Remittances and their potential for savings in countries of origin – Armenia and Tajikistan

Expert Group Meeting on Strengthening Capacities for Migration Management in Central Asia,

UN ESCAP

Bangkok, September 20-21, 2010

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Migration and Development

Driving Forces
Push Factors
Pull Factors
Inter-country networks

Migration

Development Impact

Countries of Origin
Financial transfers
Skills and technology transfer
Brain-drain

Countries of Destination
Filling labour shortages
Public Finances
Wages & Employment

Policies/strategies
Overseas employment
Enhancing the development impact of remittances
Mitigating the adverse effects of brain-drain
Return of qualified
Engaging the diaspora

International Cooperation

Policies/strategies
Assessing migration needs
Admission policies
Post admission policies

Diaspora organizations

Remittances

1. Introduction

- USD 316 billion remitted to developing countries in 2009 (World Bank). Down 6% from 2008 due to the global economic slow down
- The World Bank has published the following estimates for inward remittance flows (mainly but not only from Russia) in 2009:

	USD millions (2009)	As share of GDP (2008)
Armenia	729	8.9%
Azerbaijan	1243	3.4%
Kyrgyzstan	882	28%
Moldova	1211	31%
Tajikistan	1747	50%

- Compared to 2008 there is a fall in remittances to the above countries by about 30%.

Remittances

- Remittances costs generally low in the region
- Stakeholders – remittance sender and receiver; private funds
- Three main issues around remittances – services; development impact; data.
- Costs and Benefits of remittances

Remittances

2. Results of ILO-EU Studies in the Region (Armenia and Tajikistan)

2.1 Armenia (survey of 1000 migrant families and banks/MFIs - 2008)

- 73% of migrants in Russia; 8% in United States; 4% in Ukraine
- 25% women and 75% men; 55% of migrants in 26-45 age group
- Seasonal migrants: 22%; Absent for two years and more with several visits-39%
- 71% of migrants receive remittances
- 80% HHs who have migrants abroad receive remittances at least quarterly (20% monthly)
- 82% of remittances is spent on current consumption

Remittances

Savings

- Savings from remittances - 8% (mostly for special events) represents a large sum
- However little savings are kept in banks
- 14% of respondents have an active bank account
- 3% of HHs who save keep a portion in banks
- Reasons: Habit, mistrust of banks, amount too small
- Awareness of available savings schemes: 27%
- Awareness greater among account holders: 60%

Remittances

Remittance backed products (UNIBANK)

- Debt servicing from remittances

- Overdraft facility (upto USD 500 for regular remittance receivers)

- Direct payment from remittances for utility bills and the other municipal payments

- Smart card for transfers

Some banks use remittance history as a criteria for lending (secondary source of income of client) and to promote deposits

Remittances

2.2 Tajikistan (survey of 1267 migrant families and banks/MFIs-2009)

- Destination country – Russia (99% of migrants)
- 5% women, 60% of migrants between 25-45 years old
- Main occupation – labourers and construction
- Seasonal migrants – 34%; Absent for two years and more with several visits-35%
- 89% of migrants receive remittances
- >80% HHs who have migrants abroad receive remittances at least quarterly (and 20% monthly)
- 87% use formal remittance channels (MTOs and Banks)
- In >60% HHs remittances account for >50% of income
- 57% of remittances for immediate consumption needs

Remittances

Savings

- > 6 months - 11% of remittances; 12% upto sixmonths. This makes USD 617 million in 2008
- However little savings are kept in banks – 2% of HHs having savings
- Reasons: amount, habit, mistrust of banks
- Purposes of saving-”rainy day”-23%; house-22%; special events-19%; healthcare-16%.
- 98% of remittances receivers – no bank account
- Awareness of available savings schemes: 5%. Higher among those having an account

Financial Products

- Some banks use remittance history as a criteria for lending (secondary source of income of client) and to promote deposits
- Loans for departure (up to USD 500) repaid from remittances. AgroInvest Bank: ’09 – 8000 loans; 17 million Somoni

Remittances

3. Recommendations of studies

- Greater awareness: among financial service providers on developing remittance backed products given huge potential market; and among remittance receivers on taking advantage of financial services
- Better utilization of remittance history in lending
- Loan products tailored to migrants and their family members based on savings pattern (housing, special events, education, health) – advantage to clients is that he/she will receive lump sum in advance.
- Remittances costs are low but access can be improved

Remittances

Remittance-backed Financial Products proposed in Armenia

1. Loan products (business, agriculture, vehicle, medical insurance) of up to one year for regular remittance receivers (evidence provided).
2. Mixed (deposit-loan) product – tuition. The list of institutions and admission obtained. The bank pays tuition (loan) and the client accumulates fixed amounts on a deposit account. Four year period. Regular remittance receiver. Additional guarantee may be taken.
3. Stabilizing cash flow for utility payments: Utility bills in winter months are much higher. Mixed product. Bank pays annual amount in advance (loan) and the client accumulates fixed amounts on a deposit account. Difference is off-set by interest payments (loan/deposit)
4. Departure loan: To pay for air-plane ticket and initial living expenses. Up to USD 1500 for one year. Repayment from remittances. Regular remitter.

Financial education and awareness.

Remittances

Remittance-backed Financial Products proposed in Tajikistan (and introduced by Agro-Invest Bank)

1. A deposit account for retirement savings is opened with 10% of remittances being transferred to the account. Three year or longer term (introduced by Agro-Invest Bank)
2. Mixed (deposit-loan) product – tuition. (introduced by Agro-Invest Bank)
3. Attracting savings from remittance receiver via introduction of plastic cards which have spending limits. Interest paid on balance and transferred to deposit account.

Financial education and awareness.

Concluding Remarks

•Remittances costs from Russia to CIS are low;

• Financial products can be tailored for migrants/families in order to generate greater savings and investment from remittances

• Measures for increasing financial education and awareness need to be undertaken

•Some CIS countries have started to take steps to engage diaspora; they are a repository for skill and financial resources; outreach needs to take place first

• Return policies and mechanisms can be given more attention in the region (for labour migrants) – skills register

Thank you for your attention