

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC20840

Project Name	Moldova Skills Data Capacity Building
Region	EUROPE AND CENTRAL ASIA
Country	Moldova
Sector(s)	General education sector (35%), Other social services (65%)
Theme(s)	Improving labor markets (65%), Other human development (35%)
Lending Instrument	Lending Instrument
Project ID	P154573
Borrower Name	Republic of Moldova
Implementing Agency	Ministry of Labor, Social Protection and Family
Environment Category	C - Not Required
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Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Moldova is a small lower middle-income European economy, with an aging and shrinking population, and one of the poorest countries in the Europe and Central Asia (ECA) region. Moldova is estimated to have a population of 3.6 million, which is a 7 percent decline since 1990, due to sharply decreasing fertility rates, slow progress in life expectancy, and emigration of the young population. Moldova is a relatively resource poor agrarian economy, with 57 percent of the population living in rural areas. Moldova has GDP per capita of 4,700 USD in 2013 (PPP) and 40 percent of the population living below the ECA poverty line of \$5/day (PPP).

Over the last 20 years, Moldova has been a fast-growing albeit volatile economy, and since 2000, it has made significant progress in reducing poverty and boosting shared prosperity. Using the national poverty line, poverty rate in Moldova declined from 68 to 27 percent between 2000 and 2004 and, under a different poverty measurement method, poverty halved between 2007 and 2013. Moldova has also had a good performance in promoting shared prosperity between 2008 and 2013, as growth in consumption of the bottom 40 stood at 5 percent compared to 1.8 percent for the whole population.

Government of Moldova has a strategic vision of strong future growth fueled by investment and exports. As set out in the National Development Strategy (Moldova 2020), there is a need to replace the current consumption-led growth model largely based on remittance flows with a dynamic model based on investment and development of the export sector. Since 2009, the country has also pursued the path to European integration, and in 2014, the country signed both an Association

Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU.

Sectoral and Institutional Context

Improving labor market outcomes is urgent given demographic challenges, but Moldova is currently experiencing very low employment rates and low productivity. Creating more and better jobs will be critical to Moldova's development, especially given forthcoming decline in working-age population. Today, however, employment rates, as measured by National Bureau of Statistics, remain low at 39 percent, driven mostly by low labor force participation. At 41 percent, Moldova's labor force participation rate is among the lowest in Europe and Central Asia, which typically stands at 60-70 percent. High rates of temporary migration and irregular informal activities, which are difficult to measure using standard Labor Force Surveys, could partly explain these outcomes. Even for people who are employed, work is often in low-productivity activities and the informality rate is high: Moldova ranked second to Romania in terms of the incidence of informal employment among self-employed in Central Eastern European countries that recently joined the EU.

High outmigration is another key characteristic of labor markets in Moldova: it is both a symptom and potential cause of poor labor market outcomes – at the same time, internal migration is low. While Moldova has very high rates of international migration (in 2013, according to conservative official statistics, about 14 percent of men and 8 percent of women at working age were working abroad or looking for work abroad), internal mobility is low. Less than 20 percent of the population aged 18 and older moved to a different city in the past 20 years.

The poor labor outcomes may come from little job creation but also from labor market mismatches, in particular in terms of skills. In the World Bank-EBRD Business Environment and Enterprise Performance Surveys (BEEPS), businesses mention skills as the third obstacle to their growth, up from fourth in 2008. A survey conducted by the Confederation of Employers also indicates important constraints to firm expansion because of skills. More than 40 percent of firms in Moldova cite skills as a major or severe constraint to growth, and as many as a third of firms have problems in filling vacancies, especially for skilled staff. The latest results from the Programme for International Student Assessment (PISA) survey available for Moldova shows that there is one year gap between Moldovan students and their OECD peers. Deficits of relevant labor market information for students and job seekers making skills-related decisions is also likely to exacerbate the extent of future skills mismatches (World Bank forthcoming).

While factors other than skills could also be reducing labor force participation, their contribution to suboptimal labor market outcomes is likely to be smaller or decreasing with time, while the impact of skills mismatches can be expected to rise. For instance, the design of social assistance scheme (Ajutor Social) has been shown to create disincentives for formal work for low-wage earners (World Bank 2014, "Work Disincentives in Moldova"); however, the low coverage of social assistance in terms of working-age population implies that it cannot account for the poor labor market outcomes in Moldova. Moreover, the Government is currently working on improving the design of this scheme precisely to reduce work disincentives. Although remittance flows are likely to affect the labor force participation of household members who remain in Moldova (Ganta 2012), these effects are likely to decrease over the medium term as migration flows abate due to changes in external conditions or as remittance flows are reduced with second-generation migration.

The Government's is committed to improving labor outcomes and reducing mismatches. Indeed,

“aligning education with Labor Market Needs” is the top objective of the Moldova 2020 Strategy. The Government is embarking on reforms to improve and monitor labor market information, the orientation of students, and the quality of education. The Government has improved labor market monitoring with a Professions barometer based on a survey of employers. Education reforms and monitoring efforts include: 1) revision of school curricula, in particular the course on civic education that includes a module on career orientation; 2) in vocational education, reforms to create centers of excellence; 3) in higher education, the creation of the Agency for Evaluation and Accreditation; and 4) for students aged 15 – essentially at the end of lower secondary education, a PISA assessment scheduled for 2015. The success rate at the Bacalaureate – the national centralized university entrance exam at the end of 12th grade - is decreasing (down from 68 percent in 2013 to 56 percent in 2014), sending a strong signal on fairness and minimum academic standards required to attend university. Lastly, a new Education Code approved by the Parliament made education compulsory until the age of 18.

However, the data needed to monitor this objective is not collected so far. On the demand side, data is collected by the National Bureau of Statistics and National Employment Agency. While the National Bureau of Statistics has been conducting a quarterly survey on vacancies, the information collected does not allow shedding light on skills mismatches. Indeed, the information collected so far is on: 1) Vacancies by economic activities, 2) Created new jobs, including permanents and temporaries. While this information is necessary, it is not sufficient to help inform job seekers about the competencies and skills they need to acquire. Moreover, since 2008, the National Employment Agency conducts an annual employer survey (aka Labor Market Forecast Survey, LMFS), where one question asks employers whether they experienced hiring problems due to inadequate skills, reservation wages, or lack of applicants. However, results from this (and many other questions) are currently not analyzed or reported; the only useful output from this survey is the Professions Barometer, which is derived based on the LMFS and the National Employment Agency’s vacancy database (which suffers from incomplete coverage of vacancies, as some employers do not report vacancies to NEA due to transaction costs). On the supply side, the Labor Force Survey does not capture well barriers to employment – in particular those linked to skills, reservation wages, or caregiving constraints.

Relationship to CAS/CPS/CPF

The project is aligned with the second pillar of the Moldova Country Partnership Strategy (CPS) for FY14-17: (ii) Enhancing Human Capital and Minimizing Social Risks. Skills development has been identified as a key priority for the country in Moldova’s National Development Strategy 2020 and the Moldova CPS 2014-2017. The CPS states that "The WB will support the Government's efforts to align the education system to labor market needs, thus promoting job creation."

The project is also linked to several ongoing Bank activities. First and foremost, it is tied to the Moldova Labor TA, which strengthened dialogue with Ministry of Labor, Social Protection and Family, National Employment Agency, and Ministry of Education, and explored the role of information in educational and labor market decisions of youth using a mixed-methods survey (Moldova Jobs and Schooling Decisions Survey). The findings of this work suggest that Moldova’s youth consider expected labor market outcomes as vital in their educational decisions but that there is a significant information deficit, perceived both by the youth themselves and their advisers (i.e. parents and teachers). The policy implications of this work point in the direction of better collection and analysis of labor market data, with the current project playing a large part in remedying the

observed information gaps. The project is also well aligned with the ongoing SCD, which is currently exploring skills as a critical factor in the hypotheses on Moldova's binding constraints for growth and shared prosperity, as it proposes to fill one of the current knowledge gaps on the skills demand and supply and the extent of skills mismatches. The team is also coordinating with Bank teams who are working on education issues, activation of social safety net beneficiaries, and improving Moldova's statistical capacity more generally.

II. Project Development Objective(s)

Proposed Development Objective(s)

To support Government of Moldova in strengthening capacity for enhanced collection and analysis of data on workforce skills and labor market needs

Key Results

- 1) Roadmap developed for better alignment of Improve the collection and analysis of Moldova's data on for labor market forecasts
- 2) Collected information on the skills of the workforce and barriers to employment is used to inform skills building policies and other policies affecting skills mismatches
- 3) Increased capacity for data collection and data analysis developed at the MLSPF, NEA, and NBS

III. Preliminary Description

Concept Description

The proposed grant would strengthen the measurement of labor market mismatches in Moldova via work on two components: (1) revised employer surveys on demand for skills, and (2) revised surveys of the resident working-age population, supply of skills, and barriers to employment. The activities proposed under each of the components are outlined below.

1. Revised employer surveys on demand for skills in Moldova

Under this component, the work would focus on assessing the quality of the existing Labor Market Forecast survey of employers and introducing a module on the demand for skills. Specifically, the activities under this component would include:

- 1a) Assessment of the current Labor Market Forecast survey and development of recommendation for improved data collection and analysis. Currently, the National Employment Agency (NEA) produces indicators on past and future occupational demand using a brief questionnaire implemented on a nationally-representative sample of around 3,000 firms. This survey was designed with the support of the project "Consolidation of migration management capacities in the Republic of Moldova," financed by the European Union and implemented by the Swedish Public Employment Service, but is now run by the NEA with much more limited assistance. The survey allows obtaining general data on labor market trends and it is used to construct the Professions Barometer, which is used by NEA employees to provide guidance to job seekers and to plan training activities. However, these data do not provide details on the level and structure of labor demand and they utilize employers' estimates of future occupational demands rather than tracking retrospective trends, which are more reliable. Moreover, most of the survey questions are not utilized in the analysis or reporting, so the survey can be used to better address the needs of data users. Under the grant, the NEA would proceed with an assessment of the data collection and analysis of the existing Labor Market Survey, and with development of recommendations to ensure better utilization of this instrument.

1b) Design and implementation of a module on the demand for skills.

The NEA would prepare a module on the demand for skills and implement it as part of the Labor Market Forecast survey. Demand would be measured both for basic cognitive and socio-emotional skills. The module would draw on the existing employer surveys that are part of the World Bank Skills Towards Employment and Productivity (STEP) skills measurement program.

2) Revised surveys of the resident working-age population on the supply of skills and barriers to employment.

Under this component, the work would focus on producing new data measuring the supply of different dimensions of skills (focusing on cognitive and socioemotional) and barriers to employment for Moldova's working-age population that resides in Moldova. The data collection on the new modules (on skills and barriers to employment) would be conducted separately from the Labor Force Survey (LFS), but the team will rely on the National Bureau of Statistics (NBS) to draw a nationally-representative sample using the same sampling methodology as for the LFS, and to provide the implementing agency with the full LFS questionnaire and training manuals in order to collect comparable basic labor market information. The final product (modules on skills and barriers to employment) would be discussed extensively with the NBS to provide them with the capacity to implement similar methodology independently in future waves of the LFS or as ad-hoc surveys. Specifically, the activities in this component would include:

2a) Design of a module on supply of skills of Moldova's resident working-age population

Educational attainment explains only a portion of labor market outcomes, as the quality of formal education and participation in non-formal learning can mediate this relationship. In order to better understand labor market outcomes, actual skills possessed by individuals need to be measured. These include cognitive skills (such as literacy, numeracy, memory) as well as socioemotional skills commonly valued by employers (such as conscientiousness, openness to experience, grit, and decision-making). In this activity, MLSPF would design a module measuring these skills. The latest supply-side STEP questionnaires and similar surveys conducted in other countries (e.g. Bulgarian Longitudinal Inclusive Society Survey, aka BLISS, in Bulgaria, and the European Skills and Jobs Survey) would inform the design of the skills module.

2b) Design of a module on barriers to employment.

With very low employment rates, mostly due to low labor force participation, there is a need to better understand barriers to employment in Moldova. Aside from lack of adequate skills, barriers to internal mobility, high reservation wages, and caregiving duties could be important constraints to job matching. The proposed module would assess the willingness of individuals to get closer to jobs, either by migrating internally or accepting a long commute. It would assess whether the barriers to mobility are due to market and coordination failures (e.g. transportation problems arising from high geographical fragmentation of employers) or due to low willingness to change location (e.g. due to poor functioning of land and rental markets). It would also explore the reservation wages and caregiving duties and norms for those who are not in employment.

2c) Data collection of the household survey

In this activity, the basic LFS questionnaire would be complemented with modules on skills and barriers to employment, and data would be collected on a nationally-representative sample of households in Moldova (using NBS to draw this sample). Such data will allow understanding how skills correlate with labor market outcomes in Moldova. In particular, by comparing the skills of the employed to those of the unemployed and inactive, it will provide additional and more direct

measurement of skills-related barriers to labor force participation and employment faced by different population groups in Moldova. Questions on utilization of different skills in and out of the workplace, educational qualifications for the jobs held by the employed, and questions on the first jobs held after schooling would enable an in-depth assessment of how different skills are utilized and how they contribute to school-to-work transition.

3. Capacity building

Capacity building activities would ensure sustainability of data collection and data analysis. Given that data collection on skills is new in Moldova, development of detailed TORs and manuals would be necessary to ensure adequate design and implementation of the new modules. These activities would draw on the experience of the STEP surveys, which have been collected in a few cases by public employment services. In particular, project stakeholders will be heavily involved in adapting existing survey instruments to the Moldovan context. In terms of implementation of the new modules, capacity-building activities would focus on how to minimize non-response and missing values. For data analysis, Stata training will be provided to the staff in project stakeholder agencies. The implementing agency will be encouraged to disseminate the results of the activity, and the team will use blogs to do so as well.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.3	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Borrower			0
Trust Fund for Statistical Capacity Building			0.3

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