			2014		
	Poverty headcount	Distribution of the poor	Population distribution	Poverty headcount	Distribution of the poor	Population distribution
Age-group						
0–13	28.2	18.6	17.1	13.0	17.4	15.3
14–14	28.8	2.2	1.9	18.0	1.9	1.2
15–19	24.4	8.6	9.1	10.7	5.9	6.3
20–24	21.1	6.8	8.4	10.1	5.4	6.1
25–29	21.4	5.0	6.0	6.9	4.1	6.7
30–34	23.0	5.2	5.8	12.2	5.8	5.4
35–39	25.0	5.4	5.6	10.4	4.7	5.2
40–44	24.2	5.4	5.8	12.8	6.3	5.6
45–49	24.1	7.2	7.7	9.8	5.4	6.3
50–54	21.7	6.6	7.8	11.3	8.6	8.7
55–59	23.0	6.4	7.1	9.5	7.6	9.1
60–64	27.4	4.0	3.7	10.8	7.7	8.2
65+	34.7	18.7	13.9	13.8	19.1	15.9
Education (adult 15+)						
Primary	33.3	59.1	45.9	16.7	60.8	41.6
Secondary	24.4	15.7	16.7	11.4	16.3	16.3
Tertiary	17.4	25.2	37.5	6.2	22.9	42.0
Employment status (adult 15+)						
Employed	22.0	47.5	54.5	9.6	49.5	56.8
Unemployed	34.7	4.4	3.2	16.3	4.1	2.8
Inactive	28.7	48.1	42.3	12.7	46.4	40.4
Number of children 0 to 14 years of age						
no children	23.7	46.4	50.7	10.6	52.8	57.0
1	22.6	22.6	25.8	8.0	16.1	23.0
2	29.6	20.2	17.6	15.0	20.5	15.6
3 or more children	47.0	10.7	5.9	27.9	10.7	4.4
Household size, number of members						
1	25.8	8.1	8.1	9.0	9.2	11.6
2	23.8	20.1	21.8	10.7	27.1	29.0
3	17.4	15.6	23.2	7.6	13.7	20.7
4	23.7	23.3	25.4	11.1	21.4	21.9
5	35.7	17.6	12.7	19.3	19.0	11.3
6	40.8	9.1	5.8	19.5	7.1	4.1
7 or more	53.0	6.1	3.0	20.8	2.5	1.4

Sources: World Bank 2016a; household budget surveys.

Annex C. Exports in Moldova

Table C.1. Top 10 exported products

2003			2013		
Product	Exports, $, millions	Share, %	Product	Exports, $, millions	Share, %
Wine (in containers of< 2 liters)	162.7	21	Coaxial cable & other electric parts	150.6	9.30
Other grapes	34.3	4.45	Sunflower seeds	136.1	8.40
Spirits	25.02	3.23	Shelled walnuts	85.9	5.31
Apples	22.2	2.86	Wine (in containers of< 2 liters)	81.01	5.00
Shelled walnuts	21.6	2.78	Wheat seed, white, other	64.9	4.01
Bovine hides & skins (whole)	17.2	2.24	Other wine	62.0	3.83
Apple juice	16.98	2.19	Spirits	58.6	3.62
Other bovine hides & skins	16.84	2.17	Parts of seats	55.7	3.44
Sunflower seeds/safflower oil	16.4	2.11	Apple juice	48.8	3.01
Boneless bovine meat	13.5	1.73	Apples	47.01	2.9
Total Exports	775.9	100	Total Exports	1,619.8	100

Source: World Bank calculations based on data in UN Comtrade (United Nations Commodity Trade Statistics Database), Statistics Division, Department of Economic and Social Affairs, United Nations, New York, http://comtrade.un.org/db/.

Table C.2. Top 10 export destinations

2003		2008		2013	
Market	Share (%)	Market	Share (%)	Market	Share (%)
Russian Federation	39.5	Russian Federation	21.7	Romania	19.2
Romania	11.4	Romania	14.9	Russian Federation	14.3
Italy	10.5	Ukraine	11.5	Ukraine	7.3
Germany	7.1	Belarus	9.2	Italy	7.0
Ukraine	7.1	Poland	4.3	Turkey	6.2
Belarus	5.2	Italy	4.0	Germany	5.8
United States	4.3	Switzerland	3.9	Belarus	5.3
Austria	1.3	Germany	3.4	Poland	4.7
Kazakhstan	1.2	Kazakhstan	3.0	United Kingdom	4.2
France	1.2	United Kingdom	2.3	Switzerland	2.8

Source: World Bank calculations based on data in UN Comtrade (United Nations Commodity Trade Statistics Database), Statistics Division, Department of Economic and Social Affairs, United Nations, New York, http://comtrade.un.org/db/.

Annex D. Summary Indicators on Trade Competitiveness, Moldova and Comparators

	MDA		**ALB**		**BLR**		**GEO**		**HUN**		**LTU**		**SVK**		**UKR**	
	2003	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**	**2003**	**2013**
Exports	774.6	1,619.8	447.2	2,330.0	9,615.8	35,700.0	460.9	1,734.4	42,300.0	105,000	7,146.4	32,000.0	21,900	85,200	22,800	62,700
Exports/GDP	53.5	43.3	20.6	34.8	65.2	60.3	31.8	56.6	56.6	88.8	47.4	84.1	62.1	93.0	57.8	43.0
Imports	1,399	5,487	1,864	4,902	11,558	43,023	1,141	8,023	47,808	100,111	9,803	34,813	22,523	81,735	23,020	76,787
Imports/GDP	87.2	80.6	45.9	52.9	69.0	63.5	46.4	57.6	60.6	81.2	54.4	82.8	64.0	88.4	55.2	52.1
Services exports	250.0	1,030.0	720.0	2,202.5	1,499.9	6,948.7	458.8	2,969.5	9,204.5	21,382.5	1,873.9	7,123.3	3,286.0	7,434.8	5,214.0	20,132
Trade/GDP	140.7	126.0	66.5	87.5	134.1	123.8	78.3	102.4	117.2	169.9	108.1	166.9	126.1	181.4	112.9	95.1
FDI Inflows	73.75	231.31	178.0	1,225.5	171.8	2,232.7	334.6	1,009.7	2,137.4	3,091.1	180.4	531.1	2,975.7	591.0	1,424	3,771
FDI/GDP	3.72	3.11	3.13	9.69	0.96	3.09	8.38	6.15	2.56	2.38	0.96	1.16	8.94	0.62	2.84	2.05
N. of exports	337	393	247	505	1,674	2,009	167	351	2,558	2,910	1,621	2,912	2,253	2,802	1,949	2,300
N. of markets	61	103	40	87	125	154	70	98	174	187	134	175	160	179	163	181
HHI products	0.05	0.03	0.08	0.09	0.05	0.09	0.04	0.05	0.02	0.01	0.03	0.05	0.03	0.01	0.01	0.01
HHI markets	0.18	0.07	0.57	0.23	0.24	0.22	0.09	0.05	0.13	0.08	0.06	0.07	0.13	0.08	0.05	0.07
Share top 5 products	0.34	0.32	0.45	0.46	0.33	0.42	0.38	0.43	0.22	0.17	0.27	0.29	0.28	0.25	0.18	0.21
Share top 5 markets	0.75	0.54	0.95	0.75	0.71	0.74	0.62	0.46	0.58	0.46	0.48	0.50	0.64	0.55	0.39	0.43
Export quality index*	0.79	0.80	0.85	0.89	0.88	0.94	0.77	0.79	0.94	0.96	0.90	0.93	0.95	0.98	0.82	0.87
EXPY	15,893	15,677.4	13,205.2	16,735.2	22,373.3	22,862.1	17,116.5	15,344.7	24,290.7	25,154.6	20,260.4	22,715.7	24,710.8	24,881.1	21,032.5	19,547
Survival rate		0.42		0.39		0.51		0.37		0.55		0.54		0.55		0.50
DB rank		82		108		57		14		58		24		35		112
Trading across borders rank		151		93		146		31		71		21		70		153
Time to export		23		19		15		9		17		10		16		29
Time to import		29		18		30.0		10		19		9		16		28
Cost to export		1,545.0		745.0		1,460.0		1,355.0		885.0		750.0		1,500.0		1,930.0
Cost to import		1,870.0		730.0		2,265.0		1,595.0		845.0		800.0		1,480.0		2,505.0
Logistics performance index score		2.65		2.77		2.64		2.51		3.46		3.18		3.25		2.98

Source: World Bank calculations based on data in UN Comtrade (United Nations Commodity Trade Statistics Database), Statistics Division, Department of Economic and Social Affairs, United Nations, New York, http://comtrade.un.org/db/.