

# **Bulgarian Migration: Incentives and Constellations**

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## **Acknowledgements**

The research team has been honored to work with the following representatives of Bulgarian government agencies: Mrs. Galina Aleksandrova, Employment agency, Directorate Pre-accession Funds and International Activities, Mrs. Stefka Blazheva, Head of Migration Statistics Sector, Population Statistics Department, National Statistical Institute, Mrs. Snejanka Georgieva, Director, General Directorate, "Civic Registration and Administrative Service". They helped us collect information, devoted their time and morally supported our research efforts for a period of four months. Mr. Stefan Stoyanov, Bulgarian ambassador to Greece and Yany Milackov – Ambassador to Serbia and Montenegro helped us elaborate research hypotheses and the public servants in the Bulgarian Consulates and Embassies in Germany, Italy and Spain assisted us when we needed additional information and feedback.

We owe a special acknowledgement to Dr. Evgenia Markova from the University of Sussex. She helped us develop the research methodology and her suggestions on how to reflect emigration from the key destination countries resulted as a major part of this report. Also, her field work results in Greece and Spain, updated in 2003 and 2004, gave us the opportunity to draw an abstract profile of a Bulgarian Emigrant. Doctors Vesselin Vukotic (from the University of Podgorica, Monte Negro), Vesselin Minchev (from the Institute of Economics, Bulgarian Academy of Sciences), Genc Ruli (from the University of Tirana and the Center for Strategic Studies in Albania) and Friedrich Bauersax (from the University of Bonn and IME International Advisory Board) shared with us their previous surveys and related materials, and gave us valuable comments and advice.

## **Introduction**

This report presents the findings of a research conducted by researchers from the Institute for Market Economics, Sofia, in the period February 2004 – October 2004 upon commission by the Open Society Institute - Sofia. The main purpose of the study was identification of current migration trends observed in Bulgaria and analysis of the incentives and impact that motivate migration and migration-related policies. These incentives and impacts are analytically isolated to different constellations: incentives are reflected as they emerge (or exist) in international context while impacts are evaluated as those that appear in the local society and societal situation in Bulgaria.

The original idea was to launch a multi-country report and compare migration constellations in a number of Balkan countries. This plan still has to cast additional support in other countries.

Our research is based on review of the literature, documentation and statistical data as well as on in-depth interviews with experts, academics, and policy-makers and has attempted to present the views of migrants themselves and organizations that facilitate international labor flows. Some of these attempts failed, and thus we had to use existing recent reports on different Diaspora spots. Each of these steps represented a challenge. For instance, the literature has all characteristics of an avalanche. The most recent and comprehensive background paper of Bulgaria remains the one prepared by Guentcheva, Kabakchieva & Kolarski (2003) for IOM. At the same time, the public attention and public demand for additional reflection is rising and is far from being satisfied.

The central peculiarity of our approach to the issues of migration is outlined in the title. We dealt mostly with the incentives to emigrate and tried to view them as a result of rational but individual choice and this understanding is reflected by the methodology.

## **Methodology**

The concrete parts of this report require specification of sources and adjustment of the methodologies applied. However, there are general principles and assumptions that allow for a systemic approach to our subject of interest.

## **Principles**

The fundamentals of the economic understanding of labor migration are the following:

1. Labor is both resource and capital, i.e. resource that allows for production and prosperity in the future;
2. As such, it is an attribute and property of the individual, non-alienable and usable at its own discretion;
3. For these reasons, incentives matter; they – or rather the difference between income and other tangible and intangible benefits between the sending - and recipient country - motivate international labor flows;
4. The factors to influence the above choices are the frameworks that regulate international and domestic labor flows.

## **Assumptions**

The peculiar nature of migration, related to research hypotheses and objectives, is the following:

1. It is an individual and a family matter as well as a challenge;
2. It takes place upon individual choice and utilizes family and ethnicity-related support networks and sources of information and other services;
3. Provisional benefits and losses (costs) are first of all individual and family ones;
4. Some benefits and losses (costs) are “socialized” later on;

## **Sources and benchmark (case) countries**

These assumptions are difficult if not impossible to check via direct interviews. We attempted a survey of Bulgarian emigrants via an organization that unites them but it was canceled. Without an opportunity to apply a direct approach we used national statistics of Bulgaria (including that of the central bank) and EU Members States, available sources on Internet, recent publications and literature, interviews with Bulgarian government officials and country case studies.

At the same time, the already mentioned field work of Dr. Markova gave us sufficient material to sketch an abstract portrait of those who emigrate from Bulgaria.

These cases were the following countries: Germany (mostly for macro comparisons), Greece, Italy and Spain. The selection of countries was based on the following criteria: the countries should represent an opportunity to capture seasonal and non-seasonal labor/migration flows (Greece); we needed also EU-high-middle-and-low income levels that allow for comparisons of incentives (i.e. Germany, Italy and Spain); and, also, we believed it makes sense to have countries with recent changes of policies and regulations (Germany, Greece and Spain). Germany, however, is also singled out for the study of the “business” constellations that motivate migration – due to the traditional differences in income, taxes, social welfare contributions and the like.

## Structure

The Structure of the report is the following.

It starts with an attempt to draw a statistical and demographic portrait of Bulgarian migrants based on a review of the available sources of information and world trends in migration, including European Union migration flows, and on destination countries (mostly Spain and Greece) case studying.

The second chapter of the report deals with macro-constellations that are usually highlighted in the literature as prime motivation for migrations: income, wage and productivity differentials, differences in economic stability and predictability. This background helps us better understand the incentives to migrate and to focus on the only available objective and statistical information on the impact of migration on the sending country – the remittances, which are dealt with in the third chapter.

The fourth chapter pulls the information together for the EU emigration policy constellation and from the available sources and surveys on Bulgarian migrants' situation in Greece, Italy and Spain.

The final part of the report deals with conclusions from the previous analysis. They are divided into several categories: the total number of migrants, the structure of incentives, the impact on the economy of a sending country (i.e. Bulgaria); summary of provisional impacts on the recipient countries and provisional policy mixes that allow dealing with migration challenges.

In attachment we provide information about the micro (business-like) constellations for migrants in the above mentioned benchmark countries, with special emphasis on income and social welfare taxes and contributions, on other tax pre-requisites and on the procedures that allow for tax deductions. We also have attached a detailed description of these procedures in one benchmark country – Greece.

## Chapter 1

### Bulgarian Migrants: Statistical and Demographic Profile

#### I. Data on Bulgarian Emigration

##### Overview

A lack of complete and comparable data makes any migration analysis a challenge.

The lack of relevant information is a key problem for the attempts to assess the economic effects of both emigration and migration. Bulgaria did not establish a system to recognize, register properly and effectively monitor the population flows in and out of the country. However, we believe that in the period since 1989 such a system has been virtually impossible. The reasons can be found in the dynamic domestic and international constellation, the delayed and failed reforms, the economic uncertainties, the rising unemployment (1991-1993, 1999-2002) and the overall deterioration of household income stance in the period.<sup>1</sup>

In this part of the report, we estimate Bulgarian migrant flows on the basis of reviews of other sources and our own efforts to gather as much detailed and thorough information as possible.

##### Assumptions

Several assumptions are key to understanding the statistical and demographic sources.

First, being a foreign born person is not necessary an indicator of being an immigrant. The statistics on net immigrant flow most likely underestimate the real level of migration due to movements of illegal immigrants. Illegal immigration flows are obviously not included in the official statistics and can only be estimated with difficulty.

Second, emigration flows are not well recorded and there is no data on outflows of immigrants in the labor market in most countries and on changes of “category”, such as the number of immigrants or of third-country nationals who stop working, retire, are naturalized or return to their country of origin.

Third, comparable immigration and emigration data is not available for all countries, meaning that it is impossible to calculate net migration directly by subtracting emigration from immigration.

Net migration is instead estimated as the change in population that cannot be attributed to natural change (births minus deaths).

Net migration figures give an indication of the importance of migration as a component of population change, but do not provide clear information about the size of the separate immigration and emigration flows. (For example, low positive net migration could

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<sup>1</sup> See Chapter 2 for details.

indicate high emigration but even higher immigration, or equally, zero emigration and low immigration.)

## Review of available sources on Bulgaria

Source	Comment
<b>Border Guard Statistics</b>	
Problems	In recent years, there is actually an effective institution that is following people's reasons to leave the country. The difference in tourist and business trips, on the one hand, and labor emigration, on the other, is not detected thoroughly by border control <sup>2</sup> .
Advantages	The border guard points can be some of the most effective tools to gather information, e.g. using a sample method because extensive and ubiquitous check is not possible.
<b>Population Registers (Registers for births, deaths, citizenship, marriages and divorces, places of residence)</b>	
Problems	The comprehensiveness of the register for place of residence depends on the willingness (despite existing legal obligations) of emigrants to declare their status as Bulgarians living abroad (the so-called de-registration).
Advantages	Registers for deaths, births and marital status are one of the most comprehensive and extensive registers in Bulgaria.
<b>Labor Force Survey</b>	
Problems	They are conducted on a regular basis by a sample method and do not account for the cases in which all members of a household stay abroad and the household has not been officially deregistered, nor they include irregular migrants.
Advantages	They are conducted on a quarterly basis and are more reliable in certain cases than censuses because they can register events and facts that are recent and up-to-date.
<b>Census 1992 and 2001</b>	
Problems	The period between the last two censuses is relatively long and includes the most dynamic time when migration occurs. So, they can hardly present the actual numbers. Many of the emigrants were not present at the time of the census and no data is available for them. The remaining part of family members of emigrants gave information based on their judgment and the data depends on their willingness to collaborate and honesty.
Advantages	The methodology is the same and the data is roughly comparable.
<b>Offices for Registration of Foreigners</b>	
Problems	It includes foreigners in the country with issued visas and work permits but sometimes this information is discrepant with actual numbers because not all foreigners with visa enter the country. Also, illegal foreigners are not included.
Advantages	If the register is maintained properly, it can serve as a basis for a state policy with certain projections made.
<b>Citizenship statistics</b>	
Problems	Statistics concern only the final stage in the transformation of migrant's status.
Advantages	This is the only reliable sources for citizenship in the country, despite all its disadvantages.

<sup>2</sup> For example, the National Statistics Institute (NSI) releases on regular basis statistics on the trips of Bulgarians abroad and there is a special group whose purpose is classified as "Other" but no other details are being released.

## **Accidental background: emigrants' unwillingness to cooperate and substitutive sources of information**

We have tried to gather information “from the source” by disseminating a questionnaire to current Bulgarian emigrants. Our purpose was to receive first-hand data about one’s incentives to emigrate, as well as some particular features of their stay in the recipient country. The questionnaire attempted to create a profile of Bulgarian emigrants in terms of their background, job, level of wages, role of remittances, individual plans, etc. A list of more than 15 emigration organizations worldwide (mainly in Europe, USA and Canada) was prepared through Internet search and friends and they were contacted by email (followed later by phone calls) explaining the aim of the project and the use of the questionnaire. The overall result was 3 responses from organizations in France, the UK and USA with polite refusal for co-operation.

It should also be mentioned that we considered conducting field interviews with people in Bulgaria that used to live and work abroad for a given period, or consider doing so. Unfortunately, there are several problems in doing this, the most important among which are the following: difficulties in recognizing such individuals, trust-and-talk problem, the reliability of the received information, etc. As noticed by many field researchers<sup>3</sup> the intentions to emigrate differ greatly from the actual process of emigration and it is difficult to recognize and/or estimate the likelihood to emigrate. The approach that we finally agreed on was to use the results from the fieldwork in Greece and Spain, conducted by Dr. Eugenia Markova<sup>4</sup> in 1999, 2003 and 2004, a research report of Mrs. Jennifer Cavounidis<sup>5</sup> as well as the official statistics (bearing in mind its incompleteness). Based on this, we have tried to draw our conclusions.

## **Worldwide trends and context**

Labor migration is growing annually. According to official statistics, it accounts for more than **175 million people worldwide** in 2000 of which **86 million people, including refugees, were labor migrants**<sup>6</sup>.

Among the main reasons for migration are wage differentials, different welfare systems, trade liberalization, tax systems, the increasingly easier traveling and political problems.

Globalization is speeding up these processes and makes decisions on migration easier and cheaper.

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<sup>3</sup> A good overview of the potential to migrate from east to west is made by Dr. Hubert Kreiger, *Migration Trends in Enlarged Europe (2004)*, draft, European Foundation for the Improvement of Living and Working Conditions

<sup>4</sup> In this report we refer to the findings of Dr. Eugenia Markova, indicating the reference as “**EM**”.

<sup>5</sup> *Migration from Greece to the Balkans*, Athens University of Economics and Business, Greece and Employment Observatory Research-Informatics, Greece (2003), *Gender Patterns of Migration to Greece (2004)* and *Migration in Southern Europe and the Case of Greece (2004)*. In this report we refer to the findings of Mrs. Cavounidis, indicating them as “**JC**”.

<sup>6</sup> ILO report to 92<sup>nd</sup> Session of the International Labour Conference (2004) on Towards a Fair Deal for Migrant Workers in the Global Economy.

The aging of population in most developed countries facilitates migration and is the main incentive for those countries to accept immigrants and to reshape their policies to assist the process. The other important trend is the changing of labor migrant “quality” – more and more emigrants possess higher education and are attractive for recipient countries. However, most of the emigrants are low-skilled workers who can substantially harm the welfare systems and the labor markets in the host countries.

### **European migrants’ flows**

Following the *Action Plan for the Collection and Analysis of Community Statistics in the Field of Migration*, the European Commission is now preparing a proposal for a directive to harmonize the collection of data and statistics. The first Annual Report on Migration and Asylum was published in April 2004.

According to the report, the number of third-country nationals living in the 15 Member States in 2001 was estimated to be **14.3 million**, the equivalent of 3.8% of the total population<sup>7</sup>. Unfortunately, figures for third-country nationals living in all 25 countries are not available yet. However, the total number of non-nationals<sup>8</sup> living in the 25 countries is known, although there is no data for 2001 for France, Ireland, the United Kingdom, Cyprus, Estonia, Malta, Poland and the Slovak Republic and this is why the number of non-nationals only amounts to 15 million, which is equivalent to 5.0% of the total population.

Belgium, Germany and Austria have sizeable non-national population (around 9%). Next are Greece and Sweden with about 7.0% and 5.5%, respectively. It should be noted that differences between countries in terms of non-national populations partly reflect differences in national legislation on the acquisition of citizenship.

According to Eurostat, Spain, Italy, Germany and the United Kingdom together received 71 % of the net inflow of migrants into the EU Member States in 2003<sup>9</sup>. Another very important trend that is mentioned in this book is that without immigration Germany, Greece and Italy would have had a population loss.

The most reliable data on labor migration can be found in the latest report *Current Trends in International Migration*<sup>10</sup>. According to the report, in the **2001-2002** period there were approximately **9.9 million recorded foreign workers** in the EU, which is an increase of 35.8 % on the 1995 figure of about 7.29 million. The increase basically results from several regularization programs conducted in the recent years in Spain, Greece, Italy and Portugal<sup>11</sup>. As we will see in the next sections, these countries are among the most desired destinations by Bulgarian emigrants.

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<sup>7</sup> The data in this paragraph is from the COM (2004) 508 final.

<sup>8</sup> Non-nationals include both third-country nationals and other EU-country nationals living in another EU Member State.

<sup>9</sup> See Eurostat Yearbook 2004, Chapter 2

<sup>10</sup> See Salt, J. (2003)

<sup>11</sup> The regularization programs that revealed more comprehensive information about the actual number of immigrants in these countries were conducted as follows: Greece (1997-8, 2001), Portugal (1992-3, 1996, 2001), Spain (1985-6, 1991, 1996, 2000, 2001), Italy (1987-8, 1990, 1996, 1998, 2002)

## Domestic (Bulgarian) flows and sources of information

According to Salt (2003), Bulgaria is witnessing population loss due to national decrease that offsets the migration gain (migration balance indicating). For the first time in many years, and this is worth mentioning, Bulgaria's migration balance is not negative. It appears that there are some changes in Bulgarians' attitude towards labor choice.

In our attempt to estimate the approximate number of Bulgarian emigrants, we used several sources and methods that are described below.

### 1. Calculation of estimated Bulgarian emigration based on demographic statistics<sup>12</sup>

Year	Population at the beginning of the year (thousands)	Population at the end of the year (thousands)	Population change during the year (thousands)	Natural increase (births minus deaths)	Net migration
1998	8 283.2	8 230.4	- 52.8	- 52.8	0.0
1999	8 230.4	8 190.9	- 39.5	- 39.5	0.0
2000	8 190.9	8 149.5	- 41.4	- 41.4	0.0
2001 *	8 149.5	7 891.1	- 258.4	- 44.2	- 214.2
2002	7 891.1	7 845.8	- 45.3	- 46.1	0.8
2003 **	<b>7 845.8</b>	<b>7 801.3</b>	<b>- 44.5</b>	<b>- 44.6</b>	<b>0.1</b>
<b>Total</b>					<b>213.3</b>

Source: National Statistics Institute (NSI)

Notes:

\* The figures for this year are so impressive probably due to the last census in Bulgaria which showed considerable differences in official statistics over the years and actual numbers.

\*\* Preliminary data

This model has its imperfections since it relies mainly on statistical data that is not comprehensive enough. However, it can shed light on the emigration trends of Bulgarians.

Another available source of information is the Unified System for Civic Registration and Administrative Service of the Population. The latest data for Bulgarians with current present (according to the Law on Civic Registration the permanent address of Bulgarian citizens can only be in Bulgaria, whereas the present address can be abroad, art. 93) address abroad is the following:

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<sup>12</sup> The calculation is made using the model of August Gachter, *The Ambiguities of Emigration: Bulgaria Since 1988*, IOM (2002)

Date of the sample	Population	Adults (above 18 years old)	Bulgarians with present address abroad (as of total population)
20/04/2001	8 474 506	6 862 421	237 042
23/11/2004	8 596 958	7 104 213	356 120
<b>Difference</b>	<b>+ 122 452</b>	<b>+ 241 792</b>	<b>+ 119 078</b>
<b>Bulgarians with present address abroad</b>	<b>Alive</b>	<b>Deceased</b>	
<b>Up to 1998</b>	135 109	6 280	
<b>1998</b>	5 363	80	
<b>1999</b>	32 991	329	
<b>2000</b>	35 586	221	
<b>2001</b>	54 885	338	
<b>2002</b>	26 852	94	
<b>2003</b>	28 642	50	
<b>2004</b>	36 692		

Source: Unified System for Civic Registration and Administrative Service of the Population

Nevertheless, for the purposes of our research, we anticipate a much greater number of Bulgarian emigrants in the last 6-7 years. The main problem consists in the rule, imposed by the Law on Civic Registration, for people who are permanently residing abroad, to “de-register” themselves by filing an application in the municipality. However, this is not really happening and most of the data in the register is obtained because the law also obliges people with dual citizenship to declare that. The other major supplier of data in this register is the NSI; it provides information for people who are receiving their pension in another country.

## 2. Population Censuses

The last census conducted in 2001 by the NSI showed that in the period 1992 - 2001 the net emigration was 177 000 people. The census showed net decrease of 514 000 people which is a result both from natural decrease (377 000 people) and emigration (196 000 people). In the same period around 19 000 people immigrated in Bulgaria. It should be noted that the final estimation of 177 000 emigrants that the NSI arrived at was via a survey of 2.5% (of the total population) sample.

The population forecast of the UN Population Division shows the trends in the last 14 years and the expectations for further decrease in the future. This should be taken in account when a government policy towards management of migration is prepared.

### Bulgarian Population (thousands) - Medium variant - forecast 1995 – 2050

Year	Population
1995	8 406
2000	8 099
2005	7 763
2010	7 462
2015	7 167
2020	6 882
2025	6 609
2030	6 335
2035	6 059
2040	5 790
2045	5 524
2050	5 255

Source: UN Population Division

### 3. Labor mediators for employment abroad, licensed by the Ministry of Labor and Social Policy

At the moment, there are 124 licensed private companies that can serve as mediators for employment of Bulgarians abroad.

	2003	2004 (q1)
People, sent by these agencies	800	279
Marine specialists sailing under foreign flag	5 270	

Source: Employment Agency

Additional information for past periods is not available since before 2003 the Ministry of Labor and Social Policy was in charge of supervising and regulating these agencies.

The official statistics however are not the true data since a lot of Bulgarians who emigrate for short-term employment in Greece are illegal and/or are sent by agencies that are not licensed by the Employment Agency. In recent years, there have been a lot of signals for such unregistered agencies that send people to work abroad without decent working and living conditions. Most of the people who do agree to go abroad and choose such agencies are low-skilled, unqualified workers who do not have the knowledge or the funds to research and check the legal status of these agencies. It is worth noting that in the last two years the Ministry of Labor and Social Policy has put efforts into educating people who consider leaving the country in order to work abroad and several leaflets with detailed information have been released.

### 4. Bilateral agreements for seasonal work

The signing of bilateral agreements on governmental level is seen as one of the most secure and proper ways to regulate and control labor migration. The degree of activity, however, by the Bulgarian government, and by the Ministry of Labor and Social Policy in particular, is questionable and can be one of the reasons for not having much effect on labor outflows.

Since there is no effective control over and mechanisms for registering whether the Bulgarians who have participated in these programs do return in the country after the end of the program, we anticipate that most of them stay in the recipient country for a longer period. Given the fact that these participants have the time to become acquainted with the recipient country's labor market conditions and procedures, the housing and the cultural peculiarities, it is reasonable to assume that if they want to stay and work after expiration of their contract, they will be able to do so.

Year	1997	1998	1999	2000	2001	2002	2003
Bilateral agreement between Bulgaria and Germany for employment of Bulgarian workers (signed 12/03/1991)	1,115	853	1,319	1,750	1,666	1,458	1,665
Bilateral agreement between Bulgaria and Germany for employment of workers for improvement of their language and professional skills (signed 04/02/1992)	217	349	350	807	595	603	362
Agreement for mediation for Bulgarian workers for term employment in tourist industry (signed 12/12/2002)	183	216	341	837	1,266	1,511	1,424
Mediation for summer employment of Bulgarian students in Nurnberg province - Germany	142	199	279	211	221	213	172
Agreement between Bulgaria and the Swiss Confederation for exchange of trainees (signed 05/04/1995)	5	5	4	63	63	89	57
Agreement between Bulgaria and Spain for regulation of labor migration (signed 28/10/2003) *							205
<b>Total</b>	<b>20,815</b>						

Source: Employment Agency

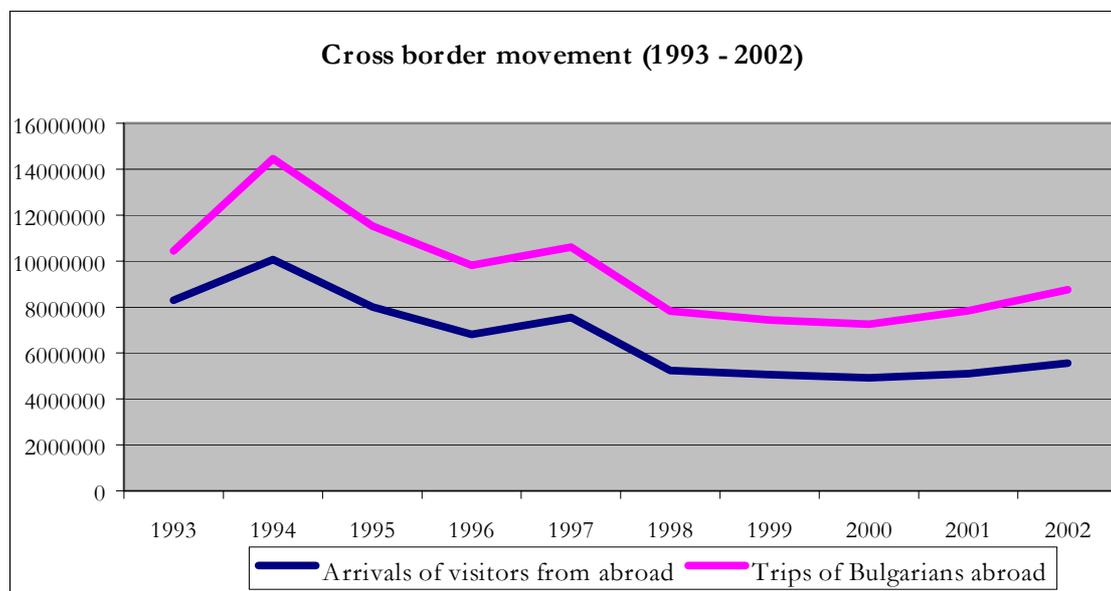
Note: \* This agreement is not in force officially but has been applied since 30 days of signing. It includes seasonal employment up to 9 months, employment with labor contracts for an initial period of 1 year, employment of trainees from 12 to 18 months for the improvement of language and the professional qualification. There is no limit on the number of people who can benefit from this agreement (no quota).

Except for the above-mentioned agreements, Bulgaria has signed another six<sup>13</sup> but the formalizing procedures have not been finalized yet and therefore they have not been enforced in practice.

<sup>13</sup> Agreement between Greece and Bulgaria for seasonal employment (signed 15/12/1995), Agreement between the Czech Republic and Bulgaria for mutual employment of nationals (signed 06/12/1999); Agreement between Portugal and Bulgaria for mutual employment (signed 26/09/2002); Agreement between France and Bulgaria for exchange of trainees (signed 09/09/2003); Agreement between Belgium and Bulgaria for exchange of trainees (signed 16/09/2003)

## 5. Trips Abroad Statistics

The trip statistics are a good indicator of population flows in/out of the country. They can give us a good picture of peoples' movement. There are several categories of people with relation to the purpose of the trip. The reliability of the information provided by most of the people is arguable since there is no more need to prove one's journey for the first 3 months of exit.

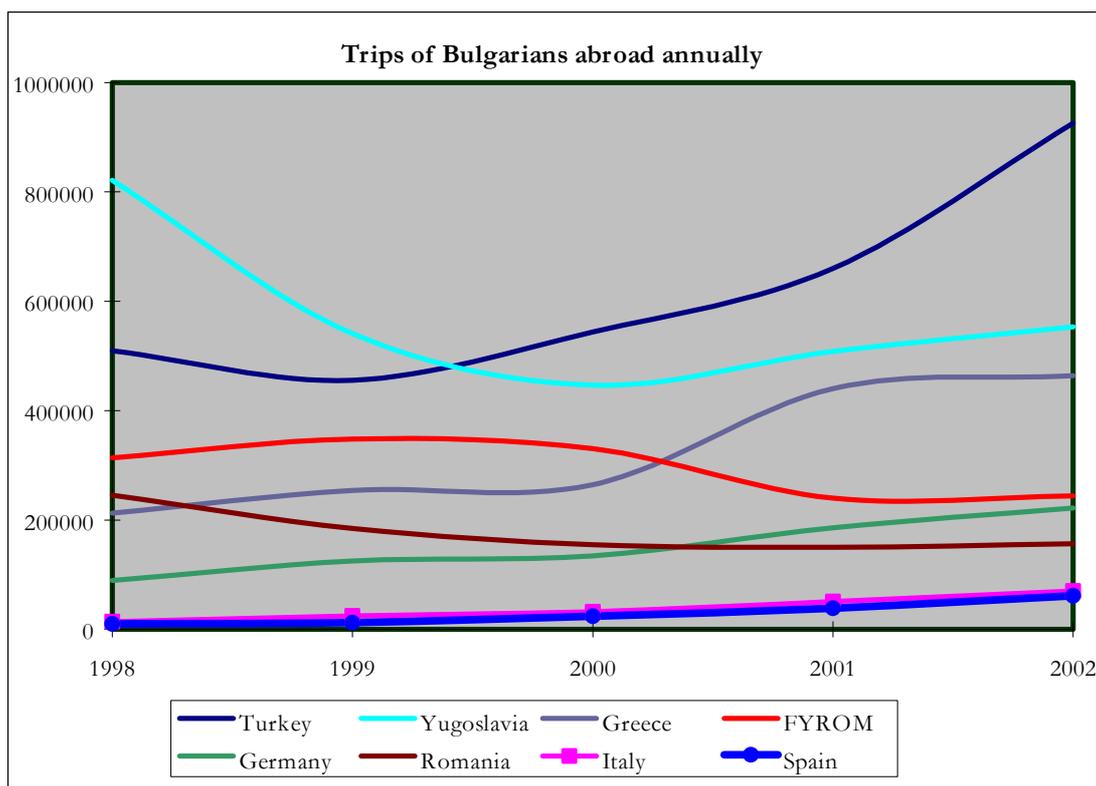


Source: NSI, various years

The abolition of visa requirements for a maximum of 90 days non-labor stay in a country from the Schengen list in March 2001 was the main reason for the increase of trips by Bulgarians in the last 3 years, as this could be seen in the next graphic. The improving economic situation and the resulting increased business activities abroad are another reason for this<sup>14</sup>.

The table below shows that the major destination countries for trips of Bulgarians are the major recipient countries of Bulgarian emigrants. Trips to Spain, Greece, Turkey, Italy and Germany show a steady increase over the years and it can be argued that except for trade and tourism, one of the major reasons for this is the short-term employment (seasonal and Schengen-regulated – up to 3 months) due to the proximity, the openness of domestic employers to such employment and the higher pay in these countries. The existence of Bulgarian Diaspora in these countries alleviates the process of finding a job and keeping it in the recipient country. Trips abroad cannot be analyzed without bearing in mind the main obstacles and preconditions for traveling. Among the main factors are travel costs, visa requirements, infrastructure development, openness of neighboring countries and security.

<sup>14</sup> The International Monetary Fund trade statistics for the last 2 years proves this.



Source: NSI, various years

In the early period of transformation, cross border movements of people to and from Bulgaria were indicative, not only of traveling, but also of circular mobility itself, since a large part of the travelers combined tourism with other goals (such as petty trade or occasional employment) or were seasonal migrants who otherwise escaped registration. Likewise emigrants data, statistics for cross border movement do not reflect the actual number of persons passing the borders of Bulgaria, but roughly illustrate the directions and dynamics of international mobility.

In the early 90's, the number of Bulgarian citizens leaving the country was in its highest levels. This is especially visible in 1993 - 1994, when a sudden increase in the number of departures from Bulgaria was probably related to the collapse of the system. During subsequent years the numbers of Bulgarian citizens going abroad is much smaller than before but remained almost constant (due to the facilitation of crossing borders with most Western European countries that had given up their visa regimes), reaching its peak in 1997. Since 1998, the numbers of Bulgarian citizens going abroad and of foreigners entering Bulgaria have both been on the decrease and in the last two years we are witnessing an increase. This is mainly due to the steady positive economic performance and openness of the economy. The higher level of trade with European countries and the increased income (that allows for travel and leisure abroad) are the basic causes for the growth of trips abroad.

## 6. Illegal border crossings

Since our focus is on emigration, the number of people that leave the country illegally should be included in the overall statistics. The most reliable indicator for this trend is the number of deported people throughout the years.

These statistics are maintained by the Border Police and they show that for the April 2002 – September 2003 period, the number of Bulgarians deported from European countries was 6,561 people. The detailed data show that 1,866 people were returned from Germany, 1,270 from the Netherlands and 1,254 from Belgium. In 2003 almost 7,310 Bulgarians were deported from the EU, the USA and Canada.

In the same period, most of the deported Bulgarians were expelled because of: illegal stay without address registration – 2,218, illegal employment – 2,204, expiration of residence permit – 695, lack of documents – 462.

It is obvious that Bulgarians that have been deported were residing in countries that are not among the major emigration destinations in Europe (except for Germany). This can be explained with the active measures undertaken by the respective governments aimed at fighting the illegal immigration. Another reason could be the lack of strong social networks of Bulgarian emigrants which can be of some help prior to the host country's immigrant-combating campaigns.

## 7. Bulgarian emigration to benchmark countries according to official statistics of recipient countries

	Greece	Spain	Italy	Germany
2001	35,104***	11,761 (0)	7,500*	38,143 ****
2002		15,842 (1)	8,375*	42,419 ****
2003		28,319	7,399**	44,300 *****
2004			8,535*	

\* Valid residence permits

\*\* Work permits

\*\*\* Official census

\*\*\*\* Stock of Bulgarians – source: [Migration Information Source](#)

\*\*\*\*\*Source: Germany Case Study by Katya Dimitrova.

(0) Data as of 30/06/2004, source: [Annual Statistic Book for Foreigners in Spain 2003](#)

(1) Source: European Migration Center: [http://www.emz-berlin.de/Statistik\\_2/es/es\\_02.htm](http://www.emz-berlin.de/Statistik_2/es/es_02.htm)

## II. Profile of Bulgarian Emigrants

According to the field surveys, conducted in Greece and Spain, as well as the information provided in several reports on Bulgarian emigrants in Germany and Italy, the profile of migrants from Bulgaria is described below.

If a uniform profile of a Bulgarian emigrant in the last 5 years has to be created it should be the following:

**A woman in her 40's with higher education, married but alone in the host country (no children and husband with her), performing low-skilled work, residing in the host country for up to 3 years, sending up to 40% of her income back in Bulgaria, the main reason to emigrate – not sufficient funds from salary to support her family.**

It should be noted that in the field sample research on emigration in Bulgaria conducted by the National Statistics Institute in 2001, the prevalence of men in emigration is obvious. The results showed that men dominated in emigration flows; with 66% share in labor migration and 60% share in short-term emigration. The shift to dominance of women in migration process can be attributed to specifics of work that can be found in host countries and the majority in population gender structure.

### Age

Most of Bulgarian emigrants in **Greece** are at a working age. The dominant group is 30-44, which is in line with the profile of the unemployed labor force in the country for the past years<sup>15</sup>. The other big group is that of the people aged 45 - 64. This is not surprising since the people in this group are the so-called transition-period-people who find it difficult to adjust to labor market conditions in Bulgaria because their skills do not correspond to the new technologies and employers' requirements. The majority of this group consists of women who perform low-qualified work and live in the employer's house.

It is widespread trend that acceding countries with high level of unemployment and low economic growth rates (in comparison with developed countries) benefit from the migration of their low-skilled and/or unqualified workers. This reduces their labor force and leaves fewer people without a job.

The government, however, cannot regulate the “quality” of emigrants. The effect of these attempts in other countries has always been unclear. On one hand, there is an argument that the emigration of high-qualified people may erode the country's long-term competitive position. (One of the recent policy cases referred to as evidence is Bulgarian emigration to Germany in the last five years – the so called “Green card” program). On the other hand, a government policy that attempts to limit such migration can neither effectively change incentives that motivate people to emigrate nor – in a private sector dominated economy - is responsible for the provision of jobs and careers and would be doomed to keep highly qualified work force idle.

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<sup>15</sup> Note that this information is from official sources and does not reflect the real situation. Many young people from the 20-30 age group emigrate and form one of the biggest groups but are not registered due to their illegal status and high mobility.

## Age groups of Bulgarian emigrants in Greece

Age group	Share
0-14	3,068 (8.7%)
15-19	1,877 (5.3%)
20-24	3,522 (10.0%)
25-29	4,940 (14.1%)
30-44	13,097 (37.3%)
45-64	8,002 (22.8%)
65+	598 (1.7%)
Total	35,104 (100%)

Source: Greek population census of 2001

In **Spain** the majority of Bulgarian emigrants (37%) belong to the 25 - 34 age group (20% were between 25-29 years of age and 17 % - between 30 and 34 years of age) while some 8 % were above 55. On the one hand, the prevalence of young emigrants can be explained with Spain's remoteness in comparison with Greece and the "feeling of adventure". On the other hand, younger people are regarded as highly mobile, whereas, people beyond the age of 40 show less intention to migrate. Younger workers often have better labor market prospects in the host country, and in particular, when they are prepared to take up lower paid jobs. They often increase their employment chances in receiving countries by accepting work beneath their actual level of qualification, thus providing local employers with a lower wage rate combined with higher productivity. And finally, younger people are often single and therefore more mobile.

## Residence permits of Bulgarians in Spain

	Total	% of men	0-15	16-64	64 and above
30/06/2004	28,319	41.1%	3,579	24,635	105
31/12/2003	24,369	38.7%	2,982 (12.24%)	21,297 (87.39%)	90 (0.37%)

Source: Annual Statistic Book for Foreigners in Spain, 2003 <sup>16</sup>

The age structure of emigrants suggests that most of them are contributing to recipient welfare systems and tax systems and they do not impose a great burden of recipient countries' national systems. It can be argued, however, that they tend to return in their home country without paying social and health contributions in their late 50s and they are trying to use the welfare system of the sending state without prior payments. For example, a great share of the health contributor's debtors in Bulgaria are people who used to live and work abroad for a given period and the legislator decided to give them the right to use the health system if they pay health contributions for 12 months. It is arguable, however, whether this payment will cover their future claims of the healthcare system.

## Gender

The gender structure of Bulgarian emigrants is almost constant in all researched countries.

In **Greece** the predominance of women is more typical – 66% (EM), 57% (JC) and 60.4% (Census, 2001). This is due to the fact that Greece is a neighboring country and it is much easier to go and work there. The job specification in Greece such as babysitting,

<sup>16</sup> For more information please see: [http://www.dgei.mir.es/en/general/tabla4\\_jun04.html](http://www.dgei.mir.es/en/general/tabla4_jun04.html)

domestic help, care for elderly people and agricultural work (all unskilled work) is a characteristic of female employment. So, the better labor market opportunities for women in specific segments in the receiving countries (especially services) increase their share in the gender structure of Bulgarian emigrants.

According to JC, the increased employment of migrant women in domestic work and care provision in Greece, as in other Southern European countries, should be analyzed together with the shifts in the economic activity of native women (Greek women tend to look after their families and they work mostly part-time; also, the low-paid and unpleasant work is not attractive to Greek women and there is a tendency that this work is being “preserved” only for immigrants).

The JC survey shows that the gender model of Bulgarian emigrants in Greece is the least balanced one when compared to other immigration nationalities (such as Albanians and Romanians). This once again proves the single decision-making of Bulgarian women to emigrate to Greece.

### Gender of Bulgarian emigrants in Greece

Men	13,888 (39.6%)
Women	21,216 (60.4%)
Total	35,104 (100%)

Source: Greek population census of 2001

The opposite case is illustrated by **Spain**. Women represent 46% (EM) of emigrants and they usually arrive in the country after a husband has settled and managed to find a job and place to live (family reunification). In other words, female migration in remote countries occurs as family-linked and is perceived as a “secondary type” of migration. Women in Spain are less work-oriented and usually stay at home to take care of the family and long after that they start working (part-time work is preferred). Among the main reasons for this are the nature of emigration to Spain - as a rule, emigration to Spain is perceived as long-term and the main objective is not to work, save and return, but mainly to settle and try to integrate in Spain.

Another reason is the fact that some men tend to anticipate their emigration as a temporary event (only for earning money) and not for a long-term change in life. Therefore, most men who emigrate are trying to minimize their expenditures as much as possible and to save and send back home more money.

### Residence permits of Bulgarians in Spain

	Male	Female	Total
2003	9,788 (40.18%)	14,581 (59.82%)	24 369

Source: Annual Statistic Book for Foreigners in Spain

The case of **Italy** can be analyzed only based on statistics of valid residence permits issued through the years (only official statistics that do not include the majority of illegal Bulgarians there). According to the data, the dominance of women is obvious and constant. The actual numbers, however, are debatable since women tend to find jobs which require obtaining a work permit (according to the rules in Italy, one must possess a residence permit first) in contrast with men who perform mainly informal jobs and therefore the residence permit is not required.

## Valid residency permits of Bulgarian emigrants in Italy

	Male	Female	Total
2001	3,245 (43%)	4,255 (57%)	7,500
2002	3,454 (41%)	4,921 (59%)	8,375
2004	3,583 (42%)	4,952 (58%)	8,535

Source: ISTAT – National Statistics Institute [www.istat.it](http://www.istat.it), based on data from the Italian Ministry of Interior

### Marital status

As shown in the 2001 Census, in **Greece**, an average of 30% of the Bulgarians are married but a small per cent have their spouse with them<sup>17</sup>. The results from a sample research in 1996 reveal that there is a trend of increasing the share of migrants accompanied by a spouse. Since emigration to Greece is mid-term (up to 3 years), more than half of the emigrants are alone (married, but not accompanied by their family) or single. The JC research reveals that only 33% of Bulgarian women are in Greece together with their spouses. In comparison, 81% of the Bulgarian men had their spouses present in Greece. Hence the emigration of men is considered a family affair – it is seen as a way of better life for the whole family and as a relatively long-term act.

The Greek Immigrants' Regularization Program of 1998 showed a higher share, in comparison with other immigrant groups' (Albanians and Romanians), of Bulgarian women who are divorced and widowed. This indicates that Bulgarian women perceive working in Greece as easier and more profitable way of securing their subsistence and retirement. Another explanation of this fact is that being married or cohabiting is seen as a prohibitive factor for migration, while being single is seen as an enabling factor. The other fact that proves the solitary decision-making by Bulgarian women to emigrate is the share of children living with them – only 14% had their children in Greece with them, as compared to 33% of the Bulgarian men<sup>18</sup>.

In the EM case study 20% of the respondents answered that there were family members in Greece before their arrival and another 20% - that some members of their families came after their arrival.

### Marital Status by Nationality and Gender of Bulgarian emigrants in Greece

	Men	Women
Single	3,220 (30.9%)	3,058 (21.9%)
Married	6,808 (65.4%)	8,264 (59.2%)
Divorced	319 (3.1%)	1,867 (13.4%)
Widowed	60 (0.6%)	763 (5.5%)
Total	10,407 (100%)	13,952 (100%)

Source: Greek regularization program of 1998 (Cavounidis 2002b)

Bulgarian emigrants in **Spain** show more consistent and homogeneous family structure. According to EM, 50% of the interviewed immigrants are married, many of them are with a spouse and children in Spain, and another 20% are single. Some 14% are co-

<sup>17</sup> Eugenia Markova confirms this in her field research in Greece (summary of her findings is available at the end of this chapter).

<sup>18</sup> Data provided by JC.

habiting with their partners. The remoteness and long-term pattern of emigration to Spain is the main reason for family reunification and completeness.

## Education

It is assumed by many theories that higher levels of education offer increased income returns for specific segments of the labor market (Germany is a good example). It is also true that higher levels of education prove a greater ability to collect and process information, which lowers the risks and increases the propensity of migration. We can argue about this, however, since the existence of strong social emigrant's networks in the recipient country (i.e. Turkey and Greece) facilitates decision-taking of low-educated migrants.

The educational pattern of Bulgarian emigrants is similar in both countries since the work that can be found there is similar. According to the EM case studies, 60% of the respondents have a secondary education in Greece and 69% in Spain. The other two groups regarding the education level are those with a college diploma – 12% in Greece and people with a university degree – 14% in Greece and 6% in Spain. These results are confirmed by the data in the table below concerning the inclinations to emigrate with a view of attaining education.

In both cases, most of the people do not perform work according to their level of education but it helps them find a better-paid work from the ones available in the host country.

### Breakdown of persons having firm inclination to migration by terminal education age across countries

Country	Primary (up to 15 years)	Secondary (16-19 years)	Tertiary (20+ years)	Still studying	All
Bulgaria	22.7	31.1	16.5	29.7	100.0
AC 10	0.1	30.2	31.0	38.7	100.0
ACC 13	11.5	30.3	24.7	33.5	100.0

Source: Candidate Countries Eurobarometer 2002, April 1<sup>st</sup>, 2002

We cannot omit the results concerning student population and its higher results. The second place in this ranking shows a threatening tendency for the young and higher educated people to leave the country in search for a better job and better pay prospects. The economy and the social conditions in the last 5 years seem to impact to a greater extent the younger people and if they succeed in realizing their intentions, the overall result for the country will be negative. On the other hand, this group is the major target of immigrants from destination countries and its large share helps to alleviate the fears caused by the increased immigration in the recent years.

### Duration of stay in the host country

Some data for the length of stay of Bulgarian emigrants is available only for **Greece**. It shows that most of the emigrants are not sure how long they will stay. Different factors influence their decision, the most important among which is the availability of work in Greece, the economic situation in Bulgaria, the facilitation of their stay in Greece, family matters and health issues. This can be extrapolated on all Bulgarian emigrants since the other major destination countries except Greece (Italy, Spain and Portugal) tend to have

similar policy towards immigration and are attempting to facilitate immigrants' status due to labor shortages.

### Intended Length of Stay of Bulgarian emigrants in Greece

Less than one year	6 (8.0%)
1 – 4 years	15 (20.0%)
5 – 9 years	5 (6.7%)
At least ten years but not forever	4 (5.3%)
Forever	22 (29.3%)
Doesn't know, it depends	23 (30.7%)
Total	75 (100%)

Source: Sample survey of the regularized population (Cavounidis 2003b)

The data about residence permits and their renewal for **Spain** reveals that the majority of Bulgarian emigrants do want to remain in the country at least for one more year. If we compare the data with other nationality groups, we can see that Bulgarians are in the first five groups possessing residence permits for more than one year.

### Residence permits granted to Bulgarians in Spain as of 30/06/2004

	Total <sup>19</sup>	Initial	First time renewal	Second time renewal	Permanent	Other
31/12/2003	24,369	5,834 (23.9%)	12,767 (52.4%)	2,539 (10.4%)	2,306 (9.5%)	923 (3.0%)
30/06/2004	27,558	7,714 (27.99%)	13,158 (47.75%)	2,567 (9.31%)	3,423 (12.42%)	696 (2.53%)

Source: Secretariat of State for Immigration and Emigration in Spain<sup>20</sup>

### Previous employment in Bulgaria

#### *Employment status before emigration*

According to interviews with Bulgarian emigrants in Greece, one of the major reasons for leaving the country is unemployment (14%). Being unemployed, on the one hand, makes people more mobile and because of the wage differentials they have more inclinations at least to consider this as an opportunity to change their current status of unemployed.

<sup>19</sup> The total number of Bulgarians with valid residence permits in Spain is 24 369. Of those, 23 707 have received their residence status according the general scheme, and the rest – 662 – by community scheme.

There are two different residency schemes for foreigners in Spain: foreigners who are citizens of the European Economic Area, as well as their family members, including family members of Spaniards, all whom subscribe to the Community Scheme and receive a residency card; and those foreigners included in the General Scheme, who must obtain the corresponding residency authorization, that may be temporary or permanent.

<sup>20</sup> For more information please refer to: [http://www.dgei.mir.es/en/general/tabla6\\_jun04.html](http://www.dgei.mir.es/en/general/tabla6_jun04.html)

Reasons for emigration *	I had work but money was not enough to survive	Lack of perspective for improving the economic situation	Being unemployed
Spain	29%	22%	9%
Greece	38%	21%	14%

Source: EM case studies (please find at the end of this chapter)

Note: \* The results are less than 100% because several different answers, not related to the subject of the paragraph, are not included.

The main reason for emigration, however, appeared to be low wages and not the lack of funds or work. Bulgarian emigrants responded that they had a job in Bulgaria but income was not sufficient to maintain a decent living according to their perceptions.

Another possible reason for people who have been employed in Bulgaria to have greater inclination to emigrate is the prerequisite to have some funds (travel costs, money for the initial period when arriving and looking for a job).

#### **Breakdown by persons having general inclination for migration by employment status across countries**

	Employed	Unemployed	Student	Other Inactive *	All
Bulgaria	35.3	31.0	23.7	10.0	100.0
AC 10	28.9	20.5	48.4	2.2	100.0
ACC 13	32.1	25.1	32.1	10.7	100.0

Source: Candidate countries Eurobarometer 2002, April 1, 2002

Note: \* Includes housewives

The overall results from examining the previous employment status of emigrants show that unemployment has an influence on migration, but to a much lesser extent than predicted by many researchers. Unemployed people have a stronger inclination to migration, but this is significantly reduced when it comes to fulfill an opportunity. Indeed, in relative terms, students have more relevant potential for migration than unemployed people.

#### **Current employment in the host country**

The majority of Bulgarian emigrants in Greece and Spain are employed in highly seasonal economic activities, which are characteristic for these countries: agriculture, fishing, construction work and tourism as well as by labor demand in personal services such as domestic and care work. All these sectors have a long tradition of informality in Southern Europe, rendering them as prime sites for the use of illegal migrant labor. Also, the predominance of small enterprises, the seasonal nature of much economic activity and the widespread informality of economic activity is typical for all examined recipient countries.

### Branch of Economic Activity by Gender of Bulgarian Emigrants in Greece

	Men	% of total	Women	% of total
Agriculture	4 291	45.1	3 295	26.8
Mining	29	0.3	0	0.0
Manufacturing	917	9.6	531	4.3
Utilities	20	0.2	0	0.0
Construction	2 376	25.0	119	1.0
Commerce, hotels, restaurants	996	10.5	2 048	16.6
Transport, storage, communications	360	3.8	53	0.4
Banking, insurance, finance	12	0.1	19	0.2
Remaining services	513	5.4	6246	50.7
<b>Total</b>	<b>9 514</b>	<b>100</b>	<b>12 311</b>	<b>100</b>

Source: Greece 2001 Population Census

### Self-employment

Entrepreneurship in recent years is becoming more and more attractive for Bulgarian emigrants (but still on lower levels in comparison to other major immigration groups in recipient countries). This can be attributed to the length of stay in the recipient country and the number of generations that are living there. Since Bulgarian emigration is “younger” than the one existing in Greece, Spain and Italy (i.e. Egyptians, Moroccans and Chinese), its share in self-employed is relatively small.

The sample survey of JC in **Greece** shows that 3% of the Bulgarians are self-employed. The EM survey reveals that the share of self-employed women has been increasing in the recent years mainly because the status of illegality is more compatible with self-employment and the requirement to be more flexible.

In Greece, few employed males were self-employed, concentrated in brick-laying and house-painting, according to EM.

The case of **Spain** reveals a slightly larger share of self-employed Bulgarians – 4%, which can be explained by the lack of competition because of the ethnic character of the businesses they were employed in, which were not necessarily Bulgarian (EM). The increased duration of stay in Spain was again a reason for dominance of “older” Bulgarian emigrants in self-employment patterns.

In order to get the clear picture, we reproduce here the data for the self-employment share among emigrants in the countries under research.

### Self-employment rates \* in EU States 1995 – 2000

Year	Nationals	Non-nationals	Of whom:		Total
			EU-nationals	Third-country nationals	
<b>Spain</b>					
1995	21.7	26.3	32.6	22.5	21.8
2000	18.0	17.8	31.6	11.0	18.0
<b>Greece</b>					
1995	34.1	12.8	23.8	11.0	33.8
2000	32.2	8.5	12.8	8.2	31.3
<b>Italy</b>					
1995	24.5	21.7	26.4	20.4	24.5
2000	23.7	19.3	26.1	17.9	23.6
<b>Germany</b>					
1995	9.5	8.2	12.9	5.8	9.4
2000	9.8	8.7	12.8	6.5	9.7
<b>EU</b>					
1995	15.2	9.9	12.9	7.9	15.0
2000	13.8	10.0	12.6	8.4	13.6

Source: IAB Labor Market Research Topics 52 (2003) based on Eurostat Labor Force Survey

Note: \* % age of self-employed persons of total of employed persons

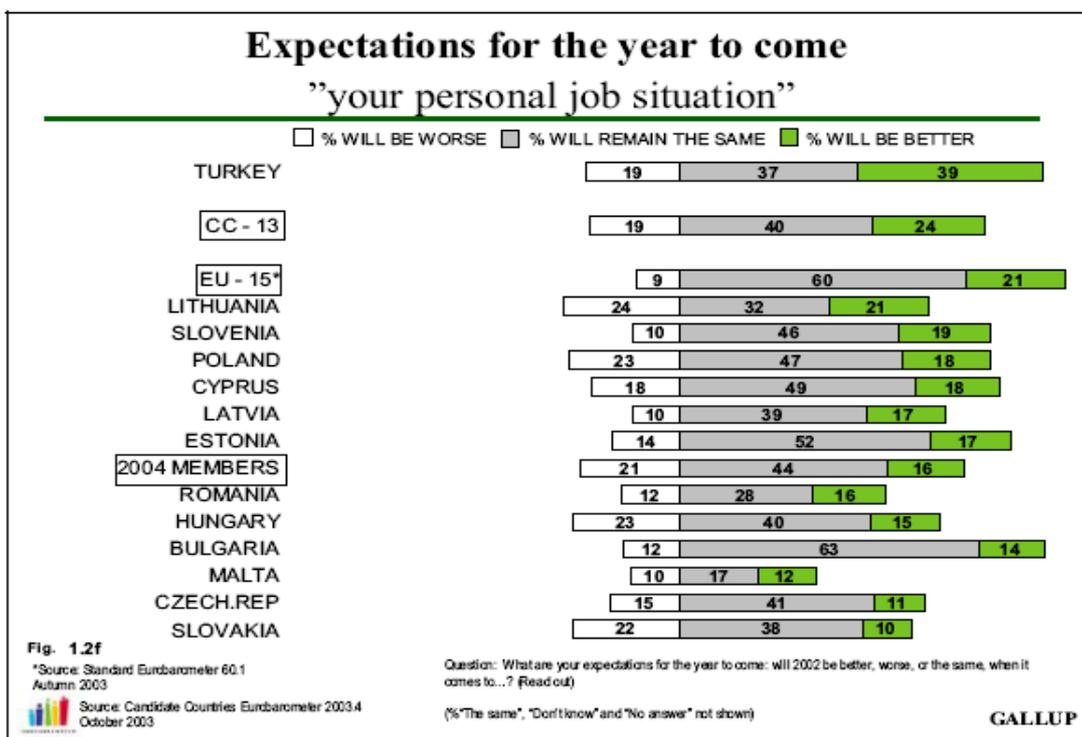
### Occupational Group by Gender of Bulgarian Emigrants in Greece

	Men	Women
Managers and senior officials	97 (1.0%)	87 (0.7%)
Professional occupations and artists	101 (1.0%)	178 (1.4%)
Associate professional + technical	121 (1.2%)	206 (1.7%)
Office workers	86 (0.9%)	128 (1.0%)
Service workers + sales workers	491 (5.0%)	2 159 (17.4%)
Skilled agric. and related occupations	1 111 (11.4%)	1 099 (8.9%)
Skilled trades occupations, Machine operatives, Elementary Occupations	7 718 (79.4%)	8 546 (68.9%)
Total	9 725 (100%)	12 403 (100%)

Source: Greek population census of 2001

And finally, we would like to present one result, concerning people's expectations for a personal job situation that can heavily reflect their future intentions to emigrate.

The results for Bulgaria clearly show that the neutral expectations prevail and they can easily transform in negative ones.



Source: Standard EU Barometer, autumn 2003

### Social networks of Bulgarian emigrants

When examining the process of emigration, it is very important to be acquainted with the informal networks in the recipient country that very often define the choice of country by facilitating emigrants in the initial period of orientation. The other major reason when choosing a destination is the presence of family members.

According to CJ, fewer Bulgarians (in comparison with the Albanians and Romanians in Greece) had someone already present in **Greece** at the time of their arrival. Specifically, 28% had a relative, and an additional 31% a friend or acquaintance but not a relative. Despite this fact, this is still an influential pull factor when considering emigration and it helps newcomers find their way and start work. The reasons that are most often cited in face-to-face interviews by Bulgarians for their choice of Greece were its proximity and the fact that they had already relatives, friends and acquaintances there. The former was mentioned by 43% of the Bulgarians while the latter by 42% of the Bulgarians.

The existence of informal migrants' networks and relatives for many potential migrants is the main reason to choose Greece, which in different circumstances is not a particularly desirable destination but rather a feasible one (given the fact that Bulgaria and Greece share a border).

The research in **Italy** on Bulgarian emigration shows that as many as 35% of the newcomers have found their employers through friends or acquaintances within the

immigrant community<sup>21</sup>. This shows that Bulgarians that did not manage to find work in Italy prior to entering the country by legal channels are relying mainly on social networks already established in Italy. Most probably, one of the major reasons for such Bulgarians to choose Italy as a destination is the power and existence of such nets.

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<sup>21</sup> Please see the case study on Bulgarian emigration to Italy in Chapter 4.

### III. Bulgarian Emigrants in Greece - by Dr. Eugenia Markova

#### Field Research Methodology

A survey of 153 Bulgarian immigrants was conducted in the period March – May 1999, mainly in the Athens area of Greece while a small part of it was done on the island of Crete, and was updated in 2003-2004 (on the basis of the 1999 sample). The survey was designed in view of the first regularization<sup>22</sup> of the stay and work of illegal foreigners in Greece initiated by the Greek government in January 1998.

The sampled Bulgarian immigrants were questioned in detail about their migration history, their living and working conditions and their participation in the regularization program.

A major statistical issue concerning the survey in question involved the representative nature of the sample. Some official data on the number of Bulgarian illegal immigrants that registered in the first phase of the regularization program were, indeed, available, and that number pointed to 23,027 Bulgarian immigrants. Information also existed concerning the migrants' residence addresses and some other characteristics as age, gender, etc. that could have theoretically allowed the design of a proper random sample. First, however, at the time of the study such information was not yet disclosed for research purposes. Second, even if available for research purposes, the address information provided by migrants would not always be correct due to the migrants' fears not to get caught and expelled. Finally, when it comes to talking to immigrants, either illegal or just recently legalized, and thus in a temporary legal residence situation, designing a random sample could not be considered a reasonable solution for obtaining any reliable information.

For the reasons stated above, the purposive or 'expert choice' method of sampling was employed. Moreover, a similar survey of the Bulgarian immigrants in Greece was first conducted by the interviewer in 1996, when almost all third-country immigrants in the country were residing and working illegally, and no legalization was even anticipated. Then, the survey had an extended and costly preliminary part when the interviewer established close personal contacts with some illegal Bulgarian immigrants. She assisted them in employment-related problematic situations, being able to communicate with both the immigrants and their employers. Trust was built with those migrants who were, in fact, the first suppliers of information and guarantors that secured access to migrant locations; subsequently, they introduced the interviewer to other migrants, offering a kind of guarantee that the collected information would be used for research purposes only.

The idea in the present survey, as in the one of 1996, was first to locate the major concentrations of illegal/legalized Bulgarians and then, among those identified, a number that in our judgment was thought to be representative, to be interviewed. The acquaintances from the field work in 1996 proved to be very helpful and the survey's preliminary part for building trust between the interviewer and the immigrants was

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<sup>22</sup> The first, registration phase, of the regularization program ran between January 2 and May 31, 1998. Illegal immigrants, who registered during the five-month period and submitted the necessary certificates, were issued an Alien's Temporary Residence Card, the so-called "White Card", which expired on April 30, 1999. However, only those migrants, who managed to submit the necessary certificates at the second stage, completed successfully the legalization program. They were issued with the Green Card. Social security contributions were the main criterion for obtaining the Green Card. The survey coincided with the second stage of the regularization program.

considerably shortened. However, an additional incentive for the legalized immigrants to talk was also their belief that with the information provided by them the responsible authorities would be better able to address their needs and eventually, they would benefit a great deal from the study.

The interviews were conducted entirely in Bulgarian and the survey instrument was available in this language. The interviewer was a native Bulgarian, which proved to be of major importance for accessing Bulgarian immigrants and eventually gaining their trust. However, the first study in 1996 put the beginning of a very personal involvement of the interviewer with the Bulgarian migrant community in Greece, which further deepened with the study in 1999, namely, through the establishment of a Bulgarian migrant organization and a Sunday school for Bulgarian migrant children. Migrants were no more anonymous subjects to study. There should be no better way to identify, trace and analyze genuine data on migrants' problems, needs, progress and achievement.

Two types of questionnaires were designed as survey instruments. A questionnaire type A was designed for Bulgarian illegal immigrants first time surveyed, to elicit information on their participation in the regularization program. A second type of a questionnaire, type B, was designed for those Bulgarian immigrants who had already been interviewed in the summer of 1996, when the first survey was conducted in the Athens area with the purpose to elicit information on the Bulgarian migrants' performance in the Greek labor market. Eleven of the previously interviewed people were located.

Clearly, the procedure applied could not guarantee to produce an unambiguous random sample. But the chosen strategy should be the most appropriate sample design when studying such issues involving a great deal of ethical questions as the reasons for participation or not in a migrant legalization program or the labor market performance of illegal aliens from the viewpoint of the immigrants themselves.

## **Migrants' Personal Characteristics**

### *Gender*

It appears that 66% of the interviewed were female and 34% - male. They were concentrated in the 30-49 year age group. Some female migrants were above 50 years of age (13% in the sample) while no men were registered in this age group. Another 21% of the migrants were under 30 years of age. The bulk have completed high education (60 % of the sample), while 12% have completed college, and some 14% of the interviewed had University diplomas. Some 6% of the sample could not complete the University and only some 4% were with primary school education. The results generally followed the findings of the 1996 survey of Bulgarian immigrants.

### *Marital status*

Forty-two percent of the Bulgarians in the sample were married and a small percentage had their spouse with them. It is worth mentioning that the share of migrants accompanied by a spouse is larger than that in the sample of 1996. This could be partially explained by the regularization program of the Greek government, coupled with the worsened economic situation in Bulgaria. Some 6% in the sample reported married in name only. It is one of the negative effects of migration on individuals – separating families. Twenty-five percent were divorced, 5% - widowed and 22% were single. The results differ from the findings of 1996 where the divorced migrants had a predominant share.

### *Migrants' last occupation in Bulgaria*

Sixty-one percent of the immigrants were last employed in Bulgaria in the public sector, 33% were employed in the private sector and some 6% had never worked in Bulgaria, emigrating right after finishing school. Most of them were employed in the urban areas and just a small percentage of them were employed in villages in Southern Bulgaria. The bulk was occupied in the education, health, media, and sports in the public sector, followed by public services and electronics. People employed in the private sector were mainly occupied in services and hotels and restaurants. The majority of the migrants (60%) belonged to the medium-skilled category of workers while being in Bulgaria, followed by migrants of high-skilled jobs (33%). Most women worked as high school and primary school teachers, accountants, engineers, and nurses. The majority of men were coming from professions such as cooks, waiters, barmen, guards, butchers and drivers. Experience from these professions was highly transferable to Greece and migrants with such experience from the Bulgarian labor market did not change occupation in Greece. Among men, there were also high school teachers, electricians, chemical technologists and biochemists.

### **“Push/Pull” factors for migration**

Asked to rank the reasons for leaving Bulgaria, 59 people chose “I had work but money was not enough to survive” as the first one. The lack of perspective for improving the economic situation in Bulgaria was ranked first 26 times and the same reason was ranked second by 32 respondents. Being unemployed was ranked the first reason for emigration by 21 respondents. 31 interviewed pointed out as their main “push” reason the failure in establishing own businesses, bankruptcy and debts to banks, or no chances for professional realization. The results support the 1996 survey findings on the economic determinants of Bulgarian migration to Greece.

33% of the sample chose Greece as a destination country because of relatives or friends already there. The adjacency between Greece and Bulgaria played a decisive role in the migration decisions of 24% of the respondents.

### **First entry to Greece and total duration of stay in the country**

More than half of the interviewed (66%) reported their first entry to Greece in the period March 1994 – November 1997.

40% of the sample financed their migration with own savings while some 40% borrowed money from friends and relatives. Wives, working in Greece, financed the migration of 3% of the men in the sample. Parents, working in Greece, financed the migration of 5% of the interviewed in the sample. A small percentage of the respondents sold either their car or different expensive household devices and golden jewelry, to finance their emigration to Greece. The pattern of individual Bulgarian migration to Greece is confirmed when compared to the 1996 sample: 88% of the interviewed immigrants came for the first time to Greece alone, not accompanied by other family members while 12% of them migrated either together with their spouse and children or with parents, or with a brother, or a daughter. Some 60% of the sample reported no family members to have come to Greece before or after their arrival to the country while 20% of the respondents answered that there were family members in Greece before their arrival and another 20% - that members of their families came after their arrival. The results revealed the emergence of chain migration while the 1996 survey results outlined the model of individual migration. We could speculate that chain migration emerged as a “legalization” outcome.

Less than half of the interviewed migrants (46%) intended to immigrate to another destination country before migrating to Greece, mainly Canada, the USA, Australia and the European destinations of Germany, Italy, Spain, Portugal and the Scandinavian countries. For them, Greece appeared as the second destination choice due to the country's lower real wages. However, 54 percent of the interviewed reported Greece as their first migration choice while the survey findings of 1996 revealed that more than half of the sample intended to migrate to another destination before coming to Greece. At the time of the interviews, the bulk of migrants have resided in Greece from two to four years. A few of them have stayed and worked in Greece from 4 to 7 years.

### **Employment Patterns in Greece**

At the time of the interview, 92% of the migrants were employed and just some 8% were involuntary unemployed, in the process of searching for a new job.

The reduced number of women, working live-in, twenty-four hours at employer's disposal, and the increased number of self-employed women migrants characterized the legalized female migrants' employment pattern. Self-employed female migrants were mainly occupied in cleaning different houses while there was even a Bulgarian woman who managed to establish her own hairdresser's salon. Illegal female Bulgarians felt more secure when working as elderly care or baby-sitters, live-in households.

Few employed males were self-employed concentrated in bricklaying and house-painting. A very small fraction of male migrants had a second job.

The total duration of working time in Greece and the rate of job turnover are the main characteristics of migrants' employment pattern. The bulk of migrants had worked in Greece from two to four years and there was mobility between jobs. Twenty-five percent of the immigrants stayed with the same employer during all their working time in Greece, which varied from 7 months to 4 years; a few of them had worked in Greece from 4 to 7 years. The reluctance to change jobs could partially be explained by the high transaction cost involved. Men and women exhibited similar frequencies of job change. Illegal immigrant women usually changed jobs involuntarily because of death of the elderly person they have been taking care of.

A very high proportion was employed in medium or low-skilled jobs. Legalized and illegal Bulgarian men were concentrated in construction and small-scale industries. Sales and administrative work were occupations exclusively for legal migrants. Legalization considerably reduced the discrepancy between migrants' employment and their actual abilities or prior investment in human capital in Bulgaria. It was especially valid for female Bulgarian migrants. Legalized females worked as bankers, Bulgarian-language newspaper publishers or teachers in Bulgarian at private schools. A very small fraction of legalized men reported being employed in high-skilled jobs – chemists, electric technicians, computer programmers.

It is important to highlight the job-searching schemes applied by interviewed Bulgarian immigrants. The survey findings revealed the major role Bulgarian migrant networks played in the job-searching process. About 43% of the respondents found their last job through other Bulgarians in Greece. Some women reported buying their jobs for 20,000 drachmas (60 euro) from other Bulgarian women. It was speculated that only Bulgarian and Russian women in Greece traded jobs, thus, distorting to a great extent the traditional role of networks in international migration. "The agency in Greece" had considerably reduced its role in the migrant job-searching process, selected by only 18% of the interviewed. It played the role of a major intermediate institution for the first wave of Bulgarian migrants to Greece interviewed in 1996. Legalization expanded considerably the range of job-finding instruments. Legalized migrants, with an average duration of stay

in Greece between two and four years, were approaching potential employers alone asking for vacant places. Some migrants with an average stay of 7 years in Greece reported being recommended by former employers. Twelve percent of the immigrants found their last job with the assistance of Greek friends. They had stayed in Greece for more than two years.

### **Problems at Work**

“Low payment” was ranked first by 27% of the interviewed followed by “no problems” selected by 25% of the interviewed. Other problems such as humiliation, language barriers or psychological problems caused by employers not allowing them to go out when needed, or taking care of psychologically retarded children or adults, were mentioned as main problems at workplace by 18% of the respondents. For 14% of the interviewed, the main problem at work was their employer who would refuse to register them or pay social security contributions for them. The same problem was ranked second by most of immigrants in the sample.

### **Competition in employment between Bulgarian immigrants and Greeks**

Bulgarian immigrants were asked whether there were Greeks applying for the same job they were doing. About 44% of the respondents gave a definite positive answer. They were mainly people occupied in cleaning offices, shops, houses or work in construction, bars, restaurants and hotels. Approximately the same number believed there were no Greeks applying for their job. The majority of those sharing this opinion were working as au pairs in households, and in small-scale industries and firms. Some 17% did not have any opinion on this question. Migrants were asked about their awareness of the money Greeks made for the same work. More than half of the respondents believed that Greeks made more money. Of them, almost 40% were legal migrants while 25% worked illegally. Just a small fraction of the respondents supported the opposite view that Greeks did not make more money than they did. The majority of men interviewed estimated that Greeks made at least as much as 40% more than foreigners did. They were mainly electricians, carpenters and welders. Most of the women pointed out the same wage differential. They were occupied in households, services, and restaurants. If relying entirely on immigrants’ estimations, one could conclude that both legalized and illegal immigrants’ earnings result from discrimination since it is quite difficult, even in the case of recently achieved legality, such differences to be explained by the competitive theory. Of course, the differences may be partially explained by the low rate of transferability of education and training between Bulgaria and Greece, or by asymmetric information.

### **Intentions to Stay in Greece in the Near Future**

91% of the respondents were planning to stay in Greece in the near future. Some of them (30%) would do so because of expectations for normal work/life in Greece and the possibility for family reunion due to their recently acquired legal status. Others (33%) would stay because of their children studying in Greek schools, because of a Greek partner or no chances for migrating to another country. Some 9%, all of them illegal, were planning to leave soon because of fears for apprehensions, dissatisfaction with living and working conditions in Greece or intentions to emigrate to a third country.

## IV. Bulgarian Emigrants in Spain - by Dr. Eugenia Markova

### Field Research Methodology

The sample consisted of 202 Bulgarian immigrants, over the age of 18, living in the Madrid area (particularly, in the southern suburbs of Getafe and Parla, and in the south-eastern region of Alcala de Henares). They were interviewed in November - December 2003, and in April 2004, with a questionnaire being the main survey instrument. Needless to say, random sampling could not be considered as an appropriate or acceptable procedure. Purposive sampling was applied instead.

The survey had an extensive and expensive preliminary part with the mere objective to gain trust through the establishment of personal contacts with the so-called gatekeepers (influential people among the Bulgarian community there). They provided access to Bulgarian-owned businesses ('phone and money houses', *locutorios* in Spanish, coffee shops, restaurants), where immigrants usually gathered. Some other interviews were conducted in private in the migrants' houses. The interviews were conducted entirely in Bulgarian and the survey instrument was available in this language.

### Migrants' Personal Characteristics

#### *Gender, age, areas of origin in Bulgaria, level of education*

54% of the sample were male and 46 % - female.

The majority of them (37%) belonged to the 25-34 age group (20% were between 25-29 years of age and 17% - between 30 and 34 years of age) while some 8% were above 55.

The main suppliers of migrants from Bulgaria were the city of Shoumen in Northeast Bulgaria, pre-emigration place of residence of almost 18% of the immigrants, concentrated in the Getafe region in the south of Madrid, followed by the capital city of Sofia (9%), and, the cities in Northern Bulgaria – Pleven (7%) and Varna (6%). The bulk of the interviewed (69%) had completed high school education, usually with technical specialization and another 27% had University degrees or post-graduate diplomas.

69% of the emigrants were last occupied in Bulgaria in the private sector, either as employees or self-employed and 24% were employed in the public sector. Seven percent of the interviewed had never worked in Bulgaria, either coming to Spain right after finishing high school or working only abroad. A great part of the migrants belonged to the skilled category of workers in Bulgaria. Most of them were occupied in private services (finance, insurance, communications) (26%) or in manufacturing (17%), followed by wholesale and retail trade (16%), construction, education and agriculture.

77% of the sample reported no working experience abroad before emigration to Spain and some 33% had worked in another foreign country. After 1990, most of them had worked in Greece, illegally, in the construction, agriculture or domestic services; the average duration of their work there was between two to three, even four years. Others worked in Germany, France, Cyprus and Portugal. Before 1990, a few had worked in the former USSR, Algeria and Angola.

#### *Marital status*

Half of the interviewed immigrants were married, most with a spouse and children in Spain and another 20% were single. Some 14% were co-habiting with their partners.

#### *Year of first entry to Spain (total duration of residence in Spain) and "pull" factors for immigration*

Almost all of the interviewed migrants in the sample have remained continuously in Spain since the date of their first entry in the country. Most of the interviewed Bulgarians

first migrated to Spain in the period 2000-2002 (62%). “Relatives already in Spain” or “friends already in Spain” were pointed out as the main reasons for immigration. A very small percentage came in the period 1990-1997 (some 6%). Their main reason for migration was the anticipated “possibilities for illegal stay and work and regularization”. The peak entry-year was 2002 (31%). Another 19% came in 2003 and at the beginning of 2004.

Almost half of the emigrants had thought about migrating to another host country or attempted to do before coming to Spain, typically the UK, the USA, Germany or Italy. Most of them did not migrate to the destination of their first choice because of difficulties in obtaining entry visas/work and residence permits. Spain appeared as their second choice because of expected lower real wages.

### **“Push” emigration factors**

Asked to rank the reasons to leave Bulgaria, 57 people (29%) chose “I had work but money was not enough to survive/to live a normal life” as the first one. “The lack of prospects for improving the economic situation in Bulgaria” was ranked first by 45 people (22%) in the sample, followed by those who left Bulgaria to join a family member or a partner (14%). An equal number of people emigrated because of “unemployment and no money” (9%) and “better future for their children” (9%). The survey findings reveal the emergence of a family migration model to Spain with one of the spouses coming first, legalizing his/her status or even not doing so, and then, the rest of the family follows.

### **Legal status in Spain**

More than half of the interviewed in the sample (56%) were residing and working illegally in Spain, some 7% were working on their 3-month tourist visas and 37% managed to regularize their stay and work in the host country. Most of them acquired their legal status through participation in the regularization programs of the Spanish government in 2001 and 2002; a small percentage participated in the programs in 1997, 1998, 1999 and 2000. Others managed to legalize their work through an employment offer.

### **Migrants’ Employment Patterns**

At the time of the interviews, 91% of the migrants were employed, 6% were self-employed or working for their family business (construction, house maintenance, Bulgarian restaurants and bars, Bulgarian newspaper-publishing, financial services, hairdressing, dressmaking, retail trade), a very small fraction were involuntarily unemployed (1%), in the process of searching for a job, and, 3% were women on a maternity leave - almost none of them had ever worked in Spain.

Many had first entered the Spanish labor market possessing neither residence nor work permit, or, often, when violating their tourist visas.

Caring professions (household work together with elderly care or baby-sitting) were the labor market entry point for illegal female Bulgarian newcomers in Spain, 24% of all interviewed migrants. Almost half of them were live-in, 24 hours at employer’s disposal (*interna*). This was the preferred cheap and secure option in the initial period of individual female migration. Harvesting olives, grapes, cherries, strawberries, oranges, was the entry niche for almost 7% of the sample, men and women. Also, employment in

small-scale businesses for printing leaflets/flyers, distributing leaflets (*cartero*) and cleaning different offices, shops and newly built houses under the management of a cleaning agency usually owned by a legal Latin American migrant were a labor market entry option for both Bulgarian men and women in Spain. Entry jobs for Bulgarian men in Spain were heavy, unqualified jobs in construction, usually managed/owned by legalized Bulgarians. Some of those Bulgarian middlemen or construction owners would prefer to employ only illegal Bulgarians for “cost-minimizing effects”. These were clear examples of ethnic businesses with ethnic exploitation. No knowledge of Spanish was required and the payment was usually low, with 10-12 working hours per day. Some illegal Bulgarian men, welders, electricians, technicians, were also absorbed by small-businesses owned by legalized Bulgarians. A particular entry job for Bulgarian men in Spain appears to be the installation of gas-tubes and the distribution of gas-bottles.

As regards job-searching mechanisms, some 80% of the sample reported to have found their first job through relatives or Bulgarian friends/acquaintances, which provides empirical support of the network migration theory. Only the “pioneers” Bulgarian migrants who arrived before 1998, found their first job alone asking different employers. Most of them waited from a few days to three months to find a job. Almost 60% of the interviewed in the sample reported that there were no Spaniards applying for their first jobs. “Many working hours” and “low payment” were stated as the main reasons for the lack of competition for jobs between Spaniards and immigrants. In other cases, the lack of competition was predetermined by the ethnic character of the businesses they were employed in, which was not necessarily Bulgarian. Sometimes, it was a Chinese restaurant or Russian/Polish construction companies where Spaniards were never employed. The increased duration of stay in Spain was an indicator for a diverse range of job-searching instruments used by Bulgarian immigrants. Migrants, with an average duration of stay in Spain, between a year and a half and two years, were usually finding new jobs distributing their own adverts or publishing them in a newspaper. Some migrants with around 4 years of stay in Spain reported to have been recommended by former employers.

Job turnover is an important characteristic of migrants’ employment patterns. Most illegal Bulgarian men employed in construction reported frequent job changes. However, illegal employment of men was usually correlated with high job mobility and long unemployment periods. Job mobility among regularized Bulgarian migrants did lead to improvement in their employment opportunities. Some 4% in the sample reported a job change because of self-employment. Self-employment of Bulgarians in Spain, exclusively attributed to legality in the labor market, can be considered an employment opportunity created as a result of dynamic developments and increased flexibility in the host labor markets. Some legalized Bulgarian men were last employed as international or internal drivers in Spain. It was the most highly remunerated job that was only available in the formal economy. Drivers were earning between 1400 to 2700 euro per month. Family businesses reported more than 3,000 euro monthly profits. Illegal Bulgarian men in construction doing unqualified jobs reported irregular, low payment sometimes below 500 euro. Legalized professional builders, on average, were earning about 1200 euro per month. Legalized Bulgarians declared that there was no wage difference between them and the Spaniards doing the same job.

More than half of the interviewed migrants in the sample reported no benefits – in-kind from their jobs (e.g. paid vacations or two additional monthly salaries). However, fringe benefits were not necessarily attributed to legal employment as some illegal migrants with good bargaining skills were getting them as well.

The bulk of the interviewed migrants (87%) had medical coverage that entitled them to free medical service. Bulgarians that had used medical services were highly satisfied with the quality of services provided at the Spanish public hospitals: there was no discrimination between legal and illegal foreigners. Bulgarian women that had given birth at Spanish hospitals (5 women) shared the same opinion, talking about the generosity of the health system and the human and highly professional approach of the medical personnel.

### **Saving and Remittance Behavior**

An important aspect of migrants' performance in the host labor market comprises their remittance and saving behavior. 41% of the interviewed reported sending money regularly to Bulgaria. Most of these immigrants had either their families or just their children in Bulgaria. They were sending, on average, 100 euro per month. Those not remitting at all (28%) were mainly single, young people in their early to mid-20s or married but with a spouse and children in Spain. Another 28% were sending money to Bulgaria sporadically, to help parents or relatives when in need or on special occasions. The profile of these migrants was very similar to the one of those not remitting at all. More than half of the migrants preferred to send their money through the legal channels of Western Union and Money Gram. Just a small fraction (5%) were using banks for their transfers. Many reported bringing money to families and relatives when visiting them in Bulgaria. Some 42% of those remitting to Bulgaria, regularly or sporadically, reported sending up to 10% of their income. Another 38% were sending 10 to 30% of their income; 12% – sending 30 to 50% of their income, while a fraction of 8% were sending more than half of their earnings. 73% of those remitting to Bulgaria reported that money was used mainly for consumption (food, bills) and health care; 6% – remittances were used for house maintenance and repairing while some 4% bought their house/flat in Bulgaria. Only one person reported the use of remittances for investment in own business; others were paying back loans or financing the education of their children in Bulgaria.

37% of the interviewed reported no savings; 20% of the interviewed were saving up to 10% of their income; 22 % were saving up to 30 % of their income; 13% – up to half of their income and another 8% reported saving more than half of their monthly income. Eighty-eight percent of those keeping savings, regardless of status, preferred to keep their money in a bank in Spain. Six people (5% of those saving money) had invested their savings in a flat/house in Spain. They had been residing, on average, eight years in Spain. Some 8% of the Bulgarians that reported savings in Spain were keeping their money at home. They were residing and working illegally in the country, thus feeling uncertain about their stay in Spain.

### **Intensions for Return Migration**

When asked about their intensions to return to Bulgaria, 53% responded they would like to return and most of them would do so when at a retirement age. Eleven percent did not plan to return to Bulgaria while some 8% added that they would “never” return to Bulgaria. 12% were not sure about returning to Bulgaria; and 14% would return, even immediately if the “economic situation in the country improves” (quite heartbreaking stories of people who wanted to return even immediately but couldn't afford it).

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## Chapter 2

### Macroeconomic Comparisons and Provisional Impacts of Macroeconomic Developments

#### Evident background and assumptions

Migrants move to countries, which will offer them opportunities that are not available in their country of origin. Economic incentives (work and higher income above all) play a decisive role in migration decisions<sup>23</sup>. As Gachter (1998) points out, “surveys of the desire to emigrate from the formerly communist countries have become a fixture of political life. In reality they say little if anything about future or even current emigration”. Taking this into account, we focus on the economic constellation in Bulgaria and some important countries receiving immigrants from Bulgaria.

The EU, due to its geographical proximity, prosperity status and enlargement process, is a natural gravity centre for Bulgarian and many other migrants. Bulgaria (as well as Romania) differs from other Balkan, former Soviet Union (FSU) and non-European countries by its accession status, relative economic stability, clear development horizon and in-Schengen status.

We compare macro economic conditions in Bulgaria with those in Germany, Greece and Spain in a dynamic perspective in order to make conclusions whether there is convergence or divergence in terms of economic performance. According to our methodology, if convergence appears, it should be taken as a sign for decreasing incentives to migrate.

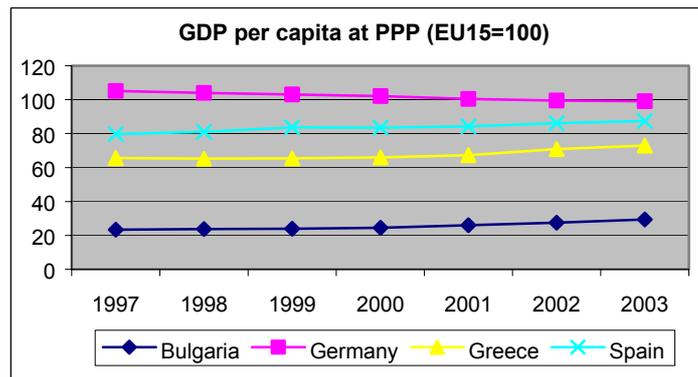
#### GDP per capita at PPP

We take GDP per capita adjusted to purchasing power parity (PPP) in order to compare living standards for the period 1997-2003. The EU15 was taken equal to 100% as a base level. At the beginning of the period Bulgaria's GDP per capita related to the EU average was 23% increasing to 29% in 2003 (see the graph below). On the other hand, Greece and Spain achieved higher convergence with EU average starting from a superior level. After six consecutive years of economic growth (4.2% year average) Bulgaria achieved certain convergence with EU; however, the income gap remains considerable as the Bulgarian GDP per capita equals around 1/3 of the EU average. It is worth mentioning that the economic gap between Bulgaria and important migrant destinations as Spain and Greece remains roughly the same over the period 1997-2003 due to the similar pace of economic performance.

Assuming that the current trends will remain sustainable, we extrapolate 4% GDP per capita growth in Bulgaria and 2% in the EU. According to these assumptions convergence will occur in 63 years.

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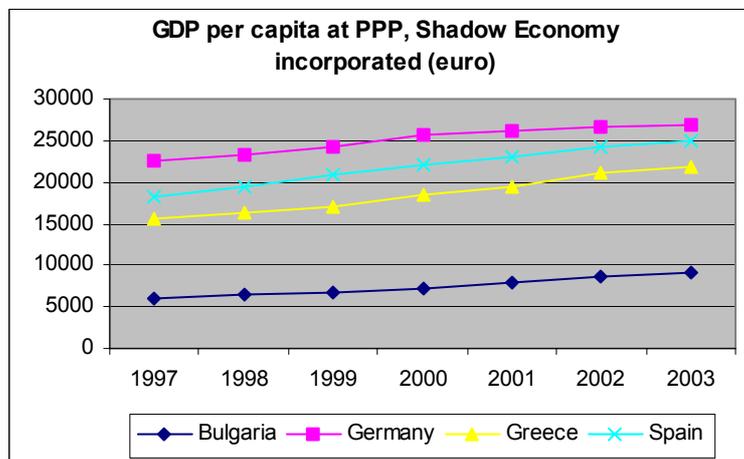
<sup>23</sup> For more information see a survey of Eurostat available at: <http://www.nidi.nl/pushpull/>



Source: Eurostat and own calculations

Data on a larger informal economy in Eastern Europe compared to Western Europe official statistical figures might be misleading. Therefore we decided to incorporate the informal economy to GDP per capita data in order to improve reliability. Since all methods measuring the informal economy have their own specific deficiencies, we decided to rely on one approach for all countries trying to limit deviations<sup>24</sup>.

If adjusting GDP per capita at PPP to an informal economy and extrapolating 4% growth for Bulgaria and 2% for the EU, convergence will take place in 55 years. In other words, if fundamentals remain roughly the same, the income gap between Bulgaria and the EU appears to remain quite persistent. Significant change might be induced by considerable improvement of the business environment in Bulgaria which could come via lowering the costs of doing business.



Source: Eurostat, Friedrich Schneider and own calculations

<sup>24</sup> We used estimations for the level of the informal economy taken from: Schneider, F., and Klingmair, R., 2004, Shadow Economies around the world: What do We Know?, IZA DP No 1043 and Schneider, F., 2002, The Size and Development of the Shadow Economies and Shadow Economy Labor Force of 22 Transition and 21 OECD Countries: What do We Really Know?, Invited paper prepared for the Round Table Conference: "On The Informal Economy", Sofia, Bulgaria, April 18-20, 2002

On the other hand underground economies have a “pull” effect on unauthorized immigration. As Reyneri (2003) observes “Italy, Greece and Spain are largely seen as countries where it is easy to live and to make money even without a residence permit, making it worth the hardships, expenses and risks to get around border checks”. According to Schneider’s estimations, informal economy in Greece and Spain varies from 22 to 28% of GDP and from 16 to 22% respectively between 1990 and 2003. Therefore, unauthorized immigrants exploit the opportunity to find a job where no documents are requested. Many migrants operate in services (housekeeping, trade, construction etc.), which are characterized with high level of informality and are dominantly non-tradable, meaning that they cannot be transferred to lower labor costs countries (via trade). Therefore, there is a need to import migrants to feed internal needs of low-cost labor.

### Wages

Income divergence is well illustrated via gross average annual salaries<sup>25</sup>. The wage differential between a sending country and a receiving country is a core variable for explaining migrations. The results of Sjaastadt (1962) and Harris and Todaro (1970) predict that the number of individuals who consider migration as optimal, increases with the wage differential. These models imply that migration increases if economic disparity rises. Another research of Dustmann (2001) analyses the relationship between the wage differential and the optimal migration duration. According to his research, “while a decrease in the home country wages always increases the optimal migration duration, an increase in the host country wage has an ambiguous effect”.

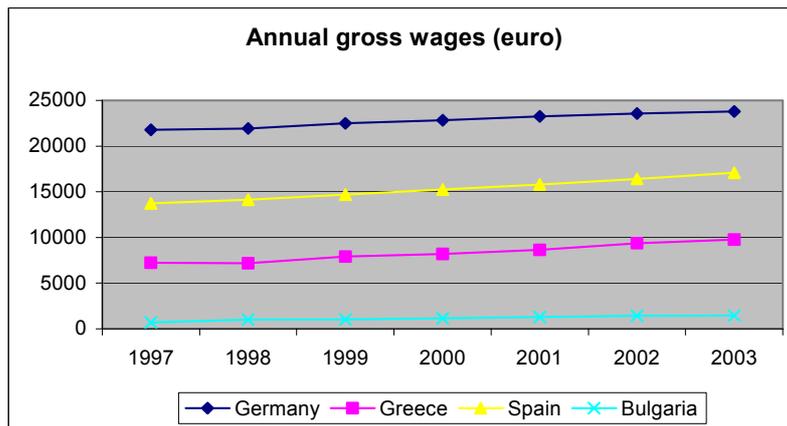
Mintchev et al. (2003) relying on two sociological surveys<sup>26</sup> asserts that most of the relevant incentives for Bulgarians to migrate consist of: higher standard of living and material-problem solving. According to this report, “during the two years period [2001-2003] a trend is observed, although insufficiently clear-cut, towards a decline of settlers in favor of those, who prefer a temporary stay abroad”.

Salaries in Germany in 1997 were 31 times higher compared to those in Bulgaria (see the graph below). This difference contracted 16 times in 2003. Compared to Greece, wage differentials contracted from 9 times to 7 times between 1997 and 2003. Our expectation is that the positive developments over the last 6-7 years, combined with optimistic further perspectives, enhance the value of income at home at the expense of income earned abroad.

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<sup>25</sup> Gross wages and salaries, just as compensation of employees, include both remuneration in cash and in kind, but they do not include employers’ social contributions.

<sup>26</sup> The 2001 survey included 25,000 respondents and was conducted by the NSI during the regular population census. The second survey was conducted in 2003 by the Center for Comparative Studies and Alpha Research relying on the same questionnaire and including 1006 respondents.



Source: Eurostat and own calculations

### Some hints from case studies

Case studies conducted by Markova in Greece and Spain<sup>27</sup> illustrated the importance of economic factors (including wages):

#### *Case Study Greece (a sample of 153 Bulgarian immigrants, in 1999)*

Asked to rank the reasons for leaving Bulgaria, 59 people chose “I had work but money was not enough to survive” as the first one. The lack of perspective for improving the economic situation in Bulgaria was ranked first 26 times and the same reason was ranked second by 32 respondents. 21 respondents ranked unemployment as the first reason for emigration. Thirty-one interviewed pointed out as their main “push” reason the failure in establishing own businesses, bankruptcy and debts to banks, or no chances for professional realization.

#### *Spain (sample 202 Bulgarian immigrants, conducted in 2003)*

Asked to rank the reasons for leaving Bulgaria, 57 people (29%) chose “I had work but money was not enough to survive/to live a normal life” as the first one. “The lack of prospects for improving the economic situation in Bulgaria” was ranked first by 45 people (22%) in the sample, followed by those who left Bulgaria to join a family member or a partner (14%). Equal number of people emigrated because of “unemployment and no money” (9%) and “better future for their children” (9%).

#### *Wages and productivity in Bulgaria and in case countries*

Wage differentials mostly stem from differences in productivity<sup>28</sup>. If we take the EU average productivity as 100%, productivity in Bulgaria in 1997 would be 26.3% improving to 30.6% in 2003. For comparison, relevant productivity ratios in Greece and in Spain overpass 90% of EU average (see the table below). On the other hand, taking into account the inflow of foreign capital, the large-scale privatization, the trade liberalization and deregulation in many sectors in Bulgaria create an environment for improving productivity and catching up with the EU. However, the pace of convergence needs reinforcement. This is mostly related to restructuring inefficient systems as education, healthcare and pension together with tax and quasi-tax cuts. The increased

<sup>27</sup> See Chapter One for details.

<sup>28</sup> We measure productivity as GDP per employed, in order to compare it with Eurostat data.

potential for doing business has a deflecting effect on the inclination to emigrate, considering new job and business opportunities.

Productivity (EU15=100)

	1997	1998	1999	2000	2001	2002	2003
Bulgaria	26.3	27	27.9	29.9	31.1	31.2	30.6
Germany	98.2	97.6	97	96	95.2	94.9	95.5
Greece	82.7	78.2	79.7	81.9	84.8	89.4	91.4
Spain	94	93.6	95	93.9	94.2	95.7	96.0

Source: Eurostat

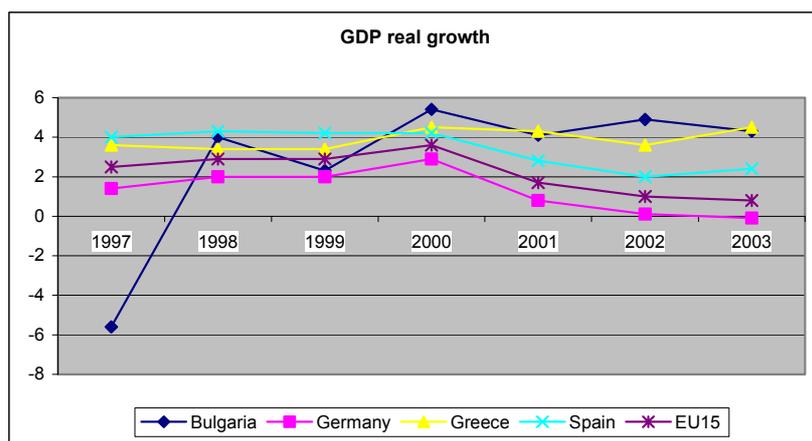
However, an important issue here would be – why migrants return despite the persistently high wages in the host country? Some authors answer with arguments of location-specific preferences (see Hill 1997, for instance). Others investigate the relationship between migration and credit market rationing (see Mesnard 2000). She argues that return migration is an important way to deal with capital constraints. If the home country has lower prices, the assets that migrants accumulate in the source country will have higher purchasing power at home.

In essence, we see the fact that migration is motivated by a “two way street” constellation of incentives: the lower productivity (remaining, for Bulgaria, by and large unchanged vis-a-vie major destinations for the last eight year) supports the desire for a more prosperous well-being while the lower prices levels “at home” justifies savings and investment, “doing business” with the motherland. (The latter phenomenon needs closer attention.) Other factors, probably, come in to play as well.

### **Economic stabilization**

Another factor that influences the decision to migrate is the overall economic situation. IOM (1999) financed survey found that “Belarus, Bulgaria and Slovenia have a very low migration potential. In Bulgaria, people have been encouraged to stay by the recent stabilization of the economy after years of economic chaos”. Economic stability is supportive for longer plans and strategies, which decreases the inclination to emigrate.

The GDP growth after 1998 jointly with the low level of inflation, close to zero budget deficits and stable influx of foreign investments, indicate that Bulgaria managed to reach an economic stability. However, considering the conventional inertial dynamics of GDP, a period of crises has long-lasting consequences. Namely, the average GDP growth of Bulgaria after 1997 (including the stagnant 1997) is 2.8%. But if we ignore the crisis year –1997, the same indicator would be 4.2%. So, if we envisage the period 1997-2003, Bulgaria’s average GDP growth is slightly exceeding the EU average (2.2%) and remains lower than the average for Greece (3.9%) and Spain (3.4%).



Source: National Statistics

There is some option value of provisional non-migration or waiting, since the investments in migration are generally irreversible or at least only at very high costs (see Burda, 1995). It could be disadvantageous to migrate now if the development in the home country is unexpectedly positive or unexpectedly negative in the target country. Moreover, a consecutive sequence of economic growth in the native country is strengthening disincentives to migrate. However, any instability in the home country may be decisive to stimulate emigration. This is especially the case of Bulgaria since people remember quite well the standard of living in the 1997 crisis and any instability in the future may discourage expectations of sustainable economic development.

Faini and Venturini (1993) have found an inverse U-shaped relationship between development and migration for South European countries. Their explanation for the observation is that the probability of migration decreases in advanced stages of development, even if one has control over the wage differentials. If there is a preference for staying in the home country, the improving living standard results in a positive income effect concerning the stay at home, though the differential to potential destination countries remains the same or might even increase. Our assumption is that Bulgaria is in the negative sloping segment of the U-shaped relationship, which means that any further development would lessen the inclinations to emigrate.

In addition, the business environment's predictability is another determinant of migration incentives. Stable environment combined with positive expectations for economic development may strengthen preferences to continue residence in the home country. Therefore, we may assume that the stable and potentially sustainable environment in Bulgaria after 1998 has decreased the inclinations to migrate.

### Migration-impeding factors

Income reasons (wage differentials) are only one part of the equation. The other is migration-related costs. Generally, migration takes place when the expected future income in the host country is higher than the income in the home country plus migration costs. There are direct costs of migration, e.g. tickets, visas (if requested), housing, etc. The status quo is even more complicated because the restrictive attitude of many western countries vis-à-vis immigration is also important in this respect since it complicates migration and thus results in higher migration costs. In addition, job-seeking is often restricted or complicated by authorities in the host country, which implies additional

costs for the migrants. Many western countries have restricted access of migrants to social security system, thus lowering the incentives to migrate.

Potential unemployment but also other economic and non-economic aspects lead to migration being a risky business. Migrants can hedge these risks via preliminary assessment of the situation in the host country. One of the most frequently used methods is shared experience via migrant networks, relatives, and friends. It is worth mentioning that the cost of acquiring information is decreasing due to the latest innovations in telecommunications, IT technologies and transport.

The costs of migration to Greece (or other neighboring countries) are considered to be significantly lower compared to overseas destinations such as the USA or Canada, or even compared to Spain and Portugal. This means that geographic proximity matters as an important inclination to migrate, also allowing for temporary, seasonal labor opportunities and arbitrage. (Temporary stays could motivate longer period of stay if opportunities emerge.) This reasoning is supported by the interviews conducted by Markova in Greece. As she notes, “less than half of the interviewed migrants (46%) intended to immigrate to another destination country before migrating to Greece, mainly Canada, the USA, Australia, and the European destinations of Germany, Italy, Spain, Portugal, and the Scandinavian countries. For them, Greece appeared as the second destination choice due to the country’s lower real wages”.

Most studies argue that migration incentives decrease with aging. The human capital approach authors (see Bauer and Zimmermann (1995) for an overview) interpret migration as an investment since the present costs must pay off in the future. Following this reasoning they explain decreasing migration with aging by the fewer number of time periods during which the migration investment may pay off. Fertig and Schmidt (2000) put the role of demographics in the focus of migration incentives. They claim that migrants tend to move from origin to destination at a young prime age. Thus, the relative prevalence of this group in the population at the origin is necessarily a major determinant of the actual migration potential. Fertig and Schmidt conclude that even if EU enlargement were to lift all legal impediments to East-West migration, the resulting migration would likely be of moderate magnitude. This conclusion stems from the negative demographic picture in most parts of Eastern and Central Europe.

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## **Chapter 3**

### **Benefits for the Home Country: Remittances, Their Impacts and Uses**

#### **Assumptions and explanations**

In this chapter we review the remittances as a condensed and still easily observable sample of benefits from migration for the sending country.

Remittances are one of the most visible evidence of migration and the ties between the migrants and the countries they come from. They are becoming increasingly important for the economies of labor-exporting countries and especially the monetary part of them. Remittances to developing countries represent a large proportion of world financial flows and amount to substantially more than the global official development assistance and to approximately half of the foreign direct investment flows to these countries. Moreover, remittances seem to be more stable than private capital flows and less volatile to changing economic cycles (Ratha, 2003).

We have reviewed the literature on the subject and have attempted to demonstrate what remittances-related regularities mean for Bulgaria.

#### **What are remittances?**

In order to better understand the role of remittances, it is necessary to look closer to what migrants send back to their countries of origin, the actual mechanisms of transmission and the factors which determine the impact of such transfers. Therefore, we have to provide some definitions because the remittances may have a different meaning in different contexts.

#### **Monetary remittances**

Remittances are generally defined as that portion of a migrant's earnings sent from the migration destination to the place of origin. Although remittances can be sent in kind, the term usually refers to monetary transfers only. In most of the literature, the term is further limited to refer to migrant worker remittances, that is, to cash transfers transmitted by migrant workers to their families and communities back home (Van Doorn, 2001).

#### **Social remittances**

The positive influence of migration does not stem from the monetary remittances only. Other types of factors can be found also at work and the social remittances are among them. They are usually defined as ideas, practice identities and social capital flowing from the receiving to the sending country communities. Migrants and travelers transfer social remittances or they are exchanged by letters or other forms of communication, including phone, fax, the Internet or video (Levitt, 1996). They may affect family relations, gender roles, class and race identity, and political, economic and religious participation. To the extent that social remittances flow together with economic remittances, changes in normative structures and general practices may be pertinent to ensure the continuation of economic remittances.

## **Individual and collective remittances**

The bulk of remittances are individual, sent by individual migrants. Groups of migrants through community or church groups send a smaller fraction in the form of collective remittances. The latter form is organized through hometown associations (HTAs) consisting of migrants from the same town or parish in the home country and also other more or less organized groups.

## **Forms of transfers**

Monetary remittances are transferred both formally and informally. Formal remittances are sent through banks, post offices, exchange houses and money transfer companies (such as Western Union, Money Gram, Thomas Cook). Informal remittances are generally either hand-carried (when going home to visit) or transferred by family, friends or money carriers. Official estimates of remittances usually do not include money sent through informal channels, leading many experts to believe that they are significantly undervalued.

## **The data for remittances: are they reliable enough?**

Remittances data are generally incomplete, imprecise and therefore unreliable. Several factors account for this:

1. The IMF and IBRD remittance figures are significantly lower than those offered by national central banks in various countries.
2. IMF and national banks records include only remittances transferred through official channels.
3. Few labor-exporting countries keep accurate records on the number of international migrants generated there.

The annual remittances to developing countries have more than doubled during the last ten years. But it is not easy to understand the reason behind this. Does the increase reflect a real growth meaning more remittances or the rise can be explained by other factors? Several studies have indicated that migrant remittances are increasingly transferred through formal channels. To illustrate the magnitude of this trend, a recent IMF study estimated that remittances transmitted through informal channels in the 1980s stood at around USD 35 billion, and fell to about USD 10 billion in recent years (El-Qorchi et al., 2002). This suggests that around USD 25 billion that had previously gone unrecorded by institutions such as the IMF and the World Bank now suddenly appear in the statistics. Another factor explaining the sudden increase could be that the further we go back in time, the more inaccurate the data suggesting that statistical institution central banks and the like have simply become more precise in their recording and registration of migrant remittance flows.

## **The main actors**

Most of the studies are focused on the senders and recipients of remittances as the principal actors. However, as remittances increase, new actors and activities are emerging with direct as well as indirect implications on development. There can be included a variety of transnational actors in the analysis.

### *Senders*

Migrant workers remit to their families and are the main actors. Apart from the monetary remittances, migrants often bring substantial sums and goods during their occasional visits home. Remittance senders may respond to crises in their home countries but more often the amount and its use is negotiated between the receiving and sending party. Overall, senders have both altruistic and self-interested motives. Women and men may have different motives for remittances related to household structures.

### *Receivers*

Receivers of remittances are often referred to as dependent family members remaining in the sending areas. Remittance receivers allocate the received funds to various purposes. They promote the development when the money received is spent on improving the welfare of the household through better health care and education and when transfers are used to create new markets. Evidence suggests that remittances are first spent on family maintenance and improved housing and only at a second stage they are invested in productive activities. Poor migrant households obviously need more time than the less poor ones. Several analyses nevertheless suggest that many migrant households manage to save up to 10% (Orozco, 2003b).

### *Hometown and Diaspora associations*

Hometown and Diaspora associations consist of groups of migrants from the same local community or country who maintain formal links to their place of origin. The character of these links may be economic, political, cultural, social, etc. The activities can be of altruistic or investment character, can be more or less formally organized and either regular or sporadic. Usually, the economic base of most hometown or Diaspora organizations is modest and their influence is not so significant.

### *Market actors*

Remittances are transferred through various channels including banks, post offices, money transfer companies such as Western Union and Money Gram and informal services. At present, the market is experiencing substantial growth in the volume of remittances sent, the number of carriers, the diversity of services provided and the entry of non-traditional players such as credit unions.

### *Governments*

The number of governments recognizing the importance of remittances in promoting the development is increasing. So, they take concrete steps to stimulate remittances by offering a range of services to migrants and helping to channel these funds toward local projects by establishing particular programs. Other attempts involve the granting of special rights to migrants (including dual citizenship) to promote their reintegration into the national project.

### *Transfer systems*

Senders as well as recipients of remittances lose substantial sums from fees and other transaction costs. However, the competition between the growing numbers of

commercial transfer companies may lead to lower transfer costs and a higher development impact (Orozco, 2003a).

The research in transfer systems has been primarily concerned with the pros and cons of formal and informal channels, respectively. Informal channels operate outside formal and regulated bank and finance systems, charge half or less in transaction fees, often have a larger geographical coverage than formal agents, and especially in conflict and war areas. Banks and larger international companies are generally more expensive than informal services. But the market is changing and the speed of change is fast. A recent comparative study of the transfer costs of remitting to 11 low-income countries in Africa, Asia and Europe shows that banks have become considerably cheaper than international transfer companies during the last couple of years (Orozco, 2003b). This suggests that some banks become aware of a new potential market, impose lower transfer fees and are gradually beginning to offer additional services to attract migrant customers.

### Remittance dynamics: Bulgaria

Whether monetary or social, remittances represent the social ties of solidarity, reciprocity and obligation that bind together the migrants and their families and communities back home. Initially, this long-distance solidarity may have a narrow scope of action (as individual migrants' intent is mainly to benefit relatives and friends). Over time, however, remittances may become a macroeconomic factor that spawns vast effects in the countries of origin and beyond.

The development of the sum of remittances is clearly positive during the observed period. Unfortunately, the lack of data does not allow us to study exactly the countries these remittances are sent from. Their size has more than tripled from 1998 to 2003. The annual average growth is around 29%. These growth rates are not even and in the first years they are higher, reaching 54% in 2001.

The ratio of remittances to the main macroeconomic indicators such as export, import, GDP and FDI has gradually risen. This reflects the growing importance of remittances as a source of income to a particular part of the population and their relatively better position in comparison with people not receiving such funds.

On the other hand, the slowing down of growth rates suggests that sooner or later the peak of these transfers may be reached and, eventually, they may start to stagnate or even fall down. Our realistic proposition is that the present growth rates will be kept during the next years.

### The size of remittances and their share of main macro-indicators

	Remittances (euro mln.)	As a % of			
		Exports	Imports	GDP	FDI
1998	170.2	3.18	3.20	1.48	35.61
1999	233.3	4.30	3.81	1.92	30.75
2000	305.9	4.01	3.66	2.24	27.82
2001	472.5	5.83	5.01	3.11	52.94
2002	531.7	6.22	5.45	3.22	55.90
2003	613	6.48	5.50	3.48	49.64

Source: BNB, NSI.

## A comparison with Romania

The table below demonstrates that at the beginning of the period there is little difference between the two countries. At the end of the period, however, the Romanian Diaspora financing is drastically more important in terms of comparison to FDI, the trade dimension remains still rather high relative to Bulgaria and only GDP shares are similar to those of Bulgaria.

### Remittances and their share of main indicators in Romania

	Remittances (Euro mln.)	As a % of			
		Exports	Imports	GDP	FDI
1998	726	9.81%	7.47%	1.94%	39.62%
1999	680	8.52%	7.42%	2.03%	67.88%
2000	1067	9.47%	8.12%	2.65%	90.96%
2001	1301	10.23%	8.11%	2.90%	92.66%
2002	1588	10.82%	9.11%	3.28%	113.02%
2003	1704	10.91%	8.71%	3.38%	93.06%

Source: National Bank of Romania and own calculations

### Focus on unrecorded remittance flows

It is widely acknowledged in the literature that officially transferred remittances, as published in the recipient countries balance of payments, grossly underestimate the actual level of remittances.

There are two types of leakages:

- One due to erroneous, imprecise accounting,
- And the other due to the choice of informal unsupervised channels for remittances.

It has become an accepted practice to treat all informal remittances as foreign exchange leakages from the labor exporting country; but this practice is erroneous because these “leakages” also include remittance items such as “personal imports” of migrant workers (i.e. goods imported by return migrants under the duty free allowance facility or brought along with them under personal baggage/gift facilities); the savings brought home on return (in the form of cash or travelers cheques) subsequently converted into local currency at domestic banks (Athukorala, 1993). Personal imports become a debit entry (as part of the total merchandise imports) in the balance of payment accounts, but the related credit entry comes under “errors and omissions”, rather than under migrant remittances. Foreign money, when converted into local currency would show up in the balance of payment accounts under tourist expenditure, thus leading to an under-recording of migrant remittances.

There is sufficient evidence that these two forms of unrecorded remittances are likely to be quite significant, particularly for low-income migrants, who usually account for the bulk of remitters.

The actual leakage of remittances takes three forms.

First, some migrant workers retain part of their savings in personal accounts with overseas banks for purposes such as meeting children's educational expenses and to be used in the event of subsequent permanent emigration. This form does not seem to account for a significant portion of total remittances as such practices are usually limited only to some migrant workers belonging to high-income brackets.

Second, a part of the hand-carried remittances (in the form of cash and travelers cheques) by return migrants may leak to the informal market for foreign exchange. There are no direct estimates of the magnitude of this form of leakage for any country.

Third, there are transfers by migrant workers through intermediary financial operators. Under this method of remittance the worker transfers a sum in foreign currency to an agent overseas under the agreement that the local currency equivalent determined in an agreed exchange rate (which is usually set above the official exchange rate) is transferred by the agent's local counterpart to the migrant's family or nominee.

### **The implications of unrecorded remittances (other countries)**

Some economists argue that inadequate data on unrecorded remittances render economic analysis haphazard. Data collection and reporting practices and procedures among labor-exporting and labor-receiving countries need to be improved. Yet, there are a few micro-level, survey-based studies on unrecorded remittances that may give rough indications for analysis.

#### **Studies for the size of unrecorded remittances**

Study	Country	Results for unrecorded remittances as % of recorded
Mahmud (1989)	Bangladesh	20%
Adams (1991)	Egypt	above 30%
ESCAP (1986)	India	40%
Kazi (1989)	Pakistan	43%
Tan and Canlas (1989)	Philippines	55-60%
Brown (1995)	Tonga and Western Samoa	43%
Choucri (1986)	Sudan	85%
Tingrabadth (1989)	Thailand	18%

Source: Puri and Ritzema (1999)

### **Determinants, effects and uses of remittances**

#### *Factors*

Despite the important volume of these informal inflows in labor-exporting countries, little work has been done on analyzing the factors that affect the volume, direction and forms of these informal remittances and whether and how policies can influence them.

Remittances are considered to be influenced by the following factors:

- Number of workers;
- Wage rates;
- Economic activity in the host country and in the sending country;
- Exchange rates;
- Relative interest rate between the labor-sending and receiving countries;

- Political risk;
- Facility for transferring funds;
- Marital status;
- Level of education of the migrant;
- Whether accompanied or not by dependents;
- Years since out migration and household income level.

These factors affect the total pool of remittance income, the decision whether or not to remit, the amount to remit and the uses of remittance incomes. Factors that affect the migrant workers' choice between the formal banking system and informal channels in remitting their earnings include: individual socio-economic characteristics of their household members, levels and type of economic activity in the sending and host countries, different interest and exchange rates and the relative efficiency of the banking system compared with informal channels.

### *Effects*

A number of studies attempt to analyze the determinants of remittance levels with a view to gauging the potential responsiveness of remittances to policy interventions. Such a study is the one by Swamy (1981) who examined the effect of several of these variables on remittance flows to Greece, Yugoslavia and Turkey. She found that the level of and the cyclical fluctuations in economic activity in the host countries explain 70 to 95% of the variation in remittances flowing into the labor exporting-countries. A more detailed analysis showed that the number of migrant workers abroad and their wages together explained over 90% of the variation in inflow of total remittances into these countries. Looking at per capita remittances instead of total remittances, the study showed that the length of actual or expected stay of the migrant abroad and the number of dependents at home appeared to have some influence on remittances.

### The remittance system: determinants and intermediate effects

Potential determinants of remittances	Expected direction of relationship	Available pool of remittances	Decision to remit or not	How to remit	Amount to remit	Uses
Number of workers	+	x				
Wage rates	+/-	x				
Economic activity in host country	+	x				
Economic activity in sending country	+	x				
Exchange rate	+/-		x	x		
Relative interest rate between labor-sending and receiving countries	+/-		x	x		
Political risk factors in sending country	-		x			
Facility of transferring funds	+	?	x	x		
Ratio of females in population in host country	-		x		x	
Years since out migration	+/-		x		x	x
Household income level	-		x		x	x
Employment of other household members	-		x		x	x
Marital status	+		x		x	?
Level of education	-		x	?	x	x
Occupational level of migrants	-		x		x	x

Source: Puri and Ritzema (1999)

\* Please read the signs as follows: “+” - positive effect; “-“ - negative effect; “x” – no effect; “?”- there is an effect, but there is no consensus of its pattern.

### Uses

#### *Micro and macro implications*

The expenditure pattern of migrant households is central to any meaningful discussion on the development implications of labor migration and the design of policy measures to enhance the developmental impact of remittances. There are a number of studies, which deal with this aspect of migrant behavior. It is important to note that while much of the literature focuses on how remittances are used by recipients (generally spouses, children, parents and siblings), explored below are also the implications of remittances on the overall economy without limiting it exclusively to migrant households.

#### *Micro implications*

The largest portion of remittances is used for daily expenses such as food, clothing and health care – basic subsistence needs – and they represent a significant share of the income of those households. Funds are also spent on building or improving housing, buying land or cattle, and buying durable consumer goods such as TV sets, etc. Generally, only a small percentage of remittances are used for savings and productive investment, e.g. income and employment-generating activities such as buying land or machines, starting a business and other activities with multiplier effects.

Another view sees remittances as a household strategy for improving recipient's standard of living, providing resources for food, housing improvements, education and small appliances. The criticism of consumption patterns ignores the personal circumstances as well as the inherently private nature of the transfers and the limited opportunities for small-scale investment in the community and the social and financial capital needed for a new business. Thus, given the circumstances in the various countries (poor infrastructure, lack of access to credit, etc.) the migrants are making rational decisions about the use of their remittances.

When money is transferred from abroad, its receivers use it somehow but predominantly for consumption. Hence, it would start circulating in the country. Therefore, the demand for some goods and services would be higher and their prices would rise. This would be better for the sellers and producers of those goods because it enables them to make higher profits. The higher prices of goods demanded by the remittance receivers would lead to lower purchasing power of the money as a whole and particularly for the rest of the people not related to the money transfers. They actually become poorer because their real income decreases, as they can buy less of these high-demanded goods, especially if their income is not adjusted to the inflation. So, remittances cause a change in the income distribution, as some people are better off and others become poorer.

### **Macro implications: Bulgaria**

While the data limitations have made it difficult to undertake formal macro-modeling exercises for Bulgaria, there can be given a broad analysis of the impact of remittances on the economy. The literature describes two opposing perspectives on this issue with studies supporting both. On the one hand, remittances often provide a significant source of foreign currencies, increase national income, finance imports and contribute to the balance of payments. Remittances also have economic, social and political life and contribute to the expansion of wire transfer and courier companies as well as money exchanges.

Due to the sheer value of money sent and the weakness of the receiving economy, remittances can have a substantial effect on the macroeconomic indicators. Additionally, the stability of the flow has led to remittances constituting a major factor in international credit rating and securitization analysis. Generally, however, while remittances contribute to the accumulation of foreign exchange reserves, they are considered to contribute little to the economic growth.

Benefits to the country vary depending on the structure of the economy and related policies and regulations, such as foreign exchange controls.

In Bulgaria, the capital controls are fully removed, thus enabling migrants to transfer more money at lower costs. The benefits also depend on the opportunity of recipients to make "productive" use of these transfers, such as due to poverty levels and the freedom, the ease of access and available ways to invest.

The bulk of the impact is a considerable positive effect on the receiving households in terms of improved standard of living with a knock-on effect on the local economy due to consumption and investment. Unfortunately, these macroeconomic effects can also have the effect of delaying government reforms to restructure economic and other policies to tackle underlying causes.

Remittances may not only fail to help the economy but also may decrease the likelihood of an improved economy. The inflow of funds can be deceptive if it creates dependence among the recipients, encourages the continued migration of the working age population and decreases the likelihood of investment by foreign investors because of an unreliable workforce. Moreover, remittances are hardly predictable. Also, remittances are spent on consumer goods and mainly imported ones that may lead to higher prices and inflation. The availability of foreign exchange, together with the growing demand for consumer goods not available in the domestic market has been linked with a rising demand for imported goods.

On overall, however, Bulgaria is for the time being less dependent of remittances as macroeconomic phenomenon than Romania, which is packed with Bulgaria in the EU accession process.

### Overall benefits and costs of remittances from international worker migration

<i>Benefits</i>	<i>Costs</i>
Ease foreign exchange constraints and improve balance of payments	Are unpredictable
Permit imports of capital goods and materials for industrial employment	Are spent on consumer goods which increases demand, increases inflation and pushes up wage levels
Are potential source of savings and investment for capital-formation and development	Result in little or no investment in capital-generating activities
Net addition to resources	Replace other sources of income, thereby increasing dependency, eroding good work habits and heightening potential negative effects of return migration
Raise the immediate standard of living of recipients	Are spent on "personal" or "unproductive" investment (e.g. real estate, housing)
Improve income distribution (if poorer/less skilled migrate)	Create envy and resentment and induce consumption-spending among non-migrants

Source: Russell (1986).

### Preliminary conclusions

As a conclusion, we can say that the remittances increase the recipients' income, thus giving them more options to spend and save. The allocation of investment expenditures by migrant households is concentrated in real estate. Business investment is oriented mostly towards trade, transport and other services, and investment in manufacturing and agriculture is relatively rare. This pattern of investment behavior could be explained by the peculiarities of the socio-economic context of migrant workers and their expectations. In the typical socio-economic setting, starting a small business or buying land enable the return migrant to compete with the established capital owners of the community of origin. These considerations suggest that the observed remittance utilization pattern, while undesirable from the perspective of the general developmental objectives of the given country, is essentially consistent with the individual migrant worker's motivation for migration.

## **Migration and trade**

In the standard Heckscher-Ohlin-Samuelson (H.O.S) model, trade and migration are perfect substitutes, i.e. if free trade takes place, it will nullify any incentive to migrate and vice versa. So, trade liberalization will decrease and then nullify migratory pressures, both in sending (Bulgaria) and host countries. On the other hand, it is not the end of the story. If there is not a competitive framework and some kind of distortions in the economy, the analysis becomes different and the links between migration and trade are not trivial.

The complementarities between trade and migration follow from the presence of positive externalities between individuals' (consumers/workers) and firms' location decisions and from the process of cumulative causation. When the number of firms in a region increases due to the decreased trade costs, this region becomes more appealing to individuals (i.e. higher wages and increase in the number of local varieties) and it generates the above-mentioned process of cumulative causation. Thus, trade liberalization affects the location choices of individuals and firms and a core-periphery structure may emerge. (Drinkwater et al., 2002).

Empirical evidence on the relationship between immigration and trade is limited. However, the evidence points to a positive impact of immigration on trade between the immigrants' host and home countries.

There are two possible explanations for this. First, immigrants have a preference for products that originate in their home country and, second, immigration between the two countries reduces the transaction costs of bilateral trade. The first of these explanations should only result in an increase in the host country's imports (i.e. home country's exports), while both imports and exports would be expected to increase as a result of the second explanation. Transaction costs could be reduced through a number of channels. First, trade can be enhanced through the diminution of communication barriers resulting from immigrants being able to converse with co-linguals in their home country. Immigrants can also bring with them information about home country products if these are differentiated from those of the host country and hence the cost of obtaining this information will be reduced. The development of trust through immigrant contacts can also reduce the cost of negotiating and enforcing trade contracts.

Gould (1994) analyses the impact of immigration on the trade between the US and 47 trading partners. He suggests that the immigrant information effects appear to be stronger for imports and exports of consumer rather than producer goods and that exports are influenced by immigrant links to a greater extent than imports. Wagner et al. (2002) estimate that the average new immigrant for Canada increases exports to their own country by \$312 and increase imports by \$944. Girma and Yu (2002) find that a 10% increase in the immigrants from non-Commonwealth countries increases bilateral UK exports by 1.6% and imports by 1% in their static models. However, they do not find any significant relationship between immigration and trade for Commonwealth countries. They interpret these findings as supporting the view that immigration reduces the transaction costs of bilateral trade as a result of the immigrant specific knowledge of foreign markets and social institutions rather than through the personal or business contacts that immigrants may retain with their home countries.

### **What all this means to Bulgaria?**

What are the implications for Bulgaria?

After the introduction of the currency board arrangement in 1997 all the capital controls were removed. The fixed exchange rate reduced the transaction costs and the uncertainty and encouraged the foreign trade and especially that with the EU countries. Therefore, the share of EU countries in Bulgarian foreign trade has risen. There has been a reorientation of the trade flows from Russia to Germany, Italy, Greece and France. The trade has been supported by the EU integration of Bulgaria and the gradual reduction of the trade barriers, namely custom duties. It can be seen in the next table that the percentage of custom duties has fallen during the last years, reflecting the easier access to the international markets of Bulgarian-produced goods.

#### Customs duties and their share of imports and GDP

	1998	1999	2000	2001	2002	2003
Custom duties (mln. euro)	226.5	132.2	112.8	99.9	96.3	118.3
Custom duties as % of import	4.22%	2.16%	1.35%	1.04%	0.98%	1.07%
Custom duties as % of GDP	1.98%	1.09%	0.82%	0.66%	0.58%	0.67%

Source: Ministry of Finance, National Statistics Institute and own calculations

On the other hand, the full capital liberalization and the entry to the Bulgarian market of such companies as Money Gram and Western Union enabled the emigrants to send more funds at modest costs and minimum risk. The size of the sums that can be carried through borders has also increased, thus facilitating informal networks for money transfers. Effectively, it is much easier in 2004 than in 1997 to remit and respectively receive a particular sum from abroad at falling costs for the transaction.

#### Do “Bulgarians” Educate Their Emigrants?

##### Education and health care budget-spending and remittances

	2001	2002	2003
Remittances (Euro mln.)	472.5	531.7	613.0
Remittances as % of:			
Education-spending	77.5%	76.8%	87.9%
Health care-spending	77.3%	72.3%	84.6%

Note: Data on budget-spending for 2003 are preliminary

The table above shows what the realistic answer to the question is. We take the three years after, because we could consider previous years as a somewhat transitory period after the 1996-1997 crisis and the period of sustainable growth, employment decline and investment in public services the country enjoyed after recovering from the crisis.

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## Chapter 4

### Overall EU Migration Constellations

#### I. EU Policies on Labor Migration - by Stefan Cankov

##### Introduction

The EU Member State policies to limit immigration over the last decades have had the effect of boosting the growth of irregular immigration. A substantial portion of incoming labor migration arrives through irregular channels, meaning that within the Union's borders there is constantly a large pool of undocumented individuals. It is now widely recognized among politicians and researchers that labor immigration to Europe has contributed greatly to the Union's economy.

The outlook for economic development and, above all, European population forecasts, suggest that an important inward flow of workers will continue to be necessary. Labor supply shortages – regardless of the EU current unemployment rates – are increasingly evident in both unskilled and more qualified forms of employment. Current demography trends<sup>29</sup> point at the same: “Europe's population is ageing, and birth rates are no longer at generation replacement level. Speculation on population aspects has been rife, but without giving credence to certain rather alarming predictions, there can be no doubt that immigration can provide an important demographic boost”.

If the argument is so far correct, i.e. that immigration to date has been a good thing for Europe, and moreover it is known that continued labor immigration will be required, then it is nonsensical to continue to pursue policies which fail to recognize this reality and force immigration into irregular channels because of restricted access to legal means of entry.

##### Legal base and regulations<sup>30</sup>

The free movement of people is one of the basic principles of the process of European unification since the EC Treaty<sup>31</sup> and later the Single European Act<sup>32</sup>. The Schengen Agreement (1985)<sup>33</sup> was a step towards the full freedom of movement, but it remained as an instrument for border control and police co-operation within the EU. It was signed initially by 5 Member States and expanded to include 13 countries in 1997 and following the signing of the Treaty of Amsterdam<sup>34</sup>, when entered into force for all EU Member States (without the UK and Ireland). The Treaty of Maastricht<sup>35</sup> introduced the concept of “*Union citizenship*”. Step by step, the national governments transferred their sovereignty to EU institutions in order to design common migration policy. However,

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<sup>29</sup> COM(2000) 757

<sup>30</sup>All EU Regulations and decisions in regard of immigration policies are available on EU Internet Website:

[http://europa.eu.int/comm/justice\\_home/doc\\_centre/immigration/wai/doc\\_immigration\\_intro\\_en.htm](http://europa.eu.int/comm/justice_home/doc_centre/immigration/wai/doc_immigration_intro_en.htm)

<sup>31</sup> <http://europa.eu.int/abc/obj/treaties/en/entr6d03.htm#112>

<sup>32</sup> <http://europa.eu.int/abc/obj/treaties/en/entoc113.htm>

<sup>33</sup> <http://europa.eu.int/scadplus/leg/en/lvb/l33020.htm>

<sup>34</sup> <http://europa.eu.int/scadplus/leg/en/lvb/a11000.htm#a11006>

<sup>35</sup> <http://europa.eu.int/en/record/mt/title6.html>

some Member States had specific reasons and still did not have aspirations for co-operation in the field of common migration policy. Immigration policy became part of the third pillar of the European Union<sup>36</sup> (co-operation in the field of justice and home affairs) with the stipulation that decisions must be unanimous.

Member States were committed to measures aimed at unification of the EU legislation. The European Union has acquired concrete competence in the field of legal and illegal immigration since the adoption of the Treaty of Amsterdam and the Tampere European Council<sup>37</sup>. The conclusion of the Council was a request for the Commission to prepare an action plan for the following 5 years. The European Union came up with development actions for a common policy on immigration in order to ensure more effective management of migration flows to the EU.

The European Commission has put forward several directives in order to establish a Community level of co-operation between Member States and progress towards a common immigration policy. The Directive on family reunification<sup>38</sup>, the Directive on long-term residents<sup>39</sup> and the Directive on residence permits for victims of trafficking and smuggling<sup>40</sup> has already been adopted. Agreement was reached with respect to the Directive on the admission of students. Other proposals in the pipeline are the Directive on the admission of third-country nationals to carry out scientific research<sup>41</sup> and two proposals for Council Recommendations to facilitate the admission of researchers.

The analysis of the European Commission, in “Communication on a Community Immigration Policy”, argues that the Union must accept labor immigrants and open up legal channels for this. It is clear that in an economic and demographic context, the “zero” immigration policies of the past 30 years are no longer appropriate for the EU. According to the Commission, this should be done in a regulated way, coordinated between Member States and the Commission itself, by setting up a system of periodic projections of inward flows, and close cooperation and exchange of information across the Community for applying these projections. That will ensure the immigrants’ passing through legal channels and the prospects of further social integration. The only sector in which the Commission has so far not managed to reach an agreement concerns a proposal for a directive on the conditions of entry and residence by third-country nationals for the purpose of paid employment and self-employed economic activities<sup>42</sup> (it is still pending since 2001, blocked by Germany). Using the right to travel, each economic immigrant into the EU could reflect the labor market of each Member State. Admission of economic migrants is essential for migration policy and needs to be addressed at Community level. However, EU Member States – through their representatives – have always been reluctant to develop the EU migration policy in this direction.

### **Policy toward labor migration from the 10 new Member States**

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<sup>36</sup> [http://www.wordiq.com/definition/Police\\_and\\_Judicial\\_Co-operation\\_in\\_Criminal\\_Matters](http://www.wordiq.com/definition/Police_and_Judicial_Co-operation_in_Criminal_Matters)

<sup>37</sup> [http://www.europarl.eu.int/summits/tam\\_en.htm#a](http://www.europarl.eu.int/summits/tam_en.htm#a)

<sup>38</sup> DIRECTIVE 2003/86/EC

<sup>39</sup> DIRECTIVE 2003/109/EC

<sup>40</sup> COM/2002/0071

<sup>41</sup> COM(2004) 178

<sup>42</sup> [COM\(2001\) 386](#)

At present, around only 2% of EU nationals live and work in a different Member State, and only 4% of the people living in the EU are non-nationals. According to the European Integration Consortium<sup>43</sup>, Central and Eastern European immigrants account for just 0.3% of the EU workforce at present, 80% of whom reside in Austria and Germany.

The Consortium estimates that the inflow from the new Member States to the old ones may amount initially to around 350 000 per year. The annual net inflow would decrease over time so that by 2030, the total population of nationals from the new Member States to the EU15 is expected to stabilize at a level of around 3,5 million people, which would represent around 1% of the total population. Main destinations are likely to be Germany, the UK and France. Such migration is likely to gravitate around blue-collar manufacturing jobs, unskilled service work and construction.

Similar to the previous accession process, a set of Transitional Arrangements governing the enlargement was incorporated into the Accession Treaty<sup>44</sup> so as to protect local labor markets from undue pressure.

Migrants from Cyprus and Malta have had access to the labor market of the EU-15 since 1<sup>st</sup> of May 2004; while those from the other eight acceding states are subject of specific rules imposed by each old Member State. Transition arrangements, however, may not normally last longer than five years or, exceptionally, seven. Irrespective of national rules operating during the transition period, the old 15 Member States are obliged to give preferences to job applications from accession country nationals over those from non-EU countries.

Out of the fifteen EU states only two - Ireland and the UK – allow for free labor market access; on a reciprocal basis, UK and Irish citizens working in new Member States are no longer required to possess a work permit. The other thirteen states apply their current restrictions on foreign nationals for an initial period of two years. The option to impose “safeguard” arrangements to protect the local market for up to seven years are negotiated by Malta, as well as by Austria and Germany. In these last two states the safeguards are sector specific, and migrants may only take jobs in the areas indicated if they secure a work permit.

The sectors are:

- 1) For Germany: construction and relevant branches; industrial cleaning; other services – interior decorators;
- 2) For Austria: construction and related branches; industrial cleaning; manufacture of metal structures; store working; horticulture; security; home nursing; social work and non-residential care.

The European Commission urges governments to adopt a more pro-active and forward-looking approach to migrants and immigration generally<sup>45</sup>, but most Member States have

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<sup>43</sup> [European Integration Consortium, Berlin](#), 2001, “[The impact of eastern enlargement on employment and labour markets in the EU Member States](#)”

<sup>44</sup>

[http://europa.eu.int/comm/enlargement/negotiations/treaty\\_of\\_accession\\_2003/treaty\\_accession\\_28.htm](http://europa.eu.int/comm/enlargement/negotiations/treaty_of_accession_2003/treaty_accession_28.htm)

<sup>45</sup> See “Communication on a Community Immigration Policy”

shown a marked reluctance to follow this path. The main reasons for this reside in the low economic growth and the existing high or steadily rising unemployment.

However, the attitude may change once economic prospects improve. In some member states, migration by accession nationals could help to mitigate the effect of aging populations, by rejuvenating the workforce and retarding its constriction. On the other hand, such an effect may only be temporary and, at the same time, could damage the economies of the acceding countries.

### EU policy on work permits

Given the existing diversity of national rules for residence and work permits around the EU, the Commission proposed two directives aimed at harmonizing the procedures, including those in the new Member States. The first addresses the conditions of entry and residence of third-country nationals to the purpose of paid employment and self-employment<sup>46</sup>; the second concerns entry and residence of third-country nationals to the purpose of studying, vocational training or voluntary service<sup>47</sup>.

While entry procedures for third-country nationals who wish to work or study will be simplified, individual member states still have the power to limit or even refuse entry and, conversely, open up certain areas of regional markets, if they wish.

### Summary of work permit procedures in the EU for non – EEA nationals

Member state	Criteria for issuing work permits	Time taken to complete process	Will transitional arrangements apply to new member states?
Austria <sup>48</sup>	Each region has annual quota. Non-EEA labor restricted to key personnel (min. income € 2100 monthly). Scope for seasonal work widened.	7 weeks after lodging application for a full work permit (final stage)	Yes. Also, a safeguard in place for certain sectors.
Belgium	Special skills not available on home labor market & Belgium has agreement with 3rd countries. Permits usually granted to executives.	1-3 months	Yes, but can qualify for work permit B automatically (highly qualified personnel), if from new member states.
Denmark <sup>49</sup>	Substantial highly-qualified personnel shortage. Doctors, nurses, engineers, and scientists usually granted a permit – often within 30 days.	The average is two months, shorter for certain staff.	During the transition period current rules should still apply.
Finland	Special skills not available on home labor market or, rarely, low-skilled temporary jobs, e.g. agriculture.	Several months.	Yes, restricted access by new EU Member States for 2 years, thereafter position reviewed.
France <sup>50</sup>	Applications for teachers, senior executives, seasonal workers and IT specialists are regarded most favorably.	At least 2-3 months; shorter for fast-track IT workers.	Yes.
Germany <sup>51</sup>	IT experts who possess Green Card, to	Process can be lengthy;	Yes. Also a safeguard in

<sup>46</sup> CNS/2001/0154

<sup>47</sup> CNS/2002/0242

<sup>48</sup> <http://www.workpermit.com/austria/austria.htm>

<sup>49</sup> <http://www.udlst.dk/english/Work+and+Study/Work/Default.htm>

<sup>50</sup> [http://www.workpermit.com/france/france.htm#French\\_how\\_apply](http://www.workpermit.com/france/france.htm#French_how_apply)

	fill particular needs/scarce skills not available on home labor market.	GC applications are processed in 2 weeks.	place for certain sectors.
Irish Republic <sup>52</sup>	If skills are not available on local/EEA labor market.	At least 4 weeks.	From May 2004 full freedom of access to Irish labor market of nationals of new Member States.
Italy	Annual work quotas (preference given to countries that Italy has an agreement with), and seasonal workers. Visa length depends on type of work.	Lengthy procedure, since details of job applicants' housing must be supplied.	Yes.
Luxembourg	In the light of local and sectoral labor market conditions.	Lengthy procedure.	Yes.
Netherlands <sup>53</sup>	If skills not available on local or EEA labor market or recognized shortage, and paid at least min. wage. Maximum permits for seasonal work 24 wks. All other max. 3 years.	Min. 5 weeks up to 3 months (depends on country of origin).	Yes, although govt. has stated it will consider lifting barriers to free movement before end of 2-year period.
Portugal	In the light of local labor market conditions, employer's record on legal compliance and a written job guarantee. Permit usually lasts for one year.	If applying before entry, employer may assume application accepted if not counter indication from labor authorities. Within 30 days.	Yes, existing rules to apply for 2 years. Thereafter a review will take account of local economic/labor market factors.
Spain <sup>54</sup>	Lack of skilled labor in given area, unsuccessful national advertising. Valid 1-2 years, renewable. 2003 quota = 10 575	Max 3 months.	Yes. No plans to remove barriers earlier unless part of EU-wide move.
Sweden <sup>55</sup>	Temporary shortage of staff, or if certain job is a part of international exchange. Permits up to 1 year, jobs must pay SEK 13,000 gross a month at minimum.	Application takes six or eight weeks to process.	Current arrangement will continue to apply during the transitional period.
UK <sup>56</sup>	UK employers may accept applications if jobs cannot be filled by resident workers. Several schemes according to skill level.	Fast-track within one week, longer for renewals.	Since May 2004 full freedom for nationals of new Member States.

## EU policy on informal labor

It is difficult to qualify the restrictive immigration policy against of EU countries as successful. There is a large gap between the objectives of governmental immigration policies and actual results.

Various political measures have been taken by European Union countries in response to the phenomenon of illegal immigration:

- 1) Border control measures including deportation of illegal immigrants to their countries of origin after they have been arrested;

<sup>51</sup>

[http://www.bmi.bund.de/nn\\_122688/Internet/Navigation/EN/Homepage/Home.html\\_nnn=&true](http://www.bmi.bund.de/nn_122688/Internet/Navigation/EN/Homepage/Home.html_nnn=&true)

<sup>52</sup> <http://www.entemp.ie/labour/workpermits/>

<sup>53</sup> <http://www.undutchables.nl/index.php?id=workpermit>

<sup>54</sup> <http://www.justlanded.com/JobWorkPermits.aspx>

<sup>55</sup> <http://www.migrationsverket.se/english.jsp>

<sup>56</sup> [http://www.workingintheuk.gov.uk/working\\_in\\_the\\_uk/en/homepage/work\\_permits/applying\\_for\\_a\\_work.html?](http://www.workingintheuk.gov.uk/working_in_the_uk/en/homepage/work_permits/applying_for_a_work.html?)

- 2) Ordinary or special measures to regularize illegal immigrants who meet certain conditions and requirements;
- 3) Imposing penalties on businesses, employing immigrants in the informal sector.

Labor market regulation and the minimum level of working conditions considered acceptable by the local population have led to immigrants being employed in labor-intensive sectors where semi-skilled or unskilled workers tend to be employed.

The informal sector is particularly attractive to immigrants in economies where unemployment is high. This is especially true for Spain and Italy, where unemployment is relatively high compared to the average EU level and the traditional immigrant destinations, but also for other countries such as Germany and Portugal, where unemployment is slightly higher than the EU average.

Unemployment has risen in recent years in both traditional and more recent immigrant destinations, but this does not mean that the local population is competing with immigrants for jobs. Many local job-seekers are either young people who are able to look for well-paid, skilled work, housewives who can count on the financial support of their family, or people on state unemployment benefit. Consequently, the overall level of unemployment in a country cannot be taken as indicator whether or not there is competition for jobs between locals and immigrants.

### **EU Policy on integration**

There is no single, all-encompassing definition for “integration” and there is not a single universal model for achieving integration (such as obtaining citizenship for instance) that can be applied throughout the EU. Consequently, it is currently all but impossible to develop a single integration policy at European level.

Legislation and government strategies and policies vary from one EU country to another in keeping with each country’s geopolitical context. This is why the distinctions between the countries of Northern and Southern Europe are still valid and continue to be used on a regular basis.

The countries that form the EU borders are forced to act as “Europe’s boarder police” by preventing the entry of non-Europeans or immigrants from outside the EU. “Fortress Europe” raises on the way of the “invasion” of foreigners and immigrants from outside the EU, while on the other hand these immigrants are needed to fill jobs which are essential for the economy to continue to function normally and for which there is either a shortage or local workers are not interested in it because they have very high standards concerning what sort of employment they are prepared to accept.

### **The future of European policies on legal migration**

The current problems of the Member States reflect upon the positions of national representatives at EU level and their agenda for further development of the Common Immigration Policy. The main reason for tension in the EU collaboration in migration policy comes from the public opinion and media that influence national government positions that are played out at EU level. Mainly, the UK and Spain take the opportunity to put illegal immigration at the very top of the EU agenda.

Immigration is a major ground of pointed rise of populist anti-immigration parties within the EU, including Le Pen's entry in the second round of the French presidential elections, the support for the Austrian Freedom Party, the Pim Fortuyn List in the Netherlands, the MSI in Italy, and the elections success of the Vlaams Blok in Belgium.

On this basis, national governments have launched a series of steps to satisfy the public demands. In Denmark, the Liberal-Conservative coalition shifted towards the hard-line stance on migration taken by the far-right Danish People's Party. Legislation was passed to prevent any Dane under the age of 24 from living in Denmark with a non-EU spouse. Italy proposed compulsory fingerprinting of all new entrants and Austria - obligatory learning of German for immigrants. Political sensitivity, combined with the actual levels of unemployment in the biggest Member States (France and Germany), is sharp. At present times the Member States continue to pursue their national labor market policies and thus to decide independently about whether to respond to the demand for more skilled and low-skilled labor.

On the other hand, there is a growing pressure to modify economy due to the lack of mobility of workers in most EU countries even within the old member states. For instance, in Italy there is persistent high unemployment in the South and a labor shortage in the North, but southern workers are reluctant to relocate.

The economic and ageing evolution ("pension time bomb") of the EU will require the adoption of a long-term strategy based on balance between legal admission for employment purposes, the integration of legally residing third country nationals and the fight against illegal immigration.

Concerning the last enlargement, the discussion is taken as internal issue of the EU based on the fundamental right of free movement within the Union. The Common Migration Policy, as it is determined in the EU is dealing exclusively with third-country citizens.

The future development of common European policies on migration, with a libertarian stress, is an integral part of the entire process of European integration and transfer of sovereignty from national to Community level. The adoption of the European Constitution will accelerate the process and will guarantee unification in the field migration policies. Indeed, the main reason for the large gap between goals and outcomes is based on the decision-making procedure at EU level. The required unanimity in the Council voting was (expired on 1/5/2004) the main reason for the low level of convergence. This is largely due to the fact that the national governments continue to identify more closely with their own national state than with Europe as a supranational entity. The best example is the comparison between the initial proposal of the Commission and the final decision of the Council which represents the national government. Even so, under the Treaty of Nice, the Commission is already responsible for preparation of the proposals. Currently, most of the issues are adopted by a majority procedure and co-decision with the European Parliament. That will definitely facilitate the adoption of European migration legislation.

## II . The Case of Italy - by Galina Karamalakova

### *Brief overview*

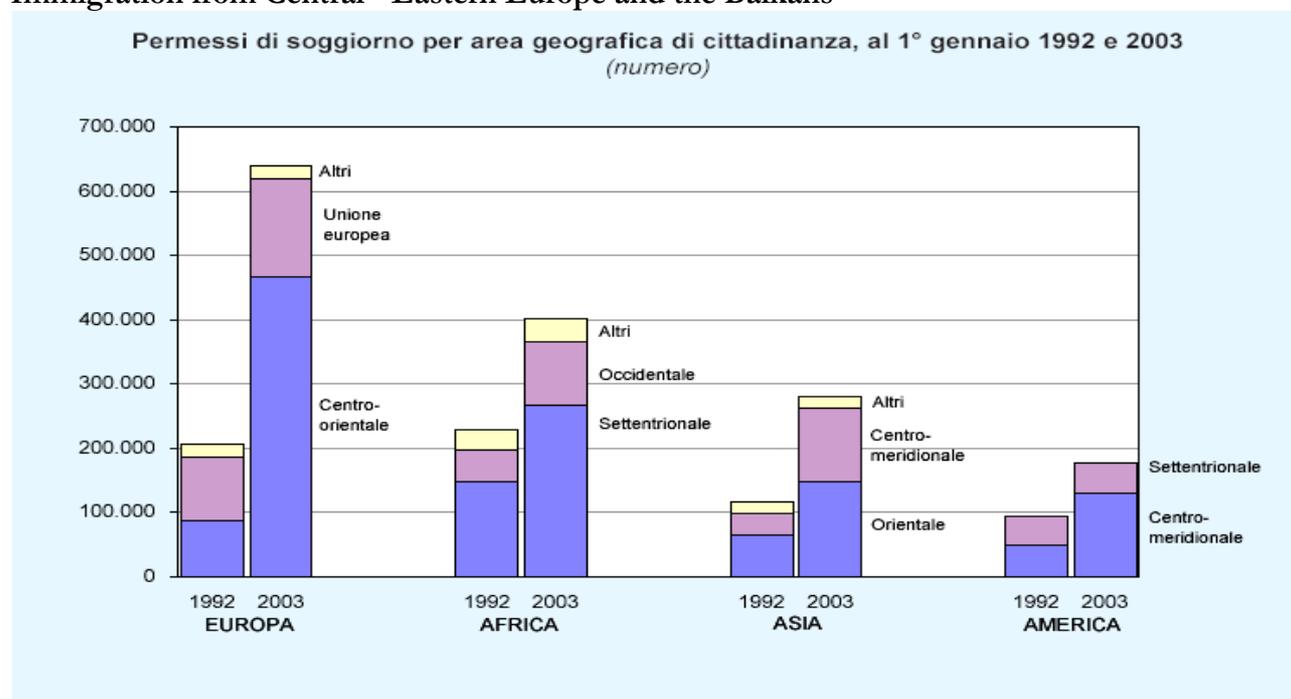
Though the number of the newborns remains lower than the number of the deaths, the population of Italy shows a steady growth thanks to the migration flows. The National Statistics Institute reveals that by the end of the year 2003 the Italian population has reached the number of 57.9 million residents.

According to the last press release from the Ministry of Internal Affairs of Italy, the total number of foreigners residing regularly in the country is 2,193,999 (as of October 20, 2004). In the period January 1 – October 20, there have been issued 1.147.194 residency permits (incl. the renewed ones); 1,316,179 is the number of the expiring residency permits at the end of the year and at the Immigration bureaus (Questura) there are approximately 260,000 requests still pending to be processed.

Not taking into consideration the 19,500 visas for seasonal workers, the total number of visas issued for residing in Italy for the year 2003 is 107,500 (19,500 for workers, 66,000 for family dependants, 18,000 for education and 4,000 for religious reasons). 85% of the workers' visas have been given to immigrants from Eastern Europe.

It is difficult, though, to quote the number of the foreigners, irregularly present in Italy. Estimations vary from 200,000 (ISMU Foundation<sup>57</sup>) to 600,000 (the syndicates) and 800,000 (Institute for Political, Economic and Social Studies – Eurispes<sup>58</sup>). In 2003, almost 150,000 people were expelled from Italy and in the period January – October 20, 2004 – 105,739, respectively.

### Immigration from Central - Eastern Europe and the Balkans



<sup>57</sup> See: [www.ismu.org](http://www.ismu.org).

<sup>58</sup> See: [www.eurispes.it](http://www.eurispes.it).

### Valid residency permits on January 1, 2004

Country	Male	Female	Total
<b>Central-Eastern Europe</b>	<b>232,396</b>	<b>235,038</b>	<b>467,434</b>
Albania	100,874	70,693	171,567
Byelorussia	561	1,818	2,379
<b>Bulgaria</b>	<b>3,583</b>	<b>4,952</b>	<b>8,535</b>
Czech Republic	918	3,215	4,133
Cyprus	73	85	158
Estonia	30	324	354
Hungary	1,124	3,090	4,214
Latvia	78	584	662
Lithuania	134	703	837
Moldavia	1,960	5,151	7,111
Poland	9,698	25,282	34,980
Romania	43,842	50,976	94,818
Russia	2,453	10,334	12,787
Slovakia	1,241	2,162	3,403
Turkey	4,098	2,748	6,846
Ukraine	2,927	11,875	14,802

### Countries from the former Yugoslavia

Bosnia-Herzegovina	7,250	5,526	12,776
Croatia	9,186	7,672	16,858
Macedonia	16,882	9,328	26,210
Slovenia	2,472	1,295	3,767
Yugoslavia	23,012	17,225	40,237

Source: ISTAT – National Statistics Institute [www.istat.it](http://www.istat.it), based on data from the Ministry of Internal Affairs

### Valid residency permits on the 1<sup>st</sup> of January 2001

Country	Male	Female	Total
<b>Central – Eastern Europe</b>	<b>212 404</b>	<b>181 815</b>	<b>394 219</b>
Albania	93,268	53,053	146,321
Byelorussia	384	1,185	1,569
Bulgaria	3,245	4,255	7,500
Czech Republic	826	2,848	3,674
Cyprus	70	81	151
Hungary	1,040	2,720	3,760
Estonia	25	225	250
Latvia	53	373	426
Lithuania	128	398	526
Moldavia	1,049	2,265	3,314
Poland	8,844	21,575	30,419
Romania	35,482	34,517	69,999
Russia	3,170	10,102	13,272
Slovakia	807	1,607	2,414
Turkey	4,138	2,264	6,402
Ukraine	2,184	6,884	9,068
<i>Countries from the former Yugoslavia</i>			
Bosnia-Herzegovina	6,968	5,125	12,093
Croatia	9,087	7,603	16,690
Macedonia	15,709	6,795	22,504
Slovenia	2,417	1,299	3,716
Yugoslavia	23,510	16,641	40,151

Source: ISTAT – National Statistics Institute [www.istat.it](http://www.istat.it), based on data from the Ministry of Internal Affairs

#### Valid residency permits on the 1<sup>st</sup> of January 2002

Country	Male	Female	Total
<i>Central – Eastern Europe</i>	<b>221,736</b>	<b>208,424</b>	<b>430,160</b>
Albania	96,835	60,811	157,646
Byelorussia	445	1,566	2,011
Bulgaria	3,454	4,921	8,375
Czech Republic	746	2,923	3,669
Cyprus	68	86	154
Estonia	27	278	305
Hungary	859	2,757	3,616
Latvia	75	491	566
Lithuania	137	563	700
Moldavia	1,580	4,135	5,715
Poland	9,190	23,699	32,889
Romania	39,801	42,754	82,555
Russia	2,675	10,433	13,108
Slovakia	1,100	1,872	2,972
Turkey	4,264	2,520	6,784
Ukraine	2,671	9,947	12,618
<i>Countries from the former Yugoslavia</i>			
Bosnia-Herzegovina	7,021	5,178	12,199
Croatia	9,073	7,491	16,564
Macedonia	16,447	8,238	24,685
Slovenia	2,460	1,291	3,751
Yugoslavia	22,808	16,470	39,278

Source: ISTAT – National Statistics Institute [www.istat.it](http://www.istat.it), based on data from the Ministry of Internal Affairs

#### *Employment situation*

According to the Twelfth Report on Immigration by *Caritas – Migrantes*<sup>59</sup>, the Italian labor force in 2004 was approximately 23,8 million. There are over 2 million unemployed and 21,514,000 employed, of which 63% in services, 32% in industry and 5% in agriculture. The unemployment rate is 9.5% (8.8% for men and 11.5% for women) with approximately double this rate in the South. Half of the jobless remain unemployed for over a year. The highest unemployment rate is in the age groups 15-24 years (28.2%) and 25-29 years (21.2%).

*Caritas* found that it is generally difficult for individuals who are not citizens of a European Union country to get permission to work in Italy, regardless of the fact whether the work they are seeking is professional or unskilled. Employers give preference first to Italian job seekers, then to EU citizens. Non-EU workers are more likely to find work in small and medium-sized firms than in firms with more than 50 employees: 58% of non-EU workers are employed here.

Non-EU workers are 3% of the total labor force, but represent three times that proportion of job starts and six times in contracts lasting more than a year. One in ten

<sup>59</sup>See: [www.caritas.it](http://www.caritas.it) and [www.migrantes.it](http://www.migrantes.it)

new starts involves a non-EU worker, but this rises to one in five for positions lasting more than a year. In other words, immigrants are more likely than Italians to be taken on and to remain in their jobs.

Non-EU workers are represented in services (49%), followed by industry (36%) and agriculture (15%).

In the two years 2000-2001, on average, 40% of the immigrants had some form of irregularity in their social contributions and about a quarter had a residence permit which had expired. The rates for both irregular and illegal work are declining though, especially after the implementation of the government's regularization program.

There are no private employment agencies in Italy. The government employment agency will not register non-Italian citizens.

Yet, figures indicate that the labor market in Italy shows a tendency to be in favor of the immigrants from continental areas similar in culture, traditions and religion, i.e. Central-Eastern Europe and Latin America. The biggest number of immigrant employees belongs to Romania (14.4%), followed by Albania (9.4%), Ukraine (8.9%), Morocco (8.6%) and Poland (4.5%). In recent years the percentage of registered Bulgarian workers varies around 2.8%. In fact, immigrants from Eastern Europe occupy 45% of all job starts given to foreigners, thus representing the biggest share on the immigrants' labor market. Much smaller is the share of the other major groups: 15% for immigrants from Northern Africa and 14% for Latin Americans.

A particular market for both legal and illegal immigrant workers is the domestic assistants' one. In 2002, *Eurisko*<sup>60</sup> conducted a survey and estimated, as a result, that 950,000 families use immigrant workers to care for elderly or for children because they find state services unsatisfactory and unreliable or incompatible with working hours and family needs. In 1999, there were 227,249 domestic workers in Italy registered with INSP (social insurance), of which half were non-EU workers (four-fifths of them women). 4 out of 10 come from Asia (49,214 of whom 36,606 are from the Philippines). Approximately 2 in 10 are from Europe (18,930, the overwhelming majority from Eastern Europe) and from America (20,499, mainly from Latin America) and Africa (16,803).

Many, we believe 2/3, of Bulgarians work without a work permit before becoming regularized, sometimes for the same families over periods of several years. In most cases this practice is well-intentioned, though illegal, either because the workers are unable to afford the high income necessary for regularization or because of the block on sponsored entry in the new Bossi-Fini law.

#### *Work permits*

Citizens of the European Union simply need to fill in a form at the Office for foreigners at the Questura and show their passport and letter of employment. All other foreign workers need to have their employers apply for a work permit (*permesso di lavoro*) from a regional labor office. It can take two to three months. Once the permit is approved, the foreign worker must go to the Italian embassy or consulate in their home country and apply for a work visa.

For self-employed workers, the procedure is similar.

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<sup>60</sup> See: [www.eurisko.it](http://www.eurisko.it)

### *Residency requirements*

Having arrived in Italy, within 8 working days, foreigners need to register with the local police (Questura) in order to obtain a residency permit (*permesso di soggiorno*). According to the Bossi – Fini law the process of obtaining the residency permit should take up to 20 days. Nevertheless, the reality is very different: the medium waiting period is 113 days, with a minimum of 15 days in Prato and a maximum of 11 months in Rome (the Ministry of Internal Affairs).

On July 30, 2002 the legislature passed a new, more restrictive Law 189 on Immigration that resulted in an overall of 20% reduction in application forms. The situation in Rome and Milan, though, has not changed much, considering the fact that the total number of regularly residing foreigners in these two cities is 537.734. As of today, the Ministry of Internal Affairs is working on a three-year project in order to improve the process and cut down the times of issuing residency permits.

The new law meets many criticisms and comments, as it reflects the intention of the present centre-right government to introduce a tight and continuous control on illegal immigration. The main points of the new law can be summarized in:

- Digital imprints – digital imprints will be taken from all immigrants applying for a residency permit;
- Residency permit – it will be given only to foreigners who have already obtained a work contract and will have two-year validity. If an immigrant loses his job and does not begin a new one within 6 months, he has to leave the country or join the group of the illegally residing in the country;
- Residency Card – the foreigner must have resided regularly in Italy for at least 6 years before he could apply for a residency card, which, unlike the residency permit has no expiry date. In the EU, though, the overall necessary period for obtaining the residency card is only 5 years;
- The role of the sponsor (the guarantees from a local resident) is no longer present;
- Abolition of the quota regime;
- Housing – the housing must be guaranteed by the employer;
- Family members – the foreigner with a regular residency permit, could ask to be joined by the spouse or dependants only if they prove their incapacity to sustain themselves;
- Marriage – a spouse could ask for a citizenship provided that he/she has resided regularly in Italy for 6 months after the marriage or not earlier than 3 years if the couple has lived abroad.

The approbation of this law (known as the *Bossi - Fini law* after the names of the two political leaders from the “House of Liberties” coalition) in the beginning of the year 2003 launched a widespread political and social debate in Italy. Currently, the opposition (mainly from the left), the syndicates and immigrants’ organizations reclaim the abolition of the law, or its profound revision. Demonstrations against the restrictive regime on immigration are common, but so far they meet the firm position of the actual government on tight discipline on the entrance and residency regulations for immigrants and no compromise with illegal immigration, thus achieving one of the principal goals of the elections’ program. Yet, changes are to be awaited as the Recommendation of the European Parliament encouraging the States to introduce a special type of residency permit for a job search has still not been taken into consideration.

Actually, *Caritas*, one of the main Italian NGOs monitoring immigration phenomena, maintains that a recent research in several big and medium-sized cities has found a serious change in the local mentality. Italians seem to become more open to the Eastern European countries, especially now with the prospect of the new 10 Member States of the European Union, and the next enlargement involving Romania and Bulgaria in 2007.

Closely with *Caritas*, which was established as (and still is) a religious organization, works the other already quoted organization *Migrantes*. Every year they present together a report on the Immigration containing some statistics information and brief analyses.

The Immigrants Committee is an organization found by the immigrants for the immigrants, but unfortunately it does not have a wide impact. Indeed, the syndicates and other professional organizations have a more serious impact on immigration issues from a political point of view. Figures show that the involvement of immigrants in trade unions is increasing, the main ones being: CISL, CGIL and UIL. The main reasons why immigrants contact trade unions are: to protect their individual rights at work, to gain information about Italian life, problems of regularization and family reunion.

Obviously, these organizations involve only legal workers. So, few Bulgarians participate in organizations of the kind and even those who actually have the right to do so, do not show a particular interest in it. Very few participate in trade unions on voluntary basis; most of the Bulgarian members have been obliged to do so and are not active members.

#### *Bulgarians in Italy*

The Bulgarian Consulate Office in Rome claims that the Bulgarians holding a work permit for Italy in 2003 were 7,399 and it is expected that their number will continue to rise. Unofficial data indicate that only in Milan there are about 20,000 Bulgarians, mostly from outside the capital. The *168 Chassa* weekly in its 8-14 March 2002 edition comes up with a shocking report about the misery, in which Bulgarian migrant workers live, "The Bulgarians in Italy – a life in cardboard boxes". In the neighborhoods of Milan, not far from a waste recycling plant, there is a cafeteria, where several times weekly buses dump the next portion of Bulgarians, who have embarked on the search after money and luck in the rich Italian North. Most Bulgarian migrants live in a ghetto, which they themselves call the village of Barakovo (Sheds' Village) or the village of Bokluk (Garbage Village). They have built houses made of cardboard, covered with nylon and reside amidst a pile of garbage and intolerable reek. The ghetto was founded ten years ago by the first Bulgarian migrants to Milan. The Italian police have tolerated the homeless, since they have caused no problems. In the most luxurious shed there are to be found three iron beds, a table and a freezer, despite the fact that there is no electricity in the village.

Most Bulgarian economic immigrants in Italy do not possess legal documents and do not hold permanent jobs. The highest payments are offered in the sectors of chemical production, construction, brick-building and mosaic-laying. Women mostly take care of elderly people or small kids. With their odd jobs Bulgarian immigrant workers manage to make a living and even send money to their families. The daily payment rate on the black labor market in Milan can reach up to 60 euro but it usually varies between 40 and 50 euro.

Milan is not the only destination for Bulgarian workers. Many cross Greece and arrive to Italy by ferry through the southern Adriatic gateways of Bari and Brindisi. The majority of them find jobs in the agricultural sector or in the services, primary hotels and catering. Wages in the South, though, are much lower and the competition for the job starts is tougher as Southern Italy is traditionally underdeveloped and faces a high unemployment

rate. But even here there are frequent rumors of abuse of workers on the part of the Russian mafia members who control the low-paid illegal labor market.

Nevertheless, various studies have shown that Bulgarian immigrants still tend to resort to informal channels. This involves as many as 80%: 35% have found their employers through friends or acquaintances within the immigrant community, 30% have presented themselves directly to employers and 15% have found work through Italian friends and acquaintances. Only about 15% have managed to find a job position through an employment agency in Bulgaria. So, the great majority starts off with some temporary work, usually for 3-4 months, and then either go back home or succeed in finding a permanent job and in very few cases even sign a contract. But those are reserved for workers arriving in Italy through an employment agency or for high-qualified and skilled immigrants who managed to find a job placement still contracts as a rule.

Most low-wage workers are seasonal (Schengen-3-month) immigrants. They remain in Italy usually for 5-6 months and tend to go more or less to the same place as the year before. Such workers make trips of this kind over periods of 4-5 years. High-skilled workers with a contract remain longer as a rule: up to 8-9 years and obviously show no seasonality. It is interesting though, that they, too, demonstrate a tendency to remain in the same city or area, instead of making major movements, as someone would expect them to be more flexible in that sense.

The main source of reference for Bulgarian immigrants remains the Bulgarian consulate in Rome. A step forward is the creation of the web site [www.bulgaria-italia.com](http://www.bulgaria-italia.com) providing useful information on immigration procedures as well broad information on culture and traditions.

In the period January – October 2004, 190 Bulgarian citizens have been deported from Italy (Ministry of Internal Affairs). Nevertheless, the Italian Foreign Ministry confirms that the rates of Bulgarian immigrants to Italy are not posing any problem in the sector of illegal immigration to Italy.

In fact, the overwhelming majority of Italian employers consider Bulgarian immigrant workers as capable and reliable, with good reputation. They are very much preferred, as they represent a desired combination of characteristics such as being close to the Italian/Mediterranean mentality and religious traditions, and at the same time showing good skills and working habits. There is no discrimination on either religious or racial basis regarding Bulgarian immigrants, as such is rather evident towards other major immigrant groups such as Albanians or even Romanians, who are often accused for social tensions, which sometimes grows even into physical violence.

### III. The Case of Germany - by Katya Dimitrova

#### *Immigration to Germany: Bulgarian share*

There has always been immigration to Germany. The reasons for this have varied throughout the years. Some came as workers or traders, others as refugees.

Today about 7.3 million foreigners live in Germany, which comprises 8.9% of the total population. With about two million people the Turkish represent the biggest foreign ethnic group living in Germany. Other countries of origin include Bulgaria – 44 300, Romania – 89 104, people from Serbia and Montenegro - 568 240.

Since 2001, the number of people immigrating to Germany seems to be declining and in 2003 decreased to 768,975. The majority of immigrants (67.7%) came from European countries. Among these, Bulgaria (1.7%), Romania (3.1%), Yugoslavia (2.8%), Poland (13.6%), Macedonia (0.5%). In 2003, the number of persons immigrating to Germany was again larger than that of persons leaving Germany. The immigration surplus, i.e. the surplus of arrivals over departures, amounted to 142 645 people in 2003, meaning a decrease of 10 124 from the previous year.

#### **Inflow/ Outflow of foreign population by country of nationality**

Country	Inflow 2002	Inflow 2003	Outflow 2002	Outflow 2003	Balance 2003
Turkey	58,128	49,699	36,750	35,612	+14,087
Bosnia and Herzegovina	10,489	8,435	9,168	7,885	+550
Former Yugoslavia	26,420	21,754	37,925	28,292	-6,538
Croatia	13,050	11,497	13,614	11,876	-379
<b>Bulgaria</b>	<b>13,191</b>	<b>13,409</b>	<b>8,783</b>	<b>10,088</b>	<b>+3,321</b>
Poland	81,551	10,4924	67,907	82,910	+2,2014
Romania	23,953	2,4056	17,555	19,324	+4,732
Russian Federation	36,479	67,289	14,414	14,849	+52,440
Macedonia	3,953	3,682	n.a.	2,683	+999

Source: Federal Statistic Office of Germany

In Germany, there are no reliable publications and data on the number of illegal migrants. In contrast with countries like the US, Greece, Spain or Italy, a legalization program for undocumented immigrants has not been carried out, or even seriously discussed in political circles. The Federal Bureau of Statistics<sup>61</sup> estimated the number of illegal foreigners between one and one a half million. In most of the reported cases, the illegality of migrants results from a document fraud, which makes it possible to enter the country legally (as a tourist or visitor) and overstay after the visa has (or the permitted period of stay) expired.

The illegal immigrants in Germany are mostly engaged in construction, industry and agriculture as well as in hotels, restaurants and private households. In 2002, the number of legal proceedings against irregular employment was 60,417, according to the Federal Ministry of Labor and Social Affairs.

#### **Persons caught crossing the German Borders unauthorized (Jan. 2002) Total: 22 638**

Country	Bulgaria	Turkey	Romania	Yugoslavia
apprehensions	1,132	1,811	1,132	22,639
in percent	5%	8%	5%	10%

Source: Federal Statistical Office of Germany

<sup>61</sup> For more information see: [www.auslaender-statistik.de/](http://www.auslaender-statistik.de/)

### *Procedures to become a resident/ residence permit/ working permit*

- EU nationals do not require a visa to enter the Federal Republic of Germany. In general, all other foreigners require a visa for a stay in Germany. A visa is not required for semi-annual visits of up to three months of nationals of those countries for which the EC has abolished the visa requirement.
- Foreign nationals from states outside the European Economic Area (EEA) may, as a rule, only work in Germany if they have a work permit. Such foreign nationals who wish to enter Germany in order to commence work may, because of the 1973 ban on recruitment and current high unemployment levels, only be issued work permits in exceptional cases.

These exceptions relate, for example, to employment in the course of vocational training or in the framework of cooperating between firms, or to jobs for which international exchange is a common policy.

When applying for the work visa/residence permit, documents have to be presented proving that an employer in Germany has actually offered the applicant a job.

When the application is submitted to the competent German mission abroad, the mission forwards the visa application for decision to the “foreigners’ authority” in the place where the job in Germany is to be commenced. This authority has to coordinate its decision with the employment office that is to issue the work permit. That agreement by the foreigners’ authority and the employment office is usually given only if it can be proven that the vacant position cannot be filled by a German or an EU worker.

German missions abroad can only issue an entry visa. The final residence and work permit is issued by the foreigners’ authority in Germany. The whole procedure is time-consuming and complicated and often extends over weeks or even months.

There are three ways to become a citizen of the Federal Republic of Germany: by birth, by naturalization and, for ethnic Germans from Eastern Europe and the Soviet successor states, by claim under “Right to Return”.

Foreigners living in Germany have the right to become naturalized after 8 years of habitual residence in the Federal Republic of Germany. For naturalization, it is necessary to prove adequate knowledge of German. A clean criminal record and commitment to the tenets of the Basic Law (Constitution) are further criteria. In order for a person to be naturalized, he/she must also be in a position to pay his/her own subsistence and may not claim any public funds. There are no requirements for income status or guarantees from a local resident. The applicants must, in principle, give up their foreign nationality (exceptions are allowed). The whole procedure takes 2-3 months and if all documents are done correctly, the person applying for naturalization needs to visit the foreigners’ authority exactly three times.

### *New Immigration Act*

The new Immigration Act entered into force on January 1<sup>st</sup>, 2005. It is a complete revision of the entire law dealing with foreigners, their right to enter Germany as tourists, workers or family members, their right to live and work in Germany, their obligations to respect German laws, their expulsion if they break the law, the right to seek political asylum, the special rights of EU citizens, and so on.

### *Residence permit*

There were five different kinds of residence permits, namely a residence permit for a person under certain exceptional circumstances, a residence permit for specific purposes, a limited residence permit, an unlimited residence permit, and an unlimited right of residence. With the new Immigration act, there will only be two kinds of residence permits, namely a limited residence permit and an unlimited settlement permit. This will simplify the proceedings to a certain extent. Whether a foreigner can obtain a limited residence permit or an unlimited settlement permit, or no permit at all, will depend on the intended purpose of residence, for example education, employment, the subsequent immigration of family members, residence on humanitarian grounds, etc.

### *Labor Migration*

The new act is intended, on the whole, to facilitate labor migration, but it focuses at the same time on security issues. Highly qualified individuals will have the possibility to obtain a permanent settlement right from the beginning. The self-employed persons will be given a residence permit if they invest at least one million euro and create at least 10 new jobs. Foreign students will be able to stay in Germany for up to one year after having taken their degree for the purpose of seeking employment.

A very important change concerns the approval procedure. Under the current system, two permits are necessary, namely a residence permit and a work permit. The two permits are connected in the sense that a residence permit can be issued only if and when the labor office decides that a work permit can be issued. When the new act enters into force, the work permit will be issued together with the residence permit, subject only to internal approval by the labor office. Coordinating the proceedings for the residence permit, on the one hand, and work permit, on the other hand, is not only a major inconvenience, but often simply takes too much time for the simple reason that one must deal with two branches of bureaucracy rather than one<sup>62</sup>.

### *Employment agencies*

- The Central Placement Office of the Federal Employment Agency (ZAV) is the German body responsible for placing applicants from abroad with German firms and likewise for placing German applicants with firms abroad. ZAV works in conjunction with other agencies of the Federal Employment Agency. Between ZAV and the Bulgarian Ministry of Labor, there were signed recruitment treaties concerning IT, hotel and restaurant industries as well as household members in need of special care. In 2002, 270 Bulgarian IT specialists received the so-called Green Cards referring to the Federal Statistical Office.
- European Employment Service (EURES). EURES advisers in the national employment authorities in the EU and EEA countries pass on information about ways of finding work and about living and working conditions in these countries.
- Private employment agencies: if they possess the necessary permit from the Federal Employment Agency, they may file applicants (and applications for work permits) with the relevant authorities of the Federal Republic of Germany and from and for EU and EEA Member States. Placements involving countries outside the EU and EEA may, with few exceptions, for which agencies require a special permit (e.g. for artists, photo-models, professional sportsmen and women, au-pairs), only be handled by the Central Placement Office.

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<sup>62</sup> The new German immigration act, McHardy, McHardy Boerschek&Partner

### *Labor Shortages*

Although Germany has some 4.3 million unemployed workers (i.e. an unemployment rate of 10%), many sectors in the economy, and not just the high-tech industry, are facing a shortage of qualified workers. For instance, there is a nation-wide shortage of the following workers<sup>63</sup>:

- 60,000 cooks, waiters and related personnel in the restaurant industry
- 50,000 cleaning staff
- 240,000 metal workers (in the "Metall- und Elektroindustrie")
- 40,000 engineers and computer programmers
- 27,000 medical doctors

### **Demographics**

Like most other West European nations, Germany has been experiencing declining birth rates coupled with a longer life expectancy. The result of this demographic development is that the average age of the population is gradually rising. If this trend continues and no immigration takes place, demographers project that by 2050 the present population of approximately 82 million will shrink by over a 50 to 60 million.

### **The Debate on Immigration**

When the immigration bill was proposed (2002), it represented significant progress for a country that has officially been closed to permanent immigration during the last 120 years. The *Sueddeutsche Zeitung* even went so far as to call it the "Jahrhundert-Gesetz" (the law of the century). Although the country has relied heavily on foreign labor for economic growth, it has also rejected permanent immigration. Thus, the regulation that arose to govern the temporary migrations was classified as "Polizeirecht" (Police Law) and foreigners were treated more or less by the various bureaucracies as a danger to be held at bay.

The bill was adopted in the end of 2003 and marked a dramatic shift in the attitude towards foreigners. It signaled the acceptance of permanent immigration and replaced the "cold" attitude of the "Polizeirecht" (Police Law), which essentially viewed foreigners as potential criminals, with a set of "Buergerrecht" (Civil law), which treats foreigners as potential new citizens.

Moreover, the bill provides for the integration of foreigners, whereas before that foreigners were seen as cheap economic inputs that pay taxes but do not require unemployment or pension benefits.

The other important change: immigrants no longer have to show that they already have a job in Germany before obtaining residency rights. This policy change is justified by pragmatism, stemming from the already mentioned shortage of qualified workers.

While the new immigration law is very popular with the country's economic leaders, large segments of the population still look at any form of immigration with suspicion and fear. Many Germans wrongly blame foreigners for the high unemployment rate and the inadequate educational and housing facilities. Despite the government's assertion that immigration under the proposed law will be aimed more at highly skilled and educated workers who will actually help to create jobs, fill critical gaps in the labor market and thus

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<sup>63</sup> [www.zeit.de/archiv/2002/13/200213\\_migration\\_global](http://www.zeit.de/archiv/2002/13/200213_migration_global)

maintain the competitiveness of German industry, some nevertheless fear that they would have to compete with foreigners for jobs, housing and other scarce resources. But, perhaps for a lot of people the prospect of losing their national identity and of being forced to live in a multicultural society is even more worrying. A study by the *Europäische Stelle zur Beobachtung von Rassismus and Fremdenfeindlichkeit* (European Commission against Racism and Intolerance) published in April 2001 revealed that a majority of Germans (over 50% in both the Eastern and Western parts of the country) believe that the foreigners exploit social benefits and contribute to higher unemployment.

Germans have never seen their country as a land of immigration. For decades, they had been living under the slogan, “Deutschland ist kein Einwanderungsland!” (“Germany is not an immigration country”) and have regarded immigrants as temporary guests, who have only to be tolerated and do not have to be granted the same rights as native citizens. As a result of this attitude, many are still grappling with the idea that the country should open its doors to permanent immigrants (because they are actually needed) but also treat these immigrants as potential permanent fellow citizens rather than as temporary guests. Perhaps one of the most revealing clues demonstrating the discrepancy between the German public’s intellectual and emotional state of mind is provided by the surveys showing that half of the population supports the proposed legislation to increase immigration and about the same number believes that there are already too many immigrants in this country.

Germany’s political and economic leaders want to open the country to more immigrants-however, not to just any immigrants, but to educated and highly skilled professionals to maintain the country’s prosperity and social harmony.

However, many analysts are skeptical about further developments. An attempt to do so was made a while ago when the so-called Green Card was introduced with the intention of facilitating the immigration of highly qualified IT specialists. It is generally agreed that the Green Card was a failure in that it did not succeed in bringing about the influx of IT brainpower that was expected<sup>64</sup>. (The new provision of the Immigration Act is not limited to IT specialists).

During the past four years, there has been a controversial discussion on the immigration policy. While the Social Democrats and the Greens coalition clearly supported the changes, the Christian Democrats claimed that the new law will increase immigration at a time when inflows of foreigners should actually be restricted. Today, after the law has been passed, the discussion takes up a new dimension, namely the question of setting the number of immigrants permitted each year. The government’s Commission on Immigration and Asylum Policy recommends that Germany allow up to 20 000 persons to enter the country annually, each selected according to a point system, modeled along the lines of the Canadian system of immigration procedures. Business and labor federations welcome this decision. They see immigration as a source of specialized skills and training that contribute to German economic activity.

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<sup>64</sup> For more information see: Sieber, H., 2003, Germany-an Immigration Country and Sommer, M., 2004, Osnabruecker Zeitung

## **Integration policy**

The new Immigration Act provides for a number of instruments meant to ensure that the immigrants will integrate. The Bundesamt (German Federal Office) is the focal point for various integration programs geared towards promoting language-based, societal and social integration. Integration should always be seen in the context of local specifics and environments: chiefly in the municipalities and city districts. This is why the measures are not implemented by the Bundesamt itself but by strong cooperation partners at local level. These partners include the German Association of Adult Education Centers, the social welfare associations, the German Sports Federation, the Goethe Institute and the National Training Institute of the German Trade Union Federation as well as many other – smaller – committed institutions and initiatives. Good knowledge of German language is becoming more and more a key factor for the integration of the immigrants. Since the beginning of 2003, the Bundesamt has provided funding for language courses for foreign employees and their families. In 2003, around 60,000 people were able to take advantage of these services and learn German in over 4,600 courses. Free child care services are provided to enable those with small children to attend the courses.

Alongside the learning of a common language, social and societal integration is also seen as a key to ensuring peaceful co-existence. It is believed that it should achieve the following goals:

- communicate values and norms
- establish contacts
- create networks
- promote acceptance
- defuse social conflicts
- encourage people to become involved in voluntary work

To achieve these goals, the Bundesamt organizes projects in cooperation with associations, foundations, initiatives and authorities at federal, regional and municipal level. In 2002, the President of the German Federal Republic Johannes Rau, with the assistance of the Bertelsmann Foundation, supported diverse integration assistance programs for immigrants and foreigners. Most of them are working now and offering professional training, language and educational courses, conflict resolution and so on.

One of the main emphases of human rights work in Germany is on actions against violence by right-wing radical, nationalist and anti-Semitic groups. To this purpose, the Federal Government developed different programs like “CIVITAS”- fighting right wing extremism in the East German states (Laender), “XENOS” - to support the consolidation of mutual understanding between German and foreign young people and adults, and to support learning and working together.

The extend of foreigners’ integration into the German society represents a heavily debated topic. The question of Germany’s immigrants, in particular its Muslim population, has complicated since September 11, 2001. While officially there is no religious discrimination, Turkish Muslims often find themselves ostracized. The recent heated debates about Islamic education at public schools, and especially about the headscarf issue, show that integration and identity will loom large in public and political debates to come.

Almost all studies through the years have come to the conclusion that the housing situation of a large fraction of the foreigners is evidently not as good as that of German

citizens. There is discrimination at the work place, in the housing market, in training and in social life.

In the public health sector immigrants often do not receive appropriate medical care<sup>65</sup>. Cultural differences and the language barrier are the most frequent facts contributing to this situation.

After stays of certain duration, foreign nationals are given basic economic and social rights, but they cannot vote in federal and state election and they are not represented in the political process. Even those who have been granted citizenship are not regarded as fellow citizens by most Germans.

The bad results, shown by the German students on the PISA test (Program for International Student Assessment) caused a major public discussion about the weakness of the German educational system. In the focus was the immigrant population, indicating low school performance, lower completion rates and higher incidence of students repeating courses or even school years. After the publication of the test results most of the German newspapers blamed the worsening school system on the foreign students. As a response to the urgently needed educational reform, the German government took measures aimed at integrating immigrant students (language courses, student support and parents' integration into the educational system).

The attitude towards foreigners, of course, is also a generation problem. The younger Germans who were able to gain experience with foreigners at an earlier phase of socialization, i.e. at school, clubs and in working life, do have a more positive or at least more differentiated attitude towards them.

### **The Bulgarians in Germany**

As reported by the Federal Statistical Office, at the end of 2003 the number of Bulgarians in Germany was 44,300. Yet, the estimated number is even higher than 50 000 (Bulgarian Embassy in Germany). Most of them live in the large cities like Berlin, Leipzig, Munich, Stuttgart, and Frankfurt on Main, Hamburg, Düsseldorf and Bonn.

In almost every university city center in Germany has been founded a Bulgarian-German association, maintained by the local Bulgarian students. More than 20 cultural associations, between the two countries, organize cultural exchange programs and take part in humanitarian activities for Bulgaria. There are no formal organizations of Bulgarian immigrants, nor there is a newspaper published in Bulgarian. The Bulgarian Embassy in Berlin, the General Consulate in Munich and three consulate departments operate within Germany's territory. Generally, they do not provide assistance to Bulgarian immigrants apart from lost documents and papers that need to be certified as a consulting service for different legal issues. As an answer to the question about who is responsible for these immigrants, they indicate the Bulgarian Ministry of Justice.

Nowadays, it is very difficult to define the term "immigration". Students and employees with work permits do not count into this group. In the case of Bulgaria, many people come to Germany as tourists and work illegally - women as cleaning staff or in private households and men in the construction industry. There is no way to estimate their number or to determine their status. It is extremely important also to take into

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<sup>65</sup> See - Federal Government Commissioner for Migration, Refugees and Integration  
[www.integrationsbeauftragte.de/download/Gesunde\\_Integration.indd.pdf](http://www.integrationsbeauftragte.de/download/Gesunde_Integration.indd.pdf)

consideration the sex industry and prostitution. In 2004, alone in the federal state of Northrhine Westfalen, 294 crimes with illegal women traffic were investigated. Most of the victims (22%) were Bulgarian citizens<sup>66</sup>.

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<sup>66</sup> See - <http://zaedno.de/modules.php?name=News&file=article&sid=57>

#### IV. Irish Migration Policy and other practices from EU member states for management of Economic Migration - by Georgi Angelov

##### Irish migration policy<sup>67</sup>

The Irish policy on economic migration is based on the economic needs of the country, addressing deficits of labor resources and skills. The main characteristic of the policy is that it is based on the market signals and it doesn't depend on the evaluation and discretion of the administration. This makes the system extremely flexible and effective.

Ireland does not apply any restrictions with respect to the citizens of EU member states, i.e. every citizen of the EU 25 countries plus the countries from the European Economic Area can settle in Ireland and work there. The main tool of the Irish migration policy with respect to the countries outside the European Economic Area is the system of work permits.

The work permits system is based on the existence of job vacancies that cannot be filled from the European Economic Area. In order to prove the need for hiring a foreigner, the employers must advertise the vacancy with the National Employment and Training Agency. If during one month they can not find local candidates, the job can be offered to a foreigner.

The work permits are issued to the employer for a specific employee and for a specific workplace. However, in most cases it is possible for an employee to change his workplace and the new employer receives a new work permit. In short, the basis of the Irish policy is that the market and the availability of job vacancies determine whether work permits will be issued for immigrants from the countries outside the European Economic Area; for people from within the area no permits are required.

As a result of the fast economic growth in Ireland in the recent years they are more and more comparatively high paid jobs. Local people cannot fill them – practically in the country there is no unemployment any more(see the table below). As a result, for the last five years more than 150 thousand people joined the Irish labor market. They contribute to the increase of the economic growth and rise of prosperity of Ireland, which is already the second wealthiest country in the European Union (only Luxemburg is before Ireland). According to some studies the inflow of immigrants increases the GDP growth by 3-4 percent per annum.

##### Ireland's Labor and Migratory Experience 1994 to 2004

	Labor Force	Employment	UE Rate	Inflows	Outflows	Net migration
	000s	000s	%	000s	000s	000s
1994	1,431.6	1,220.6	14.7	30.1	34.8	-4.7
1995	1,459.2	1,281.7	12.2	31.2	33.1	-1.9
1996	1,507.5	1,328.5	11.9	39.2	31.2	8
1997	1,539	1,379.9	10.3	44.5	25.3	19.2
1998	1,620.4	1,494	7.8	46	28.6	17.4
1999	1,685.9	1,589.1	5.7	48.9	31.5	17.4
2000	1,745.9	1,671.4	4.4	52.6	26.6	26
2001	1,787	1,721.9	3.6	59	26.2	32.8
2002	1,840.9	1,763.9	4.2	66.9	25.6	41.3
2003	1,875.5	1,793.4	4.4	50.5	20.7	29.8

<sup>67</sup> This chapter was published in Bulgarian in "Capital" weekly, July 29, 2005.

2004	1,920.3	1,836.2	4.4	50.1	18.5	31.6
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Source: Alan Barrett, *Ireland: Increasing Labor Supply through Immigration*, Economic and Social Research Institute, 2005

### Bulgaria and other countries

**Bulgaria** adopted in large part the Irish model in respect to the work permits. Here they are similarly issued by request of the employer if there are no Bulgarian citizens that can fill the job vacancy. The problem of Bulgaria is the high unemployment, the slow growth of labor demand and low wages, that doesn't stimulate foreign citizens to work in the country. Therefore, we can only anticipate inflow of economic immigrants in Bulgaria only after the country becomes rich.

Most of the countries of the European Union apply more regulated, administrative system for accepting economic migrants.

**Austria** accepts migrants on the basis of a quota, determined annually as a percentage of the labor potential of the country and the individual regions. The need for workers is assessed by the Austrian Institute of Economic Research. Separately, the so-called "key workers" can receive work permits on the basis of a separate quota – that is a system for attracting highly educated people. In order to receive a permanent work permit the economic migrant in Austria must have five years of legal stay in the country (one year with an employment license and twice two years with an individual work permit). As a whole, the Austrian system is quite complicated, permits considerable administrative discretion and has many requirements. That is why the country cannot attract enough migrants, including highly educated.

Similar to the Austrian system is applied in **Portugal**. The decision whether and how many migrants to be accepted in the country is taken by the administration on the basis of its estimate of the needs on the labor market. Then a corresponding annual quota is determined. In reality, however, if the shadow sector is included, the inflow of migrants is twice bigger than the people granted with work permit (mostly from former colonies and Eastern Europe). The system for limiting immigration does not work as intended because of the impossibility of its practical application.

The migration policy of **Cyprus** is most interesting. It is based entirely on the logic that workers receive *temporary* work permit. After the expiration of the permit the worker must leave. In distinction to the above-mentioned countries, there is no system in Cyprus that allows acquiring of permanent work permit and settling in the country. As a result, most of the workers, that migrate to the country, are low skilled and less educated, working on a seasonal and nor very well paid job.

Without pointing more examples it seems that the market approach for attracting economic migration to Ireland shows best results. Countries, applying more complicated, restrictive, administrative and discretionary policies in this field cannot attract enough highly educated emigrants although they declare that as their goal. At the same time Ireland attracts considerable number of foreigners with high qualification that contribute for its fast economic growth.

## Conclusions

### I. The number and profile of emigrants

In Bulgaria, the disagreement between different sources about the number of emigrants is difficult to overcome. The NSI population census data (1992 – 2001) show a difference of – 177,000; people sent by bilateral agreements for working abroad (1998-2003) are 20,815 and some 25-40% of them are very likely to have stayed for longer periods of time. The discrepancy between domestic statistics is obvious.

The Unified System for Civic Registration and Administrative Service of the Population reports for 2004 – 36,692 Bulgarian citizens who are known to Bulgarian authorities as “legally residing abroad”, i.e. have reported their registered address in the country of residence. As it was already mentioned in the table on the number of registered emigrants (see the paragraph on the official statistics and the attachment on benchmark countries), this figure shows less than the number of Bulgarian emigrants in one country – Greece.

A calculation based on population statistics (1998 - 2003) gives us the figure of 213,300 Bulgarian emigrants.

When asked to comment on the official statistics of a recipient country, Bulgarian official representatives in those countries usually quote considerably higher numbers. Based on indirect data, we believe that the figure is roughly three times higher. In other words, the actual number of emigrants comes to the level of 700,000 for the entire period since 1989.

The most recent NSI report on population/demographic development dated March 31, 2005 does not give any new information on outward migration, in fact the process is not even accounted for.<sup>68</sup> However, in December 2004, at the preliminary discussion of this report, the NSI representative (Ivan Balev, head of the Population Statistics) in fact confirmed the above estimate. In his opinion, the benchmark data must be taken from the last pre-1989 census, i.e. the 1985 census. Between 1985 and 2001 (census data for that year), the emigration was about 700,000.<sup>69</sup> The population registry, Ivan Balev suggested, shows that an additional number of 110-120 thousand left after 2001. Taking into account those who study abroad, emigrants must be between 720 and 790 thousand.

The issue on the exact number of Bulgarian emigrants must be studied further with the assistance of governmental institutions.

As far as the profile of the migrants is concerned, we can summarize the following findings:

- This is an early to mid-working age person,
- He or she is usually involved in services abroad,
- Dominant education level is secondary school,

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<sup>68</sup> See: <http://www.nsi.bg/Population/Population.htm>

<sup>69</sup> This figure includes the number of Bulgarian Turks (approximately 300,000) who fled to Turkey (in March – September, 1989) after being expelled for protesting the policy of the then Communist government to rename them (in 1984-1985) with non-Muslim names.

- The intention to stay “forever” is not dominant, available field studies do not suggest that more than 1/ 5 to 1/ 4 have the intention to permanently reside in the country they went to,
- There is a significant number, which has a secondary migration abroad, moving from one country to another.

These conclusions suggest that the key motivation to migrate come from constellations in career and other opportunities in the homeland in the first place. This also means that, with the accelerated pace of prosperity reforms, the incentives to migrate would diminish in medium to long periods, i.e. 5 to 10 years.

## II. Incentives and other constellations

In the period between 1998 (when the EU accession was formally proposed to Bulgaria) and 2004, there are significant policy and economic processes that have had an impact on the incentives of Bulgarians to seek opportunities to work abroad and emigrate.

As regards policy mixes, we could mention the following:

- There is a growing recognition of the need to legalize international labor/migration flows and to allow for the countries of destination and their economies and societies to benefit from in-coming labor;
- Key EU Member States have adopted such policies and all Member States, including those that have joined the Union in 2004, are in a process of amending and perfecting their immigration procedures;
- There are frequent initiatives to adopt coordinated migration and labor-movement policies on EU level, most of the “old” Member States have imposed uniform restrictions on the free movement of labor from “new” Members;
- Bulgaria qualified for key requirements of the so-called Schengen Agreement, and citizens of Bulgaria are eligible to travel to the majority of EU countries without a visa.

Regarding economic constellations, we think the most important are the following:

1. After 1998, wage differentials between Bulgaria and the countries of destination have been sustained and/or increased: at the beginning of the period Bulgarian wages (denominated in euro) were 5.5 times lower than in Greece, and today they are 10 times lower; for Spain, the dynamics is from 13.5 to 17 times; in Germany – from 22 to 24 times;
2. Productivity levels have increased steadily in Bulgaria since 1997, and the country demonstrates all signs of catching up but it is slow and only in comparison with some countries (e.g. Greece); the overall productivity of the Bulgarian economy as a share of that of the “old” EU member states sustains at the level of roughly 30%; this constellation suggests that intangible career incentives (prestige, high skills and value-added of economic activities) remain in force, while wage differentials are basically a product of the productivity differences;
3. The intangible benefits of Bulgaria are limited to the improved predictability after the social and political crisis of 1996-1997, which was caused by discretionary monetary policies of the government; entrepreneurial careers could in principle be attractive and this is true for other development “jobs” related to reform politics, administration and the like; this phenomenon requires further study, but if our conclusion is correct this would mean that the return migration would be a good prospect for relatively limited number of emigrants and would be related

with foreign investment and international economic exchange; from a domestic perspective, in recent years foreign investment increased a lot (to USD 1.7-1.9 billion in 2004), but when compared internationally, it is 2.5 times less than the investment in Lithuania, a country that is twice smaller than Bulgaria;

4. Extrapolating 4% growth for Bulgaria and 2% for the EU, convergence will take place in 55 years; the economic gap between Bulgaria and important migrant destinations as Spain and Greece remains roughly the same over the period 1997-2003 due to the similar pace of economic performance; the income gap between Bulgaria and the EU appears to remain quite persistent but is slowly narrowing;
5. "Micro"-environment factors and incentives differ from country to country but, seemingly, most important are the non-taxable income gaps between Bulgaria and the countries of destination, i.e. emigrants fall everywhere in the non-taxable brackets of the personal income; this is because of the fact that most narrow income gap to emigration destination in the last eight years has been as high as 7 times, while as it was said, the income gap between Bulgaria and the EU appears to remain quite persistent.
6. Non-income (corporate) and other (social welfare) taxes are significant for those who are better off, and/or register; due to original (and overall) motivation getting over the thresholds may not necessarily lead to formalization of Bulgarian migrants' economic behaviour, and certainly requires "should-I-stay-or-should-I-go-back" decision; factoring-in social welfare contribution/benefits is difficult: they depend on bilateral treaties, value-for-quality constellations, carrier prospect, knowledge of local conditions and language and the availability of intermediaries to facilitate access to social benefits; however, all countries allow for tax deductions for eligible costs and dependable persons and in all countries services paid by taxes appear of a better quality than in Bulgaria.

There are little or none man-made policies and measures that could fight the above constellation in a short or even medium term. The provisional policy mix to reduce migration and, we dare say, the only reliable one, is increasing disposable income (reducing domestic taxes, quasi-taxes and removing barriers to prosperity).

### **III. Impacts on the home country: Bulgaria**

Remittances represent a condensed measure of the impacts on the country which "sends" migrants to other, more prosperous countries. Their size has more than tripled from 1998 to 2003. The annual average growth is around 29 percent. These growth rates are not even and in the first years they are higher, reaching 54 percent in 2001.

1. In Bulgaria, the ration of remittances to GDP is healthy: since 1998 they grew from 1.5 to 3.5%. This is roughly twice less the share of remittances in the GDP of Romania, and three to seven times lower than the respective level in other Balkan countries. The country does not depend of the international transfers from Bulgarians living abroad.
2. At the same time, their absolute amount is substantial for the families and activities they support. This issue, too, requires special surveys to identify both the absolute amount of transferred resources (we have included in the calculus only the money officially transferred) and the exact ways of their utilization. But, even with this limited knowledge, it is clear that:
  - a. after 2001 remittances are at the level of 50% of the foreign investment;
  - b. that they are above 5% of the international trade of Bulgaria;

- c. that, on the average, for last four years the remittances are at the level of 80% of government expenditures on education or health care.

The illusion that “we feed (cure and educate) them but they emigrate” and impose costs on the home country (Bulgaria), on “us” is not justified even if we take into account unrecorded remittances and the “net”, shadow price of health and education.

3. The macroeconomic effects, beyond any doubt are: accumulation of foreign exchange reserves, improved standard of living, increased disposable income, increased spending on consumer goods and higher prices of some goods. Macroeconomic impacts of remittances on Bulgaria are healthier than on other countries, e.g. Romania. Meanwhile, no government social welfare program can substitute their positive impacts on families and relatives. The same is true for government job creation programs: Bulgarian citizen who leave for other countries to work and/or start a career are most likely either unemployable or the career they seek is not available at home (due to the lacks of productivity).
4. This reflects the growing importance of the remittances as a source of income to a particular part of the population and their relatively better position in comparison with people not receiving such funds. Given the fact that lower-income and lower educated persons tend to emigrate more often from Bulgaria, the most positive impact of remittances is presumably felt by their relatives, the lower income segments of the population. Trickle down effects are great: in 2003, in terms of human life benefits, remittances contribute to 340,000 annual average wages and “saved” 3,405 human lives a year (calculated as value of the human life in life insurance patterns).
5. The slowing down of growth rates suggests that sooner or later the peak of these transfers may be reached and, eventually, they may start to stagnate or even fall down. Our realistic proposition is that the present growth rates will be kept during the next years.

It is worth mentioning that any persistent and successful policy to limit migration or tax remittances would hit first of all the lower income population.

#### **IV. Summary of provisional impacts and attitudes in the recipient countries**

The impacts on destination countries are rarely measured in detail, but all available information and sources suggest that they are positive.

The need for immigration is basically universally recognized in the EU countries and public worries are less visible in not-too-welfare countries. Xenophobic attitudes and political parties gain public support in more statist welfare systems.

Immigrants bring scarce resources, ideas and skills and contribute to economic growth and sustain or improve the mobility of capital.

The UK Home Office studies have recently estimated that a 1% increase in the population through migration is associated with an increase in GDP of between 1.25 and 1.5%, and that in 1999/2000 migrants made a net fiscal contribution to the UK of GBP 2.5 billion. In a recent election debate the UK Prime Minister mentioned that 96% of all immigrants to the UK are self-sustainable and do not use the British welfare system.

Over the past several years, the public debate has begun to focus on immigration and the need for comprehensive and systematic policies and regulations that would allow for:

1. Curbing the acute shortages of skilled professionals, especially in information technology;
2. Filling unattractive vacancies in less value-added sectors of the economies of the EU;
3. Sustaining and only gradually (without shocks) reforming the social welfare systems, especially pension and health care systems;
4. Increasing competitiveness of EU economies.

A recent report of the European Citizens Action Form, dated September 2005, paid a special attention to migration policies that backfire and achieve result opposite to those they originally aim at.

After providing ample evidence that free movement of labour is good for economy, the authors explain that EU old member states policies that protect domestic labour market motivate industries investing abroad thus raising higher unemployment and less growth at home.<sup>70</sup>

## **V. Policy mixes to address migration challenges**

Although it was already mentioned, we would like to underline again that given the economic background of Bulgarian migration, any policy effort to curb it would be artificial and/or counter-productive. Restating one of our major conclusions, we maintain that the overall prosperity reform aiming at increased disposable income of the population would give better results than any special policy.

Given the international constellations, it is not likely to expect significant return migration, even if special incentives are created. It is probable, however, that the younger generation, when choosing careers and employment, would contribute more to the pension systems of recipient countries.

This means that the entire set of policies which would facilitate the free movement of capital, services and people would benefit both from the prosperity growth and the decreased migration.

That is to say that the better rule of law and functioning justice systems, the pro-investment climate, the sound pensions reforms, the lower taxes and quasi-taxes, the fewer impediments to international capital and labor flow, the better access of foreigners to domestic capital and land and the easier participation of Bulgarian citizen in other countries economies and employment markets – to mention just a few policy reform areas, all these would have a positive effect on the system.

Everything stated above does not mean that specific migration policies are to be neglected. This rather puts the stress on the right place. These policies must interpret migration as an investment since the present costs must pay off in the future. This approach would allow for better understanding the economic incentives (disincentives) for migration – incomes, sustainability, predictability, expected costs, expected benefits, risks, preferences, access to information. Needless to say, any such policy should be based on reliable statistics and information.

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<sup>70</sup> Juliana Traser, with Monika Byrska and Bartz Napieralski, and Tony Venables (editor), *Who is Afraid of EU Enlargement?* (Report on the Free Movement of Workers in EU 25.), Brussels, ECAS, 2005, pp- 28-33.

## Attachment 1

### **Migrants' "Business Environment" in Major Emigration Destinations: Samples of Greece, Spain, Italy and Germany**

#### **Introduction**

According to the assumptions and accepted methodology, international constellations and comparisons in carrier and welfare prospects play an important role in shaping incentives to emigrate. Thanks to the differences in income and prospects between countries, the entire process takes place and remittances contribute to the sending country's welfare.

In order to compare Bulgaria with the above-mentioned countries, we provide here a brief overview of a) income taxes; b) social welfare contributions, c) corporate and other taxes.

#### **Greece**

According to Eurostat, the implicit tax rate on labor in Greece is slightly above the EU-15 average and the implicit tax rate on consumption is slightly below the EU-15 average.

##### *Income tax*

Law 2238/94 regulates the taxation of the income of natural and legal persons, as amended by more recent laws.

The income tax is paid on:

- The worldwide income of residents in Greece,
- The income originating in Greece of each natural person, regardless of nationality and place of permanent or temporary residence.

Sources of income are classified as follows:

- A-B:** Income from real estate.
- C:** Income from securities.
- D:** Income from commercial activities.
- E:** Income from agricultural activities.
- F:** Income from salaried services.
- G:** Income from the services of self-employed professionals and all other sources.

The amount remaining after the deduction of allowances and expenses is subject to income tax on the basis of different tax brackets to which different rates correspond. The highest rate is 40% (for taxable income over EUR 23,400).

#### **The tax table for an individual (euro)**

Tax %	The Tax Base (EURO)
5	1 – 8400
15	8401 - 13,400
30	13,401 - 23,400
40	23,401 and over

### *Social Security Contributions*

The total burden of social security contributions is 43.9% of the salary. The employer's contribution is 28% of the salary. The employee's contribution is 15.9%. A self-employed person makes payments to social security himself. The insurance covers pension, unemployment and health care insurance.

### *Corporate Taxes*

The standard corporate tax rate in Greece is 35%. The corporate tax rate for limited share companies, limited liability companies and branches of foreign businesses is reduced if they increase the number of their employees. More specifically, the following changes are being introduced recently:

- Effective with year ending between 1 September 2002 and 31 August 2003, the income tax rate is reduced from 35% to 34% or 33% or 32.5%, provided that the number of employees has increased by 5%, 10% and 12.5% respectively compared with the previous accounting year. The terms and conditions for the application of the reduced rate will be set out in a Decision to be issued by the Minister of Finance.
- Businesses enjoying the above incentive are not allowed to reduce their personnel in the next accounting year.

### *Value-Added Tax*

The main rate of VAT in Greece is 18%, apart from the following, which are taxed at a lower rate:

- Newspapers, periodicals, books, and theatre tickets (4%).
- Goods considered essential items, e.g. fresh produce, pharmaceuticals, transport, electricity and various professional activities (such as services furnished by hotels, restaurants, writers, artists, etc.) (8%).

The rate is further reduced by 30% in the case of goods and services provided by or to taxpayers established in the Dodecanese and on other islands of the Aegean.

Exports of residents of non-EU countries and the delivery of goods to residents of EU Member States, which are subject to VAT, are exempt from Greek VAT.

## Spain

According to Eurostat, the total-tax-to-GDP ratio in Spain is one of the lowest in the European Union. The overall tax burden was increased slightly between 1995 and 2002, but remained the second lowest in the EU15, after Ireland.

### *Income tax*

The personal income tax system was simplified in the two reforms of 1999 and 2003. The number of tax brackets was reduced to six and then to five, the maximum rate changed from 56% to 48% and then to 45%, and the minimum rate from 20% to 18% and then to 15%. Also, in 1999, different kinds of tax relief were replaced by personal and family tax allowances that depend on the characteristics of the tax unit, such as the number of dependants, their age and income. In addition, withholding tax payments were redesigned to take into account individuals' characteristics, and the threshold for filing an income tax return was raised. The mortgage interest payments deduction in the tax base was removed and a new personal residence tax credit has been introduced to help those taxpayers who invest in their own residence. In 2003, taxation of accrued gains in investment funds was abolished.

### **Spanish income tax rates for 2003**

Taxable Base, €	Marginal Tax Rate, %
0 - 4000	15
4000 - 13800	24
13800 - 25800	28
25800 - 45000	37
45000 -	45

### *Deductions from income*

- Single Person 3400 euro, Married persons 6800 euro
- First Child 1400 euro, Second Child 1500 euro, Third Child 2200 euro
- Over 65 years add 800 to personal minimum of 3400 euro
- Payments to the Social Security System
- 15% of mortgage payments on principal residence.
- 75% of *Plus Valia* tax paid on a property transfer

### *Social Security Contributions*

The Spanish social security system covers all Spanish nationals who reside and perform their labor activities in Spain, as well as foreigners with residence permits in Spain. Spanish nationals, who do not reside in Spain, are also covered under certain circumstances. Protection also covers the family of the insured person.

The Spanish social security system has two applicable schemes:

- General scheme or scheme for the dependent worker: This scheme imposes a set percentage of income as a contribution to be paid jointly by the employer and the employee.
- Scheme for the self-employed: the self-employed person is responsible for the total amount of the contribution. He can choose between a maximum and a

minimum percentage of contribution. The scheme provides no unemployment benefits.

The Spanish Social Security System includes benefits for health care (sickness and maternity), injuries at work, unemployment, pensions, invalidity and death benefits. According to the National Social Security Institute, in 2002 the social security contribution in Spain was 28.3%.

#### *Corporate Taxes*

Spain's standard corporate income tax rate is 35%. Companies with yearly sales of less than 3 million euro may qualify for certain tax incentives:

- A tax rate of 30%, applicable to the first 90,000 euro of taxable income.
- Accelerated depreciation of certain fixed assets.
- A 10% tax credit for investments and expenses in Internet, information technologies and communications.

In Spain, the companies must also pay a local tax on business activity. As of 2003, this tax is waived for businesses that have a profit amounting to less than one million euro. This is an annual tax paid by businesses operating in the municipality. This tax rate depends on many factors, such as size and location of the business, the type of business and number of employees.

#### *Value-Added Tax*

The VAT system in Spain has two tax rates, that is 16 standard rate and 7% special rate, depending on the type of good or service. Like in Germany, it does not matter how many stages a particular good or service goes through in the economic process because the "input tax" paid at the previous stage is always deducted by the business at the next step in the process. This prevents the tax from accumulating.

## Italy

According to Eurostat, the total tax-to-GDP ratio in Italy increased rapidly since the early 1990s. It approached a level of 44.7% in 1997, decreased to around 43% in 1998 and then continued to decrease slightly up to 41.8% in 2002. An important tax reform was implemented in 1998. Significant reductions in employer's social contributions and corporate income taxes were partly compensated by an increase in indirect taxes. With the new centre-right government other tax reforms are in progress.

### Income tax (IRPEF)

An individual is liable for tax on his income as an employee and on income as a self-employed person. Tax will be payable on income earned in Italy and overseas by an individual who meets the test of a "permanent resident" of Italy. A foreign resident who is employed in Italy pays tax only on income earned in Italy.

#### *Individual income tax rates 2004*

Tax (%)	Tax Base (EUR)
23%	0-15,000
29%	15,001 - 29,000
31%	29,001 - 32,600
39%	32,601 - 70,000
45%	70,001 and over

IRPEF is levied on the overall taxable income after subtracting certain types of income taxed separately, and after deducting certain personal expenses and other allowances. Additional allowances include deductions from the gross IRPEF due, including for dependent spouse and children, health insurance premiums, or medical expenses.

#### *Personal Relief (for the year 2003)*

Class of Relief	Amount - EUR
Payment of maintenance - to a spouse	Deduction from taxable income.
University tuition fees	According to the de facto payment
Burial expenses	Maximum credit of 1,549
Basic credit for an employee	15,000
Dependent spouse	422-546
Married parent - dependent child	516 (per child)
Interest on a mortgage	
Medical expenses	In excess of 129 (Max 19%)
Payments for life insurance	As defined by law

The 2003 reform of the tax system foresees reducing personal income tax to two rates - 23% rate for income up to 100,000 euro (with exemptions up to a certain threshold) and 33% rate for income over 100,000 euro.

#### *Social Security Contributions*

In the case of pension contributions (for disability, old-age and survivors' pensions), two thirds of contributions are payable by the employer and one third is payable by the employee. For all other social insurances, contributions are payable in their totality by

the employer. Social security includes: maternity, sickness insurance, invalidity insurance, old-age insurance, life insurance, insurance for occupational accidents and occupational diseases, family benefits, unemployment insurance.

Contributions:

- Employed person - the employer's contribution is between 30% - 37% of the salary and the employee's contribution is usually 9% of the salary.
- A self-employed person - the rate of payment is between 10% - 13%, with an upper limit that changes from year to year.
- A foreign resident - if he is self-employed in Italy, the rate of payment is 13%.

#### *Corporate Taxes*

The standard rate of corporation tax (IRPEG) in 2004 is 33%. In addition, local tax (IRAP) is payable by local and foreign companies. For industrial and commercial corporations, the ordinary tax rate is 4.25%. The regions, however, may increase the tax rate by up to 1%. The law on tax reform has empowered the Government to gradually abolish IRAP; such abolishment should be progressively achieved allowing in the meanwhile a progressive deduction of costs of labor and other costs from the IRAP taxable base.

#### *Value-Added Tax*

If the seller is liable to pay VAT, the amount paid for the purchase of the property is generally subject to VAT. The generally applicable rate is 20%, except for specific cases in which reduced rates apply, such as:

- 4% for non-luxury property to be used by the buyer as a main residence, and for rural property to be used for residential purposes.
- 10% for property not to be used as a main residence and for property sold by construction companies under certain conditions (stipulated in the *Tupini Law*). Sales of property by persons not professionally involved in the building trade as well as sales of agricultural land and non-building land are exempt from VAT.

## Germany

According to Eurostat, the total-tax-to-GDP ratio in Germany is above the European average. Due to the unification process in particular, the tax-to-GDP ratio rose significantly in the early 1990s. Most of this increase stemmed from increases in social contributions. In the second half of the 1990s, the tax-to-GDP ratio increased by almost 2 percentage points to 42.5% in the year 2000, mostly because of increased tax revenues from direct taxes. It fell back again from 2001 onwards, in particular as a result of reductions in personal income tax and corporate income tax due to the tax reform that was introduced in 2000. In 2002, the tax-to-GDP ratio was 40.2% and was supposed to decrease in 2003 and 2004.

### *Income tax*

In 1998 the lowest rate of income tax stood at 25.9%; from 2005 onwards it will be 15%. In 1998 the highest tax bracket was 53%; in 2005 it will fall to 42%.

The tax is calculated on the basis of a mathematical formula, which, as of the year 2004, is structured as follows (for single taxpayers):

- Zero rate on taxable income up to € 7,664
- Marginal tax rate rising from 16% to 45% on taxable income between € 7,664 and € 52,152
- Marginal tax rate of 45% on taxable income € 52,152
- For married taxpayers:
- Zero tax rate on taxable income up to € 15,328
- Marginal tax rate rising from 16% to 45% on taxable income between € 15,328 and € 104,304
- Marginal tax rate of 45% on taxable income over € 104,304

### *Social Security Contributions*

The current rates for German social security contributions are:

- Retirement Insurance: 19.5% of the monthly salary but not on that part of the salary that exceeds € 5,150.00 (€ 4,350.00 in the new German states).
- Health Insurance: around 13.5%. This rate may vary by region but will not be applied on that part of the monthly salary, which exceeds € 3,487.50. One can opt out of the government's health insurance plan and buy his own private insurance if his annual salary exceeds € 41,850.00.
- Long-Term Care Insurance: 1.7% of the gross salary. The caps are the same as those for health insurance.
- Unemployment Insurance: 6.5% of the gross salary. The caps are the same as those for retirement insurance.
- Half of the contribution is payable by the employer, the other half by the employee.

### *Corporate Tax*

Before 2001, German corporate taxes were calculated according to a split rate system - 40% on retained profits and 30% on distributed profits - in conjunction with an imputation system, under which shareholders were entitled to credit the full amount of corporate tax against their income tax liability. This method has been replaced by a single tax rate and the "half-income" system (only half of the dividends paid out by a German or foreign corporation to resident individual shareholders is subject to income

tax). The corporate tax rate has dropped from the above-mentioned rates of 40 and 30% to 25%. Together with the trade tax, levied by the municipalities at different rates, the total tax burden on corporate income will amount to about 38.5%.

#### *Solidarity Surcharge*

In 1995, a solidarity surcharge was introduced to help finance reconstruction of the new federal states in the eastern part of Germany following reunification. This surcharge is levied at a rate of 5.5% of the personal income and corporation taxes paid.

#### *Value-Added Tax*

The VAT system has two tax rates, that is 16 or 7%, depending on the type of good or service. It does not matter how many stages a particular good or service goes through in the economic process because the "input tax" paid at the previous stage is always deducted by the business at the next step in the process. This prevents the tax from accumulating. VAT paid on intra-European Community purchases is also deductible as input tax, as is the VAT paid by a business to a customs officer for goods imported from non-EU countries.

## The devil is in the details: other circumstances in Greece

### Integration policy

Greece has recently started – as part of the national migration policy – implementing an Integrated Action Plan (2003-2006) for the social integration of all legally residing immigrants. The Action Plan covers different measures in six main areas: information, labor market, culture, education and language, health services and temporary housing. As part of the labor market initiatives Greece is creating a recording mechanism of professional skills of migrants and action is being taken to foster entrepreneurship.

#### *Visas*

- *Entering Greece* - A visa to enter Greece is not required for citizens of the United States, Canada, and the European Union.
- *Types of Visas* - *Tourist and business* (single and multiple entry)
- *Transit* (single and double)
- *Processing Time and Fees* - A processing time of approximately five days should be anticipated in most cases.
- Fees depend on the nationality of the applicant, and are determined by reciprocity between Greece and the respective country.
- In addition to the visa fee, a non-refundable \$4.65 application fee is required.
- Valid passport.
- Green card (where applicable).
- One recent passport-size photograph of the applicant.
- Proof of availability of sufficient funds to support the stay in Greece.
- Destination in Greece and references, if available.
- Money order, a certified cheque, or cash payable to the Consulate of Greece for visa processing.
- Letter of reference from employer.

#### *Social Security Insurance (details)*

The Greek Social Insurance Organization (IKA) is the main social insurance body for salaried employees. Contributions to IKA by both employers and employees are compulsory. However, there are numerous alternative and/or complementary public insurance organizations, for specific professions and industries.

Amongst the benefits that IKA provides to citizens are medical care, pharmaceutical coverage, hospitalization, dental care, spa treatments, transport of patients, maternity leave, maternity allowances, illness and accident allowances, and one-time life insurance payment to spouses of covered individuals. Additionally, IKA provides pensions based on the number of working days and salary history.

Based on EU Regulations 1408/71 and 574/72, IKA provides equal medical treatment and health benefits to insured persons in or from other EU Member States. EU provisions also allow EU citizens to aggregate insurance periods from different member countries for their insurance and pension.

Greece also has bilateral agreements on Social Security with Argentina, Brazil, Canada, Cyprus, Egypt, Libya, New Zealand, Switzerland, Uruguay, the USA and Venezuela. These agreements generally allow citizens of either country to enjoy equal benefits and treatment while residing within the territory of the other signatory. Insurance completed

under the legislation of one country also entitles citizens to benefit under the Social Security System of one or both countries.

As mentioned above, individuals are subject to income tax at progressive rates, from 0% to a maximum of 45%. Individuals are taxed on either their declared or estimated income, whichever is higher. Estimated income is determined on the basis of living expenses, ownership and acquisition of assets. The main factors in imputing income include:

- Engine size of motor vehicles
- Cost of maintaining household staff
- Purchase of real estate
- Cost of operating pleasure boats, and
- Repayment of loans or credit.

The tax year ends on December 31. Filing is generally due between March and May, depending on the official announcement by the Ministry of Finance. Income tax may be paid in three equal installments. If tax is paid in one lump sum, a 5% discount is given.

Permanent residents of Greece are liable to income tax on their international income, whether earned in or remitted to Greece or not. If taxes are paid in another country on income not sourced in Greece, that tax may be deducted up to the amount of tax payable in Greece on the same income.

Temporary residents of Greece are taxed only on income earned and sourced in Greece.

#### *Working EU nationals*

The main principle that governs the conditions for employment within EU Member States is equal treatment for nationals and non-nationals. Any national of an EU Member State has the right to be employed in any other Member State, irrespective of his place of residence. [Directive No: 92/51/E.U/ of the European Communities Council, and amendments No: 94/38/E.C. and No: 95/43/E.C. of the European Communities Committee were incorporated into Greek legislation through Presidential Decree No: 231/98.] In the context of measures taken to eliminate obstacles to the free movement of citizens and to improve services among Member States, the EU has established a general system for the recognition of professional qualifications.

#### *Non-EU Nationals*

According to Law 1975/1991-Government Gazette 184/t.A./4.12.91 enacted on June 4 1992, non-EU nationals can obtain a work permit in Greece if a vacancy matching their qualifications exists. First, they receive a temporary, pre-approval employment visa from the Ministry of Labor or other commissioned authority. The work permit is valid for a specific period of time and only for a specific position. If any of the employment parameters changes, the work permit can be revoked. The work permit can be renewed following an application submitted by the employee and the employer.

#### *Undeclared work*

Undeclared work is a significant issue in Greece, with illegal employment and undeclared economic activity at high levels, accounting for some 35% of GDP. A significant part of the hidden economy may be ascribed to the undeclared work of economic migrants from Eastern European and Asian countries. Although the process of legalizing immigrants from these countries has been accelerated, experts believe that the system still contains substantial shortcomings and bureaucratic obstacles to eradicating undeclared work.

According to some recent data from the Social Insurance Foundation (IKA), Greece's largest social insurance fund, roughly one worker in four is uninsured. At the same time, the country has a large percentage of economic migrants in its workforce (around 10%), although undeclared work does not involve foreign workers only.

Some recent actions to combat the phenomenon of undeclared work include a continued attempt to legalize immigrants living and working in Greece and the development of information systems by the Labor Force Employment Organization (OAED) and the Corps of Labor Inspectors that will allow cross-checking of data from these two bodies as well as the IKA. In Greece's 2003 National Action Plan for employment, these actions are also listed as measures to combat unemployment. At the same time, in order to register employment with more precision, the sample used by the National Statistical Office to compile the Labor Force Survey may be altered. However, it remains to be seen whether the range of measures recently introduced to increase the supply of labor and extend working life - such as employer subsidies, incentives to hire unemployed people and the elimination of disincentives to older adults to remain economically active - will have a substantial impact on the extent of undeclared work.

#### *Tax and tax reporting details*

##### **Thresholds 1: Salaried persons and pensioners**

Threshold	Tax rate %	Tax due	Total Income	Total tax
EUR 10,000	0	EUR 0	10,000	0
+ 3,400	15	510	13,400	510
+ 10,000	30	3,000	23,400	3,510
Above	40			

##### **Thresholds 2: Self employed**

Threshold	Tax rate %	Tax due	Total Income	Total tax
EUR 8,400	0	0	8,400	0
+ 5,000	15	750	13,400	750
+ 10,000	30	3,000	23,400	3,750
Above	40			

#### *Obligation to file tax returns*

Private individuals have an obligation to file a tax return if their yearly income exceeds € 3,000. But salaried persons, residing in Greece and having a yearly income of less than € 6,000, do not have to file a tax return except where it is expressly stipulated by law (e.g. if they own a car). Salaried persons with a yearly income of more than € 6,000 derived only from one source submit a simple declaration of income instead of a full tax return.

#### *Non-residents*

Generally, non-residents are taxed in the same way as permanent residents, subject to any bilateral conventions between Greece and other countries designed to avoid double taxation.

In the case of persons residing abroad and deriving income from Greece, an **additional tax calculated at 5%** is added to the amount of tax corresponding to the first step of the scale. This provision does not apply to persons living in the European Union Member States, for whom income received in Greece exceeds 90% of their total income.

### *Taxing savings*

Income tax at a rate of 15% is levied on interest deriving from any form of saving accounts held in any credit institution established in Greece. The tax is levied to private persons and legal entities irrespective of their nationality or place of residence or establishment, subject to exemptions laid down by law (e.g. savings accounts in foreign currency held in Greek banks by non-residents).

Moreover, income tax at a rate of 10% is levied on interest deriving from government loan bonds and interest-bearing bills.

The tax is withheld by the institution liable to pay interest and exhausts the tax liability regarding this income.

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## Attachment 2

### Policy-Assessment Toolkit

Any reasonable policy mix in the field of migration should, to a possible extent, be based on the following basic understanding, notions of costs and benefit and calculation/comparison techniques and sources of information.

#### **I. Fundamentals**

The fundamentals of the economic understanding of labor migration are the following:

5. Life and labor are both resource and capital, i.e. resource that allows for production and prosperity in the future;
6. As such, they are an attribute and property of the individual, non-alienable and usable at own discretion;
7. For these reasons, incentives matter; they – or rather the difference between income and other tangible and intangible benefits between supply and recipient country - motivate international labor flows;
8. The factors to influence the above choices are the frameworks that regulate international and domestic labor flows.

The peculiar nature of migration is that it is an individual and a family affair which constitutes a challenge and imposes a risk. All provisional benefits and losses (costs) are to be borne by individuals and families. This is why costs, benefits and risks need to be estimated, first, on the level of the individual and/or the family and only then aggregated as societal ones.

Measuring policies, frameworks (and their impacts) and factors that influence individual choices means measuring costs and benefits for the parties involved in the process.

Presumably, policies and frameworks that incur more costs than benefits must not be attempted at or applied. Also, all costs and benefits and the willingness to meet them are first of all individual and only then social phenomena.

There is a basic understanding of the following:

- **The “*benefits*” are foreseeable, significant positive effects expected from the adoption, implementation and compliance with man-made rules and market/societal constellations**, repeated over medium-to-long periods, including those that can be both qualitative and quantitative and observed in public life, health, environment, economy and redistribution.
- **“Costs” are foreseeable, significant negative effects expected from the adoption, implementation and compliance with man-made rules and market/societal constellations**, repeated over medium-to-long periods, including those that can be both qualitative and quantitative and observed in public life, health, environment, economy and redistribution.
- **Benefits** are measured by *values* (their monetary expressions) of expected positive effects and the “willingness to pay” in order to achieve these positive

effects. The **exact measure of costs would be the measure of what it takes to compensate and overcome negative impacts.**

- **Willingness to pay** and compensation for negative effects **need to be separately expressed as a monetary equivalent of what is needed for the implementation of a policy or a project and/or intended action in order to have all (affected) members of the society being better off than in the period before the adoption/implementation of a policy or undertaking an action.**

## II. Identification of incentives

a) International differences in:

- **Income levels** as reflected in: real wages, GDP per capita, GDP per capita at PPP;
- **Convergence rates** of supply countries relative to recipient countries;
- **Prospects and pace** of convergence;
- **Productivity**, farm and non-farm.

b) International **differences in social welfare**, more specifically in:

- Mandated benefits (unemployment, etc.);
- Health care and pension contributions

c) International differences **in labor markets**, as the ones in:

- Rigidities;
- Hiring/firing procedures;
- Work time.

d) International differences in financial frameworks as reflected in:

- Taxes and **tax burdens (nominal and marginal tax rates), family tax rates (if available);**
- **Capital account liberalization**

e) International comparisons of markets for migrants, their availability, prices, transport means and fees, etc.

## III. Understanding migrants

a) International **differences in emigration and immigration**, as reflected in:

- National statistics in the supply countries (most recent census);
- National statistics in the recipient countries (most recent census);
- Numbers and trends;
- Specialized surveys of migration per country/region/destination.

b) Assessment of international **differences by type of migrants**:

- Permanent and/or traditional,
- Long term and/or temporary,
- Short-term temporary (seasonal, casual and cross border),
- As applicable legal migrants;
- As applicable to illegal migrants.

c) International comparison of migrants' **demographic portraits**, if available in terms of:

- Age,

- Sex,
- Family status;
- Education,
- Profession,
- Business specialization.

#### **IV. Study of benefits and losses**

a) International comparison in:

- Remittances as percent of GDP and relative to FDI;
- Qualifications,
- Communications,
- Productivity,
- Investment.

b) International comparisons of:

- Cost of education (per student, at level of education);
- Cost of conventional Medicare.

### Attachment 3

#### Demographic Statistics For Bulgaria

	1998	1999	2000	2001	2002	2003	2015	2025	2050
Population as of 31.12 (thousands)	8230.4	8190.9	8149.5	7891.1	7845.8	7 801.3	7 167	6 609	5 255
At working age						4 747			
Natural Increase (%)	-6.4	-4.8	-5.1	-5.6	-5.8	-5.7			
Demographic replacement rate (%)	120.8	124.5	125.0	123.6	122.7				
Age Dependency Rate (%)	47.4	47.2	46.8	46.8	46.2	45.5			
<b>Old age dependency ratio (%)</b>									
Life expectancy at birth				71.8	71.9	72.1	73.1 *	75.1 **	78.7 ***
Rate of population growth (OECD)									

Source: NSI, UN Population Division

Notes:

\* Data for 2010 - 2015

\*\* Data for 2020-2025

\*\*\* Data for 2045-2050

#### UN statistics on Bulgaria

	2000 - 2005	2045 - 2050	2000 - 2050
Rate of population growth	- 0.85 *	- 1.00 **	
Total fertility rate	1.10 ***		
Projection for decrease of the population			2 2843 000 **** (-35.1%)

Source: World Population Prospects: The 2002 Revision

Notes:

\* Bulgaria is ranked in the forth place in the top 10 countries with the lowest rate of population growth in the world.

\*\* Bulgaria is in the sixth place for the same indicator and a different period.

\*\*\* Bulgaria is in the seventh place in the top ten countries with the lowest fertility rate.

\*\*\*\* Bulgaria is in the forth place in the list.