

The influence of large inflow of remittances on economic behaviour of households. Case of rural areas in Moldova *

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This E-brief is one of results of the project “Social and economic impact of migration in rural Moldova” performed by CASE and financed by Polish Ministry of Foreign Affairs. It looks at the influence of large remittances inflows on economic wellbeing and behaviour of rural households. The analysis summarised here was based on the results of the survey of rural Moldovan households performed by CBS-AXA company in autumn 2008. This e-brief presents also some main policy recommendations concerning the effective use of remittances to play an important role in economic development of the country.

Size and Distribution

At first one has to realise that remittances in Moldova reach 36% of GDP, hence they constitute an essential part of the Moldovan economy. Their role in rural economy can even be higher as local activities there are much less developed than in urbanised areas.

The most visible characteristic of remittances is their unequal distribution. At first only about ¼ of the Moldovan households, at least in rural areas our survey has covered, receives any money from abroad. At second the analysis applying the standard Lorenz Curve proves that 75% receiving households gets only 25% of total amount being sent to the country.

The way remittances are distributed does not seem to be random. At first households receiving remittances are on average younger, at least their heads are, and it can be proved by results of appropriate t-test. The average age of a household head of a non-receiving household or very small remittances (below 500MDL per month) is close to 53 years, whereas the average age of a head of those households who receive remittances is below 50. It seems also that the age of the household head decreases with the size of remittances. Suggesting that “younger” households tend not only to receive money from abroad at all, but that there is a relationship between the age of a household head and the average size of remittances.

What's more the receiving households are not only younger but they also have higher education status. The average education level of a head of a household without remittances is only “slightly below vocational”. On the other hand an average head of a receiving household has at least finished vocational school. It seems also that the level of education of those receiving the highest remittances is slightly higher than for other groups. Here however the results are rather weak.

Higher amounts go in general to younger and more

educated households. These characteristics should also positively influence the employability and wider “economic potential” of households regardless of remittances they obtain. It would suggest that on macro level the remittances may tend to escalate the inequalities instead of eradicating them. On the other hand however it means that large part of them could be saved or invested, as richer households tend to have higher saving and investment rates than the poorer ones.

Remittances and households' wealth

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

The self-assessment of household incomes also tend to be better for those receiving money from abroad. The share of “relatively poor households” ie. those who assess their incomes as “not covering even basic needs” or “covering only basic needs”, reaches 78% among non-receivers. Among those receiving between 500 and 1000MDL per month it decreases to 61% and among households receiving more than 10000MDL per month to 13%. As much as 54% of those receiving the highest remittances (10000MDL per month and above) consider their incomes as “enough for everything” or at least “enough to buy some expensive goods”. The share of such “relatively rich” people among those without remittances is only 5%.

The structure of households' spending is the last measure of their economic status we used and here the results are quite suggestive as well. At first those who do not get any remittances spent much higher share of their total spending on food – being the basic good. High share of food and other goods of similar kind in consumption basket indicates for actual poverty of a household. On the other hand normal and luxury goods like garment, culture and education constitute much bigger share of households' spending for those receiving remittances and this share tends to be also well correlated with amounts of remittances. It does not come as a surprise that also the share of investments in total households' spending rises with increasing remittances. It is about 1% for those who receive less than 1000MDL per month and reaches 4%-5% if remittances are in the range of 5000MDL-10000MDL per month.

Economic activity

Remittances often constitute the main source of households' income. In some cases they can cover all consumption needs. One could expect therefore that it could discourage other household members from working and result in general in lower rate of economic activity in a country. The results of our statistical and econometric analysis we applied to test this hypothesis where rather inconclusive but one could observe some weak negative influence of remittances on employment probability of those members of the households that stay in Moldova.

On the other hand when we measure the total employment rates in households and treat those working abroad as employed the kind of relationship between remittances and employment rates changes significantly. It appears that in general the "total" employment rate in households receiving remittances is higher than among non-receivers. It indicates that migration and working abroad is the manifest of economic activity, on the other hand it suggest that lack of employment opportunities in the country is an important reason for migration. It was also indicated by answers to a direct question in our survey concerning the reasons for which people migrate.

How remittances are spent

Results thus far indicate that although obtaining remittances can slightly negatively influence the economic activity of household members left behind, it does not decrease or even increase the total household activity ie. including those who migrated. We also know that those who obtain remittances tend to have higher share of investments in their total household spending. It would suggest that migration and money sent back home are often used to build the economic potential of the household. The way the remittances are spent seem to prove this hypothesis but here the results are also mixed.

It seems obvious that those who get low remittances spend them mainly on basic needs such as food, clothing etc. Higher remittances are spent more frequently on durable goods such as cars, PCs or electronic tools and on various investments. It is important that significant share of remittances for all groups is spent on education - the basic investment increasing the future competitiveness.

More than 10% of large remittances (above 5000MDL per month) are spent on investments in farms. These amounts either serve to cover current needs such as buying seeds for sowing or to make long run investments such as new land, farm buildings or farming machinery. Significant parts (3%-7%) of remittances are also invested in farms even when smaller amounts are received. In such cases short-term investments comprise much higher share of total spending.

On the other hand however relatively small amounts of money received from abroad finance non-farming businesses. Additionally there is no positive relationship between the percentages invested and amounts received. It would mean that in rural areas remittances are much more often used to improve the quality of farms than to start running other businesses. It may result from relatively weak local demand hampering development of services.

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On the other hand starting any manufacturing activity demands excessive initial investment and (most probably lacking) skilled labour force.

Relatively high percentage of money received is saved. It seems interesting that average "savings rate on remittances" is not significantly increasing with the average amounts received. Almost 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 jobs abroad. The most pronounced difference is that those receiving smaller amounts (below 10000MDL per month) constituting more than 90% of all receivers more frequently keep cash at home and only those receiving more tend to save it in banks.

Some policy recommendations

It seems that ensuring productive use of large amounts of remittances coming to Moldova should be one of the most important priorities of Moldovan policymakers. In order to achieve this higher share of remittances should go to the financial system of the country, instead of being kept in cash at home. In order to do this one has to at first increase the access of banking services to rural population, at second one should also build the trust of rural population into the financial institutions.

On the other hand it seems that higher share of remittances could be invested in business activities other than the own farm. It seems that lack of infrastructure and good governance is the main reason for which educated and young emigrants sending significant amounts of money do not decide to invest them in entrepreneurial activities. Eradicating these impediments for local development should become a highest priority.



Polish aid

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