

Policy Brief

ARMENIA: Better Understanding International Labor Mobility

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Key messages

- *Labor migration offers opportunities for the unemployed, especially those in rural areas, and is likely to continue because an expected wage differential between destination countries and Armenia motivates youth to migrate.*
- *Members of migrant households are more likely to be employed than those in non-migrant households, as the unemployed in migrant households have left for employment abroad and, to some extent, remittances resulting from migration ease credit constraints in future investments.*
- *Workers find overseas jobs primarily through diaspora and family networks, which not only restricts their choice of destinations (in favor, specifically, of Russia) but also can generate migration costs from skills mismatches and loss of skills that challenge the successful reintegration of returnees in Armenian society.*
- *The mix of costs and benefits associated with international labor mobility suggests the Armenian government can play*

a bigger role to strengthen partnerships with destination countries to make overseas job information more available and enhance development of job-specific skills.

1. Migration and development

Armenia has experienced massive outflows of its people over years, amounting to 951,000 (the total Armenian migrant stock in 2017). Emigrants' share of the Armenian population stood at approximately 32 percent in 2017, according to migration data from the United Nations (UN). This is strikingly higher than the global average: immigrants account for about 3.4 percent of the global population in 2017 (UN).

Half of Armenian emigrants reside in Russia (as of 2017, according to the UN data). Other key destinations include the United States and Ukraine. (Annex 1 shows the distribution of Armenian emigrants around the world). In recent years, outflows to Western and Southern Europe and the United States have increased and declined to former Soviet Union countries.

Recent migration is primarily temporary labor migration, unlike the permanent emigration that occurred in the 1990s. Workers go abroad for employment and return after their employment terminates. Many surveys suggest much labor migration and remigration are seasonal. The International Labour Organization (2009) and Chobanyan (2013) noted that some workers make two to three migration trips every year. Migrants from rural areas, in particular, follow this pattern, according to household surveys conducted in 2015, 2016 and 2017 by the Russian-Armenian University (RAU). Most

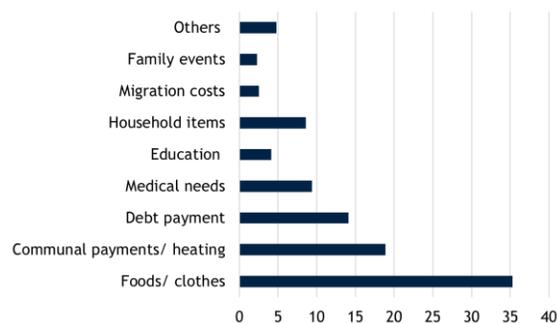
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temporary labor migrants are low-skilled—60 percent of current and returned migrants have secondary or lower education—and go to Russia (92 percent) where vast Armenian diaspora networks are in place.

Remittances resulting from migration constitute important support to the welfare of households and the domestic economy.

The World Bank estimates that remittances amounted to \$1.87 billion in 2018, equivalent to 15.5 percent of Armenia’s GDP.² These flows constitute a significant share (35 percent) of migrant households’ income (Figure 1). Remittances support households’ current consumption, mainly of necessities, and financing (Figure 2). More broadly, remittances contribute to increasing aggregate demand and ultimately to reducing poverty (Karapetyan and Harutyunyan, 2013), although this effect is limited in rural and secondary city households (World Bank, 2017).

Figure 1. Remittances account for about 35 percent of income in migrant households, percent



Source: RAU household migration survey data, 2015-17. . The figure is based on a pooled sample of the three surveys undertaken each year during this period.

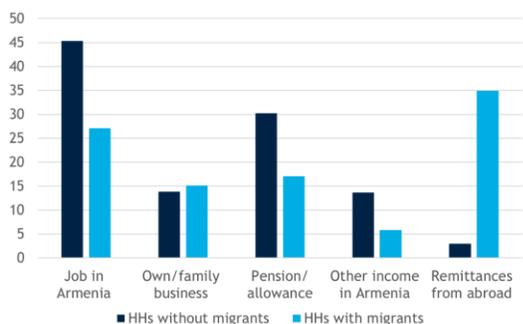
Nevertheless, the effects of remittances and migration on labor markets are not fully understood.

One question is whether remittances increase reservation wages of remittance-receiving household members and thus discourage their labor force participation. A second question is to what extent people incur the costs to migrate. This includes a question on to what extent returnees successfully reintegrate in the Armenian economy, which is key to ensuring that the benefits of migration are greater than the costs.

As migration is likely to continue, such questions are still timely and relevant.

The RAU survey data indicate that about as many people would like to migrate as are current first-time migrants. By and large, these individuals who expressed a desire to migrate tend to be in the economically active age group of between 15-39 and from households with moderate to poor financial condition. The desire to migrate is distributed equally across gender and educational attainment levels.

This policy brief aims to explore and address the two questions about migration and its effects on the labor market in Armenia. It uses data from the household migration surveys conducted by the RAU over the three-year period of 2015-17.



Source: RAU household migration survey data, 2015-17. The figure is based on a pooled sample of the three surveys undertaken each year during this period.

Figure 2. Remittances support migrant households, current consumption (use of remittances by migrant households), percent

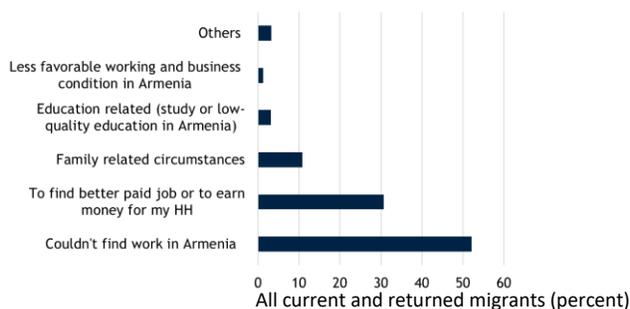
² Remittances flows are on a recovery path, dampened owing to weak economic performance of Russia.

The brief describes the general landscape of temporary labor migration and presents relevant policy recommendations.

2. Temporary labor migration

People move for a better life. Migration is driven primarily by a desire for better employment opportunities and higher wages (Figure 3). Indeed, nearly half of the current and returned migrants (48 percent) were jobless in Armenia before they migrated. Among the reasons cited by female migrants were socioeconomic factors such as “unhealthy moral atmosphere in Armenia”. Household factors such as the number of children and the educational attainment of the head of the household also influence migration decisions (Annex 2).

Figure 3. Difficulty finding a job and the low pay of jobs in Armenia are among the reasons given for migrating abroad

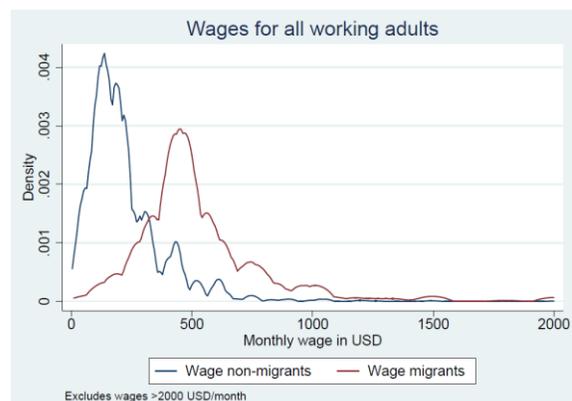


Source: RAU household migration survey data 2015-17.
 Note: Family-related circumstances refer to “unification with relatives abroad,” “start a family abroad,” and “other family circumstances”.

Wage gains are the most important determinants of migration flows (World Bank, 2018). The RAU surveys found that Armenian migrants who move abroad go to locations that offer higher wages than at home. The data shown in Figure 4 suggest that, working migrants did earn more in these higher-income destinations than their counterparts earned at home: their mean monthly wages were \$500 versus less than \$250 earned by people

employed in Armenia. A similar pattern is evident in comparisons of wages of secondary-education cohorts and male cohorts.

Figure 5. Migrants earn higher wages than their counterparts in Armenia



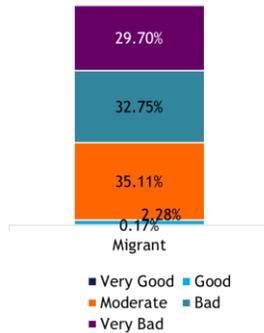
Source: RAU household migration survey data 2015-17.

Migrant networks facilitate migration by providing access to information, thus helping to lower the costs of migrating. Responses to the RAU household surveys showed that most migrants have family members, relatives or friends in the destination countries who helped them find jobs (32 percent of respondents), provided housing (26 percent) and helped finance their travel costs (12 percent). The presence of migrant networks influences the choice of destinations: half of returned migrants reported that they chose their destination because of the presence of relatives or friends.

Networks appear to enable poor households to benefit from labor migration. International migration is costly. The international literature suggests that poor households are less likely to participate in labor migration. The survey responses in Armenia, however, suggest that most migrants are from households described as being in a “bad” financial situation to some degree. Approximately 30 percent migrants were from households in a “very bad” situation, 33 percent were from households in a “bad” situation and 35 percent were from households

in a “moderate” situation (Figure 6). This relatively high participation of poor households in labor migration might be attributable to the presence of those Armenian diaspora networks in destinations, especially Russia, that lower the costs of migrating.

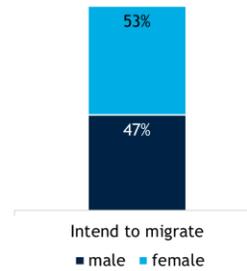
Figure 6. Many migrants are from households with bad financial situations (percent of current and returned migrants)



Source: RAU household migration survey data 2015-17.

Females seem to face greater barriers to migration than males. Most labor migrants are men, who make up 81 percent of the current and returned migrant population.³ This is a strikingly high percentage, given men and women expressed the aspiration to migrate in near-equal measure (Figure 7). The predominance of men in labor migration may be due to the negative perception about female migration (ILO, 2009). Male-dominant migration also raises concerns that it may leave the female-headed households in Armenia all the more vulnerable to poverty because women have lower labor market participation rates and lower wages (World Bank, 2016).

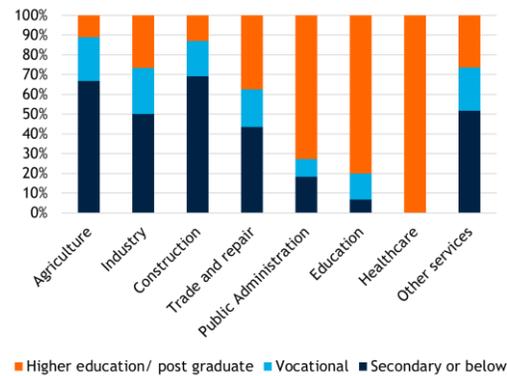
Figure 7. Nearly equal shares of women and men express the desire to migrate (percent of respondents with the desire to migrate in the future)



Source: RAU household migration survey data 2015-17.

There tends to be a clear sectoral division in migrants’ overseas jobs by education attainment (Figure 8). According to responses from the returnee cohorts in the RAU surveys, most low-skilled migrants had their jobs in the construction sector – account for nearly 70 percent of the returnee population, earning around \$500 per month. Migrants with university or higher education mostly worked in the healthcare or education sectors in destination countries.

Figure 8. Selection of jobs by education level (the current and returned migrant sample)



Source: RAU household migration survey data 2015-17.

³ Chobanyan (2013), analyzing various surveys conducted in Armenia, found that females account for a far smaller share of the returned migrant

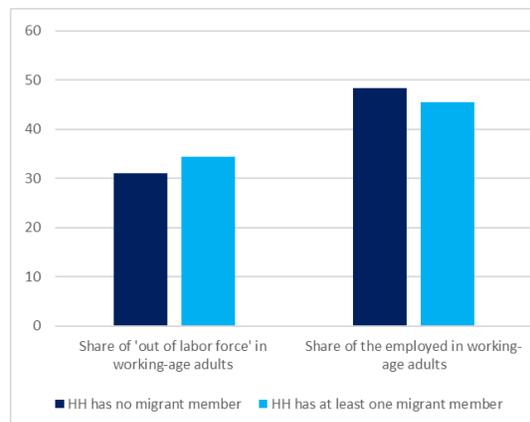
population than do males (between 13 and 38 percent, depending on the sampled surveys.)

3. Effects of migration on labor force participation

To determine the net effect of remittances and migration on labor supply is difficult, as substitution and income effects work in opposite directions. Outflows of the working population directly reduce the size of the labor force, and push wages upward. As a result, people increase hours of work and reduce leisure time. On the other hand, remittances, an additional source of non-labor income, increase the reservation wage of workers and lower the employment likelihood of remittance-receiving families. Such an income effect is seen in Jamaica,⁴ El Salvador,⁵ and other Latin American countries.⁶ In sum, the net effect of migration and remittances on labor supply is ambiguous.

In Armenia, the labor market participation and inactivity appear rather indifferent to whether or not households have a migrant (Figure 9). Households with a migrant account of 34 percent of working-age adults who are out of the labor force. Households without a migrant account for a similar share, of 31 percent. Correspondingly, their shares of the working-age adult population that is employed are also similar (46 percent of households with migrants and 48 percent of households without migrants).

Figure 9. Households with or without migrants account for similar shares of the labor supply, (percent).



Source: RAU household migration survey data 2015-17.

However, having a migrant as a member of the household is likely to increase the probability for labor force participation, when other household factors are controlled. As Table 1 shows, the probability of working is positive and statistically significant for households with migrants.⁷ One possible reason for this is that the otherwise unemployed members of these households already migrated abroad. Another possible explanation is that remittances ease financing constraints in migrant households and subsequently boost their economic activities, as was seen in the Philippines (World Bank, 2013). Furthermore, outflows of male migrants would boost female labor force participation. In Kyrgyz Republic, the migration of a household member increases the choice of female household members to be unpaid family workers and furthermore most of these left-behind females work more hours in their occupation (Karymshakov and Sulaimanova, 2017).

Table 1. Having a migrant in a household is likely to increase the household's labor force participation

⁴ Bussolo and Medvedev (2007) and Kim (2007).

⁵ Acosta (2006).

⁶ Acosta, Fajnzylber and Lopez (2008).

⁷ Other factors matter for the probability of working are education of household heads (positive), the

number of children in the household (positive) and the number of elderly persons in the household (negative).

Variables	Labor force participation rate
HH with migrants	0.0653*** (0.0190)
HH Head education	
Basic school	0.108 (0.141)
General secondary	0.200 (0.134)
Pre-vocational	0.255 (0.194)
Vocational (college)	0.209 (0.133)
Higher education	0.285** (0.133)
Number of children	0.0433*** (0.00987)
Number of elderly	-0.0449*** (0.0137)
Number of observations	1,606
Notes:	Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Authors' computation based on RAU Household migration survey data 2015-17.

4. Costs of migration

Workers incur both monetary and non-monetary costs during the labor migration cycle. The very first monetary costs—so-called recruitment costs—arise when workers start the employment process. Recruitment costs can be grouped into three major categories: (i) costs to comply with the laws and regulations of receiving and sending countries, such as obtaining work permits or medical check-ups; (ii) fees paid to recruitment agencies or agents for job information, applications and deployment procedures; and (iii) internal and international transportation costs. Non-monetary migration costs are incurred due to differences in skills, cultures, languages and religions (Yi, 2016).

The RAU survey dataset does not contain information that would allow monetary migration costs to be determined. This policy brief, however, uses qualitative responses of returned migrants (returnee respondents) in the survey dataset to build a migration-cost index (Annex 3 presents the methodology). The indices range from 0 to 1. For the cost index, 0 refers to least costly, 0.5 to moderately costly, and 1 refers to the costliest. The benefit index includes

gains from improvement in skills and financial situations; 0 refers to deterioration in skills or financial situations, 0.5 to no or minor changes and 1 refers to significant improvement. This method is similar to the methodology used to develop the services trade restrictiveness index by the Organisation for Economic Co-operation and Development (OECD).

The index includes four different cost components. The first pertains to the costs incurred from having no job arranged prior to departure, with 0 denoting possession of a written employment contract and full implementation, 0.5 a promise for a job and 1 no job arrangement. The second component relates to exposure to labor-protection violations. The third relates to costs of jobs that are below the migrant's qualifications and education attainments. The fourth component relates to difficulties adapting back into Armenian society after return.

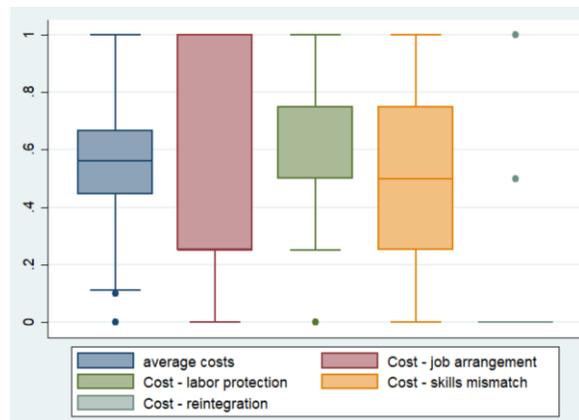
On average, labor migration is somewhat costly, at 0.5 on the index (Figure 10). The cost of having no written contract or job arranged prior to migration tends to be high. This is significant, given that more than half of returnee respondents reported that they left for the destination on job promises (about 60 percent) or without prior job arrangements (about 30 percent). On the other hand, the costs incurred from weak labor protection (such as late payments, unpaid overtime work and lack of health insurance) tend to be moderate. Female migrants tend to incur slightly higher migration costs than their male counterparts primarily owing to leaving for foreign jobs without a job contract in their hands. Migration costs incurred by the primary education cohort were least, while highest for the tertiary education group because of skills mismatches.

Costs from skills mismatches appear to be greater for migrants with vocational or higher education. On aggregate, costs from skills

mismatches appear to be moderate, albeit widely dispersed. About 50 percent of the returnee respondents said they found their jobs somewhat matched with their qualifications. But experiences in this regard appears to vary widely according to the migrant’s education attainment level. Nearly 80 percent of returnees with vocational or university education reported that their job did not match their qualifications, compared to 20 percent of respondents with secondary or lower education.

The short-term nature of temporary labor migration may explain the low costs incurred from reintegration. About 75 percent of returnee respondents reported they encountered no difficulties readapting after their return. Half of the returnee respondents had a job after their return. The main difficulty reported by returnees who had difficulties readapting was “work problems ⁸.” This corresponds generally to the findings of empirical studies that low-skilled migrants have difficulties finding employment when they return home (for example, to Tajikistan).

Figure 10. Migration cost index - average cost and cost by component (2015-2017)



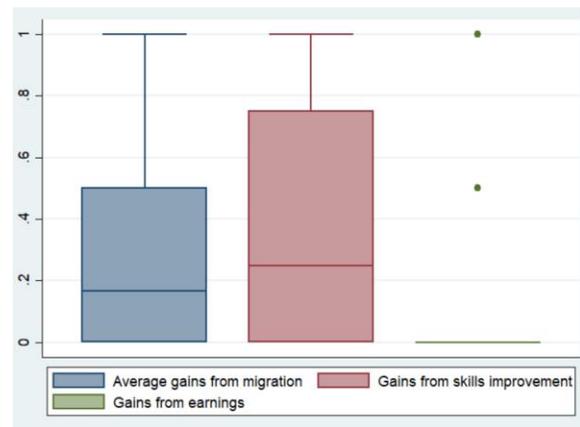
Source: Authors’ calculations based on RAU Household migration survey data 2015-17.

Benefits of migration can be enhanced through better skills matches and reintegration. On

⁸ Surveys do not further define “work problems”.

average, benefits from migration are somewhat low (less than 0.2), as shown in Figure 11. It appears that more than half of returnees with secondary or lower education attainment found that their experience abroad enhanced their skills to some extent, while more than 40 percent of those with vocational or university education levels did not find their experience gave them a competitive edge in the Armenian labor market. Half the returnee respondents said they did not see improvement in their financial situations after returning, and that might lead them to remigrate.

Figure 11. Migration benefit index – average cost and cost by component (2015-17)



Source: Authors’ calculations based on RAU Household migration survey data 2015-17.

5. Policy recommendations

Notwithstanding benefits of labor migration, challenges in migration remain.

Challenge 1. Coupled with the shrinking working-age population and declining returnees, out-migration of workers in general reduces the size of labor force.

Policy responses: First, leverage diaspora resources to increase productivity, for example by providing the diaspora with incentives to transfer skills, knowledge and know-how and

second, promote circular migration through building skills, for example with joint partnerships with receiving countries to provide on-the-job training.

Challenge 2. Its high dependency on Russia is a risk. Migrants' jobs and income are vulnerable to economic conditions in Russia, as seen in recent years with the economic contractions resulting from continued low oil prices.

Policy response: Expand overseas opportunities by concluding bilateral labor arrangements and partnerships that target specific occupations. These can help Armenia build a competitive edge in the longer term, as seen in the Philippines that has received international reputations of qualified Filipino nurses.

Challenge 3. Migrants leave without written employment contracts, which would increase the cost of migration.

Policy response: Empower the State Employment Agency to build networks with diaspora communities, chambers of commerce, and embassies to collect information on demand in destination countries and publish it on a public jobs portal.

Challenge 4. Migrants experience loss of their skills.

Policy response: Develop a partnership mechanism with labor-receiving countries to retrain workers with skills acquired in Armenia. For instance, Ukrainian nurses or doctors could become qualified to be caregivers in Poland and Filipino or Indonesian nurses could retrain to become caregivers in Japan. Further policy responses would be to harmonize qualifications and skills standards, develop a joint training curriculum, create on-the-job training tailored to jobs in demand, and to build the capacity of staff in training centers.

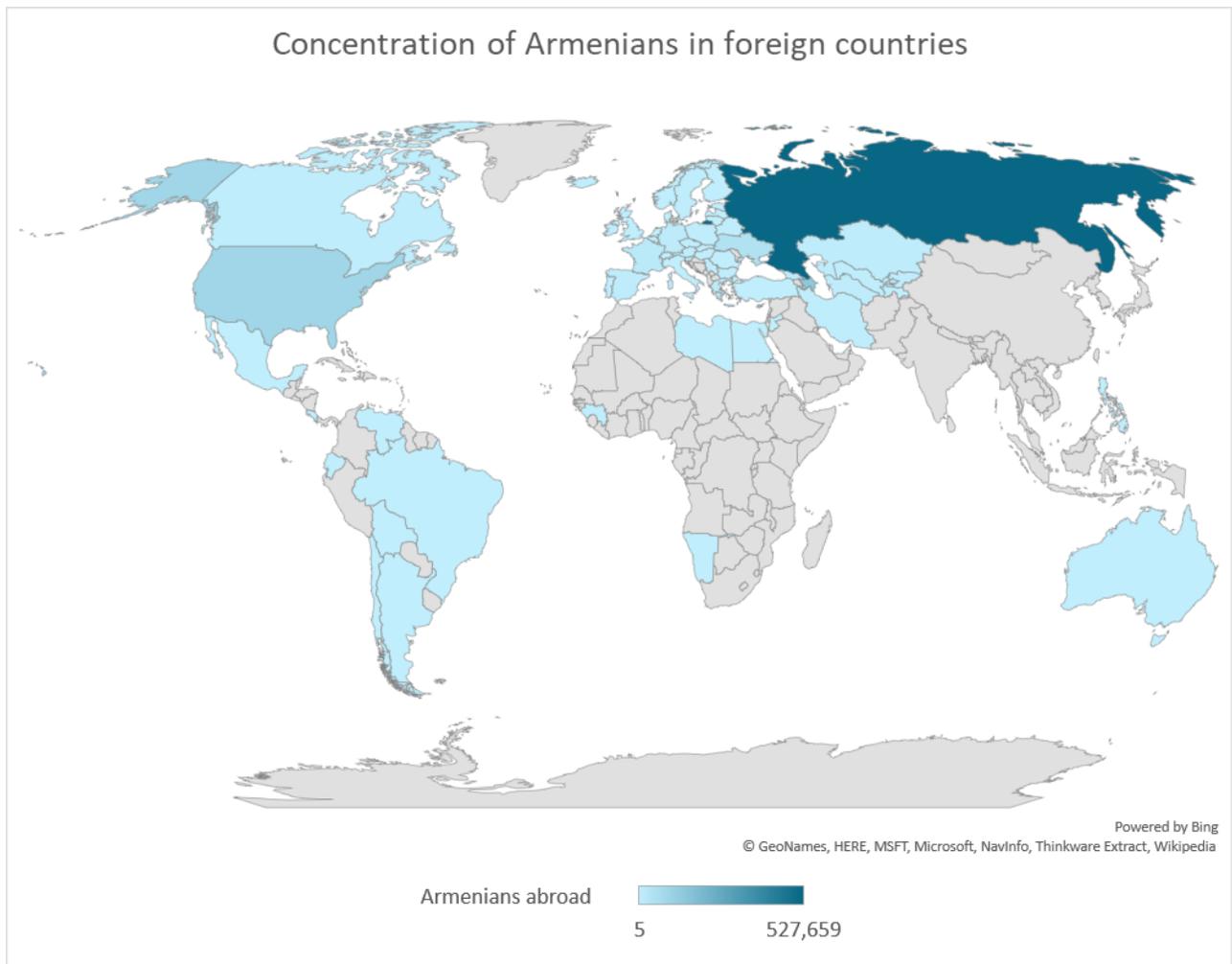
Challenge 5. These exist returnees facing problems with finding jobs.

Policy response: Work with receiving countries to support reintegration of returnees, for example by providing training in line with the aspirations returnees had while employed abroad (as seen Korea's Employment Permit System, a low-skilled labor migration system) and creating retraining courses that enable returnees to use skills acquired abroad.

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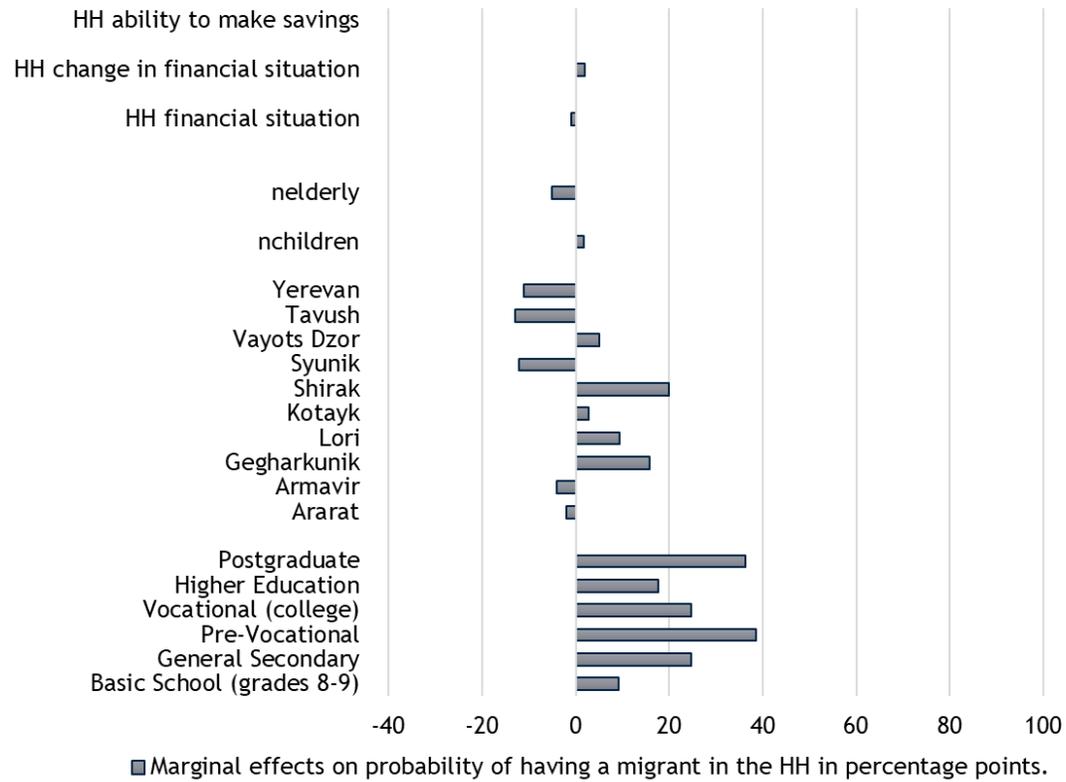
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Annex 1. Distribution of Armenians abroad (stock)



Source: United Nations Global Migration Database, "International migrant stock: The 2017 revision".

Annex 2. Determinants of migration (marginal effect obtained from a probit regression)



Annex 3. Methodology to develop the migration cost/benefit index

This Annex presents the scoring methodology for calculating the migration cost/benefit indices for temporary labor migration of Armenians to Russia. It selects relevant variables from the migration surveys conducted by the RAU during 2015-17. These are composite indices that capture both migration costs and benefits. They assign a value between 0 and 1 where 0 refers to a low (low) migration cost (benefit), 0.5 to a moderate cost (benefit) and 1 to a high (high) migration cost (benefit). Values are assigned to each observation (that is, to each returnee respondent) of the RAU surveys. Table A.3.1 presents the relevant variables taken from the surveys and the ways in which scoring is assigned to each respondent.

Table A.3.1. Scoring of migration costs and benefits to generate migration cost indices

Type	Measure	Relevant survey question	Assigning a value for a response		
			0	0.5	1
Migration costs	Entry barrier	4.15. Did you have a preliminary arrangement/promise about work?	Yes, a written contract	Yes, a promise or Yes, other	No
	Job arrangement	4.17 To what extent was it carried out?	Fully or Mostly	Partially	Was not carried out
	Social protection during overseas employment Social protection	4.12. Did you have health insurance in that country?	Yes, permanent insurance	Yes, temporary insurance	No
		4.13. How was your health before leaving and at the time of return?	Bad before leaving but excellent on returning	Same or Slightly worse than before leaving	Excellent before leaving but bad on returning
	Job-matching cost	4.26. Did the job match your profession?	Yes, fully	Rather yes, or Rather no	No
		4.27. Did the job match your qualification?	Yes, fully	Rather yes, or Rather no	No
	Labor protection	4.22. Did you have a written working contract?	Yes	N/A	No
			Binary scoring		
		4.30. What problems did you have connected with your work?	Binary scoring		
		4.30-1. Unpaid overtime work	No		Yes
		4.30-2. Heavy working conditions	No		Yes
		4.30-3. Undesirable work obligations	No		Yes
	Human rights protection	4.31 During your work, have you been subjected to human rights violations or forms of coercion like these?	Binary scoring		
			4.31-1. Debt bondage	No	

		4.31-2. Violation of security maintenance rules	No		Yes
		4.31-3. Limit of movement	No		Yes
		4.31-4. Seizure of documents	No		Yes
		4.31-5. Physical/sexual violence	No		Yes
		4.31-6. Involvement in criminal activity	No		Yes
		4.31-7. Threat of being handed over to the authorities	No		Yes
	Reintegration	4.46. Did or do you have difficulties readapting after your return?	No	Yes, somewhat or Not really	Yes
Gains from migration	Skills improvement	4.38. To what extent did your professional knowledge and skills increase abroad?	Didn't increase	To some extent	Significantly
		4.39. On the whole, did your trip contribute to your becoming more competitive in the labour market of Armenia?	No	To a certain extent or Not really	Yes
	Financial situation	4.45. How has your financial situation changed since your return?	Has worsened	Has improved or Has not changed	Has improved significantly