



POLICY NOTE OF WORKING PAPER 3.10

Remittances and Educational Outcomes: Evidence for Moldova

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OBJECTIVE

The aim of this paper is to analyze the relationship between remittances and educational outcomes in Moldova in 2007. The idea is to understand whether remittances can be considered, from a policy perspective, as a useful channel in order to foster human capital formation and, as a result, to increase economic growth in the origin countries of migration. If this is the case, a policy fostering an easing of the ways of sending remittances at home (by also reducing transfer costs) would be appropriate. Moreover, our policy question relates more generally to the whole issue of the brain drain due to migration, which should be tried to be limited or at least balanced out by other resources, such as remittances, in order for the ENP to benefit from the integration with the EU.

SCIENTIFIC METHODS

We use household data for 2008 coming from the CBSAXA Moldovan Household Survey provided by the Kiel Institute in order to carry out the empirical analysis. Data refers to 2007 and in particular we relate the variable concerning the remittances received by families in 2007 with the education currently pursued by family members aged between 16 and 30 years old.

Our research design is based on two parts. We first look at the descriptive evidence on the percentage of family members currently attained in remittances and non-remittances receiving families. A first picture seems to reveal a relatively high level of educational attainment for members of family receiving remittances with respect to those who do not. We also provide separate descriptive statistics of families for those receiving remittances and those not, in order to look at whether there are also other marked differences between these two kinds of families.

We then carry out our empirical investigation, by running probit regression (both simple and following an IV strategy) in order to empirically check the descriptive findings. Our first results point out a probability of around 6% higher for members of families receiving remittances with respect to families not receiving remittances to pursuing a higher level of education. Once we control also for endogeneity, this probability further increases and at last stands at around 33%. This means that a

member of a family receiving remittances has 33% higher probability of attaining a higher level of education than member belonging to families nor receiving remittances.

POLICY VALUE-ADDED

The relevant policy question of this analysis is whether, in order to compensate the brain drain due to migration, remittances can act as a useful channel to foster development, and in particular, education in origin countries. If so, a policy fostering an easing of the ways of sending remittances at home would be appropriate. Moreover, our policy question relates more generally to the whole issue of the brain drain due to migration, which should be tried to be limited in order for the ENP to benefit from the integration with the EU.

Based on previous studies also carried out on Moldova, which show that the behaviour in terms of remittances changes among the “duration” of migration dimension and in particular stresses that temporarily migrants (those who intend to come back), even if based in low-income countries, have a tendency of sending a relatively high level of remittances, our policy suggestions point out on two directions:

- 1) To enhance the possibility and easing the process to send home remittances, making it also transparent from an official point of view.
- 2) Stimulate and actively foster temporary migration.

Such kinds of policies would benefit ENP countries in many aspects:

- 1) By stimulating temporarily migration, the brain drain due to migration might be limited.
- 2) Returning migrants will bring back not only the original human capital they are endowed with, but also the human capital acquired in host countries thus facilitating positive human capital spillovers in origin countries.
- 3) Temporarily migration is more able to adjust to the demand of host countries which is often flexible and depends on the business cycle.
- 4) By increasing the amount of remittances, they stimulate and foster high education levels, as well as general welfare of the state.
- 5) By easing the process of sending remittances, a higher amount of remittances can be addressed to active investment in education and other assets in origin countries.
- 6) By being temporary migration, the risk of disrupting the family due to migration with its possible adverse effect would diminish.

Some policies suggestions on temporary migration and remittances process are the following. One option would be to develop managed migration programmes, including temporary work visa for professionals from ENP countries, which could stimulate increase temporary movements. Such scheme should be agreed by sending (ENP) and receiving (EU) countries and therefore national policies should have less control over them. Moreover, liberalizing trade in services via the temporary movement of persons may facilitate such movements. Another option would be that of facilitate migrants’ reintegration through active institutional management of migration, which facilitate the migrants welfare and professional perspectives upon

their return home. In fact, allowing a returning migrant to rejoin his/her industry at an appropriate level for his/her experience is crucial in order to get a brain gain from migration.

As for remittances channel specifically, government policies aimed at reducing the transfer costs and, in general, remittances fees would be advisable. In fact, remittance taxes (in forms of transfer costs and fees on bank accounts in migrants' origin countries) provoke a series of negative impacts in migrants' origin countries. First, they reduce the incentive to send remittances and the amounts sent, therefore limiting the development impact of remittances. Secondly, they give a higher incentive to use unofficial or informal channels, which in turn implies a likely usage of remittances to buy goods and services in the black market thus dampening their potential for countries' development. Finally, remittances taxes in migrants' origin countries are additional to income and sales taxes already paid by migrants in recipient countries, being therefore highly regressive. Hence policies aimed at reducing transfer costs and at pushing financial institutions in both origin and recipient countries at de-taxing remittances, would contribute to increase the level of development in migrants' origin countries and to partially balancing out the negative impact of migration. Further, it would stimulate the use of official channels to send money home and would be more effective in order to make transfers more transparent than trying to regulate the informal services. Some policies proposals in this context are related to incentives for the opening of bank accounts (also denominated in foreign currency) and the use of electronic means to transfer moneys, which are still poorly developed in migrants' origin countries and that would ease the process of sending remittances. Also, encouraging migrants to do fewer but larger remittances transactions (as opposed to multiple transactions with small amounts) would help at bringing down remittances fees as well as stimulating the increase in competition among firms by allowing more institutions to enter in the money transfer business. All these kinds of policy necessarily require an effort by both sending and receiving countries in order to be effective. Also, cooperation between sending and recipient countries is advisable in order to overcome factors which may hinder fees reduction, such as low competition among service providers, poor information disclosure for senders and recipients, poor payment system infrastructure that discourage migrants from using formal financial institutions to send money home, restrictions for cross-border operations, lack of trust of senders and recipients with financial institutions, etc.