

# REMITTANCES IN THE REPUBLIC OF MOLDOVA:

Patterns, Trends, and  
Effects



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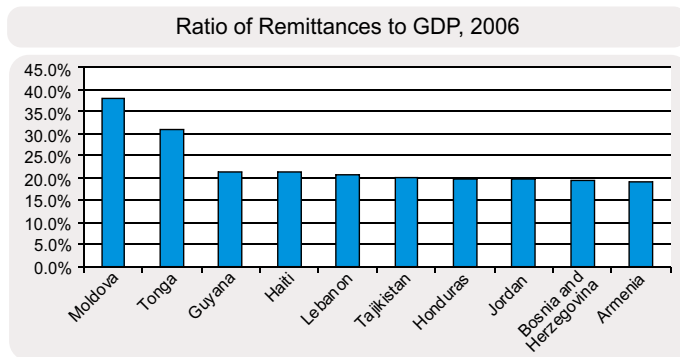
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## INTRODUCTION

The International Organization for Migration (IOM), with the support of the Swedish International Development Cooperation Agency (SIDA), commissioned a detailed survey of Moldovan households with a focus on why people migrate and how this decision affects their lives. The survey was conducted by CBS-AXA throughout Moldova during July and August 2006. The information in this brochure comes from this research (hereinafter referred to as “CBS-AXA survey”) and from other relevant sources, including the data from the National Bank of Moldova (NBM), the Labour Force Survey (LFS), and the 2004 population census. This brochure gives a comprehensive picture of remittances and their direct effects on household welfare in the Republic of Moldova.

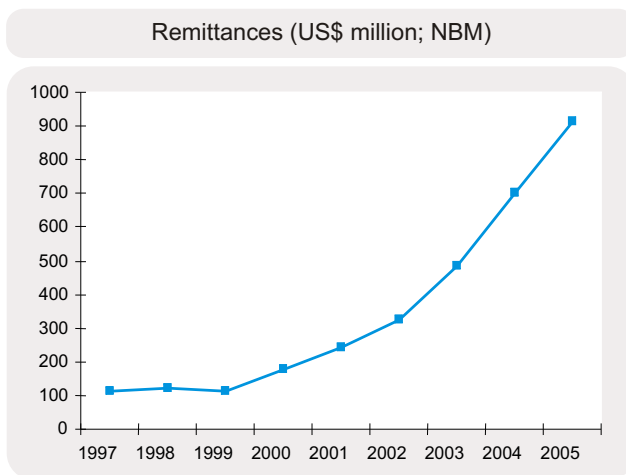
Labour migration profoundly affects the economic and social development of Moldova. As of mid-2006, approximately one quarter of the economically active population was occupied abroad. The volume of remittances has grown steadily since 1999 with no indication yet that this trend might be reversed. Remittances from migrant workers to their families amounted to one third of Moldova's gross domestic product (GDP). Currently, the ratio of remittances to GDP in Moldova is the highest in the world.



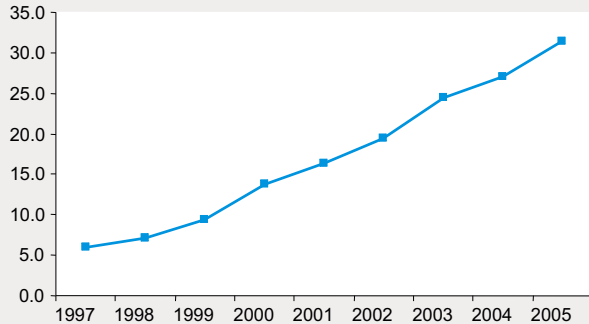
Source: World Bank *Migration and Remittances Factbook*, 2007

## GENERAL PATTERNS OF REMITTANCES

Approximately 1.4 million people (out of a total Moldovan population of 3.4 million) were members of households that received remittances. According to the balance of payments compiled by the National Bank of Moldova (NBM), total remittances increased from around US\$ 100 million annually in the late 1990s to just under US\$ 1 billion in 2005, which is equivalent to about one third of GDP. The estimate for 2005 might even be conservative because the recorded errors and omissions in the balance of payments point to a hidden net inflow of up to another US\$ 200 million.



Remittances, 1997-2005 (percent of GDP)



The 2006 CBS-AXA survey finds a lesser volume of remittances of just below half a billion US dollars for 2006. The discrepancy between the balance of payments and the CBS-AXA survey is not surprising. The source of the data for the survey was a questionnaire that asked respondents about their incomes; such questionnaires tend to underestimate income flows. Electronic transfers account for just over half of all remittances in the 2006 CBS-AXA survey.

It is noteworthy that median but not mean remittances received per household increased markedly from US\$ 700 in 2004 to US\$ 937 or more in 2006. This increase in median remittances is consistent with the Moldovan migrant population gaining more work experience and earning somewhat higher wages.

Remittances (2006 CBS-AXA Survey extrapolated)

	Remittances imputed for		2004 (not imputed)
	All households that reported receiving remittances	Additional households with migrants	
Remittances per household during			
last 12 months (US\$)- mean	1369	1473	1472
last 12 months (US\$) - median	937	1288	700
Total extrapolated remittances (million US\$)	363	483	242
Extrapolated number of individuals in households with remittances (thousands)	1142	1390	699
Extrapolated number of remittents (thousands)			
current household members	238	334	182
former household members	106	115	n.a.
other	7	7	n.a.

Mean remittances per household exceed the median because the distribution is heavily skewed, with many households receiving relatively small amounts and a few households receiving much larger amounts. The difference between mean and median remittances was particularly large in the 2004 CBS-AXA survey (US\$ 1472 vs. US\$ 700), in which a few households reported very large remittances in the tens of thousands of US dollars.

Survey evidence does not account for an unexpectedly high number of large payments through electronic money transfers to Moldova. At least some of these payments are for commercial transactions but are declared as personal transfers to avoid bureaucratic hassle or taxes. Possible commercial transactions for which the money has been transferred include service exports, particularly non-traditional ones, such as IT-related services, as well as under-invoiced exports of merchandise.

## PATTERNS OF REMITTANCES ACROSS DIFFERENT GROUPS

The remittance behaviour of migrants differs noticeably across the four groups of migrants. Possible determinants that explain the differences in remittance behaviour include migrants' earnings, their underlying motivation, the seasonality of migration, the cost of travel to the host country, and the cost of living in the host country. Remittances from EU migrants stand out at US\$ 1,749 during the 12 months preceding the survey, compared to around US\$ 1,100 for the remaining three groups. The data show that EU migrants tend to earn, and are expected to remit, considerably more than CIS or other migrants, because general wage levels in EU are higher than in CIS countries and because many CIS migrants work seasonal jobs and spend only part of the year in host countries.

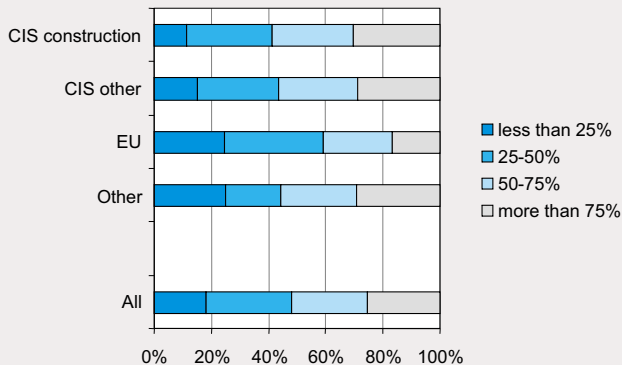
Average Amount of Remittances Transferred Within the Past 12 Months (2006)

CIS construction	CIS other	EU	Other	All
US\$ 1,048	US\$ 1,110	US\$ 1,749	US\$ 1,130	US\$ 1,300

Migrants in the CIS tend to remit a higher share of their earnings than their counterparts in the EU. While almost 60 percent of CIS migrants remit more than half of their earnings abroad, the same is true for roughly 40 percent of EU migrants. This discrepancy probably reflects the needs-driven nature of much migration to the CIS, vis-à-vis the opportunity-led nature of much migration to the EU. Furthermore, it is also explained by the higher cost of living and travel for EU migrants.

The remittances from individual migrants tend to rise over time. Higher remittances probably reflect greater work experience and higher earnings as well as lower expenditure on travel.

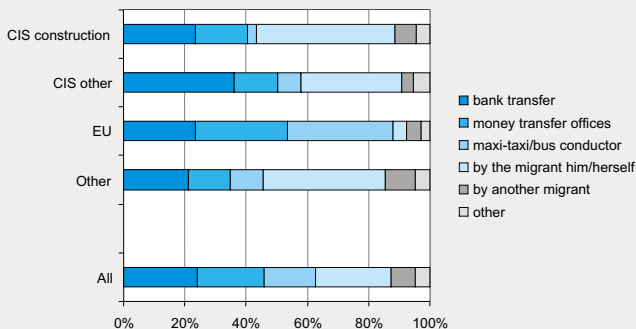
Proportion of Income Transferred (2006 CBS-AXA Survey)



## METHODS OF TRANSFERRING REMITTANCES

Migrants use three principal methods to transfer remittances: bank transfers, express money transfer services, such as Western Union or Moneygram, and cash transfers by informal money couriers or by migrants bringing cash on visits home. The importance of these transfer channels varies across migrant groups. Migrants in the CIS and other non-EU countries, many of whom are seasonal, are most likely to bring their earnings back themselves. Among EU migrants, who tend to be away for longer periods of time, both electronic transfers (through banks or express money transfer services) and informal money couriers are more important. In contrast to bank transfers, informal money couriers and money transfer services are easily accessible to illegal migrants.

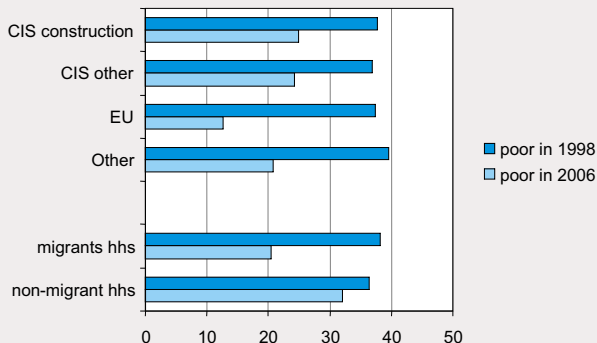
Main Methods for Transferring the Money (2006 CBS-AXA Survey)



## POVERTY IMPACT OF MIGRATION AND REMITTANCES

Our findings suggest that remittances may have a large impact on household welfare and may contribute to reducing poverty. After the economic crisis in 1998 that triggered the first wave of migration, migrant and non-migrant households experienced roughly the same poverty incidence of close to 40 percent. By 2006, the incidence of poverty fell to just over 20 percent for migrant households, while it decreased only slightly to 32 percent for non-migrant households. Remittances, therefore, seem to have played a large role in reducing poverty in Moldova during recent years. Households of EU migrants have experienced the greatest reduction in poverty.

Poverty Impact of Migration and Remittances (in percent; 2006 CBS-AXA Survey)



## MAIN EFFECTS OF MIGRATION

Migrant households not only benefit from migration, but also incur substantial social and emotional costs due to separation from family members, single parenting, etc. When asked about the two main effects of migration, quite a few households mentioned emotional stress caused by separation from family members and lack of parental care. The frequency of these effects is the same for households with EU migrants as for those with CIS migrants, although EU migrants stay abroad for much longer periods of time. In addition, in some households of CIS migrants, typically in rural areas, members have to work more or hire labour to compensate for the work previously performed by the migrant. Nevertheless, the majority of households indicate that higher household income has been the main effect of migration. This has allowed a number of households to work less and enjoy more leisure time.

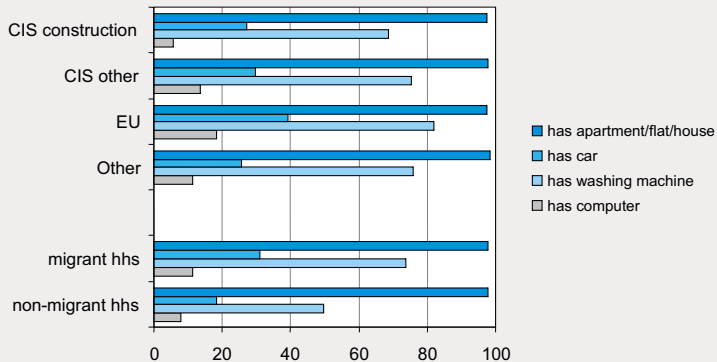
Two Main Effects of Migration (in percent; 2006 CBS-AXA Survey)

	CIS construction	CIS other	EU	Other	All
No effect	4.45	4.14	3.15	6.13	4.12
Increased income	84.09	78.02	88.31	92.48	84.87
More leisure time	3.40	5.91	13.69	11.64	7.96
Lower cost of living	10.56	14.28	4.35	13.08	9.61
Work harder and longer hours	20.34	18.08	8.40	14.04	15.48
Emotional stress	22.79	20.84	20.29	29.30	22.15
Lack of parental care	26.09	31.28	26.62	15.62	26.45
Forced to hire labor	10.91	11.16	6.14	3.42	8.78
Forced to spend money on migration	12.31	14.35	25.09	14.29	17.01

## ASSET OWNERSHIP

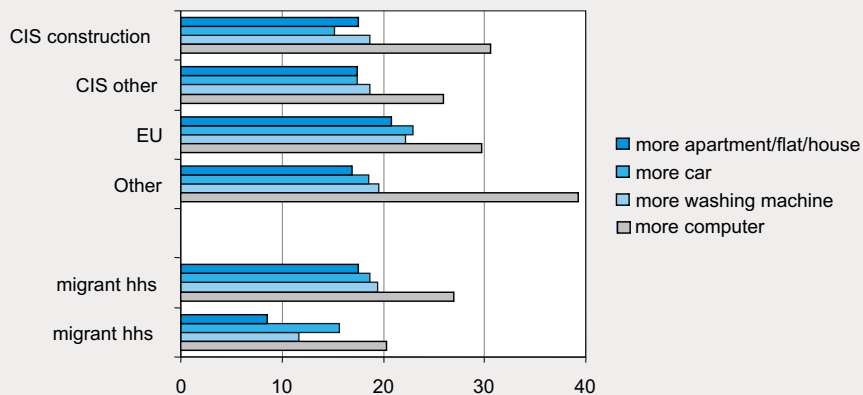
In households receiving remittances, these play a major role in household budgets. Specifically, remittances fund more than half of current expenditure in some 60 percent of all remittance-receiving households. Remittances are used mainly for consumption rather than for investment. In the 2006 CBS-AXA survey, most remittance-receiving households state that the extra purchasing power created by remittances is primarily spent on daily needs such as food, clothes, or rent. A second priority is consumer durables such as TV sets, refrigerators, or computers. The rest is used mainly for larger household investments, such as cars or home renovations.

Asset Ownership (in percent; 2006 CBS-AXA Survey)



Migrant households own more assets, such as a car, washing machine, or computer, than households without a migrant. Even if migrant households owned more assets before the economic crisis in 1998, increases in asset ownership since then have been much larger for migrant households than for non-migrant households. The overall picture is that remittances tend to relieve financial constraints for households receiving them, allowing them to invest in consumer durables and other assets. This is also true for apartments or houses, with around 18 percent of migrant households, but only 9 percent of non-migrant households, reporting increased levels of ownership. These data prove that the recent real estate boom in Chisinau has been financed at least partially by remittances.

Increases in Asset Ownership (in percent; 2006 CBS-AXA Survey)



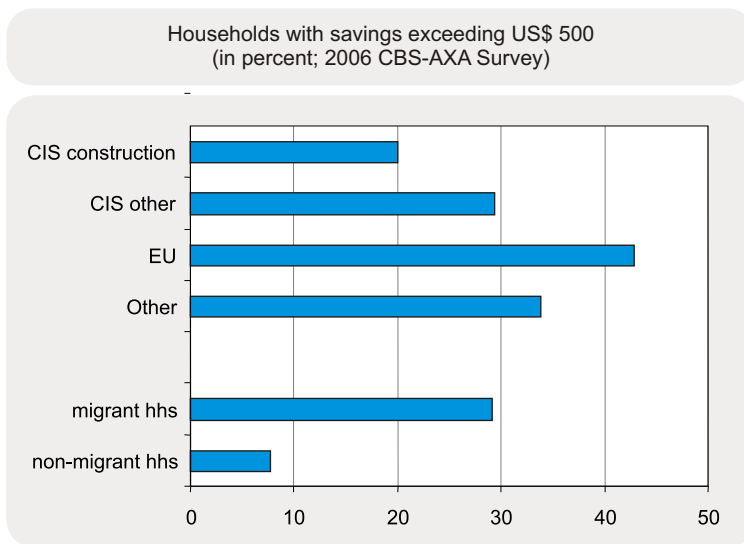
## EDUCATION

There are also signs that households receiving remittances invest longer in their children's education. The data analysis demonstrates that young adults in migrant households are significantly more likely to enrol in universities than their counterparts in non-migrant households. In particular, the recent, rapid increase in the number of university students in Moldova, including at private universities, appears to be financed in large part through remittances.

## SAVINGS

Households with migrants boost their savings, which may be regarded as a proxy for the capacity to invest. Overall, these households are almost four times more likely to have savings exceeding US\$ 500 as non-migrant households (29 vs. 8 percent) (see chart on next page).

There is some variation across the different groups of migrants: Households with EU migrants save more than households with CIS migrants. This may be explained by higher remittances from EU migrants and by a largely needs-driven migration to CIS countries. For many families of CIS migrants increasing consumption is more important than higher savings.



## MACROECONOMIC EFFECTS

Remittances generate far-reaching macroeconomic effects. For instance, households without migrants also benefit indirectly from migration through a variety of macroeconomic effects, such as higher tax revenue and government spending through higher tax collections on imports, higher real wages in Moldova due to a decline in labour supply, etc.

## CURRENT ENTREPRENEURSHIP

Re-invested savings and entrepreneurial activities by returning migrants are important potential benefits of migration. Compared to 2004, there are now small but discernable groups of migrants that invest in local financial and real assets and run their own businesses. At the same time, migrants who invest their earnings in Moldova face unreasonably high business set-up costs. Complaints range from excessive red tape to pervasive corruption of state officials, from the tax inspectorate to the fire brigade.

Not surprisingly, these comments echo those by investors in Moldova more generally. While the business climate and the corruption situation have improved somewhat since 2002, both the Corruption Perceptions Index produced by Transparency International (2007) and the Business Environment and Enterprise Performance Survey conducted by the World Bank (2007) indicate much room for further improvement. Efforts by Moldova's government to boost the business climate have been under way for a while, with substantial donor support.



With more than US\$ 1billion in remittances, the Republic of Moldova has the highest ratio of remittances to gross domestic product in the world. The number of migrants and the volume of remittances have grown steadily since late 1990s, with no indication yet that this trend might be reversed. Labour migration and remittances from migrant workers are likely to continue shaping economic and social development of the country in the near future. The patterns of remittances to Moldova and their direct effects on household welfare are illuminated in this brochure.