

## Research to Enhance Remittance Efficiency and Impact in Central Asia

By Jet Damazo

IN OUR GLOBALIZED world, the search for better employment opportunities have encouraged over 175 million people to find employment in countries other than their own, and to send money home to their families as remittances. ADB's work with think tanks throughout Central Asia and South Caucasus is helping us learn more about the impact of these remittances on families, communities, and countries.



After the emergence of newly independent states in 1991 and as the transition processes began, the economic circumstances of households generally declined, with conditions ranging from Kazakhstan's oil-driven wealth to Tajikistan's significant poverty.

This disparity, along with the ease of movement of citizens across member countries of the Commonwealth of Independent States, stimulated labor migration in search of

better opportunities from poorer Central Asian and South Caucasian countries. Migrants have gone to the Russian Federation and, increasingly, Kazakhstan. A small group has moved even further, to Europe and North America. Remittance flows from the "host countries" to Central Asia and South Caucasus now amount to billions of dollars annually.

Research on remittances in other parts of the globe, such as Latin America and Southeast Asia, has led to the development of improved policies, new financial products, and both business and bilateral partnerships among sending and receiving countries. In Central Asia, however, information on remittances remains scant.

For instance, estimates of remittance inflows to the Kyrgyz Republic in 2004 ranged from \$207 million to \$520 million. The estimates in Azerbaijan in 1999–2005 reported in the balance of payments statistics were 50–80% lower than those reported in national accounts.

While official central bank statistics show significant amounts of formal sector funds being transferred into countries—up to 27% of GDP in the Kyrgyz Republic and 20–50% of GDP in the case of Tajikistan—very little is known about the structure of remittance flows in the region in terms of channels of remittance transfers and, perhaps more importantly, effects of remittances on poverty and inequality.

"This lack of information prevents both governments and financial institutions from responding with policy changes and new products to increase remittance inflows and their positive effects on financial sector development and poverty reduction," says Betty Wilkinson, an ADB Rural Development Specialist and co-team leader for a regional technical assistance (RETA 6315, financed by the Poverty Reduction Cooperation Fund) that is

seeking to increase the positive effects of remittances on poverty in Central Asia and South Caucasus.

The RETA is studying the financial sectors and poverty situation in relation to remittances in Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, and Tajikistan, in order to inform policy makers, financial institutions, and the public in Central Asia and South Caucasus. The RETA will also help ADB develop public and private sector projects aimed at facilitating formal remittance inflows to the region, directing them to productive investments, and increasing their positive effects on financial sector development and poverty reduction.

While the RETA's final reports are due out in 2008, initial data from research and surveys already show governments can work to enhance the flow and impacts of remittances.

The Russian Federation has been identified as the single largest origin of remittance flows to the countries of Central Asia and South Caucasus. In 2006, the Russian Federation accounted for 77% of remittance inflows to Armenia, 84% to Azerbaijan, 79% to the Kyrgyz Republic, and 98% to Tajikistan. The United States was the second largest origin of remittance flows to Armenia, while Kazakhstan was the second largest origin of remittance flows to the Kyrgyz Republic.

Household survey data suggest that—contrary to the common perception—a substantial proportion of remittance flows to Central Asia and South Caucasus comes through banks and money transfer operators (MTOs). Of all cash remittances in the survey sample, about 58% in Armenia, 30% in Azerbaijan, almost 78% in the Kyrgyz Republic, and about 59% in Tajikistan were received through banks or MTOs. Cash carried home by migrants was the second most important channel of remittance inflows in all four countries.

Although most remittance inflows came through banks and MTOs, only a small proportion of remittances stayed in the financial sector. Among remittance-receiving households surveyed, 69% in Armenia, almost 33% in Azerbaijan, and more than 70% in the Kyrgyz Republic and Tajikistan received cash remittances through banks or MTOs in 2006; however, less than 3% of them kept all or part of remittances in a bank account. The survey also showed that among remittance-receiving households, more than 23% in Armenia, 10% in Azerbaijan, and about 60% in the Kyrgyz Republic and Tajikistan saved in 2006. However, only a small fraction of them saved in the form of time deposits, savings deposits, or investment in securities. This means the financial sector in the countries of Central Asia and South Caucasus has made limited progress in mobilizing remittances and directing them to productive investments.

"This information can help Central Asian and South Caucasian countries prepare better policies and programs, such as strengthening public confidence in formal financial institutions, making investment schemes and products more accessible to remittance receivers, and introducing measures to reduce the costs involved in sending funds through formal channels," says Ms. Wilkinson.

Bahodir Ganiev, an ADB Economist and co-team leader for the RETA, advises that "all these improvements can contribute to the goal of equitable growth and poverty reduction in the region as a whole."