



**ENPI 08-14 BLACK SEA LABOUR MARKET REVIEWS**

# **MOLDOVA COUNTRY REPORT**

WORKING DOCUMENT

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The contents of this report are the sole responsibility of the authors and do not necessarily reflect the views of the European Training Foundation (ETF) or the European Union.



## Foreword

This report is an outcome of the Black Sea Labour Market Reviews project, which was initiated and funded by the European Training Foundation (ETF) to collect information on and analyse selected labour market and related human capital issues in six countries of the Black Sea region (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

It is planned that this ETF project will be carried out in two phases: (i) preparation of country reports in 2008; (ii) regional analysis with cross-country comparisons in 2009. In the first phase, a common thematic outline was developed and used for the preparation of country reports, including quantitative and comparable data and other relevant qualitative information as well as basic qualitative analyses. These country reports constitute the main preparatory work and stocktaking exercise for the regional-level analysis. In the second phase, a comparative cross-country analysis of the labour markets with a regional Black Sea perspective will be conducted on the basis of issues that emerge from the country reports.

For the Moldovan part of the project, a local company, the Expert-Grup independent think-tank, was contracted to work with the ETF on the Moldova country report. This report was drafted by Expert-Grup, with involvement from the following authors: Ana Popa, Alex Oprunenco and Valeriu Prohnițchi. The draft report was then commented on by an ETF team of experts (Jesús Alquézar, Ummuhan Bardak, Siria Taurelli and Agnieszka Majcher-Teleon) and an external expert, Dr Constantin Zaman.

The team gratefully thanks the National Bureau of Statistics, and particularly Mr Vladimir Ganta, for invaluable help and cooperation in respect of the collection of the necessary statistical data. The authors alone are responsible for the economic interpretation of labour statistics.

A national workshop has been organised for 24 November 2008 in Chișinău, at which the draft country report was to the key national stakeholders and its key findings discussed with them. The report was finalised on the basis of comments received from the key stakeholders during and after the workshop.

## Abbreviations and Acronyms

BEEPS	Business Environment and Enterprise Performance Survey
CIS	Commonwealth of Independent States
ECA	Eastern Europe and Central Asia
FTA	Free Trade Agreement
GSP	Generalised System of Preferences
GVA	Gross Value Added
HBS	Household Budget Survey
LFS	Labour Force Survey
MDL	Moldovan Leu, national currency of Moldova
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
NEA	National Employment Agency
PSU	Primary Selecting Unit
SLMT	Survey on Inter-sectorial Mobility and Transition from school to work
VET	Vocational education and training

# Table of contents

Executive summary	9
Introduction	15
1. Background: Review of data sources and key demographic and labour market indicators	17
1.1. Review of data resources	17
1.2 Demographic trends and demographic transition	22
1.3 Employment trends	27
2. Human capital, employment and economic transition	39
2.1 Investment in human capital	39
2.2 Returns to education	47
2.3 Transition from school to work	54
3. Restructuring labour markets and changing employment patterns	59
3.1 The macroeconomic situation and economic restructuring	59
3.2 In which sectors are new jobs created? Mobility from old to new sectors	64
3.3 The size and structure of the informal economy and informal employment	68
4. Labour migration	73
4.1 Mobility in the domestic market and immigration	73
4.2 International labour migration	75
5. Employment policy framework and recommendations	85
5.1 The place of employment policy in the overall policy agenda	85
5.2 Business environment and investment climate	86
5.3 Labour legislation	89
5.4 Labour market policy	92
6. Policy conclusions and recommendations	97
6.1 Improving labour statistics	97
6.2 Addressing the demographic decline	97
6.3 Increasing economic participation and employment	98
6.4 Greater investment in human capital	98
6.5 Scaling up the returns to education	99
6.6 Smoothing the transition from school to work	99
6.7 Making informal employment formal	100
6.8 Controlling domestic migration	100
6.9 Stemming international migration	101
6.10 Developing effective labour policy	101
6.11 Improving the business environment	102
Annexes	105
Annex 1: Sociological survey conducted by CBS AXA on inter-sectorial mobility and the transition from school to work	105
Annex 2. Review of data sources	114
Annex 3. Structure of the education system in Moldova	119
References	121

## List of tables

Table 1. The standard set of variables used by the NBS in tabulations .....	19
Table 2. The population growth of Moldova, 1959–1970 to 1989–2004 (Trans-Dniester region not included) .....	23
Table 3. Forecasts of Moldova’s population, 2010–2050 (millions) .....	26
Table 4. The population of Moldova by main age categories (thousands) .....	27
Table 5. Employment rates of the population aged 15–64 years in some transition countries.....	28
Table 6. Employment rates of the population aged over 15 years in Moldova (%).....	28
Table 7. Size and structure of the economically inactive population in Moldova .....	30
Table 8. Unemployment rates in Moldova (%) .....	31
Table 9. Trends in employment and gross value added (GVA) by major economic sectors (1998=100%) .....	33
Table 10. Trends in employment in agriculture by gender and age (thousands).....	36
Table 11. Number of public and non-public institutions and students enrolled by level of education, 2007 .....	44
Table 12. Student achievement in mathematics, science and reading .....	46
Table 13. Regression of log of hourly wage on number of years of education .....	50
Table 14. Average monthly wage per employee as a percentage of the national average wage (%)....	51
Table 15. Average monthly salary of women compared with men’s salary .....	51
Table 16. Distribution of respondents to the SLMT module ‘Transition from school to work’ by gender, area of residence and educational level.....	54
Table 17. Distribution of respondents to the SLMT module ‘Transition from school to work’ by their participation in the labour market .....	55
Table 18. Distribution of answers to the question ‘How easy was it to find your first job?’ by highest level of education attained (N=111).....	55
Table 19. Graduates by highest level of education attained and the correspondence between their first job and the field of study in which they graduated (N=152) .....	56
Table 20. Graduates by field of study in which they graduated and the correspondence between their first job and the field of study in which they graduated (N=151) .....	57
Table 21. Increase in employment by sector of economic activity (% of the previous year) .....	64
Table 22. Rate of firm creation and firm closure (%).....	66
Table 23. Access to water and canalisation services in urban and rural areas, 2002–2006 .....	73
Table 24. Rural population as a proportion of total population in selected countries, 2005 (%).....	74
Table 25. Poverty rate according to area of residence, 2001–2006 (%).....	74
Table 26. Migration profile by age and region of the country, 2007 (thousands).....	76
Table 27. Opening a business indicators .....	86
Table 28. Trends in the cost of licensing activities.....	86
Table 29. Comparison of rankings in Employing Workers survey (Doing Business) 2008 .....	91
Table 30. World Bank Investment Climate surveys: major constraints to business in Moldova (%) .....	91
Table 31. ALMPs implemented by the NEA by number of unemployed people covered and jobs found, 2007.....	95
Table 32. Unemployment benefit, salaries in the economy as a whole and cost of living trends, 2006–2007 (average values in MDL) .....	96
Table 33. Expenditure on ALMPs, 2006–2007 (% of total for ALMPs).....	96

## List of charts

Chart 1. Population trends in Moldova, beginning of the year (thousands) .....	23
Chart 2. Trends in Moldova's vital statistic rates, per 1,000 inhabitants .....	25
Chart 3. Changes in the age structure of Moldova's population, 1998 and 2007 .....	26
Chart 4. Composition of the employed population by educational attainment (% of total) .....	29
Chart 5. Unemployment rate, ILO definition, 2000–2007 (%) .....	31
Chart 6. Distribution of the employed population by sectors (% of total) .....	33
Chart 7. Numbers employed in main sectors of activity in the private non-agricultural sector (thousands).....	34
Chart 8. Trends in employment by type of ownership (thousands).....	36
Chart 9. Employment growth by type of ownership (left chart – total economy; right chart – excluding agricultural sector) (thousand jobs).....	37
Chart 10. Gross enrolment ratio (%) .....	40
Chart 11. Working-age population by education level (% of total) .....	40
Chart 12. Structure of population by age and educational level, 2007 .....	41
Chart 13. Gross higher education enrolment ratios in some transition countries (%).....	41
Chart 14. Number of students admitted by level of education .....	42
Chart 15. Public expenditure on education (% of GDP and total public expenditure on the left axis; MDL per student on the right axis) .....	43
Chart 16. Proportion of students paying tuition fees in public and private institutions by level of education .....	43
Chart 17. Average monthly expenditure per student by level of education (MDL).....	44
Chart 18. Number of students per unit of pedagogical staff by level of education.....	45
Chart 19. Participation rates by level of education, 2007 (%) .....	46
Chart 20. Average monthly gross wage in CIS countries and Romania, 2007 (USD).....	47
Chart 21. Rate of returns on one year of education: Evaluation in Moldova (left panel) and its comparison with other countries (right panel, all countries 2003, data for Moldova 2003 and 2006).....	48
Chart 22. Poverty risk by level of education, 2005.....	48
Chart 23. Disposable income by level of education of the head of the household, 2006 (MDL) .....	49
Chart 24. Types of gender discrimination.....	52
Chart 25. Types of employee needed by organisations .....	53
Chart 26. Proportion of persons working in high- and medium-high-technology manufacturing and knowledge-intensive services sectors (%) .....	53
Chart 27. Proportion of persons working in knowledge-intensive services (%) .....	54
Chart 28. Distribution of the answers to the question 'What did you do after graduating from the highest educational level you have and before finding your first job lasting more than three months in Moldova?' .....	56
Chart 29. Trends in Moldova's GDP (%) (1990=100%) .....	59
Chart 30. Annual growth of fixed capital investment (%) .....	60
Chart 31. FDI per capita in Moldova, CIS and CEE countries (USD) .....	60
Chart 32. Trends in Moldova's imports by groups of countries, 1995–2007 (USD thousands).....	61

Chart 33. Trends in Moldova's exports by groups of countries, 1995–2007 (USD thousands).....	62
Chart 34. Trends in production by sectors (1994=100%) .....	63
Chart 35. GDP per capita (USD, Purchasing Power Parity) .....	64
Chart 36. Proportion of small and medium-sized enterprises (%), 2007 .....	66
Chart 37. Increase in real labour productivity per employee and real average monthly wage .....	67
Chart 38. Increase in real labour productivity per employee by sector of economic activity .....	68
Chart 39. Labour cost in companies and organisations, 2007 .....	68
Chart 40. Employment by legal status, 2007.....	69
Chart 41. Employment by legal status excluding the agricultural sector, 2006.....	69
Chart 42. Educational background of the population employed in formal and informal sectors (%) .....	70
Chart 43. Proportion of workforce and wage bill reported for tax purposes (%) .....	71
Chart 44. Rural vs. urban international migration, 1999–2007 (thousands) .....	74
Chart 45. Total migration and migration by gender (women) and marital status (married – both men and women), 1999–2007 (thousands).....	75
Chart 46. Remittance trends in Moldova, 1999–2007 .....	80
Chart 47. Remittances as a proportion of exports, 1998–2007 (%).....	82
Chart 48. Number of inspections, 2005.....	87
Chart 49. Reasons that businesses did not apply for loans (%) .....	88

## Executive summary

With financial support from international donors and technical support from foreign statistical offices, Moldova has put in place a relatively advanced system of labour statistics covering many aspects of the labour market and providing a high level of disaggregation. Most of the labour statistics are derived from the regular Labour Force Surveys (LFSs). This system could be further improved by regularly producing regional labour market indicators, augmenting the analysis of labour market phenomena (as opposed to simply describing them, as the National Bureau of Statistics (NBS) currently does), responding in more a flexible way to users' demands and achieving higher degrees of compatibility and comparability of the LFS data with statistical data from other sources (establishment surveys, Household Budget Surveys). In order to achieve this, the NBS needs to be better endowed with human, financial and IT resources and to improve its cooperation with other public authorities, especially in order to gain access to various public registers. These efforts need to be complemented by those of other agencies, especially the Ministry of Economy and Trade with its National Employment Agency (NEA), which must radically improve the system of labour policy statistics.

Demographic statistics could also be further improved and more analysis and forecasting carried out by the NBS. However, even the existing data are sufficient to determine that Moldova's current demographic situation is very worrying and its demographic prospective bleak. In the inter-census period of 1989–2004 Moldova lost 7.5% of its population, but this refers only to so-called 'right-bank' Moldova. According to regional estimates, in the breakaway Trans-Dniester region the population decline was more than 23%. In the more recent period of 1998–2007 the stable population in Moldova declined by 2.3%. It is interesting to note that in the same period the working-age population (15–64 years) increased by 8.6%.

However, it is clear that this growth, in the context of the general demographic decline, is a temporary phenomenon that is a result of the large cohort of 1970s and 1980s baby-boomers that have entered the working-age population over the past decade. In fact, their impact on the labour market is not proportional to their size in relation to the total population: many people of working age are not present in the domestic labour market since they have either migrated to work abroad or are dependent on relatives working abroad.

A more significant trend is the reduction of the population below working age, which in the period 1998–2007 shrank by 33%. This is the most abrupt decline in the number of children among Central and Eastern European (CEE) countries. It should be mentioned that the main reason for the demographic decline of Moldova is the high mortality rate (12‰), including high infant mortality, which has been compounded by decreasing female fertility rates and population ageing. The traditional family model is changing, as demonstrated by the increasing proportion of children born outside marriage, an increase in the average age of first marriage and the massive increase in the general divorce rate, including in rural areas where more conservative family attitudes previously prevailed. All these factors will be difficult to reverse by policy measures in the short term.

The intense labour migration further undermines the demographic prospects of the country. According to various estimates, the Moldovan population is likely to reduce by between 18% and 35% up to 2050. However, problems could begin to emerge much sooner, as suggested by the fact that in the period 2009–2013, those born in the period 1948–1952 (a group that is twice the size of the previous and next groups) will retire from economic activity. All in all, the demographic decline associated with an ageing population will create negative implications for the social insurance budget and health protection system. In order to make these sustainable and to avoid increasing the fiscal burden on existing employees, policy measures need to be designed to spur the employment rate.

Employment rates have worsened in Moldova for the entire period during which observations have taken place (1999–2007) and the speed of their decline has been the highest in Europe. The employment rate of 47.1% of the working-age population is also currently the lowest in Europe. The employment rates for all age groups (except those aged 55–64), for both rural and urban dwellers and for both men and women have reduced. As result of the urban-biased economic growth, the employment rate is higher in urban than in rural areas, reversing the situation that existed in early transition.

Labour non-participation has emerged as a salient feature of Moldovan society over the past decade. The total number of economically inactive people increased by 34% during the period 1999–2007, and its share increased from 38.7% to 55.2% of the total population aged over 15 years. To a large extent the increased share of the inactive population was determined by a 15% expansion in the number of university students and a 17% rise in the number of pensioners. However, the number of migrants has rocketed by 45% and represents the main contribution to the total enlargement of the economically

inactive population. With a high domestic inactivity rate, the low employment rates in the national economy are complemented by low unemployment rates (5.1%, again among the lowest in Europe). The younger the population, the higher its specific unemployment rate, but the shorter the duration of the unemployment.

While there are many factors that have determined these patterns of labour force employment in Moldova, migration seems by far to be the most potent. It is notable that the more advanced a person's educational background, the more likely they are to be employed. However, many university graduates take as their first jobs assignments that could easily be fulfilled by people with secondary education. Having multiple jobs in Moldova is not really a widespread practice. Most of the reported cases (70%) are in rural areas, where people combine their core activity with informal employment in subsistence agricultural activities. Many of those employed in the informal rural sector are underemployed as they would like to work more and be better paid. In urban areas, multiple jobs are more diversified and involve many socioprofessional strata, though it was not possible to perform a detailed analysis as the statistical data was limited.

The distribution of the employed population across the main sectors of the Moldovan economy has changed dramatically over the past ten years. Agriculture is no longer the most important sector for employment, having been superseded by the services sector, which had a share of 48.4% of total employed in 2007. A total number of 340,000 people left agriculture in the period 1999–2007 and moved to the trade or construction sectors, or migrated. The reduction of employment in agriculture has not fundamentally affected agricultural output because its starting point was high labour redundancy levels. Furthermore, some agricultural entities have been able to move to more capital-intensive crops, while others have offset the outflow of labourers with alternative short-term employment for critical agricultural tasks (such as bringing school pupils to the fields for vegetable and grape harvesting).

The industrial sector as a share of total employment has remained practically the same over the past decade, while the share of the construction sector grew from 3% in 1998 to 6% in 2007. There was an almost perfect positive correlation between the growth of employment and the growth of production in the construction and services sectors. On average, a growth of 1% in employment in construction in 2001–2007 was associated with 2.5% of gross value added (GVA) growth in the sector, and a 6.6% growth in the services sector.

The number of employees in public administration increased from 30,800 in 1996 to 57,600 in 2007, which is an obvious trend for a newly independent country that needed to put in place public administration structures. Employment in the public enterprises sub-sector fell by 24% in the period 2000–2007. This was the result not only of privatisation, but also of the fact that many employees left poorly paid jobs in public enterprise. Also, a 20% fall in employment in the public services sector occurred in the first decade of transition, in the 1995-1999 period to be precise. In 2007 the number of people employed in the public sector accounted for around 26.4% of the total employed population in Moldova, and included 4.6% employed in public administration and 21.8% employed in public enterprises.

The education sector has a critical role to play in training the workforce that the economy needs. The analysis conducted shows that the Moldovan education sector was unable to keep pace with the changing needs of the economy. Although the share of higher education graduates increased between 2000 and 2006 – in contrast to that of vocational education and post-secondary non-tertiary graduates – the enrolment rate in higher education in Moldova is very low when compared with other countries in the region, and the distribution of preferred fields of study does not match what the real economy needs.

Moreover, the increasing number of higher education graduates in Moldova has not contributed to the advancement of the country's competitiveness and the development of a knowledge-based economy. The percentage of people working in high- and medium-high-technology manufacturing decreased in the period 2001–2006 and is much lower than in most European countries. Students had not adapted to the new economic conditions and necessities, nor was the economy capable of fully absorbing graduates who often did not have the necessary skills. In 2006 the government imposed limits on fee-based enrolment in order to channel the inflow of potential students from 'traditional' specialisms (economics, law, political science, foreign languages) to a number of technical specialisms, and in order to stimulate enrolment in vocational education. However, the number of students admitted in 2006 and 2007 to vocational schools and colleges did not change, while the number of students admitted to universities in 2007 decreased by 31% as compared to 2005.

Vocational schools are highly unattractive because they do not offer the necessary knowledge and skills to graduates, while training and living conditions are below the minimum expectations of the

students and their parents. No new specialisms are being proposed because of the low demand for vocational educational and the lack of interest in cooperation on the part of the business sector. It is significant that there are currently only two private vocational schools in Moldova. Public expenditure on education in Moldova is very low and the structure of expenditure within the sector is far from optimal. Private expenditure, including informal expenditure, has to some extent compensated for the shortage of public funds at all levels of education. However, increasing levels of private expenditure and low admission requirements for fee-based education have made education services a lucrative business that gives little attention to the quality of education. The quality of vocational education and higher education has deteriorated the most. This has had the most significant negative impact on the labour market. In many vocational schools the curriculum is decades old and not in line with the current needs of the labour market.

It is relatively easy for graduates who have higher education to find a job, while the unemployment rate among young people is half that of older age groups. But most of the jobs are in fields that are different from those studied. When finding a first job, informal contacts are the main source of information and influence-peddling. In most cases the contracts are short term, especially in the public sector. In fact, the public sector is used by many graduates as a springboard to better-paid jobs in the private sector after they have accumulated two to three years' work experience. The main problem affecting the transition from school to work is the lack of experience and the lack of confidence in the education system.

Despite all these problems, it still pays to have an education in Moldova. As one recent study shows, an additional year of education in Moldova increases the wage by 9.5% where other factors are constant. Education offers a higher salary and decreases the probability of becoming poor. However, this fact does not hold for lower levels of education. There is no significant difference between poverty rates for individuals with only primary or secondary incomplete education and for those with no education at all. This is because no specific skills are acquired in primary and secondary incomplete education and the opportunities for employment are almost the same as for individuals who have no education

Furthermore, there are significant differences in the wages in different sectors of economic activity for the same level of education. The wages are highest in the construction sector, which has experienced the strongest growth during the past few years, and in the transport and communication sector. At the same time in the education and healthcare sectors, where having highly skilled staff is of crucial importance, the wages are significantly lower than the national average. This has triggered and maintained a permanent outflow of professionals from these two sectors.

Another aspect of Moldovan society is that wages for women are lower than wages for men in all sectors of the economy, regardless of the proportion of women employed in the sector. There are many other types of discrimination, though all of them, including less access to training and fewer opportunities for promotion, ultimately result in lower wages for women.

The macroeconomic and social situations are intimately interlinked with labour market outcomes. Following independence in 1991, Moldova's GDP has experienced one of the most difficult economic transitions, and this phase is not yet over. In 2007 the total output was only 52% of its 1990 level. If Moldova manages to keep an average GDP growth of 5.5% in the long term, it will still take the country until 2010–2020 to recover its pre-transition level of output.

One of the main causes of Moldova's poor economic performance in early transition was the low capital investment ratio and the slow pace of structural changes. Except during one growth episode in 1998, investment in fixed capital decreased in real terms until 2000. Most of the investment went into sectors that employ relatively few people, whereas labour-intensive sectors benefited from little investment (in 2000 around 3.4% of total investment went into the agricultural sector, which at that time employed more than 50% of the total labour force).

Moldova was also slow to attract foreign investment into its economy. The situation started to change in 2005, with foreign direct investment (FDI) inflows increasing from USD 88 million in 2004 to USD 459 million in 2007 (3.4% and 10.4% of GDP respectively). However, the lack of a quality labour force may create severe obstacles to an increase in investment. A reasonable diversification of the country's export and import markets has also been achieved, together with a diversification of the structure of exports away from traditional low-processed goods. However, the growth of production capacities has been too slow, while domestic demand continues to grow rapidly. The obvious consequence of this skewed economic growth is a rapidly increasing trade deficit, which to some extent is offset by reverse flows of currency from Moldovan migrants, foreign investors and international organisations.

Economic sub-sectors responded in different ways to changing political and economic realities during the transition period. Agriculture has suffered the most protracted recession, which is not yet over, with total output in 2007 reaching only 67% of the 1994 and 1997 production levels. The industrial sector managed to recover to pre-transition levels in 2002, but its strong growth stopped in 2006 after the Russian Federation embargoed imports from Moldova. Industry responded with marginal job-shedding, limited to the alcoholic beverages branch, and by the first half of 2008 had recovered from the two-year recession.

Following the onset of transition, construction suffered the most significant economic recession and the most severe loss of jobs: in 2000 the total volume of construction work was only 36% of the 1994 level, while the number of jobs had reduced from 91,000 to 44,000. In the period 2003–2007 companies in the sector have recovered by responding to the rapidly growing market demand, even though demand has been geographically very narrow. The output of the sector has increased 2.6-fold in real terms, while employment has increased by 65%. As for the services sector, this displayed the strongest recovery in the period 2000–2007, as suggested by the 2.3-fold increase in retail sales and an 87% increase in the volume of services provided to the population. However, the 13% growth in employment was a rather modest increase.

All in all, the structure of the Moldovan economy changed radically in around a decade. In 1995 agriculture accounted for 29.3% of the total value added of the economy, industry accounted for 25.0%, construction for 3.5% and services 28.7%. In 2007 agriculture contributed less than 13.0% (also as a result of the severe drought), industry 15.0%, construction 4.2% and services 51.0%.

Changes in the structure of production are reflected in changing patterns of employment. The population is leaving agriculture either to work in the trade and construction sectors or to migrate abroad. Trade and construction are two sectors into which those leaving agriculture move because it is a relatively easy transition to make and requires no radical retraining. There is also a significant level of mobility from the public to the private sector, driven mainly by low wages in the public sector. The migration of young people from public administration to the private sector is particularly intense. Since the budgetary sector does not offer high levels of remuneration, it has lower requirements regarding work experience. Hence, many young graduates are employed in the sector as specialists with medium-level qualifications. However, after accumulating the two to three years of work experience that is demanded by most private employers, many of them leave for the private sector.

Informal employment is very significant, representing approximately a third of total employment in Moldova, with most of the informal jobs being in agriculture. A significant proportion of informal employment (32.3% in 2007) is in formal sector enterprises. Large numbers of people (around 40,000) are involved in informal activity under the so-called 'entrepreneurial patent', which allows some low-profit economic activities to be carried out without financial reporting; this mainly relates to retail trade in specialised areas (marketplaces). There are many reasons for informal employment. In rural areas it is the only available way of surviving economically. For many people informal employment is an additional source of income. But many have only one job, which is informal, and the main reason relates to the avoidance of taxes.

Domestic migration is a very important and revealing feature of the development of Moldova. It occurs mainly along two axes, village–city and town–city, with Chişinău, Bălţi and Cahul being the main poles of attraction. The main reasons for leaving the villages and small towns are the lack of economic and job opportunities, very poor living conditions and underdeveloped public services. However, external migration is much more important in terms of impact on the labour market. According to the LFS conducted by the NBS, the number of Moldovan migrants increased from 99,300 in 1999 to 394,500 in 2005. Other credible estimates show the same magnitude of migration. The majority of the migrants (87% of the total) are young, between 20 and 49 years of age. Currently migrants are predominantly male, but data on the propensity to migrate show that there are approximately equal proportions of women and men in the total number of eventual future migrants.

Some data indicate important shifts in future migration patterns, showing that people with higher levels of education will be increasingly inclined to move abroad. There appear to be changes in the profile of migrants planning to leave Moldova in the future. Prospective migrants tend to be female, well educated and from urban areas, and they plan to make their emigration permanent. This poses serious challenges for the quality of education and for the level of interplay between the education system and the labour market.

Initially embraced as a survival strategy, migration now tends to be a matter of choice, since potential migrants seek not simply to survive, but to improve their lives. For this reason, returning migrants do not usually become 'agents of change', as might be expected. It was widely believed that Moldovan migrants would return home with newly acquired skills and capital, would act as promoters of new

labour and a new business culture, and, thus, would support the modernisation of the Moldovan economy. Unfortunately this has not so far happened on a large scale. One of the main reasons for this is that Moldovan migrants are usually employed in low-skill occupations, which results in lower salaries and lower remittances sent home. More importantly, it means that returning migrants do not acquire the skills to gain employment in more competitive sectors back home, and hence find themselves in essentially the same situation as before their departure. The fundamental reason and push factor for emigration for Moldovans remains poverty and the lack of job opportunities. This, however, is not only a reason to migrate, but also an obstacle to return.

This leaves the authorities with the question of how to make Moldova an attractive place to live and work. Moldovan governments have elaborated plenty of labour employment laws, strategies and plans, most of them devoid of any practical impact. Very few have been ever implemented, monitored and evaluated, while their effects on the labour market have not been visible. By and large, these strategies have missed their objectives and goals. There is currently a National Strategy for Labour Employment Policy for 2007–2015 (NSLEP) in place, which was developed in 2006. The strategy defines the main direction for policy intervention, while detailed plans for labour employment are intended to be elaborated annually on the basis of the strategy's policy logic. The strategy was developed in line with the Revised European Employment Strategy and the Moldovan National and Sectorial Development Strategies. There is a need to update the strategy to reflect the provisions of the National Development Strategy in order to ensure its effective linkage with national development priorities. Moreover, the monitoring and evaluation mechanism, including the reporting procedures, need to be effectively implemented.

Since the unemployment rate in the Moldovan economy is relatively low, the key challenge and the main focus for governmental labour market policy should be to increase the employment rate. This can happen only if more and better-paid jobs are available in the domestic labour market. With open outlets for migration, it is clear that Moldovan wages need to be at least rapidly approaching, if not immediately equal to, the levels of the salaries that Moldovan migrants receive in host countries. The ultimate requirements for attaining this level of competitiveness are a friendlier business and investment environment in which new companies can be established and existing ones can expand, and better conditions for the education and training of the labour force, both inside and outside companies, in order to achieve high labour productivity.

Despite bold reform rhetoric, Moldova lags behind other countries in terms of simplifying its regulatory burden and improving its investment climate. Many of the streamlined regulations still exist only on paper, are not fully implemented, or have entered into force with a delay. The support infrastructure for SMEs and exports is very weak, while the competences of the main regulatory bodies have not been adequately established. Access to finance is impeded, not so much by interest rates but mainly by high additional costs, such as providing collateral for receiving credit. If these issues are not addressed, the labour regulations will have limited impact on employment levels.

Labour regulation issues are not the weakest area, nor are they at the top of the list of problems for Moldovan companies. According to the 'Doing Business' survey, in areas such as dealing with licences, getting credit, protecting investors, paying taxes and trading across borders, Moldova's position is rather worse than in the area of employing workers. After all, while Moldovan labour regulations may well appear to be quite strict on paper, on the whole they do not appear to be the thorniest issue for companies operating in Moldova. There are many indications that labour regulations may not be binding in practice. It is no surprise that in 2006 and 2007 the number of employees dismissed was more than 25% of the average number of those employed. It would be difficult for companies to achieve this if the labour regulations were to be strictly enforced.

Labour policy needs to target one of the main shortcomings of the Moldovan labour market, the mismatch between education and the labour market. The progress in education and training reform has been rather limited, especially with regard to the relationship between educational supply and labour market demand. Secondary professional education faces the most daunting tasks in this respect. Furthermore, the situation is not helped by the fact that the use of on-the-job training is very limited. Over recent years less than 10% of employees have received this kind of training. The labour code states that 2% of the employers' retribution fund should be channelled into training needs. However, the actual amount is only a quarter of this figure.

The Moldovan government has promoted both passive and active support for those in need in the labour market. Although the importance of active labour market programmes (ALMPs) should not be underestimated, their impact in terms of providing jobs for unemployed individuals has been rather limited. They cannot change the low level of job creation or the failures of education and training policies to bridge the gap between supply and labour market demand. There is a need for an

increasing focus on active policy measures, since the effectiveness of passive measures remains rather limited as a result of financial constraints.

# Introduction

During the 1990s Moldova suffered one of the most prolonged and deepest economic recessions of all the transition countries. Alongside the economic decline, Moldova was affected by a constant decrease in the labour activity rate, which continued even after economic growth resumed in 2000. The decline in the activity rate was accompanied by a change in the structure of employment. While in the mid-1990s the proportion of the population employed in the agricultural sector was more than 50%, in 2007 it was only 33%. Shrinking employment in the agricultural sector was not offset by a corresponding increase in employment in other sectors. The number of people employed in the manufacturing sector decreased by 13% between 1999 and 2007. Construction and services were the only sectors in which employment increased, by 58.3% and 12.9% respectively from 1999 to 2007. However, this was not enough to offset the decrease in the other two sectors. As result, a significant proportion of the population left the labour market.

Surprisingly, the unemployment rate has decreased, and in 2007 it was at an all-time low of 5.1%. Most people have moved from employment to inactivity rather than to unemployment. The opportunity to migrate, among other factors, is an important cause of domestic economic inactivity. Conservative estimates of the number of emigrants range from 250,000 to 350,000 people, but this refers only to individuals who are abroad at a given point in time, and does not include those coming back for short periods of time and those ready and willing to leave at any time. Furthermore, high levels of remittances create a situation in which there is less incentive for the other members of households to enter the labour market, since their reservation wages increase at levels that are not supportable by the economy.

The purpose of this report is to highlight the most important changes and trends in the Moldovan labour market during the transition period. It was commissioned by the ETF to be used as the Moldovan source for an international study on labour markets in the Black Sea region. The report analyses the situation and trends in the labour market in Moldova during the period 1998–2007, wherever possible making comparisons with earlier periods. However, as a result of data limitations, some of the analysis relates to shorter periods. The main data source is the Labour Force Survey (LFS) conducted by the National Bureau of Statistics (NBS), but Household Budget Survey (HBS) data, establishment surveys and data from different institutions are also used.

For the purposes of the report, a sociological survey on inter-sectorial mobility and transition from school to work (SLMT) was conducted. The SLMT was conducted by the sociological research company CBS AXA on a representative sample of 1,186 individuals. The questionnaire contained 41 questions grouped into three modules. The module on personal details and geographical mobility gives general information on the respondents (area of residence, level of education, occupational status), changes in the place of residence during 1998–2007 and the main causes of these changes. It was designed to identify basic trends in domestic migration. The second module, on inter-sectorial and occupational labour force mobility, depicts the most important directions of mobility in terms of economic activity, ownership type and problems encountered when changing jobs. The third module, on transition from school to work, was designed using the module on the entry of young people into the labour market used by Eurostat. Only individuals aged 18–35 years participated in the final module, the sample size being 536 respondents (for more information see Annex 1).

The report is structured in five main chapters, as follows.

- Chapter 1: Background: Review of data sources and key demographic and labour market indicators. The first chapter presents the main sources of labour statistics (sampling, regularity and reliability of surveys, dissemination of data) and describes some of the constraints of the data collection and dissemination. It also includes analysis of the demographic trends using data from the NBS and forecasts from World Bank and the UN. The employment trends by sector of activity and ownership are analysed, with a more detailed analysis of the private non-agricultural sector, which has been the engine for job creation in most of the transition economies.
- Chapter 2: Human capital, employment and economic transition. This chapter analyses the linkages between the education system and the labour market and the adjustment of the education system to the new needs of the labour market. The main trends and changing labour preferences of young people are presented. There is also an analysis of incentives to invest in education and of returns to education, with a detailed analysis of wage differences between sectors of economic activity. For the subchapter 'Transition from school to work' the data from the SLMT were used.

- Chapter 3: Restructuring labour markets and changing employment patterns. The third chapter describes how the Moldovan economy developed following the collapse of the Soviet Union and the differences in the growth of different sectors of economic activity. The issues of labour productivity and labour costs are included. The impact of economic restructuring on the employment and mobility of workers from old to new economic sectors is also analysed. Employment in the informal sector is examined in a separate subchapter, since it is an important part of employment, especially in rural areas where there are limited job opportunities.
- Chapter 4: Labour migration. This part of the study begins by describing trends in internal migration (village–city, town–city). However, the main emphasis is on international emigration, which is a consequence of the reduced employment opportunities and low salaries on the domestic labour market. International migration is analysed in terms of the reasons for migration, the direction of migration, the profile of the group of emigrants, the main occupations in foreign countries, the future plans of emigrants and the use of remittances.
- Chapter 5: Employment policy framework and recommendations. The final chapter examines the place of employment policy on the government agenda. A review of ‘hiring and firing’ legislation was conducted, together with a review of active and passive labour market policies and an assessment of their effectiveness. An assessment of the business climate was also undertaken, and was based on indicators from Doing Business surveys and Business Environment and Enterprise Performance Surveys (BEEPS), since the business sector is the main source of new jobs and the ease of doing business is positively correlated with the level of employment.

The report ends with conclusions and some policy recommendations, although it was not conceived as a policy-oriented report but rather as analytical one to be used by the ETF for international comparisons. Specific recommendations are proposed regarding the improvement of the business climate, creating a stronger link between the education system and the labour market and improving the quality of education, and regarding labour policies, which are an important part of the labour market, but which cannot compensate for the low job-creation rate in the economy.

# 1. Background: Review of data sources and key demographic and labour market indicators

## 1.1. Review of data resources

### 1.1.1 Labour statistics

National labour statistics in Moldova are produced mainly by the National Bureau of Statistics (NBS). These data are obtained through household/establishment surveys and from administrative sources. Moldova is a member of the International Labour Organization (ILO), and therefore one of the main objectives of the NBS is to produce reliable and internationally comparable labour statistics according to ILO recommendations. In order to achieve this objective, the NBS conducts the LFS and establishment surveys. In addition, some labour-related data are collected through the HBS and the census. Private researchers focus more on small qualitative surveys and studies of specific topics, since these are less expensive.

Moldova's ILO membership and its aspiration to become a member of the EU have determined important changes in the official statistical system. As a result of the support offered by the ILO, EU, UNDP and statistical offices of donor countries it is possible today to say that Moldova has a functional and reliable system of labour statistics. In an assessment report in 2007, Eurostat assessed this system as being 'nearly fully compliant with EU requirements'<sup>1</sup>.

### 1.1.2 Labour Force Survey

The LFS is a nationally representative sample survey that offers statistics on the labour force. Based on data provided by the survey, it is possible to divide the population in three mutually exclusive groups – employed, unemployed and economically inactive – and to describe them in detail.

Regularity: The LFS is a continuous survey that has been conducted by the NBS since 1999. Labour statistics obtained from the LFS are disseminated quarterly and yearly. Quarterly statistics are available after 50 days of the end of the reference period.

Reliability: The LFS was designed and launched by NBS specialists in cooperation with experts from the ILO. The NBS is receiving technical assistance from the ILO in developing and improving the methodology and the questionnaires. Since 1999 important changes have been made in implementing the ILO recommendations in order to obtain reliable and meaningful estimates.

Sample design and methodology: Two phases can be identified in the development of the LFS: 1999–2005 and 2006 to the present. With effect from 2006 the LFS has a new sample design, a new sample frame and revised definitions of employment and unemployment (according to the recommendations of the International Conference of Labour Statisticians, ILO, October 1998). The LFS is now conducted in 129 localities (PSUs). A quarterly sample covers 12,000 households. (For more information see Annex 2.) This work has been supported financially by the UK Department for International Development.

Coverage: The whole country is covered, except for the Trans-Dniester region.

Data collection: LFS data are collected by 150 interviewers. These interviewers are also collecting data for the HBS. They are constantly supervised, assisted and trained by 50 supervisors and the LFS team. Data are collected through paper-assisted interviews. There are two LFS questionnaires: a) dwelling questionnaire and b) individual questionnaire.

Data entry and data processing: Data are entered into local databases, where the first automatic check is done. After this the data are sent to the central office of the NBS, and the LFS team performs the second, final check.

Sampling errors: The limit error of the most important estimates for the year 2007 is presented in Annex 2. These errors were computed with a probability of 95%.

Dissemination: Since 1999 the NBS has published quarterly and yearly press releases entitled 'The labour force in the Republic of Moldova – Employment and unemployment'. These press releases are sent by mail and e-mail to the parliament, presidency, government, trade unions, media, research

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<sup>1</sup> de Vries, W., 'Global assessment of the system of official statistics in the Republic of Moldova', 2007, available from NBS web-site: [http://www.statistica.md/public/files/SeminareConferinte/conf3\\_4mai2007/Raport\\_Willem\\_de\\_Vries\\_en.pdf](http://www.statistica.md/public/files/SeminareConferinte/conf3_4mai2007/Raport_Willem_de_Vries_en.pdf).

institutes and international organisations. In recent years the NBS has started to publish these press releases on its official web page. The NBS is also planning to develop a web application through which it will give the public access to more detailed data.

In addition to these releases the NBS produces two bilingual publications (in Romanian and English), 'The labour force in the Republic of Moldova – Employment and unemployment' and 'The labour market in the Republic of Moldova'. As well as statistics, these contain a description of the LFS and give the main definitions and classifications used by the LFS. These publications are delivered to the parliament, presidency, government, international organisations, trade unions, national statistical offices, media, libraries and bookshop of the NBS. LFS statistics are also published in the statistical yearbook, in the quarterly statistical bulletin and in other publications.

As well as publishing information under its own standards, the NBS also produces labour statistics under standards established by users such as the International Monetary Fund (SDDS), World Bank, ILO, UNECE and UNIFEM.

The LFS team also receives a large number of ad hoc requests relating to unpublished data. These requests come from all types of users.

These dissemination methods are also used to make public the results of ad hoc modules and additional surveys focused on specific issues of the labour market (Transition from school to work in 2009, Labour force migration in 2008, Work organisation and working time arrangements in 2007, Youth in the labour market in 2003–2006). These surveys are conducted yearly, in the second quarter, with results being published at the end of the year.

Published information: The quarterly LFS database contains around 200 variables. The NBS publishes only a small proportion of this information, for several reasons.

- Some of the collected variables are used only by the LFS team for internal and external consistency checks.
- Before being published, all variables pass through a quality-control procedure. The result of this procedure is a classification of LFS variables into three groups:
  - variables that did not pass the quality-control procedure; these are therefore not published;
  - variables that need further investigation;
  - variables that did pass quality control and will be used in tables for publications.
- As a result of time and resource constraints the LFS team cannot undertake quality control of new variables as soon as the data is available. Usually a new variable which passes quality control is used in tabulation two years after it is introduced into the questionnaire.
- The NBS does not have a web application that could offer access to statistical databases, so the information is mainly disseminated on paper, which means high costs and inflexibility.

Taking into account these constraints, the NBS tries to publish those LFS estimates that are requested by the most important users (such as government, international organisations and trade unions). As previously mentioned, the LFS team receives a large number of ad hoc data requests from different users. These requests usually arise because users need different classifications (age groups, economic activities, occupations) from those used in published tables, or longer time series for certain indicators. This is also an effect of the paper-based dissemination system.

LFS press releases and publications comprise statistics that describe three important population subgroups according to labour status: employed, unemployed and inactive persons (Table 1). (For detailed definitions see Annex 2.)

**Table 1. The standard set of variables used by the NBS in tabulations**

Common variables	Employment	Unemployment	Inactive persons
sex, area, age, education level, region	status in employment; activity; occupation, hours of work; ownership; work programme; formal/informal sector; formal/informal occupation; underemployment	unemployment duration; reason for stopping working; type of job sought; type of work programme sought; methods used to find a job; reasons for refusing a job; previous work activity	reasons for inactivity; previous work activity; labour migration

Thus, using a standard set of indicators that produce a general picture of the labour market, the LFS publications provide data that could help to gain a better understanding of some specific aspects of the labour market, such as informal employment, youth employment/unemployment, gender issues, labour migration, decent work and poor working conditions. From the very beginning, LFS questionnaires were being redesigned on a yearly basis so as to offer varied data. For example, work on the block of questions measuring informal employment started in 2001. For two years this block was tested and redesigned based on the data collected; with effect from 2003 informal employment statistics have been published in every LFS publication.

The LFS is currently collecting, though not publishing, data on labour-related income. These data are being checked for consistency.

### 1.1.3 Establishment surveys

The NBS conducts a series of establishment surveys that focus on studying employees, who make up the majority of the labour force (see Annex 2 for a detailed list of surveys). For 2008 the NBS will produce the following labour statistics through surveys:

- number of employees and their remuneration;
- safety at work;
- professional training of employees;
- employees' mobility and jobs;
- number of employees and jobs in enterprises with less than 20 employees;
- number of public servants;
- occupational wages (ILO October Inquiry);
- employment of graduates (conducted for the first time).

These are not sample surveys, since they are based on the reporting system developed in the former Soviet Union. Each establishment that is subject to any of these surveys is required by law to provide the information requested by the NBS. These are therefore establishment censuses rather than surveys.

**Regularity:** Depending on the purpose and the amount of information collected, the surveys are conducted on a yearly, quarterly or monthly basis (see Annex 2 for more details on the establishment surveys).

**Reliability:** In order to test the quality of labour statistics produced through establishment surveys, NBS labour statisticians are constantly crosschecking these data using information from financial reports. These statistics are also compared with LFS estimates where possible. Unfortunately there are no other sources that could be used to check consistency. Even a crosscheck with social insurance data is not possible.

**Sample design and methodology:** As mentioned above, these establishment surveys are not sample surveys, so all the establishments that meet the criteria set by the NBS must provide the information requested.

**Coverage:** In most cases the subjects of these surveys are establishments with 20 or more employees and all public institutions irrespective of the number of employees (see Annex 2 for details). In 2007 around 5,700 establishments provided data. The surveys do not cover the Trans-Dniester region.

**Data collection:** Each establishment receives a set of questionnaires and a schedule to follow. The manager or an appointed person completes and signs the questionnaires and sends them to the NBS

local office. Along with this set of questionnaires, all reporting units receive a manual containing all the definitions, together with advice and examples of how the questionnaires should be filled in.

Data entry and data processing: Data are entered into local databases and then sent to the central office. A second check is performed along with a consistency check.

Dissemination: Labour statistics produced through establishment surveys are disseminated by the same methods as the LFS estimates. In addition to the dissemination difficulties mentioned above in the section on the LFS, there is another problem in the shape of the old database management system that does not offer much flexibility. As result, dissemination is limited to a standard set of tables.

Published information: Labour statistics obtained through establishment surveys are published in the publication 'The labour market in the Republic of Moldova'. The topics covered by this publication are:

- number of employees and job creation/destruction;
- earnings and labour costs;
- working conditions and accidents at work;
- professional background and training;
- unemployment and job placement for unemployed people.

#### **1.1.4 Population census**

The most recent census was carried out in October 2004. In order to obtain labour statistics, the NBS introduced five questions into the individual questionnaire regarding:

- economic situation;
- searching for work (all unemployed and economically inactive persons in the age group 15–64 years);
- economic activity and location of job;
- occupation;
- employment status.

Unfortunately, those responsible for designing the census questionnaires did not use exactly the same concepts and classifications as those used in the LFS and recommended by ILO, in order to produce comparable labour statistics. This set of questions was not sufficient to accurately measure the labour indicators. The census team performed a data consistency check using all available data sources at that time and decided to publish only the figures for the economically active population (by sex and districts), which was very close to the LFS estimate.

#### **1.1.5 Household budget survey**

The HBS is a nationally representative survey that provides information on living standards in Moldova through the collection of data on households' income and consumption, as well as non-monetary indicators covering education, health, employment, housing, ownership of assets, and self-assessments regarding living conditions.

Regularity: The HBS is a continuous survey that has been conducted since 1997. HBS statistics are disseminated quarterly and yearly. Quarterly statistics are available after 80 days of the end of the reference period.

Reliability: The HBS methodology is based on the Eurostat recommendations published in the 'Household Budget Survey in the EU – Methodology and recommendations' manual. In the HBS main questionnaire there is a block of questions relating to employment. From 1997 to 2005 variables of economic activity and occupation for the main job were collected. In 2006 the HBS team redesigned this block of questions in order to make their labour statistics more comparable with LFS estimates. In the new HBS questionnaire there are questions that allow identification of labour status and status in employment.

Sample design and methodology: Since 2006 the HBS and LFS have had the same sample design and are conducted in the same PSUs, but the sample frames are mutually exclusive. Moreover, the HBS has a smaller sample. The quarterly sample covers 2,442 households (12,000 in the LFS).

In theory, the definitions used in the HBS to identify labour status and status in employment are in line with LFS definitions. In practice, the HBS questionnaires do not allow these definitions to be followed closely (as is done in the LFS), because this is not the main objective of the survey.

Dissemination: HBS labour estimates are not published. They are used only for data consistency checks. Statistics on labour-related income can be found in HBS publications. The average values of disposable income per capita are reported, by source of income.

### **1.1.6 Administrative sources**

The National Employment Agency (NEA) is a subdivision of the Ministry of Economy and Trade. By law it is authorised to promote and implement policies, strategies and state programmes in the fields of labour market development, the promotion of employment, the social protection of job seekers, and the prevention of unemployment and tackling its social effects. The NEA registers job vacancies and unemployed people, and publishes monthly and quarterly press releases. The list of main indicators reported by the NEA is given in Annex 2. As well as collecting data from private individuals, the NEA collects data from enterprises and private employment agencies.

### **1.1.7 Other sources**

There are representatives of several regional and international organisations in Moldova. These organisations finance research in order to promote evidence-based politics, according to their own specific interests and objectives. The labour market is no exception. Surveys are conducted in order to gather data on specific labour issues. These surveys are mainly focused on such areas as labour migration, labour discrimination and youth employment. Some of them are conducted in several rounds, with follow-up interviews (as it is the case of the IOM migration and remittances survey). Unfortunately, there are no private research organisations that could conduct periodic surveys to provide comparable data on issues not covered by official statistics. or in addition to those.

### **1.1.8 Constraints in the development of the system**

The statistical system of Moldova is currently functioning well, offering a variety of labour statistics ranging from the very specific, which describe particular phenomena, to internationally comparable macro-indicators. Still, there are several major problems hampering the development of the system.

- The government and private researchers do not have the resources to develop the system. Major improvements made by the NBS and the most important surveys conducted by private researchers were supported financially by international donors. Because of the limited number of staff at the NBS and the production schedule it has to meet, many issues do not receive sufficient attention. The NBS is mainly collecting, processing and publishing statistics, with only some basic analytical work being undertaken. Its staff do not participate in (international) conferences on a regular basis. Statistical methods are not systematically documented and users do not have easy access to meta-data. Methodological improvements in the area of sampling were made following the establishment of a sampling section, in 2003<sup>2</sup>. In principle, decisions about survey design, methods and techniques are made on the basis of professional considerations, but poor infrastructural conditions (such as the lack of a reliable, computerised registration system and poor communications and data-exchange systems) sometimes lead to 'second-best' solutions. As a result of the lack of resources, little staff training or retraining is carried out.
- The work of the NBS is significantly affected by the lack of reliable computerised administrative registers in Moldova. In addition, the NBS does not always have easy access to existing registers. There is currently an ongoing dialogue with some partner institutions, in particular with the Ministry for Information Development, to improve this situation. Whenever feasible the NBS is making efforts to combine administrative data and statistical data. Internal procedures for data editing, aggregation and analysis require further improvement, in particular with respect to data quality control at local and regional levels. The possibility of achieving such improvements also depends on investments in information technology (IT). As the volume of work is increasing and the number

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<sup>2</sup> Up until 2003, sampling work was carried out by national experts and not by NBS staff. In 2003, with the assistance of the UK Department for International Development (DFID), a sampling unit was created. DFID also made a great effort to train the staff.

of indicators growing rapidly, the reporting burden will become more of an issue. Because of this, and also because the NBS is under-staffed and under-funded, the NBS should move further towards sampling and away from exhaustive surveys. It is necessary to strengthen staffing at the central level, though reallocating resources within the statistical system is difficult.

- Meta-data is an underdeveloped area at the NBS. Although the management realises that this is an issue, resources have so far been insufficient to develop a solid meta-data system, including ways to bring meta-data to the attention of the users. Comments and assessments on the quality of statistics are not explicitly published.
- More efforts should be put into ensuring comparability of the LFS with HBS and consistency of labour definitions. This is necessary so that policymakers and researchers can understand the implications of employment status on welfare and family situation. It is necessary to introduce such indicators as the number of jobless households, the number of children and people living in jobless households, and lifelong learning and professional training indicators.
- The NBS should improve its regional development statistics, so that at least basic labour indicators (employment and unemployment rate) are representative at regional level.
- Most data are disseminated on paper. The NBS recognises that its website must be improved and that it should in future contain more readily accessible information and more flexible formats for extracting the data.
- The NBS does its best to follow international standards. In many respects progress has been made. Nevertheless, there are still a few old classifications in use, such as classifications for levels and fields of education. A serious handicap for the NBS is that there is limited participation on the part of its staff in international meetings, where best practices are discussed. In addition, its staff have only limited access to the Internet, where again, many instances of good practice can be found. This is due partly to IT limitations, but partly also to the fact that most of the staff have difficulty reading English documents.
- Cooperation between private researchers and the NBS is weak. Private researchers do not give enough attention to methodological consistency, often using the same concepts as those used in international recommendations (because this is required by the organisations financing the research) without applying the same definitions. In this way, users are sometimes confused or even misled.
- Labour market policy statistics in Moldova are in a poor state. The NBS and NEA have a joint responsibility to improve statistical data collection and dissemination. This is necessary to enable policymakers and researchers to assess the impact of policy measures on employment status, and relates to such indicators as number of vacancies, and public expenditure by type of employment policy measures and employment support.

## 1.2 Demographic trends and demographic transition

### 1.2.1 Population size and dynamics

The quality of demographic statistical data in Moldova raises a number of questions. The persisting political conflict with the Trans-Dniester<sup>3</sup> breakaway region creates problems as regards correctly estimating the total population of Moldova. Because of the conflict the secessionist region is not covered by the country's statistical system. No official estimates of the size of the total population of Moldova have been published since 2003, and official data currently refer only to 'right-bank' Moldova. However, it is possible to make some unofficial estimates. According to demographic statistics, right-bank Moldova's 'stable population' (see below for an explanation of the term) on 1 January 2008 was 3.573 million people<sup>4</sup>. Available statistical data show that on the same date the Trans-Dniester region had around 534,000 inhabitants<sup>5</sup>. A rough estimate of the total population of Moldova on 1 January

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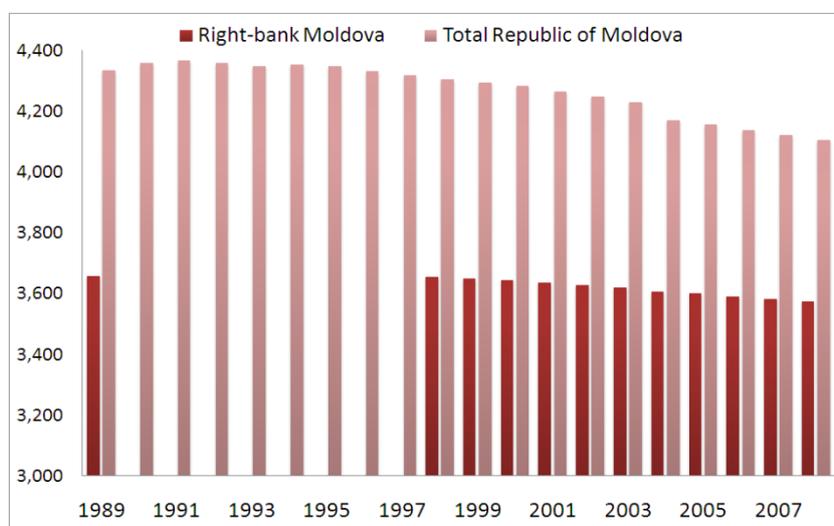
<sup>3</sup> 'Trans-Dniester' is a geographical name, not an official one. This region includes the communities located on the left-bank of the Dniester River (stretching across eastern Moldova from north to south) and the city of Tighina (located on the right bank of the river).

<sup>4</sup> NBS, <http://www.statistica.md/doc.php?l=ro&idc=168&id=2040> (available only in Romanian).

<sup>5</sup> See 'Information about the Trans-Dniester Moldovan Republic' on the website of the regional 'central bank', <http://www.cbpmr.net/?id=2&lang=en>.

2008 would therefore be 4.107 million people. This figure confirms the steady demographic decline of the country (Chart 1). No reliable data are available regarding the structure of the population in the Trans-Dniester region, by gender, age, education and occupational status. Hence, demographic forecasts covering Trans-Dniester are questionable.

**Chart 1. Population trends in Moldova, beginning of the year (thousands)**



Source: Estimates of the Expert-Group based on NBS statistical yearbooks and demographic publications, and demographic statistical data from the Trans-Dniester 'Ministry of the Economy'

Even in the case of statistics that refer only to right-bank Moldova, some difficulties remain. Because of the intense out-migration that has taken place, there is a significant discrepancy between the 'present population' and 'stable population' of Moldova. The NBS understands the former to be the total number of persons present in the country, including temporary residents. The latter refers to the number of permanent residents in the given territory, including persons who are temporarily absent. The difference between the two categories is not negligible. According to the NBS data, the present population on 1 January 2008 was 3.424 million, which is 149,000 less than the stable population<sup>6</sup>. Although the demographic statistics from administrative sources have not been correlated with the results of the most recent national census, the persisting demographic decline is obvious. In the census conducted in October 2004, 3.383 million people were counted in right-bank Moldova, which is a 7.5% decrease from the 1989 census (Table 2). In the Trans-Dniester region the decline of the population was apparently even more acute than in right-bank Moldova. The November 2004 regional census registered 555,300 people living in Trans-Dniester, which is reported to be 170,000 fewer than in 1989<sup>7</sup>.

**Table 2. The population growth of Moldova, 1959–1970 to 1989–2004 (Trans-Dniester region not included)**

	1959–1970	1971–1979	1980–1989	1990–2004
Population, end of period (thousands)	3,085	3,372	3,676	3,383
Growth during the period (thousands)	571.6	287.0	285.6	-274.3
Change during the period (%)	22.7	9.3	8.5	-7.5

Source: NBS, [http://www.statistica.md/public/files/Recensamint/Recensamintul\\_populatiei/vol\\_1/1\\_Toate\\_recensaminteleRne\\_ro.xls](http://www.statistica.md/public/files/Recensamint/Recensamintul_populatiei/vol_1/1_Toate_recensaminteleRne_ro.xls)

In right-bank Moldova the population decline in the inter-census period varied significantly across the country, from -21.0% in the municipality of Bălți (northern Moldova) to +1.3% in the Criuleni district, +7.4% in the Ialoveni district and +8.2% in the tiny Dubăsari district (all three located near the area of the capital, Chișinău, in Central Moldova). In fact, only in these three districts was the growth positive:

6 NBS, [http://www.statistica.md/statistics/dat/1139/ro/Nr\\_pop\\_stab\\_pr\\_terit\\_1\\_ian\\_2008.pdf](http://www.statistica.md/statistics/dat/1139/ro/Nr_pop_stab_pr_terit_1_ian_2008.pdf) and

[http://www.statistica.md/statistics/dat/1137/ro/Nr\\_pop\\_prezente\\_gr\\_v\\_la1ian2008.pdf](http://www.statistica.md/statistics/dat/1137/ro/Nr_pop_prezente_gr_v_la1ian2008.pdf).

7 <http://pridnestrovie.net/2004census.html>.

all other districts, the Chişinău municipality and the Găgăuzian autonomous territorial unit (located in Southern Moldova) registered significant falls in their populations<sup>8</sup>.

The growth of population in the three districts mentioned has nothing to do with economic or social conditions there. It is explained to a large extent by the fact that during 1990s the old practice of 'propiska' – a Soviet bureaucratic procedure in which a person's place of residence was registered on their identity card – was still in place in Moldova. In order to get a job in Chişinău, one had to have a 'propiska' in Chişinău or in a nearby area. For many reasons (red tape, the high level of corruption and the lack of trust) it was difficult to obtain a 'propiska' in Chişinău. In order to get round this, many people from other parts of the country who were looking for jobs in Chişinău, as well as students graduating in Chişinău who wished to remain close to the capital, tried to obtain their 'propiska' in nearby villages. In many households in the villages near Chişinău up to 20 people were registered.

The population decline was much more significant in urban areas (–15.2% of the total), as compared with the rural areas (–1.9% of the total)<sup>9</sup>. This is rather surprising given the more unfavourable economic conditions in rural areas. However, this pattern can be explained by two important factors. First, the female fertility rate was much higher in rural than in urban communities, which offset the higher mortality rate. Second, following the dismantling of the USSR a significant proportion of the Russian-speaking population in Moldovan cities and small towns migrated to Russia and Ukraine. While no statistical data are available, a similar rural–urban pattern of population decline exists in the Trans-Dniester region.

### 1.2.3 Causes of the demographic decline

Because of the lack of credible statistical data covering the Trans-Dniester region, the analysis will from now on refer only to right-bank Moldova, although the term 'Moldova' will be used. Exceptions will be explicitly mentioned.

Both natural factors and those relating to migration have determined the decrease in Moldova's population over the transition period. The positive natural increase in the population that persisted over many decades turned into a negative trend in 1999 as result of the increasing mortality rate and a decreasing fertility rate (Chart 2). The high mortality rate resulted from a combination of several factors. In the first instance, there were worsening health conditions in the first half of the 1990s as a result of deteriorating standards of living, poor access to health services and the low quality of these services. The period 1990–1995 is also associated also with a high infant mortality rate (on average 20.5 per 1,000 live births, among the highest rates of the CEE countries) and a high maternal mortality rate (on average 30.8 per 100,000 live births)<sup>10</sup>.

The general ageing of society is another factor explaining the high mortality rate: the proportion of the population aged over 60 increased from 12.8% in 1990 to 13.9% in 2003, with a subsequent slight decrease to 13.5% in 2006–2007<sup>11</sup>. The changes in the age structure are apparent even over a relatively short time period, if the age pyramids in chart 3 are carefully compared. Although the current rates of ageing in Moldova are below those of CEE countries (where the proportion of the population who are over 60 factor is on average 18.8%<sup>12</sup>) and much lower than in Western Europe, the natural ageing of Moldovan society is compounded by the intense out-migration of the labour force. This trend has already created strains for the social insurance system and in the future the challenges are expected only to escalate.

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8 The growth of population in the three aforementioned districts is not related to either fundamental demographic factors or an improved economic and social situation. In the case of Criuleni and Dubăsari districts, the slight increase in population can be attributed to some extent to the internally displaced people who left the Trans-Dniester region as result of the war in 1992 and settled in these two districts, which border the breakaway region. However, in most of the cases – and this applies primarily to the district of Ialoveni – the increase in the population is related to the bureaucratic practice of 'propiska', which was inherited from the USSR and which continued to be applied in Moldova until the end of 1990s.

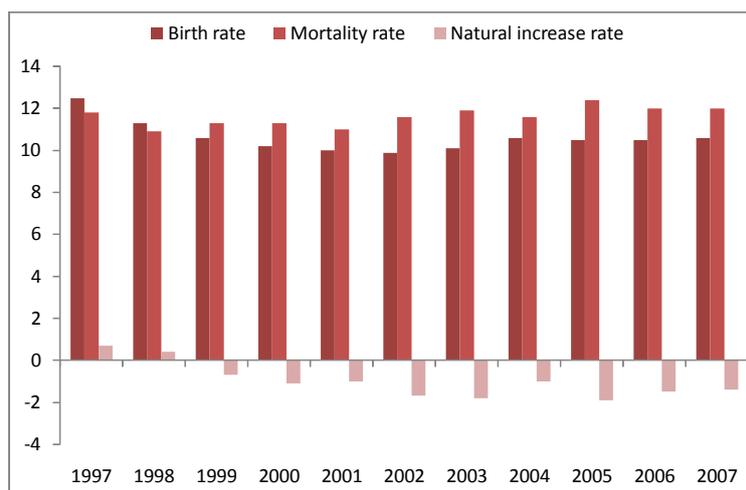
9 In this paragraph the calculations are based on census data from NBS [http://www.statistica.md/public/files/Recensamint/Recensamintul\\_populatiei/vol\\_1/1\\_Toate\\_recensaminteleRne\\_ro.xls](http://www.statistica.md/public/files/Recensamint/Recensamintul_populatiei/vol_1/1_Toate_recensaminteleRne_ro.xls) (available only in Romanian).

10 Calculations and comparisons by the authors based on TransMONEE 2006.

11 NBS: <http://www.statistica.md/doc.php?l=ro&idc=168&id=1692>.

12 Calculated by authors based on TransMONEE 2006.

**Chart 2. Trends in Moldova's vital statistic rates, per 1,000 inhabitants**



Source: Statistical yearbooks of Republic of Moldova, NBS

The reduction in the female fertility rate has also contributed to negative demographic outcomes. These changes have been encouraged by the worsening economic and social environment in the post-independence period. However, this demographic transition, which started in the late 1970s, would have taken place even without economic and social transition<sup>13</sup>. The influence of decreasing fertility on the negative natural increase of the population in Moldova seems to be even more significant than the impact of increasing mortality and the ageing population. The total fertility rate<sup>14</sup> has fallen by 50%, from 2.46 in 1989 to 1.20 in 2006<sup>15</sup>. It should be mentioned that this is the most significant fall in the fertility rate among all transition countries, where fertility declined on average by 33%<sup>16</sup>.

The family model in Moldova, like that in most of the CEE and CIS countries, is changing. This is suggested by, among other things, the increasing proportion of children who are born outside marriage. From a relatively low level of 10.4% in 1989 this indicator reached 24.5% in 2004, and had subsequently decreased to 22.7% by 2007<sup>17</sup>. In the same period, the average age at first marriage had increased from 24.0 to 26.0 years for men and from 22.0 to 23.0 for women, whereas in the CEE and CIS countries the change is slightly greater. The general divorce rate has increased faster than in CEE and CIS countries, rising from 31.1% in 1989 to 59.3% in 2004 (and then falling to 47.6% in 2007)<sup>18</sup>. These dynamics confirm Moldova's transition to a different model of reproductive behaviour characterised by more liberal family patterns, later first marriage, lower fertility rates and an increased social and economic role for women.

These reproductive patterns are likely to continue for the foreseeable future, and the birth rate is not expected to increase dramatically. A reduction in the negative natural population increase in Moldova will therefore be achieved only by a decline in the mortality rate. In 2006 the mortality rate in Moldova was 12‰ as compared with the average of 10.6‰ in CEE and CIS countries<sup>19</sup>. In the short term, the general mortality rate can be reduced to some degree by reducing the infant and child mortality rates (including through better pre- and post-natal care, better information for parents, and improved maternity conditions in hospitals). However, a significant reduction in the general mortality rate will be possible only in the long term. In the meantime, the intense out-migration will further worsen the bleak demographic picture by weakening family ties. It is no surprise that the forecasts for Moldova's long-term demographic outlook are negative (Table 3).

13 State of the Nation Report, Expert-Grup, 2008.

14 The total fertility rate is defined as total number of live births per woman aged 15–49 years.

15 TransMONEE 2006.

16 Ibid.

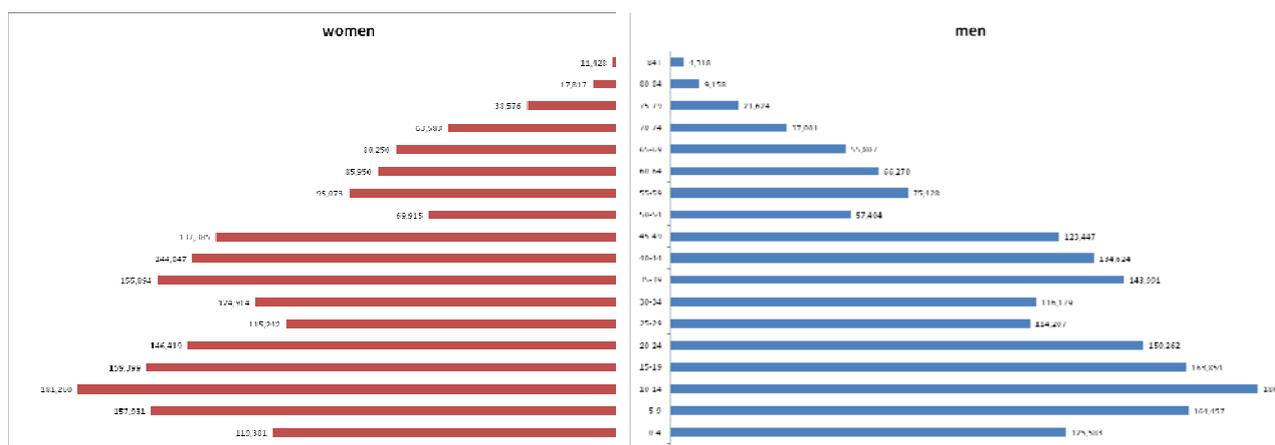
17 NBS, statistical yearbooks for 1989, 2004 and 2007.

18 Ibid; the divorce rate is defined as number of divorces as a percentage of the number of marriages.

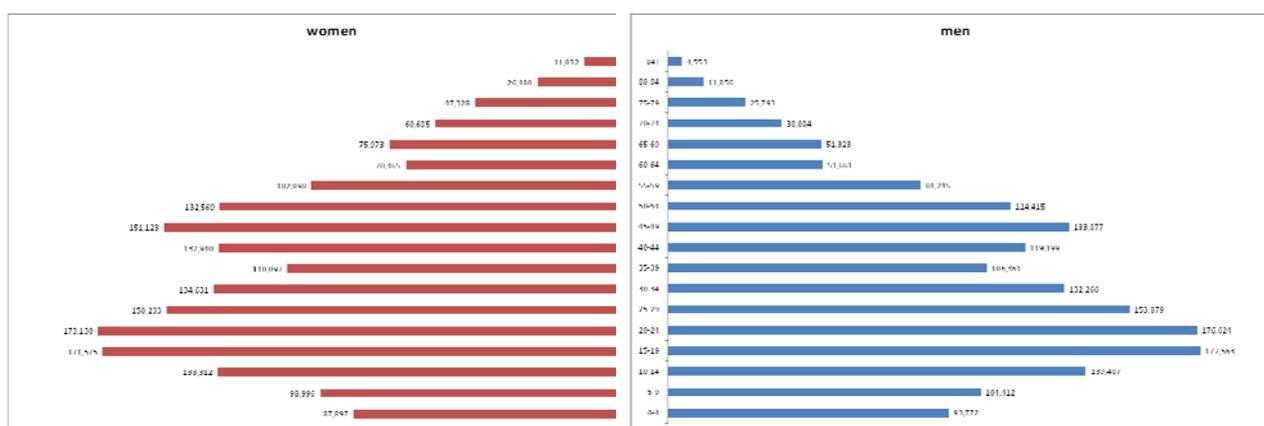
19 TransMONEE 2006.

**Chart 3. Changes in the age structure of Moldova's population, 1998 and 2007**

1998



2007



Source: NBS, [http://www.statistica.md/statistics/dat/1269/ro/Populatia\\_str\\_1999\\_2006\\_ro.pdf](http://www.statistica.md/statistics/dat/1269/ro/Populatia_str_1999_2006_ro.pdf).

**Table 3. Forecasts of Moldova's population, 2010–2050 (millions)**

Source	Notes	2005	2015	2025	2050	% change, 2050/2005
UN	Includes Trans-Dniester	4.206	4.114	3.967	3.312	-21.3
World Bank	No Trans-Dniester included	3.877	3.580	3.362	2.532	-34.7

Source: UN, 2005 and the World Bank NHP Stats.

### 1.2.4 Labour implications of the demographic decline

According to labour legislation only people aged 15 years or over can be employed. This coincides with the lower limit (15 years) of the statistical classification applied by the NBS. In the case of the upper limit of the working-age category there are some mismatches. The NBS uses both EU pension age (64 years) and national official pension age as the upper boundary of the working-age category. The official retirement age in Moldova is 61 years for men and 57 years for women. The NBS uses both EU and national pension ages for the calculation of labour market indicators, which creates much confusion.

During the period 1998–2007 the stable population of Moldova declined by 2.3%<sup>20</sup>. However, in the same period the working-age population (aged 15–64 years) increased by 8.6%. On 1 January 2008 the working-age population was 2.5843 million people (Table 4), 48.5% of them men and 51.5% women.

The increase in the working-age population in the context of the general demographic decline is a temporary phenomenon that is due to the large cohort of 1970s and 1980s baby-boomers entering the

<sup>20</sup> In this paragraph figures and calculations are based on the annual demographic figures of the NBS.

working-age group over the past decade. The group of people aged 25–35 has increased by 21.3% during the past ten years. However, many people of working age are not present in the domestic labour market because they either have migrated to work abroad or depend on relatives working abroad.

**Table 4. The population of Moldova by main age categories (thousands)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total population	3,655.6	3,649.9	3,644.1	3,635.1	3,627.8	3,618.3	3,607.4	3,600.4	3,589.9	3,581.1
Below working age	935.1	901.2	865.8	828.2	787.8	750.2	713.2	683.7	657.9	627.8
Working age (15–64 years)	2,380.8	2,408.9	2,436.6	2,463.4	2,490.9	2,514.7	2,538.8	2,561.2	2,579.0	2,584.3
Above working age	339.7	339.8	341.7	343.6	349.1	353.5	355.4	355.6	353.1	369.0

Source: Calculated by the authors based on NBS statistical yearbooks for 1998–2007 and <http://www.statistica.md/doc.php?l=ro&idc=168&id=1692>.

It should be noted that the number of people under working age (aged 0–14 years) declined by around 33% in the period 1998–2007, this being one of the steepest declines in the young population in the CEE countries<sup>21</sup>. As result, the proportion of the population who are under working age decreased from 26.0% in 1998 to 17.5% in 2007. Over the same period of time, the number of people above working age increased by almost 9%.

The key conclusion from the above analysis is that in around a decade the working-age population in Moldova will start to decline rapidly, while the ageing of the population will increase rapidly. For instance, in 2009–2013 people who were born in the period 1948–1952 will reach pensionable age; this group is twice as large as either the previous or the next group. This confirms that the ageing of Moldova’s population will soon become a very serious problem that has negative implications for the social insurance and health systems.

## 1.3 Employment trends

### 1.3.1 Labour activity versus inactivity

The previous section showed that despite the general decrease of the population, the working-age segment of the Moldovan population has increased over the past decade. However, the increasing number of working-age people has not been accompanied by a similar change in the employment rate. The employment rate of the population aged 15–64 years in Moldova is currently among the lowest in the CEE group of countries, while the decline during the period 2000–2007 was among the steepest (Table 5). It should be mentioned here that employment rates in Moldova remain low even after taking into account the large cohort of migrants working abroad.

Surprising as it might seem, the constantly worsening employment rates over the past decade (Table 6) have been matched by a declining unemployment rate. In fact, these trends are not incompatible and have a common underlying explanation: the migration of the labour force. The out-migration has significantly altered the employment rate both directly (reduction of the number of people working in the country) and indirectly (by increasing the reservation wages of those remaining in the country). Many of those who depend on migrants’ remittances are not willing to accept poorly paid jobs in Moldova as long as they have constant – though not necessarily very high – income from relatives working abroad.

<sup>21</sup> Authors’ calculations and comparisons based on TransMONEE, 2006.

**Table 5. Employment rates of the population aged 15–64 years in some transition countries**

	2000 (%)	2007 (%)	2007 minus 2000 (p.p.)
Moldova	59.0	47.1	-11.9
Bulgaria	50.4	61.7	+11.3
Czech Republic	65.0	66.1	+1.1
Estonia	60.4	69.4	+9.0
Latvia	57.5	68.3	+10.8
Lithuania	59.1	64.9	+5.8
Hungary	56.3	57.3	+1.0
Romania	63.0	58.8	-4.2

Note: p.p. = percentage points

Source: Eurostat and NBS, authors' calculations for employment rates in Moldova

**Table 6. Employment rates of the population aged over 15 years in Moldova (%)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total	54.5	54.8	53.7	53.3	47.5	45.7	45.4	42.9	42.5
By gender									
Males	57.6	57.7	56.2	55.1	49.3	46.6	46.0	45.5	44.8
Females	51.8	52.2	51.4	51.7	46.0	44.9	44.8	40.5	40.5
By residence area									
Urban	48.3	48.6	48.2	49.4	48.1	46.5	46.6	45.2	43.8
Rural	59.2	59.4	57.7	56.2	47.1	45.0	44.5	41.2	41.6
By age									
15–24 years	32.7	30.4	27.6	26.6	20.1	18.0	17.7	18.9	17.6
25–34 years	65.1	62.7	58.8	60.4	49.8	46.9	45.7	44.1	45.6
35–44 years	77.3	77.8	78.3	76.6	74.5	72.4	69.8	64.2	65.0
45–54 years	79.4	82.2	82.8	77.6	75.4	71.4	72.5	70.1	66.9
55–64 years	44.4	46.6	46.9	52.4	46.8	51.5	54.3	49.9	51.5
65+ years	20.9	22.2	21.2	22.9	15.8	15.8	16.9	12.7	12.2

Note: Because of methodological changes, data for 2006–2007 are not fully comparable with those for the earlier years.

Source: NBS

The impact of migration on unemployment is also clear: it has alleviated the pressures on the domestic labour market and reduced social and economic claims on the government by providing employment opportunities abroad. It is important to note that men and women have been affected to a similar extent by the decrease in the employment rate, though the female employment rate is systematically lower. Some interesting structural changes have occurred since 1999 as regards the rural–urban profile. For instance in 1999 the participation rate in rural areas was higher than that in urban areas (62.6% versus 59.7%), but the situation has changed since 2003: in 2007 the participation rate in rural areas was 43.1% versus 47.1% in urban ones. This development has been accompanied by a similar trend in employment rates. These changes are characteristic of Moldovan economic growth, which has been limited mostly to large urban areas while rural economies have remained undiversified and stagnant.

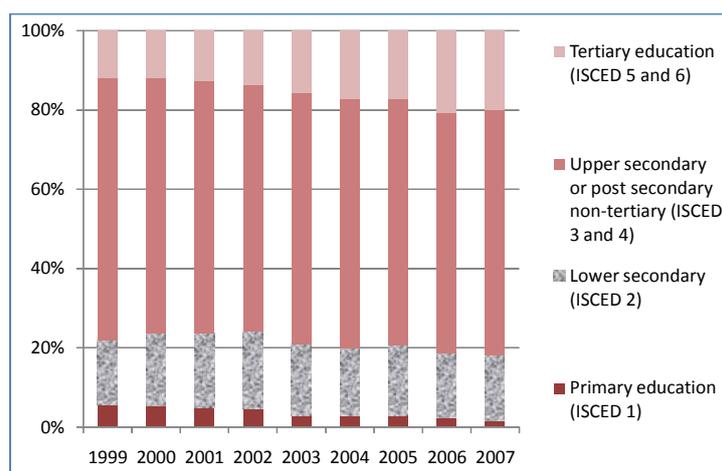
As illustrated in Table 6, employment rates have decreased across all age groups except the group aged 55–64 years. In the case of this age segment, the relatively stable employment rate can probably be explained by the fact that these people have to remain economically active in order to compensate for the anticipated low level of pensions, and it is more difficult for them to migrate to foreign labour markets. In the case of young and elderly people the reduction in the employment rate was particularly sharp. The negative employment trend among young people can obviously be explained by their increased appetite for high education, with the number of students in universities increasing by 65%

during the period 1999–2007. In the case of elderly people, the reduction is the result of the difficulties these individuals may have keeping pace with the sophistication of the jobs, particularly in the manufacturing and services sectors, and by the reluctance of employers to retain an older labour force. Older workers are mainly found in public companies, which, as well as commercial goals, also have some social responsibility goals. However, with the privatisation process that has been underway once again since late 2007, it is expected that many older workers will lose their jobs.

As for the employment rate across different educational backgrounds, the current situation corresponds to that suggested by conventional wisdom: the higher their educational background, the more likely a person is to be employed. The composition of the employed population by educational attainment has undergone two important changes over the past decade (Chart 4). As economic activities and jobs are becoming more sophisticated, the proportion of the total employed population with only primary education has fallen from 5.6% in 1999 to 1.5% in 2007<sup>22</sup>. However, the level of sophistication of economic activities has not changed as rapidly as the educational level of the population. A more significant trend is in the growing number of those graduating from tertiary education, with their share of the total employed population increasing from 11.9% in 1999 to 20.7% in 2006 and 19.8% in 2007. This is partly a reflection of the expanding university education sector. However, it appears that this shift toward employees with higher education was not only demand-driven (a demand on the part of employers looking for high-skilled labour) but also supply-driven (a marketing outcome of attractive, albeit not entirely realistic, offers to the students on the part of universities). The overstretched tertiary education sector has led to a suboptimal allocation of skills in the economy. As the SLMT showed, many university graduates take as their first jobs assignments that could easily have been fulfilled by people with secondary education.

It should be noted that having multiple jobs is not a widespread practice in Moldova. According to the LFS 2007, around 3% of the total employed population had a secondary activity (no data are available for those who had more than two jobs)<sup>23</sup>. This proportion has not changed significantly over the time that the LFS has been conducted in Moldova. In most of these cases (70%) the secondary activity was in the agricultural sector, i.e. it mostly referred to the rural sector. In urban areas, secondary activities are mainly informal and mostly in services, typically involving unskilled types of occupations undertaken most often by women (catering, cleaning, baby-sitting and others). There are no statistical data available that would allow analysis of their distribution by age and education. It is also typical for many university lecturers, college teachers and some professional service providers (such as lawyers and doctors) to have multiple jobs at the start of their careers. A number of employees in the public administration sector combine their main activity with research or teaching activities. However, employees in the public services are not allowed by law to take jobs in private activities. Unfortunately, there are no statistical data to analyse the phenomenon of multiple jobs in Moldova in more detail.

**Chart 4. Composition of the employed population by educational attainment (% of total)**



Source: NBS

The non-participation statistics have worsened dramatically over the past decade, with 'non-participation' becoming a salient feature of society. Indeed, the total number of economically inactive people has increased by more than 34% in the period 1999–2007, taking their share in the total

<sup>22</sup> Data provided by the NBS.

<sup>23</sup> NBS, [http://www.statistica.md/statistics/dat/1136/ro/PiataFM\\_ocup\\_somaj\\_anul2007.pdf](http://www.statistica.md/statistics/dat/1136/ro/PiataFM_ocup_somaj_anul2007.pdf).

population aged over 15 years from 38.7% to 55.2%. Does this mean that Moldovans have become lazier?

A closer examination of the structure of this group reveals that the increase in the inactive population is to a large extent the result of two normal demographic trends: a 15% rise in the number of pupils and students, and a 17% rise in the number of pensioners. Over the same period of time the number of migrants increased by 45%, and this represents the main contribution to the overall increase in the inactive population (Table 7). In 2007 more than 20% of the economically inactive category was composed of labour migrants (officially termed 'people declared to be abroad for work-related reasons'). With such a high proportion of labour migrants, it is not accurate to refer to 'absolute non-participation'; rather, this is 'domestic non-participation', a labour market phenomenon triggered and maintained by low domestic wages. Therefore, although it is methodologically correct to classify labour migrants as 'economically inactive' (as the NBS actually does), as a matter of economic fact they are economically the most active people. As well as 'people declared to be abroad for work-related reasons', the economically inactive population also currently comprises school pupils and students (22.9% of the total), pensioners (33.2%), household-keepers (7.0%), discouraged persons (1.6%) and other persons (disabled people, pregnant women, women taking care of children, dependants not willing to work, seasonal workers, migrants temporarily staying at home, making in total 14.6%)<sup>24</sup>.

**Table 7. Size and structure of the economically inactive population in Moldova**

	2002	2003	2004	2005	2006	2007
Total (thousands)	1,208	1,381	1,450	1,484	1,575	1,618
By status (% of total)						
Pupils or students	26.6	26.2	25.8	25.7	25.7	22.9
Pensioners	37.9	36.2	34.5	33.1	33.1	33.2
Household-keepers	8.2	7.0	7.3	7.2	7.2	7.0
Migrants	19.1	21.1	24.0	26.6	19.7	20.7
Discouraged	6.2	5.5	5.7	4.8	3.7	1.6
Others	2.0	4.0	2.7	2.6	10.6	14.6
By gender (% of total)						
Males	43.9	44.3	45.2	45.8	43.4	44.8
Females	56.1	55.7	54.8	54.2	56.6	55.2

Note: Because of methodological changes, the data for 2006–2007 are not fully comparable with those from earlier years.

Source: NBS

### 1.3.5 Unemployment and underemployment

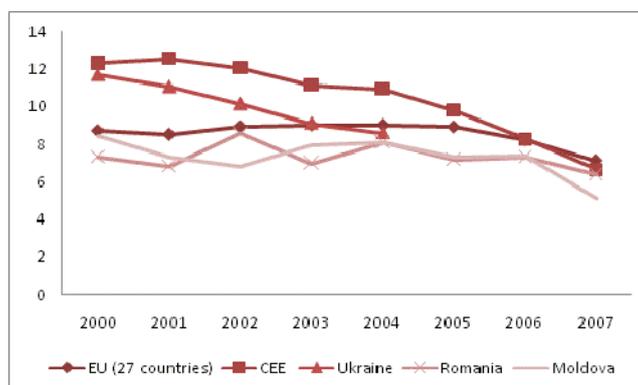
Two definitions of unemployment are used in Moldova: the first corresponds fully to the ILO definition, while the second counts only those registered at territorial offices of the NEA. The latter can be ignored because of very low rates of registration with the NEA among unemployed people. It is interesting to note that the cost–benefit ratio of registering with the NEA is not high: the costs mainly consist of expenditure on transport to the district centre (on average MDL 10–15), while the monthly unemployment benefit varies between MDL 620 and 1,031, depending on previous work experience. Interviews with a number of unemployed people suggest that there may be several reasons why unemployed individuals are not registering with the NEA, including the lack of knowledge of the existence of the NEA, a lack of trust in the NEA's capacity to help in finding a job, and the fear of cumbersome bureaucratic procedures. Moreover, young unemployed people who have no work experience are not entitled to unemployment benefit, and thus many of them do not consider it worthwhile to register as unemployed.

Table 8 shows that the high unemployment rate which was common in the late 1990s (11.1% in 1999) decreased visibly until 2002 (6.8%) and had increased again by 2004 (8.1%). It is currently at an all-time low of 5.1%, which is on average less than the rate in other CEE and EU-27 countries, as well as in neighbouring countries (Chart 5). The sharp decline from 7.4% in 2006 was determined by a decreasing activity rate, especially for men in urban areas. As stated in the previous section, with a

<sup>24</sup> Ibid.

low participation rate, the relatively low level of unemployment is to a large extent explained by migration from the domestic to external labour markets.

**Chart 5. Unemployment rate, ILO definition, 2000–2007 (%)**



Source: Authors' calculations based on Eurostat, NBS and Ukraine State Committee for Statistics

The urban-biased economic growth has caused urban unemployment to contract remarkably quickly over the period, from 19.1% in 1999 to 6.9% in 2007. However, the unemployment rate remains higher in urban areas than in rural ones (6.9% and 3.9% respectively). An explanation of the low unemployment rate in rural communities is that many seasonal agricultural workers are not looking for a job in the periods when they have no agricultural work, because they believe they would not be able to find one. Self-employment and informal work do not explain the low employment rate in rural communities because these categories are counted as employment in the LFS. More intense out-migration of rural inhabitants (albeit cyclical and short term) is another factor explaining this rural–urban divide.

Although the national average for unemployment is low, regional disparities are significant. The highest unemployment rate is in the Chişinău municipal area (6.5%), followed by the Central region with 5.5%, the North with 4.2% and the South with 3.6%. To some extent the differences can be explained by the size of the rural population, which normally has lower economic activity rates. The Central region is a puzzling exception, with rural unemployment in this region being twice as high as in the South and North. However, the population in rural communities in the Central region also display higher economic activity rates than in the other two regions. It is clear that the closer an area is to the capital, the more intense will be its economic life and the more actively people will be looking for employment opportunities.

**Table 8. Unemployment rates in Moldova (%)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total	11.1	8.5	7.3	6.8	7.9	8.1	7.3	7.4	5.1
By gender									
Males	13.3	9.7	8.7	8.1	9.6	10.0	8.7	8.9	6.3
Females	8.9	7.2	5.9	5.5	6.4	6.3	6.0	5.7	3.9
By residence area									
Urban	19.1	15.7	13.8	12.1	12.2	11.9	11.2	9.2	6.9
Rural	5.4	3.4	2.7	3.0	4.5	5.0	4.0	5.8	3.6
By age									
15–24 years	22.3	15.8	16.3	15.2	18.1	19.7	18.7	17.1	14.4
25–34 years	12.4	9.8	8.2	7.3	9.0	9.2	7.8	8.6	5.8
35–44 years	9.7	8.2	6.6	6.4	7.6	7.4	7.0	6.1	4.2
45–54 years	8.6	7.1	5.5	5.2	6.0	6.4	5.6	5.6	3.4
55–64 years	3.8	2.6	2.5	2.0	3.0	3.1	3.4	3.4	2.7
By education									
Primary (ISCED 1)	1.4	0.8	1.6	2.5	4.3	3.3	3.0	3.1	6.2

Lower secondary (ISCED 2)	10.9	7.3	7.1	5.9	8.0	8.5	7.6	9.9	6.4
Upper or post-secondary (ISCED 3 and 4)	14.5	10.8	8.9	8.3	9.6	9.9	8.9	8.6	5.2
Tertiary (ISCED 5 and 6)	9.7	7.8	6.2	6.4	6.2	6.0	5.3	5.1	5.1

*Note:* Because of methodological changes, the data for 2006–2007 are not fully comparable with those for earlier years.  
*Source:* NBS and authors' calculations

As for the unemployment rate by age, there is a strong negative link between the risk of being unemployed and a person's age. For both rural and urban areas and for both men and women the risk of being unemployed is negatively correlated with age (Table 8). In all categories, the youngest segment of the labour force (aged 15–24 years) has more than twice the risk of being unemployed as the next age segment (aged 25–34 years). In this respect, the situation in Moldova is in line with European models, with the youth unemployment rate being much higher than that for older workers. As interviews with a number of employers and other surveys suggest, as well as the universal factors affecting youth employment in Moldova (lack of work experience, lack of trust on the part of employers) there is an additional factor at play: the poor quality of professional training that young people receive<sup>25</sup>.

It is also important to mention that in Moldova the unemployment rate for men is significantly higher than that for women, and this situation has been constant over the past decade. This pattern is in contrast to the situation that characterises most European countries. In the case of Moldova the lower unemployment rate for women can be explained by two factors. First, in the transition period there was a deeper decline in the branches that traditionally employed more men than women (industry and agriculture). Second, men are more likely than women to be economically active. In Moldova's conservative society women are more likely to be supported by working members of the family and to work full-time as housekeepers.

However, the risk of long-term unemployment increases with age. According to recent statistical data for 2007, there is a general average duration of unemployment of 19 months, and the duration increases from 7 months in the case of the 15–24-year age group to 16 months for those aged 25–34 years, 25 months for those aged 34–49 and 35 months for those aged over 50. In this context, 35.5% of all those who are unemployed have long-term unemployed status (12 or more months), including 20.9% who have been unemployed for 24 months or more.

The link between level of education and unemployment status is not quite as strong. Until 2005 those with upper secondary and post-secondary education were most exposed to unemployment. Since 2006 those with lower secondary education appear to be most at risk. Surprisingly, in the past those with low levels of skill were at lower risk of unemployment as compared with all other educational levels, and this is probably explained by the fact that most of them were employed in the agricultural sector, and mainly informally. However, as the economy moves from agriculture to industry and services, those with primary education will probably increasingly be unable to compete and their rate of unemployment will rise. This is suggested by the spike of unemployment in 2007 among those with primary education. In 2007 the unemployment rate among those with tertiary education was the lowest, though the difference is not statistically significant. This can be largely explained by the fact that the skills that the Moldovan economy really needs at its current stage of development are lower than those provided by the education system.

The phenomenon of underemployment in Moldova seems to be evolving into a more serious problem than it was previously. People are considered to be underemployed if they are employed but are willing to work additional hours and are available to work, and the total number of weekly hours actually worked is below a certain threshold. The underemployment rate for the period 2005–2007 was around 8% of the total employed population, up from 3–4% in 2002–2004. In relative terms, underemployment represented 2.9% of the total working time in the economy as a whole in 2007. As would be expect, most underemployment occurs in the rural sector: 74% of those who are underemployed live in rural settlements and work mainly in informal jobs.

### 1.3.6 Changes in employment by major economic sectors

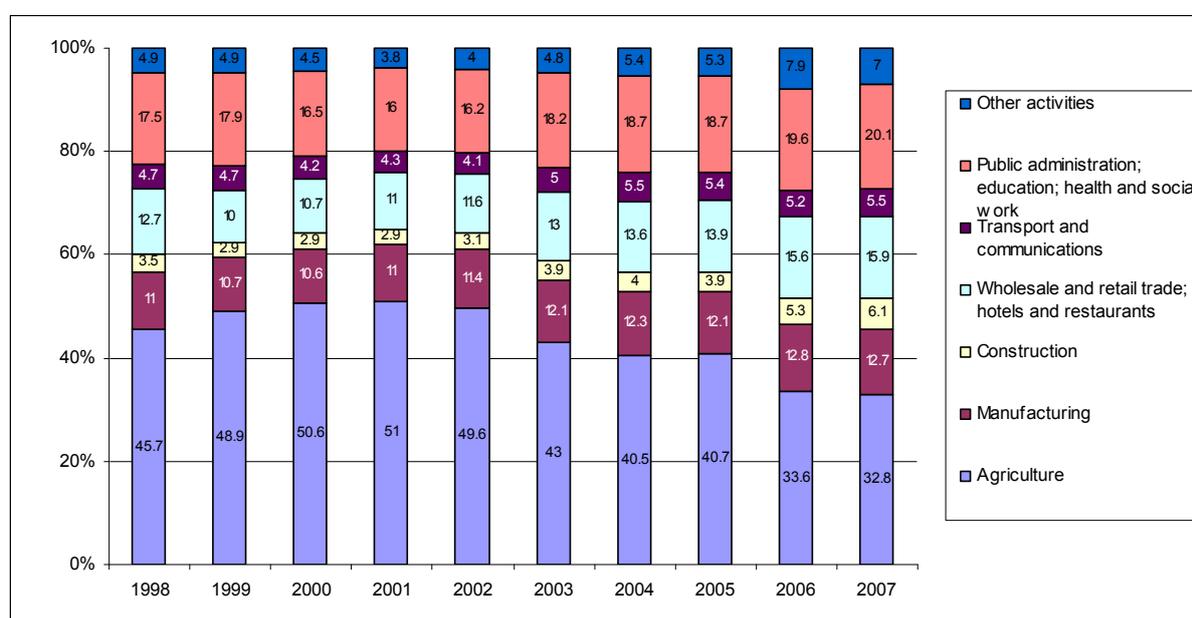
The distribution of employment by major economic sectors has changed dramatically over the past ten years (1998–2007). Agriculture is no longer the most important sector for employment, having been

<sup>25</sup> One of the recent references pointing directly to the issue of poor quality of training in vocational education in Moldova is the study conducted jointly by the Moldovan Chamber of Trade and the Koblenz Chamber of Craftsmen, Germany. The study is quoted by Eco-Magazine, issue.194, 29 October 2008, in an article entitled 'Vocational schools train unsuitable staff for Moldovan economy'. The team surveyed 120 employers in Moldova who unanimously declared that young people graduating from vocational schools have no elementary practical training.

superseded by the services section, which in 2007 had a 48.4% share of total employment (Chart 6). The industrial sector's share remained practically the same, while the construction sector's rose from 3% in 1998 to 6% in 2007. As shown in Table 9, changes in employment were not necessarily linked with the level of economic growth registered by specific sectors.

The share of total employment represented by agriculture decreased significantly, from 45.7% in 1998 to 32.8% in 2007. This was not matched by a corresponding reduction in the total output of the agricultural sector. In fact, the output stayed more or less the same, except in the years associated with severe drought (2000, 2003 and 2007). For many reasons the outflow of people from this sector did not reflect a dramatic decline in production. One reason is that in the past much of the labour force in agriculture was redundant, and its reduction either had no economic effect or was offset by more capital and better agricultural inputs. Another reason is that a large proportion of those leaving agriculture actually left its informal segment, while those who remained carry out more work. Finally, some critical agricultural tasks, such as the harvest, are achieved using an 'alternative' workforce, such as rural school pupils. For instance, in autumn 2008 pupils enrolled in degrees 10 and 11 in many rural communities were taken out of school for two weeks to participate in harvesting work.

**Chart 6. Distribution of the employed population by sectors (% of total)**



Sources: LFS 2007 and Statistical Yearbook 1998

**Table 9. Trends in employment and gross value added (GVA) by major economic sectors (1998=100%)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Employment</b>										
Total	100	91.0	92.3	91.3	91.7	82.6	80.1	80.3	76.6	75.9
agriculture	100	97.5	102.1	101.9	99.6	77.7	71.1	71.6	56.3	54.5
industry	100	87.9	88.5	90.7	94.0	90.1	89.0	87.4	88.5	86.8
construction	100	75.9	75.9	74.1	79.3	91.4	89.7	89.7	115.5	131.0
services	100	85.9	83.4	80.8	83.0	85.3	87.3	87.6	93.1	92.6
<b>Gross Value Added</b>										
Total	100	101.4	101.7	107.6	114.6	119.4	129.3	136.0	140.9	143.1
agriculture	100	95.9	98.1	105.3	110.7	98.6	118.7	120.5	117.1	76.6
industry	100	96.6	107.0	114.5	114.3	132.6	142.4	147.5	144.1	139.8
construction	100	104.0	72.5	90.2	95.4	111.3	141.8	144.8	171.4	209.5
services	100	107.2	100.4	103.9	113.9	121.4	124.3	134.3	143.7	160.7

Source: Authors' calculations based on NBS and National Bank of Moldova (NBM) data

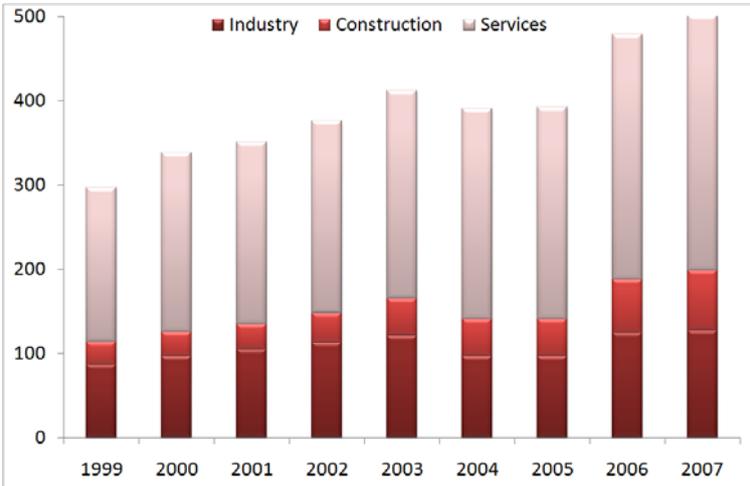
Labour shedding has also occurred in the industrial sector, albeit to a lesser degree. During the period 1999–2007 the number of people employed by industrial companies decreased by around 13% (from 182,000 in 1998 to 158,000 in 2007). Labour shedding occurred all over Moldova, though the population of small mono-industrial towns suffered the most. Because of the faster decline of employment in agriculture, the role of industry in total employment has slightly increased (from 11% in 1998 to 13% in 2007). Despite declining employment, the GVA created in the industry sector grew constantly during the period 2000–2005. This is the result of improving the capital endowment and updating technological processes in many branches of industry. Because of the Russian trade embargo against Moldovan alcoholic beverages and other products, industrial output fell in real terms in 2006–2007, but growth resumed in the first half of 2008.

In the construction and services sectors, both production and employment shrank in the period 1998–2001, but subsequently started increasing rapidly. The number of people employed in the services sector in 2007 was 14.6% higher than in 2001, while in the construction sector it was 76.7% higher. Both sectors are labour intensive and their expansion would have not been possible without creating additional jobs. Table 9 suggests an almost perfect positive correlation between the growth of employment and the growth of production in the two sectors. On average, a growth of 1% in employment in construction in the period 2001–2007 was associated with a 2.5% increase in GVA in the sector; in services such a growth was associated with a 6.6% increase in GVA.

**1.3.7 Employment in the private non-agricultural sector**

The private non-agricultural sector (industry, construction and services) is the most buoyant in terms of employing the Moldovan labour force. During the period 2000–2007 the number of jobs in this sector has grown by 204,000, a 69% increase as compared with 1999 (Chart 7). The number of jobs in the construction sector increased the fastest, with a rate of 166%. This trend has been led by a strongly increasing demand for housing and business real estate. Jobs in private services also had an impressive growth rate of 65%, while the number of jobs in industry grew by 46%. Wholesale and retail trade was particularly quick in providing new jobs.

**Chart 7. Numbers employed in main sectors of activity in the private non-agricultural sector (thousands)**



Source: NBS

The demand for highly skilled employees on the part of non-agricultural private companies has increased most rapidly. The number of jobs for those with tertiary education in 2007 was more than twice that in 1999 (164%). As a result, the number of these specialists as a proportion of the total sector increased from 14% to 22%. Surprisingly, the proportion of white-collar jobs in the construction sector has increased at the highest rate (three-fold), though certainly not enough to absorb the influx of higher education graduates with appropriate specialisms. There has also been a rapidly increasing demand for unskilled or low-skilled workers, as suggested by the 122% increase in the number of jobs for those with lower secondary education. Again, the construction sector exhibited the most prominent growth in unskilled or low-skilled jobs.

While the private non-agricultural sector as a whole attracts men and women equally, with the jobs available to them increasing at a similar pace, there are obvious differences across the sectors of activity. The construction sector is almost entirely dominated by men, with women in construction

working only in occupations requiring advanced education levels, such as financial administration, accounting, HR management and other similar jobs.

From this perspective, the situation in the services sector has changed. In 1999 more men than women were being recruited by companies, but from 2001 more women than men have entered the sector (most of them probably coming from the non-market services sector or from public enterprises). As result, in 2007 women represented 52.6% of the total number of people employed in services. Some branches are almost entirely staffed by women, such as trade, hotels and restaurants. Women have a high and increasing share of employment in financial services (66% of the total in 2007). Some professional services such as financial accounting and financial audit are also provided mainly by women.

Because of the small number of observations, no LFS data are available to enable analysis to be conducted of employment disaggregated at the level of sub-sectors of economic activity. For instance, it would be interesting to analyse how the food processing and beverages industry – which is the most important industrial branch – has evolved in terms of employment. Some data were received from establishment surveys, but they refer only to enterprises with 20 or more employees. In the period 2005–2007 enterprises in this sub-sector shed 6,000 jobs (from 45,500 employees in 2004 to 39,400 in 2007), including 2,000 jobs occupied by women. Some of these jobs were lost as result of the negative impact of the Russian trade embargo on companies producing alcoholic beverages. In contrast to the food and beverages industry, the garment and apparel industry has expanded from 15,000 jobs in 2004 to 21,600 in 2007, with 90% of the jobs being taken by women. However, these figures do not reflect the complete picture since they do not account for small enterprises (with less than 20 employees), which are very important because of their sheer numbers and their contribution to GDP and employment.

### **1.3.8 Employment in agriculture**

The contraction of agriculture as the main sector of labour employment has been the most significant change in Moldova's employment patterns over the past decade. As shown in Table 10, in 1999 the agricultural sector provided jobs to around 744,000 people (50% of the total employed population), but in less than a decade this share has shrunk to 33%. A total of 340,000 people left agriculture in the period 1999–2007 and moved to either the services or construction sectors, or migrated. It is interesting to note that the number of women employed in agriculture has decreased faster (–48%) than the share of men (–42%).

This reduction in employment is associated with the agricultural reform that was implemented in Moldova, with land privatisation as the main reform objective. The land reform that started in 1992 had, by 2000, led to the dissolution of the state and collective farms of the Soviet era almost everywhere in the country. Private ownership is currently dominant in the agricultural sector. The main objectives of the reform were to liquidate the state monopoly over the land, to privatise the land and to legally protect the landowning rights that were granted to rural workers. The land was universally distributed to all who had worked on collective and state farms in the past. However, it is rather difficult to call these people 'winners' of the reform. In fact, the new structures emerging in agriculture evolved very slowly towards more efficient productive schemes. Land dispersion, outdated agricultural technologies and a lack of investment resources have resulted in very low labour productivity and in only meagre incomes being earned from agricultural activity. Subsistence agricultural activities account for a large proportion of the sector. Vertical integration between agriculture and food processing have collapsed. No alternative occupations are available in rural areas, while the obsolete physical and social infrastructures undermine individual entrepreneurship. In fact, the massive labour shedding that started in agriculture can be interpreted as a migration of the population from rural to urban settlements, but mostly abroad. It is no surprise that in the period 1999–2007 the number of people aged 15–24 years employed in agriculture registered the greatest decrease (77% as compared with a total decrease of 45% for this age group). It is also symptomatic that the demand for agricultural professions in the university sector and vocational education has reduced dramatically over the past decade.

**Table 10. Trends in employment in agriculture by gender and age (thousands)**

	1999			2001			2003			2005			2007		
	Total	Including		Total	Including		Total	Including		Total	Including		Total	Including	
		M	F		M	F		M	F		M	F		M	F
Agriculture	744	381	363	765	381	384	583	293	290	537	259	278	409	221	188
15–24 years	116	63	53	100	52	48	52	29	23	40	22	18	27	16	11
25–34 years	128	67	61	124	61	64	95	43	52	77	33	44	58	30	28
35–44 years	190	99	91	197	99	97	149	76	74	125	61	64	93	49	44
45–54 years	146	73	73	183	93	90	169	87	82	164	81	82	121	65	56
55–64 years	98	50	49	92	44	48	69	36	33	78	38	40	73	40	33
65+ years	66	29	37	70	32	38	50	24	27	52	23	29	37	20	17

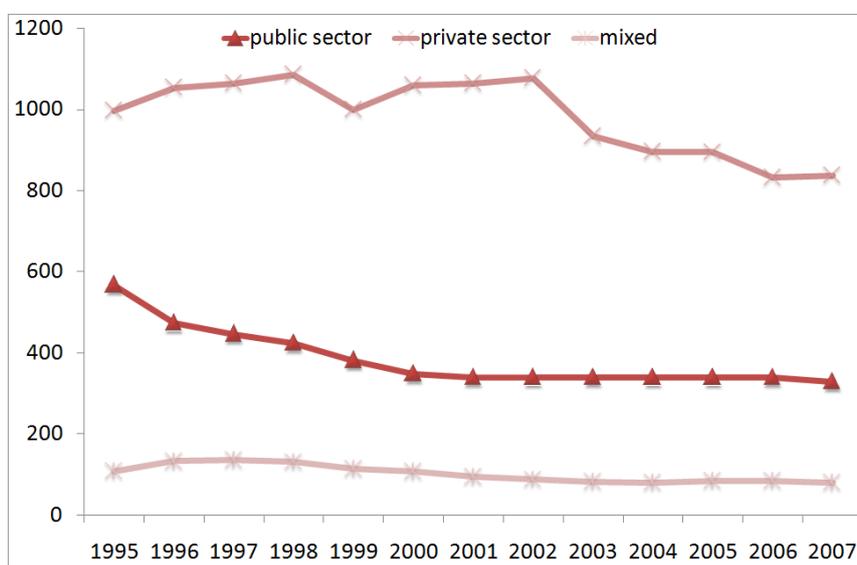
Source: NBS

### 1.3.9 Employment in the public sector

According to administrative data the number of people employed in the public sector in 1995 was 567,000, 33.4% of the total. This figure decreased steadily until 2001 when it reached 340,000 (23.0% of the total) and subsequently remained practically unchanged until 2006 (Chart 8). In 2007 the number of people employed in the public sector decreased again by around 11,000, and the sector currently accounts for around 26.4% of the total employed population of Moldova.

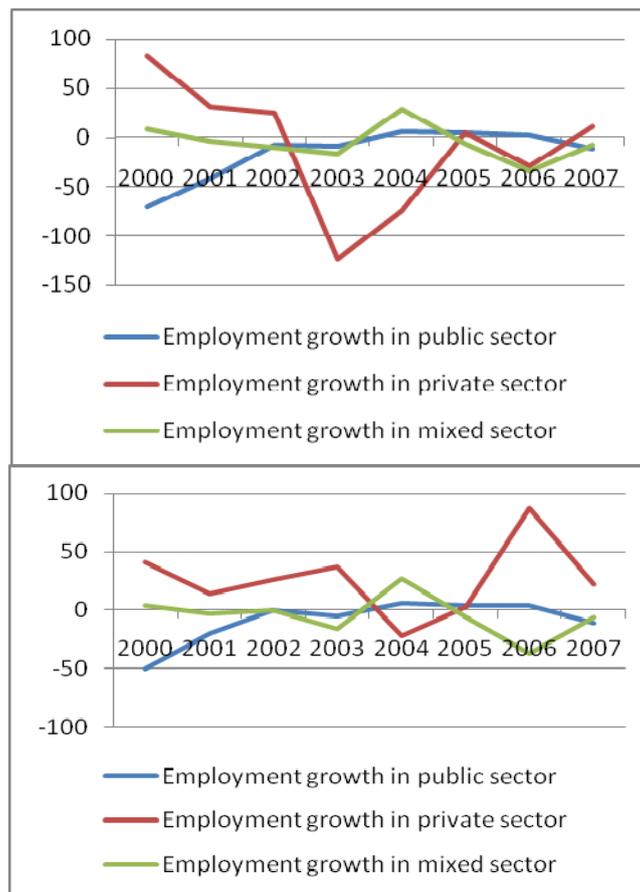
Overall it can be said that the public sector has declined much faster than the private one: by 2007 it had lost 42% of the employment it had in 1995, while the private sector had lost 16%. Analysis of employment growth in the economy, excluding the agricultural sector, shows that the private sector, has been more productive in creating jobs (Chart 9), although this trend has not been constant.

**Chart 8. Trends in employment by type of ownership (thousands)**



Source: NBS

**Chart 9. Employment growth by type of ownership (left chart – total economy; right chart – excluding agricultural sector) (thousand jobs)**



Source: NBS

Three sub-sectors can be identified in the public sector:

- public administration, which currently accounts for around 17.0% of employment in the public sector and 4.6% of total employment in Moldova;
- public services (education, health protection and others), which represents 60.3% of employment in the public sector and 15.9% of total employment in Moldova;
- public enterprises, which has a 22.5% share of employment in the public sector and a 6.0% share of total employment in Moldova.

These sub-sectors have developed quite differently. The number of employees in public administration has practically doubled, from 30,800 in 1996 to 57,600 in 2007. To some extent this change can be explained by the fact that as a young nation that has been in existence only since 1991, Moldova has had to put in place many public institutions that did not exist before its independence. However, the current position of the government is that the public administration sector is over-sized and should be restructured in order to increase efficiency, reduce the number of employees and increase wages. This ongoing reform has not yet produced results. Because of low wages and out-dated HR policies, young professionals do not remain for long in public administration. They usually prefer to accumulate some expertise and then start looking for jobs in the private sector, or very often in one of the various programmes and projects implemented in Moldova with the support of foreign donors. While the expertise gained in the public sector may not be of practical use in the private sector, employers are still looking for people with work experience, in most cases as testimony of the fact that the employee can be trusted.

In the case of public services, from 1995 to 1999 there was an abrupt reduction of almost 20% in employment in education and health protection. That particular period was associated with the closure of many educational establishments and a structural reform in the health system. In the 2000s the number of employees in education has remained roughly unchanged, while in the health system there was a moderately declining trend until 2004. From a longer-term perspective the outflow of professionals from the public services can be clearly seen. In 2007 the outflow from the public

education sector was 15% of the total number of employees in 1997, while the outflow from the public health sector was 32%.

In contrast to the two other sub-sectors, the public enterprise sector has seen a great reduction in the number of jobs. There are no detailed data available for periods before 1999. However, even after 1999 the changes have been significant. In the period 1999–2007 the reduction of jobs in the public enterprise sector (24%) was much greater than in the private sector (10%). This was not simply a result of the structural reforms in the Moldovan economy associated with economic and social transition (large-scale privatisation, public enterprise restructuring). Many people also left the sector because of low wages and poor working conditions. So-called 'technical unemployment' is not as serious a problem in public enterprises as it was in the mid 1990s. According to NBS estimates, in the entire Moldovan economy in 2007 there were around 380,000 employed people who worked less than 40 hours per week, including 6.4% for the reason of technical unemployment. While no statistical data are available regarding the distribution of technical unemployment across types of ownership of enterprises, it is assumed that most would be in public enterprises and in private agricultural entities.

## 2 Human capital, employment and economic transition

### 2.1 Investment in human capital

#### 2.1.1 Organisation of the education system in Moldova

During the Soviet period the education system was fully controlled by the state. Education was free at every level, with mandatory enrolment in primary and lower secondary education and limits set by the state for post-secondary and tertiary education in line with state needs. Vocational education had an important role and VET schools were attached to enterprises under the Soviet system.

The new economic realities of the transition period led to important changes in the education system, which were introduced in 1995 by the new Law on Education<sup>26</sup>. Primary education (four years) and lower secondary education (five years) remain mandatory and continue to be provided by the state. The state also guarantees secondary professional education for graduates of lower secondary education under 16 years of age who do not continue their studies in upper secondary general schools. Upper secondary general education (two to three years) is free of charge. Although no limits are set for the number of students enrolled in general upper secondary schools, enrolment is competitive in order to ensure that students can be taught curricular subjects in an efficient way.

The government has been unable to continue providing free education at other levels above general secondary education. Thus, for vocational secondary education, post-secondary non-tertiary education and higher education, enrolment is competitive, with the possibility of state-funded or fee-based enrolment (see Annex 3, Structure of the education system in Moldova). The Law on Education stipulates that public authorities should approve state needs for specialists, according to which the educational institutions are financed. Before 2006 limits were only set for state-funded enrolment, but because of the mismatch between labour supply and labour demand created in the transition period, the state intervened by also setting limits for fee-based enrolment, with effect from 2006.

Vocational secondary education (polyvalent schools and schools of trade) provide training to graduates of lower secondary or general upper secondary schools in a large range of qualifications in one trade or several related trades. Post-secondary non-tertiary education is an intermediate institution between vocational schools and universities that can be an autonomous institution, part of a university or affiliated to a university. Before 2006, when Moldova adhered to the Bologna process, higher education in the country lasted between four and six years. Post-graduate studies are organised in many forms, including doctoral, post-doctoral, residency and secondary clinical studies.

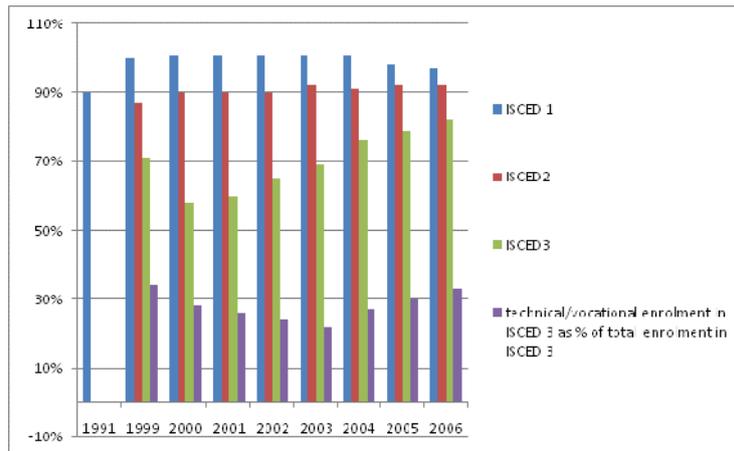
#### 2.1.2 Coverage of education

The gross enrolment rates for primary and lower secondary education levels were around 100% during the transition period (Chart 10), since enrolment remained mandatory for these levels of education following the collapse of Soviet Union. At the same time enrolment in non-mandatory levels of education decreased during the first decade of transition as a result of economic decline, deteriorating quality of life and the increase in poverty rates that made additional educational expenses unaffordable for many households. After 2000, upper secondary enrolment increased as the economy recovered and poverty rates decreased. Enrolment in upper secondary education increased from less than 60% in 2000 to 82% in 2006; the share of vocational education has also increased to 33% of total enrolment in ISCED 3. However, there are still many graduates of lower secondary education who enter the labour market without any qualifications, and also many employers who prefer to hire them illegally and pay them lower wages. The objective of increasing the enrolment in secondary education should therefore still be on the government agenda.

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26 Law on Education of the Republic of Moldova no. 547 from 21.07.1995.

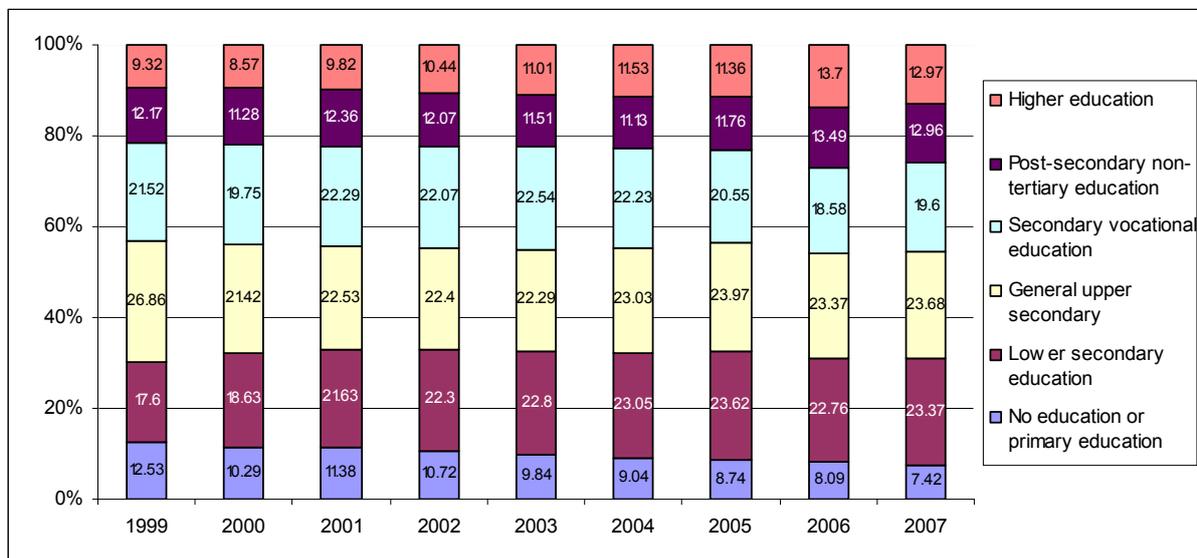
**Chart 10. Gross enrolment ratio (%)**



Source: UNESCO database

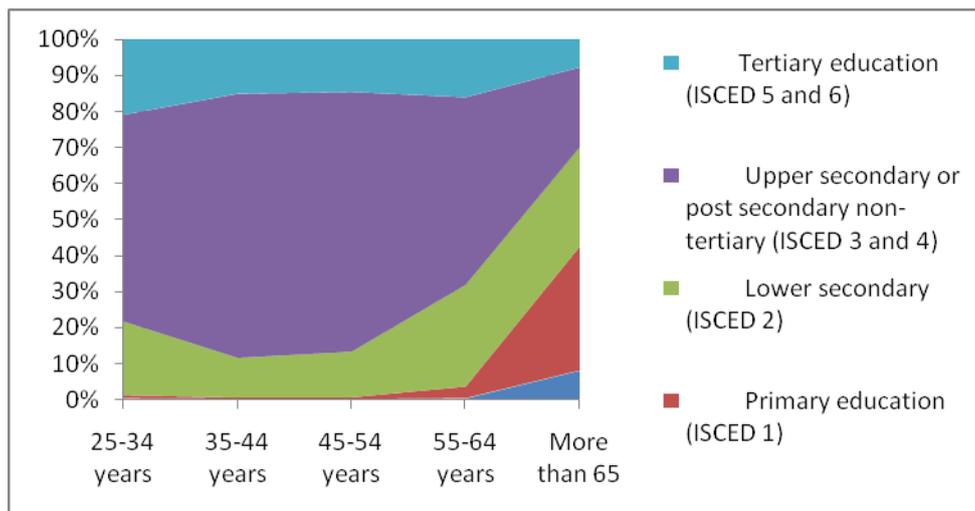
Although the recovery of the domestic economy has been accompanied by an increase in the average level of education of the working-age population, there are significant differences in the levels of education by age group, which is explained by the difficulties and reforms of the transition period. The proportion of higher education graduates is increasing, in contrast to those of vocational education and post-secondary non-tertiary graduates (Chart 11). In 1985 the number of students enrolled in vocational schools was almost the same as students enrolled in universities. In 2007 the number of students enrolled in higher education institutions was five times higher than the number of students enrolled in vocational schools and four times higher than the number of students in colleges. At the same time, as a result of the increased proportion of students who drop out following completion of lower secondary education, there is an increasing gap between individuals (Chart 12), which also results in increasing inequality.

**Chart 11. Working-age population by education level (% of total)**



Source: NBS

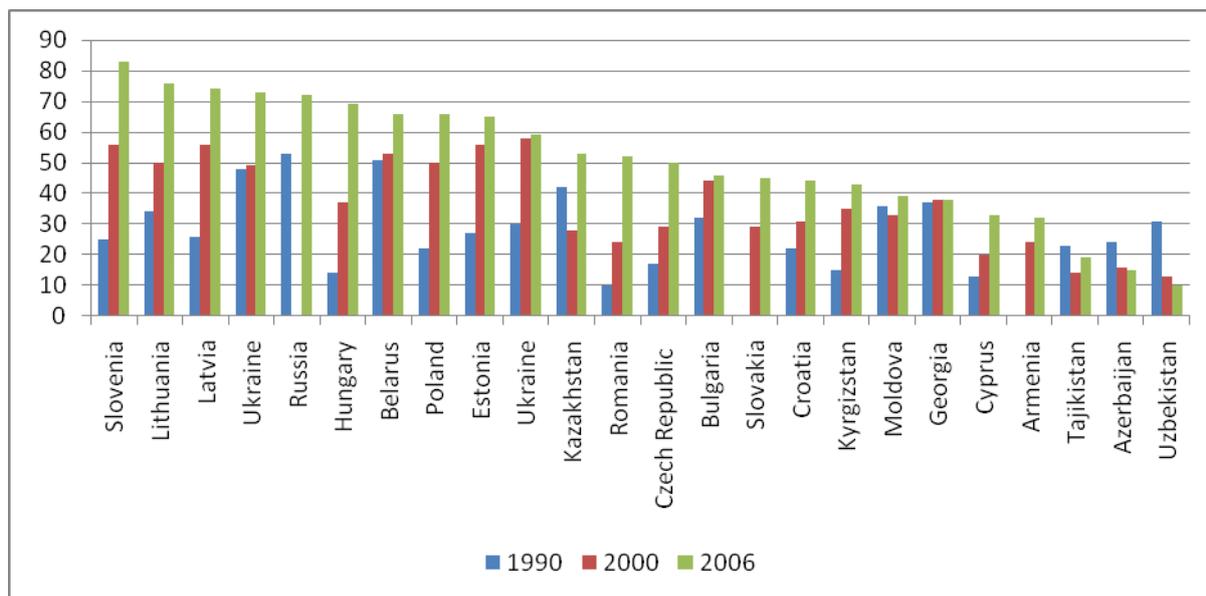
**Chart 12. Structure of population by age and educational level, 2007**



Source: NBS

The number of students continuing their studies in higher education institutions increased significantly until 2006, when the government imposed limits on fee-based enrolment in order to channel the inflow of potential students from traditional specialisms (such as economics, law, political science and foreign languages) to a number of technical specialisms. It is appropriate to mention that despite the growing number of students in universities, the gross higher education enrolment ratio in Moldova is still lower than that in other countries (Chart 13).

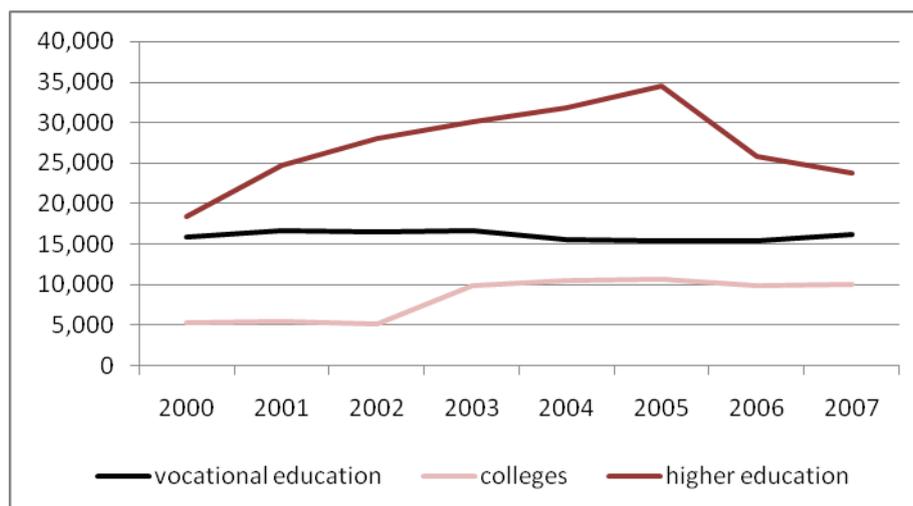
**Chart 13. Gross higher education enrolment ratios in some transition countries (%)**



Source: World Development Indicators

At the same time, setting higher limits for vocational education enrolment has not resulted in a significant increase in enrolment in VET. The number of students admitted in 2006 and 2007 to vocational schools and colleges remained constant, while the number of students admitted to universities in 2007 decreased by 31% as compared to 2005 (Chart 14). Vocational schools are still unattractive because they do not offer the necessary knowledge and skills to graduates, while training and living conditions are below minimum expectations. The number of specialisms offered by vocational schools has been reduced from approximately 350 in 1990 to 85 in 2005 in order to respond efficiently to economic developments. At the same time, no new specialisms have been proposed as a result of low demand for vocational educational and low interest in cooperation on the part of the business sector. It is significant that there are currently only two private vocational schools in Moldova.

**Chart 14. Number of students admitted by level of education**



Source: NBS

### 2.1.3 Public expenditure on education

Public expenditure on education has increased in nominal value since independence, though not enough to ensure the quality of education. The Law on Education stipulates that 'the state guarantees annual allocations of budgetary funds for education in a proportion of not less than 7% of GDP'<sup>27</sup>, but this was not the case between 1999 and 2003 (Chart 15), when through legal amendments the stipulation was suspended for this period. Currently the proportion of GDP allocated to public expenditure on education is higher than the average in OECD member states (6.2% in 2004<sup>28</sup>), but taking into account the small size of the Moldovan economy, the actual amount of money spent per student by the Moldovan government is very small when compared to other countries.

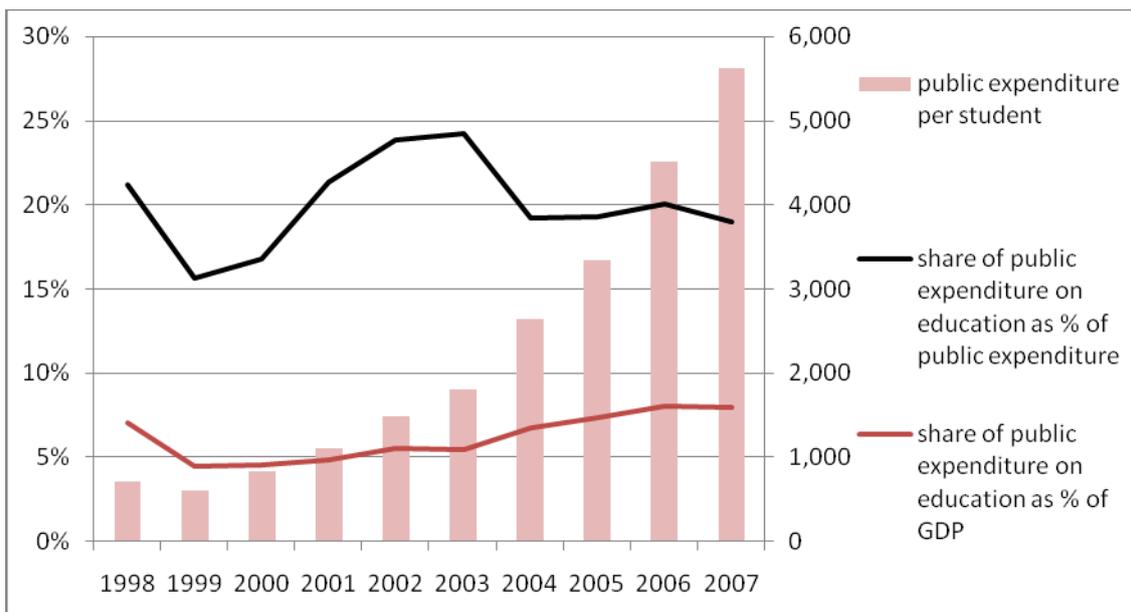
The centralised funding norms and methods of financing the education system are laid down by the Ministry of Education and Youth and the Ministry of Finance. Primary and secondary non-vocational education is financed from local budgets according to the Law on Local Public Finance<sup>29</sup>. Professional schools are financed from district budgets. According to the legislation, enrolment in secondary vocational education level is based on agreements between the vocational schools and enterprises, which are required to transfer an additional 2% of the labour retribution fund to the state budget. This will be used by vocational schools, but will not affect the amount of funds transferred from the budget to these schools. However, there is a lack of cooperation between businesses and vocational schools which means that this stipulation from the Law on Education is of little value. The motivation of enterprises to collaborate with vocation schools is an issue of concern for the Ministry of Education and Youth and the government. Public enterprises with more than 20 employees are obliged to offer workplaces and sign internship contracts with professional schools. If the expenditure per capita is lower than the revenue per capita, transfers from the state budget to local budgets are carried out according to the formula included in Article 10 of the Law on Local Public Finance.

27 Law on Education of the Republic of Moldova no. 547 from 21.07.1995, Art. 61.

28 Education at a Glance 2007, OECD, 2007.

29 Law on Local Public Finance No. 397 from 16.10.2003.

**Chart 15. Public expenditure on education (% of GDP and total public expenditure on the left axis; MDL per student on the right axis)**



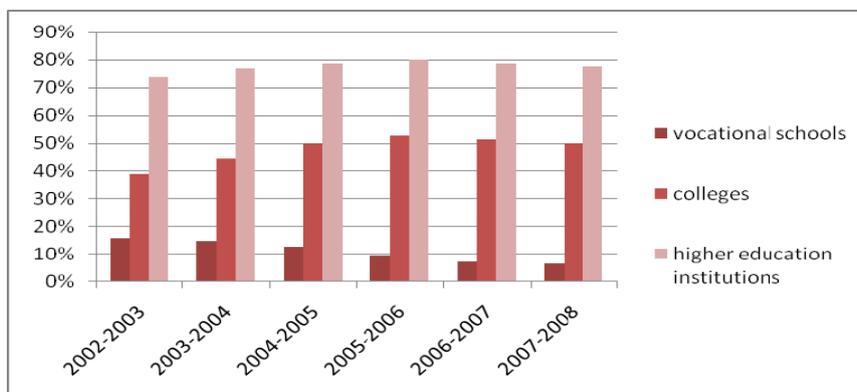
Source: NBS

The inadequate financing of the education system is reflected in low salaries of the teaching staff, which are on average 25% lower than the average wage in the economy and are one of the main causes of the deteriorating quality of education. This situation is a result of, among other factors, the sub-optimal intra-sector structure of spending. For instance, the proportion of non-teaching staff is high compared to international standards, and this limits the scope for increasing the salaries of teaching staff. Thus, in 2002, non-teaching staff represented 37% of the total staff in general schools and 48% in vocational schools, compared with the OECD average of 27%. The ratio is high in vocational schools because of the number of supporting personnel who take care of students outside school, mostly in dormitories. Non-teachers on average earn less than teachers, but their salaries and other personnel expenses account for 25% of the total expenditure in pre-schools, 17% in general and vocational schools, 19% in colleges and 28% in universities<sup>30</sup>. Educational institutions have no flexibility in deciding how many non-teachers to employ, because staffing norms are laid down centrally.

### 2.1.4 Private expenditure on education

Because public financing of education is insufficient, private resources have become an important source of financing education at every level, but mostly in post-secondary non-tertiary and higher education, where more than 50% of enrolled students pay tuition fees (Chart 16).

**Chart 16. Proportion of students paying tuition fees in public and private institutions by level of education**



30 Moldova Education Policy Note: Analysis in support of improvements in quality, equity and efficiency in the education sector, World Bank, 2005.

Source: NBS

While the government is unable to finance the education system sufficiently, private educational entities are not very widespread in Moldova. Enrolment in public institutions on fee-based agreements for post-secondary education is common practice. The number of private schools is relatively small at each level of education except higher education, and the proportion of students enrolled in private institutions is also low, varying from 0.8% in vocational schools and to 17.2% in higher education institutions (Table 11). The low number of private educational entities is a result of the rigid requirements for the establishment of such institutions, and also of the deficit of qualified teaching staff. The situation may change in the future because of the move to make enrolment in public institutions available only on a state-funded basis. The resources of the government still remain limited, and the demand for education in private institutions is therefore expected to increase. Once the government has decided to make enrolment in public institutions exclusively state-funded, it needs to ensure fair enrolment procedures and equitable conditions for the functioning of private and public educational institutions.

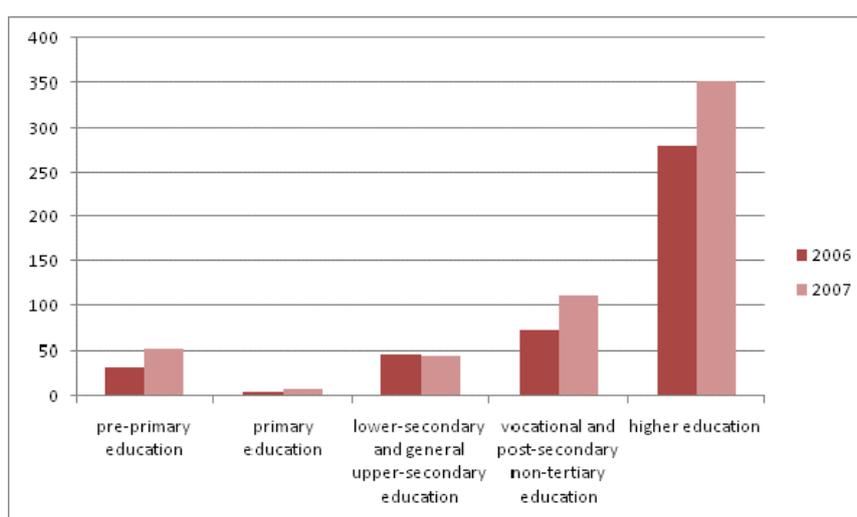
**Table 11. Number of public and non-public institutions and students enrolled by level of education, 2007**

	Pre-primary and lower secondary education	Vocational schools	Colleges	Higher education institutions
Number of public institutions	1,512	73	43	17
Number of non-public institutions	22	2	6	14
Number of students enrolled in public institutions	456,851	24,300	28,895	101,779
Number of students enrolled in non-public institutions	4,149	200	2,412	21,160

Source: NBS

In addition to tuition fees, many other formal and informal payments are necessary. Formal payments include rental fees for books in schools and payments for living in dormitories (not all students are provided with places in dormitories). Moreover, informal payments for renovation, additional lectures and even bribes for receiving good marks are common in Moldova. Private expenditure on education increases with the level of education (Chart 17). In pre-primary education the expenditure per student is higher than in primary schools because there are more private institutions established at this level.

**Chart 17. Average monthly expenditure per student by level of education (MDL)**



Source: NBS, HBS

A survey conducted by the Institute of Public Policy in 2007 showed that expenditure on pre-university education as a proportion of the total expenditure of a household is 17%<sup>31</sup>. Additional payments at secondary level accounted for 13.3% of public financing of secondary education. The largest

31 Informal payments in pre-university education and equal access to education, Institute for Public Policy, 2007.

proportion of this amount goes to pay for additional lectures, either individually or in a group. Additional lectures are common practice in all schools and the demand for them is artificially created by teachers in order to increase their income. It is no surprise that informal payments are higher in urban than in rural areas. Thus, despite the rhetoric on fighting corruption and eradicating informal activities, the current system of formal and informal payments in education is convenient for the government, since it reduces the pressure to increase the wages of teaching staff, which are boosted by informal payments.

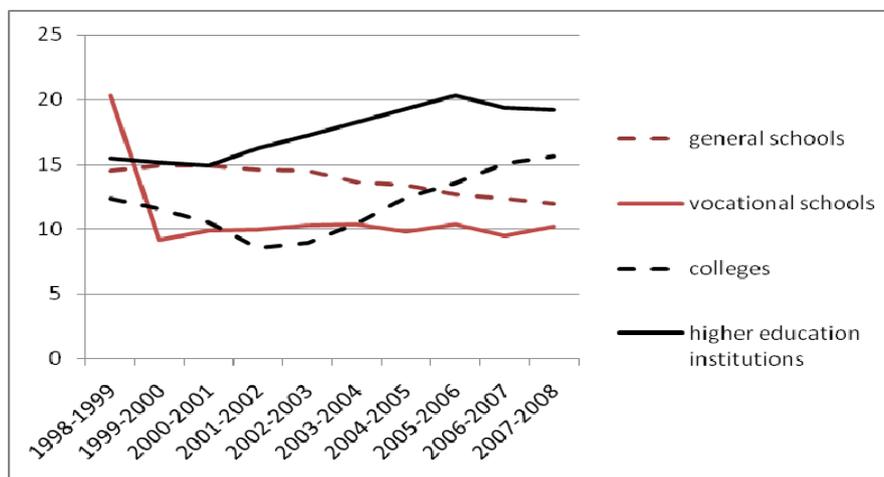
### 2.1.5 Quality of education

Insufficient public financing of education and low requirements for fee-based enrolment were the main causes of the deteriorating quality of education during the transition period. The National Strategy 'Education for All' recognises that quality has deteriorated considerably in recent years, owing partly to the large fall in the real value of allocations from the government budget and partly to internal factors<sup>32</sup>. These internal factors include the continued orientation of the curriculum towards memorisation and outdated skills; the prevalence of inefficient teaching techniques; the absence of criteria and mechanisms for objective assessment; and the marginal use of IT.

The quality of vocational education and higher education has deteriorated most. This has more significant negative consequences for the labour market. In many vocational schools the curricula is outdated and not in line with the needs of the labour market. Although there is a high demand for a skilled labour force in the agro-food industry and construction, the absorption rate of these specialists by the labour market is low because of the reduced number of graduates in these fields and the poor quality of studies. Cooperation between the private sector and vocational schools is weak, which only worsens the problem of the mismatch between labour market demand and supply, and hinders the quality of education in vocational schools.

In higher education institutions the increase in the number of students in such fields as economics, law and social sciences was accompanied by a decline in the quality of education caused by low student admission requirements and insufficient numbers of teaching staff (Chart 18). Another evident problem is the lack of young staff in universities, especially in science and engineering<sup>33</sup>.

**Chart 18. Number of students per unit of pedagogical staff by level of education**



Source: NBS

In addition to worsening student–teacher ratios, the quality of education is undermined by low wages. The average wage of teaching staff is 25% lower than the average wage in the economy. Only in post-secondary non-tertiary and higher education are wages higher than the average wage in Moldova (3% and 22% higher, respectively).

As regards the quality of education in primary and lower secondary schools, the reports of Trends in International Mathematics and Science Study (TIMSS) and Progress in International Reading Literacy Study (PIRLS) International Study Center ranked the achievements of Moldovan students in mathematics, sciences and reading just below the average, with higher scores been given for other ex-Soviet countries (Table 12Table 12).

32 Government of Republic of Moldova, decision no. 410 of 4 April 2003 on approval of the National Strategy 'Education for All', published in Official Gazette no. 070 of 15 April 2003.

33 The quality of higher education according to the academic community, Institute for Public Policy, 2006.

**Table 12. Student achievement in mathematics, science and reading**

	Mathematics achievement (grade 8) average score	Science achievement (grade 8) average score	Reading achievement (grade 4) average score
International average	467	474	500
Moldova	460	472	500
Estonia	531	552	
Latvia	508	512	541
Russian Federation	508	514	565
Lithuania	502	519	537
Armenia	478	461	
Romania	476	470	489
Bulgaria	475	479	547

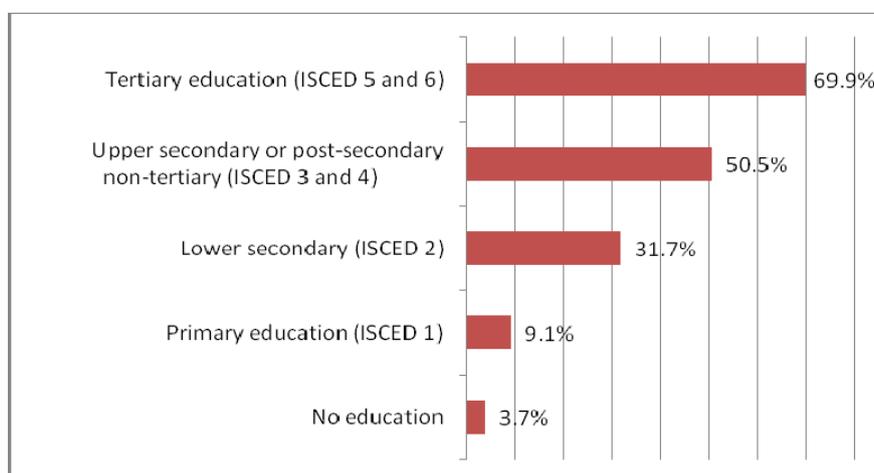
Source: TIMSS and PIRLS International Study Center

### 2.1.6 Incentives to invest in education

In spite of problems with quality, the educational profile of the population has improved as result of the increased private investment in education. The changes in the education system have shifted the preferences of young people towards higher education. Higher education provides more opportunities for employment. Graduates of tertiary education are the most active group in the labour force, with an activity rate of 69.9% (Chart 19). The most significant decline in the activity rate was for upper secondary and post-secondary non-tertiary education graduates.

Another relevant indicator in the case of Moldova is the proportion of emigrants by level of education. The emigration rate is lower among individuals with a higher education degree because of better employment opportunities (7.5% for graduates of higher education, 12.4% for graduates of post-secondary non-tertiary education, 16.4% for graduates of vocational schools, 13.8% for graduates of general upper secondary education and 11% for lower secondary graduates).

**Chart 19. Participation rates by level of education, 2007 (%)**



Source: NBS

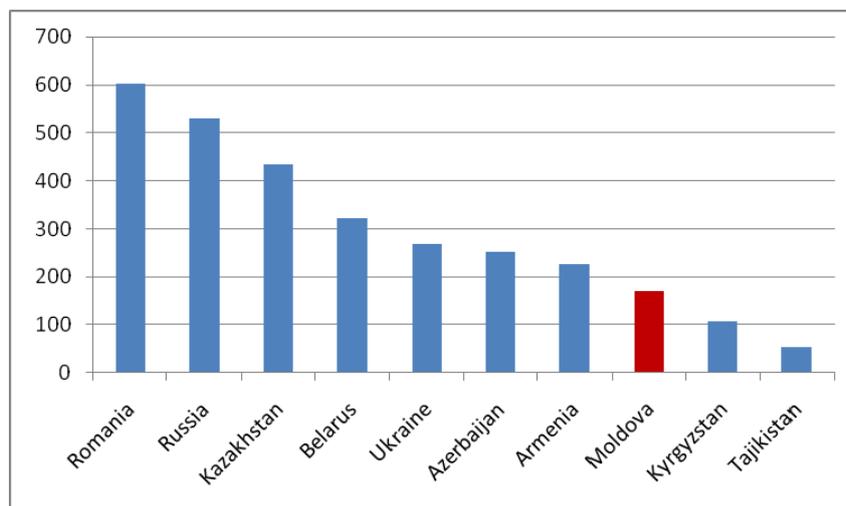
The incentives to invest in higher education are also supported by the fact that education is affordable. For example, in Moldova it is not difficult to obtain a Bachelor's degree in economics, law and social sciences because the curricula is not too demanding, the annual fees are not too high, and there are almost no limits on fee-based enrolment. The annual fees, which vary between USD 400 and USD 1000, were unaffordable in the 1990s when more than half of the population was below the poverty line, but became affordable after 2000. These fees are almost negligible for students whose parents have migrated to work abroad and receive monthly salaries higher than the annual fee for education in Moldova. At the same time, access to education for students from poor families is limited, not only because of tuition fees, but also because of the additional expenditures involved, even in the case of state-funded enrolment.

## 2.2 Returns to education

### 2.2.1 Wage differences by activities and groups of individuals

The average monthly wage in Moldova is one of the lowest in the region (Chart 20). Low wages were characteristic of transition economies, which have all passed through a period of decreased output and public revenues. However, this period has lasted much longer in the case of Moldova than in other countries.

**Chart 20. Average monthly gross wage in CIS countries and Romania, 2007 (USD)**

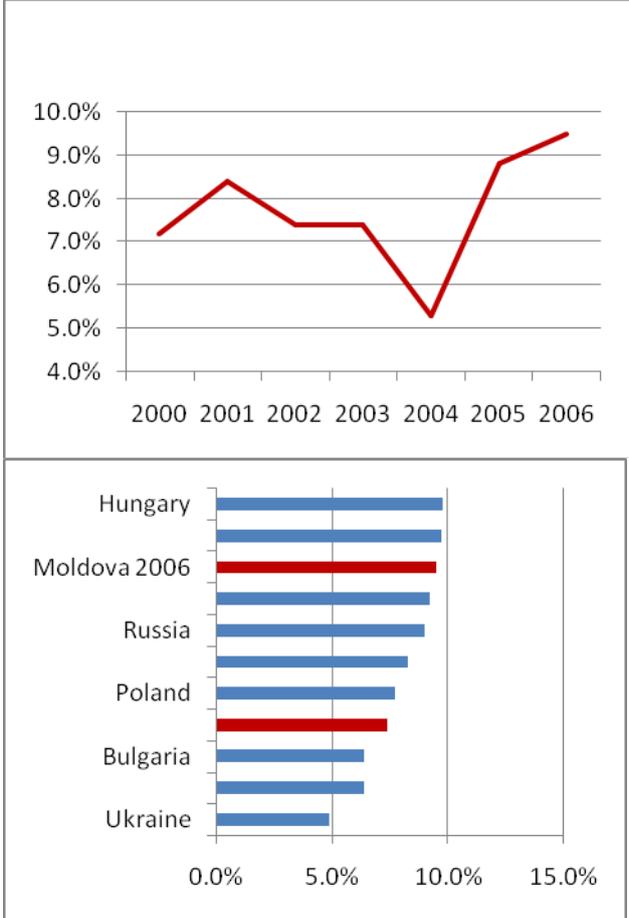


Source: [www.azstat.org](http://www.azstat.org)

The only empirical analysis of the returns to education conducted in Moldova shows that the rate of return to education was 9.5% in 2006<sup>34</sup>: an additional year of education increases the wage by 9.5% if all other factors *remain* constant (Chart 21). Although the premium for an additional year of education is not very high, the recent increase in returns on education is a sign that human capital is becoming a constraint for economic growth in Moldova. The analysis also indicates significant returns on additional levels of completed education.

34 A. Bozu, D. Caragia and I. Gotisan Final Analysis of Constraints to Economic Growth. The Republic of Moldova, Millennium Challenge Corporation Moldova, 2007.

**Chart 21. Rate of returns on one year of education: Evaluation in Moldova (left panel) and its comparison with other countries (right panel, all countries 2003, data for Moldova 2003 and 2006)**

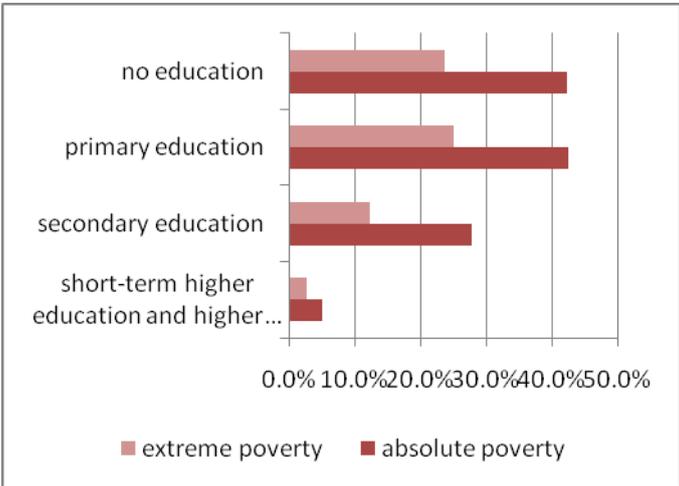


Source: A. Bozu, D. Caragia and I. Gotisan Final Analysis of Constraints to Economic Growth. The Republic of Moldova, Millennium Challenge Corporation, 2007

Hence, additional education still offers a higher salary and reduces the probability of an individual falling into poverty (Chart 22). However, there is no great difference between poverty rates for individuals who have only primary or secondary incomplete education and those who have no education at all. This is because no specific skills are acquired in primary education and the opportunities for employment are almost the same as for individuals who have no education.

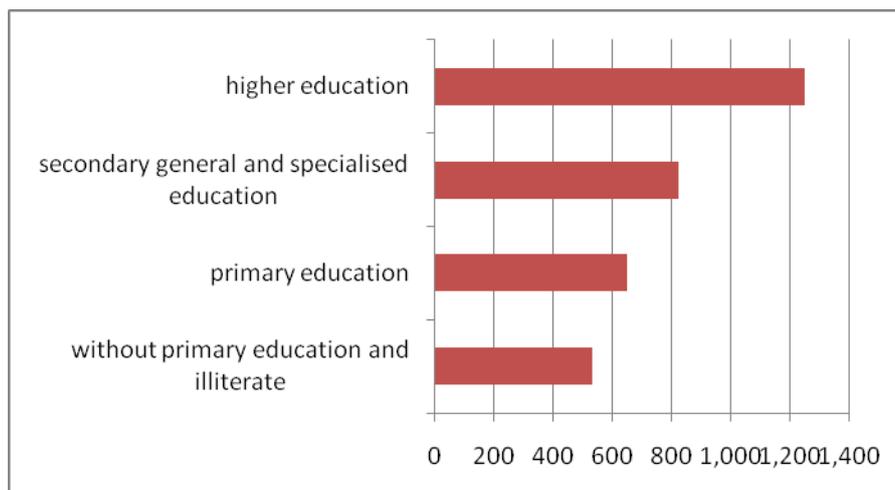
The disposable income of households rises with the level of education of the head of the household (Chart 23).

**Chart 22. Poverty risk by level of education, 2005**



Source: 'Receptivity of the education system in the Republic of Moldova to the needs of society and labour market', IPP forthcoming

**Chart 23. Disposable income by level of education of the head of the household, 2006 (MDL)**



Source: NBS

The Constraints Analysis report quoted also shows that there are significant differences in wage levels in different sectors of economic activity if controlling for education. The wages are highest in the construction sector, which has experienced the strongest growth in the past few years, and in the transport and communication sector. The type ownership also has a significant effect, with the highest wages being paid in foreign-owned companies (Table 13).

**Table 13. Regression of log of hourly wage on number of years of education**

Independent variable	
Years of education	0.149*** (12.37)
Experience	0.017*** (3.5)
Experience Squared	-0.000*** (4.72)
Female	-0.195*** (9.05)
Sector (omitted: agriculture)	0.447***
Industry	(3.83)
Construction	0.602*** (5.26)
Commerce, hotels and restaurants	0.291*** (2.8)
Transport and communication	0.571*** (5.37)
Public administration, education, healthcare and social assistance	0.223** (2.04)
Other	0.461*** (3.3)
Property (omitted: public)	
Private	0.423*** (4.43)
Mixed public-private	0.217*** (3.15)
Foreign owned	0.533*** (3.21)
Foreign participation	0.22** (2.22)
Constant	0.818*** (4.99)
Observations	10433
R <sup>2</sup>	0.212

Note: t statistics in parenthesis

\*significant at 10%; \*\*significant at 5%; \*\*\*significant at 1%

Source: A. Bozu, D. Caragia and I. Gotisan, Final Analysis of Constraints to Economic Growth. The Republic of Moldova, Millenium Challenge Corporation, 2007

While significant differences remain between wages across sectors of economic activities, these have diminished over the past decade and there has been a moderate degree of convergence in wages. Wages in the agricultural sector are a notable exception (Table 14).

The highest wages are in financial activities, mining and quarrying, electrical and thermal energy, gas and water, construction, and transport and communication. Nevertheless, the highest increase in wages has been in the construction sector, which has developed tremendously over the past few years. At the same time, wages in the education and healthcare sectors, where highly skilled staff are of crucial importance, are significantly lower than the national average wage. The increasing numbers of school teachers and health personnel migrating abroad for unskilled work in recent years are a direct result of the poorly financed education and health systems and low budget revenues that cannot provide high wages in the budgetary sector.

The payment of wages in kind is still practised, though on a very limited scale, representing 0.3% of staff remuneration in 2007, much lower than at the beginning of transition. This is more common for the agricultural sector, where the share is 3.9% and where remuneration in kind is agreed between employees and employers. At the beginning of transition period payments in kind, which were not mentioned in employment contracts, were common because of the lack of financial resources to pay

wages and the impossibility of selling the goods produced. This was an illegal practice and was not reflected in the statistics.

**Table 14. Average monthly wage per employee as a percentage of the national average wage (%)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture, hunting and forestry	56.7	61.7	58	56.9	56	58.3	56.4	53.9	52.1
Fishing	93.8	83.0	71.3	65.8	65.7	78.0	79.1	70.2	62.9
Mining and quarrying	152.4	141.6	141.1	145.8	133.6	144.9	154.4	154.6	147.0
Manufacturing	161.7	166.1	149.5	140.5	136.5	128.5	125.2	112.8	113.5
Electrical and thermal energy; gas and water	204.1	176.5	163.5	164.1	172.3	176.5	176.2	169.2	164.6
Construction	140.0	132.3	125.6	121.2	134	148.6	149.6	143.1	147.4
Wholesale and retail trade; repair services	104.7	96.7	97.7	92.8	89.2	95.3	93.1	91.6	98.4
Hotels and restaurants	91.0	87.7	89.1	82.6	92.9	88.4	87.2	81.6	88.0
Transport and communication	149.5	155.7	158.3	152.5	163.2	161.9	162.5	150.2	146.7
Financial activities	549.1	576.9	419.1	370.8	328.5	295.1	261.6	227.6	219
Real estate activities	143.2	135.8	133.9	128.6	127.2	125.3	126.7	120.9	126.1
Public administration	144.1	126.9	136.5	143	117.9	109.2	103.4	127.5	116
Education	63.4	60.7	62.0	67.0	68.5	64.4	66.9	71.3	65.5
Health and social work	61.3	56.4	57.9	63.5	65	76.6	77.1	78.6	82.4
Other public, social and personal services	77.3	72.5	71.9	73.1	75.4	72.7	76.6	76.7	77.2

Source: NBS

It is also clear that wages for women are lower than those for men in all sectors of the economy, regardless of the proportion of women employed in the sector (Table 15); this is confirmed by the regression of log of hourly wages in Table 13.

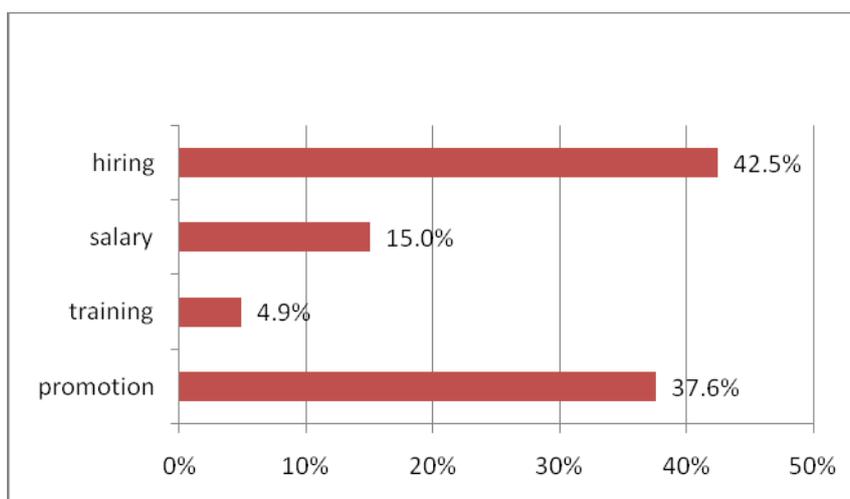
The results of the survey conducted for the report 'The situation of Women on Labour' by the NEA show that other types of discrimination are considered to be more significant than wage discrimination (Chart 24). However, all forms of discrimination, including less access to training and lower opportunities for promotion, ultimately result in lower wages for women.

**Table 15. Average monthly salaries of women compared with men's salaries**

	Share of women employed (%)	Average monthly salary of women compared with men's salary (%)
Total	53.4	68.1
Agriculture, hunting and forestry	40.6	82.3
Fishing	16.6	107.2
Industry	47.7	75.7
Construction	14.4	74.1
Wholesale and retail trade; repair services	51.3	79.6
Hotels and restaurants	74.2	75.1
Transport and communication	33.4	82.5
Financial activities	66.3	85.6
Real estate activities	44.9	86.1
Public administration	39.8	61.0
Education	74.8	86.1
Health and social work	78.5	73.4
Other public, social and personal services	53.9	74.0

Source: NBS

**Chart 24. Types of gender discrimination**



Source: The situation of Women on Labour Market, NEA, 2007

### 2.2.2 Changing preferences in education and outcomes

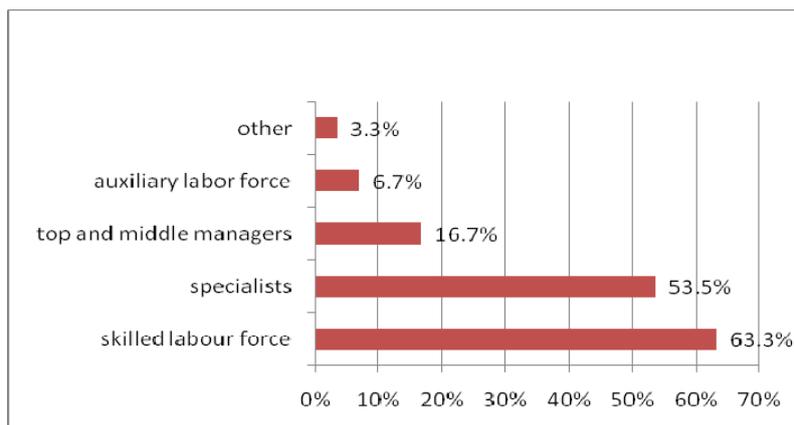
As compared with a decade ago, Moldova's graduate profile is now totally different, in terms of not only educational level (with a greater emphasis on higher education), but also fields of study. There is in Moldova an exaggerated demand for and supply of higher education in some fields of study that are in vogue, which has resulted in a serious skills mismatches and an oversupply of some specialists. Thus, although it is easier for graduates of tertiary education to find jobs, these jobs do not always correspond to the specialism in which they graduated, while some jobs require lower skills than those acquired at university. This is a negative effect of transition on the post-secondary and tertiary education system, which needs to be reorganised in order to ensure the relevance and quality of graduates' knowledge.

Over the past decade, economics and law have emerged as the main preferences, these having replaced the natural sciences and engineering. In 2007 graduates in law accounted for 23.7% of the total number of graduates, while those in economics accounted for 31.7%. Young people prefer specialisms in which studying is much easier and the opportunities for employment are greater because of the possibility of employment in related fields. One effect of this oversupply is that graduates take employment in jobs requiring lower levels of qualification, or jobs in other fields. The SLMT showed that 66.6% of graduates of social sciences, business and law had their first job in a related field. An ETF study on migration showed that 16.9% of potential emigrants were graduates from social sciences, business and law<sup>35</sup>.

On the other hand, the demand for a skilled labour force (manual and technical) is as high as the demand for higher education graduates (Chart 25). There are several factors contributing to the scarcity of skilled labour: the low quality of vocational education, the lack of cooperation between the business sector and educational institutions, the low salaries paid by the employers, and the possibility of migrating for higher salaries abroad.

35 The contribution of human resources development to migration policy in Moldova, ETF, 2007.

**Chart 25. Types of employee needed by organisations**



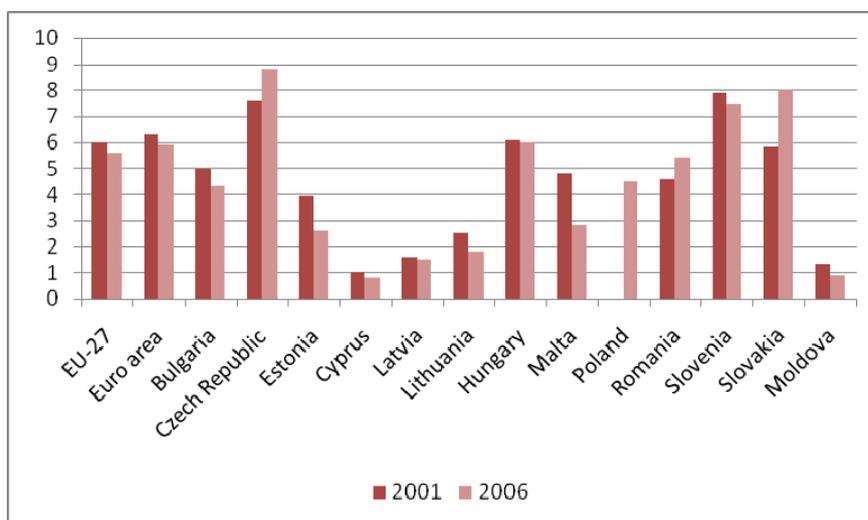
Source: Labour Relations in the Republic of Moldova: Companies' Viewpoint, UNDP Moldova, 2007

### 2.2.3 Employment in growth-enhancing activities

The increasing number of higher education graduates in Moldova does not appear to have contributed to an increase in the country's competitiveness and the development of a knowledge-based economy. The proportion of people working in high- and medium-high-technology manufacturing decreased in the period 2001–2006 and it is much lower than in most European countries (Chart 26). Students did not adapt to the new economic conditions and necessities, nor was the economy capable of fully absorbing graduates who often did not have the necessary skills.

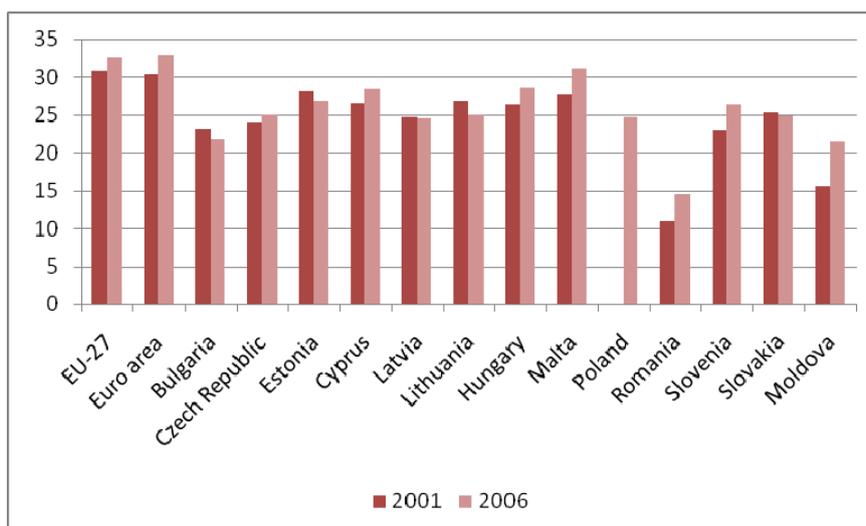
With regard to employment in knowledge-intensive services, although there has been a significant increase since 2001, it is still lower than in European countries (Chart 27).

**Chart 26. Proportion of persons working in high- and medium-high-technology manufacturing and knowledge-intensive services sectors (%)**



Source: Statistics in Focus, Eurostat 2007 and NBS

**Chart 27. Proportion of persons working in knowledge-intensive services (%)**



Source: Statistics in Focus, Eurostat 2007 and NBS

### 2.3 Transition from school to work

The entry of young people into the labour market is a phenomenon that has not been deeply analysed in Moldova because of the lack of data. Until 2007 the LFS did not include any information regarding the transition from school to work. Only with effect from 2008 is an additional module to the LFS being tested by the NBS on the entry of fresh graduates into the labour market, and data will be available from 2009. Since the entry of young people is an important aspect of the functioning of the labour market, an independent survey was conducted in order to collect data that is not available from other sources. ‘Transition from school to work’ was designed as a separate module of the SLMT, and questions from the module on the entry of young people into the labour market from the 2009 Eurostat LFS survey were used. The survey was conducted by the sociological research company CBS AXA. The respondents for the module on the transition from school to work were young people between the ages of 18 and 34 years who graduated after 1998.

Although the sample is small and the sampling errors range from 4% and 9.2% for different questions, depending on the number of respondents, this is enough to provide a qualitative understanding of the phenomenon of school–work transition in Moldova. The sample includes graduates from different educational levels and fields of study, which makes it possible to observe the differences in transition between different groups of individuals. The sample was balanced in terms of gender and rural/urban distribution (Table 16).

Of the 536 respondents, only 228 reported that they were in a job lasting more than three months or that they were in their first job at the time of interview and intended to remain. The remaining individuals were unemployed, studying or inactive for other reasons, as shown in Table 17. The results of the SLMT module ‘Transition from school to work’ differ from another survey conducted in 2008 by the Academy of Economic Studies from Moldova while the National Employment Agency study ‘The situation of Youth on Labour Market’<sup>36</sup> shows a longer and more difficult transition of graduates to their first job. The difference is explained by the different sample (18-29 years for the ASEM and NEA sample) and different structure and purpose of the questionnaires in the two surveys.

**Table 16. Distribution of respondents to the SLMT module ‘Transition from school to work’ by gender, area of residence and educational level**

	No. of observations
Total number of respondents	536
By gender:	
Male	252
Female	284
By area of residence:	

<sup>36</sup> The situation of Youth on Labour Market, The Academy of Economic Studies from Moldova, National Employment Agency, 2008

Urban	244
Rural	292
By education:	
No education	2
Primary education	5
Lower secondary education	77
General upper secondary education	141
Secondary professional education	88
Post-secondary non-tertiary education	88
Higher education	120
Post-graduate education	14

Source: SLMT

**Table 17. Distribution of respondents to the SLMT module ‘Transition from school to work’ by their participation in the labour market**

	No. of observations
Total number of respondents	536
Reported work experience	228
Did not have work experience	308
Of which:	
Unemployed	82
Own-account worker	21
Unpaid family worker	21
Student	117
Inactive for other reasons	67

Source: SLMT

The data collected during the survey are compatible with some official statistics on employment. Thus, the proportion of graduates of higher education institutions and post-secondary non-tertiary education institutions who reported having work experience following graduation was 56.1% and 60.5% respectively, compared to 42.4% for secondary professional graduates.

As shown in Table 18, more than 50% of respondents found a job relatively easily, spending up to one month looking for employment. For 43.4% the transition happened seamlessly since they started the job immediately after graduating, most of these being graduates of higher education. Almost all of them accepted jobs that were offered to them by employers. There were very few cases in which respondents had looked for a job for more than six months, and these were all individuals who had not acquired a specialism (graduates of lower secondary or general upper secondary education).

Around 19% of those who had already undergone transition had worked in one or more short-term jobs (lasting less than three months) before finding a longer-term job (more than three months). Some 10% of graduates with experience of transition had not worked before finding a permanent position, though they had tried many times to find a job (Chart 28). It should be mentioned that graduates used a narrow set of methods to find their first job; most used only one method. Informal sources and personal connections (such as relatives, friends and acquaintances) was the most popular method used to find the first job, and was used by a quarter of those with transition experience. A number of graduates received information from the institution from which they graduated (7.7%), while others posted or answered jobs advertisements (12.4%). Formal job-search methods, for instance using private or public employment agencies, were not very popular among young people.

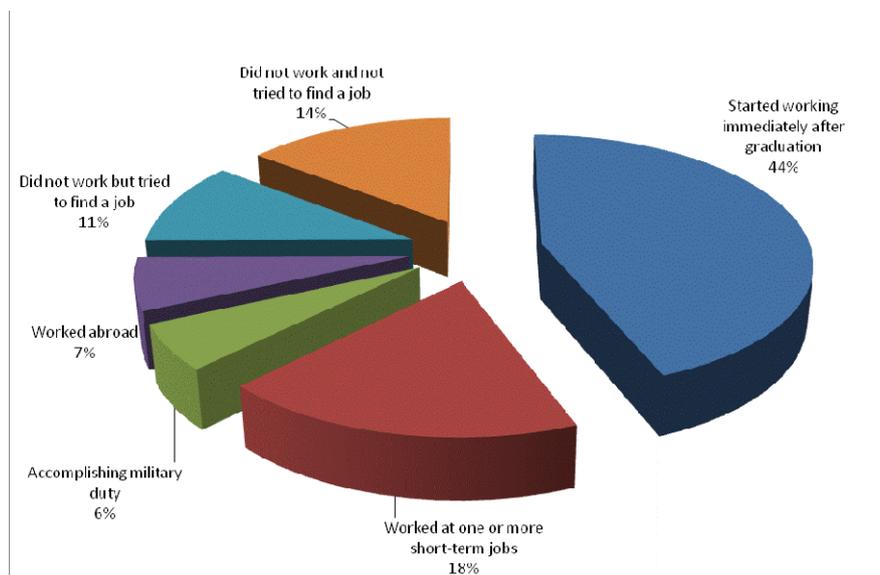
**Table 18. Distribution of answers to the question ‘How easy was it to find your first job?’ by highest level of education attained (N=111)**

Highest level of education completed	How easy was it to find your first job?			
	Very easy	Relatively easy	Difficult	Very difficult
Primary	0	0	1	0
Lower secondary	3	3	4	1
General upper secondary	3	12	2	0

Secondary professional	6	5	6	1
Post-secondary non-tertiary	5	12	6	1
Higher	11	10	8	4
Post-graduate	1	3	3	0

Source: SLMT

**Chart 28. Distribution of the answers to the question ‘What did you do after graduating from the highest educational level you have and before finding your first job lasting more than three months in Moldova?’**



Source: SLMT

Although finding a job is not very difficult, the connection between the labour market and the education system appears to be weak. This weakness is demonstrated by, among other things, the fact that for most of the graduates the first jobs following the transition from education to work had little to do with their core specialisms. The first job did not correspond with the field of study in which they graduated for 32.4% of graduates (Table 19). This was most often the case for secondary professional graduates and post-secondary non-tertiary graduates.

The largest proportion of graduates whose first job did not correspond to the field of study in which they graduated was from engineering, industry and construction, and business, law and social sciences fields (Table 20). There may be different reasons for this. Graduates of business, law and social sciences may work in other areas because of the large number and oversupply of these graduates. However, in the case of engineering and industry graduates, these are mainly from vocational schools, and as a result of the low quality of their education and sometimes the low salaries offered, they are unable to find a job that corresponds to the field of study in which they graduated.

**Table 19. Graduates by highest level of education attained and the correspondence between their first job and the field of study in which they graduated (N=152)**

Highest level of education	Did your first job correspond to your field of study?	
	Yes	No
Secondary professional	27	7
Post-secondary non-tertiary	25	20
Higher	45	18
Post-graduate	7	3

Source: SLMT

**Table 20. Graduates by field of study in which they graduated and the correspondence between their first job and the field of study in which they graduated (N=151)**

Field of study graduated	Did your first job correspond to your field of study?	
	Yes	No
Education	11	2
Humanities and arts	5	3
Social sciences, business and law	20	10
Sciences, mathematics and computing	6	5
Engineering, manufacturing and construction	22	16
Agriculture and veterinary sciences	5	2
Health and social welfare	8	2
Services	19	6
Other	8	2

Source: SLMT

The proportion of graduates who had work experience did not differ much in terms of their area of residence. However, there were important differences between urban and rural residents in terms of the education they acquired and the type of first job. For instance, students from rural areas were more inclined to enrol in secondary vocational education than higher education, and the employment opportunities were different for them. Around 55% of graduates from urban areas had a job that corresponded to their field of study, compared with 50% of graduates from rural areas, who were mostly employed in the agricultural, construction and trade sectors.

Moreover, there was a significant difference between women and men in terms of the correspondence between their first job and their core specialism. As a result of different preferences in fields of study, with more women than men choosing education, humanities and arts, and services, the first job corresponded to the specialism in 60% of cases for women, but in only 46% of cases for men.

Despite the large proportion of graduates who had found a job that did not correspond to their core specialism, only 40% of them considered that they needed additional training in order to fulfil the obligations of their first job, almost the same proportion as those whose field of work coincided with their graduation field. Most of these graduates (75%) were trained within the workplace.

For most graduates (60%) their first job was a position requiring 'high' or 'medium' qualifications. Around 33% of respondents said that their first job was a low-skilled one, even though many of them (31 out of the 72 who responded) had graduated from upper secondary or tertiary education institutions. It is interesting that around 7% of the graduates were appointed to senior or middle-level managerial positions in their first jobs. It should be mentioned that this trend is seen mainly in the IT sector, where companies are employing young specialists who have more advanced technical and marketing skills. Another explanation for the large number of graduates holding senior positions as their first job is the fact that many of them are either self-employed (mostly in IT or business consultancy and other related sectors) or have started their own business.

Interviews have shown that the main factor deterring companies from employing more young specialists and paying them the desired salary is their lack of experience. The sociological survey confirmed this: of the barriers faced by the young specialists while searching for a job, the lack of experience was quoted the most frequently (21% of respondents), while a lack of information about available vacancies was the second most frequently given answer. More than 63% of the graduates had accumulated no work experience while studying. Of those who had some work experience, in most cases (around 60%) this was not related to the area of their core specialism.

Internships and the opportunity to work part-time while studying are obvious ways for young people to address the problem of lack of experience. However, it seems that most students either ignored or were unable to undertake these activities. The 'internships' that students in Moldova must fulfil in their final years of study was inherited from the Soviet system and is so formal that it is ridiculed both by students and by companies that offer it. There are some legal regulations regarding internships. For instance, according to the Law on Education, companies with public capital and with 20 or more employees are obliged to take interns from secondary professional education institutions. However, these types of regulation are not taken seriously because they are not adequately enforced by the government. Moreover, there is no serious commitment on the part of companies to create real conditions for internships, nor on the part of students and universities to set up and achieve clear

objectives. In most cases there is no continuity between the theoretical material learnt in school and the practical tasks that students perform during internships. In other cases, because they have only been trained to use older equipment, interns are simply not allowed to use advanced equipment, since employers fear they may break it.

The average length of the first job identified in the transition module was around 30 months, but this included individuals who were still in their first position. Interviews with employers reveal that young employees do not usually remain in their first jobs for more than two years. The most intense 'outmigration' of the young specialist is from in public services and public administration. Salaries in these sectors are lower than in the private sector or in programmes implemented by international organisations, and young specialists accept public sector jobs only to gather the necessary two to three years' experience that is necessary in order to obtain a better-paid job. The working agreement usually takes the form of a full-time long-term contract.

One important conclusion is that the transition from school to the labour market is to a significant degree affected by migration. Many graduates have parents or other relatives working abroad for relatively long periods of time. A number of factors enable graduates nowadays to leave the country more freely than the first waves of migrants, but the two most important factors are the social networks for the mutual help of those who migrate, and the multiple citizenship that many graduates hold. As a result of this, today's graduates are looking for much higher entry salaries than did previous cohorts. According to results of the survey, young people graduating in 2007–2008 would accept in their first job, on average, a minimum wage of MDL 3,650 (roughly USD 380) which is 75% higher than the average monthly wage in Moldova. Some companies are able to pay such salaries, but most are not. Interviews conducted with employers show that they are not satisfied with the quality of work that young employees usually deliver for such a salary. Because of the small sample, no clear link between the reservation wage and educational level was discovered, although those graduating from universities tended to look for higher salaries.

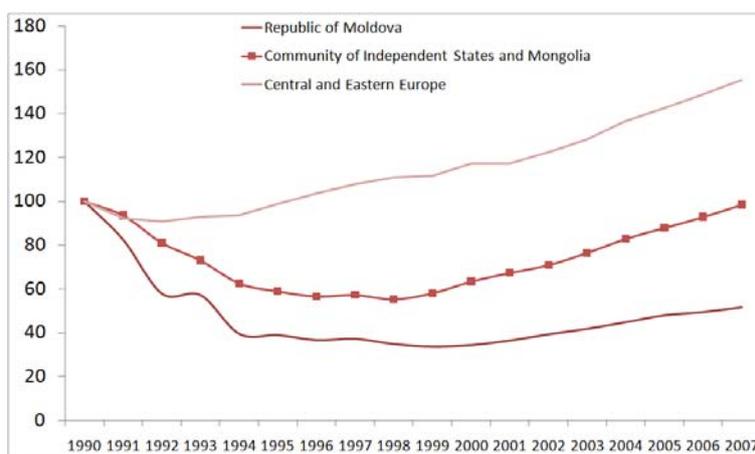
### 3. Restructuring labour markets and changing employment patterns

#### 3.1 The macroeconomic situation and economic restructuring

##### 3.1.1 From economic decline to economic rebound

Moldova's GDP has followed a U-shaped trajectory over the period 1991–2007, though it still has far to go to recover its 1990 level of production (Chart 29). In 2007 total output was only 52% of the 1990 level. With an average GDP growth of 5.5%, it is unlikely that Moldova will recover its pre-transition level of output until 2019–2020.

**Chart 29. Trends in Moldova's GDP (%) (1990=100%)**



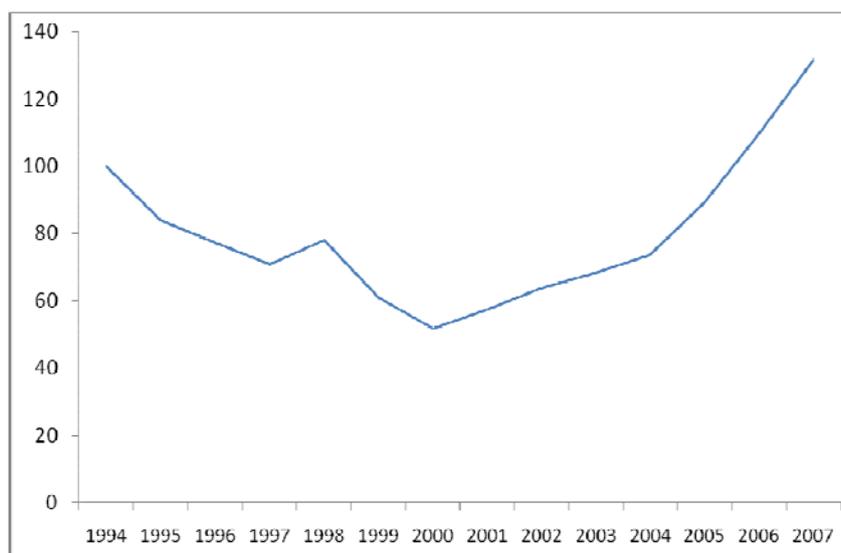
Sources: NBS and CISR for 1991–1994

The economic decline in Moldova in the 1990s was among the deepest and longest of those in all transition economies. The persisting decline was a result of protracted structural reforms, increased energy prices and the slow pace of building new trade relations after the old linkages with Russia and Ukraine had vanished. Although Moldova implemented a number of crucial reforms in the early transition period (liberalisation of trade, prices, the exchange rate and the labour market), by 1994–1995 the reform momentum had been lost. Following the 1998 Russian financial crisis another series of reforms were successfully implemented, including structural reforms in the energy sector, pension reform and large-scale land privatisation. This stop-and-go reform model has created negative social outcomes, with the incidence of poverty rising to more than 70% in 1999.

Since 2000 the economic revival has been led by rapidly growing domestic and foreign consumption demand, the investment demand that resumed in 2004, and macroeconomic stabilisation. Macroeconomic stabilisation has been achieved by lowering the budget deficit alongside more restrictive monetary policy. After a decade of efforts on the part of the Moldovan National Bank, inflation was brought down to single digits in 2003 (6.3% at the end of the year), though it subsequently rose above 10% again. The new government that came to power following the 2001 general elections started by promising to reverse the huge privatisation of the 1990s, thus damaging relations with the IMF and the World Bank, which stopped providing financial support. In 2004–2005 a reversal of political rhetoric occurred, a series of structural and institutional reforms were launched (including of the business regulatory framework) and the Moldovan government turned to international financial institutions for policy advice and financial support. In 2007 privatisation resumed, with many public companies being privatised through the stock exchange and through direct agreements with strategic investors.

One of the main factors behind Moldova's poor economic performance in the early transition period was the low capital investment ratio. Except for one growth episode in 1998, the investment in fixed capital decreased in real terms until 2000 (Chart 30). This was a result of the poor financial situation of companies, the low savings rate and inadequate financial intermediation. Most of the investment went into sectors that employ relatively few people, while labour-intensive sectors benefited from little investment. For instance, in 2000 around 3.4% of the total investment in the economy as a whole went into the agricultural sector, which at that time employed more than 50% of the total labour force.

**Chart 30. Annual growth of fixed capital investment (%)**

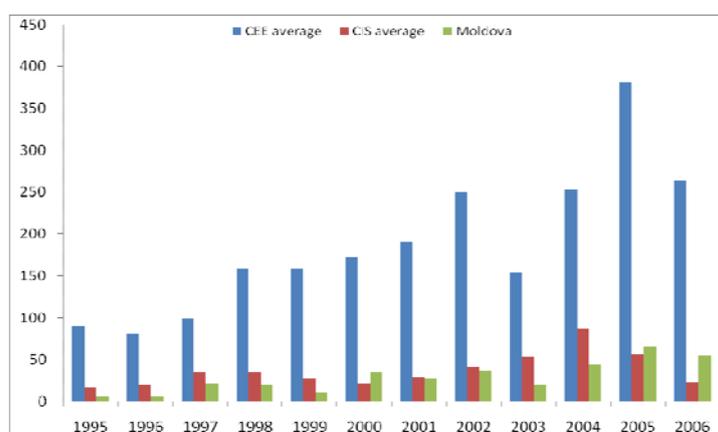


Source: NBS

Furthermore, Moldova has lagged behind other transition countries in attracting FDI (Chart 31). This was the result of the poor institutional environment and opaque regulatory norms. The situation started to change in 2005, with FDI inflows into the Moldovan economy increasing from USD 88 million in 2004 to USD 459 million in 2007 (3.4% and 10.4% of GDP respectively). This was the result to some extent of somewhat more vigorous domestic reforms, but also of growing FDI in the entire CEE and CIS region. The stock of FDI in the Moldovan economy is currently close to USD 2 billion. As of 1 April 2008 the EU countries were the main investors in the Moldovan economy, though Russia also remains very important. The main originating countries of FDI are the Netherlands (22.0% of total stock), Russia (12.0%), Cyprus (8.5%), Spain (8.4%), Italy (7.1%), UK (6.8%) and Germany (5.2%). Most of the foreign capital has been invested in wholesale and retail trade (25.1% of total stock) and the processing industry (24.2%). The energy sector has attracted significant amounts of FDI (16.4%), mainly from Spain and Russia. Since 2006 the financial sector has become attractive for FDI, mainly from Italy, France and Russia.

It is important to note that since the second half of 2006, economic growth in Moldova began to be mainly investment-led, rather than the consumption-led growth had previously prevailed. The Russian embargo on alcoholic beverage imports from Moldova has seriously undermined growth. The international financial crisis will probably reduce the inflows of FDI. However, from a longer-term perspective investment-led growth is likely to persist and Moldova should benefit from an increased inflow of FDI as result of EU enlargement and more intense domestic investment.

**Chart 31. FDI per capita in Moldova, CIS and CEE countries (USD)**



Source: NBS

The geographical profile of Moldovan foreign trade has undergone significant changes in the period 1995–2007, although the process has been slower than in other transition countries. In 1995 Moldova was almost completely dependent on its traditional CIS markets (mainly Russia, Ukraine, Belarus and Kazakhstan), with 70% of imports coming from and 63% of its exports going to the CIS. By 2007 trade

had become more balanced, with CIS countries providing 36% of Moldova’s imports and receiving 41% of exports (Chart 32 and Chart 33). To some extent this is the result of the Russian trade sanctions that were introduced against Moldova in 2005–2006. As result of worsening political relations with Moldova, the Russian Federation stopped imports of vegetable and animal products (in 2005) and then of alcoholic beverages (March 2006) from Moldova. The trade embargo had a devastating impact on many farmers, agro-food processing companies and wine producers. However, it had no systemic impact on the Moldovan economy and many companies were able to adapt and diversify their market outlets. In fact, the Moldovan economy has proved more resilience than most experts predicted.

In 2007 the most important destinations for Moldovan exports were:

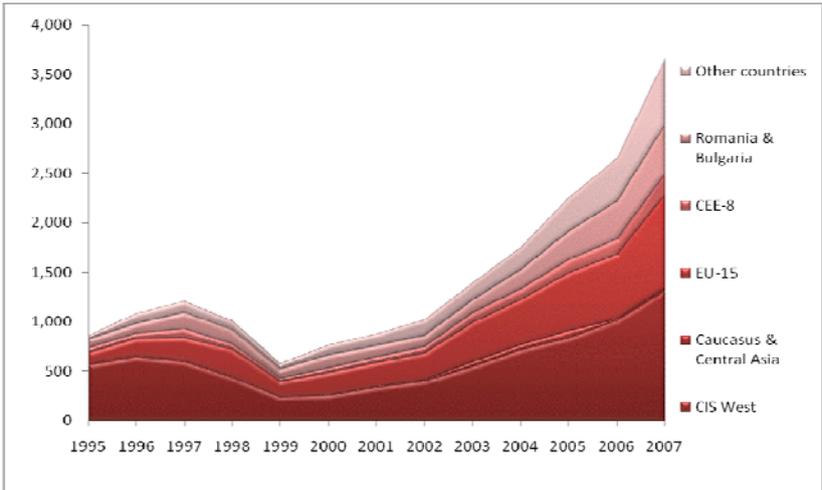
- Russian Federation (17.3% of total)
- Romania (15.7%)
- Ukraine (12.5%)
- Italy (10.4%)
- Germany (6.4%)
- Belarus (6.1%).

The country’s imports originated mainly from:

- Ukraine (18.6%)
- Russian Federation (13.5%)
- Romania (12.2%)
- Germany (8.7%)
- Italy (7.3%)
- China (5.5%).

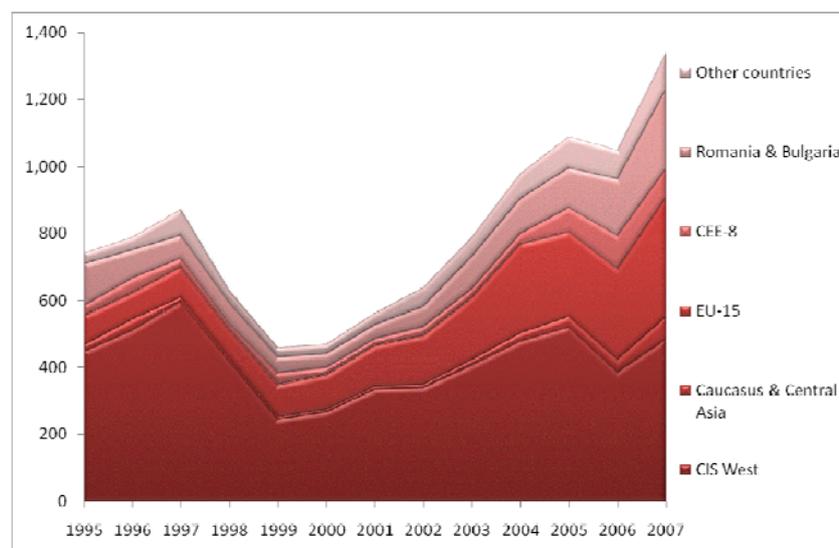
It should be noted that in recent years Romania has advanced particularly quickly to the top of the list of Moldovan trade partners. Despite Romania abolishing a free trade agreement with Moldova after joining the EU in 2007, Moldovan trade with Romania has continued to grow rapidly.

**Chart 32. Trends in Moldova’s imports by groups of countries, 1995–2007 (USD thousands)**



Source: NBS

**Chart 33. Trends in Moldova's exports by groups of countries, 1995–2007 (USD thousands)**



Source: NBS

During this period important changes have taken place in the export profile of Moldova. Out of the top 15 exported goods in 1995, only 7 were still on the list in 2007. Beef, cigars and cigarettes, non-processed tobacco, grain and canned tomatoes are no longer among the top 15 exports from Moldova. On the other hand, the list for 2007 included such goods as gypsum products, nuts, sunflower seeds and metallurgical products. Overall, Moldovan exports have become more diverse in terms of both market destination and the products involved.

Imports also have undergone significant structural changes. Although energy resources remain the top import for Moldova, the general profile of imports has changed significantly and energy imports have decreased from 45.5% as a proportion of the total value of imports in 1995 to 21.0% in 2007. Only 5 of the top 15 imported products in 1995 were on the list for 2007, while the other goods on the list are new products.

Despite positive changes in Moldova's export profile in terms of products and geographical destinations, structural imbalances have accumulated. Over the period 1995–2007 imports registered an almost exponential increase, growing 4.4-fold in only 12 years (from USD 840.7 million in 1995 to USD 3,689.9 million in 2007). On the other side, the poor state of the Moldovan economy resulted in a much slower increase of its exports (a 2.5-fold increase, from USD 745.5 million to USD 1,341.8 million). Only once during the entire period (in 2001) did exports grow faster than imports. As a result, the trade deficit worsened rapidly. Nowadays, the trade deficit in goods is to a large extent offset by a positive balance of trade in services and significant inflows of remittances from Moldovan migrants working abroad.

### 3.1.2 Changing economic structure

Economic sub-sectors have responded in different ways to changing political and economic realities during the transition period (Chart 34). Agriculture has suffered the most protracted recession, a process that is not over yet, with total output in 2007 reaching only 67% of the production levels of 1994 and 1997.

The industrial sector managed to recover to its pre-transition levels in 2002, but its strong growth stopped in 2005. In late 2005 and early 2006 the Russian Federation introduced (for political reasons) an embargo on imports of alcoholic beverages, vegetable products and animal products from Moldova. As a result Moldovan industry suffered a recession in 2006–2007. In 2005 the alcoholic beverage sector was a significant one, accounting for more than 25% of industrial output and around 28% of export revenue. However, the negative effect of trade barriers on employment in industry was quite marginal, with a loss of around 3,000 jobs in 2007 (out of a total of 161,000 in 2006), and was limited mainly to the alcoholic beverage industry. In 2008 the recession was almost over, and there are good prospects for growth to strengthen, providing that necessary investment is made and that diversification of market outlets continues. The effect of the Russian trade embargo was much more powerful in the case of Moldovan agriculture, where labour shedding was on a much larger scale.

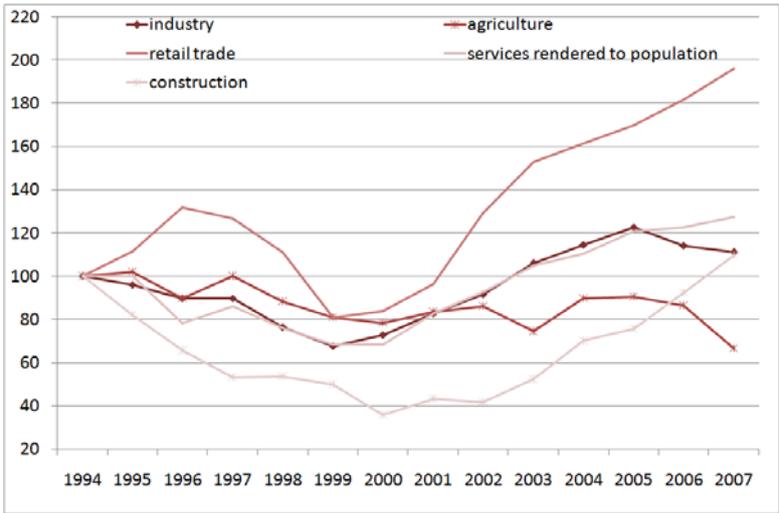
The construction sector has suffered the deepest economic downturn and the most severe loss of jobs: in 2000 the total volume of construction work was only 36% of the 1994 level, while the number

of jobs reduced from 91,000 to 44,000 in 1994-2000. However, since 2003 companies in the sector have started to recover and to respond to the rapidly growing demand for construction work. Over the period 2003–2007 the total output of the sector has grown 2.6-fold in real terms, while employment has grown by 65%. It should be mentioned that geographically this growth has restricted to large urban areas, and mainly to the capital city.

The services sector displayed the strongest recovery in the period 2000–2007, as demonstrated by a 2.3-fold increase in retail sales and an 87% increase of the volume of services rendered to the population. However, this stunning growth in sales was not matched by a similar increase in the number of jobs provided by the services sector: during the same period employment in the services sector increased by only 13%. This was not enough to offset the reduction of jobs in agriculture and other economic sectors.

As a result of these changes the GDP profile of the Moldovan economy has changed radically. In 1995 agriculture represented 29.3% of the total value added in the economy, industry 25.0%, construction 3.5%, and services 28.7%. In 2007 the structure was completely different, with agriculture contributing less than 13.0%, industry 15.0%, construction 4.2%, and services 51.0%.

**Chart 34. Trends in production by sectors (1994=100%)**



Source: Authors' calculations based on NBS

**3.1.3 Social development**

The long economic decline has been reflected in worsening social conditions and living standards in Moldovan society. By 1994 the real wage had fallen to a half its 1990 level and subsequently increased to 60% in 1998, only to decline again in 1999–2000. There was a sharp increase in the incidence of poverty until 2000 (with around 70% of the population falling below the poverty line), and a significant subsequent decline (26% in 2007). Despite the declining incidence of poverty, significant income inequalities persist. Moldova started its transition from an almost completely egalitarian society (with a Gini coefficient of 0.25 in 1989) and in one decade became a highly unequal society (with a Gini coefficient of 0.44 in 1999). Income inequality subsequently decreased as a result of increased revenue from migrant workers and high wages at home, though it still remains high (around 0.39 in 2007).

However, no sustainable reduction of rural poverty has so far been achieved, and in rural areas the poverty indicators began to worsen again in 2005, despite the continuing growth of the economy. Drought in 2007 and floods in 2008 caused additional financial stress for rural inhabitants.

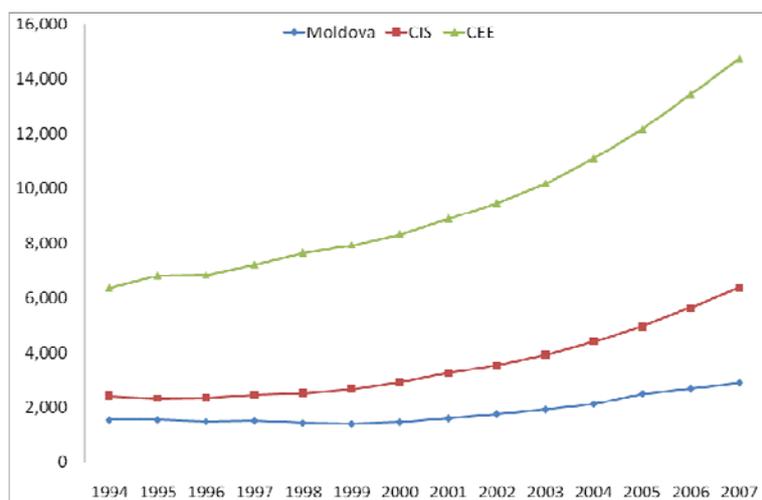
Since Moldova has a large rural population, it is no surprise that most of the poor (about 70%) are also in the rural areas. However, the inhabitants of small towns in Moldova have the highest risk of poverty because of the absence of work opportunities in the industrial sector and the lack of land for subsistence agriculture. Most households that fall below the poverty line are headed by individuals who formally have a job. This proves that it is not the absence of jobs that is the main cause of poverty, but rather the poor remuneration of the work.

The acute situation that was specific to the late 1990s improved only after the large-scale migration of Moldovans to foreign labour markets began. However, migration represents a poverty-escaping strategy, rather than a development-enhancing option. It is no surprise that with a GDP per capita of

only USD 3,000 at purchasing power parity (PPP), Moldova presently is one of the poorest European countries, and the gap with CEE and CIS countries has increased consistently (Chart 35). Even when revenue from migrants' remittances are taken into account the situation does not change significantly.

The period of economic growth is associated with an improvement in labour remuneration. In 2007 the average real wage was 33% higher than the pre-transition level. It should be mentioned that migration as well as economic growth was a factor that contributed to an increase in reservation wages across many economic sectors. However, the growth was far from even. Relative wages in agriculture fell, while in other cases there was a convergence towards the national average.

**Chart 35. GDP per capita (USD, Purchasing Power Parity)**



Source: Authors' calculations based on IMF World Economic Outlook Database

## 3.2 In which sectors are new jobs created? Mobility from old to new sectors

### 3.2.1 Shifts of employment between economic sectors

Moldova was traditionally considered an agricultural country, though its economy has changed during the past decade. As previously mentioned, the GVA of the agricultural sector has decreased significantly, as has employment in the sector. There were two important events that caused abrupt falls in employment in the agricultural sector. The first decline was in 2003 when a serious drought affected agriculture. The second was in 2006 and was triggered by the Russian embargo on Moldovan wines. Negative trends persisted in 2007, when another serious drought took employment in agriculture to 32.8% of total employment. In 2008 the embargo ended and most wine companies restarted exports to the Russian Federation. However, many of them are still recovering from the serious losses suffered during 2006–2007.

The agricultural sector has been the least productive in terms of new jobs since 2000. However, employment in the agricultural sector in rural areas remains high at 56% of the employed population. Given that 38% of this represents households producing agricultural goods for their own consumption, it can be seen that job opportunities are scarce in rural areas and productivity is low in the sector.

The most significant increase in employment after 2000 was in the construction sector, which has developed most rapidly in recent years (Table 21). Although employment in the sector might remain stable in the face of a possible slowdown in construction, new employment opportunities could arise in connection with the earlier construction boom, for example in renovations, furniture production and house-keeping services. There was a less significant, though consistent, increase in employment in the trade sector. These are the two main sectors to which those leaving agriculture move because of the ease of transition and the fact that there is no need for radical retraining. It is also evident that the dramatic falls in agricultural employment in 2003 and 2006 were to some extent offset by increasing employment in construction and trade.

**Table 21. Increase in employment by sector of economic activity (% of the previous year)**

	2000	2001	2002	2003	2004	2005	2006	2007
Total	104.4	100.3	100.7	90.7	88.1	88.3	84.1	83.5

Agriculture, forestry and fishing	103.5	102.8	100.4	78.4	71.6	72.2	56.8	54.9
Industry	100.0	99.5	103.1	98.9	97.4	96.1	97.1	95.2
Construction	91.7	89.6	95.0	110.1	107.6	107.0	139.3	156.7
Trade	110.7	108.6	116.5	118.9	119.9	120.1	130.8	132.5
Hotels and restaurants	110.4	117.1	120.1	107.3	117.1	140.2	132.2	131.1
Transport and communication	91.4	92.1	88.5	97.0	105.2	101.9	93.5	98.4
Financial intermediation	95.4	107.0	108.1	122.1	157.0	155.8	175.6	180.2
Real estate, renting and business activities	112.7	112.7	116.8	149.1	167.6	165.3	179.2	167.6
Public administration and defence	97.6	99.7	100.9	100.6	98.0	94.3	110.3	101.7
Education	92.1	91.7	95.6	99.4	97.9	98.2	109.3	106.0
Health and social work	95.1	90.6	92.6	88.2	88.0	89.0	82.5	86.3
Other activities	99.5	85.1	84.9	85.7	91.9	97.3	114.6	117.3

Source: NBS

The development of the banking system as a result of massive FDI inflows has created many new jobs in the past few years. For instance, from September 2007 to September 2009 the number of bank clerks increased from 9,500 to 11,000. However, the capacity to create new jobs will decrease, as the banking system already has sufficient infrastructure for the size of Moldova's population. But there is still room for developments in the financial system, particularly in the insurance field, which could offer new employment opportunities.

The structure of employment results in low wage levels in the economy, since more than 50% of the population are employed in sectors where labour productivity is very low (especially agriculture) and in the budgetary sector. The wages in the public sector are determined by the limits of budget revenues, although many of the individuals affected, including teachers and medical doctors, have high levels of qualifications. There has been an insufficient increase in employment in the services sector in Moldova. In most of the successful transition economies the services sector has been the main source of increases in employment. The business climate and political and macroeconomic instability at the beginning of the transition period were the main impediments to the rapidly growing services sector in Moldova.

### 3.2.2 Mobility from public to private sectors

Mobility from the public to the private sector is driven in the main by low wages in the public sector. The particularity of the work in some areas of the public sector does not allow for an easy transition to the private sector. This is mainly the case for the education and healthcare systems. Few private educational institutions and hospitals currently exist in Moldova, and because of this mobility is at an insignificant level and has no real impact on the wellbeing of these specialists. As there are no private outlets for highly skilled personnel working in public education and healthcare, the only reasonable alternative for survival is migration. It is no surprise that the emigration of teachers, nurses and even doctors for unskilled work abroad has been common.

Another common direction for mobility is the migration of young people from public administration to the private sector. Since the budgetary sector does not offer high levels of remuneration, it also has lower requirements regarding work experience. Many young graduates are therefore employed in the sector as specialists with medium-level qualifications. However, after accumulating the two to three years' work experience that is demanded by most private employers, many of them leave for jobs in the private sector. In the SLMT these individuals indicated that there was no need for additional training when moving from the public to the private sector.

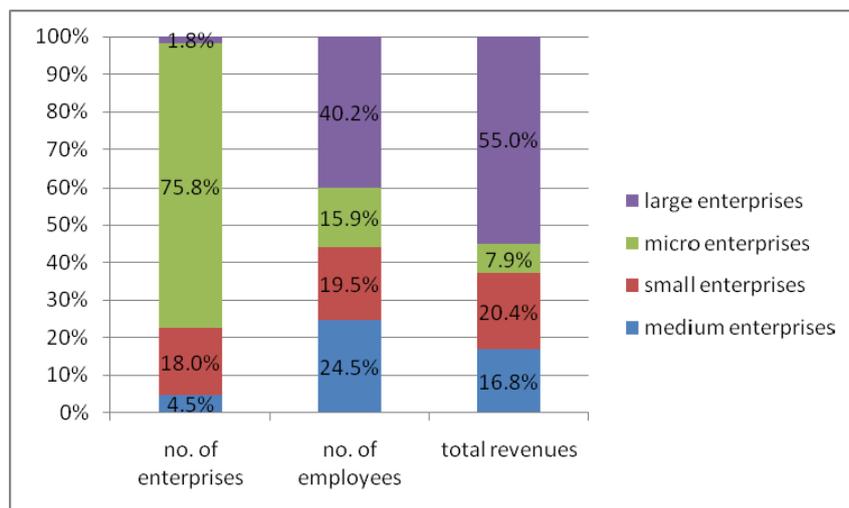
With regard to public enterprises, some of them still offer better salaries than privately owned enterprises. Most of the public enterprises that offer relatively high salaries are large companies that benefit from a 'natural' monopoly or support from the state (such as 'Moldtelecom' in landline telecommunications, 'Air Moldova' in air transportation, 'Caile Ferate din Moldova' in rail

transportation). However, the SLMT had an insufficient number of observations to allow a full picture of the phenomenon to be presented.

### 3.2.3 The contribution of small and medium-sized enterprises to employment

The largest proportion of employees in Moldova work in the small business sector<sup>37</sup>. This sector has 98.3% of the total number of enterprises and employs 59.8% of employees (Chart 36). But the profile of small and medium-sized enterprise is not very diverse, with 41.0% of them in the trade sector. Furthermore, the great majority of these entities (65.9%) are concentrated in Chişinău.

**Chart 36. Proportion of small and medium-sized enterprises (%), 2007**



Source: NBS

The low rate of employment in Moldova is a consequence of the low level of job creation. This is mainly due to the low rate of firm creation<sup>38</sup>. The rate of firm closure<sup>39</sup> is also low, which is another negative factor, since resources – including the labour force – are trapped in non-viable firms<sup>40</sup>. The job-creation rate in Moldova is lower than those of other transition countries, while at the same time the job-destruction rate is higher than in many of these countries. The job-creation rate sharply decreases with firm size. Consequently, the small-business sector accounts for a disproportionately large proportion of job creation. The firm creation rate has always been low in Moldova (Table 22) as compared with that in other transition countries of Central Europe, where the rate was on average 16–18%<sup>41</sup>. The creation rate for firms registered as natural persons is particularly low. Sectors containing these entities have exploded in some transition economies, while in Moldova the increase has been rather modest. However, these rates may be downsized because of the low rate of firm closure. There are still many businesses that are not active, but which have not been closed because of the complicated and costly procedures involved.

**Table 22. Rate of firm creation and firm closure (%)**

	2005	2006	2007
Rate of firm creation	6.0	6.6	8.6
Rate of firm closure	1.3	1.4	1.4

37 The small business sector comprises all micro, small and medium enterprises. A micro firm is an enterprise whose annual number of employees does not exceed 9 persons, annual sales revenue does not exceed MDL 3 mil. and total annual amount of assets does not exceed MDL 3 mil. Small firms are enterprises whose annual number of employees does not exceed 49 persons, annual sales revenue does not exceed MDL 25 mil. and total annual amount of assets does not exceed MDL 25 mil. Medium firms are enterprises whose annual number of employees does not exceed 249 persons, annual sales revenue does not exceed MDL 50 mil. and total annual amount of assets does not exceed MDL 50 mil. The definitions are from the Law on the Support of Small Business Sector of the Republic of Moldova no. 206 from 07.07.2006.

38 Rate of firm creation – number of firms in year t as a proportion of the number of firms registered at the beginning of year t (used in Rutowski, J., Firms, Jobs and Employment in Moldova, World Bank, 2000)

39 Rate of firm closure – number of firms closed in year t as a proportion of the number of firms registered at the beginning of year t (used in Rutowski, J., Firms, Jobs and Employment in Moldova, World Bank, 2000)

40 Rutowski, J., Firms, Jobs and Employment in Moldova, World Bank, 2004.

41 Eurostat, 2000.

Firm turnover	7.3	8.0	10.0
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Source: Ministry of Information Development, own calculations

### 3.2.4 Retraining needs and other problems encountered in the process of inter-sectorial mobility of the labour force

While employment in the agricultural sector is decreasing rapidly, the increase in employment in other sectors is not so significant. The most usual shift is from the agricultural sector to the construction and trade sectors, where additional training – if it is required at all – is much easier and not as expensive as in other sectors.

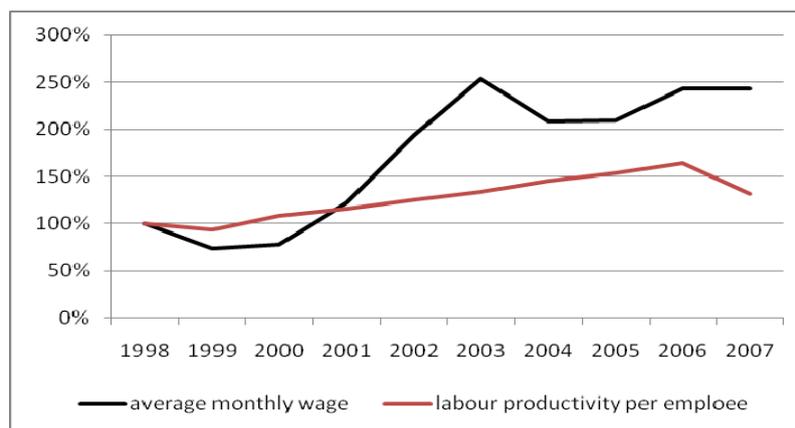
The majority of managers of enterprises agree that the quality of the labour force is a critical constraint to the development of their business. However, they invest very little in on-the-job training. In 2006 only 8.2% of employees received on-the-job training, these being mainly in the fields of financial activities, transport and communication, and electrical and thermal energy, gas and water. Employers do not invest in training for employees since this involves additional costs, and there is no guarantee that the employees will remain with the company. The SLMT shows that in the construction sector on-the-job training is more common.

The SLMT also shows that on-the-job training is the most usual when employees change their sector of activity, with approximately 15% of inter-sector migrants receiving this type of training. Around 5% of those changing sector of activity received training conducted by the NEA or on private courses. Surprisingly, almost 58% of those who changed their jobs answered that there was no need for additional training. This can be explained by the fact that for 63% of those who changed job, this did not involve a change in profession as such.

### 3.2.5 Evolution of labour productivity and labour costs

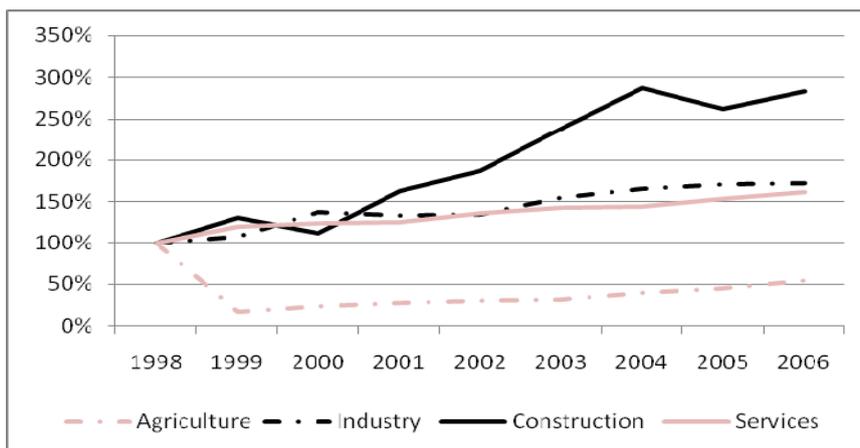
Since 1999 there has been an increase in the nominal labour productivity per unit employed, as there has been in the level of wages in the economy. However, in real terms the increase in productivity was not very significant, and was lower than the increase in real wages (Chart 37). The most significant increase in productivity was in the construction sector and the most significant decrease in the agricultural sector. The increase in productivity in the services sector is low because it includes the education, health and public administration sectors, which still account for a large proportion of employees (Chart 38).

Chart 37. Increase in real labour productivity per employee and real average monthly wage



Source: NBS

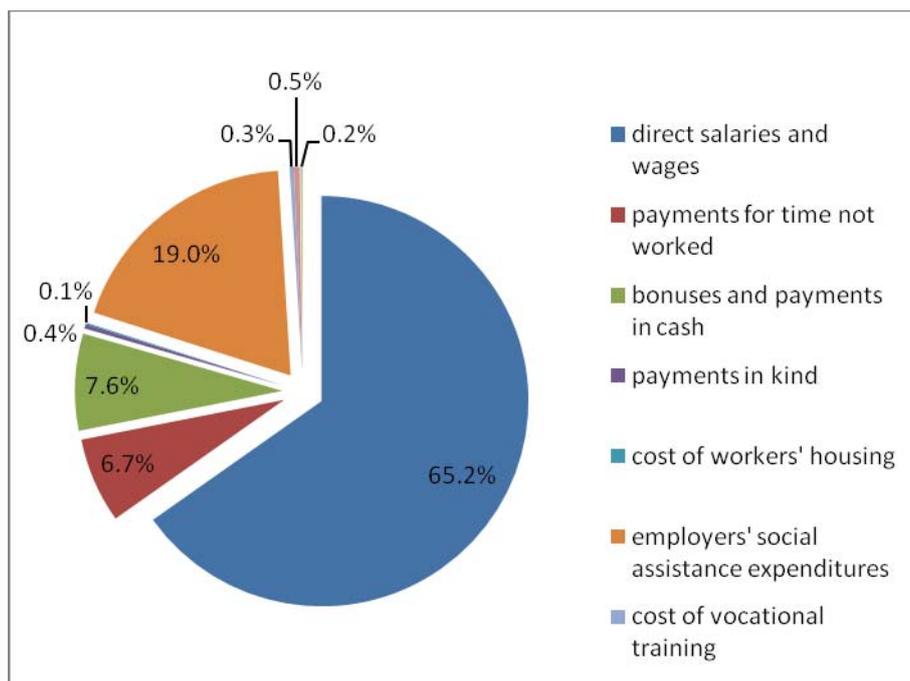
**Chart 38. Increase in real labour productivity per employee by sector of economic activity**



Source: NBS

Over time labour costs have increased and changed in terms of their structure. The highest proportion of labour costs is represented by direct salaries and wages (Chart 39). Employers' social assistance expenditure is also a significant component. According to Moldovan legislation, the total social contribution is 29% of the wage bill. Together with mandatory health insurance, the social contribution constitutes 23.4% of the national public budget revenue, compared to 6.3% of budget revenues from tax on salaries.

**Chart 39. Labour cost in companies and organisations, 2007**



Source: NBS

### 3.3 The size and structure of the informal economy and informal employment

#### 3.3.1 Size and structure of informal employment

Informal employment is very significant in Moldova, representing approximately one third of total employment. It mainly occurs in households producing agricultural goods for their own consumption, which represent 12.3% of total employment and 36.6% of informal employment (Chart 40).

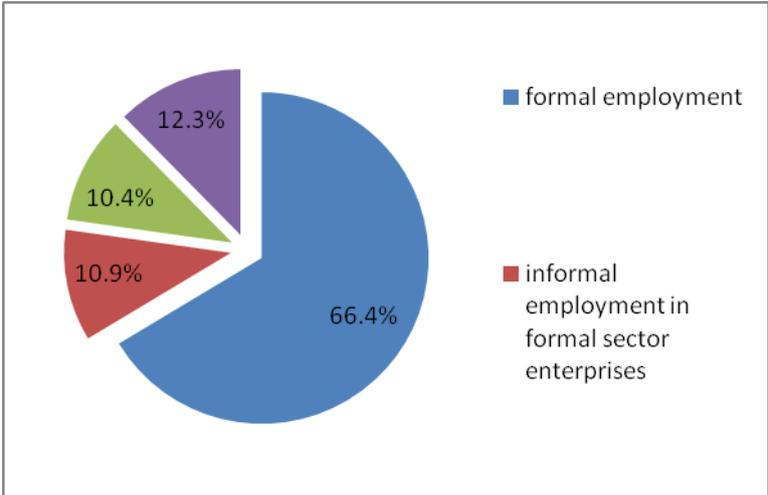
There is a small difference between informal employment rates for men and women (35.4% and 31.5% respectively), but a much greater difference between rates in urban and rural areas. In urban areas 18.9% of the employed population work in informal activities (mainly trade), while in rural areas

the share is 45.7% (mainly agriculture). In the latter case, these are mostly households producing agricultural goods for their own consumption. This high proportion of informal occupations demonstrates the lack of real economic opportunities in rural areas.

Informal employment is not restricted to informal enterprises and production for own consumption in Moldova. A significant proportion of informal employment (32.3% in 2007) is in formal sector enterprises. Individuals with higher education are also involved in informal occupations, albeit less frequently, with the main reason for this being the avoidance of taxes.

Moreover, in Moldova the Law on Entrepreneurial Patent is in force, allowing some economic activities with low profits to be carried out without financial reporting, mainly retail trade in specialised areas (markets)<sup>42</sup>. The law was intended to be abrogated in 2007, but as a result of massive social protests it was extended until 2017 (except for some activities, which were removed from the patent regime). Individuals working on an entrepreneurial patent basis are part of informal employment, but according to the amendments to the law they pay social contributions.

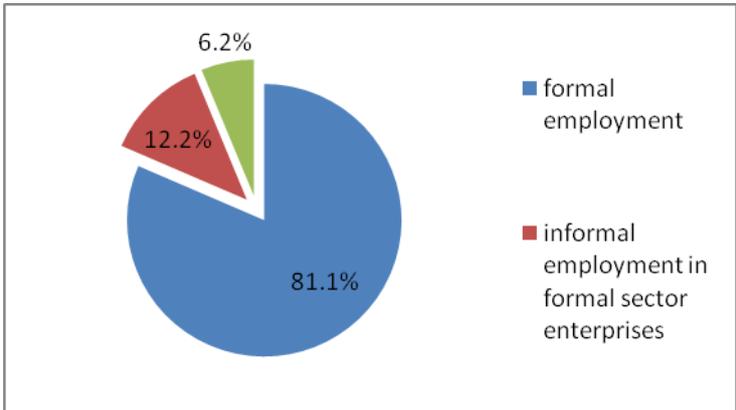
**Chart 40. Employment by legal status, 2007**



Source: NBS

If the agriculture, forestry and fishing sector is excluded (Chart 41), then the number of persons in informal employment decreases from 441,500 to 158,300 and informal employment as a share of total employment shrinks to 18.9%. Taking agriculture out of the picture, informal employment in Moldova becomes more of a formal sector, wage employment, male, urban phenomenon, and the informal sector becomes very much an urban one dominated by men.

**Chart 41. Employment by legal status excluding the agricultural sector, 2006**



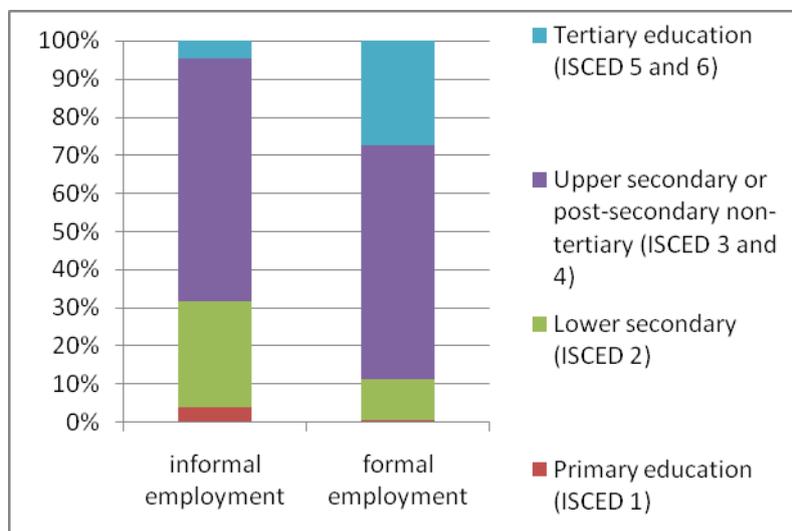
Source: NBS

Individuals with informal jobs in the formal sector tend to have a lower level of education than those with formal jobs, and individuals employed in the informal sector tend to have an even lower level of education than persons with informal jobs in the formal sector (Chart 42).

42 Law on entrepreneurial licence, 17.071998.

A high level of informal employment affects the sustainability of budgetary revenues and increases the risk that many individuals will have only minimal pensions when they retire. It is therefore very important to promote an efficient employment policy, especially for workers in the agricultural sector, who represent the main part of informal employment and the main burden for the social insurance budget, a burden that will become heavier in the future.

**Chart 42. Educational background of the population employed in formal and informal sectors (%)**



Source: NBS

Informal employment does not provide decent incomes. The risk of entering poverty is higher for individuals in informal employment, but this is also because of the high level of informal employment in the agricultural sector, which is the least productive sector of the economy. The majority of the households practice subsistent agriculture and do not participate in commercial trade. Thus, the risk of entering poverty for those who are self-employed in the agricultural sector was approximately 41% in 2005, which is four times higher than for self-employment in the non-agricultural sector and twice as high as for employees<sup>43</sup>.

### 3.3.2 Reasons for informality

Why is informal employment so widespread in Moldova? First, for many people in rural areas it is the only available method of survival. The structure of informal employment shows that the main problem is the lack of alternative work opportunities in rural areas.

For others, informal employment is a secondary source of income. In the second quarter of 2003, 22% of informal jobs were secondary activities<sup>44</sup>. Furthermore, the proportion of employees with temporary jobs is much higher in the informal sector than in the formal sector (20.3% vs. 1.1% in 2003), and the proportion of those satisfied and not looking for another job is lower than in formal employment.

Finally, there is the issue of low productivity in many sectors: companies cannot afford to pay decent salaries and they prefer not to pay taxes. This is tolerated by the employees, who prefer to have a higher salary in the present rather than an uncertain pension in the future. However, this situation creates high risks for the pensions system which are compound by the decreasing employment rate and the ageing of the population.

Since personal income tax is not very high in Moldova, the main issue of concern for both employees and employers is the social contribution, which is 29%. This is paid by employers (24%) and employees (5%). The government has adopted a policy of rebalancing these shares, with more to be paid by employees and less by employers. However, such a rebalancing without a general reduction of the fiscal burden is meaningless, since employer and employee negotiate net salary rather than gross salary. The gradual increase in the share of the contribution paid by the employee and the decrease in the share paid by the employer may not have the intended effect of encouraging

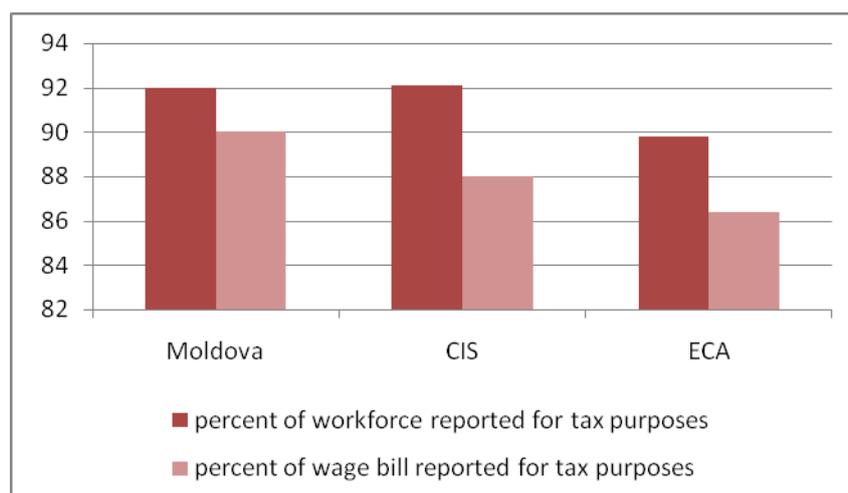
<sup>43</sup> Employment in the Informal Economy in the Republic of Moldova, Policy Integration Department, Bureau of Statistics, International Labour Office, 2004.

<sup>44</sup> Employment in the Informal Economy in the Republic of Moldova, Policy Integration Department, Bureau of Statistics, International Labour Office, 2004.

companies to come out of the shadows, because the fiscal burden that the company (employer + employee) has to bear is the same.

The percentage of the wage bill reported for tax purposes by companies in Moldova is higher than in other CIS countries, while the percentage of the workforce reported is almost the same (Chart 43). Moreover, there is an inverse proportional relationship between the size of the enterprise and the proportion of informal employment in formal sector enterprises. Smaller enterprises are more willing to have informal employees because of their smaller revenues, but they also have a greater ability to ensure the confidentiality and exert control over their employees. While for many small enterprises avoiding taxes is an important method of survival, the shadow economy is also an important source of revenue for wealthier individuals and enterprises. The latest available estimates show that the informal economy as a share of Gross National Product was 49.4% in 2002–2003<sup>45</sup>.

**Chart 43. Proportion of workforce and wage bill reported for tax purposes (%)**



Source: BEEPS

However, the dissatisfaction of those employed in the informal sector is higher, since only 0.7% of individuals in formal employment had looked for another job or wanted to work more hours in their current job, compared with 5.0% of those employed in informal employment<sup>46</sup>.

45 Black Sea and Central Asia: Promoting work and well-being, OECD, 2008.

46 Employment in the Informal Economy in the Republic of Moldova, Policy Integration Department, Bureau of Statistics, International Labour Office, 2004.



## 4. Labour migration

### 4.1 Mobility in the domestic market and immigration

Domestic migration is a very significant and revealing feature in the development of Moldova. It was a characteristic of Moldova both prior to and following independence. However, while in pre-independence years, migration from rural areas to cities was determined mostly by a process of robust industrialisation, in the wake of political and economic transition, degradation and deprivation have been the main driving factors behind the migration from rural areas and small towns to large Moldovan cities. Thus, internal migration in Moldova is asymmetrical lopsided and tilted towards migration from rural to urban areas. It mostly occurs along two axes: village–city and town–city.

The main reasons for leaving rural areas are the lack of economic and job opportunities (as result of both labour shedding and the lack of growth in job creation by new enterprises, as well as a massive return to subsistence agriculture), and poorer living conditions, for example in the lack of access to basic services and infrastructure (Table 23). For instance, although almost 60% of the total population of Moldova live in rural areas, no more than 15% of medical personnel are employed in the rural medical institutions, and the situation is not much better in most district centres<sup>47</sup>. Moreover, some studies suggest that 65% of the rural population do their shopping in large cities and another 15% in district centres<sup>48</sup>. Still more significantly, rural residents have borne the brunt of increasing inequalities. For instance, the 80% of those in the poorest quintile in Moldovan society are rural residents<sup>49</sup>. Some of these shortcomings seem to be long-lasting, as still more labour needs to be shed in agriculture, for instance. At the same time large cities offer much better economic opportunities, higher salaries and better standards of living, albeit (even though not for everyone). Young people who obtain their professional and university education in the cities are not inclined to come back to their home villages, since they will not find job opportunities there.

**Table 23. Access to water and canalisation services in urban and rural areas, 2002–2006**

		2002	2003	2004	2005	2006
Length of water pipe system (km)	Urban	3,984.5	4,035.7	4,033.8	4,045.0	4,150.5
	Rural	2,621.8	2,619.8	2,678.2	2,720.8	2,696.7
Water supplied to population (million m <sup>3</sup> )	Urban	43.1	40.6	40.6	44.5	45.3
	Rural	3.2	3.1	3.5	3.4	3.9
Length of sewerage system (km)	Urban	2,057.4	2,062.7	2,070.8	2,078.7	2,083.7
	Rural	545.9	523.8	522.5	513.5	456.4
Sewerage water purified at purification stations (million m <sup>3</sup> )	Urban	78.1	69.2	69.5	75.4	73.8
	Rural	0.9	0.9	0.9	1.0	0.1

Source: Statistical Yearbook of the Republic of Moldova 2007, National Bureau of Statistics

Furthermore, Moldova has historically had an extremely high proportion of its population living in rural areas; in fact, it is the highest proportion in Europe. For example, while Moldova's rural population represents just less than 60% of its total population, the same indicator is slightly above 40% and 35% for Romania and Poland respectively; these countries are the two with the most significant rural population shares among the recent accession countries (Table 24). Since 2000 the rural population has remained more or less constant in Moldova, hovering around 59% of the total population.

Another important push factor for outward migration from rural areas is poverty (Table 25). Indeed, the low incomes earned from agricultural activity are behind the reversal of poverty-reduction dynamics in Moldova<sup>50</sup>. The overall poverty rate increased in 2005 by 3% from 2004, mainly as a result of the sharp increase in rural poverty and the persistence of poverty in towns.

**Table 24. Rural population as a proportion of total population in selected countries, 2005 (%)**

Albania	Bulgaria	Poland	Romania	Moldova*
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47 State of the Nation Report 2007, Expert-Grup, 2008.

48 Ibid.

49 Report on Poverty and Policy Impact, Ministry of Economy and Trade, 2005.

50 Moldova: Poverty Update, World Bank, 2006.

53.0	29.9	38.5	45.0	59.0
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Note: \*Data for the Republic of Moldova do not cover Trans-Dniester region

Source: UN data, Expert-Grup calculations.

**Table 25. Poverty rate according to area of residence, 2001–2006 (%)**

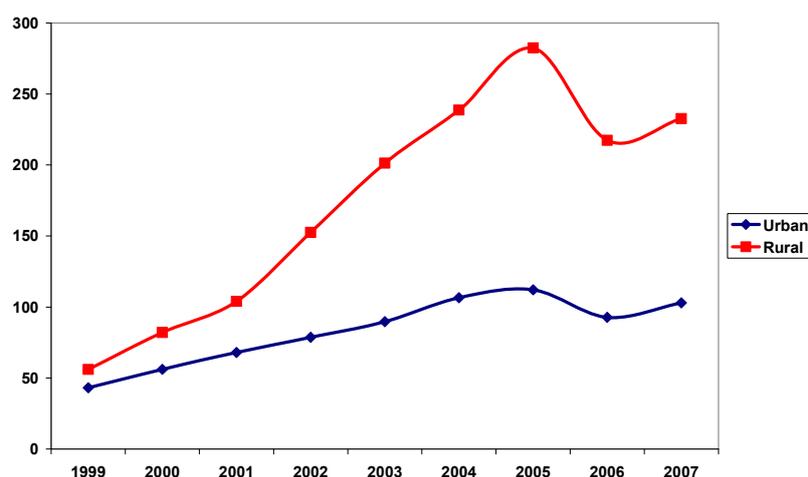
	2001	2002	2003	2004	2005	2006**
Total	54.6	40.4	29.0	26.5	29.1	30.2
Cities*	30.0	16.5	12.8	6.9	5.9	20.6
Towns	73.1	46.8	42.4	34.9	34.2	30.1
Rural area	58.2	45.1	31.1	31.2	36.0	34.1

Note: \*Cities include Chişinău and Bălţi municipalities; \*\*Because of methodological changes the data for 2006 are not comparable with those for previous years.

Source: National Development Strategy, Government of the Republic of Moldova, 2007

Rural migrants also make up the largest share of emigrants from Moldova (Chart 44). The Household Budget Survey Labour Market Household Survey data show that 70% of persons declared to be abroad come from rural areas. These official data are in line with the data from the CBS AXA survey, which show that rural areas provide 67.2% 'of persons declared currently abroad' and 65.2% 'of those who have recently been abroad'.

**Chart 44. Rural vs. urban international migration, 1999–2007 (thousands)**



Source: LFS, NBS

The data from the National Census show that the main Moldovan cities represent poles of attraction for rural and small-town residents. Only three cities have a positive migration balance in the inter-census period (1989–2004): Chişinău (the capital), Bălţi and Cahul. Interestingly, these three cities also represent different regions of Moldova: Central, North and South respectively. Overall, these cities have the following positive net migration: 38,778, 4,515 and 866 persons respectively. At the same time net positive migration for these cities is somewhat of a novelty, as it started to occur only since 2000. These cities appear to represent centres of economic activity for their respective regions, where migrants can find better jobs and enjoy higher standards of living than in rural areas.

Finally, the phenomenon of internal labour migration is not very significant. Only 1,134 labour permits were issued by the Moldovan authorities in 2007. Of these, 901 persons were employed on the basis of a labour contract, the rest founded companies in Moldova. In addition, 712 labour permits were extended<sup>51</sup>. Thus, the overall number of labour immigrants is around 1,846 persons. The majority of the permits issued are for citizens of Turkey and Romania.

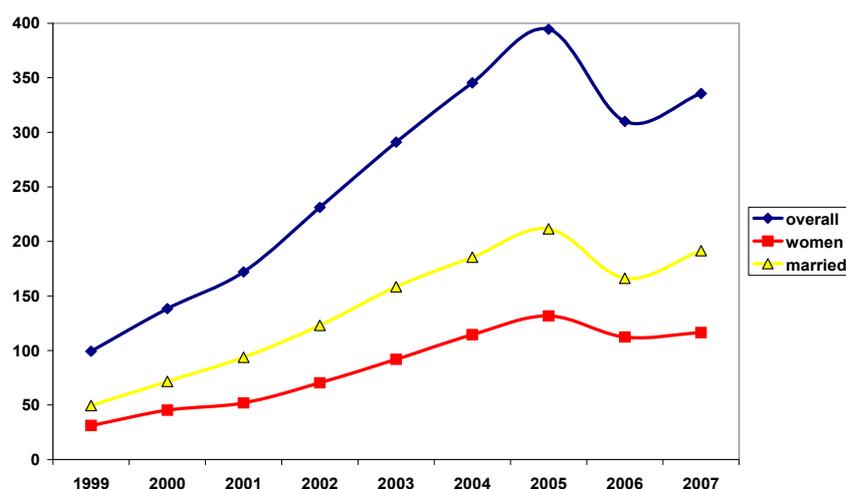
51 ANOFM (National Employment Agency), Annual Activity Report, 2008.

## 4.2 International labour migration

### 4.2.1 A general overview of migration stocks: who is migrating?

International labour migration has in some respects become a defining feature of Moldovan life, in terms of both domestic developments and the external image of the country. There are many estimates of the current emigration stocks, ranging from 150,000 to 1 million persons. However, the truth lies somewhere in between official estimates from the LFS (Chart 45) conducted by the NBS, and the IOM's 'Pattern and Trends of Migration and Remittances Survey', conducted by the CBS AXA sociological research company. No less important is the fact that both sources show that migration stocks continued to increase up to 2006 and 2007 and showed no significant signs of decrease.

**Chart 45. Total migration and migration by gender (women) and marital status (married – both men and women), 1999–2007 (thousands)**



Source: Labour Force Surveys, NBS

Thus, according to the LFSs conducted by the NBS, the number of migrants increased from 99,300 (1999) to 394,500 (2005). Data from the LFS represent the higher threshold, since population census data (2004<sup>52</sup>) show 242,000 migrants against 354,000 by LFS (2004). At the same time, estimates by CBS AXA (2004, 2006) are also somewhat conservative: 214,000 in 2004 and 265,000 in 2006.

However, the figures from both CBS AXA and the LFS show only how many migrants are abroad at a given moment in time. Other sets of data show how many people have recently been abroad to work: an increase from 293,000 in 2004 to 345,000 in 2006<sup>53</sup>. Moreover, data from CBS AXA show a trend of increasing propensity to migrate. Thus, while in 2004 as many as 389,000 persons planned to leave Moldova, in 2006 this number had reached 555,000 persons.

The majority of migrants are young, and are aged between 20 and 49 years (Table 26). Official estimates indicate that individuals aged between 20 and 49 years make up 87% of the total number of migrants. Those aged between 20 and 34 years represent almost half of the total number of migrants<sup>54</sup>. These estimates are more or less in line with data from the CBS AXA survey, which shows that the majority of migrants are aged between 20 and 50. The average age of migrants is 34.56 years<sup>55</sup>. The IOM study indicates that of those who plan to migrate, young people aged 19–30 years represent 44.3% of total<sup>56</sup>.

**Table 26. Migration profile by age and region of the country, 2007 (thousands)**

	North	Centre	South	Chişinău	Total
15–24	23.6	25.6	27.4	6.1	82.7
25–34	28.0	32.0	29.3	9.9	99.2
35–44	28.1	26.2	20.6	7.9	82.8

<sup>52</sup> While results of the census were made public in 2004, the data actually covers 2002.

<sup>53</sup> Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

<sup>54</sup> LFS, National Bureau of Statistics.

<sup>55</sup> Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

<sup>56</sup> Ibid.

45–54	22.0	17.9	15.7	8.1	63.7
55–64	2.2	2.5	1.3	1.3	7.3
Total	103.9	104.2	94.3	33.3	335.7

Source: LFS, NBS

Women account for a significant and growing proportion of the migration stock. According to the LFS, the proportion of migrants who were women increased slowly during the period 1999–2005 from 31.4% to 33.4%, and subsequently to 34.6% in 2007. The population census shows that there are more male than female migrants, with men making up 57.0% of the total. The CBS AXA survey shows that women made up 41.6% of total migrants in 2006 compared to 34.1% in 2004<sup>57</sup>. Finally, data on the propensity to migrate shows that there are almost equal numbers of women and men in the total of eventual future migrants.

As far as marital status is concerned, the proportions of married and single persons were almost equal according to the LFS. However, this ratio changed slightly in 2005, with almost 54% being married. This trend was maintained in 2007, when 57% of migrants were married. The rising number of married migrants suggests that family relationships will be under increasing strain in the future.

Both early (1999) and later (2005) waves of migration consisted mainly of people with secondary education (secondary general). The proportion of migrants with higher education grew slightly from 7% to almost 8%, and the proportion of those with secondary vocational/specialised education declined from 43% to almost 41% during the past few years<sup>58</sup>. The data from CBS AXA show a somewhat higher proportion of migrants with vocational and specialised education and with higher education: 35.76% and 19.12% respectively. The proportion of those with secondary education is somewhat lower: 38.45%. Moreover, data on the propensity to migrate shows that the proportions of migrants with secondary education, secondary vocational/specialised education and higher education are almost equal<sup>59</sup>. These data apparently indicate some shifts in the patterns of migration for the future, suggesting that people with higher education are increasingly inclined to move abroad. There seem to be some changes in the profile of migrants planning to leave Moldova in the future<sup>60</sup>. Prospective migrants tend to be female, well educated and from urban areas, and are planning to make their emigration permanent. This poses serious challenges to the quality of education, and the level of interplay between the education system and the labour market.

#### 4.2.2 Destinations and patterns of migration

The country's geographical position determines two main directions for Moldovan migrants: the CIS and the EU. Among these two major poles of attraction are Russia and Italy. According to various estimates the proportion of migrants going to these two destinations is almost 60% and 17–19% respectively. Other important destinations are Ukraine, Portugal, France, Spain, Greece, Israel, Turkey and Romania<sup>61</sup>. Furthermore, Moldovan migrants are highly concentrated in a limited number of cities in the host countries<sup>62</sup>.

There are particular features that distinguish migrants going to the various regions, as well as those going to certain countries within the region. Thus, men go mainly for construction work in Russia and other countries of the CIS, but also to the Czech Republic, Portugal, France and the UK, while most female migrants go to European countries, such as Italy, Belgium, Germany, Israel and Turkey, and are overwhelmingly working in the services sector.

Furthermore, the migration destination determines the pattern for the duration of the stay abroad and the frequency of returning home. Thus, work in the CIS is mainly seasonal, and migrants stay for shorter periods of time abroad. Moreover, migrants can travel without a visa in all CIS countries, so migration towards CIS countries is usually legal. However, many migrants do not have legal work and/or residence permits.

The situation is completely different in the case of emigration to EU countries. The proportion of illegal migration can be as high as half the total number of migrants who go to this destination. As far as illegal residence is concerned, as many as 40% of migrants to EU countries do not have legal permits

57 Migration and remittances in Moldova, CBS AXA, 2005.

58 LFS, National Bureau of Statistics.

59 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007; The contribution of human resources development to migration policy in Moldova, ETF, 2008.

60 Ibid.

61 Population Census 2004; Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

62 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

to stay in their host countries, while only 20% of migrants to the CIS are in this situation<sup>63</sup>. Overall, legal channels for labour migration are used by very few people because of limited opportunities, lack of information on legal employment programmes abroad, and the strength of illegal migration networks.

At the same time patterns of migration destination have been changing. In reality, most of the data show that an increasing share of potential migrants are planning to migrate to Western Europe, particularly Italy. Many migrants go to CIS countries, since it is easier to get there; they then make and save money in order to migrate to Italy or other European countries. Moreover, the growing strength of migrants' networks in EU countries makes it easier for Moldovan migrants to emigrate to European destinations. Migrants' networks usually play a very important role in migration to the EU from Moldova, since they often provide necessary help for newcomers. The IOM study shows that the forthcoming third wave of migration will be increasingly comprised of well-educated young people from urban areas who would prefer to move westwards<sup>64</sup>.

#### **4.2.3 Reasons for migration**

The driving factors for migrants to the CIS and the EU appear to be quite different. In other words, diverging reasons and expectations have been found for these groups of migrants.

For CIS-bound migrants the push factors appear to be much stronger. Almost 40% of migrants to the CIS gave as their reason for leaving the lack of a job, while around 25% cited poverty as the main factor. In contrast, the share of migrants citing these reasons was lower in the case of those going to EU countries (26.4% and 12.7% respectively). Moreover, the poverty-incidence rate in the households with CIS migrants tended to be almost twice as high as in households with EU migrants. Consumption, however, was high on the priority list for both categories of migrants<sup>65</sup>.

For migrants going to EU countries, pull factors seem to play a much more significant role. Such factors as the existence of social networks to help with settling in the destination country and with finding a job<sup>66</sup>, better working conditions and a better way of life abroad are considerably stronger for migrants to the EU. Quite often these networks are formed by people coming from the same location (region) of Moldova. In contrast, migration to the CIS can boast only few pull factors, such as the low cost of migration (visa-free, cheaper transport, transferable language skills).

Nonetheless, despite these differences there are certain push factors that apply to a certain extent to both groups of migrants: poor living and working conditions, the widespread lack of available jobs, poverty, and concerns for the future of children are the main push factors behind the strong migration drive of Moldovans. Some data strongly support this hypothesis. Thus, the latest ETF study shows that the vast majority of respondents who intended to migrate (92.6%) were convinced that their departure might improve their financial situation<sup>67</sup>.

However, as both the IOM and ETF studies show, the expectations of returning migrants are not always met. This is especially the case for migrants returning from CIS countries<sup>68</sup>. Thus, an improvement in the financial situation is more significant for people who have worked in countries outside the CIS region. Only around 55% of returning migrants assessed their material circumstances on their return as being better than before their departure<sup>69</sup>.

#### **4.2.4 What skills do migrants possess? How do they use them abroad?**

Official data on the skills profile of migrants is lacking. The only reliable source of information on this matter is the latest ETF survey on the impact of human development on migration in Moldova; however, its most relevant data is related to potential migrants.

First, potential migrants have no illusions regarding the use of their skills while working abroad. According to the ETF survey, potential migrants were well aware of the fact that they would not be able to use their professional and educational skills adequately. It is no surprise, then, that around 40–50% of respondents who were currently working as skilled workers, or at middle or top management

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63 Ibid.

64 Ibid.

65 Ibid.

66 In some cases, helping newly arrived migrants to find a job has become a 'business', since settled migrants may request money for this assistance.

67 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

68 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

69 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

levels, expected to work abroad as unskilled workers. These figures are consistent with educational levels: 45.0% of potential migrants with a high level of education expected to undertake unqualified work abroad.

There is only limited information on the extent to which migrants' skills matched their jobs abroad. Some research found that 'only 27.3% of Moldovan emigrants work according to their qualification, while the majority of them (70.0%) perform work that has nothing to do with their occupation or qualification from their country of origin', though this data is not recent, and it is impossible to know for sure how the trends have evolved since then<sup>70</sup>. However, more recent data show that half of Moldovan migrants work in the construction sector and 20% in the services sector, with the remainder are spread across agriculture, industry, transport and commerce<sup>71</sup>. Some of the migrants (11%), mostly those working in construction, even took their tools with them<sup>72</sup>. Hence, it is assumed that at least some of the migrants, with the notable exception of a proportion of those employed in construction, gain new skills in their new jobs. The prospect of obtaining a job abroad was quite difficult for many migrants, especially those going to EU destination countries. The majority of migrants were involved in unskilled work, most of these being women. According to the ETF survey over 60% of returning migrants with a university degree undertook unskilled work<sup>73</sup>.

Second, prospective migrants gave little attention to pre-departure training, despite the fact that this training could substantially enhance their labour skills prior to departure. Very few migrants actually undertook this training, most of those who did being young people, urban residents, people with a high level of education and EU migrants. Of those who did undertake pre-departure training, the majority were involved in language courses<sup>74</sup>. Nowadays, however, there is no offer of professional pre-departure training, which was previously provided by the Department for Migration. Current activities mostly encompass informational support for prospective migrants, and this is usually provided by the local offices of the NEA with the support of the ILO Migrant Programme.

This trend is reinforced by the fact that most migration to EU destinations clearly has an unofficial character, since labour agreements signed by Moldova mainly refer to Central European countries which are relatively unpopular among the Moldovan migrants. Another issue is the very low level of awareness among Moldovan migrants of any state or private programmes to assist people to go abroad.

Obviously, the work undertaken abroad will become increasingly unrelated to the educational background of the migrants as the proportion of people with higher education increases. The available data show that most potential migrants have educational backgrounds in the fields of engineering, industry and construction, and social sciences, economy and law, with the latter becoming increasingly popular<sup>75</sup>.

At the same time, this mismatch is characteristic not only of the employment patterns of Moldovan migrants abroad, but also of the local labour market. While education focuses mainly on engineering, industry and construction, social sciences, economy and law, and services, employment among potential migrants is concentrated mainly in the areas of agriculture, construction and trade<sup>76</sup>.

#### **4.2.5 Why do migrants return?**

The tendency of migrants to return is highly dependent on the destination country and the reasons behind the decision to migrate. Migrants going to Russia (CIS), most of whom are employed in the construction sector, tended to be seasonal migrants and thus travelled abroad up to five times in a period of 9–12 months<sup>77</sup>. This pattern of returns is obviously determined by the visa-free, low-cost travel, as well as the seasonal character of construction in Russia. Furthermore, migration to CIS countries is mostly defined by push factors, which also leads to shorter stays by migrants in the destination countries.

The story is quite different in the case of migrants to EU countries. The travel costs are higher and the visa requirements strict; work there does not tend to be seasonal; and migration to EU countries is

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70 Labour Migration in Europe: focus on Moldova, Sleptova, 2003, citing Moshneaga, V., Labour Migration and security threats: general aspects, *Moldoscopia* 2001, XVI.

71 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

72 Migration and Remittances in Moldova, CBS AXA, 2005.

73 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

74 Ibid.

75 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

76 Ibid.

77 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

mostly opportunity-driven, so that migrants are prone to stay longer periods of time there. On average, Moldovan migrants in EU countries tended to stay for around 16 months. Moreover, around 20% of migrants working in EU countries planned to remain there permanently<sup>78</sup>.

Nonetheless, some migrants do return home, for various reasons. The most frequent reason for migrants to return was in order to rejoin their families (33.2%), most of these migrants being individuals with higher levels of education. Another reason for migrants to return home was homesickness and loneliness in the host country. Other factors include the fact that a sufficient amount of money had been earned, the migrant's poor health, and the expiration of the residence/work permit<sup>79</sup>. According to the ETF study, migrants with lower levels of education tended to have a higher tendency to return. This is entirely consistent with the conclusion previously stated in this report, that people with lower levels of education migrated predominantly to the CIS, worked there in seasonal jobs and enjoyed an easier return home.

According to the ETF survey, most returning migrants (around 78%) were planning to move abroad within the next two years<sup>80</sup>. Although these data also cover seasonal migrants to CIS countries, they reveal that the reasons for leaving the country remained almost the same as for the previous departure. In other words, as long as the state of the economy, with its low level of job creation, poor salaries, and poor social infrastructure, especially in rural areas, does not improve, people will tend to look for a better life elsewhere.

Nevertheless, some migrants did not intend to emigrate. The majority of these were employed in agriculture (20.5%), construction (16.6%) and trade (13.2%)<sup>81</sup>. The high proportion of those employed in agriculture is somewhat surprising, as the incomes of these workers remained among the lowest in the country. In other cases, the booming construction and retail sectors in Moldova do offer better opportunities for employment in the country.

#### **4.2.6 What do migrants bring back to Moldova?**

Remittances have been by far the most important benefit of migration for Moldovan migrants. According to official 'broad' estimates, they grew from USD 89.62 million in 1999 to almost USD 1.5 billion in 2007, when they rocketed to over one third of GDP (Chart 46). The pace set in the first quarter of 2008 was even more dramatic. These staggering numbers put Moldova at the top of the European remittance-receiving countries (in terms of the share of GDP) and among the leaders globally. Such a surge in remittances can be explained by a number of factors, such as the increase in the absolute numbers of migrants, better jobs and pay abroad as migrants' networks develop and knowledge of the host country improves, and the fact that a greater share of remittances is covered by formal transfer institutions (as a result of the growing credibility, presence and sophistication of these institutions).

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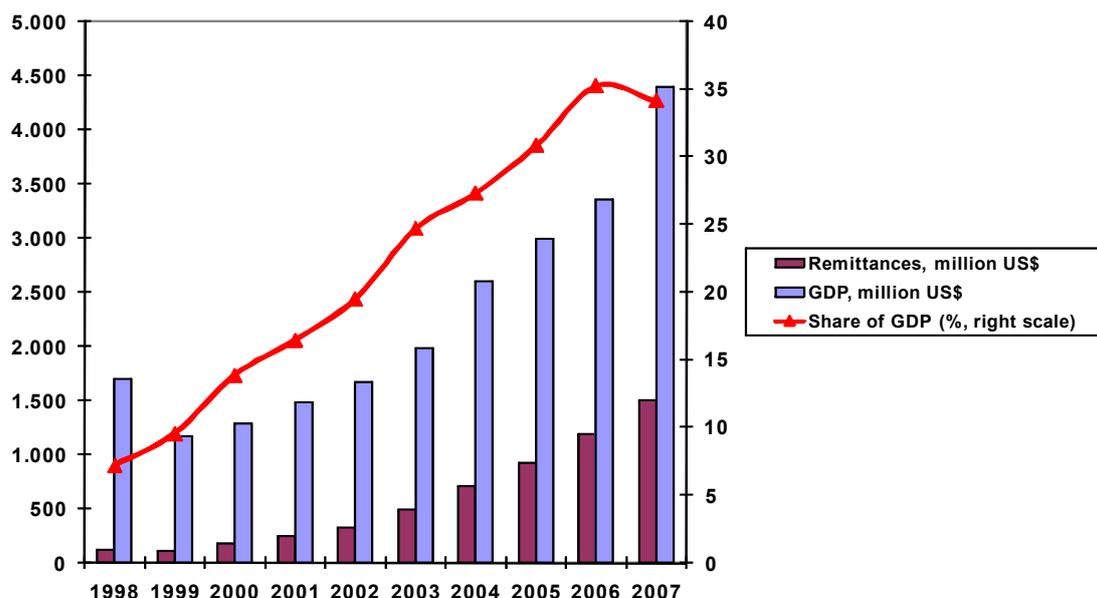
78 Ibid.

79 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

80 Ibid.

81 Ibid.

**Chart 46. Remittance trends in Moldova, 1999–2007**



Source: National Bank of the Republic of Moldova, Expert-Grup calculations

Remittances have increased not only in absolute terms at national level, but also as amounts received by households. Estimates based on the CBS AXA survey (median) show that remittances received per household per year increased markedly from USD 700 in 2004 to USD 937 or more in 2006. Approximately 1.4 million people were members of households that received remittances<sup>82</sup>.

The volume of remittances usually depends on the migrant's destination country. As a rule, remittances from EU migrants tended to exceed those from migrants working in the CIS countries (USD 1,749 compared with around USD 1,100, on average<sup>83</sup>). Quite naturally, these discrepancies reflect the higher level of earnings in EU countries and the rather seasonal nature of work in the CIS. Thus, CIS migrants returned more often and brought their earnings with them. Furthermore, remittances from individual migrants tended to rise over time, apparently reflecting their increased work experience and higher earnings, as well as lower expenditure on travel as they become more experienced.

Remittances were returned home in various ways, again depending on the host country. Migrants to CIS countries, especially those in construction, often brought the money in person. The situation is quite different in the case of migrants to EU countries, who more frequently used bank and express money transfer services, as well as couriers (such as mini-bus drivers commuting between the host and home country)<sup>84</sup>.

The remittances were mostly spent on daily needs, but also on durables and such items as cars and houses (apartments)<sup>85</sup>. Although most remittances were spent on consumption, it would be a mistake to underestimate the multiplication effects that stemmed from them. This was especially the case in relation to construction, and even retailing. According to some studies, every USD 1 that comes from remittances and enters the local economy generates as much as USD 4 in demand for goods and services<sup>86</sup>.

However, only a small proportion of remittances was used as investment in business activity (7%). It should be mentioned that only 7% of migrants expressed an interest in starting their own business. Migration destination had a clear influence on the use of remittances. Four times as many EU migrants (12.6%) invested money in businesses as non-EU migrants (3.1%). It is worth mentioning in

82 Migration and Remittances in Moldova, CBS AXA, 2005; Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

83 Ibid.

84 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007.

85 Patterns and Trends of Migration and Remittances in the Republic of Moldova, IOM, 2007; The contribution of human resources development to migration policy in Moldova, ETF, 2008.

86 Migration and Remittances: Eastern Europe and former Soviet Union, World Bank, 2006.

this context that in fact only 6.2% of returning migrants cited the desire to start their own business as one of the reasons (not the primary one) for returning home<sup>87</sup>.

Given the extreme poverty of most households prior to migration, it is not surprising that a large portion of remittances was spent on meeting immediate needs and consumption. According to some data, households with migrants tended to own more durable goods than households without migrants. In fact, the incidence of poverty in households with migrants decreased faster than in families without members abroad.

The 2006 CBS AXA survey also shows that households with migrants boosted their savings, which may imply that they will eventually become willing and able to invest. Overall, these households were almost four times as likely to have savings exceeding USD 500 as non-migrant households (29% and 8% respectively)<sup>88</sup>. It is no surprise, then, that households receiving remittances tended to use various financial services more often than non-receiving households. Bank account ownership was also higher among remittance receivers, and this is strongly linked to a propensity to save and invest<sup>89</sup>. Together with the frequent use of financial transfer services, this contributes to a higher level of trust toward financial institutions by remittance-receiving households than is the case for non-receiving households. Moreover, these transfers are beneficial for the banks themselves. According to some reports, income earned by the banks from transfers constitutes over 10% of all their net income. However, despite this fact, banks have been quite slow to develop marketing strategies and new instruments to ensure post-transfer use of the money<sup>90</sup>.

Another interesting aspect of migration and remittances is their effect on labour participation. The theory is that remittances are a disincentive to work for members of remittance-receiving households, i.e. given the significant income from remittances, remittance-receivers are disinclined to work, or work fewer hours than non-receivers. The inflow of remittances may represent a moral hazard and result in the development of a dependence culture among households receiving remittances, which in turn could lead to labour shortages and a decrease in production activities. However, there is no strong evidence to support this hypothesis in the case of Moldova. On the contrary, migration leads to labour inactivity in remittance-receiving households as a result of higher levels of enrolment in higher education – since households with migrants indeed tended to invest more in the education of their children – and increased involvement in home production in order to substitute for the individuals who have migrated<sup>91</sup>.

There are no data to confirm that members of migrants' households tended to dedicate fewer hours to work in favour of more leisure. At the same time, it is not yet clear whether enrolment in higher education would not simply involve a postponement of the decision on labour (in)activity. Furthermore, the benefits of higher education may not be clear-cut for some members of these households, since most returning or potential migrants have received education in the areas that are not in great demand in the local labour market, while employment abroad usually involves unqualified jobs for which graduate degrees are not required.

Remittances also have a number of benign and less benign macroeconomic effects. First, remittances serve as an important source of foreign exchange, along with foreign aid and exports. In fact, according to some estimates, with effect from 2006 remittances have overtaken exports as a source of foreign exchange. However, this can be explained not only by the robust growth of remittances (which could still be overestimated for the aforementioned reasons), but also by trade shocks suffered by Moldova in 2006 (Chart 47).

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87 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

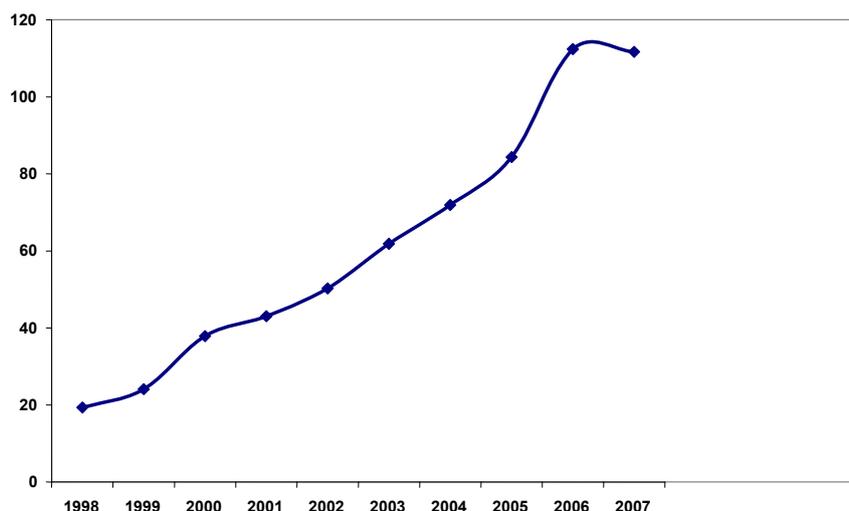
88 IOM, 2007.

89 Orozco, M., Looking forward and including migration in development: remittance leveraging opportunities for Moldova, IOM, 2007.

90 Ibid.

91 Görlich, D., Mahmoud, O. and Trebesch, C., Explaining labour market inactivity in migrant-sending families: housework, hammock or higher education, Kiel Institute for the World Economy, Working Papers no.1319, 2007.

**Chart 47. Remittances as a proportion of exports, 1998–2007 (%)**



Source: NBM, NBS, authors' calculations

Hence, remittances can often serve as a more stable and robust source of foreign cash than foreign aid, which comes with political strings attached and which can be difficult to sustain. At the same time, remittances have played an important role in fuelling the consumption boom in Moldova. Such effects of remittances have also been observed in other open small economies, such as Albania<sup>92</sup>. In addition, an increase in remittances leads to a rise in spending and hence an increase in indirect tax receipts, thus helping to boost government spending or saving. However, the burgeoning inflow of remittances has also had some negative side effects, such as the soaring trade deficit and local currency appreciation, resembling in many ways the effects of so-called 'Dutch disease'.

#### **4.2.7 How do migrants use their new skills back home?**

There is no straightforward answer to this question. The impact of skills acquired abroad on employment opportunities on returning home is rather mixed. More than 50% of migrants found that the skills acquired abroad were of no use in finding better employment back home, though 46.9% did find the newly acquired skills useful<sup>93</sup>.

Experience acquired abroad was more useful to men (51.6%) than to women (37.9%), and more useful to urban inhabitants (54.3%) than to those from rural areas (42.0%). With regard to the destination, those who had migrated to EU countries made slightly better use of their working skills to gain employment in their country of origin than those who had worked in CIS countries (49.2% vs. 45.4%)<sup>94</sup>.

Experience acquired abroad had not helped some of the respondents to find better employment opportunities for a number of reasons, the main one being that they had worked in areas other than the ones in which they were qualified. Hence, they were unable to apply the experience they had acquired abroad in their country of origin. Furthermore, some migrants stated that they had learnt nothing abroad, while in some instances the employers in Moldova were not interested in using the newly acquired experience of the migrants they employed.

Such a mixed picture can be easily explained if the work done by Moldovan migrants abroad is taken into account. In reality, most of those who worked abroad were not employed according to their qualifications. As a result, they had to acquire new skills in the process of working in the destination countries. According to the ETF survey, 36.0% of returning migrants with a university education had worked in construction and 28.0% as domestic workers<sup>95</sup>. Those who worked in the construction sector abroad would certainly find it easy to obtain a similar job in Moldova, which is experiencing a construction boom. However, this is not the case for domestic workers. Hence, returning migrants who do not have the skills (either newly acquired or gained previously) required by the current labour market will experience the same survival challenges as they did prior to migration.

92 Migration and Remittances: Eastern Europe and former Soviet Union, World Bank, 2006.

93 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

94 The contribution of human resources development to migration policy in Moldova, ETF, 2008.

95 Ibid.

The migration phenomenon will remain an important feature of Moldova in the future. Initially embraced as a survival strategy, it has now tended to be a matter of choice as potential migrants seek not simply to survive, but to improve their lives. The changes in the profile of migrants appear to corroborate this hypothesis.

Furthermore, returning migrants do not usually become agents of change as might have been expected. Indeed, it was widely believed that Moldovan migrants would return home with newly acquired skills and capital, and would act as promoters of a new labour and business culture and, thus, would support the modernisation of the Moldovan economy. Regrettably, this has not occurred so far. One of the main reasons for this is the fact that Moldovan migrants are usually employed in low-skill occupations, which results in lower salaries and hence lower remittances to be sent home. More importantly, it means that returning migrants do not acquire skills that would enable them to gain employment in more competitive sectors back home, and hence they find themselves in essentially the same situation as before the departure. This may also explain the small proportion of remittances that are used for investment purposes.

The fundamental reason, and push factor, for Moldovans to emigrate remains poverty and the lack of job opportunities. This, however, is not only a reason to migrate, but also an obstacle to returning. The issue that must be addressed by the authorities is that of making Moldova an attractive place to live and work.



## 5. Employment policy framework and recommendations

### 5.1 The place of employment policy in the overall policy agenda

Since its independence Moldova has formulated plenty of labour employment laws, strategies and plans. Most of these documents, however, had a specific Soviet flavour and lacked any practical impact. Very few have been ever implemented, monitored and evaluated, while their effects on the labour market are not apparent.

The first law on labour force employment dates from 1991. In 1994 the Moldovan government passed the first State Programme for Labour Force Employment in order to provide social protection for those workers who lost their jobs as result of the economy-wide structural reforms. At that time the government was expecting that around 118,000 would be made redundant as a result of privatisation, downsizing and the closure of state enterprises. Three other State Programmes, which very much resembled the first, were passed by Moldovan governments in 1995, 1996–1997 and 1998–2000, with the aim of stimulating employment for the labour force. (It is noticeable that the periods covered by these strategies increased, which demonstrates the inefficiency of Moldovan governments in tackling the unemployment problem and their willingness to postpone reporting for as long as possible.) These programmes included many policy guidelines which were supposed to be followed by state ministries, the State Service for Labour Employment and local public authorities. The actions to be implemented included:

- employment of those who had lost their jobs;
- creation of supplementary jobs, and establishment of enterprises with diverse legal forms;
- organisation of public works;
- training for unemployed individuals and professional counselling for the population;
- use of the labour force in rural settlements;
- employment of socially vulnerable persons.

In June 2001 a ‘special’ national programme for labour force employment and social protection of those who are unemployed was passed by a new government. This programme was only three pages long and was very vague. It was rhetorically different from the previous state programmes in that it mentioned explicitly the need to ‘attract foreign investment in the national economy in order to create new jobs’, but nothing else more specific. A feature of all these programmes has been the emphasis on active measures to support those who are unemployed, as well as explicit directives and concrete objectives and targets set for ministries and other state bodies ‘to create jobs’.

In May 2002 the government passed a strategy on labour force employment that was intended to cover the period up until 2007. That strategy defined for the first time the terms that relate to the labour market, while accepting the ILO definition of unemployment. The strategy was based on a robust analysis of the labour market situation, but its implementation differed little from the implementation of previous state and national programmes on labour force employment. One clear difference between previous programmes and this strategy was that the latter had a wider approach to employment policy and established explicit connections between its objectives and other strategies and reform initiatives (development of continuous professional training, improving labour force quality, development of small businesses). The objectives of the revised European Employment Strategy on the reduction of unemployment and the creation of new jobs were also included in the strategy. Although effective as a strategic analysis, the strategy was poor in terms of defining necessary actions and resources within a concrete timeframe. The strategy was abolished in 2007 following the approval of a new strategic document. No public evaluation of the strategy was carried out.

The current labour employment strategy takes the form of a long-term National Strategy for Labour Employment Policy for 2007–2015 (NSLEP). This strategy was developed by the Ministry of Economy and Trade with the support of the Moldova office of the ILO and the involvement of non-governmental consultants. The strategy defines the main directions for policy intervention, while detailed plans for labour employment are supposed to be elaborated annually in line with the policy principles of the strategy. The first plan for 2008 was approved by the government in February 2008 and puts forward

around 90 specific actions, grouped into 27 objectives and covering the core 11 policy directions identified in the strategy<sup>96</sup>.

The strategy was developed in line with the revised European Employment Strategy and based on the general development objectives stated in the Economic Growth and Poverty Reduction Strategy (EGPRS) for 2004–2006, the EU–Moldova Action Plan, the Millennium Development Goals, the Moldovan Village National Programme and other branch documents. However, this reference base is outdated, mainly because a new National Development Strategy was adopted in December 2007 (which in its approach is different to the EGPRS) and because the EU–Moldova Action Plan implementation period ended in February 2008. An update of the strategy is necessary in order to ensure its effective linkage with national development priorities. In addition, the monitoring and evaluation mechanism, including reporting procedures, must be effectively implemented.

## 5.2 Business environment and investment climate

In the course of the regulatory reform that has taken place in Moldova, the business climate has improved somewhat over the past three years. There have been important changes in legislation that have created the necessary conditions for a more attractive business environment. However, only the first stage of the so-called ‘Guillotine Law’ has been successfully implemented, while the implementation of the second stage has been beset with delays, which is not a good sign for either foreign or local investors. Thus, many of the streamlined regulations still exist only on paper, having not been fully implemented or entered into force; hence, it has not been possible to assess their impact. The business climate in Moldova is still worse than in many neighbouring countries because of the unstable political and macroeconomic environment, corruption and bureaucracy.

### 5.2.1 Ease of starting and operating a business

The simplification of the procedures for starting a business has been one of the most successful areas in the process of regulatory reform. The duration and costs of the registration of a new business have decreased significantly (Table 27). The introduction of a ‘one-stop shop’ approach for registering new enterprises has played a major role in this improvement. However, it is not yet functioning properly because the process of exchanging information between the NBS, the Fiscal Inspectorate and the Chamber for State Registration is not yet fully developed. This is very important for improving results and for the proper functioning of the Law on State Registration of Legal Entities and Individual Entrepreneurship<sup>97</sup> that recently entered into force.

**Table 27. Opening a business indicators**

Indicators	2002	2003	2004	2005	2006	2007
Duration of registration (days)	23	26	28	23	20	16
Registration costs (USD)	132	147	142	53	62	60
Share of respondents who made unofficial payments (%)	26	26	10	20	5	5

Source: The Cost of State Regulation of the Enterprise Activity, World Bank, 2007

Another important achievement is the simplification of the licensing procedure (Table 28). The new law on accountability that entered into force in 2008 also simplifies the financial reporting procedure.

**Table 28. Trends in the cost of licensing activities**

	2002	2003	2004	2005	2006	2007
Share of enterprises subjected to licensing (%)	-	-	-	68	58	56
Average number of licenses	3.0	2.2	2.6	1.9	2.9	1.8
Duration of obtaining a licence (days)	29	22	32	25	20	20
Average cost (USD)	522	456	517	303	273	286
Share of unofficial payments (%)	38	28	13	8	9	8

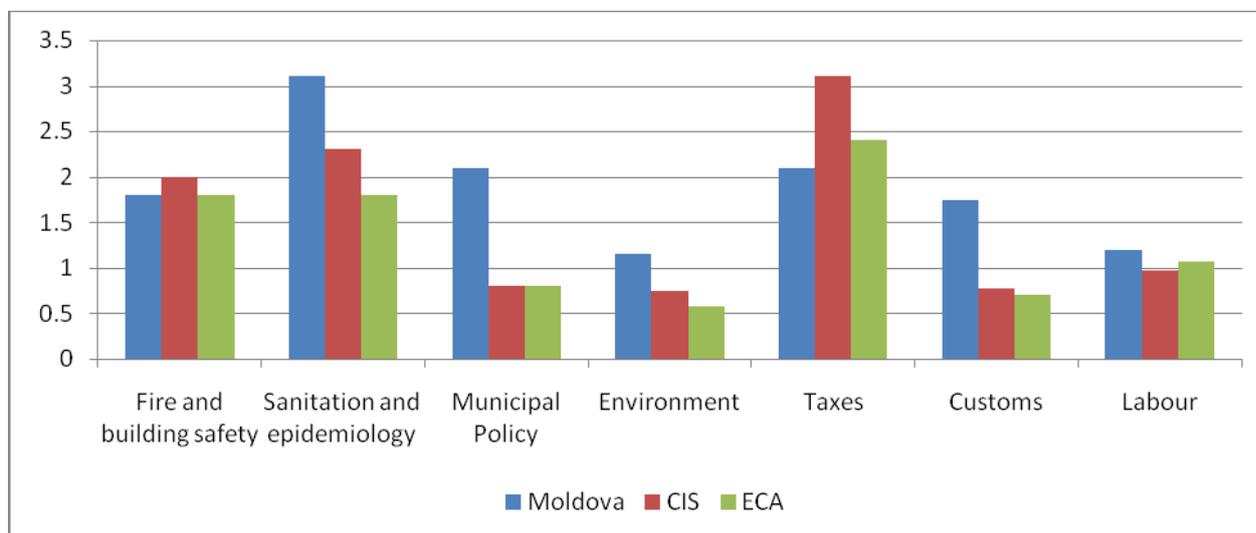
Source: The Cost of State Regulation of the Enterprise Activity, World Bank, 2007

96 Governmental Decision no. 167 of 15 February 2008 regarding the approval of the national action plan for labour employment in 2008.

97 Law no. 220-XVI from 19 October 2007 on state registration of legal entities and individual entrepreneurship.

However, these improvements have not propelled Moldova into a higher position in international rankings. In fact, Moldova's relative position worsened in the Doing Business Rankings for 2006, 2007 and 2008. This is explained by the fact that reforms have been implemented faster in other countries and also by the worsening situation in Moldova in some areas, despite the simplification of the registration and licensing procedures. Moldovan companies often complain about frequent controls and inspections, and the state should revise the functions of inspection bodies in order to prevent the duplication of inspections and audits (Chart 48). The state should put more emphasis on the efficiency of inspections, not their frequency.

**Chart 48. Number of inspections, 2005**



Source: BEEPS 2005

Another critical issue in Moldova is the level of trust in the judicial system. According to the Business Environment and Enterprise Performance Survey<sup>98</sup>, the proportion of firms reporting that the functioning of the judiciary is a hindrance to doing business is more than 50%, which is almost twice as high as the average in CIS and ECA countries. As a result, fewer firms use the courts to resolve late-payment issues. This judicial system, with its image of being unfair, expensive, corrupt and incapable of enforcing the law, is one of the main barriers to the improvement of the business climate.

Although corruption appears to be decreasing, according to the Doing Business and Cost of Doing Business Surveys, it is still an important barrier to doing business. Unofficial payments are very common in customs/import procedures, obtaining business licences and permits, dealing with taxes and tax collection, and obtaining government contracts.

These factors, together with the unstable macroeconomic situation in Moldova, are a significant barrier to foreign and domestic investment. Substantial inflows of FDI only started to enter Moldova in 2006–2007.

Furthermore, the infrastructure to support business is very weak. The National Competition Agency, which was created in 2007, has too many competences and no clear regulation regarding the methodology and tools to be used for the detection and monitoring of anti-competitive measures. Hence, there are still serious problems relating to competition in some areas in Moldova, such as landline telephony and Internet providers. Moreover, the Moldovan Investment and Export Promotion Organization has taken little action to promote the favourable image of the country.

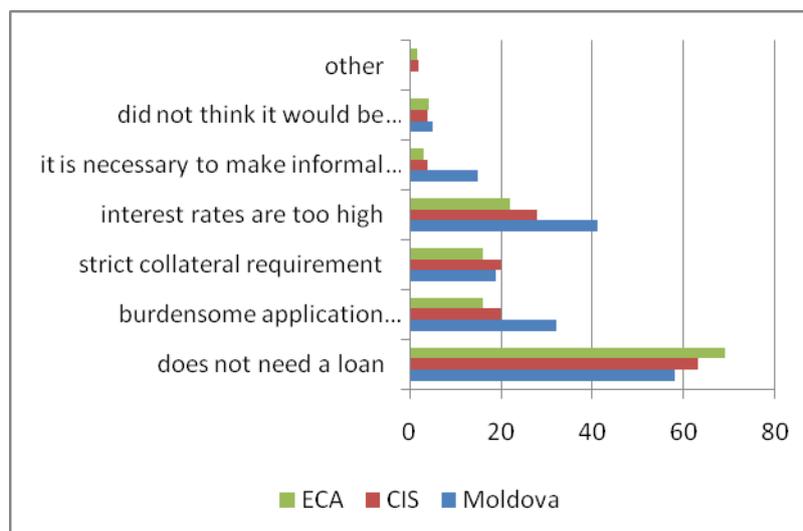
### 5.2.2 Access to finance

According to the BEEPS report, access to finance is considered to be a problem in doing business for approximately 50% of enterprises and the cost of finance represents a problem for more than 65% of enterprises. Thus, internal funds are the main source of financing for enterprises, representing 72% of new investments. Formal borrowing is the next highest source, with 16% of investments. The Analysis of Constraints for Economic Growth undertaken by the World Bank in Moldova concluded that the real interest rates are not much higher than in other countries. However, increasing inflation and the consequent increasing interest rates are the second reason for not applying for credit (Chart 49).

98 BEEPS 2005.

Another important factor that makes it difficult to obtain credit is the collateral needed and the strict conditions imposed. Usually it should represent 100% or more of the loan value. Thus, for small and newly established firms, obtaining even a working capital loan is difficult.

**Chart 49. Reasons that businesses did not apply for loans (%)**



Source: BEEPS 2005

It is especially difficult for agricultural producers to obtain credit. The land in Moldova is not valued very highly; therefore in many cases it can not be used as collateral. Of the total amount of credit offered by the commercial banks, the proportion offered to the agriculture and food industry was 13.85% at the end of 2007 compared to 28.76% in 2003. This is in line with the growth in the economic sectors of activity. However, the poor access to credit and the fact that foreigners are prohibited from buying agricultural land, have been serious impediments to the development of agriculture.

### 5.2.3 Other related problems

Corporate and personal income taxes have decreased over time. However, many surveys, including BEEPS, show that tax rates are among the most significant constraints to doing business. This may be explained by the high level of social contributions and the mandatory health insurance paid by employers and employees since 2004. Despite positive indicators in respect of the proportion of the workforce and the wage bill reported for tax purposes in comparison with other countries, the shadow economy still is a significant part of Moldovan business. The decision of the government to increase gradually the proportion of the social contribution paid by the employee and decrease that paid by the employer is intended to reduce the employers' incentives to stay in shadow economy. However, the effect of this is unlikely to be dramatic, since the net remuneration is agreed between employers and employees. This is definitely a factor that sustains the shadow economy, and no serious studies have been carried out to assess the possible impact of a decrease in the social contribution on the number of taxpayers, though this was stipulated in the EU–Republic of Moldova Action Plan.

In general there are no significant external barriers to exports. Moldova has signed FTAs with CIS countries and was given GSP+ status (which attracts additional benefits under the generalised system of preferences scheme) by the EU. The low level of competitiveness of Moldovan products is still the main cause of low export rates. The persistence of time-consuming export and import procedures and the higher costs compared with those in other countries in the region have placed Moldova in a worse position in global rankings in terms of conditions for trading across borders in the Doing Business Report. Moldova applies VAT on exports, offering the possibility of VAT refunds. But the VAT-refund procedure is so complicated that only 40% of exporters request refunding. The second most serious problem identified by exporters is corruption in customs.

Empirical evidence indicates that there is a strong link between the cost of starting a business, the growth of the services sector and the level of unemployment<sup>99</sup>, or, in the case of Moldova, the level of employment would be more relevant. Thus, it is clear that in order to achieve a higher firm creation rate, and consequently a higher rate of employment, the most important issue is to improve the business climate.

99 Rutowski, J., *Firms, Jobs and Employment in Moldova*, World Bank, 2004.

## 5.3 Labour legislation

### 5.3.1 Summary of Moldovan labour regulations for recruitment and dismissal

Labour regulations for recruitment and dismissal play an important role in regulating the labour market. Excessively rigid regulations might make companies reluctant to employ new workers even in times of economic boom, whereas flexible regulations could prevent bottlenecks in the labour market and allow companies to employ workers easily when needed.

Labour regulations in Moldova envisage collective and individual labour contracts.

A collective labour contract regulates the relationship between employer and employees and is concluded by their representatives. The contract establishes the mutual responsibilities of employer and employees regarding various issues, from payments and compensation to health and safety at work. Collective contracts should be submitted to the district labour inspectorate within seven days of being signed.

However, a person is usually employed on the basis of an individual labour contract. The contract stipulates the main conditions of employment, such as the duration of the contract, terms of reference, the main risks, rights and obligations for both employer and employee, wage/salary including bonuses and material assistance, other benefits, and conditions of mandatory social and medical insurance. The individual contract may also contain clauses regarding transport, housing and other benefits. Individual contracts are usually concluded for a non-fixed term, while fixed-term contracts can be concluded only when a number of specific and quite strict conditions are met. Fixed-term contracts are concluded for a period of up to five years, with various conditions applied. If the contract does not stipulate its duration it is considered to be for a non-fixed term or an indefinite period.

Labour legislation also envisages part-time contracts, which require mutual agreement between employer and employee, and flexible working arrangements, such as individual contracts for the fulfilment of certain assignments. Unfortunately there is no reliable statistical data on the types of contracts concluded. Labour regulations also allow for probationary period of between three and six months.

There are specific conditions for leaving a job. If employees wish to leave their job they must give the employer notice of their plans 14 days prior to the leaving date. The same article also contains a controversial clause, according to which the employer is obliged to take back an employee who, having submitted his or her resignation, changes his or her mind, providing no one else has been hired in the meantime<sup>100</sup>. The Moldovan Foreign Investors' Association is one of the organisations that has requested the wholesale annulment of this clause<sup>101</sup>.

There are also conditions attached to the procedure for dismissing employees. For instance, employees who are on sick leave, maternity leave or holiday cannot be dismissed. In many cases, if an employee is a member of a trade union, the opinion of the union should be solicited. Some companies have requested that the obligatory nature of seeking the opinion of the trade union be made consultative. Furthermore, an employee should receive notice of dismissal:

- at least two months prior to dismissal (periods of maternity or sick leave are not included in this period) in the case of their job being cut;
- one month prior to dismissal where the dismissal is a result of professional underachievement in relation to a qualification (as judged by a testing committee) or for health reasons (medical certificate);
- three months prior to dismissal where the enterprise has been transferred to new ownership;
- seven days prior to dismissal if the employer is natural person.

If after two months of the issuing of a dismissal notice no official order has been made on an employee's dismissal, the dismissal procedure cannot be repeated within a year. Surprisingly, the Labour Code does not foresee such reasons for dismissal as a lack of work performance<sup>102</sup>. Another important disadvantage of the dismissal procedures is the fact they do not protect an employer's

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100 According to the latest amendments to the Labour Code (Law no. 60-XVI, 21.03.2008), the employee can be dismissed if a new person has been employed to fill the position in the period between the first and the second requests.

101 White Book 2006, FIA, 2006.

102 Ibid.

investment in workers who decide to leave the enterprise after completing professional training or other similar activities. Under current conditions the employer cannot recover these costs.

Other restrictions relating to dismissals envisage the termination of all non-permanent jobs prior to the dismissal of permanent employees when the labour force is being downsized. After a worker has been dismissed as a result of his or her position being cut, that position can not be re-filled within one year. Where dismissal has taken place illegally, the employee should be reinstated, through either direct negotiations with the employer or judicial means. The employer is also required to present information to the NEA, two months in advance, on the employees who are going to be laid off as a result of downsizing.

There are various criteria for establishing severance payments for dismissed workers. If the dismissal takes place as a result of downsizing (i.e. the job is cut), the employee is guaranteed certain severance payments. These include payment of the total of the average weekly wage for every year worked within the enterprise, but not less than a monthly salary; and for the second and third months of unemployment, the payment of the average monthly salary, provided the dismissed employee has registered with the local employment agency. However, if the dismissal occurred because the enterprise closed down, the worker receives these severance payments as a lump sum.

The labour legislation also envisages a minimum guaranteed salary, the amount being established by the government. Since 24 May 2005 the minimum salary has been MDL 400 per complete programme of work of 169 hours a month<sup>103</sup>. According to the Labour Code the amount is established and reviewed taking into account such factors as the actual economic conditions, the level of the average salary in the economy and the forecasted rate of inflation.

The labour legislation foresees the provision of periods of so-called 'social leave': medical and maternity leave. Since a programme of obligatory medical insurance (available on presentation of medical certificate from the local polyclinic) has been implemented in Moldova, the costs of medical leave are covered from the state social insurance budget. Employers and employees pay equal contributions to this budget.

Maternity leave usually consists of two separate periods: pre-natal (70 days) and post-natal (56 days, or 70 days in the case of two children being born). The cost of maternity leave is covered by employers, who deduct this sum from the social insurance contribution they pay for every employee to the state social insurance budget.

The notable disadvantages of the labour regulations include the lack of provisions to compensate employees for working extra hours through time off in lieu, and the excessive role of the trade unions in establishing working patterns and incentive payments.

A significant number of Moldovan companies consider labour regulations to be quite severe. In fact, the proportion of businesses considering labour regulations to be a problem increased considerably from 2002 to 2005 (13% and 35% respectively). Moreover, this is a much larger proportion of businesses than in CIS and European countries<sup>104</sup>. The number of labour inspections is also higher in Moldova than in CIS and European countries.

At the same time the latest Doing Business survey displays a comparative picture that is not very favourable on some issues of relating to employment of workers in a regional context: Moldova fell six places in 2007 from its position in the list in 2006. Generally, regional comparisons do not show Moldova in a favourable light with regard to labour procedures (Table 29).

Nonetheless, labour regulation issues are not the weakest area in comparison with other countries, nor are they the main problems for Moldovan companies. As can be seen from the tables below, in such areas as dealing with licences, obtaining credit, protecting investors, paying taxes and trading across borders, Moldova's position is worse than that for employing workers (for more details see the previous section).

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103 Government decision No. 575 on 'Setting the amount of minimum salary in the country'.

104 See Cost of Doing Business surveys 2002–2005, World Bank.

**Table 29. Comparison of rankings in Employing Workers survey (Doing Business) 2008**

Indicator	Moldova	Region	OECD
Difficulty of hiring	44	36.4	25.7
Rigidity of hours index	40	48.0	42.2
Difficulty of firing	40	32.4	26.3
Rigidity of employment index	41	38.9	31.4
Firing costs (number of weeks' wages)	37	26.3	25.8

Source: Doing Business Survey, World Bank

At the same time, Moldovan companies see labour regulations as one of the least problematic areas for them while operating in Moldova (Table 30).

**Table 30. World Bank Investment Climate surveys: major constraints to business in Moldova (%)**

Policy uncertainty	Labour constraints		Regulations and tax administration			Infrastructure and Business Environment				
	Regulations	Skills	Tax rates	Tax admin.	Licensing	Electricity	Finance	Courts	Crime	Corruption
31.6	8.2	12.0	37.8	47.6	24.6	2.9	31.9	22.1	10.1	17.6

Source: World Development Indicators, World Bank, 2006

Overall, Moldova's labour regulations may well appear quite strict on paper, though on the whole they do not appear to be the thorniest issue for companies operating in the country. Some data suggest that labour regulations may not be too binding in practice after all. For example, in both 2006 and 2007 the number of employees (paid workers) dismissed exceeded 25% of the average number of those employed<sup>105</sup>. Furthermore, some earlier studies suggested that job-destruction rates are similar to those in many countries of the region, while job-creation rates are significantly lower<sup>106</sup>. Indeed, if employment growth rates in Moldova are compared with some other countries in the region (Lithuania and Romania), the results are not very favourable for Moldova: 0.2% vs. 2.9% and 1.3% respectively. Thus, apparently, the main problem lies with the low level of job creation.

The high level of job destruction also implies that strict labour regulations are not always respected and enforced. For instance, the provision that envisages trade union endorsement of employees' dismissal is not widely applied. Many Moldovan companies do not have trade union organisations, and in any case these often play a quite different role to that of similar organisations in Western Europe. Moreover, trade unions mainly exist in large public enterprises, and thus in practice the Labour Code provisions are not restrictive for the more dynamic private companies<sup>107</sup>.

Furthermore, when asked how much they would increase the number of employees as a percentage of the labour force in the absence of the current labour regulatory constraints, Moldovan companies responded that they would increase it by 6% (2005). In 2002 the equivalent figure was almost 8%. These numbers are more or less in line with those for CIS and ECA countries: almost 8% and 5% respectively in 2005<sup>108</sup>.

In conclusion, labour regulations do not appear to be a major constraint for employment; rather, the low level of job creation is the main limitation.

Moreover, data from the labour inspectorate show that while labour regulations are indeed cumbersome for companies, the scale of irregularities uncovered indicates that the impact of these regulations is rather limited. The most widespread labour irregularities discovered by labour inspectorate include:

- failure to observe rules on individual contracts (individuals working with no written contract – 270 employers at 120 companies checked);
- exceeding the maximum permitted working hours (since the labour legislation establishes a strict number of hours to be worked);

105 The indicator of paid workers hired and fired is used as a proxy for job destruction and job creation.

106 Rutkowski, J., Firms, Jobs and Employment in Moldova, World Bank, 2004.

107 Ibid.

108 BEEPS 2002–2005.

- irregularities in salary payments (salaries lower than the minimum wage<sup>109</sup>, failure to observe remuneration rules, failure to pay wages);
- labour safety<sup>110</sup>.

## 5.4 Labour market policy

The education and training reforms need to target one of the main shortcomings of the Moldovan labour market: the mismatch between education and the labour market is one of the most significant challenges. The majority of specialists produced by universities are in the fields of law, international relations and economics, while the labour market increasingly requires skilled manual workers and engineers.

The education system of Moldova has been in continuous reform since the country's independence. It has experienced periods of active reform as well as periods of standstill. Since 2004 a huge boost has been given to the reform process by the preparation for and accession to the Bologna process in 2005.

Both the preparation and the accession have led to considerable developments in national legislation (for instance, amendments made to the Law on Education, adopted in 1995) and some structural measures in Moldova's education system. For instance, a two-tier system of higher education with doctoral programmes as a third cycle was established, distance learning became regulated by law, and standards for higher education qualifications based on competencies were introduced. In addition, a government commission was established for monitoring the implementation of the actions envisaged by the Bologna process (National Council for Continuous Formation). Furthermore, classifications were approved for fields and occupations in higher education according to ISCED/Eurostat, the framework of curricula development for one cycle was endorsed, and the guide for implementation of the national system of study credits was introduced. Nonetheless, a number of important shortcomings have yet to be addressed, such as university autonomy, academic mobility, the lack of scope for private–public partnership and employers' involvement, and the general absence of a clear framework for improved links between educational institutions and private companies<sup>111</sup>.

Further legislative changes were expected as a result of a new legislative framework relating to reform and development of the Moldovan education system that was put forward for debate in August 2005. These efforts appear to have subsequently ground to a halt, since no progress has been made in adopting this legislation.

While there have been significant reform efforts in tertiary education in recent years, linked with accession to the Bologna process, the same can not be said with regard to secondary professional education. One of the first steps taken to launch reforms of secondary professional education was government approval of the concept of the development of such reforms. This concept, however, lacked strategic vision, a clear implementation plan and the financial resources necessary for implementation<sup>112</sup>. In 2005 the Law on Professional Non-tertiary Education was elaborated; this was part of the new legislative framework for education. However, there has subsequently been little progress in terms of the adoption of this framework. At the same time some critics have point out that the draft is mostly guided by interests of government institutions and envisages planned levels of enrolment and very limited scope for involvement on the part of profit-making and non-profit-making educational actors<sup>113</sup>.

In 2006 the government also approved the draft of the concept for the modernisation of the education system in Moldova. This concept puts forward six priorities in the field of secondary professional education:

- harmonisation of educational provision with labour market demand;
- development of educational institutions in accordance with the International Standard Classification of Education;
- improved access to professional education;

109 This may well show the level of 'grey' or 'envelope' salary payments that are part of the informal economy.

110 Annual Labour Inspection Reports, 2006–2007.

111 Toderaş, N., *Procesul de armonizare a politicilor formării profesionale și ocupării din Republica Moldova cu cele din statele membre ale UE*, Institute for Public Policy, 2007.

112 State of the Nation Report 2007, Expert-Grup, 2008.

113 Ibid.

- scientific, methodological and curricular support for professional education;
- establishment of a system of professional orientation;
- modification of the nomenclature of occupations and the elaboration of occupational, professional and educational standards for professional education<sup>114</sup>.

However, the concept, like the legislative framework, has yet to be adopted by parliament.

Overall the progress in education and training reform has been rather limited, especially in respect of the relationship between educational supply and labour market demand. Secondary professional education faces the most daunting tasks in this respect. Furthermore, the situation is not helped by the fact that the use of on-the-job training is very limited. Within recent years less than 10% of employees have received this type of training. At the same time, according to the Labour Code 2% of the employers' retribution fund should be channelled into training needs; however, in reality only around 0.5% of the fund is allocated to this purpose.

#### 5.4.1 Labour market policies

According to Moldovan legislation<sup>115</sup> employment is promoted through active and passive labour market policies. Both active and passive policies are financed from the Unemployment Fund, which is supported by obligatory contributions from employers and employees, and through state budget resources. Active labour market policies (ALMPs) play an important role in Moldova's labour market policy framework. Thus, the National Strategy for Labour Employment Policy for 2007–2015 (NSLEP) envisages 'intensification of active and preventive measures for unemployed and inactive persons'. The strategy aims to increase the efficiency of ALMPs through an improvement of databases, better public information, a broader reach of the programmes, more precise targeting of measures and an increase in funding for these measures. Implementation of the strategy has only recently started, and it is too early to measure its progress<sup>116</sup>.

The National Employment Agency (NEA) is the main central public service body responsible for promoting policies, strategies and state programs in the field of labour market development and social protection of the job seeking unemployed. The Agency also works to avert unemployment and to fight its negative social consequences. The Agency supervises thirty-five regional unemployment agencies and employs 249 persons of which 210 are employed with the regional agencies.

##### Active labour market policies

The number of people registered as unemployed has been falling since 2005, as has the number of unemployed people who have found a job. However, the efficiency<sup>117</sup> of employment services has apparently increased, since the proportion of people who have been helped to find a job has risen steadily from 41.1% in 2005 to 48.3% in 2007. At the same time the proportion of vacant jobs left unfilled has also increased. The NEA cites such reasons as low salaries, the low-skilled labour force, poor labour conditions, repeated posting of the same job vacancies, poor living conditions (especially in the rural areas) and above all the mismatch between demand and supply on the labour market<sup>118</sup>. Moreover, the high rate of international migration entails the exodus of a proportion of the qualified labour force.

Nonetheless, most people appear to be relying increasingly on informal channels to find work. For example, in the poll conducted for this project almost half of respondents were 'offered' their first job, around 23.0% asked for help from friends and relatives, and 7.7% obtained employment directly through the educational institutions from which they graduated, while only 5.9% of respondents used public job adverts and direct contact with employers in order to obtain their first job.

##### *Job search assistance (brokerage)*

The aim of this measure is to ensure cooperation between employers and unemployed people and to promote job search training (job clubs). The main activities are brokerage, job fairs, information seminars and self-employment activities (Table 33). Professional orientation and formation are also carried out.

114 Concept of modernisation of the educational system of the Republic of Moldova, Government decision no. 981, 25.08.06.

115 Law 102-XV from 13.03.2003, On labour employment and social protection of unemployed.

116 National Strategy for Labour Employment Policy in the Republic of Moldova for 2007–2015, Government decision no. 605, 31.05.07.

117 Obviously, we can only talk about gross efficiency, as no evaluation has apparently been made to gauge net efficiency, i.e. how many of those who gained employment would not have managed to do this without NEA assistance.

118 Labour Market 2007, ANOFM Report, 2008.

One of the main activities in this field is the organisation of job clubs. The NEA estimates that as a result of participation in job clubs, 28% of participants were enrolled in professional training courses and 20% obtained employment.

The NEA also provides professional information and counselling (vocational guidance services) that are focused on providing information on developments in the labour market; assessment and self-assessment for the purpose of professional integration; skills and confidence development for setting career priorities; and methods and techniques for job search.

#### *Advice and assistance on business start-up*

This provides legal, marketing, finance and management advice for unemployed people who are looking to start a business.

The number of beneficiaries of this service is rather small: just 26 individuals in 2007. However, there is no comparative basis, as the NEA only started to implement this measure in 2007. There could be several reasons for such a low number of participants, including the lack of information for potential beneficiaries supplied by NEA regional offices, and the fact that these courses may be perceived – rightly or wrongly – not to be ‘proper’ training.

#### *Subsidies for labour costs (support for enterprises that create jobs)*

This measure provides subsidies for the costs of employing jobless individuals, facilities for the payment of social insurance, financial support for job creation and support for employing graduates. Its reach is relatively limited: in 2007 the NEA provided support to 15 employers for employing 15 graduates (less than in 2006).

The NEA gives a number of reasons for this low level of efficiency, including the low level of payments to employers (MDL 400 in 2007), the tough conditions that employers must fulfil (three years of continuous employment for the sponsored graduate), and the insufficient labour skills or work experience of graduates<sup>119</sup>. All these factors appear to discourage employers.

However, a measure such as this may not be appropriate from the point of view of market efficiency. It is doubtful that these subsidies can rectify the failures of the education system or correct the mismatch between labour demand and supply, or somehow make low salaries more attractive to graduates. In any case, the eligibility criteria for this measure need to be reviewed in order to make them more flexible.

Funds are also provided for private companies that create jobs for all individuals, not just graduates. In 2007 the Unemployment Fund provided MDL 600,000 for two private companies that created 50 new jobs (30 of which went to individuals who were officially registered as unemployed).

#### *Stimulation of labour mobility*

This provides a one-off payment equivalent to the average salary in the economy as a whole for the preceding year to any unemployed person who gains employment over 50 km from his or her home area (‘enrolment’ payment), plus a one-off payment of three average salaries to unemployed individuals who find work and leave to go the new area (‘instalment’ payment).

The number of beneficiaries in 2007 had fallen compared with the figure for 2006. Overall, 59 enrolment and 57 instalment payments were made. The amount of the former is MDL 1,695, while that of the latter is MDL 5,085. It can be seen that the number of beneficiaries is very low, while the sums paid to them are modest and it is doubtful whether this measure can provide meaningful support to these beneficiaries.

#### *Promotion of public works (direct employment)*

The measure consists of totally or partly state-sponsored public works carried out in the interest of local authorities, and provides temporary employment for jobless individuals who are registered with the NEA.

The number of unemployed people enrolled in public works has remained constant over the past few years, varying between 3,097 in 2005 and 3,107 in 2007. Most of the unemployed individuals were involved in auxiliary jobs in rural areas. The effects of this measure could be enhanced through better cooperation between public authorities of different levels and through better financing of the scheme.

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119 Labour Market 2007, ANOFM Report, 2008.

### Professional orientation and (re)training

(Re)training is organised by the NEA, via subcontracted authorised state and private educational institutions. This appears to be a relatively efficient measure, reportedly covering around 10% of those registered as unemployed, of whom 72% subsequently obtain a job.

However, enrolment procedures are costly and complex and 15 year olds are not eligible for this training. These drawbacks should be tackled in order to increase the efficiency of this measure.

**Table 31. ALMPs implemented by the NEA by number of unemployed people covered and jobs found, 2007**

Measure	Number of unemployed people covered	Share of registered (%)	Number gaining employment as a result of the measure (thousands)	Proportion of registered unemployed covered by this measure (%)***
Brokerage	58977	121.90*	n.a.	
Job fairs	n.a.**	n.a.	2,529	
Information seminars	4574	9.45	n.a.	
Self-employment activities	5558	11.50	n.a.	
Job clubs	4478	9.25	0.883	20
Professional formation courses	4616	9.53	3,425	74.2
Assistance for business start-ups	26	0.05	n.a.	
Public works	3107	6.42	3107	
Stimulation of labour mobility	116	0.24		
Stimulation of graduate employment	15	0.03	15	
Stimulation of job creation	334	0.69	334	

\* Some of the beneficiaries applied for these services more than once.

\*\*not available

\*\*\* free spaces mean that the info is either not available or indicator's calculation does not make sense.

Source: NEA

Little has been done to evaluate the impact of these ALMPs. For example, the net efficiency, cost–benefit ratio and side-effects (deadweight, substitution, displacement) of the measures have not been evaluated in any conclusive way.

### Passive labour market policies

These include the payment of unemployment benefits and allowances for professional (re)integration. In order to receive unemployment benefits an unemployed individual must fulfil the following conditions:

- be registered with the local unemployment agency;
- have worked and made social contribution payments for at least six months within the last 24 months prior to registration;
- not be in receipt of any taxable income.

Unemployment benefit is paid depending on work experience (service record):

- 50% of the average salary in the economy as a whole for up to five years' service, paid for six months;
- 55% for five to ten years' service, paid for nine months;
- 60% for over ten years' service, paid for twelve months.

The number of people receiving unemployment benefit has increased constantly during the past few years, from 2,966 in 2005 to 4,945 in 2007 (an increase of more than 60%). At the same time the number of people receiving unemployment benefit is only 10.2% of the total number of jobless registered with the NEA and 7.4% of the total number of unemployed people calculated by the NBS.

The level of unemployment benefit, despite having been increased in 2007 to MDL 563.78 per month on average, is still less than a third of the average salary in the national economy. In fact, as a proportion of average salary the benefit decreased from 2006 to 2007. Moreover, the amount of unemployment benefit only slightly exceeds the minimum wage, which in 2007 was increased up to MDL 400. It is worth mentioning that the average level of unemployment benefit was almost half that of the average cost of living in 2007 (Table 32). Hence, it is clear that this benefit does not provide meaningful financial support for those who are unemployed.

**Table 32. Unemployment benefit, salaries in the economy as a whole and cost of living trends, 2006–2007 (average values in MDL)**

Year	Unemployment benefit	Salary	Cost of living	Minimum wage
2006	478.13	1,695	935.1	200
2007	563.78	2,063	1,099.4	400

The allowance for professional (re)integration is paid to:

- disabled people whose health condition has improved and who have become capable of work;
- individuals who left their job on maternity leave to take care of a child (up to 14 years of age);
- individuals who have taken care of a child from 1.5 to 3 years of age, but who were not employed at the time the child was born.

The allowance is equal to 15% of the average monthly salary and is paid for a period of up to nine months.

Registered unemployed people who receive unemployment benefits are also covered by the social insurance system. However, financial benefits are not paid to those who unreasonably refuse a job that is offered, or who do not want to participate in the services provided by the employment agencies.

Both active and passive labour market programmes are financed from the Unemployment Fund. However, until 1 January 2007 the administrative expenses of the NEA were also financed from the Unemployment Fund. Since that date these expenses have been financed from the state budget.

The Unemployment Fund for 2007 was around MDL 37.1 million, or 0.07% of GDP. This is in line with the previous years, when Unemployment Fund expenditure did not exceed 0.1% of GDP. In 2007 most of the funds were directed to passive labour market programmes (56.5% compared with 43.5% for active programmes). Of those directed to passive labour market programmes, just over 80% were spent on unemployment benefits.

Although the importance of ALMPs should not be underestimated, their impact on providing jobs for those who are unemployed has been rather limited. They cannot change the low rate of job creation or the failures of education and training policies to bridge the gap between labour market supply and demand. Overall, they need to focus increasingly on active policy measures, since the effectiveness of passive measures remains limited as a result of financial constraints.

**Table 33. Expenditure on ALMPs, 2006–2007 (% of total for ALMPs)**

Expenditures	2006	2007
Brokerage	1.5	2.0
Information and professional counselling	0.2	0.2
Labour mobility	1.8	2.7
Public works	18.0	21.7
Support for graduate employment	0.2	0.4
Credits for job creation	16.0	3.7
Professional formation	48.9	59.1
Establishment of information system and informing the public	12.7	9.4
Labour marketing research	0.7	0.8

Source: NEA, Labour Market Annual Reports, 2006–2007

## 6. Policy conclusions and recommendations

### 6.1 Improving labour statistics

The NBS in Moldova has developed a robust system of labour statistics that is generally in line with European standards. However, the government does not have sufficient resources to develop the system. Major improvements in labour statistics and the development of a statistical infrastructure have up to now been supported mainly by international donors. However, there are a number of key issues to be addressed, such as the development of regional labour statistics, the development of labour policy statistics (in partnership with the NEA), better analysis of labour statistics, systematic documentation of statistical methods and improvements in the technical conditions for processing and disseminating data.

- In order to address the issues presented above, the NBS needs more financial support from the government, together with greater freedom to use the extensive assets it has. For instance, the NBS has the best network for conducting sociological surveys in the country, but uses it mainly for internal purposes. Whenever the team is available, sampling and surveying services should be offered to the market to respond to the growing demand for sociological studies from NGOs, private companies and international organisations. This will bring additional revenue to the NBS which could be used for institutional development.
- Greater effort should be devoted to ensuring the comparability of the LFS with the HBS and the mutual consistence of labour definitions. This is necessary to enable policymakers and researchers to understand the implications of employment status on an individual's welfare and family situation. Examples of the indicators that need to be introduced are the number of jobless households, the number of children and other people living in jobless households, and lifelong learning and professional training indicators.
- The NBS should also have the main responsibility for developing the methodology for labour policy statistics, focusing on such indicators as the number of vacancies and the amount of public expenditure by type of employment policy measures and employment support, while the NEA should be the main institution responsible for implementation of the system.

### 6.2 Addressing the demographic decline

The difficult conditions associated with the transition from a centrally planned to a market economy have combined with the demographic transition, which started much sooner than the economic one and has resulted in a hard-to-reverse demographic decline in Moldova. It would be impossible, as well as socially unfair and unsustainable, to introduce policies to reverse socioeconomic trends that have a negative impact on reproductive behaviour, such as the growing economic and social role of women, the increasing number of children born outside marriage, the increasing number of divorces and the fact that many individuals are now postponing marriage. On the other hand, the rapid ageing of the population will soon bring about very difficult social and economic problems that governments need to solve in order to ensure the sustainability of public budgets.

The time horizon for these problems to materialise has been postponed to some extent by the increasing size of the working-age population as result of the 1970s and 1980s baby-boomers who have entered active economic life recently. However, the number of pensioners is also increasing rapidly, while the share of children below the age of 15 (the future employees) has been dramatically decreasing. If there is no reversal of the economic decline, or at least a slow-down, then in order to finance the health and pension systems, future governments will need to choose either to increase the fiscal burden on existing workers or to encourage economic activity among elderly people.

- The only way in which the government can tackle the negative rate of population growth is by reducing the infant and working-age mortality rates. This will require further improvement of the health protection system, increased awareness on the part of young parents about child health and safety risks, encouraging healthy lifestyles from a young age and discouraging substance abuse (alcohol and tobacco).
- It is possible that future governments will need to take the difficult decision to abolish the moratorium on the increase in the pension age that was passed by the current government in 2003. Most of the European countries affected by the problem of an ageing population are considering increasing the pension age. It will be extremely difficult, if not impossible, for Moldova

to keep the pension age at 62 years for men and 57 years for women, and not to increase it to 64–65 years.

- Another extremely difficult decision for the government will be the gradual introduction of a general pension system in the agricultural sector. It is clear that introduction over an extended period of time (probably a decade or so) would be possible, but if no changes are made to the current system it will become unsustainable and will further push employees to migrate because of the heavy fiscal burden.

### **6.3 Increasing economic participation and employment**

The employment rate in Moldova has decreased almost constantly since the beginning of transition, and this trend did not change even after the resumption of economic growth in 2000. The key factor behind the falling employment rate is the very poor remuneration of jobs across most economic sectors. Indeed, the low unemployment rate and the high economic inactivity rate confirm that the problem is not with the lack of jobs but with remuneration. It is important to mention that with migration easily available for many Moldovans, a geographical rather than a historical assessment of the level of remuneration must be applied. That is, if salaries that Moldovan migrants can earn in Russia and Italy are much higher or are increasing more rapidly than those on the domestic market, the level of domestic wages and how rapidly they are increasing becomes less important. The decision on whether or not to be employed is ultimately an individual choice. Hence, the government can only address the demand side of the issue by promoting more competitive salaries. This can be done in a number of ways.

- The central issue that the government must tackle through reforms is the quality of training and professional education. Workers who are better prepared are able to deliver higher levels of labour productivity and to earn higher salaries. More detailed recommendations on what exactly the government must do in the education and training sector are given below.
- In order to ensure better remuneration of the labour factor, the government must eliminate other factors that create an unnecessary additional burden on company finances. Reducing corruption, red tape and administrative and regulatory costs will free up resources that will eventually be reflected in better remuneration of workers. In the long run, qualitatively new growth in employment will occur only as human capital improves, the digital and physical infrastructure improves and the structure of the economy moves closer to a modern model.
- Many citizens are not willing to work for a low level of remuneration, though many, including returning migrants, would be willing to try setting up their own business. Clearly, if the government provides more support for the establishment and development of SMEs, this would reflect in higher levels of self-employment and employment rates. It is particularly recommended that the government support the creation of SMEs in employment-enhancing activities in rural areas (such as processing agricultural goods, services to the population and services to agriculture). International experience suggests many possible tools to help the development of the SME sector: providing financial subsidies for interest payments on investment capital, assisting companies to obtain ISO standards and other international certificates, and support for design and other marketing-enhancing activities.
- Low employment rates in many regions in Moldova are associated with high activity rates, which means that people are actively looking for jobs. International experience suggests that the most effective tools to stimulate job creation in depressed areas are direct subsidies and grants.

### **6.4 Greater investment in human capital**

Low levels of public expenditure on education in the transition period were offset by various formal and informal private payments, which brought about corruption in the education system and a decrease in the quality of education. The quality of vocational and higher education was affected most, and this also has the most significant drawbacks for the labour market. While the government is unable to finance the whole of post-secondary education, it does impose constraints on the number of students enrolled and the level of annual tuition fees. This situation does not contribute to an increase in the quality of education, which is an issue of concern that needs to be solved in a range of ways.

- A non-governmental Agency for Academic Accreditation of educational institutions (eventually with foreign affiliates) should be created, with responsibility for:

- ensuring equitable conditions for the functioning of public and private educational institutions (only a non-governmental institution will be able to give an independent evaluation of state and private institutions);
  - evaluation of the technical resources of the institution (technical facilities and space available);
  - evaluation of the teaching staff, in collaboration with foreign educational institutions;
  - categorisation of educational institutions according to the proficiency of the teaching staff and the technical and other facilities for the students; this information will be made public, and the level of tuition fees for different educational institutions will be set according to that institution's category.
- Cooperation needs to be developed between educational institutions in Moldova and those in other countries. Foreign university professors and masters from vocational education establishments should be invited to teach students, as should staff who can teach some of the new courses that have been introduced in Moldova.
  - The limits for the number of students to be enrolled should be set according to technical facilities and the availability of teaching staff, and not according to government estimates regarding 'economic needs'. In a market economy, individuals should adapt on their own to the needs of the market. If the quality of education is improved in fields for which there is a scarcity of labour, the employment opportunities will also increase and the demand for these specialities will rise.
  - Vocational schools could be managed by councils composed of employers or associations of employers and government representatives. These would have the right to vote on many issues, including curricula. This is important because employers are the ones who need the labour force. The opportunity to vote and promote changes in curricula may also encourage employers to finance vocational schools.
  - Employers should be motivated to collaborate with vocational and professional schools. Private entities can also contribute to the financing of vocational schools by offering practical courses within the enterprise, where specific equipment is too expensive for the school to buy. The business sector can also participate in the financing of specific courses that are relevant for firms, for the limited number of students they plan to hire.
  - Intra-sectorial expenditures should be optimised through an in-depth analysis of public expenditure. For example, a reduction in auxiliary and technical staff in the education system would allow the wages of teaching staff to be increased.

## **6.5 Scaling up the returns to education**

The relatively low level of return to education in Moldova can be explained by the low salaries in the budgetary sector, where most individuals with higher education are employed (teaching staff, doctors and some public administration staff). Another important factor is the low wages of new higher education graduates entering the labour market. Despite their higher education degrees, their skills and knowledge do not correspond to employers' expectations. Many of those who have graduated from higher education perform tasks that could easily be carried out by secondary education graduates. The following steps are therefore recommended.

- It is important to increase wage levels in the budgetary sector in order to retain higher education graduates, ensure their professionalism and reduce corruption. It would be possible to increase wages in the education system by allowing institutions that employ higher-level professionals to charge higher tuition fees.
- Efforts to increase the quality of education might also change attitudes among employers, who might then increase salary levels for new graduates.

## **6.6 Smoothing the transition from school to work**

The transition from school to work can be negatively affected by several factors, including:

- the low quality of education;
- the mismatch between labour supply and labour demand;

- the lack of work experience of new graduates;
- the possibility of migration for unskilled, but better-paid, work abroad.

The government has limited instruments for creating competitive jobs in Moldova and stopping migration, but it can certainly smooth the transition from school to the first job. The most important actions it should take are as follows.

- Internships should be made mandatory for students enrolled in vocational, post-secondary non-tertiary and higher education, and should also be counted as work experience. These internships should be longer than the three to four months that is currently practised, and the intern should pass through more than one division, or even more than one enterprise, in order to acquire the necessary practical skills.
- There is a need to motivate companies to create internship positions and provide high-quality information and teaching to interns, by paying companies a fee for internships. Since employers may have different requirements regarding fees, depending on the activity and the specialists who will assist the interns, a multi-pillar system of financing the internship period may be developed, as follows.
  - The government pays a minimum amount to employers for each student.
  - The educational institution may pay additional amounts for students with higher levels of achievement, who will be able to undertake their internship in better companies, with more extensive activity.
  - Students may also contribute towards the payment if they can afford it and if they want to undertake their internship in a specific company.
- More professional orientation services should be provided. Professional orientation courses should be mandatory in the final year of school. They may be provided by teachers who have previously been trained, or by non-governmental organisations, which may be given government grants for providing such services.

## 6.7 Making informal employment formal

Informal employment is mainly a consequence of the lack of other job opportunities. Almost a third of informal employment occurs in the agricultural sector, where people practise subsistence agriculture. These individuals are usually more willing than those in formal employment to move to another job if they find one. With regard to the section of informal employment that is driven by tax evasion, this problem could also be partially solved by improvements to the business climate. The main issue of concern is the social contribution tax, which is 29%, while corporate and personal income taxes are relatively low.

- Creating new jobs, which could be achieved only by improving the business climate, is the most efficient way to promote formal employment. People are usually aware of the consequences of informal employment, namely the small pension they will receive on retirement. Public campaigns and other education tools may therefore not be particularly useful.
- Reducing the social contribution may also lead to a decrease in tax evasion. At the very least an estimate of the impact of the decrease of the social contribution should be made. This should be done through a one-year pilot project by decreasing the contribution by 1–2 percentage points in a number of districts in order to observe the behaviour of companies.

## 6.8 Controlling domestic migration

Rural–urban labour migration is a persisting feature of the Moldovan economy, and has many social and economic consequences. It is clear that many rural communities are doomed and that sooner or later they will simply become depopulated. From a pragmatic perspective, the government has to accept that the rural population in Moldova is too large and a significant proportion of it will become urbanised or will migrate. However, if this process becomes out of control it will create an additional burden on urban housing sectors, in which there are limited opportunities to offer accommodation to everybody. It will also threaten the cultural heritage associated with Moldova’s rural communities.

As an optimal solution in the short term the government must therefore undertake the stimulation of rural–urban labour mobility instead of labour migration. In fact, many people would prefer to have well-

paid jobs in towns and cities and enjoy a calm life in rural areas. While there are no miracle solutions, it is clear that a number of preconditions must be met in order for people to continue to live in villages.

- The geographical size of Moldova is very small and distances between urban and rural communities are negligible by international standards. Provided that there is decent transport and good roads, it would take half an hour to travel from a village to a job in the district centre located 15 kilometres away (this is an estimate of the average distance from district centres to communities). It is clear that more public investment in intercommunity and national roads will improve labour mobility and reduce migration from rural to urban areas.
- A push factor behind rural–urban migration is the poor quality or even absence of public utilities and public services in the countryside. Improving roads will provide alternative solutions to this. However, the basic infrastructure must also be available in villages (passable intra-community roads, good primary health protection, heating systems for schools and kindergartens, cultural infrastructure, access to the Internet, mobile telecommunications).
- It is also necessary to revise the legislation on local public finance so that taxes on salaries are paid into the budgets of the communities where the employee actually lives and not where the company is formally registered. This would provide additional financial resources that can be channelled into the development of the rural infrastructure.

## 6.9 Stemming international migration

The migration of the labour force from Moldova has become a salient feature of the country's economic and social development over the past decade. International evidence suggests that once it has begun, it is extremely difficult, if not impossible, to reverse labour migration by administrative means. The Moldovan government has no tools to tackle this issue, and furthermore there is no policy reason to try to stop labour migration, which is providing hard currency for those who remain at home. With an overstretched rural population, it is clear that Moldova will inevitably lose a part of its population. Another portion of the migrants will return if better economic or employment opportunities emerge in their country. There are relatively few things that the Moldovan government can, and must, do for its citizens before they are abroad, or while they are there.

- In the first instance Moldovan governments must ensure the protection of the social and economic rights of the country's citizens abroad by signing mutual agreements on the treatment of migrants in order to facilitate the legalisation of their presence abroad. In fact, such legalisation facilitates more frequent returns home.
- Moldovan governments must adapt the national education curricula to European standards, raise the quality of education in domestic institutions and promote mutual recognition of graduation diplomas and certificates. This will help Moldovan migrants abroad to gain employment in better-paid jobs that correspond to their professional backgrounds.
- Moldova should extend its diplomatic and consular presence in the countries that are the main destinations for Moldovan migrants (Russia, Italy, Spain and Greece). Currently, as a result of a lack of human and financial resources, the consular and diplomatic missions abroad are of little help to Moldovan migrants who request assistance. Migrants frequently are asked for payments for assistance when they are already in a difficult financial situation.

## 6.10 Developing effective labour policy

Since the country's independence Moldovan governments have developed many employment-related laws, strategies and plans. However, most of these retained interventionist logic and had no practical impact. None of the strategies adopted have ever been monitored or evaluated. Despite bold political rhetoric on the part of the government (such as the 'creation' of 300,000 jobs and an increase in the average wage to USD 300), the role of employment policy in the overall policy agenda is in fact decreasing. To some extent this is the result of the existence of the migration option and the state's limited resources to actively intervene in the labour market. The current labour employment strategy takes the form of a long-term National Strategy for Labour Employment Policy for 2007–2015 (NSLEP). In order to ensure its effective implementation, a number of policy recommendations can be made.

- It is necessary to update the NSLEP in line with the National Development Strategy which was developed after the NSLEP was approved by the government.

- It is also necessary to keep up the momentum in the monitoring of the implementation of the NSLEP. Many of the provisions regarding the monitoring of NSLEP implementation have already been breached by line ministries and other authorities that are responsible for the implementation of NSLEP.
- Since the NSLEP is a nationally important document, the Ministry of the Economy and Trade (which is responsible for controlling the NSLEP implementation) must consider the presentation of implementation reports to the National Participation Council, which is a consultative body created through a government initiative for consultation on development policy and comprises 33 leading members of Moldovan civil society.
- The Annual Plans for labour employment that must be adopted according to NSLEP provisions need to be realistic and feasible. However it will be impossible to adopt such realistic and feasible documents without close consultation with private companies. Traditionally, National Employment Plans in Moldova involve only discussion within the government, or limited dialogue with trade unions and no real dialogue with those that ultimately are providing the jobs.
- With regard to ALMPs, greater efforts should be made to ensure the proper evaluation of their impact. The NEA does not currently have the tools to conduct such evaluation. Furthermore, without proper evaluation it is difficult to design effective ALMPs and create an appropriate balance between different programmes and measures.
- More attention should be given to establishing a balance between active and passive labour market policies. Passive labour market measures currently have the upper hand, though their efficiency is rather doubtful. Around 80% of passive policy funds are spent on unemployment benefits, which are so low as to make hardly any difference to the lives of the beneficiaries. A reasonable step would be to review the strict eligibility criteria for these benefits and at the same time increase the amounts paid.
- The proportion of overall financing from the Unemployment Fund that is allocated to ALMPs should be increased. At the same time individual measures should be evaluated and those that are most efficient should be promoted. Some ALMPs, such as subsidies for companies employing graduates or creating jobs, should be reviewed on the grounds of both market logic and financial attractiveness for companies. In some instances, such as graduate employment, contract provisions should be reviewed and made more flexible for companies.
- In the context of certain other measures, such as support for business start-ups, the question of relevancy arises. The case for the NEA being the most obvious institution to conduct this measure is not straightforward. The measure has a relatively narrow reach, and if the evaluation process also shows a low level of efficiency, the limited funds could be redirected to more efficient and relevant measures.

## **6.11 Improving the business environment**

In the process of regulatory reform the business climate in Moldova has improved in terms of the procedures and timescales for the registration of a company and obtaining the necessary licences and certificates. However, other aspects have remained problematic, and the result is that the company-creation rate is still low and Moldova's position in international rankings has worsened. A friendly business environment is the main solution to the problems of the labour market. Significant efforts should be made to attract more international investors and increase the profitability of companies so that they can afford to pay higher salaries.

- The government must really concentrate on the enforcement of laws. Many appropriate laws already exist, but corruption, bureaucracy and other unwritten barriers are still present in almost all structures of the economy. Having more inspections than other countries does not guarantee that they are efficient.
- The role of the National Competition Agency should be enforced, in the first instance to create a legal framework defining clear methodology regarding competition. The independence of other market institutions and the judiciary system should also be ensured to increase their credibility in the eyes of foreign and domestic investors.
- The restriction that prohibits foreigners from purchasing agricultural land should be eliminated. This may be a pre-condition for increasing investments in the agricultural sector and a solution to

the problems of the lack of jobs in rural areas. Selling agricultural land to foreigners may attract foreign investors in the sector, but should also increase domestic investments, since if the price of land rises it can more easily be used as collateral.

Although labour regulations and labour market policies do have some important drawbacks, their role is not critical and in no way explains or determines the current dire situation of the national labour market. In other words, neither labour regulations nor labour market policies can produce jobs; what they can do is to facilitate the path from unemployment or inactivity to employment, and allow companies to be more flexible in the labour market.



# Annexes

## Annex 1: Sociological survey conducted by CBS AXA on inter-sectorial mobility and the transition from school to work

### General distribution of answers

#### Part 1 Personal information and geographic mobility

a) Age (N=1,186 observations):

Average: 38.14 years

b) Gender (N=1,186)

Male	46.0%
Female	54.0%

c) Residence area (N=1186)

Urban	39.2%
Rural	60.8%

d) How do you rate your quality of life? (N=1186)

Very good	2.0%
Good	23.8%
Satisfactory	54.6%
Bad	16.9%
Very bad	2.8%

e) What is the highest level of education successfully completed? (N=1,180)

No education	0.3%
Primary education	3.1%
Gymnasium education	12.1%
Secondary general education	22.7%
Secondary vocational education	17.6%
Secondary specialised education	20.7%
Graduate education	21.0%
Post-graduate education	2.1%
NA	0.4%

f) Indicate the field of studies of the highest level of education attained (N=728)

Education	12.3%
Humanity and arts	4.7%
Social sciences, business and law	11.7%
Sciences, mathematics and computing	5.6%
Engineering, manufacturing and construction	30.4%
Agriculture and veterinary sciences	10.1%
Health and social welfare	7.5%
Services	10.5%
Other	7.3%

g) Are you currently enrolled in a public or private educational institution? (N=1,186)

Yes	14.5%
No	85.5%

h) Indicate the level of education you will obtain after graduation (N=172)

Secondary general education	23.3%
Secondary vocational education	4.8%
Secondary specialised education	11.0%
Graduate education	51.0%
Post-graduate education	9.4%
Informal or non-formal training	0.5%

i) What is your occupational status? (N=1,186)

Employee	41.4%
Employer	1.8%
Own-account worker	10.1%
Unpaid family worker	3.6%
Economically inactive	25.3%
Unemployed	17.8%

j) Indicate your permanent place of residence (N=675)

k) Indicate the place where you work (N=675)

l) What are the main problems related to your travel to work? (multiple answer) (N=108)

There are no problems	44.4%
High travel costs	33.0%
Public transport operates irregularly and infrequently	9.5%
No private transport	7.2%
Travelling to work takes much time	6.4%
Other	5.2%
Public transport is overcrowded	5.1%
There is no public transport	3.1%
Long walking distance to the closest station	2.4%

m) Why did you choose to work in a place different from your residence place? (multiple answer) (N=108)

Lack of jobs in the permanent place of residence	57.0%
The possibility of higher revenues	29.6%
Better work conditions	14.0%
Have worked all the time (a long time) at this place	4.7%
The current job corresponds to field of study graduated	3.6%
Other	3.2%
Joint family issues (wife/husband/children work/study at this place)	2.0%
Advancement in career	1.5%

n) Do you plan to change the place of residence to the place you work in? (N=108)

Yes	25.4%
No	67.9%
Don't know	6.7%

- o) During 1998–2007 how many times did you change your permanent place of residence?  
(N=1,186)

0	88.1%
1	7.5%
2	2.7%
3	1.1%
4	0.7%

- p) What place did you come from when you last changed your place of residence?  
q) Indicate the year in which you last changed your place of residence.  
r) Indicate the main reason you changed your place of residence (N=142)

Changes of civil status (marriage, divorce, etc.)	27.6%
Other family-related reasons	23.5%
Because of the job	7.9%
Because of studies	15.7%
Desire to have better living conditions	16.2%
Obtained a living place (purchase, inheritance, donation, exchange, etc.)	7.6%
Other (please specify)	1.5%

- s) Do you plan to return to the place you left last time? (the name of the place was indicated in question 16) (N=142)

Yes	21.6%
No	67.9%
Don't know	10.5%

## Part 2 Sectorial and occupational labour force mobility

- a) How many times did you change your job during 1998–2007? (N=1,186)

0	70.7%
1	9.1%
2	7.7%
3	6.4%
4	3.0%
5	1.3%
6	0.6%
7	0.1%
8	0.1%
10	0.8%

b) Year of the last change of job (N=315)

1998	3.7%
1999	3.5%
2000	5.6%
2001	3.6%
2002	5.6%
2003	5.9%
2004	8.0%
2005	9.1%
2006	14.4%
2007	40.7%

c) In the following table indicate the changes that occurred when you changed your job (N=347 for last job, N=323 for previous job and N=26 for ante-previous job)

	Last job (current job for those who work; last job for those who do not currently work)	Previous job	Ante-previous job
<b>Changes in the sector of activity</b>			
Agriculture, hunting and forestry	19.0%	10.0%	16.4%
Fishing	0.5%	0.5%	
Industry	6.9%	9.0%	3.2%
Construction	17.8%	22.0%	20.1%
Wholesale and retail, repair of vehicles, motorcycles and household appliances	11.8%	12.2%	13.3%
Hotels and restaurants	3.7%	3.9%	6.4%
Transport and telecommunications	7.0%	6.7%	3.2%
Financial sector, rent and other services	5.1%	4.6%	16.4%
Real estate transactions	0.6%	1.3%	
Public administration	1.8%	4.7%	
Education	7.4%	6.1%	9.6%
Health and social assistance	3.9%	4.8%	
Other collective, social and personal services	14.5%	14.1%	11.4%
<b>Changes in the form of ownership</b>			
Private	41.5%	49.1%	45.6%
Public	48.8%	39.6%	32.9%
Mixture of private and public capital	2.1%	2.0%	3.2%
Foreign company	2.0%	3.2%	
Mixture of domestic and foreign capital	1.8%	0.7%	
<b>Changes in the type of occupation</b>			
Top management	3.6%	5.0%	5.0%
Middle management	4.4%	4.0%	19.6%
Professional	14.1%	17.3%	5.0%
Skilled worker	40.7%	34.1%	9.6%
Unskilled worker	36.3%	38.9%	60.7%
Other (specify) _____	0.9%	0.7%	
<b>Changes in formal/informal</b>			

Employer was paying your share of social contribution	Yes	59.4%	59.8%	44.3%
	No	32.2%	32.8%	47.5%
	Don't know	8.4%	7.4%	8.2%
You benefited from paid annual leave	Yes	58.8%	55.0%	42.5%
	No	39.7%	43.8%	57.5%
	Don't know	1.5%	1.2%	
You benefited from maid sick leave in case of illness	Yes	62.0%	54.6%	44.3%
	No	33.1%	40.5%	55.7%
	Don't know	4.9%	4.9%	

d) What was the reason you left your job? (multiple answer)

	Previous job	Ante-previous job
Restructuring or closure of the enterprise	14.1%	4.6%
Dismissed – end of contract	7.1%	2.4%
Desire to have higher revenues	48.1%	49.5%
Change of the place of residence	5.1%	2.7%
Corresponds more to the field of studies graduated	0.9%	3.6%
Better work conditions	10.3%	26.0%
Advancement in career	2.4%	1.7%
Wanted to start own business	1.3%	1.9%
Shorter distance to travel from the place of residence	1.7%	1.9%
Other (specify)	9.1%	5.7%

e) Did this imply a change of profession (occupation)? (N=323)

	The change from the previous to the last job	The change from the ante-previous to the previous job
Yes	41.0%	42.5%
No	59.0%	57.5%

f) In your new job did you need and did you receive additional training? (N=311)

	At the last job	At the previous job
No, I did not need training	57.7%	61.7%
I needed but did not receive training	8.5%	9.2%
I needed training and received it in the workplace	14.9%	15.6%
I needed training and received it at the NEA	.8%	2.2%
I needed training and received it through private specialised courses	2.4%	4.0%
Other	15.6%	7.3%

### Part 3 Transition from education to employment

Part 3 will be completed only by people between 18 and 34 years of age

a) Year of graduation for the highest level of education successfully completed (N=536)

1989	0.6%
1990	1.5%
1991	1.9%
1992	2.3%
1993	2.4%
1994	3.4%
1995	1.6%
1996	2.4%
1997	5.0%
1998	3.7%
1999	5.8%
2000	6.1%
2001	3.3%
2002	3.0%
2003	5.0%
2004	6.7%
2005	10.4%
2006	8.7%
2007	13.2%
2008	13.1%

b) If you graduated in 2007 or 2008, what is the minimum monthly net remuneration you would accept for the first job in Moldova? (N=163)

Average: MDL 3,650

c) During formal education (N=553)

Did not work or worked less than a month per year	63.1%
Worked only as part of educational programmes (paid internships as a part of educational process, educational institution contracts with enterprises/organisations)	9.5%
Worked while studying but outside educational programmes	17.8%
Worked during a break in studies	9.6%

d) Did your work experience during your studies correspond to the field in which you were studying? (N=202)

Yes	39.5%
No	60.5%

e) In what month and year did you start your first job that lasted more than three months, after graduating the highest level of education attained? (N=476)

Never had a job of more than three months	67.2%
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- f) Of those who had had a job lasting more than three months, the year in which they started was as follows:

1990	0.6%
1991	0.9%
1992	2.4%
1993	1.9%
1994	1.7%
1995	2.0%
1996	3.4%
1997	4.1%
1998	3.6%
1999	5.4%
2000	8.0%
2001	4.4%
2002	5.3%
2003	7.7%
2004	7.6%
2005	12.8%
2006	9.3%
2007	9.6%
2008	9.4%

- g) Main activity after attending the highest level of education for the final time and before starting the first job that lasted at least three months (N=227)

Did not have a transition period, started to work immediately after graduation	44.1%
Employed – worked in job(s) of short duration (maximum three months)	18.5%
Compulsory military or community service	5.8%
Working abroad	6.8%
Not employed, actively looking for a job	10.4%
Other	14.5%

- h) Duration of first job (N=208)

Average: 30 months

- i) What was the level of qualification required in your first job? (N=219)

Top management	4.5%
Middle management	2.9%
Specialist	20.6%
Skilled worker	39.4%
Unskilled worker	32.6%

j) In which sector of economic activity was your first job? (N=219)

Agriculture, hunting and forestry	12.9%
Fishing	0.0%
Industry	7.7%
Construction	19.7%
Wholesale and retail, repair of vehicles, motorcycles and household appliances	13.8%
Hotels and restaurants	3.3%
Transport and telecommunications	4.8%
Financial sector, rent and other services	3.8%
Real estate transactions	2.0%
Public administration	3.7%
Education	9.2%
Health and social assistance	4.8%
Other collective, social and personal services	14.3%

k) What methods did/do you use to find your first job? (N=219)

I did not look for a job – I was offered one and I accepted	47.9%
Asked friends, relatives, colleagues, unions	22.8%
Through the educational institution from which I graduated	7.9%
Answered job adverts	6.7%
Direct contact with employers or people responsible for employment	5.8%
Published announcements	5.0%
Submitted an inquiry to the NEA	3.0%
Attempted self-employment	3.0%
Through guidance centre and professional conciliation	0.7%
Through private recruitment agencies	0.4%

l) How long have you been searching for your first job? (N=115)

Less than 1 month	60.6%
1–3 months	26.4%
3–6 months	7.0%
6–12 months	4.0%
More than 1 year	1.9%

m) How difficult it was to find your first job? (N=114)

Very easy	25.7%
Relatively easy	40.8%
Difficult	25.6%
Very difficult	8.0%

n) What were/are the main difficulties you faced/are facing when searching for your first job? (N=117)

There were/are no difficulties	46.2%
Did not know/ do not know how to look for a job	4.1%
Lack of information about available jobs	16.3%
Knowledge obtained at the educational institution is not sufficient for work	2.6%
Lack of work experience	21.4%
Low demand for specialists of my degree	1.4%
Did not have friends who could recommend me to someone	3.7%
Other	2.6%
Difficulties in starting own business	1.8%

o) What type of contract was your first job? (N=216)

Self-employed	16.0%
Employee, permanent full-time	56.2%
Employee, permanent part-time	8.2%
Employee, temporary full-time	12.7%
Employee, temporary part-time	4.4%
Family worker	2.5%

p) Did your first job correspond to the field of study in which you graduated? (N=216)

Yes	52.7%
No	47.3%

q) Did you need and did you receive additional training in your first job? (N=216)

No, I did not need training	60.9%
I needed but did not receive any training	7.1%
I needed training and received it in the workplace	29.1%
I needed training and received it through private specialised courses	2.9%

## Annex 2. Review of data sources

**Table A1. LFS definitions and description of the sample design for two phases**

Note: The differences are marked in bold.

	First phase (1999–2005)	Second phase ( 2006–present)
Sampling	<p>Two-stage cluster sample with stratification at the first stage (three strata):</p> <ul style="list-style-type: none"> <li>▪ villages</li> <li>▪ large cities</li> <li>▪ towns</li> </ul>	<p>Two-stage cluster sample with stratification at the first stage (eleven strata):</p> <ul style="list-style-type: none"> <li>▪ towns in the North</li> <li>▪ large villages in the North</li> <li>▪ small villages in the North</li> <li>▪ towns in the Centre</li> <li>▪ large villages in the Centre</li> <li>▪ small villages in the Centre</li> <li>▪ towns in the South</li> <li>▪ large villages in the South</li> <li>▪ small villages in the South</li> <li>▪ suburbs of Chişinău municipality</li> <li>▪ city of Chişinău</li> </ul>
	The sample frame for the 1st stage – PSUs created by grouping electoral circumscriptions	The sample frame for the 1st stage – PSUs created (2nd-level administrative units)
	The sample frame for the 2nd stage – voters lists from 1996	The sample frame for the 2nd stage – Census lists (2004) and lists of private electricity consumers
	<p>Sample size:</p> <ul style="list-style-type: none"> <li>▪ 1st stage – 114 PSUs</li> <li>▪ 2nd stage – 2,736 households per month</li> </ul>	<p>Sample size:</p> <ul style="list-style-type: none"> <li>▪ 1st stage – <b>129 PSUs</b></li> <li>▪ 2nd stage – 4,000 households per month</li> </ul>
	<p>Sampling procedure:</p> <ul style="list-style-type: none"> <li>▪ 1st stage – simple random sample of PSUs in each strata</li> <li>▪ 2nd stage – simple random sample of households in each PSU</li> </ul>	<p>Sampling procedure:</p> <ul style="list-style-type: none"> <li>▪ 1st stage – sampling with probabilities proportional to size in each strata</li> <li>▪ 2nd stage – simple random sample of households in each PSU</li> </ul>
	<p>Rotation scheme:</p> <ul style="list-style-type: none"> <li>▪ 1st stage – no rotation scheme</li> <li>▪ 2nd stage – 2-(2)-2 (quarterly)</li> </ul>	<p>Rotation scheme:</p> <ul style="list-style-type: none"> <li>▪ 1st stage – starting with the year 2008 around 20% of PSUs will be replaced</li> <li>▪ 2nd stage – 2-(1)-1-(8)-2 (monthly)</li> </ul>
Employed persons	<p>Employed persons – all persons of 15 years and over who carried out an economic or social activity producing goods or services for at least one hour during the reference period (one week), in order to achieve income in the form of salary, in-kind remuneration or other benefits. In addition to working persons with a job who have worked during the reference period as employees, own-account workers or unpaid family workers, the following are considered as employed persons:</p> <ul style="list-style-type: none"> <li>▪ persons temporarily absent from work during the reference week who retain a formal relationship with their place of work, the reason for absence being: holiday, sick leave, maternity and childcare leave (within the limits of a specified period established in law), unpaid leave, study leave, temporary incapacity, work dispute or strike, vocational</li> </ul>	<p>Employed persons – all persons of 15 years and over who carried out an economic or social activity producing goods or services for at least one hour during the reference period (one week), in order to achieve income in the form of salary, in-kind remuneration or other benefits. In addition to working persons with a job who have worked during the reference period as employees, own-account workers or unpaid family workers, the following are considered as employed persons:</p> <ul style="list-style-type: none"> <li>▪ persons temporarily absent from work during the reference week who retain a formal relationship with their place of work, the reason for absence being: holiday, sick leave, maternity leave (within the limits of a specified period established in law), study leave, temporary incapacity, work dispute or strike, vocational or training courses, or a temporary work stoppage as a result of adverse weather conditions;</li> <li>▪ persons on childcare leave (within the limits of a specified</li> </ul>

	<p>or training courses, or a temporary work stoppage as a result of adverse weather conditions, of a lack of raw materials or energy, of technical problems, or of the seasonal nature of the work;</p> <ul style="list-style-type: none"> <li>▪ persons having a job (full-time or part-time) who are looking for another job;</li> <li>▪ persons who, during the reference period, have carried out work that is paid or entails income, even if they were attending compulsory schooling, were retired or in receipt of a pension, or were registered with employment agencies, regardless of whether or not they were in receipt of unemployment benefits;</li> <li>▪ unpaid family workers, including those temporarily absent;</li> <li>▪ paid apprentices and employees on probation, full-time or part-time;</li> <li>▪ members of the armed forces (active cadres and under military service).</li> </ul>	<p>period established in law) or unpaid leave, or those who did not work as a result of a lack of raw materials or energy or because of technical problems, <b>if these persons are sure that they will return to work within the next three months;</b></p> <ul style="list-style-type: none"> <li>▪ employees with a seasonal job (off-season), who are sure that they will start working at that job within the next six months, and who are being paid while waiting for the work season;</li> <li>▪ persons having a job (full-time or part-time) who are looking for an other job;</li> <li>▪ persons who, during the reference period, have carried out work that is paid or entails income, even if they were attending compulsory schooling, were retired or in receipt of a pension, or were registered with employment agencies, regardless of whether or not they were in receipt of unemployment benefits;</li> <li>▪ unpaid family workers, including those temporarily absent;</li> <li>▪ paid apprentices and employees on probation, full-time or part-time;</li> <li>▪ members of the armed forces (active cadres and under military service).</li> </ul>
<p>ILO unemployed persons</p>	<p>ILO unemployed<sup>120</sup> are persons aged 15 years and over who in the reference period meet the following three conditions simultaneously:</p> <ul style="list-style-type: none"> <li>▪ do not have a job and are not carrying out an activity that attracts income;</li> <li>▪ have been looking for a job during the past four weeks using various methods: registration with employment offices or private employing agencies, taking the necessary steps to become self-employed, publishing and answering job announcements, applying for help to friends, colleagues, relatives, trade unions;</li> <li>▪ are ready to start working during the next 15 days if they immediately find a job.</li> </ul> <p>The following individuals are also considered to be unemployed:</p> <ul style="list-style-type: none"> <li>▪ persons who have no job, who are available to start work, who have found a job and will start working on a date following the reference week; persons who are awaiting the results of an interview; persons who are waiting to be recalled to their previous job or who have undertaken all the necessary steps to start their own business;</li> <li>▪ persons who are usually part of the inactive population (pupils, students, pensioners), but who have declared that they have searched for work and are able to start work.</li> </ul>	<p>ILO unemployed are persons aged 15 years and over who in the reference period meet the following three conditions simultaneously:</p> <ul style="list-style-type: none"> <li>▪ do not have a job and are not carrying out an activity that attracts income;</li> <li>▪ have been looking for a job during the past four weeks using various methods: registration with employment offices or private employing agencies, taking the necessary steps to become self-employed, publishing and answering job announcements, applying for help to friends, colleagues, relatives, trade unions;</li> <li>▪ are ready to start working during the next 15 days if they immediately find a job.</li> </ul> <p>The following individuals are also considered to be unemployed:</p> <ul style="list-style-type: none"> <li>▪ persons on childcare leave (within the limits of a specified period established in law) or unpaid leave, persons who have not worked because of a lack of raw materials or energy or as a result of technical problems, if these persons are not sure that they will return to work within the next three months and have searched for a new job, being ready to start work;</li> <li>▪ employees who have a seasonal job (off-season) who are not sure that they will start working at that job within next six months; are not paid while waiting for the work season; have searched for a new job and are ready to start work;</li> <li>▪ own-account seasonal workers (off-season) who have searched for work and are ready to start work;</li> <li>▪ persons who have no job, who are available to start work, who have found a job and will start work on a date following the reference week; persons who are awaiting the results of an interview; persons who are waiting to be recalled to their previous job or who have undertaken all the necessary steps to start their own business;</li> <li>▪ persons who are usually a part of the inactive population (pupils, students, pensioners), but who have declared that they have searched for work and are able to start work.</li> </ul>

<sup>120</sup> According to the definition of the International Labour Organization.

Inactive population	<p>According to this survey, individuals who did not work at least one hour and were not unemployed in the reference week are economically inactive:</p> <ul style="list-style-type: none"> <li>▪ pupils or students;</li> <li>▪ pensioners (all categories);</li> <li>▪ homemakers;</li> <li>▪ individuals supported by other people, by the state, or by other income (rents, interest, etc.).</li> </ul>	<p>According to this survey, individuals who did not work at least one hour and were not unemployed in the reference week are economically inactive:</p> <ul style="list-style-type: none"> <li>▪ pupils or students;</li> <li>▪ pensioners (all categories);</li> <li>▪ homemakers;</li> <li>▪ individuals supported by other people, by the state, or by other income (rents, interests, etc.);</li> <li>▪ persons on childcare leave (within the limits of the specified period established in law) or unpaid leave, those who did not work as a result of a lack of raw materials or energy, or because of technical problems, if these individuals are not sure that they will come back to work within the next three months, have not looked for a new job and are not ready to start working;</li> <li>▪ employees who have a seasonal job (off-season) who are not sure that they will start working at that job within the next six months; are not paid while waiting for the work season; are not searching for a new job and are not ready to start working;</li> <li>▪ own-account seasonal workers (off-season) who have not looked for work and are not ready to start working.</li> </ul>
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### Sampling errors

**Table A2. The number of employed persons and employment rates**

	Number of employed persons (thousands)	Limit error ± (thousands)	Employment rate (%)	Limit error ± (p.p.)
Men	621.7	42.6	44.8	1.8
Women	625.8	40.3	40.5	1.4
Urban	549.3	69.9	43.9	1.9
Rural	698.2	41.0	41.6	2.2
Total	1,247.5	81.0	42.6	1.5

**Table A3. The number of unemployed persons and unemployment rates**

	Number of unemployed persons (thousands)	Limit error ± (thousands)	Unemployment rate (%)	Limit error ± (p.p.)
Men	41.6	7.9	6.3	1.1
Women	25.3	4.9	3.9	0.7
Urban	40.8	9.7	6.9	1.4
Rural	26.1	6.7	3.6	1.0
Total	66.9	11.8	5.1	0.8

## Establishment surveys

**Table A4. Yearly surveys**

Survey	Code	Subjects of the survey	Date of press release
The number of employees and their remuneration	1-M	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	29 February 2009
Safety at work	1-PM	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	15 May 2009
Professional training of employees	6-M	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	21 May 2009
The number of employees and jobs in enterprises with less than 20 employees	1-IM	All establishments with less than 20 employees	7 May 2009
Occupational wages (ILO October Inquiry)	53-M	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	16 January 2009

**Table A5. Quarterly surveys**

Survey	Code	Subjects of the survey	Date of press release
Employees' mobility and jobs	1-C	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	30 days following the reference period
The number of employees and jobs in enterprises with less than 20 employees	1-IM	All establishments with 4 to 19 employees	50 days following the reference period
The number of public servants	1-FP	All public administration institutions	42 days following the reference period

**Table A6. Monthly survey**

Survey	Code	Subjects of the survey	Date of press release
The number of employees and their remuneration	1-M	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	30 days following the reference period

**Table A7. Ad hoc survey**

Survey	Code	Subjects of the survey	Date of press release
Employment of graduates	TS	All establishments with 20 or more employees and all budgetary institutions irrespective of the number of employees	22 September 2009

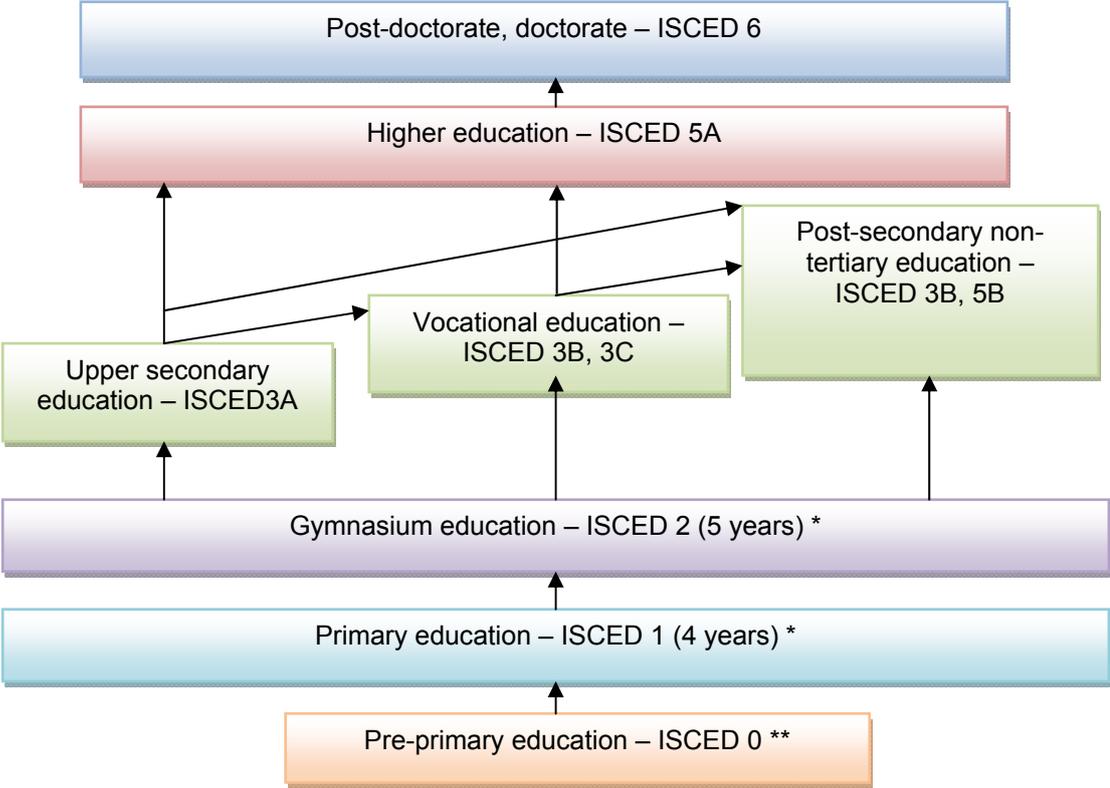
### **Main indicators published by the NEA**

- a) The number of unemployed persons<sup>121</sup> at the beginning and at the end of the reference period
- b) The inflow and outflow of unemployed persons in the reference period
- c) The number of unemployed persons who were employed during the reference period
- d) The number of unemployed persons receiving unemployment allowance at the beginning and at the end of the reference period
- e) The number of unemployed persons who started and stopped receiving unemployment allowance in the reference period
- f) The number of unemployed persons receiving professional integration/reintegration allowance at the beginning and at the end of the reference period
- g) The number of unemployed persons who started and stopped receiving professional integration/reintegration allowance in the reference period
- h) The number of persons to whom job-mediation services were offered
- i) The number of persons to whom professional-orientation services were offered
- j) The number of persons attending professional training at the beginning and at the end of the reference period
- k) The number of unemployed persons engaged in public works at the end of the reference period
- l) Total amount of unemployment allowances paid
- m) Total amount of professional integration/reintegration allowances paid
- n) Total amount of payments made to stimulate engagement in public works
- o) Total amount of expenditure
- p) The number of job vacancies at the end of the reference period
- q) The average value of the unemployment allowance paid

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121 Registered by NEA.

**Annex 3. Structure of the education system in Moldova**



\*Mandatory education

\*\*Enrolment in the final year of pre-primary education is mandatory



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