

Hristev, Eugene; Mincu, Georgeta; Sandu, Maya; Walewski, Mateusz

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The effects of migration and remittances in rural Moldova

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CASE Network Studies & Analyses

The Effects of Migration and Remittances in Rural Moldova

Eugene Hristev
Georgeta Mincu
Maya Sandu
Mateusz Walewski

No. 389/2009



Warsaw Bishkek Kyiv Tbilisi Chisinau Minsk

Materials published here have a working paper character. They can be subject to further publication. The views and opinions expressed here reflect the author(s) point of view and not necessarily those of CASE Network.

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MOLDOVA

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CASE-Center for Social and Economic Research on behalf of CASE Network

12 Sienkiewicza, 00-010 Warsaw, Poland

tel.: (48 22) 622 66 27, 828 61 33, fax: (48 22) 828 60 69

e-mail: case@case-research.eu

<http://www.case-research.eu>

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Eugene Hristev received his masters degree in policy analysis and public finance from Indiana University, US in 2001 and worked as consultant with various think tanks in Moldova and international institutions, including USAID, World Bank, and TACIS. During four years he was part of negotiating team for the accession of the Republic of Moldova to the World Trade Organization while working as head of trade policy division in the Ministry of Economy of Moldova till end of 1999. He is the author of a number of publications and co-author of studies carried out by World Bank and CASE Foundation on economic analysis, including trade and investment.

Georgeta Mincu is an expert in the field of economic development with practical and analytical experience on migration issues as well. She has rich experience in working with ILO and IOM Missions in Chisinau in organising and conducting different activities related to Migration and Development, especially those related to leveraging remittances into economic activities (financial literacy, efficient use of remittances, legal transfers, developing business tools for entrepreneurial oriented people), cooperation with governmental entities in designing policies related to management and creation of new opportunities for the returning migrants. She has cooperated with numerous international consulting companies such as CASE, ECORYS, DAI, P-E international and other.

Maya Sandu is an economist with extensive experience in policy design and supervision. She has worked on designing and managing the implementation of national and sectoral economic and administrative reform programs within the Government of Moldova and within the donor community. She participated in a number of analytical works on a wide range of issues faced by Moldova - poverty assessment, migration, governance, effectiveness of external aid - and contributed to developing and promoting specific policies to address these development issues. Maya has an extensive experience in designing and applying participation mechanisms for policy formulation and evaluation.

Mateusz Walewski graduated from the Department of Economics at the University of Sussex in the UK (1997) and at the Warsaw University (MA in 1998), where he participated in an MA program organized in cooperation with Columbia University in New York. He works as a researcher at the CASE Foundation since 1997. He is an author of numerous publications and unpublished reports concerning labor market, poverty, inflation, restructuring of the economy and taxation policy but labor market is his main area of interest. He is among authors of the Polish Economic Outlook Quarterly (PEO) responsible for labor market issues. He has participated in several advisory projects for central and local authorities of Poland. He has worked also as an advisor or a researcher in Georgia, Kosovo, Armenia, Belarus, Montenegro, Yemen and Azerbaijan. Currently he is also a member of the Board of Strategic Advisers to the Prime Minister of Poland.

Abstract

Remittances in Moldova reach 36% of GDP, hence they constitute an essential part of the Moldovan economy. The most visible characteristic of remittances is their unequal distribution. The analysis applying the standard Lorenz Curve proves that 75% receiving households gets only 25% of total amount being sent to the country. The way remittances are distributed does not seem to be random. Higher amounts go in general to younger and more educated households. Remittances strongly influence the economic potential of households, especially if they are high enough. They often constitute the main source of households' income, but they not discourage the members of receiving households from economic activity. It indicates that migration and working abroad is the manifest of economic activity, on the other hand it suggest that lack of employment opportunities in the country is an important reason for migration. Those who obtain remittances tend to have higher share of investments in their total household spending. Significant share of remittances for all groups is spent on education - the basic investment increasing the future competitiveness. In rural areas remittances are much more often used to improve the quality of farms than to start running other businesses. It seems that lack of infrastructure and good governance is the main reason for which educated and young emigrants sending significant amounts of money do not decide to invest them in entrepreneurial activities. Eradicating these impediments for local development should be become a highest priority.

Summary

The main aim of the research described in this paper was to examine the impact of migration and remittances on behaviour of rural households and localities at the backdrop of general migration trends in the country and peculiarities of the rural areas of Moldova.

The share of rural population in Moldova is higher compared to other countries in the region and reaches 58,7%. Rural localities record lower incomes, higher poverty rates, lower employment rates, and lower health and education indicators. Our results indicate that wages and pensions make for two thirds of the total income of rural households. Transfers from abroad represent the third source and account for 12% of the total income. The other two important sources – income from agricultural production and income from day-labour – make for 9% and 8% respectively. Low share of agricultural incomes in total households' funds is particularly interesting as according to our survey - at least 30% of rural population is engaged in some farming activities. It indicates for very low productivity of agricultural sector and resulting high hidden unemployment

The data show a pretty high access of rural households to various durable goods such as refrigerators, TVs a.s.o. On the other hand only 31% of rural households have cars and only about 10% of total have a computer. It means that rural households being well equipped in consumption durable goods are much worse equipped in "investment" durable goods – those necessary for personal development, communication and transport.

Access to infrastructure is the main factor deciding about the differences in quality of life of urban and rural population. According to the official statistics, in 2006, only 12% of rural people had access to piped water supply, 6% to sewerage systems, less than 4% had central heating and about 1% had hot water supply. The World Bank assessed that only 2% of the existing network of local roads were in a good shape in 2006 (for the entire country road network was 7%). On a scale of 1 to 5 (where 1 is very good and 5 is very bad), the local roads were evaluated at 4.6. Because of the poor quality of roads, rural households encounter additional expenses in accessing social and administrative services as well as markets.

Taking into account the weak transportation conditions, popularization of communication services and mainly internet could facilitate development of rural Moldova. It would be

extremely important also for migrants and their households keeping the migrant integrated both with their families and localities.

According to the Moldovan Labour Force Survey (LFS) the number of migrants has been increasing constantly for last 10 years, with only one brake in 2005, from about 100,000 in 1999 to about 350,000 at end of 2008. Since 2003 the migration from rural areas started to increase faster than from urban ones and a difference reached 4-6 percentage points. The number of “new migrants” is also higher in the countryside than in the cities. High migration rate seriously influences the level of economic activity in Moldova and particularly in the rural areas.

Remittances in Moldova reach 36% of GDP, hence they constitute an important part of the Moldovan economy. One can expect that the role of remittances in rural economy is even higher. Therefore studying their size, structure and influence on economic development and economic behaviour of households is an important task.

According to our survey as much as 26% of rural households receive money from abroad. Most of remittances are being sent for a long time and regularly - 89% of households receive them more often than once per quarter, and 47% at least once per month. It means that most of rural Moldovans receiving remittances can treat them as stable and regular source of income and to build part of their everyday budgets on that

The most visible characteristic of remittances is their extremely skewed and hence unequal distribution. Our analysis using standard Lorenz Curve suggest that 75% receiving households gets only 25% of total amount being sent to the country. Higher amounts go in general to younger and more educated households. These characteristics should also positively influence the employability and wider “economic potential” of households regardless of remittances they obtain. It would suggest that on macro level the remittances may tend to escalate the inequalities instead of eradicating them. On the other hand however it means that large part of them could be saved or invested, as richer households tend to have higher saving and investment rates than the poorer ones.

Remittances strongly influence the economic potential of households, especially if they are high enough. The median per-capita spending of households receiving less than 1500MDL per month is about 600MDL per month. As the size of average monthly remittances increases, the median per-capita spending follows, reaching almost 1100MDL for households receiving at least 10000MDL.

Remittances often constitute the main source of households’ income. In some cases they can cover all consumption needs. One could expect therefore that it could discourage other household members from working and result in general in lower rate of economic activity in a

country. Our results indicate that there is a weak negative influence of remittances on employment probability of those household members who stayed home. On the other hand, however if we include those working abroad the size of remittances is positively correlated with employment rate. It appears that in general the “total” employment rate in households receiving remittances is higher than among non-receivers. It indicates that migration and working abroad is the manifest of economic activity, on the other hand it suggests that lack of employment opportunities in the country is an important reason for migration.

It seems obvious that those who get low remittances spend them mainly on basic needs such as food, clothing etc. Higher remittances are spent more frequently on durable goods such as cars, PCs or electronic tools and on various investments. It is important that significant share of remittances for all groups is spent on education - the basic investment increasing the future competitiveness. More than 10% of large remittances (above 5000MDL per month) are spent on investments in farms. Unfortunately relatively small amounts of money received from abroad finance non-farming businesses.

More than 80% of migrants claim they are planning to come back to Moldova and 54% percent plans to do it within the next 6 months. Only 16% of those planning to come back is not going to do it within a year. These declarations seem to be proved by their actual life and financial decisions as most of migrants left their families home, the divorce rate does not seem to be significant, those obtaining high amounts invest them in their farms and finally migrants do not seem to be less interested in social and political life of the country than those who stay in Moldova.

The share of migrants in the total population significantly differs across Moldovan regions. The region with the highest migration rate is the Autonomous Region Gagauz-Eri, in the southern part of Moldova, where up to 34% of the adult population currently resides and works abroad. On the other hand some localities in the northern part of the country record the highest level of remittances. The average annual amount transferred there according to our data, exceeds 100.000MDL, whereas the average amount of annual transfers for the entire country is slightly above 40.000MDL.

It does not therefore come as a surprise that the percentage of households investing in their farms is the highest in the northern region (36%). Those in central and southern regions spend much higher share of amounts obtained from abroad for basic needs and durable goods. It is also widely accepted that migrants' remittances accounted for most of the real estate growth during the last several years. Such investments seem to be particularly popular in areas close to Chisinau.

It seems that ensuring productive use of large amounts of remittances coming to Moldova should be one of the most important priorities of Moldovan policymakers. In order to achieve this higher share of remittances should go to the financial system of the country, instead of being kept in cash at home. In order to do this one has to at first increase the access of banking services to rural population, at second one should also build the trust of rural population into the financial institutions.

On the other hand the higher share of remittances should be invested in business activities other than the own farm but the lack of infrastructure and good governance is the main reason for which educated and young emigrants sending significant amounts of money do not decide to invest them in entrepreneurial activities. Eradicating these impediments for local development should be become a highest priority.

It seems that providing returning migrants with necessary information is a first and basic step. The migrant has to know how to solve all his administrative, tax and other related problems and all administrative bodies should be as helpful as possible. One should also provide a migrant with the basic information concerning job opportunities both on country and on regional levels. Developing of special targeted programs to attract (or to keep home) selected professional groups or simply those more skilled is an attractive option, but it might simply not be feasible in a low-income country.

None of these programs however will have any effect unless the general economic situation in the country improves. This task however is already beyond the scope of this paper.

Introduction

There exist numerous studies in Moldova on the size of emigration, its geographical distribution and also on the general size and of remittances. These are published regularly by the International Organisation for Migration (further “IOM Chisinau”). The study results of which are presented in this paper has been designed as the compliment to the existing ones. It was based on the results of a survey performed in the frames of the CASE project and conducted by CBS-AXA in rural parts of Moldova in October 2008, (please see Appendix for description of the survey methodology).

The main aim of our research was to examine the impact of migration and remittances on behaviour of rural households and localities at the backdrop of general migration trends in the country and peculiarities of the rural areas of Moldova. Rural areas in Moldova are characterised by high poverty rates resulting from underdeveloped agriculture and scarcity of other sources of domestic incomes. The incidence of emigration from rural areas in Moldova is also higher than from urban localities. Hence one may suspect that the impact of migration and remittances can be especially important there.

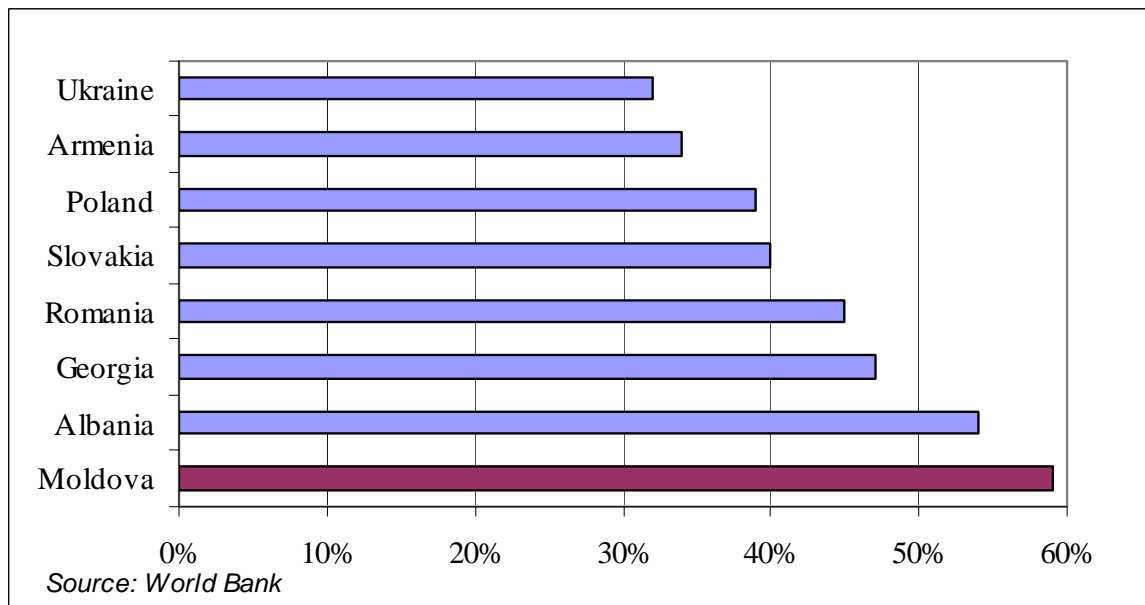
The next two chapters present at first the main peculiarities of rural economy in Moldova and then the main migration developments both in rural and in urban areas. Some specific features of rural migration are also highlighted. The third chapter presents the analysis of the survey results concerning the impact of migration and remittances on economic situation and social and economic behaviour of rural households. The next chapter tries to describe some main regional differences in incidence and structure of migration and in size and use of remittances based on results of the survey. These results however, need to be treated only as illustrative since due to small size of our sample they are not representative at regional level. The last chapter concludes.

1. General economic development in rural areas in Moldova in last years

1.1. Population characteristics

Historically, living conditions in the rural areas of Moldova have been worse than in the urban localities. Rural localities have lagged behind urban localities on key welfare indicators. They record lower incomes, higher poverty rates, lower employment rates, and lower health and education indicators. According to the official statistics, the share of rural population has registered a slight growth in the last eighteen years. On January 1, 2008, rural Moldova was inhabited by 2,097 million people, which represents 58.7% of the total population¹. The share of rural population in Moldova is higher compared to other countries in the region (see Figure 1.1).

Figure 1.1. The share of rural population in the total by country, 2008



The gender characteristics of the rural population are similar to those of the urban population, but the age structure is slightly less similar. Rural children (below 15 years old) accounted for 64% of the total number of children in country and represented 19% of the total rural population (as compared to 15% in the urban localities). The birth rate and mortality rate in the years 2001-2006 in the rural areas were also higher than in the urban

¹ Source: National Bureau of Statistics (NBS)

ones by 4-5 percentage points¹. Life expectancy at birth in the rural localities has been lower than in the urban space: 67.8 and 70.5 years, respectively. At the same time, in the rural areas the share of elderly population was 1.4 times higher than in the cities and almost 12% of the rural population was older than 65 years. This demographic picture, combining higher birth and mortality rates with higher share of the elderly population in rural areas, can result from mass emigration of mostly young adults - the average age of a migrant is 36 years, (see Figure 2.3).

According to the results of the CASE survey, the average size of a rural household is 4 persons, which is close to the last IOM survey²). On average only 25% of rural household members and 44% of household head were employed at the time of the interview. 25% of households' heads have no education at all or have primary or secondary incomplete education, 51% of households are led by people with secondary, vocational or lyceum education and only 13% of households' heads have higher education..

1.2. Incomes and poverty

Rural areas in Moldova are characterized by lower incomes and higher poverty rates. According to the Ministry of Economy and Trade (MET), in 2007, the absolute poverty in the rural areas was 12.9 percentage points higher than in the urban. At the same time, only 5.6% of rural population believed they were poor as compared to 18.6% of the urban population (see Table 1.1). Although, for last few years, rural poverty has been following the general declining trend, the decrease has been much slower than for the urban population. In 2007, absolute urban poverty decreased by 6.4 percentage points, whereas rural poverty – by only 2.8 percentage points. As a consequence in 2007, 70% of the poor and 81% of the extremely poor lived in the countryside. The MET estimated also that in 2007 remittances reduced the absolute poverty rate in the rural areas by 13.6 percentage points

Table 1.1. Poverty rates among rural and urban population in 2007, %

	2007		
	Total	Rural	Urban
Extreme poverty	2.8	3.9	1.2
Absolute poverty	25.8	31.3	18.4
Subjective poverty	7.4	5.6	18.6

Source: MET, based on HBS data

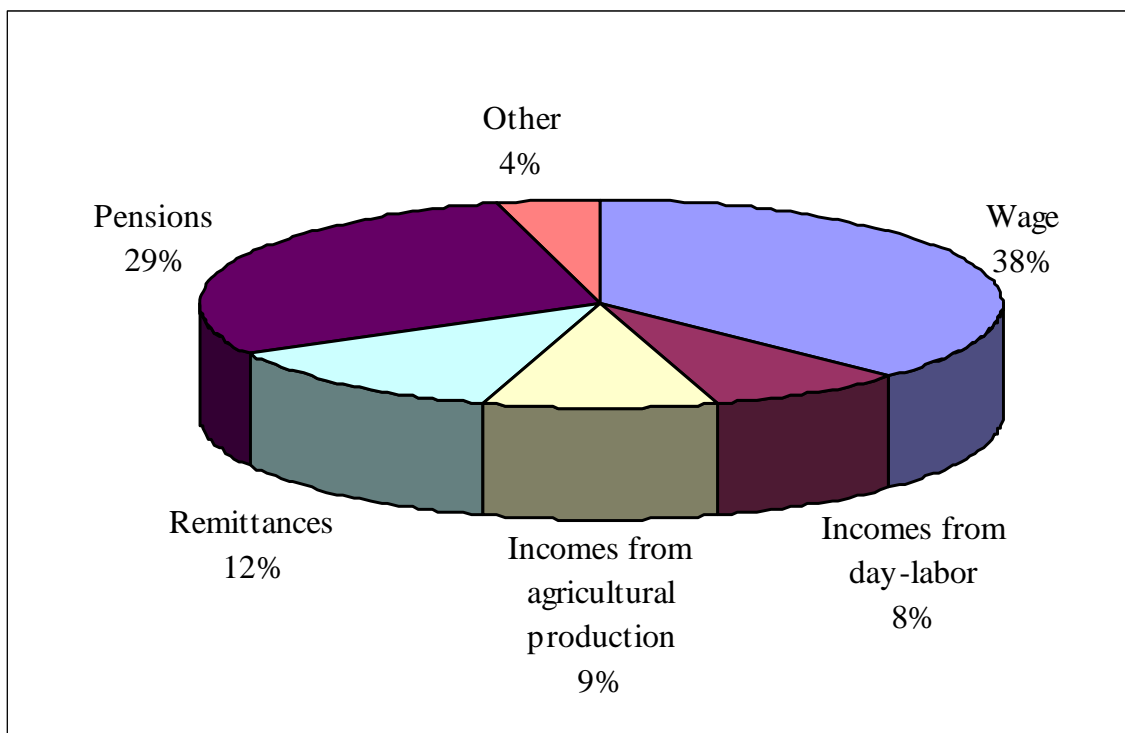
Our survey indicates that wages and pensions constitute 2/3 of the total income of rural households (see Figure 2.2). Transfers from abroad represent the third source and account for 12% of the total income. The other two important sources – income from agricultural

² IOM Survey 2008

production and income from day-labour – make for 9% and 8% respectively. Low share of agricultural incomes in total households' funds is particularly interesting as according to our survey - at least 30% of rural population is engaged in some farming activities. It indicates for very low productivity of agricultural sector and hence high hidden unemployment.

According to the findings of the survey, the households headed by educated persons at their late 30-ties are better off than the others; the differences however are not significant. On the other hand running a business is an important determinant of household incomes but the share of business running households in the total number of respondents is only 5.8%.

Figure 1.2. Main sources of incomes of rural households



Source: Authors' calculations based on CASE survey results

Although rural population does not consider itself poor, the majority believe that their income is too small: 34% indicated that their income was not sufficient even for primary needs; while 38% believed it was enough only to cover the primary needs.

On the other hand the data show a pretty high accessibility of rural households to various durable goods. (see Table 1.2). More than 93% of households have a TV set and 80% a fixed telephone. About 78% of households have refrigerators, which is probably still a low indicator. The number of households having a least one mobile phone is quite high – 49%. On the other hand only 31% of rural households have cars and only about 10% of total have a computer. It means that rural households being well equipped in consumption durable

goods are much worse equipped in “investment” durable goods – those usable for personal development, communication and transport.

Table 1.2. Durable goods in rural households

Goods	% of households
TV set	93.6
Fixed telephone	80.0
Refrigerator	77.7
Washing machine	60.8
Mobile telephone	48.6
Hi-Fi / Video	50.0
Car	30.7
PC	9.9
Use internet	3.5

Source: Authors' calculations based on survey results.

It does not come as a surprise that 76% of respondents declared that they owned agricultural land. On average, households owned 2.4 ha of land; but only 9% of households owned more than 5 ha.

1.3. Access to education and health services

Education and health are two other important determinants of the quality of life. Again, rural population traditionally has lower access to both education and health services. Official statistics indicate to important differences in the net enrolment rate in education of rural and urban children. The difference is especially important in the case of preschool education. In 2006 the pre-school enrolment rate in the rural areas was close to 60% as compared to 89% in the urban localities. As lack of appropriate institutions and resulting high costs of education in rural Moldova is perceived as the main reason for low enrolment rates the Government has recently launched several projects aimed at increasing the number of such institutions in the rural localities. The enrolment in the primary and secondary education in the rural areas is also lower; however the differences are not that big (see Table 1.3).

Table 1.3. Enrolment rates by education level

	2000	2001	2002	2003	2004	2005	2006
Preschool education (3-6 years)							
Total (gross enrolment rate)	44.1	47.6	57.0	61.6	66.1	70.7	70.1
Urban	63.8	65.6	75.5	80.4	84.8	89.2	87.2
Rural	34.2	38.6	47.7	51.3	56.4	61.0	61.0
Primary education (7-10 years)							
Total (net enrolment rate)	93.5	92.4	92.4	92.4	91.0	87.8	87.6
Urban	95.1	94.6	94.8	96.4	95.5	92.1	93.3
Rural	92.5	91.3	91.6	90.4	88.7	85.6	84.7
Secondary education (11-15 years)							
Total (net enrolment rate)	87.0	86.8	87.9	87.5	88.5	86.8	86.2
Urban	92.2	91.2	91.6	90.8	92.1	90.1	90.4
Rural	83.5	84.0	85.7	85.4	86.3	94.9	83.9

Source: Ministry of Economy and Trade

Although the cost of education is considered to be a serious burden for the households, the existing data differs substantially depending on sources. The MET estimated based on the HBS that in 2007, education spending of rural households on education was on average 63 MDL per month, which was 2.7 times less than urban households. Our survey indicates that 57% of interviewed households did not spend any money on education in the last 12 months, while households with children spent on average 200 MDL per month (10% of total median households spending in our survey). The IOM survey findings for all households show a slightly lower amount: 156 MDL for rural households and 164 MDL for urban households.

The national statistics on the health status of rural population and its access to health services is rather scarce³. According to the reports of the Ministry of Health the access of the rural population to medical services has increased in the recent years. This is measured by the incidence of visits to health institutions, which grew from 222 per 1000 of population in 2006 to 243 per 1000 in 2007, ((for comparison, in the urban area the incidence of visits to medical institutions was 329 per 1000 persons in 2007). The hospitalization incidence is also lower in the rural areas (14.2 per 100 people) compared to the urban (18.7 la 100 people), which can be regarded as an indication of lower access to these services. Also, in 2007, the number of doctors in the rural areas was 5.9 per 10,000 of population as compared to 63.8/10000 in the urban areas⁴. According to the HBS data, in 2007, 16% of rural population assessed their health status as extremely bad compared to 13% in the urban area.

As much as 34% of rural households did not have any health expenditures in the last 12 months, while the households which had health expenses spent on average 200MDL per month and about 13% of households spent more than 400MDL per month. It seems a lot taking into account that the median total household monthly spending in our survey was about 2000 MDL.

The survey also finds out that 12% of the total payments made in the health sector were unofficial. The IOM survey shows similar numbers with the average rural households spending of 244MDL per month as compared to 266MDL per month in the urban areas. In terms of medical insurance coverage, only 50% of household members were insured in the rural areas. At the same time, only 50% of person above 65 years said they had medical insurance, despite the fact the insurance of this age category is provided by the state. It means that large share of old rural residents do not know that they have insurance and probably they do not use it at all.

³ Detailed information is published by rayon, but not by rural and urban classification

⁴ http://www.ms.gov.md/_files/1318-

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1.4. Access to infrastructure

Access to infrastructure is the main factor deciding about the differences in quality of life of urban and rural population. Both water supply and sewerage remain to be inaccessible to the majority of rural population. According to the official statistics, in 2006, only 12% of rural residents had access to piped water supply, 6% to sewerage systems, less than 4% had central heating and about 1% had hot water supply. As a comparison, more than 75% of urban population had access to water supply, sewerage and central heating, and 70% had hot water supply (see Figure 1.3).

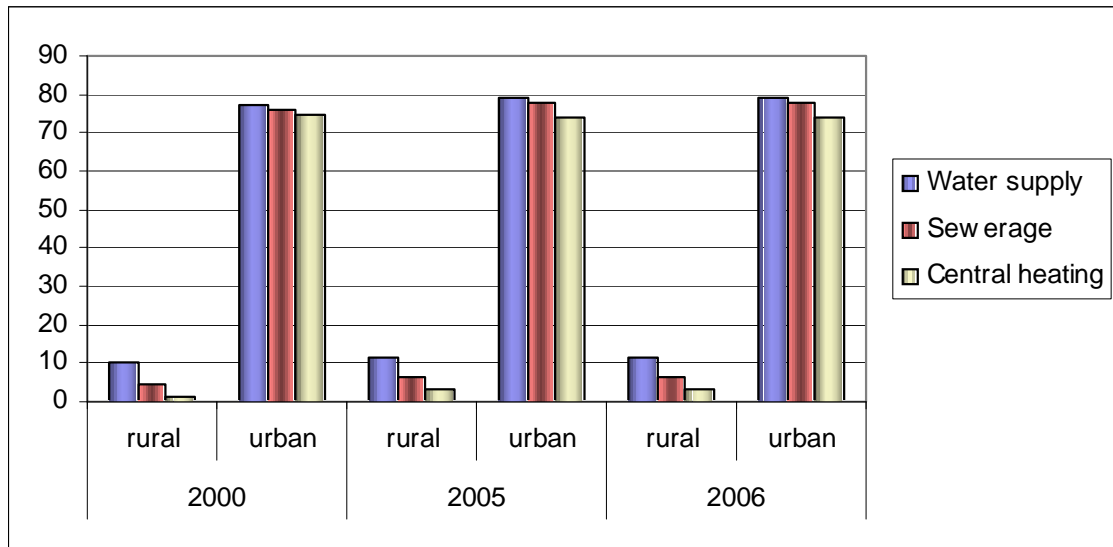
Access to gas is also poor. According to our survey, 33% of respondents have access to piped gas, while only 13% use it for the heating system. The gasification seems to be an expensive endeavour for the rural households and even if they have access to the system they simply do not use it for heating. In the last six years, the Moldovan Government has made significant investments in the gas network around the country. According to the MET, during 2003 – 2007, 791 million MDL was allocated for the implementation of the Gasification Program and 56% of localities have been connected to the gas pipeline.

Roads are also in bad shape. In its Strategy for land transport infrastructure for 2008 - 2017⁵, the Government together with the World Bank assessed that only 2% of the existing network of local roads were in a good shape in 2006. Because of the poor quality of roads, rural households encounter additional expenses in accessing social and administrative services as well as markets.

According to the results of the survey, access to telecommunications services is pretty high for fixed and mobile telephony and almost non-existent for Internet services (see Figure 1.4). About 80% of respondents indicated that they had access to fixed telephony, but less than 10% had computer and less than 5% has access to internet. Taking into account the weak transportation conditions, popularization of communication services and mainly internet could facilitate development of rural Moldova. It would be extremely important also for migrants and their households keeping the migrant integrated both with their families and localities.

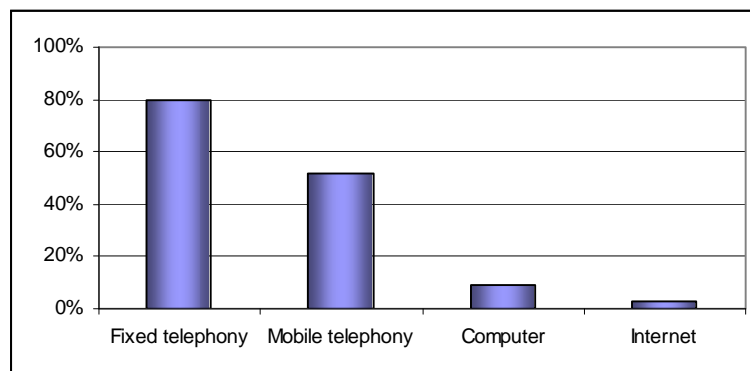
⁵ <http://www.gov.md/>

Figure 1.3. Access to communal services in rural and urban areas in Moldova.



Source: National Bureau of Statistics

Figure 1.4. Access to communication services in rural Moldova



Source: Authors' calculations based on CASE survey results

1.5. Economic and employment structure – agriculture versus non-farming business

Agriculture continues to be the main occupation for rural population. According to the NBS, in 2007, about 32% of the employed population worked in the agricultural sector⁶, 18% in the public sector and another 16% in trade and industry. The CASE survey shows similar results with 34% of households' heads employed in the agricultural sector, 28% in the public sector (including health and education), 12% in constructions and 8% in trade. At the same time, the average wage level in agriculture was by 57% lower than the average wage in the industry and by 54% lower than in the public sector.

⁶ It is important to note that since 2000, the share of population employed in agriculture decreased by 17 p.p. The available data does not allow to see the movement of labor force by area of residence

Taking into account the low level of incomes in agriculture and large share of agricultural employment in rural areas it does not come as a surprise that rural poverty increased despite of low unemployment rate. The official statistics show similar employment rates both in urban and rural localities, (see Table 1.4). In both kinds of localities the employment rates are on extremely low level with less than half of adult population having any job. On the other hand unemployment rates in rural areas are much lower than in urban localities. It means that high percentage of rural population is not active on the labour market – ie. neither has any job nor looks for that. Additionally one can also expect that, similarly as in other countries of eastern Europe and particularly CIS⁷ the level of hidden unemployment (meaning low-paid jobs characterised by extremely low productivity levels) is rather high meaning that incomes generated by those employed are not able to maintain their families.

Table 1.4. Employment rates in rural and urban areas of Moldova

Indicators	2000		2005		2007	
	rural	urban	rural	urban	rural	urban
Employment rate, %	59.4	48.6	44.5	46.6	41.6	43.8
Unemployment rate, BIM	3.4	15.7	4.0	11.2	3.6	6.9

Source: NBS

Also the business activity in the countryside is low. Only 2.6% of households' heads indicated that they were having a business at the time of the interview and 2.3% said they had a business in the past but do not plan to start one in the future. It seems encouraging however that as much as 8.7% of household heads indicated that they did not have a business in the past but were planning to start one in the near future. And 86% of households have never had and do not plan to start one in the near future.

According to the IOM survey the reasons for not starting a business by rural population are very similar to those stated by the urban residents (see Table 1.5). High costs and low accessibility of credits are the most important impediments for starting new businesses in Moldova. As much as 46% of interviewees in the countryside and 42% in the cities point to this reason.

Table 1.5. Major reason for not starting an own enterprise

Reasons for not starting an own Enterprise	Area	
	rural	urban
No interest/satisfied with current employment situation	15.4%	12.2%
No ideas	7.5%	7.2%
Don't know how and where to start	5.7%	6.3%
Lack of own skills	5.7%	4.7%
Would be too risky	4.1%	6.4%
Would not be profitable	2.8%	2.7%
Too difficult to obtain a loan / lack of savings	41.7%	45.9%

⁷ See J. Rutkowski "Labour Market Developments During Economic Transition" World Bank Policy Research Working Paper No. 3894, Washington 2006

Reasons for not starting an own Enterprise	Area	
	rural	urban
Bureaucratic hassle not worth it	4.0%	2.6%
Taxes and official fees are too high	3.4%	4.2%
Corruption	3.9%	2.7%
Too old	4.9%	4.5%
Other	0.9%	0.6%

Source: IOM Survey 2008

1.6. Government policies towards local areas in Moldova

Acknowledging the growing disparities in the development of rural and urban localities, the Government has adopted several documents aimed at increasing the investment in the rural areas and improving the living standards of the rural population. The most important Government document aimed at addressing rural problems is the Moldovan Village Program for the period of 2005 – 2015. This program, developed on the eve of 2005 Parliamentary elections, is extremely expensive – 45 billion lei (twice as much as the 2008 state budget of the country). During 2005 – 2007, the Government invested 1,890 million lei in projects of social infrastructure, water supply, gasification⁸, which makes for 4.2% of the total cost of the program (see table 1.6).

Table 1.6. Public investment in the rural area, 2005 – 2007, million lei⁹

	2005	2006	2007
Moldovan Village Program, total	358.2	591.5	940.7
<i>of which:</i>			
Construction of gas network	247.6	205.4	215.7
Water supply projects	47.0	136.8	172.6
Social infrastructure projects	43.1	154.5	186.2

Source: Government of Moldova

In this chapter we have summarised the main characteristics of Moldovan rural economy. At first the share of population leaving in rural areas in Moldova is one of the highest in both CIS and Europe. Most of rural population works in agriculture characterised by low productivity and low incomes manifested by low level of agricultural wages and extremely low share of agricultural incomes in total incomes not matching the high share of agricultural employment. This, combined with very low employment rate results in higher poverty levels – much higher than in urban areas of Moldova. The business opportunities in rural part of Moldova are also extremely limited as access to transport and communication infrastructure, (particularly to internet), is poor and it seriously hinders business development.

⁸ These allocations are counted both as investments under the Gasification Program and Moldovan Village Program

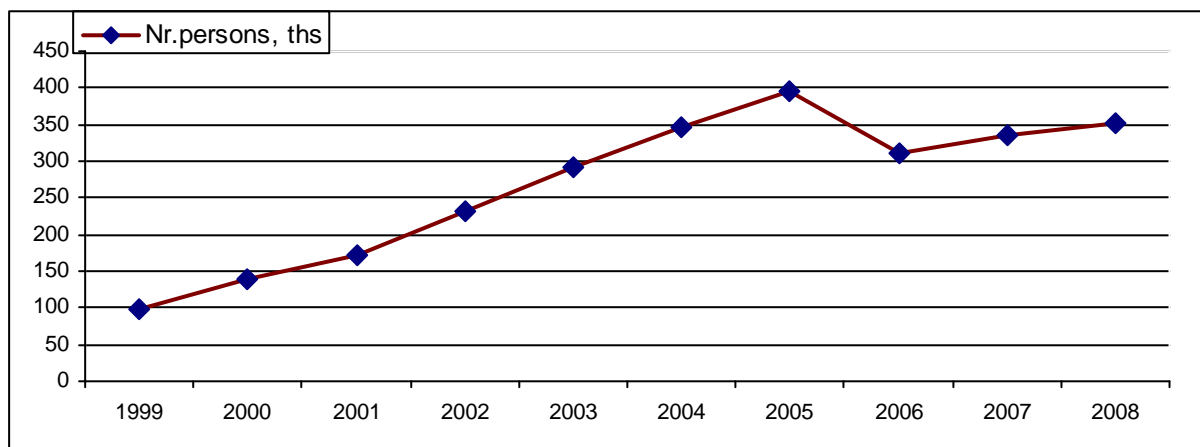
⁹ Report on the Government Program, 2005 - 2007

2. General characteristics of urban and rural migration and remittances

2.1. General Migration Profile

Although the Republic of Moldova experienced extremely high emigration rates much earlier the official data on evolution of the number of migrants is provided by the Labour Force Survey (LFS) and the population census performed by the National Bureau of Statistics since 1999. These surveys define a migrant as a member of a household, who at the time of the interview is temporarily absent, i.e. “staying abroad to work or to look for a job”. According to the LFS the number of migrants has been increasing constantly for last 10 years, with only one brake in 2005, from about 100,000 in 1999 to about 350,000 at end of 2008. (See Figure 2.1.)

Figure 2.1. Evolution of Migrants’ number, 1999-2008



Source: LFS, NBS Moldova.

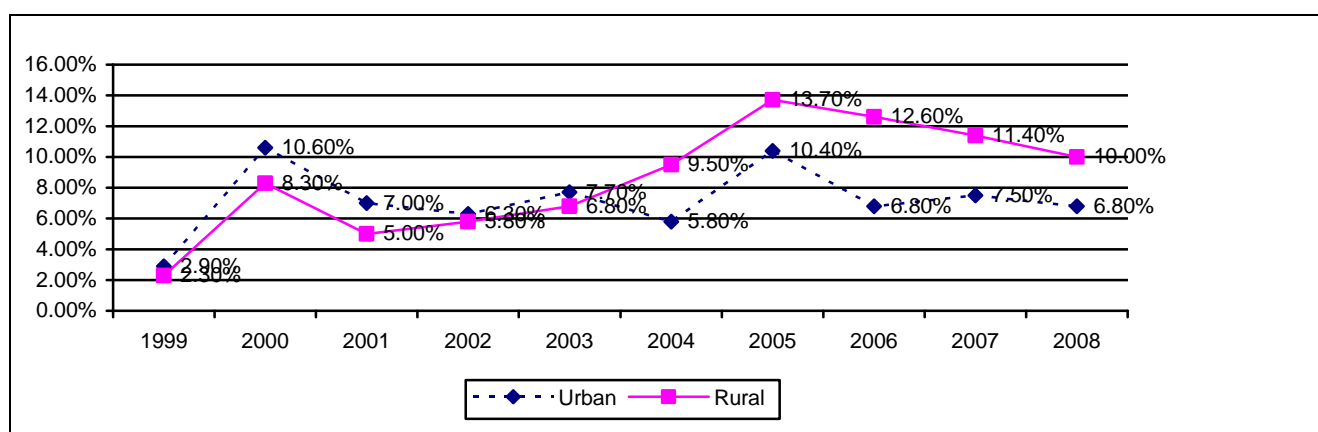
On the other hand however any estimation of the actual number of migrants is rather difficult: at first, due to general deficiencies of LFS as the source of such information (for example impossibility to observe those that moved abroad with entire households) and at second due to large share of seasonal migration. Results of the CASE survey show that number of migrants increases in spring and autumn and it is a particular feature of migration from rural areas.

Since 2003 the migration from rural areas started to increase faster than from urban ones and a difference reached 4 - 6 percentage points. The higher migration rate from rural areas is also manifested by the higher share of those who migrated for the first time. (see Figure

2.2). It means that the number of “new migrants” is higher in the countryside than in the cities. Currently as much as 68,9% of all migrants come from rural areas¹⁰.

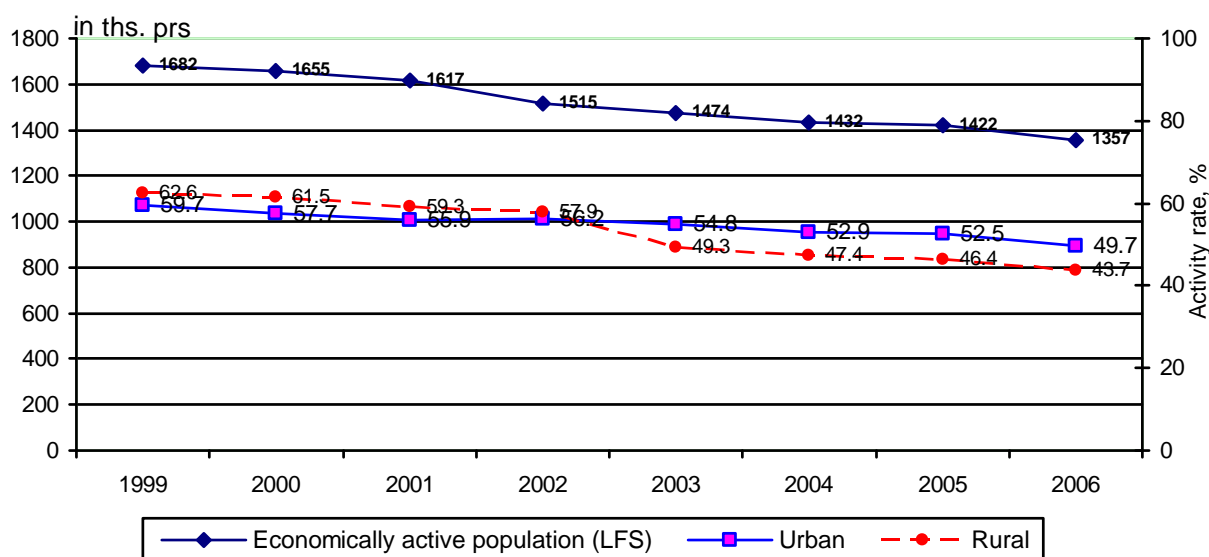
High migration rate seriously influences the level of economic activity particularly in the rural areas (see Figure 2.3) a due to the constantly increasing number of migrants the economically active population is going down. In 1999 the economic activity rate there was 62,6% and in urban areas it was only slightly lower reaching 59,7%. Afterwards till 2006 one has been observing a constant decrease of economic activity rates - to 43,7% in rural areas but “only” to 49,7% in the cities..

Figure 2.2. Percentage of the Migrants left for the first time, 1999-2008



Source: IOM Moldova Survey, 2008.

Figure 2.3. Distribution of population by participation in economic activity (1999-2006), by area



Source: NBS Data

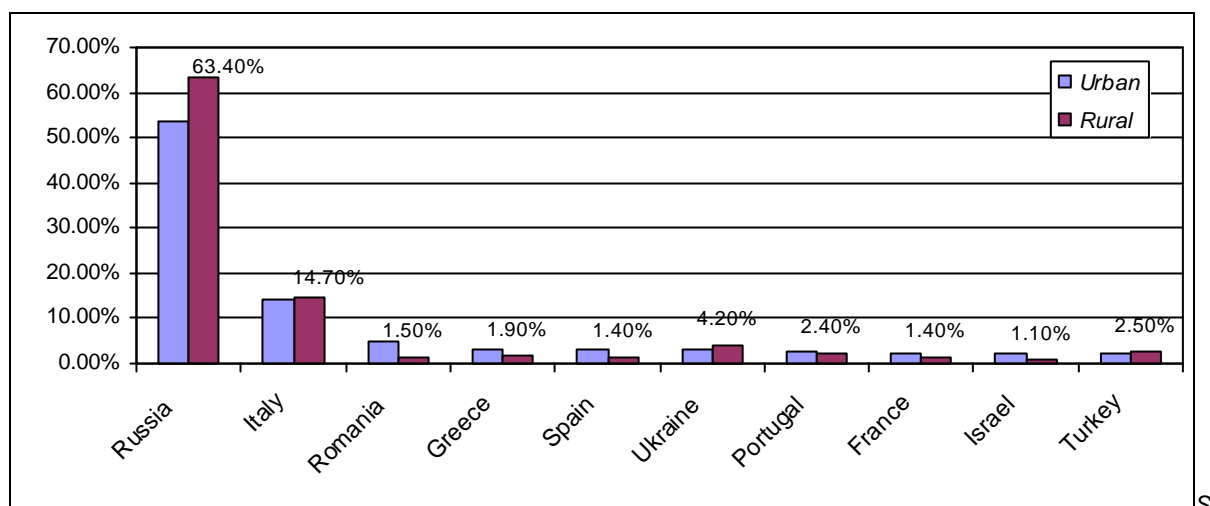
2.2. Geographic differences

In regular IOM surveys one can find information about destination countries of approximately 400,000 current or recent migrants. Labour migrants choose mainly Russia and Italy. Other important destinations include Ukraine, Romania, Portugal, France, Spain, Greece and Czech Republic. There is also sizeable migration to Israel, Turkey, and USA.

The comparison of the data from IOM 2006 survey with the recent one carried out in July 2008 (“Patterns and Trends of Migration and Remittances”) indicates for only small changes in migration patterns. The share of those travelling to Russia fell by 1 percentage point (from 60,1% to 59%) and the share of Italy by 2,3 percentage points (from 17% to 14,7%).

It seems interesting that in general those originating from rural areas tend to choose Russia more frequently than other destinations (particularly those in the Western Europe (see Figure 2.4). One of possible explanation of this difference is the cost of migration. It is much cheaper to migrate to Russia and (poorer) rural households may simply not be able to choose any other destination. It may also result from the nature of job offered which differs between these two regions. Those travelling to Russia tend to be offered mainly seasonal jobs in construction and agriculture. In the Western countries other jobs are much more popular: baby care, social care or catering. The same factors may explain the gender differences in destinations chosen by Moldovan migrants. As much as 71% of males and only 43,5% of females work in Russia and 23,9% of females and only 7,3% of males work in Italy.

Figure 2.4. Destination countries for Moldovan migrants, by area



Source: IOM Panel Survey, 2008

2.3. Migration determinants

The rural migration from Moldova is mainly voluntary and motivated by economic reasons. Moldovan migrants select destinations providing them with favourable employment opportunities.

Lack of economic opportunities accompanied by the common threat of poor governance are the main factor pushing migrants out of country. Most of Moldovan emigrants escape either from unemployment or poverty or both. Policy-makers may seek clarity, but the line between voluntary and forced migration and economic and non-economic migrants is frequently blurred. Nevertheless, conceptual categories such as “push” and “pull” factors may help us to understand also Moldovan migration.

Results of the CASE research pointed to the 3 main motivations for which migrants leave the country. The lack of a job at home is the most pronounced one followed by the lack of funds for basic needs and consumption including food, cloths, health and education. Numerous migrants plan also to invest earned money in their property - buy or restore the house or simply buy a car or other durable goods. (see Table 2.1).

Table 2.1. Main reasons to migrate – CASE survey results

Reasons	1 st motivation	2 nd motivation
Did not have a job in Moldova	49.9%	1.1%
To earn money for daily consumption (food, cloths, etc.)	27.6%	23.6%
To earn money for own special consumption (health, education, etc.)	5.9%	14.4%
To earn money for the special consumption of the family	6.9%	13.0%
To earn money for investments in the household	4.5%	23.2%
To earn money for investments in business	1.2%	7.4%
Better life conditions abroad	0.8%	9.9%
To accompany his/her partner/husband (wife) or the family	0.4%	2.8
Because many relatives and friends have left	0.2%	1.1
To study abroad	0.2%	0.4%
Other reason /or non reply	5.3%	

Source: Authors' calculations based on CASE survey results.

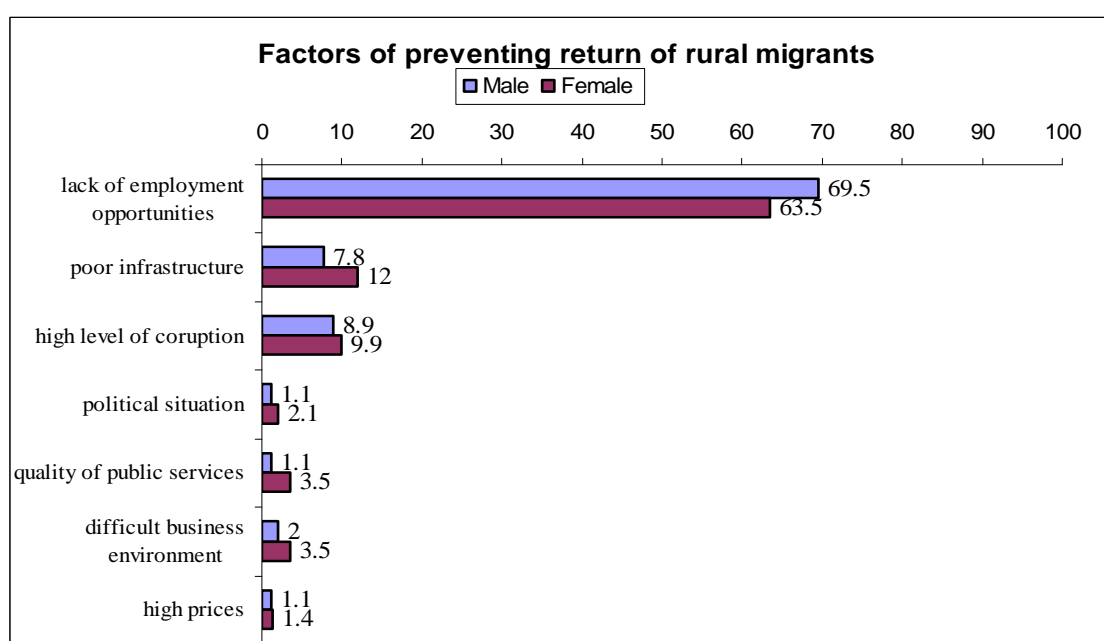
The main pool factors are also of economic nature. Moldovan migrants are attracted by jobs waiting for them in the neighbouring countries and in the EU. The look for better standards of life and better opportunities for personal and professional development, and also sometimes for family reunification. The well established Moldovan migrants networks in hosting countries facilitate the migration decision and the job search abroad.

In rural regions the push factors such as poverty and lack of employment opportunities played originally the most important role for migration decision. Although afterwards when first migrants started to return with stories of a better life elsewhere, and family networks have been established, the pull factors also appeared. It seems however (see Table 2.2) that unsatisfactory economic situation in the country is still a dominating factor. The list of main

reasons for which migrants are reluctant to come back home would also prove it. (see Figure 2.5)

Figure 2.5 indicates also that migrants condition their return on reforms in the country. They expect that circumstances that pushed them out of the country will change. After achieving the better living standards in the hosting country, a migrant expects prospects for personal and professional development in Moldova to be improved. As clearly stated by about 500 migrant's household they expect the policymakers to ensure good governance, job opportunities and infrastructure for business development and better quality of public services such as education and health.

Figure 2.5. The main factors that prevent return of rural migrants to Moldova



Source: CASE Rural Migration Survey, 2008

We have also asked households what level of salary in Moldova would encourage migrants to come back. The expected amount stated by the members of households with migrants was between 7000 MDL and 8000 MDL (500 Euro or 700-800 USD).

Large share of migrant (13%) does not plan to return to their original villages. They think about moving to the capital or to some other urban area.

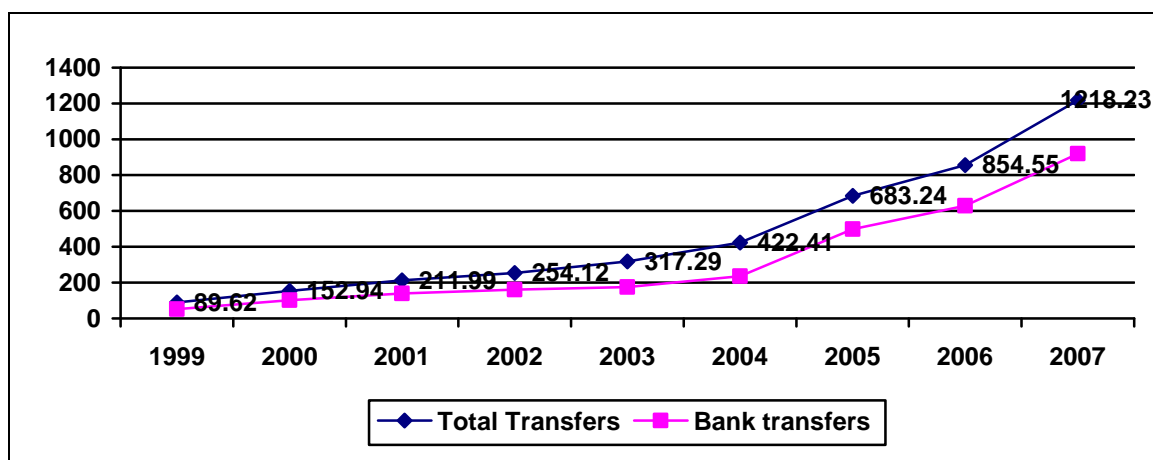
2.4. Size of Remittances

Remittances from abroad represent an important share of Moldovan households' incomes. They are the main source of asset to be accumulated. The money transfers from abroad represent also a significant share of the country's income.

In 2008, the World Bank ranked Moldova as second among the top countries in the world by value of remittances as the share of GDP¹¹. According to this report the highest share of remittances in GDP is recorded in Tajikistan (36 percent) then comes Moldova with 36 percent followed by Tonga (32 percent), the Kyrgyz Republic (27 percent), and Honduras (26 percent).

Official remittance flow calculations are likely underestimated at the national level due in large part to informal flows, which are under-reported and hard to measure. However the National Bank of Moldova estimates on the quarterly flow of transfers of money sent by physical person's through banking network to be around US\$ 1.240 million at the end of June, 2008 (see Figure 2.6).

Figure 2.6. Money transferred by physical persons trough banking services, in mln USD



Source: National Bank of Moldova, 2008

The CASE Survey in rural areas confirmed the general data of the IOM Migration and Remittances Study 2008, where 28,9% of all households receive monetary remittances from abroad and 15% claim to receive in-kind remittances. This numbers are in line with macroeconomic estimates cited earlier.

Although most of remittances come on regular basis – monthly or quarterly (for details see Chapter 3), the results of the survey show that not all households with at least one migrant

¹¹ The Migration and Remittances Factbook 2008, www.worldbank.org/prospects/migrationandremittances

receive remittances. As much as 25% of sending households can not count on any transfers from abroad.

Apart from the size, nature and frequency of remittance flows, there is also a question of their longevity. It does seem quite important that remittances can be treated by receiving households not only as regular but also a quite stable source of income. The data show that Moldovans abroad tend to send money home for relatively long periods (see Table 2.2). According to the 2008 IOM survey more than 90% of households had been receiving remittances for at least 1 year. The longevity of remittance flows is particularly important for elderly recipients who do not have either plans to relocate abroad or any additional income sources and remittances cover their basic needs.

Table 2.2. Longevity of remittances, by area

	urban	rural
Less than 1 year	6.98	8.25
1-5 years	70.16	76.79
6 -10 years	20.00	13.04
11-15 years	2.86	1.79

Source: IOM Panel Survey, 2008

2.5. Transfer Mechanisms use of remittances

According to the data of National Bank of Moldova the size of annual remittances flows is constantly growing (see Figure 2.6). This data should be however interpreted with some caution as much of this growth can be explained by the National Bank's improved capacity to monitor remittances flows. As a result more and more money transferred through unofficial channels becomes recorded. According to previous IOM Surveys, vast majority of remittances to rural areas were sent through informal channels: either hand-carried by migrants, friends or acquaintances during visits home, or sent with bus drivers travelling back and forth regularly between Russia or Italia and Moldova. This practice has strong historical roots.

The data for the last two years shows that two-thirds of the recipients live in rural areas, and the majority sends funds by money transfer operators or banks and the post office. The existing IOM data indicates that in 2008 the use of unofficial transfer methods in rural areas is only by 3 percentage points higher than in urban ones (32% against 29%) (see Table 2.3).

Table 2.3. Methods to Transfer Remittances

Category	%, 2006	%, 2008	
		Urban	Rural
Bank transfer	30	22.8%	24.1%
Money transfer offices	25	45.8%	39.4%
Post offices	5	2.4%	3.8%
Train conductor	2	3.6%	0.7%
Maxi-taxi/bus conductor	19	5.1%	6.8%
Migrant brings it on a visit	28	14.1%	18.1%
Someone else brings it on a visit home	9	1.8%	3.6%
By mail	2	1.5%	0.8%
By packages sent home		3.0%	2.2%

Source: IOM Migration and Remittances Study 2006 and 2008

Disregarding the type of are the data show that money transfer operators are the most popular methods used by 39,4% of rural migrants, bank transfers are the second method used by 24,1% of migrants. It is important to notice they are both official (statistically recorded) methods.. The most frequently used unofficial way is simply to carry cash when travelling back home (18,1%). Some pass also the money through drivers of buses and micro-buses (6,8%) and through friends or relatives and packages sent home. (5,8%). It seems also important that the popularity of official methods increases over time. In 2006 official methods were used by (in total) 60% of migrants, in 2008 already by 70% in average.

According to IOM Financial Literacy Survey (2008) migrants do not limit themselves to using just one way for sending money home; usually they combine a number of methods. For instance, 49% of migrants use the rapid transfer services most frequently, but in general (regardless of the frequency) about 61,5% of migrants use such services. The same applies to bringing the cash back on the return journey. In general this method is used by 44,6% of migrants whereas only 10,3% use this method most frequently.

Remittances in Moldova, as in many other small countries, are potential source of savings and investment for capital formation and development. However in order to be fully utilised they have to go into the financial system of the country. Attracting remittances recipients as clients is a serious challenge for Moldovan financial sector. It requires to transform remittances recipients into holders of bank accounts and it continues to be a challenging task. Both IOM and CASE survey show that people from rural areas rarely have bank accounts. Only 6,2% of rural households have current account with a Moldovan bank and 4,3%of the households have saving accounts.

The survey also indicated that the level of trust in financial institutions, (Banks, Credit and Saving Associations, Microfinance institution, post offices), in rural areas is lower than in urban ones . About 27% of rural respondents (as compared to 18% of those from urban areas) do not trust financial institutions. Rural population is also characterised by relatively low level of understanding of financial issues. Almost 23,5% of them save money, but only

5,7% put them in current or saving accounts - the rest is saved in cash foreign exchange. It means that increasing increased penetration of financial institutions into (particularly) rural areas could result in much more effective use of remittances from macroeconomic point of view.

3. Remittances, migration and behaviour of rural households

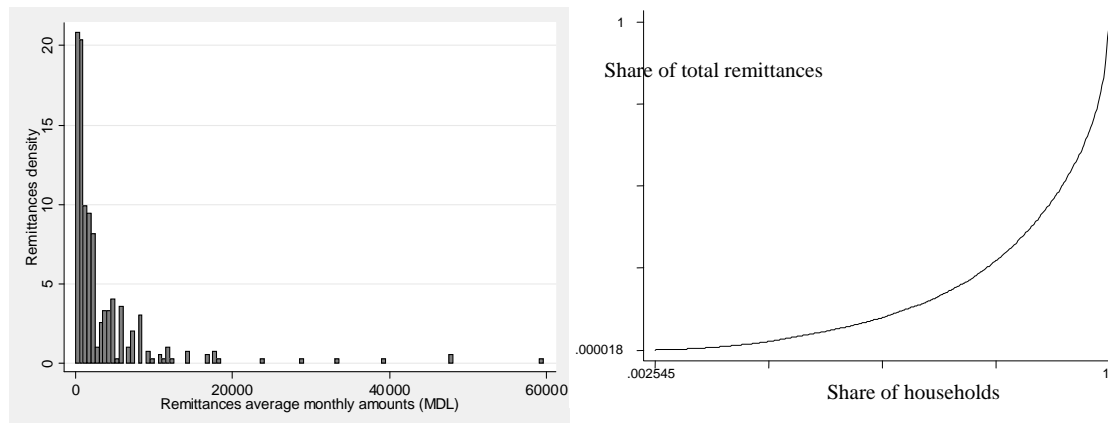
3.1. A few words about distribution of remittances as such

As much as 26% of all households in CASE survey used to obtain remittances in last 12 months. This amount resembles the estimated number of emigrants in Moldova, which, according to various estimates varies from 25% to 30% of the population.

The most visible characteristic of remittances is their extremely skewed distribution. The average monthly amount obtained is as high as 3382MDL whereas more than 40% of receiving households obtain less than 1000MDL (about 100USD). (see Chart 1 – left panel).

This obviously leads to very unequal distribution of incomes from remittances, among those who receive it. Our analysis using standard Lorenz Curve suggest that 75% receiving households gets only 25% of total amount being sent to the country. The rest goes to the remaining 25%. (see Figure 3.1 – right hand panel).

Figure 3.1. The distribution of remittances in rural Moldova in 2008 (left hand). and the standard Lorenz Curve Remittances(right hand*). Remittances recalculated to monthly averages for a year before survey



Source: Own calculations based on the Survey results

* - Each bar in left hand panel represents additional 500MDL of average monthly remittances. It means for example that more than 20% of households receive remittances lower than 500MDL, next 20% remittances between 500MDL and 1000MDL a.s.o.

As the consequence of this very skewed (unequal) distribution the arithmetic mean is not the best measure of actual average remittance received. It is close to the 75% percentile of remittances' distribution, meaning that only about 25% of all receiving households gets at least this amount every month. The median remittance seems to be much better measure of an actual average (or central tendency) in our survey, and it is equal to 1427MDL. It means that exactly half of households receive at least this amount per month, (the second half of receiving households get more than 1427MDL per month).

Most of remittances are being sent regularly - 89% of households receive them more often than once per quarter, and 47% at least once per month. It means that most of rural Moldovans receiving remittances can treat them as stable and regular source of income and build part of their everyday budgets on that.

Before analyzing the influence of remittances on households' wealth, spending and economic and social behaviour one should take a look at distribution of remittances depending on selected socio-demographic characteristics of households, describing either their "economic potential" or/and "vulnerability to poverty (see Table 3.1). It seems important to know whether remittances go mainly to those households that would otherwise be unable to meet their basic needs, or to those who are economically and socially stronger anyway..

Table 3.1. Average values of selected socio-demographic characteristics of households and households heads for various levels of average monthly remittances

Households' characteristics	Average size of household	Average number of Children	Age of the household head	Education of the household head*	Employment rate among households heads (%)	Household head running her/his own business
Amount of average monthly remittances,MDL						
No remittances	3.3	0.52	53.6	3.9	40.7	2.5
Below 500	4.2	0.66	52.9	3.8	42.0	2.5
500-999	4.5	0.88	48.5	4.1	51.3	2.6
1000-1499	4.6	0.75	49.3	4.1	52.3	4.5
1500-2499	4.3	0.72	44.2	5.0	68.1	0.0
2500-4999	4.4	0.78	43.3	4.1	58.2	3.6
5000-9999	4.2	1.00	42.6	4.1	50.0	2.3
10000 and more	4.6	1.13	44.8	5.3	75.0	8.3

Source: Own calculations based on survey results

* Education categories where as follows: 1 – primary education or below, 2- secondary incomplete education 3- gymnasium education, 4-vocational education, 5-lyceum education, 6-post-lyceum education, 7-tertiary incomplete education, 8-tertiary education, 9-PHD. Hence average education equal 3.8 means “slightly below vocational” a.s.o.

At first households which do not obtain any remittances tend to be on average smaller than those who receive them. The average size of household without any remittances is only slightly above 3, whereas the average size of household receiving remittances is definitely above 4 persons. It is obviously related to the average number of children ranging from 0.5 in households without remittances to 1.1 in households receiving the biggest remittances.

The explanation for higher number of children in receiving households is quite simple. Households receiving remittances are on average younger, at least their heads are, and it can be proved by results of appropriate t-test. The average age of a head of a non-receiving household or obtaining very small remittances (below 500MDL per month) is close to 53 years, whereas the average age of a head of those households who receive remittances is below 50. It seems also that the age of the household head decreases with the size of remittances. Suggesting that “younger” households tend not only to receive money from abroad at all, but that there is a relationship between the age of a household head and the average size of remittances.

The receiving households are not only younger but they are also better educated. The average education level of a head of a household without remittances is only “slightly below vocational”. On the other hand an average head of a receiving household has at least finished vocational school. It seems also that the level of education of those receiving the highest remittances is slightly higher than for other groups. Here however the results are not statistically significant.

Taking into account the information above it does not come as a surprise that the employment rate among the heads of receiving households seems to be higher than among non-receivers. Only those obtaining the lowest remittances (below 500MDL per month) are employed as rarely as those who do not receive anything. The employment rate among other groups is by at least 10 percentage points higher (around 50% as compared to 40%). The employment rate among the household heads receiving the highest remittances is also the highest, but it is not significantly different from those receiving between 1500-2499MDL per month. It is also worth noting that heads of those households obtaining the highest remittances (above 10000MDL per month) are much more often engaged in business activities (8% as compared to the maximum of 4.5% for other groups).

Results in Table 3.1 suggest that remittances go in general to younger, more educated and more active households and that the stronger these characteristics are, the higher are the remittances. This set of characteristics should also positively influence the employability and wider “economic potential” of households regardless of remittances they obtain. It would suggest that on macro level the remittances may tend to escalate the inequalities instead of eradicating them. On the other hand however it may also mean that young and active households receiving remittances should invest them effectively facilitating the economic development in the country. These preliminary hypothesis are to be confronted with result below.

3.2. Incomes wealth and poverty issues

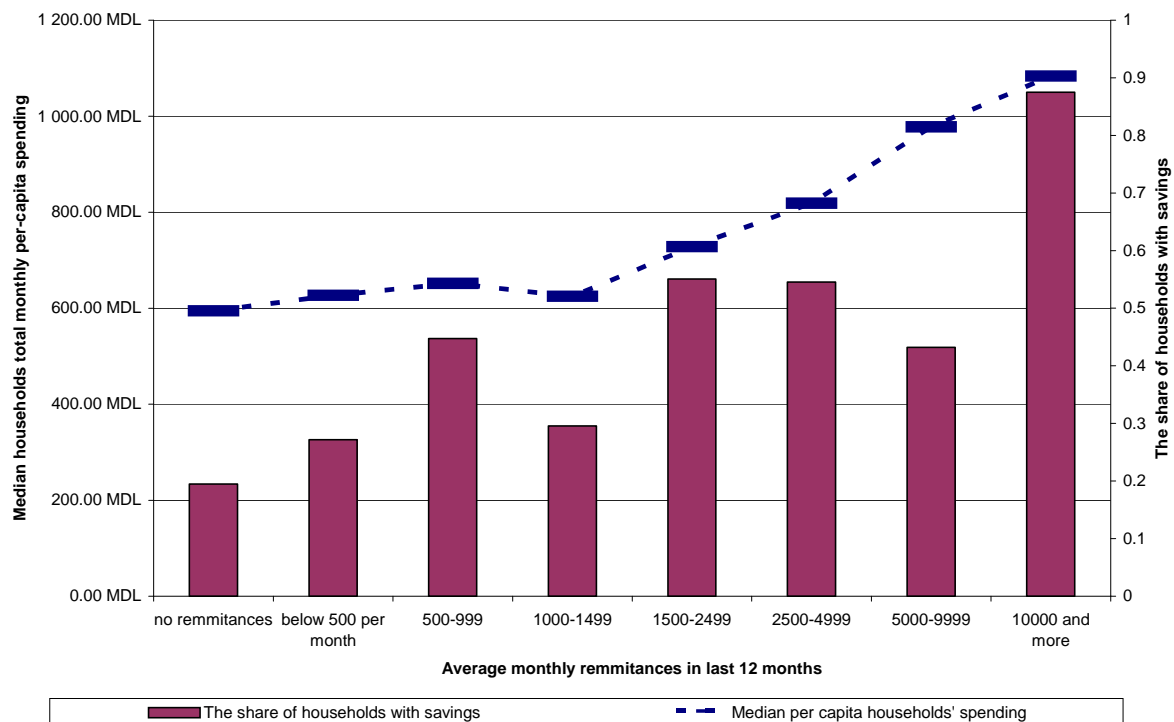
Our data-set does not contain any information on the total amounts of monetary incomes generated by inquired households. We decided not to ask these questions as we expected the information revealed by interviewees to be unreliable. It could result not only from lack of willingness to give such information to the interviewer but also from irregular and diverse character of incomes in rural areas. Therefore analysing the relationship between remittances and the financial potential of households we had to rely on spending information.

It is clear that remittances can strongly influence the economic potential of households, especially if they are high enough (see Figure 3.2). The median per-capita spending of non-receiving households or for those receiving on average less than 1500MDL per month is about 600MDL per month. It means that half of households from this group spends less and half more than 600MDL per each household member per month. As the size of average

monthly remittances increases, the median per-capita spending follows, reaching almost 1100MDL for households receiving at least 10000MDL.

The level of per capita spending us such is not the only factor indicating for the utmost importance of remittances for households' budgets. The differences can for example result from varying propensities to save. Propensity to save can be lower in households receiving high remittances as they are in general younger and bigger and it generates additional spending (consumption) needs. This however does not seem to correspond to the savings data (see Figure 3.2) showing that in general the share of households with savings seems to be higher among those who receive remittances, although the relationship here is far from proportional.

Figure 3.2. Median monthly per capita households' spending and the share of households being able to save anything depending on size of remittances they obtain



Source: Authors' calculations based on survey results.

The structure of households' spending is the next important measure of their economic status and here the results are quite suggestive as well. (see Table 3.2). At first those who do not get any remittances spent much higher share of their total spending on food – being the basic good. High share of food and other goods of similar kind in consumption basket indicates for actual poverty of a household. Those without remittances and those with lowest remittances spend also relatively higher percentages of their total spending on health. It is interesting that health is also relatively important good for those with the highest remittances.

One may suspect however that in this case, the “quality” of service purchased is higher than for other groups.

On the other hand normal and luxury goods such as garment, culture and education constitute much bigger share of households’ spending for those receiving remittances. This share tends to be also well correlated with the amounts actually obtained. Culture and education constitutes only 4%-5% of total household spending for those who do not get any remittances or receive less than 500MDL per month. For those receiving between 500MDL and 1500MDL per month this share increases to 8%-9% and for those receiving more it goes to above 10%.

It does not come as a surprise that also the share of investments in total households’ spending rises with increasing remittances. It is about 1% for those who receive less than 1000MDL per month and reaches 4%-5% if remittances are in the range of 5000MDL-10000MDL per month.

Table 3.2. The shares of selected items in total spending depending on size of average monthly remittances

Spending items	Share spent for Food	Share spent for health	Share spent for garment	Share spent for culture and education	Share spent for investment
Amount of monthly remittances					
no remittances	41.5%	8.8%	12.0%	5.4%	0.9%
below 500 per month	32.9%	8.3%	14.4%	4.0%	1.4%
500-999	31.8%	8.1%	18.6%	9.2%	1.3%
1000-1499	33.9%	5.9%	17.3%	7.9%	4.4%
1500-2499	30.3%	4.6%	22.1%	11.2%	2.1%
2500-4999	33.3%	5.8%	19.3%	10.4%	2.7%
5000-9999	30.3%	6.3%	19.8%	10.0%	5.6%
10000 and more	30.1%	7.0%	25.1%	11.2%	3.6%

Source: Authors’ calculations based on survey results

As households receiving remittances save and invest more, it is not surprising that they also tend to have more durable goods in their disposal (see Table 3.3), although the relationship in some specific cases is not so clear. Definitely, receiving remittances of large amounts (above 5000MDL per month) increases the probability of having a car. Even relatively small remittances increase the probability of having a mobile phone or a washing machine. It seems also that those obtaining reasonable amounts of money (more than 1000MDL per month on average) are more likely to have a refrigerator in their homes. On the other hand the picture is not so clear in case of personal computers. It seems that in this case, possessing or not a personal computer is more related to other factors: such as a need for work or education or simply personal preferences – the share of households using a PC is the highest among those with average monthly remittances of 1500MDL-2499MDL. By

coincidence it is the groups with the highest average education and the second highest employment rate among the households' heads (see Table 3.1).

The importance of remittances for households' budgets is also proved by direct answers to questions related to the role of remittances in total incomes and to the self assessment of households' income levels. Wages (for 40% of related households) and pensions (for 34,4%) constitute the main source of income for households that had not obtained any remittances within 12 months before the survey was performed. On the other hand those who obtain remittances consider them as main incomes of their households in 43,8% of cases. Wages are the main sources of incomes only for 29% of them and pensions for 13%. Taking into account the skewed distribution of remittances it means that even relatively small amounts obtained from abroad are relatively often considered by receiving households as main sources of incomes. For example as much as 19% of those obtaining remittances below 500MDL per month still considers them as the main source of income. The share of households considering remittances as the main sources of incomes obviously increases with the amounts received. It reaches 54% for those obtaining 1500-2499MDL per month, and goes above 60% already for those obtaining more than 3500MDL per month.

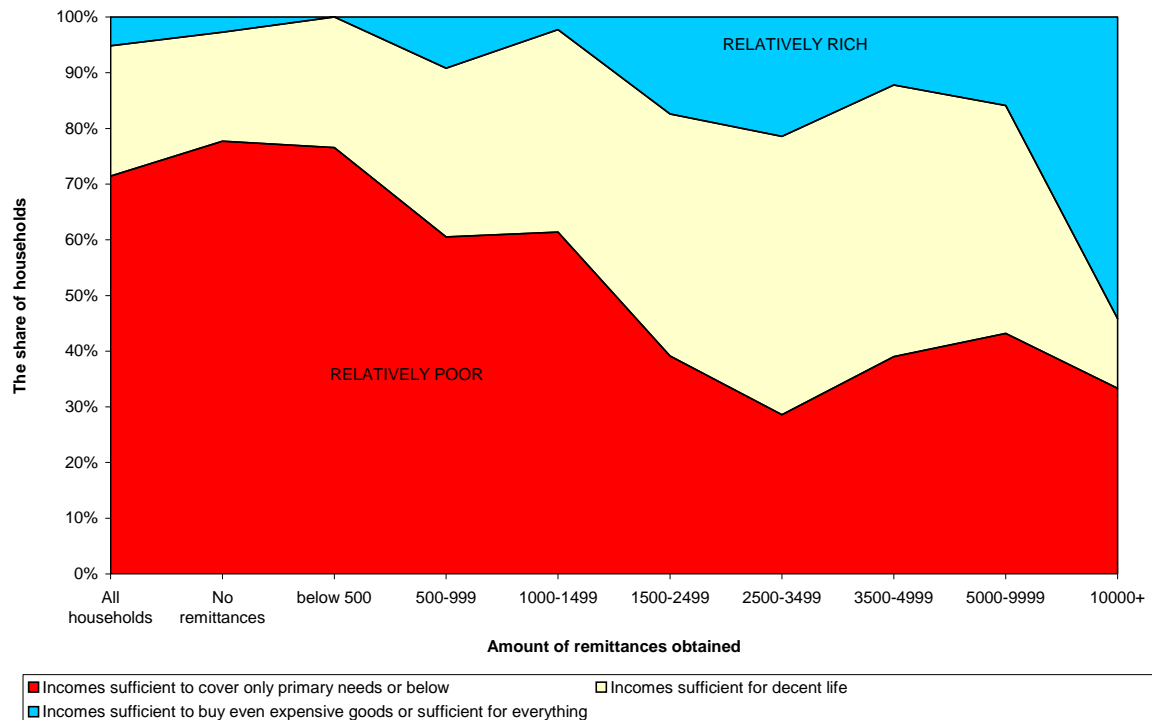
Table 3.3. Possession of selected durable goods by size of remittances

The percentage of households possessing:	a car	a mobile phone	a washing machine	a refrigerator	a PC
no remittances	30%	43%	56%	75%	9%
below 500MDL/ month	25%	49%	63%	79%	6%
500-999	39%	61%	76%	80%	16%
1000-1499	34%	66%	75%	93%	5%
1500-2499	29%	67%	86%	88%	28%
2500-4999	30.9%	74.5%	78.2%	94.5%	12.7%
5000-9999	48%	84%	75%	91%	14%
10000 MDL and more	42%	75%	92%	88%	13%

Source: Authors' calculations based on survey results

The self-assessment of household incomes also tend to be better for those receiving money from abroad. The share of "relatively poor" households ie. those who assess their incomes as "not covering even basic needs" or "covering only basic needs", reaches 78% among non-receivers. Among those receiving between 500 and 1000MDL per months it decreases to 61% and among households receiving more than 10000MDL per month to 13%. (see Figure 3.3). As much as 54% of those receiving the highest remittances (10000MDL per month and above) consider their incomes as "enough for everything" or at least "enough to buy some expensive goods". The share of such "relatively rich" people among those without remittances is only 5%.

Figure 3.3. Shares of “relatively poor” households and “relatively rich” households depending on size of average monthly remittances



Source: Authors' calculations based on survey results

3.3. Labour market behaviour and other economic decisions of migrants and their households

The results above indicate for important role of even small remittances in budget incomes and economic potential. In this chapter one will analyse whether migration and remittances influence the economic behaviour of households: do they influence the economic activity of other households members, how are they spent, what share of remittances is saved or invested and what are the main investment financed from these funds.

According to the results of our survey 93% of those who migrated did it to find a job: either to earn money for various expenditures or due to joblessness in country. Only several persons migrated due to other reasons such as studying, accompanying a partner or simply “looking for better life”.

Most of those who work on emigration are legally employed (69% of all working migrants) and the share of legal employees is higher among those having only seasonal employment (79%). It means that finding legal jobs in host countries is easier for those Moldovans who look only for short-term temporary jobs, (seasonal workers constitute in total half of all

migrants). Those who want to work permanently are more frequently (36%) taking a risk of an illegal job.

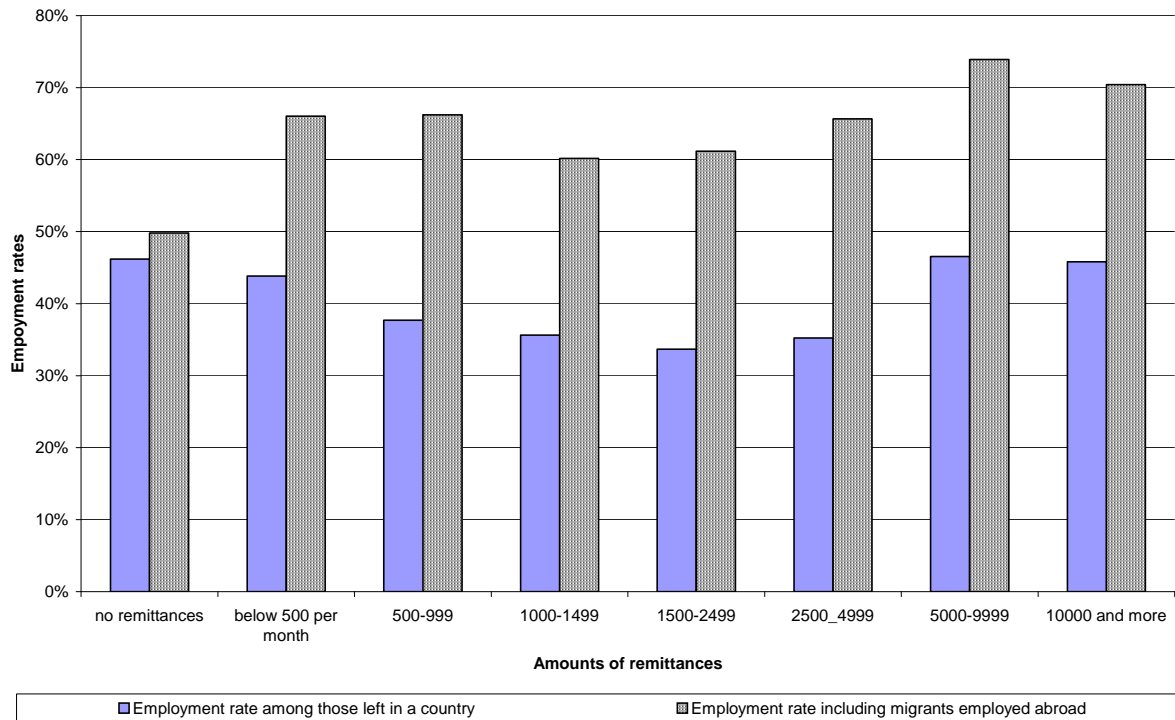
What seems interesting, those who work legally tend also to pay more frequently their contributions to the pension fund in Moldova. As much as 27% of them pays Moldovan pension contributions as compared to only 17% of those having illegal jobs. To some extent it seems understandable taking into account more frequent seasonal character of their jobs, but on the other hand it means that illegal workers are exposed to a double risk – they are deprived of any social rights both in Moldova and in host countries.

Apart from the labour market status of migrants us such one could also ask what is the influence of migration and remittances on economic activity of those left behind. Remittances often constitute the main source of households' income. In some cases they can cover all consumption needs. One could expect therefore that it could discourage other household members from working and result in lower rate of economic activity in a country. It seems that such effect can be observed, but it is neither clear nor proportional.

The relationship between the size of remittances and employment rate among those who left in the country seems to be u-shaped. (see Figure 3.4). Adults from households obtaining small or average remittances tend to be employed less frequently then members of households not receiving any funds from abroad. Then the relationship reverses and the employment rate for groups receiving high and very high remittances is as high as in non-receiving households. This change of relationship's direction may be related to the fact that households obtaining large remittances tend to be on average more educated and younger (see Table 3.1).

We tried to verify the shape of this relationship applying a simple OLS regression model in which the employment rate in each household was the dependent variable and the amount of remittances obtained was the main explanatory variable. The model controlled also for education and age of the household head. The results were in general inconclusive. Most of coefficients on remittances dummies were not statistically significant and the explanatory power of the entire model was rather weak. On the other hand the signs of the coefficients corresponded to Figure 3.4 The only significant coefficient on remittances was negative and indicated that those who obtain remittances between 1500-2499MDL per month, are in general less probable to be employed than those who do not obtain any remittances. We could therefore conclude that there is a weak negative influence of remittances on employment probability of other members of households.

Figure 3.4. The employment rates* among working age adults by average amount of monthly remittance.**



Source: Own calculations based on survey results.

Notes: * - Employment rates calculated on households level

** - Only households not headed by a pensioner have been taken into account for both calculations

On the other hand when we measure the total employment rates in households and treat those working abroad as employed the kind of relationship between remittances and employment rates changes significantly. It appears that in general the “total” employment rate in households receiving remittances is higher than among non-receivers (see Figure 3.4). It indicates that migration and working abroad is the manifest of economic activity, on the other hand it suggest that lack of employment opportunities in the country is an important reason for migration. It was also indicated by answers to a direct question in our survey concerning the reasons for which people migrate.

Results thus far indicate that although obtaining remittances can slightly negatively influence the economic activity of household members left behind, it is positively correlated with the total household activity ie. including those who migrated. We also know that those who obtain remittances tend to have higher share of investments in their total household spending. It would suggest that migration and money sent back home are often used to build the economic potential of the household. The data on how the remittances are spent seem to prove this hypothesis (see Table 3.4)

Table 3.4. The division of remittances spending according to their size – selected items*

<i>Spending items:</i>	daily needs and health	durable goods	education	investment in farm	investment in other business	property investments	saved
<i>Amounts of monthly remittances:</i>							
below 500/month	56.0%	4.1%	4.3%	2.9%	0.9%	9.8%	7.1%
500-999	41.1%	7.0%	8.2%	2.9%	0.6%	18.0%	7.8%
1000-1499	41.0%	4.7%	8.4%	7.2%	0.5%	13.7%	8.7%
1500-2499	36.8%	9.4%	10.2%	3.6%	0.0%	14.7%	13.7%
2500-4999	40.6%	9.7%	6.1%	7.2%	1.4%	15.7%	8.3%
5000-9999	31.2%	10.0%	6.5%	10.3%	0.0%	20.6%	10.1%
10000 and more	22.0%	13.0%	9.2%	11.8%	0.4%	22.3%	8.8%

Source: Authors' calculations based on survey results

* - Note: The Table present the way remittances are spend. It does not present the actual percentages of funds spend for selected items, but the averages of percentages declared by respondents.

It seems obvious that those who get higher remittances spend much smaller parts on them on basic needs such as food, clothing, health etc. These shares however are relatively significant even for those obtaining really large amounts exceeding 10000MDL per month on average. Large remittances are spend more frequently on durable goods such as cars, PCs or electronic tools. There is no direct relationship between the size of monthly transfers and the share of those spent on education. Only for those with the smallest remittances, below 500MDL the share of education in total spending of remittances is lower than for the others. It is very important that significant share of remittances for all groups is spent on education. It is the basic investment increasing the future competitiveness.

More than 10% of large remittances (above 5000MDL per month) are spent on investments in farms. These amounts either serve to cover current needs such as buying seeds for sowing or to make long run investments such as new land, farm buildings or farming machinery. Significant parts (3%-7%) of remittances are also invested in farms even when smaller amounts are received. In such cases short-term investments comprise much higher share of total spending.

Relatively small amounts of money received from abroad finance non-farming businesses. Additionally there is no positive relationship between the percentages invested and amounts received. It would mean that in rural areas remittances are much more often used to improve the quality of farms than to start running other businesses. It may result from relatively weak local demand hampering development of services. On the other hand starting any manufacturing activity demands excessive initial investment and (most probably lacking) skilled labour force. As one can remind (see Table 3.1) only the heads of households

receiving the highest amounts of remittances (+10000MDL per month) were more often than the others engaged in any non-farm businesses.

Relatively high percentage of money received is saved and the average “savings rate on remittances” does not increase significantly with the average amounts received. The most pronounced difference is that those receiving smaller amounts (below 1000MDL per month) tend to keep cash at home and those receiving more tend to save in banks. Almost fixed savings rate on received money would suggest that all households treat remittances as an insurance against the potential risk of future financial problems either resulting from losing the domestic sources of incomes or losing jobs abroad.

3.4. Family behaviour, social behaviour and plans to come back

Apart from studying the impact of migration and mainly remittances on economic behaviour of migrants and their households it is also interesting to find out what is the influence of migration on family life and social activity of migrants. This analysis, apart from direct questions concerning the plans to come back or not, will additionally help us to assess the actual expected decisions.

More than 80% of migrants claim they are planning to come back to Moldova and 54% percent plans to do it within the next 6 month. Only 16% of those planning to come back is not going to do it within a year.

Declarations concerning their return plans seem to be proved by their actual life and financial decisions. At first the vast majority of migrants (73%) are married and most of them had spouses already when leaving home. The number of divorces and the number partners' changes is negligible (below 1%). In most of cases (56%) the spouses of migrants stay at home, and only 33% of marriages reside together abroad. Among the former group 90% of migrants claim they will come back, and even in the latter case the percentage of those planning to return is high (73%).

Most of couples comprising at least one migrant (60%) have at least one child and in 71% of cases the children reside at home. They are left either with one of parents (in 69% of cases) or with relatives of the first degree (26% of cases). It seems also that households with migrants do not tend to have less children than the others. It would suggest that emigration should not in the long run negatively influence the demographic trends in the country.

Although one has to take into account that the current average fertility rate in Moldova is extremely low - 1.26 children per woman on average. It is similar to other low-fertility European countries such as: Poland, Slovenia, Ukraine or Czech Republic¹². The results of our survey also indicate that the average number of children in surveyed households does not significantly differ from 1.

Migrants seem also to be interested in political situation in the country at least as much as the rest of the society. We measured the level of their political activeness asking about participation in last parliamentary elections in 2005 and their expectations concerning the next elections in 2009.

It appears that as many as 84% of all migrants who where in 2005 in the country took part in parliamentary elections. it is much more than the average for the entire country equal to 65%¹³. On the other hand those who were not in Moldova during election participated very rarely – the total turnout rate for this groups was only 4%. Long distance to the voting poll (Moldovan Consulate) in the host country was the main reason not to vote (36%), general lack in politics was also an important reason declared by 30% of migrants not residing in Moldova in 2005. As much as 9% of this groups decided not to vote due to illegal status in host country and fear to be uncovered. Only 7% of non-voters expressed the lack of confidence in public authorities as the main reason not to vote.

What seems interesting the long distance to the voting poll was also an important reason not to participate for those who resided in the country in 2005. As many as 20% of migrants declared it as the main reason, 33% expressed lack of their interest in politics and 14% lack of confidence in public authorities.

Declarations about planned behaviour in the next elections also indicate for general interest in Moldovan politics among those who migrate. As much as 44% of them are very likely or at least expect to participate in Moldovan elections in 2009. Only 39% percent will not participate for sure or are not likely to participate, 22% has not decided yet.

¹² source: <https://www.cia.gov/library/publications/the-world-factbook/geos/md.html>

¹³ according to <http://www.elections2005.md/results/activity/>

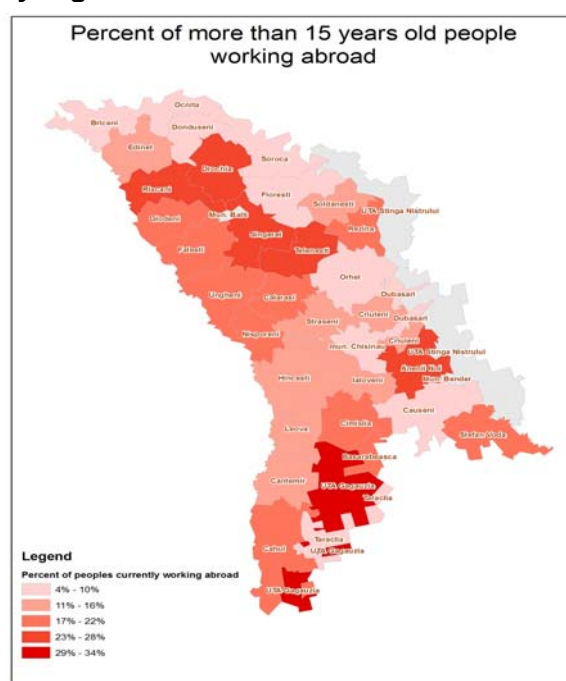
4. Selected regional characteristics of migration and remittances

4.1. Emigration and remittances by region

In this chapter one analyses similar phenomena as in Chapter 3, but here we look specifically at regional diversities. The aim of this work was to analyse how the influence of labour migration manifested either by use of remittances or family and social behaviour of migrants differs across Moldovan regions. In order to perform this analysis one has applied the statistical software provided by CASE-Moldova to the National Bureau of Statistics in the frames of the implemented project. The reader however has to take into account that due to small size of our survey the results presented in this chapter are of illustrative character only.

At first the share of migrants in the total population significantly differs across Moldovan regions (see Figure 4.1). The region with the highest migration rate is the Autonomous Region Gagauz-Eri, in the southern part of Moldova, where up to 34% of the adult population currently resides and works abroad. Then, comes Anenii Noi and several rayons of northern part of Moldova. In some rayons the incidence of migration can even be lower than 10%, but one has to treat these results with caution as the statistical error for the data at the rayon level is pretty high. One can suspect however that the highest migration incidence is recorded in northern Moldova and in Gagauz-Eri region.

Figure 4.1. Migration by regions



Source: Authors' calculations based on survey's results

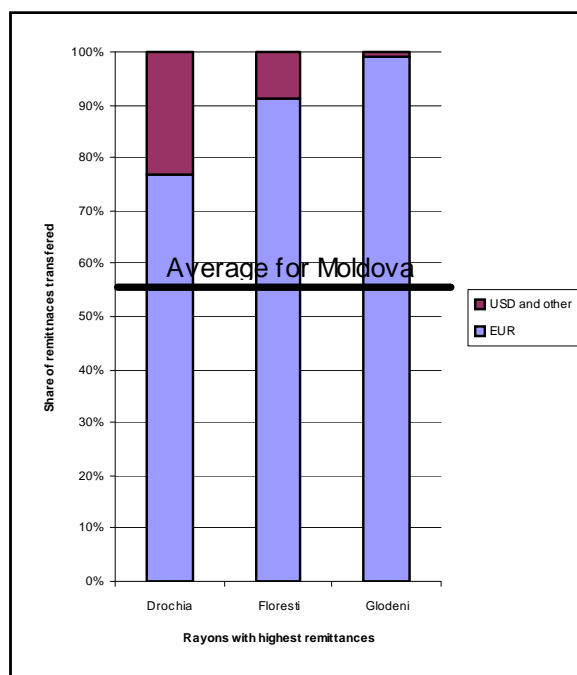
Northern Moldova does not only records the highest level of migration, it also records an average level of remittances which is significantly above those in other parts of the country (see Figure 4.2). The average annual amount transferred to some northern rayons, according to our data, exceeds 100.000MDL (8300MDL per month), whereas the average amount of annual transfers for the entire country is slightly above 40.000MDL (3300MDL per month).

The observed differences in amounts transferred can be explained by migration destinations. In order to analyse that we used the currency the remittances are transferred as the proxy for migrants' hosting country. It appears that migrants from the regions with the highest remittances send much more money in Euro than the average migrant from other parts of Moldova (see Figure 4.3). More than 70% of remittances in Drochia, more than 90% in Floresti and almost 100% in Glodeni are transferred from abroad in Euro. For comparison, the average share of remittances in Euro in total transfers in the entire country is only 55%. It means that migrants from these rayons most probably work mainly in the EU countries and it brings the highest incomes to their families.

Figure 4.2. Average monthly remittances by household in rayons



Figure 4.3. Currency remittances are transferred in – Moldova and rayons with highest remittances

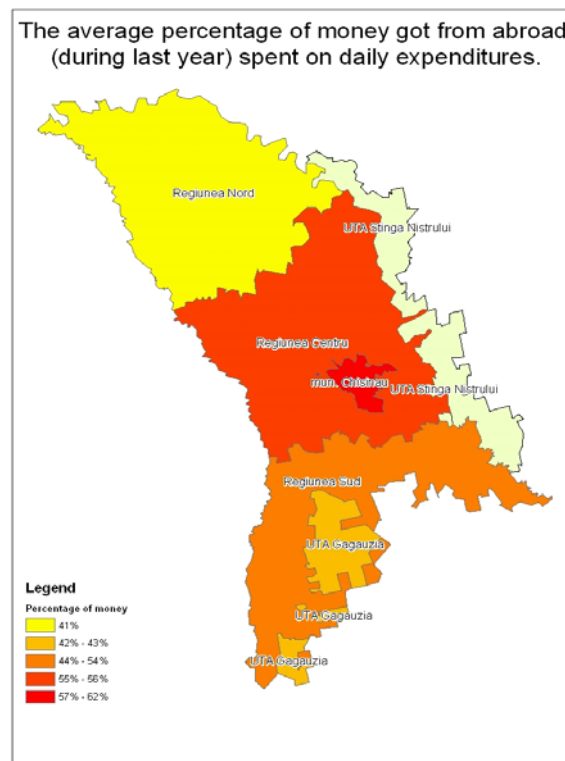


Source: Authors' calculations based on survey results.

Northern parts of Moldova experience both one of the highest migration incidence and the highest remittances sent by each individual. It seems therefore understandable that in these rayons the money from remittances are least frequently used to cover only basic households' needs (see Figure 4.4). On average households in this region spend only about 40% of total funds from abroad on daily expenditures, (such as food, garment, house maintenance aso),, whereas the average for the country is around 50%.

It does not come as a surprise that those who get higher remittances also tend to put them more often into the banks and other financial institutions. In regions receiving the highest amounts more than 40% households save in banks at least some funds from abroad, whereas in most of other regions the share of households saving in banks is significantly below - 20%. One can also notice that the share of remittances saved in banks seems to be the lowest in the central rayons (around Chisinau), where the daily needs expenditures are the highest. This might be related not only to the lower amounts received by households from this region, but may also reflect the higher price level there driven mainly by influence of Chisinau.

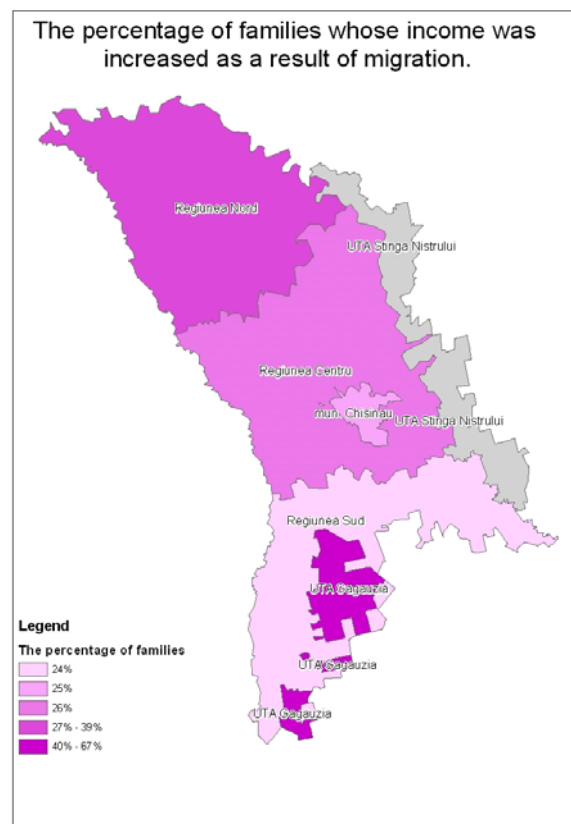
Figure 4.4. The share of remittances spent on daily expenditures by regions



Finally the respondents in the survey have also been asked whether remittances increased their incomes or whether they simply substitute those that would be generated by a migrant

in the country. The geographical map of answers corresponds to earlier observation on number of migrants and average size of remittances. More than 40% of families in the northern region admit that remittances positively influences their incomes, also those leaving in Gagauzia expressed similar opinions (see Figure 4.5). This perception seems to be much weaker in the central region and, in other than Gagauzia, parts of southern Moldova. It seems that in the north this feeling results from high average remittances and in Gagauzia from the large number of migrants, most probably resulting from the lack of other income opportunities in this part of the country.

Figure 4.5. The percentage of households admitting that migration has increased their incomes



Source: Authors' calculations based on survey results.

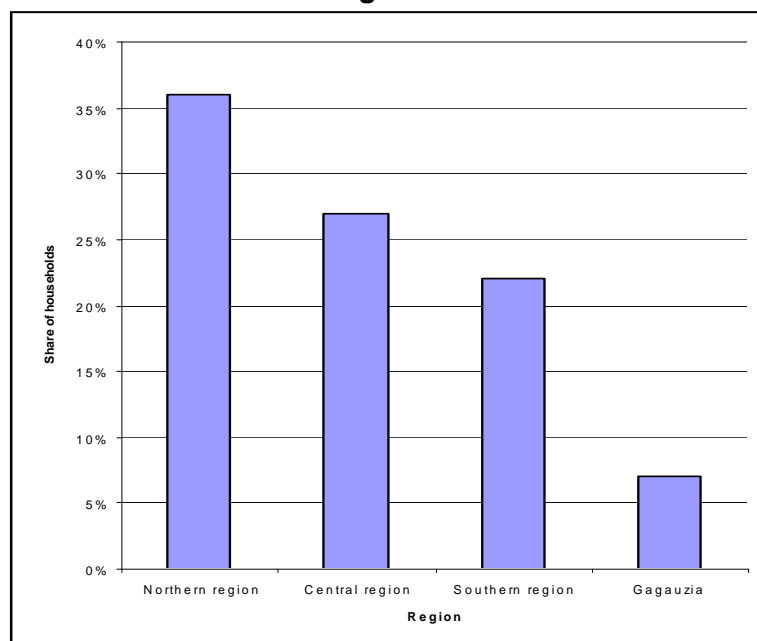
4.2. Investment by migrants and returnees and plans for the future

As one recalls from Chapter 3 only a very small share of funds from remittances is invested in non-farming business in Moldova. As a result we are not able to analyse the non-farming business on the regional level as the results obtained can be purely coincidental and as such would not have any informative value. Much more seems to be invested in farms and here the regional developments seem to correspond to the earlier information on the size of remittances.

It appears that the percentage of households investing in their farms is the highest in the northern region (36%). In central and southern regions this percentage reaches respectively 27% and 22%. It is significantly lower in Gagauzia where only 7% of households are able to or willing to invest in their farms, (see Figure 4.6). The households in northern region do not only invest more in their farms more frequently but they also tend to invest more. According to the results of our survey, the average farm-related investment spending reach 6% of total remittances in the north and only slightly above 2% in the other regions of the country.

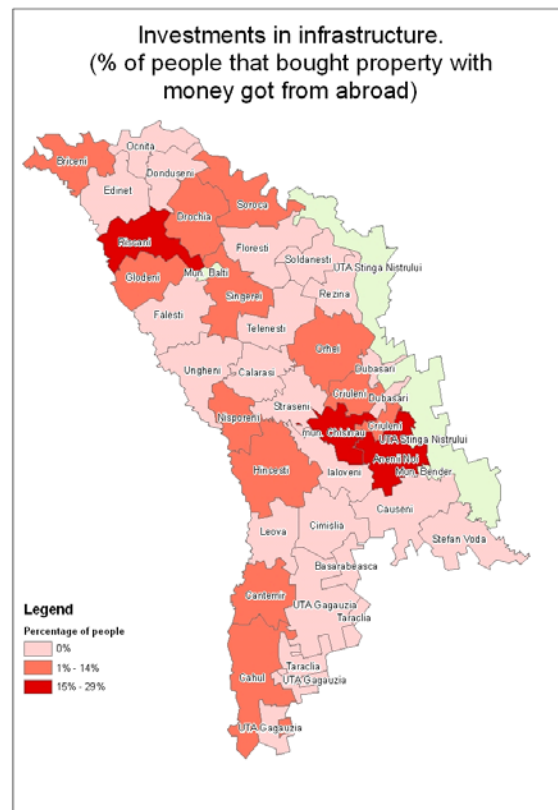
It is widely accepted that migrants' remittances accounted for most of the real estate growth during the last several years. Our survey data however indicate that real estate investments are the attractive option only for households leaving in some specific localities. Such investments seem to be particularly popular in areas close to Chisinau. Relatively high percentage of families decided to invest remittances in property also in northern parts of the country. (see Figure 4.7). One can not say much about the other regions since as it has been mentioned the survey results are not representative on the rayon level. Our data, however, seem to support the logical expectation that property investments should be popular mainly in the capital city and in regions with the highest levels of remittances.

Figure 4.6. Share of households investing the funds from remittances in their farms



Source: Authors' calculations based on the survey results.

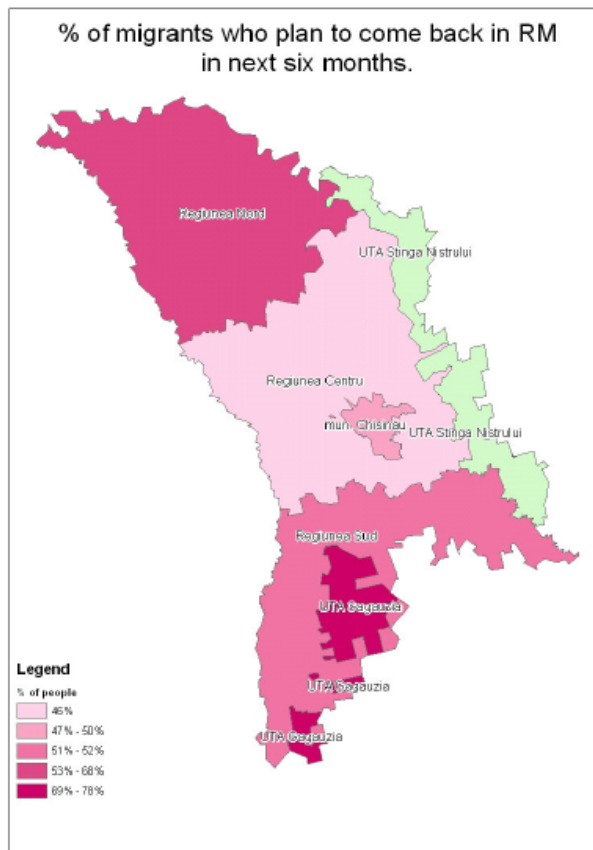
Figure 4.7. Percent of households investing remittances in property



Source: Authors' calculations based on survey results.

The map of investment spending seems to only partially correspond to the future plans of migrants. In general 54% of migrants plan to come back to the country within the next 6 months but these plans are not equally distributed in the country. Short term migration seems to be most popular in Gagauzia region on the one hand, with about 70% of short-term migrants, and in the northern part of the country with at least 53% of short term migrants. It seems that migrants from central regions seem to stay abroad slightly longer (see Figure 4.8).

Figure 4.8. Percent of migrants planning to come back to Moldova within the next 6 month



Source: Authors' calculations based on survey results.

Only high percentage of short-term migrants in northern part of the country corresponds to the investment data. It appears that in this region remittances from short-term contracts in EU countries are used to built the production potential of local farms. On the other hand migrants from Gagauzia take short-term contracts in Turkey in order to cover their basic needs. Migrants from central parts of the country leave the country for longer periods and spend remittances on various purposes starting from covering basic needs and ending with buying real estate in Chisinau.

Conclusions

The aim of this research was to analyse the effects of migration and remittances on economic status and behaviour of rural population in Moldova against the backdrop of the general situation of rural economy and general migration trends.

Rural population in Moldova constitutes almost 60% of total population – more than in any other European country. Incomes in rural areas are much lower than in urban areas and the difference in poverty incidence is almost twofold. Incomes from agriculture are very low due to low productivity and widely spread hidden unemployment. Opportunities for development of other kinds of business activity are extremely limited, not only due to limited access to credit which is equally inaccessible both in the countryside and in the cities, but also due to poor conditions of transport and communication infrastructure. The overall employment rate, although higher than in urban areas, is low as compared to European standards. The access to social infrastructure such as health and education services in rural areas is weak being the next factor deciding about the poor quality of life there.

Therefore it is not surprising that the emigration rate from rural areas is higher than the average for Moldova. More than 70% of all migrants come from the countryside.

Migrants from rural parts of Moldova more frequently choose Russia as their destination country meaning that they perform more often seasonal, physical jobs in construction or agriculture. They choose to migrate mainly because of lack of income opportunities in their localities. Probably the same factors discourage significant part of current migrants from coming back at all or from returning to their original localities. Many of them wish to move to Chisinau or to other urban areas.

Remittances incoming to the country are the main economic effect of Moldovan migration. They constitute as much as 36% of Moldovan GDP and in case of rural areas their share in total product should be significantly higher. They constitute important and stable source of incomes for more than 25% of rural households. Receiving remittances of any size seems also to be an important factor preventing households from falling into the poverty.

On the other hand remittances to rural areas are very unevenly distributed with about 75% of total amount of money going to 25% of all receiving households. Poorer and older

households receive smaller remittances and in this case they are mainly used to cover basic needs such as food, garment or healthcare. For this part of receivers the income from remittances is a simple substitute for lack of employment opportunities in the country.

Younger and more educated households obtain higher remittances and they are much more often used for investment purposes. Education, farm modernisation and property are the main investments of Moldovan rural families. The money from remittances is very rarely invested to develop other (non-farming) business activities. It seems to be an alarming phenomenon calling for immediate action to improve the business environment in rural Moldova.

Remittances in Moldova, as in other many small countries, are potential source of savings and investment for capital formation and development. Attracting remittances into the financial system become a challenge for all financial institution. It is especially challenging task in rural localities where only 6,2% of households have current account in a bank.

Remittances only to some extent negatively influence the economic activity of those left in the country. Some negative effect can be observed for those receiving lower remittances and treating them as an escape from poverty. For those generating higher incomes abroad migration is more a manifest of household's high economic activity.

It is important that most of migrants work legally in their destination countries. They take short term seasonal jobs and keep paying the social insurance fund contributions in Moldova. On the other hand those taking long-term illegal jobs abroad often are exposed to a double risk. They are neither legally employed in their host countries, nor they are insured in Moldova.

Most of migrants plan to come back to Moldova in the nearest future. These declarations seem to be supported by their family decisions. Most of spouses and children are left home. It seems encouraging that fact of migration does not seem to negatively influence the durability of families. Results of the survey do not indicate for higher number of divorces among migrants, but obviously due to small size of our sample these results should be treated with caution. On the other hand however one has to remember that this relatively favourable situation may change in the future. If the economic situation in the country does not improve more emigrants can plan to take reunite with their families abroad and leave the country forever.

It seems also that migrants tend to be interested in social and political life in the country and it would also prove their willingness to come back to Moldova. They participate in political elections at least as often as the average citizen.

The regional dimension of migration also seems to be very interesting, although the results of our survey in this respect need to be treated with caution due to small size of the sample and resulting problems with representativeness.

It seems that northern and southern parts of the country (mainly Gagauzia) send the highest share of their labour force abroad, but the nature of these migration flows and resulting flow of remittances seem to significantly differ. The emigrants from northern Moldova tend to send back home much higher amounts of money. They seem to go mainly for short term contracts in EU countries enabling them to generate much higher incomes than those working in Russia or even Turkey (in case of Gagauzia).

As a result remittances in northern Moldova are much more often then in other parts of the country used to invest. On the other hand those in central and southern regions spend higher share of funds received on daily consumption. Those leaving close to Chisinau more often then the others buy property.

It seems that ensuring productive use of large amounts of remittances coming to Moldova should be one of the most important priorities of Moldovan policymakers. In order to achieve this higher share of remittances should go to the financial system of the country, instead of being kept in cash at home. In order to do this one has to at first increase the access of banking services to rural population, at second one should also build the trust of rural population into the financial institutions.

On the other hand it seems that higher share of remittances should be invested in business activities other than the own farm. It seems that lack of infrastructure and good governance is the main reason for which educated and young emigrants sending significant amounts of money do not decide to invest them in entrepreneurial activities. Eradicating these impediments for local development should become a highest priority.



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Appendix

Methodological notes on the survey by CBS-AXA

The research was carried out on a national representative for rural areas sample of 1537 people aged 18 and more.

Population sample: stratified, probabilistic, three-staged;

Stratification criteria: 12 geographical regions that coincide with the territorial administrative units before the return of districts, size of localities (3 types of rural localities grouped by distribution of localities by size in each region).

Sampling: The sizes of regions (ex-counties) were calculated proportionally to the number of population according to the data given by National Bureau of Statistics of the Republic of Moldova.

Randomization stages:

- a. Locality: within the adjusted strata, the selected localities (116) were chosen at random, on the basis of a table with numbers chose at random.
- b. Family: The maximum number of interviews realized in a sampling point was of 5. The families that were interviewed were selected through the method of a random route, with a set statistic step: the total number of households on the route was divided to the number of interviews that are to be carried on.
- c. The person: In the case where the selected families had more adults, the interviewed person was chosen through the method of the closest birthday.

Representativeness: The sample is representative for the population of Republic of Moldova aged 14 and more, with a maximum error of +2.04%

The period of collecting the data: 3 – 14 October 2007. The respondents were interviewed at their homes. The questionnaire was elaborated in Romanian and Russian languages, giving the respondents the possibility to choose the language of communication.

Analyzing the structure of the sample obtained in the field, we can see a concordance, within the limits of admissible statistic deviation, between the distribution of population known from

the available statistic data and those obtained. There is a difference in the case of the structure according to the sex; it means that more women participated. The main reason of these deviations is the phenomenon of migration abroad of the labour force, the proportion of which cannot be registered in current official statistics.

For correction, it was referred to the weight of the results, thus that the structure of the sample taken into account to represent the average between the registered distributions in the official statistics and the ones obtained in the field. Thus, the results presented are weighted. The difference between the weighted results and the unweighted ones do not overcomes neither question 1.7%.