# Remittances and Development in Moldova

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## 1. Overview

Every third Moldovan wants to leave the country and this trend is likely to continue. Even if it is widely perceived as a negative phenomenon, migration and money that migrants send home in the form of remittances may have a positive impact on development in the countries that send the migrant workers. Remittances represent 36.2% of the Moldovan Gross Domestic Product (GDP) pushing Moldova together with Tajikistan on the first place in the world's top of remittances-recipients (World Bank, 2008).

The vague relation between remittances and development in Moldova was not yet fully investigated. The Moldovan case illustrates that even if the high level of remittances has led to higher incomes for many households, it did not result in development. In fact, higher incomes are part of development and represent the main advantage of remittances, but exploring the whole range of economic, political and social costs of remittances inevitably shows that the narrow focus on higher household incomes and poverty alleviation does not include all aspects of development. Despite the inflows of remittances, the HDI ranking of Moldova did not improve significantly; it ranks 111 from 177 countries with HDI indicator value - 0.708, which is worse than in 1990 – 0.740 (UNDP, 2005).

## 2. Migrants' remittances and foreign investments

### 2.1. Who are the senders?

The determinants of migration are essential in understanding the behavior of the migrants. After the collapse of the Soviet Union, the main determinants for migration were cultural and ethnical, while later the main causes became economic (Mansoor and Bryce, 2005). People were leaving because of poverty, corruption and underdevelopment, which characterized most of the new independent republics. It was this later wave of migration that is associated with remittances.

A survey from 2006, commissioned by the International Organization for Migration (IOM) revealed that increasing consumption, absence of a job and poverty were the main factors determining the migrants to leave Moldova. It would be rational to presume that most of the migrants' families are poor households. That said, of particular interest is the conclusion of Schrooten (2006) who after a detailed analysis claimed that the income situation measured in GDP per capita and the rate of unemployment do not affect the level of remittances. He makes his case by arguing that the amount of remittances depends more on the economic situation in the host country. In addition to the immigration polices of the host country, the amount of remittances depends on the number of migrants, their intentions and their expectations regarding the country, their education, age and loyalty to the family. The data used by World Bank (2008) rely on 2005 collected data and indicate a number of 705 533 Moldovan migrants (17% of the population), while the official figures indicate that 400 000 Moldovans were working abroad in 2006 (National Bureau of Statistics, 2006). Even if data are conflicting, the major sets of data show that from 1999 the number of migrants is significant and is continuously increasing.

Taking into account that the last census revealed 53% of the population is living in rural areas, it is reasonable to presume that the major bulk of remittances is sent by migrants to rural households. IOM data show that migrants mainly come from rural areas and small towns in the countryside.

Education plays a role too in choosing the country of destination and the amount of remittances sent home. According to Luecke, Mahmoud, & Pinger (2007) only 14 percent of the current Moldovan labor migrants plan to permanently settle abroad. Obviously, those who intend to leave forever the country tend to send lower remittances, but it would be risky to reverse the logic saying that migrants sending less money home are planning to settle in another country. In terms of destination the major part of the migrants leaves for Russian Federation (WB, 2008). Still, some of them work in Russian Federation, so that later they can afford to leave for EU. Persons, who choose EU, are mostly women, better educated, opportunity-led rather than needs-driven and coming from urban areas (Luecke, Mahmoud, & Pinger, 2007). Compared with the CIS migrants, those who migrated to EU send lower portions of their incomes home. The simplest explanation based on the data above, would be that persons migrating to Russia are needs-driven and leave the country, because there is no other way to earn money for living.

### 2.2. Foreign Direct Investments and remittances: different results. Is the comparison valid?

In Moldova, remittances can be viewed as a mechanism of reducing dependence on foreign direct investments or foreign capital. Mechthild Shrotten (2003) argued that “in Moldova, Kyrgyzstan, Tajikistan and Armenia remittances exceeded this kind of private capital inflow” (p. 12). It is widely accepted in the literature that the quality of remittance money is better. ”Remittances have proved to be less volatile, less pro-cyclical, and therefore a more reliable source of income than other capital flows to developing countries, such as foreign direct investment (FDI) and development aid (Gammeltoft, 2002; Keely&Tran, 1989; Puri&Ritzema, 1999; Ratha, 2003 as cited in de Haas, 2005, p. 1277). However, the Moldovan authorities focus only on attracting foreign investments rather than taking advantage of migrants’ remittances. Attracting foreign investments has become a strategic priority mentioned in Moldova’s new Strategy of Attracting Investments and Promoting Exports. To follow that goal a new state agency was created, but until now the results were poor. Compared to the major foreign investors, the capital of a migrant’s household is probably thousand times lower.

Despite their better quality, remittances are rarely spent on development projects or on investment. The IOM survey (2006) reveals that in Moldova remittances are spent mainly on current consumption and unproductive household assets with returning migrants refraining from investing home due to administrative and red tape barriers. The average amount of remittances reached $1300 during the last twelve months, whereas as a whole, remittances amounted for 2007 to 1 200 millions USD (WB, 2008). Basically, the IOM survey (2004) proves that migrants’ average sum of transfer is approx. 300 USD. Since we have seen that the main determinants of migration are poverty, unemployment and increasing consumption, and that most of the migrants are needs-driven, it is reasonable to presume that the major part of remittances is constituted by small amounts of money sent to households in need.

Still, in 2007, the amount of FDI increased and reached 532 millions USD, which represents a 44.7% increase compared with the previous year. The top of investors included Netherlands being first with 21%, followed by Russian Federation with 10.6%, Cyprus – 10% and Spain – 7.8% (National Bank of Moldova, 2008). Taking into account that 41.6% of the households have at least one migrant abroad, remittances seem to have a far greater impact on poverty alleviation than the foreign aid or the FDI. However, diminishing poverty in the migrants' families does not necessarily mean decreasing the overall level of poverty.

## 3. Remittances – the bless or the curse for a country in transition?

### 3.1. Economic effects

Debates over how remittances affect economic development split the researchers mainly in two categories. Some economists consider remittances will contribute to increase of investments, while others contend that they can lead to the appearance of the "Dutch disease" symptoms. Possible Dutch disease effects are evoked also by Manson and Quillin (2006). Indeed, the Leu, the Moldovan national currency has continuously gained value against the US dollar and Euro, because of remittances. The National Bank tries to maintain the exchange rate and not to allow the appreciation of the national currency buying huge sums of US dollars from the market and increasing its foreign currency reserves. This process called "sterilization" does not transform money in investment, but just conserves them. The real exchange rate is affected by the remittances and leads to exports becoming more expensive.

On the other hand, De Haas (2005) points out an interesting fact and namely, that most migrants are not sent by the least developed countries and consequently do not contribute to alleviation of poverty in the least developed states. It is important to say that de Haas (2005) contested the pessimistic view on remittance spending arguing that "more recent empirical work from Latin America, in particular, but also from Asian and African countries, strongly suggests that remittances potentially enable migrants and their family members to invest in agriculture and other private enterprises" (p. 1274). Moreover, consumption based on imports increases the revenues for the state budget that could be invested. So if in Moldova, most of the researchers tend to view the exaggerated consumption determined by remittances as something damaging for the economy, de Haas reverses the argument and considers that spending on consumption might be considered also development.

After being transferred through banks, express money services or directly through couriers (drivers, friends), tracing the money becomes difficult. Still, it can be assumed that a certain remittance spending cycle emerged in Moldova. In households, where one of the members of the family is working abroad, the incomes increase. That leads to higher demand on consumer goods (foodstuff, clothes, household assets) and often to price increases, because the supply is limited. High demand leads to over-dependence on imports and while in some households poverty is diminishing, because of inflationist pressures it spreads to other households, where none of the members has chosen to migrate. This in turn should lead to an increase in migrants, because the main determinants of migration are poverty or unemployment. Of course, higher demand for some products might lead to increases in local production, but such examples could not be documented.

In Moldova remittances have not yet led to local rural development and there are multiple factors leading to such a disappointing result. First of all, when it comes to community projects in rural areas that involve all the members of a village, there are great difficulties in convincing everyone to contribute financially. If before the fall of Communism on the local level, existed the common agricultural cooperatives (kolkhoz), after 1991 the villages became atomized. Common projects for a community were viewed as an attempt to return to Communism. Families and clans became the main social networks in rural areas supporting the vulnerable groups. The few community centers created in Moldova were established with the financial assistance of donor institutions. Unfortunately, the villages are not prepared to assimilate the amounts of money they receive. Luecke, Mahmoud, & Pinger (2007) indicate that most of the money is spent on daily needs - foodstuff, clothes, rent etc. Even if a lot of money is spent on foodstuff, there is no evidence that local producers are benefiting from remittances. In many cases, the money sent to rural households is spent in urban centers on buying goods for the rural household, most of which are imported. Thus investments in rural areas are rather rare and the multiplier effect occurs mainly in urban centers. Remittances determine migrant families to leave villages and to move to urban areas after having acquired an apartment. Besides that, migrants are not yet ready to spent money on community projects since their expectations on the general development of the country are negative.

The experience of some countries in Latin America and some Asian states that pass through the migration experience for decades and had to cope with the same problems regarding remittances might be revealing. Even if it may sound too interventionist the state can indirectly contribute to the re-directing of the remittances towards productive investments by creating a favorable investment and business climate; that was a often heard recommendation issued by EU and major donor institutions. Ellerman (2005) addresses the relation between remittances and development from a broader perspective, at the same time extracting from international practice four possible methods of translating remittances into development. Basically, the researcher highlighted four methods used by various countries: 1) capturing a share of the remittances, 2) attracting them in formal banking deposits, 3) creating incentives for more direct productive investments and 4) creating and involving country and home-town associations in this process. Such a list of possible solutions will be definitely needed in the future, since the level of remittances for 2007 was underestimated even by the International Monetary Fund (IMF). The last figures for 2008 show the level of remittances will increase as compared to 2007. Furthermore, there is no evidence that the trend will stop during the next years.

### 3.2. Social structures and remittances

In case of families, remittances lead to role differentiation, less childcare and sometimes crimes. In certain families remittances highlight the various social roles played by men and women. Mainly in families from rural areas, the social roles have not changed much, with men having the task of earning money and women seen as housekeepers. That is why a major part of male rural population is migrating to Russian Federation and sends a greater share of the income to the family. Even if a family gains in financial terms, adverse effects appear. The rate of divorces is increasing; children and teenagers are used to live on the money sent by their parents and often lacking parental care have problems at school; there are fewer younger people to take care of the older ones. Remittances lead often to crimes. There are numerous cases when migrants coming home are attacked, because they are perceived as carriers of huge sums of money. The families of migrants are also under threat, because local mafia structures presume that they preserve money in their houses. Blackmailing or stealing from migrant families is widespread. Thus, it is difficult to evaluate whether financial advantages compensate for the social damages that remittances cause.

The Moldovan civil society was not affected significantly by the remittances from abroad. It is hard to say whether remittances had the same paralyzing effect on civil society as foreign aid has. By paralyzing effect, it is meant the exaggerated dependence of Moldovan NGOs on foreign aid and the lack of volunteer community projects. In terms of interest representation, there is not a single visible national organization claiming to represent the interests of the migrants. Nor did the migrants try to create home-town associations in the major destinations regions, therefore it can be argued however that after the first decade of migration experience, remittances had adverse effects on the consolidation of a solid civil society.

### 3.3. Politics and remittances

Like the Moldovan civil society, political parties are also adapting rather slow to the challenges of migration. Migration is not high on the agenda of Moldovan parties. Only when in November 2007, a new law on political parties was modifying party financing rules, migrants became an issue. Thus, donations from Moldovan citizens abroad were limited to a certain amount and many of the parliamentary parties protested against such strict legal provisions. Political discourse and political parties did not adjust to the environment and it would be difficult to say at this moment, which of the Moldovan parties represents the interest of the migrants. Except for certain attempts to organize migrants' congresses in Moscow, parties did not usually bother about migrants. Unlike in Kyrgyzstan, no Party of Migrants emerged.

More curiously, in Moldova even the parliamentarians are potential labor migrants. That was the case of Valentina Cusnir, MP. During a parliamentary session, she admitted that during summer vacations she travels to Italy in order to work for three months and to earn additional money. The declaration raised a lot of protests from the governing party

(Communists' Party) that claimed through its MPs that deputies do not have the right to work in other places except the legislature.

**4. Prognosis**

Remittances have a huge social impact on families, local communities and civil society. At the political level, migrants are not yet represented, but remittances constitute a financing source of numerous political parties. It is not clear whether the short-run economic benefits of migration will outweigh the long-term social and political disadvantages. Until recently, remittances generated higher household incomes, but were rarely used for investments (IOM, 2006). However, the good signs appear as the International Monetary Fund (2008) analysts suggest that there is a change in the consumption pattern observed during the last decade and more remittances are being directed into private investment. This, in turn can lead to more durable development in a transition country relying mainly on remittances to solve its economic problems.

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