

Working Paper
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Migration and Poverty Reduction in Moldova

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C O N T E N T S

Abstract	4
1. Poverty and Development in Moldova	4
2. Migration in Moldova	8
<i>2.1 Internal and Regional Migration</i>	<i>8</i>
<i>2.2 Labour Migration</i>	<i>8</i>
<i>2.3 Human Trafficking</i>	<i>12</i>
<i>2.4 Return</i>	<i>13</i>
3. Policies	13
<i>3.1 Policies on Development</i>	<i>13</i>
<i>3.2 Policies on Migration</i>	<i>15</i>
4. Impact of Migration on Development	17
5. Conclusions	21
6. Policy Recommendations	22
7. Research Gaps	23
References	24

Abstract

This paper provides an overview of migration and poverty in Moldova, as part of a review conducted by the Sussex Centre for Migration Research on migration and poverty in three regions of Eastern Europe and Central Asia in 2006. The research included a review of available literature, and field-level discussions with policy-makers in Chisinau in October 2006. The paper explores the context of poverty and development and general migration trends, before focusing on policies orientated towards migration management, and the broader impact of migration on poverty. It concludes with a number of policy recommendations.

1. Poverty and Development in Moldova

The dynamics of Moldova's economic relations with Russia and other Commonwealth of Independent States (CIS) have had a tremendous impact on the country's economic stability. Before independence in 1990, the Moldovan economy was interlocked with the Soviet economic system not only through 'the mechanism of the inter-republican division of labour and economic ties with the other union republics', but also because of 'an almost complete lack of domestic energy resources, of non-agricultural raw materials, machinery, equipment and components for production, and of subsidies for the country's agrarian sector from the Union budget' (Republic of Moldova 2004: Chapter III). This explains Moldova's reliance on the Russian and CIS market. For example, until 1998, 60 per cent of Moldova's exports headed to Russia alone.

Since independence, the Moldovan economy has experienced a number of shocks. First, conflict with the separatist province of Transnistria meant that the Chisinau government lost control over the country's eastern border, as well as its main energy and industrial plants. According to the Economic Growth and Poverty Reduction Strategy Paper (EGPRSP), the conflict 'led to the disruption of nearly all the important economic systems including the monetary and credit system, the banking sector, infrastructure, customs administration, and systems of education, health care, and social security' (Republic of Moldova 2004: Chapter V). Trilateral talks involving Moldova, the European Union (EU) and Ukraine have made some progress, including an important agreement on customs stamps between Ukraine and Moldova, whereby Ukraine recognises only the new Moldovan customs stamps issued by Chisinau. This increases Moldova's control over exports originating from Transnistria (European Commission 2004).

A second major problem was the 1998 Russian economic crisis, which hit the Moldovan economy hard. In 1998-99, the country's industrial output fell by 25 per cent, agricultural output by 20 per cent and exports decreased by

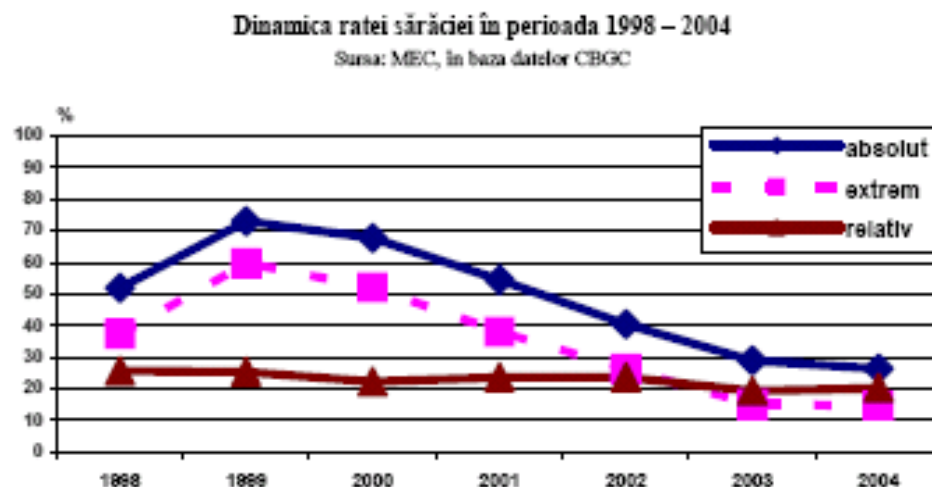
almost half. In 1999, GDP was only 34 per cent of the 1989 level, industrial output 32 per cent, and agricultural output 50 per cent (Government of Moldova 2004: Chapter III). Since the Russian crisis, Moldova has turned to the western market. The EU, for instance, has emerged as Moldova's main trading partner since 2003, ahead of both Russia and Ukraine, even though Moldova is only the EU's 95th largest trading partner. In 2003, agricultural products, textiles and clothing were the country's major exports to the EU.¹ Imports have also increased significantly, although the largest proportion still comes from the CIS (US\$547m) followed by the EU (US\$426m) and Central and Eastern European (CEE) countries (\$184m).² In 2006, there appears to have been a dramatic reduction in exports to CIS countries, and an increase in exports to Bulgaria and especially Romania, linked in part to the introduction of a ban on imports of Moldovan wine in Russia, and a swift reorientation of wine exports to Romania.

Partly reflecting the above factors, it was estimated that by 1999, nearly 80 per cent of the population of Moldova lived below the poverty line (UNDP 2003: 231). However, since 2000, both overall poverty and extreme poverty have declined, with just over a quarter of the population now living in poverty in 2004 (Figure 1). Moreover, although the risk of poverty is higher in small towns and rural areas, reflecting an abrupt decline of both industrial and agricultural employment in the post-independence period (EBRD 2005: 10), poverty levels are now declining in all areas (Figure 2). Interestingly, the IMF estimates that one third of poverty reduction achieved from 2002-04 has been due to inequality reduction – i.e. redistribution among households, whilst two thirds can be attributed to consumption growth (IMF 2006a: i). This IMF report underlines that ‘... (u)nder these circumstances ... Moldova manages to achieve the intermediary targets for poverty reduction identified in the Millennium Development Goals, whereas the slowdown of the poverty reduction pace raises concern’ (ibid.).

¹ http://ec.europa.eu/comm/external_relations/moldova/intro/index.htm

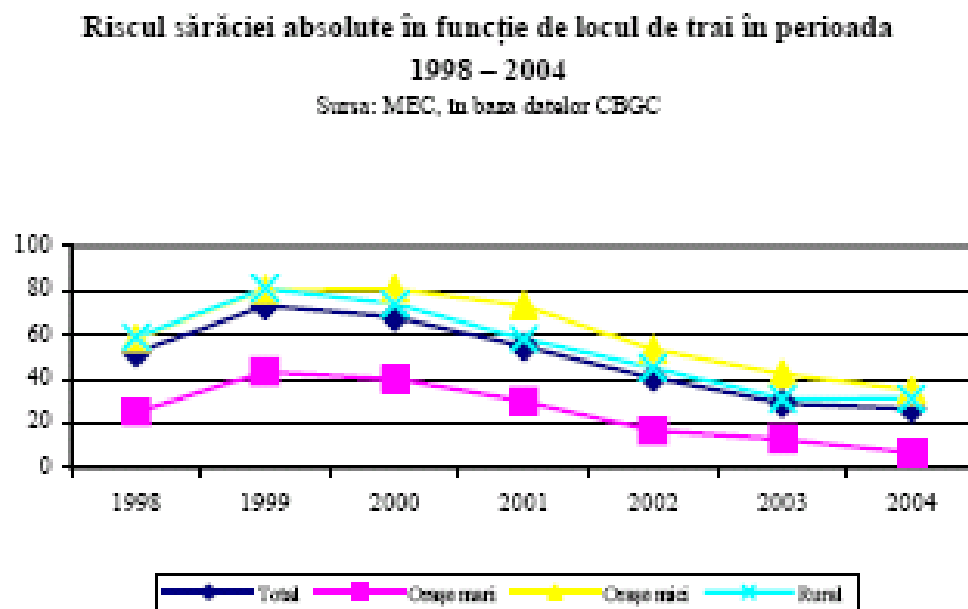
² <http://www.scers.md/view.php?id=725> and <http://www.scers.md/view.php?id=731>

Figure 1. Changes in the Poverty Rate in Moldova, 1998-2004



Source: MEC (2005)

Figure 2. Absolute Poverty in Rural and Urban Areas, 1998-2004



Source: MEC (2005: 3)

One area of hope is in the field of small and medium-sized enterprises, which are seen as having high efficiency and potentially playing a particularly important role in country's economy. SMEs currently employ around 30 per

cent of the workforce and account for about the same proportion of national sales. Moreover, from the total number of profit making companies, 85 per cent are SMEs, of which 60 per cent are micro-enterprises (Republic of Moldova 2004: Section 6.4.4.).

Nonetheless, there remains a stark contrast between the social and economic development of Chisinau and the rest of the country. For example, in 2003-04, 60 per cent of all investments in fixed capital were channeled to the two main cities Chisinau and Balti (Republic of Moldova 2004; IMF 2006a). Meanwhile, the latest World Bank (2006) Poverty Update estimates that whilst GDP growth and poverty reduction went hand in hand from 2000 to 2002, since then GDP has ceased to reduce poverty, and rural poverty has actually started to grow. The problem of rural poverty relates primarily to stagnant or falling prices for agricultural commodities at a time when the cost of farm inputs – including diesel and labour – has been increasing. However, also significant is the government regulation of exports, a stalled land reform, and a poor harvest in 2004.

Those most affected by poverty are children and the elderly. Child poverty is an acute problem as two thirds of poor households have children. Moreover, it is estimated that one fifth of children live in absolute poverty (MEC 2005: 6). The elderly (over 60 years old) represent around 13 per cent of the population, but 28 per cent of the elderly are poor. Data suggest that this group is particularly vulnerable due to low pensions, poor health and high living costs (BNS 2005). Poverty is also linked to housing conditions: according to the EGPRSP, there are 82,000 families waiting for a dwelling or housing improvement – 81,100 of these in urban areas. This reflects the fact that more than 30 per cent of available housing in urban areas has deteriorated significantly (Republic of Moldova 2004: Chapter VI).

Poverty is also related to unemployment, with the number of registered unemployed persons increasing from 57,800 in 1999 to 62,300 in 2003, and a reduction in the number of unemployed women being outstripped by an increase in the number of unemployed men (Table 1). However, it must be noted that not all unemployed people register with employment agencies. Moreover, unemployment alone does not provide a full explanation for poverty, as 68 per cent of poor households still have at least one person employed (MEC, 2005: 7). This suggests that wages are generally below subsistence levels. According to the Ministry of Economy and Trade, 'employment is not a guarantee against poverty' (MEC 2005: 10).

Table 1: Unemployment by Gender, 1999-2003

	Male	Female	Total unemployed
1999	26,000	31,800	57,800
2000	25,000	25,800	50,800
2001	32,600	26,900	59,500
2002	36,100	27,200	63,300
2003	37,100	25,200	62,300

Source: http://www.statistica.md/statistics/dat/697/en/Somaj_1995_2003_en.htm

2. Migration in Moldova

2.1 Internal and Regional Migration

Just as for poverty, levels of migration in and from Moldova have been affected significantly by the break-up of the former Soviet Union. The 2004 census suggests that 903,700 people, or 26.7 per cent of the population were internal migrants, in that they had changed their residence at least once since they were born. A total of 44,400 people moved to Chisinau between 2002 and 2004, whilst just 5,600 moved to elsewhere in the country. Other major cities (Balti and Cahul) also experienced considerable inflows. According to the 2004 census, there are also 180,255 immigrants in Moldova, equivalent to around 4.3 per cent of the population. Of these, most are from Ukraine (43.7 per cent) or Russia (42.3 per cent).

2.2 Labour Migration

Much more significant than internal migration has been the growth of international labour migration, both to Russia and other CIS countries, and increasingly to Western Europe. Estimates of the volume of international migration from Moldova come from a number of sources, although these are not entirely consistent with one another, even taking into account the likelihood of rising migration over time. According to the 2004 Moldovan Census, 273,000 people (8.1 per cent of total population) were declared as living abroad and temporarily absent from the household. Of these, just under half (47 per cent) had been abroad for more than a year; most were young (38 per cent were aged 20-29, and a further 23 per cent aged 30-39); and the vast majority (89 per cent) was working abroad.

However, two nationally representative sample surveys carried out in Moldova specifically on migration paint contrasting pictures, which suggest some grounds for caution on numbers. On the one hand, a survey conducted in 2003 by the Moldova Microfinance Alliance and the Soros Foundation found that 29.3 per cent of the 4,500 households surveyed had at least one migrant worker living abroad, leading to an estimate that 265-285,000 Moldovans were then working overseas (Ghencea and Gudumac 2004: 41). In contrast, a study for UNDP conducted by CBS-AXA (2005) at the end of 2004 using a similar methodology estimated that 399,000 individuals were abroad at the time of the survey, whilst a further 172,000 had been abroad during the previous year and had returned, making a 'migrant contingent' of around 571,000. When a further 119,000 who expressed their intention to go abroad in the next six months are added, it is not surprising that local newspapers report that over 650,000 Moldovans are emigrants, over twice as much as the census figure. A similar figure for the number abroad has also been produced by IOM, based on reports from embassies overseas, and the Russian Ministry of Labour, although these figures are less clearly robust.³

Where there is some agreement between different sources, it concerns the gender composition and destination of international migrants (Table 2). For example, both the census and the two large sample surveys confirm that around 60 per cent of those living abroad are male, whilst all identify the main destination as Russia (around 55 per cent), followed by Italy (just under 20 per cent), Portugal (4 per cent) and Greece (4 per cent). Both Ghencea and Gudumac (2004: 45-6) and CBS-AXA (2005:12-3) also confirm that a large majority of migrants have at least secondary education.

³ This IOM report from 2004 states that 'according to estimates from the Moldovan Embassy in Italy, there are 80,000 Moldovans residing there. The Italian estimate is 300,000. The Russian Ministry of Labour estimates that there are between 200,000 and 220,000 Moldovans in Russia. There are a further 50-60,000 Moldovans in Greece and in Portugal. For a certain period of time, it was easier to go to Italy, but nowadays people would rather go to Germany, Holland, UK and Ireland. Unfortunately, the statistics on people's movements are incomplete' (IOM 2004: 113). It is, however, impossible to check the veracity of these figures.

Table 2: International Migration by Destination and Gender

	Distribution of migration by destination			Gender distribution of migration by country of destination		
	Overall (%)	Male (%)	Female (%)	% male	% female	Total
Italy	16.3	9.3	28.4	36.5	63.5	100.0
Russia	61.9	72.2	43.7	74.3	25.7	100.0
Turkey	2.1	1.0	3.9	32.2	67.8	100.0
Portugal	4.5	4.8	4.0	67.9	32.1	100.0
Greece	2.5	1.2	4.8	29.6	70.4	100.0
Ukraine	2.2	2.2	2.2	63.2	36.8	100.0
Other countries	10.5	9.3	13.0	-	-	100.0
Total	100	100	100	65.9	34.1	100.0

Source: CBS-AXA 2005: 15

According to Ghencea and Gudumac (2004) Moldovan migrants choose Russia due to its large labour market, free movement, reduced migration costs and socio-cultural proximity. The authors point out that migrants in CIS states are mainly from rural regions (62 per cent), while those going to Italy and other southern European states such as Spain and Portugal are predominantly from urban places (62 per cent). Moreover, there is evidence that migrants going to Western countries come from families that are better off than migrants going to CIS states (ibid.: 43-5).

The CBS-AXA (2005) study suggests that women are more likely than men to go to Italy, whereas men are more likely to choose Russia as their destination. This gender distribution is explained mainly by the sectors in which migrants are employed. For example, the construction sector in Russia and Ukraine (as well as Portugal) attracts men, whereas women are attracted to the services sector (catering, housekeeping, hospitality) in Italy (ibid.: 16). Overall, CBS-AXA estimate that around 60 per cent of migrants working in Russia, and 40 per cent of those working in Portugal are employed in construction, whereas 40 per cent of Moldovans in Italy work in social care. In contrast, most Moldovan migrants working in Greece and Cyprus are employed in agriculture (ibid.: 20; see also Table 3).

Table 3: Work and Occupations of Moldovan Migrants by Gender

Area of work	Distribution of migrants (%) n=715	Gender distribution	
		% male	% female
Construction, maintenance	30.9	95.0	5.0
Baby-sitting, personal care and social assistance	31.3	4.0	96.0
Trade-related activities	10.8	36.4	63.6
Plant, factory workers	9.8	68.6	31.4
Technical and mechanical services	6.3	95.6	4.4
Agriculture	4.5	75.0	25.0
Other	6.4	60.9	39.1
Total	100.0	54.5	45.5

Source: Ghencea and Gudumac 2004: 54.

According to CBS-AXA, just under a third of all migrants stay abroad for more than a year, whilst a quarter stay abroad for 6 months to a year and over 40 per cent are seasonal migrants working abroad for less than 6 months. The length of stay also appears to vary between countries, as people stay for shorter periods in Russia and elsewhere in the CIS than in EU countries (CBS-AXA 2005: 11). One consequence of this migration is that the population of Moldova (excluding Transnistria) has decreased from nearly 3.7 million in 1989 to just under 3.3 million in 2004⁴ which, given a low population growth rate, is consistent with the notion of 300,000 Moldovans living abroad in 2004.⁵ Moreover, the country's urban population declined by more than 200,000, while the number of rural residents decreased by 100,000, suggesting that most migrants (more than two thirds) are from urban areas.

One distinctive feature of migration from Moldova is that a significant proportion of those leaving are relatively well-educated. For example, according to the Moldovan census, some 76 per cent of international migrants had at least secondary level education, whilst according to Ghencea and Gudumac (2004: 46-7), 26 per cent of migrants had completed higher education, and 51 per cent college and/or professional school. Prior to migration, a third of migrants in this study were employed in the public sector – in the education or health systems or in local government -- whilst a quarter were self-employed or employed in the private sector. However, the jobs they have in the destination countries do not correspond to their qualifications. Thus the majority of those who had worked in public sector now have low-qualification jobs such as house-keeping, baby-sitting or work in construction

⁴http://www.statistica.md/recensamint/Totalurile_recensamintului_populatiei.doc,
http://www.statistica.md/recensamint/Populatia_medii_sexe.doc,

⁵ Moldova's annual population growth rate for 1975-2003 was 0.3 per cent. See UNDP (2005: 232-4)

(Ghencea and Gudumac 2004: 54). By 2003, there were also more than 4,000 young Moldovans studying for graduate or postgraduate degrees abroad, most of them (72 per cent) in Romania (BNS 2003).

ILO Moldova estimates that almost 30 per cent of Moldovan migrants are professionals. As Jana Costachi of ILO Moldova puts it, there is 'a class of educated but very poor people who also have children. (...) They were employed in the public sector before they left. They are professors, teachers, architects, engineers, doctors, trained nurses. They used to work in social fields critically under-funded over the last decade' (quoted in Tomiuc 2004).

The migration of the highly skilled may cause some problems for public services, but it can also have beneficial effects in the form of a counter flow of remittances, investments, new knowledge, attitudes and information (de Haas, 2005: 5). This is suggested by the hope expressed by another interviewee: 'Many very clever children leave the country after graduation. They leave because they can't find work here, and they are forced to leave. It is the clever and very clever youths who leave. I reckon that if all these young and clever people will come back, something will change in our Moldova, our Bassarabia [Moldova's old name]. We hope for that, we hope something will change' (Mr. Pamfil, quoted in Tomiuc 2004).

2.3 Human Trafficking

Moldova's National Bureau for Migration estimates that most migrants work abroad without a contract, suggesting high levels of 'illegal' migration (see also Table 4). However, it is not possible to equate this illegal or irregular work directly to human trafficking. Ghencea and Gudumac (2004) classify Moldovan migrants according to their 'degree of legality', with 36 per cent 'fully legal', 13 per cent having entered illegally, but now having a legal residence and work permit; 14 per cent having entered legally, with legal residence, but working illegally; 21 per cent having entered legally, but now living and working illegally; and finally 15 per cent who are fully illegal (Ghencea and Gudumac 2004: 72). The authors estimate that at the time of their survey in 2003, 70 per cent of Moldovans in CIS countries were working illegally, whereas 59 per cent of Moldovans working in Italy had an appropriate legal status (ibid.).

Table 4: Legal Status of Moldovan Migrants

Country	Legal (%)	Illegal (%)*
Italy	24.9	75.1
Russian Federation	27.4	71.5
Turkey	10.0	90.0
Portugal	69.9	30.1
Ukraine	12.1	87.9
Total	28.4	70.7

Note: * Differences up to 100% are due to non-responses

Source: CBS-AXA 1995: 19

In contrast, there are no reliable estimates of the number of people trafficked from Moldova: the only certain data are the number of trafficked people asking for support from the police, IOM or other organizations. These numbers are comparatively low. For example, IOM Moldova reported assisting 364 women in 2001, 235 in 2003, and 464 in 2005 (IOM 2004: 112; US Department of State 2006).

2.4 Return

To date, there appears to be relatively little permanent return of migrants to Moldova; indeed, emigration is probably still growing. Nonetheless, the CBS-AXA (2005) study suggests that at the time of their survey there were 172,000 migrants who had returned, whether temporarily or permanently, and there is certainly potential for return in the future. For example, Ghencea and Gudumac (2004: 69) estimate that around 60 per cent of migrants want to return to Moldova after they have accumulated enough capital for a decent life for their family in Moldova, while just 15 per cent of those interviewed expressed their intention to settle abroad. The CBS-AXA study also reports that nearly two-thirds of those with family members abroad did not believe they intended to settle there, whilst just under 15 per cent of those who had returned to Moldova reported that they will not go abroad again (*ibid.*: 12).

3. Policies

3.1 Policies on Development

The long-term development priorities for Moldova are set out in the country's Economic Growth and Poverty Reduction Strategy (EGPRSP), and can be summarised as 'sustainable socially oriented development', the 'reintegration of the country' and 'European integration' (Republic of Moldova 2004: Chapter V). 'Sustainable

socially oriented development' is both a long-term objective and a 'medium term development principle'. It refers to 'improved political and economic governance', private sector development (price and trade liberalization, competition, deregulation), and the redistribution of power between central government and local authorities, especially in regard to healthcare and education management and the promotion of Millennium Development Goals. 'Reintegration of the country' refers to the Transnistria conflict. Meanwhile, 'European integration', is a 'fundamental development objective, which means the consistent implementation of common European values, standards (...) and economic development models'.

Relations between Moldova and the European Union are based on the Partnership and Cooperation Agreement in 1998 and the EU-Moldova Action Plan in 2005, which as part of the European Neighbourhood Policy (ENP) stipulates the gradual harmonisation of national legislation with European legislation in the fields of trade, business, customs, banking, tax and social systems, and infrastructure (Euractiv.com 2006). The prospects for further cooperation between EU and Moldova depend on Moldova's success in achieving this harmonization across the board. However, issues of specific importance to migration, both within the Agreement and Action Plan, and in the EGPRSP, are those concerning the labour market; rural and private sector development; and youth unemployment.

In particular, prevention of unemployment, especially among young people, is a major objective of the EGPRSP. This is to be achieved through reducing the barriers to job creation, supporting small and medium-sized enterprises and improved services and training for the unemployed and socially vulnerable groups (Republic of Moldova 2004: Section 6.17). As youth (aged 15-29) represent a quarter of the total population, youth policies have an important role in raising employment, and thus in principle reducing migration and promoting local development. However, the EGPRSP stresses that young people are little involved in decision-making and there is currently inadequate assessment of their needs and interests.

The EGPRSP objectives regarding youth are to 'improve employment and self-employment prospects for young people; increase the accessibility to educational and health services; stimulate the involvement of young people in the decision-making process by creating local youth councils; and to facilitate access to information, to services' (Republic of Moldova 2004: Section 6.18). However, increasing employment prospects is linked to the development of the private sector. Of special interest are the measures aimed at supporting or attracting back young people working abroad, achieved through creating work opportunities in the country in order to reduce youth emigration and stimulate return, and bilateral agreements with other countries in order to legalise the situation of young people working abroad.

Overall, the EGPRSP is focused mainly on the economic aspects of poverty reduction and less on the development of civil society and human resources. For example, the EGPRSP acknowledges that poverty is a multidimensional phenomenon, encompassing not only reduced income, low consumption and unemployment, but also poor nutrition and health, limited access to education and low level of participation in decision making. However, the lack of participation is relatively briefly mentioned, while other aspects are discussed more in-depth (Republic of Moldova, 2004: Chapter IV).

3.2 Policies on Migration

The EU-Moldova Action Plan is concerned not only with development issues, but also places great emphasis on cooperation in the field of migration. It sets out areas of strategic priority, including actions aimed at poverty reduction, private sector led growth, comprehensive state border management, the fight against human trafficking, and migration management, including the conclusion of a readmission agreement between the EU and Moldova. In parallel with readmission agreements, it also sets up a commission to 'discuss legal migration to the EU, current situations in Member States, management structures for legal migration, including to explore ways to facilitate legalisation, legal migration of the labour force and social protection of migrant workers, as well as programmes for voluntary return and re-integration'.⁶

In turn, the national legal framework for migration in Moldova derives from 1994, and includes a number of laws passed since 2000, including laws on citizenship, refugee status, and trafficking in human beings⁷. Key amongst these new laws was the Law on Migration (2002), which established a National Migration Bureau with overall responsibility for both emigration and immigration. However, in 2006, as part of a wider reform of the central public administration, the functions of this Bureau were divided, with a smaller Bureau responsible for immigration and asylum becoming part of the Ministry of Internal Affairs, and emigration becoming the responsibility of the Ministry of Economy and Trade. New legislation is under consideration concerning labour migration, leaving the legal and policy situation in something of a state of flux.

One important area of policy-making on migration for Moldova concerns the signing of bilateral labour agreements with third countries. According to a respondent in the Ministry of Economy and Trade, Moldova currently has such

⁶ ENP Action Plan: §47

⁷ See <http://www.migratie.md/about/moldova/dept/legislation/> and IOM and Sida. Migration Management Moldova Assessment.

agreements in force with Russia, Ukraine, Belarus, Azerbaijan and Italy, whilst an agreement with Portugal is prepared but not yet signed.⁸ According to the website of the former National Migration Bureau, agreements also exist with Spain, Benelux, Greece and Korea, although these agreements all relate primarily to social protection issues, and none are believed to include active quotas for recruitment.

Of course, temporary worker schemes may be initiated regardless of such agreements and may be mediated not only by government, but also by specialised labour recruitment agencies and indeed enterprises looking for knowledge exchange with peers from abroad. An example of such a scheme between Moldova and Slovenia is provided by Ellerman (2003), where a World Bank-funded skills exchange programme was transformed into a temporary labour migration scheme. According to Ellerman, the scheme encouraged the transfer of industrial and technical skills, the accumulation of savings, and investment and subcontracting by Slovene companies in Moldova. The six-month worker placements that were at the core of the scheme were so successful for both parties that a company was formed in Slovenia to run the programme entirely on a private basis (*ibid.*: 26).

At the same time, bilateral labour agreements are also important in the context of possible legalisation of Moldovan workers who are living or working abroad illegally. Ghencea and Gudumac (2004: 55-7) and CBS-AXA (2005: 19) both estimate that around 70 per cent of Moldovan migrants working in Russia are doing so illegally; similarly, most migrants working in Italy, Ukraine and Turkey are 'illegal' in some respect. Russia has promoted recently a set of laws to facilitate the legalization of CIS workers⁹, whilst Italy, Spain and Portugal have already passed regulations for the legalization of migrants (and Moldova has already bilateral agreements with these states.) There are no studies documenting the impact of bilateral agreements, or the laws concerning the regularization of Moldovan migrants abroad. However, Ghencea and Gudumac (2004: 61) argue that generally illegal migrants remit less than legal migrants, reflected in the fact that the share of remittances sent by this group constitutes only about 43 per cent of the total inflow of remittances.

In other areas, migration policies are rather less substantial. For example, at present, no systematic policies exist on the part of the Moldovan government to reach out to Moldovans living abroad, either to protect their rights or to mobilise them for the development of the country. Such a 'diaspora' policy is not perhaps as straightforward in some other countries of the region, as the Moldovan 'diaspora' is not easy to define, given the country's complex

⁸ Interview with Ministry of Economy and Trade, 10 October 2006.

⁹ <http://www.migratie.md/news/946/>

relationship with its neighbours, Romania and Ukraine, and the presence of many Russians in the country during Soviet times.

Meanwhile, Moldova also has readmission agreements with Poland, Hungary and Romania, and is due to implement similar agreements with Ukraine, Lithuania and Italy (European Commission 2004). However, readmission does not appear – at present – to be a major issue. Finally, although the government is developing a policy on the engagement of migrants with the state pension system, this seems to remain more aspiration than reality.

4. Impact of Migration on Development

The impacts of migration on Moldova's development are both economic and social, although the relatively short period of mass international migration – essentially since the mid-1990s – makes it difficult to isolate these clearly. Moldova has arguably become highly dependent on remittances, which according to EBRD (2006: 3) accounted for more than 27 per cent of GDP in 2004, the highest proportion of any country in Central and Eastern Europe or the CIS. Indeed, given that both Ghencea and Gudumac (2004) and CBS-AXA (2005) agree that almost half of all remittances are sent through informal channels, the level of dependence could be considerably higher.

Remittances have been the main driver of economic growth in the period since 2000, fuelling a strong and persistent increase in household consumption. The amount of money transmitted via formal channels by Moldovan migrant workers surged from US\$87m in 1996 to US\$317m in 2003 (European Commission 2004: 13). In contrast, in the first two quarters of 2003, FDI constituted just US\$20.9m millions (Ghencea and Gudumac 2004: 74). Ghencea and Gudumac (2004: 59) estimate that, on average, Moldovans working abroad earn US\$772 dollars a month, with average earnings ranging from US\$425 in Russia to around US\$600 in Greece, Turkey and Cyprus, US\$900 in Spain, Portugal and Italy and US\$1,200 in France, Germany and the Benelux countries.

Such a high level of remittance income has a number of effects. According to Ghencea and Gudumac (2004), remittances on average constituted 87 per cent of the household budgets of those interviewed, with the largest share invested either in housing (22 per cent), or 'special expenses' such as university/school fees, medical treatment, etc (20 per cent). In addition to money, more than 30 per cent of migrants send home goods such as clothes, food, household appliances, or medicine. Households' status and well-being is significantly better after migration than prior to it. Ghencea and Gudumac argue that in two thirds of migrant households, remittances

constitute the main or the only source of income. Both Ghencea and Gudumac and CBS-AXA estimate that around 30 per cent of migrant households have managed to accumulate a small amount of capital. According to the CBS-AXA research, savings range between US\$500 and US\$3,000.

Reflecting these benefits, there is little doubt that the improvement in Moldova's economic situation after 1999 is due in part to increased consumption due to remittances. According to the National Accounts, the remittances of labour migrants accounted for 8.5 per cent of gross disposable household income in 1997, and 19.5 per cent in 2002 (Republic of Moldova 2004). By fuelling domestic consumption, remittances have contributed to a decrease in poverty. However, they have also led to an increase of imports, which accentuated Moldova's trade deficit in the period 2000-2005¹⁰.

Thus according to the IMF (2006a), the high level of remittances has gone hand in hand with import growth (77.5 per cent of GDP), a worsening trade balance deficit (39 per cent of GDP), and low productivity in industry and agriculture. This suggests that Moldova's economic growth has been highly dependent on external factors, which have increased the country's vulnerability and raise doubts about prospects for sustainable economic growth and poverty reduction (IMF 2006a: ii-iv). Another effect of this inflow of cash from abroad has been to stimulate inflation. In Chisinau, prices for imported goods and apartments have escalated, leading Moldovan President Vladimir Voronin to argue that poverty in Moldova is not as serious as generally thought:

To speak about total poverty would be a huge mistake and would be humiliating for us because, if you look at the way the people of Chisinau dress and behave, and the large number of cars -- prestigious brands, such as Mercedes -- which makes driving from one side of the city to the other very difficult, then it is not the case to speak about poverty. (...) Perhaps the data is not as exhaustive as it should be (quoted in Tomiuc 2004).

At the same time, Ghencea and Gudumac (2004) estimate that only 11 per cent of savings are deposited in banks, whilst both they and CBS-AXA stress that only around 6 per cent of migrants' remittances are (or will be) invested in business (Ghencea and Gudumac 2004: 59, 63-6; CBS-AXA 2005: 14, 23-4). Looking at the connection between migration, entrepreneurship and remittances, Ghencea and Gudumac (2004: 65) argue that '22.1% of migrants' families had practiced entrepreneurial activities prior to their members' migration; 12.6% of would-be migrants themselves had practiced entrepreneurship. After migration, the number of cases where the migrants' families or the migrants themselves practice entrepreneurship has reduced by 6.2%'. However, more than 25 per

¹⁰ http://www.statistica.md/statistics/dat/757/en/Princ_ind_macroec_1997_2004_en.htm

cent of households with migrants had made some form of long-term investments, if investments in housing and land are included (ibid.: 67).

Meanwhile, a USAID report on remittances and financial markets points out that remittances have boosted savings levels in Moldova, with a steady annual increase of 20 per cent on average. This study suggests that 'more remittance savings could be attracted by the banks as only about one tenth of remittance receipts are saved with banks, whereas another roughly equivalent amount is saved under the mattress' (Sander et al. 2005: 36). It argues that remittances represent a considerable potential resource for the financial market:

Remittances still constitute a largely untapped market for deposit mobilization. (...) of the 20% of remittances flowing into savings, 45% are kept in cash in the household. This leaves an estimated US\$90 million as funds to be mobilized for deposits -- roughly equivalent to 30% of the current total term deposits by individuals (ibid.: 38).

The report recommends that banks should 'take remittance flows into account when assessing a borrower for a loan. Remittances are viewed as a positive factor, but not a decision-making factor, and cannot be assessed along with salary or other recognized forms of income' (ibid.: 38).

Meanwhile, a report on remittances commissioned by the European Commission (Food Security Programme) emphasizes the critical role of domestic labour productivity growth for Moldova's socioeconomic development and stresses that 'the economic recovery in Moldova during the last 5 years was driven largely by higher capacity utilization of existing plant, strong demand for non-tradeable goods and services, and reduced unemployment and underemployment (not least because of labour migration). If rapid economic growth is to continue in Moldova, fixed investment will soon have to increase to generate additional productive capacity' (ADE 2006: 2). The report stresses that the main impediment for Moldova's growth is the investment environment, not the lack of investible funds. Consequently, the study argues that 'efforts to improve the investment climate are appropriate' but 'special incentives for investment by migrants or forced savings of any kind would be pointless' (ADE 2006: 2). This is consistent with the conclusions of a study by the IMF on migration and remittances, which emphasises the importance of monetary and fiscal policy in promoting macro-economic stability, if remittances are to continue to have a positive effect on the economy (Cuc, Lundbäck and Ruggiero 2005).

According to the EGPRSP 'the vision for the future involves seeing remittances as a potential source of development finance and an opportunity for investment within an enhanced business environment. Better policy will encourage investment in small and medium enterprises' (Republic of Moldova 2004: Chapter V). However, this

focus on economic aspects of migration risks overlooking the fact that migrants also possess significant human and social capital. For example, migrants may be interested in initiating projects for community development (investing in infrastructure, education or healthcare).

Turning to the effects of migration on social development, a very common discourse in Moldova at present is that migration has led to a breakdown of family life, especially in the form of young children being left to fend for themselves as their parents migrate abroad. Prohntchi (2006) quotes statistics from the Ministry of Education, which suggest that in 2003, there were 22,976 registered children of school age both of whose parents had migrated abroad, while by 2005, the number of children in this situation had reached 27,951.

However, studies regarding the children of migrants seem to assume that migrants neglect their children, overlooking that other family members -- grandparents, other relatives -- are likely to be stepping in to take care of them. In addition, children of migrants benefit from remittances and may have better prospects in comparison with children from poor families that do not have members abroad. For example, Prohntchi (2006) notes that the 'share of students paying for their studies from their own private resources has increased both in private and state universities', and this is linked to the soaring remittances from migrant parents. Prohntchi (2006) concludes that there is no empirical evidence that children of migrant parents are disadvantaged compared to others; on the contrary, these children tend to be better off.

A further impact of migration has been a massive growth in interest in migration amongst youth, perhaps to the detriment of the national economy. For example, a survey of young people aged 15-29 carried out by the National Bureau of Statistics in 2005 found that nearly one fifth (18 per cent) of young people registered in surveyed households were already abroad either working or looking for work. Meanwhile, approximately 70 per cent of young people who had a job in Moldova reported that they would go abroad for work if they had the opportunity. Of these, 36 per cent said they would only be interested in a job in keeping with their qualifications, but 38 per cent said they would also accept a job they were overqualified for, and 26 per cent said they would accept any kind of job (BNS 2006: 7-8).

At the other end of the age spectrum, there is no research at present that assesses whether migration of family members has had a special impact on the elderly, besides the direct financial assistance that remittances bring. However, the fact that migrants do not contribute to the state pension system does represent a problem at the macro-level that needs to be addressed, not least because the population of the country is ageing. A Joint Staff Advisory Note of the IMF draws attention to 'the financial instability of the pension system, placing emphasis on

both demographics and migration', noting that 'among the EGPRSP priority actions, there have been considerable delays in the creation of individual pension contribution records' and 'an agricultural pension reform strategy' (IMF 2006b: 6).

With regard to migrants' own pension contributions, a report by ADE (2006) suggests that incentives for voluntary contributions 'could be strengthened by limiting income redistribution through the pension system'. This measure could be complemented by the Moldovan government lobbying for the legalisation of Moldovan migrant workers in Western Europe and for programmes for temporary migration, which would enable workers to accumulate pension claims either in Moldova or in the host country (ADE 2006: 2).

5. Conclusions

Moldova is a country with significant levels of poverty, and a recent history of substantial international migration, which is probably still increasing in volume. There appears some hope and emphasis within the country's Economic Growth and Poverty Reduction Strategy Paper that further youth migration can be limited by creating jobs internally, as well as by inducing return by creating positive incentives within the country. However, this is a policy line that is relatively unlikely to be successful in the short or medium term without massive financial support, as well as a substantial, coordinated and well-targeted campaign to existing and potential migrants that their best interests are served by remaining in, or returning to the country. Overall, given the general negative economic conditions that persist in Moldova, including high unemployment and high rates of especially rural poverty, controlling migration cannot be a major focus for government policy at this point

One reasonably promising policy option may be to invest in job creation in Moldova – including through incentives to small and medium enterprises – while simultaneously acknowledging the demand for migration, and working to facilitate this through agreements with selected countries to allow short-term or seasonal work permits. The government is already moving in this direction, but to date, the agreements signed have not produced substantial opportunities for safe, legal migration, nor have they substantially improved the situation of Moldovan migrants abroad. The reasons for this might be explored further.

In general, migration holds out some hope for Moldova – it has already led to substantial flows of remittances, stimulating a degree of domestic demand and holding out the hope both of some poverty alleviation, and of some impact on small business creation. However, remittances are certainly not a panacea (Tamas 2006); and there also seem to be some specific vulnerable groups – notably the elderly and possibly young children – whose

vulnerability may be exacerbated by migration flows. Here, there may be scope for the government and international donors to consider interim social protection measures to support such groups whilst migration flows stay high.

Among the priority actions for 2004-06, EGPRSP mentions the initiation of educational and vocational training activities through local NGOs and the development of micro and small enterprises in rural areas. Moreover, farmers' and agricultural entrepreneurs' organizations will be created 'to ensure a more efficient access to information, markets and production opportunities' (Republic of Moldova 2004: Action 284). The initiation of local associations to channel financial resources towards agriculture could be complemented by actions to encourage not only residents, but also migrants overseas to commit human or financial resources to agriculture or other community projects. In addition, migrants could be stimulated to associate with and initiate projects for their communities.

Meanwhile, the development of the private sector is seen as the driving force for sustainable economic growth in Moldova, and migrants may have a role to play here. However, reports regarding the development of the private sector suggest that the investment environment, rather than a lack of investments, remains the primary stumbling block. Large-scale remittances can play a role in stimulating much-needed banking reform – assuming that they are channeled into the banking system – but they are unlikely to play this role on their own. In this context, it is macro-economic and fiscal policy and structural reform in Moldova that are critical to the impact of migration on development, rather any particular measure geared towards migration itself.

6. Policy Recommendations

- Policies based on limiting migration are unlikely to be successful in the short term, although emphasising job creation in Moldova is sensible in that it widens the range of choice open to Moldovan workers.
- Migration has both positive and negative effects; interim social protection policies aimed at vulnerable groups who might be negatively affected in the short term (e.g. the elderly) should be considered.
- Remittances hold considerable potential for Moldova, but steps need to be taken to increase the proportion of funds flowing through the banking sector, in order to maximise their positive impact both on development, and on the banking sector itself. Useful lessons might be sought in this area from DFID's broader work on remittances and development.

- Encouragement of the use of formal remittance channels is best done through banking reform and encouragement to the development of financial products better targeted at migrants, rather than through government regulation; given widespread (and sometimes justified) mistrust of banks, it is not sufficient simply to encourage more use of banks.
- One specific recommendation is that lenders should be encouraged to view remittances as a form of income that is taken into account when assessing individuals for a loan. This might encourage the matching of capital from migrants with investment funds to promote small businesses and investment in agriculture. However, more broadly, the problem for migrants and their families appears not to be a shortage of investment capital, but the unfavourable investment climate.
- The need to address the unfavourable investment climate is critical, but doing this is not straightforward. In rural areas, measures such as liberalisation of export controls on agricultural products, land reform and downward pressure on the price of diesel may be more significant than measures specifically aimed at migrants or remittances. More broadly, the role of fiscal and monetary policy in maintaining macro-economic stability is crucial, whilst the investment climate could be improved by efforts to tackle corruption.
- Another specific recommendation is that incentives should be developed for migrants to contribute to the state pension system. This is likely to require both reform of the Moldovan pension system, and measures to promote legalisation of Moldovan migrants abroad. Work by the World Bank is in progress to explore ways of promoting engagement of migrants with pension schemes, but it has not yet reported.
- The government could seek to reach out to Moldovans abroad through measures to promote workplace protection, to challenge discrimination and to negotiate legal recognition of their status. One way to do this would be through improved consular services, targeted at countries such as Russia, Italy, Greece, Spain and Portugal, where significant numbers of Moldovans are living.
- A wider 'diaspora' policy lies some way off. However, a starting point might be to expand engagement with local NGOs and associations in rural areas to communities from these areas living in particular places abroad. Countries in Latin America have had some success in developing such 'public-private' partnerships for development, although their much longer history of migration is a significant factor.

7. Research Gaps

The studies reviewed include two reasonably large-scale nationally representative household surveys that offer some insight into micro-level relationships between migration and poverty; in addition, further data is available from the Labour Force Survey that may allow more macro-level analysis of the effects of migration. However,

despite the growing quantity of data on migration flows, the impact of migration on labour markets, and the effect of remittances, these data remain relatively under-utilised, perhaps partly because the two key surveys were conducted by private research companies rather than public or non-governmental organisations.

In addition to further analysis of this data, there is also scope for further qualitative work on issues such as the role of migrant organizations, the interest and capacity of migrants abroad to engage with the country, and the experiences of returned migrants, including those who have come back to Moldova temporarily. As a country with an economy that is in some senses rejuvenating, there is also scope for further research into the role that might be played by migrant businesses and local associations in community development, and the challenges encountered by small businesses and migrants associations, partly, but not exclusively, to understand what might constitute incentives for return in the future.

Finally, despite the effort put by the Moldovan government into the negotiation of bilateral labour agreements, these appear to date to have delivered little in the way of tangible benefits. It is not immediately clear why this should have been the case, suggesting that research on the negotiation, implementation and consequences of such agreements could be of considerable value -- particularly if it is able to encompass a comparative review of the experience of other countries in this area.

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