

Migrant Remittances and the Financial Market in Moldova



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by

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Figure 1. Map of Moldova



(Raions (administrative regions) and approximate location of villages included in the Focus Group Survey marked with asterisks.)

Abbreviations

A2A	Account-to-account
BoP	Balance of payments
CCA	Consultanță și Credit în Agricultură
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper (2004-2006)
FATF	Financial Action Task Force
FG	Focus group
GoM	Government of the Republic of Moldova
MDL	Moldovan Leu (currency)
MFI	Microfinance institution
MG	MoneyGram
MMD	Moldovan Migration Department
MTO	Money transfer operator
NBM	National Bank of Moldova
NGO	Non-governmental organization
ODA	Official Development Aid
P2P	Person-to-person
PoS	Point of Sale
RUR	Russian Ruble
SCA	Savings and Credit Association
SME	Small or Medium-size Enterprise
USD	United States Dollars
WU	Western Union

Re-mit-tance n. 1. The sending of money to someone at a distance. 2. The sum of money sent

re-mit-tance noun 1 a : a sum of money remitted b : an instrument by which money is remitted
2 : transmittal of money (as to a distant place)

(<http://www.m-w.com/cgi-bin/dictionary?book=Dictionary&va=remittance&x=10&y=11>)

Executive Summary

Moldova's recent economic growth has been largely consumption-led and driven by remittances. Estimates indicate that about one quarter of Moldovans live abroad and send home money. While statistics and estimates for remittance inflows vary between US\$400 million and 1 billion, the effect on the economy is undisputed. In the region, Moldova is the top remittance receiver and with some 25% of remittance inflows relative to GDP it ranks within the top ten recipients among developing countries.

As much as half of the remittances flowing to Moldova may reach there via informal channels, either carried in person or sent with friends or informal services, such as those offered by bus drivers or train conductors. A seemingly growing share of remittances, however, is sent using formal regulated services offered by banks and express transfer services, as money transfer services are called in Moldova. This trend is in part a result of the greater availability of such express services and at lower prices.

As remittances are first and foremost family support payments, a high portion of the funds finance daily needs. To the extent that remittances are disposable income, Moldovans frequently spend them on used cars or invest in apartments, housing, or land. Some recipients as well as some migrants manage to save, though often rather 'under the mattress' than with a bank.

Both the continued use of informal means to transfer remittances and the preference to keep savings outside of banks are partly a reflection of constraints in the financial infrastructure in Moldova. Banks are the only licensed and regulated provider of money transfer services in the country. The volume of remittance receipts through them has increased steadily, especially in recent years. More money transfer products are available now than five years ago and sending fees have become less expensive. Similarly deposit mobilization from individual savers has strengthened in recent years. In all regards, however, banks are not realizing as much of the market share as they could. Among other things, the banks miss out on funds which could be intermediated for lending.

This study explores the financial market for remittances in Moldova. It provides an overview of the financial services available for money transfers, looks at whether and how to better attract and integrate remittances with the financial system—away from informal transfer channels and also into savings to contribute, for instance, to longer-term deposit mobilization for lending—and identifies constraints in the services as well as in their regulatory environment.

Based on the service profiling and feedback from remittance recipients and senders, the study closes with areas for improvements to attract a greater share of remittances to the formal financial system, such as: product refinements to money transfers, cross-selling of services to attract remittance recipients to use banking services rather than fully encash their funds; and in corollary regulatory aspects such as licensing and considering remittances as income in loan assessments.

The study draws on data provided by several domestic commercial banks and the National Bank of Moldova along with interviews with Moldovan commercial banks and representatives of the Government of Moldova. Focus group discussions with remittance senders and receivers in 31 villages throughout Moldova supplement and illustrate, especially in questions such as preferences for formal or informal services. The analysis combines findings from these sources with secondary studies and analyses, in particular with the results of two recent studies on migration and remittances using household surveys. This study complements such surveys with a mapping of the financial service infrastructure for remittances with a view to better attract and integrate remittances.

Introduction

Early estimates of remittance flows for 2004 by the Ministry of Economy anticipate that they could be as high as US\$1 billion. The National Bank of Moldova (NBM) forecasts US\$401 million in remittances transacted through banks (formal channels) in 2004.

Both in the sub-region and in Europe, Moldova ranks first with remittance receipts of between 25 and 30% of GDP.¹ In worldwide comparison to other developing economies with high remittance volumes, Moldova ranked seventh in terms of receipts relative to GDP according to World Bank statistics of 2001 (Ratha 2003) (see further detail in Annex 5).

Remittances have become a dominant factor as a major source of domestic financing in the Moldovan economy. Moldova's growth rate of an average of 6.7% over the last three years is largely consumption-led and driven primarily by migrant remittances. A fall in remittances would affect both growth rates and tax revenues as the latter are heavily dependent on imports financed in large part through remittances (World Bank 2004b).

Current levels of workers' remittances are approximately equal to the level of donor support to the country, but could exceed it if estimates of growth in remittances are correct. Moldovan emigration and concomitantly remittance flows to the country have grown rapidly since the fall of the 'Iron Curtain' and especially since the Russian and regional economic crisis in 1998 which strongly affected Moldova as well.

While the number of Moldovan emigrants is difficult to estimate with any certainty (see: Moldova's Migrants, p.9), about one billion are estimated as living abroad—constituting around one quarter of the population. At present, most remittance income that is not consumed (in food, medicine, etc.) is typically invested in used cars, apartments, or secondary housing construction, the latter often proceeding in stages as funds become available.

The Government of Moldova is well aware of the significant inflow of remittances and is actively engaged in devising and implementing policies in the sphere of migration (see also: Moldova's Migrants, p.9). The GoM has also invested in improving its ability to record remittance flows with the National Bank of Moldova spearheading new transaction reporting systems for banks and estimating remittance flows based on other data points seen to be heavily influenced by remittances, such as car imports.²

Continued growth trends in emigration and remittance inflows are conceivable based on factors such as the demand for labor in Western Europe due to ageing populations as well as the active engagement of at least parts of the GoM in supporting labor mobility. The World Bank (2004b) anticipates a continued large inflow of remittances, though at lower growth rates than in recent years.

¹ The remittance percentage of GDP varies by source. GoM (2004) states 18%, IMF (2004a) states 25%, and World Bank (2004b) states 25 to 30%.

² Interviews with Poaleleunji, Director General, Department of Migration, GoM, and Ludmila Isacov, Head, Balance of Payments Department, NBM, August 2004.

Purpose & Structure of the Study

Migrant remittances had become a much noted and growing factor in the Moldovan economy at the time of the conception of this study in 2003, though very little documentation was available. Anecdotal evidence suggested that rural households had some surplus liquidity, most likely from remittances, that was kept in autarchic savings mechanisms—mostly slow construction of secondary residences and ‘under the mattress’. To the degree that these resources could be mobilized through the development of savings mechanisms and then made available as medium or longer-term lending, remittances could potentially play a greater role in expanding economic activity, especially in rural communities which are home to many migrants.

USAID, under the auspices of the research project BASIS/CRSP, therefore commissioned this study on remittances to Moldova. The intent is to document this important economic factor and to inform analysis and policymaking as well as donor programming. The focus of this study is the financial infrastructure for remittances and the potential for attracting a greater share of these funds to savings and investments.³

Following an overview on remittance flows, their senders and receivers, and their main uses, the study therefore examines the financial sector infrastructure and services for remittances by looking at questions such as: What services are available and typically used to send remittances from different key destinations? Who among the financial service providers is active in this market and with what products? How are remittances linked to savings and investment in the Moldovan market? And how could financial service providers better attract remittance flows and harness their potential to provide more appropriate financial services, such as in savings and lending, to contribute to a better availability of medium and longer-term investment capital?

The analysis aims to identify policy and other constraints to remittance flows and to make recommendations to enhance financial services for remitters and recipients. The study also attempts to assess the potential contribution of remittance flows to medium and longer-term liquidity in bank financing and offers recommendations as to interventions that could maximize that contribution.

³ A discussion of equally relevant topics in the context of remittances such as their macro impact and issues of migration are beyond the scope of this study and already much better documented (see, for instance, IOM and SIDA 2003, IOM et al 2005, World Bank 2004b) than the financial infrastructure for remittances.

Methodology

This study draws on a combination of secondary sources (studies, reports, statistics) and primary data collection through individual interviews and focus groups. The interviews aimed to capture primarily the financial sector infrastructure and services available for both remittance transfers and also complementary financial services, such as savings or loans. Focus groups, conducted in 31 villages in 10 raions (administrative regions), explored questions of who are the senders and receivers of remittances; how do they send or receive the money and what are their preferred means; and how do they use the funds. The secondary sources and interviews have provided both quantitative and qualitative information; the focus groups provided qualitative and illustrative feedback.

NBM and the Ministry of Economy as well as several of the commercial banks provided us with data sets on remittances. Among the key studies we have drawn on in addition to the primary research, two need to be highlighted and are referenced extensively throughout:

- IOM, IMF, and the European Union's Food & Security Programme (IOM et al 2005) commissioned a representative survey of 3,714 households to gather data on migration and remittances in the second semester of 2004. To complement efforts, the teams for this and for the IOM et al study consulted closely in the design stages of the household survey instrument. This excellent and timely collaboration led to the inclusion of questions regarding the use of financial services for remittance transfers and the saving and investing of remittances. In our study we draw extensively on the IOM et al findings on these and selected other questions.
- Ghencea and Gudumac (2004) conducted a survey of 4,500 households and published the results in May 2004. Their study, though not based on a representative sample, provides insights and illustrations especially on remittance senders and receivers as well as the use of remittances.⁴

While our focus group findings are qualitative and illustrative rather than representative, they are overall quite consistent with the results of the two household surveys. Further details on the methodology and focus groups, including village profiling, are available in Annex 2 and Annex 7.

The study team included Cerstin Sander, Bannock Consulting, as team leader, and two Moldovan expert teams—Doina Nistor and Viorica Petrov of CCA as financial sector experts and Andrei Bat who led a team of local focus group guides through Agrex. Team members Victoria Seymour and Enrique Mendizabal of Bannock Consulting were instrumental in research support and Victoria also with contributions to the data analysis and report drafting.

The study team is grateful to our many contacts in the GoM and among management and staff of the commercial banks who participated. All of you have been most helpful and collaborative, thus greatly facilitating our work.

⁴ The study's analysis of the household data gathered is useful. Less useful is their discussion of financial services as it is not based on any primary research and does not provide any data specifically on Moldova.

The Remittance Market

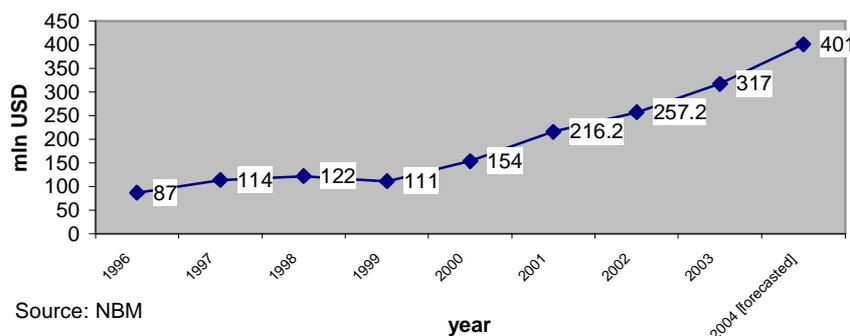
Volumes

According to NBM figures, commercial banks transacted remittance inflows of US\$317 million in 2003 and US\$401 million in 2004 (forecasted) (see Figure 2).⁵ The Ministry of Economy reports US\$464 million in remittances for 2003 (see Figure 3) and anticipates up to US\$1 billion for 2004.

Because a large portion arrives through informal channels, estimates of the total remittance receipts vary, ranging between US\$600 million and 1 billion. A recent study estimated that only 44% of remittances arrived via the financial sector, the rest being sent home through informal channels such as bus drivers (see: Formal and Informal Transfer Services, p. 15).⁶

Remittances sent through bank services (formal / regulated channels) have, however, seen a marked increase, nearly doubling from US\$232.6 million in 2001 to US\$401.5 million in 2004 (projected) (see Figure 2). As emigration appears to have been rather constant during the past four years,⁷ this growth is likely due to a combination of (i) a shift in migration destinations with a growing number of migrants in Southern Europe who realize higher earnings than migrants to neighboring CIS countries (see: Moldova's Migrants, p.9) and also (ii) a decreasing share of remittances sent by informal means as formal transfer channels have become more popular and widely used, reflecting new transfer services that have become available and more accessible (see: The Financial Infrastructure for Remittances, p.15).

Figure 2. Remittances through Commercial Banks



Source: NBM

N.B. In interpreting the graph, only data from 2001 onwards is fully comparable as the NBM recently changed the methodology used to compute formal remittance data and updated calculations back to 2001.

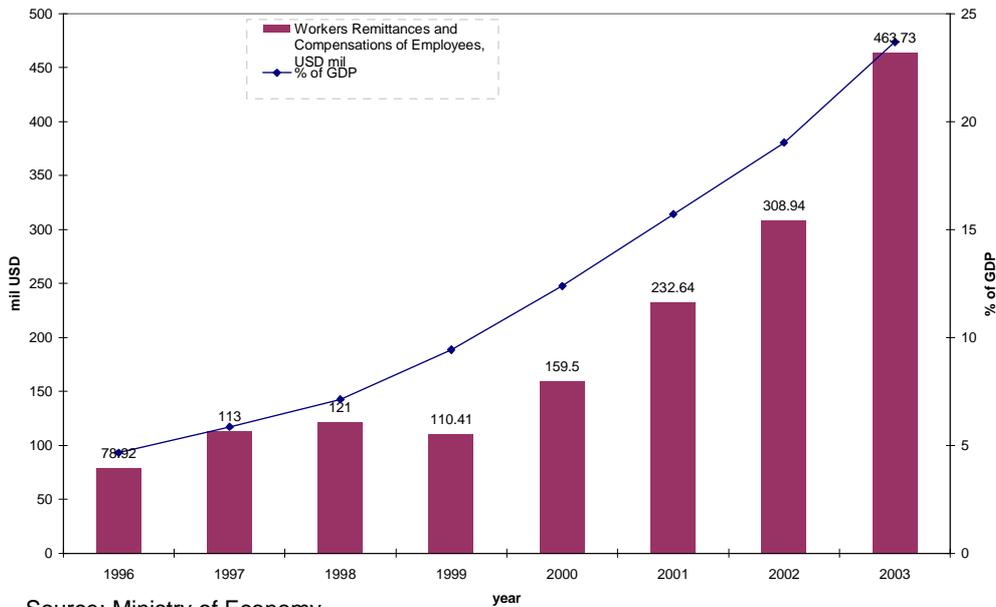
⁵ The NBM collates data on remittance transfers received through regulated financial services (formal channels). These are reported as official remittance receipts as part of the Balance of Payments statistics (BoP) to the IMF. NBM has modified the entries on two relevant articles of the current account – “revenues: compensation for labor” and “current transfers: transfers by employees” – with an increase of the later item. Source: NBM 2003. This also accounts for an increase in the figures for recent years as compared to previous statistics.

Aware of the additional inflow of remittances through informal channels, NBM has more recently also prepared estimates of total remittance receipts by taking into account other key economic factors affected by remittances, such as car imports.

⁶ Ghencea and Gudumac 2004; Martin (2004) notes that the IMF estimated US\$600 million in 2003, while the NBM figure was US\$317 million.

⁷ Ghencea and Gudumac’s survey found a relatively constant annual rate of labor migration in the past four years, the average percentage of migrants hovering over 19-20%.

Figure 3. Migrant Remittance Volumes



Source: Ministry of Economy

Key Origins

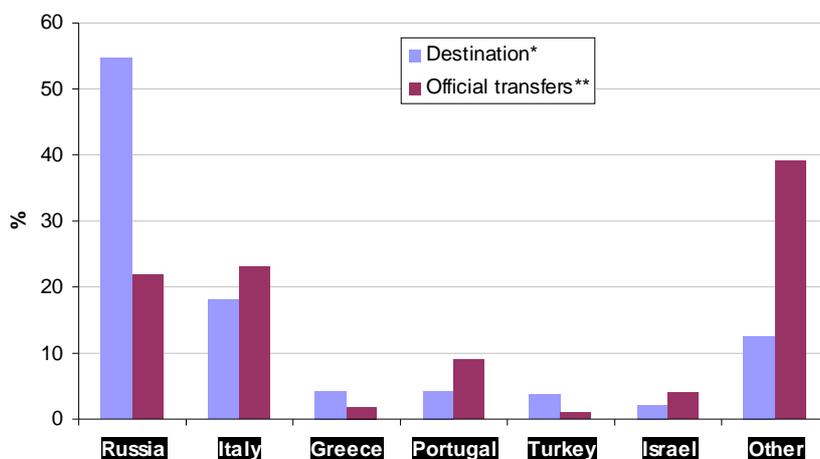
The largest flows of remittances through regulated channels arrive from Italy and Russia—the top two destinations for migrants, with Russia accounting for almost half of all Moldovan emigrants. Yet only 22% of the money remitted through formal channels arrives from Russia, compared to 23% from Italy which is home to less than one fifth of the emigrants (see Figure 4). A large share of remittances from Russia still arrives via informal channels, due in part to the proximity of the country and much seasonal migration.

Moldovans in Italy are more likely to use a formal transfer service. Two factors likely contribute to this: i) a quickly developing Moldovan diaspora in Italy fostered in part through a series of Italian-Moldovan agreements signed in 2003 which have facilitated legalization of Moldovan worker-migrants; as well as ii) new money transfer providers serving this market (see: *The Financial Infrastructure for Remittances*, p.15).⁸

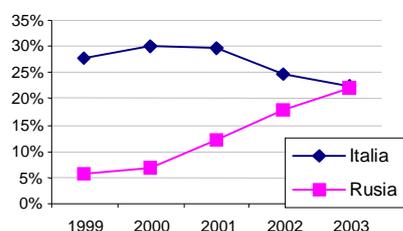
⁸ According to IOM/SIDA 2003, p.52, “In order to try to control emigration for work purposes, the MMD has set up a Directorate for Labor Migration and Foreign Relations which is to carry out tasks on emigration. Those tasks are described in the Government Decision of 7 August 2003. Among these tasks, the MMD shall take up negotiations with relevant partners in other countries with an aim to conclude deals that can ensure the rights of Moldovan workers in those countries. The MMD would also like to make agreements for quotas of Moldovan workers in specific countries. The MMD has created a database-system in which Moldovans wanting to go abroad for work can be registered. The database is consulted when employers in other countries announce positions open for Moldovans. So far, this model has led to very few actual contracts between foreign employers and Moldovan workers.”

Figure 4. Key Destination Countries and Remittance Flows

Countries	Destination* (% of migrants)	Official remittance transfers** (% of total)
Russia	54.7	22
Italy	18	23
Greece	4.4	2
Portugal	4.3	9
Turkey	3.9	1
Israel	2.1	4
Other***	12.6	39



Transfers from Russia & Italy



Source: NBM

* Key destination countries of Moldovan migrants – source: Ghencea and Gudumac 2004

** Main origins of transfers remitted through express transfer systems in 2004 – source: NBM

*** no further disaggregation available

Seasonality of Remittance Receipts

Typically remittance flows have seasonal variations. NBM data shows that remittance receipts are larger in the second half of the year, by 30% on average. One reason is that many receive remittances just prior to two of the three major Moldovan holidays in the second semester of the year: the first day of school on 1 September and Christmas. The third major inflow is linked to Easter. In contrast, January and February are almost invariably the months in which remittance receipts are lowest.

Transfers Increase During Holidays...

“We have noticed a clear tendency of transfers to considerably increase on three big holidays: September 1 (the School Day), Easter and Christmas. For comparison: in these periods the number of customers increases to 1,200 per day as compared to 500 on regular days, i.e. by nearly 2.5 times”. Manager of Universalbank, agent for Anelik Money Transfer

IOM et al (2005) found that most migrants send money only irregularly (53%) (see Table 1).

Table 1. Regularity of Sending

	%
Send/sent regularly	24
Send/sent irregularly	53
No answer or they did not send	23
Total	100,0

Source: IOM et al 2005

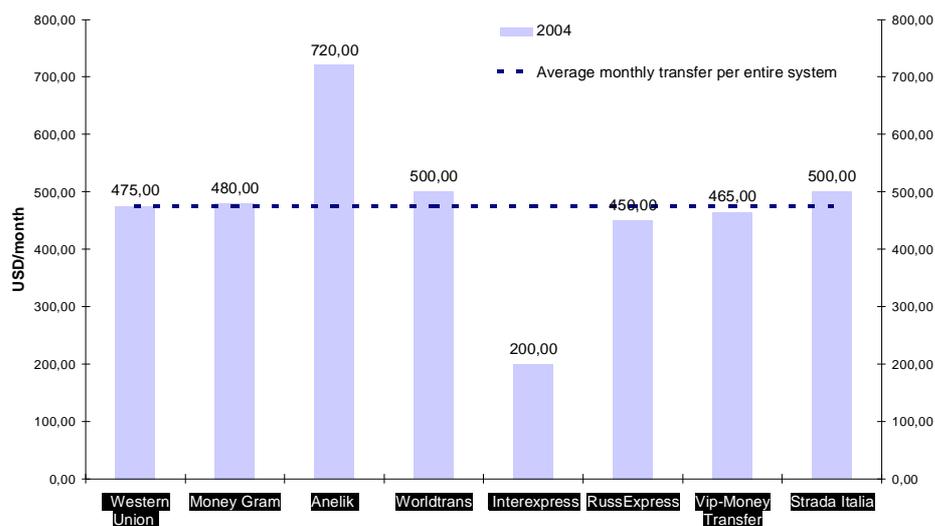
Amounts Per Transaction

The aggregate average monthly transfer was around US\$470 in 2004, according to data from NBM and from the commercial banks interviewed. This figure has been rising over the past years. For instance, in 2002 the average for three of the main express transfer systems was around US\$400—thus a growth of 17.5% over two years.

The trend, however, is not consistent across individual products or service providers. The highest annual increase rate for average transfer amounts was reported by the agent of Anelik Money Transfer, Universalbank; they recorded an average of US\$320 per transfer in 2002 compared to US\$720 in 2004. This may reflect an increase of popularity in this product, which has rapidly grown its market share in Moldova as one of the cheapest services offering nearly worldwide coverage. In contrast, Interexpress records the lowest transfer amount with US\$200 as a monthly average. This is reflective of the limited coverage of this system, which serves Russia and other CIS countries where the wages of Moldovan migrants are considerably lower than of those in Europe. Russia, in particular, also has the highest rate of remittances via informal channels.

IOM et al (2005), on the other hand, report that the average sum sent—including via informal channels—is US\$367. The lower figure is unsurprising as the transaction size via informal channels is often smaller than that via formal methods. According to the focus group feedback, the volume, frequency and constancy of receipts depends greatly on the host country (see Table 2). (See also: Formal and Informal Transfer Services, p.15.)

Figure 5. Average Monthly Inbound Transfer per Express Transfer System



Source: Moldovan commercial banks

Table 2. Average Transaction Amounts and Frequencies by Destination Country

Country	Variations per transaction	Frequency per quarter	Estimated amounts per year	Ghencea and Gudumac 2004
Russia	US\$200 - US\$300	2-3	US\$1,500 (often only seasonal)	(US\$1,834 – from CIS countries)
Italy	€400 - €1,000	3-4	€5,000	US\$3,763
Portugal	€400 - €600	3	€3,000	US\$3,538
Spain	€800 - €900	1	€5,000	
Israel	US\$500 - US\$1,000	2	US\$6,000	n/a
Greece	US\$200 - US\$350	4	US\$3,000	n/a

Source: FG Feedback

Remittance Senders & Receivers

Moldova's Migrants

Lacking reliable migration statistics⁹, the Department of Statistics estimated the number of Moldovan migrant workers to be 234,000 in 2002, and 242,000 in 2003. The Moldovan Intelligence and Security Service estimated that 600,000 to one million Moldovan citizens are working abroad (constituting almost one quarter of a population of some 4.4 million). The most recent estimate is by IOM et al (2005) with a figure of 567,000. Most Moldovans abroad are illegal immigrants who enter their host country with a tourist visa; only around 80,000 are estimated to be in their destination country legally.¹⁰

According to GoM representatives, government policy on emigration is changing in an effort to manage rather than prevent migration and to protect the Moldovan population abroad. Most active in this regard is the Department of Migration, which has more recently been seeking to balance principles of control and responsibilities vis-à-vis the international community with interests of being a caretaker of its citizens abroad, maintaining the links, and facilitating legal migration. The GoM is working on identifying the number of citizens abroad and pinpointing their destinations. Additionally they are collaborating with other organizations in order, for example, to initiate projects to get Moldovans legalized and issued with legal papers and information. The objective of such initiatives is to link Moldovans to their home country to ultimately attract them to return home and to realize their economic and investment opportunities.¹¹ (See Annex 6 for further information on migration.)

Box 1. Panorama of Moldovan Migration

- one of every third family works abroad; in our FG villages, one seventh of the population of working age have migrated. In some villages this figure reaches 40% of the working age population
- four out of five migrants are between 25 and 40 years of age
- more than two thirds of migrants are men
- more than two thirds of migrants are from rural areas
- the majority of migrants have secondary and specialized secondary education (e.g. technical)
- only one third of migrants had no stable work in Moldova prior to migrating
- Russia and then Italy are the top two receiving states, accounting for about three quarters of all migrants
- construction and domestic service are the most common jobs for migrants and no less than 10% of women migrants are occupied in the sex industry
- the great majority of migrants remit money to their families in Moldova

Source: Gudim 2004 with additional data from Ghencea and Gudumac 2004 and findings from our FG interviews

⁹ This is partly due to the clandestine nature of some of these migration flows as well as to the prevalence of cyclical and seasonal migration; 'cyclical' meaning that a migrant leaves for a period, e.g. two years, returns home for a year, and then leaves again, while 'seasonal' refers to migrants leaving annually for a short period, e.g. six months.

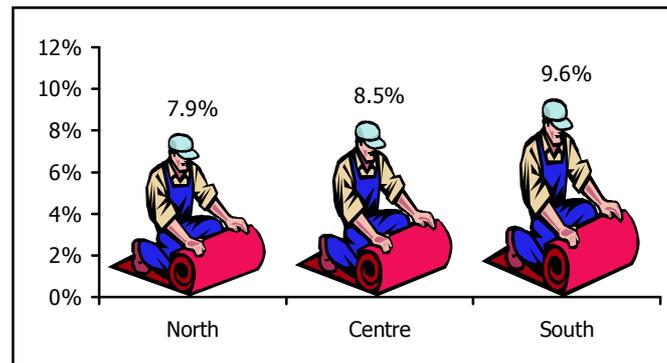
¹⁰ Jandl 2003. The unofficial figure of 600,000 was also mentioned by the NBM's Balance of Payments Department, and is cited in IOM/SIDA 2003.

¹¹ Interviews with Poaleleunji, Director General, Department of Migration, GoM, and Ludmila Isacov, Head, Balance of Payment Department, NBM, August 2004; see also footnote 8.

Key Origins and Destinations of Migrants

Across the 31 villages¹² surveyed in our focus groups, about every seventh of the residents of working age has migrated to seek employment abroad—on average some 240 persons per village. In some villages approximately 40% of the population of working age were found to have emigrated.¹³ The share of emigrants within the total village population is slightly higher in the South, the region that is historically also comparatively poorer than the North.¹⁴ (See Figure 6 and a detailed table by village in Annex 7).

Figure 6. Share of Emigrants to Village Population by Region



Source: FG feedback

FG participants cited 20 countries to which Moldovans had migrated for work. The top three were Russia, Italy, and Portugal, followed by countries such as Ukraine, Israel, Spain, Greece, France, USA, UK, Ireland, Germany, and Turkey (see Figure 7; see Annex 8 for a full breakdown by village). The top three destinations within the subregion were Russia, Ukraine, and Romania. For all three, there is no visa requirement for Moldovans as opposed to all other destinations.¹⁵

Figure 7 also highlights the regional preferences in destinations among migrants leaving from the North, South or Center of Moldova. Most notable is the dramatic drop-off for emigrants going to Russia from 65% in the North to 24% in the South. The lower proportion of emigrants to Russia in the South of Moldova is partly balanced by an increased number of emigrants to the Ukraine and Romania. This could be explained by the fact that seasonal migration (of up to six months) is by and large specific to CIS countries (Russia, Ukraine, Romania and other countries close to the Moldovan border) (see Figure 7). Proximity is thus a key factor, and Moldovan emigrants from the South opt for countries such as the Ukraine and Romania instead of Russia. The seasonal trend is partly determined by low transport costs and the relatively open borders of these countries.¹⁶

¹² For a profile of the villages in which focus group fieldwork was conducted, see Annex 7. The profile of senders of remittances largely fits with the findings in the section on 'Moldova's Migrants' (p.9).

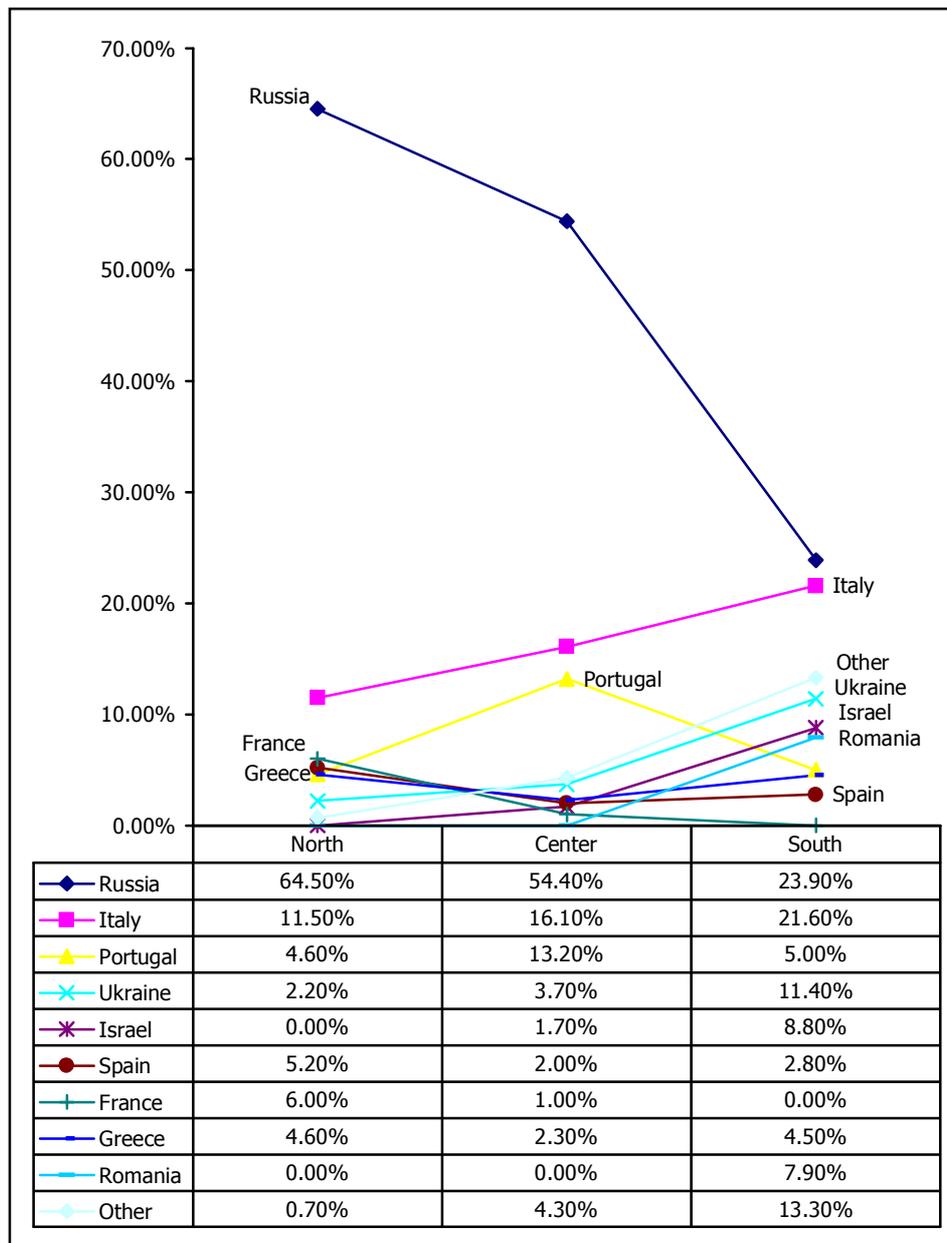
¹³ IOM et al (2005) estimate that 25% of Moldovans (excluding those from the two main centers, Chisinau and Balti) are currently abroad or have worked abroad during the last two years. The figures for Chisinau and Balti are 11% and 19%, respectively.

¹⁴ Moldova's northern and central regions have historically been more developed than the South, partly ascribed to the less favorable agricultural environment of the latter.

¹⁵ See Annex 8 for detailed findings on destination countries from the focus groups.

¹⁶ The interviews with commercial banks provided anecdotal information consistent with these findings. They mentioned that clients in the North receive remittances mainly from Russia whereas for the South funds arrive from Italy and Turkey.

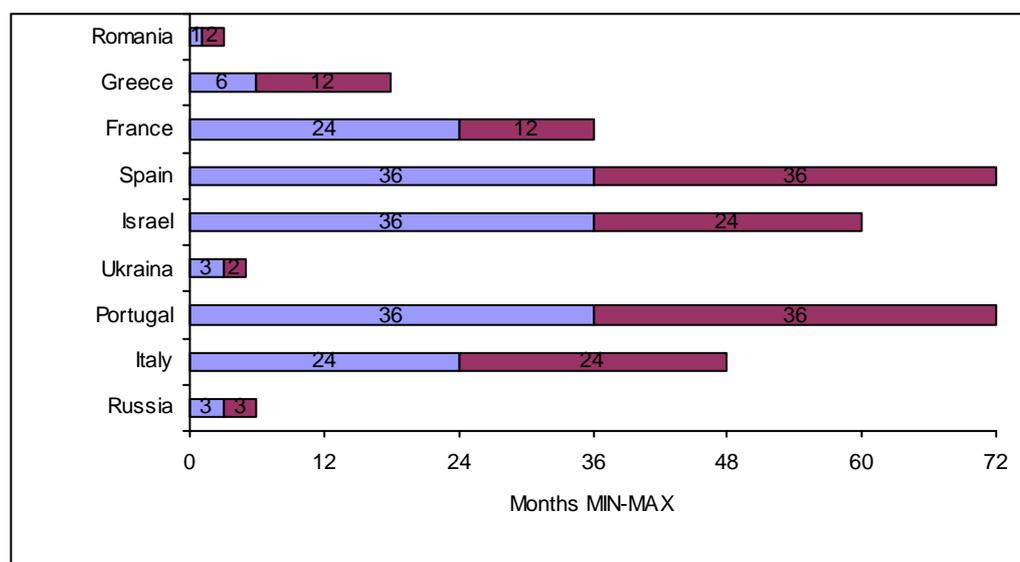
Figure 7. Destinations of Emigrants from Moldova's Three Regions



Source: FG feedback, (based on 31 villages)¹⁷

¹⁷ Out of 7,497 emigrants counted in the studied villages the country of destination was not indicated for only 26 (0.51%). Ghencea and Gudumac (2004) and IOM et al (2005) come to broadly similar conclusions regarding destinations. Key differences are that, while the proportion that went to the Ukraine, Portugal and Israel from the FG villages was much larger, substantially fewer people migrated to Russia from the FG villages than the findings in the other surveys indicate (see Annex 8 for details).

Figure 8. Average Length of Stay of Moldovan Migrants in Key Destination Countries



Source: FG feedback

Box 2. Remittance Sender Profile

Some 80.5% of migrants remit money and 71.4% of migrants send home more than half of their income, according to survey findings of IOM et al (2005). About two thirds of the migrants are men and one third are women (FG feedback, consistent with IOM et al 2005).

In our focus groups, the senders' ages vary between 18 and 60, though most were between 21 and 53 years old. The maximum age mentioned for women migrants (60) was much greater than that for men (45). This may be explained primarily by the type of work men are able to find abroad, with a high demand for heavy physical labor.

The majority of emigrants (about 9 out of 10) have secondary and specialized secondary education. Much of the remainder has higher education and used to work as medical staff, teachers, agronomists and engineers before they migrated. Those with secondary education are usually former workers of disbanded collective farms.

Box 3. Recipient Household Profile

Ghencea and Gudumac (2004) report from their survey that remittances constituted, on average, 87% of the studied families' budgets.¹⁸ In the 31 villages surveyed, between one fifth and almost one third of families received remittances from migrants abroad.

A typical village family has 3 members, including two adults and one minor. About 1 in 5 of the families include at least one person above 65 years of age. Families in which all the members are above 65 years old are relatively rare. The annual family incomes among FG participants varied between 15,600 and 18,100 lei in cash along with agricultural products they obtain from their land or household plots.¹⁹

¹⁸ Ghencea and Gudumac 2004, based on a household survey querying incomes for the period January to September 2003.

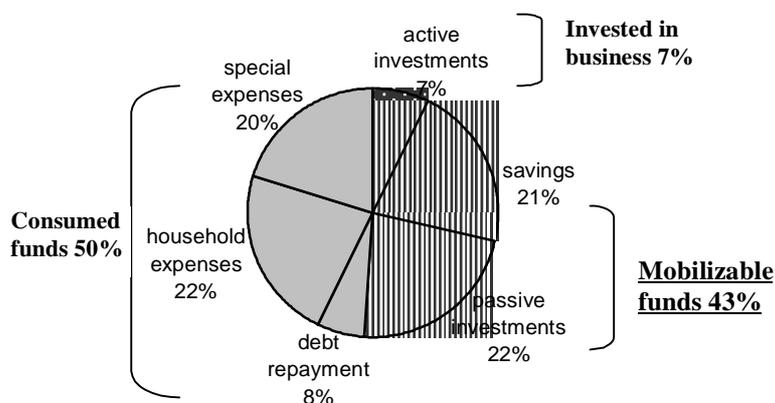
¹⁹ According to the Moldova Statistics and Sociology Department, the national average monthly salary for October 2004 was 1,140 lei, whereas for those employed in agriculture only it was 727 lei.

Remittance Uses – How the Money is Spent, Saved and Invested

Ghencea and Gudumac (2004) found that half of the remittance money received in Moldova is used for regular consumption or expenditure, one fifth is saved, and 7% is invested in business (see also Figure 9).²⁰ Interviews with local financial institutions similarly indicate that remittances are almost never used as start-up capital and are only rarely invested in current business activities. For instance, ProCredit Bank—a microfinance institution targeted at micro and small businesses—indicated that only some 1% of their borrowers co-finance their business activity from remittance flows. If intentions were followed through this might change, as according to IOM et al's survey (2005) some 16.8% of respondents felt that they would save money in the next three years towards their own investment in a business activity.

According to Ghencea and Gudumac (2004), of the families receiving remittances, 22% secured a decent material wellbeing (including food, clothing and fulfilling basic needs), 17% have been able to make soft investments (such as in medical treatment and education), 28% have been able to afford property, weddings, setting up businesses or depositing money, and 25% of families have made long-term investments in fixed assets or businesses. They also found that average family incomes increased by an average of 6% with remittances. Similarly, IOM et al (2005) found that families with migrants were better off than those without, and report a similar spending pattern of remittances (see Annex 10).

Figure 9. Remittance Spending Patterns



Source: Ghencea and Gudumac 2004 with additional annotations

In our focus groups, while not reported in percentage of remittances spent, the most popularly cited investments in assets included, in order of frequency of the responses: used cars²¹,

²⁰ Ghencea and Gudumac 2004. Their budget breakdown was as follows: "(a) debt repayment, (b) household expenses (for food, clothes etc), (c) special expenses (for education fees, medical treatment, furniture procurement, domestic animals purchase, house/apartment refurbishment, additional constructions, financing migration of other family members, assistance and loans to relatives and friends etc), (d) passive investments [i.e. those that do not generate profits] (car, house procurement or construction, baptizing, matrimonial, burial rituals etc), (e) savings (bank accounts/home savings), (f) active (business) investments (land purchase, tractor procurement, building a greenhouse, launching a mill, money-lending, opening bar or shop etc)".

²¹ Every year Moldova imports about 15,000 to 16,000 cars of which some 15% are new, the rest used. According to NBM sources, remittances are among the key funds financing car imports. With the doubling of import duties on means of transport as of 1 January 2004, imports have declined. During the first six months of 2004, only 8,520 car imports were registered—about 20% less than during the same period in 2003. In anticipation of the change, December 2003 saw a record number of 12,000 cars imported as many car traders hurried to stock up their car parks prior to the increase (see Logos Press Newsletter no. 569).

agricultural land, construction or maintenance of a home or apartment, agricultural equipment, and starting a small shop or bar; expenditures for children's education, such as university fees, where also cited and seen as investments (see Annex 9).

How the Money is Saved

Savings are of particular interest in the context of this study as Moldovan banks seek to mobilize savings, and particularly longer-term savings.

According to Ghencea and Gudumac (2004), of the total remittances about one fifth is saved (21%) but only about one third of recipient families save (30%). Of the 21% of remittance monies saved, 45% are kept in the household and the rest in a bank.

Similarly, according to the focus group feedback, 56% of emigrants (senders) and 68% of remittance recipients stated that they have no savings at all. Among the respondents, less than one fifth of the emigrants and some 7% of recipients kept savings with banks. Among those who disclosed the name of their financial institution we found only three Moldovan banks (in descending order): Moldova Agroindbank, Banca de Economii, and Banca Sociala. A quarter of the focus group participants stated that they keep money at home or in other secured places.

IOM et al (2005) found that about one fifth of the recipients saved some money at home, but only 5% with a bank (see Annex 10). Among the migrants one third (32.6%) accumulate capital, with 26% of these saving more than US\$3000.²² Their qualitative findings, however, also note a high level of distrust among migrants as many of their respondents indicated that they would not want to invest their money in Moldova, due to the threat of corruption, excessive bureaucracy, and fear of losing their capital.

²² As might be expected, seasonal migrants were far less likely to accumulate capital.

The Financial Infrastructure for Remittances

The patterns and preferences of Moldovans in money transfer mechanisms as well as in investments and savings explored in this study are partly influenced by the available financial infrastructure and by how accessible it is. In the following sections we look at the financial services and at the preferences of remittance senders and recipients in using them.

Formal and Informal Transfer Services

Formal transfer services. Remittance transfers to Moldova using regulated formal services reach their recipients either at a commercial bank or a post office. Of the 16 commercial banks operating in Moldova, 15 are currently authorized to conduct foreign currency transfers through their correspondent banks and through money transfer systems—such as Western Union or MoneyGram— which Moldovans refer to as ‘express transfer systems’.²³

Express transfers through Posta Moldovei ...

Posta Moldovei (PM) is authorized to offer express transfer services— since 2002 as a subagent for Western Union transfers, and in 2003 also as a subagent for Anelik Money Transfer System. PM has 1,172 postal branches throughout Moldova, reaching virtually every village.

Today, remittances may be received at 57 postal centers which are connected online: 22 in Chisinau, one in Balti, and one in each of the 34 raional centers (district administrative towns). Another 14 of its offices were to be connected to the system by the end of 2004.

Despite a large geographical coverage, a key inconvenience for clients is that money may only be paid out in local currency – Moldovan lei. Nevertheless, for Anelik Money Transfers alone, the current flows through PM reach US\$1 million per month.

Non-banking institutions are not permitted to provide such services and there are no provisions to license foreign exchange bureaus or other service providers as can be found in many other countries. According to NBM there has been no need to reconsider the regulations as there have been no enquiries or requests by non-banking institutions to enter this market.

The only exception to the rule is Posta Moldovei (Moldova’s state post system). It was accepted as an express transfer provider in 2002 for Western Union, and in 2003 for Anelik Money Transfers.

Remittance transfers can be received through one of two types of services through a Moldovan commercial bank: (i) person-to-person (P2P) and account-to-account (A2A) transfers, or (ii) a dedicated express transfer system.

P2P/A2A through commercial banks. Because of the relatively high fee costs of bank transfers and the lag time in the arrival of the funds, these are normally used for larger amounts where their fees are more competitive than those of express systems. Interviews with Moldovan banks indicate that there are efforts to make transfers using SWIFT overall more competitive. According to some of the banks, the main improvement required is to reduce the number of intermediary banks involved in a transaction in order to consequently decrease the client fee. Several of the Moldovan banks therefore still prefer to establish direct, bilateral

A Moldovan migrant worker who prefers SWIFT...

“In Korea we would normally remit money using SWIFT transfers because it was cheaper than the available Western Union money transfer. For example, for US\$1,000, Western Union would charge US\$70, while through a bank account I paid only US\$45-50...”

²³ Since independence, Moldova has made considerable progress in establishing a well-functioning financial system. There are 16 commercial banks, two non-banking financial institutions, and over 500 village-based Savings and Credit Associations (SCAs).

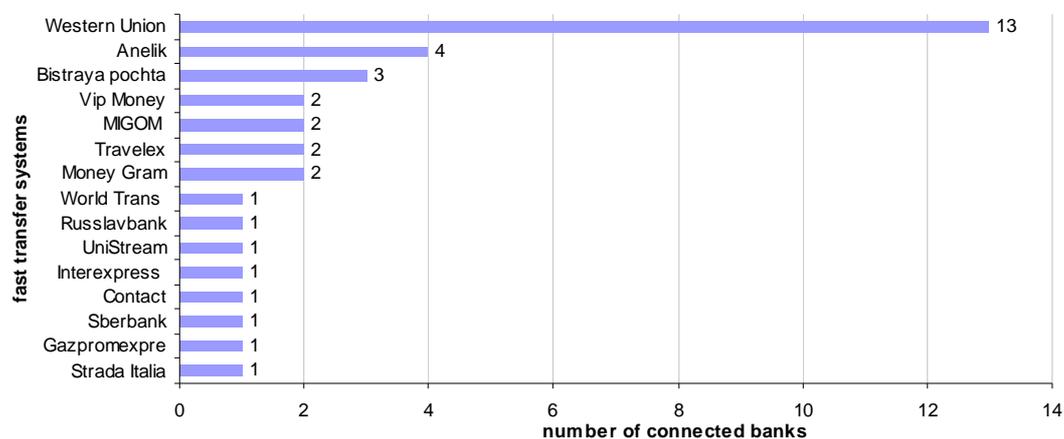
correspondent banking agreements with strategically chosen partner banks in key migrant markets.

Express transfer services. These services have been available in the Moldovan market for over 10 years. They have been recording a continuous growth, particularly in recent years as many new express transfer systems have emerged.

Today, express transfers are offered through 15 service providers (see Figure 10). Western Union was the first to enter the market in 1992; most of the competitor services appeared after 2000.

Each commercial bank is linked with one or more of them. In addition, Posta Moldovei acts as a subagent of two of the larger express services—Western Union and Anelik Money Transfers.

Figure 10. Express Transfer Services and Number of Bank Partners in Moldova



Source: NBM, as of June 2004

Three companies currently dominate this market and account for about 80% of the market share (of total transaction volumes through express services):

- ⇒ *Western Union*—one of the oldest and most used; Banca de Economii was the first local commercial bank to work with Western Union when it became an agent in 1992. Currently, 13 Moldovan commercial banks offer Western Union transfer services.
- ⇒ *MoneyGram*—the second largest provider to develop its network in Moldova. It has not managed to gain much popularity; high tariffs are cited as the main reason for the lack of success in gaining more market share. It works with only two commercial banks.
- ⇒ *Anelik Money Transfers*—a recently established Russian express transfer company which has taken a solid share of the international transfer market. The service entered the Moldovan market only three years ago but has grown rapidly. Universalbank is the main local agent and extends its coverage through three subagents. The key competitive advantages are its large geographic coverage of over 80 countries and the low fees.

While competition in this market toughens each year, local commercial banks have felt much pressure to enlarge the spectrum of their services and adjust to the needs of clients. Therefore, alongside the larger transfer systems, more recently local banks have connected to less well-known and less networked brands which service a specific and popular migrant destination (see Box 4). These are usually Russian services (e.g. Contact, MIGOM) as Russia is a key origin country for remittances.

The current trends in the remittance transfer market—of new service providers, improvements to existing services, and growing outreach in Moldova and abroad—look set to continue in the near future. Relatedly, one can expect to see a continued redistribution of market shares, and a decrease of market quota for some of the current market leaders. Also likely is a continued growth in the share of remittances being sent via formal channels as services become more attractive and accessible.

Box 4. Geographic Coverage of Selected Service Providers

VIP Money Transfer – Georgia, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Russia, Spain, Tajikistan, Ukraine
MIGOM - Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Russia, Tajikistan, Ukraine, Uzbekistan
ANELIK operates in over 10,000 cities, in 82 banks, in numerous countries including: Russia, Ukraine, Armenia, Georgia, Belarus, USA, Kazakhstan, Canada, Karabah*, Latvia, Lithuania, Bulgaria, Kyrgyzstan, Lebanon, Czech Republic, Great Britain, Belgium, Spain, Gibraltar, Honk Kong, the Netherlands and 25 countries of Africa and Asia.

Source: Universalbank (http://www.universalbank.md/index_e.htm)
 * an autonomous region, officially known as Nagornii Carabah, which is a source of conflict between Armenia and Azerbaijan

Informal transfer services. Informal transfers continue to hold a substantial market niche—in conjunction with, and despite the strengthened market positions of, formal transfer services in recent years. Ghencea and Gudumac (2004) found that, on average, more than half of all remittance transactions occurred via informal channels such as couriers, colleagues, and friends or is carried personally when returning home (see **Error! Reference source not found.**). The average amount sent informally, however, is smaller than for formal means of transfer. .

In our FGs, informal methods were mentioned by some 40% of FG participants. There are several ways of sending money through informal channels according to the FG participants:

- i. using an “agent”—usually a bus driver, train steward or acquaintances who travel back to Moldova;
- ii. shipping goods home on buses or trains, sometimes with money inside the goods; or
- iii. bringing the money personally when returning home.

Informal transfer is the only option or just convenient...

“It’s the only one available method in the proximity.”
Woodcutter who works in Russia
 “It is not far of my workplace and in addition I can meet other Moldovans to have a chat.” *Woman who transfers from Italy using the minibus*

Preferred Transfer Mechanisms

Formal vs. Informal. According to the focus group feedback, 60% of the responding migrants use formal methods, but the majority of them (80%) use informal means as well. IOM et al's (2005) findings similarly indicate that use of both formal and informal means is very common (see Table 3) but note that recipients say they receive money more often via informal channels than through formal services. Ghencea and Gudumac (2004) also found that Moldovan migrants still use informal transfer channels more frequently though with lower transaction values than formal ones. They also noted that the choice of channel varies by country (as well as legality, level of education, and age). Thus, the greatest preference for informal transfers was recorded for remittances from the CIS countries, with some 90% using informal channels. Other countries with a relatively high use of informal transfers include Italy, Greece, Turkey and Cyprus. In contrast, in countries like Portugal and Spain migrants showed a lower preference for informal means, with only half of the responding migrants using informal channels (see Table 4).

Table 3. Services or Channels used by Migrants for Sending Money Home

(in percentage of responses)		Used at least once	Used more often
Formal	Bank transfers	25.7	13.0
	Rapid transfers	28.8	19.5
	Post offices	4.4	1.9
Informal	Train conductors	12.7	7.1
	Bus or minibus conductors	11.4	6.8
	Carried personally	38.9	17.3
	Through relatives, friends and acquaintances	29.1	11.7
	In parcels	8.7	1.3
	Via other methods	9.4	0.9
No answer (20.6%)			

Source: adapted from IOM et al 2005; asking respondents about the methods they have used either once or more regularly

Table 4. Migrants' Use of Formal and Informal Transfer Channels
(by Originating Country)

COUNTRIES	FORMAL (%)	INFORMAL (%)
Portugal, Spain	78.3	49.4
Greece, Turkey, Cyprus	38.8	77.6
France, Germany, Benelux, GB, Switzerland	58.6	63.8
CIS	21.7	90.2
Italy	56.0	69.9
Other countries	56.4	64.5
Total	48.0	72.6

Source: Ghencea and Gudumac 2004²⁴

²⁴ The values in the table have been obtained by dividing the number of cases in which a migrant used a formal or an informal method of transfer by the total number of cases in which their earnings were remitted from a respective target country. Normally a migrant applies for both methods of transfer; for this reason the values in the rows against the countries should not be added, but virtually reported to 100%, that is to the total number of migrants in the respective target country (revised from Ghencea and Gudumac 2004).

Asked about the key criteria in choosing their method of transfer, respondents in IOM et al's survey (2005) identified speed and security as key factors whereas cost was relatively much less important. Unsurprising is that the ease of sending is more important than the ease of receiving as the sender gets to choose the service (see Table 5).

Table 5. Criteria for Choosing Method of Transfer

(in % of responses)

	First choice	Second choice	Third choice
Speed	23.9	6.6	5.7
Easy to send	10.2	13.5	7.3
Easy to receive	3.7	14.0	14.4
Security	16.3	15.0	11.2
Costs	8.8	7.5	8.6
Habit	0.1	-	0.2
Trust	5.3	8.6	6.4
Something else	15.1	11.4	16.6
No answer	16.6	23.5	29.6

Source: IOM et al 2005

According to our FG participants, while illegal emigrants choose informal methods because of the lack of access to financial institutions (typically they cannot open a bank account without legal documents), the legal emigrants opt for this channel for reasons of low costs and relatively swift delivery; a low level of confidence in Moldovan banks; avoiding banks so that earnings are not declared and cannot be taxed; lack of knowledge of bank services; and because there is a well developed system of informal transfers available.

Other key determinants for choosing informal services include:²⁵

- seasonal character of migration where money is brought back on return
- proximity of the migrant's host locality, allowing for frequent travel by self or trusted contacts
- well-connected infrastructure (regular transport and travel by road or railroads)
- comparatively lower wages, making the amount of cash carried in line with customs regulations as well transfer fees relatively more costly (minimum fees or bracketed fee schedules²⁶ are common and thus constitute a greater cost percentage for a low than a higher value transfer) (see also: Transfer Fees, p.24)

In sum, the main determinants are speed, safety, fee cost, the type of migration (seasonal or long-term), and the status of the migrant (legality in host country). Informal means prevail from host countries which are located in close proximity to Moldova and with much seasonal migration, as well as from countries where the migrants lack sufficient legal status to use—or to dare to use—formal services. Informal means also prevail more strongly where the Moldovan migrants' networks and communities are large and well connected or organized, for instance in Russia and Italy.

²⁵ See Annex 14 for more detail on the feedback of the FG participants on migrants' preferences when choosing an informal channel to remit money, including information on the countries from which certain methods are predominantly used.

²⁶ E.g., a \$10 fee for a transfer amount up to \$100, \$12 fee for amounts between \$100 and \$200.

The negative side of informal methods includes risks such as the possible loss of money when crossing the border – because money is not declared there is a certain chance it could be confiscated by border authorities. While we were told by FG participants about such risks, we never heard about any actual incidence. Another disadvantage is that sending money via couriers can take a lot of time.

The recent evolution in transfer services to Moldova has made available cheaper and generally more attractive services. These seem to encourage a growing number of migrants to use formal services.

Formal Services. Express transfer systems are the preferred mechanism among the formal services, largely for their simplicity and lower costs than account-linked transfers. The market is currently led by three transfer systems: Western Union, Anelik Money Transfers and MoneyGram, through which about 80% of remittances are received.

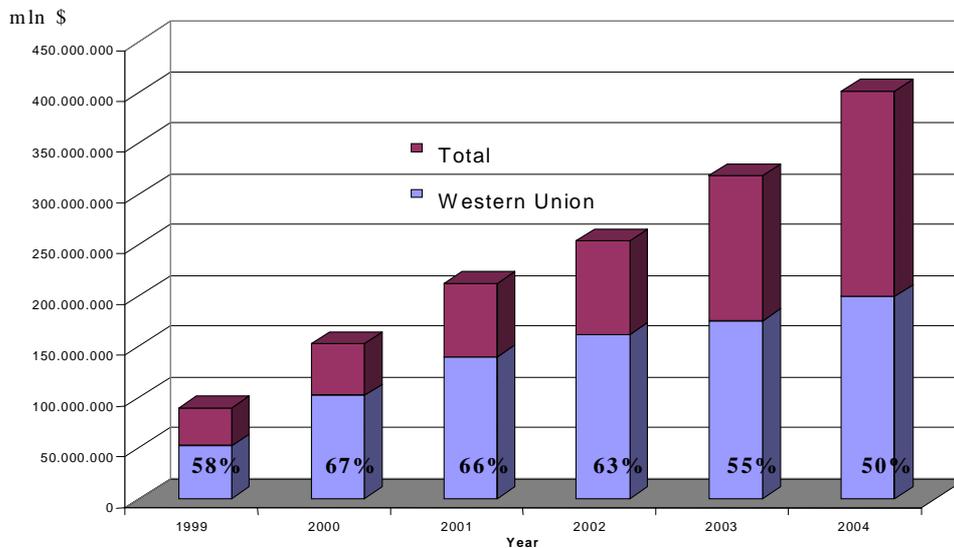
Among them, the lion's share continues to belong to Western Union as the most used transfer system. It has held up to two thirds of the market in the past and currently still transacts half of the volume of the remittances through express systems (see Figure 11). Its diminishing market share in recent years reflects the increased competition through other service providers, facilitated in part by the cancellation of Western Union's exclusivity arrangements in the Russian market.²⁷

IOM et al's (2005) qualitative research found that the advantage of banks and specialized financial systems was felt to be security, while their disadvantages were expense, the lack of choice of currency, and the fact that many Moldovans do not know how to use bank services and feared that the banks could go bankrupt again, losing their money.²⁸ The feedback from migrants in our focus groups was similar (see Annex 13).

²⁷ In early 2004, the Ministry of Antimonopoly Policy of Russia effected the cancellation of Western Union's exclusivity clause for its agent banks (until then they had been contractually barred from serving as agents for any competitor products). This has encouraged competition in the Russian transfer market and led to the emergence of several Russian transfer services. As a result, fee prices have dropped. The impact for the many Moldovan migrants in Russia has been a greater choice of express transfer systems at a lower fee cost.

²⁸ Moldovan citizens have experienced two major financial crises which have seriously affected their trust in local commercial banks and in the financial market overall. The first was the immense devaluation of the Russian ruble in 1992-1993, caused by the collapse of the Soviet Union, which heavily affected Moldovans' savings made before 1990-1991. Following Moldova's independence in 1991, a 'coupon' was introduced as a provisional conventional monetary unit. In 1993, the National Bank instituted the national currency (the leu). Thus savings of 1,000 rubles were valued at 1 leu. In addition, the country's economy experienced hyperinflation. In 1993, for example, the inflation rate was 2705.7% (NBM). Moldovans lost virtually all the savings they had. The second major event was the financial crisis in Russia of 1998. In September of that year the exchange rate stood at 4.7 lei to US\$1; the leu then devalued by almost half within a matter of months and by November the exchange rate had swiftly escalated to an average of 8.5 lei to US\$1.

Figure 11. Western Union Share in Moldovan Remittance Receipts

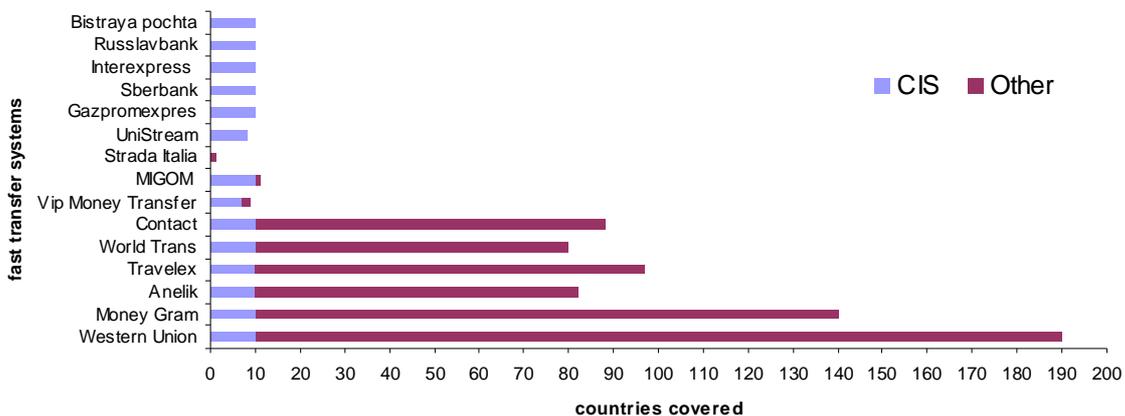


Source: NBM

Accessibility of Formal Financial Services for Transfers

Geographic coverage. Accessibility is important for both the sender and recipient. While research in migrant destination countries was beyond the scope of this study, at least the network coverage of the express transfer systems available in Moldova is congruent with the migrant destination countries. Whereas the large majority of services in Moldova are limited to the CIS countries, over one third of them offer a worldwide network of offices. Along with internationally recognized brand names, some of the new services have wide-reaching and growing coverage—such as Anelik Money Transfers and Contact, both Russian systems with international service networks. Migrants in Russia have the greatest choice of systems (see Figure 12).

Figure 12. Worldwide Geographic Coverage of Express Transfer Systems in Moldova



Source: compiled from data collected from commercial banks, express transfer companies, and internet

At the receiving end in Moldova, transfer systems should ideally also be readily accessible. For the most part this does not appear to be much of an impediment in Moldova, as the analysis of

the branch networks and focus group feedback indicate. The small size and short distances in Moldova are a facilitating factor, as is the branch infrastructure of many of the banks, largely developed prior to independence.

Banca de Economii²⁹ and Agroindbank³⁰, with the widest branch networks, have a cumulative number of over 550 offices. They are present in all cities and towns of the country as well as in a good portion of the villages. Yet not all offices are able to process international express transfers, mainly because of poor technical facilities (lack of computers and internet connection). For example, only 30% of Banca de Economii offices render express transfer services. Where the service is not available, clients can pick up remittances at the closest connected branch office, typically located in a raional center (town) or city. In addition to commercial banks' networks, Posta Moldovei (Moldova's state post system) participates as a subagent of two express transfer systems and offers access to them in each of the 34 raional centers.

As the service networks are less available in rural areas (villages) and much better developed in urban settlements (cities and towns), recipients living in villages must typically travel to the nearest town in order to receive a transfer from abroad. This may be viewed as an area for improvement, though both focus group responses and feedback from bank interviews underline that many recipients prefer to receive the remittance away from their village of residence—mainly for reasons of confidentiality as they are afraid of neighbors finding out that they have received money and some cases of theft were mentioned.

Box 5. Financial Infrastructure in Focus Group Villages

Only 18 of the 31 studied localities have a bank branch; most of them (16) are branches of Banca de Economii. Moldova Agroindbank has a branch in one village, and Banca Sociala in another.

In only two villages respondents mentioned that they ever use the local branch to collect remittance transfers. In both cases these were branches of Banca de Economii and the respondents were unsatisfied with the service provided by these branches. This was due to the time taken to receive the transfer and to the fact that transfers were available only in US dollars though their preference was Euros.

In addition, there are local post offices (Posta Moldovei) in all 31 villages. In just two villages there were cases of receiving transfers through the post office, both from Russia.

No ATMs are installed in the studied villages and respondents stated that they have little knowledge of how to use this service. Just recently some banks started installing ATMs within district branches. However, the use of ATMs requires the opening of a bank account. This has at present little support among the rural population.

Box 6. People prefer to receive money in towns...

Despite the presence of local transfer facilities, more than 87% of focus group respondents stated that they never use existing local institutions or post offices to receive remittance transfers. They prefer to go to the district center or to Chisinau, notwithstanding the expense and time these trips take. The average distance to the nearest bank is some 30km and varies from 4km to 135km with trip costs of between US\$0.1 and US\$5.2 (between 1 and 65 Lei).

Among the reasons given for the preference for financial institutions located outside the village are that it is more confidential; that village branches often do not keep enough cash (for instance US\$3,000) to pay out transfers and one has to order them one day in advance; and that the large majority of bank branches do not offer transfer services in foreign currency.

Banca de Economii staff experience this first hand. One of the oldest banks and with the largest branch network, it is a key provider of Western Union. 30% of its 487 offices are connected to the service. Several of these offices are located directly in villages. Despite the fact that remittance receivers may pick up their money directly in the village, bank staff complain that these clients prefer to travel to the nearest town to do so. Bank workers claim that people are afraid of their villagers finding out about money received, information that could attract robbers or simply villagers' envy.

²⁹ Banca de Economii has 37 branches and 450 agencies throughout the country.

³⁰ Moldova Agroindbank has 45 branches and 33 agencies throughout the country.

Product attributes. Procedural aspects in using transfer services for remittances are fairly simple. To send or receive money, a person normally needs an identification card (ID) and the money transfer control number.

The increasingly competitive environment in money transfer products in Moldova and in some of the markets of remittance origins, such as Russia, has led to a range of products and heightened service orientation of the providers. Our findings suggest that fees, a key product attribute and a major constraint of access to transfer services, have gradually decreased to an affordable level and can compete with the informal channel fees (see also: Transfer Fees, p.24). The duration of transfers has been minimized as well, with money arriving from within 15 minutes to a maximum of two to three days.

Similarly, the availability of US Dollar as well as Euro disbursements of remittance transfers has become almost standard recently—an adjustment in response to client preferences such as the increasing significance of the Euro in the Moldovan market (see also Table 6). At least in the major centers, US\$ and Euro payouts are available, though in rural branches and post offices clients tend to still be limited to the Moldovan Leu.

Among the focus group respondents, some 55% of remittance recipients stated that they are able to choose the currency of transfer when necessary, while 41% of recipients declared they cannot choose. When asked in what currency they would prefer to receive transfers, about one third of recipients opted for the Euro and approximately one fifth for the US Dollar.

Table 6. Availability of Foreign Currency Payouts by Transfer System

Anelik Money Transfers	US\$; Euro
Contact	US\$
Gazpromexpres	US\$, Euro, RUR
Interexpress	US\$; Euro
MIGOM	US\$
MoneyGram	US\$; Euro
RUS -Express	US\$; Euro; RUR
Ruskaia Pochta	US\$; Euro
Ruslavbank	US\$
Sberbank	RUR
Strada Italia	Euro
Travelex	Euro
UniStream	US\$
VIP Money Transfer	US\$; Euro; RUR
Western Union	US\$; Euro

Source: compiled from data collected from commercial banks, MTOs and the internet

Box 7. Euro Pay Out: Adjusting to Market Changes and Client Demands

The tendency to use the Euro as payment instead of other currencies (such as US\$) has intensified in Moldova as a reflection of the weakening US Dollar and a growing number of Moldovan migrants in Euro-zone countries, and following EU expansion in May 2004. Important segments of the domestic market have preferred to link their prices to the Euro (such as household appliances, car and even the real estate markets).

Remittance recipients in Moldova would thus increasingly seek to convert the funds received into Euros as the safer currency, thereby incurring a foreign exchange loss as express transfer systems in Moldova until recently offered payment only in Moldovan Lei, US\$ and sometimes Russian Rubles. In addition, the US Dollar-based operations of major express transfer systems (translating all transactions into US\$ as their trading currency), such as Western Union and MoneyGram, has meant that migrants sending funds from Euro-based markets incurred losses, thus incurring foreign exchange losses twice.

Responding to the market changes, in late 2003 a Moldovan bank, in partnership with an Italian bank, announced a new express transfer service in Euro. Though the service fee was relatively low at €6 per transaction, not many people found out about this option. Since then many services have followed suit and now offer Euro payments, including the market leaders, such as Western Union since late 2004.

Transfer Fees

The fee cost is one of the factors for a migrant's choice of the money transfer channel (formal/informal) and also of the service (e.g. which of the express transfer services). The fees depend primarily on the remitted amount, the service chosen, and the destination, and are generally borne by the sender. There are a few exceptions when fees are shared between sender and recipient.³¹

The cost of a money transfer for an average transaction typically ranges from a low of around 1% to a maximum of 20% of the amount remitted. As a general rule, small amounts are expensive to send as the smaller the amount, the higher the cost of the fee relative to the amount sent. This is largely due to minimum fixed commissions which most services charge, whereas for larger amounts, the fee is charged as a percentage and thus reduces significantly.

Until recently, there was a sizeable disparity between the transfer fees of formal channels and those of much cheaper informal means. The key reason was the low competition in the formal service market while only a few services operated. In the current market, fees of regulated service providers compete against each other and compete also with fees charged in informal systems (see Table 7 and Table 8).

Among the formal services, the cheapest options are transfer systems where the commercial bank offers its own transfer product, rather than being the agent for a product; examples include Unistream (by Uniastrumbank, Russia) and MIGOM (by European Trust Bank, Russia). An average transfer costs between 1.5 and 2%. The caveat is that these services are limited to very few countries—mostly Russia and CIS countries.

The second best price option can be found among the newly emerged Eastern European express transfer providers (mostly Russian) operating with their own clearing systems and international service coverage, such as Anelik Money Transfers and Contact. Their transfer

³¹ For instance, for RUS-Express transfer system 1% is payable by the sender and another 1% by the recipient. Some FG participants mentioned charges to the recipient, such as bank commissions for the transfer service or a commission when the money is withdrawn, but none was greater than 2% of the amount received.

fees are around 3% of the remitted amount and still compete with the high end fees of informal channels.³²

The most expensive are the services of global companies, such as Western Union and MoneyGram. Their fees range from 3 to 14% of the remitted money.

Feedback from the focus groups indicates that fees for formal transfers varied from 0.5% (Strada Italia for sending an amount of US\$5000) to 15% (for post transfers) of the amount remitted. Informal transfers can either be free of charge or cost up to 3%.

As most services charge their fee based on bracketed transfer amounts,³³ to analyze the transfer fees through express transfer systems in more detail we have taken two typical amounts migrants send home regularly: from Russia US\$200 and from Europe US\$500. Table 8 illustrates typical fee charges using five express systems: the three Moldovan market leaders and two smaller systems, one targeted at Russia and another at Italy.

Box 8. Universalbank Advertisement

Make a comparison by yourself...

Transferring this much	ANELIK's Fee	Western Union's Fee
\$100	\$3	\$18
\$400	\$12	\$41
\$750	\$22	\$54
\$1600	\$48	\$96

Take a right decision!

(<http://www.universalbank.md/services/english/for-people.htm#anelik>)

Table 7. Transfer Costs by Category of Express Transfer System

SYSTEM CATEGORY	DISTINCT FEATURES	EXPRESS TRANSFER SYSTEM (EXAMPLES)	GEOGRAPHIC COVERAGE	AVERAGE FEE (% OF SUM)
I. Global companies	worldwide network and well-known brand	Western Union MoneyGram	+++	3-14%
II. New Eastern European systems	own clearing systems and growing international network	Anelik Money Transfers Contact	++	3%
III. Systems with two participating banks	proprietary (own) product / direct correspondent partner bank service	Unistream Strada Italia	+	1.5-2%

Source: compiled from data collected from commercial banks, express transfer companies and internet

³² While the necessary involvement of a correspondent bank and the split fee between the provider and the agent bank can increase the cost, the typically higher volumes of such services compared to proprietary express transfer services make them competitive and profitable at lower margins.

³³ E.g., a \$10 fee for a transfer amount up to \$100, \$12 fee for amounts between \$100 and \$200.

Table 8. Transfer Fee Charges as a Percentage of a Typical Remittance Amount

amount sent:	US\$200	US\$500
Western Union	11	8
MoneyGram	10	6
Anelik Money Transfers	3	3
Strada Italia	6.25	2.5
Ruskaya Pochta	1	1
Bank account transfer (SWIFT)*	15	6

Source: compiled from data collected from commercial banks, MTOs and the internet

* based on Universalbank terms and conditions: 0.25% of amount, minimum US\$30

Box 9. Cost of Receiving Remittances

In addition to transfer fees, there are secondary costs associated with remittances. These can include the costs of transportation and travel to collect the remittance money, bank fees for withdrawing money, and currency exchange losses.

According to our focus groups, to receive remittances beneficiaries have to cover mainly transportation and also some bank charges:

> 88% of the recipients in the focus groups incurred transport costs to the district centre or to Chisinau varying from US\$0.1 to US\$5.20

> some 28% of beneficiaries reported that, besides transportation costs, they pay bank charges when withdrawing their money; these costs vary between 0.5% and 1% of the transferred sum

Efficiency Issues and Constraints

Receiving remittances via formal channels has become easier and more attractive as remittance transfer services have improved in terms of the number of available services, their network coverage, and their increasingly competitive and attractive pricing. To a large extent, remittances are fully withdrawn in cash. The portion invested—typically in cars, housing or land—accounts for about one fifth of remittances. About another one fifth of remittances are saved, though only about one tenth of these funds are saved with banks (see also: Remittance Uses – How the Money is Spent, Saved and Invested)

This profile of remittance use is partly a function of the needs and desires of remittance recipients to cover daily expenses and satisfy priorities such as housing or first order luxury items such as household equipment or cars. In part, though, it is also a function of the environment, which is not as conducive as it could be for both investments and savings—including the regulatory environment for financial services and remittances as well as the financial infrastructure for savings, intermediating savings for loans, and lending.³⁴ The following sections discuss some of the main related efficiency issues and constraints.

Legal and Regulatory Issues and Constraints for Remittance Transfers and Their Use

Various legal and regulatory aspects affect migrant remittances either directly or indirectly, such as import regulations (regarding the use of remittance funds). In the context of the financial infrastructure and services, however, two of the recurrent issues in interviews with banks and government representatives in particular were the money transfer ceilings for transfers in and out of the country and regulations regarding anti-corruption.

Transfer Ceilings: According to NBM's Balance of Payments department, since 1994 all funds must be declared on entry to Moldova and the limit is US\$2000 (in accordance with FATF regulations). On exit the maximum is US\$5,000, or an absolute maximum of US\$50,000 with NBM permission. Via bank transfer up to US\$3000 may be sent without any queries or requirements.

Recent changes to the legislation, which introduced some improvements, included, for instance: limits for transfers out of Moldova to spend money abroad without any confirming documentation were increased from US\$200 to US\$500;³⁵ limits for bank transactions abroad to close relatives (for family expenditures) without confirmation documents³⁶ increased from US\$1000 to US\$3000 per quarter for each relative.

Disclosure of transfers by banks to corruption department, effective as of 2002. To prevent money laundering, commercial banks are obliged by legislation³⁷ to fill out and submit a disclosure form for transactions classified as suspect or exceeding an established limit. Any transaction exceeding 65,000 lei (about US\$5,400) or cumulatively 300,000 lei per year (about

³⁴ An analysis of the investment and savings climate goes beyond the scope of this study. World Bank reports and other studies rate the investment climate as generally very poor (e.g. World Bank 2004a).

³⁵ Administration Council decision of Nation Bank of Moldova nr.111 on 20 May 2004, "Preview as change of the currency regulation in Republic of Moldova"

³⁶ Confirmation documents = NBM authorization.

³⁷ Law on Money Laundering 633, as of 15/11/2001

US\$25,000), or any transaction originating from a country classified as high risk must be reported to the anti-corruption body.

The number of such report forms filled out by commercial banks is enormous—varying from 1,000 forms per day for smaller banks up to 2,000 forms per day for larger banks. Feedback from interviews with some of the banks indicates that, while onerous, they comply with the requirement. As to whether clients feel that this threatens their confidentiality, some bank staff thought that clients felt threatened at first, but now are accustomed to it.

Licensing Limitations for Money Transfer Services. The licensing and operational requirements for money transfer services were not seen as issues or impediments, though in Moldova such service licenses are limited to commercial banks. This is consistent with conservative regulatory practices in many countries and is rather restrictive when compared to more progressive markets. More flexible regulation has typically spurred competition, leading to more accessible service networks (lower fees and more outlets / points of service).

Discussions with the existing microfinance institutions indicated, however, that they would be interested to expand their activity to money transfer and also deposit services. The current law limits MFIs to lending as the only permissible financial transactions.

Issues and Constraints in the Financial Infrastructure & Services

Efficiency Issues and Constraints in Money Transfers

As per license regulations for money transfer services, the financial infrastructure for remittance transfers is currently limited to banks and to post offices which offer services only in Chisinau and the raional centers. The banks have a limited branch network and service availability is inconsistent across the branches, so that some cannot pay out remittances or can pay out only in local currency. The availability of different express transfer systems through these networks has, however, grown tremendously and their increasingly competitive pricing has made them much more attractive.

The feedback from remittance recipients suggests that they do not see the service coverage in Moldova as a constraint. In fact, many appear to have a preference for receiving their funds away from their hometown or village.

Card-based transfers, increasingly popular for remittance transfers in corridors such as the United States and Mexico, are hardly available in Moldova. The service coverage and client uptake of banking cards and ATMs, though growing, is in its early stages in the urban areas. In rural areas, availability of card-based services is negligible. Cashing costs using banking cards of around 1 to 1.5% of the withdrawn amount are also regarded as high. The cost for withdrawals from ATMs can be up to 3% for the client. According to NBM, cash withdrawal operations account for over 95% of proceeds from banking cards in Moldova, and only the remaining 4-5% from payment for goods and services.³⁸

Efficiency Issues and Constraints in Saving/Investing

³⁸ In addition to ATMs, Point of Sale terminals (PoS) have recently been installed for non-cash payments such as in stores and offices. The system is developing very slowly. A key problem seems to be the high commission companies are charged for operating a PoS.

Attracting a larger portion of remittances to savings and investments hinges in part on the available financial service offerings (deposit and other products) as well as on banks' efforts in attracting clients and, for instance, cross-selling savings services to remittance recipients.

While deposit mobilization in Moldova has increased—with deposits held in the banking system having more than tripled since 2000—Ghencea and Gudumac's (2004) findings suggest that about one tenth of remittances received are saved with banks and another one tenth at home or 'in a safe place'.

Question of trust, not regulatory constraints...

"... The bank does not have any institutional or legal constraints relating to attracting remittances in the banking circuit. The will of individuals to keep remittances in banks solely depends on their trust in the banking system and availability of other instruments to invest this money..." Vice President, Moldova-Agroindbank

Savings Mobilization in Moldova

Bank deposits are virtually the only saving product available to Moldovans. They are also the key tool banks use to mobilize resources from the population.³⁹ Deposit accounts may be opened in the local currency or any of the most common foreign currencies, such as US\$ or Euros, without limitations. The only required document is the official Moldovan ID card.

While volumes have recorded a constant increase, key constraints include: (i) underdeveloped deposit insurance, (ii) few long-term savings products, (iii) limited product range, (iv) harsh conditions for contract termination or for partial withdrawals before term expiration.

Volume.⁴⁰ IOM et al's (2005) survey responses indicate generally very low savings levels in Moldovan households, with only 6.3% of Moldovans living in the countryside (or 5.5% overall) having savings at home and a further 1.2% (or 1% overall) in bank deposits.

The average volume of deposits held in Moldova records a constant increase. Annual deposit mobilization has risen from some 2 billion lei (ca. US\$165 million)⁴¹ attracted in 2000 to an average mark of over 4.5 billion lei (ca. US\$367 million) in the first three quarters of 2004. As of September 2004, the balance of term deposits in commercial banks totaled 5.4 billion lei (ca. US\$440 million), as compared to only 1.5 billion lei (ca. US\$124 million) in 2000 (see Figure 13).

Commercial banks stated that this rise is partly due to rising remittances.⁴² In addition, they feel that this growth denotes the emergence of a rekindled trust in local commercial banks that was seriously affected after the collapse of the financial system in the early 1990s and the Russian crisis in 1998, which caused a devaluation of the local currency.⁴³

The data tends to support this. As Figure 13 illustrates, deposits mobilized from individuals account for the largest part of term deposits, both in lei and foreign currency—steadily

³⁹ Statistical data in this section is sourced from the NBM.

⁴⁰ http://www.bnm.md/romanian/index_ro.html

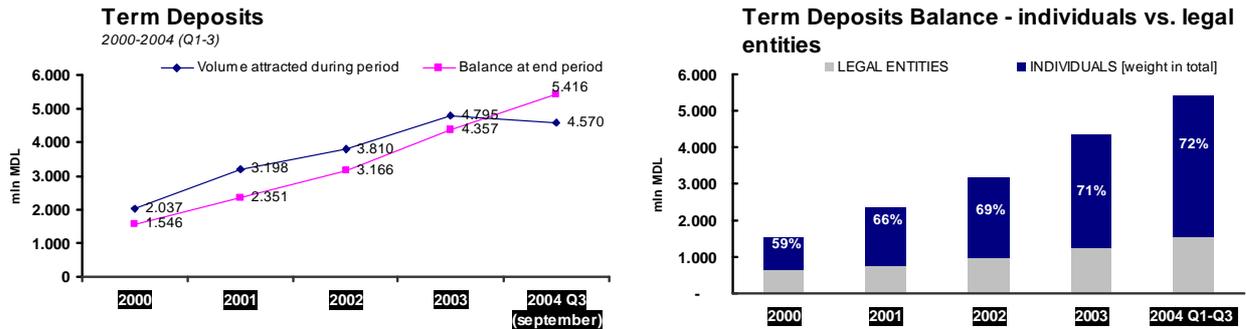
⁴¹ The conventional conversion exchange rate for the US dollar used throughout this paper is the average exchange rate for the year in question, from NBM figures. See Annex 4 for these exchange rates.

⁴² Although there is no way to ascertain whether or how much of this increase has been driven by remittances, as average salaries in the domestic economy have been close to the minimum consumption basket, the average person would not appear to have much excess money to place in deposits other than funds received through remittances.

⁴³ See footnote 28.

increasing relative to the overall balance of deposits over the past years, from 59% in 2000 to 72% in 2004.

Figure 13. Trends in Deposits



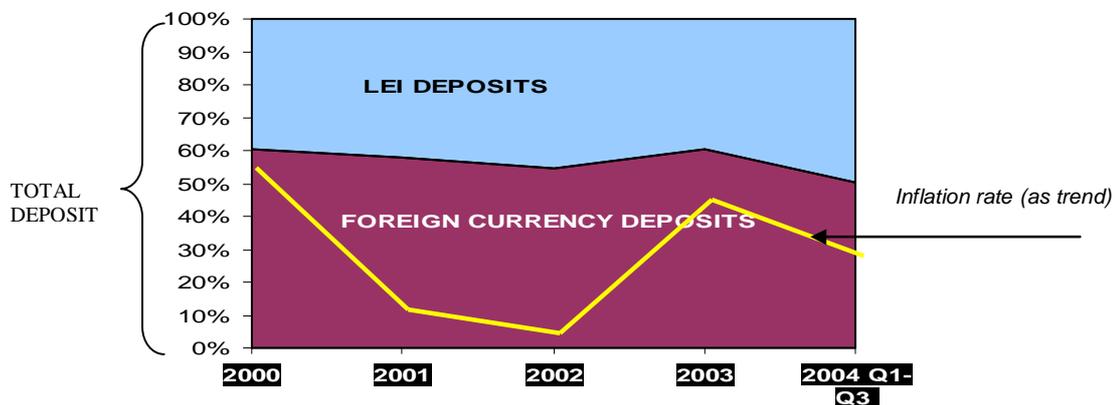
Source: NBM

Currency. The market is shared between lei and foreign currency deposits, the latter holding over half of the overall market. The share in foreign currency deposits reached its highest mark in 2003 with 61% of the total volume of deposits attracted that year. The data illustrates the popularity of foreign currency deposits and also suggests a preference to save in foreign currency when inflation increases (see Figure 14).

Term. The most popular term is 6-12 months for hard currency deposits, and 3-6 months for local currency deposits. Term deposits of up to one month have significantly decreased in popularity, especially in foreign currency deposits (e.g. their weight in the overall balance of term deposits in foreign currency was 36% in September 2001 versus 1.6% in September of 2004—a loss of 34.4%). These short-term deposits are mainly substituted by longer-term savings products, particularly with terms between three and 12 months, which may denote a regaining in trust in local commercial banks. Deposits over 12 months hold a very small share of 7 to 8% -- a slightly lower share for lei than for hard currency deposits (see Figure 15).

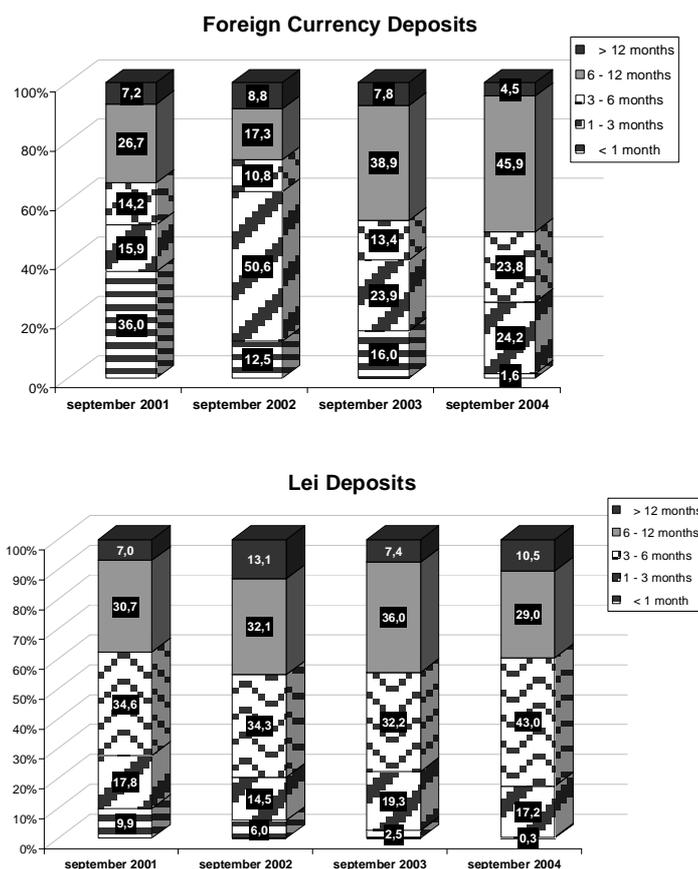
Banks optimistic on term deposits...
 "... We feel that our citizens are ready to deposit for even longer term, and will think about launching deposits for 5 years..." Chief, Deposit Division, Victoriabank

Figure 14. Term Deposits by Currency



Source: NBM (attracted during period)

Figure 15. Length of Term Deposits



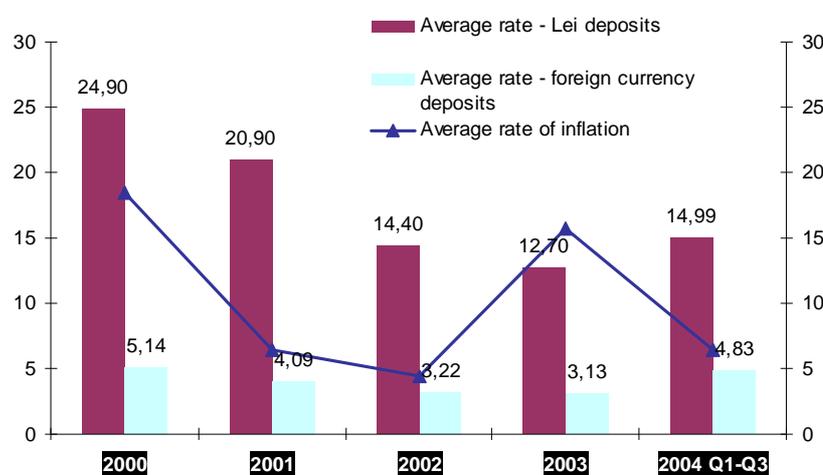
Source: NBM

Long-term deposits are a relatively new product in Moldova and were only launched in early 2003. The longest term offered is up to 3.5 years though such products are not available at all banks: a quick survey of the banking sector showed that of 15 banks only about five offer deposits for three-year terms. Encouragingly, these banks have noticed an increasing uptake for this product and feel that there is demand for even longer terms.

Term deposits, however, are not always attractive to savers who may wish to have the flexibility of accessing their funds at any time—especially given the experience of many savers in Moldova who suffered great losses in deposit values as a repercussion of the Russian Ruble crisis. Penalties for full or partial withdrawal before maturity are typically fairly severe; in the best case the depositor receives 30-50% of the accrued interest.

Interest rates. Interest rates, in particular for lei deposits, have been fluctuating in light of an unstable economy and recorded a decreasing tendency over the past four years. Although rates offered on the market generally cover the recorded inflation, the latter does not seem to have a uniform impact on interest rates (see Figure 16). On the contrary, despite decreasing inflation in 2004, commercial banks have increased their deposit interest rates with the intention to mobilize more resources as business lending has intensified considerably.

Figure 16. Average Annual Interest Rates for Term Deposits



Source: NBM

Deposit insurance. Deposit insurance became effective when a National Deposit Guarantee Fund opened in 2004.⁴⁴ The guarantee covers 4,500 lei (ca. US\$375). The regulator justifies this amount with the argument that 90% of deposits in the banking system do not exceed 4,500 to 4,700 lei (Infomarket 2004b). The fund is financed with contributions from the commercial banks which are required to transfer about 7% of their deposits (in tranches). At this early stage, the guarantee is not well known and has not had any impact on people's willingness to deposit.

There are also many efficiency issues related to the concept and operation of this fund, among them: (i) commercial banks claim that the compensation procedure has not yet been worked out, and (ii) some argue that the guaranteed amount is low; however, an increase in the amount would also imply a greater contribution to the fund by the commercial banks.

Other Savings/Investment Options

Investment in T-bills. Individuals typically do not invest in T-bills. For instance, Mobiasbank, one of the largest operators on Moldova's capital market, stated that less than 1% of all T-bill transactions are for individuals. The key reasons are lack of knowledge and also the interest rates—which for deposits have recently increased, while for T-bills they have remained static.

Life insurance.⁴⁵ Life insurance with accrual of funds may be regarded as a quasi-savings substitute. Life insurance is an emerging sector in Moldova.⁴⁶ According to the State

⁴⁴ Law on Guarantee of Deposits of Physical Persons in the Banking System, as of 26/12/2003, no. 575 - XV.

⁴⁵ Based on data from the State Supervision Service.

⁴⁶ As of November 2004, 43 insurance companies operated in Moldova with an aggregate statutory capital of 142 million lei (ca. US\$11million). The country's insurance market is still underdeveloped. In 1999, Moldovan Parliament amended the insurance law to increase the maximum stake foreign companies may own in local insurance companies from 49% to 100%. In the same year, Australia's QBE Insurance Group purchased a controlling stake in Moldova's largest insurer, ASITO (formerly part of the Soviet insurance company Gosstrakh), the new name being QBE Asito.

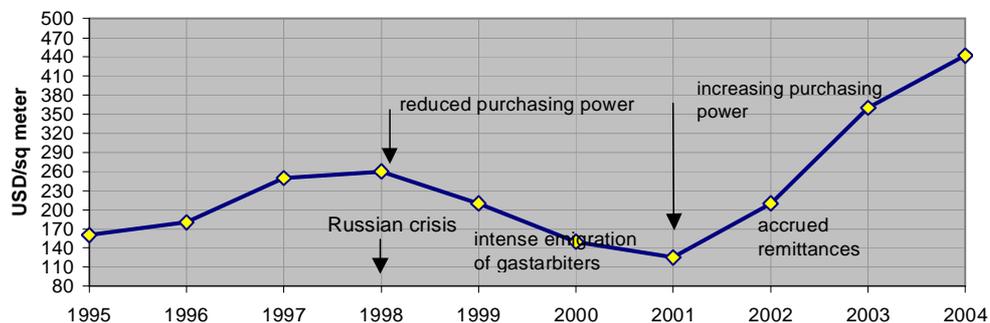
The number of insurance companies may decrease in the near future in light of new requirements to raise the statutory capital. In March 2003 new changes to the law have obliged existing insurance companies to increase their statutory capital to 2 million lei until September 2004. As per the State Supervision Service, about 10 existing

Supervision Service, in 2004 only two of the total of 43 insurance companies offered this product, while in 2003 five companies were active in this market.⁴⁷ Nonetheless, life insurance is expected to grow with the entrance of foreign companies specialized in this product—such as the Austrian Grawe company which officially entered the Moldovan market in 2004.

The current market size is only a couple of million lei per year. Thus, life insurance premiums plus annuities averaged 8 million lei (ca. US\$640,000) in 2003. During the first nine months of 2004, the figure was 6.3 million lei (ca. US\$500,000), recording an increase of 48% as compared to the same period in 2003.

Real estate. Though no direct supporting data is available, real estate appears to be a sector that absorbs a substantial portion of remittances. In particular, the housing boom in Chisinau and its satellites in recent years is attributed to remittances. Prices for real estate have been increasing at a rate of 20-25% per year since 2001 but are said to be stabilizing now (see also Figure 17).

Figure 17. Evolution of Real Estate Prices in Chisinau City



Source: Bursa Lara real estate brokerage company, data for 1994 – August 2004 with annotations based on informal market information

Real estate investment has become a key competitor to bank deposits. In Chisinau, for instance, the annual price increase for apartments exceeds the increase in deposit interest rates.

Remittances are one of the key sources for investment in real estate as the market is developing in the context of a virtually non-existent mortgage service. An average resident in the capital, Chisinau, for instance, could purchase 2.5 square meters of residential space for a one-year salary (Infomarket 2004e). Not surprisingly, the queue for affordable housing has been growing: while in 2000 there were only 1.5 to two family requests per apartment, in 2004 this number increased to five to six families (Infomarket 2004a).

Mortgages are a small fraction of the current lending market. The weight of real estate, construction and development loans in the overall loans issued by the commercial bank sector

insurers are not able to satisfy this condition, and are subject to license withdrawal. The domestic companies are rather small compared to the social capital of QBE Asito, the largest market operator, which alone accounts for 46 million lei or over 30% of the cumulated social capital of the local insurers.

⁴⁷ According to the State Supervision Service, this reduction is due to the withdrawal of some licenses and departures from this market of other insurers.

was 6.55% in 2003, a decrease by 0.53% compared to 2002 (NBM). Moreover, virtually none of these loans are housing mortgages in the standard sense, but rather short-term loans used for construction or maintenance. Only a couple of commercial banks are engaged in some small and ad hoc mortgage efforts. Similarly, the portfolio of the Municipal Mortgage Agency is extremely small. During the past three years, the Agency issued 600 mortgage loans for a total value of US\$4.2 million. These mortgages were issued under more standard terms and conditions with a maturity of 10 years and an interest rate of 8%.

Key constraints for the development of a mortgage market include: (i) missing mortgage legislation, (ii) expensive and lacking long-term resources in the banking sector, (iii) regulatory constraints relating to discouraging taxation framework and foreclosure procedure which are not in favor of banks and make them reluctant to provide such products, and (iv) an undeveloped secondary mortgage market to securitize risks and free up liquidities in the banking system.

The GoM is concerned with this development gap and is in the process of creating the needed framework. Mortgage legislation is being drafted⁴⁸ and is expected to create the basis needed for building the market.

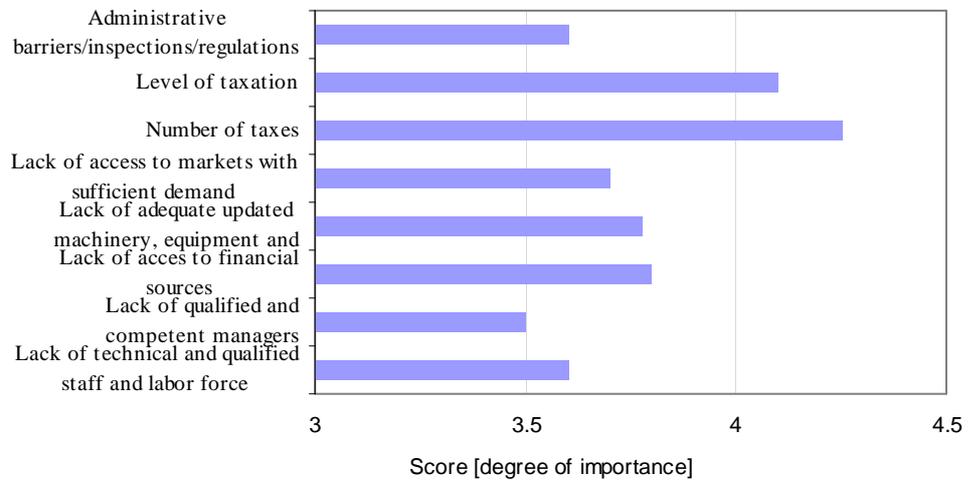
Investment in securities. The Moldovan securities market is not very active. The volume of transactions on the stock exchange and off-exchange in 2004 (first semester) amounted to 148 and 81 million lei, respectively—representing only 49% and 31% of transactions recorded in the same period of 2003. Individuals rarely invest in stocks, in part because they lack information and confidence but also because the privatization of property, conducted in the 1990s, allows investments by individuals only through special Investment Funds. The negative performance of these funds has eroded any trust in securities as an investment.

Investment in own business. SMEs are an important foundation of the Moldovan economy. According to the Ministry of Economy, in the first semester of 2004, 26,500 SMEs were registered, accounting for 92% of total enterprises. Sales revenues generated by SMEs exceeded 9.5 billion lei in the same period, representing 28.5% of overall net profits of all economic entities of Moldova. SMEs employ about 30% of the labor force (Lupu 2004).

However the framework for the development of SMEs is far from favorable. Recent studies have identified the taxation system and legislation as key problem areas (see Figure 18). Moldovans are cautious about risking their money in small businesses mainly because of (i) the high start-up formalization costs, (ii) the risky business environment and (iii) the unfavorable investment framework and policy, in particular for SMEs. Such an investment climate makes investing in business activities unattractive and is likely reflected in the low share of remittances invested in own businesses (7% according to Ghencea and Gudumac 2004).

⁴⁸ A draft law on mortgages is currently in Parliament for review, and if adopted must be followed by a series of other accompanying legislative acts.

Figure 18. Main Problems for Moldovan SMEs



Source: SME Development Project Moldova 2003

Conclusions & Recommendations

Remittances and Financial Services

Moldova has seen a rapid growth in available express transfer services. In recent years it has increasingly become part of a network linked with key originating markets and now offers a considerable range of attractive and competitive services. These developments appear to have contributed to encouraging a growing number of migrants to send money using regulated services as, concomitantly, an increasing volume of remittances is transacted through express transfer services.

All such transfer services are still represented by banks as currently only regulated banks are licensed to provide money transfer services. Other, non-bank financial service providers or non-financial service providers, as can be found in some other countries, are not yet active in this market. According to NBM, extending licenses to non-banks has not yet been considered because no requests have ever been made.

Though the service spectrum is restricted to banks with their limited branch networks (complemented to some extent by post offices in the raional centres), feedback from our focus groups indicates that remittance recipients do not perceive this as a constraint. On the contrary, they tend to prefer receiving the money away from their location of residence so as to keep the receipt of funds more confidential. This is a key difference to some of the other markets. There efforts include bringing the services into the recipient communities to reduce the transaction costs in receiving funds and to facilitate the use of financial services more generally, such as savings.

While actively pursuing the money transfer business, Moldovan banks have not yet been very active in attracting remittances to savings, to other asset building through financial investments or services such as loans, or for intermediation of remittance savings in lending. Cross-selling, though a favored idea among top-level bank managers, has not become a standard feature of service delivery for front office staff.

The more typical profile is a recipient who prefers a full cash withdrawal of the remittance to either managing cash through the use of an account and/or to saving. Banks have a challenge to address the desire for great confidentiality in financial services combined with low trust in banks due to the earlier banking crises.

Still, remittances have had an effect on savings levels in Moldova. Deposit volumes in the Moldovan banking system have recorded a steady annual increase of 20% on average. In part this increase is ascribed to remittance inflows. Yet, our findings suggest 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'.

The analysis indicates that further improvements to the available money transfer services and complementary financial services such as savings are possible. They are important for Moldova to continue to attract a growing share of remittances to the formal financial system for transfers, savings, and intermediation. In the following we identify some areas for further

improvements in transfer services, deposit mobilization, linking remittances and lending, and related policy and regulatory aspects.

Potential for Further Integration of Remittances in the Financial System

Remittance Transfer Services

While Moldovan banks have become quite proactive about providing a better spectrum and more attractive express transfer services, marketing of these services seems weak. Further service improvements that take into account client needs, such as confidentiality, are also important to attract a greater share of remittance transfers as well as to make savings an attractive option.

Areas for further attention include:

- *improve ease of partial withdrawal of remittances*; the majority of recipients withdraws the funds in total rather than maintain a cash balance or save; more flexible and easy access to facilitate partial cash withdrawals could potentially change this pattern; this could include offering partial withdrawals and withdrawals through any branch; eventually also card-based products could be attractive as they become more widely available and ATM as well as PoS networks are expanded; features such as cash payouts when using debit cards to pay for purchases in retail stores as is common in some markets (e.g. the UK) would greatly increase utility and access; emerging product opportunities through technology developments are also worth exploring for the Moldovan market (e.g. low cost ATMs for rural areas or eventually moving towards 'electronic wallets' in the form of debits cards or mobile phone based transfers and payments)
- *refine money transfer services* to better accommodate the client concerns of confidentiality when receiving funds; this might be a context where the uptake of cards and ATM services could in principle be quite favorable though at the moment availability and service fees are not; another improvement here could through the ease of partial withdrawals (as per above);
- *increase awareness* of the availability of money transfer services—while target group advertising and word-of-mouth campaigning in the originating markets is essential, marketing in Moldova should be considered to build the profile of the service providers as many migrants return regularly; in addition, as there is competition among pay-out agents for the same brand service in Moldova, attracting the business of recipients is worthwhile as it increases the fee revenues (as fees are typically split between the brand express service provider and the pay-in and pay-out agents) and also because it offers the potential to build a client relationship through remittances as the entry point (see also remittances and deposit mobilization below)

Remittances and Deposit Mobilization

As is common for markets such as Moldova with predominantly short-term deposits, commercial banks report a scarcity of lending resources, particularly long-term funds. Moldovan lenders rely almost solely on individual deposits, own capital and credit lines from international specialized financial institutions with international credit lines constituting virtually the only source of long-term lending.

Remittances still constitute a largely untapped market for deposit mobilization. As the research findings indicate, 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.

Cross-selling of savings products is still underdeveloped. Though bank managers see this as desirable, front office staff has clearly not been instructed to market savings products to remittance recipients.

Areas for further attention include:

- *build client relationships using the money transfer service as an entry point to attract clients*
- *improve cross-selling of financial services, especially of savings products*
- *offer attractive savings products, especially to also attract longer term deposits; for the latter, penalties for cashing out before maturity seem to pose a deterrent and could be structured with more flexibility (e.g. allowing for partial withdrawal within certain periods) and/or could possibly also be structured in conjunction with rewards (e.g. a small bonus payment at full maturity if no withdrawals taken)*

Remittances and Lending

Intermediation of remittances deposits: Most of the loans in Moldova are made for short-term investments, including some of the already very limited mortgage products which have terms just long enough to finance maintenance but not construction. As of 30 April 2004, for instance, NBM reported six billion Lei as the total outstanding balance of loans by commercial banks issued to companies. Loans with a term of over one year constituted about 27%, with only 10% of the latter with a term of three or more years.⁴⁹

Thus, mobilizing deposits, and especially for longer term deposits, is key to low cost and longer-term lending in Moldova. Remittances constitute a source of funds that can be mobilized.

Linking remittances and business or personal loans: Currently, none of the commercial banks 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.

In interviews with commercial banks they agree that there is little difference between remittances and salary, as both are subject to a risk of disappearing one day. The difference is that salary is, by regulation and policy, part of the assessment of creditworthiness, whereas remittance income is not. Commercial banks lack a mechanism whereby remittances could

⁴⁹ In 2004 a working group was created consisting of representatives of the Ministries of Economy and Finance, the NBM president and the chairman of the Moldovan Bankers' Association (MBA). The target is to improve the lending terms for companies. The issue of refinancing resources was listed as a key business-lending impediment, falling under the exclusive competence of NBM. The maximum period for which commercial banks may receive resources from NBM is 30 days. However, the carried-over balance of "centralized" loans issued to commercial banks varied in 2004 between 65 and 72 million lei, which is only 1% of the total amount of loans to the economy. The main problem is that the market is overloaded by an "excess" of lei because of the sterilization of excess foreign currency. As long as this situation continues, NBM will not be able to provide commercial banks resources for refinancing.

formally be part of the income assessment for a borrower and could contribute to building a client profile with the bank, similar to regular receipts of salary payments.

Nonetheless, remittance receipts currently do enter into the assessment—as do other qualitative factors that are part of a standard credit review which revolve around the character and trustworthiness of the applicant as a borrower. For both the remittance recipient and the bank as well, there is thus value in developing a track record of the money transfer relationship.

Remittance not a direct factor in lending decision..

“...Remittances are not an official source of revenue. We had cases when, if received systematically for several months through WU, remittances were taken into account as a secondary repayment source, but borrowing capacity was estimated anyway based on official revenues...”

Loan Officer, Moldindconbank

“...Existence of a remittance history cannot be classified as a direct factor for taking a lending decision. It is a positive, but not a decision-making factor...”

Chief Lending Department, Rural Finance Corporation

Areas for further attention include:

- *develop the link between remittances and lending* through client relationship building, potential product offers which market deposits in conjunction with subsequent attractive loan offers, and ultimately by exploring the feasibility of including remittances as part of the income assessment
- explore the potential for *developing a remittance recipient profile to build a financial profile* and relationship with the bank; in future this could also be linked to client credit information as is being piloted in one example in the United States where the data is then also shared with the credit bureau

Policy and Regulatory Aspects

While some service and product adjustments are a matter of willingness, capacity and finding solutions that make business sense for the banks, other aspects and the potential for new developments will hinge on the regulatory environment. Product refinements and better outreach or access are in part constrained by regulations, for instance regarding the requirements for money transfer sub-agents as in Moldova authorization is still limited to banks. Similarly for partial cash withdrawal offers, prudential provisions or other regulatory compliance requirements may need to be revisited to develop feasible and attractive solutions. Where new technologies are involved, a dialogue with and support by the regulatory authorities can be critical in the early stages to avoid unwanted blockages or suspensions later on. Including remittances as part of income assessment in lending is also subject to changes in supervision.

Areas for further attention include:

- *identify regulatory impediments* to money transfer services and financial service provision to remittance recipients
- *engage in dialogue* with NMB as the regulator and facilitate the dialogue between the regulator and the financial industry as well as with stakeholders who can represent consumer protection interests

Overall such improvements would aim to strengthen the integration of remittances with the financial system in Moldova. The banks and regulators are already actively engaged or at least interested in some of these areas and could build on this through a joint dialogue, further market data, and information on product offerings and technology adaptations in other markets.

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Annexes

Annex 1. Glossary

Migrant (workers') remittances⁵⁰

Remittances are monies sent from one migrant individual or household to their family or others back home. International remittances are those sent by migrant workers who left their home country. Domestic remittances are sent by migrants who stayed within their home country (e.g. rural-urban migration; sometimes also referred to as national remittances). Typically remittances are in cash rather than goods. Imports or goods purchased on location are, however, also common.

Formal channels or transfer systems

Remittances sent via formal channels are transacted through regulated or formal money transfer services. These are offered primarily by banks—with account-to-account transfers such as through SWIFT—and by money transfer operators, such as Western Union or MoneyGram, and their agents; banks often serve as agents to the latter.

Informal channels or transfer systems

A range of informal systems exists which includes the migrants carrying money themselves or sending it with relatives or friends. There are also a number of informal services, typically operating as a side business to an import-export operation, transport service (e.g. bus or train), retail shop, or currency dealership. Most of them operate on the basis of no or very little paper or electronic documentation. The transaction is communicated by phone, fax, or email to the counterpart who will be paying out. The details vary, such as whether there is a password or form of identification or not.

The most publicised and studied informal channels are *Hawala* and *Hundi* services. Both operate in a very similar fashion and the terms can be used interchangeably though there are geographical links: whereas *Hawala* is typically used more in the context of the Middle East and Arab countries and migrant populations, *Hundi* is typically connected with South Asia (especially Bangladesh).

⁵⁰ Based on Sander 2003

Annex 2. Methodology

The study was undertaken in two stages followed by data analysis and writing:

- 1) a preliminary desk-based review of secondary literature and a scoping mission to Moldova to conduct a first set of stakeholder interviews
- 2) primary data collection through a series of interviews with two foci:
 - a) with representatives of the financial sector, government and other stakeholders to understand the macro, legal and regulatory context and the available financial services and infrastructure surrounding remittances; and
 - b) a field study conducted in 31 villages comprising focus groups and the development of a village profile—recording among other data points the population, the number of migrants and their socio-economic profile—to capture information and voices of returned migrants and remittance senders on remittance flows, uses, and financial services used and sought

For Stage 2a), in order to gain a good understanding of the financial services for remittance transfers and complementary products such as savings or loans, interviews with key informants in the financial sector included six Moldovan commercial banks, three microfinance institutions, and the financial sector regulator—the National Bank of Moldova. Data collection was based on an interview guide to ensure a consistent approach. In addition, interviewees included representatives of governmental departments and other stakeholders relevant to the question of migration, remittances and related financial services, such as financial sector associations, donors, and NGOs. The team also gathered and studied existing publications and media information, to reflect and build on the existing information on remittance flows and migration.

For Stage 2b), focus groups (FGs) were conducted using an interview guide. The FGs allowed for small and relatively homogenous groups of participants to discuss migration and remittances in a non-intimidating environment. Their input, in addition to feedback from representatives of the local authorities, also served to prepare a brief description of each locality studied ('village profile' – see Annex 7).

All focus group participants were current residents of Moldovan rural localities. Two categories of people were involved in the study: the recipients of remittances and former emigrants.

The study covered 10 of 32 currently existing Moldovan administrative units (raions). In each raion three villages were randomly selected. 31 villages were studied in total (see also Figure 1. Map of Moldova). In each of 31 villages two focus group interviews were conducted – one per each category of participant. Thus, 62 focus group interviews were conducted and 31 village descriptions prepared.

Each focus group interview included eight participants, and the total number of interviewees was 487, including 248 beneficiaries and 239 senders. Of the beneficiaries, some 55% of participants were men. The average age constituted approximately 39 years of age. Within the group of senders the share of men was 68%, while the average age of participants was 36 years of age. This proportion is in accordance with the emigrant gender situation in the studied localities, in which two thirds of emigrants are men.

The first stage of the study was conducted in July and August 2004; the second stage was conducted between October and December 2004. Two Moldovan expert teams—Doina Nistor

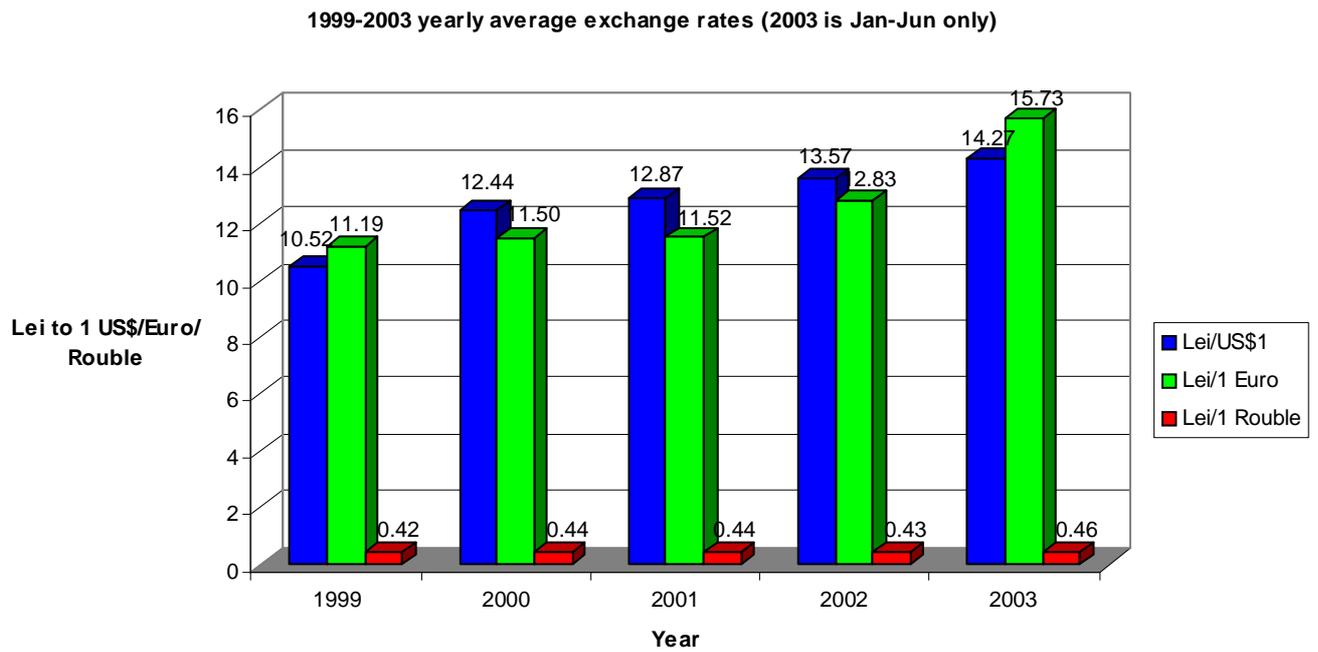
and Viorica Petrov of CCA as financial sector experts, and Andrei Bat and a team of local focus group guides through Agrex—conducted all but the small set of scoping interviews. The latter were conducted by the team leader, Cerstin Sander of Bannock Consulting. Victoria Seymour and Enrique Mendizabal of Bannock Consulting were instrumental in the secondary data collection and Victoria also in the preparation of the data collection instruments and with contributions to the data analysis and report drafting.

Annex 3. List of Interviewees

Institution	Name of interviewed person	Position
I. COMMERCIAL BANKS		
1. Universalbank	Diana Motologa	Addinterm President
	Oxana Demidevscaia	Vice President
2. Banca de Economii	Baxan Dumitru	Vice President
	Tatiana Juc	Head of Foreign Trade and Foreign Currency Operations Division
	Tatiana Novac	Economist, Foreign Trade and Foreign Currency Operations Division
	Gabriela Munteanu	Economist, Foreign Currency Division, branch no. 1
3. Moldova Agroindbank	Ana Gheorghiu	Vice President
	Alla Polustanova	Chief of Development and Administration Retail Product Department
4. Mobiasbank	Victoria Tofan	Head of Treasury Department
5. Moldindconbank	Alexandru Svereniuc	Head Financial Institutions Direction
	Corina Munteanu	Senior Economist, Financial Institutions Direction
	Stela Popov	Specialist Credit Division
6. Victoriabank	Lilea Ciobanu	Head International Department
	Eugen Turcan	Head of Banking Card Department
	Sergiu Popusoi	Head of Deposit Department
	Maria Virtosu	Head of Loan Policy and Economic Analysis Department
II. Microfinance Institutions		
ProCredit	Philipp Pott	Director
Rural Finance Corporation	Ion Gangura	Director
	Viorel Benderschi	Head of Credit Department
III. State Institutions		
National Bank of Moldova	Marin Molosag	Vice Governor
	Ion Bors	Head Balance of Payments Section
Department of Migration	Olga Poalelungi	Chief
IV. Other institutions		
MAIB-leasing	Andrei Plamadeala	Chief Accountant
National Association of Insurers	Pavel Cater	Director
Insurance State Supervision Service	Alexandru Munteanu	Chief
Guarantee Fund	Victor Chiriac	Director
Posta Moldovei	Igor Ciobanu	Network Engineer
National Securities Committee	Arcadie Maican	Independent Registrator

Annex 4. Exchange Rates for US\$, Euro and Ruble (1999 – June 2003)

Figure 19. Yearly Average Exchange Rates



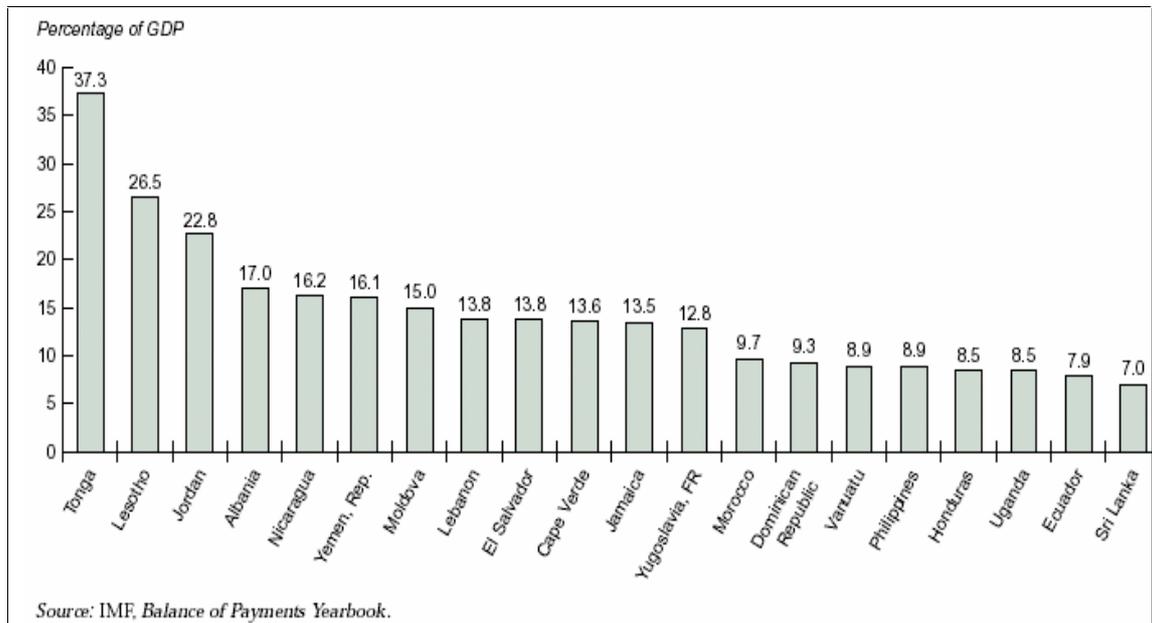
Source: NBM

Annex 5. Moldovan Remittances in a Global and Regional Context

Global

Though Moldova is not among the top remittance receiving countries in terms of total value received, remittances are of great importance to the country relative to its GDP: in those terms Moldova ranked seventh among all remittance receiving developing countries in 2001⁵¹ (see **Error! Reference source not found.**).

Figure 20. Top 20 Remittance Receivers Relative to GDP (2001)



Source: Ratha 2003

Regional

Regionally, relative to GDP Moldova is the largest remittance recipient. In total value of remittances, Moldova receives much less than either Ukraine or Romania, both of which are also migration destinations for Moldovans (see **Error! Reference source not found.**).

Table 9. Regional Comparator Data

Summary Table:

Country	Population size 2004	GDP 2003	Net migration rate 2004	Remittances 2001
Ukraine	47,732,079	US\$49,537 million	-0.39 migrant(s)/1,000 population	US\$56m (43 rd highest receiving country in the world)
Belarus	10,310,520	US\$17,492 million	2.54 migrant(s)/1,000 population	US\$16m (51 st highest receiver)
Romania	22,355,551	US\$60,358 million	-0.13 migrant(s)/1,000 population	US\$111m (38 th highest receiver)
Moldova	4,446,455	US\$1,964 million	-0.26 migrant(s)/1,000 population	US\$216m

⁵¹ Ratha 2003

Detailed Table:

Country	Population size	GDP/GDP per capita	Migration statistics	Remittances and Balance of Payments
Ukraine	Estimates from 49,568,000 (2000) to 47,732,079 (July 2004 est.)	<ul style="list-style-type: none"> 2003: 264,165 million UAH (US\$49,537 million current US\$/5525 thousand per capita) 2003: US\$264,604 million PPP/ US\$5,472 per capita PPP 	<ul style="list-style-type: none"> 24,200 decrease in population (2003) Net migration 1995-2000 -100,000 (-2/1000 pop) Net migration rate -0.39 migrant(s)/1,000 population (2004 est.) (compared to 0.63 migrant(s)/1,000 population (1999 est.)) 	<ul style="list-style-type: none"> Remittances 2001 US\$56m; negligible as % of GDP (43rd highest receiving country in the world) US\$185m (BoP, 2003, current US\$)
Belarus	Estimates from 10,187,000 (2000) to 10,310,520 (July 2004 est.)	<ul style="list-style-type: none"> 30,413 billion rubles Jan-Aug 2004 (35,930 2003 - US\$17,492 million current US\$)/3639 thousand rubles per capita 2003 2003: US\$59,406 million PPP/ US\$6,012 per capita PPP 	<ul style="list-style-type: none"> Net migration 1995-2000 15,000 (1.5/1000 pop) Net migration rate 2.54 migrant(s)/1,000 population (2004 est.) 	<ul style="list-style-type: none"> Remittances 2001 US\$16m; negligible as % of GDP (51st highest receiver)
Romania	Estimates from 22,438,000 (2000) to 22,355,551 (July 2004 est.)	<ul style="list-style-type: none"> 2003: 2,003,877,389 million lei (US\$60,358 million current US\$) 2003: US\$160,327 million PPP/ US\$7,222 per capita PPP 	<ul style="list-style-type: none"> Net migration 1995-2000 -12,000 (-0.5/1000 pop) Net migration rate -0.13 migrant(s)/1,000 population (2004 est.) 	<ul style="list-style-type: none"> Remittances 2001 US\$111m; negligible as % of GDP (38th highest receiver) US\$7,350,000 (BoP, 2003, current US\$)
Moldova	Estimates from 4,295,000 (2000) to 4,446,455 (July 2004 est.)	<ul style="list-style-type: none"> 2003: 27,297 million lei (US\$1,964 million current US\$) 2003: US\$6,376 million PPP/ US\$1,505 per capita PPP 	<ul style="list-style-type: none"> Net migration 1995-2000 -11,000 (-2.5/1000 pop) Net migration rate -0.26 migrant(s)/1,000 population (2004 est.) 	<ul style="list-style-type: none"> Remittances 2001 US\$216m Remittances 2003 US\$317m

Sources: Ukraine State Committee of Statistics; World Development Indicators 2003; UN International Migration 2002 (http://www.un.org/esa/population/publications/ittmig2002/WEB_migration_wallchart.xls); CIA Factbook; Stalker's Guide to International Migration (http://pstalker.com/migration/mg_stats_5.htm) sourced from IMF Balance of Payments Statistics 2002 and UNDP Human Development Report 2002; Government of Belarus (<http://www.president.gov.by/Minstat/en/main.html>); NBM

NB: sources use varying exchange rates

Annex 6. Migration

Recent studies identify the causes of Moldovan emigration as a combination of factors that have created an environment and a necessity for the massive movement. Sleptova (2003) highlights the fall of the 'Iron Curtain', the liberalization of entry and exit policies by former Soviet states, the fall by 40% in GDP since 1992, and the concurrent collapse of social protection structures. Similarly, IOM/SIDA (2003) note that, "during the 1990s, Moldova implemented, with varying degrees of efficiency, a number of reforms. From 1994 to 1996, state property privatization was implemented in the industrial, social and commercial sectors, while from 1998 to 2000 an agricultural reform was implemented that resulted in massive liquidation of collective and state farms and the final reorganization of agricultural businesses. The inadequate timing of the reforms, the lack of steps to secure social protection, the unavailability of traditional jobs and the lack of a real mechanism for launching private (small) businesses led to massive outward migration of the population Moldova."

The European Country Strategy Paper on Moldova (2001) attributes the lack of work and economic opportunity as the driving force behind migration, much of which emanates from the villages: "[T]he situation in the rural areas has deteriorated. In addition to inadequate health and school facilities, roads and transport, training and credit and with often unclear land ownership, a lack of business/work opportunities is considered to be one of the main causes for the migration from the countryside to the capital and to foreign countries. About 800,000 Moldovans are estimated to have left the country in the last 10 years."

Causes of Moldovan Emigration

Low income. Almost 55% percent of the Moldovan population lives on less than US\$2 a day. While the minimal consumer budget amounts to US\$110 a month, average income in Moldova does not exceed US\$40 a month. If rural areas are taken separately, the situation looks still worse.

High unemployment and high density of population. Structural changes in the economy, namely the decline of industrial activity and unfavorable conditions for sustainable agricultural development, have pushed most of the population into the service sector. In addition, the Moldovan Government's policy towards the labor market has always been inefficient. Job places created by Employment Centers have been negligible in comparison with the actual number of jobless people. Official statistics say unemployment in Moldova does not exceed two per cent, while according to the ILO the figure is at least 12 per cent. When compared to an estimated 500-600,000 people who have left to work abroad (which is at least 20 per cent of the population), both figures prove to be much underestimated.

Increased mobility. Mobility of people has increased significantly since the early years of independence. Apart from *push effects*, such *pull factors* as demand for cheap labor and demand in the sex industry for young women are also very significant causes of Moldovan labor migration. (Source: revised from Sleptova 2003)

IOM et al (2005) in their study on migration and remittances, researched the determinants for migration. Asking the respondents to their survey about their primary and secondary reasons for migrating, they summarised their findings as follows (in percentage of responses):

Table 10. Reasons for Migrating

	Primary	Secondary
Debt repayment	21.2	6.5
Current consumption (food, clothes, commodities, household assets)	43.9	32.6
Special consumption (education, health, household durables, lending money)	11.3	21.4
Household investments (car, house/apartment, renovation, weddings, funerals, bank deposits)	19.0	28.6
Business investments (e.g. land purchase, agricultural machinery, minibus)	0.9	3.9
Something else	1.7	0.2
No answer	1.5	0.5
Total percentage who answered the question	99.5	93.7

Source: IOM et al 2005

Annex 7. Profile of Villages Studied in Focus Group Fieldwork

In the 31 villages included in our focus group fieldwork, the average population per village is a little more than 2,900. The age profile is: 27% who are less than 18 years of age, 56% between 18 and 65 years of age, and 17% above 65 years of age. In comparison with the demographic age structure of the Republic of Moldova, a larger share of adults can be noticed for the villages studied – 17% compared to 10% for the country.

Although the focus group data could not tell us directly whether migration rates are greater among the rural population, this fact strongly suggests that the young are more likely to migrate in the areas involved in the study than in the country overall.

The primary economic activity in most of the villages is agriculture, and a village has on average 650 peasant farms and one limited company specializing in agriculture. The non-agricultural activities are represented on average by two limited companies, five private enterprises and six persons, who work as licensed entrepreneurs. On average there are at least 500 pensioners in each village studied.

The main economic activity of around 59% of those capable to work is agriculture, and only 17% are involved in non-agricultural activities – education, medical care, local public authorities, and small business which usually means the running of a small processing unit or bar/shop.

The majority of the studied population has secondary education (61%); approximately every fifth has a professional technical education, and only 13% have university education.

Savings and credit associations are active in 21 villages.

The distance of the villages from Chisinau varies between 10 and 230km, the average being 110km. The distance from the district centers varies between three and 50km with an average of 20km.

Table 11. Distribution of Emigrants by Target Countries (FG results)

Village	Total	Russia	Italy	Portugal	Ukraine	Israel	Greece	Romania	Spain	France	USA	UK	Other
Alexeevca	60	76.7%	6.7%		11.7%								5.0%
Bleşteni	145	31.3%	2.7%	1.3%			6.9%			31.3%			
Bocşa	72	72.2%	8.3%	9.7%					2.8%		6.9%		
Budeşti	450	4.0%	22.2%	11.1%		1.0%	1.0%			2.2%	0.4%		4.0%
Călineşti	127	74.2%	11.8%	7.9%					5.5%				1.6%
Câşliţa Prut	45	48.9%	17.8%				33.3%						
Cetireni	81	72.8%	14.8%		6.2%	1.2%				2.5%			2.5%
Ciocâlteni	80	82.5%	1.0%	5.0%									2.5%
Colibaşi	500	42.4%	19.2%				22.0%	16.4%					
Corneşti	136	45.6%	38.2%			1.5%				0.7%			14.0%
Cremenciug	40	8.0%	5.0%		15.0%								
Cruglic	270	44.4%	25.9%	18.5%			3.7%			1.5%	0.4%		5.6%
Dubăsarii Vechi	250	64.0%	16.0%	12.0%		2.0%	6.0%						
Găleşti	320	37.2%	31.9%	27.8%						1.9%			1.3%
Gura Galbenei	505		14.5%			45.5%			4.6%			4.2%	31.3%
Horeşti	121	86.0%	2.5%	7.4%					4.1%				
Hristici	120	66.7%	8.3%	4.2%	16.7%					2.5%			1.7%
Ialpujeni	124		52.4%			9.7%			37.9%				
Javgur	262		45.8%	23.0%		1.1%			3.5%		0.8%		26.3%
Jora de Mijloc	224	46.0%	25.0%		15.2%				0.9%	2.2%	0.4%	0.9%	9.4%
Lozova	1,047	62.7%	6.4%	19.9%					4.6%		2.7%	1.1%	2.7%
Mitoc	400	62.5%	5.0%	2.5%	2.0%				0.8%	1.5%			7.8%
Negreşti	94	36.2%	19.1%	8.5%		5.3%	1.6%		16.0%				4.3%
Opaci	462	4.0%	24.3%	11.9%	29.4%								4.1%
Parcani	222	10.0%	2.7%	1.0%			4.5%						1.8%
Plop-Ştiubei	206	43.2%	1.2%	2.4%	39.9%								4.4%
Risipeni	104	79.9%	9.6%	4.9%					1.9%		2.9%	1.0%	
Roşu	450	27.3%	17.8%					3.4%					24.4%
Rotunda	35	42.9%	22.9%	8.6%			8.6%		11.4%	5.7%			
Ruseni	208	31.3%	22.6%				15.4%		2.2%	1.6%			
Saiţi	227	33.4%	11.9%	7.9%	44.9%								2.2%
Total	7,387	44.5%	17.4%	8.7%	6.4%	4.1%	3.5%	3.0%	2.8%	1.4%	0.6%	0.5%	7.2%

Table 12. Percentage of Emigrants Among Total Population and Working Age Population by Village (FG results)

Village	Total Population	Total population by age			Emigrants	Percentage of emigrants among total population	Percentage of emigrants among working age population
		up to 18 years of age	18-65 years of age	more than 65 years of age			
Alexeevca	1,337	495	680	162	97	7.3%	14.3%
Bleșteni	1,900	316	1037	547	145	7.6%	14.0%
Bocșa	971	255	642	74	72	7.4%	11.2%
Budești	5,325	1,290	2,480	1,555	450	8.5%	18.1%
Călinești	2,798	783	1432	583	127	4.5%	8.9%
Cășlița-Prut	1,360	-	-	-	46	3.4%	-
Cetireni	2,507	373	1451	467	88	3.5%	6.1%
Ciocâlteni	2,500	504	1486	510	80	3.2%	5.4%
Colibași	6,700	-	-	-	500	7.5%	-
Comești	2,614	663	1313	638	201	7.7%	15.3%
Cremenciug	1,010	210	565	218	40	4.0%	7.1%
Cruglic	3,100	680	1540	880	270	8.7%	17.5%
Dubăsarii Vechi	6,055	2,405	2980	670	250	4.1%	8.4%
Gălești	3,106	981	1712	413	320	10.3%	18.7%
Gura-Galbenei	5,507	829	3722	956	505	9.2%	13.6%
Horești	1,446	281	720	448	121	8.4%	16.8%
Hristici	1,479	423	759	297	120	8.1%	15.8%
Ialpujeni	1,756	443	1,112	201	124	7.1%	11.2%
Javgur	2,500	773	1,314	413	262	10.5%	19.9%
Jora de Mijloc	1,470	362	868	240	224	15.2%	25.8%
Lozova	7,600	2,000	3,771	1,829	1,047	13.8%	27.8%
Mitoc	3,008	684	1,900	424	400	13.3%	21.1%
Negrești	1,520	378	765	377	94	6.2%	12.3%
Opaci	3,300	848	1680	772	462	14.0%	27.5%
Parcani	1,240	394	596	250	222	17.9%	37.2%

Plop-Știubei	1,864	427	950	487	206	11.1%	21.7%
Risipeni	1,055	278	650	127	104	9.9%	16.0%
Roșu	3,100	-	-	-	450	14.5%	-
Rotunda	1,526	207	861	458	35	2.3%	4.1%
Ruseni	2,314	421	1239	654	208	9.0%	16.8%
Saiți	2,525	636	1278	611	227	9.0%	17.8%
Total	84,493	18339	39503	15261	7,497	8.9%	19.0%

NB: In the majority of cases, the age of emigrants, as indicated by interviewers, was 18-60 years old. The percentage of emigrants as a share to working age population therefore represents a reasonably accurate picture of the share of the working age population that is overseas.

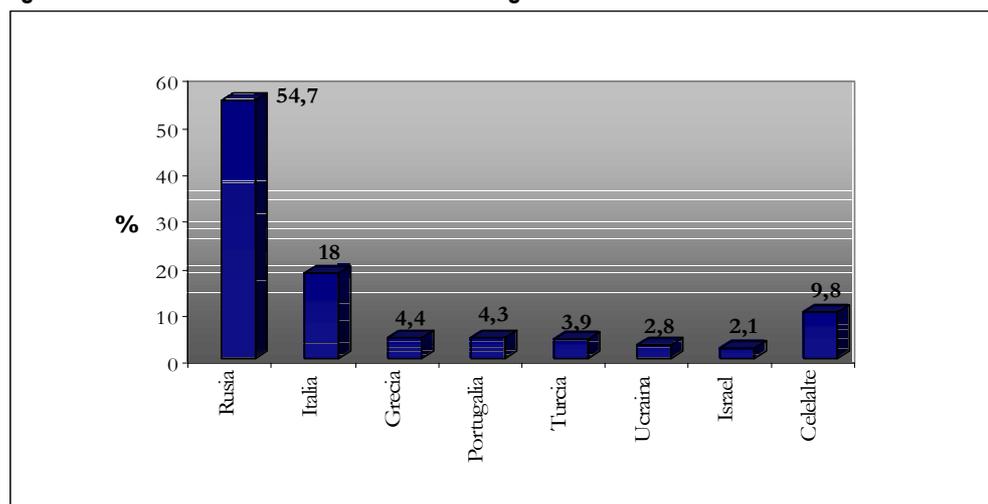
Annex 8. Migrants' Destinations

Ghencea and Gudumac (2004), IOM et al (2005) and our feedback from the focus groups come to broadly similar conclusions regarding destinations. Key differences are that, while the proportion who went to the Ukraine, Portugal and Israel from the FG villages was much larger, substantially fewer people migrated to Russia from the FG villages than the findings in the other surveys indicate.

Table 13. Destination (% of migrants)

Destination Countries	FG Feedback	Sample Household Survey A ⁵²	Sample Household Survey B ⁵³
Russia	44.5	54.7	58.2
Italy	17.4	18	18.9
Ukraine	6.4	2.8	2.2
Greece	3.5	4.4	2.7
Portugal	8.7	4.3	5.0
Turkey	--	3.9	1.3
Israel	4.1	2.1	1.4
Romania	3.0	--	1.9
Spain	2.8	--	1.5
Other	9.6	9.8	6.7

Figure 21. Destination Countries of Moldovan migrants



Source: Ghencea and Gudumac 2004

⁵² Ghencea and Gudumac 2004

⁵³ IOM et al 2005

Focus Group Feedback on the Main Destinations

Russia (44.5%) and Ukraine (6.4%)

More than a half of the migrant workers go to Russia (44.5%, list rank #1) and Ukraine (6.4%, list rank #4). The main reasons given for opting for these countries are that a visa is not required and, until now, visitors could enter without an international passport using only their Moldovan ID; that the traveling costs are low (some US\$50-80); that many Moldovans have a prior knowledge of the Russian language; and that they have an acquaintance or relative who helps them in finding employment once they arrive.⁵⁴

Reasons for Migrating to Russia

To enter Russia, citizens of the Republic of Moldova do not need a visa though their stay is limited to nine days after which they are required to leave the country.

When entering Russia it is necessary to register at a territorial internal affairs office at the place of residence within the first three days. For this one has to submit an immigration card with the stamp of the border authorities and Moldovan ID ('bulletin de identitate'). If an immigrant moves within Russia, she/he needs to register again at the new location.

When staying more than nine days, it necessary to apply again to the territorial internal affairs office. If a person has a contract with his or her employer, their stay is extended for the period of this contract but not for more than one year. If there is no contract, the duration of the stay is subject to the decision of the authorities. If the decision is positive, the immigrants receive a permit for temporary stay in Russia, e.g. for six months.

Whereas a Moldovan identity card was sufficient to cross the Russian border until the end of 2004, as of 1 January 2005, all CIS citizens need to have a passport to enter Russia.

Russia and Ukraine are selected mostly for seasonal work – the average stay is three to six months. More than four fifths of the emigrants are men who work in construction in urban areas (frequently Moscow and St. Petersburg) during the summer or as woodcutters during winter time.⁵⁵ Women often work as saleswomen and at street markets. A possible reason for the prevalence of seasonal emigration may be that these workers can farm their land in Moldova in between their seasons abroad.

The main problem with residing in Russia is that visitors should register legally with local authorities on the day of arrival in the destination locality. Since the registration cost is high, Moldovans often do not comply and therefore face problems with the local authorities. In addition, since they are not legalized they have no working contracts and are often cheated by

⁵⁴ IOM et al's (2005) qualitative research revealed reasons of low travel costs, a large labor market and the fact that many Moldovans speak Russian as the key reasons for migrating to Russia. Ghencea and Gudumac (2004) note similar reasons for Russia's popularity among Moldovan migrants. "The choice, made by the overwhelming majority of migrants, to migrate to Russia may be determined by a number of factors, where the key ones are:

- The Russian labor market's enormous absorption capacity;
- Lenient border regime between Moldova and the Russian Federation;
- Uninhibited traveling on the Russia's territory;
- Reduced migration costs;
- Socio-cultural and geographical proximity;
- Possibility of a better gain in Russia than in Moldova."

⁵⁵ Similarly Ghencea and Gudumac (2004) find that 76.7% of Moldovan migrants to Russia are male, and IOM et al (2005) find the figure to be 74.3%. Ghencea and Gudumac's finding on length of stays differs from that of the focus groups, as they note that the average stay in CIS countries is 17 months. However, they do note that there are two distinct categories of migrants to these countries, one of which is composed of seasonal migrants, and the other of those who stay for more than 12 months.

their employers. In the Moscow region, the unfavorable attitude towards Moldovans has led to the locals replacing the Russian word for 'unqualified worker' with 'Moldovan'.

Emigration to the Ukraine also has a seasonal nature and takes place mostly within the agricultural season. Most of the emigrants going to Ukraine are employed by agricultural enterprises located in the southern part of the country which is close to Moldova.

Italy (17.4%)

Second in the destination list is Italy (17.4%). Here most of the emigrants are women who usually work as housekeepers, chambermaids in hotels, babysitters, or as caretakers for elderly people.⁵⁶ For men it is very difficult to find work and they therefore tend to take on all kinds of work; respondents mentioned, for instance, agricultural work and driving a truck.

All those who went to Italy had a tourist visa purchased from intermediaries for between €2,000 and €3,000. Respondents also mentioned cases where Moldovans crossed the Italian border illegally. Such emigrants pay up to €3,000 to traffickers who then control their stay and earnings. It was reported that traffickers usually make arrangements with employers and negotiate emigrants' salaries. They are therefore aware of the emigrants' earnings and charge up to 30% of these amounts, or a fixed amount of up to £100 per month.

The period of stay varies between two and four years. For legal emigrants this is due to the fact that after some years of staying in Italy they can obtain a legal permit.

Portugal (8.7%) and Spain (2.8%)

Portugal ranks third (8.7%) on the list. Portugal and Spain share similarities along with Italy as destination countries, especially the language affinity between Romanian and the Romantic languages of the Italians, Spanish and Portuguese.

Migrants to Portugal are mostly men.⁵⁷ They report that the lowest earnings of the Shengen countries are to be found in Portugal.

As is the case for Portugal, Spain is preferred mostly by men who work in agriculture and construction.⁵⁸ The length of stay in Spain is between three and six years. Subject to their employment situation they can obtain a legal permit. Recently the Spanish Ministry of Labor and Social Assistance declared that those illegal emigrants who can prove they have permanent work for three to six months will get a Spanish visa and work permit for one year.

Israel (4.1%)

The majority of emigrants to Israel are men who work in construction.⁵⁹ Women migrants to Israel typically work as housekeepers. As a good part of Israelis are former Soviet citizens there are no problems regarding communication for Moldovan emigrants, with language being one of the reasons for going to this country.

⁵⁶ Ghencea and Gudumac (2004) find that 60.4% of Moldovan migrants to Italy are women, and IOM et al (2005) 63.5%. They also note that the average length of stay in 'West-1' countries (Italy, Spain and Portugal) is some 25 months – somewhat less than the participants in our focus groups described.

⁵⁷ This is corroborated by IOM et al (2005) who find that men make up 67.9% of Moldovan migrants to Portugal.

⁵⁸ However IOM et al (2005) find that there is a greater proportion of women than men migrating to Spain, with only 41.4% made up by men.

⁵⁹ IOM et al (2005) found 56.3% as the proportion of men migrating to Israel.

Greece (3.5%)

Emigrants to Greece work mostly in agriculture, both men and women, and the earnings are very low – around US\$300 to 500 per month.

Compared to other Shengen countries, access to Greece is easier from the point of view of visa requirements. Moldovan citizens need a visa from the Greek Consular Office which takes between one and two weeks. The applicants have to present their passport and an identification record issued by the Moldovan Ministry of Internal Affairs (confirming that there is no criminal record).

Romania (3.0%)

Romania is preferred mostly by migrants from southern Moldova close to the Romanian border. Migration to Romania is largely seasonal and emigrants are engaged mostly in agricultural work.

Table 14. Average Length of Stay by the Moldovan Migrant in Destination Countries

Country	Average period (months)
Russia	3-6
Italy	24-48
Portugal	36-72
Ukraine	3-6
Israel	36-60
Spain	36-72
France	24-36
Greece	6-18
Rumania	1-2

Source: FG feedback

Annex 9. Focus Group Feedback on Use of Remittances

Investments. Of the 7,387 emigrants captured through information collected by the local authorities in the 31 villages, we were able to find information on expenditure and investment for 1,241. The feedback was as follows:

Around two thirds

- **Cars** – Many had used remittance money to purchase cars. In all 31 villages recipients had bought cars and in some localities over 200 cars had been acquired.⁶⁰ In most cases, purchases are of used cars which are 8-10 years old and which are estimated to cost US\$ 2500-5000.

Less than 10%

- **Agricultural land** – In 15 villages there was at least one case of respondents using remittances to purchase arable land. The total estimated area amounts to some 114 ha, which equates to a little more than 10 ha per village. Taking into consideration the minimum cost of land, which is around US\$300 per ha, each of these villages saw an average of at least US\$3,000 spent on this type of investment.
- **New house construction** - Some built a new house with their remittance income.⁶¹

Less than 5%

- **Children's education** – Moldovan state high schools and universities offer a large amount of spaces to 'contract students'. Often the number of contract students reaches three-quarters of the total number of students. Annual payments vary from US\$120 to US\$700. In addition to the fees, typical expenditures include meals and lodging (if renting an apartment these would amount at least US\$100).
- **Leasing agricultural land**
- **Agricultural equipment purchase** – reported in 13 villages, recipients invested in tractors and agricultural tools and machinery.
- **Apartments** – in eight villages, people invested earnings to buy apartments.
- **Starting small shops or bars** – in 12 villages, recipients have invested in small village stores or bars. These are usually small premises built on household land.

Less than 1%

- **Minibus** – in three villages, migrants invested in minibuses and private transportation businesses.
- **Truck** – in two villages migrants purchased trucks.
- **Sunflower oil mill** – in four villages, migrants invested in small oil mills.
- **Flour mill**– 0.2%, in three villages, invested in flour mills.

⁶⁰ Every year Moldova imports about 15,000 to 16,000 automobiles, of which some 15% are new, the rest used. According to NBM sources, remittances are among the key funds financing car imports. With the doubling of import duties on means of transport as of 1 January 2004, imports have declined. During the first six months of 2004, only 8,520 car imports were registered—about 20% less than during the same period in 2003. In anticipation of the change, December 2003 saw a record number of 12,000 cars imported as many car traders hurried to stock up their car parks prior to the increase (see Logos Press Newsletter no. 569).

⁶¹ Ghencea and Gudumac (2004) found that 22% of the remittances received by the recipient families they studied was spent on house and apartment procurement and construction. It may be important to note, however, that 47% of Ghencea and Gudumac's study participants came from urban areas.

Several other investments were registered in a single case. These were a car repair workshop, livestock, improving the water supply to a home, setting up a bakery, meat processing, and milk processing. In addition to these specific expenditures and investments, all focus group participants stated that they spent remittance income on daily necessities, household goods and house repairs. With the exception of obligatory medical insurance fees (around US\$35), no cases were recorded regarding any other types of assurance, including car insurance.

Annex 10. Other Sources on Use of Remittances

Table 15. Use of Remittances

	%
To return the money borrowed for departure	32,1
To pay off the debts (except those connected to the departure)	33,5
To buy food and clothes	72,1
To buy household assets (TV, fridge)	35,7
To buy other goods/things for house	49,2
To pay for medical treatment	40,1
To pay for house utilities (electricity, gas, telephone)	60,6
To pay the studies of one of the family members	36,2
Holidays	10,1
To buy household durables (furniture)	21,1
To borrow money to relatives	11,5
To save for going abroad	7,9
I lent money to someone to go working abroad	5,0
To buy a car	7,7
Money was used for weddings, funerals etc.	12,7
To buy house/apartment	6,6
To repair house/ apartment	34,5
To save the money " at home"	22,7
To open bank deposits	4,9
To buy land	1,7
To lease land	1,5
Was spent for the agricultural works	27,0
To buy farm/household equipment (tractor, watering machine etc.)	2,2
To buy fowl/sheep/cattle	10,7
For non-agricultural investment	0,9
Something else	1,2

Source: IOM et al 2005

Table 16. Family Material Well-Being and Income Before and After Migration

Family material well-being *	%	Monthly average per capita incomes prior to migration	Monthly average per capita incomes post migration	Growth rate
Very good	0,4	-	-	
Good	12,6	508,4	2185	4,3
Medium	41,5	297,3	1822	6,1
Poor	35,5	188,0	1528	8,1
Very poor	9,9	121,4	1595	13,1
<i>Total</i>	<i>100</i>	<i>279,0</i>	<i>1745</i>	<i>6,3</i>

Source: Ghencea and Gudumac 2004

These findings are corroborated by IOM et al's (2005) research (see tables below). Comparing families' perceptions of their own financial wellbeing researched by opinion poll, the study finds a compelling discrepancy between the perceptions of families without migrants and those with. Their expenditure and monthly expenses further support the idea that family income is increased by migration. IOM et al's qualitative research backs this up, the majority reporting that their situation improved considerably once a family member had migrated.

Table 17. Families' Perceptions of Their Income
(in percentages)

	Total	Families with migrants	Families without migrants
It is not enough even for the bare necessities	42.3	33.2	45.7
It is enough only for the bare necessities	34.8	35.5	34.6
It is enough for decent living but we cannot afford to buy more expensive goods	13.9	18.4	12.2
We manage to buy some expensive goods but with some restrictions	3.1	4.5	2.6
We manage to have everything we need	3.0	5.5	2.1
No answer	2.9	2.9	2.9

Source: adapted from IOM et al 2005

Table 18. Families' Perceptions of Ability to Meet Household Expenditures
(in percentages)

	Very good	Good (adequate)	Difficult	Very difficult	No answer
Food - before migration	1.6	57.1	34.3	5.6	1.4
nowadays	7.4	71.6	18.5	1.0	1.5
Dwelling - before migration	1.6	52.1	38.2	6.3	1.9
nowadays	4.7	70.4	21.5	1.6	1.8
Clothes - before migration	1.1	46.9	45.0	5.3	1.7
nowadays	4.5	68.1	24.3	1.4	1.7
Health - before migration	1.6	50.7	38.3	7.6	1.8
nowadays	2.8	57.6	33.2	4.7	1.7
Education - before migration	1.9	47.4	35.5	4.6	10.6
nowadays	3.3	60.1	20.8	1.8	14.0
Entertainment - before migration	1.0	31.8	46.7	12.9	7.5
nowadays	2.3	47.3	35.6	7.1	7.7

Source: adapted from IOM et al 2005

Table 19. Families' Monthly Expenses
(in percentages)

	Total	Families without migrants	Families with migrants
0	0.8	0.8	0.7
< 600 lei	29.5	32.5	25.2
601 – 1200 lei	23.8	24.9	22.6
1201 – 1800 lei	9.1	7.3	11.7
1801 – 2600 lei	11.0	10.7	11.6
2601 – 3400 lei	6.2	6.0	6.4
3401 – 4200 lei	5.0	5.5	4.4
4201 <	5.4	4.1	7.1
No answer	9.2	3.8	10.2

Source: adapted from IOM et al 2005

Annex 11. Moldovan Banks Authorized by the NBM

Bank name	General information	License level *	Website	Branches	Money transfer products as noted on banks' websites
Banca Comerciala "COMERTBANK" S.A.	Assets of less than MDL 200 million	B	http://www.comertbank.md	No information	
BANCA COMERCIALA "BANCA SOCIALA" S.A.	Assets of over MDL 500 million. Former state bank	C	http://www.socbank.md	"Central office, 19 branches and four representative offices. The Bank has branches in each region (district) established in compliance with the Law on administrative-territorial division of the Republic of Moldova." More than 25,000 customers. Romanian site seems to say 39 branches	Foreign currency accounts, payment orders, "entering foreign currency in cash to the account of resident entity by order of non-resident entity"
BANCA COMERCIALA "VICTORIABANK" S.A.	Assets of over MDL 500 million. Highest deposits in foreign currency.	C	http://www.victoriabank.md	Central office, 12 branches and 6 representative offices	
Banca Comerciala "MOLDOVA - AGROINDBANK" S.A.	Assets of over MDL 500 million. Largest bank - about 20-25% market share. Former state bank	C	http://www.maib.md	Looks like 43 branches plus 44 representative offices	Rapid (domestic) transfers, international transfers, WU, accounts for non-residents, ATM cards
Banca Comerciala "MOBIASBANCA" S.A.	Assets of over MDL 500 million	C	http://www.mobiasbank.com	Central office, 9 branches, 18 representative offices	
Banca Comerciala pentru Industrie si Constructii "Moldindconbank" S.A.	Assets of over MDL 500 million. Former state bank	C	http://www.moldindconbank.com/	Central office, 20 branches and 31 representative offices	WU, Rus-Express (no account required; in USD), VMT (between Russia and Moldova; ruble, USD or Euro), Strada Italia (in Euros), SWIFT, ATM cards
Societatea pe Actiuni Banca de Economii	Assets of over MDL 500 million. Former state bank	C	http://www.bem.md/	500 branches in 370 localities	WU, SWIFT, Moldova Express (domestic), ATM cards

Banca Comerciala "EuroCreditBank" S.A	Assets of less than MDL 200 million	A	http://www.ecb.md		
BANCA COMERCIALA "UNIBANK" S.A.	Assets of between MDL 200 and 500 million	B	http://www.unibank.md	5 branches	National currency transfers, foreign currency accounts, transfer of foreign currencies, SWIFT, WU, debit cards
"Finance and Trade Bank" J.S.	Assets of less than MDL 200 million	B	http://www.fincombank.com/	Central office, 5 branches in Chisinau, 5 branches in Balti, Cahul, Riscani, Ungheni and Orhei and 11 agencies	
Banca Comerciala "EXIMBANK" S.A.	Assets of between MDL 200 and 500 million	B	http://www.eximbank.com/	Central office, 2 branches, 15 representative offices	
Banca Comerciala "INVESTPRIVATBANK" S.A.	Assets of between MDL 200 and 500 million	B	http://www.ipb.md	Central office and 3 Chisinau branches	
Banca Comerciala "Universalbank" S.A.	Assets of less than MDL 200 million	B	http://www.universalbank.md	3 branches	
Banca Comerciala "ENERGBANK" S.A.	Assets of between MDL 200 and 500 million	B	http://www.energbank.com	Central office, 14 Chisinau branches, 12 regional branches	
Banca Comerciala "BUSINESSBANK" S.A.	Assets of less than MDL 200 million. 12/08/04 downgraded from B	A	http://www.businessbank.md	Central office, 1 branch, 2 representative offices	
Banca Comerciala Romana SA Sucursala Chisinau	Assets of less than MDL 200 million	B	http://www.bcr.md	No information on branches	

* License A – can only operate in domestic currency. License B or C – can conduct international operations. License C – capital market activities permitted

Source: bank websites

Annex 12. Information on Express Transfer Systems at Commercial Banks in Moldova

Compiled from commercial bank data (as of June 2004)

	Commercial bank	Name and type of transfer system	Currency	Duration of transfer	Banking commission payable by sender	Banking commission payable by recipient	Coverage in the world	Name of Organization Contracted by Commercial Bank
A	B	1	2	3	4	5	6	4
1	Banca Socială	<i>Gazpromexpres</i> (international)	US\$, Euro RUR	1-2 days	2% of amount, minimum 100 RUR (US\$10 for US\$/ Euro transfers).	-		Gazprombank, Moscow
		<i>Sberbank network</i> (international)	RUR	2-3 days	2.5% of amount, minimum 30 RUR, maximum 2000 RUR	1% of amount equivalent to US\$3		Sberbank, Moscow
		<i>Bistraya Pochta</i> (international)	US\$, Euro	1-2 days	1% of amount	1% of amount equivalent to US\$2		Impexbank, Moscow
		<i>Western Union</i> (international)	US\$	15 minutes	*	-	190 countries	НКО ДП "Вестерн Юнион Восток", Moscow
		<i>Anelik</i> (international)	US\$	3-24 hours	3-4% of amount	-	70 countries	Universalanca, Chişinău
2	Comertbank	<i>Western Union</i> (international)	US\$	15 minutes	*	-		Banca de Economii, Chişinău
3	Mobiasbanca	<i>Contact</i> (international)	US\$	24 hours	3% of amount	-	75 countries, CIS and Baltics	"Русский Славянский Банк", Moscow
		<i>Western Union</i> (international)	US\$	15 minutes 15 minutes	*	-		Banca de Economii, Chişinău
4	Victoriabank	<i>MoneyGram</i> (international)	US\$	15 minutes	**	-		MoneyGram Payment System, INC, SUA
		<i>Interexpress</i> (international)	US\$, Euro	15 minutes	2.5%-3%	-		Intercoopbank, Moscow
		<i>Worldtrans</i> (international)	US\$, Euro	1-2 days	No info	0.65% of amount	80 countries	Smith & Smith SRL. Romania
		<i>Bistraya Pochta</i> (international)	US\$, Euro	1-2 days	1% of amount	1% of amount		Impexbank, Moscow
5	Unibank	<i>Western Union</i> (international)	US\$	15 minutes	.*	-		Western Union, Russia
		<i>Anelik</i> (international)	US\$	3-24 hours	3% of amount	-		ООО КБ «Анелик РУ», Moscow

6	Universalbank	<i>MoneyGram</i> (international)	US\$	10-15 minutes	.**	-	Over 140 countries	MoneyGram, SUA
		<i>Anelik</i> (international)	US\$	3-24hours	3-4% of amount	-	80 countries	Banca "Anelik", Moscow; Banca Socială, Euroocreditbank, ÎS Poșta Moldovei Chișinău
		<i>UniStream</i> (international)	US\$	3-24 hours	1.5-2.5% of amount	-	7 CIS countries + Russia	Uniastrum Bank, Moscow
7	Moldova-Agroindbank	<i>Western Union</i> (international)	US\$	15 minutes	*	-		НКО Вестерн Юнион ДП Восток, Moscow
		<i>Rapid</i> (local)	MDL	1 working day.	4.5 lei of amount not exceeding 250 lei, 1.8% of amount exceeding 250 lei.	-		-
8	Banca de Economii	<i>Moldova-Express</i> (local)	MDL	5-10 minutes	< 250 lei – 5 lei, 251-50000 lei –2%, > 50000 lei –1000 lei.	-		-
		<i>Western Union</i> (international)	US\$	5-10 minutes	.*	-		Western Union Network, France
		<i>Russlavbank</i> (international)	US\$	Up to 24 hours	3% of amount.	-		Russlavbank, Moscow
9	Fincombank	<i>Western Union</i> (international)	US\$	15 minutes	*	-		Небанковская кредитная организация "Вестерн Юнион ДП Восток", Moscow
10	Eximbank	<i>Western Union</i> (international)	US\$	10 minutes	*	-	190 countries	Western Union Financial Services, Inc., USA
11	Energbank	<i>Western Union</i> (international)	US\$	Few minutes	*	-		Western Union Financial Services Inc., Delaware, USA
12	Moldindcon-bank	<i>Western Union</i> (international)	US\$	30 minutes	*	-		Western Union, Moscow
		<i>Strada Italia</i> (international)	Euro	2 days	€10 fixed fee (maximum transfer €2000).	-		Banca Antonveneta, Italia
		<i>Bistraya Pochta</i> (international)	US\$, Euro, RUR	1 day	1% of amount	1% of amount		Impex Bank, Moscow
		<i>VMT (VIP Money Transfer)</i> (international)	US\$, Euro, RUR	30 minutes	1.5% of amount.	-	10 countries [CIS and Spain]	VIP – Bank, Moscow

13	Business-bank	<i>Western Union</i> (international)	US\$	15-30 minutes	*	-		Banca de Economii, Chişinău
		<i>MIGOM</i> (international)	US\$, RUR	15-30 minutes	For US\$ transfers [all payable by sender]	For RUR transfers [all payable by sender]	12 countries	Европейский Трастовый Банк, Moscow
					1.00-100.00 US\$4 100.01-200.00 US\$5 200.01-300.00 US\$7 300.01-400.00 US\$9 400.01-500.00 US\$12 500.01-600.00 US\$15 600.01-700.00 US\$18 700.01-800.00 US\$21 800.01-900.00 US\$24 900.01-1000.00 US\$27 1000.01-1500.00 US\$30 1500.01-2000.00 US\$40	< 1000 20 RUR 1000-3000 40 RUR 3000.01-6000.00 90 RUR 6000.01-10000.00 160 RUR 10000.01-15000.00 250 RUR 15000.01-20000.00 350 RUR 20000.01-30000.00 500 RUR 30000.01-40000.00 700 RUR 40000.01-50000.00 900 RUR 50000.01-65000.00 1150 RUR 65000.01-80000.00 1450 RUR 80000.01-100000.00 1800 RUR		
<i>VMT (VIP Money Transfer)</i> (international)	US\$, Euro, RUR	15-30 minutes	1.5% of amount	-		ВИП Банк, Moscow		
14	BCR, Chişinău	<i>Travelex</i> (international)	Euro	2-3.5 minutes	US\$4 for each US\$100	-		Travelex Money Transfer Limited, Great Britain
15	Investprivat-bank	<i>Western Union</i> (international)	US\$	15 minutes	*	-		Banca de Economii, Chişinău
		<i>MIGOM</i> (international – CIS)	US\$	15-30 minutes	1.00-100.00 US\$4 100.01-200.00 US\$5 200.01-300.00 US\$7 300.01-400.00 US\$9 400.01-500.00 US\$12 500.01-600.00 US\$15 600.01-700.00 US\$18 700.01-800.00 US\$21 800.01-900.00 US\$24 900.01-1000.00 US\$27 1000.01-1500.00 US\$30 1500.01-2000.00 US\$40	-		КБ «Европейский трастовый банк», Russia

16	EuroCredit-bank	Western Union (international)	US\$	15 minutes	*	-		"Organizația de Creditare Ne Western Union DP Vostok", Russia
		Travelex (international)	Euro	15 minutes	€1.00 - €100.00 €4.00 €100.01 - €200.00 €8.00 €200.01 - €300.00 €12.00 €300.01 - €400.00 €16.00 €400.01 - €500.00 €20.00 €500.01 - €600.00 €24.00 €600.01 - €700.00 €28.00 €700.01 - €800.00 €32.00 €800.01 - €900.00 €36.00 €900.01 - €1000.00 €40.00 €2500.00 €100.00	-		"Travelex Money Transfer Limited", Great Britain
		Anelik (international)	US\$	1-2 hours	3-4% of amount	-		Universalbank, Chișinău

Note: * Fees for **Western Union**:

Up to 50.00	US\$13
50.01-100.00	US\$15
100.01-200.00	US\$22
200.01-300.00	US\$29
300.01-400.00	US\$34
400.01-500.00	US\$40
500.01-750.00	US\$45
750.01-1000.00	US\$50
1000.01-1500.00	US\$75
1500.01-1750.00	US\$80
1750.01-2000.00	US\$90
2000.01-2500.00	US\$110
2500.01-3000.00	US\$120

for amounts exceeding US\$3000, fee increases by US\$20 for each US\$500.

** Fees for **MoneyGram**:

US\$0.01-400	US\$20
US\$400.01-600	US\$30
US\$600.01-800	US\$40
US\$800.01-1000	US\$50
US\$1000.01-1200	US\$60
US\$1200.01-1800	US\$80
US\$1800.01-2500	US\$120
US\$2500.01-5000	US\$150
US\$5000.01-7500	US\$250
US\$7500.01-10000	US\$300

Annex 13. Formal Money Transfer Service Preferences of Focus Group Participants

Summary Table of FG Feedback on Formal Money Transfer Service Preferences

Method	Key features	Advantages or benefits	Disadvantages or risks	Cost	Main countries
Western Union	<ul style="list-style-type: none"> 40% of emigrants use WU according to FG findings 	<ul style="list-style-type: none"> Well known and recognized worldwide Well-developed worldwide network No bank formalities Rapid Commission charges are decreasing 	<ul style="list-style-type: none"> Fear of locals in the place of collection knowing about the transfer and its amount 	5% (while previously it was as high as 10%)	
Bank transfers	<ul style="list-style-type: none"> Mainly used by legalized migrants Almost 10% of participants use this method 	<ul style="list-style-type: none"> Low cost Confidential Secure Recipients can open accounts (usually in Chisinau) ensuring confidentiality 	<ul style="list-style-type: none"> Slow (3-7 days) No interest paid on received amounts when they are withdrawn after a certain period Low trust in banks means still little used 		
Post transfers	<ul style="list-style-type: none"> 5% of participants use this technique Russian Federal Post Service offers money transfer services similar to WU and MG 	<ul style="list-style-type: none"> Useful for those who work in regions located at a large distance from big cities (e.g. woodcutters) Transfers can be received in Moldova directly in the village of residence at the local post office 	<ul style="list-style-type: none"> Maximum transfer of US\$300 Transfer takes 3-7 days Some recipients prefer to get their money at the district post office for confidentiality reasons 	15% commission	Russia ⁶²
Credit cards	<ul style="list-style-type: none"> Little more than 1% of participants mentioned using credit cards System works by the emigrant 		<ul style="list-style-type: none"> Migrant must have legal status 		

⁶² According to the website of the Russian post office, some 11% of the local population uses this service for money transfers. http://www.russianpost.ru/resp_engine.asp?Path=RU/Home/law/developmentConcept/224

	opening a deposit account in the target country (where he or she must have legal status); the emigrant bringing the credit card to Moldova or sending it via informal means; and the money being withdrawn in Moldova using ATMs either in district towns or in Chisinau		<ul style="list-style-type: none"> Recipient must have ATM access 		
MoneyGram	<ul style="list-style-type: none"> Mentioned by 0.9% of participants Available through Russian post offices 				Russia
Anelik Money Transfers	<ul style="list-style-type: none"> Used by 0.6% of FG participants Russian transfer system similar to Western Union 	<ul style="list-style-type: none"> No limit on amount transferred Can be received on the same day 		1.5-3%	Russia
Strada Italia	<ul style="list-style-type: none"> Used by 0.6% of FG participants New transfer technique introduced by the Moldovan bank MOLDINCONBANK for migrants in Italy through the Italian bank <i>Banca Antonveneta</i> Maximum transfer of €2,000 	<ul style="list-style-type: none"> Well developed network of banks in Italy Cheap for large transfers 	<ul style="list-style-type: none"> Expensive for small transfers 	€10 regardless of amount transferred	Italy
VIP Money Transfer	<ul style="list-style-type: none"> Only 0.2% of participants use this service 	<ul style="list-style-type: none"> Transfers from the Ukraine can be made in US\$ Transfers from Spain are made in Euros 		From the Ukraine: 2% but not less than US\$1 (from Privatbank) or US\$1.50 (from and other Ukrainian bank), 4% from Spain	Russia, the Ukraine and Spain

Detailed Feedback:

Western Union remains the preferred formal system of money transfer – within our fieldwork it was used approximately by 40% of emigrants, regardless of the target country. Migrants have a preference for Western Union because according to them the system is a well known and recognized organization, has a well developed worldwide network, requires no bank formalities, transfers money rapidly, and is decreasing its commission charges – the most recent returned emigrants stated they paid 5% commission while previously it was as high as 10%.

Bank transfers are the second most used formal method and are mainly used by legalized migrants – almost 10% of participants stated they used this technique, which according to them is low in cost and is the most confidential and secure method. In the case of Western Union, one can go to a district town and receive money, but there is a low level of certainty among recipients that locals will not know about the transfer and even its amount. For this reason these recipients open bank accounts, preferably in a bank located in Chisinau, and this,

according to them, ensures the level of confidence they have in the confidentiality of their financial transactions.

The disadvantages of bank transfer mentioned by interviewees are the length of time taken for the transfer to arrive (from three to seven days); the bank not paying interest on the received amounts when they were withdrawn after a certain period; and the reluctance to use banks that is typical in Moldova after the collapse of the Soviet Union when the population lost their bank savings. During Soviet times keeping savings at home was very rare and almost all families had bank accounts at *Casa de Economii*.

Post transfers are used mainly by emigrants working in Russia and within our study this technique was mentioned by 5% of participants. The Russian Federal Post Service offers money transfer services similar to Western Union and MoneyGram. The maximum transfer is US\$300 and the commission is 15%. The duration of operation is between three and seven days.

This technique is used by those emigrants who work in regions located at a large distance from big cities (woodcutting, for instance). In addition, the transfer can be received in Moldova directly in the village of residence at the local post office. Nevertheless some focus group participants mentioned that they preferred to get their money at the district post office, avoiding the spread of information in their village.

Credit cards were mentioned as transfer technique by a little more than 1% of participants. In all cases we were told this system works by the emigrant opening a deposit account in the target country (where he or she must have legal status); the emigrant bringing the credit card to Moldova or sending it via informal means; and the money being withdrawn in Moldova using ATMs either in district towns or in Chisinau.

MoneyGram was mentioned by 0.9% of FG participants and in all cases by those who work in Russia. The system is available through Russian post offices.

Anelik Money Transfers was mentioned by 0.6% of participants and all working in Russia. Anelik Money Transfers is a Russian transfer system similar to Western Union, in which there is no limit to the amount transferred and the commission is between 1.5% and 3%. In addition the money can be received on the same day. Anelik Money Transfers has offices in Moldova as well.

Strada Italia was mentioned by 0.6% of participants. It is a new transfer technique recently introduced by the Moldovan bank MOLDINCONBANK for migrants working in Italy. Transfers are made through the Italian bank *Banca Antonveneta* which has a well developed network of branches in Italy. The maximum amount is €2,000 and commission is fixed to €10 no matter what amount is transferred.

VIP Money Transfer is used very little and was stated by 0.2% of participants. The technique is characteristic for transfers done from Russia, Ukraine and Spain. From Ukraine transfers could be done in US\$ and the commission is 2% of the sum, but not less than US\$1 (Privatbank) or US\$1.5 (any other Ukrainian bank). From Spain transfers are done in Euros with 4% commission.

Annex 14. Informal Money Transfer Service Preferences of Focus Group Participants

Summary Table of FG Feedback on Formal Money Transfer Service Preferences

Method	Key features	Advantages or benefits	Disadvantages or risks	Cost	Main countries
Minibus – goods and money hidden in goods	<ul style="list-style-type: none"> Household goods are shipped, often with money hidden inside Sums of over €5,000 were mentioned by FG participants as having been transferred in this way Many Italian cities have special parking spots for Moldovan minibuses Many Moldovan district towns have services to various destinations, and 2 villages reported a minibus service to and from Italy and Israel, respectively, at least once a week⁶³ 	<ul style="list-style-type: none"> Accessible – routes well organized, minibus stations close to place of work No fees or commission on the hidden funds At the minibus station migrants meet other Moldovans and exchange news and information 	<ul style="list-style-type: none"> Border police may confiscate hidden money Lack of security⁶⁴ 	Goods that do not exceed 20kg: €1.5 - €5. €1 per additional kilo.	Europe (particularly Italy) and Israel
Minibus – using driver as agent		<ul style="list-style-type: none"> Accessible – routes well organized, minibus stations close to place of work Money often transferred by a group, increasing assurance that it will reach the destination 		3% of the sum sent	
Bringing money home	<ul style="list-style-type: none"> Approximately 10% of FG participants brought all the money they wished to remit home with them Used frequently by seasonal workers 	<ul style="list-style-type: none"> The migrant has control over the money at all times Migrants tend to arrive home in groups, further increasing the safety of the money 			Russia and the Ukraine

⁶³ The majority of minibuses carrying goods to and from Western Europe serve the district centers and capital cities in Moldova and destination countries. We were informed that minibuses go direct only to the villages of Gura-Galbenei (Israel) and Lozova (Italy), because the number of Moldovans in these communities is significant and they are situated on the countries' main roads. The routes from Russia all serve Chisinau, other than a few to district centers where there is railway (such as Straseni).

⁶⁴ To minimise this concern, it is said that groups often pool the money they give to minibus drivers. This is because, by transferring the money with people known to them, if their money is lost they have witnesses to confirm that they transferred the indicated sum. However, the FG participants did not mention such incidents, because competition among drivers is high, especially for routes from Italy, and losses by the drivers would result in them losing their clients.

Relatives and friends	<ul style="list-style-type: none"> • More than 8% of FG participants use this method 	<ul style="list-style-type: none"> • Confidential • Safe • Very low commission 			
Train – using train conductors as agents	<ul style="list-style-type: none"> • 7% of participants use this method • The amounts reported via this method did not exceed US\$500 • Packages with various gifts, usually for children, are also sent via train conductors. • The time taken using this method tends to be 28–32 hours 	<ul style="list-style-type: none"> • Easily accessible • Cheap • Convenient if the train passes through a town in Moldova that is close to the village to which the money or goods are being sent • Considered confidential compared to using banks or other systems 		Commission of 2 to 3%	Russia and the Ukraine

Detailed feedback:

Minibuses are used by emigrants working in Europe and most of all by those in Italy. The system is so widespread and developed that in many Italian cities there are special parking spots for Moldovan minibuses. From the other side, in Moldova in many district towns a minibus from Italy comes at least once a week. There are even specific villages that have such routes – within our study participants of one village noted a weekly route from *village X* to *Italy*. Another village has a weekly minibus route to Israel.

The system is based on shipping household goods from Italy and often hiding money inside these items. Cases when sums that amounted more than €5,000 were registered. The sender can ship goods that do not exceed 20 kg and they pay some €1.5 - €5. It is possible to send a heavier package, paying €1 per additional kilo.

Moldovan border police and customs offices know about this system and do their best when inspecting such minibuses. If found, *de jure* this money is confiscated, but what happens *de facto* none of interviewees wanted to say. Moreover, participants said that it depends on who the owner of the minibus is, and which route is in question – if there is a person with connections then the inspection is routine and the chances that the money will reach the destination are much higher.

Another method mentioned is to pass the money on through the minibus driver. In this case it costs 3% of the sum sent.

Those who use this method said its advantages are that it is the most accessible way of remitting because the routes are very well organized and minibus stations tend to be close to the place of work; when using minibus drivers money is often transferred by a group rather than an individual and, according to emigrants, this increases the assurance that the sums will reach the destination; when hiding money migrants avoid paying any commissions or charges; and when going to the minibus station migrants meet other Moldovans and can exchange news, experiences and so on.

The main risk of remitting by minibus is that of losing all the money when crossing the Moldovan border.

Approximately 10% of participants brought all the money they wished to remit home with them. This technique was most prevalent among those who worked in Russia or Ukraine as seasonal workers, whose earnings are lower than that of migrants to other countries. These migrants tend to arrive home in groups, thus ensuring the safety of money.

Relatives and friends were mentioned by more than 8% of participants. This is considered to be the most confidential and certain technique of money transfer. In addition, commissions are very low (participants did not suggest an amount, but stated that this is the lowest cost method). When talking about 'friends', participants generally referred to colleagues with whom the sender used to work or live for a long period.

The train was mentioned only by emigrants working in Russia and Ukraine. Some 7% of participants mentioned this technique, in which they use train conductors who are recommended by former emigrants or other persons and therefore have a good reputation. The amounts reported via this method did not exceed US\$500 and the commission charged is between 2% and 3%. Packages with various gifts, usually for children, are also sent via train conductors. The time taken using this method tends to be 28–32 hours. According to emigrants, this system is easily accessible; offers a higher level of confidence than other methods (since one can avoid spreading information through banks or other systems); is less expensive than other systems; and is convenient for recipients if the train passes a town in Moldova that is close to the village to which the money or goods are being sent.