SOROS FOUNDATION ROMANIA

IASCI
International Agency for Source Country Information

Maximizing the Development Impact of Migration

Research Overview, Selected Findings, Case Study

Introduction

This overview was developed by the International Agency for Source Country Information (IASCI) in partnership with the Soros Foundation Romania. This document is intended to provide interested stakeholders with information about the research carried out to date by IASCI in the South-east European (SEE) Region, with a focus on the joint IASCI-Soros Romania project as case study.

All findings and analysis presented here are preliminary and should be read and seen in that context.

Financial flows from migrants to their home communities are at the core of the relationship between migration and development. Most research, policy development and financial industry attention to date has focused on remittances, and there is little doubt that they are of considerable significance at both household (HH) and national levels. The following pages move beyond this point by examining overall financial flows from a significantly broader perspective.

The basis of the research and analysis presented here is the **recognition of migrants and their beneficiaries as a distinct market segment**, one that should be of greater interest to governments and financial intermediation industry.

Our approach is considered unique in that it is based on the premise that **financial, human and social wealth accumulated by migrants abroad is substantial and interlinked**. We assert that the actual purpose of migration is often misunderstood, and that the accumulated wealth and its potential to positively and durably impact the economic and social development of countries of origin remains underestimated.

The practical intent of this work is to **directly support the personal and migration-related objectives of migrants and their trans-national HHs** throughout their migration cycle. This is done in part by identifying and promoting relevant migration, remittance, savings and investment options. In making the overall migration experience more successful, incomes, remittances, migrant transfers and sustainability of return are positively impacted. The approach also encourages the design of more conducive policy frameworks, international collaboration and the deepening of financial intermediation.

Migration objectives and practices, personal finance and financial intermediation are thus more directly linked with facilitating entrepreneurship and the creation of employment opportunities in countries of origin.

The data and analysis provided results from a **series of research projects dating back to 2005** that include Albania, Armenia, Bosnia and Herzegovina, Kosovo, Moldova and Romania. Future initiatives include regional approaches in the Commonwealth of Independent States and Southern Mediterranean. Mid-term plans include the Americas, Africa and Asia.

The individual sections of this overview are designed to provide an **introduction to the concrete migration objectives and savings behaviors** of long-term migrants and trans-national households. This is provided from the perspective of the HH level, with a focus on the SEE region and Romania.

The authors of this report take full responsibility for the data, analysis, conclusions, and recommendations provided. This report does not necessarily reflect the official views of Soros Foundation or other project partners.

Background

Remittances will undoubtedly continue to be important to recipient countries and HHs alike. But from development and migration management perspectives the ongoing focus by analysts and practitioners on this financial flow remains largely misplaced. It is the accumulation and eventual transfer of wealth that motivates most long-term migrants, and it is this ambition that holds the greater promise of being a substantial and sustainable development opportunity.

This potential is manifestly amplified when their savings are combined with the social and human capital that migrants may wish to invest in order to realize their goals. Both the transfer of savings and the return of the migrant are highly dependent on the existence or the creation of suitable policy frameworks and local return conditions combined with targeted incentives.

Logically, the primary condition facilitating successful circular migration is to support (rather than hinder, which is often the case today) the migrant in achieving his/her savings objective efficiently. Support efforts in this area are important in relation to, and should be consistent with, policy priorities in two related areas:

a) fostering sustainable development in countries of origin (by moving beyond remittance-dependent and consumption-led economic models); and
b) supporting efficient circular migration and ensuring that the benefits and costs are equitably managed.

The model assumes that when working together, public and private sectors, in both country of origin and country of migration, can identify and develop suitable local conditions and migrant/saver-specific incentives to directly support these broadly held ambitions. With these means of support, the benefits of migration can be more effectively gained.

The wish to return and save or invest in the country of origin is higher among circular migrants (i.e. those with a stated wish to return) than in those practicing permanent migration or seasonal migration. The research examines this group of 'trans-national households'[1] in detail, in order to determine: (a) their migration objectives and strategies; (b) their incomes, expenditures, savings and investment behaviors and strategies; and (c) their return intentions, among other characteristics.

[1] Repeated HH and migrant surveys, confirmed by in-depth migrant interviews indicate that most long-term and circular migrants see their HHs/families as divided between country of migration and country of origin; hence the 'trans-national household'

Methodology

The market analyses are based on mutually reinforcing quantitative and qualitative research procedures carried out at country-level. Quantitative procedures include large-scale surveys of visiting long-term migrants, building on parallel surveys of remittance-receiving HHs (with at least one member in long-term migration). Qualitative procedures included semi-structured interviews with long-term migrants. The fieldwork is informed by a full literature review.

Each procedure is designed to provide a range of information in addition to an ability to verify the results of the other procedures used.

Moreover, the quantitative methodologies used are specifically designed to allow for cross-country and repeated longitudinal applications. This allows for the resulting data to be reliably cross-tabulated over periodic timelines and across various markets. It is also designed to provide, for the first time, a systematic understanding of both the evolving characteristics of migration at the country level and its overall context compared to other similar high migration countries.

Maturity of the Migration Cycle

Understanding the relative 'maturity'[2] of the overall migration cycle is important, as it can provide insight into current and future migration and economic behaviors of migrants - including probable return intentions.

The concept of migration maturity is assessed using similar methodologies and comparable data sets from other countries.

For instance, by taking a number of migration-related indicators into account, it can be stated that Albanian migration is at a relatively mature stage compared to Moldova or Romania. Relative to long-term Romanian and Moldovan HHs, Albanian, BiH and Kosovar migrants have gradually and to various degrees improved more their socio-economic status in their places of migration. On a single-country level this trend towards relative maturity of the overall migration cycle is confirmed when comparing data from similar studies carried out in Albania by the authors in 2005 and again in 2010.

[2] Maturity of the migration cycle refers to the overall process of mass migration from a specific country of origin, not the experience of the individual migrant. It is assessed using a number of indicators into account, as introduced in the following pages.

Social Networking and Communication

Gaining insight into the available and trusted communication sources of migrants is important for understanding migration strategies, and developing relevant marketing and awareness-raising tools and initiatives.

Mutual help among migrants, as well as between migrant and home community, plays an important role in every phase of the migration experience. The data shows that informal collaboration takes place starting from pre-departure planning, throughout the migration cycle, and during return and reintegration. Social networks and communication are important in helping migrants manage migration-related risks, while lowering the associated financial costs and maximizing their gains.

On average, four-fifths of migrants studied have close family or friends in their place of migration and they rely on this network to assist with the migration process. For instance, two-thirds of Albanian and Bosnian migrants secured their first employment through a supporting network member.

This high level of communication is considered important in order to exchange information and support about economic and social conditions, both in place of migration and country of origin.

Simultaneously, most migrant HHs maintain strong relations with their families, friends and neighbors in their countries of origin. Upon return many migrants capitalize on the rich social networks they established in their countries of migration. This helps them develop or maintain commercial and economic relationships with their counterparts in their former host countries.

Frequency of communication and remittance behavior, return intentions, savings and potential investment activities are all interlinked. Communication channels not only serve emotional needs, but also facilitate exchanges of information, ideas and practices, thereby fostering the social and economic development in countries of origin.

Of note is that personal communication with family, friends and fellow migrants remains the most trusted source of information.

Although migrant and diaspora associations exist, their role and importance to the migrant community and their families seems to be extremely limited. The research shows that at present less than 0.5% of migrants see such associations as “a trusted source of information”.

As a more recent development, the migrants studied have begun to create social networks with migrants from other countries of origin.

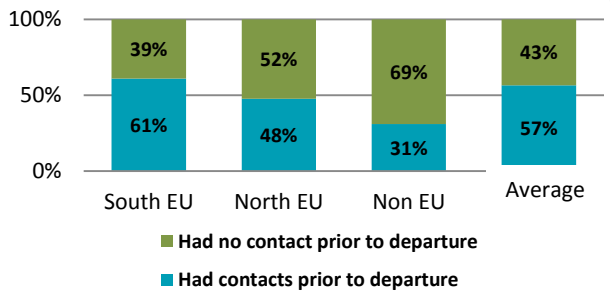

Figure 1: Presence of family, friends, neighbors, etc. in destination countries prior to departure (Migrant Survey Romania 2010)

As an example of the differences in individual countries the above figure shows that Romanian migrants are somewhat less likely to rely on a social network to support their migration experience compared to other countries researched. This is probably related to relative recent development of mass migration from Romania and the fact that it is a EU member state, which makes migration less risky.

Trends in Return Migration

Return migration varies between countries and is based on a number of factors. Sustainable return migration brings with it significant financial, human, and social capital. Return intentions are also a critical determining factor in explaining and forecasting savings, remittances, and investment behaviors.

The data confirms that for most migrants, meeting their personal savings objective is their *primary goal before any voluntary return will be considered*. External factors beyond the control of the migrant, such as employment opportunities or the business climate are also very important.

For instance, 49% of migrants have a definite intention to return to Albania. Return intentions are higher among Albanian migrants currently in Greece compared to those residing in Italy and Other countries[3].

[3] According to the literature an estimated 1.2 million Albanian Migrants, or 25% of the total population, are thought to be divided as follows: Italy 33%, Greece 51% and Other 16%, where Other includes all remaining countries of migration, the largest of which by numbers of Albanian migrants include: USA, United Kingdom, France, Germany, Canada.

This can be explained by various factors, including the comparatively low standard of income/living in Greece, the higher number of migrants working in construction and agriculture, and the proximity to Albania - allowing many return visits and other contacts to be maintained.

Evolving personal objectives, influenced by the migration experience, also motivate return strategies and timing. Compared with the 2005 study, the recent data shows that Albanian migrants often increase their savings goal and ambitions over the period of migration.

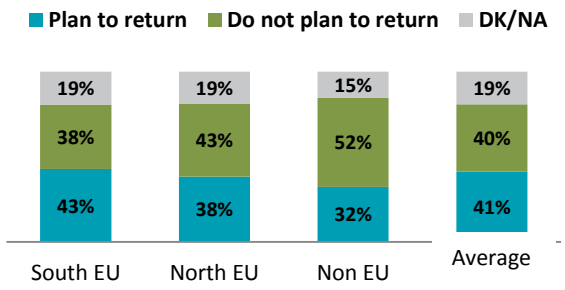

Figure 2: Plans to permanently return to Romania (Migrant Survey Romania 2010)

A clear indicator of high return intentions, notwithstanding the stage of the overall migration cycle, is that a large number of migrants continue to maintain property and bank relations in their places of origin. At the same time, very few migrants own or intend to purchase property in their places of migration.

Growing savings ambitions are subject to personal circumstances (age, migration experience, family composition) as well as changing conditions in countries of origin. For example, the past decades have seen a manifold increase in property prices and business investment costs in most SEE countries.

According to two recent studies by the authors (2010), the extended economic crisis beginning late 2008 will directly influence the overall migration cycle. Observable coping strategies, in order of preference, include decreasing expenses in place of migration, obtaining secondary employment, decreasing remittances, or consuming savings.

On a personal level, a migrant may be frustrated in reaching his or her savings objective, resulting in a lengthened period of migration. The option of returning temporarily is the least favored option among migrants, even among Romanian migrants who, as citizens of an EU member state, theoretically enjoy total freedom of movement within the region.

Key Financial Issues

When comparing countries in the region with high levels of migration, it is possible to identify some key financial characteristics, both shared and unique. For a cross-country view see Financial Overview Table on page 7.

It is important to note that most long-term migrant HHs studied have significant incomes and unique savings behaviors. For instance, Albanian migrant HHs have an average annual income of Euro 27,720, of which 6% is remitted, while 32% is saved in the place of migration.

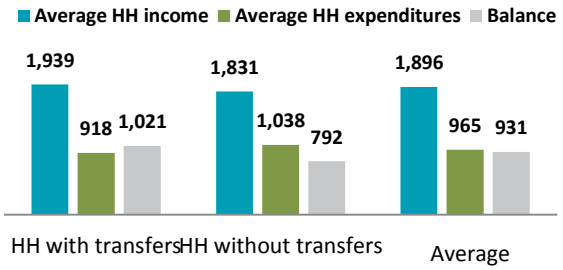

Figure 3: Average Romanian long-term migrant HH incomes, expenses and savings by month and remittance status (Migrant survey Romania 2010)

These types of high income and savings rates in places of migration, when combined with remittance rates, are clearly reflected in a high 'Savings to Remittance Factors', ranging from 1.3:1 to 5.5:1. Migration-related and country-specific issues largely explain variations in these key rates.

Because of the relative maturity of Albanian migration and environmental issues and return factors, the propensity to save falls between the higher rate among Moldovan migrants (due in part to lower maturity of migration) and the lower savings rate of BiH migrants (higher maturity). In comparison, the propensity to save among long-term Kosovar migrants is higher than Albanians, again reflecting the different migration histories and local conditions within these neighboring countries.

These findings are consistent with our underlying hypothesis regarding the primary migration objective: long-term migrants do not migrate primarily to remit – they migrate with a greater goal of reaching a savings objective that they could not achieve at home.

The most important savings objectives identified by migrants are to purchase or upgrade a home, invest in a business, educate children, and secure a pension. These objectives are similar, but not identical across the countries studied.

Most migrant HHs are very familiar with banking practices: for instance 92% of Albanian HHs maintain banking relations in their places of migration, where they also keep the vast majority of their savings. As well, more than half of these HHs maintain a banking relationship in Albania – another indicator consistent with their consistently high return intentions.

Remittance Levels – a relatively small component of HH income

Remittance levels are lower than might be expected considering the literature on this subject. For instance, Albanian HHs remit an overall average of Euro 1,673 per annum (or 6% of net income). For cross-country comparisons see Financial Overview Table on page 7.

This can be explained by the relative maturity of the migration cycle, including in particular the high rate of family reunification. Albanians remit primarily to support their parents, whose expenditures are generally lower than if the recipient had been the spouse and children.

Albanians retain high levels of savings in their place of migration. Consequently the savings and investment component of their remittances is lower than the average within other countries studied (18%, against regional averages of between 29-42%). This may reflect the higher level of mistrust in the financial system, as confirmed by the survey results, as well as common perceptions of a negative savings and investment climate in Albania.

Interestingly, the proportion of remittances used for consumption remains relatively constant across the countries studied when taking family composition and purchasing power parity into account.

With significant numbers of HHs from each country examined practicing migration, the total estimated pool of retained annual saving retained in countries of destination lies between:

- Euro 559 million for Moldova (remittance value for the same period 442 million) and,
- Euro 11,981 million for Romania (remittance value for the same period 2,867 million).

While taking account of national variations, demographic issues, and differences in levels of migration maturity, migrant HHs can be considered entrepreneurial. Indeed, for many HHs studied, the primary objective of migration is to accumulate a certain amount of capital in order to initiate or expand a business venture.

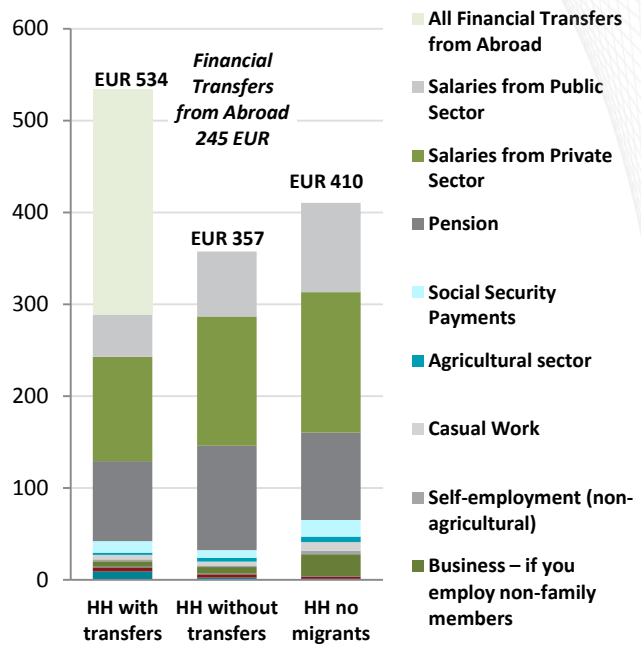

Figure 4: HH Incomes – Estimated total monthly HH incomes from all sources per 12 month (HH Survey Romania)

Migrant survey data shows that between 8% and 13% of migrant HHs from the region have provided some form of financing to a business enterprise in the past, and more intend to do so in the future. The primary sectors of investment included retail, trade, agriculture, and real estate. In all countries studied migrant HH investing is traditionally carried out at the micro-level, usually alone or together with close family members.

Case Study: Romania

When comparing Romania with other countries in the region with high levels of migration (see Financial Overview Table on page 8), it is possible to identify some **key characteristics** of Romanian migrants. Romania's relatively recent and hence **less mature migration cycle** results in relatively low HH incomes in the place of migration (Euro 1,896 on average), and places Romanian HHs in the **lower end of the income range.**

Differences in HH incomes can be explained by:

- the main destination countries selected, with Romanian migration primarily concentrated in South EU Spain and Italy (about 73%), while BiH and Kosovo migration tends towards higher income countries in northern Europe (Germany, Switzerland, Austria, Nordics, etc);

- the number of HH members generating incomes, which in the case of Romania is 1.48 (lower-middle range);
- the sector of employment, which for Romanian women, like those from Moldova and Albania, is often in areas such as domestic care, while women from BiH and Kosovo are more often engaged in manufacturing, services, and the professions;
- the length of the migration cycle, which in the case of Romania is significantly shorter than for Albania, BiH, Kosovo. There is a relationship between the length of migration and integration and socio-economic status.

At the same time, the below financial overview table shows that the expense level of Romanian migrant HHs is significantly lower than those of their BiH and Kosovo counterparts because of:

- their geographic location in relatively low-cost countries;
- a lower number of HH members
- concerted efforts to reduce expenses in the place of migration when compared to other migrant groups in the same socio-economic surroundings, again reflecting lower migration maturity issues.

This combination of HH income and expenditure on the part of Romanian migrant HHs results in a **high range of propensity to save in the place of migration** of 40% (compared to 23 to 35% in the other countries studied)[4].

One can see that at Euro 2,157 per annum, **Romanian HHs are in the middle-range of remittance values** when compared to migrants from the other countries studied to date. This can be explained by:

- relatively high family reunification: Romanians remit primarily to support their parents, whose expenditures are significantly lower than those supporting a spouse and children.
- an average level of savings and investment within current remittances (29%, against 19-42%).

It is also worth restating that when the savings and investment components are separated from the overall remittance values of each country, the actual rate of remittance consumption becomes quite similar among all the countries studied to date. While requiring more analysis, the remaining difference in consumption in the countries of origin may have to do with the family composition and cultural values (i.e. number and relation of dependents) as well as **purchasing-power-parity differences**.

In addition, it is important to note that a significant 40% of Romanian migrant HHs did not remit at all. This is the **highest finding of non-remitters in the region.** This surprising feature requires more analysis, but may be explained by the low return intentions of Romanian migrants and factors related to the membership of the country within the EU.

The aforementioned low income and expenditure level, combined with a mid-range remittance value, is reflected in a **mid-range Remittance to Savings Factor** of 4.2:1 for Romania. This factor falls to just below BiH (4.5:1), yet is almost four times the level of Moldova (1.2:1)

With an estimated 2,910,000 Romanian migrants (or approximately 1,329,000 migrant HHs), the total estimated pool of 'retained savings' in the 12 months prior to September 2010 was **Euro 11,981 million, or almost Euro 12 billion**.

Conclusions

- **Long-term migration results in considerable savings and investment potential. The key determining factors relate to the presence of suitable local conditions and migrant/saver-specific incentives.**
- **Given their numbers, long-term migrants and their HHs comprise a significant human and financial resource, and a substantial potential market for interested and imaginative actors in the financial sector**
- **Experience shows that, to date, these important findings remain largely unexplored by financial intermediaries and governments alike.**

[4] It is important to recall at this point that this *net* savings level is in addition to remittance values.

Cross-Country Overview of Key Financial Figures

All financial figures below are in Euro	Moldova	Albania	Kosovo	Bosnia	Romania	Romania EU South	Romania EU North	Romania Non EU
	2009	2008	2008	2009	2010	2010	2010	2010
HH Income Monthly	1,176	2,305	3,857	2,864	1,896	1,790	2,098	2,708
(Number of Incomes)	1.27	1.87	1.96	2.0	1.48	1.5	1.4	1.4
HH Expenditures Monthly	489	1,457	2,252	1,999	965	917	1,029	1,509
HH Savings Monthly	688	848	1,605	865	931	873	1,069	1,199
HH Income Annually	**14,112**	**27,664**	**46,283**	**34,368**	**22,752**	**21,480**	**25,176**	**32,496**
Annual GROSS HH Savings	**8,256**	**10,180**	**19,256**	**10,383**	**11,172**	**10,476**	**12,828**	**14,388**
Annual Remittance Values	**3,678**	**1,673**	**2,946**	**1,874**	**2,157**	**2,189**	**2,139**	**1,670**
of which S+I	*-42%*	*-19%*	*-29%*	*-29%*	*-29%*	*27%*	*37%*	*21%*
Consumption in Euro	*2,138*	*1,363*	*2,092*	*1,325*	*1,531*	*1,595*	*1,341*	*1,316*
Annual HH Savings Abroad	**4,578**	**8,507**	**16,310**	**8,508**	**9,015**	**8,287**	**10,689**	**12,718**
S+I component of remittances	*1540*	*309*	*854*	*549*	*626*	*591*	*791*	*351*
Total Savings/Invest (Abroad &Home)	*6,118*	*8,816*	*17,164*	*9,057*	*9,641*	*8,878*	*11,480*	*13,069*
Annual HH NET Propensity to Save Abroad	*32%*	*31%*	*35%*	*25%*	*40%*	*39%*	*43%*	*39%*
Annual HH NET Propensity to Save Abroad & Home	*43%*	*32%*	*37%*	*26%*	*42%*	*41%*	*46%*	*40%*
ANNUAL SAVINGS ABROAD	**559**	**3,437**	**2,486**	**4,660**	**11,981**	**8,028**	**3,310**	**642**
TOTAL	**Million**	**Million**	**Million**	**Million**	**Million**	**Million**	**Million**	**Million**
ANNUAL REMITTANCES	**422**	**676**	**449**	**1,033**	**2,867**	**2,120**	**662**	**84**
TOTAL	**Million**	**Million**	**Million**	**Million**	**Million**	**Million**	**Million**	**Million**
SAVINGS TO REMITTANCE FACTOR	**1.3**	**5.1**	**5.5**	**4.5**	**4.2**	**3.7**	**5.0**	**7.6**
Propensity to Remit	84%	78%	83%	65%	60%	63%	55%	40%
Non-Remitters	*16%*	*23%*	*17%*	*35%*	*40%*	*37%*	*45%*	*60%*

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