

3 Migration and Remittances in Moldova—A Microperspective

This chapter reports on the results of a survey of migration and remittances in Moldova. The survey was sponsored by the Chişinău offices of the International Organization for Migration and the Food Security Program of the European Commission, and developed by a survey agency (CBS AXA) in cooperation with the IMF resident representative office and the two sponsors. CBS AXA conducted the interviews, the focus groups, and the survey itself during September–November 2004.³

The survey was designed to shed light on the extent and pattern of migration and remittances, as well as their economic consequences. Although remittances have become a dominating factor in the Moldovan economy, only recently (summer 2004) did the National Bank of Moldova (NBM) revise its methodology to better capture informal remittances. As a result, estimates for remittances were revised upward. For example, the data on remittances for 2003 were revised by about \$90 million to \$484 million. Still, many believe that remittances are much higher, and figures of \$600 million for 2003 and \$1 billion for 2004 are often quoted, including by the authorities (see Basa Press, 2003; and Reporter.MD, 2004). Mainly as a result of rapidly increasing—as well as largely unexpected—remittances, the leu began to reverse its nominal depreciation trend in 2003 and then came under periods of appreciation pressure in 2004. The NBM had to change its monetary policy and walk a fine line between appreciation pressures

³The research was carried out in two stages. The first stage was a qualitative study including focus groups and in-depth interviews with migrants, their family members, and sector experts (e.g., train and bus conductors, and employees of relevant government agencies). Focus groups were used to gain insights into the behavior of migrants and their families. This allowed the survey agency to better define the questionnaire for interviewees and the interview guide for interviewers. The second stage was a public opinion poll, conducted in October 2004, based on a sample of 3,714 households, of which 1,006 had at least one migrant. The sample was stratified (e.g., urban and rural localities, size of localities) and randomly chosen.

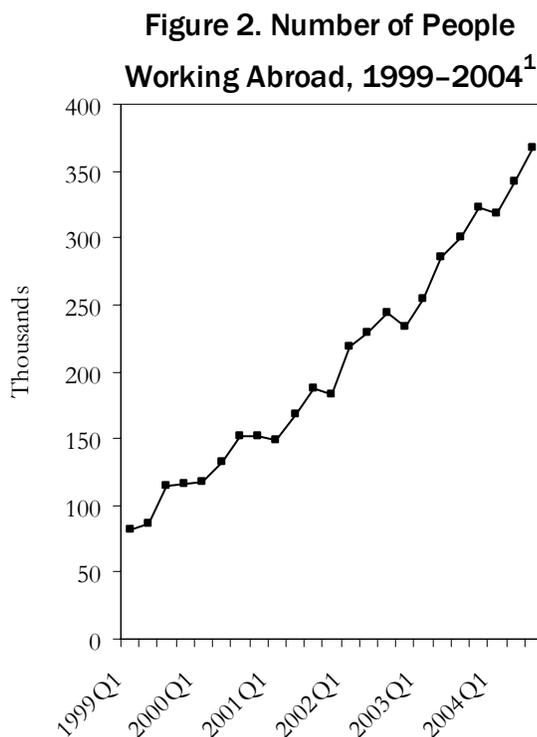
and increases in money supply. In such an environment, firm and up-to-date information on remittances is crucial to conduct the appropriate monetary policy.

Although there are no definitive data on how many Moldovans have emigrated, it is generally agreed that this number has increased markedly in the past few years. Available official estimates confirm that the number of migrants is very large when compared with an active population of 1,474,000 people in 2003. The Department of Migration estimated the number of migrants at about 600,000 as of August 2004 (Săptămîna, 2004). Data on population statistics produced by the Department of Statistics and Sociology (DSS) indicate that 367,000 Moldovans were working abroad in the third quarter of 2004, compared with 114,000 in the third quarter of 1999. Beyond these official sources, a recent survey found that the approximate number of Moldovans working or looking for a job abroad during January–September 2003 was between 265,000 and 285,000, consistent with the DSS estimates (Ghencea and Gudumac, 2004). This survey also found that almost 83 percent of Moldovans working or looking for a job abroad during January–September 2003 emigrated after 1999. Many migrants go abroad only during spring and summer to work in construction and agriculture. The DSS population data reflect this seasonality within a clear overall upward trend (Figure 2).

Precise and up-to-date information on the extent and pattern of migration and remittances is crucial to designing appropriate fiscal and social policies. For example, although remittances have been conspicuously absent from the debate on fiscal and social policy, they have become the most extensive and effective social assistance and safety net mechanism in Moldova. Officially estimated remittances reached \$484 million in 2003, far higher than the \$190 million spent on social assistance and pensions by the consolidated government. It is arguable that such inflows have reduced social pressure to increase social spending and reform the currently poorly targeted social assistance system. At the same time, migration has created some social problems that are only now starting to be recognized, while a policy response has not yet been fully formulated.⁴

Moldova's demographics and economic structure make it an ideal candidate for a high level of emigration. Not only does it have the largest share of nonurban population in Europe and the countries of the former Soviet Union, except for three countries in Central Asia, but also its population density is second only to a group of highly developed countries in Western Europe, Poland and the Czech

⁴The Ministry of Education estimates that, as a result of migration, during the 2004/2005 academic year, 23,000 Moldovan children were left without both parents and under the care of relatives, older siblings, or friends (Pro-Didactica, 2004).



Source: Department of Statistics and Sociology (DSS), 2005.

¹As declared by their families.

Republic in Central Europe, and Armenia in the former Soviet Union (Figures 3a and 3b). Prior to independence, a high percentage of Moldovans lived in essentially rural communities that, in turn, relied on the economic ties within the countries of the former Soviet Union. The breakup of these ties and the relative price shocks that ensued generated excess labor, which could not be easily absorbed in a country already characterized by high population density and with only the capital—Chişinău—able to offer employment opportunities to internal migrants.

These structural factors were exacerbated by the existence of several small towns whose economic well-being relied on a single large enterprise. These enterprises were not competitive and soon became idle, driving their towns' populations into poverty. In 2002, 63 percent of residents of small towns were poor, compared with 52 percent of rural residents and 29 percent of people living in large cities (World Bank, 2004). Small-town residents do not benefit from the better employment opportunities of large cities, or from the safety net of small landholdings of rural residents. Although the poverty risk is highest in small towns, since the majority of the population lives in rural areas, rural poverty

Figure 3a. Population Density, 2001¹

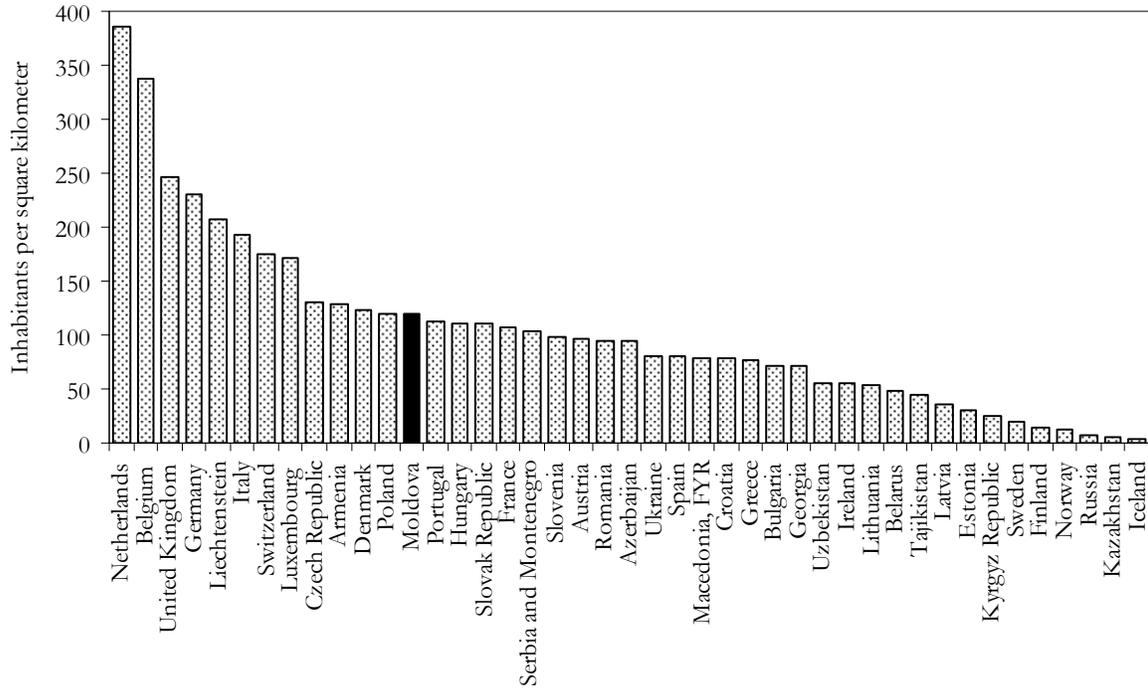
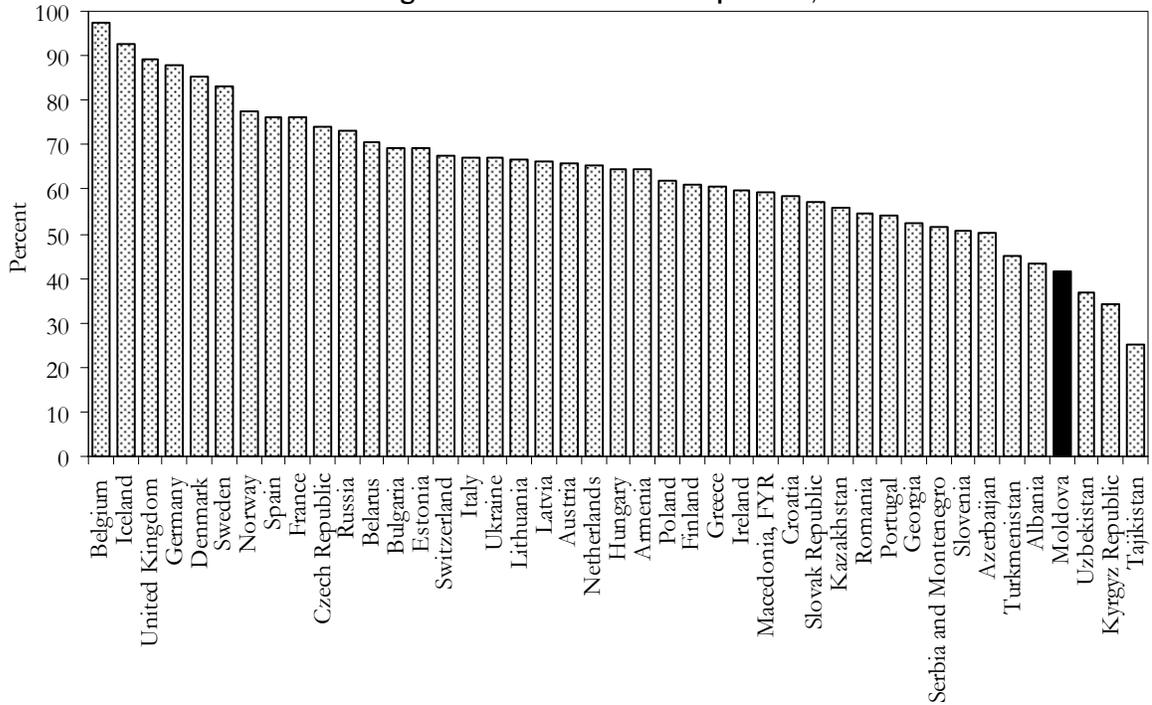


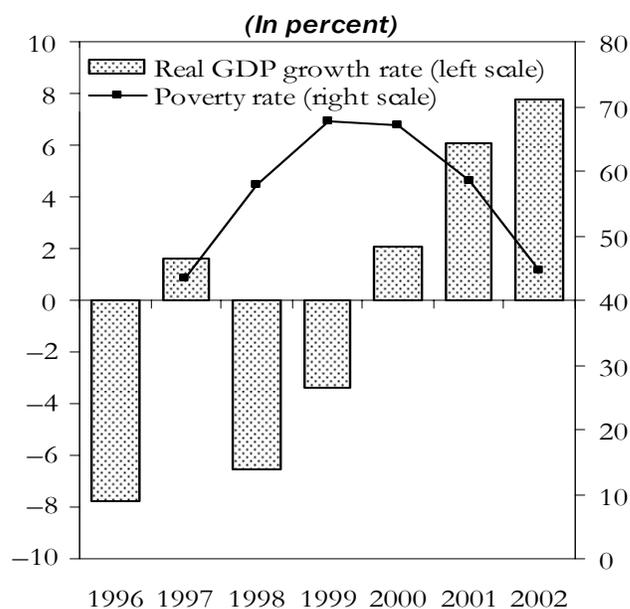
Figure 3b. Share of Urban Population, 2002



Source: United Nations Development Programme (UNDP), 2004.

¹Data for Moldova include Transnistria.

Figure 4. Real GDP and Poverty Rate, 1996–2002¹



Source: DSS, 2005.

¹Poverty rate defined with respect to the international poverty line (\$2.15 in purchasing power parity terms per day).

predominates—68 percent of all Moldovan poor lived in rural areas in 2002. Poverty became deeper and more severe during the recession that followed the 1998 regional crisis, although the depth and severity of poverty began to recede with the subsequent economic recovery (Figure 4). Migration appears to be a rational coping mechanism under these circumstances.

A. Extent of Migration and Migrants' Profile

CBS AXA (2005) estimates a migrant *contingent* of at least 571,000 people at the time of the survey, consistent with the figure quoted by the Department of Migration. These migrants are divided into two groups. The first is formed by some 399,000 Moldovans who were working abroad at the time of the survey. The second consists of about 171,000 people who were in Moldova at the time of the survey, but had worked abroad at least once during 2003–04 and intended

to migrate again either on a permanent or a seasonal basis in the near future.⁵ These two groups of migrants together form a migrant contingent equivalent to 38.7 percent of the economically active population at end-2003. The advantage of using the concept of migrant *contingent*, rather than the number of *emigrants at any point in time*, is that the former is independent from the strong seasonality of Moldovan migration flows. This is an important innovation with respect to other surveys, whose estimates vary according to the time of year when they are undertaken.

However, the migrant *potential* is higher than the migrant *contingent*. At the time of the survey (October 2004), 119,000 families who had not had any member working abroad during 2003–04 expressed their intention, or revealed that preparations were under way, to send at least one member to work abroad within the next six months to one year. Thus, the migrant potential is estimated to be as high as 690,000 (a migrant contingent of 571,000, plus 119,000 intending to depart for the first time within the next year), corresponding to 46.8 percent of the economically active population at end-2003. By any account, these are large figures and suggest that the Moldovan labor market may come under additional strain.

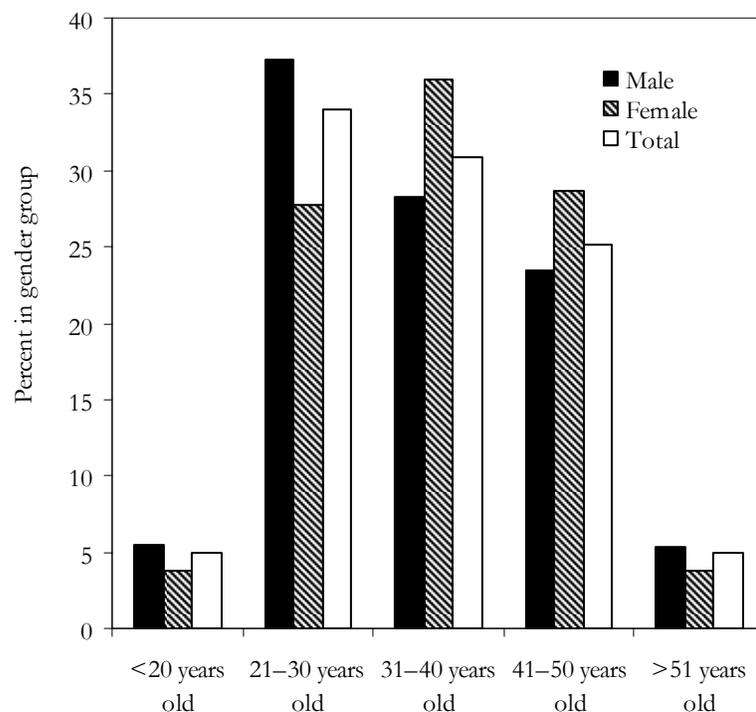
The distribution of the migrant contingent by gender and age provides interesting insights about the profile of migrants. As shown in Figures 5 and 6, the majority of people in the migrant contingent are men (about 66 percent), and the largest portion of migrants (75.3 percent) belongs to the most economically active age groups (21–40 years old).⁶ On average, male migrants are younger than female migrants, reflecting a specialization of men in physical work and of women in household chores in host countries. While about 62 percent of migrants are married, there is a clear correlation between their marital status and their length of stay abroad: married migrants migrate less permanently than single or divorced migrants.⁷ A preponderance of male migrants is characteristic of Commonwealth of Independent States (CIS) countries, such as Russia and Ukraine, and some Western European countries (Germany, Portugal, and Belgium), reflecting demand for services in construction, the repair industry, and agriculture (Figure 6). Female migrants prevail in Cyprus, Greece, Turkey, Italy, and Spain, reflecting demand from the tourism sector (e.g., Cyprus) and for household help (e.g., Italy and Turkey).

⁵These are either seasonal migrants, the largest component; migrants who are momentarily in Moldova to retrieve documents, finalize emigration papers, or take care of personal or family affairs or business; or migrants who have to spend some time in their home country to get a visa renewal (e.g., migrants to Turkey).

⁶Unless specified otherwise, figures in the remainder of this chapter refer to the migrant contingent.

⁷Widowers also migrate less permanently than divorced migrants. This suggests a relation of causality between migration and the divorce rate, a fact that is confirmed by the qualitative research.

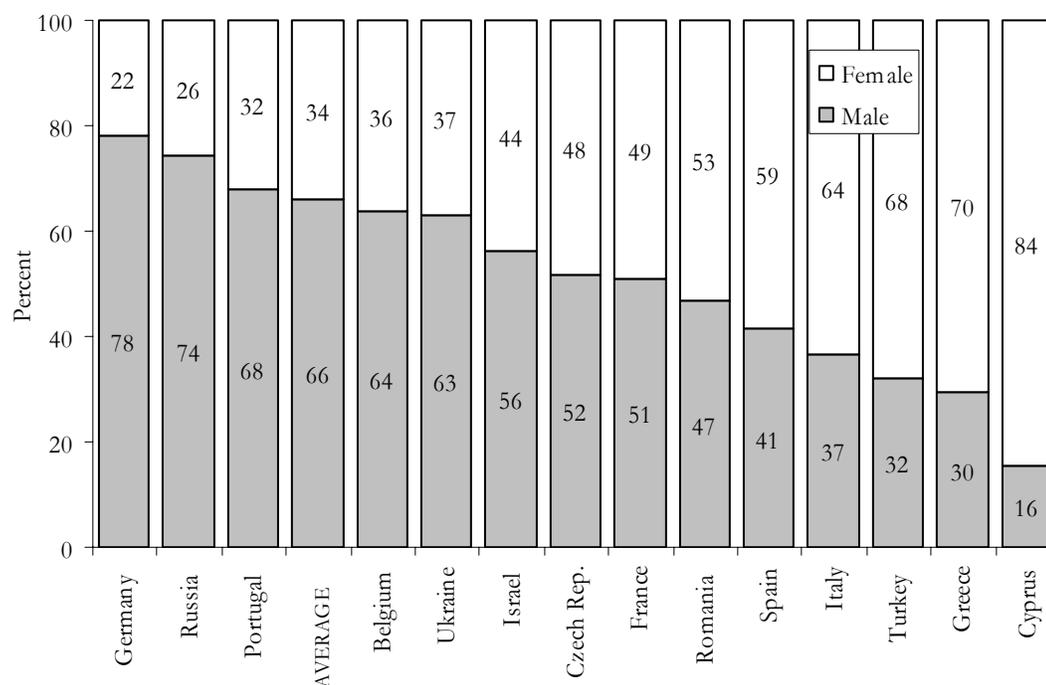
Figure 5. Migrant Contingent: Distribution by Gender and Age



Source: CBS AXA, 2005.

Migrants generally have a below-average level of education, but people with above-average education are overrepresented among permanent migrants and those who migrate to Western European countries. Fewer than 20 percent of migrants have a university education, compared with about 28 percent in the working population (Figure 7). However, the level of education among permanent migrants is distinctly above average, which contributes to a significant brain drain (Figure 8). The opposite is true for temporary and seasonal migrants. Most migrants with less education go to CIS countries (notably, Russia and Ukraine), where salaries are lower, while workers with higher education migrate mainly to Western European countries, where salaries are higher. These findings suggest that education offers wider choice in terms of destination and job opportunities. In turn, this helps to raise the perceived return on investment in education, thus contributing to increasing the overall skills of the labor force and potential output growth in the medium term.

Figure 6. Migrant Contingent: Country Distribution by Gender

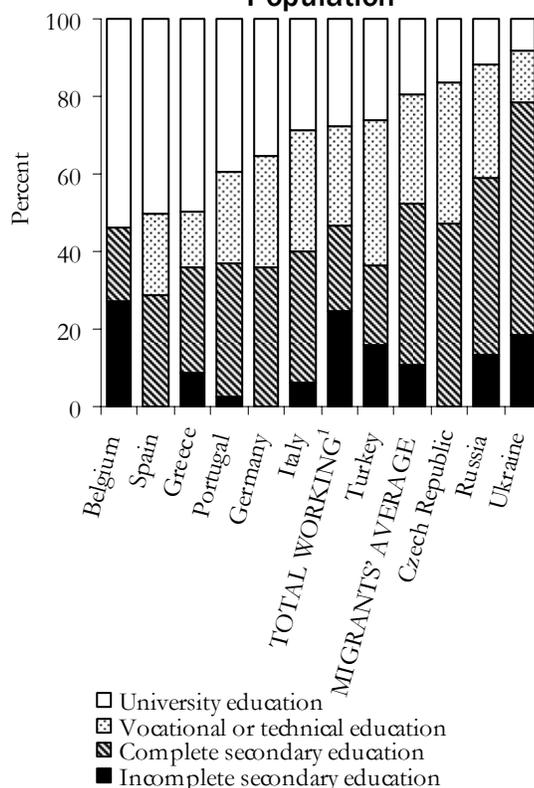


Source: CBS AXA, 2005.

Attachment to the home country may be important for Moldovan migrants. Most Moldovan migrants have not moved permanently abroad, and they go abroad repeatedly either as seasonal or as nonpermanent migrants. At the time of the survey, about 32 percent of migrants resided in the host country (Table 1). Another 27 percent either had moved abroad less than a year before or travel abroad routinely for periods of no longer than a year. In addition, another 41 percent are seasonal migrants, who migrate during specific periods of the year, or go abroad when necessary to find supplementary sources of revenue.⁸ Also, the focus groups indicate that the main reasons nonpermanent migrants return home

⁸As discussed in Chapter 2, permanent residents are those migrants who, from the balance of payments point of view, transfer remittances. The second and third categories are essentially exporting services for a period of time shorter than one year and, from the balance of payments point of view, their transfers are classified as compensation of employees.

Figure 7. Education Level of Migrants and Working Population



Sources: CBS AXA, 2005; and DSS, 2004.

¹Share of educated in total working population.

are to remain in touch with family, procure documents, and renew visas. Table 1 also shows that the majority of men are seasonal migrants, while the majority of women are permanent migrants. Emigrants departing to Western Europe tend to establish residence there, while emigrants to CIS countries seek work on a seasonal or nonpermanent basis (Figure 9). Ukraine and Russia attract mostly seasonal migrants.

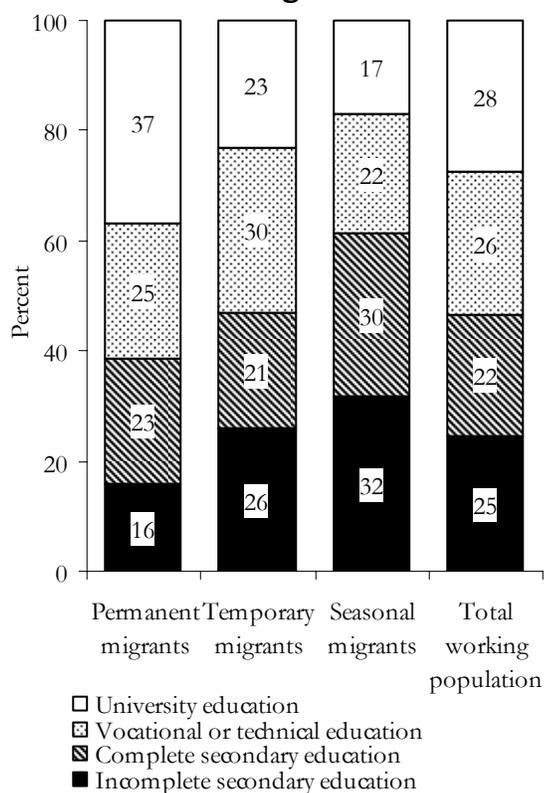
This pattern of migration may not change in the short term, since only a minority of current Moldovan migrants intend to move abroad permanently. Only 6.4 percent of interviewed migrants currently in Moldova intend to move permanently abroad, while 67.3 percent of them would consider seeking employment abroad again to save money and return to their home country. The answers given by the family members of migrants currently abroad are broadly consistent with those given by the groups of migrants currently in Moldova.

Table 1. Category and Gender of Migrants
(In percent of total by gender)

	Permanent: More Than One Year Without Returning	Nonpermanent: Less Than One Year	Seasonal: A Few Months
Total	32.3	26.9	40.8
Men	26.3	25.3	48.4
Women	44.3	30.1	25.5

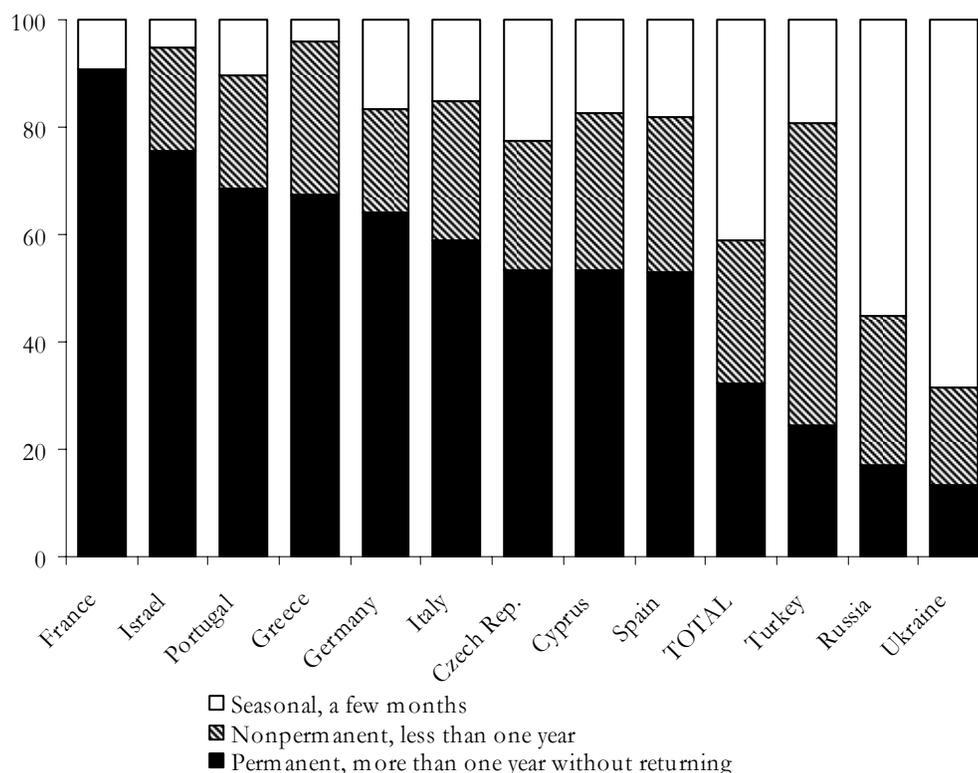
Source: CBS AXA, 2005.

**Figure 8. Education Level of
Migrants by Category of
Migrants**



Sources: CBS AXA, 2005; and DSS, 2004.

Figure 9. Geographical Distribution of Permanent, Nonpermanent, and Seasonal Migrants
(In percent of total in each country)



Source: CBS AXA, 2005.

Family members expect 12 percent of migrant workers to move abroad permanently and 65 percent to return to Moldova after accumulating enough savings to meet their specific needs.

In the medium term, however, more people may migrate permanently. If given the opportunity, more Moldovans, particularly the young ones, would migrate, and many of these would do so permanently. According to a poll conducted in November 2004 (International Republican Institute and Baltic Surveys Ltd. (IRI), 2004), 25 percent of Moldovans would migrate permanently and another 30 percent would migrate temporarily, if given the chance. This inclination is particularly strong among people under 30 years of age: 76 percent would leave Moldova, if they had an opportunity to do so; of these, 43 percent would migrate permanently. These figures suggest that the number of people willing to leave Moldova remains high and that, unless economic opportunities are created locally, migration is likely to continue.

B. The Decision to Migrate

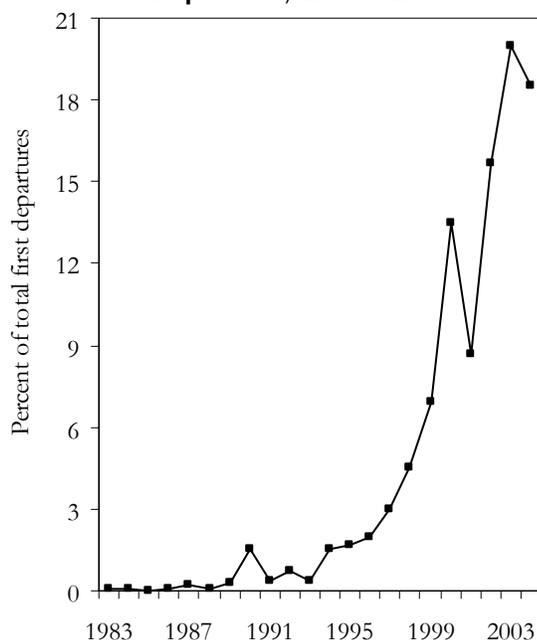
Migration started in earnest after the 1998 regional crisis, but accelerated during the past three years. While 29 percent of migrants went abroad for the first time in 1999–2001, 54 percent of migrants left in 2002–04 (Figure 10).⁹ Thus, 83 percent of migrants departed for the first time after 1998. Recently, there has been a clear tendency for younger people to migrate. Almost 45 percent of the migrants under 20 years of age departed in 2004, consistent with the finding by IRI (2004) that the desire to migrate is highest among people under 30 years of age.

The massive and accelerating emigration since the late 1990s is not solely due to *push* factors associated with the 1998 crisis or lack of employment opportunities in recent years; some *pull* factors are also at play. The qualitative research confirms the findings in other high-emigration countries (Rapoport and Docquier, forthcoming): once colonies of Moldovans are established abroad, relatives and friends back home find it easier to join the migrants in the host country—usually in the same city and, at least temporarily on arrival, in the same living quarters—thanks to the informational, logistical, and financial support they provide. Forty-six percent of those interviewed mentioned that having relatives and friends abroad encouraged them to migrate. The interviews also reveal that, particularly in small communities, imitation factors can be extremely important in triggering the decision to activate the informal network of Moldovans living abroad. The need to rely on outside support in seeking employment abroad makes Moldovans vulnerable to exploitation by criminal groups (Box 1).

Most migrants decide to leave to satisfy basic economic needs of the household. For 44 percent of them, the primary objective is to make enough money to meet current consumption needs (e.g., food, clothes, and basic household commodities), while for another 21 percent, it is debt repayment. For 19 percent of migrants, the primary reason to migrate is broadly defined household investments or savings (e.g., car, house purchase or renovation, weddings or funerals, bank deposits); for another 11 percent, it is spending on education, health, or household durables. Only 1 percent of migrants mention business investment in any form (e.g., land, farm animals, machinery, market stands, minibuses). The ranking of responses changes when migrants are asked for a second reason for leaving. While meeting current consumption remains the most frequently mentioned reason for emigrating (33 percent), household investments (29 percent) and spending on education and health (21 percent) become much more relevant. Debt repayment drops dramatically (7 percent) and business investment, though increasing, remains marginal (4 percent).

⁹The slowdown in emigration in 2001 as shown in Figure 10 reflects tighter police controls in Russia, in the aftermath of terrorist acts related to the second Chechen war, and lower emigration to Italy, probably owing to tighter controls before the enactment of a new immigration law in June 2002.

Figure 10. Year of First Departure, 1983–2004¹



Source: CBS AXA, 2005.

¹The estimates for 2004 exclude the last two months of the year.

These findings are confirmed by the focus groups and experts’ interviews. Among the most frequently mentioned reasons for migration are insufficient money to meet basic needs, lack of a decent place to live, joblessness, a poorly paying job, and the need to pay for the education of a family member. Among young people, a decisive factor is the lack of opportunities and the “life essentials” to raise a family.

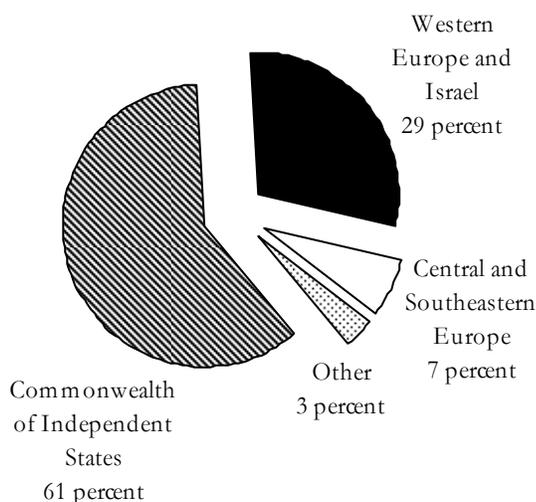
The majority of Moldovan migrants work in CIS countries (Figure 11). Almost 60 percent of migrants head for Russia, with Italy a distant second (19 percent), followed by Portugal (5 percent) and Greece (almost 3 percent). All migrants—irrespective of country of destination—claim that the most important factor in choosing a host country is the presence of relatives or friends, followed by the cost of departure, the advice or information received on that particular country, and its working conditions, which confirms that *pull* factors are important in determining how emigration flows are distributed among host countries.

Box 1. Negative Side of Labor Migration

One disturbing phenomenon associated with labor migration from Moldova concerns human trafficking. When they are working abroad illegally, many individuals are often vulnerable to exploitation by criminal organizations. Although comprehensive data are not available, partial data suggest that many victims are young: for example, the International Organization for Migration Rehabilitation Centre for Victims of Trafficking assisted 1,452 victims in 2000–04, of which 21 percent were under 18 years of age; 60 percent were between 18 and 24; and 35 percent were mothers (80 percent of them single). The recent United Nations Common Country Assessment (United Nations, 2005) cites estimates that 35 to 50 percent of victims coming into contact with support organizations across Europe are from Moldova, and that more than half of the street children in Moscow are Moldovan.

Youth social problems are often linked to migration. The Ministry of Education estimates that, as a result of migration, 23,000 children have been left without parental supervision. The aforementioned United Nations Common Country Assessment concludes that many of these children are left “without proper supervision in the care of aging grandparents or too-young siblings, and are at risk of institutionalization, abuse, neglect, and exploitation, including sexual exploitation, forced labor, or trafficking.”

Figure 11. Main Migration Directions



Source: CBS AXA, 2005.

Note: Western Europe: Italy, Portugal, Spain, France, Germany, Belgium. Central and Southeastern Europe: Romania, Turkey, Greece, Czech Republic, Cyprus.

Box 2. Travel Costs and Migration Channels

Travel costs vary depending on the country of destination and the channel chosen to migrate. The average cost (including ticket, document preparation, and visa) to depart for Russia is \$96, compared with \$422 for Turkey, \$1,922 for Portugal, \$2,048 for Italy, and \$2,300 for Spain.

A large component of emigration costs for more expensive destination countries (typically, Western European countries) are the fees paid to middlemen or travel agencies that take care of all documents, visas, and transportation to the target country. Both CBS AXA (2005) and Ghencea and Gudumac (2004) find that, although migrants often enter a country legally with a tourist or cultural exchange visa, they then remain illegally.

On average, a person spends \$658 to emigrate, though the majority of migrants spend \$100 or less (these are typically seasonal and nonpermanent workers to CIS countries). However, since these figures reflect the costs at the time of first departure, they underestimate how much Moldovans spend today to seek work abroad. Costs have increased considerably, and are now quoted mostly in euros.

An example from the focus group gives a good idea of how costs are increasing. An engineer spent \$900 to migrate to Portugal in 1999. He entered with a tourist visa, but remained to work without a regular working permit for some years, and then came back to Moldova. In 2004, he decided he wanted to return to Portugal and, at the time of the survey, he was preparing documents to leave. He found that the costs he would incur had now risen to \$2,700. If he were able to obtain a visa for work reasons from a Portuguese employer, he would be able to avoid paying fees to middlemen. As for other goods and services, the price of migration increases with demand and with regulations imposed to control it. In the current environment, obstacles to migration often translate into a tax on the migrant collected by the individuals and institutions facilitating the migration.

Travel costs vary widely by destination country and channel of migration (Box 2). The low cost of departure was mentioned as a particularly important reason by migrants who chose CIS countries, while most migrants to Western Europe and Turkey highlighted the importance of good working conditions. The interviews confirm a clear relation between the income level of the family and the choice of destination country—that is, migrants from better-off families can afford countries that are expensive to reach and settle in, which are usually also those where wages are higher.

Fifty percent of migrants financed some or all of their departure expenses from their own savings, but many also borrowed. Many migrants borrowed some or all the required amounts for traveling from relatives or friends either living in Moldova (31 percent) or abroad (13 percent). A smaller portion borrowed from moneylenders (10 percent) or from a bank (2 percent). The choice of the financing combination very much depends on the travel costs: while the majority of migrants to CIS countries self-financed their departure, people who went to Western European countries borrowed money more often—usually twice as often as the average. The interviews reveal that several migrants worked initially

in CIS countries, especially in Russia, to accumulate money to finance their trip to Western Europe.

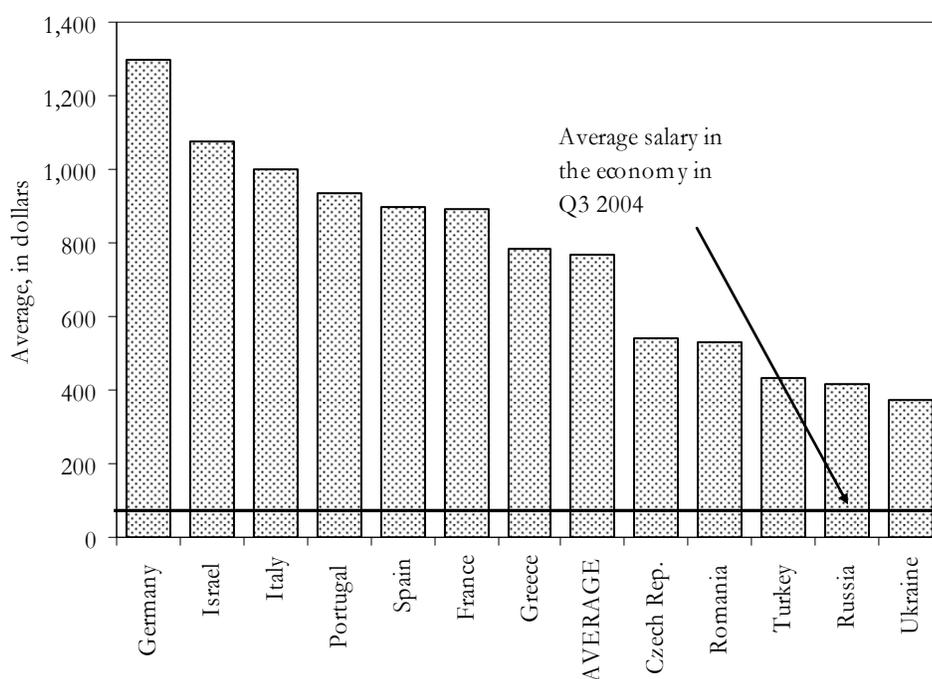
Migration seems to be an investment with quick-yielding returns. Borrowed money was quickly returned. Eighty percent of those who borrowed to finance their trip have already repaid the loan. Almost all of those who have not yet liquidated their debt are recent migrants who migrated in 2003 and 2004. Of those who repaid their debts, two-thirds did so within six months and another 11 percent within one year.

C. Earnings, Contribution to Family Income, and Remittances

The average monthly earnings of migrants are estimated at \$543. Earnings vary according to host country and type of migrant. Migrants to CIS countries have the lowest earnings, while migrants to Western European countries and Israel have the highest earning levels (Figure 12). Permanent migrants earn significantly more (\$741) each month than nonpermanent (\$500) or seasonal (\$409) migrants.¹⁰ This finding is consistent with that of Ghencea and Gudumac (2004), who observe that earning levels increase with the duration of permanence abroad. In addition, they find that earning levels increase with the level of education of the migrant and the nature of the job (i.e., legal or not). They also find that gender, once other factors are taken into account, does not explain differences in remuneration levels.

Most migrants transfer significant portions of their earnings home, often shortly after departure, suggesting that altruism is a significant trait of Moldovan migrants. Almost 81 percent of migrants send money to their family. Those that do not make remittances are either recent migrants (46 percent of those who do not send money emigrated for the first time in 2004) or young migrants who often have no family obligations and are probably accumulating savings either to set up their own family or to settle abroad permanently (about 53 percent of those who do not send money are under 30 years of age). Those who do transfer money home tend to send large portions of their earnings—71 percent of migrants send more than 50 percent of their earnings (Figure 13). Forty-nine percent of migrants sent money within three months of departure. People going to Russia, Turkey, Italy, Spain, and the Czech Republic transfer money faster than people who go to other countries, thus confirming the interviews' findings that it is easier to find a job in these countries.

¹⁰This explains why 60 percent of migrants go to Russia, but only one-fourth of the remittances come from the CIS. Also, the majority of migrants to CIS countries are seasonal or temporary migrants.

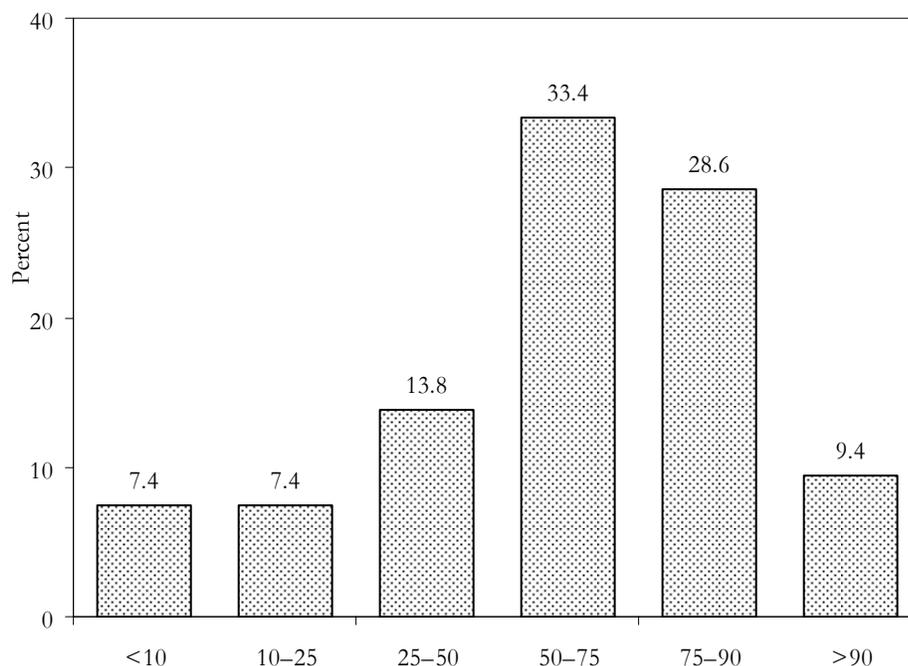
Figure 12. Earnings Received by Moldovan Migrants¹

Sources: CBS AXA, 2005; and DSS, 2005.

¹Reference period is 2003–04.

Informal channels are the most common method used to transfer money. Forty-four percent of migrants use informal methods most often: train or bus conductors, bringing money personally, asking relatives and friends to carry money, or even sending money hidden in parcels handed to bus drivers. Transporting funds personally is the most frequently used informal method (17 percent of total preferences). Thirty-four percent of migrants prefer to use formal channels: bank transfers, rapid transfers (such as Western Union, MoneyGram, Anelic, and Unistream), or post offices, with rapid transfers the most frequently used method (20 percent of total preferences). Migrants to Western European countries more frequently use bank and rapid transfers, while migrants to CIS countries and Central and Southeastern Europe prefer informal channels. The choice of transfer channel depends also on the category of migrant. For example, permanent migrants prefer rapid transfers, followed by carrying money with them; after that they prefer bank transfers or transport by bus drivers. Seasonal workers' preference is to bring the money themselves, followed by use of rapid transfers.

Figure 13. Percent of Earnings Sent to the Family



Source: CBS AXA, 2005.

The average amount of each transfer is \$367, whatever the host country. The size of the transfer is positively correlated to the age of the migrant and negatively correlated to the year of first departure. Younger people transfer less, because they spend more in the host country and have fewer family obligations in the home country. As Moldovan migrants settle abroad, portfolio choice becomes more important in determining the amount of funds remitted, as they start to save money in their host country.

Survey estimates of remittances are consistent with balance of payments data. According to the survey, Moldovan migrants transferred to Moldova an estimated \$461 million in 2003 (23.5 percent of GDP), a figure that is statistically very close to the balance of payments estimate of \$484 million. Permanent migrants are estimated to have transferred \$154 million, almost the same figure reflected in the balance of payments for *remittances* (\$152 million). Nonpermanent migrants and seasonal migrants are estimated to have transferred \$119 million and \$187 million, respectively. Thus, the survey confirms that seasonal migrants (mostly to CIS countries) are the most important contributors to the total volume of transfers. Together, transfers from nonpermanent and seasonal migrants, defined as *compensation of employees* in the balance of payments statistics, amount to \$306 million. Again, this figure is statistically very close to the balance of payments estimate (\$332 million).

Estimates for the first 10 months of 2004 (\$421 million) confirm that remittances continue to grow, and suggest that transfers from permanent migrants may be growing in importance. Because transfers usually peak before the winter holidays (as well as at end-August), it is highly likely that remittances in 2004 will be considerably higher than in 2003. At the same time, remittances from permanent migrants have increased to 36 percent of total inflows, compared with 33.4 percent during 2003. This may reflect the fact that a large number of Moldovans went abroad for the first time in 2002–03, and that about 29,000 Moldovans obtained official status in Italy just before June 2002. Because most migrants to Western Europe tend to stay abroad permanently and remittances increase with the length of stay, what we are witnessing now is the lagged increase in remittances from permanent migrants who went abroad during the 2002–03 migration wave.

D. Microeconomic Impact and Use of Remittances

Remittances represent a large share of the income of the recipient family, thus raising its welfare. As one would expect, there is a positive correlation between the contribution of remittances to family income and the level of welfare of the recipient family. On average, remittances constitute at least 65 percent of the income of the recipient family in 41 percent of families with a migrant. Remittances cover 35–65 percent of family income for another 25 percent of families with a migrant. However, in many cases, when the family is very poor to begin with, or the migrant is not yet remitting large amounts, even major contributions to family income are not sufficient to meet basic needs. In the qualitative research, all respondents indicated that they raised their consumption level—unless the emigration was recent or occasional—and the large majority of respondents observed that their situation improved considerably. Those families who did not have financial problems to begin with managed to increase their consumption level by, for example, buying a new car or renovating their house. This change in consumption levels has motivated friends and relatives to leave, or to prepare to leave.

Remittances are mostly used to meet current consumption needs. Expenditures on basic consumption (e.g., food, clothes, utilities) are the most important use of remittances (Figures 14a and 14b). This result holds true throughout the “life cycle” of remittances: (1) before departure, as expectations are formed on how to use future transfers; (2) during the first year of receiving remittances; (3) during 2004 (the survey year); and (4) in 2007, on the basis of expectations for future use. Throughout this life cycle, housing investment tends to be the second most important use of remittances, followed by household durables and big-ticket family events (e.g., a wedding), and spending on education and health. This pattern of remittance use is consistent with the assumption that the largest portion of remittances is spent on consumption and that the second largest is spent on houses, land, and related expenditures (see Chapter 2).

Figure 14a. Use of Remittances by Year of Remittance Cycle

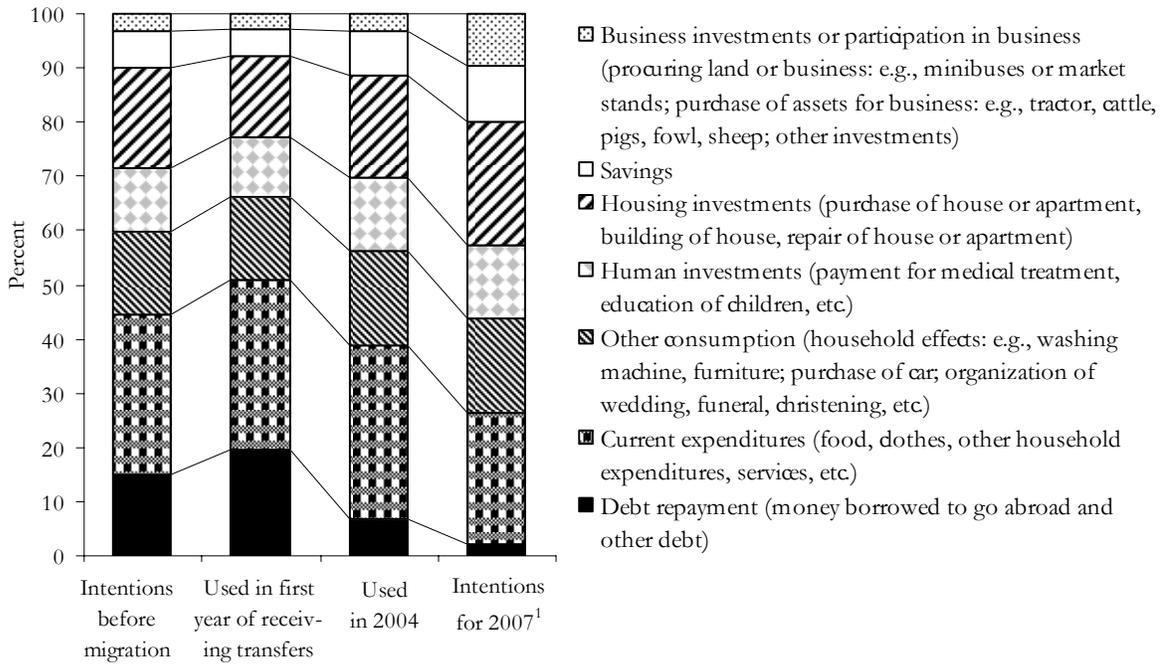
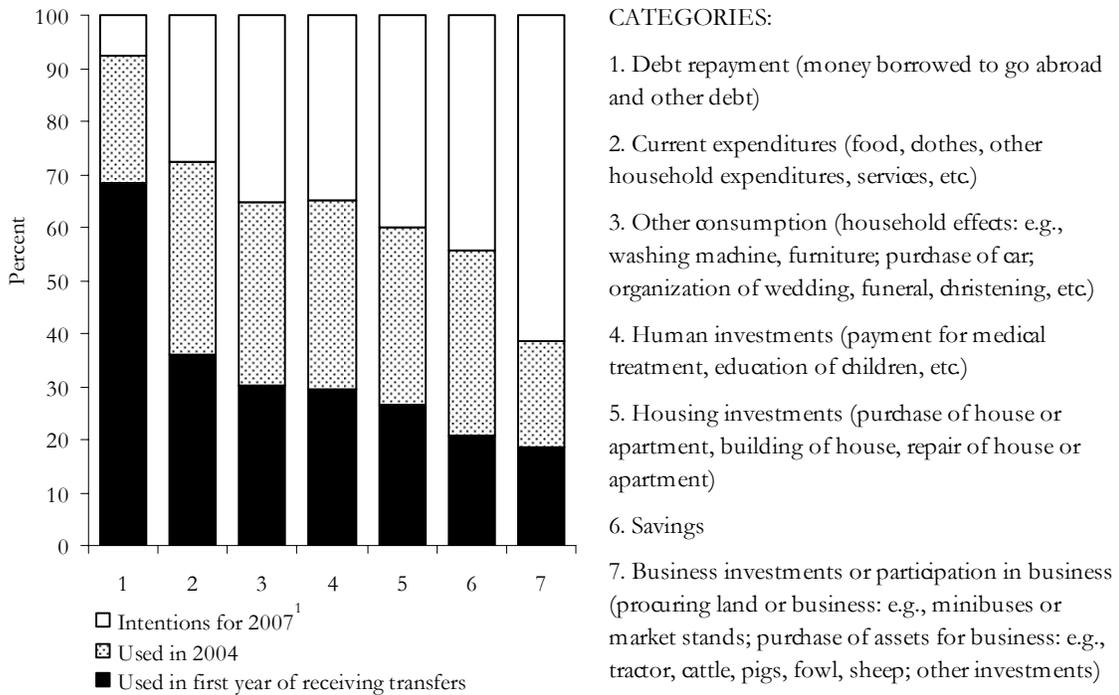


Figure 14b. Use of Remittances by Category



Source: CBS AXA, 2005.

¹ Provided the same level of remittances is maintained over the next three years.

Particularly in the first years, only small portions of remittances are devoted to business investment, since migrants prefer to invest in housing and education. The low level of business investment is a result of three factors. First, business investment ranks low among the reasons behind migration. Second, few migrants (17 percent) think they will be able to save enough during the next few years to invest in their own business. Third, migrants have a cautious attitude toward investing in Moldova. This is very clear from the focus groups and interviews: only a small number of people expressed interest in opening a business in Moldova, often citing bureaucracy, corruption, and the perception of a poor business environment. The preferred investment of migrants is the purchase of a house, or a second house for their children—investment with property rights that are more secure. From the focus groups it is also clear that migrants regard expenditures on education as a form of investment.

The utilization pattern of remittances changes with the length of migration and the increase in welfare of the household. As basic needs (e.g., food and clothes) are met, an increasing portion of remittances is oriented toward durables, investment in housing, savings, and business investment. Debt repayment is the second most important use in the first year, but becomes marginal over time as debts are settled. Spending on household durables increases over time, almost mirroring the decrease in expenditures on basic consumption goods. These two categories together account for a relatively stable 45 percent of remittances.

Families receiving remittances count on accumulating more savings in the future, provided transfers from the migrant member do not decline. Interestingly, the largest saving category throughout the remittances' life cycle is "money kept under the mattress" (Figure 15a). Although bank deposits increase more than any other saving category, recipient households are likely to keep twice as much money "under the mattress" as in bank deposits even in 2007.

Families receiving remittances are also likely to increase investment considerably in business activities in the future, albeit to lower levels than housing and human investment. Indeed, business investment increases more than any other utilization category between 2004 and 2007. This suggests that business investment is affected only at high income levels, reached after receiving transfers for a few years. Accounting for 4.2 percent of utilization of total transfers, microbusiness and purchases of land are the largest category of business investment (Figure 15b). Still, families intend to invest much more in housing (23 percent) and education and health (about 14 percent) in 2007.

Figure 15a. Use of Remittances by Year: Breakdown by Type of Savings

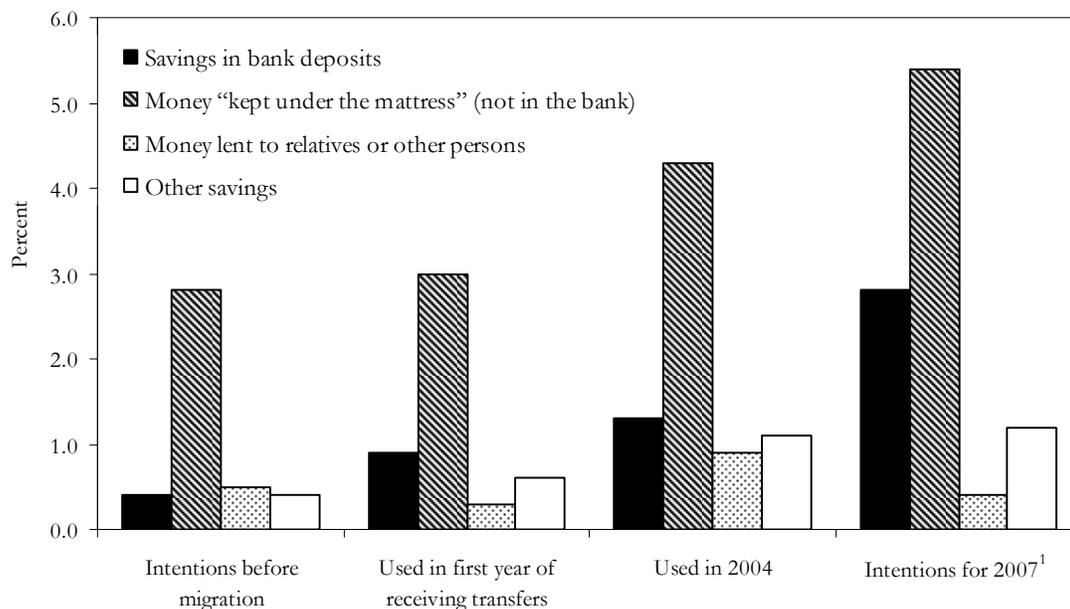
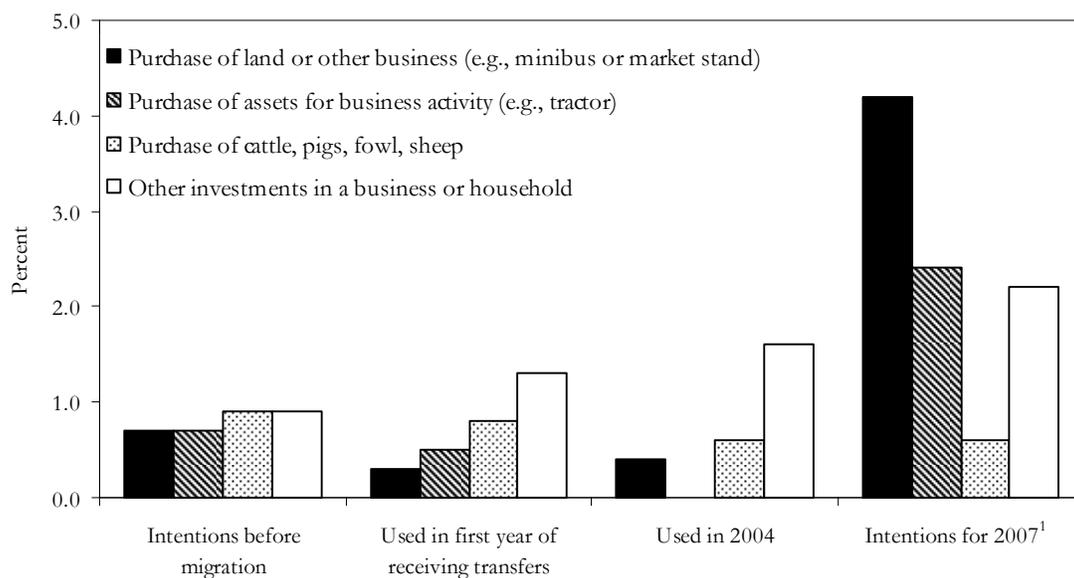


Figure 15b. Use of Remittances by Year: Breakdown by Type of Business Investment



Source: CBS AXA, 2005.

¹Provided the same level of remittances is maintained over the next three years.

E. Summary of Findings

The main findings of the survey on migration and remittances can be summarized as follows:

- The current migrant *contingent* is estimated at 571,000 people (39 percent of the economically active population). The migrant *potential*, which includes Moldovans who intend to depart in the near future, is estimated at around 690,000 people (48 percent of the economically active population).
- Remittances were estimated at \$461 million (23.5 percent of GDP) in 2003, a figure statistically very close to the National Bank of Moldova's official estimates reported in the balance of payments statistics. Estimates for the first 10 months of 2004 confirm the upward trend in remittances and suggest that transfers from permanent migrants may grow in importance.
- Most migrants go abroad temporarily—on either a seasonal or a nonpermanent basis. Thus, both the number of people working abroad and their remittances are highly seasonal. Emigrating has become easier, since migrants can rely on the informational, financial, and logistical support provided by Moldovans already residing abroad. Thus, *pull* factors are likely to increasingly facilitate migration.
- *Push* factors (e.g., unemployment, low salaries in the formal economy, increasing prices, and a large portion of the population living in rural communities) will also continue to motivate Moldovans to migrate. Some of these factors are in part under the control of policymakers.
- There is a clear tendency for younger people to migrate.
- While there is no evidence of brain drain among the entire migrant contingent, there is significant brain drain among permanent migrants, who also tend to migrate to countries with higher salaries. The opposite is true for seasonal and temporary migrants, who have a below-average level of education and tend to go to host countries with lower salaries. Thus, people with higher education find more and better opportunities abroad. This probably increases the perceived return on investment in education among migrants' households.
- The behavior of Moldovan migrants is consistent with assumptions in the literature about the motivation behind remittances. In particular, Moldovan migrants appear to have a strong attachment to their home country (i.e., they return home often) and are altruistic (i.e., they remit large portions of their earnings to their families). Thus, in the short-to-medium term, remittances are likely to remain a stable and countercyclical source of foreign exchange. Remittances are also likely to continue to boost household demand for consumption and investment in housing, as well as to provide a well-targeted social safety net. In the long term, as more migrants settle abroad, portfolio

choice may become more important and migrants may decide to start saving and investing in their host country rather than remitting funds home.

- Remittances are used in a manner consistent with assumptions in the literature on the use of remittances. Most remittances are used to meet basic current consumption needs. Migrants use large portions of their savings to invest in housing and children's education, with only marginal amounts invested in business activities.
- At the same time, migrants expect to start investing increased, albeit not large, portions of their future remittances in business activities in Moldova in future years. Savings from remittances are typically kept "under the mattress" rather than in bank accounts.