

How to respond to falling remittances and returning migrants?

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Introduction. Estimates suggest that whereas, worldwide, remittances will decline by between 5% and 8% in 2009 and, according to the World Bank, Europe and Central Asia will be most severely affected with a fall of between 10% and 13%. For countries with heavy dependence on remittances and migration, the effects of the crisis will thus be magnified. Economic migration and remittances are important to many transitional countries and, indeed, in 2006, Moldova together with Tajikistan received the highest levels of remittances in the world (as a percentage of GDP). Dealing with this problem in Moldova is thus likely to be a major challenge.

Migration and remittances in Moldova. Moldova's economy has been strongly driven by remittances. The number of Moldovans working abroad increased from about 56,000 in 1999 to 340,000 in 2007 (from a population which, in 2007, was 3.8 million). Total remittances were US\$ 1.5 billion in 2007 (36% of Moldova's GDP) and were growing in the first half of 2008 prior to the economic crisis.

Migration has mainly been from rural areas. Of those who, in 2006, were abroad, had recently been abroad, or who planned to migrate, 38% were from Chisinau and other urban areas, while 62% were from rural areas or small towns. Nearly two thirds of those abroad at that time were from rural areas. There were nonetheless signs that, prior to the crisis, this trend was changing and that there was a shift to migration from urban areas, with a greater proportion from Chisinau and provincial towns planning to work abroad. This suggests that the skills migrants needed was changing and/or that the supply of migrants from rural areas was being exhausted.

Many migrants are young, with, in 2006, an average age of 35 and over 37% aged below 30. Further, of those who were planning to migrate, over 44% were below 30 years. Just over half of the Moldovans abroad in 2006 worked in Moscow, with nearly 60% in Russia as a whole. Italy received the second largest group of migrants (17%). The number of migrants in Russia has increased sharply in recent years, especially in the construction industry.

Effects of returning migrant and remittance shocks. Falls in remittances and the large-scale return of migrants could add pressures in Moldova which, even in the context of the current severe economic downturn, are not felt, or felt to a lesser extent, in the region as a whole. In practice, the trend in remittances may take time to become clear. And while there are likely to be downward pressures, there is also evidence that, worldwide, remittances tend to fall less sharply than might be expected in a downturn. This is partly because sums sent home are often small (typically around 5% of income) with the result that payments can often be sustained even when incomes fall. Further, remittance flows are dominated by payments from long-standing migrants who, because they are often well established in their place of migration, may be better placed to find alternative sources of income if they lose their job.

In addition, female migrants working in the caring professions will probably be less affected by the downturn than male construction workers. The effects of demographic change in Western Europe and North America and high domestic costs of care of the elderly mean that demand for female migrants in the caring professions is likely to be sustained even in a downturn and may thus contribute to the resilience of remittances. As a result, most of the migrants returning are likely to be men.

Remittances will nonetheless shrink if people, having lost their job, then return home. The return of migrants, may, however be lagged and so turn out to be gradual rather than a major wave. This is partly because of migrants' adherence to the place of migration, usually because the bureaucratic and start-up costs associated with migrating are substantial. The

commitment to stay may be further strengthened by new immigration controls with, for example, Australia, the United States, Spain, Italy and Malaysia all recently imposing new regulations.

The effects of falling remittances are likely to be felt nationwide but, where (as in Moldova) migration has been principally from rural areas, it seems probable that they will be felt disproportionately there. If so, there is the prospect of increases in rural poverty. This was already a concern in Moldova, despite good growth performance between 1999 and 2004 which moved 40% of the population out of poverty. Nonetheless, about 26% of the Moldovan population in 2007 remained poor, with about two-thirds of the poor living in rural areas. A similarly rural concentration of impacts from returning migrants is likely if there is disproportionate return to rural areas.

Disproportionate deterioration in youth unemployment is also possible. While youth unemployment is comparatively low in Moldova, this has been achieved partly through exporting labour in the form of migrants. With opportunities for migration diminished, young people will be forced to rely on domestic labour markets at a time of falling labour demand. There they will have to compete with returning migrants, who may have better skill sets (by virtue of having worked overseas) and more extensive experience. In other words, a generation of 'frustrated migrants' is likely to be created amongst the young, at the same time as competition is increasing in domestic labour markets. The resulting possibilities for further social unrest are evident.

Rural poverty effects may also be exacerbated by transition in agriculture, which in many transitional countries has served as an informal safety net, providing subsistence and cash income from fresh sales or lightly processed products. Labour inflow to rural areas now threatens to clash with the agricultural commercialisation that is making agriculture more of a business than a safety net or a *way-of-life*. Indeed, in Moldova, the combination of labour outflow from agriculture in recent years (with linked growth in labour productivity), low rates of agricultural growth, and rising rural poverty all argue against the capacity of agriculture now to re-absorb unskilled labour.

Possible responses. The likelihood of disproportionate effects on rural areas suggests geographical targeting of responses, which are likely to be both short- and medium-term. The former will principally seek to mitigate the immediate shocks, while actions in the medium- and longer term will be aimed at avoiding further deterioration in rural poverty and achieving improved labour market outcomes. In addition, however, labour supply actions will also be required in addressing youth unemployment.

In the short run, providing temporary safety nets through public works would help cushion both the return of migrants and those newly-unemployed domestically. Finding suitable public works which are consistent with participants' skills has often been a problem with such measures in the past, but this may be lessened in Moldova where a significant proportion of returning migrants will have building skills (as seems probable given the decline in construction in the region). A new dimension of public works is the opportunity to link them to environmental concerns. In this context, they could address the challenges of unemployment whilst at the same time working to increase public buildings' energy efficiency and to reduce natural disaster risks, through construction activities associated with flood and drought mitigation projects.

In the medium term, increasing employment in the non-farm rural economy is likely to be essential. Indeed, the current underdevelopment of this sector in Moldova (as in most transition economies) offers opportunities for growth and labour absorption. Ironically, limited access to finance in rural areas before the crisis may have had the advantage of making growth in the rural non-farm economy less dependent on bank lending than in other sectors, since there is little or no experience of reliance on cheap credit.

Growth is likely to come from two sources. These are, first, small enterprises in the service sector in the form of small-scale, low-barrier-to-entry enterprises and, second, in food processing. But while there has been growth in rural service industries in many countries, new agroprocessing has been slow to emerge. Further support to the development of food processing may therefore be required. Poor investment climates are a major contributor to underperformance but, in addition, agroprocessors are generally small and, like most small firms in transitional countries, face constraints in finance, management, marketing, logistics and corruption. Importantly they also face problems of technology and, although small-scale affordable technology exists (principally from Chinese and Indian suppliers), small processors in the region rarely have the opportunity to buy from these sources. Partly as a result, use of secondhand machinery, with attendant problems of reliability and quality, is widespread.

Combating rural poverty may also require labour supply interventions, particularly if the effects of the crisis are disproportionately felt by young people. The young in Moldova already face the usual labour market disadvantages of lack of experience and employers' distrust. Moldova already has programmes aimed at youth entrepreneurship, with the aim of allowing young people to pursue alternative careers. Complementing this with internship and retraining programmes may be necessary if sharp increases in youth unemployment rates are to be prevented.

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