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Special Topic: Economic Mobility

April 2, 2014

- In the past decade, Moldova experienced high poverty reduction, reflecting high upward economic mobility as many households escaped poverty while few fell back into poverty.
- The key characteristics of households that “moved up” included higher educational attainment and a higher employment rate in the services and manufacturing sectors—vis-à-vis agriculture.
- Despite progress, Moldova remains one of the poorest countries in Europe and Central Asia. In order to strengthen the capacity of the poor to generate income in a sustainable way and escape poverty, a policy agenda must focus on building human capital and preparing the poor to access new jobs outside the agricultural sector.

Economic mobility: recent trends

Moldova experienced a significant decline in poverty and inequality in the 2000s, particularly in the first half of the decade. From 2000 to 2004 poverty (based on a \$2.50 PPP/day poverty line) declined significantly in Moldova; from 2006 onwards poverty declines continued going from 23 percent to 18 percent by 2011 (Figure 1). While poverty rates fell in both urban and rural areas, poverty rates in rural areas are still significantly higher than in urban areas. The livelihood of people in rural areas also remains highly vulnerable to climatic shocks, such as a recent drought which affected agricultural production. Inequality also fell over the decade, with the Gini coefficient dropping from 0.33 to 0.28 in the period from 2006 to 2011.

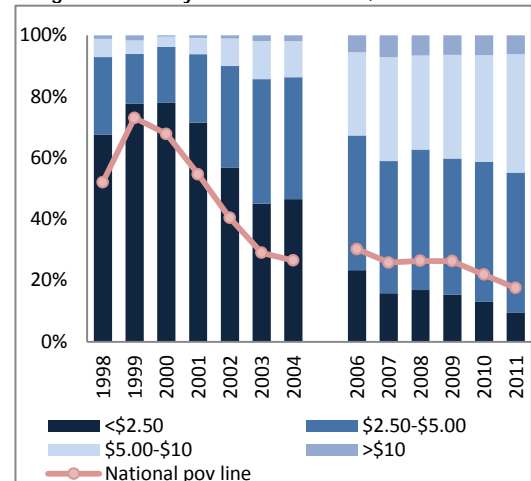
Patterns of households’ economic mobility in Moldova underlie observed trends in poverty and inequality. In this context, economic mobility refers to the dynamic process through which income or consumption change over time and improve (or lower) households’ living standards; this can be captured by movements upwards and downwards across different thresholds, which are masked by the traditional poverty trends that represent only net changes. Regionally, \$2.50, \$5.00, and \$10.00 PPP per day are used to distinguish between the “poor (under \$2.5),” the “moderately poor (between \$2.5 and \$5),” the “vulnerable (between \$5 and \$10)” and the “middle class (above \$10),” respectively.

A recent study on economic mobility in Moldova reveals that during the past decade, a high share of poor households was able to improve their living standards and escape poverty, while few non-poor households fell into poverty (Table 1). In other words, the country experienced a dynamic process of high upward economic mobility and little churning (i.e. contemporary movements in and out of poverty), particularly before the global economic crisis. While Moldova remains one of the poorest countries in the region, it presents one of the highest levels of upward economic mobility across Europe and Central Asia countries over the past decade (Figure 2). However, despite progress, many households in Moldova remain vulnerable to shocks and thus to falling into poverty.

Table 1: Transition matrices for intra-generational mobility in Moldova, 1994-2004 and 2006 to 2011 (percent of individuals), World Bank regional lines.

		Destination (2004)					Total
		<\$2.5	\$2.5-\$5	\$5-\$10	\$10+		
Origin (1999)	<\$2.5	48.2	29.0	0.8	0.0	78.1	
	\$2.5-\$5	0.0	5.8	9.7	0.2	15.7	
	\$5-\$10	0.0	0.0	2.0	2.4	4.4	
	\$10+	0.0	0.0	0.0	1.8	1.8	
Total		48.2	34.9	12.5	4.4	100.0	

Figure 1: Poverty trends in Moldova, 1998-2011

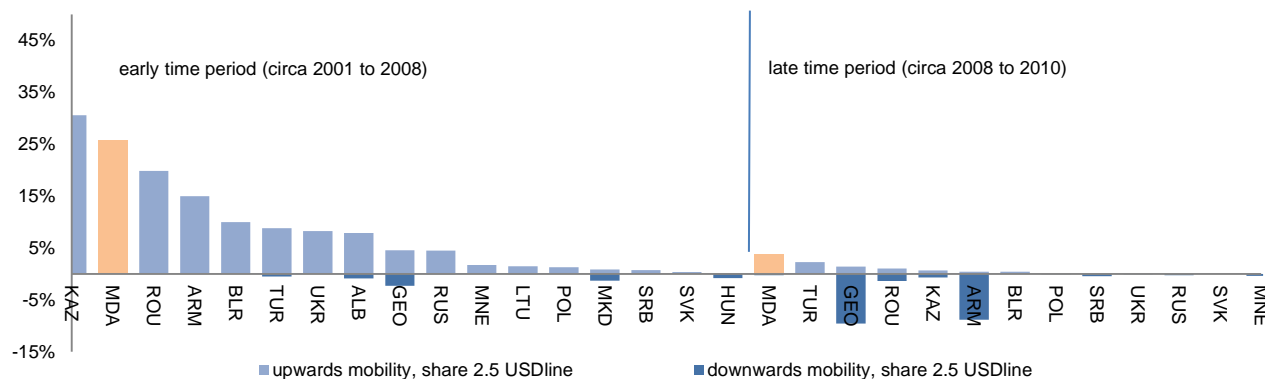


Source: Authors’ calculations based on harmonized regional HBS data (consumption aggregate excludes housing, durables and health expenditures). Notes: The Household Budget Survey for Moldova had a substantial change in methodology between 2005 and 2006; as a result, the poverty series for Moldova cannot be used to assess long-term poverty changes, but the analysis is divided into two periods: pre 2006 and post 2006. The national poverty line refers to the absolute general poverty line of the country.

		Destination (2011)					Total
		<\$2.5	\$2.5-\$5	\$5-\$10	\$10+		
Origin (2006)	<\$2.5	13.9	9.0	0.0	0.0	22.8	
	\$2.5-\$5	0.1	30.2	13.1	0.0	43.4	
	\$5-\$10	0.0	0.3	22.8	4.3	27.4	
	\$10+	0.0	0.0	0.1	6.2	6.3	
Total		14.0	39.5	36.0	10.5	100.0	

Source: Calculations based on HBS data. Note: Results presented refer to the lower-bound mobility estimates following the Lanjouw et al. (2011) synthetic panel methodology.

Figure 2: Share of households in poverty who escaped poverty– or non-poor who fell into poverty (World Bank regional poverty line: \$2.5 PPP/ day)

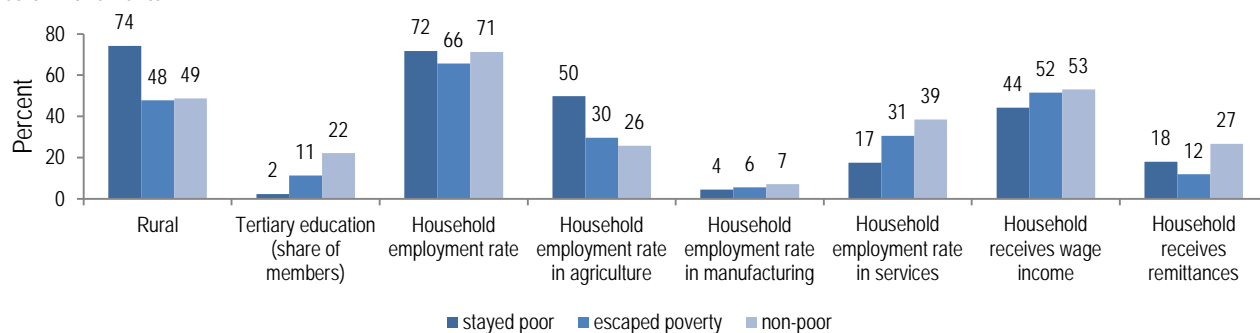


Source: Authors calculations using ECAPOV datasets. Notes: based on a linear probability model with the dependent variable equal to one if the household experienced upward mobility (cross any threshold) and zero otherwise. Significance evaluated at 10 percent level.

Policy areas for strengthening sustainable upward mobility

In order to strengthen the capacity of the poor to escape poverty in a sustainable way, it is essential to better understand the factors associated with income growth and upward movements. In Moldova, the main differences between households that were able to escape poverty from those that were not are education and labor market status (more than being employed – as household employment rates are not too different across groups - the sector of employment mattered) (Figure 3). Higher educational attainment among household members and employment in the services and manufacturing sectors—vis-à-vis agriculture—were strongly associated with upward mobility. Furthermore, whether or not households received remittances or pensions also played a role. Results from regression analysis suggests that households receiving remittances in 2006 had a higher probability of moving out of poverty by 2011 (i.e. experience upward economic mobility), but this was particularly so for households crossing the \$5 PPP/day moderate poverty threshold, and less so for those in poverty (\$2.50 PPP/day poverty line).

Figure 3: Factors associated with upward economic mobility in Moldova, 2006-2011. Share of households with initial characteristic (2006) by types of movements



Source: Calculations based on HBS data. Note: Poor refers to those with consumption levels lower than \$2.5 per day. Results presented are for the lower-bound mobility estimates using the synthetic panel methodology by Dang et al (2011). Results for falling into poverty are not presented as samples sizes are small.

Promoting upward economic mobility — for further progress in poverty reduction and overall increases in living standards for the less well-off — requires a policy agenda focused on skills and preparing workers for new jobs. This includes providing individuals with strong generic skills through quality basic education, but also preparing workers with market-driven skills for today’s labor market, in particular, for the increasing share of new jobs outside the agricultural sector. Further, policies should remove barriers and disincentives to labor force participation and, in particular, to formal employment, as well as eliminate obstacles to internal labor mobility to allow workers to go where the jobs are.

A successful policy agenda should also strengthen the role of public and private transfers in reducing the long-term vulnerability of households. For remittances, this includes fostering a more productive use of these transfers to increase the long-term capacity of households to improve their living standards. In the case of social protection, it is key to ensure that they improve the ability of households to weather shocks and avoid downward economic mobility, but also that they do not give rise to disincentives to (formal) employment.

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