

## The influence of large remittance inflows on the economic behaviour of rural households. The case of Moldova.

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This e-brief addresses the results of a recent project on the “social and economic impact of migration in rural Moldova” and presents some key policy recommendations on the effective use of remittances as well as their role in a country’s economic development. The project was performed by CASE and financed by the Polish Ministry of Foreign Affairs. Specifically, it looked at the influence of large remittance inflows on the economic wellbeing and behaviour of rural households. The following analysis was based on the results of a survey of rural Moldovan households performed by the firm CBS-AXA in autumn 2008.

### Size and Distribution

At first glance one has to realise that remittances to Moldova account for 36 percent of GDP, hence they constitute an essential part of the economy. Their influence on the rural economy can be even higher as local job activities and opportunities are much less developed than in Moldova’s urbanised areas.

The most visible characteristic of remittances is their unequal distribution. At first, only about ¼ of Moldovan households, at least in the rural areas covered by the project’s survey, receive any money from abroad. The analysis applying the standard Lorenz Curve proves that 75 percent of receiving households get only 25 percent of the total amount being sent into the country.

In addition, remittance distribution does not seem to be random. At first, households receiving remittances are on average younger, at least when it pertains to the heads of households. The average age of a head of a non-receiving household or that of a very small remittance (below 500MDL per month) is close to 53 years of age, whereas the average age of a head of household who receives remittances is below 50. The results show that the age of the head of household decreases with the size of the remittance. This suggests that “younger” households tend not only to receive money from abroad, but that there is a strong correlation between the age of a household head and the average size of remittance amount received.

Consequently, the receiving households are not only younger but they also have a higher level of education. On the one hand, the average education level of a head of household without remittances is only “slightly below vocational. On the other hand an average head of a receiving household has at

least completed vocational level schooling. Therefore, it is believed that the education level for those receiving the highest amount of remittances is slightly higher than for other groups, however, the survey results are rather weak.

In general, analysis shows that higher amounts of remittances go to younger and more educated households. These characteristics should also positively influence the employability and wider “economic potential” of households regardless of the remittance value they obtain. On a macro level remittances may escalate economic inequalities instead of eradicating them. However, in many cases a large part of the remittances received could be saved or invested, as richer households tend to have higher savings and investment rates.

### Remittances and households’ wealth

Remittances can strongly influence the economic potential of individual households, especially if they are high enough. The median monthly per-capita spending level of households receiving less than 1500MDL per month, including those households who do not receive any remittances, is about 600MDL. As the size of the average monthly remittance amount increases, the median per-capita spending level increases, reaching almost 1100MDL for households receiving at least 10000MDL.

In addition to providing additional income, remittances from abroad provide Moldovan households with an improved sense of their own economic security. The share of “relatively poor households” (i.e. those who assess their incomes as “not covering even basic needs” or “covering only basic needs”) reaches 78 percent among non-receivers. Among those receiving between 500 and 1000MDL per months it decreases to 61 percent and among those households receiving more than 10000MDL per month it drops to 13 percent. As much as 54 percent of those receiving the highest remittance levels (10000MDL per month and above) consider their incomes as “enough for everything” or at least “enough to buy some expensive goods”. In contrast, the share of such “relatively rich” people among those without remittances is only 5 percent.

The structure of household spending is the last measure of economic status that was used in the study and the results were found to be quite suggestive. At first those who did not receive any remittances spent a much higher share of their total spending on basic foodstuffs. A high share of food as well

as other similar goods in a consumption basket indicates the actual poverty level of a household. In contrast, non-basic or luxury goods like clothing, culture and education constitute a much bigger share of households' spending for those receiving remittances. This share also tends to be well correlated with the actual amount of remittances received. Therefore, it does not come as a surprise that the share of investments in total households' spending rises with increased levels of remittances. The study found that it is about 1 percent for those who receive less than 1000MDL per month and between 4 and 5 percent for those who receive 5000MDL-10000MDL per month.

#### Economic activity

In Moldova remittances often constitute the main source of household income and in some cases can cover all consumption needs. One could expect that this phenomena could discourage other household members from working and leads to lower rates of economic activity. The results of the project's statistical and econometric analysis were rather inconclusive, however, one could observe some level of negative influence that remittances had on employment probability among those household members that remain in Moldova.

When the project team measured the total employment rates of households and treated those working abroad as employed the type of relationship between remittances and employment rates changed significantly. In general the "total" employment rate in households receiving remittances was higher than among non-receivers. This indicates that both migration and working abroad is a manifestation of economic activity and suggests that the lack of employment opportunities in Moldova is an important driver for migration.

#### How remittances are spent

Results indicated that although obtaining remittances can slightly negatively influence the economic activity of household members left behind, it does not decrease or increase total household activity (i.e. including those who migrated). Results showed that those who obtain remittances tend to have a higher share of investments in their total household spending. This suggests that both migration and remittance inflows are often used to build the future economic capital of a household. The way remittances are spent seem to prove this hypothesis, however, with mixed results.

Those who get low levels of remittances spend them mostly on basic necessities such as food, clothing etc. Higher remittances are spent more frequently and on more durable goods such as cars, PCs and electronic tools or on various investments. In the long-term it is important that a significant share of remittances be spent on education - a basic investment that increases future economic competitiveness.

More than 10 percent of large remittances (above 5000MDL per month) are spent on agricultural investments such as

farms. These funds either serve to cover current needs such as buying seeds for sowing or to make long-term investments including the purchase of new land, farm buildings or machinery. Significant parts (between 3-7 percent) of remittances are also invested in farms even when smaller remittance amounts are received. In such cases short-term investments comprise a much higher share of total spending.

On the other hand a relatively small portion of the money received from abroad finances non-farming businesses. Additionally, there is no positive relationship between the percentages invested and amounts received. This means that in rural areas remittances are more often used to improve the quality of existing farms than to start other businesses. This is most likely the result of relatively weak local demand hampering development of other services. For example, starting any manufacturing activity requires excessive initial investment and (most probably lacking) a skilled labour force.

In Moldova a relatively high percentage of money received is saved. It is interesting that the average "savings rate on remittances" is not significantly increasing with the average amounts received. A fixed savings rate on received money would suggest that all households treat remittances as an insurance against the potential risk of future financial problems either resulting from losing the domestic sources of incomes or losing household members' jobs abroad. The most pronounced difference is that those households receiving smaller amounts (below 10000MDL per month) and constituting more than 90 percent of all receivers are more likely to keep their cash at home while those receiving more tend to save their remittances in banks.

#### Policy recommendations

Ensuring a productive use of large amounts of remittances coming into Moldova should be one of the most important priorities for Moldovan policymakers. In order to achieve this, a higher share of remittances should flow into the country's financial system, instead of being stored in cash throughout rural households. In order to achieve this one has to first, increase access of banking services to the rural population and second, build trust among the rural population in the nation's financial institutions.

Another recommendation would be to diversify investment options and allocate a higher share of remittances to business activities other than farming. The CASE study has shown that a lack of infrastructure and good governance are the main reasons why educated young emigrants sending significant amounts of money to Moldova do not decide to invest in entrepreneurial activities. Eradicating these impediments for local economic development should become the highest priority.

