

## THE ECONOMIC IMPACT OF EMIGRANT'S INCOME IN THE REPUBLIC OF MOLDOVA

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### Abstract

*In the Republic of Moldova emigration and its incomes have an important role in determining the evolutions of economic and social processes and a major influence on the country's economy. Despite this major impact on development, still emigration and its consequences have not been properly addressed. Research shows that in the future remittances that emigrants will repatriate to the country with their eventual return will have an even greater impact on the savings level. According to the analysis of the statistical data, we try to quantify the impact of remittances on the main economic aggregates, and we demonstrate that, even without direct intervention by the authorities, emigrant incomes have a major role in the development of the country. The applied research is based on the general principles of the complex systems analysis of: the system analysis method, the diagnostic analysis method, the methods of data analysis using statistical techniques: graphs and tabulations, as well as consecrated methods: scientific abstraction, analysis and synthesis, induction and deduction, observation, reasoning, comparison and grouping.*

**Key Words:** emigration, income, development, remittances, savings, impact.

### INTRODUCTION

Development processes affect and are affected by the migratory flows. It has been noticed that when a poor country starts to develop economically, emigration tends to grow. This is partly due to more intense contacts with the outside world, growing competences and partially the increasing opportunities for achieving migratory aspirations. When countries achieve a certain level of development, emigration tends to decline.

In early researches, the links between migration and development are described as "unsolved" and "undermined" [16]. Most studies that examines the external labor migration aimed for work purposes, approaches usually its impact on economic growth.

By placing the migration-development relationship close to migration economic theories, we can affirm with certainty that the migration-development relationship represent a circular chain relationship. Being traditionally treated through separate and diverse policies - migration and development

– nowadays are highly analyzed through the common relations existing between these two areas.

The economic literature highlights scientifically two contradictory aspects of the causal relationship between remittances: positive and negative [14].

While actions oriented toward development examines approaches of migratory flows causes, the migration can make a positive contribution to development, by contributing to economic growth, social responsibility and technical progress. Nevertheless in case of inefficient management, migration can pose challenges for countries' development efforts, labor exodus and intelligence exodus. Strong partnership between countries of origin, transit countries and destination countries as well as full integration of migration dimensions into development policies and the dialogue between governments and all levels actors are extremely important in enhancing the potential for migration development [13].

Migration is viewed as positive in terms of development, highlighting the impact of remittances, at microeconomic level,

improving the living standards of remittances beneficiaries (remittances), covering financially their primary needs: for food, consumer goods, improving conditions living, studies etc [23].

At a macroeconomic level, remittances are considered a source of economic development when they reach a high level and have role of multiplier (multiplier of investment, employment, etc.) represent an important source of foreign currency, contributes to increasing national income, financial imports and improving the balance of payments.

Economic reality demonstrates that the volume and dynamics of remittance flows are unpredictable and favors the growth of income inequality. In developing countries, remittances, in most cases, are used to purchase predominantly imported consumer goods, which contributes to reducing the potential of the financial multiplier, to increasing imports and inflation [9].

An important fact is that recently research concerning migration has changed its focus from investigating migration as a negative phenomenon linked with brain drain, and recognizing its positive effects on development, especially of the countries of origin [19].

Migration also contributes to the transnationalization of economic, social and political spheres, as well as to the development of money transfer networks, courier companies and foreign exchange [12]. Remittances can contribute to changing the economy structure at local or regional level. As a result of migration and increased money transfers from migrants, in many communities, agricultural activities will be replaced by economic activities involving the provision of services [22], will increase the demand for goods and services produced locally or for those linked with the migration process (transport services, telecommunications, goods and money transfers from and to the areas where migrants and non-migrants are located, loans and credits etc.) [17, 11].

## MATERIALS AND METHODS

The research methodology applied in this study is based on the general principles of complex system analysis: system analysis method, diagnostic analysis method, data analysis through statistical tools. These basic methods are supplemented by others as: scientific abstraction, analysis and synthesis, induction and deduction, observation, reasoning, comparison and grouping. The study is based in particular on the economic analysis and interpretation of emigration and emigrant incomes provided by institutions as: National Agency for Employment (NAE), National Bank of Moldova (NBM) and National Bureau of Statistics (NBS).

## RESULTS AND DISCUSSIONS

Migration of labor force and the impressive flows of remittances from population working abroad are the most important factors defining the economy of Moldova at the beginning of the 21st century. Remittances from emigrants have boosted the economic growth registered in the Republic of Moldova by supporting domestic demand and increasing the public budget revenues [20].

The large number of labor migrants is the determinant factor in the volume of remittances and distortions in the Moldovan economy over the past two decades. External migration of the labor force is a phenomenon that has been growing strongly in the Moldova after 1991. Out of total emigrants, 88.7% went abroad to work or looking for a job. Labor migrants account for 11.2% of Moldova's total active population. According to national statistics data, women predominantly dominate the group of emigrants (54%). Nevertheless, in the long run gender distribution is more balanced among group of emigrants, which also corresponds to the global situation (Figure 1). According to the residence environment, the emigrants from rural areas dominate, with a share of 63%. This large share is explained by the initial large share of rural population in Moldova. The share of migrants in the villages has increased greatly compared to the

early period of emigration. The village remains the main source of both circular and long-run migration [3]. The average age of the typical emigrant increased significantly from 30.5-31.0 years between 2000-2002 to 35-36 years during 2008-2016. The official statistical data are contradictory with the common opinion that the Moldovan emigrant "rejuvenated" during the last decade. This practically corresponds to the average population age in Moldova. At the same time, the emigrant from the Republic of Moldova is relatively young in the global comparison, the average age estimated is of 33-34 years, with 5-6 years less than the average of the age of emigrants on global scale estimated at 39 years [6].

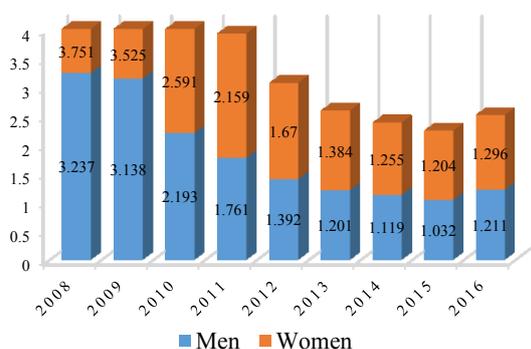


Fig. 1. Dynamics of the Moldovan emigrants  
Source: Own determination.

Moldovan emigrants have an advanced educational profile, which simplifies their integration into host societies. According to the NBS data, in 2016 the distribution of emigrant population according to the level of education includes: 10.6% with higher education, 12.3% - with specialized secondary education, 26.4% - with vocational secondary education, about 24.0% - with high school education, 25.8% - with gymnasium studies and 0.7% - with primary or non-primary studies [20]. Compared to the situation a decade ago, the share of migrants at the extremes of the educational level visibly increased. There is a certain difference in preferred destinations, the migrants with more advanced studies being slightly more likely to emigrate to European countries, their educational profile being somewhat more advanced than the "typical immigrant" in Europe. Migrants with less advanced studies tend to choose CIS countries. In both cases, the integration of Moldovan emigrants occurs very easily, including through knowing or easily learning the language of the host country.

Indicators of remittances dynamics indicates a variation over time. The dynamic analysis of remittances denotes a positive trend until 2013, with the exception of 2009, in the context of the recent international financial crisis.

Table 1. Dynamics of personal remittances geographical distribution, millions USD dollars

	2012	2013	2014	2015	2016	2016 to 2015, %
Russia	1,173.21	1,293.60	1,201.81	673.07	546.19	81.1
Italy	180.86	230.10	221.32	194.00	192.49	99.2
Israel	82.71	109.40	113.59	129.71	163.70	126.2
USA	73.70	80.05	91.44	147.37	106.64	72.4
Germany	19.11	24.22	29.34	36.11	50.48	139.8
Ukraine	60.74	74.45	40.64	27.80	16.41	59.0
Romania	9.51	11.77	12.01	12.49	11.82	94.6
Belarus	5.96	6.77	7.37	5.44	3.80	69.9
Other countries	227.06	239.09	248.42	223.92	286.24	127.8
CIS	1,262.18	1,395.41	1,266.82	725.90	590.15	81.3
Rest of the world	570.69	674.05	699.11	724.03	787.63	108.8
<b>Total</b>	<b>1,832.86</b>	<b>2,069.6</b>	<b>1,965.94</b>	<b>1,449.93</b>	<b>1,377.78</b>	<b>95.0</b>

Source: authors calculations based on data from NBM

Moldova's economy is slowly losing one of the main supports that has animated its growth in recent years. Moldovans registered a record in 2016, transferring home to relatives the lowest amount during the last decade. During 2010-16, remittances accounted for about 20

percent of income growth for the poorest 40 percent of population. In 2006-08, the remittances were greater than the population's social protection payments as pensions, child allowances, compensation and other forms of social support. According to the NBM,

migrants sent less money in recent years compared to the amounts received over the last decade. The amount of remittances was 1,449.93 billion dollars in 2015 and 1,377.78 billion dollars in 2016. Russia still remains the main remittance provider. Nevertheless the value of those remittances has decreased twice during the analyzed period. Lately in Moldova more money are transferred from Israel, USA, Germany, UK, and Romania. According to National Bank data, the volume of remittances transferred to Moldova by citizens working in abroad increased with 11% in 2017 compared to 201 during the first 11 months of 2017. In total, people working abroad have sent home 1.09 billion dollars during this period. In November, money transfers of Moldovans working in EU countries accounted 36.4% of total remittances during this month. Also in November, money transfers from CIS countries accounted 32.5% of total remittances in the month, and 31.1% of remittances were from other countries. Most of transfers (47.4%) were made in dollars, followed by transfers in euro (44.2%) and Russian rubles (8.4%). Approximately one third of the economically active population of the Moldova is working abroad, making remittances the most important source of foreign exchange reserves. Due to the limited production capacity of the economy, reflected in low productivity and the small number of new jobs, the remittances were the primary driving force for increasing private consumption and imports. The contribution of migrant remittances to the economy is also evidenced by the fact that Moldova is on the international top on at least two indicators - the ratio of remittances to GDP and total annual exports.

As a share of GDP, remittances have risen steadily from 5.1 percent in 1996 percent to a peak of 34.5 percent in 2006, a period of substantial poverty reduction, but also characterized by a decline in labor force employment (Figure 2). Until 2014, remittances accounted 26 percent of GDP, situated after two other former soviet countries, Tajikistan the Kyrgyz Republic, Moldova was the most remittent-dependent in

the region [1,2]. Overall, about a quarter of the population benefited from remittances in 2014. Among the “not poor” population 26.7 percent benefited from remittances, and remittances accounted 54.6 percent of their income.

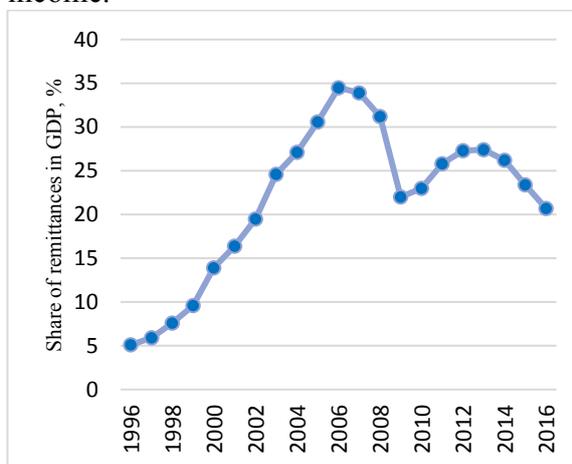


Fig. 2. Share of remittances in GDP, %

Source: Own calculation based on NBS and NBM data

Although among the poor a smaller share benefited from remittances, only 14.9 percent in 2014. Nevertheless those who benefited were highly dependent on them, accounting more than half of their incomes. The share of remittances in household disposable income was twice higher for rural areas households. Together with pensions, migration and remittances have contributed to poverty alleviation and stimulated wellbeing of rural population. Households from rural areas benefited more from remittances (56 percent). Remittances have helped many households out of poverty and stimulate their well-being. During 2014, 17.9 percent of the “non poor” would have become poor if they were not receiving remittances. Among households that receive remittances, 60 percent would be placed in the inferior quintile without remittances. Remittances helped to move 75 percent of these households to higher-income groups. They also contributed to reducing inequalities - the Gini coefficient - from 0.29 to 0.22. However, not all households benefit from remittances income. The share of emigrants in the total population varies by county. For example, the highest emigration rates were recorded in a poorer region from southern Moldova. Thus, in Gagauzia, up to

34 percent of the adult population work and live abroad. The share is much lower in the northern part of the country [4].

The downward trend in the volume of remittances is explained by migratory behavior linked to the decrease of migrants emotional connection with the country of origin, and consequently, together with decrease of attachment will occur a decrease of the remittances symbolical significance [5]. At the same time, as a result of migration stability the propensity to make remittances will gradually decrease. Thus Moldovan migrants' remittances will continue to decrease in the near future, this fact being frequently highlighted in Moldovan officials' speeches, as well as governmental documents such as national strategies, action plans etc.

On the other hand, in the context of permanent migration, a number of studies have shown that we can still expect a strong link between migration and development, even if its dynamics are changing. In the case of permanent migrants, it is noticed over time that their income increases as a result of greater individual and collective autonomy, but also through the accumulation of resources and capital. Thus, migrants improve not only their economic position but also their social status, by resolving or diminishing the status dilemmas, in the sense that they become recognized as full members of the host society, their efforts are recognized professionally, many of them are retrained or pursue full time studies in the host country. The development potential and the willingness to contribute in various ways to the modernization of the state of origin will intensify the socio-cultural and economic integration of migrants [8].

Remittances are the third source of income for Moldovan families after wages and social payments. Incomes of migrants are affected by the economic conditions of the host country. In the case of Moldova, since 2008, the volume of remittances has decreased significantly due to the Russian financial crisis, which is also explained by the considerable number of economic migrants in this country. As for the purposes of money use from abroad, we know that once they

reach their recipients in Moldova, between 60% and 90% of the money are used to cover current expenses, only 10% - 20% are included into savings and 5% -15% % directed to investments [6, 15]. Growth in consumption is mainly due to remittances [7]. Thus, according to World Bank estimates, the over 40% growth in consumption of poor households due to the fact that these families are recipients of remittances.

The calculations show that only a small part of migrants' earnings could be invested over time, thus having a potential for multiplying development [10]. Unfortunately, in such cases, we could talk about removing causes of poverty through remittances and not necessarily a form of money-induced development. Moreover, the significant proportion of foreign financial aid coupled with the main purpose of spending money has a negative effect on the degree of poverty of non-migrant families, while among migrant families it contributes to formation of certain categories of financially assisted people. In the long run, this will add to the remittance dependence of the aforementioned families and that of the entire national economy.

Although we are tempted to believe that the money sent and spent in Moldova should bring clear and direct benefits to the national economy, this assumption cannot be validated when a significant part of consumer goods for which the money from abroad are spent mostly on imported goods and not produced locally. Migrants' upward demand for imported goods, which directly increases consumption, can harm local producers by lowering the competitiveness of goods produced domestically. Moreover, the data indicates that financial funds entering in Moldova through remittances contribute in a certain way to the development of the countries where imported goods are produced [6, 7]. Most countries where remittances play an important role in economic growth have implemented various policies to better use the potential of those financial resources. Thus, they can facilitate migrants' and their families' access to more advantageous credit, insurance products, pensions, or business opportunities. In this way, the implementation of well-

targeted policies to exploit the potential of remittances can have a substantial impact on the development of communities and even countries of origin. International practices suggest that the first step towards transforming remittances into investment should be to formalize those transfers. The popularization of formal ways of remitting money from abroad is most often facilitated by lower costs for these type of services, followed by market liberalization for rapid money transfers and the intensification of competition. Other important factors are the extension of adequate infrastructure to localities necessary for the rapid money transfer and the implementation of information technologies.

Along with expanding access to formal money-making mechanisms, emigrants and their families are encouraged to open bank accounts and deposits in many countries. In this way, customers of money transfers became bank customers, motivated to keep their savings in bank accounts and to contribute to the lending development in the country. The main incentives are the possibilities to obtain interest for money stored in bank accounts, a higher level of security compared to keeping money in cash and the possibility of obtaining a more advantageous credit.

A logical continuation of the formalization of money remittances procedures from abroad and the popularization of saving tools connected to these resources is the development of an advantageous credit line for emigrants and their families. Given the fact that the person has a certain record of sent remittances and has a saving account, the bank may grant a loan at a lower rate and terms of the pledge less demanding. In many cases, this category of customers benefit from loans without the obligation to pledge certain assets, because the remittance inflows are a sufficient guarantee for the bank. Countries whose emigrants have well organized diasporas abroad, develop programs to support the remittance investment [21]. According to this, every dollar invested by the emigrant community is backed by another dollar (expressed in national currency) from

the government, which generates investment incentives into the community and amplifies the benefits of these initiatives. It is appreciated the fact that in Moldova are taken measures to attract remittances into investments as the Program 1 + 1 implemented by the Government starting with 2010. Remittances from abroad can facilitate the access of migrants and their families to various insurance products: life, health, accident insurance, or against risks associated with the operational activity of SMEs. Some remittances can be used to pay premiums for these types of insurance. In most European countries in Europe exist private pension funds that allow migrants to benefit from a retirement pension in the country of origin when the retirement age is reached. This product is important because in many countries emigrants cannot claim state pensions because they do not contribute to the public pension fund in their country of origin.

## CONCLUSIONS

External labor migration is due to large disparities between living conditions of individuals in different countries. The totality of the economic, financial, political, socio-cultural, legal-organizational and geographic factors existing in a country can either attract (pull factor) or reject (push factor) the potential economic migrants, and characterize the work migratory climate. Among the objective and subjective factors that determine the migratory climate the most important is the levels and dynamics of wages and incomes. The "barometer" characteristic of migratory directions serves to align the countries in a rating based on migration climate score, which being favorable to the recruitment of labor force from abroad defines an immigrant climate, or unfavorable qualified as emigration climate.

Currently there are distortions in the official statistics of remittances. This is largely due to the fact that some of the remittances are transferred through informal systems. In addition to the data collected through statistical reports, the Central Banks carry out a series of estimates and adjustments to

improve data quality and completeness. Registered remittances may be partial or may be overestimated.

The phenomenon of labor migration generates a multitude of economic, demographic, social and political effects. This phenomenon also presents advantages and disadvantages for all the parts involved: starting from the migrants themselves and their family members, the localities of the home and the destination country, the economy sectors in which they have worked or currently work during the migration, the remaining population in the country of origin and the population of the host country, the economies of both home and host country.

The inclusion process of remittances into the financial circuit of national economy have its role in to support a country's economic growth and development, shows that remittances are financial flows from abroad, and certain part of these funds are "leaked" back abroad. In order to maximize the benefits of remittances, macroeconomic policies should focus on minimizing "spent of remittances" abroad, both directly and indirectly.

Income-related research shows that remittances enter the financial circuit from migrant families that spend these "funds" on consumption or investment purposes and as a result their effects spread across the entire economy. The premise that remittances are private money of migrants suggests that, under market conditions, the state does not have direct tools to affect the process of training, distribution, redistribution and use of remittances funds.

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