

# Youth Unemployment and Poverty in Moldova: Current Situation and Possible Response

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## Context

Recent labour market predictions<sup>1</sup> suggest that, because of the crisis, unprecedented increases in unemployment are probable, involving a projected increase from 29 to 59 million unemployed worldwide in comparison with 2007. In Central and South Eastern Europe and the Commonwealth of Independent States (CIS), an increase as high as 35% in the number of unemployed is projected, with total employment projected to fall by between 1 and 2.8 per cent.

These analyses also suggest that young people will be hardest hit, with the number of young unemployment expected to increase in total by between 11 and 17 million during the period 2008-2009, representing an increase in the youth unemployment rate to 14-15% globally. Countries like Moldova, which have seen improvements in the recent past in employment prospects for the young, are now experiencing setbacks as a direct result of the crisis.

This has obvious implications for poverty and may reverse recent gains. Good growth performance between 1999 and 2004 moved 40% of Moldova's population out of poverty, thereby representing the largest reduction in poverty (in percentage terms) in the Europe and Central Asia region over this period<sup>2</sup>. Despite this, in 2007, about 26% of the population remained poor (down from over 30% in 2006), with about two-thirds of the poor living in rural areas.

The link between unemployment and poverty is well established and, in addition in Moldova, there appears to be a strong link between poverty and youth unemployment and migration. Thus, as noted, poverty<sup>3</sup> in Moldova is mainly a rural phenomenon<sup>4</sup>. Youth unemployment is also higher in rural areas (17%, first quarter 2009, urban areas 15%), while migration has been mainly from rural areas<sup>5</sup> and substantially involves young people<sup>6</sup>.

Urgent responses to address this situation and to avoid rapid increases in poverty are critical and are at the core of the challenges in achieving the Millennium Development Goals (MDGs), in particular, MDG 1 on poverty reduction. This paper examines recent data and trends in youth unemployment in the Republic of Moldova, its linkages to poverty and

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<sup>2</sup> World Bank (2009) *op.cit.*, p. 5.

<sup>3</sup> World Bank (2006). Moldova: Poverty update. Report No. 35618-MD. Washington DC: June. *ibid.* p.5.

<sup>4</sup> Despite Moldova's good growth performance between 1999 and 2004 (which moved 40% of the population out of poverty, about 26% of the Moldova population in 2007 remained poor (down from over 30% in 2006). The poverty rate among rural households stabilized in late 2002 and then began to increase. Farmers suffered a steep increase in poverty in 2004 and the first three quarters of 2005. Evidence suggests that a fall in farm household incomes reversed the decline in rural poverty and that real incomes declined because the prices farmers received were flat (or fell) while the prices of inputs rose.

<sup>5</sup> Of the migrants who, in 2006, were abroad, had recently been abroad, or who planned at that time to migrate, 38% were from Chisinau and other urban areas, while 62% were from rural areas. Some 67% of those who were abroad at that time were originally from rural areas (and nearly 52% of those abroad worked in Moscow, mainly in the construction industry). International Organisation of Migration (2007). Patterns and trends of migration and remittances. Chisinau.

<sup>6</sup> The average age of migrants in 2006 was nearly 35 years, with over 37% aged below 30. The average age of migrants has, in fact, been increasing, from 28 years in 1999 and 32 years in 2005. Indeed, in 1999, 66% of migrants were below 30. This suggests that the level of skills and experience demanded in destination labour markets is increasing. Nonetheless, of those who, in 2006, were planning to migrate, over 44% were below 30 years, suggesting that the young still have strong aspirations to migrate. See International Organisation of Migration (2007), *op.cit.*

proposes some possible responses to the socio-economic problems resulting from increased youth unemployment in the country.

### **Youth Unemployment in Moldova**

Although Moldova's current youth unemployment rate is comparable to the average for the countries of the European Union (which, in October 2008, was also 16%), young people in Moldova suffer clear labour market disadvantage. There is a negative correlation between age and the risk of being unemployed and those in the 15-24 age group face more than twice the risk of being unemployed than the next age segment (25-34). In the first quarter of 2009, most of the young unemployed had only secondary education or less, which places them at a disadvantage in the country whereby there are pay-offs to education in terms of labour market outcomes.

The current economic crisis has adversely affected youth unemployment. In the first quarter of 2009, youth unemployment (i.e. involving those in the 15-24 age group) rose to 16% (compared to previous trends where youth unemployment fell from 17% in 2006 to 14% in 2007). The unemployment rate amongst young males (nearly 18%) is higher than for women (14%), although the employment rate for young males is also higher (17% for men, 15% women). Youth unemployment rate is higher in rural areas (17%, first quarter 2009, urban areas 15%). In view of this, it is not surprising that migration from Moldova is also mainly from rural areas and substantially involves young people. Thus, while the average age of migrants in 2006 was nearly 35 years, over 37% were below 30.

Although the trends in return of migrants is not yet clear (due to a possible lagged response to the crisis), given the significant representation of young people in the migrant community and given migrants' mainly rural origins, return would probably lead to detrimental effects on youth unemployment. And if migrants return to where they lived before migration, these effects will be predominantly felt in rural areas and will lead to further worsening of rural poverty.

The disadvantage of young people in the labour market Moldova may well deteriorate as the crisis unfolds. They will continue to face 'normal' labour market disadvantage (associated with lack of experience and distrust of potential employers) while, at the same time, having to compete with more experienced returning migrants. Even if there is insignificant return of migrants and hence increased competition for jobs does not eventuate from this source, young people will nonetheless be seeking jobs in domestic labour markets at a time of rising unemployment (7.7% in the first quarter of 2009 as compared to 5% in 2007). It would be surprising in these circumstances if youth unemployment were not further to increase, particularly if opportunities for migration are constrained.

Demand for labour is also likely to fall as a result of declining remittances. It is recognised that trends in the return of migrants<sup>7</sup> to Moldova are not yet clear but, if there is significant return, the likely effects on remittances are apparent. And, even if migrants are able to avoid having to return, falls in remittances seem probable given declining employment opportunities in migration destinations. Indeed, estimates suggest that whereas, worldwide, remittances will decline by between 5% and 8% in 2009, Europe and Central Asia will be the most severely affected region with a fall of between 10% and nearly 13%<sup>8</sup>. The effects of this

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<sup>7</sup> The number of Moldovans working abroad increasing from some 56,000 in 1999 to 340,000 in 2007 (from a population which, in 2007, was 3.8 million). This represents one of the highest levels of migrant workers relative to population in the world. Total remittances were US\$ 1.5 billion in 2007 (35% of Moldova's GDP). In 2006, Tajikistan was the only country exceeding Moldova in terms of remittances as a percentage of GDP.

See <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/Top10.pdf>

<sup>8</sup> See <sup>8</sup> World Bank (2009). Migration and Development Brief, no.9 (March 23<sup>rd</sup> 2009).

level of remittance shock on the domestic economy in Moldova are likely to be severe and will, in turn, probably reduce the demand for labour.

### **Policy and Actions aimed at reducing youth labour market disadvantage**

Labour market policies in the Republic of Moldova give high priority to prevention and reduction of unemployment among young people. This is reflected in the National Development Strategy for 2008-2011, the National Employment Strategy 2007-2015, the draft Strategy for Vocational Education and Training (2008-2015), the Labour Code, the National Youth Strategy (2009-2015) and the Law on Youth (adopted in 1999).

Also, in practice, there are or have recently been a range of measures put in place in Moldova, both domestically and externally-funded, aimed at improving labour market outcomes for the young. These include substantial support to vocational education and training and to youth entrepreneurship. In addition, internships offered mainly by larger companies smooth the education-to-work transition for graduates.

The focus of support on vocational training appears appropriate, given that most of the young unemployed have only completed secondary education. Recognition of the poor outcomes of youth training programmes when delivered as a stand-alone measure may be behind the decision to provide extensive support to youth through a package of measures. These typically comprise professional orientation, training and work placements. Actions of this type have been, for instance, a major component of both USAID/UNDP and the World Bank support to young people (within the framework of the 'Better Opportunities for Women and Youth Project' and 'Youth Inclusion Learning & Innovation Programme' respectively)

In practice, this type of intervention mirrors and builds on services provided by the National Employment Agency. However, these services are only available to those registered as unemployed. In practice, it seems that many young people do not, or choose not, to register and, anecdotal evidence suggests, this may amount to as many as 50% of those young people who could register as unemployed. This may be because they are unaware of the benefits of registering or because they are discouraged, in response to perceptions of poor employment opportunities and/or low wages. A worrying feature of youth unemployment is therefore the large proportion of the young unemployed who remain outside the coverage of the services offered by the National Employment Agency. The likely effects on poverty of a large body of unemployed young who do not or cannot take up opportunities for re-skilling are obvious.

It is therefore important that composite measures involving training-placement-subsidy measures are also made available to the currently unregistered unemployed young, thereby giving them opportunities for training and work placements. As a result, programmes of outreach (like under 'Better Opportunities for Youth and Women - BOWY', which seeks to 'capture' some of the unaddressed target audience), appear relevant. As such, they complement activities targeting the registered unemployed to ensure that a higher proportion of the young unemployed benefit from the active labour market programmes.

Collaboration of such programmes with the National Employment Agency in this provision is critical and means that the assistance provided is complementary to and builds on, that provided by the state. UNDP is already providing support in this area within the context of the USAID funded BOYW project and intends to scale-up and expand the programme in order to reach a higher proportion of the young unemployed.

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