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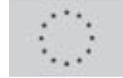
Migrant Remittances to Tajikistan

The Potential for Savings, Economic Investment
and Existing Financial Products to Attract
Remittances

ILO Subregional Office for Eastern Europe and Central Asia



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Remittances**

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Abbreviations

CIS	Commonwealth of Independent States
CJSC	Closed joint stock company
ILO	International Labour Organization
IMF	International Monetary Fund
GDP	Gross domestic product
DRD	Direct Rule District
GBAO	Gorno-Badakhshan Autonomous Oblast
LLC	Limited liability company
MCDO	Micro-credit deposit organization
MLO	Micro-lending organization
MTO	Money transfer organization
NBT	National Bank of Tajikistan
RT	Republic of Tajikistan
SME	Small and medium enterprises
TSOB	Tajiksodirotbank

Executive Summary

Preamble

Tajikistan has high rates of emigration. Remittances play a vital role in the economic wellbeing of the population; about 89% of emigrants regularly send remittances to their relatives and households in Tajikistan.

There is growing evidence that remittances sent by migrants to their home countries contribute to the economic development and poverty reduction. According to the data of the Ministry of Labour and Social Protection of Population of the Republic of Tajikistan, as well as Migration Service of the Ministry of Interior Affairs more than 93% of labor migrants work in Russian Federation, and less than 5% in Kazakhstan. The total number of labor migrants in 2008 was 720,000.

Tajik migrants make an enormous contribution to the Tajik economy. The amount of remittances sent home by migrants from Tajikistan was estimated to be about US\$ 2.67 billion or 49% of GDP in 2008 (National Bank). The remittances sent to Tajikistan help the migrants' families to solve some of their financial problems, and a large amount of these resources are used to cover their immediate needs. Investment in longer term sustainable economic activities is, however, quite limited.

In the beginning of 2009, the ILO initiated a study which included a survey of 1,267 households that currently have a family member living and working abroad, and a survey on financial products to attract savings and economic investments from migrants. The final goal of the study was to come up with recommendations and new mechanisms for integrating remittances into the economic development in the country.

The survey indicates the proportion of migrant remittances that go into short and long-term savings, and looks at whether this can be increased and under what conditions. The second part of the study is based on a survey of financial institutions. It sought to assess of all financial products available in Tajikistan with the purpose of attracting the savings of emigrants and their utilization in the economic development of the country. It covered commercial and state banks, credit societies,

non-banking financial organizations, and microfinance organizations (microcredit deposit organizations, micro lending organizations and micro-lending funds) active in Tajikistan. (The list of persons/institutions surveyed is provided in Annex 1)

Having investigated the savings and investment patterns of emigrants and the potential (as well as the barriers) of remittances to be better integrated into the economy via financial products that attract savings and economic investments from migrants. The final chapter provides recommendations for the design and implementation of financial products and mechanisms to leverage remittances for enhanced and long-term development.

Key Findings

The overwhelming majority of households (71%) surveyed have only one emigrant, 22% have two and 7% three or more family members working abroad. About 95% of the migrants are male. About 67% of the migrants are between 25 and 55 years old. 18–25 year olds migrants account for 31% of the total. The most popular destination for Tajik emigrants is the Russian Federation, accounting for around 93% of all emigrants, with only 5% migrating to Kazakhstan, South Korea, Ukraine, and the USA. The biggest proportion of migrants abroad (around 52%) are engaged as laborers in various sectors, and about 16% work as construction workers.

Emigrants may be classified into four major groups. Almost 51% of the migrants are long-term migrants, of which 35% (category B) are long-term migrants who have stayed away from Tajikistan for more than two years, but with several short home visits during this time. The other 16% (category A) of long-term migrants account for emigrants who have settled down in the country of destination and have started losing any immediate economic interests at home (and thus basically falling outside of the potential group of savers). Emigrants that have only recently emigrated from Tajikistan currently represent the minority of the migrant population and are classified as temporary labour migrants. These are chiefly seasonal and temporary migrants staying away from Tajikistan for several months a year and returning to Tajikistan for several months (34%, category C). Expectation of the next year's migration was quite high: 77% of seasonal migrants will migrate next year. The last group of migrants is comprised of people who have left Tajikistan recently (15 %, category D). It will be possible to categorize these migrants in one of the first three major groups after two year after they first emigrated as this is the time required to establish a coherent migration behaviour pattern.

More than 80% of households in the country who have emigrants abroad regularly receive remittances from them. Emigrants, in general, send money back home quite frequently: more than 80% at least once every quarter, of which about one fifth of send money almost every month. 15% receive remittances 1–2 times a year. 41% of the households that have emigrants abroad confirmed that the amount of remittances they receive year on year changes significantly. However, the numbers of people reporting a decrease in the amounts received is significantly bigger than share of those who reported increase (42% versus 11%).

Tajik households seem quite sure that financial crisis¹ will affect the amount of remittances they receive: 54% think that it will have a strong effect on the amounts sent by their emigrant family members; and 33% think that the crisis will have some effect. Expectations for 2010 were quite pessimistic: 58% of households expected the amount of remittances they will receive to fall. However, it ought to be clarified that these predictions are primarily based on individual interpretations of the recent situation and the financial crisis, rather than on clear information from the remittance senders that they would be sending less.

95% of remittance-receiving households receive remittances from male emigrants, and only 5% from women (reflecting the male dominated migration flows). The likelihood of an emigrant sending remittances is highest for the 26–35 age group. The second and third most likely age groups are 18–25 year-olds and 36–45 year olds respectively. Those aged 46 and above are least likely to send remittances. The likelihood of sending money home is strongest among seasonal migrants, and declines the longer the emigrant is away increases and direct contact with families at home decreases. Emigrants in Kazakhstan and Russia are more inclined to send remittances than those in other countries, regardless of the status of migration. It is positive to note that 87% of migrants send remittances through official channels, i.e. banks and money transfer organizations (MTOs), and 12% send money with other people. The biggest number of Tajik emigrants lives in Russia and they account for the biggest share of remittances sent to Tajikistan. Moreover, 89% of migrants who are in Russia send remittances through banks/MTOs.

For more than 60% of households in Tajikistan, remittances account for more than half of their incomes, 31% of them claim that 100% of their incomes are made up of remittances. For up to 35% of households remittances received from their emigrants abroad make up to 50% of their income. Hence, the number of households with high

¹ Remittances to Tajikistan in dollar terms have fallen by 34% in the first six months of 2009 as compared to the same time last year.

level of dependence on remittances is nearly twice as large as the number of households with low level of dependence.

On average, 57% of remittances are spent on immediate consumption needs, 12% are saved for less than six months (short-term savings) and 11% saved for more than six months (long-term savings). In comparison with the first quarter of 2008, this situation almost has not changed. Our survey results show that among households that receive remittances up to 7–12 times a year: the more frequently they receive money, the more they are inclined to spend quite a big portion of that money on immediate consumption. However, households which receive remittances even more frequently, i.e. more than once a month, are more inclined to spend a smaller portion of the remittance amounts on immediate consumption.

In respect of the use of remittances for consumption within 3 months, the situation is quite similar to the trends in respect of immediate consumption: of those who receive remittances more than once a month, no one reported spending the biggest portion of the money on consumption (even within 3 months), since here people start saving. The main difference with those who use the money for immediate consumption is that here people spend smaller portions of their remittances on longer-term consumption, since they start saving more intensively. In case of savings, the situation is straightforward: the more often one receives remittances, the more one saves (provided that remittances are received at least 7 times a year).

37% save no proportion of their income, while about 51% of the households manage to save up to 20%. About 9% report to save between 21 and 40%; and about 3% save between 41% and 60% of their income. However, these savings are almost never kept in the banks (98% of households having savings keep no portion of them in the banking sector). 95% of the households are neither aware of the saving products available nor of their terms and conditions. Moreover, most of those who are aware of existing financial schemes do not keep their savings in banks because the amount is too small. The responses indicate that this is compounded by a tradition of keeping savings at home and mistrust in banks.

As concerns the reasons why people to save money: about 23% save for "a rainy day": 22% for house purchases: 19% for special events: and 16% for healthcare needs. Savings for tuition fees makes up quite a small proportion at 7.3%. About 4% save for pension, and 8% of respondents mention other reasons (including investments in businesses).

Main Conclusions

The deposit base of the banking sector has been constantly growing. However the cluster of the population for which remittances are the primary source of income keep their savings outside the formal financial sector, thus leaving significant investment opportunities unrealized.

According to the survey of financial institutions in Tajikistan, only about half of them are developing new remittance-backed financial products (i.e. considering remittance payment history in lending decisions or in attracting deposits). The institutions that cooperate with MTOs and/or that host MTO points do indeed practice remittance-backed deposits and loans, their main goal being to keep a portion of the money that flows through the institution within it. Some of the financial institutions do not make use of remittance payment history in lending or attracting deposits as they consider it to bear a high level of risk, because migrants are far away from their home country and remittances flows may be interrupted at any moment.

In most of the cases the link between savings products and remittances is indirect, i.e. remittances are considered as a secondary source of income. Although in some of the banks about 50% of clients receive remittances (because remittances are a good additional source if a client fails to repay with local earnings), remittances are still considered secondary, or even a third-level source of income. This is because, as stated above, remittances are considered to be an unstable and risky income from the banks and credit organizations point of view.

When they do lend money, financial institutions usually require statements or receipts proving remittance flows. In all cases the minimum time requirement is to provide proof of having received remittances for at least 6 months, and usually between 6 month and 1 year is applied. However, the longer is the period, the better.

In respect of remittance-backed lending, emigrants' remittances are mostly linked to loan products such as micro loans, consumer loans, educational loans, car loans, loans for apartments/houses renovation/construction, and loans provided for development of agricultural enterprises. There is also a loan for emigrants to buy a ticket to emigrate. The repayment is then made through a "Contact" MTO.

Besides remittance-backed lending there are also remittance-backed deposits. However remittance backed deposits do not work efficiently in rural areas, since residents of rural areas mostly have quite limited financial capacity and poor coverage by financial institutions. Furthermore, these transfers are usually the main (or even

only) source of income is spent on immediate needs. Remittances-backed schemes are more efficient in urban areas. However, as stated above, households very often avoid keeping their savings in banks, because of mistrust in banks, as well as small amounts of remittances and savings.

The improvement of existing remittance-backed schemes is an issue of strategic development. Financial institutions of Tajikistan do seem to be quite inclined towards possible improvements in existing remittance-backed schemes. Representatives of banks think there is a potential for improving commercial loans, consumer loans, educational loans, loans to agriculture, group responsibility loans, and remittance-backed deposits by increasing the importance in consideration given to remittances as an additional source of income. Some credit organizations indicate that they would start to apply remittance-backed loan products if the government were to provide guarantees for individual loans, group responsibility loans, loans to agriculture, and consumer loans.

However, the main point is that annually more than US\$ 2 billion flows into Tajikistan in the form of migrant remittances. According to our household survey results, the savings and investment potential is huge.

There are several barriers to developing remittance-backed-products: lack of skilled specialists, low level of financial literacy and mistrust towards banks, poor infrastructure, legislation, technical problems related to income justification, risks related to cash-flow instability and control, remoteness of habitation, and finally, remittances mostly have a predefined use. These are compounded by are risks related to remittance-backed products: instability of flows, risks of non-payment, risks related to control, currency risk.

There are two competing forecasts on the development of remittance-backed schemes. One group of respondents thinks that these schemes will develop since there is a big savings potential that needs to be attracted into the financial system. Another group thinks that due to current global financial crisis these products have limited opportunities to develop, at least for a while.

Remittances are not considered to be a primary source of income for potential borrowers of small loans, despite the fact that the overwhelming bulk of remittance flows are executed through MTOs and could be easily tracked.

Irrespective of expected changes in remittances flows, there is still a big potential for unused savings to be put to work, and for financial institutions in Tajikistan plan to attract unused savings of those receiving remittances into the financial system.

Recommendations and Proposed Mechanisms

The study makes the following recommendations:

- Better utilization of remittance history (similar to credit history) in assessing loan applications;
- Steps ought to be taken to foster greater awareness among financial service providers on how remittance backed products can be developed and on international experience;
- Greater financial awareness needs to be promoted among receivers of remittances on using banking products;
- Development of new financial products and mechanisms according to well-founded principles, namely:
 - i) the product is financially viable for the institution that is going to apply it;
 - ii) it is directly linked to the economic development in Tajikistan (i.e. products ought not just designed for emigrants, but must link migrant remittances with the economic development);
 - iii) it must be innovative for Tajikistan;
 - iv) the remittances are treated as a primary source of income as opposed to treating them as a secondary source, like it is currently done; and
 - v) any intervention should be based on a clear recognition that remittances are private transfers and that the savings involved belong to migrants and their families, whose primacy of choice in their allocation is paramount.

The proposed mechanisms are:

- *Mechanism 1. Facilitating Organization of Family Events*
This is a new deposit product helping remittance receivers to organize events like weddings, and to help them hedge against changing prices.
- *Mechanism 2. Making Tuition Fee Requirements More Accessible*
This is a new deposit – loan mixed product enabling remittance receivers to pay tuition fees for their children by accessing loans guaranteed by remittances.

- *Mechanism 3. Expanding Medical Insurance Coverage*

Clients often cannot afford to make a lump sum payment to buy medical insurance.

The bank or the credit organization buys insurance policy for the client and registers this transaction as a loan. The client, who is a remittance receiver, pays off this loan using migrant remittances. Alternatively the remittance sender buys a transnational health insurance policy for family members in the country of origin.

Household Survey: Remittance-Backed Savings and Economic Investments

Scope of the Survey

The household survey covers the following topics:

- Profile of Migrants, including number of migrants abroad in each household, and the distribution of migrant by sex, age, geography, and occupation
- Migrant groups
- Remittance sending and receiving behaviour
- Facts of receiving remittances by geography, status in migration, and by senders in relation to household head
- Frequency of receiving remittances
- Channels through which remittances are sent
- Change of remittances compared to previous year, and forecast for next year
- Affect of financial crisis on remittances
- Share of remittances in total income
- Use of remittances, including any changes in the use of remittances
- Use with frequency of receiving
- Change in use in next years
- Current use of income and expected use in next year
- Saving behaviour
- Having an active bank account
- Percentage of income saved, and the percentage of savings kept in banks
- Reasons for not keeping savings in banks
- Reasons for saving
- Awareness of available savings schemes (in general and by age)
- Use of income by emigrants
- Savings of migrants abroad and their intentions to return home
- Any engagement of respondents in business, and if so the sector of engagement

Methodology

Sampling and Distribution

The total number of interviews was predetermined by the available (1,200 interviews). As concerns the sampling, a stratified method with population shares taken into consideration was applied. The regional distribution of interviews and number of households to be interviewed is presented in the table below:

Table 1. Regional distribution of respondents and number of households

	Number of Households	% in total	Number of Interviews
Dushanbe	139,239	13%	160
Shohmansur			31
Somoni			27
Sino			62
Firdavsi			40
Sogdiyaka Oblast	365,136	29%	348
Isfara city			70
Kanibadam City			70
Matchoh			68
Istaravshan City			70
Khudjand City			70
Khatlonskaya Oblast	307,322	35%	422
Vakhsh			60
J. Rumi			60
Kulyabskiy rayon			122
Kulyab City			60
Kurgan-Tyube City			60
Vose			60
Yavan			
Centrally Administered Rayons (RRS)	204,390	20%	235
Vakhdat			47
Fayzabad			47
Rasht			47
Gissar			47
Darband			47
Gorno-Badakhshan Oblast (GBAO)	30,933	3%	35
Khorogh			18
Roshtkala			17
TOTAL	1,047,020	100%	1200

Profile of Respondents

The target respondents were households who currently had at least one family member who had emigrated.

Age Groups, Breakdown by Sex and Geography

The charts on the right, which describe respondents' profile show that about 81% of the respondents were between 26 and 65 years old.

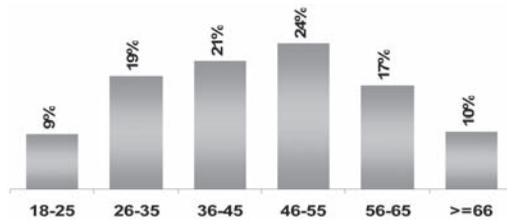


Figure 1. Age distribution of respondents

The majority (52%) of respondents were women, likely due to the time of visits: some potential male respondents were either at work or in migration.



Figure 2. Gender distribution of respondents

As concerns the geographic distribution of respondents, the numbers of interviews by Oblasts and Regions were determined during the sampling, based on the population distribution by residential areas. Also, interviews were done according to the following system of "region-jamoat-kishlak":

- A minimum three jamoats in each region were interviewed,
- jamoats with no common borders were chosen, when possible,
- A minimum of three kishlaks in each jamoat were interviewed
- Kishlaks with no common borders were chosen when possible,
- A maximum of 6 interviews was undertaken in each kishlak.

Table 2. Geographical distribution of respondents

GBAO	4%
DRD	19%
Sogdskiy	29%
Khatlon	35%
Dushanbeh	12%

Profile of Migrants

Number of Family Members Living Abroad

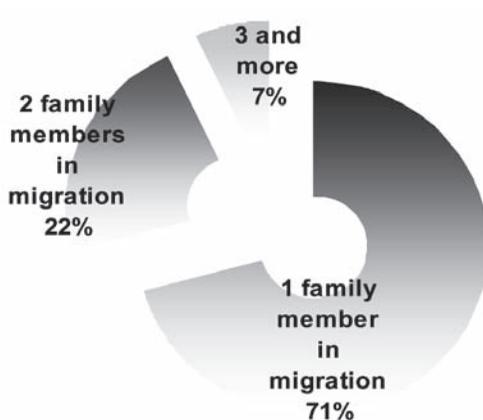


Figure 3. Family members in migration

More than 70% of households have one family member, 22% have two members and 7% three or more family members living abroad. From the analytical point of view this result is valuable, since the questions in the “Remittance Sending and Receiving Behaviour” section refer to the person who primarily takes on the role of migrant, which would allow for a more accurate representation and extrapolation of the results (since for more than 70% the “main” migrant is the only one).

Migrants' General Characteristics

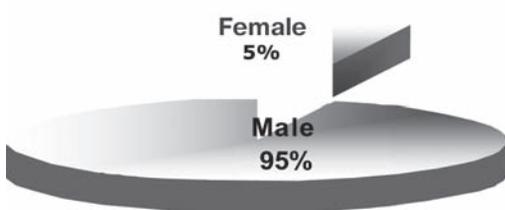


Figure 4. Gender distribution of migrants

The distribution of migrants by sex, age, migration destinations, current occupation, and occupation before emigrating is presented in this section. The distribution of migrants by sex is illustrated by the pie chart to the left, which shows that 95% of

emigrants are male and only 5% are female. This has been a traditional pattern for Tajikistan. Men have traditionally had the role of the bread winner and thus emigrated more frequently and in greater numbers. Of the 1,265 house-holds interviewed in the survey 550 (43.5%) were in urban area and 715 (56.5%) in rural areas.

67% of the migrants are between 25 and 55 years old. 18 to 25 years olds account for 31% of total. However it is very significant that if we look at 18 to 35 year olds, they account for 70% of total migrants. After the age of 55 the emigration figures drop significantly, the age group 56-65 accounts for only 1% of emigrants.

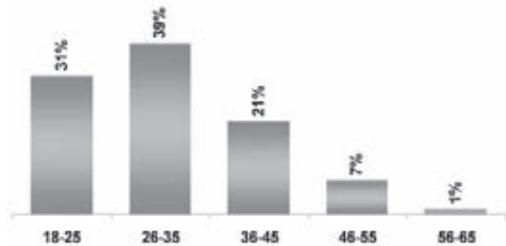


Figure 5. Age distribution of migrants

The geographic distribution of emigrants shows that migration of Tajik people is highly concentrated in particular destinations: 99% of migrants go to the Russian Federation, and only 1% migrate to other countries (chiefly Kazakhstan, South Korea, Ukraine, USA).

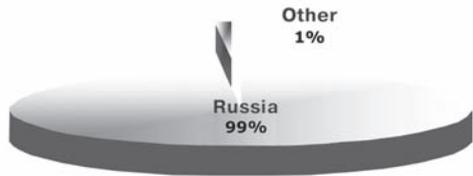


Figure 6. Geographic distribution of migrants

As the international experience suggests, labour markets need both skilled and lower skilled workers. While most destination countries compete for highly skilled labour, many host societies are hesitant about admitting lower skilled workers. Nevertheless, in case of Russia – the main destination for the Tajik migrants - there are frequently acute shortages of labour in lower skilled sectors, as these are jobs that Russian nationals are reluctant to take.²

As illustrated by the bar chart below, the biggest proportion of migrants abroad (around 52%) are engaged as labourers, and about 16% as construction workers. About 7% are occupied as clerks, shop assistants or administrative staff, and another 7% percent as craftsmen. About 6% are drivers or engaged in transportation services.

² OSCE/IOM/ILO, 2006, “Handbook on Establishing Effective Labour Migration Policies in Countries of Origin and Destination”, p. 19.

Other occupations account for the small remainder. Although labourers make up the biggest percentage, disaggregation by sector remains undefined, since labourers work in many different sectors of economy.

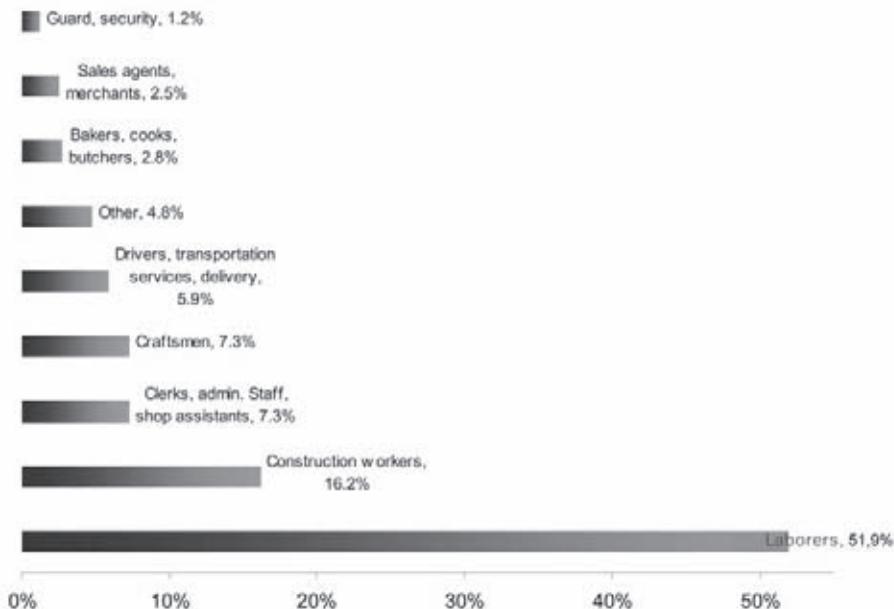


Figure 7. Migrants by occupation

As seen in the the bar chart presented below, about 42% of people were unemployed before emigration, and 11% were students. After emigrating they seem to find ways to earn living, albeit for many of them as labourers. Also, there were more people occupying higher job positions (teachers, lecturers, civil servants, tax officers, managers, department heads, accountants) before emigrating than after. Nevertheless, the low salary level at home can be a reason for their emigration. For the large group of Tajik unemployed (52%) emigration seems a viable solution to make a living abroad.

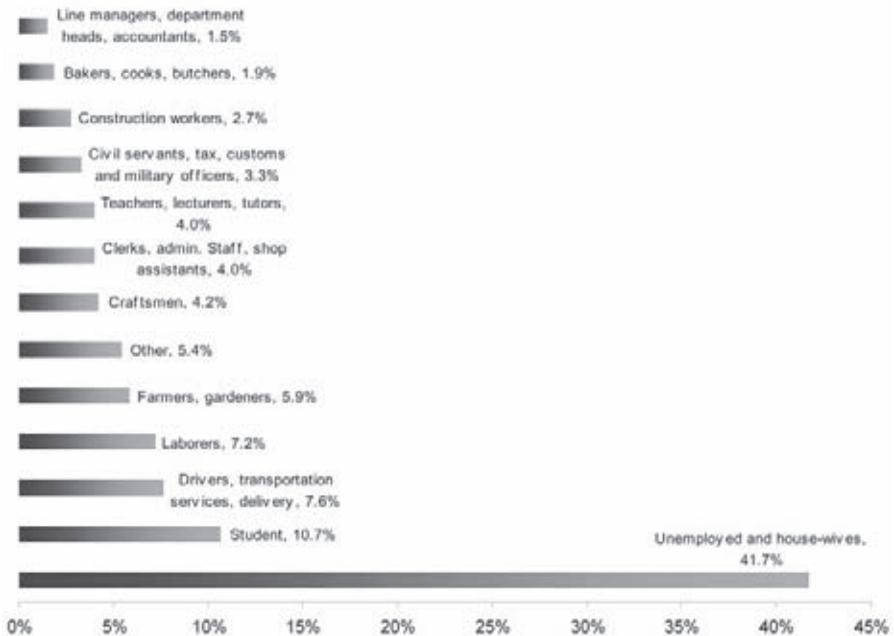


Figure 8. Occupation before migration

Migrant Groups

- *General picture*

Four principal migrant groups have been identified, reflecting different patterns of migration:

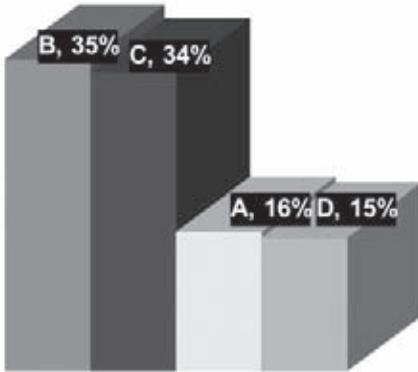


Figure 9. Distribution of migrant categories /groups

A. Long-term migrants that have been away from Tajikistan for more than two years with no home visits during this time.

B. Long-term migrants that have been away from Tajikistan for more than two years but with several short home visits during this time

C. Short-term migrants living outside of Tajikistan for several months a year and returning to Tajikistan for several months.

D. Recently (less than 2 years ago) emigrated from Tajikistan.

These groups do not overlap and should represent 100% of the emigrant population. According to the collected statistics, 35% of the emigrants are long-term migrants, and have been away from Tajikistan for more than two years but with several short home visits during this time (i.e. category B above). Category D, currently represents 15% of the migrant population and characterises a temporary condition: after two years migrants in this category will fall into one of the three groups above. Category A emigrants tend to have settled down in the country of destination and start losing their economic interests at home, thus falling out of the group of potential savers or investors in Tajikistan. They account for 16% of emigrants. Category B – the largest community of migrants – remains in the “risk group” of people. They may or may not return home, and may or may not lose their economic interests at home.

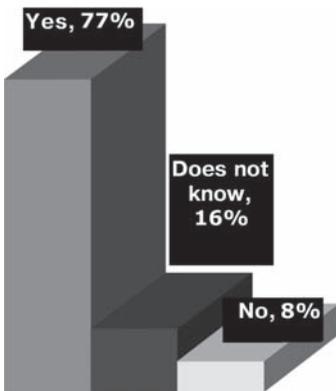


Figure 10. Intention to migrate next year (category C)

Category C seasonal migrants were asked about their intentions to emigrate the following year. Expectation was quite high: 77% of seasonal migrants expect to emigrate; 16% are not sure about their future plans; and only 8% do not plan to emigrate.

- *Migrant Groups by Destinations*

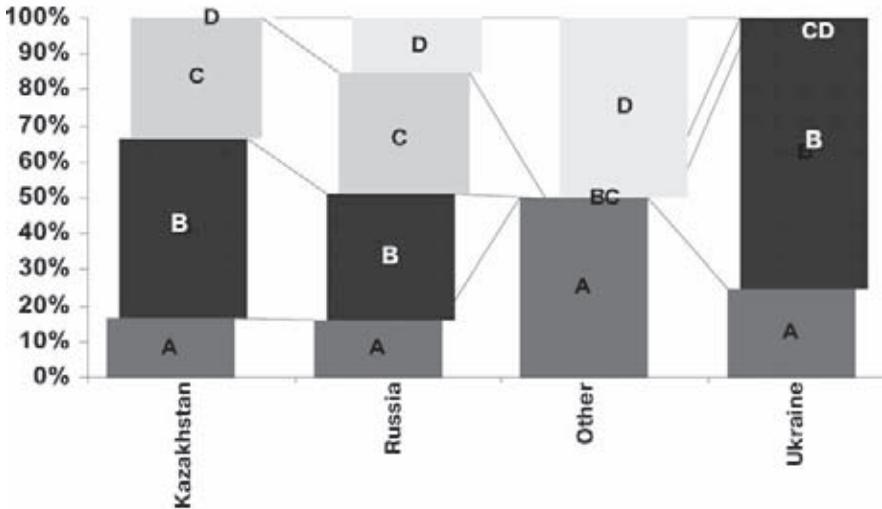


Figure 11. Migrant groups by destination

It is extremely interesting to see the breakdown of categories by countries of destination. Before analyzing the picture, a caveat should be made on the statistics of countries other than Russia (as 99% of our respondents were emigrants to Russia). The real picture for those countries could be somewhat different given a tiny proportion of respondents from those countries in the sample. Nevertheless, it is clear that there are practically no category “C” migrants outside Russia and Kazakhstan.

Remittance Sending and Receiving Behaviour

Migrant remittances are usually defined as personal monetary funds sent by individuals working and/or residing abroad to recipients in the country that they came from. As per the data of the Ministry of Economy and Trade of Tajikistan and the National Bank, the volume of remittances to Tajikistan in 2008 was estimated at 2.67 billion US dollars, equal to 49 % of GDP. This study has relied on the Central Bank and World Bank data in this regard and did not investigate volume of remittances in its household survey.

Fact of Receiving Remittances

- *General picture*

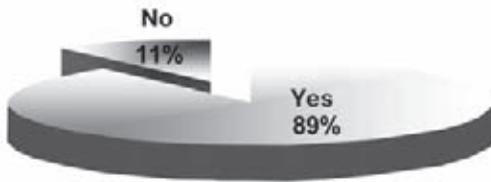


Figure 12. Fact of receiving remittances

As the pie chart indicates, 89% of households in the country who have a family member living abroad, regularly receive remittances from them. It may indeed be higher as there may be a certain percentage of people who would hide the fact of receiving remittances “just in case” (fear of individuals to declare remittances for tax or status reasons).

It can be argued that two cornerstones of the emigration experience are i) achieving sufficient income to allow for both the ability to save and to remit, on the remitter’s side and ii) the ability to consume and to save, on the recipient’s side. 95% of remittance-receiving households receive remittances from male migrants, and only 5% from female. This reflects the male dominated nature of Tajik emigration flows. The most remittances are sent by the 26 to 35 age group, while 18 to 25 year olds and 36 to 45 year olds come second and third respectively. The likelihood of sending remittances declines significantly after 46 years old. This is very similar to patterns of emigration depending on age. The likelihood of sending money home is the strongest among seasonal – category C – migrants, and declines as the period of separation increases and direct contact with families at home decreases. Obviously, many of the long-term emigrants emigrated along with their immediate family, thereby reducing the need to send money to Tajikistan. Category D migrants are the least active group in terms of sending money back home. This seems natural, since they have recently migrated from Tajikistan and may still need some time to settle down in a new country, find a job, repay debts and save money.

- *Receiving remittances by geography*

The bar chart on the right provides a breakdown of remittances by destination countries. As can be seen, emigrants to Kazakhstan and Russia are more inclined to send remittances than those in other countries, regardless of how long they've been away. Again, a caveat accompanies all these statistics, except for Russia as the proportion of migrants from countries other than Russia is a tiny proportion of the sample.

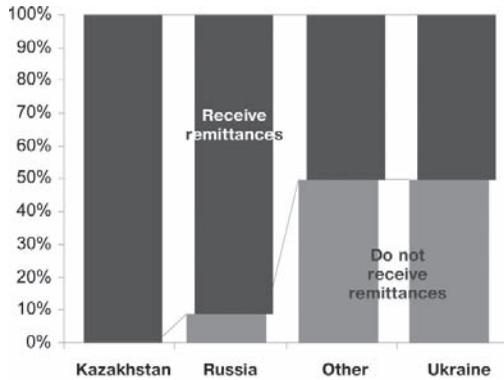


Figure 13. Receiving remittances by geography

- *Receiving remittances by status of migration*

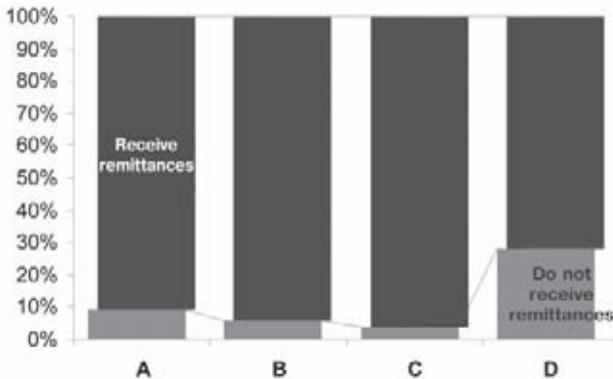


Figure 14. Receiving remittances by migrant categories /groups

An interesting observation can be made: more than 90% of each of categories A, B, and C emigrant households receive remittances (including cases when the cash is physically brought back after seasonal migration). The likelihood of sending money home declines as the period of separation increases and direct contact with families at home decreases. A bigger number of category C migrants send money than category A and B migrants. In category D migrants less migrants send money than in the other groups, 72% (as opposed to over 90% of groups A, B and C). This group of people

migrated only recently and their status and plans are still uncertain. During the first months and years of migration, they try to normalize and stabilize their income and to pay back debts incurred to emigrate in the first place. After this settling in period they usually start sending remittances on a regular basis.

- *By senders in relation to Household head*

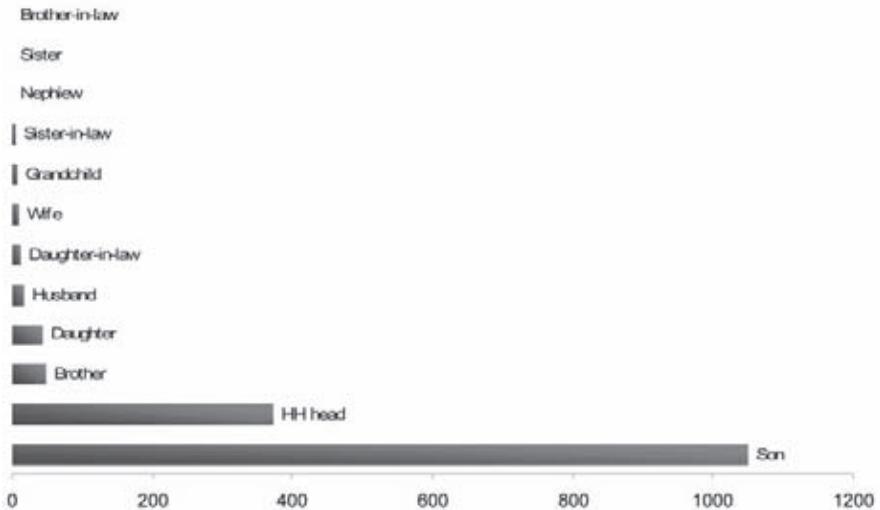


Figure 15. Receiving remittances by the relation of the senders to HH head

The household head was set to be the “anchor” person for the questions related to family relationships but was not necessarily the person with whom the interview was conducted. That is why we witness the head of the households themselves to be one of the two main categories, along with the children (mostly sons), to be most “committed” to send money back home.

Frequency of Receiving

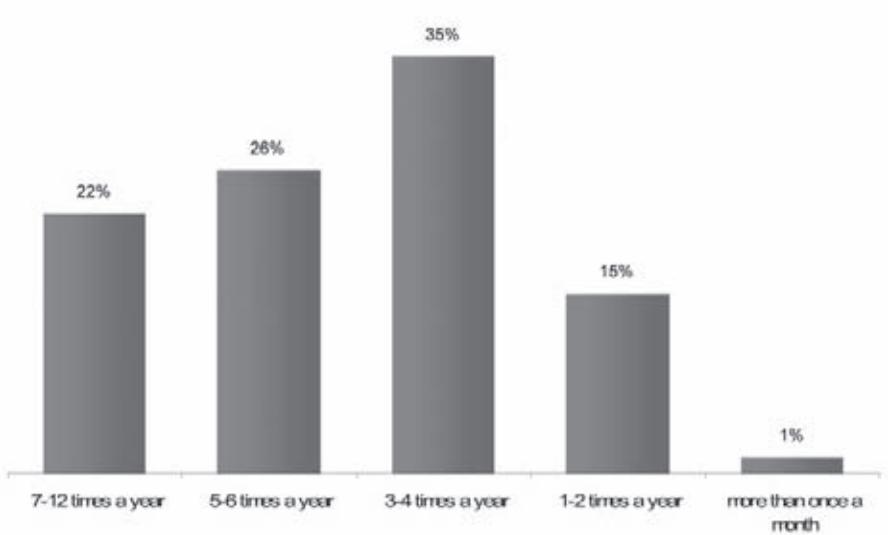


Figure 16. Frequency of receiving remittances

As illustrated in the bar chart above, emigrants, in general, send money back home quite frequently: 83% send money home at least once every quarter, of which about one fifth send money almost every month, and 15% 1-2 times a year. This, unsurprisingly, is related to the regularity of the income migrants receive in the destination countries; the size of that income; and the consumption needs of the family back home.

Channels of Sending Remittances

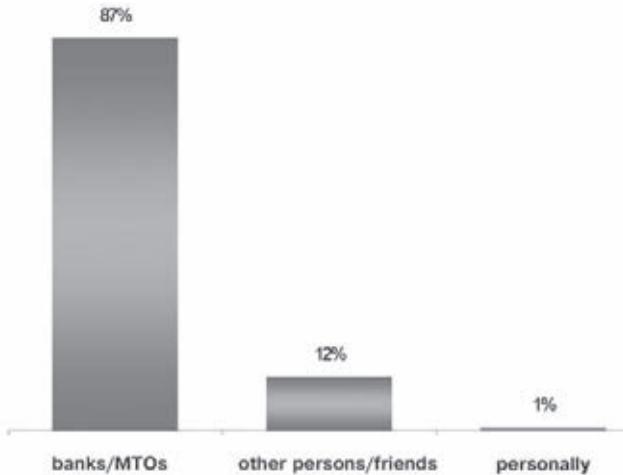


Figure 17. Channels of sending remittances

Remittances are sent to Tajikistan through a number of different channels: through banks and MTOs, through friends or other people who travel to Tajikistan and by emigrants personally bringing the saved money with them when traveling home. It is positive sign that 87% of migrants send remittances through official channels, i.e. banks and MTOs, while only % send money with other persons/friends.

As the biggest share of migrants is in Russia, they account for the biggest share of remittances being sent to Tajikistan. 89% of emigrants in Russia send remittances through banks/MTOs. For the most part these funds are channeled though MTOs with points of service located within banks, rather than via account-to-account transfers.

Change of Remittances Compared to Previous Year (2008)

41% of the households that have family members living indicated that the amount of remittances they received in 2008 did not significantly change compared to the previous year. However the share of those who reporting a decrease in the amounts received is significantly bigger than those reporting an increase (42% versus 11%).

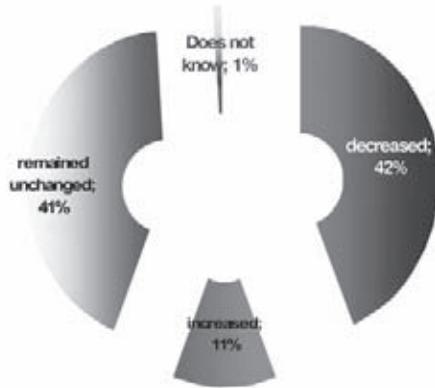


Figure 18. Change of remittances compared to previous year (2008)

Tajik households seem quite convinced that the financial crisis will affect the amount of remittances they receive: 54% think that it will have a strong effect on the amounts sent home; 33% think that the crisis will have some effect; while only 7% think that there will be no effect. Hence, the expectations of people on the effects of the financial crisis are quite pessimistic.

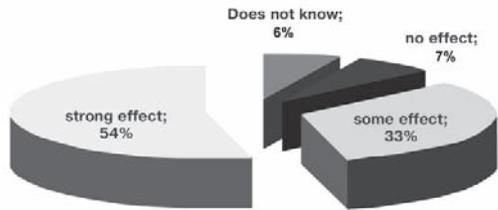


Figure 19. Expectations about effect of financial crisis on remittances

Forecast for 2010

Possibly due to the above-mentioned negative expectations related to the financial crisis, people were pessimistic in their forecasts: 58% of households expected the amount of remittances they will receive to fall and 19% expected no change. The bar chart below leaves little doubt that people expect the effect of the financial crisis on flow of remittances to be negative. However, only 1% expects that the flow of remittances will stop entirely. Hence, the amount of remittances is expected to drop, but not to stop. Only 2% of households predicted an increase in their remittances. It ought to be pointed out that these predictions are based primarily on people's interpretation of the financial crisis, rather than upon clear information from the remittance senders that they would be sending less.³

³ Remittances to Tajikistan have fallen by 34% (in dollar terms) in the first half of 2009 as compared to the same time last year.

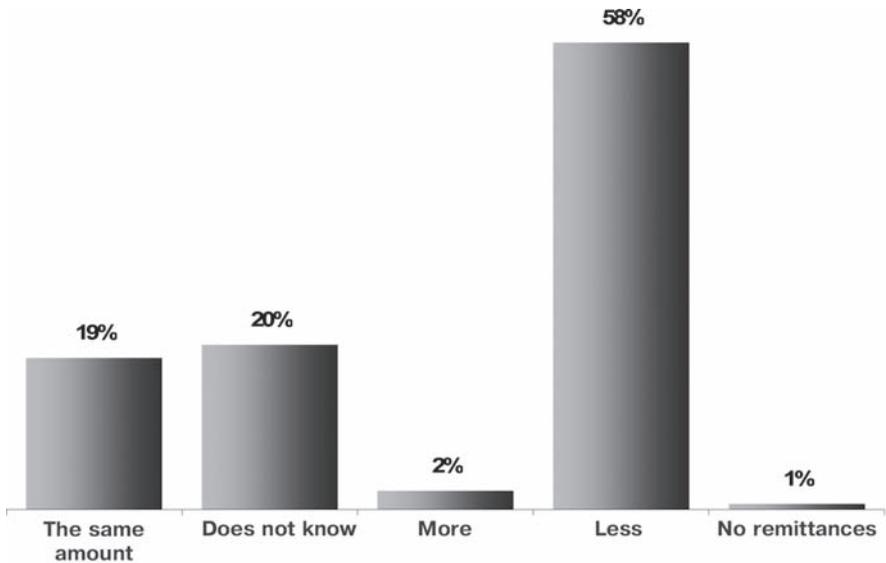


Figure 20. Forecast of the change of remittances next year (2010)

Share of Remittances as a Percentage of Income

The dependence of Tajik households on remittance flows is quite high.

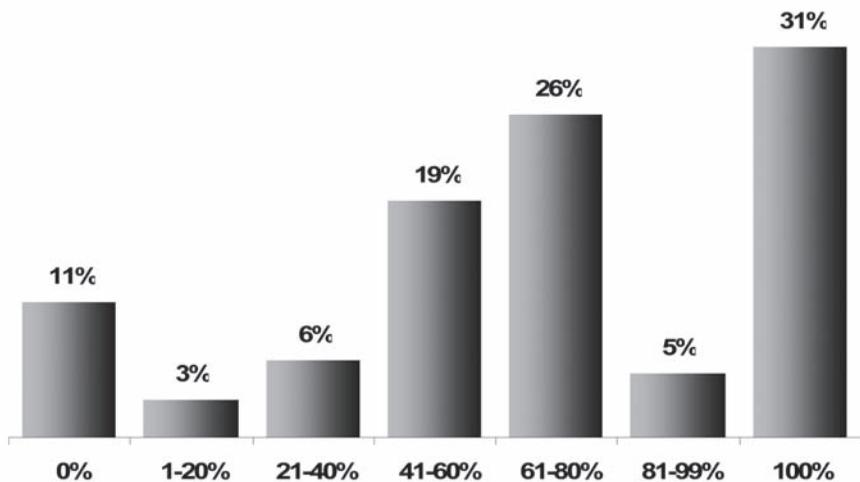


Figure 21. Share of remittances in income

As the graph shows, for more than 60% of households in Tajikistan remittances account for more than half of their incomes, while 31% claim 100% of their incomes to consist of remittance flows. For 35% of households remittances received from their family members abroad make up less than 50% of their income, and these households are less vulnerable towards changes in external remittance flows. Hence, the number of households with a high level of dependence on remittances is nearly twice as large as the number of households with a low level of dependence. This is probably related to limited opportunities to find jobs in Tajikistan.

Use of Remittances (Time Frames)

The time frames for the use of remittances were conditionally divided into four main groups:

- Current consumption within a month;
- Consumption within three months;
- Savings for less than six months;
- Savings for longer than six months.

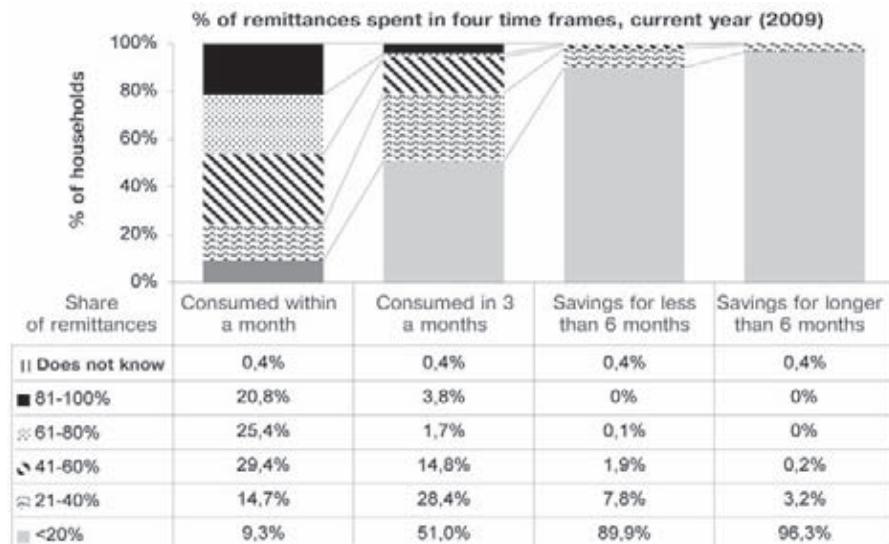


Figure 22. Use of remittances, 2009

The table and the graph above illustrate spending patterns of remittances. About 21% of households spend between 81% and 100% of their remittances on immediate consumption needs. 90% of respondents save between 0% and 20% of remittances for six months, and about 96% save between 0% and 20% of remittances for a longer terms. The chief point is that small amounts are spent on savings and a large amount is spent on current consumption needs. In the biggest quintile groups (81–100%, and 61–80%) the vast bulk spend mostly on consumption, albeit there are savers though in other quintiles. Applying the weighted average method, one can estimate that on average, 57% of remittances are spent on immediate consumptions needs; 12% of remittances are saved for less than six months (short-term savings) and 11% saved for more than six months (long-term savings).

In comparison with 2008, this situation almost has not changed, as indicated in the table below.

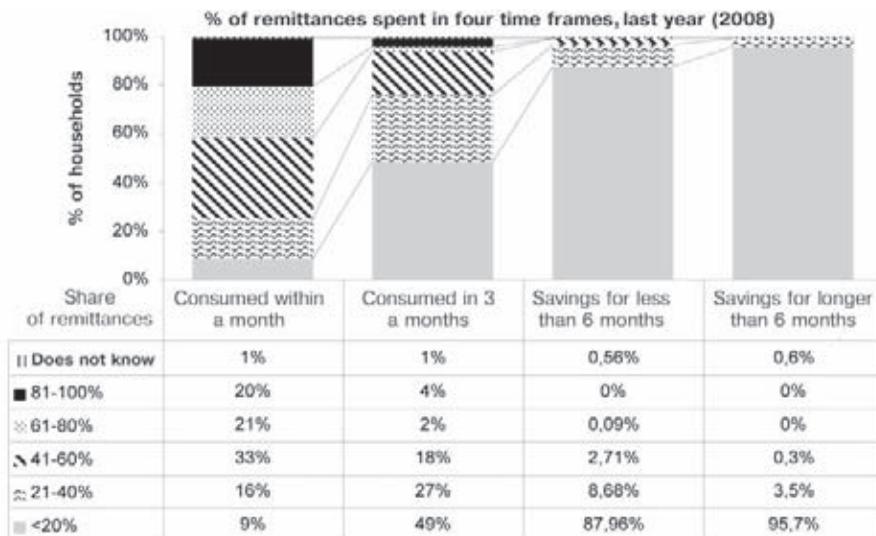


Figure 23. Use of remittances, 2008

More people are not certain about what their spending–saving behaviour will be like in 2010 (about 55% of respondents).

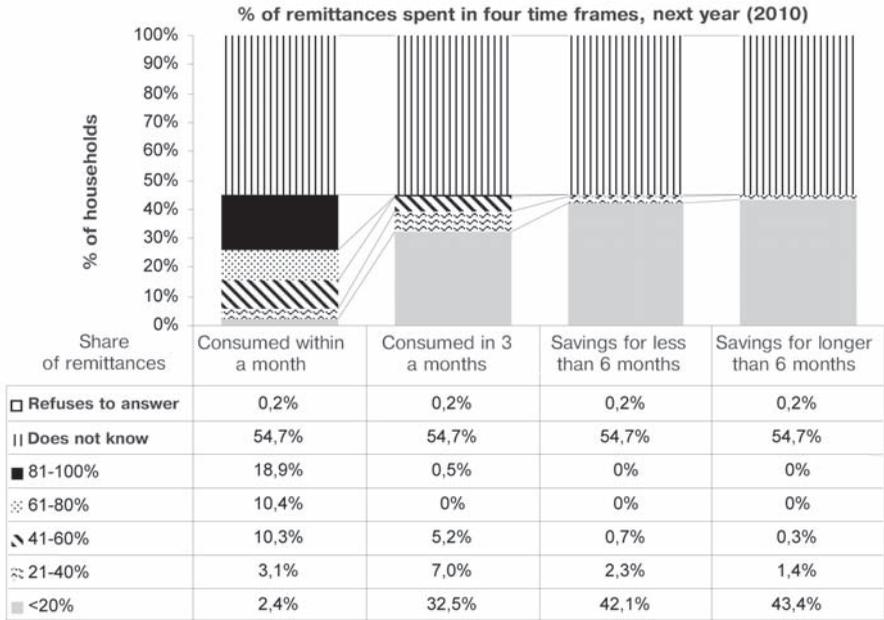


Figure 24. Use of remittances, 2010

Almost one fifth of respondents expect to spend the biggest portion (81–100%) of the remittances they receive on consumption within a month. One may thus conclude that people do not expect major changes in use of remittances for the next year.

- Use cross-tabulated with frequency of receiving

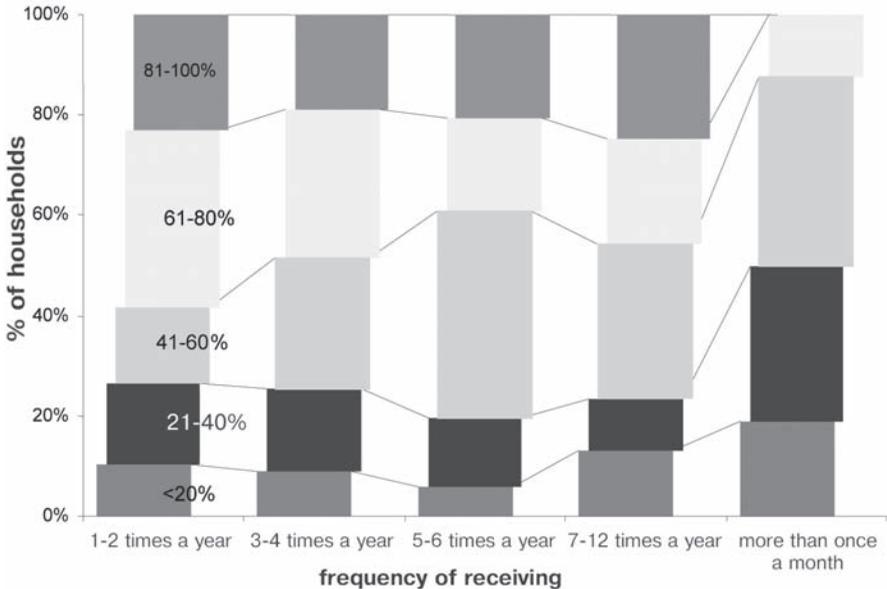


Figure 25. Share of remittances (%) spent on immediate consumption by frequency of receiving

The picture above gives an idea about the relationship between the frequency of receiving remittances and remittance use, as far as consumption within a month is concerned.

Among households that receive remittances up to 7-12 times a year: the more frequently they receive the more they are inclined to spend a big portion of that money on immediate consumption. However, households which receive remittances more than once a month, are more inclined to spend a smaller portion of the remittances on immediate consumption (of those who receive remittances more than once a month, no one reported spending between 80 and 100% of the remittances on immediate consumption).

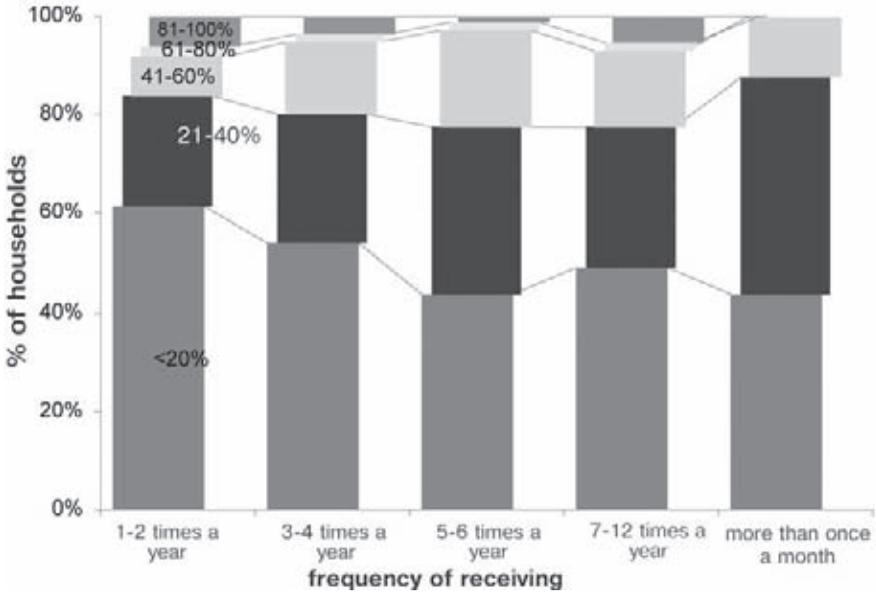


Figure 26. Share of remittances (%) spent on consumption within 3 months by frequency of receiving

As concerns the use of remittances for consumption within 3 months, the situation is quite similar to the trend with respect to immediate consumption: of those who receive remittances more than once a month, no one spends the biggest portion of the money on consumption (even within 3 months), since people have started saving. The main difference from the trend with respect to immediate consumption is that people spend smaller portions of their remittances on longer-term consumption (as is true for all frequency groups); in other words they start saving more intensively after three months.

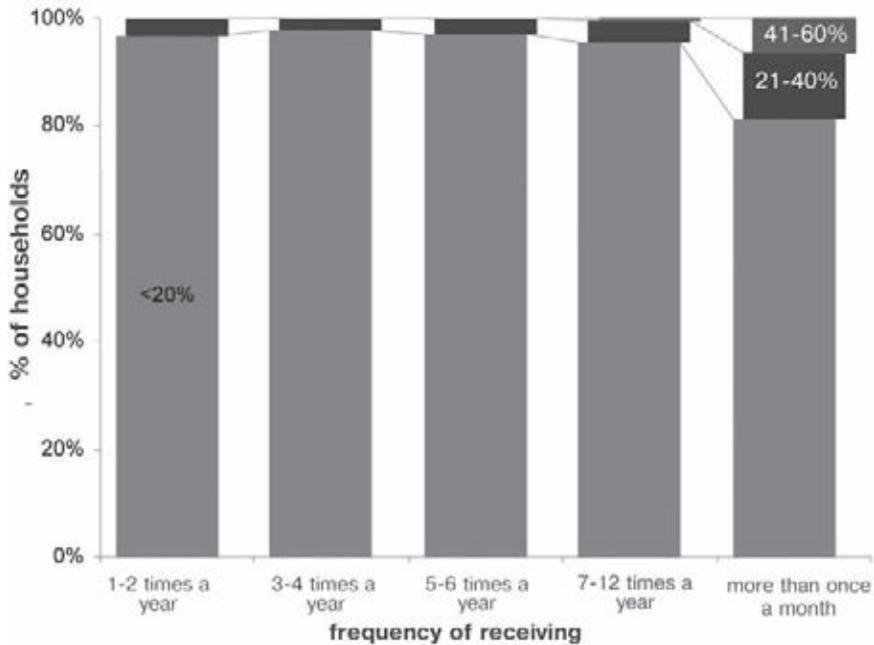


Figure 27. Share of remittances saved (%) by frequency of receiving

In essence the more frequently one receives remittances (receiving 7-12 times a year and more than once a month), the bigger proportion of the money the receiver saves, albeit this trend is not evident at the lower end of the scale, (i.e. those who receive remittances less than 3 times a year).

Current and Expected Use of Income

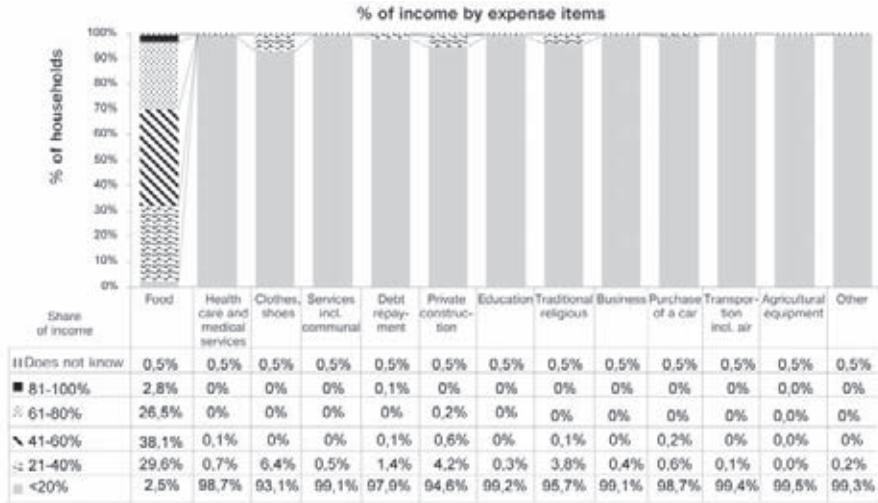


Figure 28. Use of income, 2009

The table and bar chart above show the income distribution of Tajik households in 2009. As can be noted, most of the households spend between less than 20% of their income on education. Using the weighted average methodology, we can deduce that about 10% of income was spent on education in 2008. Meanwhile 38% of households spend between 41% and 60%, and about 27% between 61% and 80% of their income on food. 99% of households spend less than 20% of their income on healthcare needs. Food accounts for by far the biggest proportion of income in all quintiles, reflecting the hand-to-mouth existence of most Tajik households.

Respondents were also quizzed about their expectations of any changes in this distribution of income. It is worth mentioning that the question was about the expected change in absolute terms as opposed to any change in proportions.

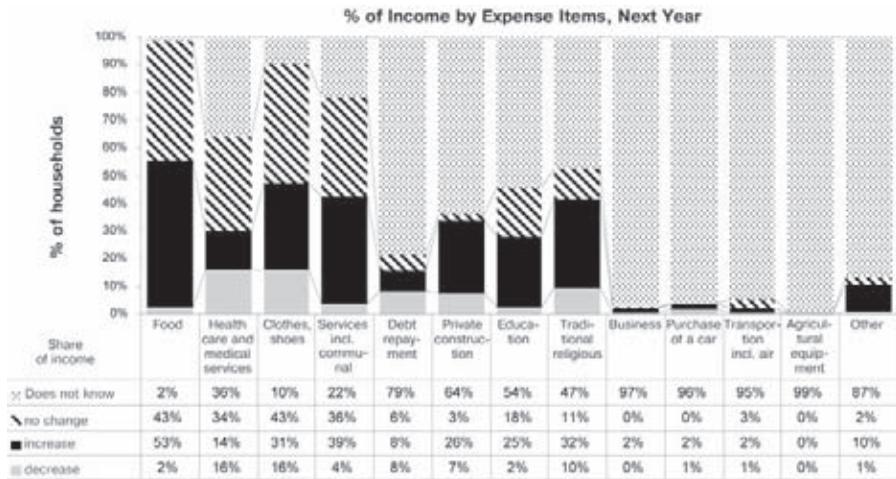


Figure 29. Use of income, 2010

53% of respondents expect to spend more on food in 2010, 43% expect no change, and 2% foresee a decrease in food expenses. In second place is services (including communal services), with 39% of respondents expecting an increase in expenditure; next come traditional-religious events at 32%, expenses on clothing/shoes at 31%, private construction at 26%, and education at 25%. 18% expect no change in educational expenses for the next year and 54% are not sure about what changes will occur. 14% of respondents expect an increase in expenses on healthcare needs, 16% expect it to decrease, 34% expect no change, and 36% do not know how the expenses on healthcare are likely to change.

Saving Behaviour⁴

Having an Active Bank Account

Before asking about the saving behaviour of the respondents and their household, respondents were asked whether they had a bank account – at least for transaction purposes, which needless to say would be a prerequisite to saving some portions of his/her income in a bank. However, only 2% of the respondents reported having an active bank account.

It is interesting to note that whether or not one receives remittances appears to have little impact on the likelihood of having a bank account. 98% of remittance receivers do not have a bank account, while 99% of households who do not receive remittances do not have an active bank account.



Figure 30. Having an active bank account

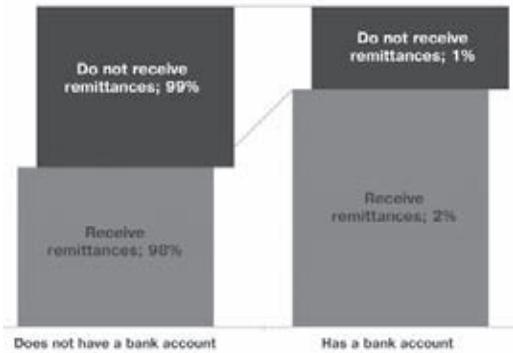


Figure 31. Having a bank account for remittance receivers and non-receivers

⁴ This section refers to banks only as non-bank institutions are not permitted to take savings in Tajikistan.

Portion of Income Saved

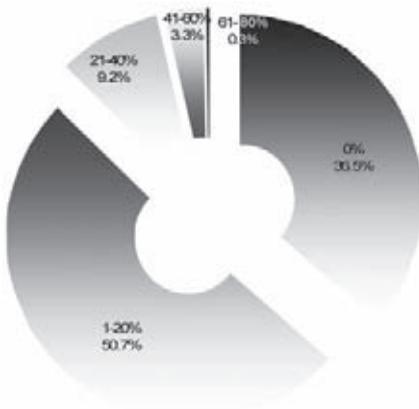


Figure 32. Breakdown of households by the share of total income saved

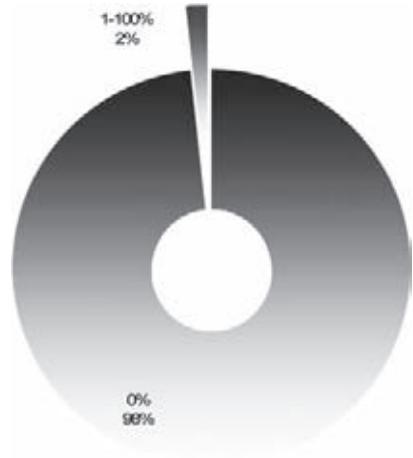


Figure 33. Breakdown of households by the share of savings kept in banks

The pie chart on the left above provides a breakdown of households by the percentage of their total income (obviously, many of them have income other than remittances – pension, salary, etc.) that is saved. 37% of the population save none of their income, while 51% of the households manage to save up to 20%. (they report so; in reality it may be even higher). 9% report to save between 21% and 40%, and 3% save between 41% and 60% of their income. However, as we can see in the pie chart above right, these savings are almost never kept in the banks (98% of households keep no portion of their savings in banks).

Reasons Given for Not Keeping Savings in Banks

If savings were kept in banks, it would provide an opportunity for saving products to be linked to remittances. It is therefore interesting to explore the reasons why this is not done.

One can observe from the pie chart on the right that the reasons are quite diverse. While respondents could provide more than one reason, this provides a cumulative picture. 56% suggest that their amount is too small that is why they are not keeping it in banks. About 24% say that keeping money at home is what they have always done and are resistant to change. Mistrust in banks is the third most popular answer, with around 11% respondents mentioning this. Low interest rates, lack of information about banks, remotness/inconvenience of banks, etc. are also mentioned but by small numbers of respondents.

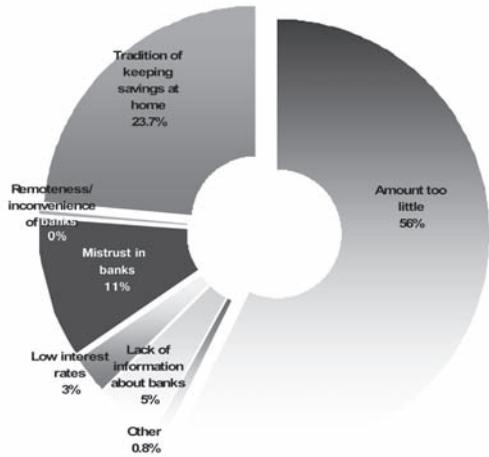
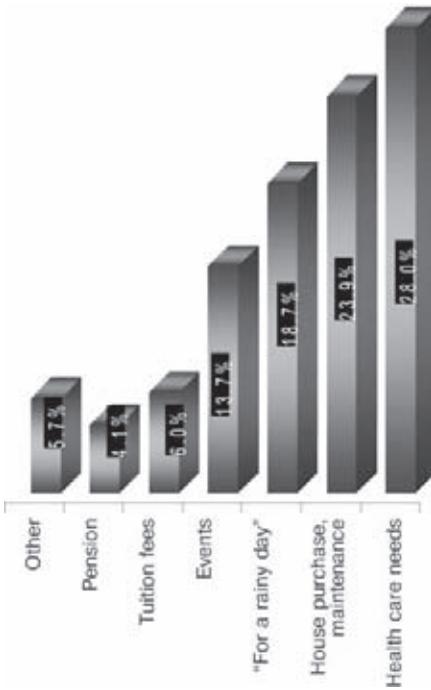
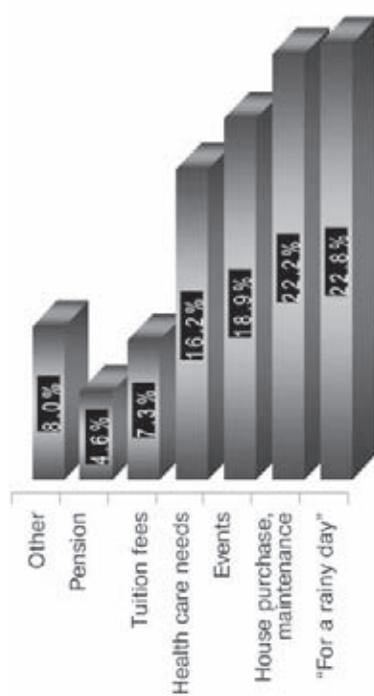


Figure 34. Reasons for not keeping savings in banks

Reasons for Saving



**Figure 35. Objectives of saving
Most popular response**



**Figure 36. Objectives of saving
Cumulative responses**

This is one of the most important and critical findings of the survey – revealing the primary objectives which people save money for, rather than using it on immediate consumption needs. Healthcare is the most common response given as the chief reason. Purchase of a house/apartment and saving for “a rainy day” are the second and third most popular answers. People also report that they save for special events in future. Tuition fees only account for a small proportion of the principal reason for saving.

According to the cumulative responses distribution 23% save for “a rainy day”, 22% for house purchases, 19% for special events, and 16% for healthcare needs. Savings for tuition fees still comprise quite a small proportion at 7.3%. About 4% save for their pension and 8% of respondents mentioned other reasons (including investments in businesses).

Awareness of Available Savings Schemes

Another issue of interest is whether people are aware of schemes offered by the financial sector; the survey revealed that many are not. 95% of the households are neither aware of saving products availability nor of their terms and conditions. This leads us to the conclusion that before introducing new mechanisms and schemes, the financial sector has a lot to do with regard to raising awareness of what is available among the Tajik population.

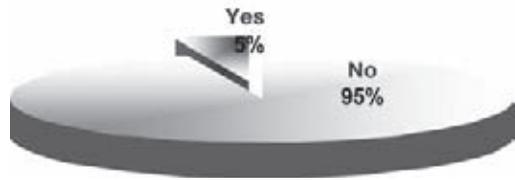


Figure 37. Awareness of available savings schemes

Those who are aware of savings schemes offered by banks make up a very small proportion of households, and 74% of the 5% who are aware of what's on offer do not keep their savings in banks.

- Awareness across age groups

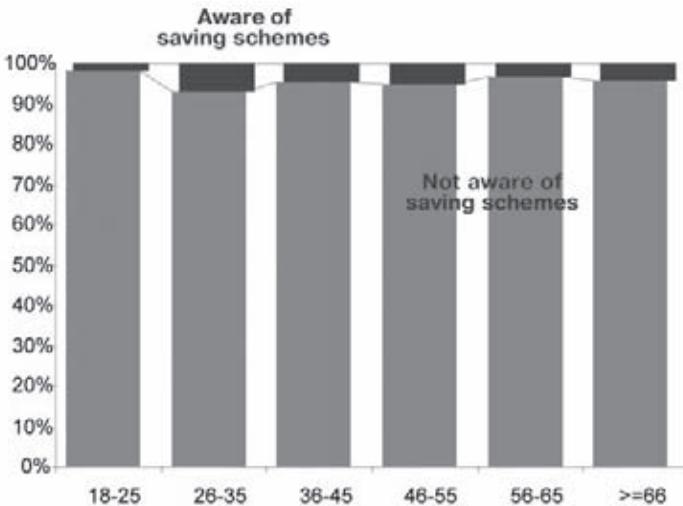


Figure 38. Awareness of existing savings schemes across age groups

As one would expect, there is a strong correlation between age and awareness of financial products – the younger generation is much more aware of the products available than the older generation. However, this does not mean that younger people save more. However, in the light of the previous statistics, which showed that awareness is in general very low (i.e. 2%), one may conclude that, in absolute terms awareness among the youth is also very low.

Unsurprisingly, awareness of saving products is much greater (45%) among people who currently have an active bank account, albeit not necessarily a deposit account.

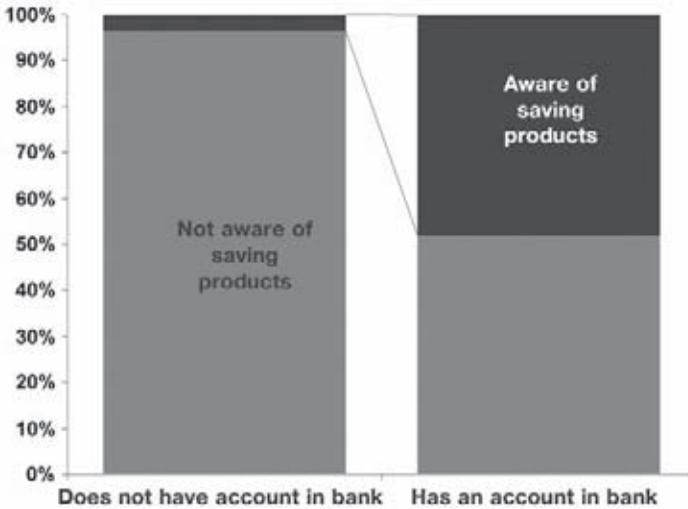


Figure 39. Awareness of existing savings schemes in correlation with having a bank account

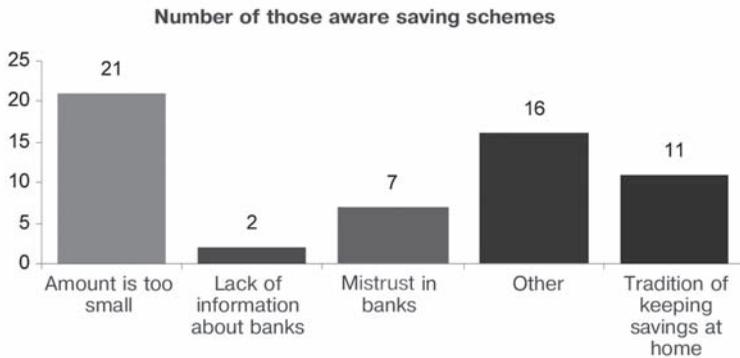


Figure 40. Reasons for not keeping money in banks, although aware of saving schemes

The bar chart above shows that most of those who are indeed aware of existing financial schemes do not keep their savings in banks because they consider their savings to be too small. Other reasons could include problems of accessibility to financial institutions. The tradition of keeping savings at home and mistrust in banks are the next most popular answers. Although the total number of people who are aware of existing saving schemes is quite small, the answers are consistent with those given by the entire sample (see “Reasons for Not Keeping Savings in Banks” section).

Use of Income by Emigrants

How then do emigrants themselves spend their money in destination countries?

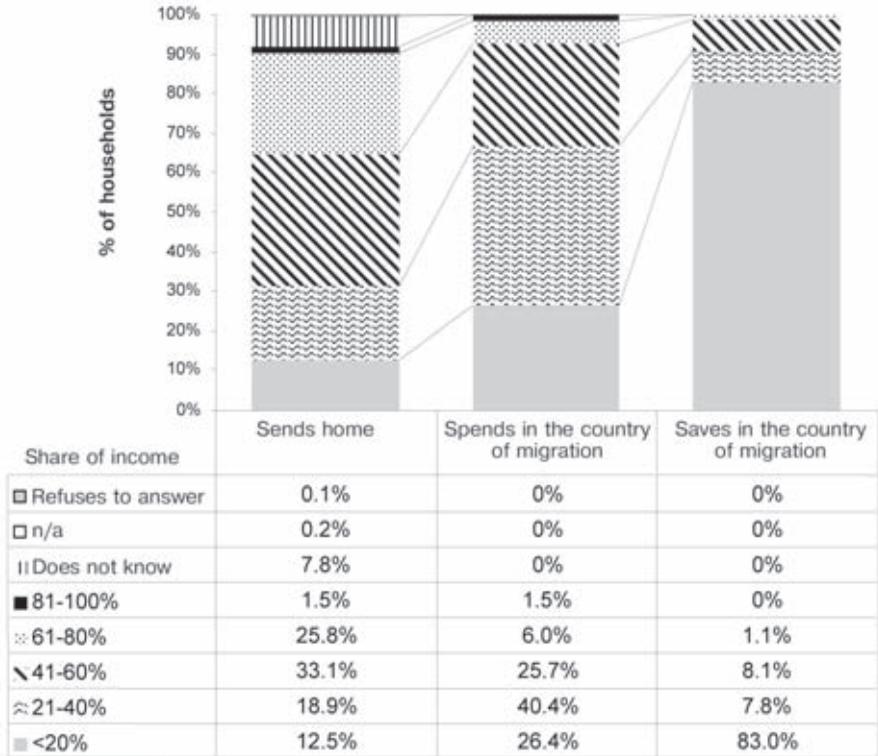


Figure 41. Use of income by migrants

As the table and bar chart show, the biggest percentage of respondents who send money back home send between 41% and 60% of their income to their relatives (33% of respondents). 26% send between 61% and 80%; and about 19% send between 21% and 40% of income home. Using the weighted average method, emigrants on average send 47% of their income home. According to the same methodology, 33% of migrants' income is spent in the country of emigration, and about 15% is saved in the country of emigration. This latter finding is interesting in that it could lead to the development transnational financial products.

Engagement in Business and Investment Behaviour

Only 12% of households (bearing in mind that they only represent households who have family members working abroad) are engaged in business activity in Tajikistan.



Figure 42. Engagement in business



Figure 43. Engagement in business by sector

The main businesses activities are commerce at micro level (small shops, selling grocery at the village road etc. at 68%), transport and communication (accounting for 10%), agriculture e.g. plant growing and cattle breeding (9%), and services (6%).

52% of those engaged in business are sole traders; 47% run a business jointly with family members; and 1% with other partners. 30% of respondents are interested in continuing or starting a business in Tajikistan, while 70% stated explicitly that they are not. People between the ages of 26 and 56 are most interested in having a business. After this age, the willingness seems to decline.

The biggest number of respondents is interested in starting a new business or continuing or currently running business (82%). Only 21% of those who currently do not have a business are interested in starting a new one or revamping an old business.

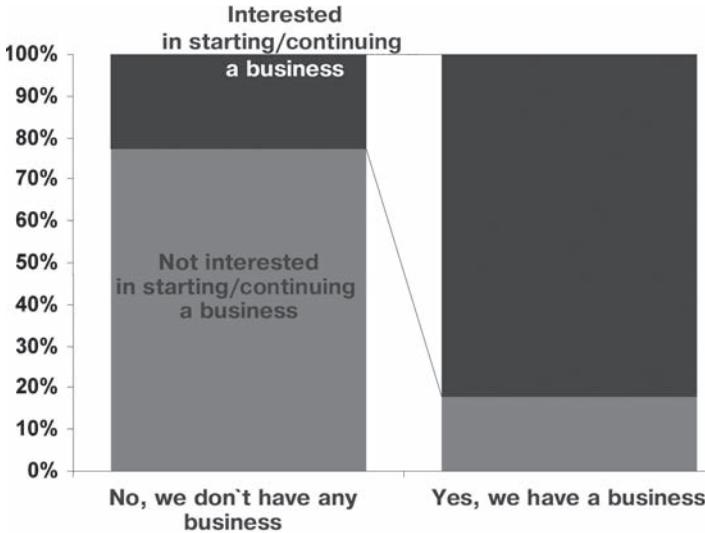


Figure 44. Interest in continuing or starting a business

Respondents are mostly interested in starting/continuing a business in commerce (73%), services (8%), and agriculture (7%), i.e. in the most popular sectors. 63% would like to invest in a business in cooperation with other family members, and 36% would like to be a sole trader.

17% of respondents would definitely consider investing their savings in a certain investment project in partnership with relatives and/or friends and 49% would probably do so. 34% will not consider taking this opportunity.

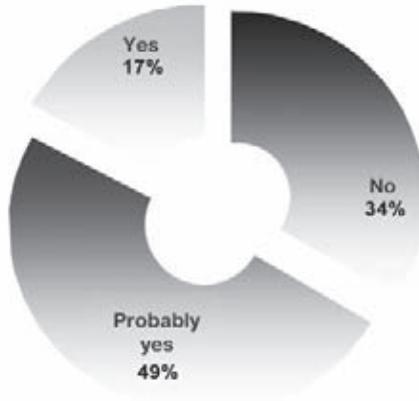


Figure 45. Willingness to make a joint investment with relatives or friends

As regards the decision making for investing the money earned abroad, 66% of households make the decision independently from emigrants. In 20% of cases it is a joint decision, and in 14% of cases the emigrant alone makes a decision on how to invest the money earned.

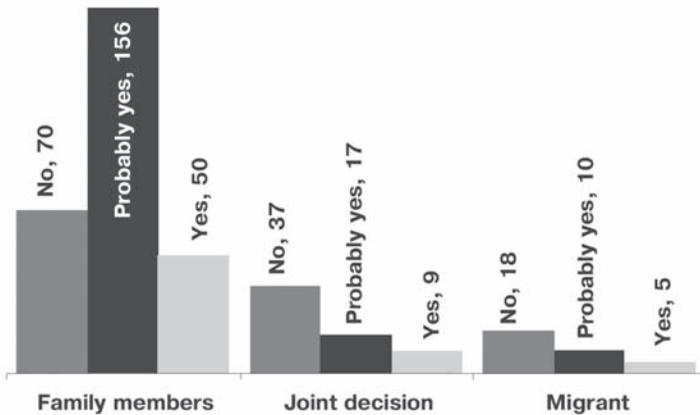


Figure 46. Decision on making an investment

In most of the households where the investment decision is made independently of the emigrants, i.e. by family members, they responded that they would either definitely or probably consider investing. This should be taken into consideration when

developing new financial schemes to attract the savings of remittances receivers into the financial system.

Intention to Return

The bar chart below illustrates that nearly 78% of households think their emigrant family members would return to Tajikistan if they could earn a stable monthly income of just 100-500 US dollars per month, which suggests that the will to return home is quite high.

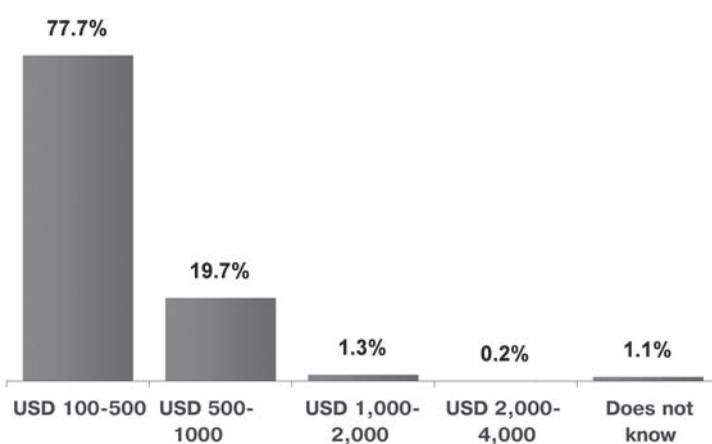


Figure 47. Intention to return

Financial Sector: Migrant And Remittance Perspective

Background Information

Tajikistan: Banking Sector Overview

The banking sector of Tajikistan suffered not only from the generic economic and political problems of CIS countries, but also from five years of civil war.

A series of restructuring efforts in the banking system have been undertaken since 2001. To reduce the large number of small banks and consolidate the banking system, the National Bank of Tajikistan (NBT) changed the minimum capital requirement from USD 300,000 in 2001 to USD 5,000,000 as of 01 January 2005. As a result, the total number of banks was reduced from 28 in the late 1990s to ten as of mid 2006. In 2001, the Government of Tajikistan and the International Monetary Fund (IMF) agreed upon a restructuring of four of the country's largest banks: Orienbank, Vneshekonombank (now Tajiksodirotbank (TSOB)), Agroinvestbank and the Savingsbank (Amonatbank). In 2001 these banks controlled 85% of all assets in the banking sector, a situation which has not much changed since. However, these four banks were also ridden with bad debt – estimated to be at about 95% of their overall portfolio. These restructurings included full or partial privatisation, as well as stripping off their bad debt portfolios into separate packages. Today, only Amonatbank remains a fully state-owned savings bank.

As of January 2009, there were 12 banks, 7 credit societies, 1 non-banking financial institution and 92 micro finance institutions operating in the Republic of Tajikistan. Through 2008 the number of operating banks increased by one bank ("Kazcommerzbank of Tajikistan", a CJSC), and the number of micro finance institutions increased by 23. The number of credit societies and non-banking financial organizations remained the same. The number of micro-finance organizations was increased due to the establishment of 6 new micro-credit deposit organizations, 13 micro-lending organizations, and 4 micro-lending funds.

The financial institutions operating in the Republic of Tajikistan are as follows:

Banks

- 1 state bank
- 8 joint stock banks
- 3 foreign banks

Credit Societies

- 6 Joint-stock companies
- 1 Limited Liability Company LLC

Non-banking financial organizations

- 1 Joint-stock company

Micro-finance organizations

- Micro-credit deposit organizations
 - 4 CJSCs (Closed Joint Stock Company)
 - 10 LLCs
 - Of which 3 have foreign capital share
- Micro-lending organizations
 - 10 CJSC
 - 27 LLCs
 - Of which 3 have foreign capital share
- Micro-lending funds
 - 41 Public funds

The deposit base of the banking sector has been constantly growing. However the vast bulk of the population for which remittances are the primary source of income make overlook the formal financial sector when making savings, thus leaving significant monetary opportunities unmet.

Existing Savings Products Overview

There are four major types of institutions operating in the financial sector of Tajikistan: banks, credit societies, non-banking financial institutions and micro finance institutions (micro-credit deposit organizations, micro-lending organizations, and micro-lending funds).

These institutions provide a variety of deposit and loans products. These products include (but are not limited to): time and demand deposits with different terms and conditions, child deposits, deposits for financing future purchases, accumulative deposits, card deposits, micro loans targeted at increasing the welfare of households in Tajikistan, business loans/SME (small/medium enterprises) loans (to commerce, services and manufacturing sectors), educational loans, agricultural loans, mortgage loans, overdrafts, consumer loans, car loans, group responsibility loans, and leasing.

Loans to SMEs and micro loans are of strategic importance to Tajikistan, given the level of development and high poverty rates.

Banks in Tajikistan are actively engaged in providing money transfer services, in cooperation with MTOs.

Leasing services provided by financial institutions perform a very important function for the Tajik economy in terms of technological and innovations development as the leasing of assets and machinery contributes to the flow of modern technology and machinery to the county.

Existing financial products offered by financial institutions in Tajikistan can be classified according to the following criteria:

- Type of organisation – the type of the organization to which a loan was provided or for which a deposit account was opened, e.g. loans to SMEs or enterprises engaged in agriculture. Another example could be loans to individual or collective farms.
- Type of product – e.g. micro loans, or micro loans specifically designed for mountainous regions.
- By region – loans and deposits for residents of rural vs. urban areas.

There are also institutions which do not apply such classifications, and do not apply a differentiated approach neither to clients of different categories nor to different geographic regions.

Recent Developments

There are a number of new products being offered by financial institutions in Tajikistan. Among these new products is the “foreign compatriot” deposit account. It is provided for Tajik people who are working abroad. Residents and non-residents alike can open such an account.

Some banks have recently introduced multicurrency deposit products, designed to protect clients from exchange rate fluctuations. Some banks have expanded their activities in the provision of loans to the agricultural sector and SMEs. Moreover, some banks have begun to provide loans for the renovation of houses or apartments, or for making other improvements to housing conditions.

Many of the financial institutions in Tajikistan are regularly developing loans products, based not only on own funds, but also on funds attracted from international organizations and banks, or as long-term foreign investments. This is done with the intention of lending money to various target areas so as to achieve a certain level of development in these areas.

Linking of Savings Products with Remittances

Existing Schemes

According to the survey only about half of Tajik financial institutions are developing new remittance-backed financial products (i.e. using remittance payment history in lending or in attracting deposits). In the main, institutions that offer remittance-backed deposits and loans are those that cooperate with MTOs and host MTO points. The main goal is to keep a part of the money that flows through bank within the bank. In most cases the clients are provided with brochures advertising remittance-related deposit products during the process of receiving remitted money.

The other half of the financial institutions that do not use remittance payment history in lending or attracting deposits consider it too high a risk. Migrants are far away from their home country and remittance flows may be interrupted at any moment. In general remittances-backed schemes are actively applied by institutions through which remittances flow intensively.

In most cases the link between savings products and remittances is indirect, i.e. remittances are considered as a secondary income source. Although in some banks about 50% of clients are remittance receivers (because remittances are a good additional source of money if a client fails to repay with local earnings), remittances are still considered secondary, or even a third-level source of income. This is because in assessing an income for the purpose of lending remittances are considered an unstable and risky income by banks and credit organizations.⁵

⁵ However remittances can in fact be a reliable source of funds – the survey has found that they are regularly sent.

Some financial institutions prefer to have migrants as clients as opposed to migrants' relatives, as they perceive the risk of non-payment to be less likely (as migrants are the source of the funds).

- *Remittance-backed lending*

Financial institutions require proof of monthly remittance flows for at least six months. Statements and receipts from other banks and MTOs are accepted.

Migrant remittances are mostly linked with such loan products as micro loans, consumer loans, educational loans, car loans, loans for apartments/houses renovation/construction, or loans provided for the development of agricultural enterprises. In some banks clients are only admitted to these schemes if they receive over USD 700 for a defined period (usually six months). Some other institutions set a minimum of 600 US dollars. There is also a loan product for emigrants to enable them to buy a ticket to destination countries.⁶ Loan repayment is then made through a "Contact" MTO.

Other types of loan products are provided to clients who use a certain banks' services to receive money transfers and who can provide direct proof of monetary flows.

- *Remittance-backed deposits*

Another scheme currently being applied by financial institutions is one of deposits for remittance receivers. Remittance backed deposits however do not generally work in rural areas due to poor access and are more efficient in urban areas. Moreover, households very often avoid keeping their savings in banks, because of mistrust and because they feel the amounts are too small.

Potential for Improvement

Financial institutions should make a cost and benefit assessment of the efforts required to keep the remittance flows within their institutions. There is also a need for Tajik institutions to be exposed to international experience where banks have successfully leveraged remittances to the benefit of their clients and themselves.

Financial institutions of Tajikistan seem quite inclined towards trying to improve existing remittance-backed schemes. Representatives of banks do think there is

⁶ This is a good scheme for providing support to labor migrants and facilitating their development and earnings.

potential for improving commercial loans, consumer loans, educational loans, loans for agriculture, group responsibility loans, and remittance-backed deposits by giving greater consideration to remittances as additional source of income.

Some of the banks which do not presently apply schemes that link remittances to financial products are beginning to consider the idea of applying such schemes. They think this would improve their portfolio of financial products, especially in case of consumer loans, educational loans, car loans, and loans for agriculture. Some banks plan to develop deposit products especially for emigrants, who will then be able to deposit money while living outside of Tajikistan (e.g. in Russia).

Some credit organizations would give greater emphasis or start to apply remittance-backed loan products if government provides guarantees. These organizations prefer to have guarantees provided by government for individual loans, group responsibility loans, loans for agriculture, and consumer loans. For many other products financial institutions do not see potential for improvement.

Mostly, financial institutions see potential for improvement in the light of taking remittances into consideration more attentively during the lending process, and for attracting deposits.

The fact that financial institutions mentioned the necessity of improving financial products such as loans for construction or renovation of a house or an apartment and educational loans is very important, since as we will see in further sections, there is quite big potential among households to save for these purposes. However, there is even greater savings potential for special events, healthcare needs, pensions and (biggest of all) for “a rainy day”. This ought to inspire financial institutions to improve existing products and/or to develop new ones that are based primarily on remittance flows.

The population of Tajikistan is about 7 million, 1 million of which (according to some estimates) are living abroad, 90% of whom send remittances back home. The unrealised saving and investment potential is huge. That is why it is very important to develop new remittance-backed financial products and/or improve the existing products.

Barriers to Popular Use of Existing Products

Most people in Tajikistan have a negative perception of financial products, largely due to lack of knowledge. The level of financial literacy is still low and there is mistrust of banking institutions. An independent body is needed to introduce people to the advantages of using financial instruments, to promote cashless transactions, and to increase the level of financial literacy.

Barriers to popular use of existing products are the following:

- Awareness

There is a lack of financial awareness and low levels of financial literacy.

- Accessibility/remoteness

Many financial institutions have a limited branch network, especially in rural areas. And even in urban areas the number of branches and ATMs is sometimes limited.

- Lack of government support

Many financial institutions need government guarantees for their loans to their clients. This will lower financial risks and allow financial institutions to rely more on remittance flows.

- Use of informal channels

Sometimes providing formal justification of income as collateral for a loan is difficult as money comes through informal channels, or is hand-carried. Indeed some people avoid using formal channels due to higher costs.

- Documentation

Technical difficulties can arise related to provision of documentation and information to get a loan, particularly in rural areas.

- Mistrust towards banks

After the events of 1990s, when people lost their life savings in the aftermath of the collapse of the USSR, there is still some level of mistrust left towards banks.

- Lack of information

People are not informed about financial products on offer and there is lack of confidence towards the idea of using these products.

- Poor internet access hampers the operation of MTOs. Furthermore, poor electricity supply (even in Dushanbe) also negatively affects money transfer operations, especially in winter.

Barriers and Difficulties in Developing Remittance-Backed Savings Products

Difficulties related to the development of remittance-backed savings product can be presented under the following headings:

- *Lack of skills*

There is lack of skilled specialists to develop remittance-backed savings products.

- *Awareness and mistrust*

The level of financial literacy and information among the population about financial products is quite low (especially in rural areas), and there is mistrust towards banks.

- *Poor infrastructure*

Poor infrastructure does not facilitate people's use of financial products. Hence, there is often little motivation to developing new products.

- *Legislation*

According to new regulations issued by the National Bank of Tajikistan (NBT) banks must reorganize their credit-payment/settlement units on an individual branch basis.

This has resulted in the closure of many branches and consequently of credit-payment/settlement units as individual unit in every branch are more expensive to operate than a centralised system. Remote rural areas are therefore less served by banks than it was the case previously.

- *Technical problems with income justification*

People often do not keep receipts of money received through remittances, particularly in rural areas. This creates additional hurdles for them in justifying their income. Hence it is important that a culture of keeping receipts, or some other form of recording transactions is encouraged.

- *Risks related to instability*

Banks consider income from remittance flows to be unstable, both in rural and urban areas, even though this is usually not the case.

- *Risks related to assessment and control*

If the MTOs through which clients receive money are located in institutions other than the lending institution, remittance flows become less traceable and banks feel that clients can possibly make false statements. That is why remittances are considered as a secondary source of income and collateral or other guarantees are requested. Also many emigrants work and live in foreign countries without documentation, and without a formal job contract. This creates additional hurdles in terms of the documentation required to secure a loan.

- *Use of remittances is predefined*

Remittances are usually small and are mostly spent on immediate consumption needs. In general, remittances are sent for a predefined purpose, and even if part of the money is for saving, this is generally not done in a bank. There are cases when money is sent for investment purposes, but again sidelining banks. It is only when some extra money is left after the investments and expenses are taken into account, that remittance receivers might consider depositing money in banks.

- *Accessibility/remoteness*

People tend to reside quite far from the bank branches, particularly in rural areas.

Financial Risks Related to Remittance-Backed Products

- Risks of non-payment

Relying on remittances alone to back loans is believed to increase risks of non-payment. The risk is perceived to be higher in rural areas where incomes are lower, and where remittances are the main source of income. The risk has increased in the context of the financial crisis, whereby remittance flows to Tajikistan have fallen.

- Instability

Regardless of affirmations of the World Bank that on a global scale remittance flows have an anticyclical character and represent a stable source of income, banks do not consider them to be stable. There are no guarantees that the money will continue to be sent, especially with regard to the current financial crisis. There are estimates that the amount of remittances has decreased by 15%–20% in 2008. That is why remittances are often considered to be only an additional source of income by banks.

- Currency risk

If clients receive their money in Russian Roubles, and take a loan in Somoni and the Somoni appreciates, clients may have difficulties to repay.

Some of the institutions' perception is that there is not too much risk provided that remittances are not considered as a primary source of income and are just additional information for lending. By using such a (conservative) approach financial institutions try to decrease clients' as well as their own risks.

Forecast of Developments

There are two conflicting forecasts for the development of remittance-backed schemes: One group of respondents thinks that these schemes will develop since there is a big savings potential that needs to be attracted to the financial system. Another group thinks that due to the current global financial crisis these products will not develop, at least for some time.

An observation of recent dynamics in emigrant remittances to Tajikistan can lead to some conclusions about further development potential of remittance-backed products.

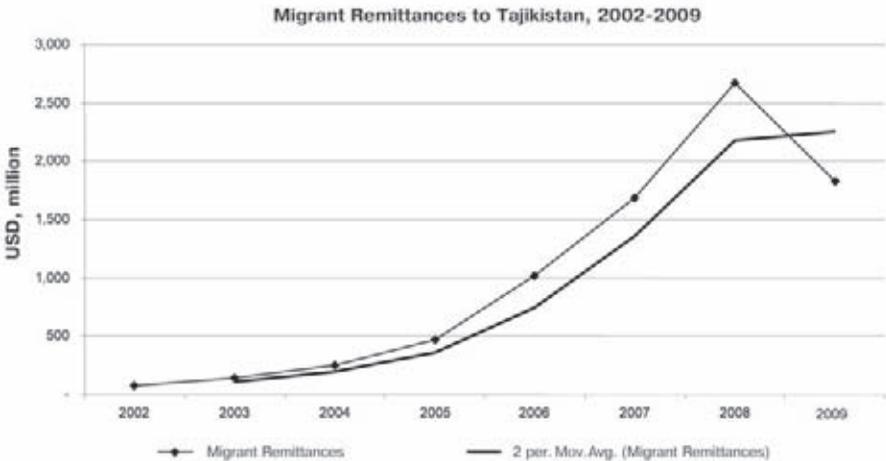


Figure 48. Migrant remittances, 2002–2009

The graph above shows remittance flows to Tajikistan from 2002 to 2009. The amount for 2009 has been estimated by the National Bank. Since 2002 the inflow of remittances has been increasing constantly, except for 2009. Although some experts forecasted a decline in the amount of remittances, in 2008 it increased significantly (by about 58%). In 2009 the flow of remittances declined as was expected by experts (about USD 1.8 billion in 2009, according to the National bank estimation). The average trend line of migrant remittances presented in the graph also reveals some tendency for future decline in remittances. Emigrants are also expected to return home, which will need to be addressed by the government of Tajikistan. Savings brought home by returning emigrants could be attracted into financial system or invested, which could in turn generate some kind of support or employment to returning migrants.

Those who are more optimistic about future development of remittance-backed schemes elaborate further:

- These investment mechanisms can become popular. Many remittance receivers apply for small loans and remittances can be better linked with small loans. Besides, the financial crisis is likely to be a temporary phenomenon, and even during the crisis there are still lots of unrealised opportunities and unused savings;

- Labour force migration will continue, although less intensively, since opportunities for doing business and finding jobs in Tajikistan are still limited;
- There is potential for the development of remittance-backed products, if mechanisms are created, which allow banks and financial institutions to accurately identify income sources. If internet and mobile phone networks through which people will send money become more transparent the process will become more easily traceable and will develop. Time is required however for these processes to develop.
- Financial institutions which are planning to get involved in the money transfer system will develop new remittance-backed products.
- Over some time financial institutions will consider remittances more intensively.

The second group see these mechanisms as having less potential and argue that:

- In the light of the current financial crisis the flow of remittances will decline. Consequently, relying on remittances in the process of lending will be more risky and uncontrollable. Savings, which could be attracted as deposits will decline. Although historically remittances were counter-cyclical and proved to be a good catalyst for economy, the current situation is different in that the crisis has a global character involving many different countries.

Independently from the expected changes in remittances flows, there is still big investment potential in unused savings, and financial institutions in Tajikistan do plan to attract the unused savings of remittance receivers into the financial system (since the potential is high enough) through more intensive marketing campaigns aimed at, among other things, bolstering trust in banks.

There are various MTOs operating currently in Tajikistan and a high level of competition will ensure low transaction fees. Improving the quality of services and the accessibility provided by MTOs will help to maintain remittances flows to Tajikistan.

Mechanisms To Leverage Remittances For Enhanced Development Impact

Gaps and Opportunities: Saving Potential

While the deposits of the banking sector have been growing, the section of the population for which remittances are the primary source of income continue to keep their savings away from banks and financial institutions, thus leaving significant monetary opportunities unmet.

Various estimates show that there is still big potential for unused savings to be attracted to the financial system. According to the National Bank estimates, about 2.67 billion US dollars were remitted to Tajikistan by emigrants in 2008. Our household survey results show that, on average, 12% of remittances⁷ were saved for less than six months (short-term savings), making up about 331 million US dollars. 11% is saved for more than six months, making up about 286 million US dollars. Totally, therefore, about 617 million US dollars were saved from remittances in 2008. Even if 10% can be attracted to the financial system, it is already 61.7 million USD, a significant amount of money by any standards.

Some gaps and barriers (described in the previous sections) are hindering financial institutions from developing more efficient remittance-backed mechanisms. However, should these barriers be overcome there is huge potential. Taking the USD 2.67 billion remittances flowing into Tajikistan in 2008 and estimated savings from remittances (USD 617 million) and combining this with our survey data, one can estimate how much could be saved, and for what purpose. According to the survey, 7.3% of households in Tajikistan saved for tuition fees; 22.8% for “a rainy day”; 22.2% for buying or renovating an apartment or a house; 18.9% for special events; 16.2% for healthcare needs; and 4.6% for a pension.⁸

⁷ Weighted average methodology was applied to estimate this portion.

⁸ An assumption was made that the breakdown of remittance receiving households by saving purposes is the same as for all households in Tajikistan.

Furthermore, according to the household survey results, an average 10%⁹ of remittances¹⁰ was spent on education in 2008 (see Use of Income); about 10% was spent on unexpected occasions; about 12% on the purchase of or renovations of a house or apartment; 11% on special events; 11% on healthcare needs; and 8% for expenses to cover pension payments. Based on this data, the total savings from remittances for each of these purposes was estimated.

Thus, it is estimated that over 4.6 million USD is saved for paying tuition fees or expenses on education; over USD 14.4 million is saved for “a rainy day”; about USD 15.9 million is saved for buying or renovating an apartment or a house; about 13.1 million USD is saved for special events; over 10.5 million USD for healthcare needs; and about 2.3 million USD for pension age expenses. These are rather large amounts of money that could be attracted to the financial system. The saving potential only for the above-mentioned purposes makes up about 8%–9% of banking deposits, while the total savings made from remittances account for about 88% of total deposits in the banking sector.

These estimations ought to be taken into consideration when developing new remittance-backed mechanisms. Although the amounts being remitted may well decline due to the financial crisis, the potential is still there for remittances to be attracted into the financial system.

Proposed New Remittance-Backed Financial Mechanisms

Principles for Developing New Mechanisms

When developing proposed new remittance backed mechanisms we relied on findings (gaps and opportunities) revealed in the household survey and in-depth interviews with the financial institutions and banks. These mechanisms aim at filling the gaps and exploiting the opportunities to attract remittances into the financial system.

All the mechanisms that we propose are strictly based on the following principles:

1. The mechanisms should be financially viable for the institution that is going to apply it;

⁹ Weighted average methodology was applied.

¹⁰ An assumption was made that remittances and income are used for similar purposes.

2. The proposed mechanisms must be directly linked to the economic development in Tajikistan (products should not be designed just for emigrants, must be targeted to link migrant remittances with economic development);
3. The mechanisms/products must be innovative;
4. In the proposed mechanisms remittances must be treated as a *primary* source of income as opposed to as a secondary source, the way it is currently standard practice;
5. The proposed mechanisms are based on a clear recognition that remittances are private transfers and that the savings involved belong to migrants and their families, whose primacy of choice must be respected in their allocation plans.
6. There is a need for steps to foster greater awareness among financial service providers on how remittance-backed products can be developed and on international experience in this regard. At the same time greater financial awareness on using banking and insurance products needs to be promoted among remittance receivers.

Apart from better utilisation of remittance history (similar to credit history) in assessing loan applications, the study proposes three mechanisms to attract remittances into the formal financial sector for the benefit of both the households' livelihoods and the overall economy.

Mechanism 1: Facilitating Organization of Family Events

a) Objective	To help remittance receivers organize family/traditional events, and help them hedge against changing prices.
b) Opportunity to address	About 19% of remittance receivers save a part of remittances for special events, including weddings, and on average 11% of remittances were spent on special events.

c) Target clients	Remittance receivers who want to organize weddings or other traditional family events.
d) Type of organization offering product	Bank
e) Type of product	Deposit product
f) Description of product	Client plans to organize a wedding within the next 3 years. He/she cannot afford to do it right at the moment and is accumulating money for that purpose. Also there is a risk that in 3 years it will be hard to organize the same type of wedding due to changing prices. The bank ensures the desired type of wedding for the client regardless of changing prices if remittances are deposited in the bank. The venues are defined in advance.
g) Terms and conditions	<p>Duration is 3 years. After one year of regular accumulation of deposits (each month a certain amount of remittances is deposited) the client gets an opportunity to withdraw 70% of the entire amount that should have been accumulated within 3 years. If the client waits for the entire period of 3 years, he/she can get 120% of the deposited amount. In the case of a client deciding to withdraw the money earlier, the amount is devalued according to the most recent inflation figures.</p> <p>If the client deposits remittances for all 3 years, the bank finances a similar wedding at the end of the product</p>

	<p>duration, independently from price changes.</p> <p>Remittances are considered as the primary source of income.</p>
h) Estimated volumes	About USD 13.1 million

Mechanism 2: Making Tuition Fee Requirements More Accessible

a) Objective	To help remittance receivers afford tuition fees and to generate tuition loans.
b) Opportunity to address	About 7.3% of households saved for paying tuition fees. On average 10% of remittances were spent on education.
c) Target clients	Remittance receivers who need to pay tuition fees.
d) Type of organization offering product	Banks
e) Type of product	Mixed
f) Description of product	<p>a. Client takes a tuition loan for a family member or him/herself and the loan is recovered in monthly instalments from remittances. The list of educational institutions is defined in advance.</p> <p>b. Alternatively client deposits fixed amounts from remittances each month and the bank covers tuition fees directly and independently of changes in fees.</p>

g) Terms and conditions	<p>a. Duration is 4 years. Repayment is on monthly instalments directly from remittances</p> <p>b. Duration is 4 years. Each month the client lodges fixed amounts on a deposit account. The bank covers tuition fees for 4 years independently from changes in fees.</p> <p>Remittances are considered as a primary source of income but additional guarantees could be taken (from sponsor/educational institution)</p>
h) Estimated volumes	USD 4.6 million

Mechanism 3: Expanding Medical Insurance Coverage

a) Objective	To help remittance receivers buy medical insurance
b) Opportunity to address	About 16% of households saved for paying medical costs. On average 11% of remittances was spent on medical costs.
c) Target clients	Remittance receivers who need to buy medical insurance.
d) Type of organization offering product	Banks and credit organizations
e) Type of product	Micro-insurance
f) Description of product	Client cannot afford to a make lump sum payment in order to buy medical insurance.

	<p>The bank or the credit organization buys insurance policy for the client and registers this transaction as a loan. The client, who is a remittance receiver, pays off this loan using migrant remittances.</p> <p>Alternatively the remittance sender buys a transnational health insurance policy for family members in the country of origin</p>
g) Terms and conditions	Duration is 3 years. Remittances are considered as a primary source of income.
h) Estimated volumes	About USD 10.5 million

Annex 1:

List of Interviewed Institutions

- Public corporation bank “Eskhata”;
- Open joint stock company “Agroinvestbank”;
- Open joint stock company “Orionbank”;
- State savings bank “Amonatbank”;
- Closed joint stock company TAKPBR “Tojprombank”;
- Limited liability company, micro-credit deposit organization “Finca” (MCDO);
- Micro-lending organization “Humo” (MLO).

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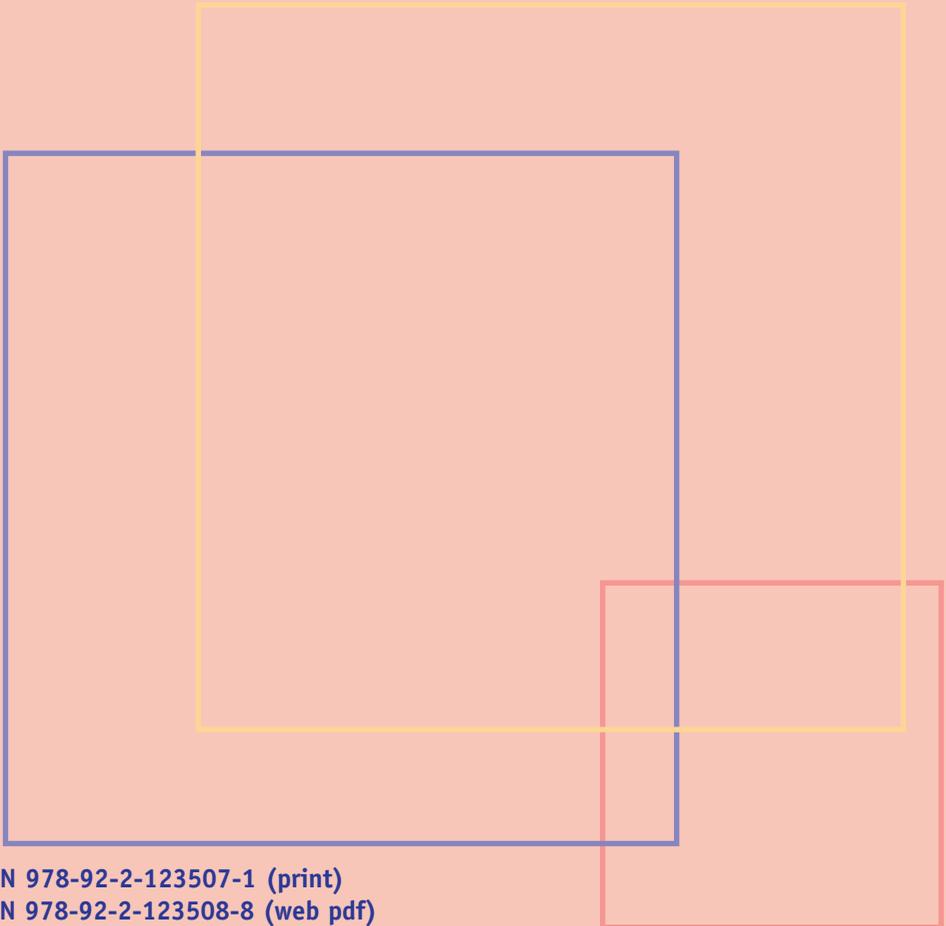
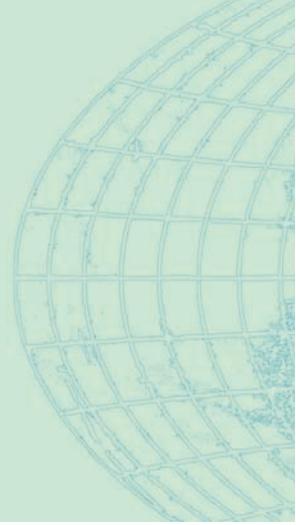
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