

IMPROVING KNOWLEDGE OF REMITTANCE FLOWS IN CENTRAL ASIA AND SOUTH CAUCASUS

In 2005, an estimated \$188 billion flowed through official channels to developing countries in the form of remittances.¹ The amount is larger than foreign direct investment flows and more than twice as large as official aid that developing countries received.²

An estimated 175 million people now live outside their countries of birth. The economic power of migrant remittances, as a source of capital and support, is affecting millions of households around the world.³

Remittances are an increasingly important source of external finance for developing countries and help finance consumption, savings, investments, and improvements in the balance of payments. Remittances also finance education and health expenditures, and ease credit constraints on small businesses. Moreover, they provide an important source of income and help to alleviate poverty for family members left at home.

At least half of the people in households with ties to emigrants would be poor if they did not receive remittances, while others who are living in poverty would be extremely poor.⁴

In Central Asia and South Caucasus,⁵ the emergence of newly independent states in 1991 after the breakup of the former Soviet Union dramatically increased the movement of people across new borders.

Labor migration has been stimulated by the search of better opportunities from poorer Central Asian and South Caucasian countries. Migrants have gone to the Russian Federation and, increasingly, Kazakhstan.

For many of the poorest countries in the region, remittances are the largest source of external financing and have served as a cushion against the economic and political turbulence brought about by the transition. Being a significant source of foreign exchange, remittances have also served as a pillar to support and improve creditworthiness and access to international capital markets.⁶

Official central bank statistics show that significant amounts of formal sector funds are being transferred into countries—up to 27% of gross domestic product (GDP) in the Kyrgyz Republic and 20–50% of GDP in the case of Tajikistan.⁷

However, little is known about the structure of remittance flows in the region in terms of channels of remittance transfers and, perhaps more importantly, the effects of remittances on poverty reduction. 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. Additionally, local capacity to conduct applied research on remittances on an ongoing basis does not yet exist.⁸

Better Knowledge of Remittance Flows and Their Effects on Poverty

During country program discussions in 2005, the governments of several Central Asian and South Caucasian countries raised the issue of the lack of information on remittance flows and its impact on poverty.

To deal with these concerns, regional technical assistance (RETA) 6315 Remittances and Poverty in Central Asia and South Caucasus⁹ was designed.¹⁰ The RETA aimed to understand remittance flows and their impact both on financial sector development and poverty in individual Central Asian and South Caucasian countries, and the region as a whole. Two major outputs were expected from the RETA: a) regional report on the financial sector and remittances in Central Asia and South Caucasus, and b) regional report on remittances and poverty in Central Asia and South Caucasus. The study is being undertaken in Armenia,

Azerbaijan, Kazakhstan, Kyrgyz Republic, and Tajikistan.

The study intends to inform policy makers in Central Asia and South Caucasus to support the development of 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.

Recent data on remittance flows in the covered countries (Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, and Tajikistan) were reviewed during one of the working meetings. Among the more significant issues highlighted were¹¹

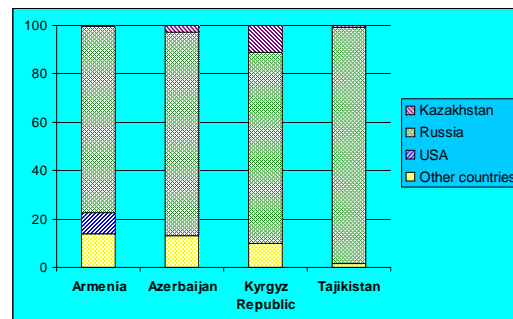
- Estimates of remittance flows in the region range widely because of the lack of reliable primary data on remittance flows through informal channels and the inconsistency of secondary data collected from various sources. For instance, estimates of remittance inflows to the Kyrgyz Republic in 2004 ranged 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.
- A substantial portion of remittances is believed to be coming largely through unofficial channels. This reflects the lack of trust in financial institutions on the part of the population and the difficulties (such as excessive documentation requirements) that the average remittance sender and receiver have to face in opening a bank account, sending funds, and getting cash from financial institutions. Banks in the region are only beginning to offer financial products specifically designed for remittance senders and receivers.

RETA 6315 Updates

Several surveys have been carried out in the region under the RETA.¹² A household survey on remittances covering a total of about 14,200 households was conducted in Armenia, Azerbaijan, Kyrgyz Republic, and Tajikistan using common sampling methodology and questionnaire. Commercial banks, money transfer operators (MTOs) and other institutions providing remittance transfer services, and a total of 900 individuals receiving remittances through banks or MTOs have been surveyed in Armenia, Kyrgyz Republic, and Tajikistan. Finally, institutions providing remittance transfer services and about 1,000 remittance senders have been surveyed in Kazakhstan.

Initial analysis of household survey data¹³ indicates that 26.2% of the households in Armenia, 12.3% in Azerbaijan, 15.9% in the Kyrgyz Republic, and 39.9% in Tajikistan received remittances in 2006. Aggregate inflows of remittances amounted to \$380.2 million in Armenia, \$390.4 million in Azerbaijan, \$250.3 million in the Kyrgyz Republic, and \$717.6 million in Tajikistan.

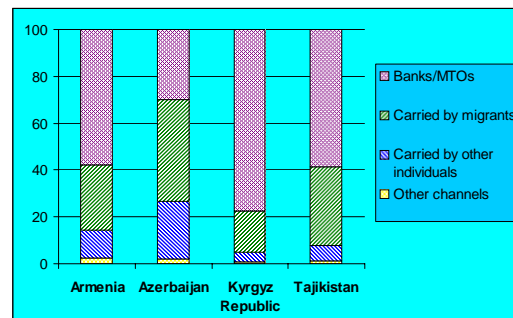
The Russian Federation is the single largest origin of remittance flows to the countries of Central Asia and South Caucasus. In 2006, it accounted for 77% of remittance inflows to Armenia, 84% to Azerbaijan, 79% to the Kyrgyz Republic, and 98% to Tajikistan. The United States was the second largest origin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



Source: Robert Sij. 2007. *Regional Study on Remittances in Central Asia and South Caucasus*. Powerpoint presentation.

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 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 by migrants was the second most important channel of remittance inflows in all four countries.

Channels of Cash Remittance Inflows, 2006 (In % of total inflows of cash remittances)



Source: Robert Sij. 2007. *Regional Study on Remittances in Central Asia and South Caucasus*. Powerpoint presentation.

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, so far, made limited progress in mobilizing remittances and directing them to productive investments.

Use of Financial Services by Remittance-Receiving Households, 2006 (In % of remittance-receiving households)

	ARM	AZE	KYR	TAJ
Households that receive remittances through banks/MTOs	69.0	32.9	73.7	78.1
...and deposit at least part of remittances in a bank account	2.3	0.6	2.7	1.8
Households that save...	23.1	10.0	60.1	59.2
...in the form of time/savings deposits and/or investment in securities	0.9	0.1	0.5	2.2

ARM = Armenia, AZE = Azerbaijan, KYR = Kyrgyz Republic, MTOs = money transfer operators, TAJ = Tajikistan.

Source: Robert Siy. 2007. *Regional Study on Remittances in Central Asia and South Caucasus*. Powerpoint presentation.

Even at this early stage, inputs for enhancing the positive effect of remittances can already be identified. For example, public confidence in formal financial institutions should be strengthened to broaden financial sector involvement in the remittance flows. Investment schemes and products should also be made accessible to remittance receivers. Also, measures to reduce the costs involved in remitting funds through formal channels should be taken.

The impact of the remittance flows on poverty reduction is still under analysis; the results will be coming out early next year after the stakeholder consultations. However, preliminary findings already point to the importance of the study findings on financial and poverty reduction policy development in the countries involved.

Endnotes

- 1 Funds sent by migrant workers to their families and relatives in their home countries.
- 2 Migration and Development Brief 2. Development Prospects Group, Migration and Remittances Team
<http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationDevelopmentBriefingNov2006.pdf>
- 3 www.adb.org/Documents/Events/2005/ADB-IADB-MIF-UNDP/default.asp
- 4 http://66.218.69.11/search/cache?ei=UTF-8&p=remittances+and+poverty&fr=slv8-msgr&u=insidcostarica.com/special_reports/2005-11/latam_remittances.htm&w=remittances+poverty&d=DWb1pOjPLr1&icp=1&intl=us
- 5 South Caucasus, also referred to as Transcaucasia or Transcaucasus, is the southern portion of the Caucasus region between Europe and Asia, extending from the Greater Caucasus to the Turkish and Iranian borders, between the Black and Caspian Seas. The area includes the Colchis Lowland, Kura Lowland, Talysh Mountains, Lenkoran Lowland, Caucasus Minor, and Javakheti-Armenian Uplands. All of Armenia is in Transcaucasia; the majority of Georgia and Azerbaijan, including the exclave of Naxçivan, fall within this area.
- 6 http://siteresources.worldbank.org/INTECA/Resources/257896-1167856389505/Migration_FullReport.pdf
- 7 ADB. 2006. Technical Report. Remittances and Poverty in Central Asia and South Caucasus. Manila.
- 8 ADB. 2006. Technical Report. Remittances and Poverty in Central Asia and South Caucasus. Manila.
- 9 RETA 6315 Remittances and Poverty in Central Asia and South Caucasus. RETA Amount: \$1,300,000 (\$1,000,000 from the Poverty Reduction Cooperation Fund contributed by the United Kingdom Department for International Development, and \$300,000 from ADB's Technical Assistance Special Fund). Approval Date: April 2006. Expected Completion Date: March 2008.

- 10 The TA was designed in consultation with the European Bank for Reconstruction and Development, which is planning to undertake a regional study on remittances covering Georgia, Moldova, and Tajikistan as recipient countries and the Russian Federation as an origin country.
- 11 Bahodir Ganiev. 2006. Back to Office Report – First Working Meeting under RETA on Remittances and Poverty in Central Asia and South Caucasus.
- 12 NPRS-PRF Semi-Annual Project Status Report For the period: July to December 2006
- 13 Robert Siy. 2007. Regional Study on Remittances in Central Asia and South Caucasus. Powerpoint presentation. Japan.

This case study was written by Social Development Direct (RETA Consultant) under the Regional TA 6270: Facilitating Knowledge Management for Pro-Poor Policies and Projects with inputs from Bahodir Ganiev and Betty Wilkinson, Project Officers of TA 6315, and Sonomi Tanaka, Senior Social Development Specialist, ADB. The views and assessments contained herein do not necessarily reflect the views of ADB or its Board of Directors or the governments they represent. ADB does not guarantee the accuracy of the data and accepts no responsibility for any consequences of their use.

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