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Report No. 35771-TJ

# Tajikistan Policy Note

## Enhancing the Development Impact of Remittances

June 2006

Poverty Reduction and Economic Management Unit  
Europe and Central Asia

Public Disclosure



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Document of the World Bank

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**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective April, 2006)

Currency Unit	=	Tajikistan Somoni (TJS)
US\$ 1.00	=	3.2400
TJS 1.00	=	0.3086

**WEIGHTS AND MEASURES**  
Metric System

**FISCAL YEAR**  
January 1 to December 31

**ABBREVIATIONS AND ACRONYMS**

AIB	Agroinvestbank
ATM	Automatic Teller Machine
BEEPS	Business Environment and Enterprise Performance Survey
BOP	Balance of Payments
CEM	Country Economic Memorandum
CIS	Commonwealth of Independent States
ECA	Europe and Central Asia
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GBAO	Gorno-Badakhshan Autonomous Oblast
GDP	Gross Domestic Product
HTAs	Home Town Associations
IFC	International Finance Corporation
IOM	International Organization for Migration
IMF	International Monetary Fund
MFI	Micro Finance Institutions
NBT	The National Bank of Tajikistan
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Cooperation and Development
PTM	Post Terminal Machines
RRS	Rayons under Republican Jurisdiction
SMEs	Small and Medium sized Enterprises
SPV	Special Purpose Vehicle
TJS	Tajik Somoni
TLSS	Tajikistan Living Standard Survey
UNDP	United Nations Development Program

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## ACKNOWLEDGEMENTS

This Policy Note is part of the Country Economic Memorandum for Tajikistan. The analysis is based on the survey of migrants conducted by Tajikistan's Sociological Research Center (Zerkalo) from April through May 2005, the findings of several missions that visited Tajikistan between February through July 2005, and the extensive review of international experience on migration and remittances.

The Policy Note is prepared by a team comprising Jariya Hoffman (task team leader, ECSPE), Bryce Ramsey-Quillin (ECAVP), Carlo Segni (ECSPS), and Paul Jacobs (summer intern). The team wishes to thank the Government of Tajikistan for the constructive discussions and inputs provided during and after the various missions. The team is particularly grateful for the inputs provided by Faizullo Kholboboev (State Adviser to the President on Economic Policy), Mr. M. Alimardonov (NBT Chairman), Mr. Jamshed Yusupov (Head, Monetary Policy and Statistics Department, NBT), Mr. Asadullo Gafurov (Head, BOP Division, NBT), Mr. Anvar Babaev (Head State Migration Service, Ministry of Labor and Social Protection), Mr. Asoev Umed Abdulloevich (Head, Department for Labor Market and Population Employment), Mr. Halimjon Rahimov (Director, Tajik Labor Export Agency—Tojikhoriyakor, Ministry of Labor and Social Protection), Mr. Fattoh Saidov (Head, Visa and Registration and Passport Affairs Division, Ministry of Interior), Samandar Haidarovich Khaidarov (Head Foreign Economic Activities and Forex Operations, AgroInvestBank), Mr. Umed Davlatzod (First Deputy Chairman, Orionbank), Mrs. Larisa Loginova (First Deputy Chairman, Tojiksodirotbank), Mr. Muzaffar Zaripov (Director IOM—OSCE Information Resource Center for labor migrants), Aziz Sharipov (Chief, International Relations Department Kafolatbank), Ms. Saodat Olimova (Head, Social Service Scientific Research Center “Shark”), Mr. Kahramon Bakozoda (Sociological Research Center, Zerkalo), Alastair Watson (Chief Operating Officer, the First MicroFinanceBank), Michael Schneider (Manager, Project “Support of Microfinance Services in rural areas,” GTZ), Shamsiddin Gulov (Branch Director, International Micro-Loan-Fund “IMON”), Mahmoud Naderi (Chief of Mission, IOM) and Mr. Phillip Wannors (Swiss Forum for Migration and Population Studies, Switzerland). The author would like to express her gratitude to the Swiss Government for its generosity in providing financing support through the Consultant Trust Fund for the survey of migrants in Tajikistan.

The Note is drawn upon several background papers contributed by Bryce Ramsey-Quillin and Paul Jacob (Estimation of Remittances), Carlo Segni (Transfer Channels and Costs and Micro-finance Institutions), and Paul Jacobs (Review of International Experience) provided in Annex II-IV. It benefits from discussions with Ali Mansoor and Bryce Ramsey-Quillin and insightful and constructive comments from the peer reviewers, Dilip Ratha and John Litwack.

This report was prepared under the general guidance and advice of Cheryl Gray, Carlos Felipe Jaramillo, Samuel K. Otoo, Deborah L. Wetzel, Dennis de Tray, Annette Dixon, Cevdet Denizer, Sudharshan Canagarajah, Lilia Burunciuc, and Ashad Sayed. Bryce Ramsey-Quillin and Ali Mansoor kindly provided overall guidance and advice as well as shared the survey data from the ECA migration study. The report also benefited from valuable suggestions and inputs received at different stages of preparation from Sudharshan Canagarajah, Jakob von Weizsacker, Samuel Munzele Maimbo, Raul Hernandez-Coss, Utkir Umarov, and Aziz Khaidarov. Paul Jacobs provided valuable and excellent assistance in analyzing the migrant survey database and

conducting the literature review. Processing assistance from Dammika Somasundaram and Zakia Nekaien-Nowrouz is gratefully acknowledged. Helpful logistical assistance was also received from Munira Salieva, Janna Yusonova, Takhmina Jumaeva and Zarina Shukurova.

## EXECUTIVE SUMMARY

1. Since its transition to a market economy in 1991, Tajikistan has experienced high levels of out migration. The motivations for this migration, however, have evolved over time. Early emigration was motivated by war and the conflicts following independence, while more recent migration has been provoked by economic factors influenced by demand and supply factors. An increase in the demand for labor driven by a decline in the working age population in Russia as well as strong economic growth in Russia, combined with slow job growth and the low wage level in Tajikistan, have encouraged the emigration of Tajiks.

2. Who are these migrants and how many are they? A migration survey conducted in May 2005, shows that the average migrant is a male ethnic Tajik, with an average age of 34 years, married and with 5 dependents. The majority of migrants have secondary education or vocational training. Most are unemployed or grapple with a low wage level that is insufficient to meet basic household needs. They travel alone and mainly head for Russia for an average of 14 months and then return to Tajikistan. While in Russia, most Tajik migrants work in the construction, services, and manufacturing sectors. Given the dearth and unreliability of migration statistics, the true number of Tajiks living outside the country is unknown and a large number of them are undocumented migrants. One official estimate suggests the number was about 421,000 in 2004, while other estimates indicate numbers up to 1.2 million Tajiks living overseas.

3. What is all the more remarkable about Tajik migrants is that they are the source of a large volume of funds that are being sent back to their home country in amounts so significant that they have now become an important source of economic growth for Tajikistan. In fact, the level of remittances ranks second after aluminum and ahead of cotton if considered as an export of labor services in 2004, and towers over those of official development assistance as well as foreign direct investment. These inflows have a strong seasonal orientation that reflects, in particular, the temporary nature of migration to Russia. Between 2000 and 2004, official estimated remittances increased from 0.1 percent to 12 percent of GDP. In addition to employment opportunities in Russia (and in other host countries), the reasons that official remittance transfers have increased since 2000 include the removal of the 30 percent tax that had been levied on such transfers, reduction in money transfer costs, improvements in the financial system's infrastructure, and improved trust in local banks.

4. Though already large, it is widely agreed that the true size of remittance flows are unquestionably larger than the official balance of payment estimates. Alternative methods of estimating remittances produce widely different numbers depending on the estimation methodology used. For example, the estimate based on the Living Standard Survey is even lower than the official estimate, which clearly undershoots the true mark. An estimate based on a micro-survey of returned migrants suggests that remittances could amount to 28 percent of GDP, although the finding is contentious because of the unreliability of migrant statistics and the biases of the survey methodology. Alternatively, one regression-based estimate suggests that remittances could be as high as 21 percent of GDP.

5. Remittance transfers to Tajikistan are relatively efficient as measured by the simplicity of operation, cost and speed. The most widely used transfer mode among Tajik migrants is the money transfer system (cash-to-cash transfer) that operates in partnership with Tajik commercial banks (about 70 percent of all operations). These require no documents from senders, and have a

fee that averages anywhere from 1.5 to 5 percent of the amount sent (which is charged to senders in host countries and is considered relatively low compared to similar systems in countries such as Mexico and Philippines). Competition among banks and money transfer operators have driven rates down, and even a global company like Western Union was obliged to lower costs in Tajikistan. Recipients can withdraw cash in a short time (within a day in Dushanbe), and in several currencies (US\$, Pound Sterling, Ruble, Euro, and Somoni). Remittances sent through the banking system (account to account transfer) are insignificant due to high transfer costs (that includes a fee of 3 percent paid by both senders and receivers, and the exchange rate spread of 2-3 percent), limited access to the banking system, and lack of bank accounts abroad and at home. Despite its extensive network in the rural areas, transfer through the post office system is inefficient due to high fees (10-12 percent) and very slow speed (2-3 weeks). It is estimated that about 30 percent of migrants send remittances through informal channels, depending mostly on personal courier, friends, and acquaintances.

6. Remittances to Tajikistan are highly significant as they have become a source of income for many low income families to meet basic needs and thereby help reduce poverty. They are clearly welfare enhancing for households who benefit from these flows. The survey of Tajik migrants suggests that the financial situation of Tajik migrants and their families improve after migration. Their income overseas is ten times what they earned in Tajikistan before migration (US\$274 per month compared with a pre-migration income of US\$30 per month), of which about 48 percent is remitted to Tajikistan. Remittance recipients earmark funds for consumption, home repair, education and health, and savings. Consequently, they have contributed to short-term economic growth and poverty alleviation through increased domestic demand that leads to increased employment, income and output. At present, their contribution to longer term growth through investments in productive activities is limited by the low level of migrants' income and an unfavorable business environment that constrains the development of small and medium enterprises (SMEs). However, their contribution to funding the education and health needs of families is arguably a contribution to investment in human capital that can yield benefits both in the near- and medium-term.

7. From a macro perspective, the international literature shows that large inflows of remittances can also lead to a real appreciation of the exchange rate, which can fuel imports and worsen the country's export competitiveness. Further, they may increase the vulnerability of recipient countries to host countries' migration policies and business cycles. Such macroeconomic impacts have implications for long-term economic growth and thus deserve a comprehensive analysis. To mitigate the potential negative impacts and to enhance their longer term positive impact, the government of Tajikistan is seeking appropriate policies on how to further enhance the use of remittances beyond increasing the standards of living and welfare of household recipients. This Note attempts to bring them into focus and to suggest measures for the government to consider enhancing the development impact of remittances.

8. The report contains a review of the latest international policy experiments to enhance the development impact of remittances; however, many of these experiments, unfortunately, have either not been properly evaluated or are more relevant for middle income countries, where financial sectors are more developed. This Note considers some of the most relevant international experience concerned with enhancing the development impact of remittances. Such experience is instructive and suggests that there are indeed a variety of policy instruments that can be effective in mobilizing remittances into the banking system and channeling their use for more productive purposes.

9. The conclusion of this analysis is that policies need to be designed for Tajikistan's specific needs. After considering the international experience and Tajikistan's particular conditions, the note assesses the potential for replication of the most successful of these policies that were applied elsewhere to the case of Tajikistan. For example, to meet specific development objectives, collective remittances have been mobilized by the Home Town Associations (HTAs) in several Latin American countries and matched by government funds (known in Mexico as Three-for-One). The experience of matching funds that has been piloted in Tajikistan by UNDP in collaboration with the IOM is considered inconclusive and it is too early to evaluate the program's development impact.

10. The Note considers those policies that would increase remittance inflows and enhance the development impact of remittances, increase welfare and broaden the safety net for migrants and their families. It recommends a set of policies aimed at optimizing their positive impacts by improving the investment climate, and the role of financial intermediaries. It also offers a second set of policy recommendations that focuses entirely on bilateral negotiations, especially with Russia, concerning the rights of Tajik migrants, and resident and work permits when working in host countries. Finally, the report explains the importance of improving the quality of migrant and remittance statistics to improve the understanding of their impact and as an aid in the designing of appropriate policies.

11. In terms of policies that can be implemented unilaterally to enhance the development impact of remittances, the Tajik authorities could focus on the following:

- (a) Encouraging a pro-business environment. This requires maintaining a stable macro-economy and simplifying the licensing and inspection regimes.
- (b) Enhancing the role of financial intermediaries for mobilizing savings and investment resulting from remittances. Such policies include:
  - (i) Encourage entry of foreign banks into Tajikistan to foster modernization and technological improvements, as well as to further increase public trust and confidence in the banking system;
  - (ii) Cross-selling of financial products by commercial banks to migrants as incentives for keeping their savings in the banking system;
  - (iii) Promote healthy competition of commercial banks to further reduce transfer fees, especially wire transfers charged by commercial banks;
  - (iv) Improving public information dissemination related to financial services by both the government and commercial banks; and
  - (v) Integrating MFIs into the remittance services to mobilize remittance savings from un-banked migrants in the rural areas and channel them towards productive investment including small business and agricultural projects.
- (c) In the near-term, efforts should be undertaken to improve the quality and coverage of statistics on migration and remittances, including estimating informal transfers of remittances in the balance of payments and improving household budget surveys.

12. In terms of policies designed to increase remittance inflows that are not fully under the control of the Tajik authorities. The Note outlines the potential benefits of a proactive engagement in bilateral diplomatic negotiations with Russia to remove obstacles to migration. The main aim of such negotiations should be to:

- (a) Protect the right of undocumented Tajik migrants on Russian territory;
- (b) Simplify the registration process of resident permits for Tajik migrants; and
- (c) Lower the cost to Russian employers when hiring foreign workers.

## I. INTRODUCTION

1. Remittances have played an important role as one of the drivers of Tajikistan's robust economic growth during the past several years. The volume of official remittances has significantly increased since 2001 and now represent close to 12 percent of GDP (2004). Remittances have become the most important source of external financing for the balance of payments, have increased incomes, and as a result helped reduce poverty. Emigration—particularly seasonal migration to Russia—has become an alternative poverty coping measure chosen by the poor. According to the 2003 Tajikistan's Living Standard Survey, remittances and other transfers made up about 10 percent of average household income in 2003, ranking it the second source of cash income following wages.<sup>1</sup>

2. Recognizing their importance, the Tajikistan authorities have sought to sustain remittance flows. In order to increase the quantity of legal migration, temporary worker agreements have been signed bilaterally with key receiving countries (Russia, Kyrgyz Republic). A 30 percent tax on remittance transfers was eliminated and commercial banks were allowed to partner with foreign money transfer operators to provide low cost transfer services to migrants. The Ministry of Labor and Social Protection established an employment agency to provide employment services including information on vacancies, training, and orientation for workers choosing to live abroad.

3. However, anecdotal evidence indicates that migrants are not sufficiently integrated into the Tajikistan financial system, much less that of the destination countries. Most do not have bank accounts at home or abroad, and as a result remittances are mostly transferred through money transfer systems on a cash to cash basis. They are immediately withdrawn in cash once reaching Tajikistan in order to meet basic needs. If there are savings, they prefer to keep them at home because of a lack of trust in the banking system. This leads to inadequate integration of migrants and their families into the financial system, thus limiting access to financial services and products that could smooth consumption and provide additional investment for income generation activities.

4. The survey of Tajik migrants found that the majority of remittances are used to fund basic household consumption, while an insignificant amount of remittances are spent on productive investment. Most migrants come from poor, rural areas and the bulk of international remittances appear to fund basic consumption and some investment and saving at the margin. Although this pattern of remittance use is common around the world, it is recognized that the development impact of investment can be greater than consumption expenditure. To maximize the potential impact of remittances, the Tajik authorities have expressed keen interest in receiving guidance on how to further encourage their use for greater productive investment.

5. For remittances to have an impact beyond an income effect, two conditions must be met. First, households must have surplus income after all subsistence needs have been met. Second, investment policies and institutions must create the incentives to encourage households to save any surplus income in the formal, financial sector or invest in businesses. In the case of Tajikistan, it is not yet clear whether households have large of amounts of surplus income. However, efforts could be made to improve the investment climate not only to encourage greater

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<sup>1</sup> The World Bank, Poverty Assessment Update (June 2004).

savings and investment from remittance income at the margin, but also to take greater advantage of Tajikistan's migrant population. Improved policies to encourage higher levels of remittances will facilitate greater trade and migration complementarities, and provide more opportunities for migrants to use the financial and human capital built abroad back home.

6. This Policy Note has two main objectives: (i) to expand knowledge of the size of remittances, their sending mechanisms (especially through formal channels), and their use; and (ii) to propose policy recommendations to enhance the development impact of remittances. The Note benefits from a recently completed study (Tajikistan's Trade Diagnostic Study) and from the World Bank's ongoing Study on "Enhancing Gains through International Labor Migration in Europe and Central Asia," and the 2005 Global Economic Prospect featuring "International Migration and Remittances."<sup>2</sup> The survey of Tajik migrants conducted by the Zerkalo<sup>3</sup> during April-May 2005 for the migration study in the ECA region provides insights to Tajikistan's migration and remittances. It provides demographic characteristics and economic behavior of migrants, thus enabling the computation of economic and financial parameters underpinning the analysis. Finally, reviewing the international experience of other selected labor sending countries around the world provides lessons that can be drawn for the Tajik government in designing relevant policy measures aiming to enhance the development impact of remittances.

7. The Note is organized into six sections, including this Introduction. Section Two provides background on migration and remittances related to Tajikistan. Section Three discusses the estimation of remittance size and data issues. Section Four examines the transfer channels of remittances (their cost, access, and speed), their use, and the impact of remittances. The analysis highlights impediments to the efficiency of remittance transfer services through formal channels, examines the use of remittances by recipient households in Tajikistan, and identifies impacts of remittances on the economy. Section Five discusses the international experience of other selected migrant-sending countries in using various instruments to enhance the development impact of remittances. The section draws some of the key lessons learned from the international experience that could be considered in the Tajik context. The final section recommends policies to enhance the development impact of remittances taking into account the Tajik context and identifies topics for further research.

## II. BACKGROUND

### MIGRATION IN TAJIKISTAN

8. ***Tajikistan's transition to a market economy has been challenging.*** The implementation of structural reforms was delayed by the multi-year civil war that broke out after independence in 1991 and did not commence until 1997. The country inherits a difficult geography – it is land-locked, resource poor, mountainous and faces an unfavorable geo-political backdrop bordered by Afghanistan and Uzbekistan. The civil war contributed to the deterioration of the physical infrastructure and an already weak institutional capacity. Despite strong economic growth, averaging 9.6 percent over 2000-2004, Tajikistan remains the poorest economy in Central Asia with a per capita GDP of US\$310 in 2004. Poverty has fallen somewhat, but remains high at

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<sup>2</sup> The World Bank, 2005. Enhancing Gain through International Labor Migration in Europe and Central Asia.

<sup>3</sup> The Zerkalo is a Sociological Research Center in Tajikistan that carried out the survey of 1,200 migrants financed by the World Bank's ECA Migration Study during April-May 2005. The survey is based on the same set of questionnaire that was designed for 6 countries that were case studies for the World Bank Study. Based on the survey results, Zerkalo prepared a report entitled "Assessment of Standard of Living of Labor Migrants."

64 percent and income inequality has widened since 1999.<sup>4</sup> Lackluster job growth due to demographic factors combined with delayed structural reform makes it difficult for the population to find employment and earn sufficient income to meet basic needs, especially in the rural areas. A good segment of the population has found its way out of poverty through international migration, primarily to various parts of Russia.

9. International migration in Tajikistan is a relatively new phenomenon relative to other labor exporting countries around the world, especially Mexico, Philippines and South Asian countries (India, Pakistan, Sri Lanka, and Bangladesh). Prior to independence in 1991, Tajikistan's migration was considered internal within the former Soviet Union. The eruption of ethnic conflict, followed by a multi-year civil war that began in 1991, then liberalization of migration after independence and economic transition, all resulted in a large flow of international migration. Based on the available official migration data reported by the State Statistical Committee, about 411,623 persons left Tajikistan during 1991-2004, of which 68 percent left during 1991-95 (Table 1). They were mostly non-ethnic Tajik (Russian, Jews, Crimea Tartars, Ukrainians, Kazakhs, and German) and their main destination countries were Russia, Uzbekistan, Germany, Kazakhstan, Israel, and the Kyrgyz Republic. However, emigration declined sharply in 1997 and leveled off during the 1998-2004 period as the political and economic situation gradually normalized.

**Table 1: Tajikistan Migration Flows  
(thousand persons)**

	Arrived	Departed	Migration inflows (+)/outflows (-)
<b>1991</b>	74.9	101.3	-26.4
<b>1992</b>	51.3	146.0	-94.7
<b>1993</b>	71.4	146.1	-74.7
<b>1994</b>	43.3	88.9	-45.6
<b>1995</b>	37.1	74.9	-37.8
<b>1996</b>	26.1	53.7	-27.6
<b>1997</b>	20.8	37.1	-16.3
<b>1998</b>	16.9	32.3	-15.4
<b>1999</b>	14.7	28.8	-14.1
<b>2000</b>	14.5	28.2	-13.7
<b>2001</b>	16.7	29.1	-12.4
<b>2002</b>	17.7	30.2	-12.5
<b>2003</b>	16.9	27.9	-11.0
<b>2004</b>	15.2	24.7	-9.4

Source: State Statistical Committee.

10. *The pattern of Tajikistan's migration in recent years has evolved.* While international migration had been driven by ethnic conflict and civil war, recent emigration has been driven by economic factors, both on the demand and supply sides. The demand factors—demographic crisis in Russia due to a declining and aging population<sup>5</sup> and continued economic growth in Russia—generated significant demand for labor, especially in the service sector. The supply factors in Tajikistan included a low wage level, high unemployment<sup>6</sup> due to skill mismatches and slow job growth relative to labor force growth,<sup>7</sup> all of which provided great incentives for workers to seek opportunities outside the country. A free visa regime between Tajikistan and the

<sup>4</sup> According to the World Bank 2003 Poverty Assessment Update, the inequality of consumption expenditure increased from 0.33 in 1999 to 0.36 in 2003.

<sup>5</sup> Russia's natural rate of increase (-0.6 percent) ranks the second lowest in the world after Ukraine (-0.8 percent). Population in Russia declined to 143.5 million (December 2004) from 145.2 million (2002) due to natural causes, a low birth rate and emigration. The World Population Data Sheet projects that Russia's population will decline to 119 million by 2050. According to a demographic forecast for 2050 the share of population in the working age group (between 16 and 55 for females and 60 for males) will be close to 50 percent, which is considerably lower than 61 percent according to Census 2002 but similar to the Census 1939 with difference in higher proportion of old population, 34 percent in 2050 compared to 9 percent in 1939 (Andreev and Vishnevsky, 2004).

<sup>6</sup> The World Bank's Poverty Assessment Update estimated the unemployment rate at 30 percent compared to the official rate of 2.2 percent (September 2004).

<sup>7</sup> Tajikistan's working population represents 55 percent of total population.

CIS countries and Russia, combined with a shared cultural background and language, facilitated easy entry and exit for the Tajik migrants. The main destination countries were, and continue to be, Russia and Kazakhstan. Today's emigration is characterized as "temporary" as confirmed by responses to the 2005 migrant survey in Tajikistan where 90 percent of migrants reported that they had no intention of settling abroad. According to the State Migration Services, most migrants are from Khatlon, RRS, and Sogd regions.

11. *Much of the migration from Tajikistan is undocumented.* Despite restrictive migration policy and tight administrative control in Russia, migrants have overcome these barriers. Based on self-determination of legality<sup>8</sup> by the survey's respondents, about 4.2 percent of the migrants surveyed were categorized as legal; all others (most of whom carried only a passport) were deemed irregular/illegal migrants. The number of illegal Tajik in Russia is unknown but large as the Ministry of Labor and Social Protection reported that only 10 percent of migrants work legally in Russia.<sup>9</sup> A free visa regime and weak enforcement enable migrants to cross borders and bribe their way into Russia. Tajik migrants in Russia are considered illegal<sup>10</sup> because they fail to obtain residence permits upon their registration as foreign citizens within 72 hours upon arrival in the country or they do not have employment permits. Russia still maintains internal administrative controls, including the registration system, a legacy of *propiska*.<sup>11</sup> Most jobs in Moscow are only open to residents of the city and the Moscow region even though it is against Russia's Constitution. Although a lack of legal status makes Tajik migrants vulnerable to bribes and extortion, the survey on income of migrants proves that they are still better off than in their home country.

#### WHO ARE THE MIGRANTS?

12. Table 2 provides a summary of the demographic characteristics of Tajik migrants. They are mainly ethnic Tajik, male, with an average age of 34 years, married, and have 5 dependents. They travel alone and mainly head for Russia<sup>12</sup> where they find job opportunities, a common culture and language, and existing social networks.<sup>13</sup> The cost of

**Table 2: Tajikistan's Demographic Profile**

Ethnic Tajik	81%
Married	72%
Male	86%
Average age	34
Average No. of Dependents	5
No. of months in migration (median)	9

*Source: Zerkalo's Survey, May 2005*

travel is relatively low at about US\$200 per trip by plane or train. Their main motivation to migrate is higher income to provide food and necessities for their families back in Tajikistan. About 49 percent of migrants remain abroad for 9 months. This profile is similar to that of Mexico, except for the level of education. The flow of circular Mexican migrant laborers heading to the United States is mostly made up of males (94.4 percent), between the ages of 25 and 34

<sup>8</sup> This is based on the respondents' answers whether they carried a series of documents (asylum papers or a work permit and passport) with them when they traveled abroad.

<sup>9</sup> Tajikistan Media Monitoring, March 10, 2006.

<sup>10</sup> The Report on "Combating Trafficking in Human, Its Consequences and forms of Forced Labor in Central Asian Countries and Russian Federation," estimated that about 15-18 percent of Tajik migrants legally reside in Russia.

<sup>11</sup> In the Soviet Union, the *propiska* or resident permit system required persons to register before being allowed to migrate to a new location. Though this system did not completely capture all migration flows, it was a useful tool in tracking migration flows.

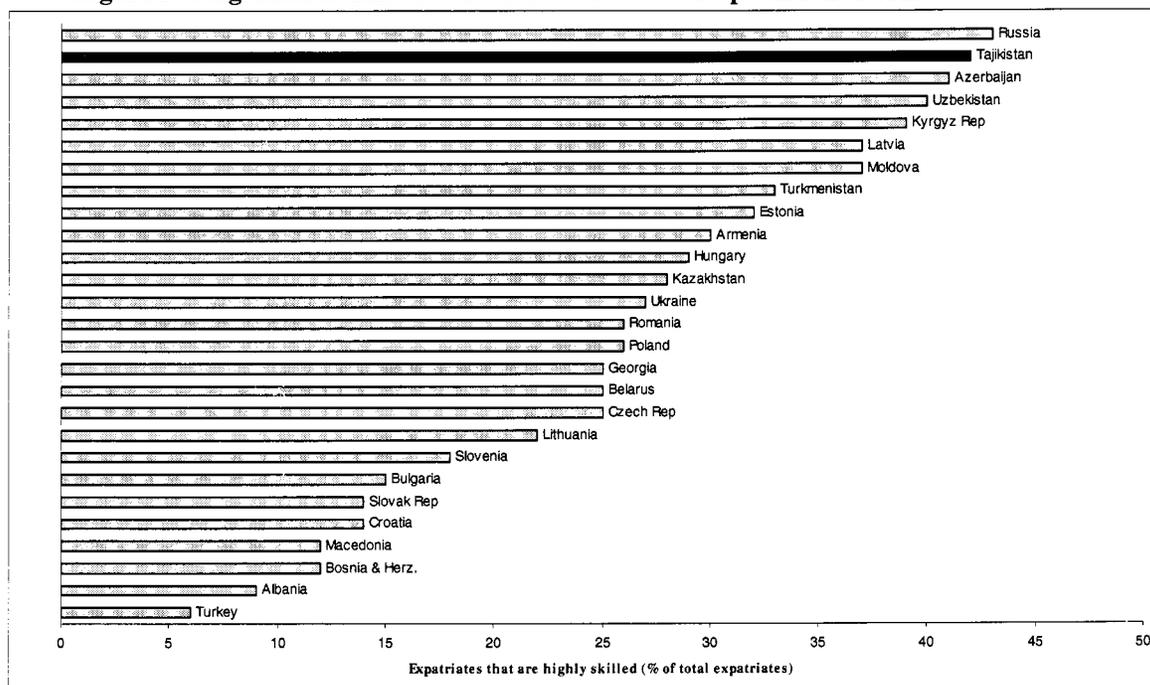
<sup>12</sup> Destination cities in Russia are Moscow, St. Petersburg, Ekaterinburg, Novosibirsk, Chelyabinsk, and Krasnoyarsk.

<sup>13</sup> A detailed demographic profile of migrants is documented in "Migration and Return—The Case Study of Tajikistan," The World Bank, ECA Migration Study, 2005. This profile is consistent with data provided by the State Migration Service.

(37.3 percent), with fewer years of schooling than the national average for Mexico, married (57.9 percent) and are the head of the household (65.1 percent).<sup>14</sup>

13. *The lack of legal residence and work permits oblige Tajik migrant workers to accept unskilled and low paid jobs.* A recent OECD study found that Tajikistan had one of the highest levels of out-migration of skilled workers in the region (Figure 1). The Zerkalo survey found that one-third of migrants had secondary and/or technical education. Despite their education, about 62 percent of Tajik migrants appeared to be employed in the construction sector.

**Figure 1: Migration of Skilled Workers in Eastern Europe and the Former Soviet Union**



Source: OECD.

14. *Migration has clearly improved the financial situation of Tajik migrants and their families.* Table 3 provides a snapshot of the financial status of a typical migrant based on self reporting from the survey. Overall, migration increased the income of migrants 10 times compared to what they earned in Tajikistan (US\$274 per month compared with pre-migration income of US\$30 per month). About 48 percent of this income is remitted to families in Tajikistan, thus resulting in an average monthly income of about US\$131 per household. Remittances have enabled families back home to afford food, clothes and utilities to a much greater degree.

**Table 3: Financial Snapshot of a Tajik Migrant**

Average monthly income (excluding Unemployed)	
Pre-migration	\$30
During migration	\$274
Post migration	\$91
Saving/Income	0.015
Remittances/Income	0.476

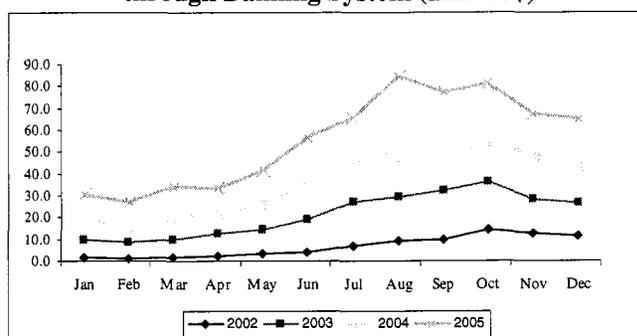
Source: Zerkalo

<sup>14</sup> The data is based on the ENEFNEU Survey (*Encuesta Nacional de Migración a la Frontera Norte y a los Estados Unidos*) carried out by the Centro Nacional de Información y Estadísticas del Trabajo to obtain an accurate estimate of Mexican workers in the United States and their socio-economic characteristics. See Germán A. Zárate-Hoyos, 1999. "A New View of Financial Flows from Labor Migration: A Social Accounting Matrix Perspective," E.I.A.L. Vol. 10, No. 2, July-December 1999.

## OVERVIEW OF REMITTANCES IN TAJIKISTAN

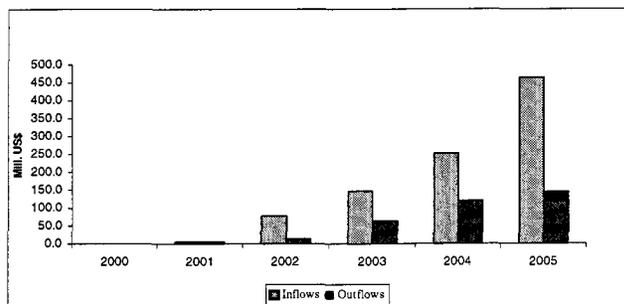
15. *Remittance flows into Tajikistan have a strong seasonal orientation that reflects the temporary nature of migration to Russia.* The private inflows of funds transferred through the banking system and captured by the National Bank of Tajikistan (NBT) in the balance of payments oscillated during the year (Figure 2). They peak in October after the demand for short-term labor in Russia reaches its highest. Subsequently, they taper off during November and December as winter slows the demand for labor, especially in the construction and agricultural sectors.

**Figure 2: Tajikistan – Monthly Funds Transfer through Banking System (mil. US\$)**



16. *Workers' remittances reported in the balance of payments have risen sharply during the past few years and are large as a portion of GDP (Figure 3).* According to the NBT, inflows of migrants' remittances tripled from US\$78 million in 2002 to US\$465 million in 2005. The rapid growth of official remittance inflows is due to several factors: increased emigration in response to the demand for labor, increased wages, elimination of the 30 percent tax on remittance transfers in 2001,<sup>15</sup> a decline in money transfer costs,<sup>16</sup> improvements in the financial system infrastructure and improved trust in local banks.<sup>17</sup> The main source of remittances is the CIS countries, specifically Russia. Tajikistan also experiences a large outflow of workers' remittances, mostly associated with payments of imports and workers' remittance transfers by Iranian and Afghan refugees. As reported in the balance of payments, remittance outflows have increased significantly during 2001-2004 (from US\$1.1 million in 2000 to US\$119 million in 2004).

**Figure 3: Tajikistan Inflows and Outflows of Remittances**



As reported in the balance of payments, remittance outflows have increased significantly during 2001-2004 (from US\$1.1 million in 2000 to US\$119 million in 2004). The direction of these transfers is extremely diverse, to both CIS and outside CIS (the United States, Europe, China, Dubai, Saudi Arabia).

<sup>15</sup> Resolution No. 445, dated 25 September 2001, cancelled the resolution of Council of Ministers of the Republic of Tajikistan No. 587 of 29 November 1993 "On State duty rates" that imposed 30 percent state duty on incoming money transfers from abroad.

<sup>16</sup> This is due to a significant enlargement of the network of money transfer offices in all regions of Russia, CIS and FSU.

<sup>17</sup> Anecdotal evidence suggests that the financial and banking system has been re-monetizing fast, with deposits in banks to assets and to GDP ratios increasing throughout the whole region and Russia. The NBT<sup>17</sup> estimated that the number of individual accounts in banks has steadily increased during the last three/four years, indicating improved confidence levels and intermediation deepening.

17. *Remittances play an important role in the balance of payments.* Table 4 shows that if labor services are considered as exports, migrants' remittance inflows rank second after aluminum and ahead of cotton fiber. They accounted for nearly one-third of merchandise exports and financed about 70 percent of the trade deficit fueled by imports induced by increased income associated with remittances since 2000. Remittances also tower above foreign direct investment and other transfers generated by official development aid flows. In 2005, gross remittance inflows doubled the stock of Tajikistan's inter-national reserves.

**Table 4: Tajikistan Balance of Payments**

	2000	2001	2002	2003	2004	2005
Trade Balance	-23	-125	-125	-204	-151	-319
Exports	788	652	699	799	1088	1107
of which: Aluminum	424	398	399	430	563	563
Cotton	92	71	128	193	162	144
Imports	811	777	824	1003	1239	1426
Service Balance	4	-8	-36	-54	-89	-117
Net Income	-36	-72	-57	-90	-78	-75
Net Transfer	37	131	184	329	236	432
of which: Net Migrants' Remittances	0	-1	65	82	133	321
Inflows	1	4	78	146	252	465
Outflows	-1	-5	-13	-64	-119	-144
Current Account Balance	-18	-74	-34	-19	-82	-79
Financing:						
Net Public Sector Borrowing	39	6	14	32	-169	50
FDI	24	9	22	32	272	55
Changes in Reserves	1	-9	21	35	-54	-41
Others	46	-68	23	80	-33	-15
Stock of International Reserves	87	96	96	135	189	224
<i>Memorandum items:</i>						
Gross Remittances/Exports	0%	1%	11%	18%	23%	42%
Gross Remittances/Trade Deficit	3%	3%	63%	72%	167%	146%
Gross Remittances/FDI	3%	47%	356%	456%	93%	852%
Gross Remittances/Net Borrowing	2%	70%	560%	456%	-149%	932%
Gross Remittances/Gross Reserves	1%	4%	82%	108%	133%	207%

Sources: National Bank of Tajikistan and IMF.

18. *International comparisons of remittance recipients, as a share of GDP, shows that Tajikistan ranked the fourth among the largest remittance recipient countries in the ECA region in 2003.* Table 5 shows that Moldova, Bosnia and Albania rank the first, second, and third, respectively. According to the revised official statistics, remittances to Tajikistan accounted for 11 percent of GDP, compared to an aggregate of 14 percent of GDP for all high emigration countries. In nominal terms, Tajikistan's remittance receipts rank the second lowest (US\$146 million) after the Kyrgyz Republic (US\$108 million).

**Table 5: ECA's Largest Developing Country Recipients of Remittances, 2003**

	Remittances Mill. US\$	Migrants in Mill.	GDP Mill. US\$	Remittances per migrant	Remittances % of GDP
<b>High Emigration</b>					
Moldova	465	1	1,566	603	29.70%
Bosnia and Herzegovina	1,178	2	5,072	785	23.20%
Albania	889	1	4,411	986	20.20%
Tajikistan	146	1	1,313	133	11.10%
Kyrgyz Republic	108	1	1,539	163	7.00%
Georgia	246	1	3,737	247	6.60%
Armenia	168	1	2,700	189	6.20%
Macedonia, FYR	171	0	3,565	548	4.80%
<b>REGIONAL AGGREGATES</b>					
South Asia	27,127	14	817,617	1,883	3.30%
Middle East and North Africa	17,049	13	524,755	1,327	3.20%
Sub Saharan Africa	6,026	8	327,117	731	1.80%
Latin America	34,425	31	1,987,349	1,114	1.70%
ECA	12,406	51	887,472	231	1.30%
East and Southeast Asia	24,997	21	8,065,940	1,182	0.30%
WORLD	173,103	177	33,527,651	980	0.50%

Source: The World Bank, "Enhancing Gains through International Labor Migration in Europe and Central Asia" (2005).

### III. ALTERNATIVE ESTIMATES OF REMITTANCES

19. *Despite the importance of remittances, there is great uncertainty regarding their actual levels and growth rates.* There is no consensus on the true size of remittances. Remittances are private transfers and are notoriously difficult for any government to monitor and measure as unknown amounts are transmitted through informal channels, including carrying by self and friends or through intermediaries. In general, official remittance statistics shown in the balance of

payments<sup>18</sup> around the world are grossly under-reported. A recent World Bank survey of central banks found that 75 percent do not attempt to estimate the amounts at all.<sup>19</sup> Tajikistan's official estimate, for example, excludes remittances sent through informal channels. It is well known that a large number of Tajik migrants work illegally abroad and travel back to Tajikistan with their earned salaries in cash or send money through informal channels. They do not trust the banking system or cannot access official money transfer systems because they are abroad illegally and do not have access to foreign bank accounts. Moreover, they may well find it more convenient and cost effective to bring money back home with them directly rather than pay intermediaries as a large number of Tajik migrants work abroad on a short-term seasonal basis.<sup>20</sup>

#### **Box 1: Official Estimate of Remittances**

The Global Economic Prospects 2006 defines remittances as the total sum of workers' remittances, compensation of employees and migrant transfers. The Tajikistan's balance of payments, however, records only workers' remittances and omits the remainder due to a lack of information.

The estimate of workers' remittances is based on fund transferred through the banking system (wire transfer, travelers check, money orders, and money transfer system) that is reported periodically by commercial banks. The NBT conducted two surveys of migrants twice a year. This has enabled the NBT to differentiate migrants' transfers from export receipts. Previously, NBT classified all single transfers of more than US\$1,000 plus 50 percent of transfers between US\$1,000 and US\$3,000 as migrants' transfers; while all single transfers of more than US\$3,000 and 50 percent of transfers between US\$1,000 and US\$3,000 are export receipts. This method yields the ratio of workers' remittances to export receipts of 60:40. The inflows of workers' remittances in the balance of payments were estimated at US\$252 and US\$380 million, respectively in 2004 and 2005, compared to total fund transferred through the banking system of US\$430 and US\$664 million during the same period. The official estimate of Tajikistan's workers' remittance inflows now accounts for 12 percent in 2004 and 17 percent of GDP in 2005.

The NBT is currently improving the above estimation methodology by calculating the ratio of migrants' transfer to exports directly from the surveys in stead of using all single transfers (over and above US\$3,000). The surveys in 2005 indicated that the share of migrants' transfers in total bank transfers has increased to 70-75 percent.

*Source:* World Bank Staff.

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<sup>18</sup> The Technical Sub-Group on the Movements of Persons (TSG), chaired by UN Statistics Division with membership from central banks, international and national statistics organizations recommended that workers' remittances in the balance of payments be replaced by a new component "personal transfer." This includes all current transfer in cash or in kinds received by resident households to or from other non-resident households. A new aggregate, "personal remittances" should be reported in the balance of payments as a memorandum item including current and capital transfer both in cash and in kind made or received by resident households to or from non-resident households, and net compensation of employees from persons working abroad for a short period of time (less than one year).

<sup>19</sup> Martínez, José de Luna (2005). *Workers' Remittances to Developing Countries: A Survey with Central Bank on Selected Public Policy Issues*, Washington, DC: World Bank, Mimeo.

<sup>20</sup> Three main types of Tajik labor migrants are distinguished—permanent, seasonal, and shuttle. *Permanent* migrants, hired under formal working contacts or informal working relationships, remain in host countries for more than one year. *Seasonal* labor migrants, usually unskilled workers travel individually or in groups to Russia throughout March to November to work mostly in construction, mining or agriculture, and are mostly employed under informal contractual agreements. *Shuttle workers* travel individually or in groups and more periodically than seasonal workers for short period of times under established and de facto labor networks. These types of workers are relatively more skilled than seasonal workers. Also these workers tend to travel with cash rather than sending money through formal channels.

20. *Understanding the true size of remittances is essential for policy makers.* Reliable remittance data can contribute to prudent monetary policy management.<sup>21</sup> It also provides inputs for the formulation of appropriate policies and products to improve income and living conditions of migrants and their families. Further, reliable data on the size of remittances can encourage private investment to improve infrastructure for transfer services that will reduce cost, improve access, and develop innovative financial products. This will better integrate migrants into the banking system, increase the deposit base and thus deepen the financial sector and increase productive investment. Finally, better remittance data will enable monitoring of cross border flows of money and the timely detection of money laundering or other illicit activities that undermine the integrity of the financial system.

21. *Absent reliable data, efforts have been made to estimate the true size of remittances; however, there is no consensus as to their size.* These estimates are based on different assumptions regarding migrants' remitting behavior and number of migrants. A variation of techniques to improve remittance statistics in labor sending countries has been developed during the past several years. The standard techniques commonly employed in the literature include both a direct and indirect approach. The direct approach relies on scaling up the estimate of remittances derived from the household budget survey<sup>22</sup> and survey of labor migrants, while the indirect approach is based on an application of estimated parameters of a cross country regression analysis.

22. *Alternatively, remittances can be estimated from income remitted to migrants' families drawn from a labor migrant survey.* Such a survey would provide two estimated values of the annual average remittances per capita that are congruous. The estimated remittances for the whole country in any year are generated by the product of the estimated annual average per capita remittance and the stock of migrants. The estimated remittances using both values of annual average remittance per capita are slightly different and amounted to 28 and 29 percent of GDP in 2004. However, this method is also subject to the accuracy of the stock of migrants and the bias of the survey. An indirect estimate of remittances was performed by using a percentage of migrants remitting funds through an informal channel to scale up the official remittances reported in the balance of payments. This method gives a remittance total of US\$360 million or equivalent to 17 percent of GDP in 2004. Annex 2 discusses the estimated values of remittances using the data drawn out from the survey of migrants and the available estimated stock of migrants by various researchers and government sources.

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<sup>21</sup> If unrecorded remittances are extremely large, then setting sound macroeconomic policy may be complicated by an appreciation of the national currency and inflationary pressure in light of limited monetary policy instruments and a shallow foreign exchange market.

<sup>22</sup> The household budget survey, which ideally should capture a complete picture of household remittance income transmitted through formal or informal channels, produces a disappointing estimate of remittances. Assuming that the survey sample is nationally representative, it is possible to 'scale' up the responses into a national picture of aggregate remittance amounts. However, the estimated remittances obtained from scaling up the Tajikistan Living Standard Survey in 2003 is US\$23 million or only about 1 percent of GDP, lower than the official remittances in the balance of payments (US\$146 million), establishing a lower bound estimate of remittance levels. This is clearly due to under-reporting by Tajik households to questions about their expenditures and revenues. The household survey approach may not represent the best method to produce reliable point estimates. However, the approach is useful in constructing broader interval estimate of remittance levels when combined with other estimation methods subsequently discussed.

23. *The recent estimation method of remittances is based on regression analysis.*<sup>23</sup> A recent World Bank and IMF study conducted a regression panel that sought to predict remittance levels with respect to a number of explanatory variables—including workers' income, predicted costs of sending remittances through informal channels, effect of dual exchange regime, net errors and omissions (capital flight). Applying the estimated parameters to Tajikistan, it results in remittance inflows equivalent to 22 to 30 percent of GDP in 2004, where the lower estimate corresponds to reducing the fee of remittances transferred through informal channels to 5 percent, and the higher estimate corresponds to reducing the cost to 2 percent.

24. *The foregoing discussions on the estimation of remittances single out the need to improve the quality of statistics on migration and remittances in Tajikistan.* In January 2004, the State Migration Committee introduced the Migration Registration Card<sup>24</sup> to monitor international migration. However, the statistics are likely underestimated because of misreporting caused by weak capacity in data processing and compilation, and weak administrative control by the State Border Control Committee responsible for collecting cards from travelers. The National Bank of Tajikistan could improve the coverage of the remittance by providing detailed remittances sent through various channels including informal channels. The statistics from the latter sources can be captured through a survey of migrants. According to the survey of the central banks in 40 countries, 10 of them (Costa Rica, Ecuador, El Salvador, Honduras, Indonesia, Mexico, Moldova, Nicaragua, Peru, and Russia) have developed tools to measure the volume of remittance inflows that occur through informal channels.<sup>25</sup> In these countries, information is normally collected through surveys of migrants visiting their home country and/or household surveys.

#### **Box 2: Estimate of Remittances through Informal Channels**

The Moldovan National Bank's procedures for recording migrant's remittances in the Balance of Payments does record some transfer through informal channels. In addition to the standard practice of obtaining remittances transfer data from banks, the central bank monitors foreign exchange transactions made at bureaux de change and in the purchase of goods in which foreign currencies are often used (e.g., automobiles). In this way, the Bank is able to pick up some of the funds that move into the country from abroad but are not sent through formal channels.

Ecuador and Honduras conduct surveys of migrants at the country's main points of entry (usually airports) every year, especially during holiday seasons when the inflow of migrant visitors reaches its peak (e.g., Christmas and New Year, Easter, Chinese New Year).<sup>26</sup>

El Salvador conducts household surveys every year to estimate the total volume that they receive in remittances either through formal or informal channels.

*Sources:* The World Bank, Moldova: Opportunities for Accelerated Growth- A Country Economic Memorandum, 2005.

<sup>1</sup>José de Luna Martínez (2005).

<sup>23</sup> Freund, Caroline and Nikola Spatafora (2005), "Remittances: Costs, Determinants, and Informality," Washington, DC: World Bank and IMF.

<sup>24</sup> The card includes information on purpose, terms of departure, and estimated duration of trip.

<sup>25</sup> José de Luna Martínez, Workers' Remittances to Developing Countries: A Survey with Central Banks on Selected Public Policy Issues, the World Bank (2005).

<sup>26</sup> The survey did not assess the scope, methodology and adequacy of the surveys conducted by this group of countries. This is an issue that deserves much more attention in the future.

## IV. TRANSFER METHOD, USES, AND IMPACT OF REMITTANCES IN TAJIKISTAN

### TRANSFER METHODS OF REMITTANCES

25. *The Policy Note now turns to examine the main methods of transferring remittances in Tajikistan.* Remittances “flow” to Tajikistan via both formal<sup>27</sup> and informal<sup>28</sup> channels. Table 6 shows that about 70 percent of migrants interviewed remitted money through a formal channel, the remaining remitted through informal channels. Due to the low level of the average remittance and the amount of money transfer per migrant, it is quite common that remittances are pooled and transferred to Tajikistan in a single transaction by individuals residing in the sending country.<sup>29</sup>

26. *The choice between formal and informal channels is driven by transaction cost, level of trust in electronic payments and banks, preference for cash, level of education and skill.* A low transaction cost (transfer fee), increased confidence in the banking system, weak preference for cash, and a high level of education and skilled migrants likely promote the use of formal transfer channels through the banking system. There are also preferences related to proximity and accessibility of migrants and relatives to banks and other intermediaries. Although the cost of sending cash through personal courier and friends is zero, the risk of carrying cash is high for Tajik migrants due to informal payments to Russian, Uzbek and Tajik customs and immigration officers, particularly for those who travel by train and car that cross multiple borders. The majority of migrants traveling by plane (74 percent) and by train (71 percent) send money through official channels, while only a small number of migrants used informal channels to remit funds (Table 6).

**Table 6: Correlation between Methods of Transfer and Transport Mode**

Methods of Transfer	Mode of Transport		
	Automobile	Plane	Train
Bank Transfers	2%	10%	13%
Money Transfer Operators	3%	20%	20%
Post Offices	0%	1%	1%
Friends/Acquaintances	3%	10%	12%
Informal Transfer Offices	0%	0%	1%
Unknown Individuals	0%	1%	1%
	10%	42%	48%

*Source:* Zerkalo, Migration Survey Report, Tajikistan 2005.

27. *The most popular method of formal transfer among migrants is through money transfer systems because they are relatively cheap, fast and they require no bank accounts.* Money transfer systems have become a preferred mode to remit funds to Tajikistan among migrants. About 60 percent of respondents who remitted through formal channels chose money transfer operators, while 36 percent chose bank transfers. There are a number of money transfer

<sup>27</sup> Formal channels include banks and specialized money transfer systems, and the postal system. Banks and money transfer systems form the financial system infrastructure in the recipient country. The postal system in Tajikistan supports the financial system infrastructure, although it does not provide savings or other payments services. Non-bank financial institutions do not play any role in this segment, given the nature of their business and their chronic underdevelopment. Microfinance institutions, although relatively developed and active in Tajikistan, do not yet intermediate in the remittances segment, due to their limitation from providing basic financial services and their inability to access the payments system.

<sup>28</sup> Informal channels include personal carrier of cash through the borders by self or friends, or pool their earnings and transfer them through trustworthy travelers, who in turn take care of the delivery to workers’ and migrants’ relatives. This is quite common in Tajikistan, mainly due to the low density of the average remittance and money transfer per migrant. Pooling in fact helps abate transaction costs, as some remittance service providers, and especially banks, charge flat fees irrespective of the amounts sent.

<sup>29</sup> Pooling in fact helps abate transaction costs, as some remittance service providers, and especially banks, charge flat fees irrespective of the amounts. The same individuals organize the distribution of remittances to migrant relatives in the respective recipient country.

systems operating in Tajikistan and they all integrate into the banking system through partnerships and contract agreements. They operate from the premises of commercial banks and share fees almost equally. Most transfers through money transfer systems are made on a cash-to-cash basis. Competition among the money transfer systems helps drive down the cost of transfers. (Details on transfer fees and speed of these systems operating in Tajikistan are described in Annex 3.) By contrast, inter-bank money transfers (account-to-account) are infrequently used among migrants because of difficulties in opening bank accounts and foreign exchange regulations limiting the amount that can be transferred. The Zerkalo survey (2005) indicates that only 18 percent of migrants have bank accounts because their illegal status limits access to the banking system in host countries. Transfers through post offices are insignificant due to high cost (10-12 percent) and slow speed (2-3 weeks) despite their extended outreach into rural areas. (Annex 2 provides details on transfer channels and costs for remitting funds by Tajik migrants.)

28. ***Informal channels for transferring remittances include self-carrier, friends and acquaintances due to the zero cost of transfer or their illegal status.*** For example, illegal Tajik migrants residing in Russia do not leave their residence to go to commercial banks to transfer funds for fear of harassment by Russian police and deportation. Instead, they send money to friends or acquaintances that in turn will carry or transfer funds and distribute them to their families back home. According to the survey, about 26 percent of migrants sent money to their families in Tajikistan through friends.

29. In addition, anecdotal evidence shows that some banks have formalized business relationships with a number of Tajik individuals permanently residing in Russia involved in providing labor opportunities for seasonal and shuttle migrants. These individuals are generally trustworthy and well known by Russian employers and Tajik workers. Together with providing job opportunities, they also provide remittance services by sending- receiving- distributing remittances through their bank accounts in both Russia and Tajikistan. They work against a commission, the value of which remains unknown. The benefits of these business relationships are significant: migrants find temporary jobs and a secure and accessible way to send money to their relatives all the while addressing cultural and language barriers when it comes to dealing with Russian money transfer systems and banks. Tajik banks build these relationships in order to expand the client base, profit from remittance commissions, and increase the average value of remittances and thus decrease the transaction cost for the bank. This is because banks and money transfer commissions and fees are in most cases based on a percentage of the transferred amount, irrespective of the value of the transaction. As a result, the higher the value of the remittance, the less paper work and fixed costs for the bank and the money transfer system.

**Box 3: Cross-selling by Tajik Commercial Banks**

Some commercial banks have slowly begun to sell financial products to migrants. In general, Tajik banks are neither particularly focused on, nor capable of, servicing remittances. A few banks with a more extensive branch network in the country (AIB, Orion Bank, Tajiksodirot and Eskhata Bank) have just begun targeting migrants and remittances as an important element of their business. Two Tajik banks have so far established specialized units to provide a range of banking services other than simple savings to migrant clients and their relatives (including small loans).

30. *Tajikistan's formal transfer system for remittances is efficient,<sup>30</sup> especially through the money transfer operators.* The country has been successful in reducing cost by removing a transfer tax and creating an enabling environment that promotes competition among banks in partnership with the money transfer systems. Further, the exchange rate spread is insignificant due to no restrictions on cash withdrawal in foreign currencies. The analysis of financial infrastructure, costs, speed, and outreach discussed in Annex II reveals that money transfer operators offer high speed services at a relatively low cost. Senders are not required to have bank accounts and only need to show an ID card if they use cash-to-cash or cash-to-account transfers. The cost of transfer that is paid entirely by remitters in sending countries to money transfer operators is relatively low (between 1.5 percent and 5 percent of the remitted amount), compared to other countries.<sup>31</sup>

31. *Disbursement of remittances mostly takes place in Dushanbe at locations where commercial banks operate.* The low density of the rural economy, weak communication infrastructure, and low profit for retail banking in the regions and rural areas limits the outreach of banks. Two commercial banks, AIB and Amonat, have the largest branch networks in the country, with about 80 branches each. Amonat bank, in particular, plays a critical role in delivering fiscal and quasi-fiscal payments in the rural areas (almost on a monopolistic basis); however, its technology is cumbersome. Only 10 percent of the branches are connected to headquarters, which makes it impossible to consolidate bank accounts on a daily basis. Most transfers are made on a cash-to-cash basis because of, in part, a low level of trust in the banking system due to prior unstable macro-economic environment, the effects of banks failures and closures and the three mandatory monetary conversions during the last decade, which sharply eroded savings (Box 4).

#### **Box 4: Tajikistan's Banking System**

The level of development of the Tajik banking sector is relatively low compared to other countries in the FSU and the CIS. It is currently undergoing a profound stabilization and consolidation process that has resulted in the exit of insolvent banks and the divestiture of KreditInvest from AIB bank. Consequently, asset quality, the overall capitalization of banks, and the capital adequacy ratio have improved, and non-performing loans have declined. Although the banking sector is growing rapidly in terms of credit to the private sector, it still faces a lack of long-term financing, an inadequate deposit base, and low capacity to intermediate their capital base.

The banking sector includes 14 banks, with only one bank fully owned by the state, Amonat Bank (former savings bank). There is only one foreign commercial bank operating in the country, and one microfinance bank fully owned by the Aga Khan Foundation (established in 2003). The sector remains concentrated, with four large banks (Orion Bank, AIB, Tajiksodirot and Amonat Bank) controlling 70 percent of assets, 80 percent of household deposits and 70 percent of credits to the economy. The economy is highly dollarized and the inter-bank market is not yet developed to acceptable standards, mainly due to weakness in monetary policy management, lack of a government securities market, high degree of dollarization and lack of trust among bankers.

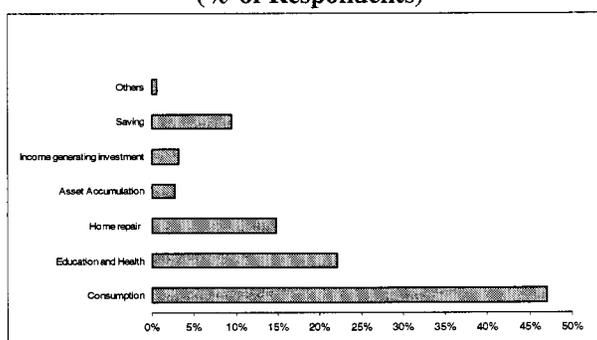
<sup>30</sup> An efficient transfer service is characterized by low transfer costs, increased speed, and better access.

<sup>31</sup> Bank charges in the Philippines, exclusive of the foreign exchange spread and recipient charge, range from about US\$5 for a transfer from a foreign account to a branch account in a single bank, to about US\$16 which may include courier services (Kevin Mellyn, "Worker Remittances as a Development Tool Opportunity for the Philippines, p.12 (June, 2003). The average cost of transfer money from the U.S. to Mexico was 7.3 percent in February 2004.

## USES OF REMITTANCES IN TAJIKISTAN

32. *According to the survey of migrants by Zerkalo, most recipients used funds for purposes of consumption, education, health, home repair and savings.* Nearly one-half of respondents (47 percent) indicated that they used remittances for consumption,<sup>32</sup> 22 percent used remittances for education and health care, 15 percent for home repair, and 10 percent for saving. These findings show that about 37 percent of respondents used remittances for personal investment (human capital and home repair), while only 3 percent of respondents used remittances for income generation activities and asset accumulation. Unfortunately, further insight is limited as information on the share of these expenditures in total remittance use is not available from the survey.

**Figure 4: Tajikistan Uses of Remittances  
(% of Respondents)**



33. *The level of income dictates the type of spending.* Given a low level of income of about US\$131 per month (based on estimates of remittances a migrant transfers to his family in Tajikistan), a Tajik household with 5 dependents will likely spend the majority of their income—including remittances—on priority expenditures (consumption and other basic needs). For this reason, it is unlikely that any significant amount of funds will be left over for productive investment. However, an increase in income after several years of working abroad tends to lower the marginal propensity to consume, thus increasing the scope for recipients to use remittances for productive investment, and more so given a favorable business environment. This includes income generation activities in rural areas, small and medium businesses, and bank deposits that will be invested indirectly.

34. *However, migrants' ability to save and invest is limited by several factors.* Bank saving deposits are discouraged due to a lack of trust in the banking system<sup>33</sup> and a low level of interest rate. As remittances reach Tajikistan, they are mostly withdrawn in cash in various currencies (U.S. Dollar, Russian Ruble, Euro, and Somoni) and typically kept at home “under the mattress” or used to accumulate assets (car, house, and land). The NBT survey indicated that 82 percent of respondents were not ready to deposit remitted funds in the banking system and 62 percent said that they needed money for current household consumption and business transactions.<sup>34</sup> Only small amounts are converted into savings in the banking system; however, deposits in commercial banks has increased in recent years (deposits by individuals doubled from 1 percent in 2002 to 2 percent of GDP in 2005 and deposits by legal entity and individuals increased from 4 percent in 2002 to 7 percent of GDP in 2005).

<sup>32</sup> Consumption is defined as the sum of expenditures on food and clothing, purchases of goods, social activities, charity, and paying off debts.

<sup>33</sup> This is due to the prior unstable macro-economic environment, the effects of bank failures and closures and the three mandatory monetary conversions during the last decade. All this resulted in people's savings being sharply devalued and eroded.

<sup>34</sup> IMF, “Labor Migration and Remittances” in Tajikistan--Selected Issues and Statistical Appendix, March, 2005.

35. *Similarly, an unfavorable business environment in Tajikistan hinders the use of remittances for investment, specifically, for income generation activities in rural areas and for small businesses in urban areas.* According to an IFC survey of the business environment in Tajikistan (2003), the majority of SMEs found that administrative procedures are overly complex (such as access to external financing, foreign trade operations, taxation, inspection, and licensing procedures).<sup>35</sup> The regulatory system is non-transparent, application of the tax code is uneven, licensing, inspection, standardization and certification are excessive, and harassment and corruption are frequent. Although the Business Environment Enterprise Performance Survey (BEEPS) in 2005 shows that the overall environment for doing business in Tajikistan has improved (compared to 2002); there remain serious problems regarding access to land, title or leasing of land, business licensing and permits, labor regulations, skill and education of workers, judiciary functions, and street crime, thefts and disorders. In relation to CIS countries, doing business in Tajikistan is worse off in several areas including judiciary function, business licensing and permits, tax administration, transport and electricity. The access to land problem discourages remittance recipients from using funds for income generation activities in the agriculture sector. Similarly, the business licensing, permits and inspection problems limit new business entries, thus limiting the use of remittances to a few choices including accumulating personal wealth and home repairs. The Government has recently amended the law on licensing that significantly reduced the number of activities subject to licensing, and adopted a law on micro-finance to support access of SMEs to finance; however, much remains to be done to further improve the business environment.

#### IMPACTS OF REMITTANCES IN TAJIKISTAN

36. *The extent to which remittances will have a maximum impact on the economy depends largely on how they are used.* It is widely recognized that remittances provide a source of foreign exchange for financing the current account deficit, which is associated with increased income of recipient households fueling domestic consumption and imports. The long-term developmental impact of remittances, however, depends on the type of remittance spending, i.e., consumption versus investment. This is important because remittances can help reduce poverty and fuel high rates of household savings and investment. If remittance income is spent on consumption, the impact will be short-term through a spill-over effect transmitted through a multiplier. Consumption spending raises the effective demand for local goods and services and fuels imports. Future consumption will therefore depend on future remittances. On the other hand, if remittances are invested directly or indirectly (through bank deposits) for the development of local infrastructure, income generation activities and small and medium businesses, they will increase capital stock<sup>36</sup> and generate a future income stream to finance future consumption. This will contribute to long-term economic growth<sup>37</sup> and reduce the vulnerability of recipients to a sharp falloff in remittances and to potential remittance decay.

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<sup>35</sup> These recommendations call for: alternative financing mechanisms for SMEs, reform of procedures and processes related to foreign trade operations, simplification of the tax regime for SMEs, reduction of inspections and the number of activities that require licensing, streamlined standardization and certification, and unification of registration procedures for all businesses, p.12-14, (IFC, 2004).

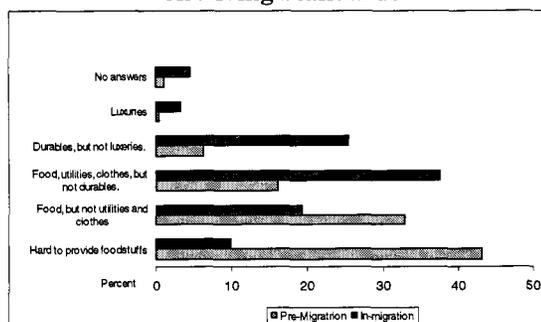
<sup>36</sup> Empirical evidence from 13 Caribbean countries shows that a 1 percentage point increase in remittance inflows increased private investment by 0.6 percent points as a share of GDP (Mishra, 2005).

<sup>37</sup> The investment multiplier is estimated to increase the amount initially spent by three times. See Norbert Bielefeld and Antonique Koning, "International Remittances: Delivering Fair Value," in Remittances Development Impact and Future Prospects, edited by Samuel Munzele Mambo and Dilip Ratha, The World Bank, 2005, p.195.

37. **Remittances have increased national income and accelerated consumption in Tajikistan.** As a share of GDP, remittances increased from 0.1 percent in 2000 to 12.2 percent in 2004, and over the same period contributed to the country's 58 percent increase in real GDP by accelerating consumption. As a result, the share of the service sector (construction, trade, informal sector activities) in GDP increased from 49 percent in 2000 to 59 percent of GDP in 2004. Tajikistan's gross national disposable income per capita was 15 percent higher than per capita GDP in 2004 and is growing at a faster rate.<sup>38</sup>

38. **Figure 5 illustrates that remittances have enabled households to meet their nutrition needs.** Clearly, remittances have enhanced welfare and raised living standards. The survey indicates that the number of respondents reporting that they find it hard to provide foodstuffs significantly declined after migrating. A large number of respondents reporting that they could afford food and utilities (but not durables) significantly increased after migration to 38 percent, compared to 16 percent before migration.

**Figure 5: Tajikistan - Impact of Remittances on Living Standards**



39. **Remittances have increased purchasing power of the poor and provided a safety net for their families.** Remittances accounted for a larger share of income for the poorest households. According to the World Bank Poverty Assessment Update, remittances constituted 25 percent of income for the poorest quintile, compared to 9 percent of income for the richest quintile in 2003.<sup>39</sup> The majority of remittances sent to Tajikistan go to the rural areas (almost 70 percent) where the poverty rate is high, while in Armenia and Georgia the situation is reversed—almost 70 percent of remittances go to metropolitan and other cities.<sup>40</sup> Table 7 shows that poorer households' purchasing power is heavily tied to migration-generated income. Remittances per capita of the poorest quintile were only 42 percent of that of the richest quintile, while the share of remittances in consumption expenditure for the poorest quintile doubled that of the richest quintile. In the medium term, Tajikistan's ability to sustain and accelerate its macroeconomic growth and accelerate poverty reduction will be strongly linked to the sustainability of remittances.

**Table 7: Annual Consumption and Remittances per capita by Quintiles**

Quintile	1	2	3	4	5
Consumption per capita (all households)	\$67.20	\$103.88	\$139.03	\$188.13	\$344.35
Share of receiving households	8.01%	9.82%	9.33%	8.96%	7.66%
Remittances per capita (receiving households)	23.56	28.12	34.25	41.85	55.68
Remittances/Consumption(receiving households)	35.07%	27.07%	24.63%	22.25%	16.17%

Source: The World Bank, "Enhancing Gains through International Labor Migration in Europe and Central Asia Region," (2005).

<sup>38</sup> International Monetary Fund (2005), Republic of Tajikistan: Selected Issues and Statistical Appendix, IMF: Washington, DC, IMF Country Report: 05/131, April.

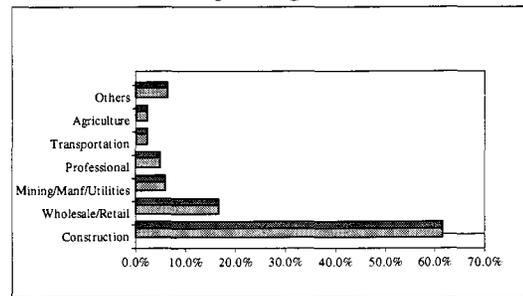
<sup>39</sup> The World Bank, Poverty Assessment Update (2005).

<sup>40</sup> The World Bank, "Enhancing Gains through International Labor Migration in Eastern Europe and the Former Soviet Union," 2005.

40. **An increased flow of remittances can undermine competitiveness and long-term growth, if not properly managed.** Remittance inflows can produce its own version of “Dutch disease” by contributing to an appreciation of the local currency<sup>41</sup> and thus international competitiveness.<sup>42</sup> Further, while reducing pressure on the domestic labor market in the short-term, continued outflows of educated and skilled labor forces will adversely affect the domestic labor market over the long-term. On one hand, migration reduces the supply of skilled labor and human capital and thus increases wages. This increases the cost of production and erodes competitiveness of the country in world markets. On the other hand, increased remittance inflows to recipient households could reduce output through lowered work effort. The Zerkalo survey of migrants indicated that the number of respondents reporting that they were unemployed increased to 44 percent after migration compared to 22 percent before migration; however, it is not clear if this higher rate of unemployment is due to reduced work effort or lack of suitable employment. The impact of migration and remittances on Tajikistan’s labor productivity, work effort, and its international competitiveness should be considered as an area for further analysis.<sup>43</sup>

41. **Finally, dependence on remittances poses potential risks to Tajikistan’s economic growth.** These risks include unfavorable changes in immigration policy and changes in the business cycle in host countries. Nationalism and animosity towards migrants in Russia could put political pressure on the Russian government to implement restrictive measures towards illegal Tajik migrants. This would discourage temporary migration, and thereby lower the number of migrants to Russia. Secondly, although

**Figure 6: Employment Sector for Tajik Migrants**



remittances in recipient countries are likely to be less volatile than private capital flows,<sup>44</sup> they are vulnerable to changes in foreign business cycles in source countries. For example, as experienced by several labor sending countries, remittances from the U.S. increased due to its strong economic growth spurred by the information technology boom of the mid 1990s. Similarly, remittances from Saudi Arabia increased during the years of the oil booms (1970s and early 1980s) but subsided in the mid 1980s when oil prices fell. Remittances to South Asian countries from Kuwait fell after the upheaval of the first Gulf war in 1991. Looking ahead at the business cycle in Russia, the demand for Tajik labor, especially in the cyclical sectors such as construction and trade that employ nearly 80 percent of Tajik migrants (Figure 6), will likely grow more slowly or decline. As a consequence of a decline in workers’ overseas income, the amount of remittances sent to families in Tajikistan will likely fall. The ordinary least squares

<sup>41</sup> Amuedo-Dorantes and Pozo (2004) showed that doubling of workers’ remittances in 13 LAC countries resulted in a 22 percent real exchange rate appreciation.

<sup>42</sup> According to empirical evidence conducted by Rajan and Subramanian (2005), there is no evidence that remittance flows slow down growth by affecting competitiveness.

<sup>43</sup> The analysis of unit labor cost in 2002 indicated that Tajikistan remained competitive among the CIS despite low labor productivity. This was mainly due to an extremely low level of wage. Low productivity can to an important extent be ascribed to the high cost of doing business in Tajikistan. See the World Bank (2005), “Trade Diagnostic Study,” Washington, D.C.

<sup>44</sup> The counter cyclical are person to person flows targeted to meet the needs of recipients. The World Bank (2005) “Global Economic Prospects: International Remittances and Migration,” Washington, DC.

estimate<sup>45</sup> based on the data from the 2005 survey of migrants suggested that every one percent increase in income increases remittance levels by 0.35 percent, and vice versa.

42. *Tajikistan needs to mitigate these risks by enhancing the use of surplus remittance income, after meeting basic subsistence needs, for development purposes as well as encouraging private sector led development to create jobs at home.* Policies to promote these activities will make a positive contribution to increased productivity and improved competitiveness, and will help generate domestic employment and output over the long-run. Over time, economic growth in labor sending countries will deter migration (as confirmed by empirical evidence from South and South East Asia to the Middle East). One study found that a one percent increase in GDP per capita at home is estimated to lower migration per capita by nearly two percent.<sup>46</sup> Government policies that support private sector led development will likely generate employment at home and therefore reduce workers' incentives to emigrate temporarily. In other words, remittances partly reflect the failure of development.

43. The foregoing discussion of remittance use in Tajikistan is not a unique phenomenon; most labor sending countries around the world have encountered similar experiences. Countries with a long history of international migration over several decades have sought to develop and implement various policies to influence the choice of spending between consumption and investment. The following section reviews the international literature to suggest potential ways to enhance the development impact of remittances and assesses the potential of replication in the case of Tajikistan. The review draws some lessons learned that can be used in the design of specific policy measures for Tajikistan.

## **V. ENHANCING THE DEVELOPMENTAL IMPACT OF REMITTANCES— LESSONS LEARNED FROM INTERNATIONAL EXPERIENCE**

44. Over the past few decades, several labor exporting countries have attempted to maximize the benefit of remittances by implementing various policy instruments to improve incentives to use remittances for productive investment. These policy instruments, tailored to specific circumstances and characteristics of migrants in each country, have been used to mobilize remittances from individuals and collective groups. The ultimate goal of these instruments is to maintain remittances in the banking system so that they can be channeled more effectively to fund productive projects and to encourage migrants to use remittances for investment. This section describes the key features of these experiences and reflects on the applicability to Tajikistan of policy instruments that have been adopted elsewhere.

### **MEASURES TO MOBILIZE REMITTANCES INTO THE BANKING SYSTEM**

45. Various types of policy instruments have been implemented by labor sending countries in an effort to bring greater amounts of remittances into the formal banking system in recipient countries. As part of an incentive approach, some countries sought to introduce repatriate foreign currency accounts and foreign currency bonds (South and South East Asia region). The mandatory requirement approach was implemented by South East Asian countries. The Note considers these in more detail below.

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<sup>45</sup>  $R = 26.90 + 0.35 Y$ , where  $R$  = represents monthly remittances,  $Y$  = monthly income. T-statistics for both parameters are statistically significant at 1 percent confidence interval, and Adjust R-square is 0.44.

<sup>46</sup> Robert Lucas, *International Migration Regime and Economic Development*, p.41.

46. ***Repatriate Foreign Currency Accounts and Foreign Currency Bonds.***<sup>47</sup> Due to restrictions on foreign capital movement, foreign currency accounts were allowed by several labor exporting countries<sup>48</sup> to target skilled migrants with retained savings in overseas personal saving accounts. Foreign currency accounts<sup>49</sup> provided various incentives including exemptions from foreign exchange regulations when repatriated, a premium over the international interest rate (Eurodollar deposit with similar terms), and tax-free earned interest income to attract informal remittances from individual migrants into domestic banks. Foreign currency denominated bonds - providing incentives similar to that of repatriating foreign currency accounts - have been introduced in several countries<sup>50</sup> to attract remittances into the formal banking system for financing of public investment programs. They targeted members of the Diaspora, and these were considered more effective than foreign currency accounts in attracting unrecorded remittances because of the anonymity provided.

47. ***The foreign currency accounts and bonds can not be replicated in Tajikistan.*** Generally, the incentive schemes that aim to attract remittances into the formal banking system have had mixed experience as they do not address factors causing migrants to transfer remittances through informal channels to home countries. These factors include foreign exchange restriction, overvaluation of currency, and a low level of financial intermediation.<sup>51</sup> Additionally, a potential downside to certain tax incentives are the opportunities they create for tax evasion. In the case of Tajikistan, the incentives are not appealing because the capital account is relatively liberalized. The central bank has recently relaxed threshold for exporting foreign currency without permission to facilitate international trade. The economy is somewhat dollarized as fund transfers and deposit accounts can be disbursed and denominated in any foreign currency. Further, the majority of migrants do not have bank accounts and lack knowledge of financial assets. Finally, a weak banking system including imprudent management of commercial banks can counteract the gains from mobilizing remittances into the banking system. This could further erode migrants' confidence in transferring remittances through the formal channel.

48. ***Mandatory Requirement.***<sup>52</sup> In the 1980s, the Korean government imposed a mandatory requirement such that Korean workers must remit 80 percent of earnings through the banking system. This experience was considered successful because of its unique labor export process by which Korean contractors abroad employed mostly Korean workers and their collaboration with state companies. Additionally, the Philippines and China also required workers to remit a significant percentage of their earnings. It should be noted that the mandatory remittance approach is effective only if labor flows are organized through bilateral official agreements and a government has access and control over the migrant's earnings. Further, forced remittances can be detrimental as migrants likely under-report their income and channel remittances through informal channels.

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<sup>47</sup> Shivani Puri and Tineke Ritzema, "Migrant Worker Remittances, Micro-Finance and the Informal Economy: Prospects and Issues," Working Paper No. 21, Social Finance Unit, International Labor Office, Geneva.

<sup>48</sup> India, Pakistan, Sri Lanka, Korea, the Philippines, and Thailand

<sup>49</sup> By India and Pakistan

<sup>50</sup> by Pakistan, Bangladesh and India.

<sup>51</sup> Shivani Puri and Tineke Ritzema, "Worker Migrant, Remittances, Micro-finance and the Informal Economy – Prospects and Issues, Working Paper #21, Enterprises and Cooperation Development Department, Social Finance Unit, p.22.

<sup>52</sup> As cited by Puri and Ritzeman (2001) and Carling (2005), other countries that have implemented similar policies (Egypt, Pakistan, Bangladesh, Philippines and Thailand) have had a lesser degree of success.

49. ***Direct Government Involvements.*** Governments can address obstacles to remitting funds through the banking system in both origin and host countries through direct interventions. With a large number of unskilled migrants who are un-banked, the Mexican government pursued diplomatic dialog that led to close collaboration with the US government and commercial banks. Consequently, a Mexican migrant can open a bank account with a commercial bank in the U.S. A migrant only needs to display a “Mexican Identification Card” to open a deposit account without disclosing their immigration status to a U.S. commercial bank. Consequently, transfer of remittances through the banking system to Mexico has increased significantly. The Philippines developed a successful “pre-departure orientation service” that disseminated information about savings and investment options to encourage migrants to open deposit accounts and use financial products in the Philippines.

50. ***Only selected aspects of this experience can be replicated in Tajikistan.*** The “Mexican Identification Card” approach would require close collaboration between commercial banks and the governments in Tajikistan and Russia and would take time to achieve results. Enforcement of the migration law inside Russia is more hostile towards illegal migrants despite its free visa regime with the CIS countries due to the anti-immigrant attitudes that prevail in some segments of the population. However, a similar program to the pre-departure orientation service in the Philippines has been initiated in Tajikistan by the International Labor Organization (IOM) through the project entitled “Awareness Campaign and Assistance for Migrants”. The project established a network of “Information Resource Centers” for labor migrants in Dushanbe. The center disseminates information on migrants’ rights, migration laws, and remittance transfers. It also provides consultation to migrants (mobile and on-line).

#### USING MICRO-FINANCE INSTITUTIONS TO MOBILIZE REMITTANCES

51. ***The insufficient banking network in Tajikistan provides scope for penetration of micro-finance institutions (MFIs) to deliver remittances to recipients and mobilize savings for development purposes.*** Due to the higher administrative costs associated with maintaining the typical small account held by migrants, commercial banks do not have an extensive retail banking network. This provides an opportunity for MFIs to play role in delivering remittances, capturing informal remittances that are kept outside the banking system for productive investment, and providing lending backed by future remittance flows to migrants’ families.<sup>53</sup> Empirical evidence in the U.S. and Latin America indicates that improving remittance intermediation can have a dramatic impact on the living conditions of transnational migrant families, and result in sustainable and equitable development of communities in both labor sending and receiving countries.<sup>54</sup> In El Salvador, FEDECACES has been working with its affiliates to strengthen capacity to receive international remittances. As a result, the number of transfers received increased significantly from 3,000 in 2001 to more than 100,000 transactions in 2004. Financiera Calpia processes thousands of remittances monthly after it launched a concerted market campaign. It also offers other services including savings accounts, mortgages, and insurance products. In the Philippines, the government supports micro-finance banks and non-governmental organizations that have been active in mobilizing savings from migrants’ families and offering financial services such as lending products to migrants in rural areas. In Mexico, National Financiera (NAFIN), established in 1994, provides migrants technical and financial

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<sup>53</sup> Pedro de Vasconcelos, “The Multilateral Investment Fund of the Inter-American Development Bank and Remittances,” Fourth Coordination Meeting on International Migration, United Nations, October 2005.

<sup>54</sup> Raul Hinojosa Ojeda, “Transnational migration, remittances, and development in North America: Globalization Lessons from the Oxaca California Transnational Village/Community Modeling Project,” (NAID Center, UCLA), October 2003.

support to channel remittances for productive uses, reduces intermediaries to the minimum level, and offers support to women, youth, and elderly.

#### **Box 5: Benefits of Involvement of MFIs in Remittances**

Having the MFIs involved in the remittance market is desirable for several reasons. First, MFIs can make remittance transfers more attractive to recipients due to their outreach and accessibility that surpass that of commercial banks. Secondly, remittance transfer as a fee-based product could provide revenue to MFIs and thus help them achieve financial sustainability without compromising the objectives of poverty orientation and impact maximization. Thirdly, MFIs provision of services to non-members receiving remittances could expand the client base and reduce the number of un-banked households as they later become MFI members. Finally, auxiliary training and marketing services offered by MFIs can enhance the capacity of return migrants or recipients to use remittances for productive investment in origin countries. Already, there are MFIs that operate in remittance markets in several countries. In the ECA region, microfinance banks in Kosovo, Serbia, and Ukraine registered as commercial banks are already offering remittance services.

*Source:* Jorgen Carling. 2005. "Migrant Remittances and Development Cooperation," PRIO Report I/2005, International Peace Research Institute, Oslo (PRIO).

52. ***However, it is likely that the role of MFIs in delivering remittances in Tajikistan will remain limited over the medium-term.*** The legislative and regulatory frameworks for MFIs have only recently been developed and international experience suggests that the maturity of this industry will take time. The industry is still going through consolidation, capitalization, and capacity improvements. The majority of MFIs emerged from donor-financed organizations, have limited capacity in financial and portfolio management, and have no capital to meet the minimum requirement as required by the micro-finance law. These factors likely limit the role of micro-finance institutions in delivering remittances in the near future due to concerns about potential security risks to a banking system and to delivery of remittance to recipients. Alternatively, the role of MFIs in the provisioning of financial services in Tajikistan, such as credits to close income-consumption gaps and to support income generating activities in rural and urban areas, can be foreseen in the near future.

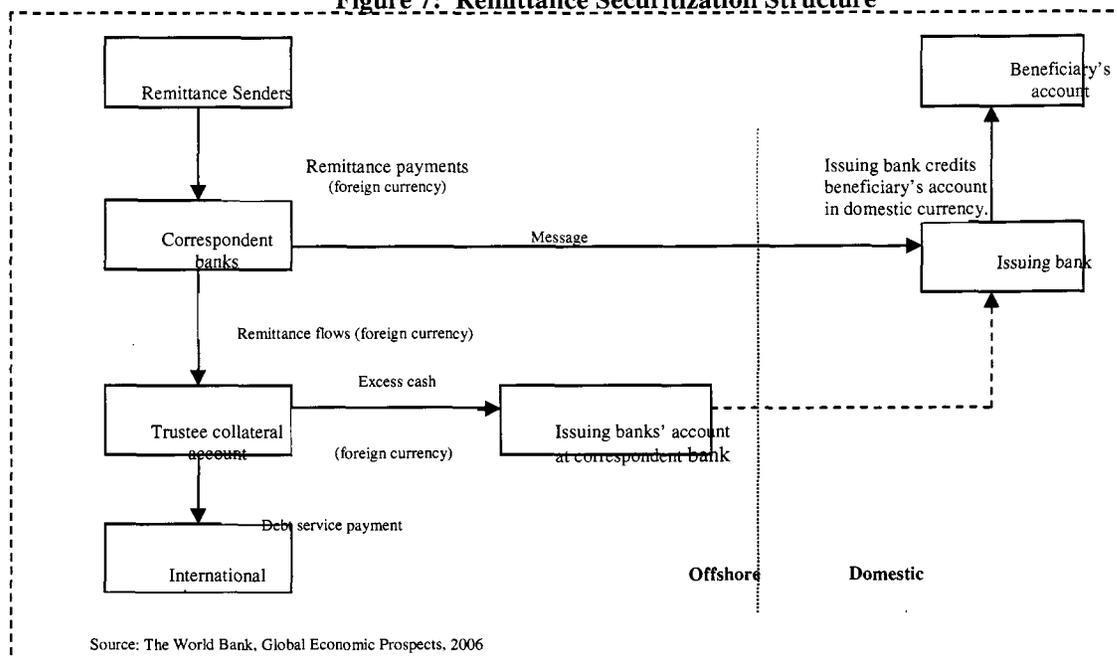
#### **MEASURES TO MOBILIZE COLLECTIVE REMITTANCES**

53. The enormous size of remittances has drawn the attention of governments, commercial banks, and non-governmental organizations intent on capturing collective funds and channeling them to productive investments. Some commercial banks have raised funds from the international financial market by securitizing remittances flows, and many non-governmental organizations have mobilized remittances to meet the development objectives of local communities.

54. ***Securitization of Remittances.*** Emerging markets with a large volume of remittances and deep financial markets have designed financial instruments that can attract a large level of remittances for use by the private sector. Commercial banks in emerging markets (Turkey, Mexico, and Brazil) with developed financial systems have raised hard currency for their long-term capital (5-10 years) through securitization of future remittance receivables. Securitization of remittances involves the borrowing entity (such as a bank) pledging its future remittance receivables to an offshore Special Purpose Vehicle (SPV). The SPV issues the debt. Designated correspondent banks are directed to channel all remittance flows of the borrowing bank to an offshore collection account managed by a trustee. The trustee makes principal and interest payments to the investors and sends the excess collection to the borrowing bank. Remittances do

not enter the issuer's home countries; therefore, the rating agency believes that it mitigates the usual sovereign and convertibility risks (Figure 7).<sup>55</sup>

**Figure 7: Remittance Securitization Structure**



55. The largest remittance notes (as of June 30, 2005) were placed by Turkey's Akbank Remittances Trust Securitization, Ltd (A.R.T.S.) in the amount of US\$2.525 billion in sixteen tranches. The latest issuance of US\$1 billion (tranches 10 through 16) represents the largest-ever single issuance of this asset class in emerging markets. The underlying collateral supporting the notes is composed of remittances generated by Akbank<sup>56</sup> T.A.S. through its specified correspondent banks. Mexico is second in the world's remittance securitization market—averaging 24 percent of the worldwide amount raised through such bonds (1994-2004).<sup>57</sup> Mexican banks were some of the first in the world to offer bonds secured by future remittance flows in the mid-1990s. Banco de Brasil issued 5-year bonds worth US\$300 million using future yen remittances from Brazilian workers in Japan as collateral in 2001.

56. *There is little scope for securitization of future remittance receivables in Tajikistan due to weakness in the financial sector.* The legal and regulatory structure of banking institutions in Tajikistan is still developing. The financial market is shallow and the sector remains underdeveloped. Further, commercial banks are small and have limited experience in issuing advanced debt instruments. Frequent violations of prudential regulations and a relatively high ratio of non-performing loans indicate structural management weaknesses. Finally, local banks do not have alternative sources of liquidity to ensure timely cash deliveries to remittance

<sup>55</sup> The World Bank, "Global Economic Prospects, 2006."

<sup>56</sup> In November 2004, Isbank, another large financial institution, completed a US\$600 million securitization transaction based on diversified payment rights. Standard Chartered Bank managed the transaction. A special purpose vehicle in three tranches issued the notes with maturity dates ranging from 7 to 10 years. This deal provided the longest maturity offered by a Turkish bank to date.

<sup>57</sup> Ratha, Dilip, "Securitization of Future Remittance Flows: A Global Overview," presentation at the International Forum on Remittances, Inter-American Development Bank, June 28, 2005.

beneficiaries. Their activities, besides transfer services, are limited to financing of short-term trade, often to bank insiders, and to speculation in the foreign exchange markets. The limited sources of liquidity could delay payments of remittances, and thus negatively affect public confidence in the banking system.

57. ***Home Town Associations (HTAs) and Matching Funds.*** HTAs are established in host countries to raise funds from diasporas and have them transferred to their home towns for development purposes. Due to strong ties to their communities in a host country—most commonly the United States and Canada—migrant diasporas (often first-generation) from a particular town or region in Latin America have joined forces to establish HTAs. These associations raise funds in host countries through various activities and remit them to communities in their home towns. The funds are used for construction, basic infrastructure, and other development projects.

58. To attract funds for specific development projects, the governments (central and local) of various Latin American countries, notably Mexico and El Salvador, have worked closely with HTAs by providing “matching funds” to complement their donation. A widely known matching fund, the Three-for-One programs introduced by several states in Mexico (started in 1997), have been successful in attracting funds for specific investment needs. For every dollar remitted, three dollars are donated to HTA projects by federal, state and municipal governments (i.e., the three levels of government each contribute a dollar for each dollar raised by HTAs). By 2002, the programs had established projects totaling US\$43.5 million. These projects include road and school construction, healthcare, utility and agriculture improvements and local investments. Through close collaboration between HTAs and the government, the matching funds have been considered effective in using resources for specialized local needs.

59. ***The matching fund was piloted in Tajikistan by UNDP in collaboration with IOM.*** In 2005, a project “Enhancing the Development Impact of Migrant Remittances in Rural Communities” was piloted in two jamoats to enhance the use of remittances. The IOM has worked closely with the Jamoat Development Committee (JDC) and Jamoat Resource Center (JRC), a community based organization developed by UNDP. The project has two components. The first component provides micro credits to return labor migrants and migrant households to capitalize and promote the investment of migrant remittances for the development of viable livelihoods for migrant families affected by emigration. Under the first component, the JRC selected participants from migrants’ households and assessed their capacity based on the availability of their own investment resources (savings and non-cash). Selected participants would be trained on business start-up including development of business plans, finance, and business management. Subsequently, they would be eligible for micro credits to match savings to finance agriculture, livestock, and small trade projects. The amount of credit can be as high as 50 percent of total investment. The terms of the credit are: interest of 1 percent per month, 10 month maturity, and repayment at the end of maturity. The second component provided participative financing facilities (matching funds) for community initiatives and infrastructure by matching grant to migrants’ contributions<sup>58</sup> for implementation of local infrastructure projects that were selected and prioritized by the JRC. These projects included rehabilitation of schools, bridges, a water reservoir, an electricity transformer, etc. While developments to date seem encouraging, it is too early to evaluate results of this initiative.

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<sup>58</sup> Total value of these projects constituted US\$8,798, of which US\$3,913 was contributed by labor migrants and the remaining was funded by UNDP/IOM project.

## LESSONS LEARNED

60. ***The international experience shows that there is no single answer regarding the right policy that a country could pursue to enhance the development impact of remittances.*** Each of the policy measures discussed in the foregoing section has been designed and implemented to address issues specific to migrants' characteristics and the macroeconomic environment in each country. This highlights the importance of having reliable information on migrants overseas and their behavior related to the sending and using of remittances. Further, there has been no clear empirical evidence on the eventual development outcomes and impacts of these policies.

61. ***Nonetheless, instruments that aim to improve access of migrants to the banking system in both origin and host countries have been effective in steadily increasing transfers of remittances through the banking system.*** Interventions by the governments of Mexico and the Philippines have increased transfers of remittances through the banking systems in both countries. With the active involvement of labor sending governments in conducting intensive negotiations with their counterparts, migrants are now able to open bank accounts in certain host countries (Mexico and the U.S.). An information campaign, supported by the Philippines government, provides information on savings and investment options to migrants.

62. ***Mobilization of collective remittances has been limited due to country specific conditions.*** For example, remittance securitization requires a large inflow of remittances through a well developed banking system (account to account basis) and an adequate legal structure of institutions in the issuing countries. The amount of wire transfers that are used mostly for securitization is insignificant in Tajikistan. The HTAs and matching funds require strong diaspora networks that can play a role in mobilizing remittances in host countries and strong local community networks in recipient countries that can manage and monitor the use of remittances and matching funds. Further, the use of matching funds requires good institutional capacity of local governments in prioritizing development projects to ensure that scarce public funds are used effectively.

63. ***Integration of Micro-finance institutions into remittance-related services in remote and rural areas should be promoted.*** Integration of MFIs into remittance services will help increase access of rural households and individuals to financial services. Access to bank services is limited (or not available) because retail banking remains unprofitable and too costly due to the low density of population in these areas and the weak communication infrastructure (see detailed discussions on micro finance organizations in Tajikistan in Annex V). Due to the MFIs' reputation among the rural population and better penetration (as a result of being associated with a large number of active organizations and outreach initiatives), they can engage in remittance activities by physically delivering remittances to migrant families and mobilizing savings sent through both formal and informal channels in support of income generation activities, consumption smoothing, and a social safety-net. New financial products need to be developed to enable MFIs to provide low-cost financial services for consumption smoothing (such as advances), income generation activities (in the form of micro credits), for personal investment (home improvement loans and or education loans). To ensure efficient intermediation of remittances through linkages to MFIs, their institutional capacity needs to be strengthened. While MFIs have a comparative advantage in a segment of the remittance market that is naturally excluded from the outreach of commercial banks, the capacity of MFIs in financial and portfolio management is weak and a large number of MFIs in developing countries are not registered as commercial banks.

## VI. ENHANCING DEVELOPMENT IMPACT— WHAT CAN TAJIKISTAN DO?

64. This section proposes some policy measures to enhance the development impact of remittances in Tajikistan. The Note proposes a series of recommendations for Tajikistan based on lessons learned from international experience and highlights areas for additional research. The proposed measures differentiate policies under the government control and those that are not. The policies under government control that aim at stimulating migrant savings and investment focus on improving the business environment and the capacities of financial intermediaries. The policies outside the control of government focus on actions of host countries, for which diplomatic negotiations would be needed.

### RECOMMENDATIONS

65. *The note strongly encourages that the overarching priority of a strategy to enhance the development impact of remittances should be the improvement of the investment climate and strengthening operations of banking intermediaries that can mobilize savings and channel them to productive investment.* Efforts to improve the treatment of Tajik migrants in host countries are also encouraged, through diplomatic negotiations. By contrast, policies pursued in very different settings such as mandatory requirements and remittance bonds are discouraged because their impact could be marginalized or adversely affected due to an unfavorable business environment and weak financial sector. By contrast, policies beyond government control should receive lower priority.

### **Overarching Policies to Enhance the Development Impact of Remittances**

#### *Improvements of Business Environment*

66. *Improvement of the business environment in Tajikistan will promote the use of remittances for investments.* A prudent macroeconomic framework will help provide an environment conducive for investment by contributing to a stable economy with declining inflation and a stable exchange rate. Improving the overall business environment remains a necessary condition for encouraging migrants to increase levels of investment, especially in SMEs, the sector in which individual migrant households would most likely invest their remittance income. These problems hamper new entries of enterprises, increase the cost and uncertainties of doing business in Tajikistan.

67. The World Bank is currently supporting the implementation of policies to improve the business environment in Tajikistan through a development policy credit. The International Finance Corporation Private Enterprise Partnership (IFC-PEP), Foreign Investment Advisory Service (FIAS) and the Multilateral Investment Guarantee Agency (MIGA) are providing technical assistance for implementing the new legal and regulatory framework for improving investment climate in Tajikistan.

#### *Strengthening Financial Intermediaries*

68. *The NBT should accelerate the penetration of reputable foreign banks in Tajikistan and enforce compliance of commercial banks with prudential regulation.* Penetration by reputable foreign banks can help modernize and bring new technologies to this under-developed sector as well as improve confidence in the Tajik banking system. This should increase bank deposit accounts, and as a result reduce cash disbursements. Further, foreign banks can facilitate

account to account remittance transfers if these banks have offices in host countries, especially Russia. Migrants can deposit their earnings into the accounts of a foreign bank in Russia, while their families can withdraw from the accounts of that foreign bank in Tajikistan. This would help strengthen public confidence in the overall Tajik banking system and promote modernization and competition in the financial sector. The government has already taken important steps as evidenced by recent Parliamentary approval of amendments to the Banking Law liberalizing the entry of foreign banks into Tajikistan and a decline in the number of banks violating prudential norms.

69. ***Partnerships between commercial banks and MFIs would enable remittance operations by licensed MFIs without accessing the payment system.*** Clients of microfinance organizations might be allowed to send remittances through the correspondent accounts of partner banks and cash payments through the windows of MFIs in their villages. MFIs would receive remittances in their own accounts with partner banks, and deliver cash and/or credit to clients against their debt servicing payments to their relatives while working abroad through the same system. A partnership between MFIs and banks has several advantages. First, it would broaden the product and client base and consequently the outreach as MFIs are generally more engaged in rural and remote areas of the country. Second, the level of information throughout the financial system would increase, thus enabling banks to scale down and the MFIs to receive long-term funding and other banking services from banks. Third, MFIs' credit risk policies and their cash management would be enhanced. Finally, partnerships would open opportunities for sharing financial and credit information on individual labor migrants and their relatives and families. This would help banks downscale portfolios, further develop retail banking and improve the outreach to creditworthy households in rural areas. However, successful partnerships will depend on MFIs' ability to mobilize a critical mass of money transfer transactions and a sufficiently large demand for money transfer services by micro-borrowers, especially in the rural areas.

70. ***To facilitate the association of MFIs with remittance operations, a number of actions need to be taken.*** First, an evaluation of the untapped demand for financing in the rural areas during the seasonal migration cycle (not just for consumption) should be conducted to inform MFIs of their potential market. Further, the legal and regulatory framework for MFIs needs to be strengthened. A number of legal and regulatory requirements should be revised to enable MFI operations in remittance related services. The minimum capital requirements for a deposit-taking MFI should be increased from US\$100,000 to US\$300,000 to further consolidate the MFIs to facilitate market entry. The US\$20,000 maximum single loan requirement should be eliminated to enable well-capitalized and efficient MFIs to expand their portfolios. The functions of the NBT related to microfinance supervision should be developed and enhanced, and MFIs should be included in the development of the credit information bureau system. Finally, the capacity of the microfinance sector should be strengthened via seminars and workshops as well as training programs on micro-finance offered by the MFI Association and the banking community.

71. ***Commercial banks should promote cross-selling other financial products to migrants and their families to increase bank deposits and create opportunities for lending to potential investors.*** Commercial banks should adopt the position that labor migrants have the potential to be bankable clients and thus cater financial products to this segment. They face limited profit opportunities given the high liquidity in both domestic and foreign currencies and the low returns related to money transfers and electronic payments. But if migrants are allowed to build creditworthiness overtime due to their stable cash flows and family relations, commercial banks could tap into new profit sources by cross-selling financial products to this group. In fact, it is more profitable to cross-sell financial products due to the significantly higher interest on small

and retail credits<sup>59</sup> compared to fees on money transfers and remittances. Further, cross-selling could motivate migrants to change remittances into bank deposits as they can be used as collateral for future consumer credits that can close the income-consumption gap. Banks can also use savings to finance investment loans of that would be of interest to potential investors.

72. ***Cross selling of financial products to migrants can lead to the development of health and life insurance markets which would enhance welfare.*** Cross-selling will increase penetration of financial services into migrant households and integrate them into the financial sector. This will deepen the financial market and thus facilitate the development of new financial services and products which can enhance social safety-net and welfare of the Tajik population. Such products include remittance-back mortgages and health and life insurance products that could be supported by the expected future stream of remittance inflows. Particularly, health insurance products can provide a safety net to migrants overseas and their families left behind. Finally, remittance-backed mortgages could increase opportunities of home ownership.

73. ***Promote greater competition could further reduce the cost of transfers charged by MTOs and by commercial banks, thus encourage migrants to remit funds through formal channels.*** The average cost of transfers through money transfer operators and wire systems could be further reduced. Anecdotal evidence indicates that a bank would still be profitable even if the fee for transfer via MTOs is lowered to 1 percent. Fees for wire transfers could also be reduced to encourage the frequent use of account to account or cash to account transfers. These reductions could be implemented in conjunction with the promotion of cross selling of financial products. Commercial banks would likely benefit from these measures due to the additional income gains from increased remittance transfers and from income related to cross selling of financial products. Discuss with Felipe to consider dropping it.

### ***Improving Information Dissemination and Statistics on Remittances and Migration***

74. ***The Government should develop an effective public information campaign to increase awareness among migrants and citizens of the existing laws, regulations, and practices concerning international migration and transfer of remittances.*** The government should develop and/or improve its public information campaign to target migrants in specific regions. The information should cover migration procedures, related laws and legislation in host countries, their rights, the procedures related to sending money home and other resources available to migrants at home and abroad. Commercial banks should be encouraged to improve their public information campaign to further increase awareness of options for transferring funds, savings, investment, and financial services. Because of competition for funds transferred through money transfer systems, large Tajik banks have already advertised their transfer services using their partner operators, describing their fees, speed, and documents required at various locations where migrants depart Tajikistan. However, the information omits available options for saving, investment and financial services eligible to a migrant in the future once one builds creditworthiness with a commercial bank. The International Labor Organization currently operates an Information Resource Center for Labor Migrant to promote the awareness level of labor migrants who choose to go abroad both in Dushanbe and a few locations in rural areas. The information provided includes labor regulation overseas, employment abroad, the migration process, living overseas (especially in Russia), and training.

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<sup>59</sup> Retail banking was only introduced in 2004, but since then individual deposits and small loans to individuals have increased.

75. ***The State Migration Service needs to improve its migration statistics by strengthening administrative control of migration, including passport control and collection of migration cards.*** This could be achieved by better coordination with the State Border control and the Tajikistan State Airline company in the distribution and collection of the migration card. The definition of migrants (especially for those with dual citizenship), as well as the length of stay abroad, should be clarified in order to distinguish between temporary and permanent migration. The International Organization for Migration is currently providing technical assistance to the State Migration Service under two programs: “Building Capacity for Migration Management Program” and “Enhancing Border Management and the Security of Travel Documents.” The assistance focus on reviewing the State Migration Service mandate and associated legislation, improving border management through training and provision of equipment to checkpoints to make procedures more human and effective, enhancing travel document management, and improving data collection and data sharing.

76. ***The NBT can improve remittance statistics in the balance of payments through better classification of remittances and broadening the coverage of statistics.*** It is recommended that the NBT uses the definition of remittances that include compensation of employees, workers’ remittances, and migrants’ transfers in the balance of payments. The areas for improvements include: (a) identify the length of stay that will enable the NBT to distinguish between compensation of employees and workers’ remittances. Currently, the balance of payments only records migrants’ transfers because of a lack of information on how long migrants stay outside Tajikistan; (b) the threshold to distinguish remittances and export receipts should be based on the results of migrant surveys. The NBT is currently working with the IMF to improve the methodology for estimation of remittances; and (c) the coverage of remittance statistics should be broadened to the extent possible to include remittances by various official transfer methods and by source countries and to cover remittances transferred through informal channels and capital transfers.

77. ***Finally, the State Statistical Committee should improve the household budget survey.*** Both the household budget survey that includes a remittance module as well as the Labor Force Survey with an internal and international migration module should be regularly conducted. They will contribute to improving statistics and help point to trends and the dynamics of remittances and migration that are required to design adequate policies. This can be supported by the World Bank STATCAP project that provides technical assistance for improving the sampling frame for remittances and for conducting Tajikistan’s Living Standard Survey using the new sampling frame.

### ***Policies Measures to Improve the Welfare of Tajik Migrants Abroad***

78. ***Tajikistan should continue bilateral diplomatic negotiations with Russia (and other host countries) to improve access of Tajik migrants to labor markets over the medium- and long-term.*** The international experience has shown that successful bilateral negotiations can serve as a major vehicle for low-skilled, seasonal workers in the agriculture, tourism, and construction sectors<sup>60</sup>. Successful negotiations related to such agreements can increase certainty of access for migrants by removing or minimizing restrictions and thereby improving their conditions in host countries. A bilateral agreement between the Tajik and Russian governments, signed in October 2004, sought to reduce the number of illegal labor migrants and enhance the legal framework for guest-workers with proper documentation. Subsequently, the Russian government approved legislation aimed at increasing penalties against those who violate the rights of migrants.

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<sup>60</sup> The World Bank. 2005. “Global Economic Prospects”, Washington, D.C.

Nevertheless, the existing legal framework has not yet been successful in curbing either abuses or illegal migration. The Tajik Government should continue negotiations with Russia, the main market for migrants on (a) preventing the violation of Tajik migrants' rights on Russian territory, (b) simplification of registration procedures for a resident permit, and (c) easing the conditions to obtain a work permit.

79. ***Anecdotal evidence indicates that the rights of Tajik migrants are violated in Russia.*** Due to lack of information of their rights on Russian territory and their illegal status, Tajik migrants are subject to abusive treatments by Russian law enforcement officers (customs, immigration, and police) once they are in Russia. Statistics show that Tajik migrants have suffered physically in Russia (arrests, beatings) and a number of them have died. This constitutes one of the reasons that 90 percent of respondents to the survey of migrants indicated that they would return to Tajikistan. Recently, Russia and Tajikistan are discussing the establishment of a joint employment center to legalize migrants and protect their rights in Russia.

80. ***The Tajik authorities should press their Russian counterparts to simplify the registration procedure for obtaining a resident permit.*** Possession of a residence permit will minimize the risk of harassment and deportation by Russian police and enable a migrant to open a bank account in Russia that requires a passport as well as a permit. Bilateral negotiations between Tajikistan and Russia should aim at simplifying the residency registration process for Tajik workers upon arrival. All foreign visitors arriving in Russia are required to register with the Department of Passport and Visa Services within 3 days after arrival. The length of stay will depend on the purpose of visit as noted on the migration card. For example, businesses as well as private visitors can stay up to 90 days. Currently, to obtain a resident permit, an emigrant needs to produce several documents: a national passport, a migration card with stamp from the customs control, the national passport of and an application written by the local host (owner of the residence where the migrant stays), a certificate of payment for utility services (by the local host), prepaid registration fee, and medical insurance. Anecdotal evidence indicates this procedure is excessively complicated, and attempts to circumvent some of the requirements by offering informal payments to Russian officers for a residence permit are prone to risk and typically unaffordable for migrants.

81. ***Further reductions in cost to employers who contract migrant labor in Russia would be beneficial to foreign workers and local employers.*** Given that the demand for labor migrants is likely to continue increasing over time due to a decline in the working age population in Russia and the unwillingness of Russian workers to take unskilled jobs, lowering the cost of employment borne by Russian employers that hire foreign workers would increase benefits on both sides. Such costs include a fee for a work permit of about 580 rubles and employee's tax. Lowering such costs would encourage employers to increase hiring legal migrants' workers and thus reduce the price of products paid by Russian consumers. Similarly, Tajik migrants would be able to increase their wages and thereby increase the value of remittances sent back home.

82. Addressing these issues would go a long way to eliminating the obstacles to remitting funds via the banking system and would thus increase the volume of funds transferred on an account-to-account basis (provided that the transfer fees charged by commercial banks are competitive compared to the fees charged by money transfer operators). The clear advantage here is further integration of remittances into the formal financial sector, which could ultimately contribute to greater productive investment.

## AREAS FOR FURTHER STRENGTHENING AND RESEARCH

83. This section offers recommendations to improve the future survey of migrants and the estimated statistics based on the findings of the Policy Note. It also identifies areas where further research is required to support public policy related to migration and remittances. To improve the survey, the Note recommends the following. First, a sampling method that better represents the migrant population in various regions in Tajikistan and various countries of destination should be employed. (Due to a budget constraint, the past survey method was biased as it used a snowball method that resulted in a sample of labor migrants headed to Russia rather than expatriate stocks or flows to other CIS and non-CIS countries.) Secondly, the questionnaire should yield more information that can offer a better understanding of migrants and their problems; for example, obstacles encountered by migrants in the process of transferring remittances to their household, available formal information networks for labor migrants in both the sending and receiving countries, and social implications of households that receive remittances and those that do not. Finally, the quality of the interview could be improved through professional training.

84. To improve the reliability of the estimated statistics related to migrants and remittances, it is suggested that two additional surveys of migrants in source countries be conducted, as well as a survey of Tajik diaspora in Russia. The surveys would shed some light on remitting and saving behavior of migrants in host countries, and contribute to the design of policy measures geared to attract remittances for productive investment from both temporary and permanent migrants. The surveys could also help improve the estimated number of both legal and undocumented labor migrants, and thus workers' remittances versus compensation of employees (i.e., permanent versus circular migration).

85. The note recommends additional research areas where additional analyses are required for future policy formulation. First, the future research could examine the impact of migration and remittances on labor market, human capital and growth as well as the social impact. The subjects include:

- Migration and the Labor Market. This should address the effect of emigration on the supply of labor and wages, the effect of remittances on work effort, and the long-term impact on productivity, international competitiveness, and outputs. Such analysis will inform policy makers of actions necessary to mitigate the adverse impact of remittances.
- Remittances, Human Capital and Growth. The use of remittances for investment in human capital, their impact on the demand for social services, especially education and health, and the contribution to improved human capital and long-term economic growth in Tajikistan.
- The social impact of migration and remittances can provide insights to Tajik society. These issues include the impact on gender and the viability of family units.

86. Secondly, additional research should assess the needs related to strengthening the financial infrastructure. This will contribute to an increase in the transfer of remittances and accelerating the development of micro-finance institutions so that productive investment is enhanced.<sup>61</sup>

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<sup>61</sup> This subject will be investigated further by the World Bank forthcoming regional report on "Financial Sector and Remittances in Central Asia and South Caucasus".

87. Finally, the future research could focus on a comprehensive policy and framework for migration and cooperative arrangements with key destination countries. These could include appropriate policies and structures for Tajikistan's migration management, identification of a more flexible worker programs in Russia to respond to the seasonal and cyclical nature of migration, and the role of Russia's private sector in persuading their government to put in place a framework for employing legal labor migrants.



## **ANNEX I: A SUMMARY OF MIGRANT SURVEY**

1. The survey was conducted in Tajikistan by the Center for Sociological Researches (Zerkalo) during April–May 2005, jointly with the *Swiss Foundation for Migration and Population Studies (SFM) Switzerland*. The main purpose of the research was to study the standard of living of labor migrants before departure, changes in their lives after their work abroad, and their plans for the future. It also attempted to develop a wide representation of the legal and legislative frameworks in place concerning migration, the characteristics of migration flows and the economic and social impact of labor migration in the republic. To achieve these aims, a survey of labor migrants with 1,200 respondents was conducted.

### **Survey Questionnaire**

2. The questionnaire for this survey has been presented by the World Bank, ECA region. A number of pilot interviews were carried out in Dushanbe to help revise the questionnaire to conditions of Tajikistan. The final version of the questionnaire has been prepared in two languages: Tajik and Russian. The questionnaire consists of several sections. The first section of the questionnaire concerned the living standards and employment experience of labor migrants before they migrated. The second block of the questionnaire concerned the ways and means by which respondents used to travel to a destination and what documents/papers they had during travel. In a separate section of the questionnaire, migrants were asked to describe the specific nature of work carried out abroad (sphere of employment, status/post, and income). The main focus of the questionnaire was a block of questions concerning the financial and social aspects of living as a labor migrant abroad. Also, a number of questions were designed to assess the labor migrants' standard of living after returning home.

### **Sampling Method**

3. The survey used a multistage, proportional, stratified, and random sampling of the adult population of the republic (18 years of age and older). When selecting sample regions for the purpose of carrying out the survey among labor migrants, Dushanbe city, RRS and GBAO were considered to be one region. Such a decision can be rationalized by the fact that departure of labor migrants from GBAO and RRS is complicated due to lack of accessibility of transportation in these areas, including airports, railway stations, and bus stations. Therefore, labor migrants start their travel abroad mainly through the capital—Dushanbe. Thus, for study purposes, we selected Dushanbe, Sughd oblast and Khatlon oblast as sample regions.

4. As each of the selected regions represents a separate stratum, the next step of the sampling process was the distribution of 1,200 respondents over the three strata, taking into account the population census of the Republic of Tajikistan. The number of potential respondents 18 years of age and older was calculated for every stratum, and the number of necessary interviews in proportion to the number of adult population of every stratum was determined:

**Table A-I.1: Distribution of Survey Samples**

	<i>Population total</i>	<i>Percent</i>	<i>Number of interviews</i>
Dushanbe (including CRRS and GBO)	1,083,796	35.0	436
Hatlon oblast	1,001,429	32.4	373
Sogdii oblast	1,008,174	32.6	391
<b>Total</b>	<b>3,093,399</b>	<b>100.0</b>	<b>1,200</b>

5. This proportional method of sampling distribution allows every adult citizen of the republic to have an equal opportunity to be sampled, which corresponds to a principle of random selection of respondents.

### **Place of Survey**

6. Places with the highest congestion of labor migrants were selected as survey points. These included airports and railway / bus stations, state agencies, private companies and NGOs dealing with labor migrant issues. For distinguishing the more convenient households, arrangements were made with the main representative of makhalli (amin, jamoat), who indicated to the interviewers the households where labor migrants lived.

### **Selection of Respondents**

7. The selection of respondents was based on the following criteria: the individual having work experience; the individual having earned an income on two or more trips abroad, and the individual being eighteen years of age or older. The selection of respondents was made by the “snowball method,” which allows researchers to be directed to additional labor migrants in the community through word of mouth.

### **Method of Interview**

8. The survey was carried out by “face to face” interviews, which were administered through a standardized questionnaire. The field research took place from April 21 until May 9, 2005. Interviews in regions were carried out through regional representative offices and partner organizations of CSR (Zerkalo). The field study involved 52 interviewers working in Dushanbe and other cities. Before launching each field study, one-day training sessions for interviewers were arranged in order to familiarize the staff with the purpose of the survey, the questionnaire, the methodology for selecting survey respondents and training in other skills necessary for the successful administration of interviews. Regional supervisors monitored the work of interviewers.

### **Data Compilation**

9. The data collected were processed using statistical pack SPSS 11.5 for Windows.

## ANNEX II: ESTIMATION OF REMITTANCE FLOWS INTO TAJIKISTAN

1. This Annex uses the stock approach to estimate remittance inflows through the use of a database obtained from a labor migrant survey conducted by Zerkalo in 2005. The stock of migrants is based on various estimates in order to derive a range of estimates of remittances. Two statistics are derived from this dataset—average annual per capita remittances, and percentage of migrants remitting informally. The average annual per capita remittance is calculated two ways—first by using a self-reported average propensity to remit and average monthly income, and secondly by a self-reported figure describing monthly remittance amount. These two averages are then multiplied by estimates of the stock of Tajik migrants, which vary considerably. The second statistic—the percentage of informal remittances by migrants—is used in conjunction with the IMF’s 2004 remittance figure from the balance of payments figure to produce this third estimate of flows into Tajikistan.

2. The estimate of the first statistic, average annual per capita remittances, is based on assumptions related to migrants’ remitting behavior that was not elucidated by the survey. First, it is assumed that those individuals who did not “send money back” on their last trip remitted all of their savings when they migrated back to Tajikistan. Unfortunately, the survey design bifurcates the 1,200 respondents into remitters and non-remitters (savers). This results in a lack of information about the choice of remittance transfer method and the banking decision of non-remitters, as well as confusion about the possible savings stock for remitting migrants. Indeed, the questionnaire was designed to elicit total saving stocks for only those migrants who did not remit. The reported savings figures, since they only apply to non-remitting migrants, are most probably returned either in a lump sum remittance before return migration, or carried over in cash or goods in kind. However, the means by which savings are transported is left unclear by the survey design.<sup>62</sup>

3. Secondly, several hundred respondents who answered that they remitted “more than 50 percent of what [they] earned” needed to be quantified to obtain an accurate estimation. This was achieved by finding the average marginal propensity to remit of all individuals in this greater than 50 percent category by looking at their reported income and reported remittance data, and then using these numbers to produce a marginal propensity to remit statistic. This average was 64 percent of income earned abroad and was used as their answer to the marginal propensity to remit question. Several obvious outliers were excluded in this calculation, which included anyone claiming to have remitted more than 100 percent of what they earned.

4. Thirdly, any individual who reported that they returned from their last migration trip before 2004 were excluded from our calculation. To estimate a remittance inflow for 2004, migrants who returned in 2004 or 2005 were included. Weights (i.e., the length in months of the most recent migration) for migrants departing their home country in 2004 and returning in 2005 were calculated by subtracting the months they were on a migration trip in 2005 from their total length of stay measured in months. These weights were then multiplied by the average reported

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<sup>62</sup> A quick calculation of the savings behavior of non-remitters reveals they saved on average US\$137 per month. This figure is nearly identical to the average monthly remittance for non-savers (i.e., remitters), which was US\$129.

monthly income and then by the marginal propensity to remit (Method 1) or by the average monthly remittance amount (Method 2).

5. The two estimates for average annual per capita remittances seem robust as they generate the estimated values of remittances that are nearly congruous. The first estimate of the average annual per capita remittances is generated by multiplying migrants' reported monthly income during migration by their reported length of stay in 2004, and then multiplied by the self-estimated migration propensity to remit. This method renders an average annual per capita remittance of US\$1,373.3 in 2004. The second method, nearly identical to the first, renders an estimated average annual per capita remittance of 1,406.7. The average annual per capita remittance was calculated as the product of the reported monthly remittance (instead of self-reported propensity to remit multiplied by income), and the same length of stay weights were used to calculate this figure. The difference (US\$33) is considered statistically insignificantly. Further, these two values are also comparable to the annual per capita remittance of US\$1,300 as estimated by the World Bank's Trade Diagnostic Study.

6. The estimate of the true size of remittances, however, is obscured by the unreliability of the stock of Tajik migrants abroad. To derive the value of remittance in-flows to Tajikistan in 2004, the two estimates of the average annual per capita remittances are then multiplied by the stock of

**Table A-II.1: Estimated Remittances**

		Estimated Number of Migrants	Estimated Remittances	
			Method #1	Method #2
<b>Average Per Capital Annual Remittance Estimate</b>			<b>\$1,373.33</b>	<b>\$1,406.74</b>
Parsons' Bilateral Matrix (Worldwide)	Stock	1,094,834	\$1,504	\$1,540
Parsons' Bilateral Matrix (CIS Countries)	Stock	696,873	\$957	\$980
World Bank (TDS)	Stock	1,200,000	\$1,648	\$1,688
Russian Census Estimate	Stock	120,000	\$165	\$169
International Organization of Migration	Flow	500,000	\$687	\$703
Minimum F. Hill (Brookings) Migrants in Russia	Flow	300,000	\$412	\$422
Maximum F. Hill (Brookings) Migrants in Russia	Flow	600,000	\$824	\$844
State Migration Statistics (2004)	Flow	420,622	\$578	\$592

migrants. The lack of reliable data on the stock of migrants leads to divergence between the estimated remittances that are generated by various values of migrant stock. The official estimated number of migrants (420,622) by the State Migration Committee produces the estimated remittance of US\$578 (method 1) and US\$591.7 million (method 2) in 2004. Similarly, when using the stock of migrants obtained from a bilateral matrix of migrant flows between host countries around the world and Tajikistan (1,094,834<sup>63</sup> million persons), we find both estimated remittances are very close to US\$1.5 billion.

7. The estimate method that is based on the stock of migrant approach should be interpreted with caution. Some of the estimates below are most likely irrelevant, but were included nonetheless to elucidate the range of stock and flow figures and the varying remittance estimates available from these calculations. It may also be worthwhile to consider that the sample bias inherent in the Zerkalo survey—i.e., including only labor migrants to Russia rather than expatriate stocks or flows to other CIS and non-CIS countries—may make estimates of remittance flows a more accurate application of these data than that of stocks. The self-reported values of remittances are likely underreported by respondents due to safety concerns (i.e., the police or community discovering their financial position) and/or concerns relating to customs and/or tax authorities. The quality of responses is likely poor due to ambiguities arising from poor or insufficient questioning by interviewers during the surveys and limitations relating to respondent's ability to accurately and comprehensively recall transfers over the relevant period. Further, the estimates rely on migrant stock estimates, which may often be inaccurate. Finally, the method implicitly assumes that migrants from ECA sent on average the same amount of money as those from other regions. This may not always be true, especially for migrants from

<sup>63</sup> This estimate of Tajikistan's migrant stock was reported in Chris Parsons.

OECD countries that on average most likely send more remittances than their peers from the developing world.

8. The second statistic, the percentage of informal remittances by migrants, used in conjunction with the remittances reported in the balance of payments generates an alternative value of remittances. With the aim of estimating the total inflow of remittances to Tajikistan by calculating an informal multiplier, we can use the 755 respondents who reported that they remitted out of the total of 1,200 – 455 respondents are “non-remitters.” Isolating this subgroup of remitting migrants raises immediate questions about the biases in their characteristics and behavior. Specifically, they are slightly less likely to be irregular migrants—95 percent instead of 97 percent for non-remitters. And remitters earn on average about 29 percent more than non-remitting migrants—US\$306.82 versus US\$237.94.

9. However, if the informal percentage can be estimated from a group that is statistically more likely to remit formally, then this estimate should be a low-end estimate of the entire remittance market size in Tajikistan. Using questions designed to elicit information about the most common channels used to remit wages, one can generate a figure for the percentage of formal remittances (70 percent) versus those that are sent through informal channels. The inverse of the percentage of formal remittances to Tajikistan (0.7) gives 1.43, and when multiplied by remittances reported in the BOP (US\$252 million) it gives estimated value of remittances at US\$360 million, respectively.

**Table A-II.2: Choice of Remittance Channel by Tajik Migrants**

<b>Method of Transfer</b>	<b>Formal/ Informal</b>	<b>Survey Response</b>	<b>Percentage</b>
Money Transfer Organizations	Formal	435	57.6%
Bank Transfers	Formal	78	10.3%
Post Offices	Formal	15	2.0%
Friend and acquaintances	Informal	194	25.7%
Anonymous Individuals	Informal	19	2.5%
Informal Transfer Offices	Informal	14	1.9%
Did not remit/ Brought back by hand?	?	445	



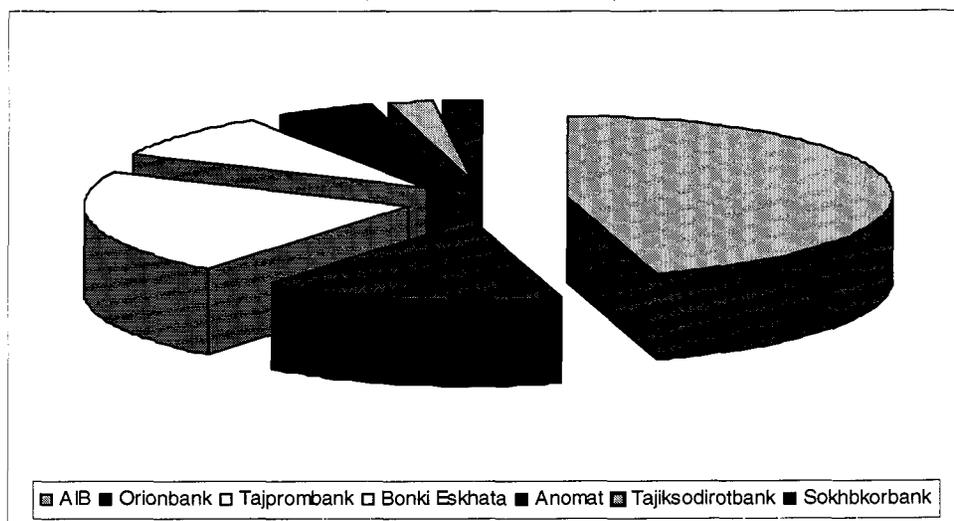
## ANNEX III: TRANSFER OF REMITTANCES TO TAJIKISTAN

1. This annex begins with a description of the mechanisms used by Tajik migrants to remit funds through formal channels (banks, money transfer systems, and postal service), their respective transfer costs, access to the transfer services by migrants and recipients, and their speed. Subsequently, the annex examines the disbursement of remittances in Tajikistan and highlights impediments to the use of formal transfer channels by Tajik migrants.

### Remitting through Commercial Banks

2. Tajikistan's local commercial banks are active in money transfer services directly (bank-to-bank) and indirectly through money transfer systems (such as Western Union, Anelik or Contact) on a partnership basis. Banks provide direct money transfer and remittance services (i) internationally through correspondent accounts in foreign banks,<sup>64</sup> and (ii) domestically through a national payments system operated by the NBT.<sup>65</sup> The main remittances transfer services include Agroiinvestment, Tajprombank, and Orion Bank. Their market shares in the transfer services to Tajikistan in 2004 were 45 percent, 21 percent, and 15 percent, respectively.

**Figure A-III.1: Fund Transfers through various Commercial Banks in 2004**  
(% of Total Transfers)



3. Technically, whenever a migrant remits money to Tajikistan from a bank in Russia, the correspondent account of the Tajik bank will be credited for the sent amount. Once the correspondent account is credited, a notification to the headquarters of the Tajik bank is sent via the SWIFT coding system (telex transmissions) that includes information on the account to be

<sup>64</sup> The most active Tajik banks have several correspondent accounts with the major Russian banks, including SberBank. SberBank of Russia is the largest bank in the country, with the most extensive branch network and deposit base. The bank also operates the second largest bulk clearing system in the country for small intra- and inter-bank payments, serving about 150 banks in Russia and abroad.

<sup>65</sup> Most banks confirmed that the National Payments System is well functioning and consistent with the existing needs of the financial system of the country. The payments system runs on a single clearing module for all payments, large and small. The settlement of inter-bank positions is done twice per day, and integrated with the liquidity facility of the NBT.

credited or the recipient of the transfer. Upon receiving such notification, the bank account of the sender or recipient is accredited, or issues a money order payment in the name of the recipient.

4. Funds can be transferred on a cash-to-cash, cash-to-account, or account-to-account basis. In theory, a labor migrant with an account in Russia could withdraw funds directly in Dushanbe from his Moscow bank account. The cost of money transfer from account-to-account and from cash-to-account charged to a sender is about 2 percent for non-clients, and 1 to 2 percent for clients of the transferred amount, on average, if in the same currency. The recipient of the funds must also pay a flat fee of about US\$30. Fees for foreign currency conversion would apply if withdrawals are made in different currencies. These fees vary considerably: banks generally apply a flat fee on currency conversion, but they also apply a spread on the foreign exchange rate, which is particularly wide for small retail operations (spreads could vary between 2 and 5 percent).

5. The speed of transfer is quite rapid. The transaction can take a few minutes, depending on the back-office and cashier speed. The electronic transfer is real-time. Fixed costs for banks are relatively high when it comes to money transfers, and this discourages banks from engaging directly in remittances. Membership in the SWIFT system is relatively inexpensive (about US\$15,000 per year), but the system works on telexes. Managing a correspondent account instead is costly in terms of profitability: Russian banks for example pay less than the overnight rate to Tajik banks.

6. Despite the number of benefits of opening an account in Russia,<sup>66</sup> inter-bank money transfers (account-to-account) are infrequently used among migrants because of difficulties in opening an account and foreign exchange regulations limiting the maximum amount that can be transferred. The survey of migrants indicates that only 18 percent of migrants have bank accounts because a Tajik migrant needs to show a passport and a "migration card." The latter can only be obtained with a valid working permit and is required to open an account with a Russian bank. As most Tajik migrants are temporary seasonal workers and have no work permit, account-to-account transfers are less frequent. In contrast, cash-to-account transfers do not require particular documents, only a valid passport and the codes of the recipient bank and account. Furthermore, foreign exchange regulations in Russia and Tajikistan set limits on transfer amounts. In Russia, resident aliens cannot send more than US\$5,000 per day, while non-residents do not have these limitations. The source of all cash deposited for money transfers above US\$5,000 must be indicated in the memo of the transfer order. In Tajikistan, the origin of funds must be declared for transfers exceeding US\$2,000 in cash.

7. Lastly, the educational levels of Tajik labor migrants also limit them from opening bank accounts. Anecdotal evidence shows that Russian banks prefer not to serve Tajik migrants for remittances, mainly because of lack of language and basic banking skills. Russian banks indicated that it takes sometimes 30 minutes of a teller's time to process a remittance of a few hundred U.S. dollars, which makes the transaction unprofitable.

### **Remitting through Money Transfer Systems**

8. There are a number of money transfer systems operating in Tajikistan. They all integrate into the banking system through partnerships and contract agreements based on which money transfer systems operate from the premises of the commercial banks; fees are shared almost

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<sup>66</sup> These include access to basic banking services such as savings, ATMs and debit cards, and security.

equally. Many of these companies also have local offices in department stores, foreign exchange bureaus, post offices, airports, etc.

**Table A-III.1: Money Transfer Systems in Tajikistan**

	Western Union	Money Gram	Anelik	Migrom	Inter-Express	STB Express	Contact	VIP Money Transfer	FastMail	Unistream
<b>Head Office</b>	USA	USA	Armenia	Russia	Russia	Russia	Russia	Russia	Russia	Russia
<b>Settlement Center</b>	Western Union	American Express	Anelik	CB Eurotrust	Inter-Express	STB-Card	JSCB Russian Bank	VIP Bank	InpexBank	Unistream Bank
<b>Payment time</b>	15 minutes	10-15 minutes	3-24 hours	5-20 minutes	10-15 minutes	10-15 minutes	4-24 hours	5-10 minutes	10-15 minutes	10-15 minutes
<b>Fees and Charges</b>										
<b>Minimum</b>	US\$6	1.5%	3%	2%	1.5%	2.50%	2%	1.50%	2%	1%
<b>Maximum</b>	US\$53	6%	4%	4%	3%	3%	3%		2.50%	2%

9. In Tajikistan, money transfer systems are extremely active and technologically well equipped. The types of technologies used are relatively simple. Most of the money transfer systems use the internet for their Management Information System. Practically, remittances travel through the correspondent accounts of money transfer systems with the banks, while the communication on the remittance transfer is transmitted to the local offices of the money transfer system by email. As a result, when a migrant sends a remittance, the money transfer system sends a message by internet to its local (recipient) office, with a code and details of the sender and recipient person. The deposited funds are credited in the account of the money transfer system with the commercial bank in the sending country. The money transfer system then settles all positions on its bank accounts, with different frequency, and credits and debits correspondent accounts in different recipient countries, depending on the flow of remittances and the daily expected payments. Some money transfer systems instead run real clearing houses, and thus integrate with the clearing systems of large bank networks. These systems, though, are more expensive as they require continuous clearing of each transaction and do not allow for less frequent settlement of correspondent accounts.

10. Money transfer systems differ slightly in terms of pricing and quality of service, thus indicating that remittance costs could be close to break-even, or that there is a saturation effect that increases competition and lowers transaction costs. Most money transfer systems (except Western Union) establish a fee structure as a flat rate as a percentage of remittances sent. A minimum transfer fee charged to senders in host countries is as low as 1 percent (Unistream), while a maximum fee is 6 percent (Moneygram). All transfer transactions take only 15 minutes to complete and as a result speed is close to real time.

### Postal Transfer

11. Tajikistan's postal system is subordinated to the Ministry of Communications. The system is complex and has a large infrastructure network with more than 600 offices spread all over the country with 1,500 employees. The technology at the Tajik post is very weak and outdated. The government tried to revamp the system in 2003 by issuing a new law on the National Postal System, which enables the postal system to provide basic financial services, including small/micro credits and savings services. However, the chronic lack of funding is de facto impeding the further development of the system and the opening to financial services operations.

12. Currently, the postal system receives assistance from USAID and UPU to automate some of the treasury operations, which now run on a paper based system. UPU is planning to install new software in the automation center in Dushanbe, which will enable it to automate treasury operations throughout the whole 4 regional automation centers of the Tajik postal system. Further developments are hampered by the low level of connectivity of the branch network, which only has telephone lines (but not in all offices), and the overall required investment that runs in the order of several million US dollars.

13. The postal system is active in the remittances segment through its partnerships with the postal systems of Russia, FSU and CIS, but volumes are extremely low: US\$683,000 of incoming and US\$165,000 of outgoing remittances in 2004. The main problem with the postal system is the low speed of the money transfer (a process that takes about two-to-three weeks), and the relatively high transfer cost (which runs in the order of 10 to 12 percent). Commissions and fees are paid by the recipient. The commissions between postal systems are regulated by international agreements, which are standard throughout the world: Tajik Post pays, for example, Russia Post SDR0.90 per transaction, irrespective of the amount and destination. The law limits the postal operations and ability to deal with remittance services as it is not authorize to operate in foreign currencies and it cannot disburse funds in foreign exchange. As a result, fees applied by the Postal System could be discounted by 2 or 5 percent, which is the average foreign exchange spread applied by banks to consumers.

14. The process of sending remittances through the postal system is relatively simple. Tajik Post has an account with a local commercial bank, Orion Bank, which manages the correspondent banking operations of the Post. As a migrant sends money through a postal system in a sending country, the funds are transferred through a foreign bank to the correspondent account of Tajik Post with Orion Bank. Subsequently, Orion Bank provides for the currency conversion and delivers the cash to the nearest postal office. The postal office then initiates the physical delivery of the funds to the local office of the recipients. Recipients and senders do not require specialized documents, just a passport or valid ID.

15. Clearly, the postal system capacity of providing remittance services is hampered by the low level of technology and the speed of the transaction as well as transfer fees, which makes it largely uncompetitive. The main advantage of using the postal system might be the network and the outreach. However, the costs for modernizing the postal system seem too high, thus exceeding the expected benefits, especially considering the extremely low value of remittances in density areas where Tajik Post would have a competitive advantage. Furthermore, considering that 80 percent of remittances are currently cashed in Dushanbe, there is little scope or benefit in expanding the outreach at such high cost.

### **Disbursement of Remittances**

16. The disbursement of remittances can be made in both local and foreign currencies (US Dollar, Russian Ruble, and Euro), thus increasing the degree of dollarization of the Tajik economy. Because of foreign currency preference, Tajik commercial banks need to purchase large amounts of foreign currency in cash during a peak season. Anecdotal evidence shows that commercial banks purchase foreign currencies from the NBT and from Russian, Kazakh or Kyrgyz banks. The NBT sells foreign currencies at a higher price, between 1.5 and 2 percent, due to its transaction costs structure,<sup>67</sup> while the prices charged by Russian or Kyrgyz banks are

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<sup>67</sup> The cost involves cash management and purchases of foreign currencies in cash from other central and commercial banks in the region.

relatively lower than that of the NBT. Questions remain, though, on where Russia and Kyrgyz banks purchase foreign exchange in cash, which could be explained by large inflows from informal trade and businesses.

17. The NBT estimates that 80 percent of the remittances transferred through formal channels are disbursed in cash in Dushanbe, which is the main port of entry for labor migrants returning from Russia. In the case of account-to-account transfers, disbursement can be made through the ATM or PTM systems. This choice is less popular because of the illegal status of migrants in sending countries, and the high demand for cash among beneficiaries in Tajikistan due to limited trust in the Tajik banking system. However, an increase in individual deposits in the banking system during the past few years reflects an increase in the level of trust among the population.

#### **Box A-III.1: Tajikistan's ATMs and PTMs**

Tajik banks are now developing a network of Automation Teller Machines (ATM) and Post Terminal Machines (PTMs). Currently, the ATM services are being provided by the four banks in Tajikistan via the gradually expanding network. AIB is the first bank that operates ATM network in Tajikistan. The network comprises 10 ATMs, 6 of which are located in Dushanbe. The bank is planning to install an additional 20 machines throughout the country. The card clearing system of the AIB card is in Russia. The system is based on the EMV platform, which enables it to read both magnetic and chip cards. The AIB card is a debit card based on the Maestro System, the most common system in Europe. The fees charged to non-clients of AIB are 2 percent for withdrawals in Somoni and 1.5 percent for withdrawal in US\$. For clients, fees are 1 percent for withdrawal in Somoni and US\$2 for US dollar and other currency withdrawals.

PTMs are different from ATMs, with fewer modules, and much cheaper. They are located in stores and shops or department stores, and operated by retailers. Basically, a PTM would read the debit card, inquiry the bank of the client on the existing balance, and withdraw funds from the client account to be transferred to the retailer bank account. The retailer would then provide cash to the client net of applicable fees. Fees for these operations vary considerably, depending on the retailer, but generally 2 percent for Somoni and 4 percent for foreign currency withdrawals. The bank would only charge for the money transfer between accounts (from the client to the retailer) and between banks if the two accounts are in different banks.

PTMs are often favored over ATMs due to the low cost of the machines and for certain specific functions, like payment of salaries. Depending on the model, volumes and functions, an ATM can cost between Euro 25,000 and Euro 75,000, while a PTM could cost US\$1,000. Also, connectivity is a decision factor: ATMs need online and fast connections for real-time operations, while PTMs could work off-line, if necessary. The retailer could clear all operations once a day, before closing of business, if the client is trustworthy.

18. The analysis of financial infrastructure, costs, speed, and outreach reveals that Tajikistan's transfer system for remittances is efficient, especially the money transfer systems that offer high speed transfer services at a relative low cost compared to other countries (Philippines, Mexico, etc). Philippines' bank charges, exclusive of the foreign exchange spread and recipient charge, range from about US\$5 for a transfer from a foreign account to a branch account in a single bank, to about US\$16, which may include courier services.<sup>68</sup>

19. However, it is clear that there is a need to increase intermediation of remittances among migrants and to extend the outreach of banks to rural areas. Cash disbursement of remittances

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<sup>68</sup> Ibid., p.8.

implies a low degree of intermediation among recipients because of recipients' low level of income and lack of trust in the banking system. The concentration of disbursement location in Dushanbe indicates that outreach of banks in rural areas is limited because of the low density of the rural economy, weak communication infrastructure, and low profit for retail banking in the regions and rural areas. Two banks, AIB and Amonat, have the largest branch networks in the country, with about 80 branches each. Amonat bank, in particular, plays a critical role in delivering fiscal and quasi-fiscal payments in the rural areas (almost on a monopolistic basis); however, its technology is cumbersome. Only 10 percent of the branches are connected to headquarters, which makes it impossible to consolidate the bank's accounts on a daily basis.

**Table A-III.2: Selected Indicators of Financial System (in thousand Somoni)**

	2001	2002	2003	2004	2005
Real GDP Growth	10.2	9.5	10.2	10.6	6.7
Per capita GDP (US\$)			236.0	310.0	354.0
GDP (thousand Somoni)	2528.8	3365.4	4757.8	6157.5	7201.1
GDP (thousand US\$)	991.7	1121.8	1615.6	2027.5	2404.0
Exchange Rate	2.6	3.0	2.9	3.0	3.1
Inflation	12.5	14.5	13.7	5.6	5.0
<b>Interest rates</b>					
on Deposits		11.2	10.9	8.6	
To Individuals		6.6	8.0	7.6	
To Legal Entities		14.6	17.2	16.2	
On Credit in Local Currency		14.2	16.7	20.3	23.3
On Credit to Individuals		30.2	29.1	28.5	
On Credit to Legal Entities		13.7	15.1	20.1	
<b>Deposits</b>					
Total Deposits/GDP	4%	4%	5%	5%	7%
of which in Local Currency (% of Total)		0.5	0.5	0.6	0.3
Legal Entities	0.0	0.0	0.0	0.0	0.0
of which in Local Currency (% of Total)	0.0	0.5	0.6	0.6	0.4
Individuals	0.0	0.0	0.0	0.0	0.0
of which in Local Currency (% of Total)	0.0	0.0	0.1	0.1	0.1
Total Credits/GDP	15%	13%	11%	18%	18%
M2/GDP	5.6	6.0	5.5	4.2	3.6

Source: The National Bank of Tajikistan

## ANNEX IV: MONEY TRANSFER SYSTEM IN TAJIKISTAN

1. There are a number of money transfer systems operating in the Republic of Tajikistan. They all work with the banking system under partnerships and contract agreements, according to which banks and money transfer systems operate from the premises of the commercial banks. Fees are shared almost equally. Many of these companies also have local offices in department stores, foreign exchange bureaus, post offices, and airports.
2. Money transfer systems have a clear competitive advantage compared to banks. In particular, fees and commissions are relatively low, standardized and easily accessible and readable. Considering the fixed costs for banks in running small value transactions, money transfer systems have a clear market niche. In addition, money transfer systems do not require bank accounts and particular documents, only a passport or a valid ID is necessary.
3. Money transfer systems also have an impressive network of offices and operations through their partnerships with banks. This is an important aspect because it enables money transfer systems flexibility in expanding and rationalizing the network according to the demand. Another competitive advantage is the possibility to use different technologies, including the internet. Many money transfer systems are starting to include additional services to remittances, such as free text messages, the possibility to transfer remittances directly to a bank account, and free assistance in compiling papers and other documents.
4. Money transfer systems are growing fast in terms of technology and outreach. Technology innovations and improvements in connectivity, including use of the Internet, enabled other money transfer systems to enter the market and drastically lower transaction costs. Fast growth has been accompanied by market liberalization and sharp decreases in service costs. The following sections provide a summary of the main services and costs charged by the money transfer systems operating in the CIS.

### Western Union

5. *Western Union* is one of the oldest money transfer systems in the world. The U.S.-based Western Union has been engaged in money remittances since 1871 and has since evolved by using modern communication and processing means. The most updated electronic technologies allow transferring money to any destination through the company's network in just a few minutes. Each remittance is protected by its world-class security system, which guarantees that the money will be paid only to the indicated person. The international system of money transfers established by the company works in 180 countries and includes more than 212,000 bureaus. Just in the CIS, FSU and Baltic countries, Western Union has about 23,000 bureaus. In Tajikistan, its services are provided by Orionbank, Amonatbank, Tojiksodirotkbank, Tajprombank, Sohikorkbank and Eshkata Bank.
6. Western Union operates money transfers for both individuals and businesses, and it has a well developed internet website with information including a location search engine. Interestingly enough, the website does not provide information on fees and commissions. The cost of services depends on the size of the transaction and the destination. Although Western Union has been lowering fees during the last two years, it remains the most expensive among the money transfer systems.

**Box A-IV.1: Sending and Receiving Money via Western Union**

A sender must fill-out the form “For Transfer of Money”, which requires information on:

- amount to be transferred in figures and in words;
- full name of the beneficiary;
- full name of the sender;
- phone number of the sender;
- sender’s address.

After signing the form, the cashier would issue a receipt with a ten-digit code of the transfer, which is communicated to the beneficiary.

The following services are offered for additional fees:

- telephone or cable notification to the beneficiary;
- brief notice or text message;
- delivery of a check for the amount of transfer.

To receive the funds, a beneficiary must fill-out the form “For Receipt of Money”, which requires the following information:

- full name;
- the ten-digit code;
- address;
- full name of the sender;
- sender’s phone number (optional);
- expected amount;
- city and country from which the money was sent.

**Money Gram**

7. *Money Gram* is the second largest global network of money remittances in the world, which is also the main characteristic and competitive advantage of this system. Money Gram is also an American company and was established by the American Express Group as an affiliate to deal with money transfers. The company performed the first money transfers in 1940 without opening bank accounts. Currently the owners of Money Gram are Viad Corporation and Travelers Express Company. Unlike its closest competitor (Western Union), the Money Gram system is designed only for individuals. Money Gram has 3 to 6 percent of the market share in this segment. In Tajikistan, only KafolatBank provides the services of Money Gram.

8. To transfer funds, the documents required by Money Gram of senders are a passport and/or and ID. Fees are paid by the sender, not the receiver. It takes no more than 10 to 15 minutes for a money transfer to be executed through the system, although there are variations depending on the regions and the recipient countries. Money Gram provides a text message service, according to which senders can send a 10 word message to receivers for free. Fees depend on the size of the transaction and the recipient country as shown below as of July 2005.

**Table A-IV.1: Pricing of Money Gram Remittance Services**

	\$ -	\$ 100	\$ 250	\$ 400	\$ 600	\$ 800	\$ 1,000	\$ 1,200	\$ 1,800	\$ 2,500
Size of Transfer	\$ 100	\$ 250	\$ 400	\$ 600	\$ 800	\$ 1,000	\$ 1,200	\$ 1,800	\$ 2,500	\$ 5,000
Cost (in US\$)	\$ 12	\$ 20	\$ 24	\$ 32	\$ 40	\$ 50	\$ 60	\$ 75	\$ 100	\$ 150
Average Cost (in %)	24%	11%	7%	6%	6%	6%	5%	5%	5%	4%

9. The main competitive advantage of Money Gram is its large and worldwide networks, which includes a large number of banks and other operators, including Money Gram offices. The disadvantage is in the elevated costs per transaction, which are high relative to most local companies in the CIS and FSU. However, costs are lower per larger transaction, with a fee structure similar to that of Western Union.

## **MIGOM**

10. MIGOM is a money transfer system for non-account clients. It is built on an internet platform that runs under a partnership relation with commercial bank “Eurotrust” and the banks of the Russian Federation and the CIS countries. The cost of MIGOM services depends on the amount and currency (Ruble and US\$). The main characteristics of this system are speed and simplicity (user friendly). Only Kafolatbank has signed an agreement with MIGOM.

11. MIGOM, like many other money transfer systems, operates on the basis of modern internet technologies to transfer information and codes, and on the correspondent account system of the Eurotrust banks’ network for the actual money transfers.

12. The main advantages of MIGOM money transfers are: (i) speed of the transfer (between 5 and 10 minutes); (ii) safety and reliability, with sophisticated and modern information protection and security technologies; (iii) low cost, with fees ranging between 2 and 3 percent of the amounts transferred, irrespective of size, to be paid by the sender only; and (iv) convenience and accessibility, with no particular documents and requirements for senders and receivers (passport or other valid ID).

## **ANELIK**

13. Anelik is a bank-to-bank system designed and introduced by the Armenian Anelik Bank. The bank has an affiliate in Moscow. Transfers began in January 1997, and today this system is one of the most developed “post-soviet” remittance networks. Remittance services are provided to individuals only, not businesses. The cost of services is paid by the sender, equivalent to 3 percent of the amount transferred when the receiver is in the CIS, and 4 percent for other countries and destinations.

14. The documents required for accessing Anelik’s services are a passport or a valid ID, for both senders and receivers. The main advantages of the Anelik system is the low cost, especially compared to other systems such as Western Union and Money Gram. However, the speed of the transfer is relatively slow compared to these systems. Remittances become available for payment in three hours after the data is entered in the system or after a maximum of 24 hours depending on the receiving country, region and operator. Senders must notify the beneficiary on the transfer.

15. Anelik technology is based on the internet, and on partnerships with commercial banks for the management of the correspondent accounts. The same banks also host the bureaus of Anelik. In Tajikistan, Anelik operates through Orionbank, Agroinvestbank, Amonatbank, Tajprombank, Sohibkorkbank and Eskhata.

## **STB-Express**

16. STB-Express was introduced in the market in June 2002. It developed through the bank group “Mutual Lending Society”, which possesses one of the largest bank branch networks in Russia. The system is growing in terms of outreach, with offices and locations increasing from

160 in 2002 to 360 today. In addition, the system formed a partnership with the Private Bank of Ukraine, which enables real-time transfers in more than the 1,200 offices of the bank. The system is also represented in 4 cities in Israel and in 4 cities in Tajikistan.

17. Fees are relatively high compared to its competitors, but transfers are executed on a real-time basis. The fee for a money transfer through the STB System is 3 percent, with a minimum US\$ 5 per transaction. Transfers can be received immediately after receipt of a ten-digit code. Transfer procedures are similar to other transfer systems. STB offers additional services, including: (a) text messages along with the transfer; and (b) at the discretion of the sender, additional passwords to increase security. There are no particular documents required for a money transfer, just a passport or valid ID, for both sender and receiver. No bank account is required to access STB services. In Tajikistan, STB-Express operates through Tojikisodirotbank.

### **Fast Mail**

18. FAST MAIL is a settlement-savings company that started servicing clients with a new remittance system in cooperation with one of the largest banks in Russia, Impexbank. It provides an efficient and effective money transfer system for non-bank clients in Russia and throughout the whole CIS at relatively low cost. FAST MAIL also offers Euro remittances. It is an express-transfers system built on the cooperation between the founding company and Impexbank, one of the 30 largest banks of Russia. The number of Fast Mail bureaus in CIS countries and Turkey exceeded 1.5 thousand by mid-July 2005. More than 120 Fast Mail bureaus operate in Russia. Impexbank has a network comprising more than 180 branches, departments, supplementary offices, and operational cash desks. The bank is also one of the leading savings, cash and settlement systems in Russia.

19. FASTMAIL is a non-bank client system, which implies that a client does not need to open an account in Russian nor any other country to send money. Both senders and receivers need a valid passport or an ID. The fees are relatively low, about 2 and 2.5 percent of the amount transferred. Money transfers can be made in USD, Euro and Russian Rubles within Russia only. In Tajikistan, FAST MAIL is available at Agroinvestbank, Amonatbank, Tajprombank, Sohikorbank and Eskhata.

### **InterExpress**

20. The InterExpress system is designed for money transfers of individuals, both residents and non-residents within the CIS countries. Money can be transferred in any currency and volume allowed by the regulations of the Central (National) Bank of the each respective country. The InterExpress system offers its services to individuals without the need to open a bank account. The system allows the transfer of money in real time, while information and codes travel on the internet, with delays ranging in the order of 10 minutes maximum.

21. InterExpress is among the fastest money transfer systems operating in the region. Remittances can be transferred on a real-time basis at minimal cost. Transfers are made at minimal cost, with fees ranging from 2.5 percent within CIS countries (2.8 for Tajikistan), and 3 percent for outside the CIS (only China and Vietnam). A text message service is also offered, for free. The sender pays for the transfer. The network is not as wide as other money transfer systems. InterExpress uses Interccop Bank of Russia as its clearing system, and has signed agreements with an additional 25 banks in Russia. In Tajikistan InterExpress operates through Tojikisodirotbank and Tajikprom Bank in 22 locations.

## **Contact System**

22. Contact is a money transfer technology for individuals based on a bank correspondent account system. The bank network uses a single settlement system for inter bank transactions, which makes money transfer more reliable and rapid. The clearing system is managed and operated by RusslavBank, which in turn owns Contact Company. The system enables money transfers to a wide number of countries (more than 73 countries, and still expanding).

23. The terms, conditions and characteristics of the system include: (a) fees are charged to the sender only; (b) fees are fixed, 2 percent for Russian ruble transfers within the CIS, and 3 percent for foreign currency transfers; (c) speed is not yet at the level of its competitors, with money transfers executed between 4 and 24 hours, depending on the location of the sender/receiver and time difference; and (d) procedures and documentation are simple, only a passport or valid ID and the transfer codes for the beneficiaries. Remittances can be sent to 60 different countries, and the list is expanding. Contact has offices and service points in 56 cities in Tajikistan, mostly through partnership agreements signed with Tajik banks (Orionbank, Agroinvestbank, STB-Investbank, Tajprombank and Eskhata).

## **VIP Money Transfer (VMT)**

24. VIP Money Transfer is a system for individuals operating mostly in the Russian Federation, the Baltics and the CIS. VMT provides money transfer services to individuals through credit institutions without the need to open accounts. VMT is a network of partner banks based on mutual correspondent accounts, where the VIP bank implements functions of a clearing bank. The network is not particularly large, with only 60 service points in Russia and one in Dushanbe, Tajikistan.

25. However, the system is relatively efficient and effective, both in terms of cost and speed of transaction. The terms, conditions and characteristics of the system include: (a) low fees of 1.5 percent of the amount to be transferred to the CIS or Baltic Countries; (b) at initiation of the sender the money can be transferred to the beneficiary's bank account; (c) safety and speed, with a transaction time of about 5 minutes, and a special software system dedicated to security; (d) transfers are available in Russian rubles, US dollars, Euros; and (e) additional free services that include text message of up to 20 words and notification of the transfer to beneficiaries by e-mail.

## **UNIstream**

26. UNIstream is a system for individuals when they need to urgently transfer funds and do not have an open account. It was established by UNIstream Bank of Russia in 2001. The system is relatively efficient and inexpensive, although the network is not as wide as those of its competitors (20 countries worldwide). The required documents for a sender include: (a) passport or foreign passport or temporary ID issued by internal affairs' agencies confirming loss of the main document; (b) destination of the transfer (bureau); and (c) full name and phone number of the beneficiary, no passport details (required only for Turkey). The beneficiaries have to show a passport, the transfer code and they need to know the amount transferred. The notification on the amount transferred is made by the sender.

27. UNistream has some competitive advantages, such as: (i) low cost—1 percent within the CIS and 2 percent for transfers outside the CIS paid by the sender only; (ii) speed—only 10 to 15 minutes for a transfer; and (iii) simple processing of transfers, with UNistream officers filling out the required forms.

## ANNEX V: MICROFINANCE INSTITUTIONS IN TAJIKISTAN

1. Microfinance institutions (MFIs) have become an important segment of Tajikistan's financial system, mainly due to the nature, structure and low density of the economy. MFIs primarily focused on humanitarian activities related to disaster relief after the end of the civil war in 1997. Recently, they are transitioning to commercial activities to support long-term economic development. The microfinance sector is characterized by several NGOs supported by IFIs and donor sponsored programs active in and throughout the regions of Tajikistan. Anecdotal evidence shows that there are about 200 organizations and entities with active programs on microfinance services, of which 25 are specialized microfinance institutions. The outstanding portfolio of the microfinance sector is estimated at US\$30 million<sup>69</sup>.
2. The legal framework for microfinance includes the Civil Code and the Law on Microfinance Institutions enacted in May 2004. The Law establishes three types of MFIs—deposit-taking MFIs, lending MFIs; and micro-lending funds. As of April 1, 2006, there are 23 micro-lending funds, 6 lending MFIs, and 1 deposit MFIs operating in Tajikistan.
3. The deposit-taking MFIs are commercial entities, licensed by the National Bank of Tajikistan (NBT). Their activities include taking deposits, extending micro-credit (secured and unsecured), and conducting other operations. The latter include cash operations, issuance of guarantees (provided that the maximum outstanding amount for a client not exceeding the size limitations applicable to micro-credits), issuing and accepting payment cards, opening and servicing accounts of individual and legal entities, and performing clearing and settlement operations. They can also engage in other activities including providing consultancy and information services to clients; financial leasing provided that the amount involved in a lease (less the imputed interest) to any one client not exceeding the size limitations applicable to micro-loans, borrowing money (whether secured by its assets or otherwise); acquiring claims with respect to payment obligations of a third party; and selling property acquired to the pursuant to the terms of pledge.
4. Lending MFIs are commercial entities licensed by the NBT, while micro-lending funds are non-commercial entities certificated by the NBT. The law stipulates that both lending MFIs and micro-lending funds can conducted the following activities: extending micro-loans (secured and unsecured); carrying out financial leasing transactions, provided that the amount (involved in a lease less the imputed interest) to any one client not exceeding the size limitations applicable to micro-loans; and providing consulting and informational services, including business development services, to its clients. They can also conduct other activities including borrowing money (whether secured by its assets or otherwise) from legal entities operating outside Tajikistan; borrowing money (whether secured by its assets or otherwise) from organizations licensed by the NBT; acquiring claims with respect to payment obligations of a third party; and selling property acquired pursuant to the terms of a pledge.
5. The law also empowers the NBT as the regulatory and supervisory body of deposit-taking MFIs and is charged with the licensing of deposit-taking and lending MFIs and

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<sup>69</sup> This amount comprises \$12 million (EBRD assisted lending through commercial banks), \$15 million through a variety of MFIs and nonblank financial institutions, and \$3 million in projects including UNDP. These figures, however, do not include the credit societies licensed by NBT.

certification of micro-lending funds, respectively. To protect the depositors' interests and ensure prudent management of the banking system, the deposit-taking MFIs are supervised and regulated by the NBT to ensure compliance with prudential norms and accounting and reporting requirements. Lending MFIs and micro-lending funds are required to submit their audited annual reports including balance sheets and income statements to the NBT. The law also allows MFIs to establish interest rates on micro-credits, micro-loans and commission fees on transactions and services as agreed in the contracts with the clients. MFIs are required to submit information on their interest rates and commission fees to enable clients to the NBT so that clients can compare the borrowing cost.

6. The law was complemented with implementation regulations, enacted by the NBT, in March 2005, and they are related mostly to the deposit-taking MFIs<sup>70</sup>. These regulations include (a) minimum paid-in capital of US\$100,000 equivalent; (b) 12 percent minimum capital adequacy ratio; (c) maximum limit of deposit-to-capital of 300 percent; and (d) minimum liquidity ratio of 30 percent. There is no specified minimum paid-up capital for a micro lending fund. For a lending MFI, it is specified as being not less than \$10,000. A maximum limit was imposed on the MFIs' loan amount of US\$20,000 per single borrower, and an additional maximum 25 percent of capital ratios per single loan and 1 percent per single borrower. Thus, an MFI must have minimum capital of at least US\$2,000,000 to be able to extend a loan up to the maximum limit of US\$20,000 to a client. These limits are inconsistent and particularly detrimental to operators and the sector because MFIs would not be able to upscale their portfolios depending on the financial nature and geographical location of their clients, thus filling the critical bankability gap.

7. MFIs also lack access to the payment system. Accessing the payment system, on a limited basis, would enable them to receive wire transfers from foreign banks directly or to their client accounts through correspondent accounts. However, MFIs must graduate to sound financial intermediaries before being admitted to the payment system to avoid systemic risks. Furthermore, participation in the payment system could be costly given the low density of transactions. It would be difficult for any MFI to open correspondent accounts and operate in foreign currencies. Thus, MFIs might only be enabled to access the inter-bank clearing system.

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<sup>70</sup> The National Bank of Tajikistan, "Instruction # 135, Norms Regulating Activities of Micro-credit Deposit Organizations", March 2005.

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