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## Research Report

# Labour migration and remittances in Moldova: Is the boom over?: Trends and preliminary findings from the IOM-CBSAXA panel household survey 2006- 2008

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# LABOUR MIGRATION AND REMITTANCES IN MOLDOVA: Is the Boom Over?

**TRENDS AND PRELIMINARY FINDINGS FROM THE  
IOM-CBSAXA PANEL HOUSEHOLD SURVEY 2006-2008**



# **Labour Migration and Remittances in Moldova: Is the Boom Over?**

**Trends and Preliminary Findings from the  
IOM-CBSAXA Panel Household Survey 2006-2008**

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IOM International Organization for Migration

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## Executive Summary

The year 2008 marks a turning point in the evolution of labour migration and remittances in Moldova. Since the late 1990s, the number of Moldovan migrants abroad and the inflow of remittances had grown consistently year after year. As a result, household disposable incomes as well as demand for locally produced goods and services had increased rapidly. Since its peak in the fourth quarter of 2007, the number of migrants estimated by the Labour Force Survey (LFS) has not increased further. Remittances measured in terms of nominal US dollars also appear to be levelling off since the fourth quarter of 2008; measured in terms of their purchasing power in Moldovan Lei, remittances have probably even declined in 2008. For the first time in many years, the Moldovan economy and the policy community now face the prospect of stagnating or even declining labour migration and remittances, with potentially far-reaching effects on Moldovan household incomes and demand for non-tradable products and services.

Thus the 2008 IOM-CBSAXA household survey on labour migration and remittances comes at a critical juncture for Moldova. It follows on the similar surveys of 2006 and 2004 and provides detailed information on the diverse patterns of labour migration and remittances in Moldova and their impact on individual households and communities. This information allows us to analyse the long-term trends that have led to the stagnation of labour migration and remittances in 2008, even before the global financial crisis and recession began to affect demand for the services of Moldovan labour migrants. Once the effects of the current global crisis become clearer, information from the survey will also be helpful in assessing the impact on migrants and their families.

This report begins by reviewing carefully the trends in the number of labour migrants and remittances since 2006 based on the available quarterly time series. According to the Labour force data the total number of Moldovans working abroad, while still belonging to a household in Moldova, grew to approximately 340,000 by mid-2007 and was still roughly at that level during the fourth quarter of 2008. This is a remarkable departure from the 1999 to 2007 period when the number of labour migrants greatly increased consistently by approximately 50,000 individuals per year.

Total remittances increased to US\$ 1.5 billion in 2007, and feasibly around US\$ 1.9 billion in 2008. However, it is increasingly misleading to consider remittances only in nominal US dollar terms because the Moldovan Lei (MDL) appreciated sharply in real terms in 2008. Converted into MDL and adjusted for inflation, remittances grew by four per cent in 2007 and declined by approximately four per cent in 2008; in relation to Moldova's GDP they reached a peak of 35 per cent of GDP in 2006 and declined to approximately 31 per cent in 2008.

Although the number of labour migrants has broadly levelled off since the fourth quarter of 2007, our survey suggests that migration experience at the household level is more widespread and volatile than this figure might suggest. A large proportion of migrants in 2008 were neither migrants in 2006, nor did they indicate in 2006 that they intended to migrate. Overall, more than half a million individuals of working age in 2008 have probably had a migration experience at some point in their working lives.

Like the LFS, we also find that the absolute number of migrants in the EU changed little between 2006 and 2008 while the number of migrants in other non-CIS countries somewhat declined. By contrast, the number of migrants increased sharply in CIS countries, especially in the construction industry; CIS countries accounted for two thirds of all migrants in 2008. It appears that rapid wage growth in Russia since 2006 increased the attractiveness of working in Russia relative to Italy, although Italian wages were still higher in absolute terms.

The prevalence of migration has increased since 2006. Using our core definition of migrants (those abroad either currently or during the 12 months before the survey), migration increased from 13 to 16 per cent in the working age population overall. The rise in Chisinau was particularly rapid from six per cent in 2006 to nine per cent in 2008; other urban areas were the only location category where the share of migrants declined marginally. We also find the share of those who plan to go abroad to work in the near future has declined since 2006, for nearly all categories of individuals, with an overall decrease from eight to six per cent. As a result, the combined share of prospective and actual migrants has hardly changed from 2006 to 2008.

Approximately one third of migrants still reside in their host countries illegally. Illegal residence status has apparently become more widespread in CIS countries while the situation has improved in the EU and other host countries. Illegal residence status puts migrants at a greater risk of adverse actions or arbitrary treatment by local authorities, swindlers, exploitative working conditions, etc. Migrants who stay in their host country for an extended period often manage to obtain regular status: Of those individuals classified as a migrant in both 2006 and 2008, and without a residence permit in 2006, 65 per cent were legalized by 2008. These observations reflect in part the legalization campaigns in several West European countries, including Italy and Spain.

The panel structure of our survey additionally provides some insights regarding the households that left Moldova for good since 2006 as well individuals who (i) were household members in 2006 and (ii) no longer belonged to a household in Moldova at the time of the survey in 2008 as they had settled abroad permanently. Our findings suggest that, overall, about 100,000 individuals have left Moldova permanently since 2006; of these approximately 60,000 individuals were members of whole households that left Moldova. This number represents an annual outflow of approximately 1.4 per cent of the total Moldovan population of 3.5 million. It may continue to increase as better opportunities for legal residence in EU member states can lead to more stable Moldovan Diasporas and migrant networks in desirable destination countries.

Average remittances per migrant during the last 12 months before the survey increased from US\$ 1296 in 2006, to US\$ 1848 in 2008, in nominal terms. While an increase is to be expected as more migrants gain labour market experience in their host country and see their earnings improve, the observed growth in remittances reflects in part the appreciation of the Euro (in which migrant wages are set in Western Europe) vis-à-vis the US dollar. Migrant households were twice as likely as non-migrant households to have purchased an apartment (house) or a car between 2006 and 2008; overall, remittances paid for more than half the purchase price of these assets in approximately one third of households.

To transfer their remittances home, migrants now rely even more on formal transfer channels than in 2006. The share of migrants using primarily informal services (maxi taxi drivers, etc.) declined from 20 per cent in 2006 to 12 per cent in 2008. The share of personal transfers (through migrants themselves, friends, or relatives), declined from 32 to 24 per cent, which is remarkable as the share of migrants in CIS countries, where personal transfers are widespread, increased at the same time.

The share of households with a current bank account increased to 12 per cent of households with a migrant and just above eight per cent of households without a migrant. As many recipients will not immediately spend remittances, there would appear to be room for households to be offered more financial services, beginning with current (checking) and savings accounts. The fact that money transfer operators in Moldova work exclusively through commercial banks should make it easier for banks to reach migrants and their families.



One channel through which remittances may contribute to economic development is by alleviating financing constraints for would-be entrepreneurs in households with migrants. However, we find that non-agricultural self-employment among working-age individuals (other than migrants), in migrant households is not statistically different from the population at large; the same is true for returned migrants. This observation is striking as significantly more households with a migrant than without one indicate an interest in starting a business (11 vs. 7 %). At the same time, however, households with a migrant are also more acutely aware of the problems they might encounter when setting up a business, including those related to the general business environment.

Much concern has been voiced about the social impact of migration and remittances on local communities. This is confirmed by our finding that in locations with a high incidence of migration, people were more likely to state that (i) general socio-economic conditions have improved; (ii) social tensions have risen; and (iii) health care has deteriorated.

One indication of how attached migrants are to Moldovan society is their willingness to donate funds towards community projects. Overall, 15 per cent of migrants made donations. The share was lower in Chisinau (10%) and correspondingly higher in smaller communities; migrants who expected to return to Moldova for good were particularly likely to donate funds (23%). Nearly two thirds of donating migrants supported religious causes, while just under one third supported education or infrastructure projects. At present, few institutions such as home town associations or social matching funds that could serve as vehicles for additional donations and investment in communal infrastructure exist in Moldova. International experience shows that an institutionalized approach towards migrants' community donations could strengthen incentives to donate as well as foster the efficient use of such contributions.

The global financial crisis and recession will affect Moldovan migrants through reduced employment opportunities and wages. While the impact of the recession is not yet reflected in our survey (conducted in August 2008) or in additional focus group interviews (conducted in late November 2008), we identify migrants in the construction industry in CIS countries as particularly vulnerable. These migrants are predominantly male, middle-aged, low-to-medium skilled and from rural areas. The vast majority of their households derive more than half their income from remittances. If these migrants were to return home (or remain at home) in large numbers, this would lead to a large loss of income in rural areas that would send ripple effects through the local economies. One way of limiting a large negative impact of the crisis on migrant households and local economies, should it occur, would be for the government to initiate public employment programmes to rebuild rural infrastructure, possibly with donor support.

For the first time in many years, the Moldovan economy and the policy community now face the prospect of stagnating or even declining labour migration and remittances. Under these circumstances, we suggest that the Moldovan government should pursue a two-pronged strategy to promote output and income growth in Moldova. First, supply-side conditions should be strengthened to sustain investment-driven output growth. There is a long history of efforts to reduce corruption, lower the cost of doing business, and improve the investment climate in Moldova. While such efforts are important in their own right, they will also make Moldova a more attractive place for labour migrants to return home to and put their skills and their savings to use in local enterprises. Rebuilding rural infrastructure would be another important element of sustaining regionally balanced growth in Moldova.

Second, even if supply-side conditions for income and output growth in Moldova continue to improve, international wage differences will remain large and incentives for Moldovans to seek work abroad will remain strong. Therefore, labour migration and remittances will remain key features of the Moldovan economy even if they do not grow further. Under these

circumstances, the Moldovan government should seek ways to maximize the benefits of migration for migrants, their families, and the Moldovan economy as a whole to minimize the social costs of migration. Host country governments and donors may be able to support some of these efforts.

The findings from the IOM-CBSAXA survey suggest several approaches. First, enhanced opportunities for legal employment would help to counteract many of the social concerns and economic inequities that are caused by irregular work and residence in the host country. Regular migrants can travel home more frequently and are less likely to encounter human trafficking, exploitative employment, crime, or abuse from corrupt officials. Since many Moldovans work in low-to-medium-skilled jobs, many host countries will probably find it politically easier to offer temporary rather than permanent employment opportunities. The framework of the Mobility Partnership with the EU could be used not only to promote return migration, on which the Moldovan government focuses at present, but also to initiate negotiations on expanding employment opportunities for Moldovans abroad. There are indications that some EU member states would be willing to significantly expand circular migration schemes open to Moldovans if the Moldovan government were to pursue this.

Second, our survey shows that potential migrants learn about the possible benefits and pitfalls of migration primarily from other migrants. Such first-hand information has the advantage of covering all relevant options, legal or otherwise; however, it may provide short shrift to the risks involved in the migration process. Access to objective, unbiased, and comprehensive information about travel, employment, and any other migration-related issues could help migrants to navigate these risks and avoid costly mistakes. Non-governmental organizations may be in a good position to provide such information without raising political sensitivities. Where legal employment opportunities are available abroad, potential migrants should have access to the services of employment agencies (official or transparently licensed) that cover the whole of the migration process.

Third, the benefits for Moldova from labour migration will be enhanced if migrants maintain close emotional and economic links to family and friends. We find that not only are remittances higher among those migrants who intend to return home at some point; they are also more likely to invest remittances at home, either in financial assets or in businesses, and provide financial support for community projects. There appears to be room for more effective outreach to the Moldovan Diaspora as well as for co-financing programmes for community projects in Moldova where donors or the government will provide matching funds for contributions from migrants or any other private sources.

Fourth, as more migrants acquire legal status in their host countries, they often also acquire a stake in these countries' social security systems. When the portability of claims for social transfers is limited, this may create disincentives against returning to Moldova. Since the portability of pensions depends on a highly complex set of national regulations, reforms would have to be undertaken primarily by host countries. The Moldovan government may find the Mobility Partnership with the EU a suitable framework to pursue this issue when it becomes relevant, for example in the context of circular migration.

## 1. Introduction

The year 2008 marks a turning point in the evolution of labour migration and remittances in Moldova. From the late 1990s, the number of Moldovan migrants abroad and the inflow of remittances had grown consistently year after year. As a result, household disposable incomes as well as demand for locally produced, non-tradable goods and services had increased rapidly. Since the last quarter of 2007, according to the Labour Force Survey the number of migrants has not increased further. Total remittances have feasibly continued to grow in terms of nominal US dollars through the end of 2008, but electronic transfers to natural persons – an important component and early indicator for remittances – declined in November 2008 and again in January 2009. Thus in early 2009, for the first time in many years, the Moldovan economy and the policy community face the prospect of stagnating or even declining labour migration and remittances, with potentially far-reaching effects on Moldovan household incomes and demand for non-tradable products and services. If the current global financial crisis and recession hit the demand for services of Moldovan labour migrants more extensively than at present, the decline in remittances will be even more pronounced.

Therefore, the 2008 IOM-CBSAXA household survey on labour migration and remittances comes at a critical juncture for Moldova. It follows on the similar surveys of 2006 and 2004 and provides detailed information on the diverse patterns of labour migration and remittances in Moldova and their impact on individual households and communities. This information allows us to analyse the long-term trends that have led to the stagnation of labour migration and remittances in 2008. Once it becomes clearer how the demand for services of various groups of Moldovan labour migrants is affected by the current global recession, information from the survey will also be helpful in assessing the impact of the global recession on these migrants and their families. The IOM-CBSAXA survey supplements information on labour migration and remittances from the Labour Force Survey (LFS), and the Household Budget Survey (HBS), conducted by the National Bureau of Statistics (NBS), and from the Balance of Payments compiled by the National Bank of Moldova (NBM).

The 2008 IOM-CBSAXA survey is the second wave of a panel survey, re-interviewing the approximately 4000 households first surveyed in 2006. The basic sampling methodology of the survey is the same as in 2006 (see Luecke, Omar Mahmoud, Pinger, 2007, Box 2.1 for details). The re-interview rate was high at 89 per cent in rural areas and 69 per cent in urban areas. Where households could not be re-interviewed, had moved abroad, or all members had died, they were replaced in line with the original rules for sample selection. The panel structure of the 2008 survey provides new insights into the dynamics of migration and remittances at the level of households and individuals. Our analysis is supplemented by the results of focus groups and individual in-depth interviews conducted in the summer and late autumn of 2008; these were intended to highlight recent developments such as the changing labour market conditions in key destination countries.

This report presents key findings from the 2008 IOM-CBSAXA survey. The survey has resulted in a very rich database that can be used to answer a wide variety of questions related to labour migration and remittances in Moldova. Inevitably, the authors have had to be selective in deciding which material to include in this report. However, the database will be made available to researchers and to the policy community through the IOM office in Moldova so that interested parties can extract any information that is not included in the report directly from the database.

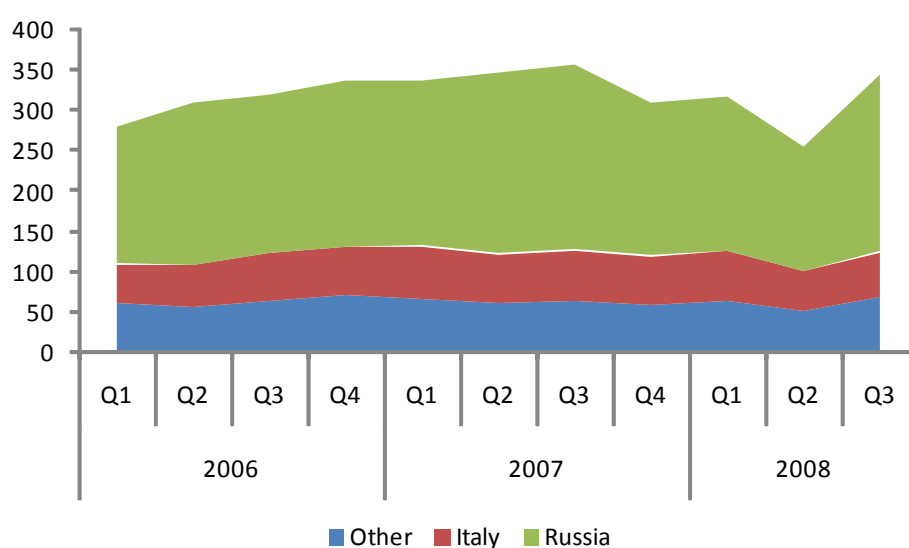
The report begins by discussing broad trends in the number of Moldovan labour migrants abroad and remittance inflows since 2006 based on official data (Section 2). Against this background, we use the findings of the 2008 IOM-CBSAXA panel household survey to take a

closer look at the dynamics of migration and remittances and their impact on households and communities. Section 3 discusses migration patterns. Section 4 focuses on the impact of migrants' legal status on living and working conditions at destination, on the level of remittances, and on return intentions. Section 5 discusses remittances patterns. Section 6 uses data from the Household Budget Survey by the National Bureau of Statistics to look at the interaction between migration, remittances, and income distribution. Section 7 analyses non-agricultural self-employment by migrant households. Section 8 takes a closer look at the impact of migration and remittances on migrants' home communities. Section 9 considers the potential effects of the recent global financial crisis and recession and Section 10 presents the policy implications of our analysis.

## 2. Broad Trends: 2006-2008

For the first time since labour migration became a mass phenomenon in Moldova in the late 1990s, the seemingly inexorable growth in the number of migrants came to a halt in 2007 (Figure 2.1). According to the LFS, the number of Moldovans working abroad while still belonging to a household in Moldova increased to approximately 340,000 individuals by the third quarter of 2007. In the third quarter of 2008, it stood at roughly the same level after recovering from over three consecutive quarters in decline. These fluctuations are almost entirely due to migrants in Russia; the number of migrants in other host countries remained fairly stable throughout 2006, 2007 and 2008. Overall, this development represents a marked departure from the 1999 to 2007 period when the number of migrants increased consistently by about 50,000 individuals annually.

**Figure 2.1: Migrants by destination countries, thousands (LFS)**

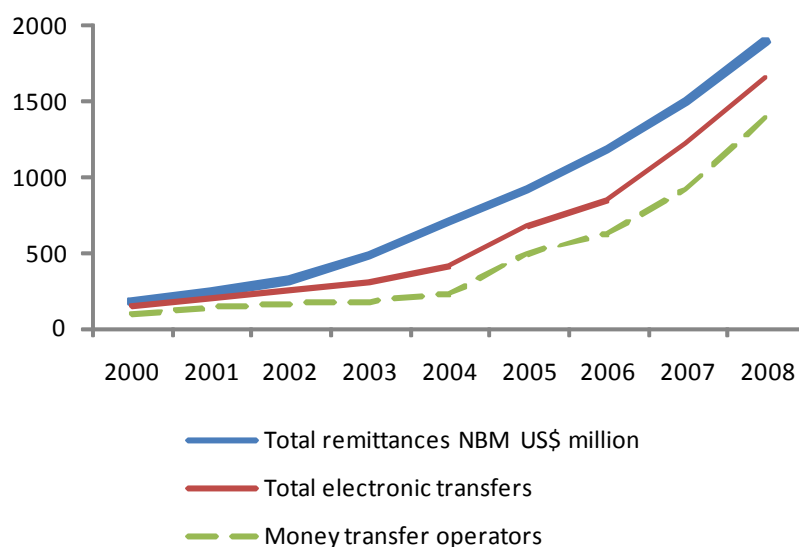


Total remittances grew from US\$ 1.2 billion in 2006, to US\$ 1.5 billion in 2007, and an estimated US\$ 1.9 billion in 2008 (Figure 2.2).<sup>1</sup> However, electronic transfers, which are an important component and early indicator of total remittances, increased by only six per cent year-on-year during the fourth quarter of 2008, down from 50 per cent during the first nine months of 2008. Thus the growth in remittances appears to be dwindling, similar to the growth in the number of migrants approximately one year earlier.

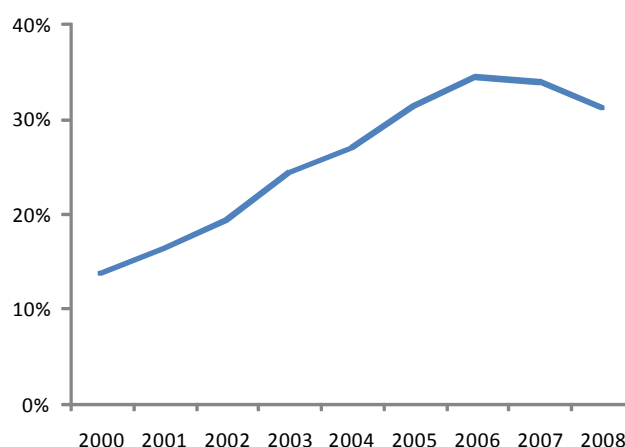
Furthermore, considering remittances only in nominal US dollar terms is increasingly misleading because of the real appreciation of the Moldovan Lei (MDL). Converted into Moldovan Lei and adjusted for inflation, remittances grew by four per cent in 2007, and declined by four per cent in 2008; in relation to Moldova's GDP they declined from their peak of 35 per cent of GDP in 2006 to 34 per cent in 2007 and 31 per cent in 2008 (Figure 2.3).

<sup>1</sup> This conservative estimate assumes that remittances in the fourth quarter of 2008 (defined as credit items in the compensation of employees and workers' remittances accounts of the balance of payments) will be the same as during the fourth quarter of 2007; actual data are available for remittances during the first three quarters of 2008.

**Figure 2.2: Level of remittances, million US\$ (NBM, 2008 estimated)**



**Figure 2.3: Remittances as per cent of GDP**



The LFS estimate of the number of migrants refers only to those Moldovan migrants who were abroad at the time of the survey and still a member of a household in Moldova. Overall, the CBSAXA survey suggests that more than half a million individuals of working age in 2008 who belonged to a household in Moldova have had a migration experience at some point in their working lives. Grouping these individuals by the year of their first departure abroad, we see that the number of first-time migrants peaked in 2005 and has remained at an elevated level since (Figure 2.4; note that the low figure for 2008 relates only to January through August 2008, i.e. the time of the survey).

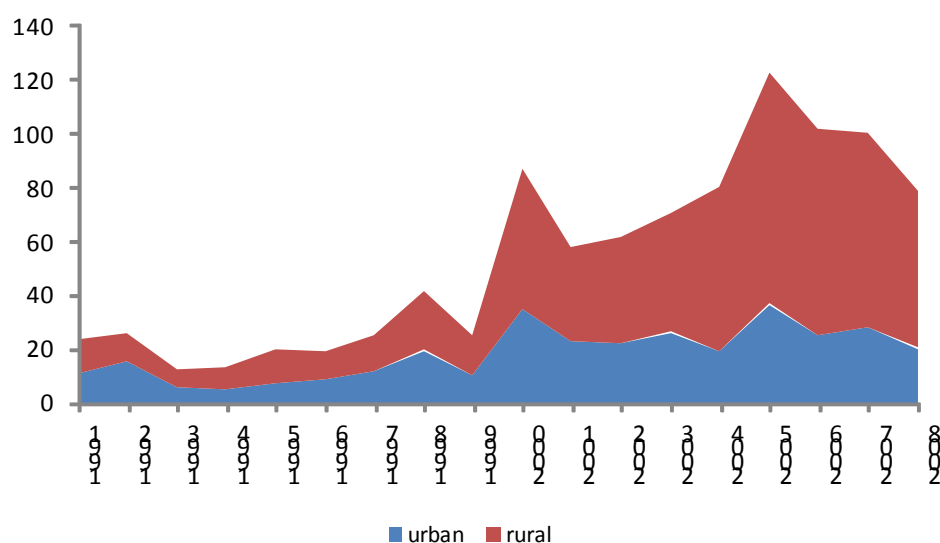
Although there is no close link between the number of new migrants (as in Figure 2.4) and the total migrant population in the short term, a stable number of new migrants will slow down the growth of the total migrant population and will ultimately stabilize it. There is a remarkable distinction between urban areas, where the number of new migrants has been more or less stable since 2000, and rural areas where the number of new migrants reached a peak in 2005 and has since declined slightly. These observations support the working hypothesis that migration in rural, not in urban areas, is reaching a point of saturation. At that point, most individuals already in the rural labour force will have either emigrated or decided



to stay in Moldova and new migrants will come mostly from the pool of new entrants into the labour force.

These broad trends in the number of migrants and in remittances suggest that both may soon stabilize at their current high levels. From the point of view of policy formulation, a labour market scenario that involves a broadly stable migrant population and remittances is now sufficiently likely to merit closer analysis. Against this background, we now analyse the findings of the 2008 IOM-CBSAXA panel survey to better understand the migration patterns and identify the implications of stagnant migrant numbers for household welfare, economic development and economic policies in Moldova.

**Figure 2.4: Yearly number of first departures in relation to 2007 departures, 2007=100 (IOM-CBSAXA)**



### 3. Migration Patterns

The 2008 IOM-CBSAXA survey finds that the prevalence of migration, defined as the proportion of migrants in the working-age population, has increased substantially from 2006 to 2008 (Figure 3.1). The increase occurred across almost all categories of migrants, whether grouped by gender, location, or education level. Using our core definition of migrants (those abroad either currently or during the previous 12 months), the number of migrants overall increased from 13 per cent of the working age population in 2006 to 16 per cent in 2008. These results are broadly consistent with the LFS which finds that the number of Moldovans abroad (comparable to our narrow category of migrants “currently abroad”; cf. Figure 3.1) increased from 2006 to 2007 and remained at that level until 2008, with some quarter-by-quarter fluctuations (cf. Section 2).

The rise in migration prevalence was particularly rapid in Chisinau increasing from six to nine per cent; other urban areas were the only category where the share of migrants declined marginally. Migration prevalence continued to be particularly high among men (20% vs. 12% among women) and among the rural population (19%). There are no pronounced regional differences between the North, Centre, and South of Moldova.

At the household level, migration experience continues to be both more widespread and more fluid than the relatively modest quarter-on-quarter changes in the total number of migrants (cf. Figure 2.1) might suggest. Overall, the CBSAXA survey suggests that more than half a million individuals of working age in 2008 had had a migration experience at some point in their working lives. However, of these, only approximately 325,000 individuals were abroad at the time of the survey and another 75,000 had been abroad recently.

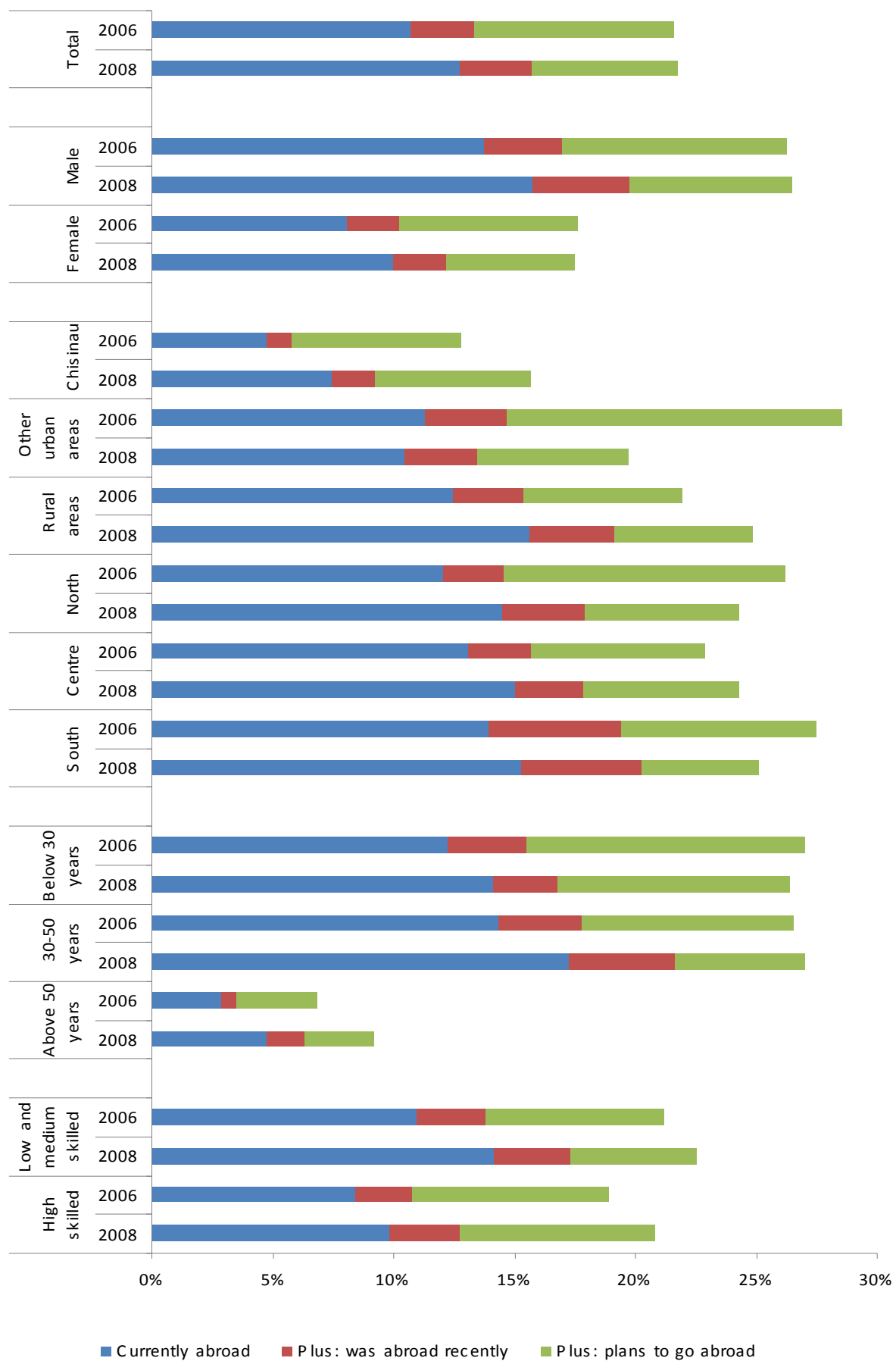
Since migrant status in Moldova is rather fluid for many individuals and households, the evolution of the total migrant population (cf. Figures 2.1 and 3.1) represents the net effect of large numbers of migrants returning home (either temporarily or for good) and others moving abroad for work, either for the first time or after a prolonged stay at home. This makes it inherently difficult to predict the time line of the total migrant population (defined as those abroad at a given point in time). At the same time, it suggests that many households and individuals can call on multiple sources of income from both abroad and at home (however modest some of these earnings may be). In the face of the impending recession in many migrant destination countries, diversified sources of income will allow households to adjust more easily to any income shocks they may suffer due to the crisis.

While the number of current or recent migrants has increased from 2006 to 2008, the number of those who said they intended to emigrate in the near future declined from eight to six per cent overall (Figure 3.1). Among our subgroups of migrants, the decline was most pronounced for other urban areas (from 14 to 6%). By contrast, the share of would-be migrants remained constant at eight per cent among skilled individuals. Overall, our measure of potential migrants – individuals either currently or recently abroad or planning to emigrate in the near future – has not changed much since 2006 and still stands at just below 22 per cent of the labour force. This finding is consistent with the notion that the total Moldovan migrant population is stabilizing. At the same time, labour migration remains an attractive option for high-skilled individuals in particular, which may raise concerns about a possible brain drain for Moldova (Box 1).<sup>2</sup>

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<sup>2</sup> If the chances of finding attractive employment abroad increase with the migrant’s education level, labour migration will also increase incentives to attain a higher education. Furthermore, student numbers in Moldova have increased in recent years as remittances have allowed many more young people to study at university. Both effects would counteract a brain drain.

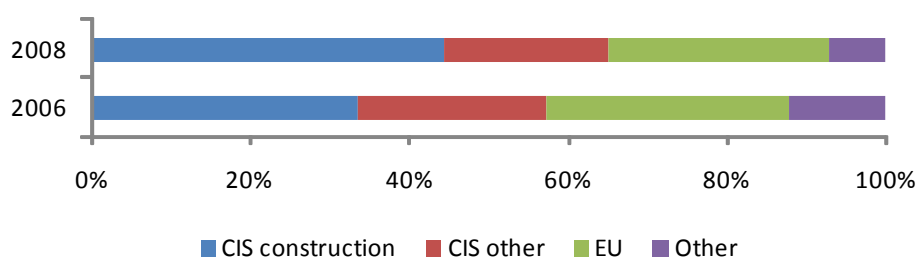
**Figure 3.1: Migrants as share of the working age population, per cent**



The panel structure of the 2008 IOM-CBSAXA survey gives an indication of how many individuals made true on their stated intention to emigrate. This is helpful in assessing the predictive power of individuals' responses to this question. Of those who were recorded in 2006 as planning to emigrate in the near future, 23 per cent had indeed become labour migrants by 2008, vs. eight per cent of those who stated in 2006 they did not intend to emigrate. Individuals' stated intentions with respect to migration most likely reflect the mood of the moment quite well, however, if their circumstances were to change substantially, so may their migration decisions.

The distribution of migrants by destination countries has changed little since 2006 (Figure 3.2). The share of migrants in CIS countries has increased to approximately two thirds, mostly due to more individuals working in the construction industry in Russia. These migrants were still predominantly male, came mostly from rural areas, and often had relatively low levels of education. Their larger number may well reflect lower agricultural earnings due to the drought in 2007. The share of migrants in the EU is broadly stable, while fewer migrants are found in the remaining countries. Rapid wage growth in Russia since 2006 may have increased the attractiveness of working in Russia relative to alternative destination countries.<sup>3</sup> In Section 9 we discuss in greater detail the possible effects of the impending recession in Russia on migrants' incomes.

**Figure 3.2: Main migrant groups, per cent**



While most Moldovan migrants still belong to a household in Moldova, a small but growing number are settling abroad permanently. The panel structure of the 2008 survey provides some insights regarding those households that left Moldova for good since 2006 as well as those individuals who (i) were household members in 2006 and (ii) no longer belong to a household in Moldova in 2008 as they settled abroad. Our findings suggest that, overall, about 100,000 individuals have left Moldova permanently since 2006; of these, approximately 60,000 individuals were members of whole households that left Moldova. The socio-economic characteristics of these individuals do not differ markedly from the characteristics of the migrant population in general, except that countries of the European Union account for a disproportionately large share of those who settled abroad permanently.

Although these estimates are subject to some uncertainties, we are confident that they are in the right order of magnitude. Thus we have approximately 100,000 individuals (not all of working age) who have left Moldova permanently during the last two years, while the number of migrants who still belong to a Moldovan household, broadly defined to include all those with any migration experience at all during their working lives, is just over half a million. This implies an annual outflow of 50,000 permanent migrants even today – equivalent to ten per cent of the number of individuals with any migration experience at all or 1.4 per cent of Moldova's total population of around 3.5 million. Opportunities for emigrating permanently

<sup>3</sup> This information is consistent with the distribution of migrants by destination countries according to the LFS. For a more detailed discussion of the socioeconomic characteristics of migrants in each group and their primary motivations to seek work abroad, please see Luecke, Omar Mahmoud, Pinger (2007, Tables 3.2 and 3.3).

### Box 1. Brain Drain

More highly skilled individuals are beginning to leave Moldova and people are aware of it: *"Most of the best have left to work abroad."* (Woman, 43 years, husband in Russia)

In search of better employment opportunities, people try to improve their lives abroad: *"After graduation from a prestigious faculty, I was offered a job, but the salary didn't satisfy me. All I could afford with my salary was my trolleybus transportation and even though I could be promoted one day, all this did not satisfy me. All I could think about was that the years pass by, and I will have a family, a child and a home. After all, that is the purpose of humanity."* (Man, 26 years, in Italy)

*"My sister graduated from the Technical University. Together with her partner, she opened a workshop in a flat. She purchased two knitting machines and one sewing machine. They were doing pretty good, but still their situation wasn't good enough and she and her husband decided to leave."* (Woman, 20 years, sister in Greece)

The considerable emigration rates of teachers aggravate the brain drain, with potentially adverse consequences for future generations. *"Many teachers left their jobs, everybody left. Children are without teachers, some of them are in Moscow and some are in Italy. Children study in two shifts. It is outrageous, especially in the village. It's too hard."* (Woman, 45 years, son in Russia)

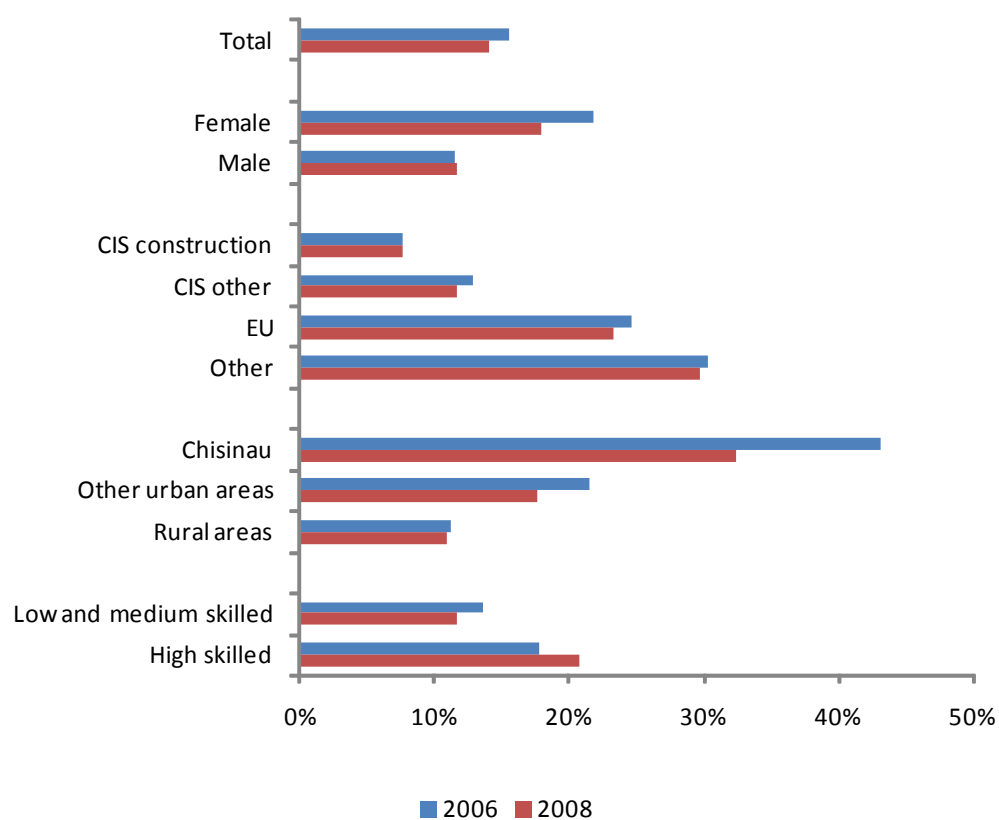
*"In the village, there are not enough teachers. There used to be a high school with eleven grades, and now it has only nine grades. There are teachers who teach subjects they have never studied and who prepare the home assignments together with the pupils they teach."* (Woman, 35 years, husband in Russia)

A new phenomenon is that some people leave because they do not find qualified colleagues to work with: *"My husband had always worked in Moldova. He tried to stop everyone from leaving Moldova because there is work here, too. One day, he did not find enough people to employ in his team. He even looked for people in the neighboring villages, but he did not find people to hire. Then he joined a group of construction workers and left for Moscow with them. ... All our acquaintances, relatives and friends are abroad. He could make the same money here that he makes in Moscow, but he simply doesn't have anyone to work with."* (Woman, 43 years, husband in Russia)

will increase as more Moldovan migrants gain legal residence status and employment in Southern European countries such as Italy and Spain, and Moldovan diasporas and migrant networks there become more firmly established.

At the same time, the share of current migrants who plan to ultimately remain abroad has fallen slightly from 16 per cent in 2006 to 14 per cent in 2008 (Figure 3.3). There was a particularly large decrease in Chisinau (from 43 to 32%), while the share remained almost constant at a low 11 per cent in rural areas and increased somewhat to 21 per cent for highly educated migrants. Overall, while there is no visible rush to leave Moldova for good, permanent emigration continues to be viewed as desirable by a substantial proportion of migrants, especially by those from urban areas and those with more educated backgrounds.

**Figure 3.3: Share of migrants planning to settle abroad, per cent**

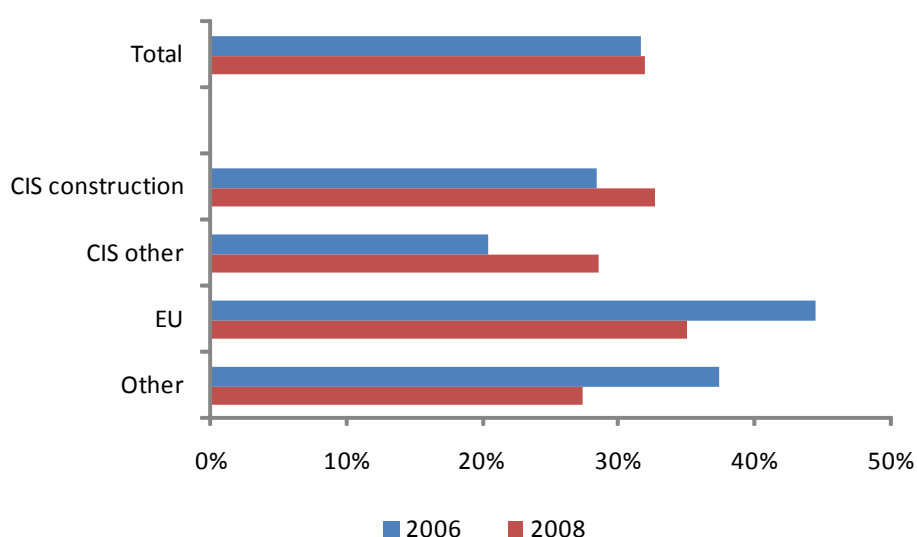




## 4. Legal Status of Migrants Abroad

Since 2006, many Moldovan migrants in Italy and Spain, among other Western European destination countries, have benefited from legalization initiatives and obtained legal residence status and employment. At the same time, immigration policy in Russia has been torn between two competing objectives: on one hand, to counter the population decline in Russia by attracting permanent immigrants from other countries of the former Soviet Union, especially from Europe; and on the other hand, to reduce illegal employment through tighter enforcement of employment and residency regulations. In practice, tighter enforcement has mainly put irregular migrants at greater risk of harassment by authorities. These trends in the immigration policies of key destination countries have a potentially far-reaching impact on the welfare of migrants, their families and their long-term plans to reside either in Moldova or abroad. Therefore, this section takes a close look at the legal status of Moldovan migrants abroad and at the consequences for migrants and their families.

**Figure 4.1: Migrants with illegal residence status, per cent**

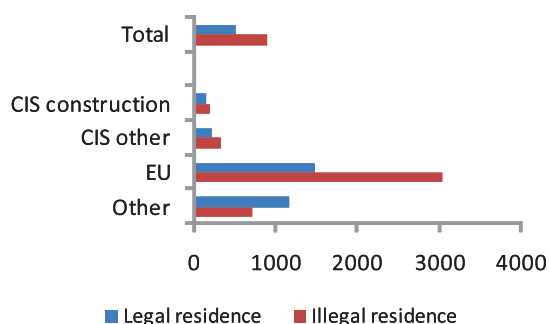


Overall, approximately one third of migrants reside in their destination countries illegally (Figure 4.1). While this total has hardly changed since 2006, illegal residence status has become more widespread in CIS countries (or at least, more migrants and family members have now become aware of it due to tighter enforcement), whereas in the EU and other host countries, the situation has improved. We also find that migrants who stay in their host country for an extended period often manage to obtain legal status: Of those individuals classified as a migrant in both 2006 and 2008 and without a residence permit in 2006, 65 per cent were legalized by 2008. These observations reflect, in part, the legalization campaigns in Italy and Spain.

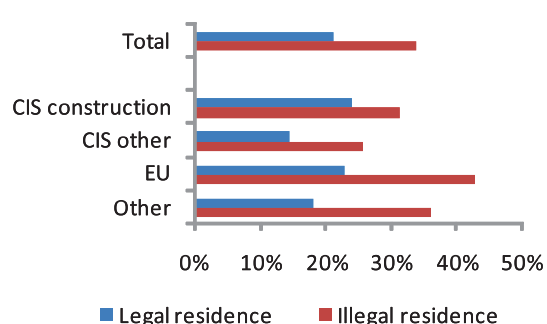
Broadly speaking, illegal residence status tends to make migration more costly, place migrants at greater risk of adverse action by destination country authorities, push migrants into illegal employment, and reduce the remittances sent by migrants. In all these respects, legalization is desirable not only from the point of view of migrants and their families, but also the home country.

The impact of legal residence status is most pronounced in EU countries. The cost of the last departure to the destination country is twice as high for irregular as for regular migrants. In part, this reflects the fact that for irregular migrants the last departure is often the first and therefore most costly departure. In contrast, for regular migrants the last departure is less likely to be their first one. By comparison, the corresponding cost differences for CIS and other non-CIS countries appear negligible (Figure 4.2), partly because Moldovans can legally enter other CIS countries. Similarly, in the EU, irregular migrants were twice as likely (more than 40%) to experience serious problems such as adverse actions or arbitrary treatment by local authorities, swindlers, exploitative working conditions, etc. (Figure 4.3). Overall, one third of irregular migrants experience such issues as compared to one fifth of regular migrants. In the Moldova-EU migration corridor in particular, irregular migration increasingly supports a profitable network of semi-legal actors who not only provide the services needed by Moldovan migrants to cross borders and reach destinations without proper documentation, but also put some migrants at risk of serious crimes such as human trafficking.

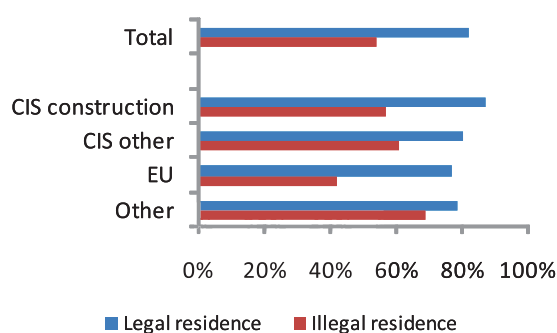
**Figure 4.2: Costs of last departure, US\$**



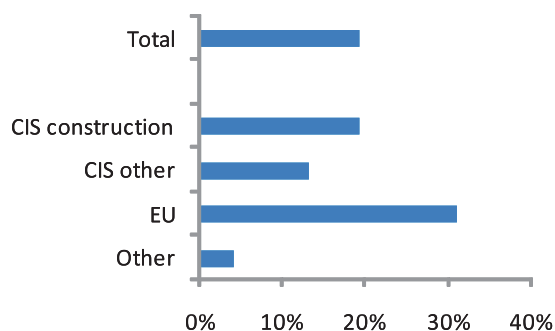
**Figure 4.3: Migrants who experienced serious problems, per cent**



**Figure 4.4: Migrants with legal employment, per cent**



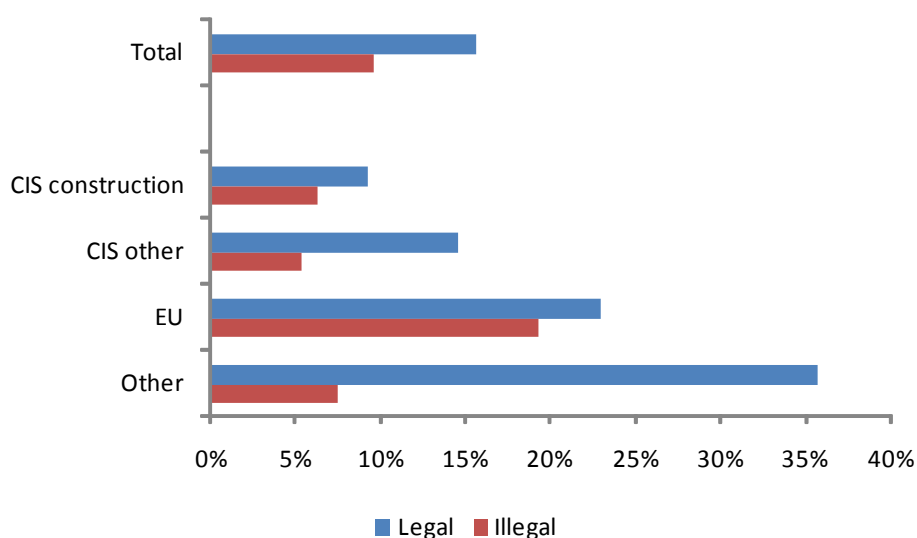
**Figure 4.5: Increase in remittances through legalization, per cent**



Unsurprisingly, legal employment is more difficult to obtain for irregular residents; at the same time, legal residence does not automatically translate into legal employment (Figure 4.4). With more restricted employment opportunities, irregular migrants not only earn less than regular migrants, but also remit less (Figure 4.5). Again, the difference between regular and irregular migrants in terms of legal employment and remittances is especially large in the EU, where remittances by regular migrants exceed those from irregular migrants by more than 30 per cent.

Legal residence status is also linked to a somewhat higher share of migrants wanting to settle abroad, rather than returning to Moldova (Figure 4.6). Here, the difference between legal and irregular migrants is largest for non-CIS countries other than the EU and for non-construction migrants in CIS countries, while the difference is rather small for EU countries. Quite conceivably, in CIS countries, those who wish to settle permanently manage to obtain residence permits, whereas many irregular migrants do not bother to do so as they intend to stay only for a short period. By contrast, in the EU, many migrants begin with illegal residence status, irrespective of their long-term plans. These observations suggest that a legalization of previously irregular migrants in the EU, where immigration restrictions currently present a costly barrier for would-be Moldovan migrants, would not necessarily cause many more migrants to aim for permanent rather than temporary migration.

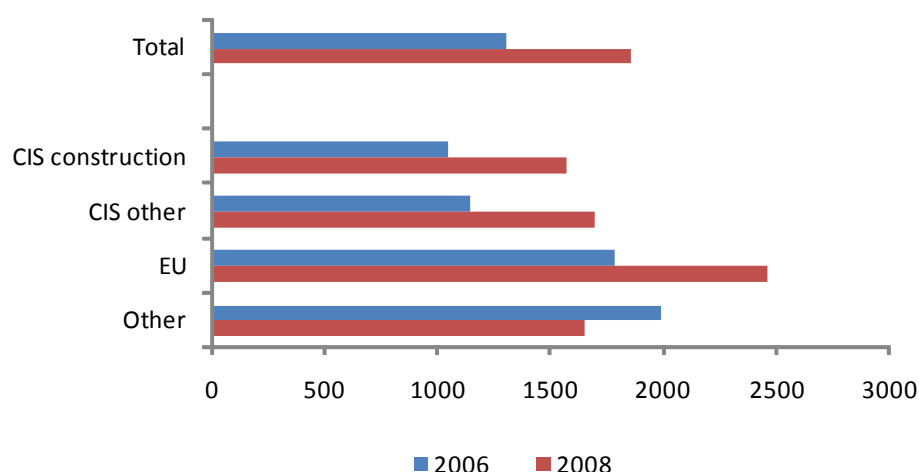
**Figure 4.6: Share of migrants planning to settle abroad, per cent**



## 5. Remittances Patterns

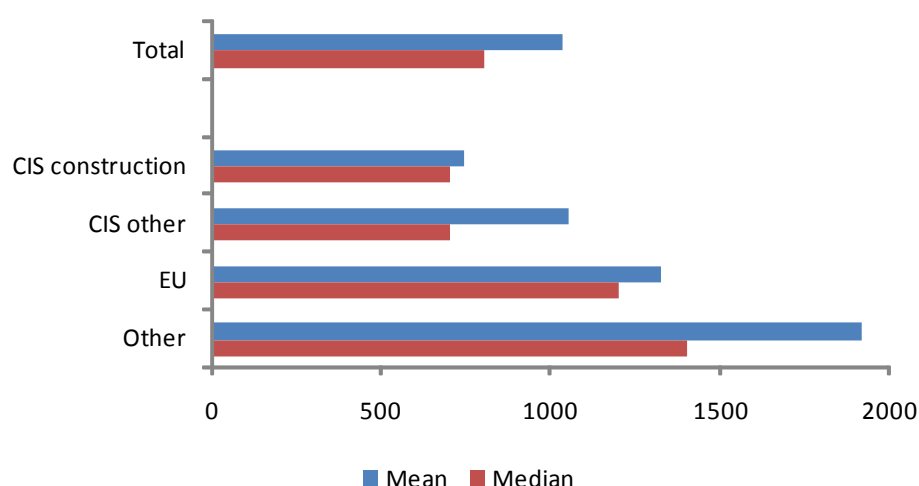
Average remittances per migrant during the last 12 months before the survey increased from US\$ 1296 in 2006, to US\$ 1848 in 2008, in nominal terms (Figure 5.1). These averages relate only to those migrants (approximately two thirds of the total) who actually sent remittances. Migrants may not send remittances for widely different reasons, for example because they will bring the money themselves when they return to Moldova, because they are paying off a loan taken out to pay for the trip abroad, or because the household does not need support at present (such as when the migrant is not the main earner). While an increase in remittances is to be expected as more migrants gain labour market experience in their host country and see their earnings improve, the observed growth between 2006 and 2008 reflects in part the appreciation of the Euro (in which migrant wages are set in Western Europe) vis-à-vis the US dollar. As discussed in Section 2 above, higher remittances in nominal US dollar terms did not translate fully into higher disposable incomes in Moldova because of the real appreciation of the Moldovan Lei, particularly in 2008.

**Figure 5.1: Yearly remittances per migrant, US\$**



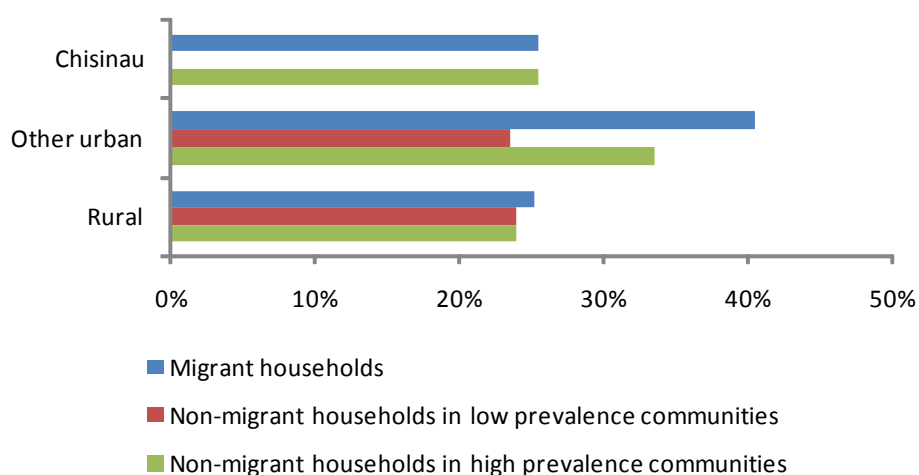
The pattern of remittances across our four groups of migrants broadly reflects monthly incomes earned abroad (Figure 5.2). Apart from non-EU non-CIS countries, remittances and incomes were highest in the EU, followed by CIS migrants outside the construction industry and, lastly, CIS migrants in construction. Mean income in non-EU and non-CIS countries seems surprisingly high, not least in comparison with migrant earnings in the EU. It is also surprising that remittances from non-EU countries were below remittances from the EU in 2008, although mean income in non-EU countries was higher. Since the number of observations for this group is small, a few migrants with very high incomes (such as in the US) might distort the picture. Remittances do not differ markedly by the age of the migrant or the location of the household.

**Figure 5.2: Monthly income earned abroad, US\$**



Perceived living standards improved in just over one quarter of Moldovan households from 2006 to 2008 (Figure 5.3).<sup>4</sup> In rural areas, a similar share of both migrant and non-migrant households saw their living standard improve, irrespective of the migration prevalence in the household's location. By contrast, in urban areas other than in Chisinau, an improvement in living standards was registered by 40 per cent of households with a migrant, more than 30 per cent of non-migrant households in high-migration-prevalence locations, and just above 20 per cent in low-migration-prevalence locations. This divergence suggests the presence of indirect beneficial effects from remittances, for example through higher demand for locally produced goods and services. Nevertheless, even the worst-off group in "other urban areas," did not fare worse than rural households overall. In Chisinau, the perceived living standard improved for a similar share of migrant and non-migrant households.

**Figure 5.3: Improvement in perceived living standards 2006-2008, per cent**

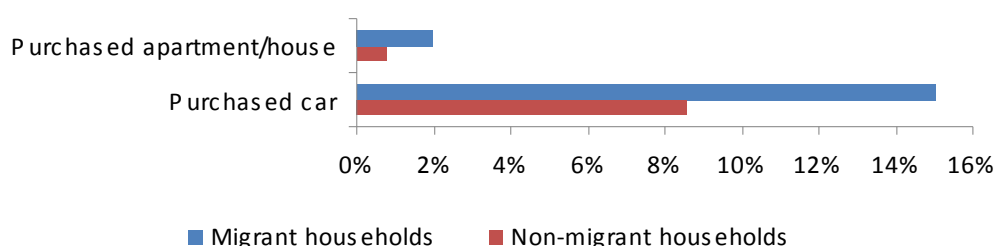


We are able to identify households that purchased a major asset – an apartment (or house) or a car – during the two years preceding the survey (Figure 5.4). In the case of both apartments and cars, migrant households were roughly twice as likely as non-migrant households to have

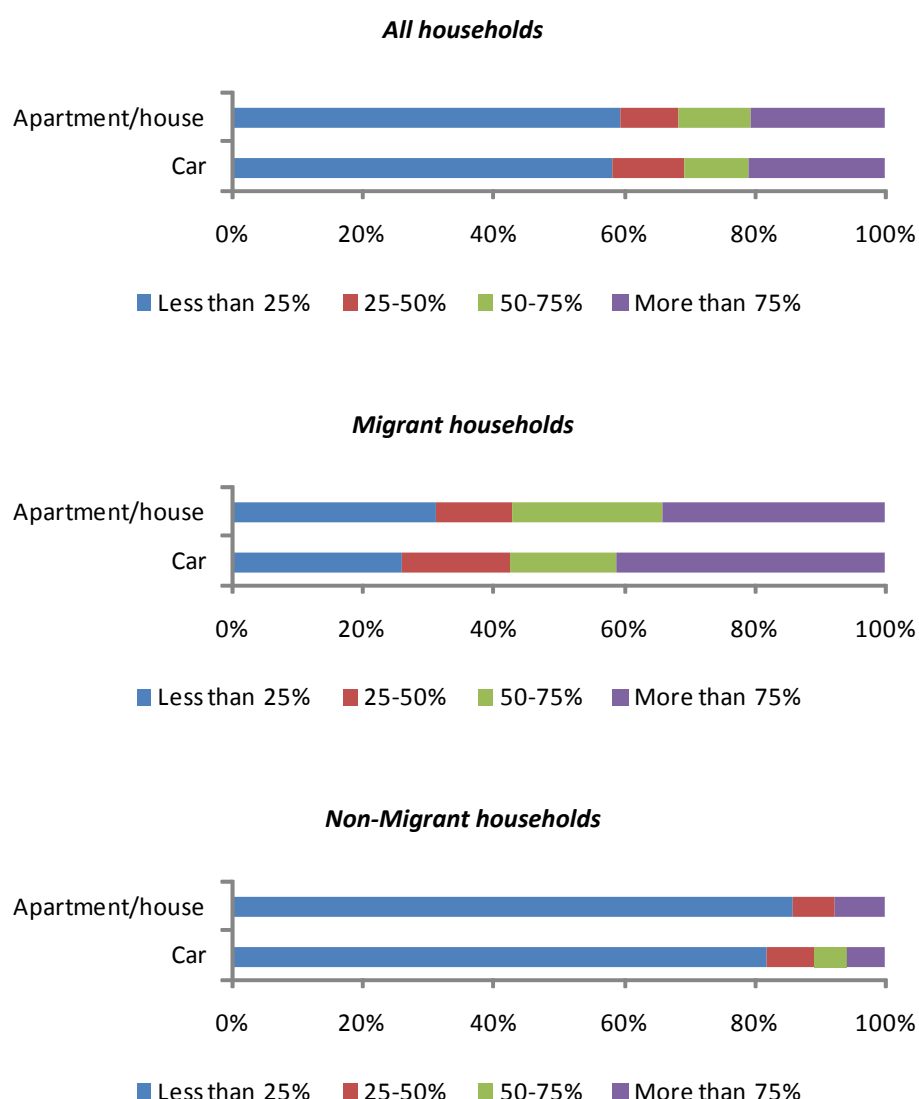
<sup>4</sup> Notably, approximately one third of all households perceived that their living standard had deteriorated between 2006 and 2008. A more detailed analysis of why household experiences diverged so much while Moldova's GDP grew by a more than one tenth during this period is beyond the scope of this report.

made a purchase. Overall, remittances paid for more than half the purchase price of the asset in approximately one third of households (Figure 5.5). Unsurprisingly, the contribution of remittances was much lower in non-migrant than in migrant households.

**Figure 5.4: Purchases of major assets 2006-2008, per cent**



**Figure 5.5: Importance of remittances in purchasing major assets, per cent**

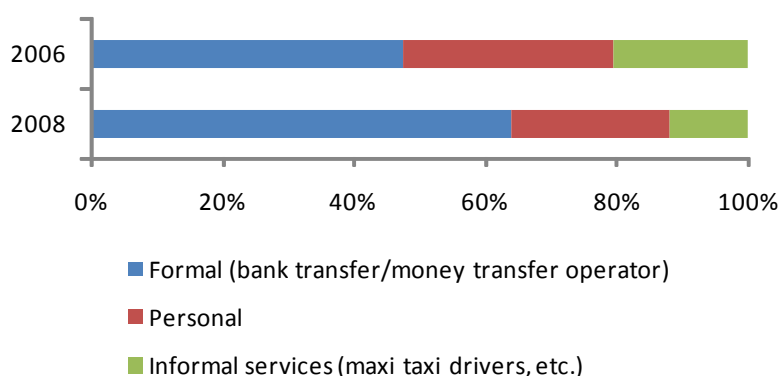


Several studies suggest that if remittances are transferred to the home country through formal channels (for example, bank transfers and money transfer operators), they are more likely to contribute to financial sector development (Siegel, Luecke, 2009). In this respect, Moldova has made further progress since 2006. Formal channels are used primarily by more than 60 per cent of migrants in 2008, up from just under 50 per cent in 2006 (Figure 5.6). The use of



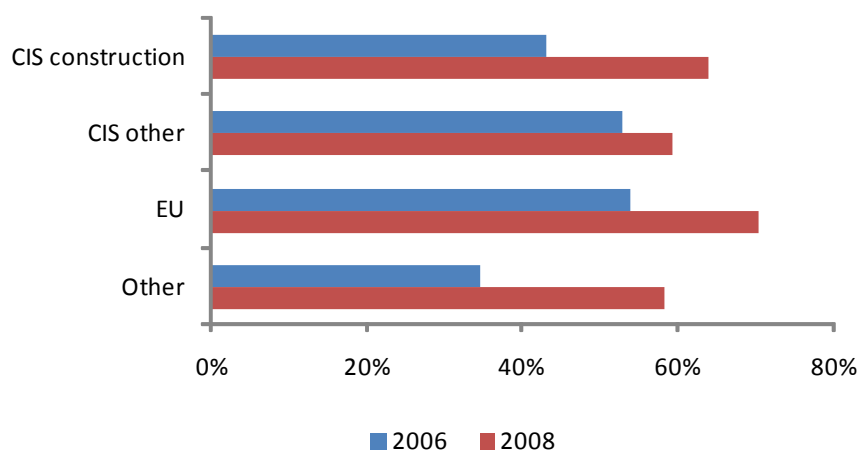
formal channels increased among all four of our migrant groups (Figure 5.7). The share of migrants (mostly in the EU) who primarily use informal third-party services (maxi taxi drivers, etc.) declined from 20 per cent in 2006, to 12 per cent in 2008. The share of personal transfers (through migrants themselves, friends, or relatives), which are wide-spread among migrants in CIS countries, declined from 32 to 24 per cent, which is remarkable as the share of migrants in CIS countries increased at the same time.

**Figure 5.6: Main transfer channel of remittances, per cent**



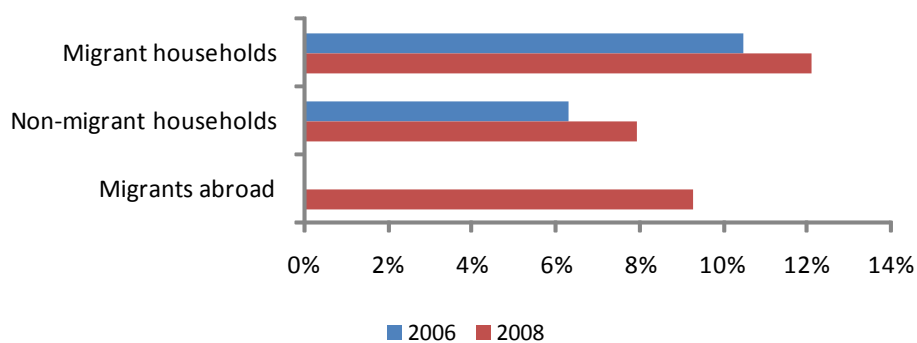
In Moldova, formal transfer services can only be accessed through bank branches as regulations require that money transfer operators must offer their services through commercial banks rather than through offices of their own. Ease of access to a bank branch appears to play a limited role in the choice of transfer channel by migrants and households. Of those households located within two kilometers of a bank office, 70 per cent use formal services, vs. less than 60 per cent for the remaining households.

**Figure 5.7: Use of formal transfer channels, per cent**



Since 2006, the share of households with a current bank account has increased to 12 per cent of households with a migrant and just above eight per cent of households without a migrant (Figure 5.8). This discrepancy suggests that remittances provide an incentive to use banking services thus contributing to financial development (Rios Avila and Schlarb, 2008, confirm this in an econometric analysis based on the 2006 IOM-CBSAXA survey). At the same time, the share of “banked” households is lower than the share of households that receive remittances. As remittances will often not be spent immediately and many migrant households have considerable savings, there would appear to be room for households to be offered more financial services, starting with current (checking) and savings accounts.

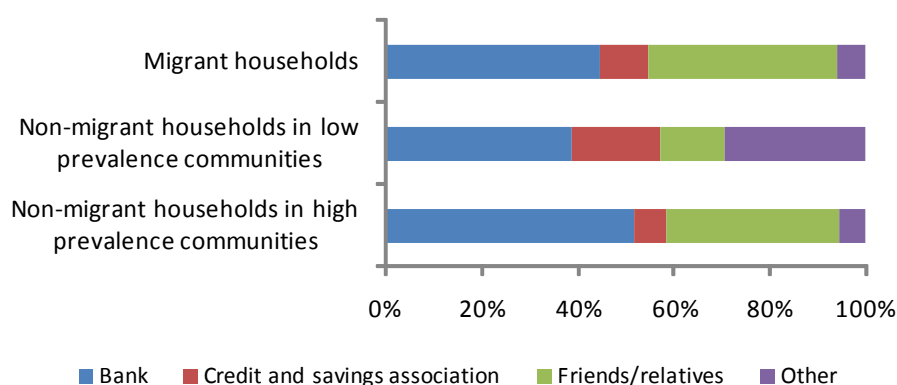
**Figure 5.8: Ownership of current bank accounts, per cent**



The fact that money transfer operators in Moldova work exclusively through commercial banks should make it easier for banks to reach migrants and their families. At the same time, the experience of having their savings wiped out in the aftermath of the dissolution of the Soviet Union as well as a low level of financial literacy apparently still make many Moldovans reluctant to use formal financial services. It is bound to take time to overcome these deep-seated reservations. Although internationally comparable data on this issue is scarce, the limited information available (Claessens, 2006) suggests that in many developing and transition countries the share of households using formal financial institutions is similarly low.

Our survey provides suggestive evidence that remittances are also contributing to informal financial networks (Figure 5.9). Non-migrant households in high-migration-prevalence communities rely on credit from friends and relatives to a similar extent as migrant households, and substantially more so than non-migrant households in low-migration-prevalence communities. They are also more likely to have taken out a loan initially (10% vs. 6% in low-prevalence communities).

**Figure 5.9: Sources of credit, per cent**



## 6. Remittances and Income Distribution<sup>5</sup>

One way in which labour migration and remittances may affect social welfare in Moldova is through their impact on the distribution of income. It is well documented that remittances have helped to reduce absolute poverty in Moldova as perceived by the households themselves (Luecke, Omar Mahmoud and Pinger, 2007). However, if remittances were received predominantly by the highest-income segments of the population, social coherence could be undermined in the long run and considerations of fairness and equity may call for corrective action.

The relative income distribution could become more unequal if incentives for migration, or barriers to migration were very different across skill or income groups. A priori, this may not be a large issue in Moldova as the share of migrants in the working-age population is rather high in many socioeconomic groups – high and low skilled, rural and urban, male and female (Figure 3.1). While migration to the EU is clearly costly and requires a high up-front investment that may be out of the reach of poor, credit-constrained households, migration to CIS countries offers a cheaper alternative that should be viable for practically all Moldovans (Figure 4.2).

For a closer view on the role of remittances in household budgets across income groups, we rely on data from the 2007 Household Budget Survey compiled by the NBS. Household incomes are rendered comparable across households of different sizes by dividing by the number of “adult-equivalent” household members. This standard procedure is based on the notion that in order to obtain a similar level of welfare, children have lower consumption needs than adults and a two-person household requires less than twice the monthly income of a one-person household (as facilities are shared, there are economies of scale in household activities, etc.).

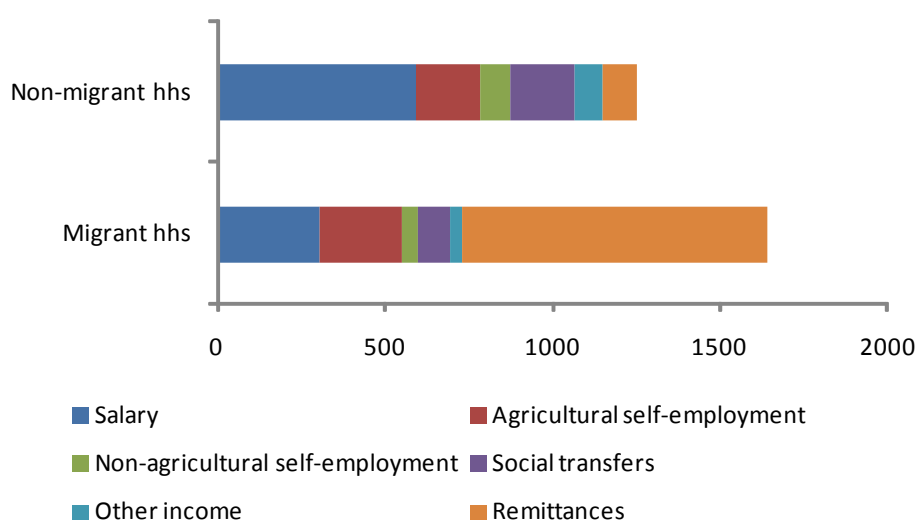
Average monthly income for households with at least one migrant amounted to MDL 1,643 per adult equivalent in 2007, about one third higher than for non-migrant households at MDL 1,256 (Figure 6.1). Remittances accounted for 58 per cent of the incomes in migrant households, vs. 15 per cent in non-migrant households; the latter would have been remittances from former household members or unrelated migrants. As one would expect, salary income was much lower in migrant than in non-migrant households (19 vs. 47%).

An assessment of the impact of remittances on household incomes is fundamentally complicated by the fact that migrants are not a random sample from the population. Migrants are likely to differ in distinct ways from those who choose not migrate, such as valuing additional income more highly than family life, being willing to put up with very poor living conditions to earn additional income, taking greater risks, expending greater effort at work, etc. With these attributes, many migrants may well obtain higher incomes than their non-migrant peers even if they had chosen to remain in Moldova. Notwithstanding these concerns, Figure 6.1 shows that migrant households depend crucially on remittances for their livelihood. On average, domestic income on its own would not be sufficient to support migrant households for any length of time, for example if migrants had to return home for lack of jobs in host countries.

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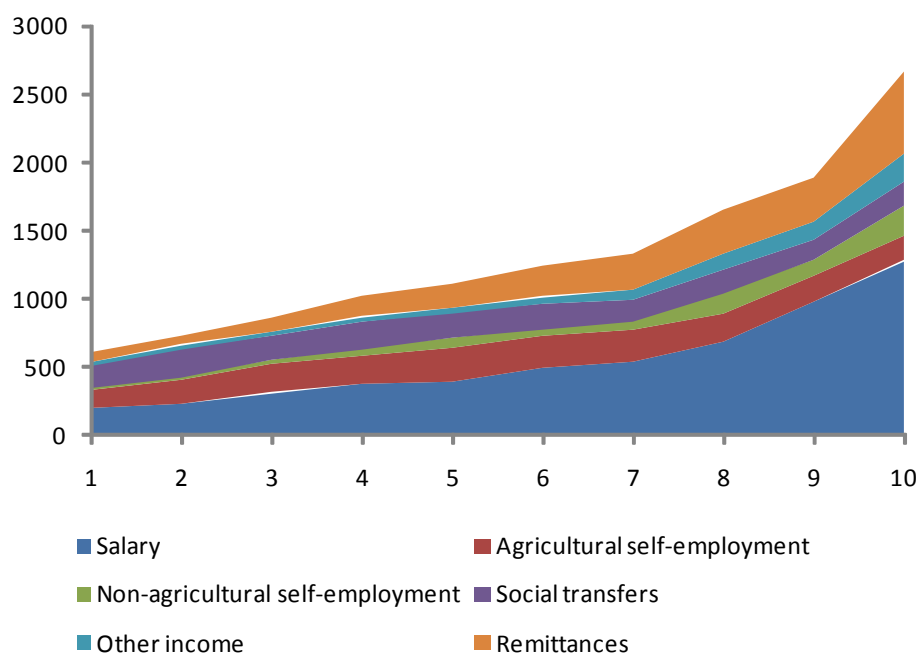
<sup>5</sup> This section is based on information provided by the Household Budget Survey (HBS) team at the National Bureau of Statistics (NBS), whose support is gratefully acknowledged.

**Figure 6.1: Per adult equivalent incomes, MDL (HBS 2007)**



Across income groups, both the level of remittances and their share in disposable household income increase along with income (Figure 6.2). While the poorest 10 per cent of individuals (the first decile, in terms of consumption expenditures) receive 15 per cent of their disposable household income from remittances, this share increases to 31 per cent for the richest 10 per cent (the tenth decile). Similarly, salary income also increases from 33 per cent for the first decile to 47 per cent for the tenth decile.

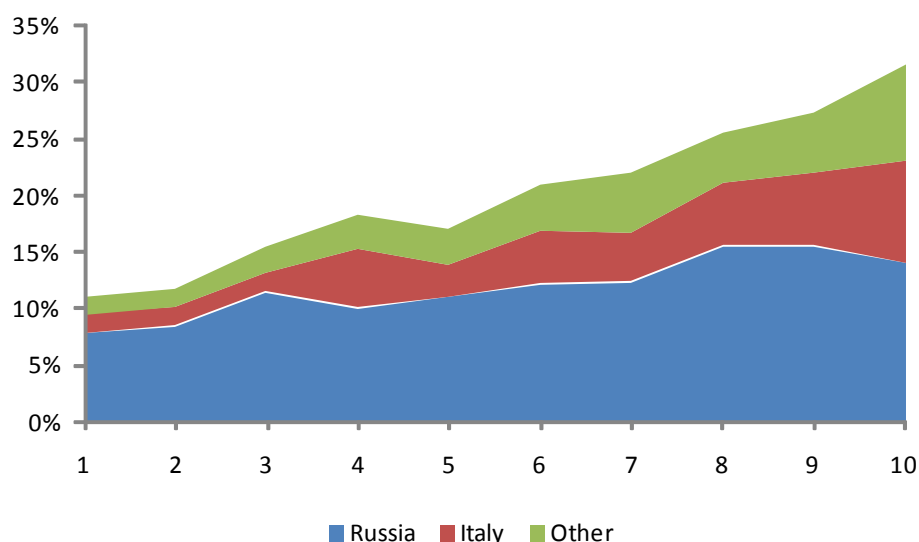
**Figure 6.2: Per adult equivalent incomes, MDL (HBS 2007)**



In part, the high income share of remittances among better-off households is due to higher migration prevalence in this group (Figure 6.3). While migration prevalence, measured by the share of individuals who live in migrant households, is just above ten per cent in the first decile, it increases to 33 per cent in the tenth decile. Said in another way, once a household has a migrant who sends remittances; it is highly unlikely to be in the lowest deciles of the income distribution. Most of the increase in migration prevalence along with household

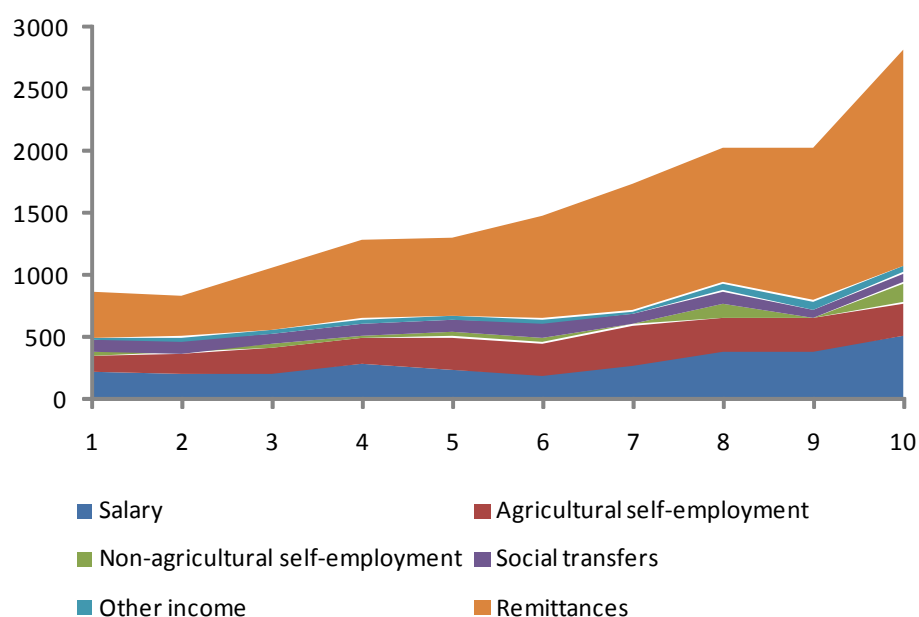
income is accounted for by destination countries other than Russia; these countries play a very small role for households in the first income decile but account for one half of the individuals in migrant households in the tenth decile. The relatively high cost of migrating to these countries, combined with higher migrant earnings, explains why they are more important destinations for better-off households.

**Figure 6.3: Prevalence of migration, per cent (HBS 2007)**



Similarly, considering only migrant households, the share of remittances in disposable income increases almost continuously across all income groups; 45 per cent in the first decile to 64 per cent in the tenth decile (Figure 6.4). Although non-remittance income loses in relative importance at higher income levels, it still increases from MDL 474 in the first decile to MDL 1024 in the tenth decile.

**Figure 6.4: Per adult equivalent incomes for migrant households only, MDL (HBS 2007)**



Overall, it remains difficult to draw firm conclusions on the impact of migration and remittances on income distribution because the alternative scenario is not well-defined.

Without migration, many current migrants may still earn higher incomes than current non-migrants because they differ in personal attributes that provide them with higher income earning capacity. These qualifications notwithstanding, it is clear that migrant households are on average one third richer in terms of household income per adult equivalent than non-migrant households. That income difference can give rise to social tensions in formerly close-knit communities; Section 8 below discusses community effects of migration and remittances in more detail.

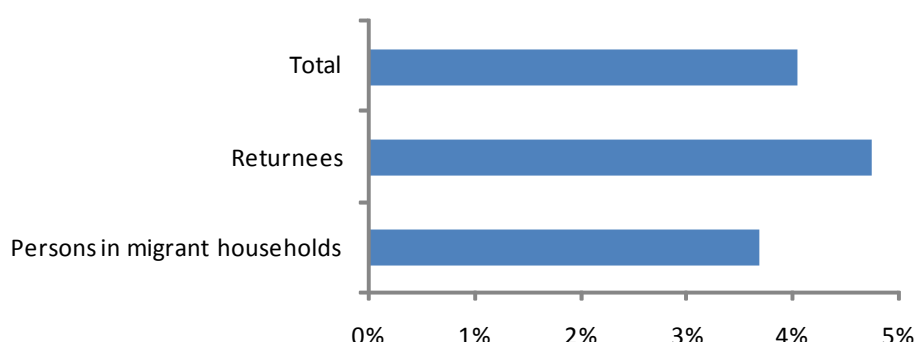
Furthermore, as household income increases across income deciles, the prevalence of migration and the share of remittances in household incomes also increase. The most plausible conclusion from this evidence is that all income groups are better off on average as a result of migration and remittances, with many poor households most likely lifted out of poverty. At the same time, better-off households benefit significantly more from migration and remittances than poorer households.



## 7. Non-agricultural Self-employment and Return Migration

One channel through which migration may contribute to economic development is by alleviating financing constraints for would-be entrepreneurs in households receiving remittances. Thus, remaining household members in households with a migrant abroad or the returned migrants themselves may find it more feasible to set up their own enterprise. However, as the previous section has already indicated, income from non-agricultural self-employment plays as tiny a role in migrant households as it does in households without a migrant (cf. Figure 6.1). This observation also holds when examining the self-employment rates of working-age individuals who have not migrated (Figure 7.1). Entrepreneurship in migrant households is not more common than in the population at large and remains low at approximately four per cent of the working-age population.

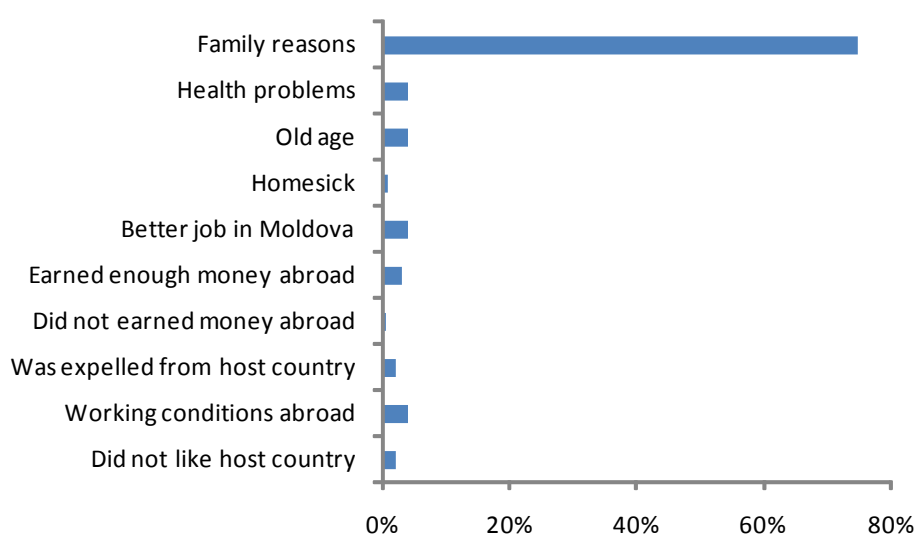
**Figure 7.1: Non-agricultural self-employment rate, per cent**



The same is true for the considerable number of return migrants. The IOM-CBSAXA survey suggests that overall there are more than 100,000 individuals who have come back to Moldova and are not planning to leave again. Compared to other migrants, returnees are more likely to be female, married, seasonal migrants, less educated and poor. In addition, the vast majority of those who recently returned to Moldova did so for personal rather than economic reasons; above all, to no longer be separated from their families (Figure 7.2). By contrast, only four per cent indicated a better job as the main reason for coming back to Moldova. Overall, approximately two thirds of working-age return migrants manage to re-enter the Moldovan labour market; of these, more than half work in the same sector as they did before they first migrated. It thus appears that for many of these households, migration was associated with higher (social) costs than their members may have expected. Under these circumstances, it is not difficult to understand why so few returnees have the capabilities and business acumen necessary to set up an enterprise. In fact, return migrants are mostly employees or work on their farms.

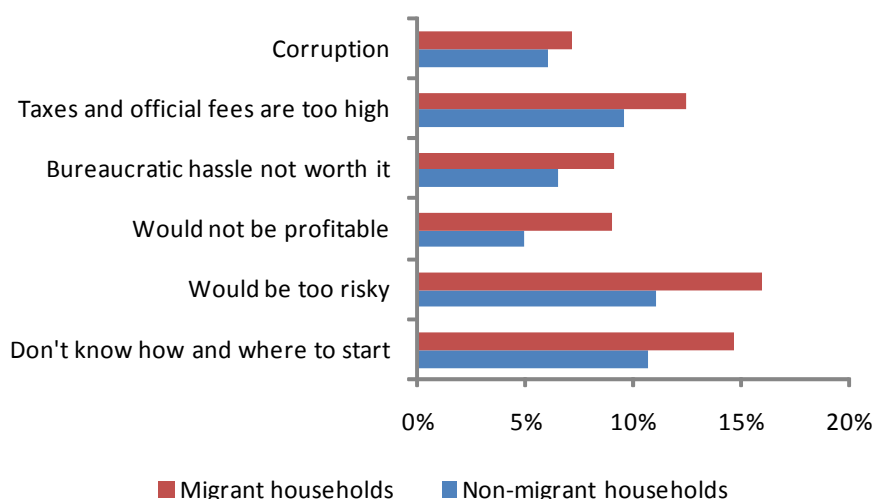
Although there are no differences in actual self-employment rates between migrant and non-migrant households, the picture looks different when looking at future plans. Significantly more households with a migrant than without one indicate an interest in starting a business (11 vs. 8%). This seeming contradiction is most likely explained by the fact that households with migrants are also more acutely aware of problems they may encounter when setting up a business (Figure 7.3). The main barriers to investment appear to be the general business climate and economic riskiness.

**Figure 7.2: Main reason for returning to Moldova, per cent**



As a general conclusion, households with a productive member abroad seem unlikely to take a lead in investing into small enterprises. After all, most migrants left because they found it more economically attractive to work abroad than in Moldova. Therefore, it appears to be implausible that merely having access to remittances or savings abroad will induce migrant households to invest in their own businesses. Migrants should not be expected to play the “simultaneous roles of workers, savers, investors, and producers,” (Taylor, 1999: 74). Rather policy measures aiming to increase the productive use of remittances should attempt to channel these funds to the financial sector, which can then make them available to all local producers willing and able to invest more. Hence, improving financial literacy and offering attractive and trustworthy financial services as well as formalizing remittances flows remain crucial steps for promoting financial sector development.

**Figure 7.3: Reasons not to start a business, per cent (multiple answers allowed)**



## **Box 2. Barriers to Investment**

Mostly, remittances are used for daily consumption expenditures. Rarely are remittances channeled into productive investments. The existence of major barriers to investments contributes to this situation: *“After my wife had left, I started a small business. But it turned out to be impossible: High demands, high taxes... I couldn’t register the company because I needed too much money. As soon as you register, have a stamp and a bank account, the tax authorities come along and you have to pay them, but the profit does not come at once.”* (Man, 36 years, wife in Italy)

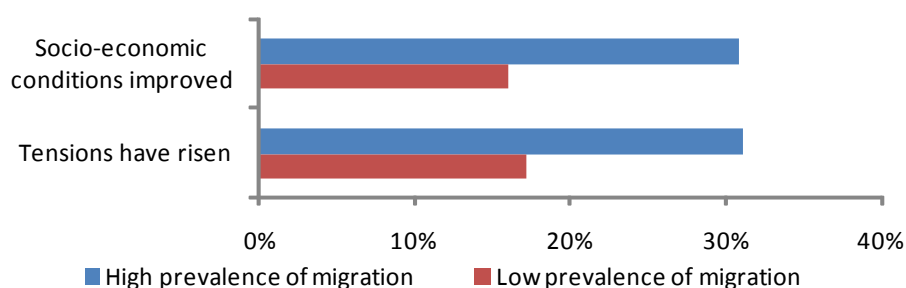
*“I also started a business, but it is impossible to comply with the legal requirements. The only way to do it is by stealing and lying. But then you are under stress all the time. You keep thinking “Will I get caught today?” It is impossible to work. There is one check after another. According to the law this check should be done less frequently, but they do it whenever they want. And whoever wants, too. They create the rules; I already don’t know what to do...”* (Woman, 48 years, husband in Italy)

*“I have a market stall. Checks take place at least once a week, sometimes even twice or three times a week. It is not necessary to give them money. They also take the things you sell. One day they feel like coffee, then tea, then they see the expensive stockings and they want them. It costs me about 200 lei to be left alone. You don’t pay the state anymore; you pay them and you get peace for a while.”* (Woman, 34 years, husband in Italy)

## 8. Diaspora and Community Effects

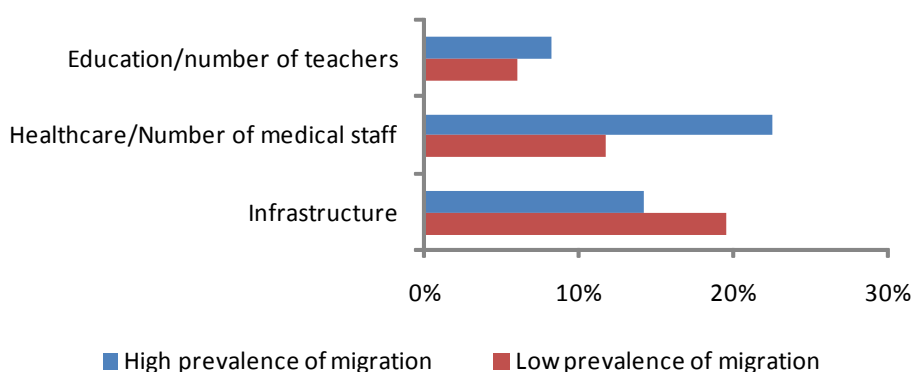
Much concern has been voiced about the social impact of migration and remittances on local communities. While Section 6 has demonstrated that remittances boost income and bring about considerable improvement in living standards, the perceived income differences between households with and without a migrant may noticeably strain social cohesion within communities.

**Figure 8.1: Perceived impact of migration on communities, per cent**



Indeed, there seems to be a trade-off between economic and social gains when comparing some aspects of the communal quality of life between communities with both high and low prevalence of migration (Figure 8.1). In high-prevalence communities, many more households state that overall socio-economic conditions have improved over the past five years (31 vs. 16%). This may be due in part to the remittance-induced demand for locally produced goods and services, which has helped to spread the material gains from migration beyond migrant households. At the same time, however, 31 per cent of households in high-prevalence communities indicate that tensions within the community have risen. This seems to be much less of a concern in communities with a low prevalence of migration (17%). Interestingly, households with and without migrants assess the situation very similarly.

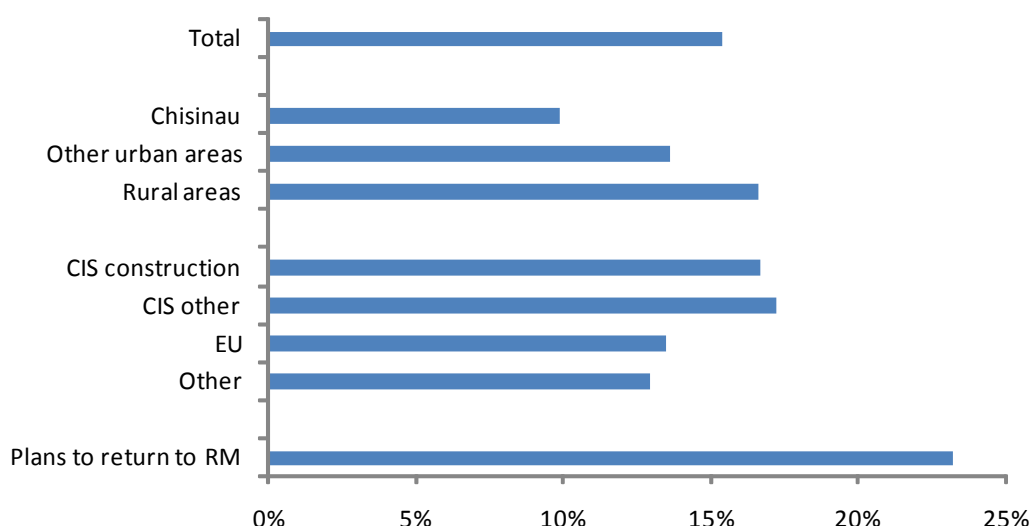
**Figure 8.2: Community features that have deteriorated, per cent**



Overall, a number of community features seem to have deteriorated over recent years (Figure 8.2). Above all, worries are expressed about the decay of physical infrastructure such as roads, sanitation, and gas supply, as well as the availability of health care. The latter point is prominently featured in communities with a high prevalence of migration. This finding suggests that potential earnings opportunities through higher private payments by richer patients do not constitute a sufficient incentive for health care workers to remain in their communities. In contrast to anecdotal evidence, only a few households consider deterioration in schooling to be a major problem. Furthermore, there are no sizeable differences in these

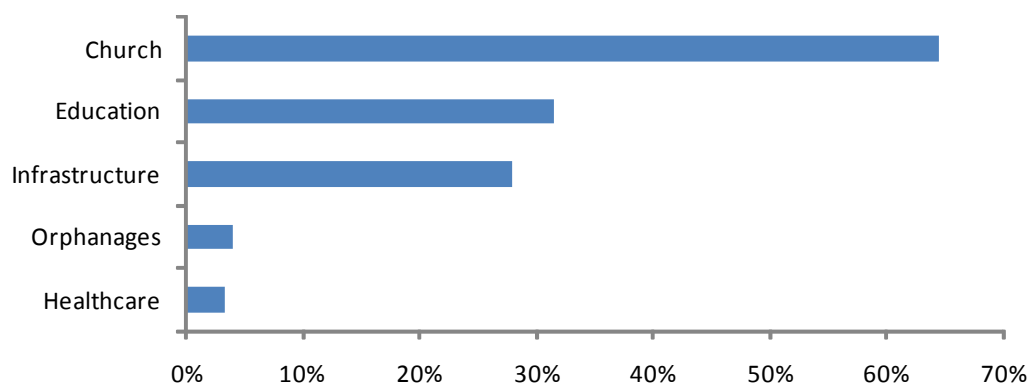
perceptions between high- and low-prevalence communities. This is remarkable as teachers in communities with many migrants may well be overburdened as they often have to deal with children whose parents are abroad, thus requiring increased attention. Concerns about physical infrastructure are somewhat more common in communities with a lower prevalence of migration. This may be related to the fact that many migrants donate funds to community projects (Figure 8.3).

**Figure 8.3: Share of donating migrants, per cent**



On the whole, 15 per cent of migrants have made donations during the past 12 months. The propensity to donate appears to be much higher in small communities where social cohesion is stronger and donations can arguably make more of a difference. Accordingly, the share of donating migrants was higher in rural communities (17%) and lower in Chisinau (10%). In addition, the level of attachment to one's community is a further determinant of communal donations. Seasonal migrants, like most CIS migrants, who go back and forth and spend considerable time in Moldova, tend to contribute more often to community projects. Migrants who expect to return to Moldova for good are particularly likely to donate funds (23%).

**Figure 8.4: Donations to community institutions, per cent of donating migrants**



Nearly two thirds of donating migrants supported religious causes, while just under one third supported education or infrastructure projects (Figure 8.4). While migrants' donations have likely contributed to many projects co-funded by the Moldovan Social Investment Fund, there are still very few institutions, such as home town associations or social matching funds, that could serve as vehicles for additional donations and investments in communal infrastructure.

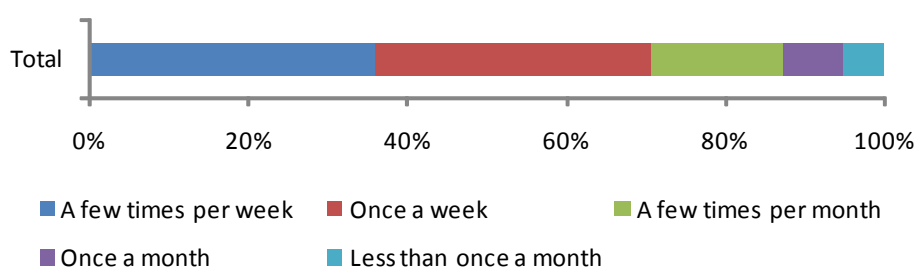
International experience shows that an institutionalized approach towards migrants' community donations could strengthen incentives to donate as well as foster the efficient use of such contributions. Under these circumstances, Moldova may want to consider more proactive policies to reach out to its various Diasporas abroad. This would not only increase the migrants' level of attachment to their home country, but also mobilize resources for community investments.

### Box 3. The Social Costs of Migration

People who work abroad illegally live with the frustration of not being able to visit their home country: *"There hasn't been a day without thinking about when I would get the necessary documents to be able to go home, to see my family, brothers and sisters. When you see that some people go home for holidays, and there is nothing you can do, it really, really hurts."* (Man, 26 years, in Italy)

The telephone is the most frequently used means of keeping in touch with family members abroad (99 %). More than two thirds of all migrants call their family members at least once a week. The patterns of communication are very similar for the four migrant groups. Quite often, large amounts are spent on the telephone bill: *"They say we should not call. ... During the last two months I paid US\$ 200 for the phone. The first month I did not pay in time because I didn't have the money, but for the second one I paid from my own reserves, without telling my parents."* (Woman, 20 years, parents in Italy)

**Frequency of communication with family members in Moldova, percent**



Migrant families find it very difficult to deal with separation and lack of care: *"First, my father did not allow my mother to go. Then he wanted her back home. But she had started to work and could not come back. Then my father left for two years as well. The family is destroyed. My parents are in the process of getting divorced. On the one hand, it's good that they work and make money, but on the other hand this prevented them from being together. I stay with my aunt, but things I would tell my mother, I may not tell my aunt. It's very hard."* (Woman, 23 years, mother in Turkey and father in Italy)

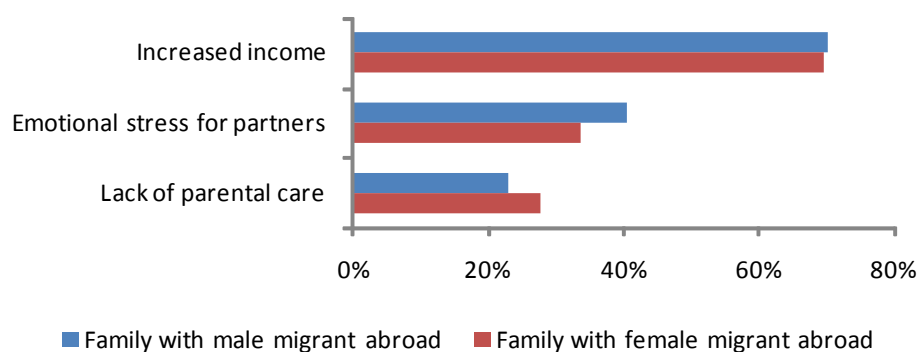
*"Family problems started and my parents initiated divorce. And of course it's hard when two different people say two different things; the children are very sensible and feel all these problems. We try to protect my younger brother from all the problems. When he becomes older, we will explain everything to him."* (Woman, 21 years, both parents in Italy)

Given these problems, some people conclude that migration is not worth its social costs: *"I got married when I was 23 years old. I have lived with my husband for four years. Then he left. What are the projects for young people today? Destroyed families? We are young and our lives are already destroyed. Is this life? Who knows where my husband is? I am here and my child can stay with his mother. But there are other families in which the mother leaves as well and the child remains with his grandparents... We gain material values, but we lose more."* (Woman, 34 years, husband in Italy)

### Box 3 – continued

The IOM-CBSAXA survey documents this tradeoff between material gains and social costs faced by many migrant families. When asked about the two main effects of migration, the overwhelming majority of households (approximately 70%) mentioned increased income due to remittances. At the same time; however, more than one third of migrant families also reported emotional stress as couples are separated for long periods of time. This effect was somewhat more pronounced when men went abroad and left their female partners behind. Roughly one in four migrant families also lamented the lack of parental care with the absence of mothers mattering slightly more than the one of fathers.

**Main effects of migration, percent (multiple answers allowed)**



## 9. Possible Effects of the Global Financial Crisis

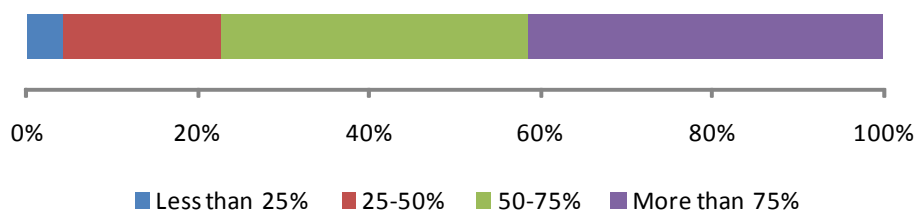
The IOM-CBSAXA household survey, on which this report is mostly based, was conducted in August 2008, and thus predates the current global financial crisis by several months. At that time, there were no indications yet that migrants faced more difficulties in finding employment. Similar to our earlier findings in 2006 (Luecke, Omar Mahmoud and Pinger, 2007), approximately three in four recent migrants already had a job upon arrival in the destination country. Congenially, when we conducted additional focus groups and in-depth interviews in November 2008, there were no signs of the crisis affecting migrants on the ground. Therefore, we use the survey results to identify those groups of migrants most likely to be affected and discuss how they might adjust to the challenges.

In this study, we distinguish four broadly defined groups of migrants (cf. Section 3): (i) migrants in the construction industry in CIS countries; (ii) migrants in other sectors in CIS countries; (iii) migrants in the EU; (iv) migrants in other countries. Of these groups, it seems clear that CIS migrants in the construction industry, who are mostly in Russia, will be afflicted by the global financial crisis. Construction activity in Russia is expected to decline at a double-digit rate in 2009, as the real estate price bubble in the country has burst, and financing constraints begin to impede construction projects. Already there are numerous news reports of worsening living and working conditions for (mostly Caucasian and Central Asian) migrant construction workers in Russia. By contrast, the sectors of employment for the remaining groups of migrants, such as long-term care services in households, are either diversified or less likely to feel the direct effects of the financial crisis.

While Moldovans in the Russian construction industry may be affected differently from Central Asian migrants, as they typically play different roles at construction sites, it seems likely that they will face declining employment opportunities and wages in 2009, and will therefore remit less. This raises the question of what alternative sources of income these households may be able to draw upon.

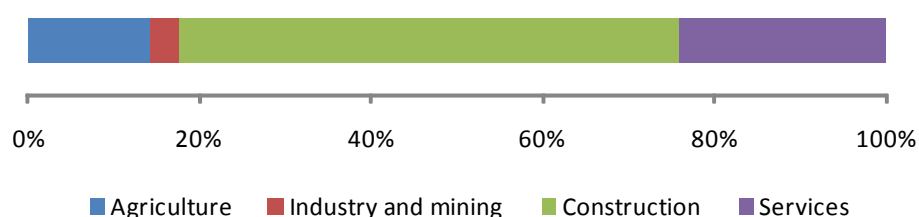
CIS migrants in the construction industry are mostly male (85%), middle-aged (55% between 30 and 50 years old), married (68%), from rural areas (76%), and low-to-medium skilled (84%). Of approximately 150,000 such migrants, 69 per cent describe their migration pattern as going back and forth between the destination country and Moldova on a regular basis while spending considerable time both abroad and at home. Despite these temporary migration patterns, most seasonal migrants do not leave in a particular season (77%). One in two CIS construction migrants (53%) is the main earner in the household; in more than three quarters of these households, remittances account for more than one half of household income (Figure 9.1). Additionally, only one in two migrants (54%) are reported to have been employed prior to going abroad, mostly in the construction industry (Figure 9.2).

**Figure 9.1: Remittances' contribution to households' budget, per cent**





**Figure 9.2: Sector of employment before migration, per cent**



In sum, these characteristics render CIS migrants in the construction industry and their families highly vulnerable to worsening job opportunities and lower wages in their destination countries as a result of the global financial crisis and recession. Their household incomes depend overwhelmingly on remittances. Being mostly based in rural areas, some households may be able to increase agricultural production to make up for lost remittances, however this would most likely not be sufficient enough to prevent serious income reductions. After all, poor economic prospects in rural areas drove many individuals to migrate initially. Depending on the severity of any future fall in remittances by this group, one policy measure that could help households to adjust would be public employment programmes (open to everybody, including former migrants), to rebuild rural infrastructure. Such programmes would use the professional skills of this particular group of migrants, improve investment conditions in rural areas, and possibly even coincide with donor interests to invest in Moldova's infrastructure, so that funding could be secured.

## 10. Policy Implications

The available evidence suggests that the year 2008 marks a turning point in the evolution of labour migration and remittances in Moldova. Beginning in the late 1990s, both the number of migrants abroad and the inflow of remittances grew consistently year after year. Since the last quarter of 2007; however, the number of migrants according to the LFS has not increased further. Remittances have still grown in terms of nominal US dollars through the end of 2008, yet their contribution to the Moldovan economy, measured by their proportion to Moldova's GDP, has remained broadly unchanged since 2006. Thus the number of migrants and remittances began to level off even before the global financial crisis set on in late 2008.

The impending global recession is placing additional pressure on some migrants and their families. In particular, the construction industry in Russia and other CIS countries which employed about one in three Moldovan labour migrants in 2008 now faces a steep decline in output. There is extensive anecdotal evidence that employment opportunities and wages for these migrants are deteriorating. This evidence is supported by the observation that electronic transfers from abroad to natural persons in Moldova, an important early indicator of remittances, declined on a year-on-year basis both in November 2008 and in January 2009 for the first time in many years.

Future patterns of migration and remittances will reflect economic conditions both in Moldova and in the major destination countries. In Moldova, growing labour migration and remittances over the past decade have allowed many households to better cope with the economic crisis of the late 1990s and to subsequently improve their standard of living. The benefits extended to the economy as a whole as domestic demand was strengthened by higher disposable household incomes as well as higher tax revenues, with the latter sustained by sharply higher imports. As a result, Moldova has seen its average real wage as well as GDP grow substantially since 2000. While income differences to major destination countries of migrants remain large, economic opportunities in Moldova have improved to the point where fewer individuals than before are pushed to migrate by desperate conditions at home. Accordingly, the pool of potential migrants appears to be exhausted in rural areas that have experienced high emigration flows over the past decade. At the same time, migration by high-skilled individuals and those from urban households who respond to the pull of better opportunities abroad continues.

In major host countries, conditions are changing in ambivalent ways. On the one hand, a growing number of Moldovan migrants in Italy and elsewhere in Western Europe have been able to legalize their status. Since legal status of the main earner enables whole families to move abroad, it is no surprise that we see a small but steady trickle of individuals and whole households leaving Moldova for good. In Russia, illegal migrants are facing more pressure from authorities than before; at the same time however, permanent legal migration remains a viable option for many Russian-speaking Moldovans.

On the other hand, the impending deep recession throughout Europe threatens to impair employment opportunities and wages for many migrants. While the impact of the recession does not yet show up in our survey, the construction industry in Russia was hit-hard by the steep fall in global energy prices and Russian export revenues. Furthermore, the real appreciation of the Moldovan Leu since mid-2008 has decreased the purchasing power in Moldova of earnings fixed in US dollars or Euros. Our focus group interviews suggest that migrants respond to these pressures in diverse ways. While some attempt to increase their remittances (measured in foreign currency) to maintain their purchasing power in Moldova, others may seek to stay abroad longer or explore opportunities to settle abroad permanently.

Few migrants consider their earnings prospects in Moldova sufficiently attractive to return for good.

In our view, this complex situation calls for a two-pronged policy strategy on the part of the Moldovan government:

- i. strengthen supply-side conditions for income and output growth in Moldova as future improvements in living standards will increasingly depend on domestic output growth rather than on remittances;
- ii. maximize the benefits from labour migration by reducing the social costs of migration and stabilizing migrant earnings and remittances which will remain a mainstay of the Moldovan economy even if they do not increase further.

Regarding supply-side conditions, the good news is that GDP growth in Moldova has recently become more investment-based, with investment both from domestic sources and through foreign direct investment. The roles of remittances and private consumption in GDP growth have declined correspondingly. Nevertheless, the business climate continues to be difficult for many firms. The cost of doing business in general and trading across borders in particular remains high. Further targeted efforts to reduce corruption in specific areas and to lower the cost of doing business are therefore appropriate.

While important in their own right, such efforts, if successful, would also make it more attractive especially for skilled migrants to return home, and for migrant households to channel remittances into business investments. So far, our survey suggests that while migrant households are more interested than others in setting up their own businesses, they are also more aware of the risks involved, including those broadly related to corruption. As a result, migrant households are not in fact more likely to own their own business than non-migrant households.

Supply conditions at home also stand to be improved through various infrastructure investments, including investments in rural areas, which are now being prepared with donor assistance. If the current economic crisis in Russia drives large numbers of migrants home, such infrastructure investment could be the basis for public employment programmes to help reintegrate migrants formerly in the Russian construction industry back into the Moldovan labour market.

Even if conditions for income and output growth in Moldova continue to improve, international wage differences will remain large and the incentive for Moldovans to seek work abroad will still remain strong. Therefore, the Moldovan government should seek ways to maximize the benefits from migration for migrants, their families, and the Moldovan economy as a whole, and to minimize the social costs of migration. Host country governments and donors may be able to support some of these efforts. Such efforts are especially timely now that remittances and disposable income in Moldova can no longer be counted on to continue growing as in the past. Actions may focus on the following areas: first, expand legal employment opportunities for Moldovans abroad, including through circular migration schemes; second, provide information and support services to migrants throughout the migration process, thereby also strengthening migrants' emotional attachment to Moldova; third, establish more formal links between the Moldovan society and the Diaspora; and fourth, harmonize tax and social insurance systems between host countries and Moldova.

First, enhanced opportunities for legal employment would help to counteract many of the social concerns and economic inequities that are caused by irregular work and residence in the host country. Human trafficking, exploitative employment, crime and abuse from corrupt officials are all directly linked to the absence of legal residence or employment which prevent migrants from seeking help from host country authorities. While long-term migration

inevitably takes some toll on family relationships and parental care for children, irregular migrants and their families fare especially badly. Often they can only visit their families in Moldova after they have been legalized by their host country, which typically takes several years. By contrast, with legal residence and employment, migrants can travel home more regularly and thus maintain closer contact with their families and local communities.

Many host countries are probably unwilling to create additional employment opportunities on a permanent basis, given that many Moldovan migrants work in low-to-medium-skilled jobs, and the recent recession is strengthening popular resistance against opening the labour markets of high-income countries to immigrants. However, in many countries, there is clearly a market demand for workers willing to take on unattractive jobs at modest wages. More extensive use of temporary work programmes (also referred to as circular migration) may offer a way forward. Temporary work programmes would give migrants the right to engage for a limited time in specific jobs that are unattractive to local workers, often without the right to bring their families with them. Employment would be legal, with income tax normally payable in the host country, health insurance also in the host country, and other social security contributions payable either in the host country or at home.

At the same time, temporary work programmes would not run into the kind of political opposition that additional permanent immigration may face. In particular, temporary work programmes would avoid concerns over local overcrowding (in housing, schools, social infrastructure, etc.). Although migrants would pay host country taxes and social security contributions, they may still find temporary work schemes attractive, compared with illegal travel and employment, as the cost of travel would be lower and the risks linked to illegal status would be eliminated.

Moldova's Mobility Partnership with the EU may allow the Moldovan Government to initiate negotiations on temporary employment opportunities with EU member countries. So far, Moldova has used the Mobility Partnership mostly to obtain support for return migration. However, return migration is likely to remain very limited until living conditions and the business climate in Moldova improve significantly. There are indications that some EU member states would be willing to significantly expand temporary work schemes open to Moldovans if the Moldovan government were to pursue this. Non-EU countries such as Israel, Turkey and Canada may also be similarly open to considering temporary work programmes.

Second, our survey shows that potential migrants learn about the possible benefits and pitfalls of migration primarily from other migrants. Such information has the advantages of being first-hand and covering all relevant options for international travel and employment search – legal or otherwise. However, such information channels may underrate the risks involved in migration as, in general, individuals are more likely to talk about their successes than their failures, and specifically, migrants may be embarrassed or reluctant (or may not be around) to share negative experiences involving trafficking, exploitation, etc.

Therefore, it would be helpful if objective, unbiased, and comprehensive information about travel, employment, and any other issues related to migration were widely available in Moldova. This would give potential migrants a realistic picture of the opportunities as well as the risks awaiting them before they decide to set off. For the information to be credible and useful, it has to be unbiased with respect to regular as well as irregular options that migrants may in fact take. Non-governmental organizations may be in a good position to such provide comprehensive information without raising political sensitivities. The provision of information, combined with consular and similar support services, should continue in migrants' countries of destination. Moldovan embassies and consulates would have an important contribution to make.

Where legal employment opportunities are available abroad, potential migrants should have access to the services of employment agencies that cover the whole of the migration process, including the provision of official and travel documents. If the Moldovan government does not wish to offer such services through its own agencies, it should license private operators to ensure that these services are provided in a transparent manner. By providing reliable information and supporting migrants as they struggle with myriad administrative requirements, employment agencies would minimize the risk that migrants are taken advantage of by dubious intermediaries.

Third, the benefits for Moldova from labour migration will be enhanced if migrants maintain close emotional and economic links to family and friends. Not only are remittances higher among those migrants who intend to return home at some point, these migrants are also more likely to invest remittances at home, either in financial assets or in businesses, and provide financial support for community projects.

There are many ways in which links between the Moldovan Diaspora and Moldovan society could be strengthened. For example, with donor support, community centres for migrants could be established in the main host cities where they would facilitate social interaction and mutual support among migrants, provide location-specific information relevant to migrants, offer communication and money transfer facilities, access to Moldovan media, etc. Donor support could also help Moldovan embassies and consulates to extend and improve their information and support services for migrants.

Our survey shows a willingness on the part of many migrants to support community projects at home, especially at a local level where their own families would benefit from them. Other countries including Mexico have successful examples of co-financing programmes for community projects where donors or the government will provide matching funds with the contributions from migrants or other private sources. Given the large number of migrants from rural areas and the huge need for infrastructure improvements in such localities, we see a considerable potential for social investment funds in Moldova that would help to channel remittances and other private funds into community projects, incentivized by matching funds from official sources.

Fourth, as more migrants acquire legal status in their host countries, they also often acquire a stake in these countries' social security systems. When the portability of claims for social transfers is limited, this may create disincentives against returning to Moldova. Since the portability of pensions depends on a highly complex set of national regulations, reforms would have to be undertaken primarily by host countries. The Moldovan government may find the Mobility Partnership with the EU a suitable framework to pursue such negotiations. There are also examples of temporary work schemes, such as for agricultural workers from some Central European countries in Germany, where social security contributions are paid to the home country. Such examples could be followed in future temporary work programmes for Moldovan labour migrants.

Ultimately, Moldova's future standard of living will determine its attractiveness as a country where individuals choose to live and work. Higher private consumption will increasingly have to be based on higher domestic output, while labour migration and remittances will likely stabilize around their present, high level. The government has a key role to play both in developing the preconditions for sustainable output growth and in harnessing labour migration and remittances for the benefit of migrants, their families, and the society as a whole.

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