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Measurement of “hard-to-count” migrant groups

Migration, Remittances, and Human Development Some preliminary results from the Central Asia Regional Study

Note by the UNDP -Istanbul*

Abstract

Migration and remittances are shaping economic and social landscape of Central Asia countries, affecting human development. Statistical data about migration and remittances, even imperfect and limited, could be important tool for tracking social and economic progress of societies. However, these data should be treated with caution, as statistical data could capture conceptually different things under the same indicator. This paper is an early product of Central Asia Regional Study on Migration, Remittances, and Human Development. It illustrates some facts about migration, remittances and social-economic development in the Central Asia. In particular, it shows relative significance of remittances flows. Data also suggest de facto integration of some Central Asia countries in the labour market of Russia. Last but not the least remittances data suggest mixture of different types of transfers—personal remittances and small, personal business transactions. Remittances play significant role in poverty reduction in low-income countries of Central Asia. However, this poverty reduction benefits are easily offset with significant human costs of migration.

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Migration and remittances in Central Asia: a macro overview

Lack of decent employment opportunities has been a key development challenge in Central Asia—especially for its low- and lower middle-income countries. While the impact of the global and European financial crises on the region has been relatively mild, economic growth in Central Asia is often based on the export of natural resources (energy, metals) or a few large enterprises (e.g., TALCO in Tajikistan, or Kumtor in the Kyrgyz Republic). Together with demographic trends (large numbers of young people entering the workforce each year) and governance/institutional capacity issues, these structural characteristics depress employment growth in the region, relative to labour market participants' aspirations. ILO data indicate that, despite the strong economic growth recorded in Central Asia prior to the onset of the global financial crisis in 2008, the number of jobless individuals¹ in the region (excluding Turkmenistan) increased by some 5%, from 27.2 to 28.5 million during 2002-2008. These figures (which constituted nearly half of Central Asia's population during this time) have almost certainly increased since then.

Significant external labour migration has therefore emerged as a response to this growth pattern, particularly in Central Asia's low- and lower-middle income countries. This is apparent *inter alia* in the large size and rapid growth in remittance inflows, and their importance as development drivers.

Migration and remittances play important role in economies and societies of Central Asia and should be considered in a broader context. Migration and remittances are a part of closely interwoven areas of policy relevance (and therefore statistical data collection²): macroeconomics, external sector (balance of payments), labour markets, and development.

¹ This indicator differs from the traditionally used ones, such as the unemployment rate (i.e. share of the unemployed in the workforce). It includes not only people without work and actively seeking it (ILO definition of unemployed), but also those who are discouraged and ceased attempts to find a job, housewives, people working in subsistence agriculture (categories typically classified as inactive population). In the context of Central Asia, this indicator makes sense, since the open unemployment is not high, and subsistence agriculture represents a viable alternative to the lack of productive employment.

² Estimates of the precise magnitudes of migration flows and corresponding remittances inflows are facing methodological and measurement difficulties.

Table 1. Total amount of forex inflows from different sources to countries of Central Asia, 2007-2012, millions of USD

	Exports of goods and services	Personal remittances, received	ODA	FDI, net inflow
Kazakhstan	422'857	1'043	1'413	78'069
Kyrgyz Republic	16'417	7'916	2'326	2'278
Tajikistan	8'367	14'974	2'097	1'002
Turkmenistan	101'803	221	208	16'875
Uzbekistan	74'387	19'598	1'236	6'448

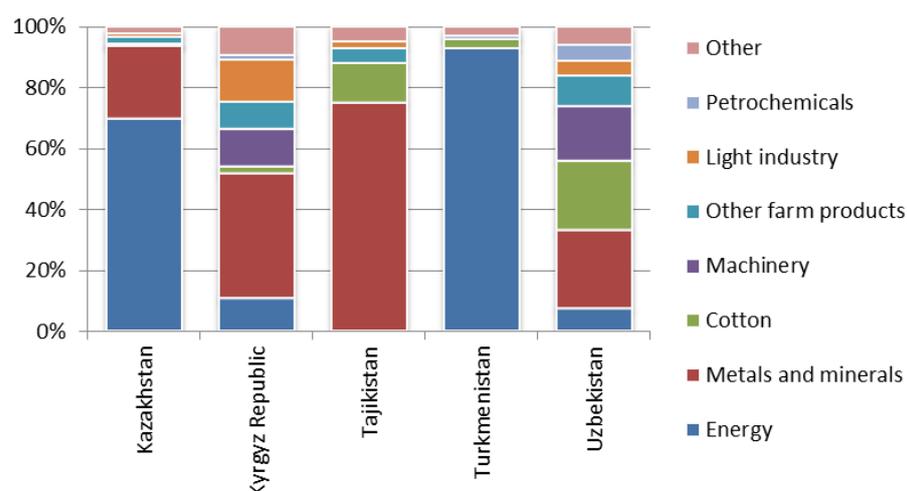
Source: WorldBank World Development Indicators, Central Bank of Russia, OECD QWIDS database.

Remittance inflows provide critical support to the external balance of Central Asia's low-income countries. According to official data, remittance inflows in Tajikistan during 2011-2012 were more than twice as large as merchandise exports, fully financing Tajikistan's merchandise trade deficit. For the Kyrgyz Republic, remittances have financed between half and three quarters of the merchandise trade deficit during most of the past decade. As a source of development finance, remittance inflows dwarf ODA. OECD-DAC data

indicate that, for Tajikistan, remittances in 2011 exceeded ODA inflows received by a factor of eight. For the Kyrgyz Republic, remittances exceeded ODA inflows by a factor of three.

Remittances are very significant for low-income countries of Central Asia. In fact, in 2012 two countries were at the top of global ranking of remittances to GDP ratio—Tajikistan (44%) and Kyrgyzstan (31%). Table 1 summarizes forex inflows from different sources to countries of Central Asia for period 2007-2012. In Kazakhstan and Turkmenistan export receipts are the main source of forex, while for Kyrgyzstan and Uzbekistan exports are just 2-4 times higher than remittances, while for Tajikistan remittances overtake exports as a main source of foreign exchange. However, this macro picture oversimplifies the situation.

Figure 1. Structure of Central Asia countries export in 2012



Source: UNDP, 2013

First of all, structure of exports matters (and explains why economic growth of recent decade hasn't been accompanied with expansion of employment opportunities). Countries of Central Asia export mostly energy products, metal and mineral products. While this type of export could provide country with forex receipts, it cannot generate productive employment. For instance, in Kyrgyzstan mining industry employs only 13 thousands people or 0.6% of total employment, while gold export receipts totaled to 60% of all exports in 2007-2012. Lack of productive employment is one of the push factors of migration in low-income countries of Central Asia. Uzbekistan shows more diversified export structure. In addition, Kyrgyzstan shows signs of development of light industry sector, associated with cross-border bazar trade and driven by combination of supply of cheap furniture and fabrics from China and inexpensive local labour. Second, while from the macroeconomic point of view all forex receipts are equal, from the microeconomic perspective they are quite different, especially in the respect of *concentration* and *targeting*. Table 2 below summarizes this point with some illustrations. Therefore social and economic outcomes of different forex inflows could be very different. It takes time for export receipts to trickle down to households and structure of export could have serious implications for labour market. On the other hand, remittances have immediate impact on wellbeing of households, but due to low concentration and targeting for consumptions it is very hard to mobilize them for productive use.

Table 2. Concentration and targeting of different currency inflows.

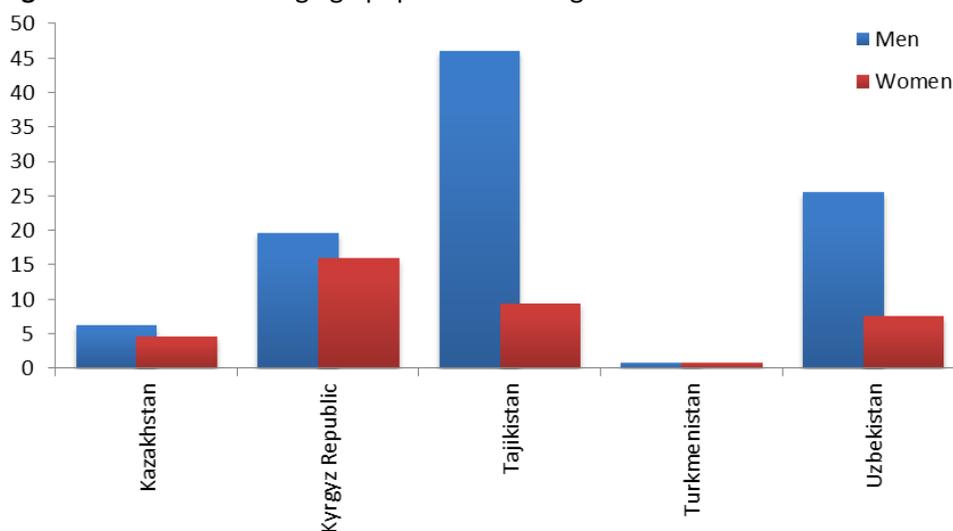
Type of inflow	Concentration	Targeting
Export receipts	<p>Concentrate in limited number of companies involved in foreign trade.</p> <p>In Kyrgyzstan 60% of export receipts are coming from gold sales, through single state company. Mining industry employs only 0.6% of workforce.</p> <p>In Tajikistan metals accounted for 75% of exports, with big chunk coming from single biggest aluminum company TALCO, which employs some 12 thousands person or less than 1% of total workforce</p>	Typically target towards profits, reinvestments and expansion in production.
Foreign direct investments	<p>Concentrate in limited number of companies.</p> <p>In Kyrgyzstan in 2012 out of 159678 economic agents (excluding agriculture) only 2601 reported foreign investments.</p>	Target toward profitable investments, including both productive and speculative.

Type of inflow	Concentration	Targeting
Foreign aid	Provided to the Government (or public organizations) through a limited number of programs and projects.	Intended for development in a broad sense, in most cases tied to specific items of expenditure or projects, in some cases, provided in the form of general budget support.
Remittances	<p>Small amounts distributed among big number of individual households.</p> <p>In 2013 number of personal transfer transaction (estimated using Central Bank of Russia data) was 10.3 million to Kyrgyzstan, 15.2 million to Tajikistan, and 16.6 to Uzbekistan with average amount of transaction of 205USD, 275USD, and 403USD respectively.</p>	Targeted toward current consumption (some 80-90%), investments in dwellings and human capital (education and health), and sometimes toward small scale productive investments.

Migration and labour markets

Number of migrants is the most hot, hard-to-get and debatable figure. However, it should be also placed in context. Number of migrants not only shows the flow of people, but also could be treated as a level of labour markets integration—especially in condition of existing low entry barriers and perspective economic integration projects in the region. Comparison of data from Russia FMS and National Statistical Offices suggests significant involvement of Central Asian countries, especially Tajikistan, Kyrgyzstan and Uzbekistan in Russian labour market. Equivalent of some 1/5 of labour force of Kyrgyzstan and Uzbekistan is currently staying in Russia; figure is much higher for Tajikistan, reaching 30%.

It is important to notice gender discrepancies. In Tajikistan and Uzbekistan there are serious differences in the ratio for women and men—while the ratio is 46% for Tajik men, it is only 9% for Tajik women. In case of Kyrgyzstan difference is less significant, 20% vs 16%. This difference requires further research.

Figure 2. Ratio of working age population stating in Russia to labour force of Central Asia countries

Source: Own calculations based on Russia FMS data and WorldBank World Development Indicators.

Evident economic benefits of remittances associated with movement of labour force may be matched by their associated human costs—in both source and destination countries; and for the migrants themselves, for the communities that receive them, and for those left behind. This may in particular be the case for Central Asia’s low-income countries, where rural communities and families are increasingly losing their young men, where children grow up without fathers, where Soviet-era progress towards gender equality is under threat, and where returning migrants can spread HIV, TB, and other infectious diseases contracted in epidemiological hotspots. Likewise, migration may not be an unmixed blessing for the Russian Federation (the source of 80-90% of the remittances received by Tajikistan and the Kyrgyz Republic), where migrant workers from Central Asia (and other CIS countries) can be sources of social tensions.

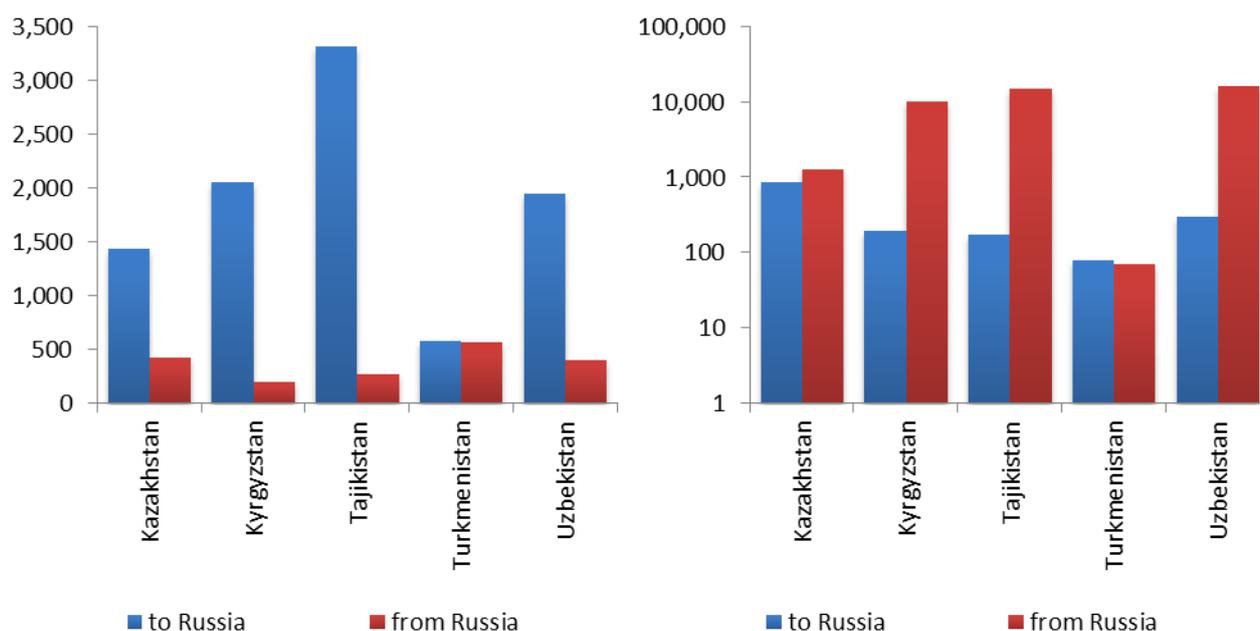
Questions about Central Asia’s low-income countries’ prospects for transforming the export of migrant labour into the export of labour-intensive goods and services—particularly to the Russian Federation, but also to Kazakhstan (especially for the Kyrgyz Republic)—likewise loom large. These issues are closely associated with the future of the Eurasian integration project, which is now occurring within the framework of the Eurasian Economic Community’s Customs Union, and which is to be transformed into the Eurasian Economic Union (EEU) in 2015. Should the creation and expansion of the EEU—which is to feature the free movement of labour (as well as of goods, services, and capital)—also promote the expansion of labour-intensive sectors like textiles, food processing, and tourism in Tajikistan and the Kyrgyz Republic (due to growing exports to EEU countries), and help formalize migration flows to the Russian Federation and Kazakhstan, the resulting benefits could more than offset losses resulting from higher tariff and non-tariff barriers to imports from non-EEU suppliers.

Remittances and financial markets

Significant and regular flows of money between countries have implications for financial systems. Statistical data about personal transfers between countries could mix different types of transfers—personal

remittances and business-related transfers of individual businessmen. This is very plausible, taking into account informal and network character of migrants' business activities, which relies more on person-to-person transfer rather than on banking system. Data from payment system gives some food for thought. Average amount of personal transfer from countries of Central Asia to Russia (most probably linked with business activities) is much higher than transfers in opposite direction. For instance, in case of Tajikistan average amount of transfer to Russia was 3,315 USD, while for transfer from Russia—only 275 USD, a 10 times difference. In case of Kazakhstan and Uzbekistan amounts are much closer—difference is only 3-4 time. In case of Turkmenistan amounts in both directions are very close. Same difference is observed in number of transactions—they are less numerous in direction to Russia (hundredth of thousand a year), and much more numerous from Russia (tens of millions a year). Again, Kazakhstan and Turkmenistan stand apart, with very close number of transactions to and from Russia. This suggests different nature of personal transfers in case of these countries, which should be taken into account while estimating personal remittances and their economic and social impact³. Unfortunately average data published by Central Banks are not particularly useful in this regards. Closer analysis of Big Data about transactions could bring more important insights.

Figure 3. Average amount of transaction (USD) and estimated number of personal transfers to and from Russia for selected Central Asia countries



Source: Own calculations based on Central Bank of Russia

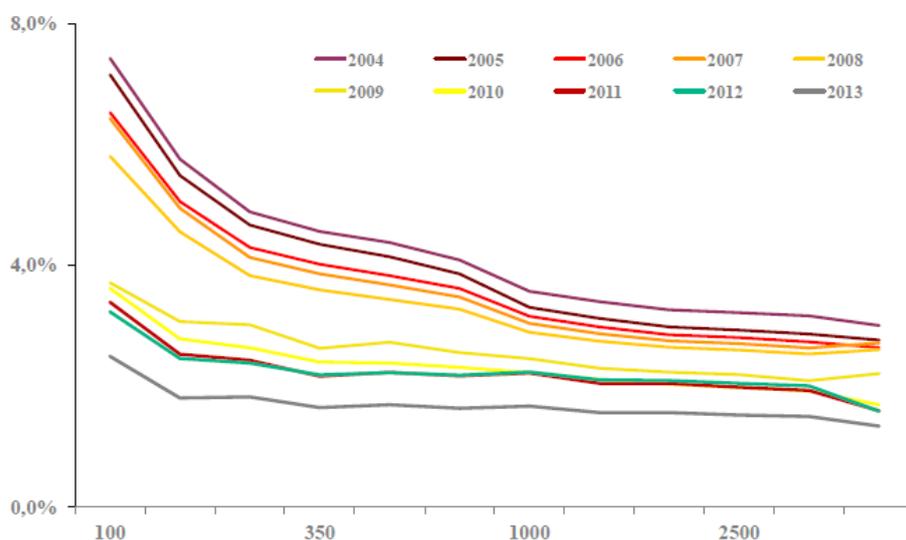
³ In particular, this suggests overwhelming 44% remittances to GDP ratio for Tajikistan could be misleading, as part of these transactions is informal export-import business operations, not personal remittances from migrant workers.

Safe and secure transfer of remittances could be an important issue for migrants. Absence of such remittances channel could push migrants into black market. Data from the Central Bank of Russia demonstrate that conditions of transfers significantly improved between 2004 and 2013 (see Figure 3). More importantly, fee scale became more flat, with less discrimination towards small sums, typically transferred by migrant workers. Ten years ago fee for small transfers were twice higher than for bigger transfers. Situation changed dramatically by 2013, when small transfers are taxed by virtually the same commission fee and this fee is quite low. Regular contacts of migrants and families with financial

institutions could bring side positive benefits in terms of better financial literacy and inclusion ('social remittances'). So far data on these are not available. The WorldBank Financial inclusion data⁴ shows significantly higher financial inclusion in migrants receiving countries (Russian Federation, Kazakhstan), than in countries of origin (with exception of Uzbekistan). Unfortunately, dataset doesn't include information about migrant members of household. Household budget surveys, which could record similar information, typically are not publically available in countries of region.

Regular transfers could also lead to more close ties between financial systems. Data about currency composition of transfers between Russia and Central Asia countries are not readily available. However, similar data available for Moldova, a country in Eastern Europe also experiencing significant migration⁵. Share of transfers in roubles significantly increased in past 7 years, from virtually zero to some 35%, mostly at the expense of USD transfers. This could have important implications *inter alia* for estimating and forecasting amount of transfers in conditions of moving exchange rates.

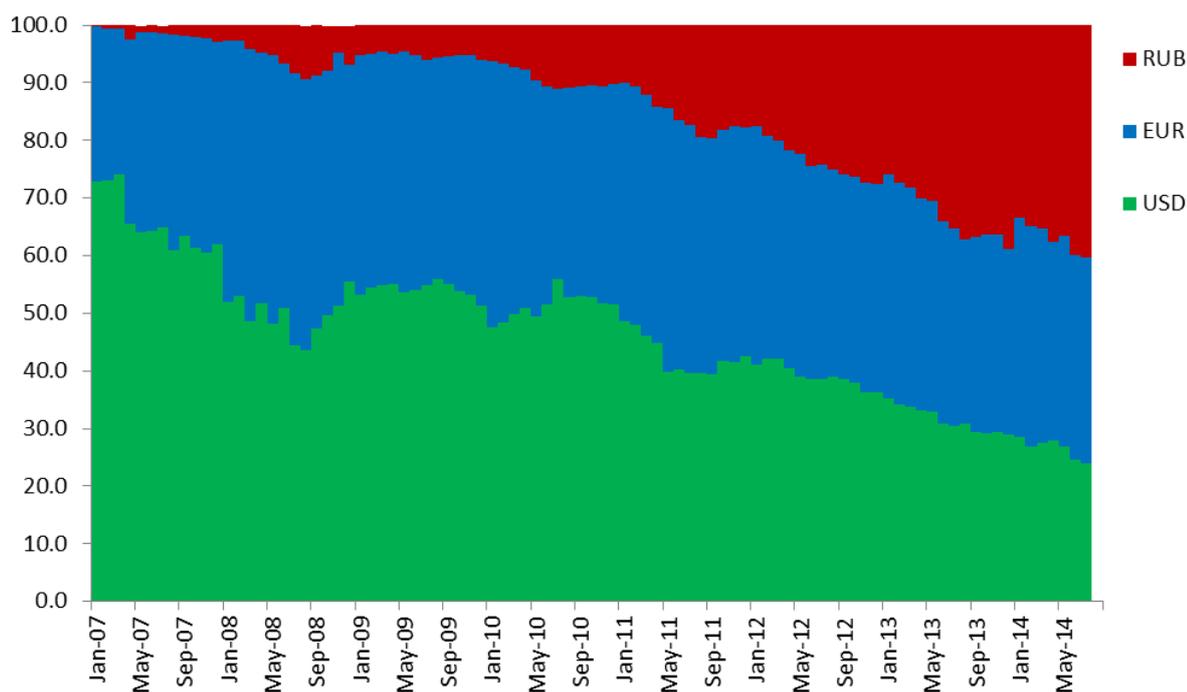
Figure 4. Average commission fee for different amounts of transfer (in USD) for 2004-2013



Source: Central Bank of Russia

⁴ <http://datatopics.worldbank.org/financialinclusion/>

⁵ Moldova is another former USSR republic. Labour migration flow splits roughly equally between Russia and countries of EU (esp. Italy, Spain and Greece). In case of Kyrgyzstan and Tajikistan most of migrants go to Russia.

Figure 5. Currency composition of personal transfers through Money Transfer System in Moldova

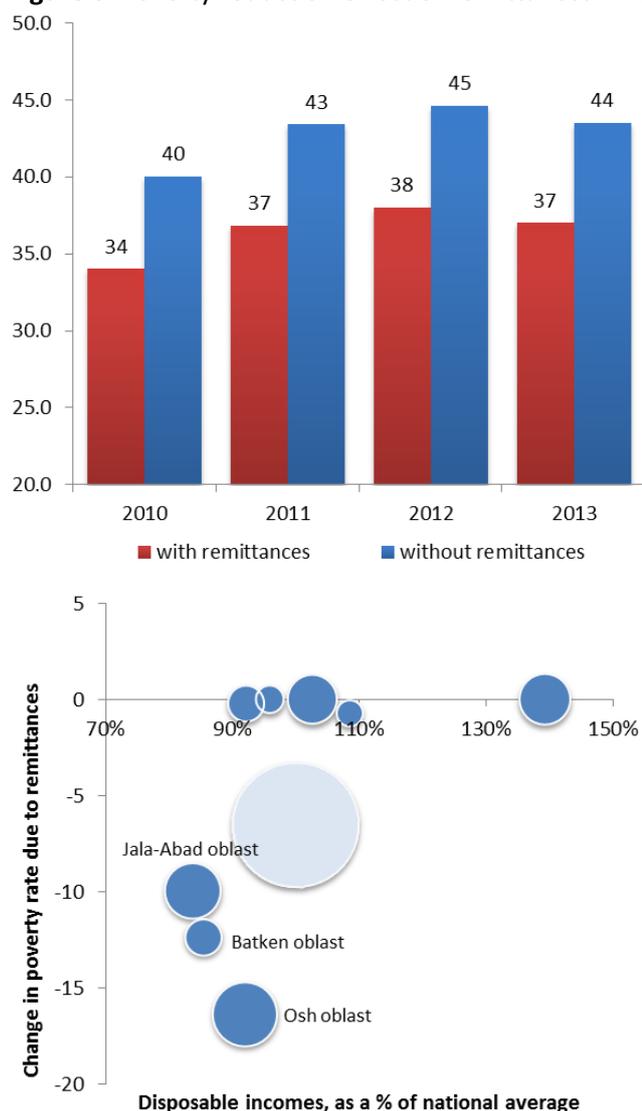
Source: National Bank of Moldova, http://www.bnm.md/en/external_operations_via_banc_system

Migration, remittances and human development

Remittances play an important role in poverty reduction, especially in low-income countries of Central Asia, through increase of current consumption. This is not surprising as one of the driving factors of migration is necessity for living provision. Researches in different context demonstrated that migrants target some 80-90% of remittances for current consumption, following by savings for special occasions (like weddings) and housing procurement and reparation.

Poverty reduction effect could even more pronounced in lesser developed areas of the country, which are the source of higher migration flows. Data from Kyrgyzstan (see Figure 6) shows that three in lesser developed south regions (Osh, Jalal-Abad and Batken oblast) poverty reduction effect is most pronounced, with remittances decreasing poverty headcount by some 10-16 percent points.

Figure 6. Poverty reduction effect of remittances in Kyrgyz Republic and its regions



Source: National Statistical Committee of Kyrgyz Republic, own calculations.

However, this positive picture of poverty reduction hides at least three important issues. First, remittances concentrate in certain groups of population, who are able to send out migrants and who are able to find decent employment abroad⁶. This could lead to entrenching inequalities in society, especially taking into account that remittances are not easily taxable and redistributable⁷. Our calculation showed that Gini

⁶ Data from other countries suggest that in most often probability of migration in regard to income level looks like an inverted U-curve, with lowest income groups are not able to overcome migration barriers and richest groups see no need for migration.

⁷ It is virtually impossible to tax incoming remittances, as in response they will immediately switch to shadow, unofficial channels. At the same time, as remittances are targeted to consumption, they are easily taxed with VAT, which not surprisingly is a major source of tax incomes in many post-USSR

coefficient for incomes distribution in Kyrgyzstan is 0.45, while for remittances it is much higher, reaching 0.56. Second, underdevelopment of financial institutions and widespread mistrust to them limits possibilities for productive use of savings in national economy. In majority of cases migrants prefer to invest in non-productive luxury goods, like houses and cars. Last but not the least, positive economic outcomes of remittances matched with high but invisible human costs, including burden of diseases, emotional and psychological difficulties in split families, restructuring of gender roles, etc. Possible solution could be replacement of labour migration with export of labor-intensive goods. There are some recent examples of this in Kyrgyzstan—growth of touristic sector in Issyk-Kul region, growth of garment sector, associated and driven by cheap imports of fabrics and fittings from China.

countries. However, VAT doesn't distinguish current consumption expenditures financed by remittances and local wages. In addition, VAT burden is disproportionally carried by lower income groups.