

The Poverty Reduction Capacity of Public and Private Transfers in Moldova

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The paper proposes a comparative welfare impact evaluation of private and public transfers in Moldova. During the 1990s, Moldova experienced one of the deepest recessions of the 20th century on record and entered the 21st century as the poorest country in Europe. As other transitional economies, the country has now embarked on a process of growth which incidentally coincided with the return to power of a communist government. During the initial years of the new millennium, the combination of growth and a communist agenda contributed to a significant expansion of the public transfers budget while the large fraction of the population which emigrated from Moldova during the 1990s to escape the consequences of the recession is now providing a substantial flow of remittances making Moldova the largest recipient of remittances in Europe as a percentage of national output.

What can public transfers do for well-being and are private transfers a real solution for improving the lives of the poorest? The paper intends to compare the welfare impact of social assistance benefits and private remittances making use of the Moldovan Household Budget Survey, a longitudinal and panel annual survey covering over 6,000 households and implemented by the National Bureau of Statistics of the Republic of Moldova since 1997.

The evaluation strategy should follow and improve upon Verme (2007)² and should combine and discuss different methodologies. The first method makes use of standard transition probabilities matrices to make an evaluation of the incidence of transfers on poverty and to estimate the role of transfers in promoting exit out of poverty and in preventing entry into poverty (Ravallion et Al.1995).³ The second method builds on the archetypical Rubin (1974)⁴ impact evaluation method to provide double difference estimates using a specifically designed process to select the comparison group via propensity score matching. The third method will make use of the panel component of the survey to test the impact of transfers with fixed and random effects models. In a last section, the paper will discuss the policy implications of the findings with a particular focus on the role of government in promoting or discouraging migration via public policy.

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²"Social Assistance and Poverty reduction in Moldova", to be presented at the IARIW conference in Beijing 18-21 September 2007.

³Ravallion, Martin, van de Walle, Dominique, and Gautam, Madhur, 1995. Testing a social safety net. *Journal of Public Economics* 57, 175–199.

⁴Rubin, Donald B., 1974, "Estimating Causal Effects of Treatments in Randomized and Nonrandomized Studies," *Journal of Education Psychology* 66: 688-701.