Migration, Remittances, and Living Standards in Tajikistan

A Report Based on Khatlon Remittances and Living Standards Measurement Survey (KLSS 2005)

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[The views expressed here are those of the author and do not necessarily represent the official views of IOM. Earlier versions of this report were circulated in March 2006 and Dec 2006; the present version is substantially revised and should be the *only* version that should be cited].

Foreword

Remittances sent home by Tajikistanis living or working abroad have been supporting thousands of households in Tajikistan through difficult years after the independence. Remittances have particularly been the bedrock of the Tajikistan economy through the period of reconstruction following the Peace Accord of 1997. Although generally recognized to be substantial, the significance of remittances for Tajikistan economy relative to other developing and transition economies was not adequately recognized in the literature or in the published documents of the international organizations until fairly recently. As the present report shows, in terms of remittances to GDP ratio, Tajikistan was already among the top 10 recipient countries in 2004. In the past three years this ratio has even increased. Tajikistan moves to the third place among the top 20 recipients. Inadequate or non-existent data have given rise to estimates that bear no relationship to reality. While it is relatively easy to calculate remittances sent through formal channels, estimating the size of informal flows is almost impossible without a well-designed comprehensive survey of senders and receivers.

Realizing the significance of the issue for the Tajikistan economy, IOM, with the financial support of UNDP Tajikistan, implemented a project to leverage remittances for development at the community level. As part of this project, a detailed household survey (KLSS 2005) was conducted in the Khatlon Region of Tajikistan that included a comprehensive module on migrant remittances. The objective of the survey was to provide quantitative data at the individual, household and community level in the Khatlon Oblast to facilitate purposeful policy design to harness migrant remittances for developmental purposes.

Hence, the significance of the present study: it is the first study of remittances that is based on a representative survey of Tajikistani households. The survey was designed to generate a panel database on the households interviewed in Khatlon for the 1999 Living Standards Measurement Survey to shed light on the dynamics of migration and remittances and assess the changes in the living standards of the people since 1999, and discussed in a number of seminars and conferences before being finally published.

Although some work on remittances in the Russia-CIS corridor has recently been published, the current report is the first report in the region on the nexus between remittances and development based on a representative household survey.

The report provides a comprehensive survey of the literature on the connection between migration/remittances and development. It propounds some innovative strategies to increase the impact of remittances for economic development. The policy recommendations should be of particular relevance to the other labor exporting countries with similar structural conditions.

I hope that this report on remittances will be a useful source for many national and international organizations, scholars and researchers, but before all for the Government of Tajikistan for designing new policies to utilize the potentials of labour migrants' remittances for economic development.

This report is the extract of the hard work of several people over many months. I would like to particularly thank the author of this report, Dr. Ghaffar Mughal, the staff of IOM Tajikistan and all others who helped this report to become a reality.

Mahmoud Naderi

Chief of Mission
International Organization for Migration
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Abbreviations

BOP	Balance of payments
BOT	Balance of trade
CAREC	Central Asia Regional Economic Cooperation
CAS	Country Assistance Strategy
CBO	Community-based organization
CIS	Commonwealth of Independent States
COMECON	Council of Mutual Economic Assistance
DCs	Developed countries
DFID	Department for International Development of United Kingdom
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia Region (World Bank)
ECSSD	ECA Environmentally and Socially Sustainable Development Unit (World Bank)
ERR	Economic rate of return
EU	European Union
EU-8	Czech, Republic, Hungary Poland, Slovakia, Latvia and Lithuania, Estonia Slovenia
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FMS	Federal Migration Service of the Russian Federation
FRR	Financial rate of return
FSB	Federal Security Service of Russian Federation
FSP	Food Security Programme of the European Union
FSU	Former Soviet Union
GDA	Public private partnership
GDP	Gross Domestic Product
GIS	Geographic Information System
GNP	Gross National Product
GOT	Government of Tajikistan
GPT	General Purpose technology
HPP	Hydro Power Plant
HSM	Highly skilled scientific migration
IDA	International Development Association
IFAD	International Fund for Agriculture Development
IFI	International Financial Institution
IFS	International Financial Statistics
JSC	Joint stock company
KLSS	Khatlon Remittances and Living Standards Survey
LSMS	Living Standards Measurement Survey
MTO	Money transfer operator (like Western Union)
MVD	Russian Interior Ministry
NIS	Newly Independent States

NGO	Non-governmental organization
NPV	Net present value
NRIs	Non-resident Indians
NWASP	North West Agriculture Service Project of IFAD
O&M	Operations & maintenance
OME	Operation and Maintenance Enterprise
PAD	Project Appraisal Document (of the World Bank)
PCE	Monthly Per Capita Expenditure
PCI	Per capita income
PFBP	Poverty Family Benefit Program
PPP	Purchasing power parity
PRS	Poverty Reduction Strategy
PSIA	Poverty and social impact analysis
PSU	Primary sampling units
RNFE	Rural non-farm economy
SEE	South and Eastern Europe
SSCT	State Statistical Committee o f Tajikistan
SIF	Social Investment Fund
SME	Small and medium size enterprise
TABLE	Technical Advisory Board
TLSS	Tajikistan Living Standards Measurement Survey
UNDP	United Nations Development Programme
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollars ($)
USDA	United States Department of Agriculture
USSR	Union of Soviet Socialist Republics
VAT	Value added tax
WB	World Bank
WBI	World Bank Institute
WDI	Water Development Institute
WDI	World Development Indicators
WHO	World Health Organization of the United Nations
WTO	World Trade Organization

EXECUTIVE SUMMARY

Following the breakup of the Former Soviet Union (FSU), Tajikistan faced a daunting development task – fragile infrastructure, weakened links with the rest of the ex-Soviet republics, a near non-existent banking sector (with Russian ruble serving as national currency until 1995), mass exodus of the highly educated Russian and other non-Tajik ethnic groups, hyperinflation, mass unemployment, weak or non-existent economic and political institutions, and, a thoroughly corrupt civil service. The situation was further aggravated by the protracted civil war (1992-1997).

Both nature and history have conspired to make Tajikistan an ideal candidate for the *export of labor as a substitute for trade in goods.* The defining characteristic of the Tajik economy is the small size of its economy with limited opportunities to expand the size of the market through trade linkages given its landlockedness, difficulties in transit, and high transportation costs. Tajikistan cannot reap the benefits of specialization that attend upon large scale production because large scale industrialization is premised upon demand for the industrial output. *For a small economy with limited domestic market, that demand must come from other countries. Export of labor offers a substitute for trade in goods.*

***Seasonal migration and remittances have become a structural feature of the Tajik economy*!** Although there was massive permanent outflow of people, mainly of ethnic Russians, from Tajikistan in the early years following the demise of the former Soviet Union, contemporary Tajik migration is predominantly seasonal and has been showing a growing trend over the last few years; as a result both migration and remittances coming home have been growing and have become a structural feature of the economy.

Tajikistan was the second largest recipient of remittances from Russia in 2006, only slightly behind Uzbekistan, a country four times the size of Tajikistan in terms of population.

Several factors seem to have locked Tajiks into working almost exclusively in Russia – strong historical and linguistic relationships between Russia and Tajikistan, a visa free regime, relatively low cost of travel, presence of large Tajik enclaves so that not knowing even the Russian language does not pose a significant obstacle in finding a job and settling down, lack of mobile and flexible intellectual and human capital (such as knowledge of English) that could be used in other destination countries, and absence of Diaspora of Tajik migrants in other promising markets for Tajik labor. Increasing demand for labor from Russia attending upon the oil boom of last few years and a widening wage gap between Russia and Tajikistan have only consolidated the exiting patterns in spite of rampant xenophobia in Russia.

In contrast with the dominant view in published literature, we detect a U-shaped transformation of human development indices in Tajikistan since the break-up of the

Former Soviet Union. Recent empirical evidence shows that poverty in Tajikistan has been steadily falling over the last several years. Private expenditure on health care and education has been increasing. We argue that remittances hold the key to the recovery of Tajik economy.

Migrant remittances have been playing an unprecedented role in macroeconomic stabilization, growth, and alleviation of poverty in developing countries without any government intervention. Remittances sent by Tajik migrants have helped millions of families survive the painful period of transition in the aftermath of the demise of the FSU and the ensuing Civil War (1992-97), have underpinned the growth of the Tajik economy, have given the budding financial sector a shot in the arm, have facilitated structural reforms, and have provided a valuable source of savings and foreign exchange to finance badly needed imports.

The nexus between migration, remittances, and development has remained largely unexplored in Tajikistan despite Tajikistan being among the top labor exporting countries ranking third in terms of the share of remittances in GDP (in 2004).

The report is based on the Khatlon Living Standards Survey of 2005 (henceforth, KLSS 2005) and was commissioned by IOM with a view to fulfilling the following six objectives:

(a) to quantify the magnitude of remittances into Tajikistan and put the estimates of migration from, and remittances into, Tajikistan on firmer footing;
(b) to investigate into the dynamics of remittances;
(c) to assess the impact of remittances on individuals, households, and communities;
(d) to discuss the policy implications;
(e) to propose innovative strategies to boost remittances and leverage remittances for development while they last; and finally to
(f) to draw lessons for designing a nationwide study and suggest avenues for fruitful research in the area.

I. Main Findings

The main findings of the report based on the survey and other sources are as follows:

- **Almost 99% of all migrants from Khatlon in 2004-2005 reported Russia to be the country of destination.** Thus, Tajikistan and Russia continue their symbiotic relationship today as they did during the Soviet era - albeit the form of mutual dependence has transformed from raw material for subsidies to migrant labor for remittances. Tajikistan was the second largest recipient of formal remittances from Russia through the banking system in 2006.

- **The 2005 migrant cohort from Khatlon is estimated at 132,000, while for the country as a whole it is estimated at approximately 371000 people**

(17 percent of the economically active population, and 31% of the economically active male population, given the preponderance of males among Tajik migrants). The estimate is likely to be biased downward because of attrition from the sample presumably due mainly to outmigration.

- **Total remittances in Tajikistan are estimated at approximately $550 million (26 percent of GDP) and $735 million (31% of of GDP) in 2004 and 2005 respectively.** *It must be emphasized that the accuracy and reliability of our estimates depends crucially upon the accuracy and precision of the downward adjustments made by NBT in formal remittances on account of exportables.*

- Most migrants move abroad temporarily and repeatedly, so both the number of people working abroad as well as remittance flows is highly seasonal.

- Temporary seasonal migration has risen considerably since 1999, mainly due to the oil boom and the shift in structural demand for labor in Russia in favor of sectors such as construction where work nearly stops in winter.

- **Tajik migrants from Khatlon are predominantly male (92% in our sample) and young (with two thirds of the migrants being 20 to 39 years old).**

- While significant irreversible brain drain took place in the early 90s in the immediate aftermath of the demise of the FSU, the defining characteristic of contemporary migration from Khatlon is brawn, rather than brain with **only 7% of the migrants from Khatlon having tertiary education.**

- Tajiks receive the lowest per capita remittances in the entire Former Soviet Union subsystem (with the possible exception of Uzbeks); they also pay the highest amount of 'unofficial tax' of any immigrant group.

- **Remittances *per migrant* in Khatlon in 2005 are estimated at $1296.**

- ***Bulk of the cash remittances (82% of the total) to Khatlon oblast by immediate family members are transferred through formal channels.***

- **This shift from informal to formal channels has underpinned the liquidity of Tajik financial system and holds great promise for its further growth**.

- Remittances accounted for 13% of the total household income in Khatlon in 2004-2005 and about 20% of the total private expenditure of households.

- **Remittances from family and non-family members supported an estimated 35% of the total population in Khatlon in 2004-2005.**

- **Remittances in Khatlon have been associated with reduction in poverty since 1999. Fifty percent of the extremely poor households in 1999 and who were receiving remittances in 2005 were found to have risen above poverty.**

- **Most remittances (86%) are used to meet basic current consumption needs, with debt repayment being the second and third most important uses (18% and 24% respectively).**

- Although calculated Gini coefficient of inequality of 0.5 shows a worsening of income distribution, relative to 1999 when it was 0.38 for the households in the panel data on Khatlon, the effect of remittances on income distribution remains ambiguous at best.

- An insignificant amount of remittances is 'reported' to be saved because they are needed to sustain families. Savings are largely spent on real estate purchase of improvement, with only marginal amounts invested in business activities.

- Even though use of remittances for savings is reported to be insignificant, **the ratio of total monthly remittances to total monthly expenditure of for the remittance receiving households is 1.36 which signifies presence of *latent* savings that could be potentially tapped into**.

In relation to macroeconomic effects, even when spent on consumer goods, remittances have a multiplier effect on GDP and indirectly induce investment through backward and forward linkages.

- Remittances in Tajikistan have been positively associated with high GDP growth and increasing employment since 2002.

- By providing an important source of regular (albeit seasonal) liquidity, remittances appear to have underpinned the growing strength of the financial sector in Tajikistan.

- **There is little evidence of remittances being subject to the commodity curse or the Dutch Disease in Tajikistan.** Remittances are like export proceeds from a single commodity, labor. Unlike natural resources, remittances are not manna from heaven and therefore not subject to rent seeking by bureaucracy associated with sudden discovery and exploitation of abundant.

In the short to medium term, remittances are likely to remain a stable and countercyclical source of income and foreign exchange in Tajikistan. In the long run, as more migrants decide to settle in Russia and bring their families out of the country, we expect to see a smaller *proportion* of migrant earnings transferred as remittances. The

decline in the proportion of earnings remitted need not translate into lower absolute amounts of remittances over the medium term, ceteris paribus, as migrant income tends to increase with longer duration of stay and there is a premium associated with Russian citizenship.

II. Recommendations

As for policy recommendations, in the best of all possible worlds, with free movement of people across international boundaries and tolerance to be the norm, we would have recommended 'Leave the migrants alone as the equilibrium achieved through the international labor market is efficient'. However, given the imperfections of the world, the report offers a series of recommendations on initiatives that could be undertaken by the Tajik government, the donor community and immigrant receiving countries. Drawing upon theoretical insights and the findings from the survey, we offer two sets of recommendations:

a. **recommendations to *maximize* remittance flows**
b. **recommendations *to leverage remittances for development; and***

II.A. Recommendations to Maximize Remittance Flows

As for recommendations to expand the volume of remittances, we propose two sets of policies: i. policies to expand the size of remittances from Russia; and, ii. policies to diversify destination countries.

As for Policies to expand the size of remittances from Russia, we recommend the following measures:

- Tajik government should work with the Russian government to improve the legal and social environment of work for migrant workers. Not only do Tajiks receive the lowest per capita income from remittances in the entire Former Soviet Union subsystem (with the possible exception of Uzbeks), they also pay the highest amount of 'unofficial tax' of any immigrant group.

- Both governments should project the gains of immigration from Tajikistan to Russia for both countries. To increase the earnings of Tajik workers in Russia and to reduce the potential for harassment, **Tajik government should encourage literacy in Russian, particularly at the village level.**

- Tajik **government should encourage the reduction of transfer fees to even lower levels** through encouraging more competition rather than interfering directly.

Tajikistan is a virtual hostage to demand for her labor in Russia. The second set of recommendations to maximize remittances underscores the need to diversify destination countries.

An important vehicle of diversifying the pool of destination countries for Tajik labor is the acquisition of general purpose technologies. Given the limited size of its market and double-landlockedness, Tajikistan does not have good prospects of reaping economies of scale and exporting manufactured goods; but it can develop a comparative advantage in general purpose technologies. The examples of small countries like Ireland and Iceland are instructive in this regard.[1] GPT can enable a small country with limited market size behave as if it can produce a number of different things on demand.

Acquisition of GPT should enhance the mobility of labor and make Tajikistan less vulnerable to economic shocks in a single destination country.

We underscore the view that English and IT are two major forms of GPT relatively easily available in the contemporary world, but Tajikistan is a laggard in both among the FSU republics. The English language proficiency of Tajik population is, in general, abysmally low compared to countries like Kazakhstan or even Kyrgyzstan. Tajikistan would do well to promote it systematically.

While enhancing the proficiency in Russian is like acquiring a 'regional' general purpose technology, enhancing proficiency in English language is like acquiring a 'global' general purpose technology.

We propose the following specific measures to promote Tajikistan's capacity in English:

- **Tajik government should create conducive conditions to encourage the creation of English medium institutions** like the American Universities in Armenia and Kyrgyzstan, and Westminster University in Uzbekistan.
- Government of Tajikistan should approach the British government to open a branch of **British Council** in Tajikistan.
- Government should **seek help from English speaking countries to promote the teaching of English at the elementary and secondary school level.**

[1] The recent transformation of Ireland (considered to be a part of underdeveloped Europe) from being a country of emigration to a country of immigration is highly intriguing from the viewpoint of development and the role played in it by GPT. A similar process has been taking place in the small Nordic country of Finland with only 5 million population. Until 1990, Finland was an emigration country; now it has become an immigrant country. In the last 50 years, Finland has transformed itself from an agriculturally oriented culture into a competitive, technologically advanced information society. Finland is noted for the least corruption and the best competitiveness rate of any country in the world, according to international indices. Over 85 percent of Finnish households have access to a broadband Internet connection and over 90 percent of the active population has a mobile phone. Tanner Arno. 2004. "Finland's Prosperity Brings New Migrants." MPI. Available at http://www.migrationpolicy.org:80/

Tajikistan would benefit greatly from tapping into the English speaking Immigrant market in countries such as Canada, Australia, and New Zealand. Diversification into the advanced countries is likely to have an additional spin-off benefit in terms of what is called 'social remittances' - the transfer of positive norms, values, and ethos.[2] Tapping into the English-speaking immigrant market is also likely to have a positive effect on the status of women in so far as the composition of demand from these countries is likely to be more gender-balanced and in so far as migrants to these countries help transplant a more egalitarian ethos to the country of origin.

Free access to the global labor market is what the government of Tajikistan ought to strive for. The government of Tajikistan might initiate bilateral agreements for Guest worker programs with major immigrant countries (such as Canada in agricultural and oil sectors. Far-fetched as it may seem, approaching CIDA to discuss the possibility of a guest worker program in the Oil Sands of Alberta for Tajik workers who have acquired skills working in Russia.

We expect Tajik health workers and nurses to have great promise of finding jobs in advanced countries that suffer from the Baumol effect or the so-called cost disease of the services sector. Since women are disproportionately represented in this area, this strategy is doubly blessed. Nothing will contribute to the empowerment of women more than creating employment opportunities.

Dissemination of information about opportunities in high income immigrant countries should motivate potential workers to seek opportunities in a high income area and has the potential to boost remittances indirectly.

Another set of recommendation involve the promotion of Information Technology which is another form of General Purpose Technology (GPT) relatively easily accessible.

Tajikistan should look south and southeast towards countries such as India and Malaysia to tap into the vast pool of IT specialists and enhance its technological linkages with the highly developed IT industry and educational system in India and Malaysia to promote its own IT sector and indigenous capacity in English.

The recently developed National Development Strategy (NDS) of the Tajik government is a highly significant effort in the tradition of Big Push ideas, but it falls short of recognizing the strategic importance of migration and remittances for the self-sustained growth of the Tajik economy in the short to medium run.

The shortcomings of NDS notwithstanding, there are strong objective conditions that favor a Big Push approach towards Tajikistan. These include, among others, (a) landlockedness and transit difficulties; (b) physical distance from fast growing regions of the world; (c) lack of indigenous oil and gas deposits and the exponentially increasing cost

[2] Social remittances refer to transmission of information, ideas, norms, identities, and cultural values from the receiving to the sending countries (Levitt 2001).

of energy; (d) proximity to an unstable narco-based economy; and (e) destruction of infrastructure caused by the civil war. These objective conditions translate into limited size of the market which prevents economies of scale in production. Hence, the strategic importance of migration as a vehicle of not only survival but development!

II.B. Recommendations to Leverage Remittance for Development

It is important to maximize the flow of remittances through the formal channels. Bringing remittances into the formal financial sector is expected to increase the depth of the financial sector and give government some leverage over the productive utilization of funds. Access of poor migrants and their families to formal financial services for sending and receiving remittances could be improved further through public policies that encourage expansion of banking networks (for instance, by lowering capital requirements on remittance services) and improve competition in the remittance transfer market to provide low-cost remittance services.

Given the low level of managerial capacity and absence of prior experience, direct policies aimed at valorizing remittances at the local level can be doubly blessed if the donor community is closely engaged in promoting institutional capacity building and improving the market and financial infrastructure.

Due to the nature, structure and low density of the economy coupled with an underdeveloped and un-trusted banking system, donor-funded microfinance institutions (MFIs) have become important players in Tajikistan's financial system.

While IT incubators offer some solution to IT business development, we suggest that international donors should step in to wire . The recently implemented USAID funded project in Macedonia to wire the whole country can serve as a model.

Donors: Finally, given the increasing Knowledge Divide (exacerbated by the Civil War and the withdrawal of the research community) between Tajikistan and other well-endowed Central Asian countries, there is urgent need for Remedial Funding for research on a number of subjects, including migration and remittances.

In order to bank the unbanked, the government has to address the following factors that underlie the continued use of informal channels of transfer: a) the irregular status of the majority of Tajik migrants in Russia; b) inertia; c) little or no financial network in rural areas; and d) low level of trust in the banking system.

To eliminate the factors responsible for the use of informal transfers, efforts should be made

- to expand banking / MFI network to remote rural areas;
- to convince the unbanked that banking will lower their transaction costs and increase access to credit and other financial products that are normally available to urban dwellers;

- to educate the migrants in Russia about various options to utilize their earnings; and
- To work with the Russian government to **improve the legal and regulatory framework to facilitate a shift towards the formal banking sector and reduce transfer costs**.

Given the low income level and the need to meet basic consumption needs, encouraging Tajiks to channel their savings to more productive uses is a serious policy challenge. Poor infrastructure (physical and financial), underdeveloped markets, corruption, and a poor investment climate confine the potential of remittance-focused strategies to the immediate receivers.

In order to channelize remittances into productive uses, we make the following recommendations:

- Migrants are not entrepreneurs. Thus, efforts to increase savings and improve the allocation of expenditures should be accomplished through improvements in the overall investment climate, rather than by targeting remittances per se. **It is more realistic to introduce financial intermediaries that capture migrant remittances as deposits and channel them to existing small and micro-business, rather than transforming migrants directly into entrepreneurs.**

  - Banks need to offer a wide range of products, including, among others, Interest-paying Foreign Currency Accounts, Investment in special bonds.
  - The Matching Funds loan scheme introduced by UNDP in Tajikistan appears to be promising and needs to be evaluated carefully before a decision is made to expand it.

- **A more enabling environment** ought to be created to induce members of Diaspora to return with their capital, know-how, and skills they have acquired abroad.
- **Creating a conducive investment climate for migrants and remittances receiving households** is particularly important from a longer term perspective also, as more Tajik migrants are likely to opt for permanent settlement and acquire Russian citizenship given the huge premium associated with citizenship.

- **Money transfer operators, such as Western Union, ought to be encouraged to contribute to the community development projects**. Such rent sharing helps improve the image of providers in the community and is expected to encourage transfer through formal channels.

- **Microfinance activities undertaken by a variety of NGOs need to be coordinated by donors to reduce administrative costs.** Need for coordination has to be balanced against the need to let hundred flowers bloom.

- Governments have an important role in creating a level playing field and disseminating information to reduce market imperfections. In this regard, ***Financial Fairs*** **for migrants in Russia should promote knowledge of financial products and promote banking.** Tajik embassy in Russia may take a cue from DFID of United Kingdom.

- **The idea originally proposed by UNDP Tajikistan of duplicating the Latin American Hometown Associations (HTAs) in Tajikistan and using the local JDC as the building blocks for such associations.** An important merit of HTA projects is that they are fully "owned" by the immigrants and communities receiving them. Sustainability of HTA-funded projects is an emerging critical issue. **HTAs can certainly help build infrastructure**, such as community halls, sports fields, Internet Cafés which can help local development in an indirect way for the kin and children left behind. To address the financial issue and the low level of development of organized philanthropy, **international donors might help initiate one or two model HTAs which are likely to have positive demonstration effect on other Jamoats to initiate replication of such HTAs.** Remittances put into microfinance associations, credit unions, and HTAs could be expected to have more of a local impact on pro-poor development.

- Both **Tajik and Russian governments can sharpen the developmental impact of remittances through coordinated application of appropriate policies** – including, among others, **promoting the teaching of Russian language** in Tajikistan.

- Initiatives should be undertaken to enhance linkages with the Diasporan Community. A large Diaspora can expand market access for origin countries through ***Business Mentoring Program and SME Development and*** **Facilitating the entry of strategic foreign investors.**

Migration is trade through different means. Tajikistan has a comparative advantage in the export of labor, and it should treat the issue of migration as one of export promotion. The quality of Tajik labor needs to be projected enough among would-be labor importing countries.

Given the specific geographic, historical, and economic situation, a long run development strategy for Tajikistan must hinge upon diversification of the economic structure which includes, diversification of trading/labor-importing partners in the short to medium run, and, the development of dynamic comparative advantage in other sectors such as hydro electric and tourism, in the medium to long run.

While making concerted efforts to develop its dynamic comparative advantage in hydro-electrics and tourism over the medium and long run, Tajikistan must focus in the short and medium run upon creating highly flexible and mobile intellectual assets that can be deployed in multiple places in an increasingly globalized economy. Tajikistan should reap full benefits of its comparative advantage in export of its human capital in the short

and medium term and use the resources thus acquired to diversify its comparative advantage in the medium to long run into areas such as tourism and hydroelectric power.

Chapter I - Setting the Stage

Men make history, but they don't make it just as they please. [My italics] Karl Marx.

Tajikistan is a small, war-torn, land-locked, peripheral economy bordering unstable and frequently uncooperative neighbors in a fast globalizing world. Exaggerated as the adjectives in this rhetorical question may sound, they nonetheless bring into limelight the defining features of Tajikistan at the turn of the 21st century.

I. The pre-modern and Soviet Legacy[3]

I.A. Fading of the Silk Route Glory

As a part of Central Asia, for centuries, Tajikistan served as a way station along the famous Silk Route that stretched from the Pacific to the Atlantic and from the Arctic seas to the tip of the Indo-Pak subcontinent. With the geographical discoveries of the Renaissance, particularly the discovery of an alternative and more efficient route via sea from Europe to India by Vasco de Gama in 1497, the invention of faster ships, absence of a regional hegemon thanks to the fall of the Central Asian and Chinese empires that could provide security, and the associated hazards of land travel, the Silk Road began to lose its economic viability in the early 17th century. Rivalry among the ruling Khanates attending upon the decline of the Central authority turned Central Asia into a theater where the Tsarist and the British empires could play their 'Great Game'. Thus, the Silk route largely became a relic of the past by the middle of the 19th century. The whole Central Asia was annexed into the Russian empire by the third quarter of the nineteenth century.

I.B. Integration into the Soviet Union

With the October 1917 Revolution, Tajikistan, like the rest of Central Asia, became integrated into the Soviet command economy. However, being geographically and administratively furthest from the core of the Soviet empire, it remained peripheral, largely cut off from its historic trading partners to the south (Afghanistan, Iran and the Indo-Pak subcontinent) and to the east (China and Mongolia).

I.C. The Mixed Blessing of Sovietization: Human Development and Peripheral Industrialization

Integration into the Soviet empire was a mixed blessing. Tajikistan achieved high level of human development but industrialized as a typical inefficient peripheral economy with the economic structure biased towards the needs of the Union. The Soviet system effectively forced all trade and transport within COMECON[4] and shut off all economic relationships between Tajikistan and the neighboring states.

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[3] This section draws heavily upon Allworth (1967), Hopkirk (1980), and Black et al (1991).

[4] Council of Mutual Economic Assistance – the trade organization that tied members of the Soviet block in interlocking trade relationships. The objective was to integrate the planned socialist systems of Eastern Europe with the Soviet Union through specialization of trade and production among member countries.

Modern economic growth had already begun in northern part of Tajikistan under the Tsar.[5] "The Russians promoted an extensive development of natural resources and of the textile industry, usually with native labor working under Russian management" (Black et al, p. 108). In 1913, the Khodjent region produced 9700 tons of oil, 28000 tons of coal and 32000 tons of cotton. However, industrial development in the rest of Tajikistan started in earnest only during the Second World War when Stalin forcibly relocated hundreds of factories and millions of workers into Central Asia, which was largely shielded from the main theater of the conflict. By 1945, Tajikistan was producing ten times more coal and five times more machinery than the pre-war level. After the war, began South Tajik Territorial Production Complex, the largest industrial complex in Central Asia, designed to exploit the enormous mineral wealth of the Pamirs.

Like Kyrgyzstan, Tajikistan is mainly a mountainous region with substantial capacity to generate hydroelectric power. Eighty hydro and oil fired generating stations were built. With the exception of the large aluminum producing plant at Tursunzoda, near the capital of Dushanbe, most local industry in the Southern part of the country consisted of cotton ginning mills, sewing shops, and food processing plants. Of the 8 power plants and dams the Soviets planned to build on Vaksh river, five had been already built by 1989. Tunnels up to 12 km long had been dug through the rugged mountains to bring water to the valleys.

I.D. High Level of HDI

Like other ex-Soviet republics, Tajikistan witnessed high levels of human development during the seventy years of Soviet rule. Despite a low PCI even by Soviet standards, HDI was 0.629, comparable to 0.649, averaged by the UN for the 'medium income countries.'[6] Under the Soviet system, education and health care were universal and free at the point of delivery (typically provided by state owned enterprises). The literacy rate was almost 100% and life expectancy was 70, higher than other Central Asian countries. For a country whose human development index was as low as that of Afghanistan in 1868 at the time of annexation into the Russian empire (both Northern Afghanistan and Tajikistan were ruled by the Emir of Bukhara for some time), it was a remarkable achievement.[7] Although Afghanistan had started a vigorous program of modernization under Abdurrahman, until the 1920s, few Tajiks had received a formal education.

According to the first Soviet census in 1926, the literacy rate was 4 percent for Tajik men and 0.1 percent for Tajik women in the territory of present-day Tajikistan and in the Republic of Uzbekistan.[8]

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[5] Modern Economic Growth (MEG) is the term applied by Simon Kuznets (1966) to describe the economic epoch of the last 250 years, distinguished by the pervasive application of science-based technology to production. For an insightful discussion of this concept, see Moshe Syrquin (2005). "Kuznets and Modern Economic Growth Fifty Years Later." University of Miami (draft).

[6] Medium income countries have a per capita gross national income ranging from $746 to $9,205.

[7] "In Afghanistan the great majority of the population remained nonliterate into the twentieth century" (Black et al, p. 153). Modernization under Abdurrahman and other Afghan rulers had the character of being 'defensive' modernization as opposed to 'aggressive' and occasionally violent modernization pursued by the Soviets (ibid.).

[8] http://countrystudies.us/tajikistan/27.htm accessed on August 1, 2006. This website (http://countrystudies.us/) contains the on-line versions of books previously published in hard copy by the Federal Research Division of the Library of Congress as part of the Country Studies/Area Handbook Series sponsored by the U.S. Department of the Army between 1986 and 1998.

Box 1. 1 - Human Development Index (HDI)

Growth of per capita income (PCI) has traditionally been regarded as a measure of welfare in economics. The Nobel prize winning economist, A.K. Sen criticized the measure as a society may not be considered to be low on welfare just because the majority of its members have a low PCI. A person may have low income but may have high level of education and be in excellent health, and vice versa. Given these limitations Sen presented an alternative measure of welfare in terms of capabilities. Inspired by Sen's rich concept of welfare, World Bank introduced the concept of human development index or HDI. HDI provides a summary measure of three key components of 'capabilities' as an index of welfare:

- a decent standard of living, as measured by the traditional per capita GDP or per capita income, PCI.
- a long and healthy life, as measured by the average life expectancy at birth (life expectancy index);
- knowledge, as measured by the adult literacy rate, and the combined primary, secondary and tertiary gross enrolment ratios (education index).

The HDI is a composite of the scores on these 3 components.

Box 1. 1 - Human Development Index (HDI)

Poorest as Tajikistan was among all the ex-Soviet republics, subsidies from the Center allowed Tajikistan to maintain a living standard higher than that of Pakistan, Iran, Turkey, and many medium HDI countries (See Table 1.1). Ecology was not as badly damaged as in Uzbekistan or Kazakhstan.

Table 1. 1 - Human Development Indicators in Central Asia and Other Selected Countries, 1991

	Urban Pop. (%) in 1992	Pop. Growth (p.a.)	Life Expectancy at Birth (yrs)	Adult Literacy Rate (%)	Real GDP per Capita (in PPP $)	UNDP Human Development Index
Kazakhstan	58	1.8	69	97.5	4,490	0.774
Kyrgyz Rep.	38	2.3	68	97	3,683	0.685
Tajikistan	31	3.1	70	96.7	2,180	0.629
Turkmenistan	45	2.8	66	97.7	3,540	0.697
Uzbekistan	40	2.9	69	97.2	2,790	0.664
Afghanistan	19	1.8	42.9	31.6	700	0.208
Iran	58	3.3	66.6	56	4,670	0.672
Pakistan	33	2.9	58.3	36.4	1,970	0.393
Medium HDI	-	-	68	80.4	3,420	0.649
Low HDI	-	-	55.8	47.4	1,170	0.355

Source: Table 1.1 Falkingham et al (1997)

I.E. The Peripheral Status, Isolation, and the Emergence of the Cotton Monoculture

Despite significant strides in human development and industrial production, the country remained a peripheral economy with the locus of dynamism in Moscow. An oft cited example that highlights the peripheral nature of industrialization in Tajikistan is the

aluminum plant, the largest in the FSU. (See Box: TadAz). With five climactic zones, the republic had the potential to produce a variety of food crops, but, like other Central Asian republics, Tajikistan inherited a cotton monoculture, thanks to Gosplan's priorities. Since the October revolution, the area under cultivation doubled from 494000 hectares to 803000 hectares, while some 43000 km of irrigation canals had been built. Cotton monoculture almost ruined food production and created large scale salinity and soil erosion. Like elsewhere in the FSU, agriculture on small private plots boomed and offset the shortage in food production in state-run collectives.

Because of high subsidies from the central Government and artificial price supports, Tajikistan was able to maintain a higher standard of living than its productivity would have warranted, even as its per capita income was the lowest among all the Soviet republics.[9]

II. The Post-Soviet Transformational Recession, Civil War, and Forced Exit from Tajikistan

II.A. Emerging Signs of Decline during the Final Years of the Former Soviet Union

Signs of decline were already visible even before the demise of the FSU. In 1990, oil production fell to about 1/4th of the 1989 level due to the shortage of spare parts, inefficient management, and the exodus of Russian experts. In 1986, 60000 skilled workers were needed but local institutions could produce only 30% of the required number. Already, underemployment in 1989 was estimated at 25.7% (Amjad, p. 171).

II.B. Sharing the Common Tragedy of CIS

The dissolution of the Soviet Union provided the erstwhile citizens of Tajikistan with great challenges and opportunities. The task of transforming the command economy into a market economy fell to the incumbent political and administrative cadres who were woefully ill prepared for the job. Herein lies the tragedy of independence in Tajikistan: as in many other countries of the Commonwealth of Independent States (CIS), the task of transformation mostly fell to the same elite (Nomenklatura) who were at the helm of affairs in the Soviet system.

II.C. Transformational Recession

The unfavorable structural factors noted above were exacerbated by the transformational recession attending upon the transition to a market economy.[10] Sudden independence disrupted guaranteed trade, transport and financial flows. Given the close integration of the Tajik economy with the rest of the Soviet republics, the new borders of NIS dissociated

[9] It is seldom recognized that while Tajikistan received huge subsidies from Moscow, it in turn subsidized the non-Soviet countries of Eastern Europe (Aslund, p. 130, Table 4.7).

[10] The transformational recession, common to most ex-socialist countries, is attributed mainly to the reallocation of resources in accordance with the dictates of the market economy. Reallocation was multi-faceted: reallocation of employment from the public to the private sector (due to closure and privatization of large inefficient state enterprises), reallocation from investment goods to consumption goods, severing of guaranteed trade flows, and reallocation due to shrinkage of the social sector. Blanchard (1997) provides an excellent discussion of the transformational recession. See also Aslund (2002), Lavigne (2003), WB (1996).

economic life from political realities. Independence from Soviet Union also meant end of subsidies from Moscow.[11] How important these subsidies were for Tajikistan can be gauged from Table 1.2. While the transfers (specifically the cost of maintaining the ruble zone -subsidized credit and implicit trade subsidies) to Latvia amounted to only 1% of their GDP, the transfers for Tajikistan amounted to over 90% of Tajik GDP. With the dissolution of the Soviet Union in 1991, these transfers were discontinued, causing a serious dent in fiscal budgets and a large negative income shock in recipient republics (Orlownski, 1995).

Table 1. 2 - Financial Transfers Received by the Central Asian Republics (as % of country GDP)

	Russian Central Bank financing in 1992
Kazakhstan	25.5
Kyrgyz Republic	22.9
Tajikistan	90.7
Turkmenistan	53.3
Uzbekistan	69.9
Latvia	1

Source: IMF (1994a) cited by Aslund, 2001, p. 129;
Orlowski (1995, p. 66) cited by Aslund, p. 130.

The loss of subsidies from Moscow, the structural recession driven by the relative price shocks associated with the transition to a market economy, the loss of guaranteed access to COMECON markets, the hard budget constraints faced by many state enterprises, and absence of friendly and/or unaccommodating neighbors generated unprecedented rates of unemployment. A high fertility rate already dampened the growth of per capita income which declined at an annual rate of 9.9% between 1990 and 2001, as shown in Table 1.3.

II.D. The Ravages of the Civil War

Within less than a year of independence, the transformational recession was exacerbated by a protracted and bloody civil war that crippled the already fragile infrastructure of the country and threatened to break it apart along regional and ideological lines.[12]

Many state enterprises succumbed to the market pressure and soon became idle, driving their workers and the town population into poverty. Systematic lack of payment of salaries, pension and aid, failure to pay through banks, and external and internal debt of the state became the reality for the national economy. Thus, this small landlocked peripheral economy suffered a deeper and longer decline in GDP than any other transition economy. The war threw the republic several years behind other transition countries in its socio-economic development. Figure 1.1 shows that even 11 years after the demise of the FSU, the Tajik economy had recovered only 57% of its 1989 GDP.

[11] Subsidies dwindled only gradually as Russia continued to support the economies linked to it via the ruble zone. The subsidies ended by 1994 (Aslund, p. 129-130).

[12] The civil war (1992-97), on surface ethnic and regional, had deep underlying economic causes. See Amjad, 1995, ch. 7.

Table 1. 3 -Economic Decline in Tajikistan in Central Asian and Global Perspective

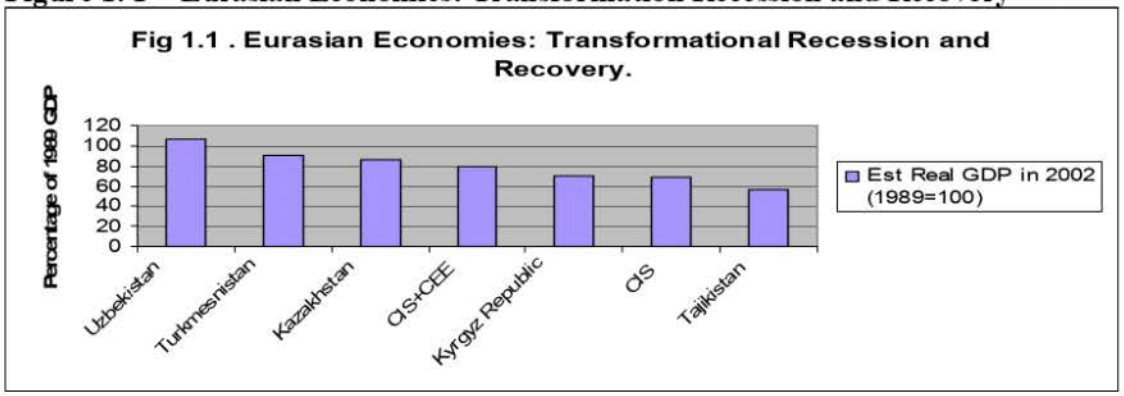
	Gross domestic product	
	Average Annual % growth	Per Capita Average Annual % growth
Economy	1990-2001	1990-2001
Kazakhstan	-2.8	-1.9
Kyrgyz Republic	-2.9	-3.9
Tajikistan	-8.5	-9.9
Turkmenistan	-2.8	-6.1
Uzbekistan	0.4	-1.5
World	2.7	1.2
Low income	3.4	1.4
Middle income	3.4	2.2
Low & middle income	3.4	1.8
East Asia & Pacific	7.5	6.2
South Asia	5.5	3.5
Sub-Saharan Africa	2.6	0

Source: WB, WDR, 2003

II.D.1. Forced Exodus from Tajikistan

Faced with a resource poor landlocked peripheral economy already suffering from the transformational recession and further ravaged by the civil war, many Tajiks sought alternative ways to sustain themselves. Physical and economic insecurity and joblessness forced hundred of thousands of Tajiks to seek refuge outside the country, mainly in Russia. During 1989-2001, close to half a million Tajiks left Tajikistan, mainly for Russia (430,000). See Figure 1.2 below.

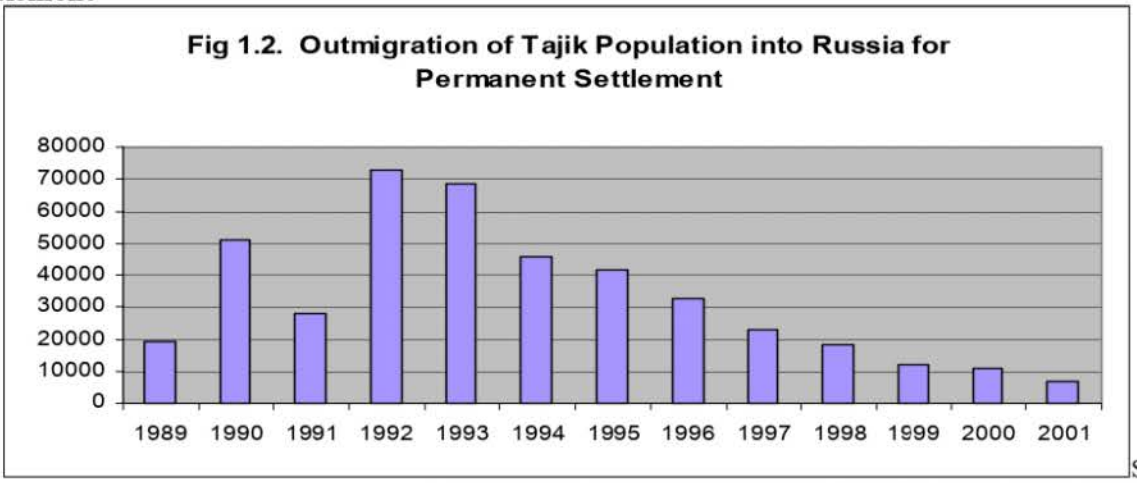
Figure 1. 1 - Eurasian Economies: Transformation Recession and Recovery



Source: EBRD Transition Report, 2003. Note: Estimates for real GDP represent weighted averages; the weights being EBRD estimates of nominal dollar GDP lagged by one year; those used in the last column were EBRD estimates of GDP converted at PPP US$ exchange rate in 1989.

The imbalance between relatively high level of human development of a significant professional and skilled class of doctors, teachers, and engineers (predominantly

Figure 1. 2 – Out migration of Tajik Population into Russia for Permanent Settlement



Source: State Committee on Statistics of Russia; http://www.migrationinformation.org/GlobalData/countrydata/data.cfm

Notes: Data on the inflow of the foreign population are from the Ministry of Internal Affairs and include the number of foreigners admitted for permanent residence. While Russia has granted freedom of movement in its 1993 constitution, persons migrating from abroad or within the country are still required to register movements at both origin and destination. These data are collected by the Ministry of Internal Affairs. Country of origin refers to the country that these persons resided in prior to their arrival in Russia. This may or may not be their country of birth. It also may or may not be their country of citizenship. These data include persons who went from being citizens of the USSR to being citizens of the Russian Federation in the process of migrating to Russia.

Russian and German), and lack of economic opportunities in the aftermath of the breakup of the FSU, led to a massive permanent brain drain from the republic, presumably causing significant loss of productivity. Despite remarkable achievements on many fronts, local managerial and leadership potential remained underdeveloped for two main reasons: the quasi-colonial relationship with Russia and the predominance of agriculture which is not conducive to the development of managerial and leadership talent.

III. The Peace Dividend and the U-Shaped Transformation

It is almost a decade and a half since Tajikistan embarked on the road to transition from a centrally planned socialist economy to a market-based capitalist economy. Since the end of the civil war in 1997, Tajikistan has reaped considerable peace dividend in terms of political and economic stability. In fact, contrary to dominant view in the media, we detect a U-shaped transformation of the Tajik economy since the breakup of the Former Soviet Union.

Table 1. 4 - Main Macroeconomic Indicators of Tajikistan (1995-2004)

As % of the Previous Year										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross domestic product	87,6	83,3	101,7	105,3	103,7	108,3	109,6	110,8	111,0	110,6
Industrial production	86	76	98	108	106	110	115	108	110	115
Agricultural production	84	91	100,2	106	103	113	111	...	...	...
Capital investments	...	...	...	...	...	...	...	...	...	150
Freight carried	74	71	105	126	89	105	100,8	99,3	121	117
Retail trade turnover	77	94	109	109	104	79	102	118	125	123
Industrial producers price index	376	355	178	130	144	144	127	109	115	117
Consumer price indices	543	370	172	143	126	124	137	110	117	107
Export to CIS countries	272	132	82	74	155	119	57	89	74	115
Export to other countries	124	88	108	83	95	110	107	125	120	115
Import from CIS countries	205	80	126	93	115	109	96	102	109	129
Import from other countries	106	86	94	99	56	78	130	116	163	148
Source: CIS Statistical Committee										

Tajikistan has received relatively high marks on many indices of transition (EBRD Transition Reports, 2002-2004). Its growth rate averaging 10% for the four years preceding 2006 has been remarkable. (See Table 1.4 and figure 1.3). Tajik GDP has grown by an impressive rate of 60% over the five years preceding 2006. Inflation is in check, the exchange rate stabilized, external debt has been cut in half,[13] unemployment decreased, per capita income increased, and poverty markedly reduced. See Figure 1.3.

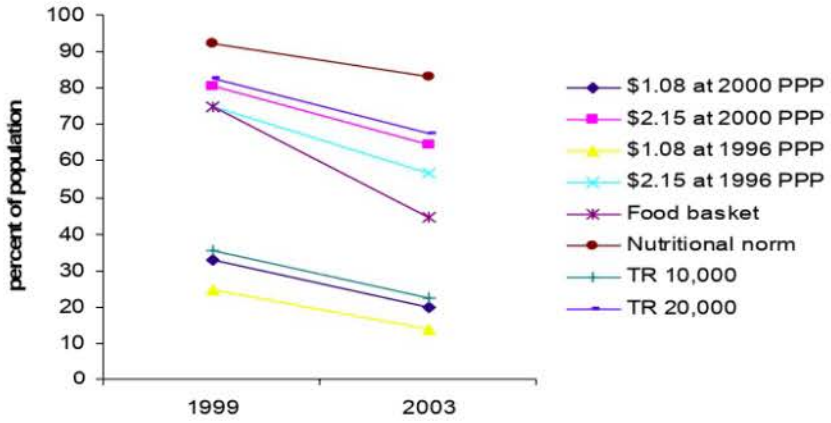
Growth since the Peace Accord in 1997 was driven in part by a postwar recovery in productivity (mainly in agriculture), expansion of services, and favorable world market prices for the two main exports -aluminum and cotton (WB, 2005a, p. 1).

[13] The debt for asset swap with Russia, signed in October 2004, included a swap of the external debt for equity stock equivalent to US$250 million. The equity of $250 million arose out of 2 components: existing debt of about US$200 million and additional investment by Russia in the Sangtudeh hydroelectric power project in the amount of US $50 million . (World Bank, 2005a, fn, p. 2). Subsequent to this swap, Tajikistan 'appeared' to have the lowest level of debt in the Commonwealth of Independent States (GOT, 2006).

III.A. Remittances – the Key to the Sustained Recovery of Tajik Economy

Remittances sent by Tajiks living or working abroad have been the hub of Tajik economy during the transition period. The significance of international migration and remittances for the Tajik economy relative to other developing and transition economies was not adequately recognized in the literature or in the official documents of the international organizations until fairly recently.[14] It is the centrality for Tajik economy of international migration and the remittances transferred by migrants that this report brings into sharper focus.

Figure 1. 3 - Share of the Population Living Below Different Poverty Lines, 1999 and 2003



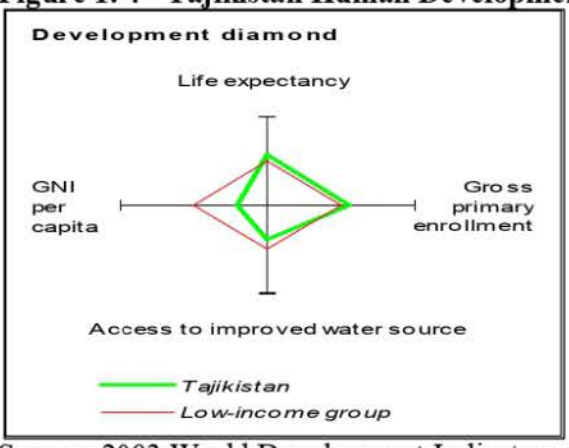
Source: Namazi, 2005

III.B. The Fall and Recovery of Standards of Living in Tajikistan

Recent empirical evidence shows that poverty in Tajikistan has been steadily falling over the last several years. We argue that remittances hold the key to this puzzle. In contrast with the dominant view in published literature, we detect a U-shaped transformation of human development indices in the aftermath of the break-up of the Former Soviet Union. Over the last few years, poverty has been falling (Figure 1.3) as per capita income has been rising (Figure 1.4).

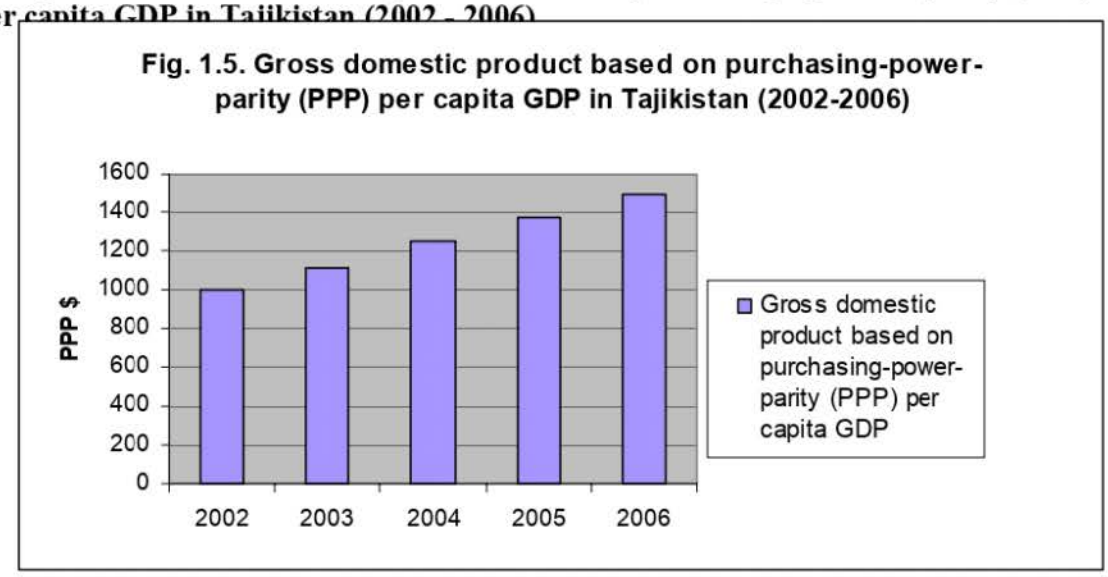
[14]Part of the explanation lies in inadequate or non-existent data; hence the significance of the present study. Even the most recent World Bank study (2006) has failed to adequately recognize Tajikistan as a leading receiver of remittances, presumably because of inadequate data – Tajikistan is ranked 15th among the top 20 recipients.

Figure 1. 4 - Tajikistan Human Development Index 2001



Source: 2003 World Development Indicators CD-ROM, World Bank

Figure 1. 5 – Gross domestic product based on purchasing – power – parity (PPP) per capita GDP in Tajikistan (2002 - 2006)



Source: International Monetary Fund, World Economic Outlook Database, April 2005

This pattern of GDP growth is also reflected in the upturn of private expenditure on health. Figure 1.6. shows that private expenditure on health care has been substituting for public expenditure.

IV. Some Flies in the Ointment

IV.A. High Level of Poverty

The increase in per capita income and reduction in poverty over the last few years should not mask the depth of suffering and poverty to which Tajikistan had been relegated

for most of the 90s. The transformational crisis and the civil war had hit across all strata of society, taking the country several decades back in standard of living. Although the civil war ended with the peace accord of 1997, like other ex-Soviet republics, Tajikistan was hit again by the 1998 financial crisis in Russia. Poverty became deeper and more severe as a result of the contagion from the Russia crisis. Poverty is still widespread but rural poverty predominates because the majority of the population lives in rural areas - 68 percent of all Tajik poor lived in rural areas (as opposed to 55% in urban areas).[15] As shown above, even in 2002, the Tajik economy was only at 57% of its 1989 level as shown in Fig. 1.5.

IV.B. Human Development in Comparative Perspective

Thus, with all the recent growth accomplishments, Tajikistan remains a highly poor economy with a 2004 GDP per capita of $300 (in current prices), the lowest among the fifteen former Soviet republics and 158th among 177 countries of the world.[16] Unemployment remains high, wages remain relatively low, and many key markets remain underdeveloped or disrupted. As a result, Tajikistan is far from realizing its full growth potential.

Although the picture is relatively less bleak in relation to a number of Asian, Latin American, and sub-Saharan countries in terms of the Human Development Index (HDI) – Tajikistan still ranked 122nd out of a group of 177 countries according to the 2005 Human Development Report. Among the transition economies of Central and Eastern Europe and the CIS, Tajikistan claims the dubious distinction of having the lowest educational level and the highest infant mortality and poverty rates. See Table 1.5.

Table 1. 5 – The Human Development Index in Central Asia and Russia

	HDI rank*	HDI	GDP index	Life expectancy index	Education index
Kazakhstan	80	0.761	0.7	0.64	0.94
Turkmenistan	97	0.738	0.68	0.62	0.91
Kyrgyzstan	109	0.702	0.48	0.7	0.93
Uzbekistan	111	0.694	0.48	0.69	0.91
Tajikistan	122	0.652	0.4	0.64	0.91
Russian Federation	62	0.795	0.76	0.67	0.96

Source: UNDP. Human Development Report, 2005

IV.C. Low Nutritional Status

Thus, despite significant growth in per capita income, the nutrition status of the population has decreased considerably since the fall of the FSU. Thirteen years into

[15] Based on a headcount poverty rate defined by a poverty line of $2.15 a day (47 Somoni per month at the 2000 PPP conversion factor) . (For an explanation of PPP, see Appendix II: The Logic of Using PPP Conversion Facors).

[16] Human Development Report, 2005. WDI, 2005, p. 39.

transition, a comparison of the food consumption level in 1991 with the food consumption level in 2004, as shown in the Table 1.6, shows a grim picture. While at the end of the Soviet period in 1991, an average Tajik consumed over 26 kilogram of meat and meat products, in 2004, he/she was consuming about 1/4th as much. The consumption of milk and milk products had fallen by 72%. See Table 1.6.

Table 1. 6 - Food consumption per capita, 1991-2004
(data based on sampling observation of households; annual, in kg)

	1991	1998	1999	2000	2001	2002	2003	2004
meat & meat products	26.1	5.1	9.7	4.4	5.8	6.5	6.8	7.3
milk & milk products	171	47.2	55.1	64.9	49.9	51.2	50	48.4
eggs, units	88	6	12	19	19	24	24	24
sugar & confectionery	12.6	6.6	6	6.7	7	8.4	9.1	10
bakery goods	155	154	167	148	150	157	157	156
potatoes	33.2	22.3	24.1	37.8	26.6	28.3	30.5	35.4
vegetables & melons	94.2	59.9	92.4	98.5	73	82.1	79	76.9
fruits, berries & grape	31.9	19.3	17.3	50.8	35.5	36.7	27.8	45.2
vegetable oil	13.3	7.6	9.5	10.2	9.2	10.4	9.5	11.5

Source: State Statistical Committee of Tajikistan

IV.D. Declining Investment in Human Capital

Declining investment in human capital in Tajikistan since the breakup of the FSU is a matter of great concern.

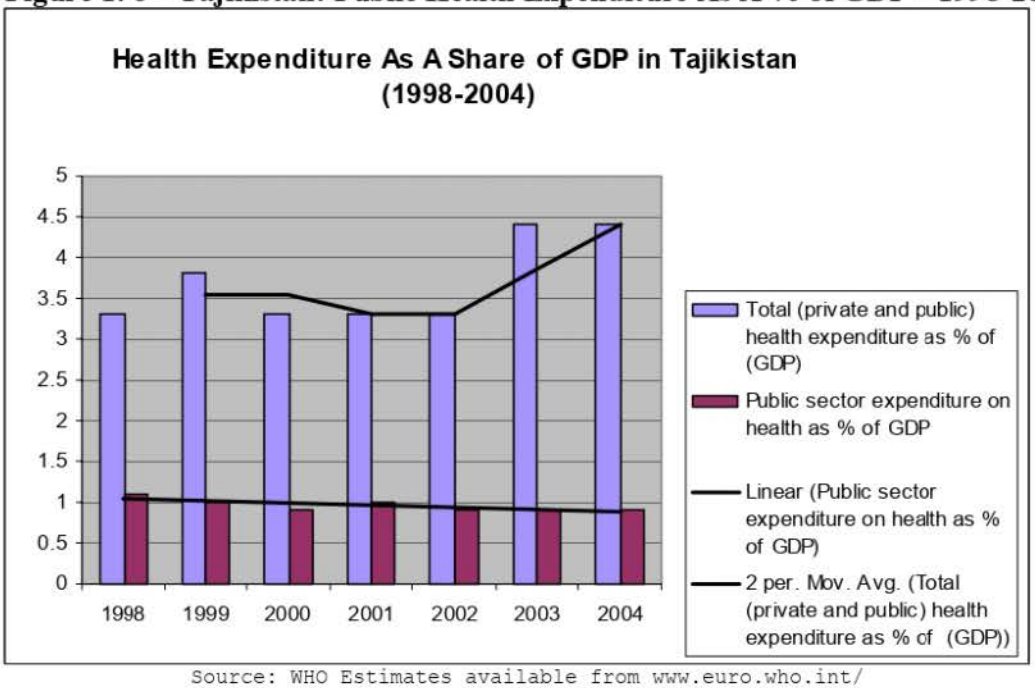
IV.D.1. Declining Public Expenditure on Healthcare and Falling Standards

Share of healthcare in total GDP has been declining as shown in the Figure 1.6. The decreasing public share of health expenditure has taken its toll. Table 1.7 shows significant drop in many health indices since 1991. In fact, recent trends in child mortality, maternal mortality, and HIV/AIDS prevalence seem to be moving in the wrong direction (World Bank, 2005a, p. 4).

One may argue that from the perspective of efficiency, there was a disproportionate number of doctors and health personnel during the Soviet period, but there is no denying that the exodus of highly qualified doctors and the deterioration in the medical infrastructure (as shown by the drop in the number of hospital beds) has adversely affected the welfare of the population (Falkingham, 2004). Life expectancy in Tajikistan has fallen from 70 to 67 years since 1991 as in other ex-Soviet republics, but the life expectancy index of Tajikistan is the lowest of all Central Asian countries with the exception of

Turkmenistan according to the most recent Human Development Report. See Tables 1.5 and 1.7.

Figure 1. 6 – Tajikistan: Public Health Expenditure As A % of GDP – 1998-2004



Source: WHO Estimates available from www.euro.who.int/

Table 1. 7 - Tajikistan Health development main indicators, 1991-2004 1/ as of end of the year

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 3/
Number of doctors, thous. 2/:														
per 10,000 of population	25.5	24.3	23.3	22.7	21.4	20.9	20.1	20.6	21.2	21.6	21.0	20.1	19.1	19.1
Number of paramedical personnel:														
per 10,000 of population (in '000')	77.1	73.4	71.2	67.5	61.9	59.5	57.6	53.4	52.8	51.5	48.1	46.5	43.1	42.4
Number of hospital beds, thous.:														
per 10,000 of population, units	107	108	105	88.0	80.2	72.9	70.0	67.7	67.7	65.8	63.4	62.1	60.6	59.9

1/ In 1991-1999 the data were processed according to the International statistical classification of diseases, traumas and causes of death (revision IX of WHO, 1975). Beginning 2000 the data are processed according to the International statistical classification of diseases and health problems (revision X of WHO, 1989) 2/ Number of paramedical personnel includes number of dentists. 3/ Preliminary data.

Source: State Statistical Committee of Tajikistan

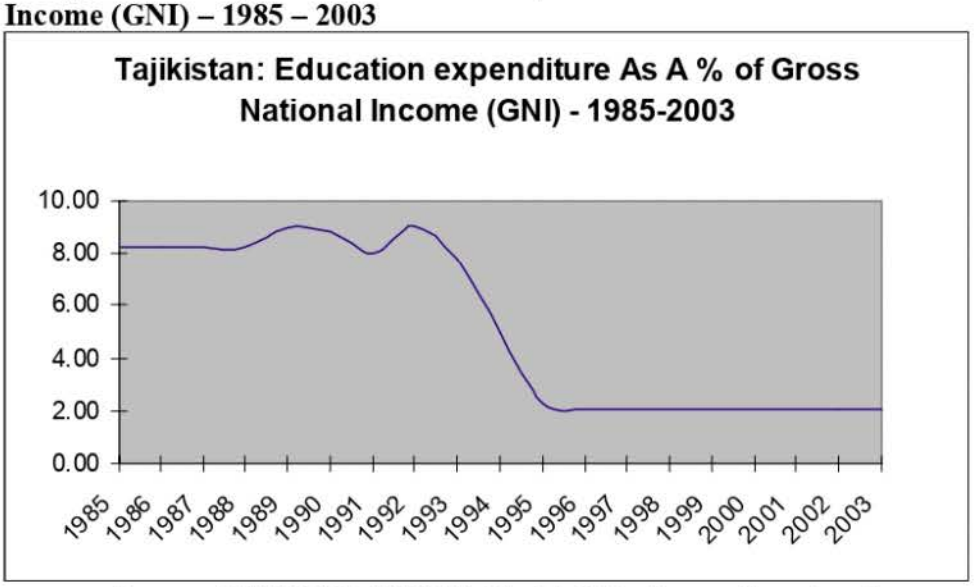
IV.D.2. Declining Education Standards

As regards education, the situation is extremely precarious. "The data of the Survey of Life Standards of the population for 2003 demonstrate that in some regions the rates of enrollment in, and graduation from, school are low for both boys and girls. The number of all pupils reduces sharply by the age of 15, i.e., the end of obligatory nine-year education" (GOT, 2006, p. 69). The government resource commitment to education is very meager.

See Figure 1.7. In 2001, Tajikistan had the lowest public expenditure on education as a share of GDP of all CIS countries. The Mongolian government spent about 3 times as much on education as the Tajik government and as a percentage of the total budget, the Czech government spent about two and half times as much as the Tajik government. See Figure 1.8.

Migration may be having a serious adverse impact on education. "Labour migration, including teachers, generates a significant outflow of qualified personnel from the education sector; it also aggravates problems because of the absence of fathers, forcing the issue of education of children into the background. Only 30 percent of migrants made or make various types of investments in education for their children" (Anderson et al, p. 46). As a result, the quality of education has deteriorated at all levels (with the exception of some privately funded tertiary institutions), many rural schools are without adequate number of teachers, the dropout rate has risen, with the dropout rate of girls rising more than that of boys.[17] See Table 1.8.

Figure 1. 7 –Tajikistan: Education expenditure As A % of Gross Natonal Income (GNI) – 1985 – 2003



Source: UNESCO, 2006. Table 14. Private enrolment and education finance

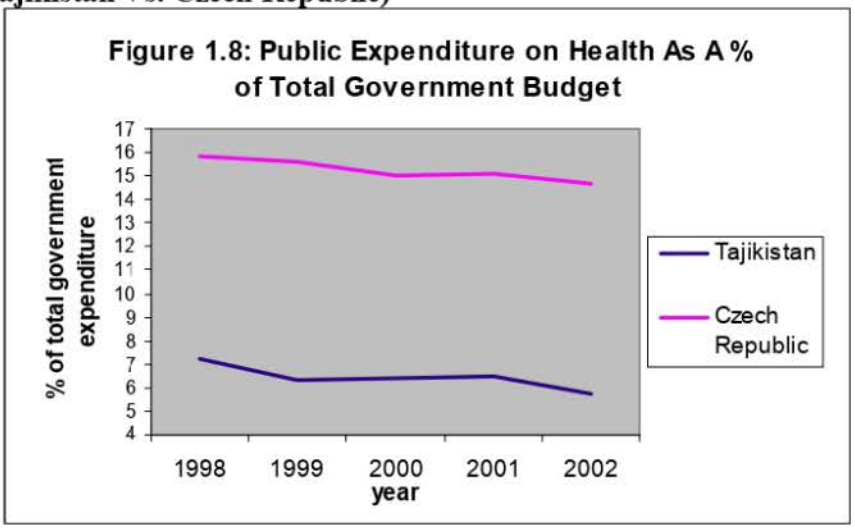
[17] Anderson, 2005; World Bank, 2005a, p. 4.

Table 1. 8 - Schools Having Satisfactory Materials

	National	Rural	Urban
Desks	54.90%	52.10%	60.10%
blackboards	63.50%	59.10%	71.80%
Textbooks	36.00%	31.70%	44.30%
Other Supplies	29.20%	24.70%	38.00%
Heating Fuel	29.30%	26.40%	35.00%

Source: IMF, 2006

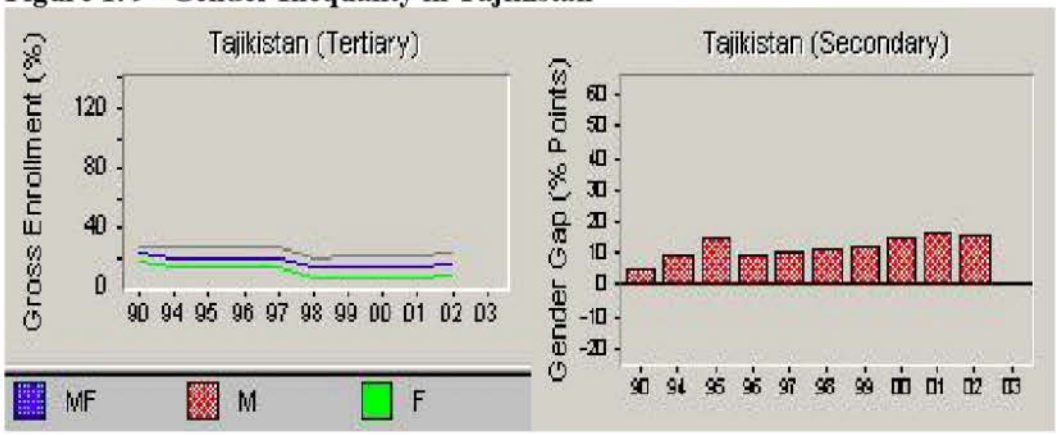
Figure 1. 8 – Public Expenditure on Health As A % of Total Government Budget (Tajikistan Vs. Czech Republic)



IV.D.3. Alarming Gender Inequality

In terms of gender inequality, Tajikistan is regarded as even worse - much worse than any other transition economy and an outlier in CIS.[18]

Figure 1. 9 –Gender Inequality in Tajikistan



[18] Ibid.

"Some girls leave school at the age of 12, owing to the view that their education will not pay for itself, and to stereotypes concerning the traditional role of women. By the age of 20 and 21, the ratio of young men to women in higher educational institutions is about 4:1" (GOT, 2006, p. 69).

Table 1. 9 - In Most Countries, Households in Secondary Cities Were More Likely to Heat with Dirty Fuels in 2003 than in 1998 (in percentages)

		Capital City		Urban		Rural		Total	
		1998	2003	1998	2003	1998	2003	1998	2003
EU-8	Hungary a	4	5	16	17	37	37	22	22
SEE	Bulgaria b	10	5	38	51	91	91	51	57
	Romania	23	18	19	24	91	89	51	53
CIS middle income	Kazakhstanc	2	2	11	7	36	25	22	15
CIS low income	Armenia	42	39	69	78	93	87	72	70
	Moldova	—	0	—	30	—	93	—	64
	Tajikistan	23	12	62	44	96	93	86	76

Sources: WB, 2005e; World Bank staff estimates. See appendix table 9 for country-level data and years. Note: a. 2002 is used instead of 2003; b. 1995 is used instead of 1998; c. 2001 is used instead of 2003; d. 1999 is used instead of 1998; — = not available.

IV.D.4. Other Indices of Human Development

Like most other countries, households in most cities of Tajikistan are likely to heat their homes with more dirty fuel in 2003 than in 1998 as shown in the Table 1.9 above. They are also likely to drink unclean water.

IV.D.5. Foreign Direct Investment in Tajikistan versus Other Ex-Soviet Republics

The share of the private sector is only 43% of the GDP, the lowest in post-Soviet countries (GOT, 2006). Many countries in the Region have attracted sizable inflows of

Table 1. 10 - Net FDI Inflows in CIS in US$ per capita (1999 - 2004)

	1999	2000	2001	2002	2003	2004
Armenia	38	34	22	35	38	44
Belarus	44	12	10	44	17	30
Georgia	13	33	17	35	73	74
Ky-rgyzRep.	8	-1	0	1	9	
Moldova	11	39	41	32	14	13
Tajikistan	4	4	2	6	5	41[1]
Turkmenistan	27	28	36	58	47	
Ukraine	10	12	16	14	29	27
Uzbekistan	5	3	3	3	3	5

Source: DDP time series and DEC (World Bank); [1] The spike in FDI in 2004 simply represents the debt for equity swap with Russia in 2004.

FDI, but the cross-country differences in the amount of FDI received are striking. Just to cite one example, at the of end of 2003, Estonia received $4,823 FDI per capita, a figure138 times larger than the corresponding figure of $35 for Tajikistan (World Bank, 2005b, p. 99). See Table 1.10.

Ceteris paribus, Tajikistan's status as a no-transit landlocked country and the associated obstacles in trade in goods goes far to explain the extremely low level of FDI that Tajikistan has received. In the absence to access to international market and given the limited size of the domestic economy, Tajik industries cannot reap economies of scale to attract FDI.

IV.E. The Hidden Narco Economy

In the post-Taliban era of a free market economy in Afghanistan thriving on poppy, Tajikistan has also earned the dubious distinction of being a major transit state for heroin produced in Afghanistan, with the drug trade deeply corrupting the elite. (See Figure 1.10 on the heroin seizure in Central Asia). The seizure rate is about 12% of the total available heroin.[19] Presumably, Tajik economy relies heavily on drug trafficking.[20] The recent upsurge in poppy cultivation in Afghanistan is expected to aggravate the situation in Tajikistan. There are hundreds of unofficial border crossing points between Afghanistan and Tajikistan. To quote from the World Drugs Report 2007:

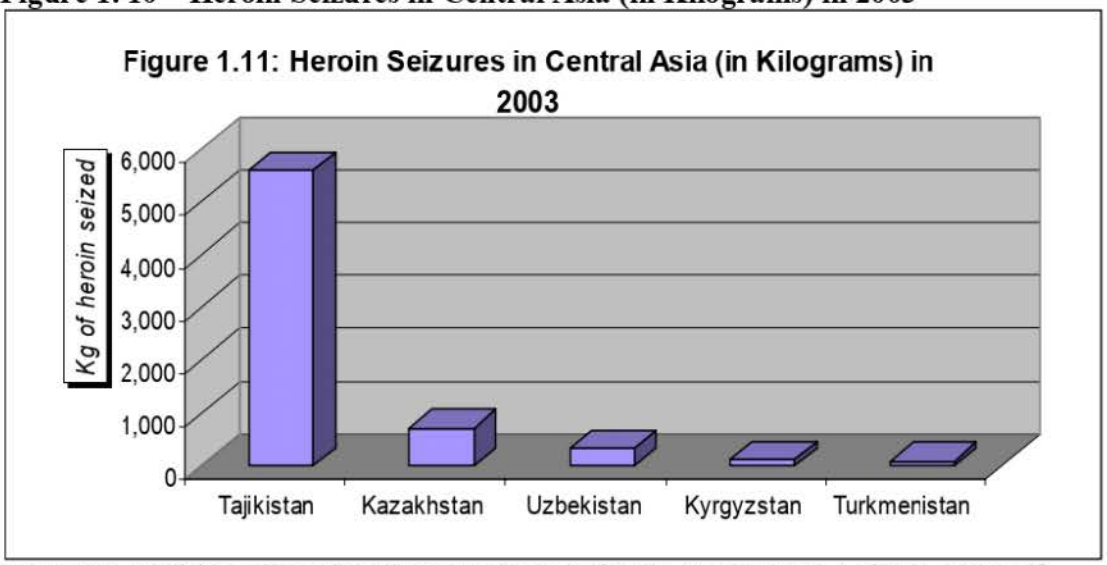
> "In 2006, out of all opiates that left Afghanistan, 53 per cent went via Iran, 33 per cent via Pakistan and 15 percent via Central Asia (mainly Tajikistan) (p. 45). … Transport through the transit zone appears to be controlled by the nationals of the transit zone, … Exiting Afghanistan to the North, the trafficker is presented with three countries to choose from: Tajikistan, Uzbekistan, and Turkmenistan. Based solely on seizure figures, it would appear that only Tajikistan is heavily utilized by traffickers, those who dominate the heroin producing areas of northern Afghanistan are primarily Tajik in ethnicity, and many Tajik villages in other parts of Afghanistan grow poppy. In 2005, Tajikistan seized 78 per cent of the heroin among the three border countries, and 60 per cent of that seized in Central Asia as a whole. These figures are all the more remarkable given that Tajikistan has only 6.5 million people, about 12 per cent of the regional population, so its per capita seizures are seven times higher than any other Central Asian country" (184). "The Russian government reported 954 heroin seizures of over 100 grams to the UNODC between 1999 and 2004 in which the nationalities of the traffickers were specified. Of these, 586 cases (62 %) involved Russian nationals exclusively. A remarkable 252 involved Tajik nationals (26 %), operating either alone or in concert with traffickers of other nationalities. poverty of ethnic Tajiks along the border with Afghanistan and in Russia seems to favour their involvement in drug trafficking"(188).

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[19] UN Office of Drugs and Crime. 2004. The *PARIS PACT A Consultative Mechanism on the Illicit Drug Routes from Central Asia to Europe*. Vienna: Division for Operations.

[20] "[W]arlords from the civil war era, absorbed into the government of Tajikistan, have had close ties with the trafficking of narcotics from Afghanistan. In October 2003 the Russian border guards intercepted heroin at the Moskovskiy point. Allegedly the owner of the heroin was the son of Nuritdin Rakhmonov [brother of president Rakhmanov]. There is every reason to believe that ties to drug trafficking are endemic in the state structures of Tajikistan" (Cornell, 54-55).

Figure 1. 10 – Heroin Seizures in Central Asia (in Kilograms) in 2003

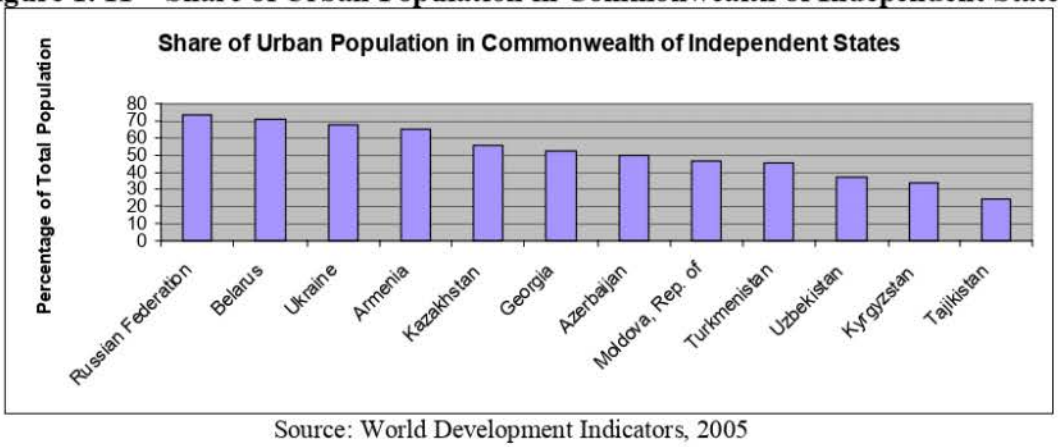


Source: W. Available online at http://www.unodc.org/pdf/WDR_2005/volume_1_chap1_opium.pdf

IV.E.1. An Agrarian Economy

Although the share of services in Tajik GDP has been increasing and services account for about 47% of Tajik GDP, Tajikistan is predominantly rural as the bulk of the population lives in rural areas and agriculture accounts for a high percentage of total employment. Like Moldova in Europe (another major labor exporting ex-Soviet republic), Tajikistan has the highest share of nonurban population among the former Soviet republics, as Figure 1.11 below makes clear. In contrast, Russia is a predominantly urbanized economy.

Figure 1. 11 – Share of Urban Population in Commonwealth of Independent States



Source: World Development Indicators, 2005

What is the implication of being a predominantly rural economy? In general, rural economies are associated with brawn rather than brain, with emphasis on the quantity, rather than quality of labor. Rural economies tend to have a very high fertility rate because

the opportunity cost of bearing and rearing children is very low, and because children often serve as old age insurance in the absence of a viable social security system.

IV.E.2. Limited size of the market

"Division of labor is limited by the size of the market." Adam Smith

The defining characteristic of the Tajik economy is the small size of its economy with limited opportunities to expand the size of the market through trade linkages (at least in the short to medium run) given its landlockedness, difficulties in transit, and high transportation costs. Tajikistan cannot reap the benefits of specialization that attend upon large scale production because large scale industrialization is premised upon demand for the industrial output. *For a small economy with limited domestic market, that demand must come from other countries.* This is where being a landlocked economy becomes a serious handicap.

The disintegration of the former Soviet Union into fifteen 'sovereign' states turned former citizens residing in each new state into 'aliens' in the other fourteen. Tajikistan suffered considerably from the dissolution of the economic bonds with Russia, other Soviet republics, and members of COMECON. Like other COMECON members, Tajikistan must readjust away from old interdependencies. No longer can she count on assured supply of necessary imports and guaranteed market for its exports.

The recent NDS (GOT, 2006) rightly observes that "Tajikistan's policies in the fields of transport and transit, migration, investment regulation, security, and drug smuggling depend on the policies of the neighbouring countries, and because of inefficient regional cooperation, they have not been solved effectively in accordance with signed agreements" (22).

V. Migration and Remittances in the Russia-CIS Subsystem of Migration

With internal conflicts and growing economic disparities in post-Soviet states, Russia has become a magnet for labor from Ukraine, Moldova, Central Asia, and the Caucuses. The unanticipated exodus from the south to the north and from the west to the east within the FSU created a new subsystem of migration in the global migration system, becoming almost a structural feature of the socio-economic landscape of the FSU.

The remittances that flow from international migrants in Russia to family members at home have been of growing importance, again especially in poorer countries like Tajikistan, Moldova, Kyrgyzstan, Azerbaijan, and Armenia where they often represent a prominent component of national incomes. Figure 2.1 below illustrates this. As a proportion of GDP, remittance levels reach high enough in Tajikistan and Moldova to place them among the top remittance receiving countries in the world.

V.A. A Brief Overview of Theories of Migration[21]

A brief review of theories of migration should help put the phenomenon of migration and remittances in proper perspective in the Russia-CIS corridor, in general, and the Russia-Tajikistan corridor, in particular.

[21] This review draws heavily upon Massey et al (1998).

As Massey et al. (1998, p. 17) rightly observe, at present, there is no single theory widely accepted by social scientists to account for the emergence and persistence of international migration. For analytical simplicity, we can classify theories of migration broadly as follows:

i. Neo-classical
ii. Structuralist
iii. Structuration and Household Strategy

One can view theories of migration on a spectrum from neoclassical models from economics to structural models from sociology with Structuration and Household Strategy lying in-between the two extremes.

The defining characteristic of the Neo-classical paradigm is individual choice by rational economic agents whose goal is to maximize utility (proxied by income and skills development). This paradigm has been criticized for ignoring (a) structural factors, such as international division of labor dictated by the world capitalist system; and (b) the social and cultural factors, such as the gender differences in customary norms on mobility.

Structuralist approaches represent the other end of the spectrum. They emphasize the role of structural factors, such as geographical characteristics and changes in the international patterns of production, in explaining migration. These approaches can be critiqued for downplaying individual choice and reproduction.

In response to the limitations of the neo-classical and structuralist paradigms, structuration and household strategy models were developed to explain international migration (Chant 1992).

Following the celebrated sociologist Giddens, structuration theories attempt to synthesize both individual actor and structure and represent the approach underlying the present analysis.[22] This approach maintains that the individual has some power to decide how to respond to structural factors such as international border controls and changes in the international demand for labor. Migration is affected by the reproductive labour of family members as it is frequently a household as well as individual livelihood strategy, and the former ipso facto involves the household. Household Strategy models focus on how gender and age hierarchies within households shape migration patterns (Chant 1992). Migration is considered to be a double-edged sword with the potential for empowerment as well as exploitation (Wright 1995).

The analysis in the report takes a leaf from the Structuration theory in the sense that it acknowledges the power of structural forces but does not downplay the significance of individual choice in response to the structure and also acknowledges the feedback effect of individual choice on the structure. Migration involves two distinct decisions: migrants must 'choose' to leave their country of origin and they must 'choose' their country of destination, with the word 'choice' does not preclude consideration of push factors beyond the control of individuals that may induce migration in the first place. While our knowledge

[22] Giddens, A., 1976, *New Rules of Sociological Method*, London: Hutchinson. Giddens, A., 1984, *The Constitution of Society*, Berkeley: University of California Press

of the push factors is well developed (Hatton & Williamson, 1994, 1998), we do not have a dominant theory of why migrants are attracted to a specific country. What explains the pull to a particular country?

As in Hooghe et al (2006), we can distinguish at least three possible approaches to explain the pull factors determining a country's attractiveness for migrants.

More sophisticated classical and neoclassical theories (Lewis, 1954; Fei-Ranis, 1964; Todaro, 1976) maintain that migrants react to employment and capital investment opportunities (e.g., surplus/shortages in the labor market, poverty), thus providing for an equilibrium in labor markets, both in their country of origin and in the country of destination. This involves both a micro decision in terms of cost-benefit analysis and macro supply and demand effect leading to the establishment of equilibrium on the labor market, reached by the aggregate effect of individual decisions to migrate to another country. Push and pull factors, i.e. factors in place of origin (e.g. poverty, unemployment) push people into places with attractive features (pull factors), e.g. high living standard or job opportunities. These theories typically imply that people migrate from low income to high income economies, or from regions experiencing economic downturn to regions experiencing economic boom (Borjas, 1989, 1995). The unit of analysis in all these models remains the individual. As opposed to this, NELM or "New Economics of Labor Migration" (Stark, 1981) maintains that individual migration is the result of household decision-making. Emigration contributes to diversification of income sources of the household and provides insurance against idiosyncratic and macro risk.

The old and new economic approaches rooted in neoclassical paradigm run afoul of the empirical finding that migrants do not typically originate from the poorest countries, as individual cost-benefit approaches would have it, but rather from regions undergoing rapid social and economic upheavals (Castles & Miller, 1994: 22).

Dual labor market theory (Piore, 1979) maintains that macro level factors, i.e., structural labor needs of modern economies in destination countries determine migration. Here the focus is on pull factors in destination areas, i.e structural shortage of labor at bottom-end, occupational hierarchy/low status/low income jobs. Wage-level differences reflect social stratification in countries of destination where people seek upward mobility away from bottom-end jobs.

This approach is criticized for its neglect of individual and household level motives and decision making processes.

Like the Dual labor market theory, World Systems Theory (Wallerstein, 1974; Massey, 1989) also emphasizes macro level factors only: main determinant of emigration is economic and political globalization. It focuses on macro-economic global processes, e.g. market penetration of multinationals from rich countries into poor countries affecting local norms, values, desires, aspirations inducing emigration. Globalization brings about social upheavals and alters traditional employer/labor relations and introduces modern technology pushing unskilled laborers out of jobs. Within the world system framework, cultural and hegemony theory maintains that migration patterns are determined by center/periphery relations in the world system. Migrants typically move from the periphery to the center with the latter characterized by linguistic dominance or cultural hegemony.

Like the Dual labor market approach, this approach is criticized for its neglect of micro-level individual and household decision making.

A third, social capital or social network approach maintains that migrants are attracted by the fact that other migrants from the same ethnic group are present in the countries of destination, thus allowing for the networks externalities that facilitate migration (Massey et al., 1993, 1998).

This approach explains the persistence of migration par excellence rather than its emergence in the first place.

While each of the above theories has some insight to offer in explaining the emergence and persistence of migration from Tajikistan, it is hard to say which theory holds the key. Both structural/macro and behavioral factors seem to be at play but the former appear to weigh more heavily in the case of Tajikistan as the following discussion makes clear.

V.B. Tajikistan: A Classic Landlocked Labor Exporting Economy - The conspiracy of geography and history

Both nature and history seem to have conspired to make contemporary Tajikistan an ideal candidate for export of labor. Given the serious handicaps in expanding the size of the market through exports, emigration from Tajikistan has emerged as a substitute for export of goods. Human ingenuity has found in migration a substitute means of survival in the face of utter hopelessness and misery for a significant number of Tajikistan families. Tajikistan's geography and the socio-economic structure inherited from the FORMER SOVIET UNION seem to give it a comparative advantage in export of labor. The nearest seaport to Tajikistan is 2000 kilometers away and 93% of the land consists of non-arable mountains. High mountains separate Tajikistan from the Kyrgyz Republic in the North and the economic powerhouse in the East - China.

V.B.1. Lack of Diversification - Continuation of the core-periphery relationship with Russia through labor export for remittances

Tajikistan and Russia continue their symbiotic relationship today as they did during the Soviet era – albeit the form of mutual dependence has transformed from raw material for subsidies to migrant labor for remittances.[23] (See chapter 4 for a definition of remittances). The demise of the Soviet Union did not fundamentally alter the core - periphery type relationship that Tajikistan always had vis-à-vis Russia.

One manifestation of lack of diversification is the historically inherited and government backed cotton mono-culture which limits farmers' choices to respond to the market forces optimally. (See the Box: What Ails the Cotton Sector).

As an exporter of labor to Russia in the Post Soviet period, Tajikistan is not unique among ex-Soviet republics. Many other ex-Soviet republics, such as Kyrgyzstan, Georgia, and Moldova, share Tajikistan's comparative advantage in the export of labor. See Table 1.12. Although other major labor exporting countries in the Russia-CIS corridor, like Moldova, Kyrgyzstan and Armenia, are also landlocked, Tajikistan is unique in many respects. Tajikistan is a no-transit 'landlocked' country whereas Moldova and, to some extent, Kyrgyzstan can be viewed as transit countries.[24] This is a very important distinction.

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[23] The author admits to the oversimplification of the relationship between the Center (Moscow) and the Tajik periphery implied by the literary license exercised here, yet it brings the theme of the report into sharper focus.

[24] Although not new, Gael Raballand (2003) has presented this thesis most forcefully. See also UN (2005).

Already, in 1989, many labor exporting ex-Soviet republics had a large number of their residents living in Russia as Table 1.11 shows. In fact, Tajikistan had a very small proportion of all immigrants (only 1/10th of one percent). Driven by powerful demographic and economic push and pull factors coupled with a liberal visa free regime, the trend has continued following the breakup of the FSU. In terms of permanent immigrants Flow to Russia (98-2001) as a proportion of population in 2001, Tajikistan ranks 6th among all ex-Soviet republics (Table 1.11).

What is worth noting about the figures for permanent immigration of Tajik citizens into Russia is the small number relative to Tajik population compared with corresponding figures for other sending countries such as Moldova, Goergia, Armenia, and Kazakhstan. Looking at the proportion of all permanent immigrants from Tajikistan (from 1989-2001) to the total Tajik population in 2001 (Table 1.11), one can see a decline in the flow of permanent immigrants from Tajikistan in the post civil war period: the ratio of permanent emigrants to Russia from 1998-2001 to total Tajik population in 2001was only 0.78% while the ratio of permanent emigrants from 1989 to 2001 to total population in 2001 was about 7%. Although this reflects a common pattern of outflow from other CIS countries into Russia, the average ratio of 1.02 is still higher than ratio of 0.78% The number of permanent immigrants for the four years (92-95) in the immediate aftermath of the demise of FSU (not shown in the table).

Table 1. 11 - Russian Federation: Inflow of Permanent Immigrants into Russia As a Proportion of the Population of Sending Countries in 2001

	Permanent immigrants Flow into Russia (89-2001)	Population 2001	Permanent immigrants Flow (89-2001) as a percentage of population 2001	Permanent immigrants Flow (98-2001) as a percentage of 2001 population
Kazakhstan	2,359,632	15,033,000	15.70	3.58
Georgia	483,454	4,720,000	10.24	1.50
Armenia	272,060	3,082,000	8.83	1.73
Kyrgyzstan	431,031	4,952,000	8.70	0.96
Republic of Moldova	260,612	4,280,000	6.09	0.91
Tajikistan	430,248	6,159,000	6.99	0.78
Azerbaijan	561,666	8,143,000	6.90	0.72
Latvia	155,266	2,373,000	6.54	0.37
Ukraine	2,219,965	49,116,000	4.52	0.62
Turkmenistan	183,886	4,502,000	4.08	0.66
Belarus	407,970	10,029,000	4.07	0.42
Uzbekistan	958,480	24,724,000	3.88	0.60
Estonia	96,379	1,367,000	7.05	0.29
Lithuania	87,189	3,500,000	2.49	0.12
All countries (total)	8,973,436	141,980,00	6.32	1.02

Source: State Committee on Statistics of Russia

was five times as big as the number of permanent immigrants for the four years after the civil war (98-2001). Most of the early permanent emigrants were Russian ethnics who returned to the motherland after the dissolution of FSU.

V.C. What are the push and pull factors behind Tajik Migration to Russia?

V.C.1. The Civil War (1992-1997)

Following the breakup of the FSU, internal conflicts in many ex-Soviet republics forced a large number of people out of the respective republics into the Center of the old empire. The civil war in Tajikistan was the catalyst behind the mass exodus of the Tajik population in the early and mid 90s. The influx of refugees into Russia has continued to this day. Although ethnic Russia population emigrated to Russia from other ex-Soviet republics, the conflict in Tajikistan gave mass exodus a shot in the arm.

Continued migration to Russia and other relatively rich Former Soviet republics (like Kazakhstan) is mainly a response to structural economic and demographic imbalances, the influx of refugees due to internal conflict within the ex-republics notwithstanding.

V.C.2. The Easterlin Hypothesis and the Russian Demographic Imbalance

In his famous article of 1961, Easterlin had presented his thesis about the main driving force behind the Atlantic migration form Europe to North America. Europe had a burgeoning population and a very high labor to land ratio (Chiswick, 2001). While Tajikistan has a very high fertility rate and a large proportion of young people in the total population, Russia has a negative population growth rate with an aging population.[25] The demographic factor in explaining the migration from Tajikistan into Russia is clearly visible in the population pyramids (Fig. 1.12). Russian fertility rate has been declining for decades; divorce rates have gone up by one third at the same time that marriage rate has gone down by the same percentage.[26] To quote a recent World Bank report on population aging in the FSU, "The most striking case is the Russian Federation, where the population—which fell from 149 million in 1990 to 143 million in 2005—is projected to fall to 111 million by 2050" (WB, 2007a, p. 45). Tajikistan is projected to have a growing population at least for the next two decades. Between 2000 and 2005, Tajikistan's population is projected to have grown by 42%, the highest percentage growth rate for any country in Eastern Europe and Former Soviet Union (ibid, p. 7). This is despite the potentially lower birth rate thanks to migration to
Russia and elsewhere which keeps partners apart for years in many cases.

The push and pull factors are often two sides of the same coin. High fertility rate in Tajikistan creates a labor surplus economy, ceteris paribus, and the well-known Russian

[25] Russian policy makers and scholars are keenly aware of the demographic crisis. Russian government announced in July 2006 that it would invite as many as 1 million immigrants from the FSU by offering them citizenship and other benefits, particularly to those who are willing to settle in the underpopulated regions, such as Siberia.

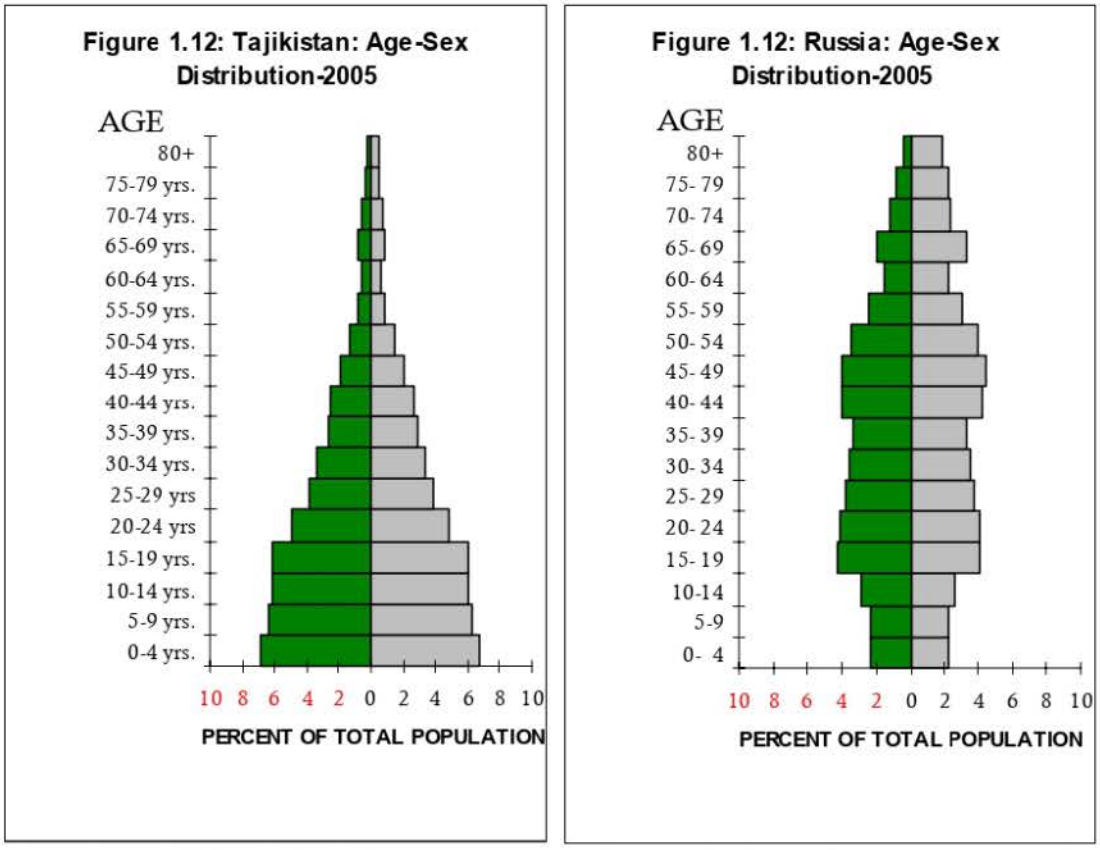
[26] Lissovlik, Yaroslav, 2005.

demographic crisis makes Russia a labor scarce economy (given Russia's vast land and natural resources).

V.C.2.1. Vent for Surplus Labor

Hla Myint's concept of 'vent for surplus labor' offers insight into the process of economic development in Tajikistan.[27] The concept of surplus labor is a relative concept. High population level or population growth rate per se is not as significant a push factor as the relative proportion of labor to land in Tajikistan. Tajikistan may be considered to be a labor surplus economy in the sense that only 7% of the total land is arable which makes the labor to land ratio very high.

Figure 1. 12 –Tajikistan and Russia: Age – Sex Distribution – 2005



Source: Own *calculation* with data from US Census Bureau. Note: Left hand side cells represent percentage of males. Right hand side cells represent percentage of Female population.

[27] Myint, H. "The Gains from International Trade and the Backward Countries." *Review of Economic Studies* 22, no. 2 (1954-1955): 129-42.———. "The 'Classical' Theory of International Trade and the Underdeveloped Countries." *Economic Journal* 68 (1958): 317-37. If unemployment and underemployment rates are extremely high and the marginal productivity of labor in the emigration country is zero, vent for surplus implies gaining something for nothing.

V.C.3. Widening Wage Gap and Recent Oil Boom

At the time of independence, the per capita income (PCI) differential between Russia and Tajikistan was small. The gap has been widening for reasons discussed above. Although oil has been lubricating the Russian economy for a long time, in recent years, the oil boom in Russia has boosted demand for labor dramatically, especially in certain sectors, mainly construction, oil and gas, mining, and services. The increase in migration in recent years is largely associated with the oil boom.[28] Figure 1.14 illustrates the high degree of correlation between first time Tajik migrants since 1999 and the widening gap between Russian and Tajik per capita income.

Figure 1. 13 –Widening PCI'Gap between Russian and Tajikistan and the increasing Proportion of First Time Migrants Since 1999 Error! Not a valid link.

Source: WB: 2006a; KLSS 2005; own calculations

V.C.4. Relative Deprivation and Migration

A powerful explanation of continued migration from the same community is provided by the theory of Relative Deprivation.[29] According to this theory, household utility is a function not only of absolute income but also of income position vis-à-vis other households in the village or reference group. When some households from a community undertake migration and are able to improve their economic status vis-à-vis other households in the same community, the non-migrant households will find themselves relatively deprived, inducing them to migrate as well to keep up with the Joneses.

V.C.5. The Emigration Multiplier a la Cumulative Causation Theory

Most empirical studies find that independent of the push and pull factors, network factors eventually increase in importance over time. A self-feeding momentum gets built into migration. In a process that has been termed "cumulative causation," each time a migrant leaves, he "alters the social context within which subsequent migration decisions are made, typically in ways that make additional movement more likely" (Myrdal, 1957; Massey et al., 1993, p. 451). The explanation for snowballing migration is that migration "tends to increase in prevalence and become more diverse because transnational movement causes relatively permanent changes in individual motivations, social structures, and cultural milieus, and these changes cumulate over time to change the context within which subsequent migration decisions are made. As more people are induced to migrate, knowledge and network connections expand further, inducing more people to migrate, and so on" (Massey, Goldring, and Durand, 1994, p. 1528).

Additionally, theory of 'cumulative causation' of migration implies that once a critical threshold of immigrants arises in the host countries, migration can become a self-reinforcing phenomenon mainly because of reduction in transaction costs. Flow of

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[28] Putin government is keenly aware of this and has introduced significant subsidies to encourage fertility. Public pronouncements notwithstanding, the Russian government understands that immigration is necessary in the foreseeable future. The Russian government is particularly concerned about areas other than Moscow and St. Petersberg which attract immigrants from abroad as well as from other regions of Russia. Thus, recently, the Russian government decided to invite 10000 immigrants to the oil rich region of Krasnoyarsk to help develop the new Vankor oil and gas field.

[29] Key reference here is: Stark, 1991.

information and a whole network of support make it easier for prospective migrants to try their luck. Newcomers can find a place to live and relatives and friends can assist in job location. Qualitative research confirms the findings in other high-emigration countries.[30]

Within the emigration area, there may be secondary effects, including changes in the distribution of income, changes in the distribution and usage of farm land, and changes in consumption habits. These secondary effects in turn may independently induce additional migration.

In accordance with the predictions of the cumulation theory of migration, with the buildup of networks and critical thresholds of Tajik migrants in many host cities in Russia, emigration has acquired a logic of its own. It functioned very much like the Keynesian multiplier: an initial dose of emigration reaching a critical threshold level led to a multiple expansion of emigration.[31] A relatively low cost of transportation and a visa free regime with Russia greatly facilitates the process of migration.

VI. *Migration and Remittances –Key to the Sustained Recovery of Tajik Economy since the End of the Civil War*

Remittances sent by Tajiks living or working abroad have been the hub of Tajik economy during the transition period. Although generally recognized to be substantial, the significance of remittances for Tajik economy relative to other developing and transition economies was not adequately recognized in the literature or in the published documents of the international organizations until fairly recently.[32] In our view, the near total absence of indigenous capacity for productive policy analysis from an economic perspective goes far to explain this shortcoming.

Thus, despite clear trends, the magnitude of both the outflow of Tajik migrants and the inflow of remittances have been hitherto shrouded in mystery, and, have given rise to wild speculations about the number of migrants and the remittances transferred home by them. According to the Living Standards Measurement Survey (TLSS 2003) undertaken by the World Bank in 2003, workers' remittances and other transfers (such as donor support) made up only 10 per cent of the average household income.[33] This is clearly due to inadequate or non-existent data as our survey shows that remittances alone (excluding donor support) constitute about 13% of the household income in Khatlon in 2004-2005. While it is relatively easy to calculate remittances sent through formal channels, estimating the size of informal flows is almost impossible without a well-designed survey of senders or receivers or both (WB, 2006a, p. 108). Hence, the significance of the present study: it is the first study of remittances that is based on a representative survey of Tajik households. It

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[30] Ruggiero, note 19.

[31] See Chapter V for a detailed discussion of the emigration multiplier.

[32] Two studies are worth mentioning here: IMF (2006) and World Bank (2006e). The former is mainly a macroeconomic study based on secondary data; the latter was just released and draws upon a snowball sample of reportedly dubious quality and reaches many conclusions that admittedly remain unsubstantiated. Part of the explanation lies in inadequate or non-existent data; hence the significance of the present study. Even the most recent World Bank study (2006) has failed to adequately recognize Tajikistan as a leading receiver of remittances, presumably because of inadequate data – in terms of remittances/GDP ratio, Tajikistan is ranked third among the top 20 recipients in 2004.

[33] Even the recently released highly important strategic planning document, NDS (2006), relies upon this figure.

is the centrality for Tajik economy of international migration and the remittances transferred by migrants that this report brings into sharper focus.

VII. Overall Objectives of Research

The main objective of this study is to investigate the economic dynamics of remittances in Tajikistan and the impact thereof on the living standards of the households and the community. Specifically, the study aims to achieve six objectives:

(a) to quantify the magnitude of remittances into Tajikistan and put the estimates of migration from, and remittances into, Tajikistan on firmer footing;

(b) to probe the dynamics of remittances;

(c) to assess the impact of remittances on individuals, households, and communities;

(d) to discuss the policy implications;

(e) to propose innovative strategies to boost remittances and leverage remittances for development while they last; and finally to

(f) to draw lessons for designing a nationwide study and suggest avenues for fruitful research in the area.

VIII. Organization of the Report

The rest of the report is organized around the central theme of remittances as follows. Chapter 2 probes the economic significance of remittances from a theoretical as well as an empirical perspective. It also highlights the macroeconomic significance of remittances for the Tajik economy. Chapter 3 describes the methodology that informs the analysis presented in the report as well as the design of Khatlon Remittances and Living Standards Survey of 2005 (KLSS 2005). Analysis of the results of the survey is presented in the next three chapters. Chapter 4 focuses on the issue that interests most people more than anything else, i.e., estimation of the size of remittance flows into Tajikistan. Chapter 5 attempts to estimate the size of the migrant population and presents a detailed socio-economic and demographic profile of Tajik migrants. It also analyzes the dynamics of remittances. Chapter 6 analyzes the microeconomic consequences of remittances. Chapter 7 summarizes the results and discusses the key findings. The next three chapters present general and specific recommendations drawing upon the results of the survey, key findings in the literature, the best practices observed in major receiving countries, and the specific context of Tajikistan. Chapter 8 focuses upon initiatives specific to leveraging remittances for development. Chapter 9 suggests initiatives to maximize the size of remittances into Tajikistan in the short to medium term. It also discusses a grand long term development vision and strategy for Tajikistan. Chapter X proposes a rigorous methodology for the assessment of the impact of UNDP Matching Loans Program to enhance the development impact of remittances through Micro-Enterprise in Tajikistan. –

The final chapter states the major limitations of the study and identifies areas of future research. Detailed methodology, technical notes, and long tables are presented at the end in technical annexes following bibliography. Interspersed throughout the text are Boxes on interesting issues that can be discussed separately without compromising the flow of the presentation.

Chapter II - Significance of the Study of Remittances

"With money in my pocket, I am at home everywhere!" (Robinson Crusoe)

I. Remittances in the New International Economic Order

International labor movements and workers' remittances have become a structural feature of the global economy. Remittances in 2005 already exceeded the traditional sources of foreign capital - official development assistance (ODA) and FDI - in the developing and emerging economies. Formal remittances received by labor exporting developing countries have doubled in the past five years. They have become the greatest source of external finance in many developing countries, including Tajikistan. Remittances represent a substantial proportion of income for a large section of the population in the developing and transition countries. For the top 6 receiving countries in 2004, remittances ranged from 17% to 31% of GDP in 2004. Tajikistan was already the third largest recipient of remittances as a share of GDP in 2004. See Fig. 2.1.

In his famous book "Quest for Growth," Bill Easterly has made a cogent case in favor of trade rather than aid as the key to self-sustained growth in the developing and emerging economies: "free trade arguments are now supported by the experience of the past few decades, which has found that more open economies are richer and grow faster." One of the recurring themes in this report is the view that migration should be properly viewed as trade through different means rather than a 'problem,' as is often the case in popular media. Few would argue in favor of stopping trade; but most of the political debate in DCs is about stopping or curbing the so-called 'rising tide' of immigrants, the benefits to the host and home countries notwithstanding. There is little economic basis for such a view. In so far as migration is temporary, it should be viewed as export of labor services and remittances should be viewed as payment thereof.

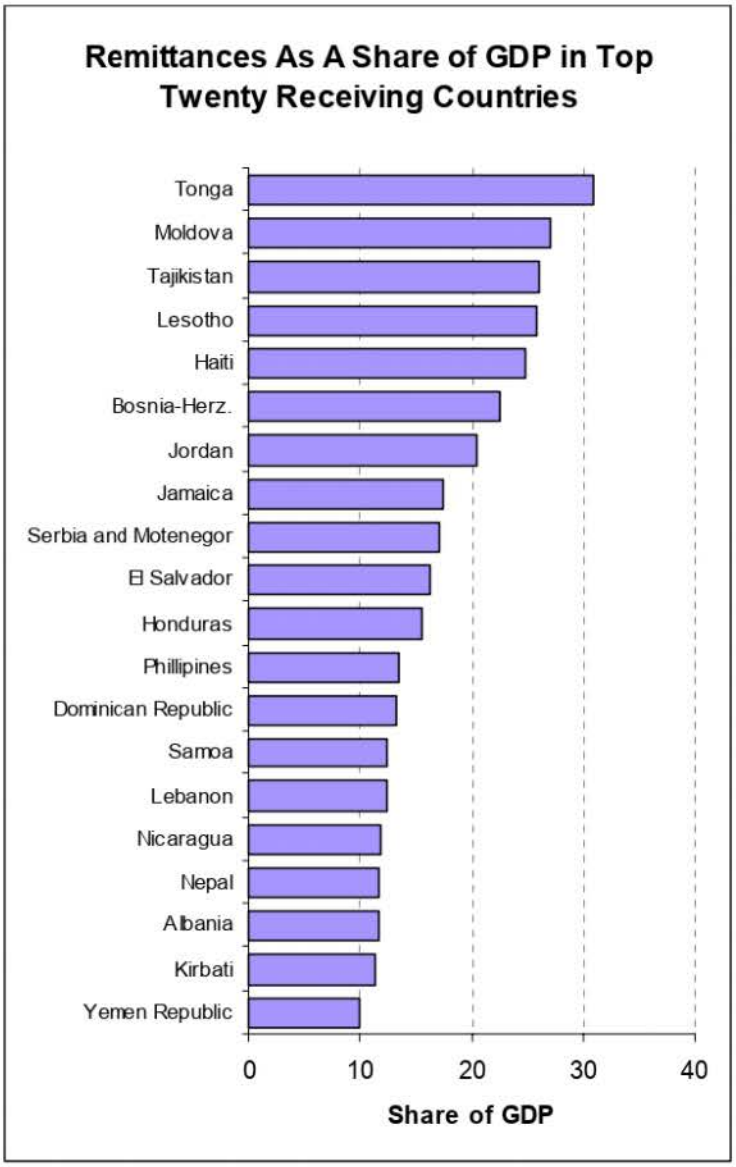
In addition to serving as payment for export of labor, remittances also tend to increase trade and investment ties between the sending and receiving countries and, as such, stimulate growth indirectly even if the initial migration surge may have been due to impediments in trade.

That remittances have supplanted ODA is music to the ears of development economists who would like to minimize reliance upon the government to solve problems that could be addressed by the market. Remittances 'may avoid exacerbating strains on institutional capacity that are often associated with natural resource booms,' and aid packages, because, they accrue directly to the recipient, and, therefore, do not impose additional managerial burden on the already stretched capacity of governments in developing economies.

Thus, on both theoretical and empirical grounds, the emergence of remittances as a major source of foreign exchange has rendered the case of aid for development (a la Dual Gap theory) very weak.[34]

[34] We agree with Dani Rodrick that the anti-poverty and income growth potential of migration reform more generally as distinguished from the more specific impact of remittances per se far outweighs that of trade liberalization. (See Rodrik 2002 for elaboration).

Figure 2. 1 – Remittances As A Share of GDP in Top Twenty Receiving Countries (2004)



Source: Global Economic Prospects 2006: Economic Implications of Remittances and Migration, World Bank. Share for Tajikistan is estimated by the author.

The growth inducing potential of remittances has generated considerable excitement among economists as well as policy makers. An increasing number of scholars are advocating initiatives to leverage remittances for development ((Maimbo and Ratha; 2005; World Bank 2006).[35] The nexus between remittances and development is an issue of great policy significance:

[35] These include, among others, Lucas, Robert, M. Orozco, BL Lowell, RO de la Garza, David Ellerman. See the bibliography for references. Although the world has only recently awakened to the significance of remittances for developing and emerging economies, migration experts had long recognized the growing importance of remittances as a source of savings and foreign exchange for the developing countries.

- Remittances can potentially generate substantial welfare gains at least for migrants and their families.
- Remittances contribute to GDP significantly by adding to the aggregate demand for consumption and investment in housing.

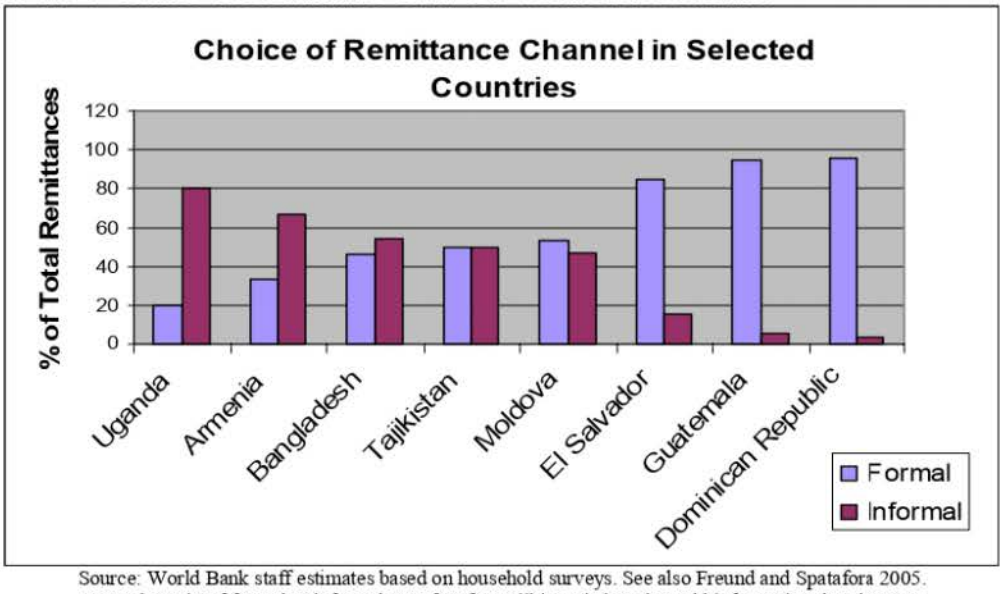
Paradoxically, the income multiplier effect of remittances is larger, the larger is the unemployment in the remittance receiving country, ceteris paribus. Thus, given the extremely high structural unemployment in Tajikistan, one would expect the multiplier effect to be huge. The growth of the construction, aviation, and services sectors – the sectors that have most contributed to the growth of the economy as a whole - cannot be dissociated from migration of workers and the massive inflow of remittances.

The nexus between remittances and development promises to be nothing short of a mini geographical discovery in the annals of development economics!

Several factors witnessed all over the world seem to have contributed to the dramatic rise of formal remittances in CIS as well. Chief among them are: (a) the increased monitoring of flows since 9/11, (b) lower costs of transmission thanks to increased competition, economies of scale, and technological improvement (c) improvements in data recording, (d) the depreciation of the dollar (raising the dollar value of remittances denominated in other currencies), and (e) growth in the migrant stock and incomes in the host countries.

Despite the notable increase worldwide of formal remittances, it is generally believed that formal remittances greatly underestimate the full size of remittance flows. It has been shown that payments made through informal channels could be as high as 400% of formally recorded flows in some countries. See Figure 2.2.

Figure 2. 2 –Choice of Remittance Channel in Selected Countries



Source: World Bank staff estimates based on household surveys. See also Freund and Spatafora 2005.
Note: the ratio of formal to informal transfers for Tajikistan is based on old information that does not correspond with the higher ratio found in our survey.

I.A. International Initiatives on migration and remittances

Realizing the significance of international migration and remittances for the new international economic order, the United Nations created a commission to study international migration and its significance for development. See Box on GCIM. The World Bank and IMF created a working group in 2005 to study the phenomena. The recent World Bank Report on remittances (WB, 2006a) has catapulted the issue into limelight and the report has already become perhaps one of most cited in World Bank study.

Although the world has only recently awakened to the significance of remittances for developing and emerging economies, migration experts had long recognized the growing importance of remittances as a source of savings and foreign exchange for the developing countries.[36]

[36] As early as 1976, Bhagwati (1976) proposed a tax on the income of professionals from the developing countries working in advanced economies. See the Box on Bhagwati Tax.

Box 2. 1 - The Global Commission on International Migration (GCIM)

1. International migration has risen to the top of the global policy agenda. States and other stakeholders have become aware of the challenges and opportunities presented by international migration. In every part of the world, there is now an understanding that the economic, social and cultural benefits of international migration must be more effectively realized, and that the negative consequences of cross-border movement could be better addressed.
2. In response to the growing scale, scope, and complexity of the issue of international migration, and acting on the encouragement of UN Secretary-General Kofi Annan, in December 2003 a Core Group of States established the *Global Commission on International Migration*, with a mandate to provide the framework for the formulation of a coherent, comprehensive and global response to the issue of international migration. Created as an independent body and consisting of 19 people from different parts of the world with a variety of high-level international experience, the Commission was more specifically requested to promote a comprehensive debate among states and other actors with respect to migration; to analyze gaps in current policy approaches to migration; to examine inter-linkages between migration and other global issues; and to present appropriate recommendations to the UN Secretary-General, governments and other stakeholders.
3. To achieve these objectives, in 2004 and 2005 the Commission and its Geneva-based Secretariat met on a regular basis and undertook extensive consultations with a wide variety of stakeholders. This included five major regional hearings in the Asia-Pacific region, the Mediterranean and Middle East, Europe, Africa and the Americas, attended by government officials at the local, national, regional and international levels, representatives of international and non-governmental organizations, trade unions, migrant associations, and other civil society institutions, as well as employers, corporate managers, recruitment agents, academic experts and journalists. The Co-chairs, Commission members, Executive Director and Secretariat also held numerous bilateral meetings with governments and institutions, in capitals, as well as Geneva and New York.
4. In addition to these activities, the Commission convened a series of thematic workshops with stakeholder groups, including parliamentarians, the private sector, human rights organizations, the media, migration policy specialists and African researchers. The Commission's Secretariat established a wide-ranging policy analysis and research programme, involving both leading experts and younger scholars in the field of international migration. Throughout the process, the Core Group of States – which in August 2005 included 32 governments from all regions – acted as an informal consultative body to the Commission.1

Source: www.gcim.org

1 Algeria, Australia, Bangladesh, Belgium, Brazil, Canada, Egypt, Finland, France, Germany, Holy See, Hungary, India, Indonesia, Islamic Republic of Iran, Japan, Mexico, Morocco, Netherlands, Nigeria, Norway, Pakistan, Peru, Philippines, Russian Federation, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Turkey, United Kingdom, and the EC/EU.

Box 2. 1 - The Global Commission on International Migration (GCIM)

We will review the literature briefly here with a view to generating some a priori expectations and examine the likely macroeconomic consequences for the Tajik economy.[37]

[37] There is a near consensus in the literature on international migration and remittances that the gains to the host countries are significant. However, this subject is beyond the scope of this report.

II. Macroeconomic Consequences of Remittances

II.A. Remittances as the Engine of Growth

Remittances have the potential to contribute to economic growth both directly and indirectly. The growth inducing potential of remittances has generated considerable excitement among economists as well as policy makers.

II.A.1. The Pessimistic View

However, despite the excitement over the potential of remittances to spur economic development in poor countries, the impact of remittances on overall growth in the labor exporting countries has been called into question by some, mainly by non-economists.

II.A.1.1. Remittances are mostly consumed, reducing the growth impact on the economy

The growth skeptics' argument runs as follows: growth requires an increase in the productive capacity of the economy; an increase in the productive capacity requires investment, which requires savings. Empirical literature on the use of remittances shows that little savings from remittances flow into the formal financial sector. Remittances not spent on necessities get plowed mostly into housing, land, education, and small businesses. There is a prevalent view in some donor and policy circles that since the bulk of remittances are not used for investment, they may not be contributing to growth.

An oft cited study by Chami et al (2003, 2005) has highlighted three stylized facts from the empirical literature on the impact of remittances on the macroeconomy: (1) a significant portion (often the majority) of remittances is indeed spent on consumption; (2) a significant (but smaller) portion of remittances is channeled to savings or investments (houses, land, and related expenditures, such as renovations); and (3) such savings and investments are not necessarily productive for the overall economy because the purchase of a house or land is not in itself a productive activity. Based on their empirical analysis, Chami et al (2003) find that the relationship between remittances and growth is weak.

II.A.1.2. Remittances Cause the Dutch Disease

It is almost a cliché in the literature on resource abundant economies that they are subject to the classic "Dutch Disease Syndrome" or "the commodity curse". Natural resources are like manna from heaven - a country suddenly discovers a large amount of a natural resource, such as oil. Of course, it takes exploration and investment to extract natural resources out of ground. Frequently, such investment is underwritten by foreign investors making domestic sacrifices unnecessary. It is like getting the Promised Land for a small piece of flesh. Large and sustained inflows of foreign exchange can result in currency appreciation (more $ per Somoni) in resource abundant countries making the traditional exportables in which they have a comparative advantage more expensive. The result is a crowding out of traditional exports. This vulnerability of the economy as a result of the

heavy reliance on natural resources is what is referred to as the Dutch Disease.[38] We often encounter warnings to the effect that oil pipeline and extraction projects in Africa serve as templates for how natural wealth can actually undermine a nation's economic health. The question arises: do remittances result in the Dutch disease often associated with natural resources?

A recent paper by Acosta et al (2007) finds that whether altruistically motivated or otherwise, an increase in remittances flows leads to a decline in labor supply in the labor exporting country and an increase in private consumption that is biased toward nontradable goods. The increase in demand for nontradables, coupled with higher production costs, results in an increase in the relative price of nontradable goods, which further causes the real exchange rate to appreciate. The higher nontradable prices signal higher profitability, resulting in further investment in that sector, culminating in reallocation of labor away from the tradable sector. This resource reallocation effect eventually causes a contraction of the tradable sector. Using data for El Salvador they fail to reject the Dutch Disease hypothesis.

II.A.2. Response to the Growth Skeptics:

II.A.2.1. The Keynesian Multiplier and Growth

There is no denying that the growth impact of remittances will be higher if they are invested in so far as they help promote the capital market and productive infrastructure. There is also no question about the theoretical coherence of the abstract modeling by Acosta et al.

We would argue, nevertheless, that the assumptions that lead to growth pessimism and Dutch Disease is based on a simplistic view of the working of the economy. We think the pessimistic view reflects an inadequate understanding of how the economy works – with the possible exception of sophisticated analysis, as we will see below.

First, it needs to be understood that money is fungible. That bulk of remittances funds are being spent on consumption goods does not mean that the funds earmarked for consumption prior to the receipt of remittances are thrown away.

Second, even if those funds are not invested, and are simply used to increase consumption, they indirectly do contribute to investment. Regardless of the initial disposition of remittances funds by the recipients, there will be second, third, and subsequent round effects on the economy when the initial expenditure generates income for others who in turn spend the money, giving rise to another round of income and expenditure and the process goes on ad infinitum. This is the textbook principle of income multiplier a la Keynes. When money is spent, regardless of how it is generated, it creates jobs and sets off a train of spending and respending resulting in a multiple expansion of income and jobs.

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[38] The origin of the term is attributed to the London Economist (1977). "In the 1960s, with fixed exchange rates under the Bretton Woods system, the Netherlands discovered off-shore natural gas. As natural gas was extracted, it increased domestic income and spending. Investment was redirected toward the natural gas sector. Dutch wages and prices began to rise gradually. The Dutch guilder became overvalued in real terms, their industrial products became uncompetitive, and the manufacturing sector shrunk. This phenomenon of de-industrialization under rich natural resources was called the Dutch disease. They got natural gas but lost manufacturing." For a survey of the literature, see Paul Stevens (2003). *Resource Impact - Curse or Blessing? A Literature Survey.* Centre for Energy, Petroleum and Mineral Law and Policy.

II.A.2.2. Backward and Forward Linkages and Growth

Another mechanism suggested in the literature is Hirschman's concept of backward and forward linkages. [39] As Hirschman argues, growth in a particular sector (even if it is a consumption goods sector) creates backward and forward linkages and may stimulate investment in sectors that supply to the consumption goods sector and others that serve to distribute the output of the consumption sector. The indirect contribution to the economy of growth in the transportation and telecommunication sectors is likely to be very significant. Orozco (2005) draws attention to what he calls the Five T's of the nexus between migration and development – transfers, tourism, transportation, telecommunications, and nostalgic trade. There is considerable evidence in the literature to show that these sectors receive a shot in the arm from migration.

Of course, this is an oversimplified picture, but, it debunks the view that remittances funds spent on consumption goods do not contribute to growth. The size of the ultimate multiplier effect on income depends on a number of factors, including, among others, the marginal propensity to consume, the income tax rates, the marginal propensity to import, and many others.[40]

II.A.2.3. Dual Gap theory, Remittances, and Economic Growth

One of the defining characteristic of developing countries is that they suffer from what has been called a 'dual gap'[41]: a savings gap and a foreign exchange gap. In order to grow, they must save and invest, but savings depend on income. Since these countries have low income, savings are low too. Thus, they seem to be caught in a vicious circle. Remittances enable developing and emerging economies break this vicious circle and help attain self-sustained growth.

II.A.2.4. New Economics of Labor Migration, Remittances, and Economic Growth

The "New Economics of Labor Migration" (NELM) argues that migration and remittances are decisions made not by individuals, but by household members behaving rationally and taking collective decisions to overcome liquidity and credit constraints. One implication of this is that there will be a high propensity to save out of many remittance flows, in so far as they are perceived as transitory rather than permanent income. Remittances can thus be expected to enhance capital accumulation by allowing families to overcome liquidity and credit constraints.

Remittances tend to increase trade and investment ties between the sending and receiving countries and, as such, stimulate growth indirectly.

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[39] Backward linkages are the interconnection of a sector to those sectors from which an industry purchases inputs, and forward linkages indicate the interconnection of a sector to those sectors to which it sells output. See Hirschman (1977).

[40] Thus, in so far as remittances are spent on imported consumption goods, instead of strengthening the local economy (and thus mitigating the powerful push factors that induce outmigration for the landlocked economy of Tajikistan), the multiplier effects in the labor exporting economies are likely to be dampened. A detailed discussion of this is beyond the scope of this report.

[41] Dual Gap theory was propounded by Chenery. See Todaro, "Economics of Development".

II.A.2.5. Do Remittances cause the Dutch disease?

Remittances may have some features in common with revenue from natural resources in the following sense: a country suddenly discovers that it has a rich neighbor or has been given access to an international labor market that is willing to offer ten times the wages labor can earn domestically is like having a windfall income from the discovery of natural resources, such as oil or a goldmine. Thus, one might be led to argue that large and sustained remittances may be likened to revenue from natural resources. While large and sustained remittance inflows can contribute to currency appreciation, this outcome may be less severe than it is in the case of natural resources.

Remittances are like export proceeds from a single commodity, labor, but they are different from revenue earned from export of natural resources, and, therefore, may not be subject to the so-called 'commodity curse'. Unlike oil, remittances are not manna from heaven and therefore not subject to rent seeking by bureaucracy associated with sudden discovery and exploitation of abundant natural resources. The individual risk taking, the hard work, the toil and suffering, and the drudgery that is associated with international migration cannot be compared with the cost of exploration and investment to extract natural resources undertaken by foreign investors invited by the government and is subject to the usual rent-seeking behavior – it is a qualitatively different game. It is an intrafamily transaction.

Another important caveat against slavishly embracing the Dutch Disease argument is brought out by Mwanza Nukusu (2004) who demonstrates that the Dutch disease need not materialize in low-income countries that can draw on their idle productive capacity to satisfy the aid-induced increased demand. Furthermore, diagnoses on, and prognoses for, the Dutch disease should take into account country-specific circumstances to avoid ill-advised policies. Even if real exchange rate appreciates, using public resources inefficiently can be more painful than such appreciation which may not necessarily embody the Dutch disease.

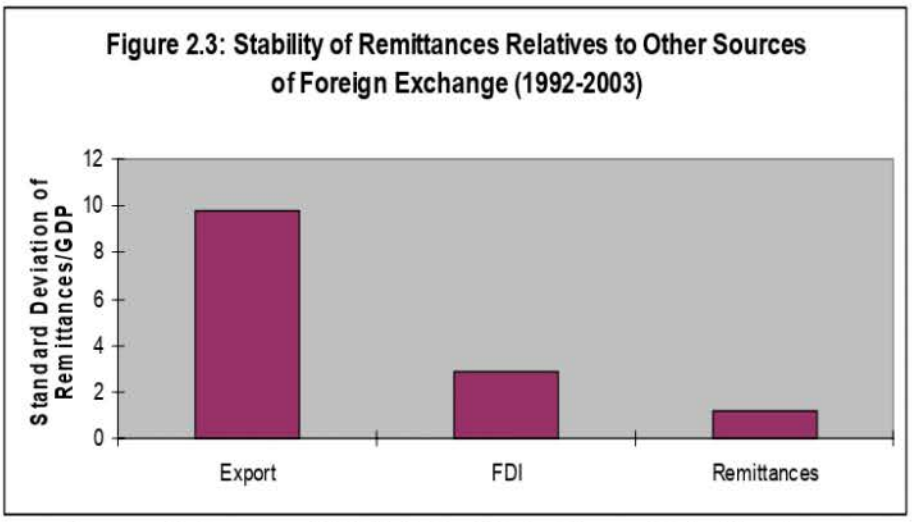
II.B. Remittances as Automatic Stabilizer for the Macroeconomy

Even if the link between remittances and growth is shown to be tenuous in the employment literature, the significance of remittances as a stabilizing factor in market economies with inherent tendencies towards cyclical movements cannot be exaggerated. Although migration and transfer of remittances are actions undertaken by hundreds of thousands of individuals, such individual acts have desirable unintended macroeconomic consequences. In macro terms, remittances serve as an automatic stabilizer that dampen undesirable cyclical fluctuations in aggregate employment and national income. These are a several times more stable than export earnings and less volatile than FDI. Several studies have recognized remittances to be a more stable, counter-cyclical, and countervailing source of foreign capital than the volatile and disruptive, private capital flows such as portfolio investment (IADB 2004; Orozco 2004a; IMF 2005, WB, 2006a, Schrooten, 2006). In a recent paper, Matteo Bugamelli and Francesco Paternò (2006) have provided preliminary evidence that a high level of remittances reduce output and consumption volatility especially in countries with less developed financial system. See Figure 2.3.

This is music to the ears of macroeconomists to whom active government intervention into the economy is an anathema. Built-in aggregate demand management through private

remittances that are both predictable and countercyclical is tantamount to a mini geographical discovery in the field of macroeconomic policy making.

Figure 2. 3 – Stability of Remittances Relatives to Other Sources of Foreign Exchange (1992 - 2003)



Source: Schrooten (2006); WB, 2006a. Notes: Volatility is measured as the standard deviation of the ratio of remittances to GDP.

Theoretically, the availability of remittances as an automatic stabilizer depends upon the motives for remittances. Thus, a brief discussion of motivations to remit is in order.

II.B.1. Motivations to Remit and the Implications Thereof for Remittances

Studies at the micro level have focused on remittances from either the viewpoint of the migrants who send money home[42] or the viewpoint of the household members who receive the money.[43] Stark (1991) argues that decisions about migration and remittances are made at the household level for managing and coping with idiosyncratic/individual and covariate/macro risks.[44]

II.B.1.1. Migrant's Motive: Self Interest Or Self Sacrifice?

The literature on the motives to remit views migrants as either altruistic or self-interested individuals (Chami, Fullenkamp, and Jahjah, 2004; Pozo, 2005; Bernard Poirine, 1996).

As altruistic individuals, migrants care about the welfare of other household members, friends, and relatives. Their own satisfaction is increased when they remit money to meet the consumption needs of the household members who stay behind. A number of empirical

[42] Key references here are: Banerjee, 1984; Durand et al., 1996; Lucas and Stark, 1985; Stark and Lucas, 1988; Stark 1991; Taylor et al , 2003, 2001.

[43] Key references here are: de la Brière et al., 2002; Funkhouser, 1995; Itzigsohn, 1995; Taylor, 1987; Taylor and Wyatt, 1996; Adams, 1998, 2004; World Bank, 2005, 2006; Ellerman, David, 2005.

[44] Covariate or collective risks, such as droughts, floods, earthquakes, affect a whole group; idiosyncratic risks, such as loss of job, illness, are confined to specific individuals/families.

studies (Stark, 1999; Agarwal and Horrowitz, 2002, Yang, 2005, to cite just a few) test for evidence of altruistic behavior.

As self-interested individuals, migrants are thought to be motivated to remit for a number of reasons, including, among others, a desire to share risk, a desire to diversify portfolio, or a desire to return to the home country. From the perspective of risk sharing, remittances are viewed as premium to insure against idiosyncratic (e.g., loss of job) or covariate risks (e.g., drought). If diversification is the driving force, they would try to equalize return to investment in both host and home countries. In other words, they would invest in home country until the marginal return to their investments in host countries is no higher than the marginal return to their investments in the home country. If they have a strong attachment to the home country and plan to return, they will try to create an egg nest through investment in housing and business formation.[45]

Some studies fail to clearly identify the prime motivation for remittances and maintain that both self-interest and altruism determine the decision to migrate and remit (Ballard, 2001).

II.B.1.2. Implications of Different Motives for Remittances as Automatic Stabilizer

If altruism is the main driving force, we would expect remittance flows to be countercyclical. The altruistic migrant would be inclined to send more money in response to an economic crisis at home. For instance, the Asian financial crisis of 1997 triggered an increased pace in remittances to Phillipines (Yang 2005). If self-interested attachment is the main motive behind remittances, then the stability of flow of remittances depends upon the dominant form in which self-interest manifests itself. If the desire to share risk is dominant, remittance flows are expected to be countercyclical; alternatively, if the desire to diversify portfolio is dominant, one would expect remittances to be pro-cyclical. In a situation of stagflation (with high unemployment coexisting with high inflation) which has been prevalent in many transition countries, one would expect remittance flows to be stable in so far demand for real estate remains stable; low profitability of business or prospect of loss, however, would militate against stable flows in this case.

[45] Bernard Poirine (1996) claims that his theory of remittances as an implicit family loan arrangement is a third alternative. In our view, this theory can be subsumed under the broad category of self-interest.

Box 2. 2 - Securitization of Remittances

Remittance securitization typically involves the borrowing entity such as a bank pledging its future remittance receivables to an offshore Special Purpose Vehicle (SPV). The SPV issues the debt. Designated correspondent banks are directed to channel all remittance flows of the borrowing bank directly to an offshore collection account managed by a trustee. The collection agent makes principal and interest payments to the investors and sends excess collections to the borrowing bank. Since remittances do not enter the issuer's home country, the rating agencies believe that the structure mitigates the usual sovereign transfer and convertibility risks. Such transactions also often resort to excess coverage to mitigate the risk of volatility and seasonality in remittances.

This structure allows issuers to escape the sovereign credit ceiling and often achieve investment grade credit rating, thereby reducing the cost of raising finance, particularly in times of distress in global capital markets. This is their principal attraction for issuers. Such transactions also allow issuers to extend the maturity of their debt, thereby improving risk management as well as balance sheet performance. They also permit issuers to tap a wider class of investors. Their investment grade rating and impeccable performance in good as well as bad times make them attractive for "buy-and-hold" investors such as insurance companies.

Finally, governments too may find this asset class attractive because, if planned and executed ahead of time, it can provide a way of accessing markets during times of liquidity crisis, as Turkey and Brazil have repeatedly done. Perhaps the most important incentive for governments to promote this asset class lies in the externalities associated with them. Such deals involve a much closer scrutiny of the legal and institutional environment---the existence as well as the implementation of laws relating to property rights and bankruptcy procedures---than unsecured transactions. As a result, these deals can produce enormous informational externalities by clarifying the legal and institutional environment and the investment climate in a developing country. Besides, a remittance securitization transaction backed by the government can also help usher in reforms of the legal and institutional environment.

Source:
http://www.barcelona2004.org/esp/banco_del_conocimiento/docs/PO_44_EN_KETKAR.pdf

Box 2. 2 – Securitization of Remittances

II.C. Remittances as A Way Out of Transformational Recession

In the context of transition form a socialist to a market economy, migration and remittances acquire an added significance. Most ex-socialist transition economies faced a huge economic challenge with the demise of the Soviet system. The initial economic structure inherited after the breakup of the Soviet Union was not competitive internally or externally, and was highly vulnerable to post-Soviet economic disturbances caused by dismantling of the central planning system, reallocation of resources, the transformation of interrepublican trade into international trade, and demise of COMECON and the nullification of old barter arrangements underwritten by the Soviet Union. From the perspective of social efficiency, most ex-Soviet republics suffered from substantial misallocation of resources, with their economies heavily tilted in favor of investment goods at the expense of consumption goods, manufactures at the expense of agricultural goods and services, and inefficient intra-Soviet trade at the expense of efficient international trade with the non-Soviet block.

Transition to the market system required structural reforms given the massive inefficiencies in the inherited economic system. This process has been bumpy as it required fundamental structural reforms which tend to be very painful in the beginning as a result of price liberalization (causing hyperinflation), privatization (with associated inequalities), and stabilization (through a reduction of government expenditure and a tight monetary policy causing under-provision of public goods and social protection).

These transition-related external and internal shocks resulted in considerable financial distress, leading to insolvency in growing number of enterprises and massive structural unemployment. Transition in most countries was particularly hard on the old and the inflexible who found it hard to adjust themselves to the demands of the market economy.

In the face of the internal and external shocks, low-skilled emigration has offered a valuable safety valve for countries suffering from structural unemployment associated with the transition from a socialist command economy to a capitalist market economy.[46] Low skill emigration can raise demand for low-skilled workers in the sending countries, leading to some combination of higher wages, lower unemployment, less underemployment, and greater labor force participation. See Figure 2.4.

II.D. Increased Access to International Capital Market

An often unrecognized benefit of remittances is the decrease in borrowing costs in the international capital market through the improvement of a country's credit rating that comes from a steady flow of foreign exchange. Some countries have gained increased access to international capital market through innovative financing mechanisms, such as securitization of remittance flows (Ratha, 2005). See Box on Securitization of remittances.

II.E. Remittances and the Government Revenue

We would like to add that in so far as most of the remittances are spent, they boost tax revenue through indirect taxes on imports and domestic consumption.

Armed with the theoretical perspectives and empirical evidence discussed above, we are in a position to offer here a brief assessment of the macroeconomic impact of remittances on the Tajik economy.

III. Macroeconomic Consequences of Remittances in Tajikistan[47]

Both nature and history have conspired to make Tajikistan an ideal candidate for the export of labor as a substitute for trade in goods! And herein lies the key to the sustained recovery of the Tajik economy since the end of the Civil War. Being a small war-ravaged

[46] Some of the best references on the transformational recession are: Blanchard, 1997; Lavigne, Marie, 2002. Roland, J. 2000. Marie Lavigne, 2002. EBRD, 2004, 2005; WB, Plan vs Market, 1996.

[47] Since this report is based on a household survey (KLSS 2005), it focuses upon a range of microeconomic issues explored by the survey and can only tangentially cover macroeconomic issues. The treatment is theoretical and based on secondary data.

landlocked peripheral economy with an unusually high rate of unemployment and few alternative avenues to connect to the rest of the world, migration and workers remittances have underpinned the dramatic recovery of the Tajik economy in the aftermath of the transformation recession and the devastating civil war. Remittances have been a macroeconomic boon for Tajikistan.

III.A. Growth of Employment through the Multiplier Effect

Remittances Have Been Priming the Pump in Tajikistan.[48] The deterioration and destruction of much of the already fragile industrial and commercial infrastructure of Tajikistan following the breakup of the FORMER SOVIET UNION and the ensuing civil war left few opportunities for income generation. Remittances by Tajiks abroad have been priming the pump in Tajikistan. Migration and Remittances associated with migrant workers have not only helped Tajikistan grow out of the transformational recession, but they. have also helped smooth the cyclical fluctuations that are integral to a market economy.

Paradoxically, the income multiplier effect of remittances is expected to be larger, the larger is the unemployment in the remittance receiving country, ceteris paribus. Given the extremely high structural unemployment in Tajikistan, one would expect the multiplier effect to be huge. As explained above, regardless of how additional income from remittances is spent, some positive effect on employment is expected through the operation of the Keynesian multiplier.

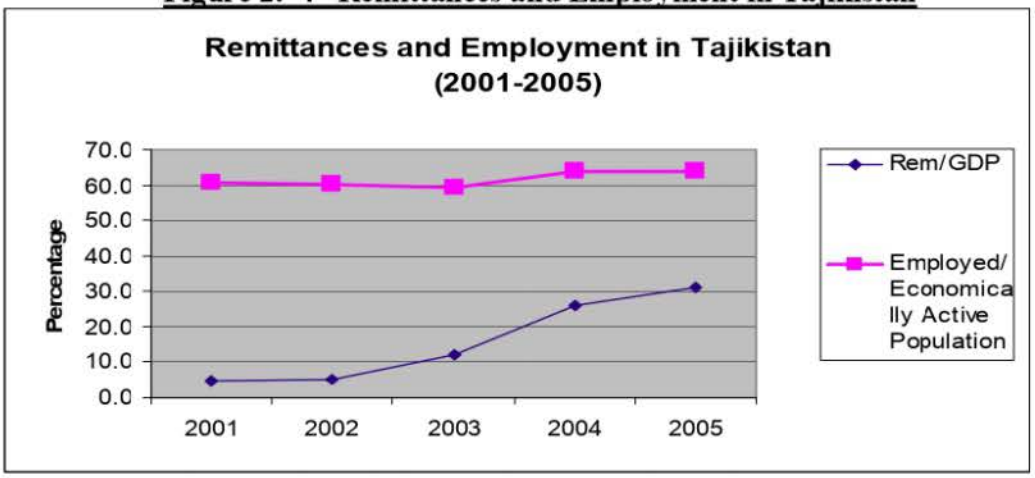
Unfortunately, unemployment data is difficult to gather. The official unemployment figures published by the Tajik government are absurd as they are based only on registered unemployment. There is considerable anecdotal evidence to show that unemployment rates are extremely high.

In the absence of unemployment figures for Tajikistan, we use a proxy measure, such as the ratio of employment to economically active population to gauge a fall in unemployment. This ratio has been rising and by implication, unemployment has been falling over the last many years. See Figure 2.4. The peace dividend is visible in the high growth rates over the last 5 years as shown in Table 2.1.

We concede that such positive correlation does not imply causation as there are many factors that may be confounding the relationship between remittances and growth. For one thing, the high rate over the last few years is partly a statistical artifact: since the economic base shrunk considerably as a result of the transformation recession and the destruction of infrastructure during the civil war, a small injection of purchasing power appears big in relative terms.

[48] Those who have lived in developing countries can appreciate this analogy very well.

Figure 2. 4– Remittances and Employment in Tajikistan



Source: author's calculations (Total remittances estimated by author; employment/economically active population from ILO. (See Technical Annex for details).

For reasons discussed above, industries that are characterized by economies of scale are unlikely to be set up in a landlocked country with insecure transit routes and few guaranteed buyers. Traders, while benefiting from the increased consumption funded by remittances, may all invest their profits in real estate and/or imported comforts.

Table 2. 1 - Indices of Gross Domestic Product (constant prices)

Indices of Gross Domestic Product (constant prices)

	2001	2002	2003	2004
	As percentage of 2000			
Azerbaijan	109,9	121,5	135,2	148,9
Armenia	109,6	124,1	141,4	155,7
Belarus	104,7	109,9	117,6	130,6
Georgia	104,8	110,6	122,8	130,5
Kazakhstan	113,5	124,6	136,2	149,3
Kyrgyzstan	105,3	105,3	112,7	120,7
Moldova	106,1	114,4	121,9	130,8
Russia	105,1	110,0	118,1	126,6
Tajikistan	109,6	121,4	134,8	149,1
Turkmenistan	...	...	...	...
Uzbekistan	104,2	108,4	112,9	121,6
Ukraine	109,2	114,9	125,9	141,1
CIS average*	106	112	121	130

Source: CIS Statistical Committee

III.B. Sectoral Growth a la Hirschman's Linkages

Which sectors are primed for growth from linkages with migration and remittances? Migration gives a boost to the transportation industry. The so-called 'wastage' of remittances on conspicuous consumption and real estate stimulates growth in the services and housing sectors. Thus, in Tajikistan, the aviation industry, housing material industry, railways, and services show visible evidence of growth. Although aviation industry has been growing very fast, the infrastructure system hinges upon the railways, accounting for 80 per cent of foreign trade turnover, 50 per cent of migrant traffic to Russia, and more than a third of the physical volume of goods transport as a whole (GOT, 2006). Table 2.2 shows that the number of passengers transported in 2004 was 238 percent of the number of passengers transported in 2000. This, in and of itself, suggests a growing trend towards migration, ceteris paribus, although we cannot determine to what extent it is due to internal migration. Improved air and transport links are expected to enhance Tajikistan's foreign trade potential.[49]

Table 2. 2 - Indices of Passenger Transportation by Transport Enterprises

Indices of Passenger Transportation by Transport Enterprises

	2001	2002	2003	2004
	As percentage of 2000			
Azerbaijan	103	102	106	109
Armenia	114	118	131	140
Belarus	102	97	95	92
Georgia	99,4	102	103	104
Kazakhstan	129	140	138	145
Kyrgyzstan	100,8	93	95	98
Moldova	65	86	91	94
Russia	98	94	89	88
Tajikistan	115	137	180	238
Turkmenistan	...	...	...	...
Uzbekistan	...	...	...	...
Ukraine	98	99	99	102
CIS average	99	96	93	94

Source: CIS State Statistical Committee

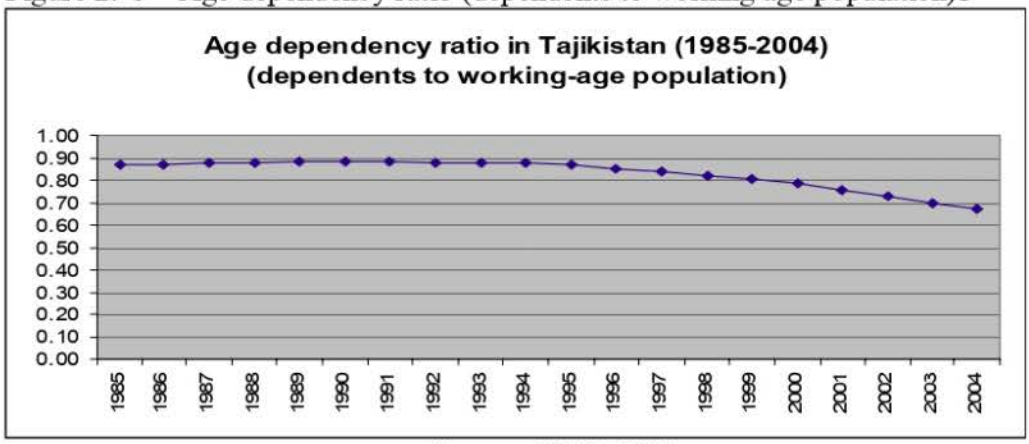
We would expect wages in the construction and aviation sectors to increase significantly. The following table shows that they indeed have.

[49] With increased tensions on and near its borders it must now work doubly hard to gain access to markets - an "open sky" policy will be essential as will a more liberal visa regime. (World Bank 2005a, p. 27).

III.C. The Moral Hazard of Increased Dependency

As mentioned above, it has been argued by some ((Chami, Fullenkamp, and Jajah 2004, 2005, for instance) that remittances may have a dampening effect on the supply of labor on the part of remittance receiving household members: low-skilled migration can improve labor market conditions for other poor workers and they may increase their reservation

Figure 2. 5 – Age dependency ratio (dependents to working age population)1



Source: WDI, 2005.

wages. It is difficult to draw any firm conclusion on this issue without a rigorous controlled analysis. However, there is little prima facie evidence in case of Tajikistan of increased dependency. Fig. 6.7 shows the age dependency ratio has been falling particularly during the period of high inflow of remittances. Again, a rigorous study of this matter is beyond the scope of this report.

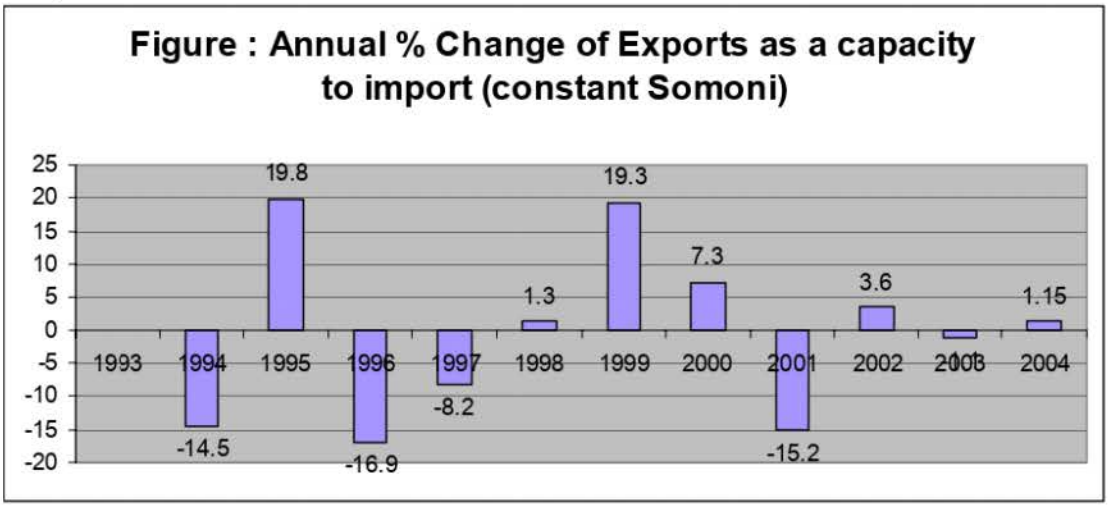
III.D. Is Tajikistan suffering from the Dutch Disease?

Even if there is moral hazard of reduced labor supply of household members receiving remittances, the economy may still experience a Dutch-disease type resource reallocation process: employment in the nontradable sector can expand at the expense of the tradable sector resulting in loss of competitiveness in the traditional export sector. Can the Tajik economy be said to be suffering from the Dutch Disease as a result of the massive inflow of remittances? First, it is not clear if Tajikistan does have a comparative advantage in cotton and aluminum, given that these sectors were developed in the context of a non-market command economy. Second, unlike other major sending countries of the FORMER SOVIET UNION, such as Moldova (Ruggiero, p. 54), remittances have not led to significant appreciation of Somoni nor has the increased demand in the face of crisis level unemployment led to appreciably higher inflation. International Monetary Fund (IMF) has taken a very conservative approach and stabilization programs have been effective in keeping inflation under control. Thus, average annual inflation was brought down from 38.6% in 2001 to 7.1% in 2004, even as the economy expanded rapidly. In 2005, inflation was at 7.1%, but stayed within the central bank's 7.5% target limit. Inflation in 2005 is attributed to high food prices in the summer, rises in electricity and petroleum fuel prices, temporary disruptions to border trade with Uzbekistan, and exchange rate depreciation

(ADB, 2006, p. 105). Strong appreciation pressures witnessed in early 2004 could have been the result of inappropriate monetary management involving attempts to constrain cash in circulation, rather than a result of the inflow of remittances (Kireyev, p. 11). Third, as for the deterioration of comparative advantage in the traditional sectors – cotton and aluminum, it is difficult to say whether remittances rather than other factors have caused any direct damage to these sectors. The problem of the cotton sector in Tajikistan has to do mainly with the perverse incentive system created by ineffective property rights and interference by local administration that limits farmers' options. See **Box 2.3: What Ails the Cotton Sector in Tajikistan.**

Estimation of annual percentage change of exports in terms of the capacity to import shows no clear trend and has been slightly positive in recent years. See the Fig. 2.6.

Figure 2. 6 – Annual % Change of Export Exports as a capacity to import (constant Somoni)1



Source: WDI, 2005

Box 2.3: What Ails the Cotton Sector in Tajikistan

Tajikistan's public administration and public finance systems are still based largely on the old Soviet model and lack capacity. Moreover, extremely low public sector wages (around US$l0 a month on average) fuel corruption and, coupled with the highly centralized form of government, reduce incentives and accountability at all levels.

The consequences of these governance problems are nowhere clearer than in the aluminum and cotton sectors, where political and vested interests undermine progress.
Poor financial management and the lack of transparency in aluminum-as illustrated by the recent scandal surrounding the previous management of the aluminum smelter
TadAZ-are handicapping efforts to improve efficiency. . . .

Agriculture employs two-thirds of the country's labor force, with the cotton sector the largest employer in rural areas. In 2003 cotton exports amounted to 11% of total exports-the third most important export after aluminum and electricity. In that year, cotton was grown on around 45% of farmland, with an average yield of 1.9 tons of seed cotton per hectare, low by international standards and lower than yields before the transition.

Post-transition cotton suffers from substantial inefficiency and inequities. It is estimated that cotton sector income could grow by 50% from its current level of around US$200 million a year, with feasible increases in yields and ginning outturns. Several problems stand in the way: (i) ownership and governance of cotton farms; (ii) continued state management of production targets (distorting incentives), and (iii) monopsony of the ginning sector and related monopolization of the credit and input provision. . . . A large number of cotton farms have not been privatized. Where farms have been privatized, land certificates have often not been issued. In this case, farmers received collective land tenure rights, while farm management mostly remained as before, resulting in no significant increase in individual farmers' authority. Though farm managers are nominally elected by the farmers in the collective, the key to their power i s the support from local authorities. And because cotton farmers are usually required to produce cotton by local governments, they have little freedom of crop choice.

Powerful creditors with high-level political backing and the help o f local governments exploit farms by establishing local monopolies in financing, input provision, and ginning markets. The inability of farmers to choose whom they can go to for financing, ginning, and marketing of produce has resulted in their exploitation by intermediaries. Over-invoicing and under-deliveries of inputs resulted in inflated farm debts of about US$185 million in 2004. These large debts of questionable legitimacy are used by these powerful creditors to assure continuing control. By requiring the planting of cotton and not allowing cotton to move to different gins, local governments reinforce the stranglehold of intermediaries. The result: a highly complex and inefficient web of production incentives that impedes efficiency improvements and perpetuates the poverty of cotton farm workers. Governance of cotton farms is usually poor, so that farmers typically have difficulty (World Bank, cps, pp. 5-6)

Box 2. 3. What Ails the Cotton Sector

III.E. Migration, Remittances, and Structural Reforms of the Economy

Tajikistan has received relatively high marks on many indices of transition (EBRD Transition Reports, 2002-2006). Necessary as they are, structural reforms can be very painful and governments are often forced to slow the pace of reforms and accommodate the demands of people who are hurt by reforms in the short run. In the context of transition economies, the old, in general, and those associated with declining sectors and industries, in particular, can be serverely hurt by structural reforms and macroeconomic stabilization during the transition away from the centralized planned economy to the market system.

Did remittances help mitigate resistance to structural reforms in Tajikistan? As discussed above, an often unrecognized indirect benefit of remittances is that by promoting economic stability it generates some political capital that a reform-minded government can draw upon (see e.g., Przeworski, 1991; Kim and Pirttila, 2003).

What is the score card here? Ironically, Tajikistan was doubly blessed as a result of the outmigration of the young and the risk loving population. Not only did it alleviate unemployment but also reduced the potential for political resistance to structural reforms as the population most prone to protest was working outside the country helping the economy cushion the pain that has attended upon structural reforms and also generating optimism among those who were left behind. Following the peace accord in 1997, there has been little overt resistance to structural reforms, however incomplete and imperfect they have been.[50] Perhaps, the earlier wave of permanent exodus of the intelligentia and the highly educated population combined with the continual and regular migration of the potentially active young population, and the fatigue from the civil war go far to explain the absence of overt resistance to painful reforms, ceteris paribus.[51]

IV. Microeconomic Consequences of Remittances

IV.A. Gains to Migrants and Migrant Families

Remittances directly benefit migrants and migrants' families by providing insurance and enhancing liquidity.

Indeed, the new economic theory of labor migration would imply just the opposite: migration and remittances allow households to overcome two major obstacles they face: the credit constraint and lack of insurance to hedge against unforeseen adverse shocks.

The literature on the benefits of migration and remittances generally agrees that the bulk of the economic gains from migration accrue to migrants and their families, and these gains are often large. Since wage levels (adjusted for purchasing power) in high-income countries are approximately five times those of low-income countries for similar occupations, migrants can earn salaries that reflect economically advanced host-country prices, return, and spend the money in economically lagging home countries, where the prices of non-traded goods and services are much lower. (World Bank, ibid. p. xi). [52]

Remittances directly increase the income of the recipient and can help smooth household consumption, especially in response to adverse shocks, such as crop failure, death of a family member, or a health crisis. They reduce what is called 'idiosyncratic risk', i.e., risk that is confined to the recipient household.

However, the literature also recognizes that earnings of migrants in the host country may grossly overestimate the benefits to migrants. Regardless of the magnitude of the gain, migration is not without cost. In so far as remittances require migration of workers away

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[50] We do recognize the harm that mass migration can do to the process of democratization. The relationship between capitalism and democracy is anything but straightforward. There is clearly a trade-off here. However desirable democracy is, it may not be conducive to growth if the country is at a very low level of development with a significant proportion of the population below the poverty line. Those who maintain that capitalism and democracy go hand in hand have little empirical basis for their view, at least so far as countries at a low level of development are concerned. In an ideal world, we can have our cake and eat it too. However, we must recognize that we live in a political world. This is beyond the scope of this report. See, Kornai, Janos, 2000. "From Socialism to Capitalism". Moore (1993); Prezwerski (2004).

[51] This observation in no way endorses any non-democratic measures that may have been undertaken by the Tajik government.

[52] Non-traded goods are goods that are not traded, either because they cannot be by nature or because trade barriers are too high - services such as haircutting and law are examples of nontraded goods.

from the traditional sectors, one could argue that the output of the traditional sectors will be lower - this, of course, assumes that the marginal product of migrants in the agricultural sector was greater than zero. Nor is the cost only monetary (costs of transportation and foregone earnings) migrants incur substantial psychological costs in being separated from their loved ones: immigrants (particularly undocumented or irregular immigrants) are subject to exploitation and abuse.

Table 2.3: Tajikistan: Housing facilities, 1998-2004

Tajikistan: Housing facilities, 1998-2004

as of end of the year; millions of square meters of floor area

	1998	1999	2000	2001	2002	2003	2004
Total:							
Tajikistan	55.1	55.2	56.3	54.4	55.1	56.8	57.6
Khatlon oblast	13.5	13.5	13.7	13.7	15.2	16.4	16.7
Dushanbe city	9.6	9.6	9.6	7.4	7.5	7.4	7.3
RRP	10.9	10.9	11.6	11.1	10.9	11.1	11.6
Sogd oblast	19.2	19.2	19.4	20.1	19.4	19.8	20.2
Khatlon oblast	13.5	13.5	13.7	13.7	15.2	16.4	16.7
GBAO	1.9	2.0	2.0	2.1	2.1	2.1	1.8

Source: State Statistical Committee of Tajikistan

What explains the extremely low level of use of remittances for investment in business? The low level of business investment is due to both subjective and objective factors. First, investment is not even on the radar screen of most migrants: saving was mentioned by only 2 % of the respondent as the purpose behind migration. (See Fig. 4.5 and the section entitled, "Saving As A Motive" below). Second, few return migrants and receiving household in the survey think that they can start their own business. Third, migrants have a cautious attitude toward investing in Tajikistan. A number of people expressed concerns about bureaucracy, corruption, and the perception of a poor business environment. As in Moldova, and indeed in most host countries, the preferred form of investment of migrants remains housing. Independent evidence from Tajik State Statistical Committee shows that Khatlon indeed has witnessed much greater expansion of housing than any other oblast. See Table 2.3

IV.B. Overall Reduction in Poverty, Improved Liquidity, and Insurance

Low-skilled migration contributes indirectly to poverty alleviation. While the impact of remittances on overall growth in the sending countries remains debatable, there is a near consensus in the literature that remittances do play an important role in reducing the incidence and severity of poverty without worsening income inequality.[53]

Migration of low-skilled workers is usually beneficial. It has been argued both theoretically and empirically that low-skilled migration can improve labor market conditions for other poor workers who stay behind. Since most Tajik migration is low-skilled, we would expect it to relieve unemployment pressure in Tajikistan and contribute

[53] Adams (2004), Taylor (2005)

directly to the reduction of poverty in so far as there is high correlation between unemployment and poverty.

What is the empirical evidence here? While measuring the poverty impact of remittances is difficult because of lack of data and other methodological problems (such as calculating the counterfactual income of migrants had they stayed at home), careful analyses of the available household survey data from a number of countries indicate that remittances have been associated with lower headcount poverty ratios in several low-income countries—ranging from 5% in Ghana to 11 percentage points in Uganda. See Table 2.4. Pioneering work by Adams in Guatemala shows that remittances may have reduced the severity of poverty by 20 percent. The finding about reduction in poverty is robust and is corroborated by cross-country regressions and simulations.

Table 2.4 – Responsiveness of Poverty to Growth

Poverty Has Been More Responsive to Growth in the Middle Income CIS Countries and SEE than Elsewhere

Subregion	Countries	% Reduction in poverty to 1% growth in consumption per capita, 1998-2003
EU-8	Hungary, Poland	–1.3
SEE	Romania, Bosnia and Herzegovina	–2.5
Middle income CIS	Belarus, Kazakhstan, Russian Federation, Ukraine	–3.1
Low income CIS	Armenia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan	–1.4

Sources: WB, 2005e. World Bank staff estimates using ECA Household Surveys Archive. Country-level data derived from information reported in table 2 in the Appendix.

Note: Averages are simple cross-country means. They should be treated as indicative, rather than as representative, of typical values found in the subregion. Poverty line is $4.30 a day per person in 2000 PPP for the EU-8, and $2.15 elsewhere.

Given the extremely high unemployment rate in the economy, reduced supply of unskilled workers is likely to not only relieve unemployment pressure in the economy, but is also expected to increase the wage rate for the remaining body of unskilled workers. There is some prima facie evidence that confirms these effects. Fig. 2.4 showed how closely employment and remittance flows have been associated, particularly since 2003. Table 6.5 shows that the sector experiencing the greatest growth in wages are the ones that are disproportionately represented by outmigration of worker, i.e. construction.

There is another channel through which remittances are expected to reduce poverty. In the literature, remittances appear to be associated with increased household investments in education and health—the benefits of the latter go beyond the individuals and accrue to the community as a whole.[54] Even when remittances are spent on consumption goods, the fact

[54] There is considerable evidence in the literature on the spillover benefits to the community from having an educated population. A classic reference here is (Lucas, 1988).

that money is fungible implies that funds earmarked for consumption prior to the receipt of remittances could be spent on merit goods such as education and health whose social return is greater than the private return. Thus, we would expect to see increased expenditure on health and education in Tajikistan by the recipients of remittances to indirectly contribute to further reduction in poverty.

While the poverty reducing effect of remittances is robust, the size character of this effect may depend on the proportion of remittances that are allocated to productive investment. Remittances allocated to investment are expected to reduce poverty in the long run, resulting in lower vulnerability at the both household as well as the community level and possibly in lower interhousehold inequality; remittances allocated to consumption tend to have a greater effect on short term poverty and could possibly increase interhousehold inequality (Chimhowu et al, p. 89). However, the argument by Chimhowu et al needs to be qualified as some consumption patterns do have long term benefits, such as expenditure on health, education, and other forms of human capital.

Labor exporting countries also benefit indirectly from the network effects that highly skilled migration generates. These effects include, among others, business contacts, investments, technological help, and so on. As mentioned above, remittances tend to increase trade and investment ties between the sending and receiving countries and, as such, stimulate growth indirectly.

IV.C. Do Remittances Lead to the Moral Hazard of Increased Dependency?

Remittances could be a double-edged sword. On the one hand, remittances increase the purchasing power of the recipient and may lead him/her to work less and enjoy more leisure. This is what is called the income effect and there is nothing undesirable about it as increased leisure improves the welfare of the recipient because leisure is a normal good. On the other hand, remittances may also lower the opportunity cost of leisure (non-work) resulting in reduced supply of work. Chami, Fullenkamp, and Jajah (2003, 2005) show that remittances may have a dampening effect on the supply of labor on the part of remittances receiving household members. This is the moral hazard involved in having the benefit of remittances – they provide insurance against starvation for non-work and create a perverse incentive to withdraw from the labor market or reduce hours of supply of work. However, reduced supply of effort by some individuals need not translate into lower unemployment in an economy with extremely high rates of unemployment as firms can always find workers willing to fill any vacancies that arise from withdrawal of labor by some members of the labor force. Again, reduced effort does not necessarily mean lower welfare in so far as leisure is a normal good. Consumption of leisure does improve the welfare of the recipient.

IV.D. Do Remittances Worsen Income Distribution?

To the ones who have, will be given; from those that do not have, will be taken away! (Mathew)

Do Remittances Have A Mathew Effect?[55] Frequently, the windfall income associated with natural resources is concentrated in the hands of a small regional or social group and gives rise to a great deal of rent seeking and corruption. Economic literature abounds in cases of rent seeking that attends upon natural resource abundance.

However, a key distinguishing feature of remittances as a macroeconomic windfall is that they are, in general, not concentrated in the hands of a small group nor are they confined to a small region of a country: remittances are distributed more widely in so far as migrants come from a broad strata of society.

While there is a strong theoretical and empirical case in favor of the equalizing effect of remittances, some studies argue that in so far as remittances are spent to finance purchase of real estate and urban enterprises, they increase rural urban inequality. This case is very weak and may have been due to distortions in the economy that diverted investment away from the rural areas (Ratha, 2005, p. 33). In a recent paper, Koechlin Valerie & Gianmarco León (2006) provide empirical evidence in support of existing theoretical framework that incorporates network effects, describing how, in the first stages of migration history, there is an inequality-increasing effect of remittances on income inequality, as mentioned above. Then, as the opportunity cost of migrating is lowered due to network effects, remittances tend to reduce inequality. They also show how education and the development of the financial sector can help countries reach the lower inequality section of the curve more quickly. Their findings are robust to several empirical specifications, as well as for a wide variety of inequality measures. In the literature, remittances appear to be associated with increased household investments in education and health—the benefits of which go beyond the individuals and accrue to the community as a whole.[56]

As far as Tajikistan is concerned, it is indeed the case that migrants come from all walks of society and from all oblasts/regions of the country. Even within oblasts, they appear to be more evenly spread. Thus, at least on the surface, we do not expect remittances to be associated with the so-called Mathew Effect, nay we expect remittances to have an equalizing effect on income distribution.

V. Justification of the Study of Remittances through a Living Standards Household Survey

Although generally recognized to be substantial, the significance of remittances for Tajik economy relative to other developing and transition economies has not been properly understood in the literature or in the published documents of the international

[55] Mathew effect refers to the worsening income inequality in the economy with increased per capita income.

[56] There is considerable evidence in the literature on the spillover benefits to the community from having an educated population. A classic reference here is (Lucas, 1989).

organizations.[57] This has given rise to wild speculation about the magnitude of migration and remittances. In our view, the near total absence of indigenous capacity for productive policy analysis from an economic perspective goes far to explain this shortcoming.

It is generally believed that formal remittances greatly underestimate the full size of remittance flows. Thus, despite clear trends, the magnitude of both the outflow of Tajik migrants and the inflow of remittances have been hitherto shrouded in mystery, and, have given rise to wild speculations about the number of migrants and the remittances transferred home by them.[58] Nor is this controversy confined to the media. The IMF is not immune from the inconsistencies in reporting data on remittances. The International Monetary Fund (IMF) keeps annual records of the amount of workers remittances received by each labor-exporting country and publishes them annually in its publication, Balance of Payments Statistics Yearbook. However, the IMF only reports data on remittances which are transmitted through formal banking channels. Since a large (and unknown) proportion of remittance monies is transmitted through private, unofficial channels, the level of remittances recorded by the IMF underestimates the actual flow of remittance monies returning to labor-exporting countries.59 Even formal remittances are not always recorded by reporting countries because of minimum threshold requirements.[60] Table 2.5 - **IMF Smorgasbord of Remittances - in Box**. 2.4 highlights the variety of figures one encounters in the economic literature on Tajikistan. See the Box: Neither Fish Nor Fowl. This is clearly due to inadequate or non-existent data.

While, it is relatively easy to calculate remittances sent through formal channels (assuming transfers conform to the conceptual definition of remittances), estimating the size of informal flows is almost impossible without a well-designed survey of senders or receivers or both (WB, 2006a, p. 108). Herein lies the justification to carry out a household survey.

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[57] Two studies are worth mentioning here: IMF (2006) and World Bank (2006e). The former is mainly a macroeconomic study based on secondary data; the latter was just released and draws upon a snowball sample of reportedly dubious quality and reaches many conclusions that remain unsubstantiated.

[58] Eurasia Daily Monitor. "Tragedy at Moscow Market Xenophobia." Feb 28, 2006. The author mentions that there are one million Tajik migrants in Russia and the annual remittances range from $6 to 8 billion. (No source for this information is mentioned). Accessed August 2006 <http://www.jamestown.org/edm/article.php?article_id=2370820>

[59] In 2002, informal transfers of remittance monies worldwide were estimated at $10 billion per annum. See Mohammed el-Qorchi, Samuel Maimbo and John Wilson, "The Hawala Informal Funds Transfer System: An Economic and Regulatory Analysis," unpublished paper, International Monetary Fund, Washington, DC, August 2002, p. 64. (cited in Adams and Page, p. 6. We believe this article grossly underestimates the informal remittances.

[60] The US does not require reporting of remittances under $10000 and EU has a higher threshold of € 12,500 Euros for reporting.

Box 2. 4 - IMF's Smorgasbord of Estimates on Tajik Remittances

IMF and World Bank together account for the better part of serious economic research on Tajikistan. We cannot match the immense computational and informational resources IMF has and have to rely on IMF data a great deal.

IMF, which presumably relies upon figures provided by NBT, has been constantly revising the figures published in various documents, frequently without a clear explanation of why it was necessary to do so. In preparing this report, we encountered at least 3 different estimates of remittances for 2004 in IMF publications. See Table below. (See Also Annex Table). In a recent publication, IMF provides a figure for 'net migrant remittances' of $175 for the first 3 quarters of 2005, with a projected number of $247 for the year 2005. Net migrants' remittances for 2004 are estimated to be $141million (IMF, 2006, 06/62, p. 131). 'Net migrants remittances' are a subcategory of a larger category called 'Balance on transfers' which is estimated to be $236m and $357m for 2004 and 2005 respectively. Again, it is not clear (at least to this reader) what 'balance on transfer' includes in the context of Tajikistan. An earlier report says, "All remittances through the banking system are shown as current transfers in the balance of payments, although some can be treated either as trade-related payments or income" (IMF country report, 05/131).

Table 2.5 - IMF Smorgasbord of Remittances in Tajikistan (in current US $)

Table 4.2: IMF Smorgasbord of Remittances in Tajikistan (in current US$)

Source Document	2001	2002	2003	2004	2005	Notes on Series
IMF. Selected Issues and Statistical Appendices. Country report 05/131	131	184	329	399		Notes: balance on transfers
IMF. Selected Issues and Statistical Appendices. Country report 05/131	48	65	189	313		Notes: 'migrants' remittances, net
IMF, IFS, online Country Tables, downloaded on Dec 5, 2005		201	285	400		Note: CURRENT TRANSFERS, N.I.E. : CRE
IFS online, Country Tables, downloaded on Feb 3, 2006		202	285	348		Note: CURRENT TRANSFERS, N.I.E. : CRE
IMF, 2006, 06/62, p. 131				236	357	Notes: 2005 is projected; balance on transfers
IMF, 2006, 06/62, p. 131				141	247	Notes: 2005 is projected; 'migrants' remittances, net
IMF. Selected Issues and Statistical Appendices. Country report 05/131				433		Remittances
IMF Press Release, February 2006, Dushanbe, Tajikistan.					600	Remittances
WB Trade Diagnostic, cited in Kireyev			471			Remittances
WB, official estimate (cited in Kireyev)			183			official remittances
NBT				37	156	workers' remittances ; "All remittances through the banking system are shown as current transfers in the balance of payments, although some can be treated either as trade-related payments or income." IMF country report, 05/131

While we recognize the difficulties in estimating remittance flows, publicly unsubstantiated revisions and neglect of a huge chunk of remittances (informal remittances) hardly inspire much confidence among users of this information

Research produced by IMF has been highly valuable and the author of this report has benefited a great deal from them. However, on the issue of remittances in Tajikistan, one gets the impression that IMF has generated more heat than light.

Box 2. 4 - IMF's Smorgasbord of Estimates on Tajik Remittances

Official figures do not take into account any remittances sent by migrants or others through means other than formal banking channels. Very little attention has been paid to collecting data on different aspects of remittances within the framework of a living standards survey with the exception of TLSS 2003. No wonder one cannot find a single rigorous econometric study on the impact of remittances on the Tajik economy. Realization of the significance of remittances has come late to the government as well as international organizations, including IMF. Although the limitations of household surveys are well-known in the literature, a well-designed representative household survey can allow researchers to estimate the informal flows to complement the formal flows to estimate the true size of remittances (WB, GEP 2006a, p. 108). Moreover, in order to assess the impact of remittances on living standards, a household survey is unavoidable (Adams, 2005).

Realizing the significance of the issue for the Tajik economy, UNDP Tajikistan asked International Organization for Migration (IOM) Tajikistan to implement a project to leverage remittances for development at the local level. As part of this project, UNDP commissioned a detailed household survey (henceforth, KLSS 2005) in the Khatlon oblast of Tajikistan that included a comprehensive module on migrant remittances. The main purpose of the survey was to provide quantitative data at the individual, household and community level in the Khatlon Oblast to facilitate purposeful policy design to harness migrant remittances for developmental purposes.

The survey was designed as a pilot study in one region to shed light on the dynamics of remittances and the impact thereof on individuals, households, and communities.

V.A. Why A Regional Survey?

UNDP is the main sponsor of this project. Khatlon is the locus of UNDP's microfinance initiative (MFI) launched in 2005 and not without good reason.[61] (See Box on UNDP matching loans). Predominantly rural, the Khatlon oblast is not only the major migrant sending region, but it also remains one of the poorest regions in the country, with 78% of the population living below two dollars a day, and the area contains 40% of all the poor population in Tajikistan.[62] The national Poverty Reduction Strategy Paper (PRSP) states that 47.5% of the very poorest reside in the Khatlon region even though Khatlon accounts for only 35% of the total population.[63] The Khatlon region is, therefore, an obvious candidate for this study.[64] This is a pilot study designed to prepare the groundwork for the nationwide study. Results from the regional study will be highly useful in designing a nation-wide study based on the upcoming TLSS 2007.

[61] See the Annex for details of the UNDP initiative.

[62] Goskomstat, Tajikistan. http://www.stat.Tajikistan/database/socio-demographic_sector/poverty.xls

[63] IMF. PRSP, p.

[64] TACIS Action Programme 2002. *Enhancing Individual Incomes and Improving Living Standards in the Khatlon Region*, Tajikistan Strategy Paper, p.

Table 2. 6 - Poverty in Khatlon and Other Oblasts of Tajikistan 1

Region	Population (thous. of people)	Percentage of Total Tajik Population	Overall poverty rate in 2003, %	Share of poor population, %	Poverty reduction rate for 1999-2003, %
GBAO	197	0.03	84	4	-13
Sogd	2123	0.32	64	32	-15
Khatlon	2169	0.33	78	40	-13
Dushanbe	630	0.09	49	7	-12
RRS	1553	0.23	45	17	-26
Total	6672	1.00	64	100	-18

Source: Namazie, 2005. TLSS 1999 and 2003 adjusted for regional prices.

Chapter III- Methodology[65]

Black cat or white cat, it is a good cat that catches mice. – Deng Xiaoping

The findings of the report are based primarily upon data generated from the 2005 Khatlon Remittances and Living Standards Survey (KLSS 2005). Although relying mainly on KLSS 2005, the report makes use of all available databases, including, among others, the 1999 and 2003 Tajik Living Standards Measurement Surveys, data made available by the Tajik State Statistical Committee, CIS Statistical Committee, World Bank, IMF, and a host of other sources. Quantitative data is supplemented for greater validity with qualitative information based on the author's observations, interviews with migrants, NGOs, government officials, and scholars.

I. KLSS 2005 Survey Design

The survey was specifically designed to address the objectives listed above, more specifically (1) estimation of the size of remittances into Tajikistan, (2) examination of the socio-demographic characteristics of "senders", (3) breakdown of ways and infrastructure used for money transfers, and (4) assessment of the impact of remittances on households' living standards and local development.

Given the well known limitations of cross section studies, KLSS 2005 was designed as a panel survey based on the sampling frame of 1999 Tajik Living Standards Measurement Survey (TLSS 1999). Although the first LSMS conducted in 1999 was not designed to be a panel survey, it was possible to implement a panel design by identifying and revisiting the sample of households in Khatlon oblast that were interviewed in 1999 for the first LSMS.

One limitation of panel data is that households can change over time - i.e., they can exit the sample (because of death or migration), or split or regroup because children grow up or household members are married or divorced. Also, new households, systematically different from the old households may be formed. In order to overcome these limitations, a quasi-random sample of split-off households and a random sample of new households were included in the survey. For details see the Technical Annex.

The field work in Khatlon consisted of a sample survey based on a standardized questionnaire of 712 households consisting of 602 original households, 73 new households, and 37 split-off households.[66] New households were randomly selected over 39 primary sampling units within Khatlon from all rayons in Khatlon to add to the representativeness. There were approximately 4860 individuals in the original households that were interviewed in 1999, 418 individuals in the new households, and 249 individuals in the split-off households.

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[65] Readers interested in the details of the methodology of KLSS 2005 should read the Appendix on Methodology.

[66] In addition, a 20% sample of remittances receiving households participating in the UNDP loan matching program was selected for comparison. (See Box: UNDP Loan Matching Program).

KLSS 2005 was conducted at three levels – individual, household, and community. The questionnaire was adapted from TLSS 1999 and TLSS 2003. The main innovation is the addition of two modules to collect detailed information on various aspects of migration and remittances. Additional modules on credit and communications were also added to collect in-depth information on different aspects of remittances in the context of a worldwide IT revolution. For details, see the Technical Annex.

Every attempt was made to make the survey comparable to the LSMS recommended for the CIS countries, in general, and the 1999 and 2003 Tajik Living Standards Surveys (TLSS), in particular. The questionnaires were translated into Tajik and Russian.

II. Identifying Migrants and Senders of Remittances

Since the focus of the study is on remittances, we had to broaden the definition of a sender in such a way that we capture the full amount of remittances received by a household in Khatlon. Thus, our broad concept of migrant includes all people who left Tajikistan and are the source of remittances to Tajikistan. Specifically, senders for the purpose at hand consist of two groups of people:

i. Temporary seasonal migrants (Tajiks who work abroad but return home annually); (These are the focus of Module 2 of the survey.)

ii. Settled migrants (Tajiks on long-term contacts abroad or members of Diaspora who are permanently settled abroad); (These are captured in Module 7 of the survey.).

III. How Are Remittances Measured in BOP?

Remittances are monies sent by migrant workers from the host country to the home country. This simple definition of remittances does not make it easy to measure and report remittances in official statistics. For one thing, as discussed above, the definition of a migrant remains elusive. As noted in the literature, this complicates the statistical treatment of remittances (Bilsborrow, et al., 1997). Second, not all remittances transferred are recorded. Third, even recorded numbers are not necessarily what they are supposed to mean. The distinction between remittances and other private transfers is often blurred in official statistics.

Three balance of payments components are most relevant for capturing remittances (IMF, BPM5, 1993; Reinke and Patterson, 2005):

> i. Compensation of employees—earnings by individuals for work performed in another economy (*without changing their residence*) and paid for by residents of this other economy; [67]

[67] "The concept of residence is fundamental for identifying the BOP flows that are relevant for the study of remittances. The concept of residence in BOP is broadly consistent with the concept of residence (long-term migrant) in migration statistics (except for a few exceptions, such as students and patients , who are considered resident of the home countries even if they change their usual residence for more than one year) and ships' crew. Broadly speaking, both economic and migration statistics apply the one year rule. A worker who is employed abroad for less than a year (for example a border worker, a seasonal worker or a short term employee) is classified as a nonresident of the host country in economic statistics" (UN, 2005a, pp. 2-3).

ii. Workers' remittances—current transfers by migrants who are employed in host economies and are considered residents there and *nonresidents* of the home economy;

iii. Migrants' transfers—the flow of goods and changes in financial items that occur with migration (to or from the migrant as *resident* to the same person – migrant - as *nonresident*).[68]

Official statistics on remittances presented in Balance of Payments and published yearly in IFS are supposed to include the 3 categories mentioned above. However, the conceptual ideal is seldom translated into official statistics published in national accounts or the IFS. As late as September 2007, a paper by Reinke (2007) discusses the limitations in the current conceptual framework. Reinke admits, "Conceptual shortcomings often frustrate data users, who find that they cannot easily identify relevant data in official statistics. Compilers are sometimes forced to ignore conceptual complexities, furthering the argument for a clarification and simplification of the definitions of standard components related to remittances" (p. 1).

Thus, until 2006, one would have expected in vain a clean entry under the heading, 'migrant workers remittances' anywhere in the balance of payments (BOP) data on Tajikistan.

Tajikistan is not alone in not producing accurate records on remittances. Data problems plague studies of remittances and migration. Few, if any, of the major labor-exporting countries publish accurate records on the flow of international migrants and no data are available on the amount of migration to the third and fourth most important labor-receiving regions in the world, the Arab Gulf and South Africa (Adams and Page, p. 5). Data on remittances and international migration are notorious for being unreliable. Nor is this unreliability confined to countries that lack resources to collect data. Even the European countries that compile data on remittances sent to developing countries harbor serious reservations about their quality.[69]

Lately, IMF and World Bank have made concerted efforts to improve the statistics on migration and remittances. A Technical Meeting on Measuring Migrants Remittances in early 2005 identified a number of areas where the statistical treatment of remittances needed to be improved (for details, see Alfieri et al. 2005; Hussain, 2005).[70] Recently World Bank launched a major initiative to collect data on migration and remittances. The data set includes information on international migration, remittances, income inequality and

[68] "Migrants' transfers is an imputed one time flow recorded at the time of migration as capital transfer in the capital account which reflects the net value of assets and liabilities of a household that changes status from nonresident to resident. There are no actual transfers that take place. Migrants' transfer should not be mixed with the concept of remittances, which is based on actual transactions between residents and non-residents" (ibid. p. 6).

[69] An ad hoc survey of the European Union (EU) member states conducted by Eurostat in 2004 found that data on remittance flows from the EU to developing countries was not systematically reported, and only for some EU countries provide geographical breakdown of remittance flows to third countries including developing countries. (European Commission, 2004, cited in Kireyev, p. 4).

[70] Reinke (2007) presents new and improved definitions for remittances, which were developed by the United Nations Technical Subgroup (TSG) with wide consultation of compilers. The new definition of remittances includes several new supplementary items to the balance of payments framework, addressing specific concerns raised by data users. The new definition is expected to simplify the standard components related to migration and remittances.

poverty for 74 "low income" and "middle income" developing countries.[71] These countries were selected because it was possible to find relevant migration, remittances and poverty data for all of these countries since the year 1980.

IV. The Econometric Method of Estimating Total Remittances

The econometric technique is based on the assumption that the decision to transfer remittances through informal channels is driven by the cost involved. Empirically, this involves first estimating officially recorded remittances as a function of transfer fee and foreign exchange commission. Per capital output in both the sending and receiving country as well as the stock of migrants are also used as control variables. Next, using the estimated coefficients on these variables, it is possible to predict what remittances would be if the values of these variables become closer to those prevailing in regions where informal flows are negligible, such as . . . Finally, the difference between these predicted remittances and the actual remittances yields an estimate of informal flows.

Unfortunately, data problems plague such estimation. Even the authors of the international study themselves do not seem to have a great deal of confidence in their estimates. Thus, while it would be useful to estimate a similar model for Tajikistan, the data requirements for such a model are such that it is virtually impossible at this stage to do so.[72] Thus, we need to find alternative ways that are feasible.

V. Measurement of Remittances in Tajikistan

V.A. Available Data on Remittances in Tajikistan

If one looks at the Analytical Tables published by the Tajik State Statistical Committee, one found no such thing as remittances anywhere in the BOP (as of March 2006). NBT publishes data on remittances but its methodology is not clear and the numbers do not match figures published in the official documents of IMF and the World Bank, the two main windows through which the world sees the Tajik economy even though the latter rely upon data provided by NBT. There is continuous revision of figures by the World Bank, IMF, and NBT. Our estimate of total remittances draws upon the latest revised figures of 'formal' transfers adjusted for export receipts by NBT.

NBT does not present migrants' transfers and compensation of employees due to lack of information. No one disputes that the official estimates of remittances into Tajikistan underestimate the true flow. Thus, a household survey is crucial to estimating migrants' transfers.

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[71] Low income and middle income countries are defined as those which are classified as such by the World Bank in the World Development Report, 2000/01 (p. 334) . Low income includes countries with 1999 GNP per capita $756 or less; middle-income includes countries with 1999 GNP per capita of $756 to $9,265.

[72] The author plans to pursue this approach in a future study based on TLSS 2007.

VI. Estimating Remittances into Tajikistan through KLSS 2005

While we cannot estimate the true size of remittances sent into Tajikistan through our survey, the survey was designed to yield enough information for us to indirectly predict, within a reasonable margin of error, the total amount of remittances into Tajikistan for 2004 and 2005. We arrive at our rough estimates using a simple indirect methodology. To estimate total remittances, we combine macroeconomic data from the balance of payments with microeconomic data from the survey.

VI.A. Informal Flows – the Missing Piece of the Puzzle

Emigrants don't usually return to Tajikistan empty handed. They bring cash, other financial assets, and goods.[73] They also send money and goods through various informal means. These together constitute the informal part of remittance flows. To estimate the informal flows, we must have the following pieces of information:

i. the total amount sent by migrant members of the household through non-formal means
ii. the value of all the goods sent by the migrant while working abroad
iii. the amount of money brought by the migrant upon return
iv. the value of all the goods brought by the migrant upon return
v. the value of all goods sent by members of the extended family, distant relatives, or friends
vi. the total amount sent by members of the extended family, distant relatives, or friends through non-formal means

There are two issues that need to be considered here: reliability of estimates and the generalizability of results to the whole country.

VII. Reliability of Estimates from Household Surveys

Estimates of income and remittances from household surveys, in general, underestimate the true magnitude of these variables. Putting our faith on the estimates solely based on household surveys would fly in the face of this stylized underestimation bias in household surveys. Thus, we must combine results from our survey with all other available information from official and unofficial sources. In any case, the key piece of information from the survey that we utilize is the ratio of informal to formal transfers. We believe that people have little incentive to lie about the channel they use to transfer funds. We also assume that the ratio of formal to informal transfers is the same in all regions. If these two assumptions are correct, then we can use from our survey information on the ratio of informal to formal transfers to impute the informal transfers and add it to the NBT data on formal transfers.

[73] The stock of saved-up cash that a returning migrant brings home is often referred to as "savings." In the BOP, it is called 'Migrant transfers'. See IMF Balance of Payments Manual, p.84, paragraphs 352-355 for a full discussion of migrants' transfers.

VIII. Migrants and Senders of Remittances

It is important to note that not all migrants send remittances nor all senders of remittances are necessarily migrants. The question arises, 'Who is a migrant?' There is no universally accepted definition of a migrant. The balance of payments conventions as laid down in the IMF Manual (1993) and hitherto followed by IMF have a one-year rule but such a rule does not allow identification of all migrants. Thus, it is important to note that for the purposes of this study, a Tajik migrant household member is defined as someone who is absent from his home for three months or more and is reported by the household to be working abroad. Family members who do not return annually or who are permanently settled abroad are, therefore, excluded from the survey as they are not considered to be members of the household. This is different from the definition used by macroeconomic studies or the one used by International Labor Organization (ILO).[74]

Since the focus of the study is on remittances, we cannot confine ourselves to migrant household members as defined above. At the same time, we could not include people in the survey who are not treated by the household as household members either because they are absent for more than 12 months. However, we still wanted to capture the amount of remittances, if any, sent by them. Households also receive money from others who are, strictly speaking, not family members, or who may be considered to part of an extended family. Thus, it is important to keep in mind that our estimates of remittances are based on this broad conception of senders who may or may not be migrants according to any official definition. Specifically, migrants for the purpose at hand consist of two groups of people:

i. temporary seasonal migrants (Tajiks who work abroad but return home annually); (These are the focus of Module 2 of the survey.)
ii. settled migrants (Tajiks on long-term contacts abroad or members of Diaspora who are permanently settled abroad and may have changed citizenship status); (These are captured in Module 7 of the survey.).

Thus, the remittances reported in our study include remittances from household members as well as others who may or may not be related to household members – these other donors may be migrant workers, permanent emigrants, members of Tajik Diaspora (a significant number of whom consists of ethnic Russians and people of other nationalities who left Tajikistan permanently but remit part of their income to friends or relatives Tajikistan), or people who cannot be categorized as any of the above but who may have sent money to a household in our sample. Thus, our broad concept of senders includes all people who left Tajikistan and/or who are the source of remittances to Tajikistan.[75]

As noted above, we designed two separate modules to capture the full amount of remittances into Khatlon: one for household members and the other for non-members.

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[74] ILO defines migrant workers as "people who are permitted to be engaged in economic activity in the country other than the country of their origin" (Bilsborrow, 1997). The ILO definition appears to be focusing upon the 'legal' migrant workers. There is no way for us to distinguish between legal and illegal worker nor is it important for us in so far as the focus of the study is on remittances rather than migrants.

[75] Kireyev (2006, pp 4-5) also uses this broad definition of migrants although he includes shuttle migrants (traders whose commercial activity is related to regular departures and returns to Tajikistan). In our final estimation, we follow NBT in excluding remittances sent by shuttle traders.

IX. Generalizing from Khatlon

We can extrapolate the results from Khatlon to the whole country under the assumption that the patterns observed in Khatlon are replicated elsewhere. This assumption is obviously untrue as we do know that there are important regional differences. The proportion of rural population in the total population of Khatlon in 2004 was higher (82.5%) than the average for Tajikistan (73.6%). This would be particularly true of the level of educational attainment. Khatlon being a relatively poor and predominantly agrarian region, the proportion of highly educated population is lower relative to Dushanbe and other urban areas. Thus, to guard against wild generalizations for the whole country based on a regional survey, we use all available information from the World Bank, Tajik State Statistical Committee, National Bank of Tajikistan, and the two living standards measurement surveys conducted in Tajikistan in 1999 and 2003 respectively. The key assumption in estimating remittances for the whole country is that the ratio of formal to informal transfers is the same in all regions.

We alert the reader wherever generalizations to the whole country are inappropriate. In any case, the results will be tentative until supporting evidence is available from nationwide surveys in both Russia and Tajikistan.

Chapter IV -Analysis of the Survey Results I - Remittances to Tajikistan

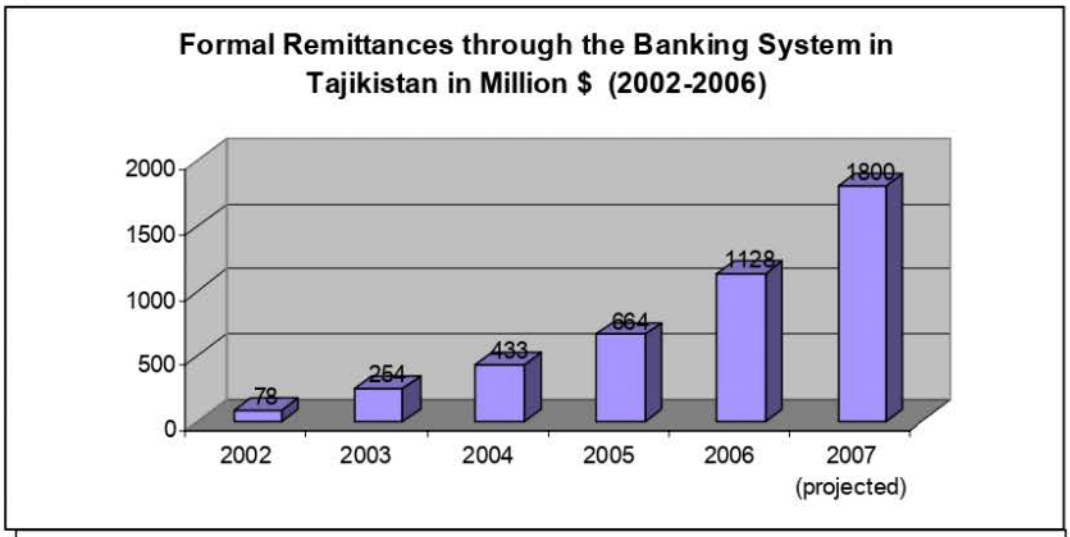
Being a small war-ravaged landlocked peripheral economy with an unusually high rate of unemployment and few alternative avenues to connect to the rest of the world, migration and workers remittances have become the hub of the Tajik economy.

I. Estimating the Size of Total Remittances in Tajikistan

I.A. Tajik Remittance Flows: Official Data

The significance of remittances for the Tajik economy is, however, not matched by rigour in estimating remittances. With the apparently growing trend towards the use of formal banking channels of transmission, the situation about formal transfers is becoming less murky. National Bank of Tajikistan (NBT) produces estimates of formal remittances adjusted for export receipts. Figure 4.1 presents the volume of formal remittances through the banking system in Tajikistan from 2002 through 2007. National Bank estimates that approximately 10% of these remittances are accounted for by export receipts.[76] Even if the numbers are adjusted down by 10%, they are simply staggering!

Figure 4. 1 – Total Workers' and Shuttle Traders Remittances in Tajikistan (2002 - 2006)

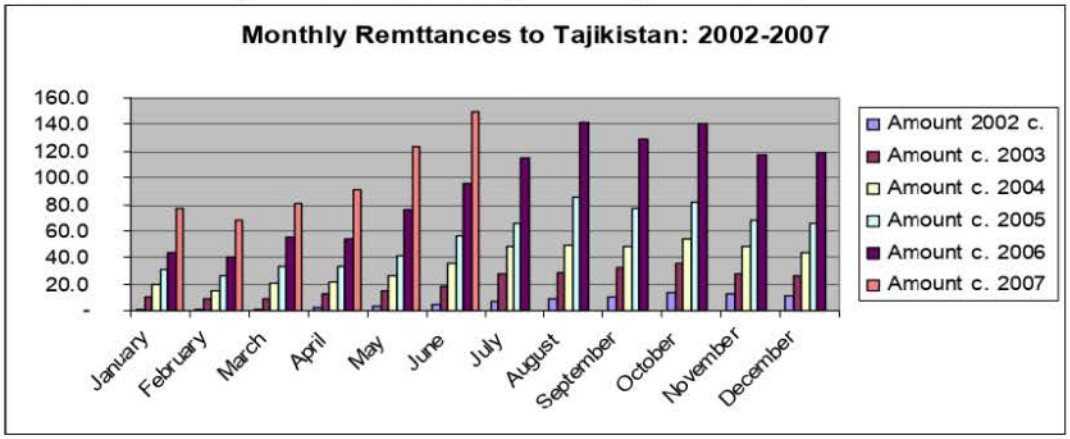


Source: National Bank of Tajikistan. The figures for 2007 are projected based on the growth pattern of monthly remittances observed since 2002. The figures also need to be adjusted down approximately 10% to account for export receipts by shuttle traders.

[76] Based upon personal communication with the NBT officials.

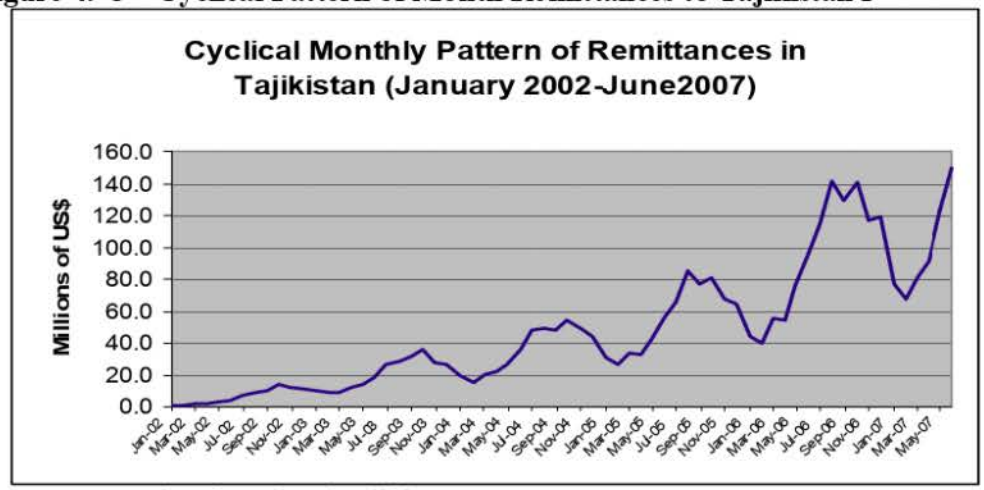
It should be kept in mind that projection for 2007 has been done based on the historical montly growth pattern of remittances as shown in Figure 4.2. Two points should be clear from this figure. First, there is a cyclical pattern of monthly remittances, with remittances peaking during August-October, the months prior to the onset of winter when the majority of Tajik workers return home. Remittances reach a trough in January February when most workers are already home. The cyclical pattern should be more obvious in Figure 4.3. Second, each year since 2002, remittances for the corresponding month show a marked increase. For instance, in June of 2002, total remittances through the banking system were only $4 million; in June 2007, they were $150 million. For each corresponding month following the year 2002, the increase in remittances in 2007 has been the greatest.

Figure 4. 2 – Monthly Remittances to Ta jikistan: (2002 - 2006) 1



Source: National Bank of Tajikistan

Figure 4. 3 – Cyclical Pattern of Month Remittances to Tajikistan 1



Source: National Bank of Tajikistan.

Table 4.1- Balance of Payments of the Republic of Tajikistan (analytical presentation) 1

2005 (thousand USD)

	1 quarter	**2 quarter**	**3 quarter**	**4 quarter**	**2005**
1. Current account	**-26,871.40**	**-11,250.10**	**18,337.10**	**924.70**	**-18,859.70**
Balance on goods and services	-86,280.80	-94,814.10	-121,508.30	-125,407.00	-428,010.20
Balance on goods	-64,426.60	-79,040.50	-90,719.40	-88,646.50	-322,833.30
exports (fob)	238,580.60	258,389.00	281,357.80	329,765.20	1,108,092.60
imports (fob)	-303,007.50	-337,429.50	-372,077.20	-418,411.70	-1,430,925.90
Balance services	-21,853.90	-15,773.60	-30,788.90	-36,760.50	-105,176.90
Transportation services	-26,205.10	-26,527.90	-31,965.30	-37,989.30	-122,687.60
Travel	-785.50	-432.40	-405.80	-562.20	-2,185.90
Communication services	1,106.10	3,044.30	526.60	947.30	5,624.30
Construction services	-2,675.20	-2,080.90	-6,808.30	-11,896.60	-23,461.00
Insurance services	-2,932.10	-3,255.20	-3,595.70	-4,046.90	-13,829.90
Financial services	41.80	413.20	1,043.40	2,677.60	4,176.00
Other services	9,596.10	13,065.30	10,416.20	14,109.60	47,187.20
Income	-12,863.10	-11,406.70	-6,766.90	-9,740.70	-40,777.40
Workers remittances	-88.70	-157.90	-17.80	421.10	156.70
Direct investment income	-447.60	-1,363.40	-50.40	-317.60	-2,179.10
Portfolio investment income	0.00	0.00	0.00	0.00	0.00
Other investment income	-12,326.70	-9,885.40	-6,698.70	-9,844.20	-38,755.00
Balance on transfers	72,272.50	94,970.70	146,612.30	136,072.40	449,927.90
Transfers inflows	99,509.70	122,182.90	191,513.40	186,704.50	599,910.50
Transfers outflows	-27,237.20	-27,212.20	-44,901.10	-50,632.10	-149,982.60
2. Capital and financial account	**22,858.30**	**6,710.80**	**22,106.00**	**49,811.80**	**101,486.90**
Financial account	**22,858.30**	**6,710.80**	**22,106.00**	**49,811.80**	**101,486.90**
Direct investment	10,556.30	4,727.10	8,750.40	30,445.50	54,479.30
Portfolio investment	0.00	0.00	0.00	0.00	0.00
Other investment	12,302.00	1,983.70	13,355.60	19,366.30	47,007.60
Assets (- increase)	-19,339.10	-19,924.50	-23,172.30	-8,828.80	-71,264.70
Foreign exchange	88.20	766.10	-2,852.10	3,590.90	1,593.10
Currency and deposits	-14,092.50	-10,769.90	-9,904.20	-492.70	-35,259.30
Trade credits	-5,242.80	-9,770.70	-10,316.00	-11,777.60	-37,107.10
Loans	0.00	0.00	0.00	0.00	0.00
Other assets	-92.00	-150.00	-100.00	-149.40	-491.40
Liabilities (+ increase)	31,641.10	21,908.20	36,527.90	28,195.10	118,272.30
Currency and deposits	8,886.80	2,013.10	13,489.10	14,818.30	39,207.30
Trade credits	4,569.70	6,317.00	5,364.00	7,443.00	23,693.70
Loans	6,707.00	15,881.00	23,884.20	3,317.10	49,789.30
Other liabilities	11,477.60	-2,302.90	-6,209.40	2,616.70	5,582.00
3. NET ERRORS AND OMISSIONS	**5,558.10**	**7,435.20**	**-45,943.90**	**-44,103.50**	**-77,054.10**
4. OVERALL BALLANCE	**1,545.00**	**2,895.90**	**-5,500.80**	**6,633.00**	**5,573.10**
5. FINANCIAL ITEMS	**-1,545.00**	**2,895.90**	**5,500.80**	**6,633.00**	**-5,573.10**
Reserve assets (-increase)	-15,315.50	2,984.40	-7,930.30	-4,542.50	-24,803.90
Loans IMF	13,770.50	-5,880.30	13,243.20	-5,759.30	15,374.10
Capital transfers	0.00	0.00	0.00	0.00	0.00
Arrears	0.00	0.00	187.90	3,668.80	3,856.70
Rescheduling	0.00	0.00	0.00	0.00	0.00

Source: NBT, www.nbt.tj

I.B. A Brief Overview of Changing Official Statistics on Remittances

How Tajik authorities have in the past calculated remittances in the balance of payments data is shrouded in mystery.[77] To our knowledge until August 2006, National Bank of Tajikistan (NBT) had a table posted on its website (reproduced as Table 4.1 above) that gave details of the BOP of Tajikistan.

According to the table, in 2005, total 'workers remittances' were 156 million US dollars.[78] No details of how this number is arrived at are given. The same authority gaves a figure of 37 million US dollars for the entire year in 2004. This is obviously absurd.

This was also inconsistent with what IMF attributed to NBT in its official publications. According to a press release issued by IMF in February 2006, an unprecedented sum of approximately $600 million was remitted to Tajikistan through formal channels alone (constituting about 25% of total estimated GDP of $2.4 billion in 2005). How should, then, one reconcile the conflicting figures?

We do not have the time or resources to investigate this historical issue. What is important to note is the claim by NBT that formal remittances through the banking system represent a mixture of remittances and export proceeds. Based on a survey of banks and their clients (see Table 4.2), the NBT established the following statistical treatment of bank transfers endorsed by the IMF:

- all single transfers of less than US$1,000 plus 50 percent of transfers between US$1,000 and US$3,000 are to be considered workers' remittances;
- the other 50 percent of transfers between US$1,000 and US$3,000 and all transfers of more than US$3,000 are to be reclassified as exports (Kiryev, pp 7-8).

Table 4. 2 - Source of remittances

Source of remittances	
salary	44
non-salary income	35
pension	2
alimony	1
small agro exports	12
other	6
Source: NBT February 2004 survey.	

Until recently, NBT estimated that such trade-related payments may represent up to 40 percent of total remittances through the banking system (Kireyev, 2006).

[77] The remakrs made here should not be misconstrued as a criticism of NBT. NBT has been working on a shoestring budget and apparently has done an impressive job by local standards. In fact, only recently the Kyrgyz National Bank has sent a delegation to Dushanbe to study how the NBT calculates remittances as the former believed that they could learn from NBT.

[78] See http://nbt.tj. If 300,000 Tajiks return home every year, and even if each one of them brings only $500 worth of cash and goods, the total sum amounts to $150m (approximately equal to the officially reported figure of $156 mn).

A possible objection against the treatment of all or major proportion of big transfers as exports was that Tajik workers are known to pool their remittances to minimize transfer costs as well as visibility.[79] In the light of this and other observations, recently, NBT has revised its adjustment formula. It now believes that export receipts account for about 10% of the formal remittances.[80] The methodology for calculating remittances is constantly under review. We have much greater confidence in the lower adjustment rate of 10% than the historical adjustment rate of 40%. In the absence of any other reliable source of information, we have to place our faith in the latest adjustment formula. Based on this, formal workers' remittances through the banking system were $390 and $540 million dollars in 2004 and 2005 respectively.

If remittances were sent only through formal means, there would have been no need to conduct a household survey – at least not for the purpose of estimating the magnitude of total remittances. No one disputes that the official estimates of remittances into Tajikistan underestimate the true flow.

I.C. Informal Transfers – the Missing Piece of the Puzzle

There is considerable anecdotal and qualitative evidence to support the results from our survey that migrants rely on informal channels to transfer cash and goods outside of the formal financial system. Moreover, emigrants don't usually return to Tajikistan empty handed. They bring cash, other financial assets, and goods.[81] According to our survey, only about one-fifth brought no money or gifts with themselves upon their return in 2004.[82]

We estimated total remittances in Tajikistan in 2004 and 2005 using a variety of approaches. Here we present estimates that we believe are most reliable.

I.D. Estimate of Total Remittance Flows into Tajikistan: Using the Ratio of Informal to Formal Transfers

We believe we can obtain a more precise estimate of total remittances if we draw upon what is certain, i.e., the amount transferred through formal means, and try to come up with a reasonable estimate of informal remittances. If we can figure out the proportion of formal to informal remittances in Tajikistan, we can arrive at a reasonably reliable estimate of total remittances. Indeed, a crucial piece of information from KLSS 2005 is the ratio of formal to informal remittances.

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[79] In the light of this murkiness, what can one make of this figure? Kireyev conjectures that total remittances could be considered to be equal to $600 million as informal remittances could be assumed to be equal to the amount attributed by NBT to export receipts. This is clearly ad hoc and methodologically unjustifiable.

[80] A counter argument could be that large sums represent drug transactions rather than workers' earnings, and, therefore, no part of such transactions should be included among remittances. We have no idea about the magnitude of the bias in the data due to illegal drug transactions.

[81] The stock of saved-up cash that a returning migrant brings home is often referred to as "savings." In the BOP, it is called 'Migrant transfers'. See IMF Balance of Payments Manual, p.84, paragraphs 352-355 for a full discussion of migrants' transfers.

[82] This may reflect an increased degree of switching to formal channels for reasons mentioned above. It may also reflect a desire not to get 'taxed' on the way back by the Customs or Immigration officers. This is in sharp contrast to the finding in Armenia where emigrants are reported to be bringing substantial amount of money upon return. (Roberts, 2004). To what extent this reflect contemporary situation, we cannot say.

Figure 4. 4 – Channels Used by Migrants to Send Money to Family1

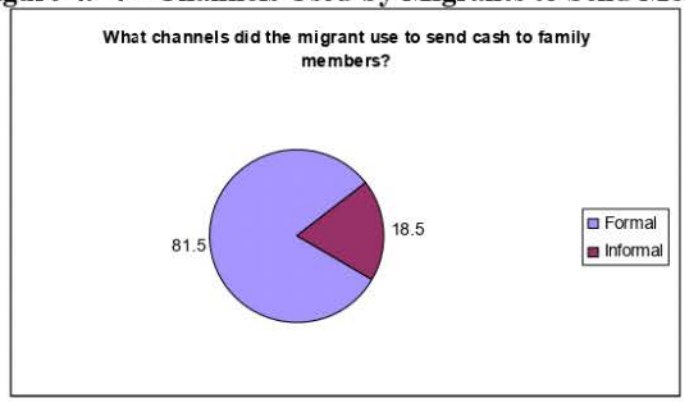


Table 4. 3 gives a detailed breakdown of formal and informal channels. Bank transfers without code suggest that the sender has a bank account. Bank transfer with code refers to money transfer operators (MTOs) such as Western Union. The predominance of transfers with code shows the tangential relationship that migrants and the receiving households have with the banking system.[83]

Table 4. 3 – Different Channels of Formal And Informal Transfer of Money to Family1

What channels did the migrant use to send money?	Percentage of Total	Cumulative Percentage
bank transfers (code)	73.15	73.15
bank transfers (without code)	2.78	75.93
brought personally	0.93	76.85
agent / courier	0.93	77.78
through friends/relatives	16.2	93.98
post office/money orders	5.56	99.54
other (specify)	0.46	100

We found that migrants who sent money in 2004 used the informal method more frequently than migrants who sent money in 2005 (the survey was conducted in July 2005). Informal transfers as a proportion of formal transfers in 2004 is estimated to be about 41% and in 2005 about 36%.[84]

[83] The finding about heavy use of formal means is supported by work done by Roberts in Armenia (Roberts 2004) who found that Armenian Diasporas in Russia are making much higher use of formal channels than Armenian Diasporas in Western Europe, particularly of banks. "This is because banks that have focused on providing remittance transfer service at low cost have entered the CIS financial market (Anelik and Unibank; these transfer systems do not operate in non-CIS areas).

[84] According to our survey, over an 18 month period, informal transfers as a proportion of formal transfer constituted about 36%. The estimated ratio for total informal remittances (36%) is higher than the reported ratio for informal cash transfers (23% =18.5/81.5) because informal remittances include in-kind transfers which are not included in the cash amount reported by channel of transmission. We believe even though the ratio of 36% is estimated over 18 months, it is more reflective of more recent practices because

Table 4. 4 – Share of Informal Remittances in Total Remittances in Khatlon

Share of Informal Remittances in Total Remittances in Khatlon	
2004	2005
41%	36%

Using this information, we have calculated that ***the total amount of remittances in 2004 was about $550 million and, in 2005, it was about $735 million***. See Table 4.5.

Table 4.5: Formal and Informal Remittances in Tajikistan (2004 - 2005)

	2004	2005
Reported Formal Migrant remittances	**390**	**540**
Estimated Informal Remittances	**159**	**195**
Total remittances	**549**	**735**
Source: Formal workers remittances: NBT; Ratio of formal to informal: KLSS 2005		

We used a variety of approaches to estimate total remittances into Tajikistan in 2004. Extrapolating to the whole country the per migrant remittance amount of $1296 from KLSS 2005 and using information from the survey about the proportion of remittances receiving households by number of migrants, we estimated that the total amount of remittances in Tajikistan in 2004 was $470 million. Extrapolating to the whole country the per migrant remittance amount of $1345 from the 2004 World Bank Survey and using information from the survey about the proportion of remittances receiving households by number of migrants, we estimated that the total amount of remittances in Tajikistan in 2004 was $485 million. Both of these estimates are lower than the estimates we arrived at using the proportion of informal to formal remittances.[1]

How to interpret these numbers? We have to exercise great caution in assessing the reliability and precision of these figures. For one thing, it is generally agreed that income and remittances reported in household surveys underestimate the true size of these variables. Moreover, we believe the amount of remittance transfers reported in KLSS 2005 cannot be completely relied upon to extrapolate to the whole country for the following reasons.

First, the estimate of per capita remittances by a sending migrant has a very large sampling error because of a small sample size: there is a 5% chance that the actual figure is as low as $646 and as high as $1945 per year.

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households are more likely to remember the recent figures. There were very few households who reported remittances in 2005 *alone* as the survey was conducted in July 2005. Hence we use this ratio to estimate the total informal remittances for 2005. There might be a slight upward bias in the estimate of informal remittances if more people switched to formal methods in the later part of the year 2005.

[85] Interested readers can read *Appendix on Methodology* to understand the details.

Second, there are two factors that suggest that the estimates arrived at directly are baised downward:

a. Khatlon is the poorest and the most agrarian region in the country as shown in an earlier chapter, and, therefore, *the average amount of remittances in Khatlon is likely to grossly underestimate the norm for the whole country.*[86]

b. Khatlon population has the lowest level of educational attainment and educational attainment has been shown in the literature to be positively associated with earnings.

Thus, calculating the informal remittances from the amount reported in the survey is likely to result in gross underestimation of the total transfer of funds through informal means. An independent World Bank Survey estimated the per capital amount of remittances in Tajikistan is $1345 in 2004. (See Methodology Appendix at the end). This confirms the downward bias in extrapolating remittances to the whole country based on the Khatlon data. Thus, it is not surprising that directly estimated amount *underestimates the total remittances by a sum no less than $240 million ($540 m. - $310 m.)*

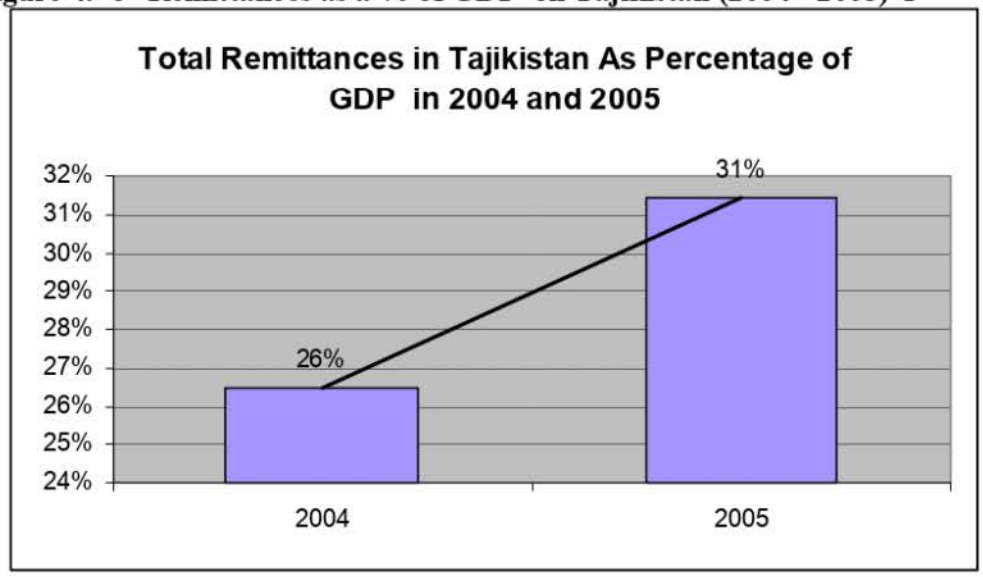
Finally, Khatlon also has a large household size on average (over 9) relative to other regions (the average for the whole country based on TLSS 2003 was 7.82). This means that the remittances sent by a single migrant must support on average larger number of people. This may result in greater propensity of households in Khatlon to rely on migration as a strategy to supplement income and the households may send more members to work abroad as remittances from one member are likely to get spread very thin over a large number of people. Because of the larger household size, Khatlon households are also expected to have greater ability to send migrants abroad, ceteris paribus. If Khatlon sends more migrants per household on average, using the Khatlon data may result in upward bias in the estimates of remittances for the whole country. This upward bias may be offset if the large family size is accounted for by large number of dependents which would reduce the ability of the households to send more members abroad. The net effect of the regional differences in household size is ambiguous. This means the information on the number of migrants per household from Khatlon may not be representative of the rest of the country and make the extrapolation exercise less reliable.

Our estimation method has a clear advantage over other methods in requiring less information - the accuracy of the estimates of the number of migrants or migrants per household from Khatlon or the estimate of total number of households in Tajikistan has little bearing on the estimates size of remittances into Tajikistan in so far as the proportion of informal to formal remittances is same across regions. Even if the proportion of informal to formal remittances were not the same across regions, and even if there were a large margin of error in our estimates of proportion of informal to formal remittances because of small sample size, only the 'informal' part of the total remittances would be affected, not the formal part, and, therefore, the magnitude of error is likely to be smaller than the one from using alternative methods.

Thus, we have greater confidence in the reliability of our estimates. As a percentage of GDP, remittances in 2004 were about 26% and in 2005 were about 31% of GDP. See Figure 4.6.

[86] GBAO is technically the poorest but it has a very small share of the total population of Tajikistan.

Figure 4. 6 –Remittances as a % of GDP on Tajikistan (2004 - 2005) 1



If NBT has exercised due diligence and care in calculating the formal figures, then we believe our estimates of total remittances are highly reliable. See Table 4. 6. How do our estimates compare with alternative estimates? National Bank of Tajikistan has been estimating total remittances based on independent surveys conducted twice a year – in February and August. The survey is supposed to include all receivers who come to collect money. The operators are responsible to have the survey forms filled by each receiver who shows up. According to this survey, total remittances in Tajikistan in 2005 were about $616 million. See Table 4.6.This is about $119 million less than our estimates of $735 million.

There are admittedly some obvious problems with the NBT survey methodology. First, there is little quality control or supervision of the survey, particularly during the month of August when points of delivery are crowded and people have little incentive to be accurate as nobody can monitor them. NBT has only 5 people to monitor the whole survey. Second, perhaps a more serious limitation is the missing piece of informal remittances which results in a significant downward bias in the estimate. It misses all those who receive remittances in kind, those who receive cash remittances informally, and the amount that workers bring with themselves upon return. Third, it relies upon estimates of annual flow of migrants provided by Tajik Migration Service. Fourth, it clearly misses members of Diaspora who are settled in Russia and other countries of destination but continue to remit money. This could result in serious downward bias. Fifth, not all migrants send money as shown in Figure 4.7. Our survey shows that one third of migrants do not remit any money.

Table 4. 6 - Formal and Informal Remittances in Tajikistan (2004 - 2005) Estimated by National Bank1

Estimated Amount of Tajik Workers Remittances in 2005

	Number of Migrant Workers	Total Amount of Remittances in US $
1	2	3
Half-year (0-6 Months)		
Workers in Russia	157,466	191,794,075.2
Workers in Other CIS Countries	429	385,650.0
Total	157,895	192,179,725.2
Year (7-12 Months)		
Workers in Russia	131,346	200,958,768
Workers in Other CIS Countries	1,401	1,400,800.0
Total	132,746	202,359,568.0
More than 12 months		
Workers in Russia	118,598	217,746,478.8
Workers in Other CIS Countries	2,760	3,312,480.0
Total	121,359	221,058,958.8
All	412,000	615,598,252.0

Source: National Bank of Tajikistan

While the reported percentage of non-remitters may be slightly higher than the actual, evidence from surveys in other countries supports our finding. Although the upward bias due to this factor may offset the downward bias due to the preceding reasons, we have no idea about the net effect.[87]

II. *What Explains the Delayed Recognition of Remittances into Tajikistan?*

Remittances may have been an important factor in the Tajik economy for most of the 90s but have only recently been recognized by the international organizations and policy makers as a dominating factor in the Tajik economy. For years the government failed to officially recognize the significance of migration and of migrant remittances perhaps because a vast majority of Tajik migrants were refugees who fled Tajikistan during and after the civil war, and refugees may not be technically considered to be 'economic'

[87] NBT's estimate of total workers' remittances in 2006 based on the above survey is $893 million. This is less than even the export-adjusted figures for formal remittances of $1015 million.

migrants. From a strictly economic point of view, it scarcely matters that remittances are sent by refugees or working migrants or members of Tajik Diaspora who are permanently settled abroad. In our judgment, the Tajik government may not have had the capacity (thanks to the dilapidated infrastructure) or the political will to ascertain the truth about migration and remittances.[88] What may have further limited the government's capacity to measure remittance flows is the near absence of the banking system during the civil war years and the heavy reliance upon the informal channels of transmitting remittances. The financial system in Tajikistan remained a shambles until after the Peace Accord. The Tajik government relies heavily upon World Bank, IMF, and UNDP for its statistical functions. Both World Bank and IMF have been slow in anticipating and incorporating remittances in their analyses.[89] Whatever the reasons, in our opinion, it was not a sound judgment to overlook remittances, as from an economic point of view, it scarcely matters that remittances are sent by refugees or working migrants or members of Tajik Diaspora who are permanently settled abroad. In our opinion, the main reason for the delayed recognition of the remittance phenomenon by the Tajik government is rooted in its inadequate resources and limited capacity to collect and process data - at least until fairly recently.

III. What Explains the Shift from Informal to Formal Remittances?

This dramatic jump in the volume of formal remittances is not an accident. As in the rest of the world, it most likely signals a shift from informal to formal channels due to some factors which are common to most sending countries: (a) lower costs of transmission thanks to technological improvement, huge economies of scale,[90] increased competition, and[91] (b)

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[88] The Tajik government tends to downplay the size and significance of migration to Russia and remittances thereof for political reasons while the Russian government sources tend to do just the opposite.

[89] As regards the IMF, cynics could conjecture that IMF may not have been enthusiastic about finding out how substantial remittance transfers were for the Tajik economy as it could potentially reduce the leverage that it exercised with the government. A September 2004 report to the IMF Board, The Fund's Strategic Direction, opens with a reference to the "tectonic shifts in the ground the IMF is directed to tend," and acknowledging that "in some important measures, the Fund has lagged rather than led." (The Fund's Strategic Direction – Preliminary Considerations, a report by The Secretary to the International Monetary Committee on the Fund's Strategic Direction, September 30, 2004, p. 2. cited in Kapur, 2006). "[D]eveloping countries are developing alternative insurance mechanisms, from a higher level of reserves to regional co-insurance facilities to remittances as a counter-cyclical source of foreign exchange. . . The de facto exit of its clientele, driven by the combination of high political costs associated with Fund borrowing and growing availability of alternatives, now poses an unprecedented challenge for the Fund, in particular pressures on its income. " (p.2, ibid.). Also, see D Daianu, L Voinea, M Tolici Balance of payments financing in Romania. The role of remittances - Romanian Center for Economic Policy RCEP/WP no. 28/May 2001.

"In 2003, the current account deficit was about 2.9 percent of GDP, lower than the projected 5 percent due to the strong growth, as a result of higher than expected workers remittances" (WB, 2005d, p. 13). IMF and World Bank, the two main windows through which the world sees Tajikistan have only recently seem to have initiated serious research on this issue. As this report was being written, the first macro level study of remittances in Tajikistan (albeit based on secondary data) was brought out by IMF (Kireyev, 2006). However, this paper is mainly synthetic and discusses the previously published estimates or methods.

[90] The more is transmitted, the less is the per unit cost. An example will make it clear. As of March 2006, Moneygram charged $9.99 for transfer of up to $500 from the U.S. to any other country. For amount up to $1000, the charges increase by 50% to $14.99. Does sending $1000 instead of $500 increase the cost to Moneygram by $5? The answer is obviously 'no'. In fact, the extra cost of transmitting additional amount is almost zero. See the section on Remittance providers in CIS.

[91] Moneygram offers online instantaneous transmission from the U.S. to many countries for a low fee of $9.99 for amount up to $500 (information correct as of August 2006). The fee increases less than

improvements in data recording, (c) the depreciation of the dollar (raising the dollar value of remittances denominated in other currencies), and (d) growth in the migrant stock and incomes in the host countries.[92] The finding about heavy use of formal means is supported by work done by Roberts in Armenia (Roberts 2004) who found that Armenian Diasporas in Russia are making much higher use of formal channels than Armenian Diasporas in Western Europe, particularly of banks. "This is because banks that have focused on providing remittance transfer service at low cost have entered the CIS financial market (Anelik and Unibank; these transfer systems do not operate in non-CIS areas)." Other reasons that are specific to Tajikistan include (e) high risk of extortion, theft at border crossings,[93] (f) simplification of the procedures for remitting money,[94] (g) and, most important of all (g), the abolition in mid-2001 of the 30% state tax levied in 1993 on cross-border bank transactions by physical persons. Perhaps, the last move was more important than others in making people switch to official channels.

IV. Tajik Banking System and Remittance Providers

A brief overview of Tajik financial infrastructure for remittances should help put the findings from the survey in perspective.

Until fairly recently, most of the transfers to Tajikistan were conducted through informal means. No significant amount of remittances was channeled through the banking system until after the Peace Accord of 1997. When Tajik banks finally began to handle money transfers from abroad, lack of faith in the banking system and the complexity of the procedures prevented adequate penetration of banking into the society.

Most of the Tajik banks provide money transfer services in partnership with money transfer operators (MTOs). Most banks use one of following systems to affect transfers: Anilek, Western Union, Migom, Bistra Pochta, Unistream, Interexpress, and Contact.

As of August 2006, banking assets were consolidated into 12 private commercial banks (compared with 33 at the beginning of reforms). Although the banks are profitable and liquid, their assets are small (less than 10 percent of GDP), ownership is still concentrated, and they are heavily dollarized. One way to assess the improvement in the banking sector is the number of nonperforming loans. Although, nonperforming loans have been declining steadily from 32 percent in 2000 to about 10 percent in early 2005, they are still high by international standards (IMF, feb2006, 6/63; p. 16).

The increased formalization of remittances and the evolution of the banking sector seem to have gone hand in hand. One of the most important facts that emerges from this survey and which is in stark contrast to TLSS (2003) is the fact that an overwhelming majority (76.5%) of the migrants used formal banking channels to remit money. This does not

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proportionately for amount in excess of $500. See the section on Remittances providers. Many other companies have followed suit.

[92] World Bank, Ibid. p. xii.

[93] Again, the geography of the country acts as fetters: transiting Uzbekistan and Kazakhstan while carrying large sums of money exposes the migrants to a high risk of extortion, theft, intimidation and physical abuse. There are numerous well-documented stories of such extortions at the hands of customs and immigration officials. See (IOM, 2003). Qualitative evidence gathered by us corroborates these studies.

[94] "When Tajik banks finally began to handle money transfers from abroad, the procedures involved were so complex and inadequate that people simply refused to use the banks' services" (IOM, 2003). Lately, the procedure has been simplified.

include the 5.6% preference reported in the survey for money order/post office. It is this dramatic shift towards formal channels of transmission that partly explains why we see such a discontinuous jump in officially reported remittances in the balance of payment data. This is welcome news for the financial sector of the economy.

The recent report published by IMF recognizes the significant progress made in the financial sector.

Our survey confirmed the results from previous surveys to the effect that informal means are reserved for substantial sums in rubles or dollars, ranging from US$ 1,000-3,000 or more (ibid., pp. 95-96). The fee for formal transfer could be quite substantial in absolute terms for big amounts. The incentives for using informal means are even stronger if drug money needs to be laundered.[95]

What informal channels are used for transferring money into Tajikistan? To quote a previous IOM study: "Increased labour migration was accompanied by the development of underground remittance networks known in Russian as perekid or perekidka ("throwing"). These trust-based networks are most highly developed in Dushanbe, Istaravshan and Khojend. This is a form of an 'informal value transfer system' or IVT whereby value rather than money is transferred from place to place.[96] See the box on Hawala System.

[95] Patrick M. Jost. 2000. *The hawala alternative remittance system and its role in money laundering.* Interpol General Secretariat, Lyon, January 2000

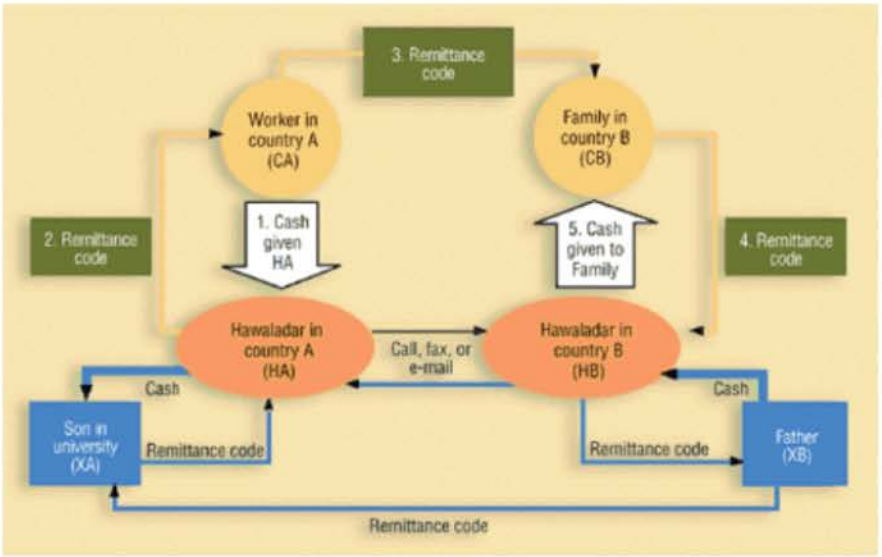
[96] The term 'IVT' was introduced in 1999 to describe more accurately and inclusively the phenomenon. In our view, the phenomenon of informal transfers is a subject worth serious research in itself.

Box 4. 1 - How does the Hawala system work?

An initial transaction can be a remittance from a customer (CA) from country A, or a payment arising from some prior obligation, to another customer (CB) in country B. A hawaladar from country A (HA) receives funds in one currency from CA and, in return, gives CA a code for authentication purposes. He then instructs his country B correspondent (HB) to deliver an equivalent amount in the local currency to a designated beneficiary (CB), who needs to disclose the code to receive the funds. HA can be remunerated by charging a fee or through an exchange rate spread. After the remittance, HA has a liability to HB, and the settlement of their positions is made by various means, either financial or goods and services. Their positions can also be transferred to other intermediaries, who can assume and consolidate the initial positions and settle at wholesale or multilateral levels.

The settlement of the liability position of HA vis-à-vis HB that was created by the initial transaction can be done through imports of goods or "reverse hawala." A reverse hawala transaction is often used for investment purposes or to cover travel, medical, or education expenses from a developing country. In a country subject to foreign exchange and capital controls, a customer (XB) interested in transferring funds abroad for, in this case, university tuition fees, provides local currency to HB and requests that the equivalent amount be made available to the customer's son (XA) in another country (A). Customers are not aware if the transaction they initiate is a hawala or a reverse hawala transaction. HB may use HA directly if funds are needed by XB in country A or indirectly by asking him to use another correspondent in another country, where funds are expected to be delivered. A reverse hawala transaction does not necessarily imply that the settlement transaction has to involve the same hawaladars; it could involve other hawaladars and be tied to a different transaction. Therefore, it can be simple or complex. Furthermore, the settlement can also take place through import transactions. For instance, HA would settle his debt by financing exports to country B, where HB could be the importer or an intermediary.

Source: Mohammed El-Qorchi. 2002. ***Hawala***. **Finance And Development. December 2002, Vol 39, No. 4.**

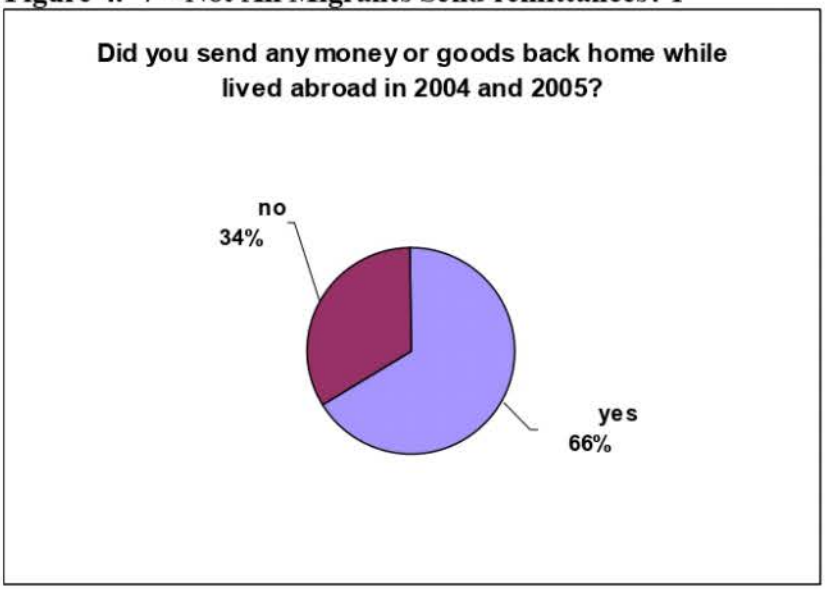


V. What Is the Relationship between Migration, Migrant Earnings, Household Income And Remittances?

V.A. Remittances and Earnings

Although almost all migrants begin working and earning money soon upon arrival, not all migrants remit money. In our sample, about 34% of all migrants in 2004-2005 reported sending no remittances in kind or cash. The non-senders include migrants who report positive net earnings. See Figure 4.7.

Figure 4. 7 – Not All Migrants Send remittances? 1



Thus, not all migrants sending households receive money. About one in four households (72% precisely) reported receiving remittances from a family member in 2004-2005 in the sample. Put differently, if we pick four households in Khatlon at random, one of them is expected to have received money from a migrant family member.[97]

About 30% of the households that receive remittances from family members also receive some remittances from non-family members.

We correlated remittances and net earnings and found a statistically significant positive correlation of 0.53. This finding is robust in the literature on remittances (Brown, Stuart, 2006, p. 60)

We believe the earnings data grossly understates the true earnings. This is a common finding in the literature. Since most migrants from Tajikistan are seasonal, the monthly earnings averaged over the whole year would underestimate the actual monthly earnings while abroad.[98]

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[97] The proportion of household receiving remittances from family members is higher than the proportion of family members sending because some households have more than one migrant.

[98] We do not believe the survey accurately captured the true earnings of migrants. We suspect a great deal of measurement error in recording these figures. These may represent savings net of remittances. Although people underreport their earnings, in general, the question about net earnings of migrants may not have been properly understood. Thus, these figures need to be interpreted with great caution.

Earnings vary according to the host country and the type of migrant. Again, a comparison with other CIS countries would be interesting. Migrants from Moldova to CIS member countries get the lowest earnings, while migrants to West European countries and Israel have the highest earning levels. Thus, it matters a great deal where one migrates. The fact that there are few Tajik migrants to high income Western European countries also tends to lower the average earnings. Thus, it is not surprising that a significant percentage reported zero net earnings.

V.B. What Motivates Tajiks to Migrate?

It is generally assumed that poverty explains emigration. The literature on international migration has shown that poverty is neither a necessary nor a sufficient condition for migration. In addition to political crises generating a refugee population, migration can acquire logic of its own as explained above. Thus, even though the depth and severity of poverty in Tajikistan has reduced in recent years, migration has not abated.

Contemporary migration from Khatlon is almost exclusively economic in nature. Ninety eight percent migrants decided to leave to satisfy basic economic needs: for four out of every five, the primary objective was to find a better paying job; for another 18% it was to find a new job or to start a new business (we cannot tell what the breakdown between these two sub-motives is). Health, education or marriage combined represented only 2% of all motives.

V.C. Ranking of Motives

Figure 4.8 sheds light on the motives to remit. When asked about the first most important motive to remit, 89% mentioned meeting the current consumption and basic needs of the household (e.g., food, clothes, and basic household commodities). This is twice the proportion of Moldovan migrants who migrated for this reason (44%). Only 5% of the Tajik migrants were primarily motivated by investment in housing or other durable goods or saving.

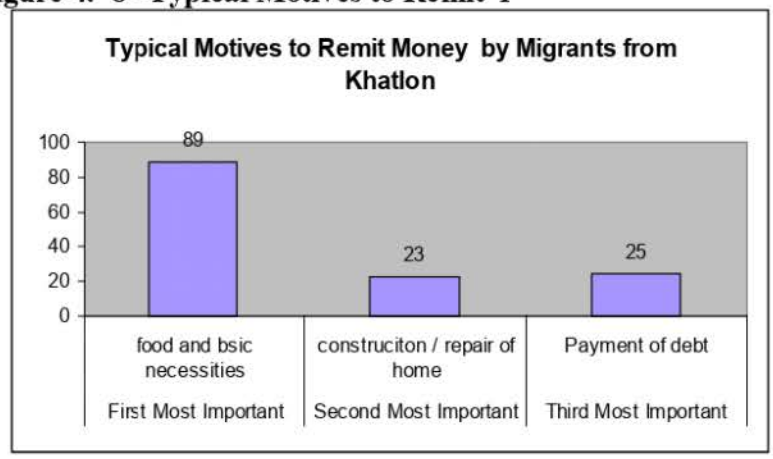
The response pattern somewhat changes when asked to rank the second and third most important motives to remit. The most important second reason to remit is construction/repair of homes (23%) followed by purchase of durable goods (17%), education (14%), debt repayment (11.5%), medical (11%), and food and basic necessities (9%). Weddings, funerals, sunnat tui (celebration of male circumcision), and other celebrations now become the second most important motive to remit for 7% of the migrants. Savings as a motive, though increasing, remain marginal (3%). Among the third most important motives to remit, payment of debts is mentioned as the most frequent motive (about 25%). Purchase of food and basic necessities remains an important third motive to remit (15%), followed by purchase of a durable good (12%), wedding/funeral/sunnat tui (11%), medical expenses (10%), house construction and repair (10%).

V.D. Savings as a motive

It is important to note that savings keeps its last position in all three rankings. More than anything else, this is likely a reflection of the level of overall poverty and the low standard of living of the Tajik households. This response may not be representative of the whole country as Khatlon (with GBAO) represents the poorest section of the population.

We would argue that many people regard spending on housing and land improvement as savings. This is because they expect the value of their real estate to go up, yielding a higher rate of return than they can possibly get from depositing their money in the banks or investing in other forms of financial assets.

Figure 4. 8 –Typical Motives to Remit 1



V.E. Comparison with Moldova

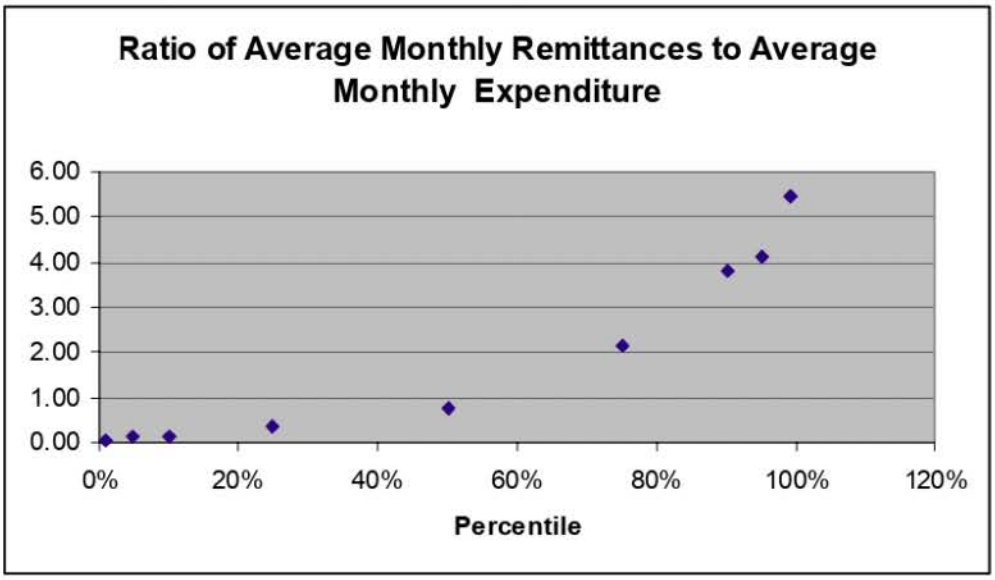
Again, a comparison with Moldovans would be instructive. While 21 percent of the Moldovans sent money for debt repayment, only 2% of Tajik migrants from Khatlon mentioned debt repayment as the primary motive to remit. A similar contrast appears in the choice of investment for housing or purchase of durable goods: while 19 percent of Moldovan migrants mentioned this to be their motive to remit, only 2% of the Tajiks mentioned this to be their primary motive. This is consistent with the answers on the sources of finance discussed above: more Moldovans had self and debt-financed their trip than Tajiks.

The response pattern somewhat changes when asked to rank the second and third most important motives to remit. The most important second reason to remit is construction/repair of homes (23%) followed by purchase of durable goods (17%), education (14%), debt repayment (11.5%), medical (11%), and food and basic necessities (9%). Weddings, funerals, sunnat tui (celebration of male circumcision), and other celebrations now become the second most important motive to remit for 7% of the migrants. Savings as a motive, though increasing, remains marginal (3%). Among the third most important motives to remit, payment of debts is the most frequently mentioned motive (about 25%). Purchase of food and basic necessities remains an important third motive to remit (15%), followed by purchase of a durable good (12%), wedding/funeral/sunnat tui (11%), medical expenses (10%), house construction and repair (10%).

We calculated the ratio of average monthly remittances to the average total monthly expenditure of households and found that it is 1.36 on average. Judging from this ratio, we find that remittance receiving households do have the potential to save money. About 43%

of the households that receive remittances reported total expenditure that was less than the average monthly remittances as shown in Figure 4.9. [99]

Figure 4. 9 – Percentile Distribution of the Ratio of Average Monthly Remittances to Average Monthly Expenditure 1



[99] This finding should be taken with a grain of salt because the total expenditure do not include expenditure on education and hospitalization. We don't know how many households we would have found with a ratio of remittances to expenditure greater than one if we had a bigger denominator of expenditure which included education and hospitalization expenditure.

Chapter V - Analysis of the Survey Results II - the Flow of Migrants from Tajikistan and the Profile of Tajik Migrants

I. The Number and Type of Tajik Migrants Abroad

The number of Tajik workers abroad remains shrouded in mystery. (See the Box: Neither Fish Nor Fowl). However, it is now generally agreed that the number of Tajik migrants (mainly in Russia) is substantial and remittances sent by Tajik workers constitute the lifeline for many Tajik families.

I.A. How many people migrated from Tajikistan in 2005?

The survey was conducted in July 2005. The estimate of migrants from Khatlon in 2005 is based on the number of persons fourteen years or older that left the country that year and were abroad at the time of the survey or had returned (provided they had lived abroad for 3 months or more). Realizing that this way of estimating the migrant flow in 2005 would result in a slight underestimation of the annual flow because we would miss any migrants who would be leaving in 2005 after the survey, we asked each respondent if there were members in the household who were planning to migrate for work in the next 12 months or so. At the time of the survey (July 2005), some individuals who had never migrated before, representing 6% of the current estimated migration cohort, expressed their intention to migrate for work abroad within the next 12 months. Once we include these would-be migrants in our estimated 2005 cohort of migrants we expect to have corrected the underestimation bias due to the timing of the survey. In any case, the underestimation is likely to be slight considering the fact that the bulk of migrants from Tajikistan leave within a couple of months of spring. With this caveat in mind, we estimate that there were a minimum of 132,000 Tajik migrants from Khatlon in 2005 (with a 5% margin of error of 14,650 or 11% of the estimated number). The estimated annual outflow of migrants in 2005 for the whole country is 370,000 (with a 5% margin of error of 41340, giving an upper bound of 412,000). Details of the calculations are given in the Technical Annex.

The estimates of total number of migrants from Tajikistan need to be interpreted with caution as these figures are based on many assumptions which may or may not be plausible. First, we assume that there are no regional differences in the pattern of migration. Most likely, this assumption is not accurate. Second, we assume that only 6% of the total number of migrants in 2005 left from July through the end of 2005. Since this is based on declared intentions from a region where migrants are largely rural and relatively unskilled, there is likely to be an underestimation bias in the results in so far as migrants from other regions are more urbanized and have higher education and skill levels, factors that would translate into greater mobility and jobs in sectors that are less subject to the vagaries of nature. Our estimates are likely to be biased downward for another reason, i.e., attrition from the panel which is at least partly due to outmigration of households.

How do these estimate compare with alternative estimates? Independent estimates by Tajik Migration Service for 2005 put the number of all migrant workers at 412,000, with Russia accounting for approximately 99% (407410 of the total). Russian Border service

record of total arrivals from Tajikistan (including non-migrants) for the first nine months of 2005 was 362090.[100] We believe in the light of the evidence from the Russian Border Service and Tajik Migration Service, the downward bias in our estimate appears to be minor.

We believe that border crossing figures from FMS put an upper bound on the estimates of migration from Tajikistan into Russia for the following reasons: first, it is possible for people to cross the border more than once although such cases are likely to be negligible; [101] second, border crossing numbers also include tourists, diplomats, businessmen, children under the age of 14 which are not included in our estimate; third, there are people who enter Russia from Tajikistan whose ultimate destination may not be Russia.[102]

We suggest that for future estimation of the flow of migrants to Russia, the border crossing numbers should serve as the upper bound. Thus, any estimate of the annual flow of migrants from Tajikistan that exceeds the number of border crossing is totally unreliable. Although it has been reported that some Tajik deportees might reenter Russia without documents, it is highly unlikely that the number of such entrants is significant. Most Tajik people cross the Russian border legally as Tajiks do not require a visa to enter Russia.

I.B. Preponderance of Temporary Migrants

The bulk of Tajik migration abroad is seasonal and temporary. At the time of the survey, 89% of the 2004 cohort of migrants in the sample traveled to work abroad again in 2005. Few Tajik migrants have expressed the desire to settle in. Tajik migrants leave during spring and summer to work in construction, mining, manufacturing, oil and gas, and agriculture but Russian winter sends most of them packing home.

Most of the migration in the immediate aftermath of the dissolution of the FSU and during the civil war represented permanent exodus mainly by Russian, German, and other non-Tajik ethnic groups. There appears to have been a structural shift in 1994 in the pattern of migration with the overwhelming majority of migrants after 1994 representing temporary migration. Another factor to be kept in mind is that the estimated figures of migrants are gross figures representing the number of people who leave Tajikistan. A vast majority of these people are temporary migrants and do return; a small fraction may decide to settle in Russia to acquire Russian citizenship or stay in Russia for 12 months or more. Table 5.1

Both cultural/religious differences and a relatively inhospitable environment for Tajik migrants result in their loose attachment to the main country of destination, Russia. We would argue, however, that the economic cost-benefit calculus is by far the most important factor in determining the seasonal pattern. *Difficulty in obtaining long term registration and work permits may further accentuate the seasonal pattern of Tajik migration particularly if the difference between potential earnings during winter and the cost of obtaining work permit is marginal.*

Available data from Russian sources show that the stock of persons of Tajik origin in the Russian population is small relative to the annual flow of Tajik migrants. Few Tajiks intend

[100] Since the number of migrants drop precipitously in the last quarter of the year, these numbers are not likely to have increased significantly.

[101] There is a small chance that some deportees enter under different names to avoid being caught. There is considerable anecdotal evidence to support this observation.

[102] We have no figures of border crossings from Kazakhstan.

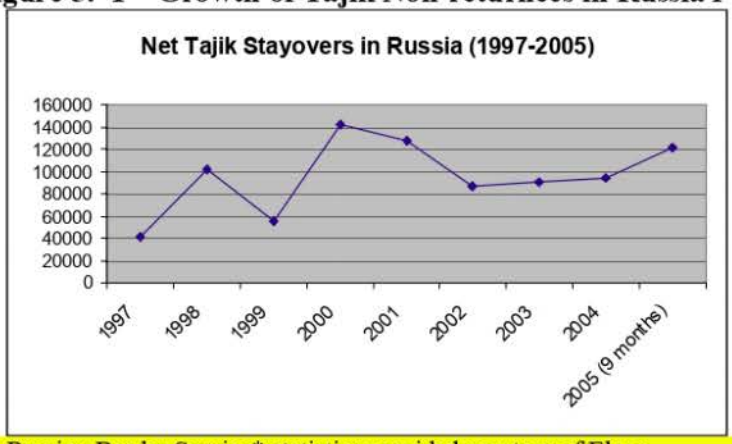
to settle in Russia permanently as indicated by responses in the household survey. Data from Russia Ministry of Interior (MVD) shows that as of the third quarter of 2005, the ratio of Tajikistan immigrants with permanent registration to the Tajik immigrants with temporary short term registration (upon entry, and not for residence) is close to only 1½ percent.[103]

The demographic background, heavy concentration of Tajik migrants in construction, oil and gas, and agriculture, and the cost of obtaining long term work permits and registration requirement all provide strong incentives for Tajik migrants to return home during winter.

I.C. Increasing Number of Non-returnees

If one compares the estimate of the above figures with officially published figures on permanent immigration in Russia from Tajikistan (See Table 5.1 and Figure 5.1), it becomes clear that permanent migration out of Tajikistan is a very small proportion of the total flow of migration in the post Civil War era. See Figure 5.2. Yet, it is possible to detect the consolidation of a trend towards permanent settlement in the last few years as indicated by the increase in the number of Tajik migrants who fail to return. Figure 5.1 below shows that the number of non-returnees from Russia is increasing at the average rate of 8% per year since the end of the civil war at the same time that there has been a structural shift from permanent migration to seasonal migration and the bulk of migrants are temporary.

Figure 5. 1 – Growth of Tajik Non-returnees in Russia 1



Source: Russian Border Service* statistics provided courtesy of Elena Turukhanova.

*Border Service is part of the Federal Security Service of RF (FSB)

Notes: The estimate is based on the number of people 'arriving' from Tajikistan in Russia and not returning the same year. Numbers for 2003 were interpolated.

These figures need to be interpreted with caution as they simply set an upper bound on any estimate of permanent settlement (both legal and irregular) because persons who cross border and fail to return the same year are not necessarily permanent settlers. The total number of non-returnees/stayovers from 1997 up to the first 9 months of 2005 is 86,0000 as

[103] We don't have estimates of migrants into Russia from all the other CIS countries.

shown in the Table 5.1 below. The absolute numbers may not be meaningful, but the trend is obvious.

Table 5. 1 - Number of Net Stayovers from Tajikistan into Russia

Number of Net Stayovers from Tajikistan into Russia			
	In	Out	Net Stayovers
1993	1236		1236
1994			
1995	59336		59336
1996	293718		293718
1997	53300	12266	41034
1998	112346	10437	**101909**
1999	160564	104806	55758
2000	314143	172752	141391
2001	332237	204262	**127975**
2002	**358452**	271561	86891
2003	**366927**		90380.5
2004	**456544**	362674	93870
2005 (9 months)	362090	240497	**121593**
Total			1213855.5

Source: FMS, Interior Ministry of Russia

Is temporary migration consistent with increasing number of non-returnees? This subjects requires careful investigation and we can only speculate here. First, in the face of tougher restrictions on migrants, particularly, in big cities like Moscow, there is a huge premium associated with citizenship. Tajik migrants may opt for permanent settlement and acquire Russian citizenship given the huge premium associated with citizenship.[104]

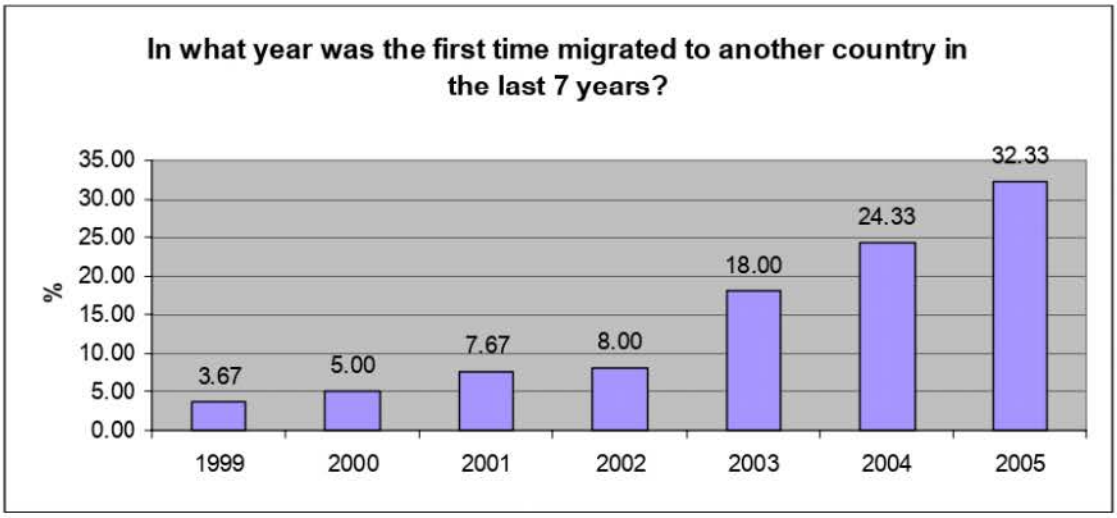
I.D. Growing Trend towards Migration

As mentioned in chapter I, there is considerable evidence that migration from Tajikistan to Russia has increased dramatically over the last few years. The 2003 TLSS asked respondents if they ever migrated for 3 months or more since 1998 (over the 5 year period preceding the survey in 2003). Only 3.54% of the respondents 14 and older answered in the affirmative. Two years later a similar question in our 2005 survey (for the 7- year period including 1999) received a positive answer from 10% of the respondents.

Those who responded positively were further asked about the year of first migration abroad. If we can trust the retrospective figures from the survey on the trend of migrants from 1999 onwards, then the upward trend through 2005 is unmistakably present as shown in Figure 5.2 below. Only 4 percent of the migrants went abroad for the first time in 1999, followed by 5, 8, and 8 percent respectively in 2000, 2001, and 2002. Thus, a staggering 75 percent of migrants in 2005 departed for the first time between 2003 and 2005.

[104] Even though there is a limited quota on citizenship applications that could be approved in one year, applicants with proper documents can acquire residency permits – e.g. through real or fictitious marriages.

Figure 5. 2 – In what year was the first time migrated to another country in the last 7 years? 1



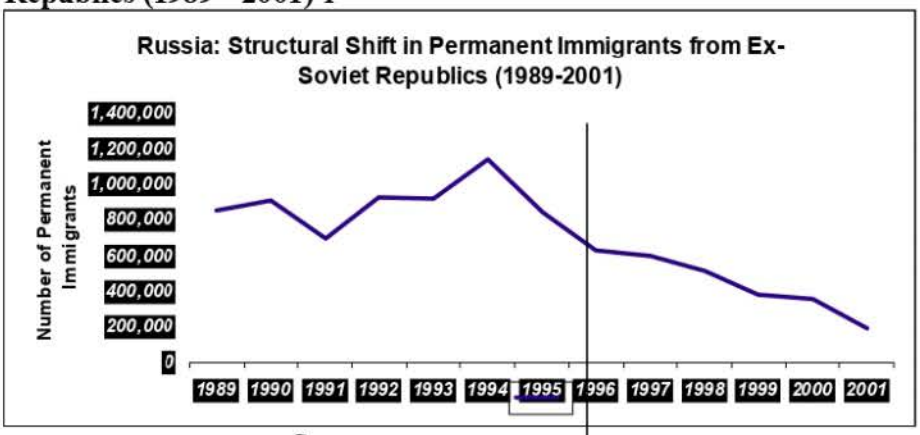
Although the numbers need to be interpreted with caution as retrospection back to six or seven years is not highly reliable, the trend is clear and is supported by other sources. We notice signs of a structural shift in favor of temporary and unskilled migration from Tajikistan since the end of the civil war. As shown in Table 1.12b in Chapter 1, during the 4 years after the end of the civil war (1998-2001), the proportion of permanent settlers to total Tajik population in 2001 was less than 1% (0.78 to be precise) - permanent immigrants flow as a proportion of 2001 population in Tajikistan in 1989-2001 was approximately 7%.

The shift from permanent to temporary migration into Russia is not unique to Tajikistan. Figure 5.3 below shows that permanent migration into Russia was high and growing in the immediate aftermath of the dissolution of the Union. The year 1995 was a watershed – we see a shift from permanent migration of ethnic Russian towards temporary migration of natives of each republic. (See the section "Forced Exit from Tajikistan" in Chapter I). While some 284,000 people migrated from Tajikistan to settle in Russia permanently during the civil war, during 1992-97, only 48000 migrated permanently from 1998 to 2001.

What accounts for the growing migration trend in recent years? While there was no significant shift in the push factors from Tajikistan except for the Peace accord which is expected to have had a negative effect on migration, ceteris paribus, there appears to have been a structural shift in one key pull factor – the upswing in Russian GDP since the onset of the oil boom in 2000. Russian economy has benefited tremendously from the upsurge in oil and gas prices, with reserves reaching record levels

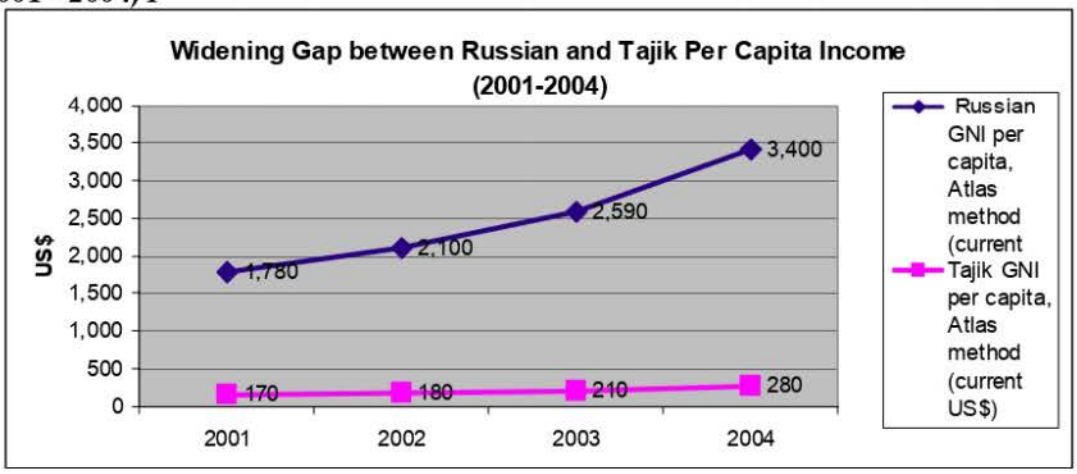
Figure 5.4 depicts the widening gap in PCI between Tajikistan and Russia during 2001-2004. Figure 1.14 in Chapter 1 shows how the widening gap between Russian and Tajik per capita income walks in tandem with the growth of first time Tajik migrants from Khatlon.

Figure 5. 3 –Russia: Structural Shift in Permanent Immigrants from Ex-Soviet Republics (1989 - 2001) 1



Source: Goskomstat Rossii (State Committee on Statistics of Russia)

Figure 5. 4 –Widening Gap between Russi Russian and Tajik per Capita Income (2001 - 2004) 1



Since 1999, there has been a clear tendency for age at first migration to decline. In every year since 2001, the majority of migrants are under the age of 30. In 2004, the proportion of migrants under thirty reached 88 percent which is consistent with the finding from Moldova that the desire to migrate is highest among people younger than age thirty (Ruggiero, p. 19). See Figure 5.5d.

I.E. The Migration Multiplier and the Growing Trend toward Migration to Russia

Although Russia experienced windfall oil profits in 2000-2004 and Russian GDP has been growing at an average rate of 6% since 1999, we cannot attribute the dramatic shift in migration solely to the oil boom. The cumulation theory of migration implies that

migration has a multiplier effect once it reaches a critical threshold.[105] Thus, once colonies of Tajiks are established abroad, relatives and friends back home find it easier to join the migrants in the host country—usually in the same city, and, at least temporarily on arrival, in the same living quarters – thanks to the informational, logistical, and financial support they provide.

The survey shows that thirty percent of the return migrants mentioned being helped by relatives and friends during the journey abroad. Respondent reported about 32% of all migrants were helped by relatives (18%) and friends (62%) during the journey abroad.

Another 12% were reportedly helped by *mere acquaintances*.[106] The interviews also reveal a trend toward jumping the bandwagon as a motivation for migration as 83 % mentioned getting information about destination and jobs from friends or relatives. This testifies to the existence and strength of a network of information and support.

[105] See Chapter 1, last section entitled, "The Emigration Multiplier a la Cumulation Theory" and the following section entitled, "Digression: The Migration Multiplier and the Growing Trend toward Migration to Russia" for elaboration.

[106] The question did not distinguish between financial or non-financial assistance.

Box 5. 1 - Neither Fish nor Fowl

What is the source of confusion about the number of Tajik workers abroad? In the opinion of the present author, this can be attributed to the following factors.

The main source of the confusion seems to be the attempt to mix apples with oranges: *no distinction is made between a flow variable and a stock variable*. When Russian authorities mention a figure of 600000 to 800000 illegal Tajikistan migrants in Russia, regardless of the accuracy of this figure, it needs to be understood that this is the estimated total 'stock' at a particular point in time, and not an annual flow. Second, the stock figure may represent a number of ethnic Russians who migrated from Tajikistan during the mass exodus after the breakup of the FORMER SOVIET UNION and who are now permanently settled in Russia. At best the permanent settlers in Russia (most of whom are now Russian citizens) can be classified as Tajik Diaspora and should be clearly distinguished from the flow of Tajik migrants. Tajik Diaspora in Russia ought to be excluded from the estimate of the annual flow of Tajik migrants.

A second source of confusion seems to have its origin in a deliberate attempt to fudge the issue because of some ulterior motive. *No distinction is made between temporary and permanent migration*. Thus, according to the website of Tajik State Statistical Committee, the net migration out of Tajikistan in 2003 was 11288. It is less than 2% of the total outflow as estimated by the 2003 IOM study over the 3 year period between 2001 and 2003. This figure is clearly absurd unless it is understood to be permanent emigration which is what seems to be intended. There is no description of the methodology of how this number was arrived at. Judging from the number of non-returnees (numbering about 87000 in 2002 and over 93000 in 2004) from the Russian Border Services, the number grossly underestimates net outmigration.

A third source of confusion lies in *errors of measurement*. The border crossing figure for 2003 is 366927. As mentioned elsewhere in the report, *the border crossing figures provide an upper bound to the estimate of annual flow of migrants out of Tajikistan because some people who cross the border are not in Russia for work and may be transiting*. We believe the 2003 TLSS grossly underestimates the number of migrants from Tajikistan in 2003.

Neither Fish Nor Fowl

Few numbers have been as misunderstood and misinterpreted as the number of Tajik migrants from a 2003 IOM study. The number reported there represented neither the stock of migrants in 2003 nor the annual flow of migrants in 2003. The authors claim that "over the 3 year period preceding the time of the survey in 2003, 620000 Tajik migrants left the country," - eighty four percent of these migrants were claimed to be working in Russia (IOM, 2003). The statement cannot be interpreted to imply that the annual flow of migration from Tajikistan is 620000 nor can it be interpreted to mean permanent emigration. The ambiguity in the statement has allowed readers to interpret it according to their frame of reference or purpose.

Here is a sample:

> An estimated 620,000 Tajik seasonal workers travel abroad each year, primarily to Russia but also to neighboring Kazakhstan, Kyrgyzstan, and Uzbekistan, according to a recent IOM report (IRIN News, Reuters, May 18, 2005).

This is a far cry from what is presumably intended by the researchers.

II. A Socio-economic and Demographic Profile of Tajik Migrants

II.A. A Brief Methodological Note: Comparison with Moldova

Following the comparative method to put some perspective on our findings, we frequently compare our results with the findings of recent research on Moldova. There are several reasons for this. There are enough similarities in the initial conditions of the two countries and yet several differences in the socio-economic profile to make the comparison meaningful. Like Tajikistan in Central Asia, Moldova is a major labor exporting ex-Soviet republic located in Europe. Also, like Tajikistan, it has the highest share of nonurban population among the former European Soviet republics. Both are small countries. The population size is similar.

II.B. Rural urban distribution of migrants

Tajikistan is a predominantly rural country as shown in Table 5.2 below. The Share of rural population in Tajikistan is bigger than any other ex-Soviet republic. As the table below shows, the rural urban composition has remained fairly stable over the last several years.

The proportion of rural population in the total population of Khatlon in 2004 was higher (82.5%) than the average for Tajikistan (73.6%). Thus, the result may not be generalizable to the areas with high urban concentrations.

Table 5. 2 - Tajikistan: Urban and rural population by Region, 1998-2004
as of end of the year; in percents

	1998		1999		2000		2001		2002		2003		2004	
	town	village	town	village	town	village	town	village	town	village	town	village	town	village
Tajikistan	26.6	73.4	26.5	73.5	26.6	73.4	26.5	73.5	26.4	73.6	26.5	73.5	26.4	73.6
GBAO	13.3	86.7	13.3	86.7	13.3	86.7	13.3	86.7	13.3	86.7	13.2	86.8	13.2	86.8
Sogd	27.1	72.9	26.5	73.5	26.3	73.7	26.2	73.8	25.8	74.2	25.9	74.1	25.8	74.2
Khatlon	17.4	82.6	17.4	82.6	17.3	82.7	17.3	82.7	17.2	82.8	17.4	82.6	17.5	82.5
Dushanbe	100	-	100	-	100	-	100	-	100	-	100	-	100	-
RRP	12.4	87.6	12.4	87.6	12.9	87.1	12.9	87.1	12.8	87.2	12.7	87.3	12.6	87.4

Source: State Statistical Committee of Tajikistan

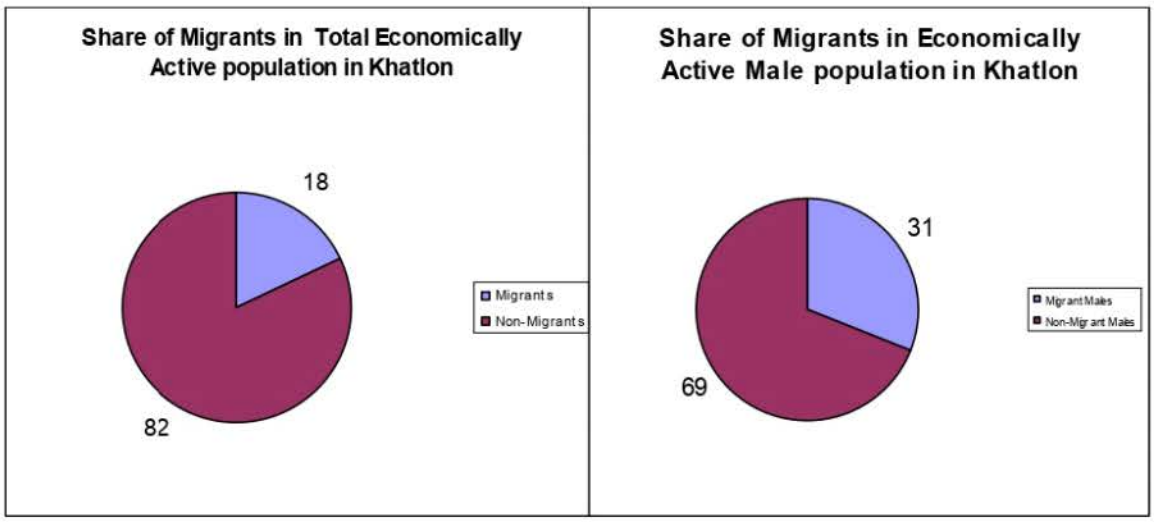
II.C. Migrants by Labor Force Status

About one third of the Tajik population is economically active (about 31.4% in 2004).[107] Assuming the proportion of economically active population in Khatlon is equal to the rest

[107] Economically active population ("usually active" or "currently active" (currently active is also known as "the labour force") comprises all persons of either sex above a specified age who furnish the supply of labour for the production of economic goods and services (employed and unemployed, including those seeking work for the first time), as defined by the System of National Accounts (SNA), during a specified time reference period. The economically active population may be related to the total population for the derivation of the crude participation rate, or, more appropriately, to the population above the age prescribed for the measurement of the economically active population. *Not economically active population comprises all*

of the country, we can conclude that about 17% of the total economically active population in Tajikistan traveled outside the country for 3 months or more in 2004-2005.[108] This is consistent with a 2004 survey commissioned by the World Bank. *Every third household in our sample had a migrant who either worked or had been working abroad in 2004-2005.*

Figure 5. 5 – a) Share of Migrants in Economically Active population b) Share of Migrants in Economically Active Male population



Source: ILO for economically active population in Tajikistan: www. Ilo.org; KLSS for migrants

I.A. Gender and age distribution of migrants

Since only 8% of all migrants were women in our sample (Figure 5.6), the proportion of males among migrants is much greater than the proportion of the active male population in Tajikistan. Alternatively, while 17% of the total Tajik labor force migrated outside the country in 2004-2005, we estimate that 31 out of every 100 economically active Tajik *males* were likely to have worked abroad in 2004-2005. See Figures 5.5a and 5.5b.

persons not classified either as employed or as unemployed. International Labour Organisation (ILO). Current International Recommendations on Labour Statistics, 2000 Edition. Geneva, 2000.

[108] Data on economically active population is taken from ILO website: www.ilo.org.

Figure 5. 6 - Migrants by Sex 1

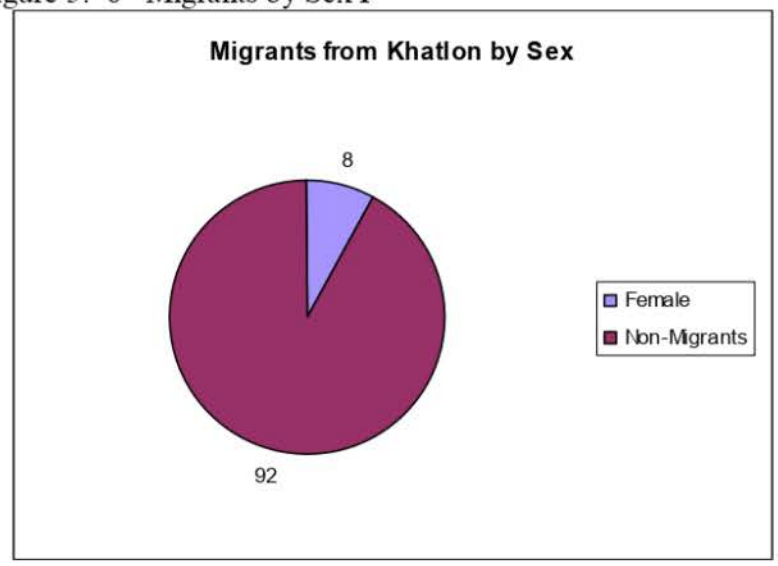
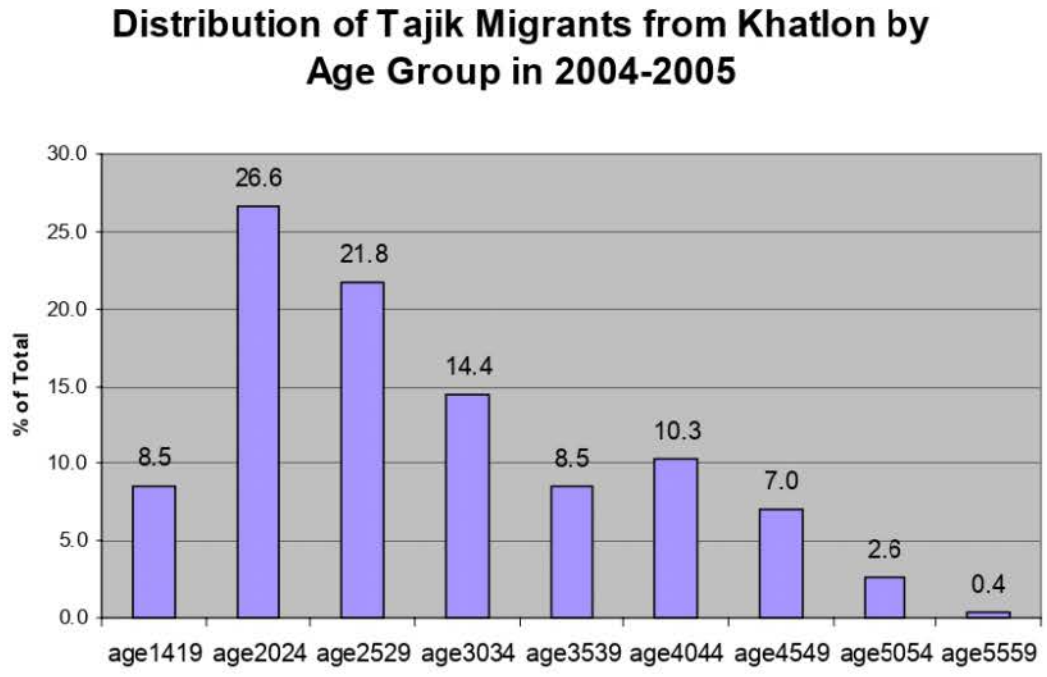


Figure 5. 7 – Distribution of Tajik Mig Migrants from Khatlon by Age Group in 2005 1

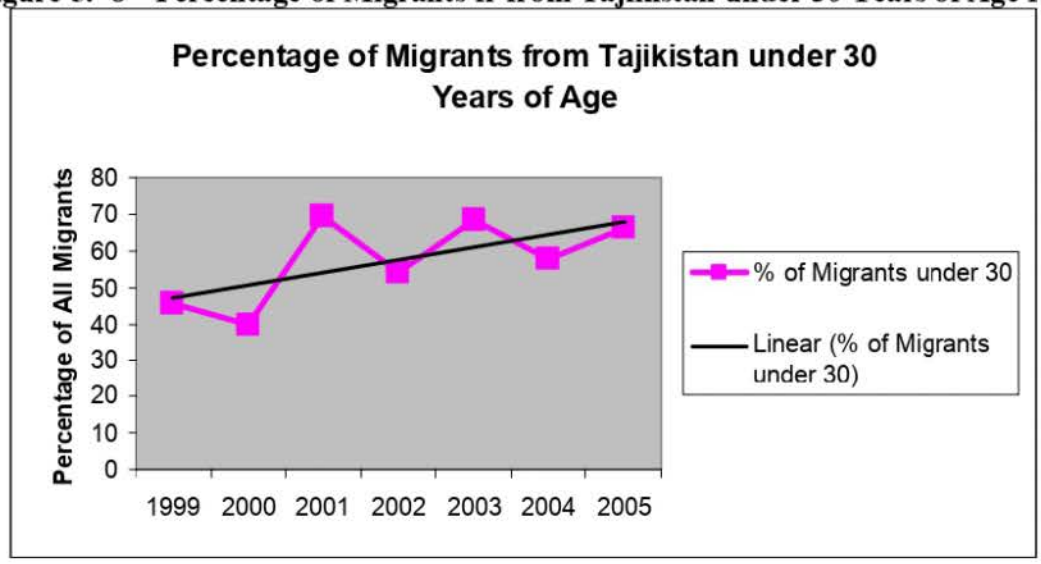


As regards the age distribution, almost two third of the migrants belong to the most economically active age groups (20 to 39 years old). See Figure 5.7. The few women migrants in the sample are overwhelmingly younger than their male counterparts: two

thirds of them are under the age of 30. As noted earlier, we also detect a slight trend among first time migrants to become younger.[109] See figure 5.8 below.

Gender and age composition of migrant workers depends on the type of work performed in host countries. The preponderance of young males in the Tajik migrant cohort is consistent with the pattern observed in resource abundant receiving countries in the early phase, such as the oil rich Gulf and is largely explained by the composition of demand for their labor - in construction and other sectors demanding heavy physical labor.[110] Like the oil rich Gulf in the 70s and 80s, Russia is currently experiencing a boom in the construction and oil and gas industries that require hard physical labor.[111]

Figure 5. 8 – Percentage of Migrants fr from Tajikistan under 30 Years of Age 1



Comparison with Moldova

Tajikistan represents an exception among major sending countries even within CIS in terms of the distribution of the migrant cohort by gender. A comparison with Moldova should be interesting. The pattern observed in Khatlon is in striking contrast with Moldova where, on average, male migrants are younger than female migrants, reflecting two factors: (a) a specialization of men in physical work and of women in household chores in host countries; (b) a diverse set of destination countries - unlike Tajikistan, Moldovans have a menu of choice among diverse set of destination countries. Perhaps, it is the opportunity that Moldovans have to migrate to Western European countries that goes far to explain the diversified portfolio of migrants from Moldova. Thus, even though Moldova has a much

[109] Perhaps, taking some literary license, we could refer to this phenomenon as 'juvenation' meaning increasing dominance of the activity by the young.

[110] The jobs in the construction sector are mostly low skill jobs as bricklayers, plasterers, helpers etc.

[111] To some extent, the predominance of males may reflect the demand side (such as the hold of traditional values) in sending countries. The pattern is similar to the one observed in many traditional Muslim societies – migration from Pakistan and other Arab countries into the Gulf region is predominantly male whereas the proportion of female migrants to the Gulf from non-Muslim societies such as Philippines and Sri Lanka is much greater.

greater proportion of female migrants overall, when divided in terms of country of destination, or region of destination, the ratio of males to female migrants is much higher among Moldovan migrants in CIS (Russia and Ukraine).[112] Moreover, unlike Moldova, where the majority of men are seasonal migrants, while the majority of women are permanent migrants, there is no difference in the duration of stay by gender in Khatlon.

II.E. Marital Status of Migrants

In regards to the marital status of the migrants, about 63 percent of the migrant cohort is married. The marital status of migrants from Tajikistan mirrors the one from Moldova where 62% of the migrants are married. There is a clear although small negative correlation between their marital status and the length of stay abroad: married migrants migrate less permanently than single or divorced migrants. A similar correlation has also been observed in Moldova. Although there are some women who travel independently from Khatlon, majority of migrant women are married and live with their husbands.

II.F. Education Profile of Migrants

In 2004-2005, Khatlon oblast had a very low ratio of highly educated people among the migrants than the ratio of highly educated people among the working population for the whole country in 1999 - less than 7 percent of migrants in the sample have a university education, compared to about 19.6% percent in the Tajik working male population.[113] **See Table 2.3.** How to interpret these numbers? *See the section on Brain Drain in chapter 7 for a discussion of the implications of these figures.*

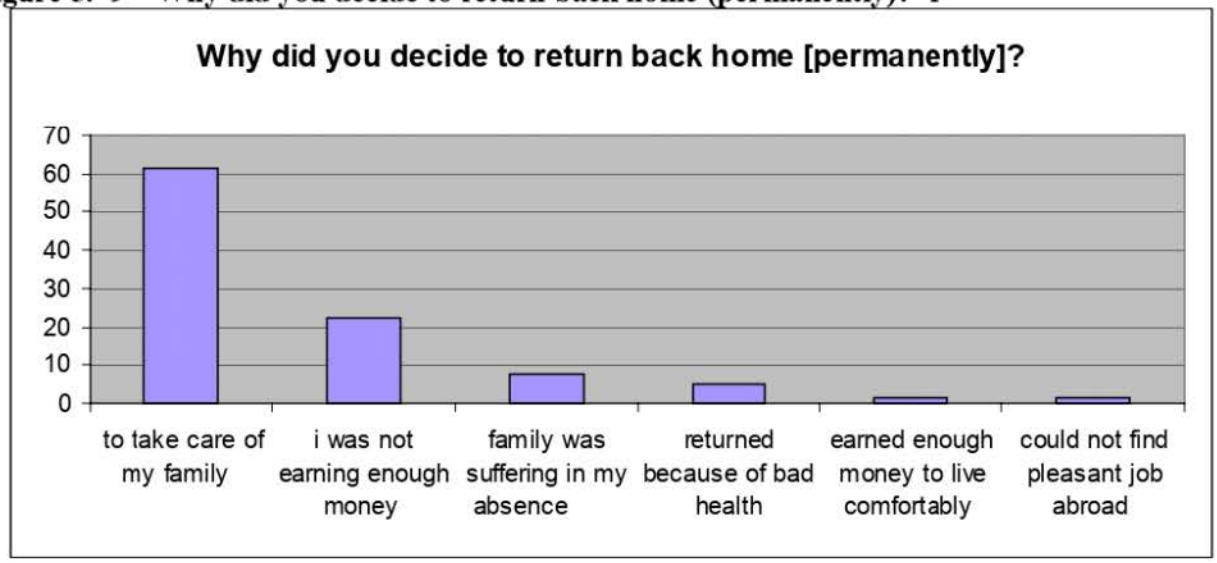
II.G. Low Earnings in Russia and Discouraged Migrants

As noted elsewhere, of those who returned home permanently, most (66%) attributed permanent return to family reasons, but a significant number (22%) declared that it was not worth working abroad because of low earnings. See Figure 5.9.

[112] Given the ethnic and linguistic affinity of Moldova to Romania, the recent accession of Romania to the EU is likely to further help diversify sources of remittances, ceteris paribus.

[113] Author's calculation for men only based on TLSS 1999. The comparison with figures for men only is warranted because of the preponderance of males among Tajik migrants from Khatlon (92% of all migrants).

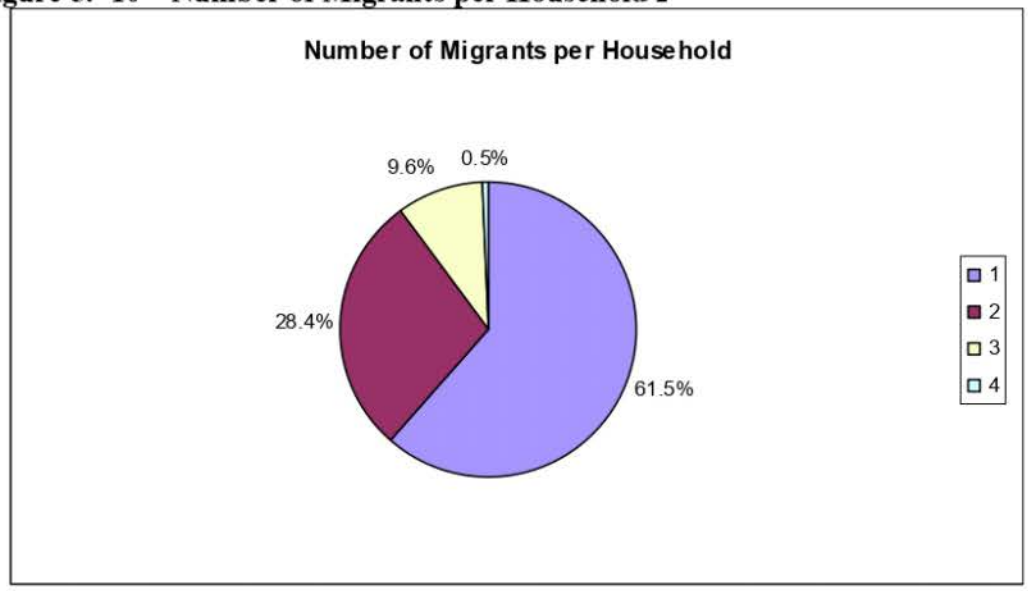
Figure 5. 9 – Why did you decide to return back home (permanently)? 1



II.H. Number of Migrants per Household

Some households have more than one migrant. While the majority (62 %) of the households had only one migrant in the 2005 migrant cohort, about twenty eight percent of the households had 2 and about ten percent had 3 migrant members. See Figure 5.10

Figure 5. 10 – Number of Migrants per Household 2



II.I. The Decision to Migrate: Who Decides and Why?

The decision to migrate is not undertaken by unattached atomistic individuals maximizing their lifetime individual utility as in the standard neoclassical story. It is a family decision.

How emigrants finance their trip is an index of how closely the family is involved in the decision making process, ceteris paribus. Thus, it is not surprising that only a small fraction (11%) of the migrants in our sample mentioned self-financing their trip. About 85% of migrants in the sample financed their trip with help from family or friends; even neighbors chipped in (5%). Another important finding was that almost every third migrant reported being helped during their journey by family or friends.[114] See Figure 5.11. When asked who helped, majority mentioned friends (62%) family (18%). See Figure 5.12. Money from friends may be considered to be a personal loan. As noted earlier, repayment of debt was mentioned as the third most important use of remittances by 25% of the migrants.

The pattern of financing the trip abroad bears an interesting contrast to the pattern observed in Moldova, perhaps reflecting the growing individualism of the Moldovan society. This clearly shows the inappropriateness of the standard individualistic neoclassical economic model for studying migration from Tajikistan. Unlike Moldova where about 10% migrants reported borrowing money from moneylenders, borrowing from moneylenders does not appear to have been a significant source of finance for Tajik migrants from Khatlon (only a fraction of the 5% who did not specify any source). The higher percentage of impersonal loans in Moldova is mainly a reflection of higher costs of

[114] As mentioned above, this question did not clearly distinguish between financial and non-financial support.

migration from Moldova to Western European countries (Rugiero, p. 18). It may also be a sign of growing maturity of the Moldovan banking system.

Figure 5. 11 – While on the road during the flight to the final destination anyone else helped? 1

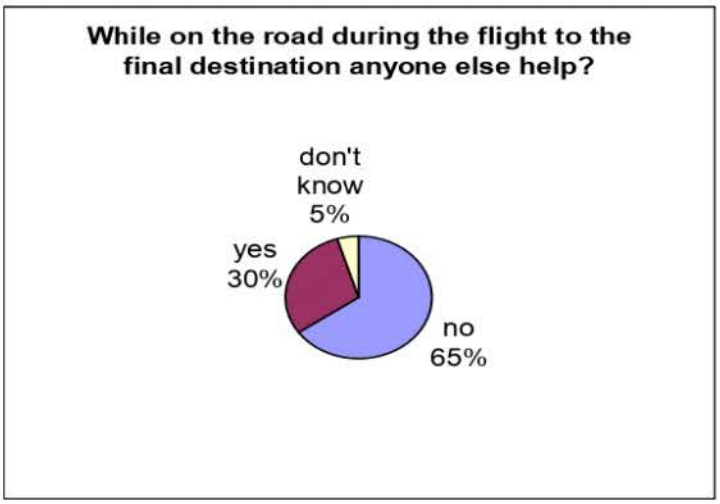
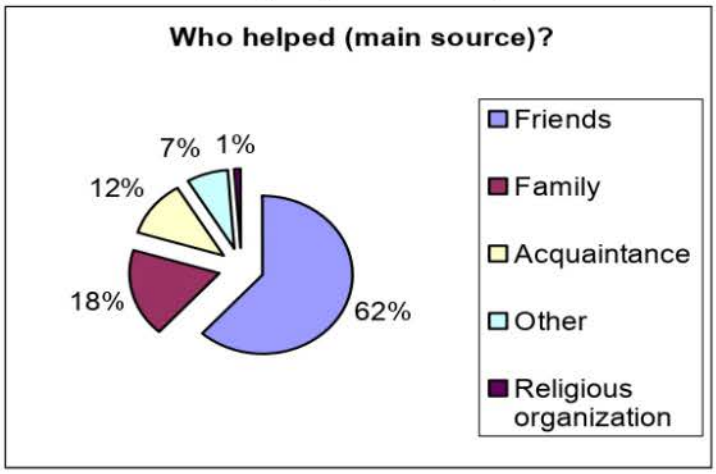


Figure 5. 12 – Who helped (main source) 1



I.A. Putting All Eggs in One Basket - Russia

As noted above, although some Tajik migrants have been working in other Central Asian countries, an overwhelming majority migrates to Russia for work. TLSS 2003 shows that about 90% of all migrants in 2002 reported Russia as the country of destination. Among the migrants who go to countries other than Russia, Khatlon has a very low representation - the proportion of migrants to Russia in our sample is almost 100%. *Thus, generalizing from the data on Khatlon to the whole of Tajikistan would not be appropriate in identifying the countries of destination.*

A comparison with Moldova would be insightful. Thanks to its geographical location, migrants from Moldova can afford to choose the country of destination from a menu of

choices, limited as it may be. Thus, unlike Tajiks, only 60 percent of the migrants from Moldova head for Russia, with Italy a distant second (19 percent), followed by Portugal (5 percent) and Greece (almost 3 percent) (Ruggiero, p. 69). An interesting observation is that while Russia accounts for only 30% of all remittances flowing into Moldova (even though 60% of all migrants from Moldova migrate to Russia), in our sample it accounts for almost all the remittances by family members. A review of Figure 5.13 should be revealing. Tajikistan was the second largest recipient of *formal* remittances from Russia, just slightly behind Uzbekistan even though Uzbekistan has 4 times the population of Tajikistan and the per capita earnings of Uzbeks and Tajiks are almost equal (Turukanova, 2005).[115] This finding is supported in the literature by a recent work commissioned by the European Commission on Migration (Tishkov pp. 26-27).

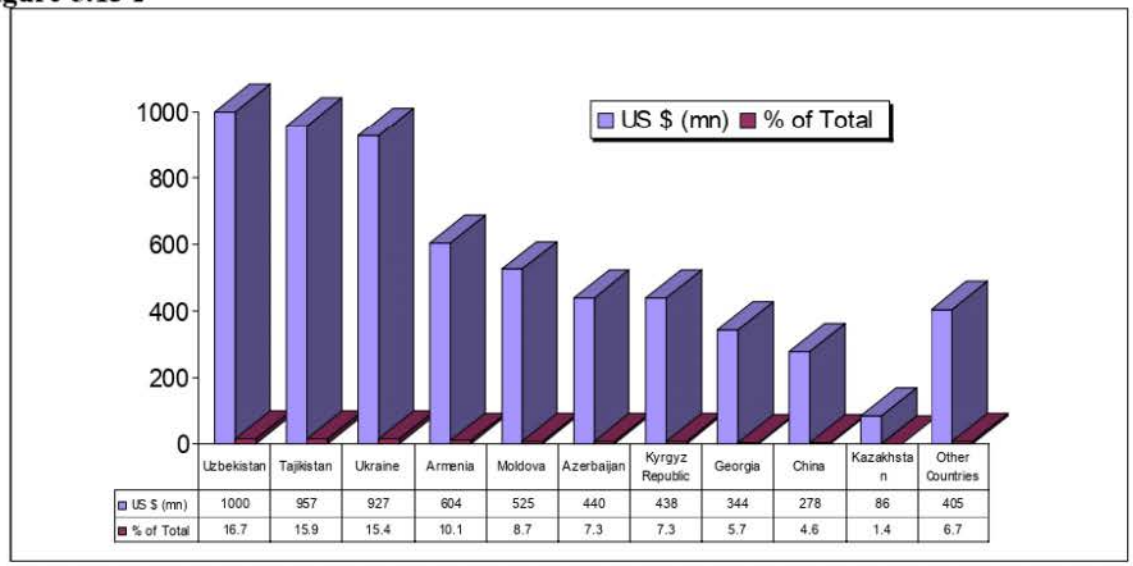
In addition to the key determining factors of geography and historical linkages discussed above, increasing demand for labor from Russia in the face of a demographic crisis and the oil boom of the last few years combined with a widening wage gap between Russia and Tajikistan, common language,[116] the presence of Tajik enclaves in many Russia cities, relatively low cost of travel,[117] a visa free regime, all seem to contribute to the choice of Russia as the key country of destination.

[115] It should be kept in mind that the ratio of Uzbek migrants in Russia to the population in Uzbekistan is much lower than the ratio of Tajik migrants to population in Tajikistan for 2 main reasons. First, the Uzbek government discourages migration as it perceives the growth of out-migration with suspicion and undertakes measures to restrain it (Ilkhamov, Alisher. 2006, op. cit.). Second, Uzbekistan is much more highly diversified than Tajikistan with Uzbeks migrants to destinations other than Russia accounting for about one-third of the total migration (Valentina Chupik, NGO 'Tong Jahoni', Uzbekistan, 2005)..

[116] Sharipov, March 2006.

[117] As of August 2006, the one way plane ticket from Dushanbe to Moscow costs approximately 200 USD (with few extra dollars in bribe as tickets could be in short supply during high migration season). A recent WB report considers the costs to be 1/3rd higher than for comparable routes in Central Asia. "The burden of excessive prices and poor ticket availability imposed on a typical migration worker could at times represent an estimated 7 percent of his annual net income" (WB, 2005e, p. 7). However, it is lower than the cost of plane ticket from Bishkek to Moscow which could range from $255 to $380.

Figure 5.13 2



	Uzbekistan	Tajikistan	Ukraine	Armenia	Moldova	Azerbaijan	Kyrgyz Republic	Georgia	China	Kazakhstan	Other Countries
US $ (mn)	1000	957	927	604	525	440	438	344	278	86	405
% of Total	16.7	15.9	15.4	10.1	8.7	7.3	7.3	5.7	4.6	1.4	6.7

Source: Bank of Russia. Courtesy of President "RUSSLAVBANK" Nicholas Guzman

Chapter VI - Analysis of the Survey Results III - Microeconomic Consequences of Remittances

I. Impact of Remittances on Standard of Living

I.A. Gains to Migrants and Migrant Families

Migration of low-skilled workers has benefited migrant and migrant families. Results from our survey show that remittances receiving households are, on average, better off than households without remittances. R*emittances from family and non-family members support an estimated 35% of the total population in Khatlon*. This is a very substantial number.

In addition to increasing the income, remittances also help households diversify their sources of income, reducing their vulnerability to adverse shocks while providing a much needed source of savings, debt servicing, and capital for investment (broadly understood to include investment in human capital – health and education).

Respondents were asked to rank the 3 most important uses of remittances received by the households. The answers are given in the table below. The table shows how crucial remittances transfers have been to receiving families. Remittances are used mostly to meet current consumption needs. About 86% of all remittances were spent by receiving households on basic necessities. Expenditures on basic consumption (e.g., food, clothes, and utilities) are the most important use of remittances and conform to the intended purpose. Like in Moldova , housing investment

Table 6. 1 – What was the actual use of money sent?

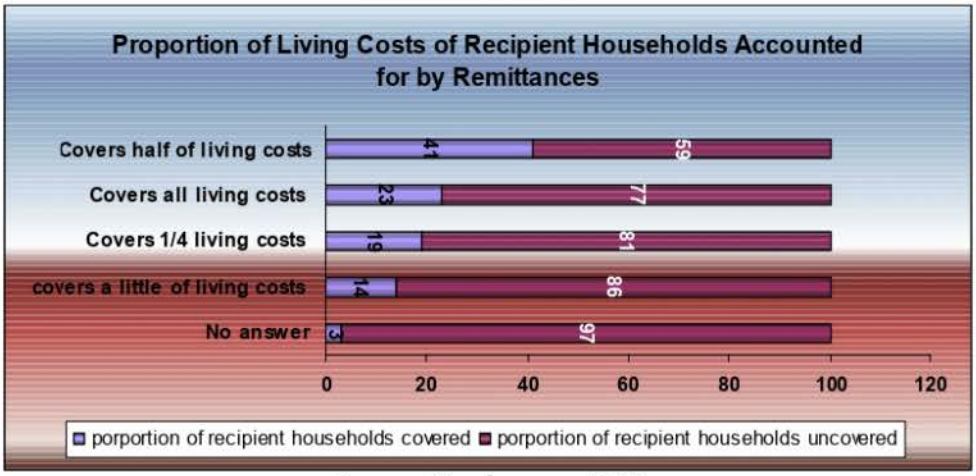
	First most important use	Second most important use	Third most important use
purchase of food and basic necessities	86	10	21
house construction/repair	2	16	5
payoff debts	2	18	24
saving	2	3	4
purchase of a durable good	1	12	8
educational expenses	1	15	1
wedding/funeral/sunnat tui	1	6	13
medical expenses	0	11	7
buy farm implements	0	0	4
land improvement	0	0	1
Others	5	9	12
	100	100	100

tends to be the second most important use of remittances, followed by household durables and celebrations (weddings, sunnat tui etc), and spending on education and health. This

pattern of utilization of remittances is consistent with the stylized fact and is replicated time after time in country after country.

There is some independent evidence from another survey conducted last year in Russia by ILO that shows what the senders themselves thought about the significance of the transfers for the recipients. For 22% receiving households, these account for almost 100% of all living expenses and for another 41%, they account for about 50% of all living expenses (Turukanova, 2005). See Fig. 6.1.

Figure 6. 1 – Proportion of Living Cost of Recipient Household Accounted for by Remittances. 1



Source: Turukanova, 2005

Migration is a costly business even as the cost of migration has been falling worldwide. Survey results confirm the widely accepted stylized fact in the literature, i.e., migration could be very costly. Depending on the assumption about the cost of extortion/bribery, the cost of migration could range from 37% to 51% of the total gross earnings of a typical migrant.

A comparison with Moldova will be instructive here. While remittances constitute at least 65 percent of the income of the average recipient family in Moldova, in Tajikistan, the ratio is much lower, suggesting, in part, at least, the overall low earnings of Tajik migrants in Russia and the disproportionately higher amount of remittances from high income European destinations of Moldovian workers.

Table 6. 2 –Cost of Migration in US $

Gross earnings	2,700	
Cost	**Low Extortion Cost**	**High Extortion Cost**
Fixed expenses	410	410
Transportation	330	330
Border crossing	30	30
Other	50	50
Police	135	530.22
Other	45	45
Total cost on account of Migration	1000	1395.22
Migration cost to Earnings ratio	**0.37**	**0.52**

Sources: Unpublished World Bank survey; high extortion cost from *League of Tajiks*

See Table 6.2. These costs are costs that are incurred solely on account of migration and could be avoided if the migrant stayed home. Thus, part of the remitted funds may simply be spent on debt repayment and the net benefit in some cases may be low or even negative. Almost every one who migrated in the two years following the end of the civil war reported taking about 245 Somoni (equal to the same amount of dollars at 1998-99 exchange rate of 1:1). Three quarters of those who migrated in 2004 or 2005 reported taking with them about 160 US dollars on average. Although $160 is a substantial amount representing almost 12 % of the average amount received by a household from both family and non-family members, it appears to confirm the theoretical expectation about decreasing costs of migration (from $245 in 1998-99) with the passage of time thanks to network externalities, everything else held constant.

The cost is not only, nor mainly, monetary. The non-monetary costs are well-documented in the literature and we will not dwell upon them here.[118]

I.B. Poverty, Fungibility of Money, Enhanced Liquidity, and Insurance from Remittances

Low-skilled migration has contributed to poverty alleviation. It has been argued both theoretically and empirically that low-skilled migration can improve labor market conditions for other poor workers. Since most Tajik migration is low-skilled, we would expect it to relieve unemployment pressure in Tajikistan. Unfortunately, unemployment data is difficult to gather. The official unemployment figures published by the Tajik government range from 0.4 (1992) to 3% (2002) and are obviously absurd.[119]

There is no question that remittances have become a safety valve for many Tajik families. The estimated total remittances of approximately $550 million in 2004 were 26% as a percentage of GDP – about 10 times higher than the share of government expenditure on 'social insurance and defense combined' in GDP (2.7%).[120]

There is evidence from the panel data that remittances in Khatlon have been associated with reduction in poverty since 1999. Table 6.2a compares poverty rates in 1999 with poverty rates in 2005 in Khatlon oblast. Of all the moderately poor in 1999 who were receiving remittances in 2005, 89% were still in the moderately poor category. But, *fifty percent of the extremely poor households in 1999 who were receiving remittances in 2005 were found to have risen above poverty*. See Figure 6.1a. Panel data also shows that a small percentage (7%) of the non-poor households in 1999 receded to poverty status in 2005 despite receiving remittances (this requires further investigation).

[118] Interested readers can consult Saodat and Bosc, 2003 and Juliette Sargnon, 2005.

[119] These figures are based on *registered* unemployment and are posted on www.ssc.tj.

[120] SSCT, Analytical Table "Aggregate Income of Population, 1998-2004" available online at www.stat.Tajikistan. As a share of the total government budget, there is a clear declining pattern of government support of the poor.

Fig. 6.1a

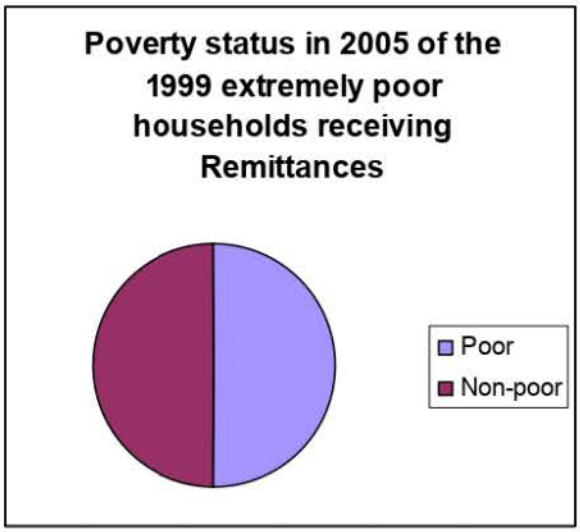


Table 6.2a.

Table : A Comparison of Households from TLSS 1999 and KLSS 2005

	1999	2005
Extreme Poverty Rate (based on 1.08 PPP $)	66%	41%
Moderate Poverty Rate (based on 2.15 PPP $)	92%	78%
Percentage of Remittance Receiving Households	NA	25

Source: Authors' calculations

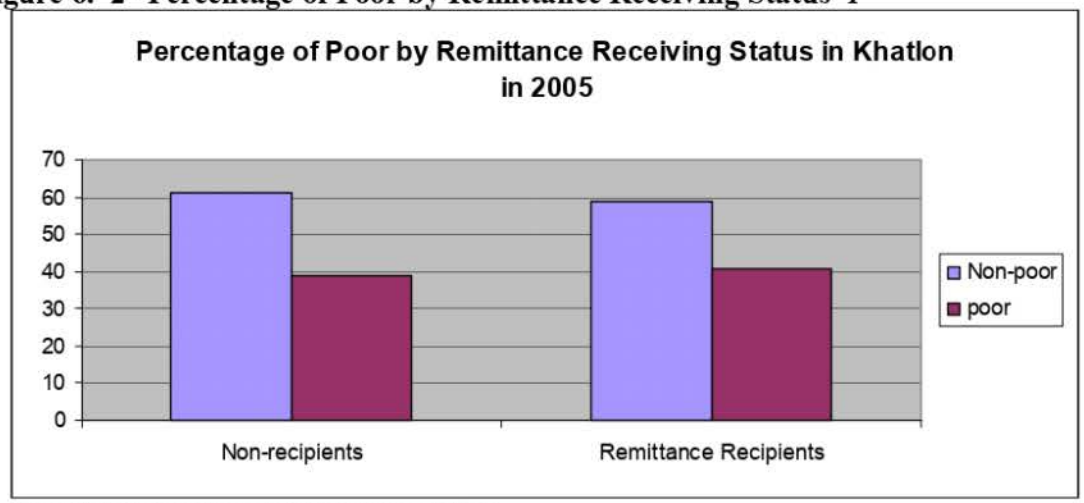
Figure 6.2 presents the classification of the poor in Khatlon by remittance-recipient status. The picture may be puzzling – there appears to be no visible difference in poverty status between remittances receiving and non-receiving households. In fact, the percentage of poor among recipients was slightly higher (41%) as opposed to non-receivers (39%). How can one reconcile the finding from the cross section data with the finding from the panel data?

First, this result is consistent with the finding by Adams in his work on Guatemala in which he shows that the headcount index of poverty ignores the "depth of poverty," that is, the amount by which the average expenditure of the poor fall short of the poverty line. Thus, while remittances helped these households overcome their severe poverty status, it was not enough for them to rise above the poverty line. In other words, without remittances, the recipient households would have faced severe poverty. When the household is poor to begin with, or the migrant is unable to save enough to remit on time,

even big contributions to family income may not suffice to meet basic needs, with the household income still below the poverty line.[121]

Even without appeal to the severity of poverty argument, the cross section finding would be consistent with the panel finding if migrants were disproportionately represented among extremely poor households to begin with. All we can say is that about 24% of the people who were below the extreme poverty line in 1999 were receiving remittances in 2005. Since we have no data on migration behavior of the households from the 1999 TLSS, we cannot rigorously test this hypothesis.

Figure 6. 2 –Percentage of Poor by Remittance Receiving Status 1



This figure needs careful interpretation.

Second, Adams (2004) makes the insightful observation that with respect to household incomes (excluding remittances), the reported lack of statistical difference in poverty status between the migrant and non-migrant households in earlier studies may have been misleading because *these incomes do not include the income contribution of the migrant had that person chosen to stay and work at home.*

Third, as predicted by the theory of relative deprivation[122], the increasing rate of emigration over the last few years provides additional indirect evidence of visible improvement in the standard of living of neighbors and relatives to motivate the marginal migrant in the neighborhood to make the move.

Fourth, Finally, there is indirect evidence in terms of the subjective evaluation of one's economic situation. [123] Detailed investigation of the welfare effect of remittances is the

[121] See Todaro (2002) for an easy illustration of poverty and poverty gap.

[122] To illustrate the theory with an example, let there be two villages of households with the following incomes:

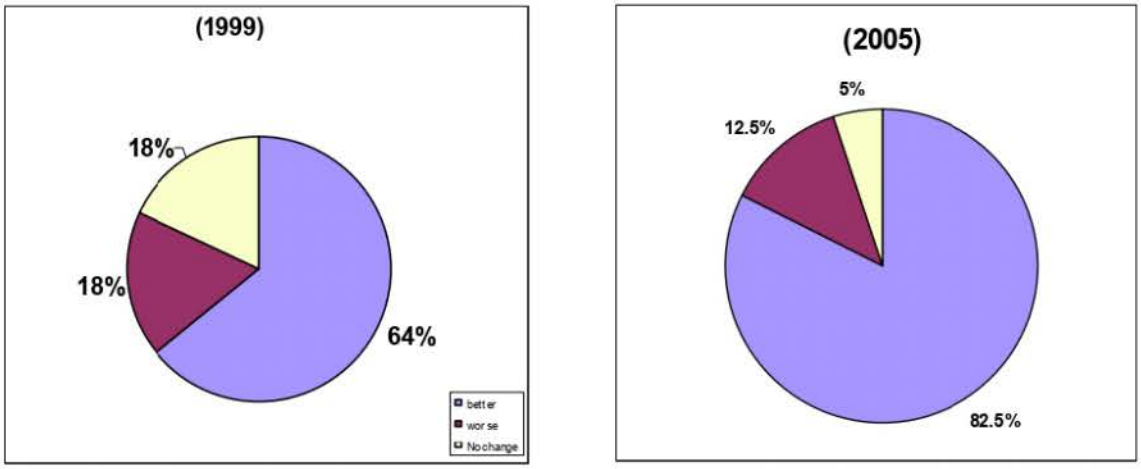
B1 = {30, 35, 40, 45, 50}
B2 = {30, 32, 34, 47, 62}

Now, the household with an income of 35 can improve its status by moving to B2 without any absolute income gain!

[123] Typically economists are skeptical about the reliability of subjective statements as, it is argued, respondents have little incentive to provide honest responses. However, such skepticism within the economics

subject for a sequel to this report.[124] Here we will touch briefly on the relationship between remittances and various subjective measures of poverty. Figure 6.3 shows that in 2005 a vast majority of community leaders (83%) believed that life was much better than before. A similar question in 1999 polled only 64% favorable response. Figure 6.4 shows that 'perceived' future prospects do vary by remittance recipient status. Beneficiaries of remittances are much more likely to expect an improvement in their economic prospects relative to those who do not receive remittances. The favorable perceptions of remittance receiving households are replicated in questions about health status. See Table 6.2b.

Figure 6. 3 - Is the life of the people in this community better or worse than it was? (2005 vs. 1999))



discipline is softening somewhat with an expanding literature that uses subjective measures to inform on household poverty (see Revallion and Lokshin, 2000; Pradham and Revallion 2000, Castaldo et al, 2005).

[124] A rigorous study of the impact of remittances on poverty is the subject of a follow-up paper by the author (Mughal, 2007, forthcoming).

Figure 6. 4 –Perception of Economic Pro Prospect in terms of food over the Next 6 Months 1

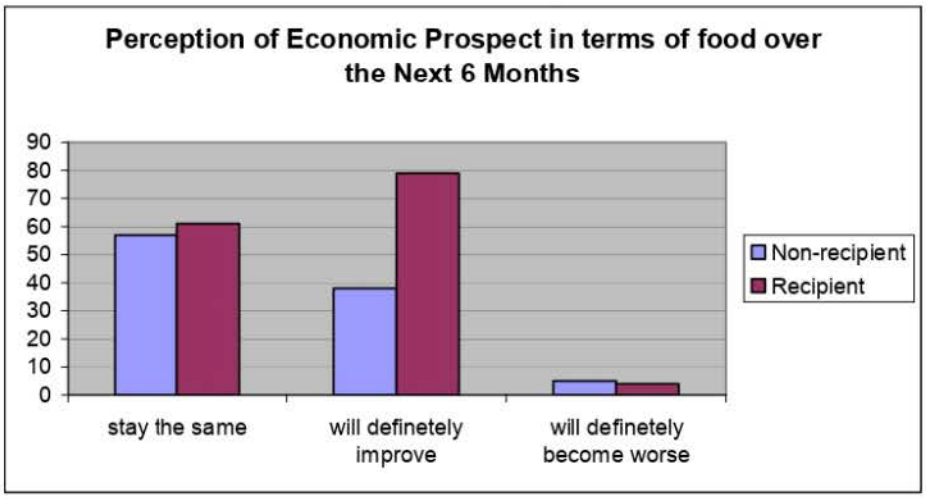


Table 6.2b - A Comparison of Health Outcome Perceptions by Remittance Status

	Non_receivers	Remittance Receivers
Much better health compared with last year	16.4	27.3
Suffering from chronic disability/illness	6.09	4.57
Suffering from sudden illness	5.34	4.13

I.A. Changing Composition of Demand in Tajikistan

Money is fungible. The fact that the bulk of remittances are spent on basic necessities does not necessarily mean that the family would have starved without remittances. Resources that were earmarked for food and other necessities could be diverted to comforts or other non-essential uses.

With increased per capita income in Tajikistan, we have been witnessing what economic theory predicts: people have been expending a greater percentage of their income on nonfood items and services, as shown in the table 6.3 below.

Two items deserve special attention. In 1998, consumers spent only 0.3% of their total disposal income on construction material. This increased to 2% by 2004, almost 7 times the proportion spent in 1998. We see a similar pattern in the expenditure on household goods and furniture which increased from 0.5% in 1998 to 2% in 2004. We see a similar increase in the use of public facilities and purchase of 'fancy and other goods'.

A decreasing proportion of expenditure on nutrition is the other side of the coin: from 87.4% in 1999 to 73.3% in 2004 – a 6 percentage point decrease as shown in Figure 6.5. Figure 6.6 shows how the share of private expenditure on primary and preventive health has almost doubled. This is consistent with the Engel's law which predicts that with increased income the proportion of budget spent on food tends to decrease and on non-foot items tends to increase..

This changing composition of demand is clearly reflected in the average wage in each sector (Table 6.4). Construction, communication, transport, and credit, insurance and pension have experienced relatively higher growth rate than sectors like health care and education. The slow growth of the last two sectors may reflect low wages due to overinvestment in these sectors during the Soviet period.

Table 6. 1 - Tajikistan: Structure of consumption of households, 1998-2004

Tajikistan: Structure of consumer disbursements of households, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
	in % of total	in % of total	in % of total	in % of total	in % of total	in % of total	in % of total
Consumer disbursements - total	100	100	100	100	100	100	100
On nutrition	79.3	87.4	86.5	84.1	80.7	75.2	73.3
Disbursements on nonfoods purchase	15.7	9.1	10.3	10.6	13.2	16.3	17.9
o/w:							
construction materials	0.3	0.2	0.3	0.2	0.5	0.8	2.1
goods housekeeping goods, furniture	0.5	0.9	0.9	1	1.6	1.8	2
fancy & other goods	1.6	2.3	2.1	2.4	2.8	3.6	3.9
Disbursements on payment for services	4.4	3.3	3	5.1	5.9	8.2	8.5
o/w:							
personal services	0.4	0.3	0.3	0.5	0.5	0.6	0.6
public facilities	1.1	1	0.9	1.4	1.6	2.4	2.6
services of institution of culture	0.2	0	0.1	0.1	0	0	0.2
communication services	0.1	0.1	0.1	0.1	0.1	0.1	0.1
services of passenger traffic	2	1.5	1.3	2.4	2.8	4.1	4.1
education service	0.4	0.2	0.2	0.3	0.5	0.5	0.5
other services	0.2	0.2	0.1	0.3	0.4	0.5	0.4

Source: State Statistical Committee of Tajikistan

Figure 6. 5 – Falling Proportion of Exp Expenditure on Food 1999 – 2004 1

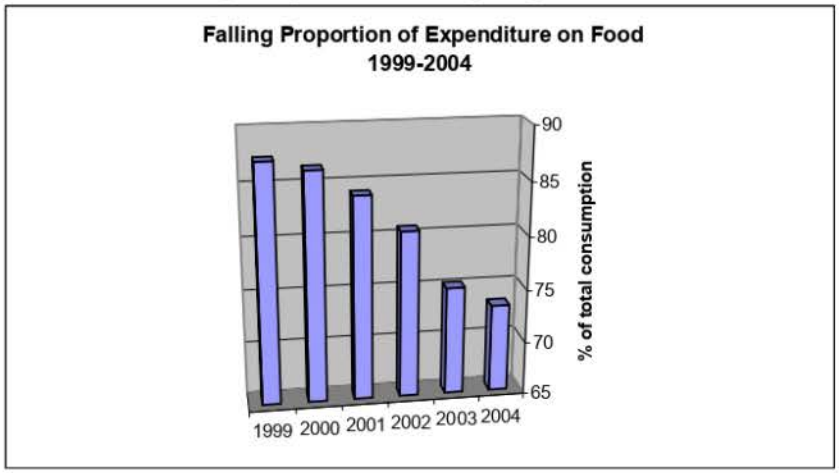
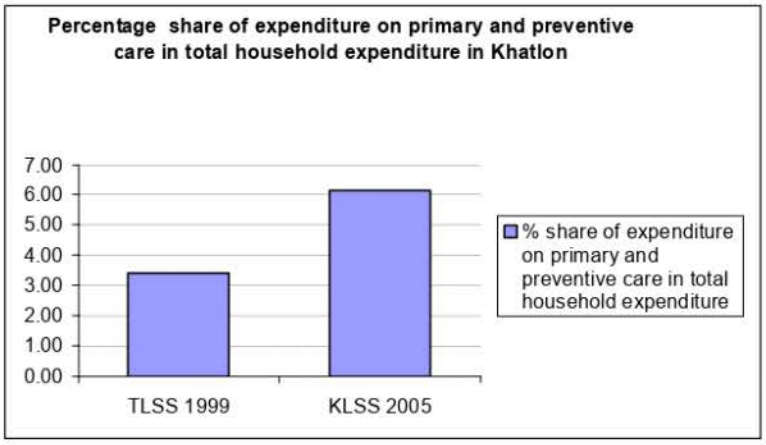


Figure 6. 6 – Increasing Proportion of Private Expenditure on Health in Khatlon (1999 vs 2005) 1



I.B. Prospect of Return Migration of Permanent Migrants

Given the massive permanent and semi-permanent brain drain of highly educated people of Tajik and non-Tajik ethnic origins from Tajikistan during the 90s, it would be of great policy significance to speculate on the prospects of return migrants by them. The outmigration of a substantial number of highly educated and skilled people is expected to result in an increase in the market wage rate for this group in the sending countries, ceteris paribus. This should result in a decrease in the rate of skill migration and may even lead to return migration of highly skilled workers, ceteris paribus. The ceteris paribus conditions are very important in the context of Tajikistan as non-economic factors

Table 6. 2 – Wages in Tajikistan, 2000 – 2005

	2000	2001	2002	2003	2004	2005(jan-sep)
Forestry	**6**	**7**	**12**	**14**	**21**	**31**
Health care, social security	**7**	**9**	**13**	**17**	**23**	**40**
Agriculture	**7**	**13**	**18**	**27**	**36**	**41**
Culture & arts	**11**	**15**	**25**	**30**	**44**	**61**
Computer services	**16**	**22**	**26**	**31**	**44**	**63**
Trade, catering, procurement	**15**	**20**	**29**	**38**	**52**	**64**
Education	**11**	**16**	**26**	**33**	**44**	**76**
Real estate, commerce	**19**	**30**	**29**	**43**	**62**	**77**
In non-production sphere	**13**	**18**	**28**	**36**	**49**	**80**
Other sectors	**18**	**22**	**29**	**37**	**61**	**81**
In production sphere	**18**	**28**	**36**	**51**	**69**	**86**
Average for the economy	**16**	**24**	**34**	**46**	**63**	**86**
Fishery	**20**	**25**	**30**	**43**	**59**	**91**
Communal services	**20**	**26**	**35**	**46**	**68**	**97**
Science & scientific services	**17**	**23**	**33**	**46**	**65**	**100**
Geology, hydrometeorology	**23**	**39**	**51**	**56**	**76**	**100**
General government	**24**	**32**	**46**	**59**	**77**	**126**
Transport	**30**	**50**	**71**	**102**	**145**	**173**
Private sector	**25**	**36**	**66**	**93**	**147**	**176**
Industry	**47**	**71**	**91**	**115**	**150**	**193**
Construction	**40**	**60**	**77**	**109**	**162**	**204**
Communication	**39**	**59**	**93**	**145**	**214**	**238**
Credit, insurance, pensions	**72**	**90**	**118**	**187**	**243**	**316**

Source: SSC of Tajikistan;Last updated: 12 - November - 2005; in somoni

(mainly social and political status and self-actualization) tend to weigh heavily in the migration decisions of this group.[125] This question requires further investigation.

Drawing upon the theory of relative deprivation, one can predict that permanent emigrants have powerful incentives to return to the country of origin. Return migration could happen as immigrants achieve a target level of income in the host country which improves their economic status significantly in the country of origin (their initial reference group) relative to other households. In so far as the country of origin remains a reference point for immigrants and in so far as there are significant differences between the social status in the country of destination and origin, with the latter being much higher, the theory of relative deprivation suggests that immigrants may return home. Return migration could also take place at retirement or at the end of the productive life of immigrants. With their accumulated wealth, they could enjoy a much higher living standard and social status in the country of origin (provided the income gap still exists). It

[125] This hypothesis is rooted in Maslow's hierarchy of needs whereby physical and physiological survival needs are prior to social and self-actualization needs.

is this theory that goes far to explain the phenomenon of return migration of members of Indian Diaspora to India and that of Taiwanese to mainland China.[126]

[126] This subject needs further investigation.

Chapter VII - Conclusions, Discussion, and policy implications

I. *Main findings of the Report*

- Both geography and history seem to have conspired to turn Tajikistan into a major labor exporting economy; migration should be appropriately viewed as *trade through different means*.

- Tajikistan and Russia continue their symbiotic relationship today as they did during the Soviet era - albeit the form of mutual dependence has transformed from raw material for subsidies to migrant labor for remittances. Tajikistan was the second largest recipient of formal remittances from Russia through the banking system in 2006. Almost 99% of all migrants from Khatlon in 2004-2005 reported Russia to be the country of destination.

- The 2005 migrant cohort from Khatlon is estimated at 132,000, while for the country as a whole it is estimated at approximately 371000 people (17 percent of the economically active population, and 31% of the economically active male population, given the preponderance of males among Tajik migrants).

- Most migrants move abroad temporarily and repeatedly, so both the number of people working abroad as well as remittance flows is highly seasonal.

- Temporary seasonal migration has risen considerably since 1999, mainly due to shift in structural demand for labor in Russia in favor of sectors such as construction where work nearly stops in winter.

- Tajik migrants from Khatlon are predominantly male (92% in our sample) and young (with two thirds of the migrants being 20 to 39 years old).

- While significant irreversible brain drain took place in the early 90s in the immediate aftermath of the demise of the FSU, the defining characteristic of contemporary migration from Khatlon is brawn, rather than brain with only 7% of the migrants from Khatlon having tertiary education.

- Tajiks receive the lowest per capita income from remittances in the entire Former Soviet Union subsystem (with the possible exception of Uzbeks), they also pay the highest amount of 'unofficial tax' of any immigrant group.

- Rise in demand in Tajikistan for highly educated labor possessing market oriented skills may have curbed brain drain in recent years. However, this area requires further research.

- Tajik migrants appear to have a strong attachment to their home country, and remit large portions of their earnings to their families.

- Remittances *per migrant* in Khatlon in 2005 are estimated at $1296.

- We estimate the annual remittances in 2004 and 2005 to be $550 and $735 million respectively, equivalent to 26% and 31% of the GDP in those years. The estimates hinge upon downward adjustment of formal remittances for by 10% to account for export receipts.[127]

- Remittances in Tajikistan have been positively associated with high GDP growth and increasing employment since 2002.

- By providing an important source of regular (albeit seasonal) liquidity, remittances appear to have underpinned the growing strength of the financial sector in Tajikistan.

- Remittances to Khatlon have helped 35 out of every 100 people.

- Remittances in Khatlon have been associated with reduction in poverty since 1999. Fifty percent of the extremely poor households in 1999 and who were receiving remittances in 2005 were found to have risen above poverty.

- Remittances have helped a significant number of households in Tajikistan overcome severe deprivation. Most remittances (86%) are used to meet basic current consumption needs, with debt repayment being the second and third most important uses (18% and 24% respectively). This is consistent with the stylized facts from the literature on the use of remittances in poor sending countries and is implied by the structural approach to migration.

- Although calculated Gini coefficient of inequality of 38.5 shows a worsening of income distribution, relative to 1999 when it was 35, the effect of remittances on income distribution remains ambiguous at best.

- An insignificant amount of remittances is 'reported' to be saved because they are needed to sustain families. Savings are largely spent on real estate purchase of improvement, with only marginal amounts invested in business activities.

- However, the ratio of total monthly remittances to total monthly expenditure of for the remittance receiving households is 1.36 which signifies presence of latent savings that could be potentially tapped into.

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[127] *It must be emphasized that the accuracy and reliability of our estimates depends crucially upon the accuracy and precision of the downward adjustments made by NBT on account of exportables.*

- Some of the pull factors have become stronger in recent years, mainly

- Increased migration trend over the last several years is explained by lower transaction costs of migration in terms of informational, financial, and logistical support provided by Tajiks already residing abroad, the oil boom in Russia and the associated boom in construction and services sectors attending upon rising per capita income in Russia (the same may apply to Kazakhstan to some extent).

- In the short to medium term, remittances are likely to remain a stable and countercyclical source of income and foreign exchange. In the long term, as more migrants settle abroad, portfolio choice considerations may become more important. However, we do not expect transition from temporary to permanent migration to result in significant drop in remittances in the short run as adjustment to status in countries of destination is also expected to result in increased income which tends to offset the negative effect on remittances from long durations of stay and permanent settlement in destination countries.

II. Discussion

II.A. Migration Is Trade through Different Means

The Heckshcer Olin theorem suggests that in a world of free trade, Tajikistan would specialize in goods that use its more abundant factors more intensively, *ceteris paribus*. Tajikistan may be considered to be a labor abundant economy.[128] An important ceteris paribus condition underlying the Heckshcer Ohlin theorem is that of the absence of transportation costs. This is a critical factor that prevents Tajikistan from materializing its comparative advantage in labor-intensive goods. Being a small landlocked economy facing unfriendly transit countries, there are not many alternatives for the abundant factors to be utilized in exportable commodities. Thus, the abundant factors must find another outlet instead of being exported in the form of 'tradable commodities', i.e., they must move themselves to work abroad. Mainly due to small size of the market, development prospects through *exports of goods* are few and far in between in the short to medium term.

As a relatively abundant factor, labor can be considered to be a commodity in which Tajikistan has a comparative advantage. Thus, workers' remittances should be understood as export proceeds.[129] In the short to medium term, migration is the route for Tajikistan to

[128] The Nobel prize winning economist, Authur Lewis presents a model of migration that draws upon the Hecksher Ohlin theory. In the Lewis model, labor moves f c`rom the agricultural sector, where its marginal productivity is near zero, to the manufacturing sector where the marginal productivity, and, hence, the wage rate is higher than the rural/agrarian sector. See Lewis, A. *Theory of Economic Growth.* The model has been refined subsequently by Ranis and Fei (1964). See also Harry T. Oshima. 1963. "The Ranis-Fei Model of Economic Development: Comment." *The American Economic Review*, Vol. 53, No. 3. (Jun., 1963), pp. 448-452.

[129] As discussed above, from a macroeconomic perspective, export of labor and workers' remittances that attend upon the export of this commodity have broadly similar implications: the inflow of foreign exchange and the potential for appreciation of domestic currency, increase in domestic consumption and the inflationary pressures through wages and retail prices that attends upon it.

integrate into the global economy. Unless better economic opportunities exist at home, emigration is likely to remain the main source of income. As discussed elsewhere, both natural and historical conditions tend to favor migration to Russia as a rational response to an insecure economic environment.

Hence, to begin with, Tajik government and international donors ought to acknowledge this fundamental reality, i.e., migration is a substitute for trade rather than a 'problem' to attack; it is a phenomenon that is not likely to go away in the short to medium term unless the structural factors that underpin it change. As long as the size of the market for Tajik goods remain limited, as long as economic structure remains non-diversified, as long as job opportunities remain limited, as long as population growth rates remain above world averages, as long as the Russian demand for foreign labor remains high in the construction and other immigrant absorbing sectors, and as the aspirations horizon expands in the wake of the Internet revolution, people are likely to continue to vote by feet and migration is likely to remain a structural feature of the economy.

II.B. Will the Remittance Stream Ever Dry Up?

One of the common finding in the literature is that migrant *earning* levels increase with the duration of stay and with the increased country specific human capital, level of education of the migrant and the nature of the job (legal or not). The noted immigration scholar, Barry Chiswick (2005, p. 26), among others, finds that that immigrants start very low earnings but overtake the natives within a short period. Thus, a group of Australian immigrants who were surveyed 3 years apart, showed real weekly earnings growth of more than 25 percent. A recent study on Portugal shows that returns to tenure for immigrants are almost twice as great as for natives - for the first year they spend with one employer, immigrants wages rise by 2.65 percent -1.48 percent for natives.[130]

Higher migrant earnings with duration of stay do not necessarily translate into higher remittances to the country of origin. Some counteracting tendencies have also been noted in the literature. A common finding in the literature is that the longer the migrant stays in his host country, the weaker his ties with his home country, and the lower is the level of remittances. This is the *remittance decay hypothesis*. While earnings tend to increase with duration of stay, remittances tend to fall. There are several explanations for this tendency for remittances to decay with duration of stay. In part, it is attributed to reduced need as immediate family members may join the migrant in the host country. Filipino migrants to the United States have been shown to demonstrate this pattern, for example, with a majority of them investing in property, pursuing citizenship, and sending remittances to family members over a transitional period. (Menjivar et al. 1998) found that 70% of interviewees owned their own homes in the Z. In part, the decay in remittances with duration may reflect intergenerational loss of identification or ties with the source country (Grandoit-Sarr 2004).[131]

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[130] Indeed, a recent paper by Chiswick shows that, in the U.S. labor market, immigrants from English-speaking countries have mean hourly earnings around 12 percent higher than the native born. He further argues that beyond the 6th decile of the earnings distribution, the earnings disadvantage of even non-English speaking immigrants obtained using a quantile regression approach was only about one-half of the 12 percent estimate obtained with the conventional focus on the conditional mean (Chiswick, 2006, p.22).

[131] There are exceptions to the otherwise robust tendency for remittances to decay with duration of stay, (See the key references cited in World Bank 2006:111, and footnote 13).

Box 7. 1– Hypothetical Example: Transition from Temporary to Permanent Migration may not reduce the absolute amount of remittances

	Temporary Migration		Permanent Migration	
	%	Total	%	Total
Earnings	100	1345	100	2000
Remittances	45	600	30	600

Note: Even though the permanent migrant sends a lower percentage of income (assumed to be only 30% of his earnings) the total amount remitted remains the same because 30% of 2000 represents the same absolute amount than 45% of 1345.

The recently observed increasing trend towards permanent settlement appears to have been triggered by the rational response to avoid the harassment that Tajik workers are frequently reported to have been subjected to. It is too early to say if there has been a structural shift from temporary to permanent migration. As the legal and social climate for migrants improves, we may witness a dual effect – the marginal migrant will be tempted to work abroad and, ceteris paribus, this could increase the number of migrants. This should also reduce the incentive for permanent settlement. In any case, this trend among Tajik migrants is likely to generate two contradictory effects. On the one hand, improved legal status would result in enhanced earning capacity of Tajik workers, and, that by itself is likely to have positive effect on remittances, ceteris paribus. On the other hand, in so far as permanent settlers are joined by other family members, there will be a negative effect on remittances. Another factor that is likely to militate against the decay of remittances is the low assimilability of Tajik workers in the 'new' Russia. There is some evidence in the literature to show that longer duration of stay is generally associated with more highly skilled workers (Desai, Kapur, and McHale 2002). This is presumably because of the higher degree of assimilability of educated migrants. Thus, given the generally low level of educational attainment of Tajik workers, one would expect there to be a lower trend among Tajik workers to permanently settle in Russia, ceteris paribus, and, therefore, the theoretically anticipated decay in remittance flows is likely to be mitigated.[132]

The net effect remains unpredictable at this time. This issue requires further investigation. In the short run, the positive effect might offset the negative one. See the Box: Hypothetical Example - Transition from Temporary to Permanent Migration.

II.B.1. The Law of Unintended Consequences Implies that A Hostile Reception Environment in the Country of Destination May Help Boost Remittances

A hostile reception of immigrants in the host countries is not designed to help the migrant sending countries but, paradoxically, it may indirectly help the labor exporting countries, ceteris paribus.

Xenophic reaction in Russia against Tajik and non-Slavic migrants is well documented in the media and the literature. [133] Xenophobia is not designed to induce patriotism among the Tajiks. However, that may have been the unintended consequence, inducing migrants who may be thinking of settling in Russia permanently to change their mind, the surge in citizenship applications notwithstanding. People define themselves in relation to others. A xenophobia-induced sense of identity is likely to strengthen attachment to the home country

[132] This does not mean that other factors, such as ease of acquiring citizenship may not dominate this tendency.

[133] Key references here are: IOM, 2005; IOM 2003: Turukanova, 2005.

and may lead to increased remittances for the purpose of creating an egg nest for life after return even when migrants apparently seek naturalization in greater numbers.[134]

This is consistent with evidence from other countries. When anti-immigration sentiments are high in the U.S., citizenship applications tend to increase significantly.[135] Acquiring citizenship is the ultimate form of protection. Moreover, since Tajiks do not have to give up their Tajik citizenship, we believe the increased tendency towards naturalization should not be interpreted as a desire to abandon the country of origin. *There is* immense premium associated with being a citizen. This seems to be borne out by cross-sectional data from recent studies that show few signs of decay in the flow of remittances with length of absence from the home country.

One would expect that as the reception environment in Russia improves and more Tajik migrants decide to settle in Russia, portfolio choice considerations might become more important in determining the amount of funds remitted, as immigrants accumulate increased stake in the host country. However, other countervailing forces (such as higher earning capacity, lower bribes) are likely to offset the reduction in remittances that might attend upon permanent settlement.

II.B.2. Naturalization and the Remittances Decay Hypothesis

Tajik attachment to the homeland appears to be robust to naturalization in Russia. The most recently observed increasing trend towards permanent settlement and acquisition of Russian citizenship (as reflected in increasing number of stayovers) appears to have been triggered by the rational response to avoid the harassment that Tajik workers are frequently reported to have been subjected to. As noted above, this trend among Tajik migrants is likely to generate two contradictory effects. On the one hand, improved legal status would result in enhanced earning capacity of Tajik workers, and, that by itself is likely to have a positive effect on remittances, ceteris paribus. At the same time, in so far as permanent settlers are joined by other family members, there will be a negative effect on remittances. The net effect remains unpredictable at this time. In the short run, the positive effect is likely to offset the negative one particularly if continued migration remains a structural feature of the Tajik economy.

II.C. The Moral Hazard of Insurance

As described in chapter II, it has been argued by some ((Chami, Fullenkamp, and Jajah 2004, 2005, for instance) that remittances may have a dampening effect on the supply of labor on the part of remittances receiving household members. Remittances act as insurance against starvation if household members cease to work. This dampens willingness to work. Low-skilled migration can improve labor market conditions for other poor workers and they may increase their reservation wages. It is difficult to draw any firm conclusion on this issue

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[134] One wonders why Pakistanis in Great Britain. The latter have been involved in suicide attacks on co-citizens. The case of Turks in Germany is another suggestive case. This is beyond the scope of this report.

[135] According to Marie Sebrechts, spokeswoman for the U.S. Citizenship and Immigration Services, "Throughout immigration history, whenever there's been talk about immigration change or reform, we've seen increases." The number of citizenship applications from October through May was up 15% compared to the same period the year before in the US (Legal Immigrants Rush for Citizenship By Rene Gutel Phoenix, Arizona, 14 July 2006; accessed online on August 2, 2006 at http://www.voanews.com/english/AmericanLife/2006-07-14-voa20.cfm)

without a rigorous controlled analysis. However, there is little *prima facie* evidence in the case of Tajikistan of increased dependency.

II.D. Have Remittances Worsened Income Distribution in Tajikistan?

Tajik migrants come from all walks of society and from all oblasts/regions of the country. Even within oblasts, they appear to be more evenly spread. Our sample shows no significant inter-rayon differences in migration and per capita remittance flows.[136]

Have the rich become richer and the poor become poorer? Although recent work by Falkingham (2006) shows some signs of improvement in income distribution in Tajikistan based on TLSS 2003, we cannot place a great deal of faith in these numbers in the light of findings from KLSS 2005. Our sample shows that the Gini coefficient of inequality based on average monthly expenditure in Khatlon was 0.5. This is much higher than 0.380.314 that one finds from TLSS 1999 (restricting the 1999 estimates to the households in the panel).[137] Gini coefficient of income from KLSS was found to be 0.687 while in 1999, it was 0.49.

How can one interpret these numbers? On surface, these findings are highly disturbing. However, we have to take this result with a grain of salt for a variety of reasons. First, the result appears to be partly driven by attrition from the sample as restricting the 1999 Khatlon sample to the households *in* the panel increases measured inequality. This might reflect a pattern of outmigration from Khatlon by households in the middle range of income distribution skewing the distribution to the right. Since we have no information on the households that are not found in the 2005 sample, we cannot confirm this conjecture. Second, the results seem to confirm the trend observed from other surveys conducted between 1999 and 2005. The Gini coefficient of expenditure from TLSS 2003 for Khatlon was 0.355 (about 4 percentage points higher than the one in 1999) and the income based Gini was 0.55 (11 percentage points higher than the one in 1999). Third, differences in Gini coefficients of income versus expenditure is considered to be an indirect evidence of the magnitude of the possible impact of remittances on welfare measured in terms of consumption. Since the Gini coefficient based on income distribution is much higher than coefficient based on consumption, we can infer that lower income deciles have a proportionately higher ratio of expenditure to income. In other words, low income does not accurately reflect their access to consumption goods. Finally, there is evidence that in recent years the share of the narco trade in the economy has been growing with the growth of narco trade in Afghanistan.[138] If this is the case, then one would expect the equalizing effect of remittances to be neutralized as the narco economy is highly associated with a powerful cartels.

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[136] This requires careful analysis and is the subject of forthcoming research (Mughal, 2007b; forthcoming).

[137] Estimates of expenditure Gini on the entire Khatlon sample is 0.31; income Gini from the entire Khatlon sample was 0.44.

[138] See section IV.E in chapter I. On the unequalizaing effect of narco trade, see the press release by UNODC available online at http://www.unodc.org/unodc/press_release_2003-10-29_1.html

Box 7. 2 - The Tunnel Effect a la Hirschman

Hirschman's concept of the tunnel effect refers to the capacity of the poor to tolerate inequality. The traditional view on mobility assumes that people are primarily self-interested and that utility depends on current and expected future consumption or income. Thus, people who expect upward mobility may be more opposed to redistribution because they may expect to become net payers for redistribution in the future even if they are net receivers today. Some have also argued to the effect that beliefs about the opportunity to get ahead is prevalent may matter if they are associated with expectations of personal mobility. There are many plausible causal relationships for this association. For example, Hirschman (1973) conjectured that when people observe other people getting richer they infer that they too will soon become richer. The literature refers to this as the tunnel effect after Hirschman's analogy of drivers who are stuck in a tunnel and begin to hope that their lane will start to move as soon as they see another lane starting to move, even if their own lane has not yet started to move.

The tunnel effect implies that people in countries undergoing economic restructuring will endure hardship with the promise of a better life to come. As the tunnel effect fades, people will come to feel that their suffering and deprivation was for nothing, and may search for radical alternatives to the current social and political system. As long as people are in the tunnel of misery but have some reason to hope that they may eventually emerge from out of the tunnel into prosperity, because they know that some who were stuck in the tunnel have done so, moving up from extreme poverty into the upper class –in other words, as long as there are mechanisms for social mobility– the tunnel effect works and the capacity for tolerating inequality may be very great. That capacity for toleration may be eroded however, if the end of the tunnel is never reached and there are no more cases of moving up from economy to business class. "As long as the tunnel effect lasts" writes Hirschman, "everybody thinks they are doing better, both those who have got rich and those who have not….But this tolerance is a loan which eventually expires. It is granted in the expectation that, with time, the disparities will grow smaller. But if this does not happen there will undoubtedly be problems and maybe even disaster" (Hirschman and Rothschild, 1973).

References

Javier Santiso. 2000. "Hirschman's view of development, or the art of trespassing and self-subversion" in CEPAL Review N° 70, pp 93-109.

A. O. Hirschman, "The Changing Tolerance for Income Inequality in the Course of Economic Development" from *Essays in Trespassing*. Cambridge University Press. 1981.

In the light of all the above reasons, and, in the absence of additional information, we cannot infer that remittances have worsened the income distribution. At best, we can say that *the distributional impact of remittances is ambiguous*[139].

II.E. Brain Drain

The subject of brain drain from Tajikistan is largely an uncharted territory. The discussion in this section is mostly conjectural and should not be taken as definitive

II.E.1. Social Cost of Skill Migration

High-skilled emigration, including highly skilled scientific migration (HSM), commonly referred to as 'brain drain', has more complex implications for the economy. The undesirable economic consequences of brain drain for growth in the labor exporting countries have long been recognized in the literature. These include, among others, the following:

(a) negative impact on living standards of co-workers left behind as they have reduced opportunity for mutually beneficial exchanges of ideas with and training by highly-skilled professionals;

(b) reduced provision of key public services with positive spillover social benefits, such as education and health (particularly for the control of contagious diseases);

(c) reduced opportunities to achieve economies of scale in skill-intensive activities ;

[139] This subject cannot be resolved in a cavalier fashion Additional research is necessary.

(d) reduced return from public investment in training high-skilled workers (in so far as these type of migrants have a lower probability of return from the host countries);
(e) increased prices of technical services because of shortage of trained personnel; and
(f) adverse effect on the use of technology in sending areas due to lack of complementary skills.

The last point about technological retrogression is an important consideration. Technology and skilled workers tend to be complementary. In the absence of complementary factors, technology may adjust down to available skills. Recent models of innovation (Acemoglu (1998)) and technology choice (Beaudry and Green (2000, 2003)) demonstrate that technology may adjust to skill mix, and that the adjustment of technology mitigates the usual effect of labor supply on wages.

The non-economic costs are no less significant. Absence of highly educated citizens adversely affects governance, political democracy, the quality of debate on public issues, education of children, and strains the administrative capacity of the state.[140]

To assess whether there is brain drain from Tajikistan we have to compare the level of educational attainment in the total population with the level of educational attainment of the emigrant population. Table 7.1 gives a comparative view of the educational profile of migrants for several countries relative to the domestic population. Khatlon appears to have the lowest proportion of migrants with tertiary education while the highest proportion of male workers with tertiary education in the population.

A brief historical review of the educational system in Tajikistan should help put the contemporary situation in perspective.

II.E.2. Overview of the Educational System under Socialism

Under the Soviet system, education was free but higher education was artificially constrained. Vocational training was widespread and was largely provided through state

Table 7.1 - Propensity of the highly--educated to migrate 1

	(1) Workers with tertiary education as a percentage of migrant population	(2) Workers with tertiary education as a percentage of total Working population	Ratio (2)/(1)
Bangladesh	62.3	1	0.02
Brazil	54.6	10.4	0.19
China	53.9	2	0.04
India	79.8	2.5	0.03
Indonesia	74.6	2.3	0.03
Mexico	14	9.2	0.66
Sri Lanka	71.6	1.1	0.02
Tunisia	63.7	2.8	0.04
Tajikistan *(Khatlon)	7	19.6	2.80

Source: Data from CPS, OECD, UNESCO cited in Kapur (2004); *author's calculation from KLSS 2005 for Khatlon; percentage for the total population is for men only based on TLSS 1999; because of regional differences, the numbers need to be interpreted with a great deal of caution.

[140] During a visit to the Jamoat of Kamsanghir in Khatlon oblast, the author was told that the school was short by 40 teachers.

enterprises / ministries. In the 1980s, higher education enrolment was half the level of Western Europe and one third the level of North America (Heyneman, 1995). At the onset of transition to the market system in 1991, Tajikistan had a significant proportion of vocationally trained skilled and many professionally educated population.[141]

II.E.3. Post Transition Experience

With the transition to the market system, demand for vocational training fell and demand for higher education increased. This simply reflected the reallocation of resources consistent with market demand. As noted above, most of the highly educated labor force which was predominantly non-Tajik already left the country en masse in the immediate aftermath of the breakup of the FORMER SOVIET UNION and the ensuing Civil war. The exodus of the highly educated population did not stop even after the end of the civil war for a number of reasons (Anderson, pp. 362-263), but mainly because of lack of opportunities exacerbated by the disruption of the educational infrastructure and the declining government support of tertiary education in Tajikistan as shown above (See Figure 1.7 and Table 1.8).[142] Recent work on education has shown that return to tertiary level of education in Tajikistan is much higher than return to other levels (ibid., p. 34; Johnnes, 2003).

However, the sorry state of infrastructure and inadequacy of complementary factors (such as IT) may be hampering the generation of productive graduates. Government expenditure on education as a share of GDP has been declining since the onset of transition to a market economy. The poor quality and lack of competitiveness of the labour potential of the country cannot be dissociated from low public expenditure on education. In a market economy, in the absence of public sector investment in education, private agents must have appropriate incentives and opportunities to acquire higher education. Privatization of higher education has made quality education less affordable at the same time that demand for college graduates in the field of accounting, business administration, economics, appears to be quite high.[143]

This is reflected in the falling rate of enrolment and completion at various levels. Even when it is affordable, the quality of education is abysmally low (Pleskovic Boris, et al, 2002).[144] For the vast majority, the siren call of Russian labor market is a lot more enchanting than the long gestation period for jobs requiring higher education.

The quality of Tajik graduates leaves much to be desired.[145] Instead of being productive, tertiary education appears to be performing a purely signaling function.[146]

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[141] IOM. *Migration from CIS 1999*; Anderson et al, 2005.

[142] In 2003, the author had the opportunity to train economics and business faculty in all the republics of Central Asia under a USAID sponsored program, called 'EdNet'. Although there were some diamonds in the rough, the average quality of students in Tajikistan was much lower compared to their counterparts in other republics, including Kyrgyzstan. Students in Tajikistan were, on average, least prepared, older, and were mostly computer illiterate. Some of them had not worked with computers before at all. For more information on Ednet, visit www.career.kz.

[143] Author's personal experience shows that there is a wide gulf between the graduates of Russian Slovak University and the graduates from other universities.

[144] There are some good private institutions that cater to quality – such as the Slavic University (Pleskovic Boris, et al, 2002).

[145] There are many reasonable explanation of the sorry state of education in Tajikistan (Heyneyman, 1995; Anderson, 2005).

Both demand and supply conditions dictate a preponderance of brawn over brain in the migrant population from Khatlon. Low proportion of highly educated people among recent waves of migrants is partly a reflection of the pattern of demand for labor in Russia. According to the EdStats released by the World Bank, in 2003 tertiary graduates as a percentage of the population at the typical age of graduation (gross rates) was 1.3% in Russia as compared to 1.2% in the U.S. In fact, the number of Russian scientists and engineers as a proportion of the population is one of the highest in the world, the mass exodus of Russian scientists in the immediate aftermath of the breakup of the Former Soviet Union notwithstanding (NSF 2006).[147]

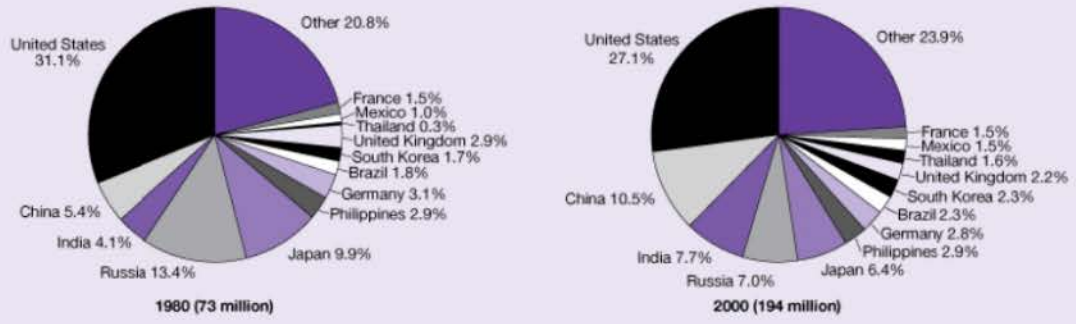
Thus, contemporary Tajik migration to Russia does not seem to be associated with a significant brain drain as Tajik professionals are not likely to stand competition from their Russian counterparts, and because the returns to higher education in Tajikistan has been increasing significantly in the wake of the mass exodus of highly educated population in the 90s.[148] Another factor that offsets brain drain is the presence of transnational communities. The ease of communication, travel, and the presence of a visa free regime

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[146] See the classic study by the Nobel prize winning economist (Michael Spence, 1973) on education as a signal. In this model, employees signal their respective skills to employers by acquiring higher education, which is costly to them. Employers will pay higher wages to more educated employees, because they know that the proportion of employees with high abilities is higher among the educated ones (as it is less costly for people with high abilities to acquire education than it is for people with low abilities. For the signaling model to work, it is not even necessary for education to have any intrinsic productive value if it can convey information about the sender (employee) to the recipient (employer) and if the signal is costly.

[147] See Table 1.17. World Education Indicators accessed on August 2, 2006 at http://devdata. World Bank.org/edstats/sqd1.asp. The following graphs are quite telling:

Figure O-21
Population 15 years old or older with tertiary education by country/region: 1980 and 2000



SOURCE: Adapted from R.J. Barro and J.W. Lee, Center for International Development, *International Data on Educational Attainment* (2000).

Science and Engineering Indicators 2006

[148] A case in point is that of US-educated immigrant engineers whose activities span national borders-talented immigrants who have studied and worked in the USA return to their home countries to take advantage of promising new economic opportunities and are building technical communities that link regions in the developing world to the leading centers of information and communications technologies in the USA. A paper by Saxenian (2002) examines the cases of Taiwan, India and China to suggest that these transnational entrepreneurs and their communities provide a significant mechanism for the international diffusion of knowledge and the creation and upgrading of local capabilities-one that is distinct from, but complementary to, global production networks. Saxenian, Annalee. 2002. Transnational Communities and the Evolution of Global Production Networks: The Cases of Taiwan, China and India. Industry & Innovation. 9(3):183-202. <http://www.informaworld.com/10.1080/1366271022000034453>. This subject requires further investigation and is beyond the scope of the present report.

makes circulation of highly skilled professionals across borders. *Russia offers inexpensive opportunities to acquire higher education for many Tajiks, including scholarships. Low and middle class Tajik households that cannot afford to send their children to the West often send them to Russia for study. Intellectual communities are more and more transnational and have a high degree of mobility.*

Notwithstanding the pattern in Khatlon, we should be very cautious in extrapolating this result to the rest of the country. As noted above, educational attainment may vary across regions. Khatlon, being a relatively poor region which is predominantly agrarian, has a lower proportion of highly educated population relative to Dushanbe and other urban areas. The proportion of highly educated migrants from other regions may be very different. This topic requires more research.[149]

It is interesting to compare Tajikistan with Moldova here: Unlike Tajikistan, Moldova has the advantage of having a diversified portfolio of destination countries and migrants appear to have responded to the demand for labor in the advanced countries of European Union. Thus, while, migrants with lower education go to CIS member countries (notably Russia and Ukraine), highly educated migrants head mainly to West European countries, where salaries are much higher. Even in Moldova, there is little evidence of a brain drain – the share of highly educated people among migrants from Moldova is only 20% while in the total population, it is 28% (Rugiero, p. 10).

II.E.4. A Borjas Hypothesis for Russia

This phenomenon seems to bear out the well-known Borjas hypothesis in the literature on international migration. Borjas (Borjas, 1987) argues that immigrants who come to the US from the poor countries are predominantly negatively selected (have lower level of skills and education) while immigrants entering the U.S. from the rich European countries and Canada are positively selected (have high level of skills and education). Thus, America has become a magnet for the exceptionally talented and the highly skilled from the developed countries and for low skilled labor from the developing countries.[150]

Russia demonstrates an interesting variation of the Borjas hypothesis. Since the number of scientists in Russian population is the highest in the world, we see Russia, a relatively rich country, supplying highly educated professional labor to the U.S., Australia, Canada, and other developed countries, and, at the same time, receiving unskilled and semi-skilled labor from other ex-Soviet republics. Thus, *emigrants from Russia appear to be positively*

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[149] An OECD study (Dumont and Georges, 2005) reports 43% of all 'expatriates' from Tajikistan to OECD have tertiary education. We believe this pattern is and is more applicable to the earlier waves of permanent outmigration to Western Europe (totaling approximately 4000, accounting for less than 1% of the total migration in 2005) and includes a high proportion of non-Tajiks and does not reflect the contemporary seasonal and temporary migration from Tajikistan. A recent WB study erroneously cites the OECD figures as if these represent the educational composition of Tajik migrants in general.

[150] America is a giant sucking machine that sucks talent from all over the world, including Canada and other developed countries of Europe. Seventy percent of all the Nobel laureates in the world are in the U.S. and 17 of the top 20 universities in the world are US universities (The Economist, 11-17th March 2006). Over 25,000 scientists left Russia to live and work abroad since the breakup of the Soviet Union. Some 30,000 more work in foreign countries on a yearly contractual basis (Quote from Dmitry Livanov, Deputy Minister for Education and Science of RF, It is also interesting to note that according to the Minister, the above statistics made up only five or six percent of Russia's entire scientific potential. "Immigration of scientists causes up to $30 billion of damage to Russia." Pravda, 07.12.2005, available online at http://english.pravda.ru/main/18/88/351/16590_scientists.html

selected whereas immigrants to Russia from poorest country, Tajikistan, are negatively selected. Whether this applies to relatively less poor CIS countries, such as Armenia, Ukraine, and Azerbaijan requires further investigation.

II.E.5. Brain Gain through Brain Drain

Brain drain need not be a zero sum game. In fact, the term 'Brain Drain' is a misnomer. A key factor in shaping the economy and society is the degree of geographical mobility of the young who are able to acquire knowledge and the experience of interaction with other economies, cultures, and political systems. This experience is frequently very complex and can have both positive and negative implications. As far as the economic impact of HSM (highly skilled migration) is concerned, it depends on the direction of flows, their frequency, duration, and permanency, as well as the propensity to return. As Ackers (2005) rightly observes, in order to assess the impact of these processes on sending and receiving countries, we need to examine the relationship between scientific mobility and the transfer of knowledge. Conventional wisdom on brain drain has been debunked by recent scholarship which shows that flows may not be unidirectional, homogenous, or permanent and are often mitigated by certain compensatory mechanisms.

Two channels through which brain drain can benefit skill exporting countries have long been identified in the literature.

First, a well-educated Diaspora in advanced countries can improve access to capital, technology, information, foreign exchange, and business contacts for firms in the countries of origin.[151]

Historically, the return of highly trained expatriates and the maintenance of close contacts with high-skilled emigrants have played an important role in the transfer of knowledge to sending countries.[152] The old South East Asian Tigers such as Taiwan and South Korea are two shining examples of such beneficial transfer of technology, as are some of the new Tigers, such as Malaysia.[153]

Recent literature on brain gain through brain drain has identified a second channel that has put conventional wisdom on its head.[154] The availability of the opportunity to migrate to high income countries by itself can stimulate accumulation of human capital in the skill exporting countries. Brain gain theorists maintain that brain drain under conditions of uncertainty may in fact result in more than enough brain gain to offset the brain that has already drained.

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[151] World Bank, 2006A, p. xiii. Whether this is happening in Tajikistan is topic that deserves serious attention of the research community.

[152] The transfer of technology may not always benefit the country or the world as a whole, as the case of Dr. Abdul Qadeer Khan (who was vending nuclear technology across the globe) demonstrates.

[153] See Lucas Robert E.B.. 2001. Diaspora and Development:Highly Skilled Migrants from East Asia. *Report prepared for the World Bank*, November 2001. Quaked, Said,"Transatlantic Roundtable on High-Skilled Migration and Sending Countries Issues," *International Migration* 40, no. 4 (2002): 153-66. For an application to the Caribbean experience, see Roger-Mark De Souza, "Trini to the Bone: Return, Reintegration and Resolution Among Trinidadian Migrants," in *Returning to the Source: The Final Stage of the Caribbean Migration Circuit,* ed. Dwaine E. Plaza and France Henry (Kingston, Jamaica: University of the West Indies Press, 2006).

[154] For a comprehensive review of the literature, see Çaglar Ozden and Maurice Schiff, Eds., *International Migration, Remittances, and the Brain Drain*. New York: Palgrave Macmillan. 2005.

The argument runs as follows. People who decide to acquire higher education are like entrepreneurs who take a big risk given the long gestation period of the investment project – it takes 6 to 10 years to complete a Ph.D. beyond the bachelor' degree.

Are conditions in Tajikistan today favorable for people to make such an investment? In a globalized labor market, people must respond to opportunities in labor importing countries. Given the low supply of highly educated people with general skills, we expect relative return to tertiary education to be quite high in Tajikistan. With the high growth rate of the economy in recent years, this in itself should discourage emigration of highly educated workers. If conditions are unfavorable, isn't it better for the brain to be supplanted and bloom in places where it can be gainfully utilized than rot in a place where there is little demand for it? The skilled workers that migrate are likely to be much less productive in the countries of origin if unemployment rates are extremely high, complementary factors are missing, and investment climate is poor.[155] For someone to undertake such investment in human capital in Tajikistan, one must have a reasonable prospect of finding a job that would compensate for several years of lost earnings while one is in school. Also, given the extremely low quality of tertiary education and the relatively low prospects of migration to a high income country after the completion of tertiary education - relative to other labor exporting countries that are favorably located, we do not expect the brain gain hypothesis to hold in the specific context of Tajikistan.

Many symptoms associated with the social cost of brain drain are clearly visible in the case of Tajikistan. But, in the absence of careful research, we cannot attribute this to brain drain.

II.F. Remittances and the Evolution of the Financial Sector in Tajikistan

II.F.1. Revival of the Tajik Banking System

Remittances have given the budding financial sector in Tajikistan a shot in the arm.

The collapse of confidence in formal financial institutions during the early phase of transition and the civil war put the evolution of the Tajik banking system on hold. Following the Peace Accord in 1997, The Tajik banking sector has shown signs of revival in recent years. World Bank, EBRD, and IMF have already funded several projects that are designed to directly strengthen the financial sector in Tajikistan, including microfinance and SME lending projects. There are fewer banks now as a result of consolidation and increase in the minimum capital from US$ 1 mln to US$ 5 mln: consolidation of banks, and support from international organizations, and injection of foreign capital have played a key role in the development of the banking sector in Tajikistan.[156] New players and additional foreign capital have also played an important role in the recent achievements. New foreign banks include: 1st Microfinance Bank (Agha khan Foundation), BTA (Kazakhstan), and Habib Bank (Pakistan). EBRD and Shore Bank have made equity investment in Eskhata bank. ADB has assisted with licensing of microfinance institutions. World Bank (2005) and

[155] Nayyar, Deepak. 1994. *Migration, Remittances, and Capital Flows: The Indian Experience*. Delhi, Oxford University Press. Cited in Ratha (2005, p. 47).

[156] Among the projects sponsored by international organizations, one can mention the following: IMF (clean-up of Agroib), EBRD (new laws on deposit insurance and anti money laundering, corporate governance), and USAID (improvement in supervision)

IMF (Feb 2006) outline a series of measures to further strengthen the Tajik banking sector. The collapse of confidence in formal financial institutions during the early phase of transition will take some time to rebuild in all transition countries. There are some positive signs. In a recent survey of SMEs conducted by IFC (2006), the number of respondents who received loans increased to 80% of those who applied. In 2002, the percentage of recipient was less than half as much – only 31%. Loans have increased by 100% between 2002 and 2005 (GOT, 2006).

All these institutions have helped the Tajikistan banking sector get off the ground.

However, since most remittance transfer operators work in partnership with banks, it is the remittances from the Tajik workers that have underpinned the dramatic increase in liquidity – formal remittance deposits in 2005 reached a record level of US$ 600 mln.

Since 89% of the remittances were reportedly used to purchase basic necessities, one cannot take quick withdrawal of deposits as a sign of lack of confidence in the banking system. Any generalization may be overreaching. While the post-peace accord revival of the banking system has been impressive, Tajikistan's banking system (measured in terms of three ratios – credit/GDP, deposits/GDP, and assets / GDP) remains the shallowest in Eastern Europe and Central Asia. See the Box on Tajik banks. Figure 7.1 below shows the shallowness[157] of banking in Tajikistan relative to other transition countries.

As for increased access to international capital market is concerned, Tajikistan has yet to explore this potential benefit of remittances.

A comparison with Moldova would be interesting. The prominence of formal channels of transmission in our survey is in sharp contrast with the situation reported in Moldova

where informal channels remain the most common method used to transfer money, used by forty-four percent of migrants.[158] Unlike Moldova, transporting one's own funds is the least frequently used method (1% as opposed to 17 percent in Moldova). Of the formal channels, 28% of the migrants reported using Western Union type services (although we had a specific question about remittances through Western Union, given the availability of cheaper substitutes such as Moneygram,[159] respondents may not have distinguished between Western Union and other private transfer services.

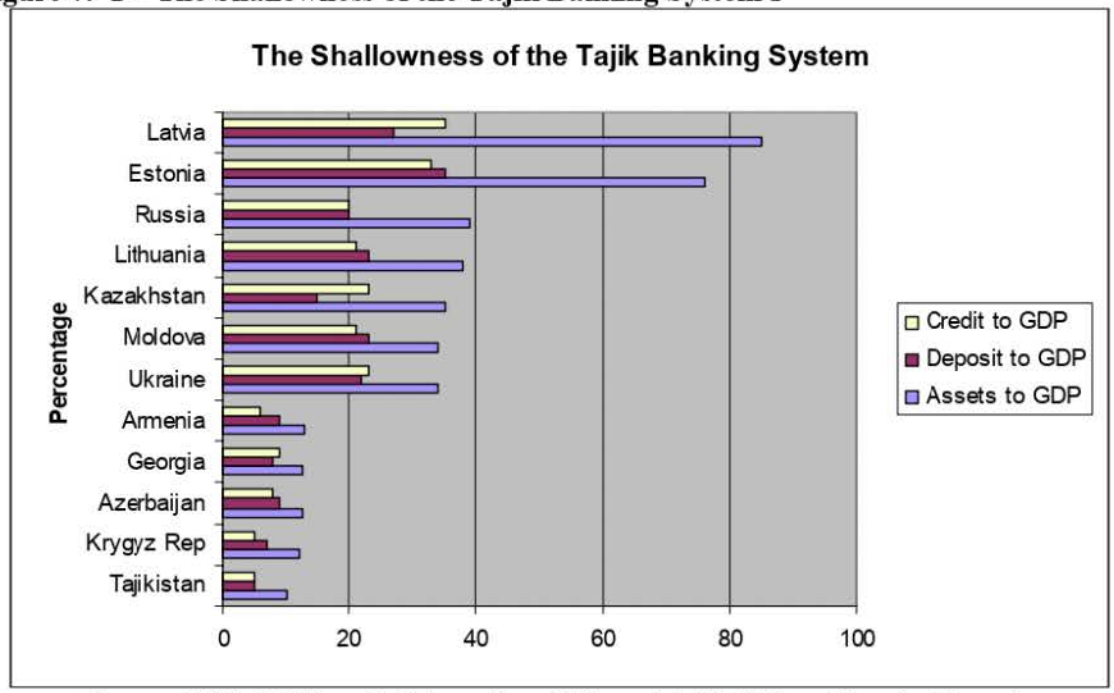
A clear distinction emerges between urban and rural migrants in terms of the preferred mode of transfer, with urban migrants showing a much stronger preference for formal banking channels. About 54% of the migrants reported low cost to be the most important factor in the choice of transfer mode; another 41% mentioned convenience.

[157] Depth of the banking system refers to penetration of the banking services in society and is usually measured in terms of 3 RATIOS of the banking system: Credit to GDP. Deposit to GDP, Assets to GDP.

[158] Rugiero, p. 74

[159] As early as January 2006, Moneygram charged only $10 for transfers up to $500 and $15 for transfers up to 1000 anywhere in the world. Western Union charges are much higher. Moneygram service was available in Tajikistan in partnership with Kafolat Bank until July 2006 but was later terminated. .

Figure 7. 1 – The Shallowness of the Tajik Banking System 1



Source: WB. 2005a, p.7. International Financial Statistics. Albania, Georgia, Macedonia, Serbia and Montenegro, Azerbavan, Russian Federation, Turkmenistan, Uzbekistan, and Moldova. GDP data are from World Development Indicators. For Tajikistan, data jor 2003 do not include AIB Credit-Invest.

Box 7. 3 - Main Tajik Banks

Orien Bank

Orien Bank is the biggest Tajik bank, with 30 branches all over the country. Orien Bank is the reincarnation of Tajpromstroi Bank of the Soviet period, one of the oldest banks formed in 1925. It is a universal corporate bank, engaged in business with the Tadaz (aluminum plant), SOEs, mining, fuel, energy, cotton sectors. It has a correspondent network and works in cooperation with Kazakh banks. It has foreign educated young staff. Main owners of the bank are related to the family of the President of the country.

Agroinvestbank

Agroinvestbank is the second largest Tajik bank, with 57 branches all over the country and has a strong presence in rural areas. Agroinvestbank is the reincarnation of Agroprom Bank of the Soviet period, one of the oldest banks formed in 1925. It is the traditional provider of financing for the agriculture (cotton, mainly, channeling of "futures") Agroinvestbank becomes in 2003 a universal bank and supplies a wide spectrum of bank services – it is 1st provider of cards and ATMs in Tajikistan. In 2003 the accumulated cotton debt (USD 260 mln) was taken from the Agroinvestbank and placed in Cotton Invest under control of the IMF. The bank participates in EBRD's microfinance and trade finance programmes since june 2005.

Tajiksodirotbank

Tajiksodirotbank has 9 branches. Tajiksodirotbank is the reincarnation of former Tajik branch of the Vnesheconombank – bank of foreign trade with good international trade finance experience of the Soviet period. It is a universal commercial bank present both in urban areas and in the cotton industry, with a strong presence in Khorog and Kulyab. The shareholders of Tojiksodirotbank are around 10 businessmen active in modern sector of the economy (telecommunication, consumer goods, cotton, and construction materials, resulting in rather modern commercial services). After equity investment of EBRD and IFC in 1999 and exit in 2003, has improved its governance and became the top performer in EBRD's programmes in trade and microfinance. Since 2004 it has also attracted ADB and private sector funding and serves several international organizations.

Tajprombank

Tajprombank has 12 branches in Dushanbe, regions of Republic Subordination (RRS), and in the Soghd region. It was founded in 1995. It is a well-managed universal bank but still lacks international exposure. It participates in EBRD's micro and trade finance programmes. The main shareholders of Tajprombank are mainly individuals with one principal shareholder and CEO Mr. Ziyaev, resulting in prudent banking.

Bank Eskhata

Bank Eskhata was established in 1993 and is based in Khujand, with very strong presence in the Sogd, Pendjikent and is developing in Dushanbe and Southern towns with the EBRD microfinance programme since 2004. Eskhata is the ancient name of Khujand-Leninabad, named by Alexander the Great). The bank is run by young and dynamic northerners. EBRD and Shore bank (Chicago) invested equity in Eskhata in december 2005 (19 % and 6 %) in order to increase the capital to the new minimum capital requirements and now have a seat on the executive board.

1st Micro Finance Bank

1st Micro Finance Bank is a new bank created in 2004, sponsored by the Aga Khan Foundation with equity investments by IFC and KFW (Kreditanstalt fur Wiederaufbau), also providing a credit line. The bank has a fast growing network with strong presence in GBAO and Rasht valley. Its main focus is on microfinance and deposits, offering European standard services and serves several international organizations.

Source:. Fernand Pillonel. 2006. Presentation on "Tajik banking sector: Time to Open An Account". EBRD. ww.untj.org/principals/minutes/pressreleas_on_banking_sector.pdf

II.F.2. Money Transfer Operators in Tajikistan

The intense development of the money transfer market in Russia has began in mid-90's. Due surge in migration to Russia from CIS and Baltic countries, demand for remittance services increased dramatically, with high profits for early entrants. In 2005 the volume of the money transfer market increased by more than 50% compared with the previous year. CIS countries receive the largest share of remittances. At present over 10 money transfer companies are competing with each other in the money transfer market.

Despite the increasing competition, the money transfer market in the CIS-Tajikistan corridor, as elsewhere, remains oligopolistic. At the present time money transfer operators (MTOs) work in partnership with banks. The main money transfer operators and the fees charged by them are given below. A review of Table 7.2 shows the high level of charges senders have to pay to transfer money to Tajikistan.[160]

Box 7. 4 - INTEREXPRESS history

Russian money transfer systems, for example, INTEREXPRESS have a significant market share in the CIS corridor. The delivery period and procedure of money transfers in Russian and foreign systems are the same, but commission fees for money transfers offered by Russian systems are, in general, much lower than Western Union. Compared with most money transfer systems InterExpress claims to have a competitive combination of such advantages as processibility, low tariffs, instant and high quality service. Here is an excerpt from the website of Interexpress:

Western money transfer companies are primarily engaged in providing tourist and business transfers. The tariff policy of INTEREXPRESS makes remittance services available for all groups of population. Taking into account that the largest amount of remittances is initiated by migrant workers, low- and middle-income people, INTEREXPRESS has a significant advantage over expensive world-leading systems and provides reasonable grounds to believe that "INTEREXPRESS" services will be very much demanded by migrant workers.

For the time being INTEREXPRESS is a fast developing system which has extensive network of agent locations, low commission fees for money transfers and advanced software. INTEREXPRESS software complies with international security standards and opens up for its partner banks opportunities not inferior to those of world-leading companies.

The history of INTEREXPRESS system began in March of 2003, when IT-specialists of SCB "Intercoopbank" created and tested the software. Since that time the active development of the system in the money transfer market has begun.

During last year and a half SCB "Intercoopbank" opened 12 own locations in Moscow providing INTEREXPRESS services ("Intercoopbank" is going to open also 4 new locations).Besides, our agents have a lot of locations, new partner banks regularly join "INTEREXPRESS" system.

Now INTEREXPRESS covers CIS countries: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine and countries outside the CIS region - Vietnam and China

http://www.interexpress.ru/en/history.html

Box 7. 4 - INTEREXPRESS history

[160] The author personally tried these services. The cost is, in general, more than the posted fees because of exchange rate spread. The cost of transferring funds from the U.S. and other countries can be much higher. As of August 20, 2006, it cost a minimum of 5% to send $1000 from the U.S. to Tajikistan (vis the Contact system); Western Union charged $68.

Table 7.2 Money Transfer Service Providers in Tajikistan1

Name of the Provider / MTO	Percentage Commission (in USD or Euro)	Sliding Scale?	Claimed Speed	Minimum Charges^	Commission for $2000	Number of Branches in Tajikistan	Number of Countries in the Network	Country of Origin of MTO
Western-Union	26% - 4%	Y	5 minute	15	90		195	US
Migom	*****2-3%	Y*	5-10 minute	$4	40		12 (CIS)	Russia
Anelik	****3%	Y	2 to 24 hours				82	Russia
Contact	2-3%	Y	2 to 24 hours			67	35	Russia
Inter-express	*****2.8%	Y	up to10 minute	$3			8 CIS countries and China and Vietnam	Russia
Unistream	1.5%	Y	10 minute				All continents except Australia and Africa (80 countries)	Russia
Bistraya-pochta	2.0%	Y	***10-15 minute				11 (CIS)	Russia
Country-express	1.5%	Y	5-10 minute				CIS	Russia

*Migom has an increasing rate upto $1000 ($12 for $500 to $27 for 1000); the commission increases at a decreasing rate to $30 (for $1500 and $40 for $2000).

**$13 for upto $50

*** website claims transfer in 1 minute.

**** Website claims commission rates as low as 1.5% but they may not be relevant for the range of transfers made by migrants.

**** Website claims commission rates as low as 1% but they may not be relevant for the range of transfers made by migrants.

*** website claims transfer commission of 1.5% for CIS

^for up to $100 of Remittances

Notes: 1. Western Union charged $20 for each $500 of transfer over and above $3000.

2. Claimed Speed does not take into account the limited hours of operation and the time spent in queues.

3. Rates for rubles and dollars may vary - the latter being higher.

4. Rates for transfer from US and other countries (usually in partnership with other MTOs) are usually much higher. Moneygram had the lowest rates (only $15 for $1000) but has closed its operations in Tajikistan.

5. The information is correct as of August 2006 and is based on published rates and procedures available online and/or at local delivery stations. Where the printed info available at delivery stations and brochures is different from the online information, the former is more current and more reliable.

Sources:
http://www.anelik.diaspora.ru/
http://www.sfb-express.ru
http://www.sodrotbonk.com/index.php?filein=&lng=eng
http://www.migom.com/
http://www.unistream.ru/en/
Source: www.Anelik.com
http://www.etrust.ru/en/services/migom

As in Mexico, Western Union is by far the most expensive of all. Western Union ought to be encouraged to contribute to the community development projects. At the present time, the fees charged by Tajik banks working in partnership with Western Union is very high relative to many countries. Many Tajik migrants are financially illiterate and do not know about the available options. Anecdotal evidence shows receivers at many busy delivery points have to pay to the staff a small bribe to receive the money.

Chapter VIII - Recommendations -

Leveraging Remittances for Development

"We wanted to do it as best we can but it turned out as always." (Chernomyrdin, ex Prime Minister of the Russian Federation)

I. General Policy Recommendation[161]

I.A. The Proper Role of Government in a Market Society

We would like to reiterate at the very outset that remittances are private transfers, and, in the best of all possible worlds, our advice would have been, "Leave the migrants alone." Some scholars regard the whole issue of redirecting remittances to more productive uses as inappropriate because unlike official aid, remittances are owned by individuals and they make a rational choice to consume or save the transferred funds. In fact, forcing remittance recipients to switch from consumption to savings may reduce consumer welfare from an individual perspective (Maimbo and Ratha, p. 7). However, given market imperfections (such as imperfect and asymmetric information) and the oligopolistic/monopolistic structure of the remittances market, there is a legitimate role for the government in improving efficiency of the remittances market, equity and other considerations notwithstanding. In a market economy, the main economic function of the government is to create conducive conditions for the markets to function efficiently. In other words, government ought to create enabling environment for the market to function properly. That can mean a simple thing like making information about various options and opportunities available to the public (Stiglitz, 1985). Accordingly, Tajik government should take measures to disseminate information about, and increase the access of young people to, a variety of international labor markets.

Although the government's intervention into the economy may be justified on grounds of equity, we are not proposing an activist government policy here. We cannot overemphasize that we envision a limited role for the government in managing migration, and, are against the government getting directly involved in the business of acting as an employment bureau for foreign employers or issuing licenses to such bureaus. The experience of countries like Pakistan shows such schemes are an open invitation to corruption and rent seeking.[162]

I.B. Remittance Related Policy Objectives

What are the common policy objectives related to remittances that countries of origin can pursue?

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[161] The ideas presented here may not be novel. Some of these have been discussed in the literature. The recent World Bank report (WB, 2006) offers valuable suggestions. This section draws heavily upon WB, (2006), Lowell (2000), EBRD (2006), and Roberts (2004). All suggestions from the literature and elsewhere have been adapted to suit the specific circumstances of Tajikistan.

[162] *Overseas Pakistanis Foundation* (OPF) has been notorious for its nepotism and corruption. See

The following policy objectives, among others, have been pursued by various governments to leverage remittances for development:

- increasing tax revenue to improve public finance
- redirecting funds to official channels to enhance the productive effect
- creating a favorable business climate to facilitate investment into productive uses
- mobilizing savings
- increasing the volume of remittances through diversification of countries of destination
- reducing transaction costs to boost remittances.

The last two objectives will be discussed in the next chapter. Here will focus upon the issue of leveraging remittances for development. Initiatives aimed at leveraging remittances for development in Tajikistan face several challenges but also enjoy many opportunities.

I.C. What are the challenges?

An integrated remittances system operates with the involvement of four key actors: migrant worker, and government as regulator, financial intermediaries/agents, and the recipient households. Each of these actors has its own motivations and related strategies, and each has unique needs and encounters specific constraints.

Many migrant workers send only part of their earnings to families that are just enough to meet consumption needs, but typically do not send an additional amount to invest in the domestic market. Tajik migrant workers face high fees, obscure exchange rate policies, continued lack of confidence in the banking sector, and inadequate provision of financial products that do not meet their needs. As described in chapter 5, we find that about 40% migrant households reported receiving monthly remittances that exceed the average total monthly expenditure of households. Judging from this ratio, we find that remittance receiving households do have the potential to save money. Another finding from the survey that signifies presence of latent savings is the ratio of total monthly remittances to monthly expenditure of 1.36 for the receiving households. This is not surprising because, In fact, one of the stylized facts in the microfinance literature is the finding that poor households do want to save money but they are not offered appropriate financial products by formal institutions. Microfinance institutions must design such products that would meet the specific needs of the poor. E-payments and stored value cards[163] technology is relatively

[163] Stored value cards are plastic card encoded with monetary value on a magnetic stripe. The value associated with the card can be accessed through scanning using radio-frequency identification (RFID); or by entering a code number, printed on the card, into a telephone or other numeric keypad. Stored-value cards are effective substitutes for cash and have many applications for low-value retail purchases. Banks in many countries have been offering stored value cards as a gateway to servicing the needs of unbanked consumers who have income from wages or benefits but lack access to conventional checking or savings accounts. There are two main categories of stored value cards: closed-loop cards, such as merchant gift cards, transit system fare cards, and prepaid telephone and Internet cards; and open-loop cards (similar to debit cards), which can be used at many retail stores and for banking purposes, such as receiving direct deposits or withdrawing cash from automated teller machines. Open-loop cards can be reloaded with additional value. A major difference between stored value cards and debit cards is that debit cards are usually issued to people with bank accounts *in the name of individual account holders*, while stored value cards are usually anonymous.

underutilized in Tajikistan. The promotion of E-payment is hampered by lack of Internet access. The only stored value card that appears to be widely used is the prepaid telephone and Internet cards

Informal transfer services operate discretely with limited documentation and no legal recourse for the senders. Migrant workers turn to informal channels primarily because of their efficient service and their access to more remote areas. Through an informal sector, money is normally hand delivered to remote areas within a few days. Informal service providers also work with flexible terms: Some informal channels enable payment in advance (on future earnings) and can provide items in-kinds (appliances etc.)

Another factor underlying the choice of informal transmission channels is the inability/desire not to provide Information - stringent identification requirements for both senders and recipients and cumbersome regulations in the formal sector can deter the use of formal channels. Moreover, informal money transfer agencies and money changers are often not subject to anti-money laundering laws. There is considerable anecdotal evidence to suggest the prevalence of a narco economy in Tajikistan. *In so far as remittances are contaminated by drug deals, informal transfer services will continue to coexist with formal service providers.*

Formal intermediary institutions in Tajikistan have limited technical capacity, inadequate physical infrastructure, and non-diversified products. Banks have low market penetration in migrant communities. Receiving areas face scarcity of bank branches.

Remittance recipients possess limited knowledge of products/ technologies as well as financial products do not meet needs. The government faces pressure to counter money laundering works with inadequate capacity and inappropriate policies/ regulatory environment.

The following factors go far to explain why migrant workers do not invest in a domestic market (directly or via recipients) in Tajikistan:

_ lack of knowledge of investment opportunities[164]

- perceived negative interest rates on domestic savings due to historically high inflation

_ lack of adequate and efficient banking facilities, mainly in remote rural areas

_ (often) lack of organized capital markets

_ economic uncertainty associated with domestic political instability and the historical experience of the civil war

_ _ limited number of financial products

_ low rates of return on domestic financial assets *relative* to real estate

As emphasized earlier, the presence of a vibrant financial system is the first order condition for leveraging remittances for development. Remittances are the bedrock of the budding financial system in Tajikistan. Steady flows of remittances make the credit go around and underpin the growth of SMEs. The banking sector has shown great willingness to engage into the remittances market, and establish cooperative agreements with money transferring operators (MTOs). As we have seen, despite significant shift away from informal to formal channels, a significant part of remittance transfers continue to be

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[164] The author was pleasantly surprised to find out that Agroinvest Bank offers a 15% return (in dollars) on a 3 month dollar denominated CD. Against the advice of the IOM accountant, the author deposited a small amount. The money and the accrued interest were withdrawn after a year and the money was redeposited. So far, everything is smooth.

channeled through informal means. The challenge is to divert the informal remittances into formal channels to maximize their potential for development.

The effectiveness of policies aimed at *productive use of immigrants' savings* in Tajikistan face many obstacles: crony capitalism, the absence of arms length credit practices, weak linkages between banks and enterprises, dearth of managerial expertise, and the inadequacy of infrastructures.

The absence of strong local governments able to undertake projects is another obstacle. The Mexican example is quite illuminating here. Local institutions have been quite instrumental in stimulating the commitment of the Mexican Diasporas in the U.S. and strengthening the home town associations (HTAs) there.

Yet another obstacle in the way of strengthening the remittances development nexus is the absence of an enabling economic environment.

I.D. What are the opportunities?

These challenges notwithstanding, some features of the socio-economic behavior of Tajik immigrants in Russia appear to be highly promising in leveraging remittances for development.

Tajik migrants have shown a deep attachment for their kin back home: the existence of strong migratory chains make these linkages stronger. This attachment assures that even when Tajik migrants decide to settle in Russia more or less permanently, they continue to send large sums of money to household members and extended family members in Tajikistan. This suggests that village-based institutions like HTAs that focus upon community issues have a potential in the Tajik context *a fortiori*.[165]

It has been shown that migrants' preference to invest in land/real estate rather than financial instruments is rooted in volatility of exchange rates and high inflation. In the last few years, Tajikistan has shown remarkable progress in both areas.

II. Policy Recommendation for Leveraging Remittances for Development

Policies to leverage remittances for development can be classified as 'mandatory' or 'incentive policies. A frequently cited successful example of mandatory policy is that of South Korea. In the 1980s, Korean workers working abroad were required by the government to remit a fixed proportion (80 percent) of their earnings through the banking system. This instrument was successful mainly because labor export was organized through bilateral agreements whereby the Korean government was able to monitor and control the flow of migrant earnings as Korean contractors abroad had to collaborate with state companies and employed mostly Korean workers.

In our view, successful mandatory policies have been few and unique to the specific circumstances of the countries that adopted them.[166] E-Sakka, M.I.T., and, Robert McNabb

[165] The potential for the HTA growth in Tajikistan has been discussed in Section VIII. II. C in the report.

[166] See Puri and Ritzeman (2001) and Carling (2005) who discuss such schemes. They conclude that other countries (Egypt, Pakistan, Bangladesh, Philippines and Thailand) have been less successful. Egypt and the Phillipines stopped the policies.

Box 8. 1 - Bhagwati's Brain Drain Tax

Proposals to leverage remittances for development are not new. The debate on leveraging remittances started soon after the phenomenon of brain drain from labor exporting developing countries was recognized in the literature with the pioneering article of Bhagwati (1972; Bhagwati and Krugman, 1974). In their pioneering work, Bhagwati and Krugman (1974) had suggested a tax on highly skilled professionals who come from the developing South to the developed North to work and whose income is a multiple of what they could have earned in the country of origin. After generating some initial debate, the idea fizzled out only to be revived recently with the realization of the increasing significant of remittances for the labor exporting countries. We believe the unintended consequence of such an intervention by the government into the free market will be a diversion of remittances into informal channels and could hurt the development of the budding financial sector in Tajikistan. For a favorable critique of Bhagwati, see Wilson (2005).

Box 8. 1 Bhagwati's Brain Drain Tax

(1999) show that taxation, foreign exchange control have a negative effect on remittances.

Thus, we will focus upon incentive policies.

Can voluntary contributions replace mandatory taxes? Making voluntary charitable contributions is like voluntarily contributing to the provision of a public good run into the classic free rider problem of a public good. However, there are ways of averting the free rider problem.

We describe here the main features of the incentive policies adopted in various sending countries and reflect on the possibility of duplication in Tajikistan of some of the best practices. In considering the applicability of the best practices to Tajikistan, one must keep in mind that each of the players in the remittance flow process has unique needs and encounters specific constraints and incentive policies need to take these into consideration.

Initiatives specific to leveraging remittances for development can be divided into four groups:

1. policies to maximize flows in the *formal* sector
2. policies to maximize the productive use of remittances
3. policies to improve coordination with host countries
4. policies to enhance the Role of the Diaspora

Although overlapping with each other, the policies in each of the above realms are discussed separately for analytical simplicity.

I.A. Bringing remittances into the formal financial sector

I.A.1. Importance of Transfer through Formal Banking

In general, both individuals and society are worse-off when people involved in monetary transactions are unbanked. Money transferred through informal means is harder to control, monitor and mobilize for productive utilization. Bringing remittances into the formal financial sector is expected to increase the depth of the financial sector. Moreover, from "the point of view of the home country's development, remittance payments through regular banking channels enable the government to exercise control over the use of foreign exchange and encourage a more productive utilization of funds."[167]

[167] B.Gohsh, 1992, p.428.

Despite significant progress over the last few years, the level of financial intermediation in Tajikistan remains the lowest in CIS. As noted above, despite significant switch toward formal banking channels, a significant part of funds continue to be transferred through informal means. How can the government induce the users of informal means to switch to formal banking?

The following section identifies key areas where action is needed, highlights the issues, suggests solutions, and proposes specific policies to implement the proposed solutions.

II.A.2. 1. Banking the Unbanked

In general, migrants who are outside the formal financial network end up paying higher costs. What then explains why migrants continue to resort to informal means of transfer?

In our view, four factors go far to explain the inadequate utilization of formal banking on the part of many Tajik senders: a) the irregular status of the majority of Tajik migrants; b) inertia; c) little or no financial network in rural areas; and d) low level of trust in the banking system.

As regards the former, it is significant to note that according to the Russian Ministry of Interior, only 23282 of all migrants from Tajikistan into Russia had permission to work in 2004.[168] According to our estimate, this represents only about 6% of all migrants from Tajikistan in 2004. Recent improvement in the legal situation and the easing of the procedures for Tajiks to acquire Russian citizenship without giving up their Tajik citizenship is highly promising and is expected to encourage a shift towards formal channels of transfer.[169]

Informal channels are characterized by broad reach, flexible terms, and the inability/ desire not to provide Information.

Broad Reach

- Banks & credit unions have low market penetration in migrant communities; plus scarcity of bank branches in receiving areas
- Through informal sector money is normally hand delivered to remote areas within a few days

Flexible Terms

• Banks have limited product offerings

_ Some informal channels enable payment in advance (on future earnings)

_ Can provide items in-kinds (equipment, etc.)

Inability/ desire not to Provide Information

• Stringent identification requirements for both senders and recipients in the formal sector

_ Informal money transfer agencies and money changers are often not subject to anti-money laundering laws

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[168] The source for this information is FMS of MVD (Ministry of Interior) of Russian Federation.

[169] We have no hard evidence to show this, but there is some anecdotal evidence following the agreements signed during Putin's visit to Tajikistan in 2004.

Box 8. 2 - Empowering the Marginalized through Microfinance/Innovations from the Field

Fonkoze, a US based NGO, for about the last three years has been providing a money transfer service. Here is the story of Fonkonze in the words of one of the founders:

"We actually started this service as a way to help parishes, religious communities and NGOs in the United States who were trying to get their money to Haiti in as expeditious a manner as possible. And it's interesting that parishes don't go to Western Union and … the other places that Haitians go to. And why don't they? They don't because they think it's outrageously expensive and they're sophisticated consumers of financial services and so they just don't pay that kind of money…So we started doing it for them.

The way we did it was that we set up a partnership with our bank in New Jersey, City National Bank of New Jersey, which is one of the largest African American banks in the United States and is run by a Haitian born American. And we found it very easy to do. When we decided we should be expanding it to Haitians, we decided to put in a 1-800 number in the United States, have a woman working out of her home and simply answering the 800 number and using e-mail. And the way it works is people just wire transfer or send a check or money order into our account at City National. At the same time they call the 800 number or send an e-mail and the minute it arrives in New Jersey, it is immediately available anywhere in Haiti, because we simply get an e-mail communication that the deposit has been made. The person in Haiti has to have an account, but there's no charge for opening an account and they start to learn about how to have a bank account. So were trying to make better consumers of financial services both among the Haitians living in Haiti but also among the Haitians living abroad. Because truly the unbanked in this country are being ripped off in the amount they pay for financial services. By the way ours is $10 flat no matter how much money you send.

Source: http://www.microcreditsummit.org/enews/2003-09_plenary_07.html

Unfortunately, policies aimed at redirecting remittances from Russia to Tajikistan towards official channels are hampered by particular constraints related both to the Russian and the Tajik financial structure. Because of low density of rural areas, opening bank braches in such areas is highly costly. This problem can be solved by offering 'last mile' services. In theory, this could be achieved through using the local post office branches. However, given the inefficiency of the Tajik postal service and the low technical capacity, this is not a viable option.

There is clearly a need to develop initiatives to increase financial literacy and build confidence in the banking system. The unbanked need to be convinced that banking will lower their transaction costs and increase access to credit and other financial products that are

normally available to urban dwellers. Services and products need to be improved and expanded to ensure flexibility and efficiency.

II.A.3. Recommendations for Banking the Unbanked

II.A.3.1. Expand banking / MFI network to remote rural areas.

Microfinance institutions (MFIs) have mushroomed in Tajikistan over the last several years mainly due to the nature, structure and low density of the economy. In our view, the growth of the microfinance institutions in Russia, and the development of networks between financial institutions in Russia and MFIs in Tajikistan should constitute a key step.

II.A.3.2. Wire the Country and introduce new technologies.

Elsewhere in the report we have highlighted the advantages of backwardness. Cell phones are ubiquitous in Tajikistan. Innovations such as cell phone text messaging should be seriously considered by potential entrepreneurs. But, these require a well-developed telecommunication infrastructure. See **Box: Smart's phone-based remittance system in the Philippines. See also the Box: Wiring Macedonia.**

II.A.3.3. Work with the Russian government to improve the legal environment of work for migrant workers.

Russian policy makers and scholars are keenly aware of the demographic crisis. Russian government announced in July 2006 that it would invite as many as 1 million immigrants from the FSU by offering them citizenship and other benefits, particularly to those who are willing to settle in the underpopulated regions, such as Siberia. The government wants to attract 10000 immigrants to the oil rich region of Krasnoyarsk to help develop the new Vankor oil and gas field. Tajik government should capitalize on this and commission research to demonstrate the gains of immigration from Tajikistan to Russia for both countries.[170]

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[170] In our opinion, the changes introduced in January 2007 in Russian immigration laws are a mixed blessing and the net outcome remains uncertain. The simplification of the registration procedure and the amnesty on registration to migrants living without registration is highly welcome and has been described by some Diaspora NGOs as 'revolutionary' (personal communication with Gavhar Juraeva of Tajikistan Foundation, Moscow). On the other hand, the law bans migrants from CIS from selling directly in markets and retail trade, thus, offsetting the benefits to immigrants from the amnesty and simplification of registration procedures. In fact, it may make it even worse for migrants from CIS who are over-represented in the retail trade. The proposed quotas on migrants from CIS are also likely to have undesirable unintended consequences in inducing illegal behavior and corruption without benefiting the ordinary Russian citizens. The quota has already been waived because it was deemed to be unrealistic. Although it is generally believed that the new legislation banning direct sale by migrants reflects a groundswell of xenophobic attitudes towards people from Central Asia and the Caucasus, a political economy perspective might reveal the potential beneficiaries to be large supermarket chains rather than poor Russians who are not likely to replace workers from CIS who work under highly grueling and shabby conditions. The reforms are not likely to achieve the states goals, i..e, reducing the number of illegal immigrants and creating job

II.A.4. Recommendations for lowering the cost of transfer

II.A.4.1. Facilitate the Introduction of Innovative Ways of Transferring Money

A variety of innovative ways of transferring money have been implemented in various countries. There are banks now that offer free service or service at a nominal cost to attract customers in the hope of making profits on other products the banks have to offer. [171] World Bank report (2006) rightly emphasizes that the government can help reduce costs by supporting the introduction of modern technology in payment systems. A highly useful proposal is the following : "Alleviating liquidity constraints by providing a credit line either to the sender or the recipient, based on past remittance activity, would enable senders to take advantage of the lower fee rates available only for larger remittances" (ibid.)

Innovative low cost services have been designed to serve low income migrants. See **Box: Empowering the Marginalized through Microfinance/Innovations from the Field**. Also see **Box 8.3: Smart Phone-based Remittance System in the Phillipines**. Most of the innovations in cost reduction require the use of telecommunication. Wiring Tajikistan is expected to change the socio-economic situation dramatically. See **Box: Wiring Macedonia.**

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opportunities for Russians.

[171] An excellent example is that of La Caixa. La Caixa provides one of the most user friendly transfer services anywhere. It has a website in six different languages and offers a variety of products to cater to different segments of the remittance market. Source: http://portal.lacaixa.es/extranjeros/extranjeros_en.html (accessed August 2006)

Box 8. 3- Smart's phone-based remittance system in the Philippines

The largest mobile phone company in the Philippines, Smart Communications, has developed an innovative remittance system based on cell-phone text messaging. Cell phones are widespread in the Philippines, in use by at least 30 percent of the 84 million Filipinos.
A standard Smart remittance works like this: A Filipino in Hong Kong, China, deposits money to be remitted with one of Smart's remittance partners, which then sends a text message to the beneficiary in the Philippines, informing him or her of the transfer. The remittance is credited into a Smart Money "electronic wallet" account by any Smart mobile customer.

The money can be withdrawn from an ATM using the Smart Money cash card, which can also be used as a debit card for purchases. Smart's partners in the Philippines—among them McDonald's, SM malls, SeaOil gas stations, 7-Eleven stores, and Tambunting pawn shops—will also pay out cash to Smart customers.
Smart has already formed remittance partnerships with Travelex Money Transfer; Forex International Hong Kong; Dollar America Exchange in California; CBN Grupo in Greece, Ireland, Japan, Spain, and the United Kingdom; New York Bay Remittance; and Banco de Oro Bank in Hong Kong, China. The system's simplicity keeps fees down.

II.A.4.2. Encourage and Promote Competition in the Money Transfer Business

New technologies are very expensive but are cost effective if the cost is spread over large volume of transactions. Competition and competition induced innovations in Mexico, Philippines, and other countries have reduced the cost of transferring remittances from zero to nominal amounts. The solution lies in increased competition and transparency. Already Tajik banks work in alliance with Russian correspondent banks to help transfer money. Migrants in Russia can be educated about various options. Government might consider lowering the transfer costs by licensing MTOs to provide services independently of banks although this objective might conflict with other objective of strengthening the banking sector in Tajikistan as fees earned through transfer business have underpinned the growth of this sector. Improve the legal and regulatory framework to facilitate the reduction of transfer costs.

We predict that a drop in transfer fees is inevitable as the fixed cost of wire transfers are spread thin over increasing volumes of transfers, and as the average remittance amount increases.[172]

II.A.4.3. Introduce rent-sharing arrangements with high charging MTOs.

The rent from migration has accrued to not only the household with migrant members, but also to a whole bunch of other players, including the remittance transfer operators or MTOs. The government of Tajikistan should negotiate with companies like Western Union that depend on remittances for their business to donate part of their profits for community development. Western Union earned a net profit of $1.3 billion last year. The company funds a series of programs in the US and abroad to help immigrants and their families. Last

[172] Reducing transfer fees to even lower levels might have a negative impact on the banking system, as many Tajik banks significantly depend on transfer fee income. See the section on Tajik banking sector in chapter II.

year, the company donated $250000 to help women in the Mexican state of Oaxaca who are alone because their husbands are in the U.S. The company has also pledged $1.25 million dollars to a 4X1 program launched by the Mexican government to boost investment: it matches every peso invested in SMEs by remittance receiving households in the state of Zacatecas.[173] Such rent sharing helps improve the image of providers in the community and is expected to encourage transfer through formal channels.

II.A.4.4. Disseminate information

The market for transferring remittances is imperfectly competitive. Lack of information hinders competition. As shown in Appendix Table VI, Western Union charges exorbitant amount and yet there are many users of Western Union services. "Disseminating data on remittance fees in important remittance corridors and establishing a voluntary code of conduct for delivering fair-value transfers would improve transparency and reduce prices for remittance transactions (WB, 2006)."

Governments have an important role in creating a level playing field and disseminating information to reduce market imperfections. However, an activist stance to leverage remittances for development can also overshoot and be counterproductive. Attempts to improve the developmental impact of remittances by introducing incentives to increase flows and to channel them to more productive uses could be more problematic than efforts to expand access to financial services or reduce transaction costs (World Bank, ibid.). Financial fairs for migrants in Russia should promote knowledge of financial products and promote banking.

The Department for International Development (DFID) of United Kingdom could serve as a model here. DFID has an active agenda to remove barriers to
the flow of money transfers, lower their costs, and make access to money transfer products better for low income people. Tajik embassy in Russia may take a cue from DFID.

IOM Information Centers have been playing an important role in disseminating information about all aspects of migration, including the transfer charges by various MTOs.

Tax incentives to attract remittance inflows are a double-edged sword. Such incentives may also encourage tax evasion.

Finally, it should be noted that bringing remittances into the formal financial sector will not in and of itself lead to investment. Given the low income level and the need to meet basic consumption needs, encouraging Tajiks to channel their savings to more productive uses is a serious policy challenge. Poor infrastructure (physical and financial), underdeveloped markets, corruption, and a poor investment climate confine the potential of remittance-focused strategies to the immediate receivers.

We turn now to measures that could help channelize remittances to productive uses.

II.B. Policies to Influence the Use of Remittances

The following steps should help direct remittances towards productive uses.

a. Encouraging remittances savings
b. Promotion of entrepreneurship
c. Channeling funds to MFIs, SMEs, and HTAs

[173] Newsreport, March 19.

d. Increasing information on investment opportunities
e. new technologies to facilitate remittance transfers
f. Tax Duties/Incentives

II.B.1. Encouraging remittances savings

Even when remittances are mostly used for consumption, some of the funds are likely to be earmarked for precautionary purposes and may be swept under the rug. The use of precautionary funds could be diverted to productive uses but their potential remains largely untapped for the following reasons:

a. a narrow range of available financial products
b. insufficient projection of the benefits of savings
c. lack of trust in banking institutions

Several governments have attempted to attract migrants' savings through a variety of incentive schemes. Examples of schemes designed to encourage savings of remittances include the following:

a) **Interest-paying Foreign Currency Accounts**: Some governments allow migrants to establish foreign exchange accounts and receive payment of interest in foreign exchange.[174]

Our survey results show that most of the remittances are needed for basic necessities and only a small percentage is usually available for investment in housing construction and improvement, consumer durables, education, and health. In so far as funds earmarked by receiving households for such investment are swept under the rug, there is a social loss.

To prevent such social loss, receiving households and migrants can be encouraged to hold their savings in financial assets in the countries of origin through higher interest rates than they can obtain in host countries.

b) **Investment in special bonds**: Some governments have attempted to attract migrants' savings towards development funds, state bonds, or new financial products covering life and sanitary insurances, credit for housing and small business. The Indian government has launched a variety of schemes to attract NRI funds for investment purposes.

In Tajikistan, policies aimed at diverting remittances towards savings deposits face particular constraints. Despite increased trend towards sending money through banks, trust in the national banking system remains low. Banks are not skilled at launching marketing campaigns. There has been little concerted effort on the part of the banks to encourage banking.

Tajik banks have attempted to offer a variety of products to their customers to attract savings. Agroinvestbank offers an attractive rate of 15% per annum payable in hard currency on hard currency deposits.[175] These rates are highly competitive relative to what is offered in other countries. For instance, MFIs managed by PRODEM in Bolivia offer a 6.5% annual interest on savings account and are consequently able to offer lower priced loans to their customers. Migrants' savings can also be managed in a manner similar to that

[174] B.Gohsh, p. 428.

[175] To test the system, the author deposited $2500 last year at 15% in a 3 month CD account and was able to receive 15% interest in dollars.

of pension funds or insurance products.[176] Donors should continue their support of MFIs capacity building. USAID has been funding project designed to strengthen MFIs in Tajikistan.

There is a lesson in the failure of efforts to channel remittances to investment: "Fundamentally, remittances are private funds that should be treated like other sources of household income. Efforts to increase savings and improve the allocation of expenditures should be accomplished through improvements in the overall investment climate, rather than by targeting remittances.

II.B.2. Creating A Conducing Business Environment.

While recipient households who are able to save part of the remittances do not necessarily have the stuff of which entrepreneurs are made, a poor business environment is likely to contribute further to potential entrepreneurs' aversion to investing in economic activities in Tajikistan. In its recent survey of corruption, Transparency International ranked Tajikistan near the top of the most corrupt countries in the world (144th out of 158).[177] Approximately twenty-two different government bodies are involved in overseeing and regulating businesses in Tajikistan and it may take up to 2 months to start a business. A conscious, determined, and sustained effort to improve the business environment could, however, facilitate the allocation into productive use of the increasing portions of remittances migrants intend to invest in the future.

Creating a conducive climate for migrants and remittances receiving households to invest may not bear fruit in the short run but it is particularly important from a longer term perspective, as more Tajik migrants are likely to opt for Russian citizenship given the huge premium associated with it. Literature shows that duration of stay in the host county is negatively associated with remittances as the attachment to the country of origin becomes weaker and migrants begin to accumulate a stake in host country. Thus, the government will have to offer good reasons for its erstwhile citizens to invest in Tajikistan as part of a portfolio diversification strategy.

II.B.3. Promotion of entrepreneurship

Our survey shows that a small amount of remittances is in fact saved into housing, land, and education. How can the formal financial sector tap into them? It has been argued that financial institutions have a much wider knowledge of productive investments than an individual family and should be able to identify investment projects providing higher social returns. It is also argued that potentially higher returns should attract an even higher level of investment.

The key recommendation is to create conducive conditions to expand the size of remittances. Given the low level of average income and high level of poverty, manipulating remittances receiving households to divert remittances away from consumption into savings and investment may work on the margin but may not be very effective in terms of diverting substantial amount away from consumption. Thus, the focus ought to be on

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[176] ILO. 2000. "Social Finance Program, Making the best of globalisation: migrant worker remittances and micro finance." 20-21 November 2000 and PRODEM- Fondo Financero Privado.

[177] Transparency International accessed online at http://www.transparency.org/policy_research/surveys_indices/cpi/2005 on August 11, 2006

expanding the size of the pie rather than altering the size of the slices that can be allocated to consumption and investment.

As noted by Shivani Puri and Tineke Ritzema:

[I]t is difficult to convert successful migrant workers/savers with no prior business experiences in dynamic entrepreneurs. You can bring the horse to the river but you cannot make it drink! It could be argued that it is more realistic to introduce financial intermediaries that capture migrant remittances as deposits and channel them to existing small and micro-business, rather than transforming migrants directly into entrepreneurs. In other words, rather than focusing on migrant-specific investment programs, labor exporting countries might wish to induce micro finance institutions to capture remittances. The basic idea would be to design policies to transfer funds of the migrant workers through MFIs to entrepreneurs.[178]

The above arguments are premised upon the assumption of a well-functioning banking sector. For these arguments to work, it must be the case that the financial sector is functioning well. Transition financial sectors are plagued with well-known problems that hurt efficiency, erode public trust, and lead to low levels of financial intermediation.

II.B.4. Channeling funds to MFIs, SMEs, and HTAs

Hometown Associations (HTAs) are NGOs of emigrants who come from the same town or region of their home country. The US currently has about 1000 HTAs from Mexico and Latin America. In Latin America and Mexico such HTAs or collectives of migrants from a town or even a small region are increasingly serving as a channel for the collective investment of remittances in health, education, public infrastructure (roads, utilities, churches, cemeteries,) and recreation in the home state or town (World Bank 2002, 2005). Most HTAs are grassroots organizations formed with charitable contributions from immigrants – sometimes in response to a specific request by the community in the country of origin. HTAs typically have limited fundraising capacity as they rely mainly on *settled immigrants* in the host countries. But since they often work in very small communities, their contributions are very large compared to municipal public works budgets.

In Latin America such HTAs or collectives of migrants from a town or even a small region are increasingly serving as a channel for the collective investment of remittances in the home state or town (Martin 2001; World Bank 2002, 2005). HTAs can certainly help build social capital, such as community halls, sports fields, Internet cafes which can help local development in an indirect way for the kin and children left behind.

Moreover, the proposed HTAs once established could be encouraged to allocate part of their funds to specific micro-finance institutions by using a range of practices which have already been tried out elsewhere (Piperno, p. 30). For instance, special *Deposit certificates* or *guarantee funds* harnessed to support the Tajik MFIs and to create new job opportunities in the communities of origin. Involving the proposed HTAs in the process is likely to promote a relationship of trust between migrant households and MFIs and would help attract savings from potential customs that may still be skeptical.

[178] S. Puri and T. Ritzema enterprise and cooperative development department – social finance unit - ILO, Migrant workers remittances, micro-finance and informal economy: prospects and issues, working paper n.21, ILO, Geneva.

One possible risk of donor (whether governmental or private) involvement in starting new HTAs is that it could induce formation of bogus or fictitious HTAs for rent-seeking purposes (Roberts, 2004).

An important merit of HTA projects is that they are fully "owned" by the immigrants and communities receiving them. Sustainability of HTA-funded projects is an emerging critical issue. We believe conditions for setting up such NGOs in Russia are good since there is already a sizeable Tajik Diaspora in Moscow and other big cities. The existing NGOs, such as *Tajikistan Foundation*, are providing a valuable service to the Tajik immigrant communities, but HTAs are more focused on specific communities in the labor exporting countries. HTAs can certainly help build social capital, such as community halls, sports fields, Internet Cafés which can help local development in an indirect way for the kin and children left behind.[179]

II.B.5. Duplicating HTAs in Tajikistan

II.B.5.1. Encouraging JDCs to Become HTAs[180]

A joint IOM/UNDP project in Tajikistan has already planned to implement the idea of promoting JDCs into HTAs. See Box: JDC as Tajik Version of HTA

A joint IOM/UNDP project in Tajikistan has already planned to implement the idea of promoting JDCs into HTAs using the capacity of the community resource centres IOM has built in the targeted communities. The proposed HTAs could be integrated into JDC structure. The Jamoat[181] Capacity survey conducted by UNDP is a step in the right incentive to contribute to the local community development because they have a stake in the outcome. Remittances sent through associations tend to mitigate the effect of natural disasters or other 'covariate' or macro risks in the community. However, charitable contribution is like the provision of public good in the interest of the whole community or group and, is, therefore, subject to the classic free rider problem. By tying the contribution to specific benefits to members of the migrant household or the extended family, the proposal seeks to overcome the free rider problem. (Olson: The Logic of Collective Action).

[179] Internet access in Tajikistan remains extremely low, expensive, and unequal. During the most recent visit (September 2007) to Dushanbe, the author paid $160 per month for high speed access which was much slower than the $25 per month I have been paying in Moscow.

[180] References on Hometown Associations include Orozco (2003), Orozco (2004), and chapter 2 of Johnson and Sedaca (2004). A comprehensive review of donor and government engagement is given in Johnson and Sedaca (2004), pp.24-29.

[181] Jamoat is the smallest administrative unit.

Box 8. 4 - JDC as Tajik Version of HTA

Creation of a "club" (see Orozco's concept of Home Town Associations at the end of the document), which could be part of the JDC structure, where labour migrants (and their families) from one Jamoat would be encouraged to contribute to invest a small part of their remittances in a fund to support economic development and proximity services such as primary education, health services, thereby slowing the exodus of qualified people to emigration. Despite overwhelming emigration figures, there have been little concerted efforts to address this issue.

These funds could be kept in a trust account, managed by a council composed of the JDC leaders and overviewed and audited by the IOM and UNDP. The investment of international organizations in the revolving fund could be made according to a progressive or <elevator> formula, where local financial resources are matched by donor money on a multiplicative basis (up to a maximum contribution of X dollars). It would therefore make sense for the migrants or migrants' families to contribute, even modestly, to the development of their communities since the donors would multiply the initial locally invested funds. Example:

Labour Migrants' contribution ($)	Donors' contributions ($)
100	200 (2x contribution)
500	1500 (3x contribution)
1000	4000 (4x contribution)

According to the JDC needs, the capital could be used for development purposes (with an emphasis on cooperative agricultural projects) and participate to the financing of small-scale public health or education initiatives, such as complementing the salaries of key community leaders who could be tempted to leave the country. The structure could be entirely managed by the JDC, thereby reducing administrative costs while transferring knowledge locally.

On parallel, The IOM could provide information sessions in the communities for workers leaving abroad through the resources of its information center.

The advantages of such a program are five-fold:

1) It encourages the investment of remittances for the communities' economic development on a cooperative basis.
2) It creates an environment where individual small-scale philanthropy is encouraged, being matched by substantial donor money on a multiplicative basis.
3) It supports the idea that there is a need to support financially the few remaining qualified personnel to stay in their local communities instead of leaving for work abroad.
4) It gives the opportunity for the potential labour migrants to receive information

Box 8. 4 - JDC as Tajik Version of HTA

To address the financial issue and the low level of development of organized philanthropy, international donors might invest in one or two model HTAs which are likely to have positive demonstration effect on other Jamaots to initiate replication of such HTAs. Every effort should be made to turn the first HTAs to become models. Another possibility

is the establishment of 'Diaspora Community Development Funds' to pool and redirect small amounts to SMEs.[182]

II.B.6. Increasing information on investment opportunities

As discussed above, even when remittances are mostly used for consumption, some of the funds are likely to be earmarked for precautionary purposes and may be swept under the rug. The use of precautionary funds could be diverted to productive uses by inculcating the concept of opportunity cost. Government can launch a campaign to discourage conspicuous consumption in things like sunnat tui and instead encourage households to invest their money in productive activities. Government officials have to lead this kind of effort through example and moral suasion.

Channeling Individual Migrant Labor Earnings into micro• nance associations or credit unions:

The idea behind such **MFIs / Credit Union** schemes is to create incentives for more direct productive investments of remittances. Remittances put into microfinance associations or credit unions could be expected to have more of a local impact on pro-poor development. To encourage migrants to invest rather than consume, government might increase the opportunity cost of consumption by offering tax breaks on imported equipment, training programs on skills needed, and matching small enterprise loans. See Box on Credit Unions.

Box 8. 5 - Creating Credit Unions in Tajikistan

The financial system in Tajikistan is very shallow. To our knowledge there are no credit unions in Tajikistan.

Desjardins, an agency created by the largest federation of Credit Unions in Quebec, has facilitated the creation of credit unions in Uzbekistan. It may be possible to work with Desjardins International Development on a preliminary study on the promotion of savings through the development of local credit unions in Tajikistan. Such an avenue could be extremely interesting since it would create capital from local sources (savings, remittances etc.) and provide locally generated sustainable sources of credit.

ADB Uzbekistan gave DID a contract for the

Box 8. 5 - Creating Credit Unions in Tajikistan

Targeting smaller administrative units, such as districts or villages, according to their relative poverty status with exogenously given funds have been shown to have a big payoff. Elbers et al (2004) find that that a useful way forward might be to combine fine geographic targeting using a poverty map with within-community targeting mechanisms. Using "poverty maps" for Cambodia, Ecuador, and Madagascar, they have shown that further gains in poverty reduction may be possible if planners have access to information on household level income or consumption from the targeted communities. Results from the survey of borrowers (not analyzed here) could be useful in

[182] Azad (2005) has proposed such funds in the context of Bangladesh which also has a large number of semi-skilled and unskilled workers who send small amounts of money.

this regard. Recent poverty maps constructed for Tajikistan could be quite helpful in targeting extremely poor areas (Falkingham, 2006).

Evidence in the literature shows that remittance levels would be sensitive to policies affecting relative real interest rates but policies alone would not generate more domestic investment. Governments can bring the horse to the river but cannot make the horse drink. Ultimately, rational individual choice will determine the optimal level of investment. Households are unlikely to risk their capital in a climate that is not conducive to investment while more attractive alternatives exist elsewhere.

II.B.7. E. New Technologies

New technologies and innovations in the provision of transfer services should be explored for possible introduction in Tajikistan. See Box: IMT Card.

II.B.8. Significance of Microfinance Programs in Tajikistan

As the capacity of households to invest the meager saved resources in productive sectors is limited, support of entrepreneurship is needed to allow migrant households to optimize the use

Box 8. 6 -IMT Card

A variant of the Smart phone card is the IMT card. IMT Card is a prepaid, re-loadable and transferable debit card which is not linked to your bank account and is supported by Cirrus and Maestro worldwide.

The card does not carry your name, and is therefore a "No Name" card.

IMT Card works as a multi-purpose debit card which enables the user access to the IMT internet banking facility, as well as the convenience of being able to withdraw cash from more than 800,000 ATMs worldwide which are supported the Cirrus and/or Maestro Logo.

Why an IMT (International Money transfer) card?

Families or individuals around the world can have their IMT card reloaded as often as they want, without having to pay the high transfer fees charged by money transfer companies.

Travelers can also enjoy the security of not carrying large amounts of cash or travelers cheques. Simply use your IMT Card as your electronic wallet and only withdraw the cash you need.

How does a prepaid debit card work?

If you, or a third party, want to transfer money to your IMT Card, you have the following options:

- Bank transfer
- Card to Card transfer
- UKash (Only in UK and Spain)
- ACH (Available within USA only)
- ConveniaLoad (cash deposits within US)
- European Direct Pay (36 European countries)
- European Instant Bank Transfer (Austria, Germany, Netherlands and Switzerland only)

Once the funds have been transferred and registered on our system, the card will be debited with the transferred amount.

The IMT Card is a "No Name Card". The User's name does not appear anywhere on the card. The IMT Card is used in conjunction with a 4 digit PIN (Personal Identification Number) that is known only to the cardholder, completely eliminating the misuse of lost and stolen cards

Source: http://www.imtcard.com/international-money-transfer-card.php

Box. 8. 6. IMT Card

of remittances and contribute to developing the rural economy.

Due to the nature, structure and low density of the economy coupled with an underdeveloped and un-trusted banking system, donor-funded microfinance institutions (MFIs) have become important players in Tajikistan's financial system. Microfinance institutions specialize in providing financial services in areas that are usually avoided by banks because of low density and high cost. In the specific context of Tajikistan, Microfinance programs acquire an added significance and are integral to the fight against poverty. Remittances received by the poor offer highly valuable resource for microfinance institutions to tap into.

II.B.8.1. UNDP Matching Grants Program[183]

In 2005, IOM Tajikistan piloted a UNDP sponsored micro-credit program which involvesd matching migrant remittances that are invested into small businesses by an additional 100% per cent of the total business capital. The maximum loanable amount was of 400 USD for the first round of individual lending. The main target groups were returning labour migrants and remittances receiving migrant households, mostly headed by women in two Jamoats ("Sayyod" of Shaartuz district and "Telman" of Kumsangir district) of the Khatlon Oblast. This initiative aimed at encouraging migrant households to invest remittances for viable livelihoods for migrant families as well as develop a savings habit for productive purposes. To ensure that this initiative does not contribute to the *Mathew effect*, up to 20% of the loans are provided to non-migrant households, vulnerable unemployed youth, internally displaced persons or returnees. [184] For this category of beneficiaries, lower savings contributions are required for participation.

Although the loans are made to individuals, the Matching funds program shares many features of the original Grameen Bank[185] which relies on community solidarity. IOM has worked closely with the Jamoat Development Committee (JDC) and Jamoat Resource Center (JRC), a community based organization developed by UNDP. The JRC selects participants from migrants' households and assesses their capacity based on the availability of their own investment resources (savings and non-cash). Selected participants are trained on business start-up including development of business plans, finance, and business management.[186] Subsequently, they become eligible for micro credits to match savings to finance agriculture, livestock, and small trade projects.

Besides lending to individual entrepreneurs, loans were also provided to cooperatives, matched with labor migrant remittances. Total sum of USD 9,800 including labor migrants' contribution of USD 4,900 was given to ten cooperatives that cover businesses such as lemon

[183] This section draws upon information gathered from IOM during the survey.

[184] *To the ones who have, will be given; from those that do not have, will be taken away! (Mathew)*

[185] Although the idea goes back to 19th century Germany, Grameen Bank pioneered the concept of group liability in recent history of microfinance in a vigorous way. The bank was awarded a Nobel Prize last year - half of the Nobel Peace Prize went to the Grameen Bank and half to its founder, Mohammed Younus.

[186] From February to December 2005, nine monthly trainings were organized in Shaartuz and Kumsangir districts. Topics included the following:

- technologies of fruit bearing tree and vegetables;
- marketing of agricultural products and national legislation;
- ways of increasing the productivity of livestock and preventing livestock diseases;
- basics of microfinance;
- what is the cooperative;
- family budget planning;
- start and improve your business.

farming, bee-keeping, welding services, carpenter works, blacksmith works, mill-house, etc. The annual interest rate of 24 percent was earmarked for community development projects and rehabilitation of local infrastructure. One example of such an activity is the establishment of two IP telephony centers in Kizil Askar village of Shaartuz district and Sotialism village of Kumsangir that enable better and inexpensive communication of labor migrant households with their relatives abroad.

Has the Matching Loans innovation caused an improvement in outreach, impact, and financial self-sufficiency of the program? Participation in the matching funds program can make household wealthier, yielding an "income effect" pushing up total consumption levels, and, ceteris paribus, increase the demand for such normal goods as health, children, children's education, and leisure. But, running a microenterprise may also increase the opportunity cost of time - in terms of foregone income - spent in other activities (such as raising children), yielding a "substitution effect" (pushing fertility rates down) that may further enhance the positive effects of increased income. Given the specific circumstances of Tajikistan, it may be the case that those who chose to participate in the Matching Loans program are already wealthier than the rest of the community because they are recipients of remittances as was found by Coleman in his study of the Thai villages (Coleman, 2002).

While the matching funds program has been replicated by UNDP in many countries and appears to have great promise, the answer to this question requires careful research which is beyond the scope of the present report.[187]

The program has objectives other than outreach and access to finance. Participation in the matching funds program by women can tip the household balance of power in favor of women which is another stated objective of the program. The matching loans program also makes other direct, non-financial interventions, such as the training in entrepreneurship stated above which is expected to increase the human and social capital of participants (McKernan, 2002).

II.C. Improving Coordination with Russia and Other Host Countries

Age is opportunity no less than youth itself.

—Henry Wadsworth Longfellow (1807–82)

There is little recognition in Russia of the immense contribution that migrants from the so-called 'Near Abroad' have been making to the Russian economy. Elastic labor supply from Tajikistan and other countries of CIS is an important factor in the growth of the Russian economy in the face of the demographic crisis. Given the Pay-As-You-Go social security system, Russia needs to have enough working people to contribute to the aging population's pension funds. Both Tajik and Russian governments can sharpen the developmental impact of migration through coordinated application of appropriate policies.

NDS (GOT, 2006) does incorporate negotiation and implementation of relevant intergovernmental agreements with countries employing Tajik workers. It also promises study of mechanisms of legal support for labour migrants, and conclusion of annual contracts with enterprises that use this labour. There are some positive signs of cooperation between Russian and Tajik governments as evidenced by the joint commission set up by

[187] See Karlan et al (2006a), Karlan and Goldberg (2006b), and Karlan and Zinman (2006c), Armendariz de Aghion and Morduch (2005) for an application of the method of controlled randomized trial to assess the impact of microfinance innovations.

the Russian and Tajik migration services to review the implications of the new legislation. The cooperation does not go far enough. Tajiks are particularly subjected to bureaucratic hardships.

II.C.1. Negotiating Reform of the Immigration System in Countries of Destination

Government of Russia should be encouraged through multilateral fora to reform the registration system which has been the source of much of the legal problems faced by Tajik migrants. Russia has yet to ratify the UN and ILO Conventions on the Rights of Labour Migrants (UN Convention (1990), ILO Convention on Labour Migrants No 97, ILO Convention on the Abuse in the Sphere of Migration and on Providing Migrant Workers with Equal Possibilities and Treatment No 143; ILO Recommendations on Migrant Workers No 86 and No 151.).

Complicated rules and regulations have a tendency to be violated. Thus, many Tajiks prefer to bribe their way out of registration than be sent on a wild goose chase by registration office.

The current system of registration and work permits highly counterproductive, inefficient, and inequitable. The main improvement in this regard is the new law on migration registration. In the new law the registration process would be simplified and housing would be treated separately – foreigners only have to notify of their residence and registration could be done at the workplace.

Russian employers prefer to keep their migrant workers off the books so as to avoid paying taxes and insurance payments, and have little incentive to endorse work permit applications as they can do it with impunity. Although under the proposed legislation to go into effect on April 1, 2007, businesses that continue to employ unregistered immigrants will pay hefty fines, the main beneficiaries would not be the intended groups of ordinary Russian citizens but supermarkets and corrupt officials. Thus, while the reforms introduced by the government in July 2006 facilitate the process of legalization, they do not go far enough. Indeed, the ban on migrants from CIS working in retail trade neutralizes most of the positive aspects of the reforms.[188]

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[188] Starting January 15, 2007, there will be a quota of 40 percent on foreign workers at the country's markets; starting April, 2007, there will be a complete ban. Under the new regulations, foreign nationals must account for no more than 40 per cent of the total number of market traders and street vendors before April, and after that they will be banned from selling directly in the informal retail sector altogether – they could work as loaders, cleaners, wholesalers or managers. They are specifically prohibited from selling alcohol and pharmaceuticals. On Russian markets the only sellers could be Russia citizens. Ironically, the law was introduced after a number of incidents, but chiefly unrest in the northern town of Kondopoga where two local men were killed in a brawl with ethnic Chechens who happen to be Russian citizens and not foreigners. A new, 10-day registration procedure for migrant workers, touted as a simplified "one-stop shop" by the Federal Migration Service, would also came into effect on Jan. 15. Also in January, Moscow introduced legislation to streamline the process by which foreigners register for a legal work permit. This is stated to benefit successful applicants, who will be entitled to benefits and legal protection, and reduce the number working in the shadow economy. But, what is given by one hand is taken by the other - the cap on the total number of work permits issued to immigrants from CIS – most of whom do not need visas to come to Russia - at six million, with individual quotas for each country, puts a high premium on work permits and like most permit systems is likely to generate rent for the agencies authorized to issue permits.

Although it is generally believed that the new legislation reflects a groundswell of xenophobic attitudes[189] towards people from Central Asia and the Caucasus, a political economy perspective might reveal the potential beneficiaries to be large supermarket chains and corrupt police officials who would be tempted to enforce these laws lukewarmly in exchange for bribes. Ordinary Russians who are not likely to replace workers from CIS who work under highly grueling and shabby conditions for close to subsistence wages. The ban will not discourage immigration into Russia by CIS nationals even as it makes life more difficult for immigrants but will only hurt consumers who would have to bear the brunt of higher prices resulting from lower competition. Workers denied access to retail trading would try to find other niches. History shows such restrictions have a dialectics of their own as the denial of access to Jewish minorities in Europe to lucrative administrative and government positions induced specializations in business and intellectual activities with unintended consequences that were scarcely anticipated by lawmakers (highly desirable consequences from a long run perspective for the Jewish communities, one might add). We predict that Tajiks will switch to other areas. It would have sectoral effects and may lower average wages in the sectors such as construction, services, and household work that are likely to attract the displaced migrants.

We also recommend that Tajik government work assiduously to seek amnesty for the 50000 or so deported migrants who are not accused of any violent crimes. Besides being harsh, deportations do not achieve the intended purpose – enforcement of laws. Indeed, it encourages illegal behavior in both Tajikistan and Russia. Many Tajiks who were deported have been working in Russia. It is reportedly easy to do so as all they need to do is change their passports and names.

The proposed quotas on migrants from CIS are also likely to have undesirable unintended consequences in inducing illegal behavior and corruption without benefiting the ordinary Russian citizens. Any student of economics can tell that quotas have undesirable consequences and only reduces the efficiency of the market and reduce social welfare. The time-tested moral of the story is: whenever governments try to intervene into an efficiently working market, there are undesirable unintended consequences that are usually just the opposite of what is intended by restrictive regulations.

The reforms keep intact the most egregious of the aspects of the immigration policy, i.e., the policy of internal registration. The reforms are not likely to achieve the states goals, i.e, reducing the number of illegal immigrants, limiting the shadow economy, and creating job opportunities for Russians.

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[189] Movement Against Illegal Immigration (DPNI) (Russian: Движение против нелегальной иммиграции — ДПНИ) is a Russian far-right anti-immigrant organization that has become almost symbol of Xenophobia. Their slogan is: "Russia for Russians." The organiztion is led by Aleksandr Belov (Potkin) former member of ultra-nationalist Pamyat. DPNI was created on July 10, 2002, in reaction to ethnic violence between residents of a Moscow's suburb and illegal immigrants from the South Caucasus republics. DPNI has organized a number of anti-immigrant rallies throughout Russia over the last few years. It also takes part in carrying out the annual Russian March, a Russian ethnic pride display and protest event. In our opinion, the movement gets more press than is warranted by its support among the Russian population.

II.C.2. Transfer Services

Although there are already several Tajik banks operating in Russia, access of poor migrants and their families to formal financial services for sending and receiving remittances could be improved further through public policies that encourage expansion of banking networks (for instance, by lowering capital requirements on remittance services) and improve competition in the remittance transfer market to provide low-cost remittance services. Given the near zero marginal cost of transferring funds, there is a huge amount of rent that has been accruing to the few major players in this market. Major cost reducing innovations have been taking place all over the world but the oligopolistic structure of remittance transfer services and relatively low level of internet penetration has prevented such innovations from being introduced into Tajikistan.

II.C.3. Teaching of Russian

Tajik authorities should seek help from the Russian government in improving the quality of teaching of the Russian language. The Russian-Tajik Slavionic University is an important institution in this regard as is the Russian school in Dushanbe. However focus should be on improvement of proficiency at elementary and secondary levels across the country.

II.D. Promoting the Role of Diaspora in Leveraging Remittances for Development

II.D.1. Bhagwati's Diaspora Model

A large Diaspora can expand market access for origin countries. There must be a seismic shift in the way the migration problems are addressed. Instead of looking at migration as a problem, it's better to develop a "Diaspora" model in the emigration countries and put in place integration strategies in the immigration destinations

In his 2003 article, the famous international trade theorist, Jagdish Bhagwati proposed a 'Diaspora' approach to the migration of skilled workers from the developing countries. The Diaspora approach makes a virtue of necessity by recognizing that the developing countries cannot stem the tide of emigration of highly skilled labor to developed countries. But borders are out of control and little can be done to really cut down the flow. It's difficult to keep the highly skilled at home country and also to prevent them from working in the developed countries. Societies should see international migration through the prism of opportunity, rather than fear. To quote Bhagwati:

> A realistic response requires abandoning the "brain drain" approach of trying to keep the highly skilled at home. More likely to succeed is a "Diaspora" model, which integrates present and past citizens into a web of rights and obligations in the extended community defined with the home country as the center. The Diaspora approach is superior from a human rights viewpoint because it builds on the right to emigrate, rather than trying to restrict it. And dual loyalty is increasingly judged to be acceptable rather than reprehensible. This option is also increasingly feasible. Nearly 30 countries now offer dual citizenship. Others are inching their way to similar options. Many less developed countries, such as Mexico and India, are in the

process of granting citizens living abroad hitherto denied benefits such as the right to hold property and to vote via absentee ballot.[190]

II.D.2. Lessons from the Armenians

The old Armenian Diaspora in the U.S. and elsewhere is highly organized and has long-established institutions representing it politically, socially, and economically. Its capacities to take collective action on behalf of Armenia are high. Tajik Diaspora is much less well organized. Nonetheless, civic institutions have formed in the new Diasporas in Russia in recent times. Tajiks can take a cue from the Armenian Diasporan communities that have played a key role in the political and socio-economic life of Armenia. (Aghajanian 2005, Roberts, 2004) even though the Armenian Diaspora is more diverse and has a strong sense of identity.

II.D.3. Initiatives to Enhance Linkages with the Diasporan Community

There is little sign of any realization among Tajik policy makers yet of the immense leverage Tajikistan can potentially bring to bear with its large Diaspora in Russia. To our knowledge, this concept has not been discussed anywhere. Tajik Diaspora (including the people of Russian and German ethnicity who left Tajikistan during the transformational recession and the civil war that attended upon the breakup of the former Soviet Union) can help Tajikistan in a variety of ways: skills and technology transfer, investment, and trade.[191]

We propound here some initiatives that can strengthen linkages between Tajikistan and the Tajik Diaspora in Russia and elsewhere and intensify diasporan economic involvement. The strengthening of linkages with the Tajik Diaspora in Russia acquires added significance and urgency in the light of the growing trend towards settlement that appears to be visible following the dual citizenship laws, shortened waiting period to acquire citizenship, the realization by migrant workers of the premium attached to citizenship, and the growing realization in the official circles in Russia of the alarming demographic deficit Russia is confronted with. If the character of Tajik migration to Russia changes from temporary and seasonal to permanent migration, more and more Tajikistan will have to rely on its diasporan communities for remittances, direct investment, transfer of technology and skills, trade, and above all, ethnic tourism, which in our opinion, must become of strategic significance for the Tajik economy in the medium to long run.[192] In this context the Five

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[190] Bhagwati, J. 2003. "World Needs a New Body to Monitor Migration". Financial Times. October 24, 2003. Realizing the free rider problem inherent in a unilateral approach, Bhagwati has proposed a new international organization, World Migration Organization, modeled on WTO. Thus, schemes to encourage remittances are implemented worldwide; dual nationality is increasingly granted by many nations (including Russia). Bhagwati draws attention to the point that India and Mexico have embarked on a massive effort to integrate their citizens abroad with their home countries. The obligations would primarily include taxation by source country, just as the United States taxes its citizens abroad on the basis of citizenship, unlike Europe which taxes by residence; my proposal is widely known as the Bhagwati Tax proposal, like the Tobin Tax, and it has been revived in the last few years by several economists, politicians and some NGOs. This is beyond the scope of this report and will not be pursued further. Interested readers can read the article cited above.

See Nikas, Christos, and Russell King. (2005).

[192] The NDS endorses diversification of the Tajik economy through the development of the tourism industry: "Tourism policies will be upgraded to create the necessary infrastructure and to increase potential

T'smentioned above – transfers, tourism, transportation, telecommunications, and nostalgic trade - acquire added significance.

II.D.3.1. Co-opting NGOs in Countries of Destination

Tajik Diaspora organizations are virtually non-existent. Although some civic institutions have been formed in Russia in recent times[193] and are providing valuable service to the Tajik migrant community but they are more focused on providing legal protection and the improvement of the conditions of Tajiks *in Russia* rather than the specific goals of enhancing remittances and increasing their developmental potential for Tajiks staying home that we are trying to address here.

II.D.3.2. Business Mentoring Program and SME Development[194]

One promising initiative to pursue is enlisting experienced diasporan businesspeople to provide mentoring services to potential Tajik entrepreneurs. Potential entrepreneurs could be selected on the basis of proposed project quality and willingness to invest personal funds. This requires concerted effort on the part of Tajik embassies.

Tajik university of commerce in cooperation with IOM & EDNET could provide training to the potential entrepreneurs. Business people willing to volunteer their time to work with the potential entrepreneurs could be recruited from Tajik Diaspora in Germany, the U.S., and Russia by a diasporan organization.[195] Matching financing could be provided to the entrepreneurs if their project looks promising and they are willing to invest their own funds. Alternatively, a business administration program specializing in entrepreneurship can be initiated at Tajik University of Commerce. USAID, Ford Foundation, Eurasia Foundation, and German development assistance funds could be approached to provide seed money. This initiative could straightforwardly be organized as a public-private partnership, or GDA. The overriding goal of such a specialized business administration program would be to get new SMEs off the ground.[196]

II.D.3.3. Facilitating the entry of strategic foreign investors

Facilitating the entry of strategic foreign investors into Tajikistan may boost the efficiency of domestic banks. While migrants may not directly invest in businesses, it may be possible to improve incentives for them to deposit more savings in banks. (IMF, 2006). In that context, the presence of strategic foreign investors would inject more competition in the market. Targeting migrants and their families back home with packages of banking services may have a beneficial effect on the economy through increased bank intermediation of savings.

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for the development of tourism" (NDS, p. 27). Two organizations that deserve special mention are Insan and Gavkhar Juraeva's NGOs and Sharipov's League of Tajiks).

163The most famous is Tajikistan Foundation.

[194] Roberts (2004) has discussed such a program in the context of Armenia.

[195] Tajik Diaspora in America

[196] The University of Southern California program in entrepreneurship can provide a template for such program. See www.usc.edu.

III. Securitization of Remittances – A Novel but Potentially Practical Idea

Remittances can be uses as collateral to raise funds in the international capital markets at lower interest rates Brazil, El Salvador, Mexico, Panama, and Turkey have managed to raise funds by issuing remittances – backed bonds.[197]

Intriguing as this idea may be, we don't expect Tajikistan to be able to securitize remittances for two reasons: the extremely low level of development of Tajik banks with no experience in issuing bonds, and the high correlation of economic conditions in Russia and Tajikistan that could put Tajikistan in a financial bind. This remains an option for the future. Thus, for this to be a viable option in the future Tajikistan must diversify the sources of its remittances and the Tajik banking system must develop enough to undertake such a risky enterprise.

[197] Johnson and Sedaca, 2004, p.52; GEP, Ratha, p. 27.

Chapter IX - Recommendations - Policies to Boost the Volume of Remittances

"Men and nations behave wisely once they have exhausted all the other alternatives."
- Abba Eban

One of the findings from this report that should have struck the prescient reader is that of the relatively low level of remittances transferred by Tajik migrants on a per capita basis. Tajikistan has the lowest per capita remittance transfers among all the CIS countries. Although policies to leverage remittances for development may indirectly contribute to the volume of remittances transferred by migrant workers, we present some concrete proposals to enhance *the size of remittances* given the specific circumstances of Tajikistan.

I. Expanding the size of remittances from Russia

I.A. Enhance the Russian language proficiency of the population.

Many studies have shown that immigrants earn a significant language premium in the host countries' labor market. The relatively low level of wages of Tajik workers in Russia may be partly explained in terms of the poor command of the Russian language that recent Tajik high school graduates/dropouts have. The low proportion of women may also be partly explained by the relatively lower Russian proficiency of Tajik female workers relative to workers from other more urbanized countries of Central Asia, such as Kyrgyz Republic and Uzbekistan. Younger members of the Tajik labor force seem to have a much weaker command over the Russian language, lowering their marketability and wages.[198] Low proficiency in Russian may be a critical factor in explaining why Tajik workers in Russia earn the lowest wages of all immigrants, and/or why they are subjected to harassment more than any other immigrant group.[199]

To increase the earnings of Tajik workers in Russia and to reduce the potential for harassment, Tajik government should take measures to encourage literacy in Russian, particularly at the village level. High proficiency in Russian should also help marketability in other rich CIS countries, such as Kazakhstan.[200] As mentioned earlier, Tajik authorities should seek help from the Russian government in improving the quality of teaching of the Russian language at the elementary and secondary levels.

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[198] In Tajik villages of Khatlon oblast, the younger generation seems to have little or no knowledge of Russian.

[199] The growing importance of proficiency in Russian and English has been recognized at the very highest level in Tajikistan. The 2003 presidential decree led to the establishment of a Government Commission on Improving the Teaching and Learning of Russian and English in the period 2003-2013. This decree needs to be given some teeth.

[200] Although our survey shows little migration to Kazakhstan, there are considerable regional differences. According to a WB survey conducted for the Trade Diagnostic Report (World Bank 2005), the number of Tajiks migrating to Kazakhstan exceeded the number going to Kyrgyzstan and was as high as 14 per cent, compared to only 3 per cent for Kyrgyzstan (Table 3

I.B. Improve the educational status of the labor force.

Our survey results have shown the low level of highly educated workers among Tajik migrants in Russia, the low quality of higher education in Tajik universities notwithstanding. The proportion of expenditure on education in Tajikistan has witnessed a precipitous decline since the breakup of the Soviet Union and remains very low. Many studies of earnings have found educational level to be a significant determinant of wages. Given the positive externalities of education, this is again one area where the government has an appropriate role to play.

Forty percent of Tajikistan's population is under 15 years of age. Tajikistan can turn its demographic pyramid into a pyramid of future prosperity if these young people are educated properly and if the government can help people acquire skills that are in high demand internationally. With a higher level of education consistent with the information age, Tajikistan can diversify its overseas sources of income and increase the amount of remittances significantly.

II. Digression: Path dependence of Tajik economy and the lock-in effect

A major challenge of transition has been to overcome the inefficient relationships that members of COMECON were locked into. Tajikistan remains tethered to the Soviet system. The lock-in effect explains why Tajikistan's relationship with the rest of the world is almost tangential and tenuous. See Table 9.1.

The agreement concluded with Russia in 2004, beneficial as it is, has the potential to strengthen the lock-in effect. A combination of high economic growth, the Russian debt deal, and proposed large investments in Tajikistan's hydroelectric and aluminum sectors by Russian entities could also affect the reforms adversely as these may lead the authorities to believe that additional reforms can wait. Given Tajikistan's fragile economic and social setting, any slackening of the reform effort, especially in governance, state owned enterprise accountability, cotton, and energy sectors, would not only render the goals set out in NDS unattainable but put recent gains at risk (GOT, 2006).

Tajikistan's recent successes also present a risk to the implementation of this (World Bank, 2005a, pp. 27-28). Tajikistan must find a way out of this potentially low equilibrium trap. She is in a vicious circle.

Economic relationships with Russia are highly important but these should be no excuse for not exploring other possibilities. If things remain as they are and China's Xinxiang province develops and liberalization continues, the road from Murghab to Kashgar is likely to see considerably more traffic.[201]

Chinese tourist market remains untapped. Shanghai cooperation council (SCO) has become an important regional organization. Tajikistan should use this forum to promote economically beneficial linkages with regional powers. The rich Chinese who flock to Europe to spend their newly acquired wealth should find Tajikistan irresistible if she projects herself to her best advantage. The potential electricity generation capacity of the country could be used to export electricity to neighbouring countries—Pakistan,

[201] It has already reduced the cost of imports from China considerably, particularly for the residents of Khorog region (communication with the head of Khorog Chamber of Commerce).

Afghanistan, Iran, Kazakhstan, India, and China. This, along with tourism, is the most promising area for FDI.

Development is contagious – of all the neighbors, China is the most promising. Exposure to China is expected to have significant and positive demonstration effect on Tajiks.

Table 9.1 Share of the CIS and Other Countries of the World in Total Exports and Imports of Individual CIS Countries (in per cent)

	2000	2002	2003	2004		2000	2002	2003	2004
	Exports					Imports			
Azerbaijan									
CIS countries	13,5	11,2	12,9	17,0		32,0	39,1	32,4	34,3
other countries	86,5	88,8	87,1	83,0		68,0	60,9	67,6	65,7
Armenia									
CIS countries	24,4	19,1	18,8	17,3		19,6	30,6	22,0	21,5
other countries	75,6	80,9	81,2	82,7		80,4	69,4	78,0	78,5
Belarus									
CIS countries	60,0	54,7	54,6	53,1		70,2	69,2	69,6	72,2
other countries	40,0	45,3	45,4	46,9		29,8	30,8	30,4	27,8
Georgia									
CIS countries	40,0	48,8	49,2	50,7		32,4	36,9	32,5	35,6
other countries	60,0	51,2	50,8	49,3		67,6	63,1	67,5	64,4
Kazakhstan									
CIS countries	26,5	22,7	23,1	20,4		54,2	46,2	46,8	47,9
other countries	73,5	77,3	76,9	79,6		45,8	53,8	53,2	52,1
Kyrgyzstan									
CIS countries	41,1	34,7	34,6	38,3		53,9	55,0	57,3	61,9
other countries	58,9	65,3	65,4	61,7		46,1	45,0	42,7	38,1
Moldova									
CIS countries	58,6	54,4	53,6	51,0		33,5	39,4	42,3	43,3
other countries	41,4	45,6	46,4	49,0		66,5	60,6	57,7	56,7
Russia									
CIS countries	13,4	14,7	15,3	16,2		34,3	22,0	22,9	23,5
other countries	86,6	85,3	84,7	83,8		65,7	78,0	77,1	76,5
Tajikistan									
CIS countries	47,7	25,5	17,4	17,4		82,9	76,0	68,0	69,6
other countries	52,3	74,5	82,6	82,6		17,1	24,0	32,0	30,4
Turkmenistan									
CIS countries	52,4	52,1	45,8	...		38,0	35,6	48,9	...
other countries	47,6	47,9	54,2	...		62,0	64,4	51,1	...
Uzbekistan									
CIS countries	24,7[1)]	...	...	...		27,8[1)]	...	...	...
other countries	75,3[1)]	...	...	...		72,2[1)]	...	...	...
Ukraine									
CIS countries	30,9	24,4	26,2	26,2		57,6	52,8	50,0	52,4
other countries	69,1	75,6	73,8	73,8		42,4	47,2	50,0	47,6
				1) 1998					

Source: CIS State Statistical Committee

III. Tajik vulnerability and the Need to Diversify Destination Countries and the Migrant Pool

Almost ninety percent of Tajik migrants work in Russia. Why is Russia the almost exclusive country of destination for Tajiks? Several factors seem to have locked Tajiks into working almost exclusively in Russia – strong historical and linguistic relationships between Russia and Tajikistan, a visa free regime, relatively low cost of travel, presence of large Tajik enclaves so that not knowing even the Russian language does not pose a significant obstacle in finding a job and settling down, lack of mobile and flexible intellectual and human capital (such as knowledge of English) that could be used in other destination countries, and absence of significant colonies of Tajik migrants in other promising markets for Tajik labor.

While the Russian labor market is a life-saver for many Tajik households, from a macro perspective, monogamy in international economic relations may not be conducive to uninterrupted self-sustained growth as it makes the country vulnerable to the health of the single partner. There are factors in the host countries that might affect the level of remittances. A decline in remittances if Russia wereto restrict entry for seasonal workers from Tajikistan could bring about a significant external shock to the Tajik economy.

Diversification is essential to mitigate this risk. Just as commodity exporters must actively seek new markets and design and adapt their products to market demand, Tajikistan must seek new partners for its labor. She is a virtual hostage to demand for her labor in Russia. In putting all of its eggs in one basket (i.e., Russia), Tajikistan may be selling itself short.

The strategic importance of migration and remittances in the light of the geographic and historical situation elaborated above needs to be fully recognized.[202] We cannot overemphasize the central point of this report, i.e., *migration is trade through different means.*[203] The benefit to migrant workers from migration are similar to the benefit to them from exporting unskilled-labor-intensive goods just as the competition that less-skilled workers in labor importing countries face is similar to the one posed by the import of unskilled-labor-intensive products from the labor exporting countries (Winters, 2000). The welfare effects of migration are similar to the welfare effects of trade.[204]

Thus, Tajikistan should make a virtue of necessity. Tajikistan should realize its main comparative advantage lies in exporting its labor.

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[202] We are pleased to note that a recent World Bank study arrived at the same conclusion independently of us. World Bank, *Trade Diagnostics, 2005).*

[203] We recognize the stretch in this position. Human beings are not just factors of production. Analysis of the domestic labor market from the economic perspective is different from the analysis of other factors of production. Thus, there are differential norms for cross border flow of people versus trade in goods and capital. Human rights often govern the flow of people across borders. Indeed, a significant proportion of international movement of people is governed by the international refugee regime. None of this should, however, detract from the key insights to be gained from this perspective.

[204] Winters (2000) estimates that world welfare will go up by more than $150 billion per year if developed countries were to increase their quota of international temporary workers by 3% of their workforce.

Box 9. 1 Armenia's Phoenix like Rise from Ashes and Remittances

Devastated by a bloody war with Azerbaijan, Armenia has recently emerged like a Phoenix from ashes as the fastest growing CIS economy over the last several years. Although no rigorous study has been conducted to account for the phenomenal growth of Armenia, descriptive analysis has shown that remittances may have played a key role in this turnaround. Armenia, a country almost half as populated as Tajikistan , receives remittances much greater in absolute amount to those of Tajikistan. The main reason: a diversified portfolio of destination countries and a large Diaspora population in high income countries such as the United States. It is this exposure to the United States and overall competence in IT and English that goes far to explain why Armenia has the highest ratio of Green card lottery winners relative to population. See Box: A Simple Test

III.A. Promoting General Purpose Technologies (GPT)

An important vehicle of diversifying the pool of destination countries for Tajik labor is *the acquisition of general purpose technologies*. The concept of a general purpose technology could serve as a useful guide in devising a long term strategy.[205] Lipsey et al. (1998a) define GPTs as a technology that initially has much scope for improvement and eventually comes to be widely used, to have many uses, and to have many spillover effects. They observe that these fall into six main classes: energy (electricity), materials, ICTs (computer, Internet), transportation (railways, internal combustion engine/automobiles), machinery and organisational methods (e.g., mass production).

What is the special role of GPTs in development? GPT can enable a small country with limited market size behave as if it can produce a number of different things on demand.

Box 9. 1 Armenia's Phoenix like Rise from Ashes and Remittances

Just as a flexible production structure was found to have been the key factor in bringing about the Japanese miracle,[206] Tajikistan needs mobile and flexible intellectual assets that can be deployed in multiple places in an increasingly globalized economy.

Given the specific geographic circumstances, the country is likely to make itself more viable if it concentrates on acquiring general purpose technologies or GPT. Acquisition of GPT should enhance the mobility of labor and make Tajikistan less vulnerable to economic shocks in a single destination country.

We would like to argue that English and IT are two major forms of GPT easily available in the contemporary world and Tajikistan would do well to promote them on s for reasons discussed above.

III.A.1. A. English As GPT

In what sense is English GPT? Tajikistan must realize that this is the English century and there is a huge premium on English in the international labor market, including the Russian labor market. Although we haven't found a rigorous study, there is considerable

[205] Key references here are: Lipsey et al (2005) and Helpman (1998)

[206] See the "The Japanesse Miracle" by Deyo et al. The main thesis of Deyo is that it was the flexible production structure that enabled the Japanese to claim the lion's share of the auto market.

anecdotal evidence to suggest that even Russia offers a big premium on labor that is proficient in both Russian and English. The English language proficiency of Tajik population is, in general, abysmally low compared to countries like Kazakhstan or even Kyrgyzstan.

Thus, an integral part of economic diversification is enlargement of the English speaking capacity. *While enhancing the proficiency in Russian is like acquiring a 'regional' general purpose technology, enhancing proficiency in English language is like acquiring a 'global' general purpose technology.* English ought to be properly viewed as GPT and should be made compulsory at the beginning level of education. It would enhance the mobility of Tajik labor, particularly women, beyond Russia and make Tajikistan less vulnerable.[207]

There is a great demand for English but little support has materialized from the Western donors.[208] There is plenty of help available from the English speaking world but it needs to be actively sought.

In addition to the countries where English is a native language, exposure to the Gulf, Malaysia, and other new labor importing countries where English is frequently used in business and official circles can create an alternative source of remittances.[209]

III.A.1.1. Inviting the British Council in Tajikistan

Government of Tajikistan should approach the British government to open a branch of British Council. British Council in Uzbekistan is supposed to support the activities of British Council in Tajikistan as well. Given the frequently tense relationships between the two countries, and given the high level of English deficit in Tajikistan, British government should consider opening a separate office in Dushanbe.[210] It is likely to boost the intellectual and cultural life of the country several notches in addition to promoting the knowledge of English. The BC has done a tremendous job of promoting English even in the Kurdish part of Iraq and China.[211] See the Box: British Council in China.

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[207] We are aware of issues of culture involved in the linguistic policy of a country but this is beyond the scope of this report. Interested readers can consult (Atal, 2003).

[208] Based on the author's extensive travels in the region, it appears that Tajikistan is the least English-exposed country in the entire Central Asia (with the possible exception of Turkmenistan). The Civil War kept the international donors out for a long time. Fulbright did not even have a presence until last year. while the author was an Associate professor at *Kazakhstan Institute of Management, Economics, and Strategic Research* (KIMEP), USAID contracted out to KIMEP a $45000 'fact-finding' study on Tajikistan.

[209] Anecdotal evidence shows that it has already been happening. Many Tajiks acquire English skills to be able to work in the retail business, restaurant, and other services sectors in Dubai where they can earn on average 70-80 dollars a day. This requires further investigation, and, is beyond the scope of this report.

[210] It is hard to understand why British Council has 13 centers in Russia and not one in Tajikistan.

[211] Salusbury, Matt. Times Educational Supplement, 5/13/2005 Issue 4634, p20-20, 1/3p; (*AN 17163569*

Box 9. 2 - British Council and English Language Teaching in China

Since the early 1980s Britain has been providing continuous and consistent official support and assistance to China for the teaching of English as a foreign language.

"Sino-British co-operation in ELT was formalised in 1979 after the signing of the first Cultural Exchange Agreement between the two governments. The ELT development projects exhibited the major characteristics of most aid-funded development projects including input from expatriate specialists and provision of 'on-the-job counterpart training'. Typically, in order to seek sustainability, a subgroup of Chinese counterparts is selected, on merit, to receive Master's level training at a British university and, on return, take over the role of the British specialists.

The fundamental policy objective of the British Council ELT projects—as described by the former British Council Beijing second secretary—was to assist China's economic development and trade."

Gu Qing. 2005. "The perception gap in cross-cultural training: an investigation of British Council English language teaching projects in China."International Journal of Educational Development Volume 25, Issue 3 , May 2005, Pages 287-304

Box 9. 3 - English and the South East Asian Tigers

Of the four original Asian Tigers, two are English speaking – Singapore and Hong Kong. The other two, Taiwan and South Korea made huge investment in English. The greatest advantage that India has is the vast reservoir of English language ability that exists in the country. Like Singapore and Hong Kong, the new tigers, Malaysia benefited tremendously from inheriting a vast reservoir of English from the colonial period. Even China's phenomenal growth cannot be separated from vast reservoir of English in its backyard in Hong Kong as well as Taiwan. Investment by Hong Kong Chinese entrepreneous into the Export processing zones, such as Shenzen, has been a critical factor in China's takeoff into sustained high levels of growth.

III.A.1.2. A plea for an American university of Tajikistan.[212]

To this day, Tajikistan does not have a wholly English medium institution of higher education. American universities in many transition countries have been instrumental in promoting Western style education as well as the English language. American universities in Armenia and the Kyrgyz Republic are cases in point.[213] Tajikistan should encourage the creation of such an institution. See Box: American University of Kyrgyzstan.

Specific Steps to Tap the English speaking Immigrant Countries

Diversification of destinations into other English-speaking high income areas is highly valuable for the Tajik economy. Diversification into the advanced countries is likely to have an additional spin-off benefit in terms of the transfer of ideas, norms, and attitudes. This is also likely to have a positive effect on the status of women in so far as migrants transplant a more egalitarian ethos to the country of origin. This is a form of 'social remittances'.

[212] A good sign is the recent restoration of the Fulbright Program in Tajikistan.
[213] Information about American University of Armenia is available at http://www.aua.am/

III.A.1.3. Seeking help from English speaking countries to promote English at the Elementary and Secondary Level

Tajik Government should seek help from English speaking countries to promote the teaching of English at the elementary and secondary school level.

III.A.1.4. Targeting the Point System Based Immigrant Countries

Canada, Australia, and New Zealand, all have a points-system based immigration policy whereby individuals can self-assess their ability to emigrate to these countries and, if deficient, can acquire appropriate skills and experience to meet the eligibility requirements. Both Australia and Canada widely publicize the areas of labor shortage. Presumably Tajiks cannot take advantage of the Australian and the Canadian immigrant market mainly because of the low English proficiency and inadequate access to Internet. Perhaps, Tajik Ministry of Labor can at least keep itself abreast of the trends in international labor market and disseminate the information for the benefit of would-be migrants. Few would-be migrants in Tajikistan would know that it is possible to emigrate to work in many advanced English speaking countries without significant cost provided one has the right kind of skills.[214]

The worker who is working for a Russian oil and gas company earning $5000 a year can make ten or twenty times the amount working in the Canadian Oil Sands in Alberta.[215] Government's role as a provider of information can be highly useful in helping migrants find alternative destinations. Canadian Oil Sands have created a huge demand for workers in the oil, gas, construction, and mining industry.

The government of Tajikistan might consider approaching CIDA to discuss the possibility of a guest worker program for Tajik workers who have acquired skills working in Russia in the above fields.

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[214] During the author's visit to rural areas in Khatlon, the author visited many schools in villages and asked the following questions, "What would you like to become after you have finished education?" Almost every girl replied that she wanted to be a seamstress and almost every boy replied that he wanted to be either a doctor or a teacher! Obviously, there had been little exposure to the alternatives beyond what they had seen in the village.

[215] The shortage of labor in Canada forced Canadian government recently to to expand the Off-Campus Work Permit program for international students. Intended to be introduced in all provinces eventually, it allows students from select private educational institutions to obtain off-campus work permits while in the country under a student visa. Previous to this program, students could only work on-campus at the institution they were attending and, only international students attending public universities could apply.. The first province announced is Alberta, where the demand for labor has been increasing sharply due to opening up of the Oil Sands.

Box 9. 4 -Wiring Macedonia: Giving Every Macedonian Student a Gateway to the World

Just a little over three years ago the President of Macedonia left for an official visit to China and returned with a promise and a dream: to increase the number of computers available to school children. Macedonia, a landlocked country about the size of the U.S. state of Vermont, has over 400 primary and secondary schools scattered across its mountains, deep basins and valleys. In 2002, it is estimated that less than half of them had working computers.

As of September 2005, labs filled with computers running new Microsoft software were operating in all primary and secondary schools. An army of teachers, 6,000 strong, newly trained in basic IT, are ready to help students get started. Schools, which two years ago didn't even have a telephone, now have a link to the entire world. Every lab has broadband internet access via the country's first nationwide wireless broadband network, a direct result of the complex consortium of many partners that emerged from a seemingly straightforward donation of 2,000 basic computers.

Like many consortia, this one was not born naturally - it evolved. And like most ambitious dreams, this one did not just happen – it depended on visionaries and creative thinkers to make it a reality. The public-private consortium included the Government of Macedonia (GoM), its Ministry of Education and Science (MoES), the U.S. Agency for International Development (USAID) (wired computer labs and teacher training), the People's Republic of China (PRC computers), and Microsoft (software).

Lessons Learned

Partnerships can work. Donations cost money. Timing is important. Having the right regulatory environment is critical for internet growth. Basics? such as security, insurance and maintenance matter. If possible, think globally. And finally, the real work is just beginning.

III.A.1.5. The Cost Disease of the Services Sector in Advanced Countries and the Project of Empowering Tajik women

It is our view that *the project of empowerment of women is doomed without economic parity*. Predominance of males in the emigrant population guarantees widening in equality and continued subservience of women.[216]

Empowerment of Tajik women rests upon their inclusion in the emigrant pool. Increased migration of women will not only improve women's economic position, but is also likely to ease tensions in the receiving society.[217]

If countries of destination are diversified in favor of European and advanced English speaking countries, we might see an increased proportion of women among Tajik migrants as the demand in these countries are mostly in the services sector where women may have a

[216] We recognize the possible harmful sociological effects, such as delinquency among children left behind. This should be considered more deeply but is not within the scope of this report.

[217] One reason why predominance of males in the migration cohort might create social tension in the receiving countries is that a massive number of young male migrants can disrupt the demographic balance in the marriage eligible group and result in increased competition among native and immigrant men for the same pool of women, ceteris paribus. Migration of Tajik women is likely to ease social tension in receiving countries. Some social scientists have linked the recent rise of violence in China to the demographic imbalance created by China's one child policy. See Hesketh, Therese and Zhu Wei Xing. 2006. 'Abnormal sex ratios in human populations: Causes and consequences'. *Proceedings of the National Academy of Sciences (PNAS)*; "Too many men could destabilize society," available online at http://www.scienceblog.com/cms/too-many-men-could-destabilize-society-11397.html. Contrary to some analysts, the presence of Russian troops in a situation of mass migration from Tajikistan into Russia is a positive factor in bridging the gulf and bringing down the walls of prejudice. With the exception of a vocal minority, Americans, in general, do not have negative views about immigrants from poor Latin American countries (cite) partly because of frequent travels and even American (mainly retirement) communities in many parts of Mexico. The development of the tourism industry in Tajikistan will have the added advantage of increased interaction between Tajik and natives from immigrant receiving countries. Although we don't have hard evidence to present at this time, it has been observed that the presence of women among immigrants has a softening and civilizing effect on host societies.

comparative advantage. Tajik health workers and nurses seem to have great promise of finding jobs in advanced countries that suffer from what is called the cost disease of the services sector.[218] Since women are disproportionately represented in this area, this strategy is doubly blessed. Nothing will contribute to the empowerment of women more than creating employment opportunities. However, the language barrier needs to be overcome.

An additional argument in favor of including women in the pool of migrants is that maintaining remittance flows at high levels requires a steady flow of new migrants or tapping into new high value destinations. This is all the more necessary if migrants settle in the receiving countries permanently resulting in reduced flow of remittances and Second generation migrants, however, are likely to send smaller amounts.

We believe for Tajikistan it is imperative that *the country realizes the centrality of migration for self-sustained growth of the economy in the short and medium terms and its role as a substitute for trade.*

The recent direct service from Dushanbe to Istanbul is promising as it facilitates exposure to an alternative market for Tajikistan labor. It has been found in case of Moldova that female migrants have found a highly receptive market in Cyprus, Greece, Turkey, Italy, and Spain, reflecting demand from the tourism sector (e.g., Cyprus) and for household help (e.g., Italy and Turkey) (Ruggiero, 2005)[219]

To avoid the adverse impact that the health sector might suffer if there is a mass exodus of health workers, there may be a justification for the government of Tajikistan to manage the process of migration by negotiating bilateral Guestworker agreements for health workers with oil rich Gulf countries.

III.A.1.6. Diversity Visa

US government grants about 55000 green cards every year through a lottery system. Dissemination of information in Tajikistan about such a program relative to other CIS countries is highly inadequate for the two obvious reasons mentioned above. It was shocking

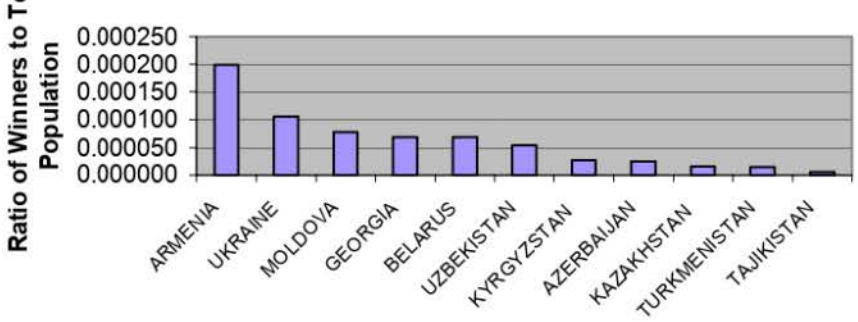
[218] The concept of the cost disease of the services sector was propounded by the economist William Baumol who argued that productivity gains in services (education, performing arts, health etc) are more difficult to realize than the gains in the manufacturing and agricultural sectors (thanks to technological innovations in tools and equipment), because, productivity increase in services would imply a higher client/producer ratio (such as more patients per doctor). Baumol pointed out that the same number of musicians are needed to play a Beethoven string quartet today as were needed hundred years ago; that is, the productivity of Classical music performance has not increased. Thus, the amount of time taken by a nurse in changing the diapers of an incapacitated patient has not reduced in decades since the introduction of diapers. The cost disease of the services sector was cited as one of the potential causes of the productivity decline in the U.S. after 1973. In the absence of these productivity gains in the services sector, any wage increases is likely to be translated directly into higher prices, making it very difficult to obtain the growth rate in real wages (Nominal wages/price level). See Heilbrun, James. 2003. *Baumol's Cost Disease. A handbook of cultural economics.* Edward Elgar.

[219] We would like to add the caveat that women are susceptible to exploitation in these markets and, therefore, the government must educate would be migrants about the possible hazards.

Box 9. 5 - A Simple Test of Tajik Proficiency in English and Information Technology: How Many Tajiks Play the Green Card Lottery?

The annual DV program makes 5 5000 green cards available to persons meeting the simple eligibility requirements, i.e., they have a high school diploma and sufficient understanding of English to submit an application online within a certain time period. Applicants for Diversity Visas are chosen by a computer-generated random lottery drawing. The visas, however, are distributed among six geographic regions with a greater number of visas going to regions with lower rates of immigration, and with no visas going to citizens of countries sending more than 50,000 immigrants to the U.S. in the past five years. Within each region, no one country may receive more than seven percent of the available Diversity Visas in any one year.

Figure 9.1: A Simple Test of English and IT Proficiency: Winners of 2007 US Diversity Visa Lottery Proportion of winners/population



Dissemination of programs such as the diversity visa program (popularly known as the 'Green Card Lottery') of the United States requires access to Internet and basic knowledge of English. It was shocking for the author to learn how few applications are sent from Tajikistan to compete in a costless bid for immigration to the U.S. In addition to low proficiency in English and lack of easy access to Internet, low level of applications also reflects the low level of immigrant stock in the U.S. from Tajikistan – ceteris paribus, countries with high number of immigrants already present are likely to have greater probability of information about the lottery. Armenian and Ukrainian Diasporas in the U.S. provide significant network externalities to prospective migrants.

Why Do All Muslim Republics Have A Lower Ratio of Winners?

It was noted during a seminar presentation that no Muslim republic has a higher proportion of winners to population. This could be interpreted in a number of ways. In the absence of figures for the number and religious origin of players from each country, we cannot infer anything about religion of the applicant being a significant explanatory factor. In any case, one then also has to explain large differences that exist among Muslim republics. For instance, the ratio of winners to population in Uzbekistan is almost 8 times higher than that of Tajikistan. To our knowledge, no one has ever argued that Uzbek commitment to Islam is suspect. It appears that availability of English medium institutions and access to Internet are highly correlated with the decision to apply. To our knowledge, Tajikistan has no English medium university while the other Muslim republics have (with the possible exception of Turkmensitan.

for the author to learn how few applications are sent from Tajikistan to compete in a costless bid for immigration to the U.S. See Box: A Simple Test of English and IT.[220]

[220] Since the Diversity visa program limits the number of people that can be admitted from a single country to few thousands, and, sincesuch a program is not likely to cause 'brain drain'.

III.A.2. ICT As GPT

In their celebrated 1998 study on GPT, Lipsey et al identify ICT as a major form of contemporary GPT. **Information Technology Is a kind of General Purpose Technology (GPT).**

A recurring theme in this report is that *given its limited size and obstacles in trade, Tajikistan does not have good prospects of reaping economies of scale by specializing in any industry; but it can develop a comparative advantage in general purpose technology.* Thus, the dominant prescription of development through trade in goods is non-feasible in for a landlocked country like Tajikistan. given the unique characteristics of Tajikistan economy.[221]

However, as suggested elsewhere, Tajikistan can take advantage of its underdevelopment and leapfrog into the era of Information Technology.

III.A.2.1. Linkages with the English Speaking IT Advanced Countries of South and South East Asia

Tajikistan has had deep historical linkages with South Asia. A very significant proportion of Pakistani population traces its root to the Ferghana valley. Some of Tajikistan India has a large number of well-trained and English-speaking graduates willing to work for relatively low wages, at least initially. India has some world-class educational institutions, and 20 to 30 per cent of the graduates of the Indian Institutes of Technology (IITs) emigrate at least temporarily, as do half of the graduates of the *All India Institute for Medical Sciences* (AIIMS).[222]Tajikistan should tap into this pool and enhance its technological linkages with India to promote its own IT sector. Information technology (IT) has been the driving force for exporting skilled Indian workers, and there is an oft-told story of how multinationals "discovered" the skills of Indian IT workers, transferred them to foreign locations, and set in motion Indian IT migration flows to many countries.

Lately the Indian IT industry has been able to move up the "value chain," shifting from sending only workers abroad to selling custom software and sending IT migrants to maintain it.[223]

One can object that duplicating the growth experience of a huge country like India in Tajikistan is a pipe dream. We would like to cite one example to counter this argument: the small European economy of Iceland has witnessed the growth of the software sector and

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[221] In the medium run, the prospects for export of hydroelectric power from Tajikistan to Afghanistan, Pakistan, Iran, and China may be quite promising. (WB, 2005, Trade Diagnostics).

[222] Tajikistan has not tapped fully into this cultural and historical capital. To expand the pool of English speaking professionals, it should negotiate a quota for Tajikistan students in Indian universities (like IIT) and top Pakistani universities, such as the Lahore Management University (LMU). Tajikistan should also expand communication channels with India and Pakistan. Fifteen years after independence, there is still no direct flight from Dushanbe to any Pakistani or Indian city. None of the big powers will have any objection to the pursuit of closer linkages between South Asia and Tajikistan. Indeed, US should be strongly supportive of such linkages and Russia is not likely to have any objections. In fact, this approach could be extended to China as China today has some top English medium universities. Such a move could be pursued within the framework of Shanghai cooperation council.

[223]http://www.thepeninsulaqatar.com/Display_news.asp?section=World_News&subsection=India&month=November2005&file=World_News2005112831448.xml Moiz Mannan .THE NR EYE: India scores over China in remittances, but is that enough? Web posted at: 11/28/2005 3:14:48. Source: The Peninsula/ by http://www.thepeninsulaqatar.com.

has even exported software. ***Iceand*** has been rated as the leading country in the world for broadband penetration at almost 27 per cent, according to a report from the Organisation for Economic Cooperation and *Development* (OECD). [224] It would be interesting to study the conditions under which a small economy like that of Iceland could grow its software sector. Can Tajikistan duplicate the growth experience of Iceland? This is beyond the scope of this report but an interesting issue worth considering.[225]

The main problem in the development potential of Internet-based businesses is high entry barriers due to the capital intensiveness of the IT sector (GOT, 2006). The same document also attributes the slow growth of science in the country to the backlog in creating infrastructure based on ue of the newest information and communications technologies. While IT incubators226 offer some solution to IT business development, we suggest that international donors should step in. The recently implemented USAID funded project in Macedonia to wire the whole country can serve as a model. See the Box: Wiring Macedonia. This will open new vistas for population that cannot afford to buy newspapers and may be losing its general literacy. Blogs and web based information can fill the gap. Moreover, information and Communications Technology (ICT) can reduce poverty by improving poor people's access to education, health, government and financial services.

IV. Possible Objections to the Proposed Strategy

IV.A. Dehumanizing Labor

It might be argued against the strategy proposed above that labor is not just a factor of production or a commodity to be traded in the international market. Human beings are more than just embodiments of labor power. Labor is qualitatively different from other factors, like capital.

Nothing in the proposed strategy detracts from the dignity of human beings. What is more dignified than earning a decent living without subjecting oneself to the indignity of poverty and dependence?

A possible objection is that diversification, in particular, access to high income countries, would stimulate brain drain. It may well be the case if the process remains unmanaged. However, the counterfactual is worse with little brain gain or exposure to better alternatives. Moreover, lack of diversification would not halt any brain drain that has already been taking place. When societies are undergoing cataclysmic transformations, what is needed is effective and careful management of such transformations, rather than futile attempts to halt them.[227]

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[224] South Korea, which used to hold the highest percentage previously, slipped to second with a penetration rate of 25 per cent. *Iceland -- Iceland leads broadband penetration.*, Tarifica Alert, 4/18/2006, Issue 455

[225] The Agha Khan University of Central Asia is involved in research on this subject and has one of the key players in the Iceland saga on its staff.

[226] IT Incubators are special projects/organizations that encourage the formation and development of IT capacity.

[227] Atal, Yogesh. 2003. Globalization and Linguistic Diversity. In *Cultural Rights in a Global World.* 169-189. Edited by Anura Goonasekera, Cees Hamelink and Venkat Iyer. Singapore: Eastern Universities Press. (p. 188).

Another criticism that can be levied against a migration-led growth strategy is that migration and remittances may be a mixed blessing. The literature has shown both theoretically and empirically that migration could result in delinquency among children because of the absence of a parent; destroy families.[228] Remittances may promote an ethos of dependency.

There are several possible answers to this objection. It is true that remittances can be perceived by some family members as manna from heaven and may dampen their work ethos. However, this, by itself, does not mean a reduction in welfare. Even when remittances allow people to reduce their labor supply, it does not mean that they are worse off. Leisure is a normal good and increased leisure ought to be included among indices of welfare. Thus, reduced labor supply as a result of remittances by itself is not undesirable.

Moreover, *remittances may make family members in the receiving households more productive if remittances allow them to take time off from work and acquire additional skills or education without worrying about putting food on the table.* Remittances may allow people the necessary breathing space to take stock of their lives and discover their true calling or upgrade their skills in accordance with changing market conditions. In this sense, it is similar to the extended unemployment benefits available to workers in the welfare states of Western Europe and Canada. To our knowledge, no one has convincingly demonstrated the perverse incentives inherent in this policy outweigh the benefits thereof.

Finally, while it may be true in some cases, there is a preponderance of evidence against the dependency hypothesis. We showed above that it does not seem to hold in case of Tajikistan. Moreover, society must take appropriate measures to offset any tendencies among recipients to have a free ride on remittances. Such measures include educational campaigns.

It is also argued that migration of the most energetic and enterprising part of the population may blunt the democratic edge of the society and may have far-reaching political consequences. This argument is valid in so far as the pool of emigrants includes a significant number of country's intelligentsia, as it is usually this class that is at the forefront of dissent and tends to spearhead opposition to the ruling elite. Detailed discussion of such social and political considerations is beyond the scope of the present study but we will briefly make two points here. First, although there may be a grain of truth in this argument, absence of the most volatile and protest prone part of the population can also help government in a transition economy to stabilize the economy and introduce painful structural reforms without resistance from the most volatile population. A transition country in the process of introducing painful structural reforms cannot afford to have its students acting French. Second, what can be more conducive to democracy than exposing a

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[228] Some references here are: Jones, A., Sharpe, J and Sogren, M. (2004). Children's experiences of separation from parents as a consequence of migration. *Caribbean Journal of Social Work*, 3, 89 – 109. Smith, A., Lalonde, R., and Johnson, S (2004). Serial migration and its implications for the parent-child relationship: a retrospective analysis of the experiences of the children of Caribbean immigrants. *Cultural Diversity and Ethnic Minority Psychology*, 10, 107-122. Mitchell. N. A. (2005). Academic achievement among Caribbean immigrant adolescents: The impact of generational status on academic self-concept. *Professional School Counseling,* 8, 209-218.

significant part of the population to some of the most advanced democracies of the world (imperfect as they are) – even Russia is relatively better than Tajikistan.

Another unintended consequence of remittances is that it can slacken the government's commitment to market oriented reforms in a transition country. However, one can also argue that absence of a potentially volatile section of the population can provide government the breathing space to carry out painful structural reforms.

V. *Migration may not be a long run strategy for self-sustained growth!*

Important as remittances are for the growth of the Tajik economy, we do, nevertheless, concur with the emphasis in the literature to the effect that migration and remittances generated by migration are no substitute for sound domestic economic policies that truly underpin economic development in a developing country.[229] It is important to develop an integrated approach to ensure remittance policies are in line and compliant with other economic policies in Tajikistan.

We need to remind the reader that we recommend migration not as an end itself, but as a medium term strategy to overcome the constraints that history and nature has placed on Tajikistan. We cannot agree more with the main thrust of the literature on the migration and development nexus. To quote from a recent World Bank report: "In the long run, … developing country policies should aim to generate adequate employment and rapid growth, rather than relying on migration as an alternative to development opportunities" (xiii).

Given Tajik exceptionalism, we would simply like to recast this recommendation as follows: *Tajikistan should reap full benefits of its comparative advantage in export of its human capital in the short and medium term and use the resources thus acquired to diversify its comparative advantage in the long run into areas such as tourism and hydroelectric power.*[230]

Two sectors hold great promise in terms of developing the comparative advantage over the medium to long run: tourism and hydroelectric power.

Tourism is conducive to both growth and poverty alleviation as it expands the employment of local people in tourism establishments. The rich Chinese and Russian who flock to Europe to spend their newly acquired wealth touring Europe should find Tajikistan irresistible if she projects herself to her best advantage.[231]

Nature has endowed Tajikistan with some of the highest mountains, enchanting rivers, and the most beautiful landscapes.[232] Tajikistan has about 4 percent of the world's hydroelectric potential. Electricity is already the third largest export of Tajikistan. See Table

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[229] World Bank, 2006, p. 13f

[230] Continued reliance upon the export of labor in the long run may put the country on a trajectory characterized by continuous migration, marginal foreign investment, and latent growth (Kireyev, 2006, p. 13).

[231] More Russians would benefit from travelling to Tajikistan to get a first-hand experience of life here and lower the walls of prejudice and ignite that spark of compassion that can only come from direct contact

[232] The country possesses vast hydroelectric resources-calculated at about 114,000 MW (with an energy potential of 527 billion kwh), of which only up to 5% are exploited (World Bank, 2005a, p. 10).

9.2. Tajikistan possesses a substantial potential generation capacity of 527 billion kilowatt hours; however, only 6.5 per cent of this potential is in use" (GOT).

Table 9. 2 - Tajikistan : Major Rivers by Length in km (the length along the territory of the state)

Amudarya - Pyandzh	921
Zaravshan -	877
Bartang - Murgab - Oksu -	528
Vakhsh	524
Karnifigan	387

Source: CIS State Statistical Committee

These natural advantages are waiting to be exploited. The potential electricity generation capacity of the country could be used to export electricity to neighbouring countries - Pakistan, Afghanistan, Iran, Kazakhstan, India, and China.[1]

What is needed is a strategic plan, a conscious recognition of the comparative advantage of the country in the export of labor in the increasingly globalized labor market in the short to medium run while developing the dynamic comparative advantage in hydro electrics and

[1] Trade relationship between China and Tajikistan are already growing very fast. The newly constructed road from Murghab in Tajikistan to Kashghar in China holds considerable promise. One cannot be struck by the line of huge trucks transporting goods from China into Tajikistan via the Kashi-Murghab-Khorog-Dushanbe highway, dilapidated as it is at numerous places. China has invested roughly $720 million in major infrastructure development projects in Tajikistan, mainly in road construction under contract with the Tajik government. Source: Eurasia Insight. Tajikistan: A Chinese Road To The Future? David Trilling 8/01/07. The Karasu Port is 236 kilometers from Kashi city (Kashgar) in southern Xinjiang. Opening of the port in 2004 enabled Chinese cargo vehicles in Xinjiang to reach Khorog City of Tajikistan diriectly. The port remains open from May 1 to Oct. 31 every year. Before opening the port, the price of farm produce sold in Tajikistan was two or three times more than that in China because Chinese commodities had to reach Tajikistan through a third country.
Source: People's Daily Online. First land port between China, Tajikistan opens. May 26, 2004. http://english.peopledaily.com.cn/200405/26/eng20040526_144462.html.
In the first half of 2006 alone, Tajikistan's imports from China reached 60 million US dollars, accounting for 42 percent of its total imports. Its exports to China only reached 3.5 million US dollars, 0.5 percent of total exports. CCTV.com. China, Tajikistan bilateral ties09-15-2006 13:09. Retrieved from http://www.cctv.com/english/20060915/101209.shtml.
For Tajik wholesalers in Dushanbe, the direct route between the capital and Kashgar means relief from some burdensome customs procedures, transport fees, and taxes. In an interview with the Asia-Plus news agency, a Tajik businessman said he has purchased refrigerators, televisions, and clothing in China at half the prices on Central Asian and Russian markets. Traders Look to China for Brighter Future. Radio Liberty, August 20, 2004. Retrieved from http://www.rferl.org/featuresarticle/2004/08/c0cef0db-cd48-4363-b2c9-d82ff48bd7b1.html. If the focus of the new route is Uzbekistan, which is widely viewed in Beijing as Central Asia's key regional player, then the road promises to turn Tajikistan into a transit country. A similar effect is expected to take place with the completion of the bridge over river Pandj between Tajikistan and Afghanistan. Source: People's Daily Online (op. cit). Currently, member countries of CAREC (Central Asia Regional Economic Cooperation), including Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Uzbekistan and China are working together to establish a regional transport network. The road links are part of a decade old policy known as the "oil bridge" policy, linking China with points west, like the Central Asian, Caspian, Middle Eastern and European regions (Kevin Griffith. 2006. The Asian Oil Bridge. China's Pursuit of An Energy Route Across Asia. The Heinz School Review. Spring 2006).

tourism. The quality of Tajik labor needs to be publicized enough among would-be labor importing countries.

Here we will briefly comment upon the recently developed National Development Strategy for Tajikistan from the vantage point of this report.

VI. International Migration, Remittances, and the National Development Strategy (NDS) for Tajikistan to 2015

Is there adequate recognition of the strategic importance of migration and remittances in the policy circles? The unequivocal answer is, 'no', as is evident from one of the most important documents recently released.

The draft of the National Development Strategy (NDS)[234] recently released provides a grand vision of long-term development of the Republic of Tajikistan and the directions of action required to realize projected economic reforms.[235] NDS is the principal long-term strategic document of Tajikistan. The stated goal of these reforms is "to guarantee a stable high rate of economic growth and thereby reduce poverty levels, with the aim of achieving the Millennium Development Goals (GOT, p. 1). It is expected to form the basis for the 'creation and prioritisation of all current and prospective state, departmental, and regional plans, strategies, and programmes, as well as for the activity of all organs of state administration' (ibid., p. 11).

There is a great deal of interest among donors to contribute to the fulfillment of the Millennium Development Goals in Tajikistan.[236] With the participation of international organizations, country donors, and civil society, an evaluation of the requirements to carry out the PRS (Poverty Reduction Strategy) was prepared, which allowed the Government to formulate specific institutional reforms and evaluate the finance needs of each social sector. In this regard, the Government created several sectoral working groups to deal with several goals, including regional cooperation and integration into the world economy.

Migration and remittances being of such strategic importance for the Tajik economy in the short to medium runs, what insights does the NDS offer on remittances and migration from Tajikistan?

The NDS recognizes that the contribution of labor migration to economic growth is significant (ibid., p. 6). It also admits that "labour out-migration is poorly recorded and not adequately taken into account in Government statistics and policy"(ibid., 5). The report also correctly observes that limited state support of the migration process 'reduces its efficiency and raises the level of risk for migrants' (ibid., p. 6). It further observes, "Active labour

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[234] The System of National Development is defined as a network of vertical administrative processes and horizontal coordination of partners in development; that is, it is a continuous process or cycle that consists of determining the national targets, acceptance and development of strategic decisions, planning national development, creation of policy and planning of sectoral policies, realization of plans, evaluation of execution, and feedback.

[235] The draft was prepared by the Government of Tajikistan with technical assistance and guidance from UNDP.

[236] For a review of the different interfaces between migration and the various Millennium Development Goals, see the papers presented at UNFPA´s Expert Group Meeting on the subject. (UNFPA. 2005. *International Migration and the Millennium Development Goals: Selected Papers of the UNFPA Expert Group Meeting: Marrakech, Morocco, 11-12 May 2005*. New York: UNFPA.)

migration is a powerful factor constraining the increase of unemployment in the republic" (58). Since 1999, labour migration has played an important role in reducing the level of poverty in Tajikistan (ibid., p. 69).

The author finds himself in agreement with the NDS on most counts. The report rightly identifies the principal problem "The principal problem is the weak investment climate, caused by corruption and the presence of excessive administrative barriers, insufficient development of public and private infrastructure, and overly slow reforms dealing with key economic problems (labour productivity; competitiveness and profitability of agriculture; development of the private sector, including small and medium businesses (SMEs); and licensing, control, and simplification of regulations).

The NDS draft also correctly identifies the infrastructural restrictions impeding growth of the economy: "Development of the economy is complicated by problems related to development of the general infrastructure (transport, power, tele-communications, water supply, and sanitary systems) and private infrastructure (banking and insurance, equity market, leasing, communications). Along with the decrease in people's incomes, there has been a decrease in the level of human capital development, aggravated by a distrust of foreign management and experience and low incomes for labour migrants."

The NDS is also right on recommending that "Tajikistan must achieve not simply high rates of economic growth, but growth that provides progressive structural shifts in the national economy. The NDS assumes development of instruments for economic growth that satisfy the following four criteria: (1) high growth rates; (2) progressive structural shifts, including expansion of the share of the private sector, thus providing diversification and increasing competitiveness; [has a narrow view of structural shift] (3) improvement and stability in the medium-term and long-term prospects of the country; (4) coordination with the level of economic development in neighbouring countries."

The strategy provides for the following: "Measures to open up the air and rail transportation market will be undertaken. Conditions that will attract the optimum number of carriers will be created. This should lower the transport costs of potential foreign investors and labour migrants." Also, "Combined measures will be taken to diversify and expand export potential, including services (such as medical, educational) in demand in the regional market." Further, "Tourism policies will be upgraded to create the necessary infrastructure and increase potential for the development of tourism." "Improved legislation and regulation in the field of investments and entrepreneurship will create an opportunity to increase rational domestic employment, increase the individual incomes of labour migrants, and broaden access to local and foreign investors."

While the report recognizes that being landlocked creates 'difficulties in accessing international markets' (ibid., 30), in our view, as a document propounding a vision of long run development in Tajikistan, the report leaves much to be desired. We will elaborate below.

The report remarks, "A high population-growth rate, lack of jobs, and the weak investment and entrepreneurial climate compel citizens to migrate to other countries in search of work, which subjects them to dangers and deprivations and results in lost potential for the national economy" (GOT, pp. 5-6). While there is a potential loss because of lack of protection, migrants themselves prefer to brave the tough conditions in the countries of destination than starve at home, and, as shown above, both migrant households and the country benefit from migration. Thus, it fails to recognize the strategic importance of migration and remittances for the medium and long run growth of the Tajik economy

given the landlockedness of the country, and little thought has been given to design *a national strategy on migration*. .

Partly the problem arises from reliance upon inadequate and faulty information revealed by previous surveys. Sometimes, no references are provided for data or claims made in the report. For instance, the report claims that "up to 20 percent of able-bodied men are involved in labor migration" (p. 19) without any reference while our survey results show the percentage to be at least 28%.

"The presence of a significant informal economy in the form of labour migration" is considered to be a 'major problem' in the sphere of labor market" (ibidl, p. 59).

It also warns that "introduction of simplified procedures for acquiring citizenship in countries where they work could lead to a direct reduction of the working-age population in Tajikistan (especially of qualified personnel and young workers)" (ibid.). While this could be a short run consequence, *the process of migration carries the seeds of its own destruction in the medium to long run* - one would expect income and life standard in Tajikistan to go up enough as a result of migration to reduce the incentive for the very process of migration that was instrumental in raising the standard of living. This notwithstanding, in criticizing simplified citizenship laws, the document is barking up the wrong tree. It is not the prospect of citizenship that drives the migration. *In fact, simplified procedures for citizenship with the provision of dual citizenship may stimulate circulation of talent and may induce accumulation of human capital as hypothesized by the brain gain literature.*

Since there has been inadequate recognition of migration as a tool for national development, little thought has been given to put in place mechanisms to leverage remittances for development nor is there any discussion of how migration can spur development in the country. [237]

In our view, there is urgent need to establish an Inter-agency Migration Commission to co-ordinate with the relevant institutions to build the needed capacity to manage migration from Tajikistan. There is need for an inter-agency Migration Commission to advise Government on migration issues. The commission should also provide reliable migratory flows in the country and map out areas of high migration pressures.

VII. Case for Aid to Tajikistan

From the medium to long run perspective, remittances can be an unparalleled substitute for so-called foreign aid. However, there is still a very strong case for aid to Tajikistan as the following section elaborates.

[237] A minor but notable problem is the report's reliance upon faulty and incorrect information. For instance, the report cites "up to 20 per cent of able-bodied men are involved in labour migration" (p. 19). For instance, workers remittances and all transfers from donors are reported to constitute only10% of household income. It also claims that about half of all migrants send money to their families. Both these statements are based on data of dubious quality and should have been further investigated, or at least should have been presented with appropriate caveats. Equally unjustifiable is the adherence to balanced budget policy for macroeconomic stability even though such a policy may be desirable under certain macro conditions (p. 14).

VII.A. The Dual Gap of Tajikistan and the Need for Continued Foreign Assistance

Following the breakup of the FSU, Tajikistan had been suffering from a dual gap: a lack of savings because of low income and a lack of foreign exchange required to important essential consumption and capital goods. Remittances have helped fill both kinds of gaps. Yet, the country needs well targeted foreign assistance for some time due to the destruction during the Civil War and the already dilapidated state of infrastructure. "Remittances are private funds; they should not be viewed as a substitute for official development aid" (World Bank, xii).

In the author's opinion, the Tajik government can tap into a lot of underutilized development assistance around the world. For instance, it took only a request on the part of President Rakhmanov for Pakistan to write off a $13m debt (IMF, 2005a, p. 93).[238]

VII.B. Big Push and the Need for Donor Coordination

The classic narrative of economic development in terms of Big Push driven by complementarities has recently made a comeback. The narrative could be summarized as follows:[239] Poor countries are caught in *poverty traps*, to break out of which they need a *Big Push* involving increased aid and FDI, leading to a *takeoff* in per capita income. This was the original justification for foreign aid in the 50s. As Easterly (2005) rightly observes, the narrative lost credibility for a while but has staged a big comeback in the new millennium and is invoked as a rationale for large foreign aid programs.

Although Easterly has expressed several caveats about the possibility of coordinated attempts to help poor countries take off, [240] we believe that given the objective conditions

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[238] Given the long standing rivalry between the two nations of India and Pakistan, the other country will not be far behind in offering educational assistance if one of them does. In fact, in the present geopolitical environment in South Asia, the Central Asian republics (including Afghanistan) can serve as a useful bridge between the two countries. There is a great deal of recognition in both India and Pakistan of the historical linkages between Central Asia and South Asia than the author has found in Central Asia. Few people I talked to knew that the great Mughal dynasty of India was founded by Babur who came from the Feghana valley (was born in Andijan). In fact, Tajikistan and Pakistan were neighbors until the Briitsh and Tsar mapped out the Wakhan corridor in 1884 (only 10 km wide in some places) as a buffer zone between the British and the Russian empire. The international community can get a much bigger payoff if it were to spend even a fraction of the amount of money pledged for the reconstruction of post-Taliban Afghanistan. See the map.

[239] This summary draws on Debraj Ray (1998) and Easterly (2005).

[240] Easterly (2005) applies very simple tests to the various elements of the narrative. He finds little evidence to support the narrative. Poverty traps in the sense of zero growth for low income countries are rejected by the data in most time periods. There is evidence of divergence between rich and poor nations in the long run, but this does not imply zero growth for the poor countries. Moreover, this divergence is more associated with institutions rather than the disadvantages of initial income. The idea of the takeoff does not garner much support in the data. Takeoffs are rare in the data, most plausibly limited to the Asian success stories. Even then, the takeoffs do not appear strongly associated with aid or investment in the way the standard narrative would imply. Easterly argues that the stylized

facing Tajikistan, such coordination and planning is not only desirable, nay necessary. "The Government does not possess sufficient financial and human resources for realisation of the NDS independently, that is, without the help of the international community" (GOT, 2006, p. 75). The objective conditions that favor a Big Push approach towards Tajikistan include, among others, (i) landlockedness and transit difficulties; (2) physical distance from fast growing regions of the world;[241] (3) lack of indigenous oil and gas deposits and the exponentially increasing cost of energy; (4) proximity to an unstable narco-based economy; and (5) destruction of infrastructure caused by the civil war. These objective conditions translate into limited size of the market which does not allow for economies of scale.[242] Such coordination should also be directed at institution development, the latter being identified by Easterly to be the crucial factor in sustained economic growth (Easterly, 2005). Such coordination could be properly directed at improving economic and political relationships with neighbors and labor importing countries such as Russia and Kazakhstan. Protection of the rights of Tajik workers and simplification of the procedures for acquiring Russian citizenship also require coordination among international government and non-government organizations.[243] As stated by P. Martin and G.Papademetriou, "If remittances are to be the external pump which primes an area for an economic take-off, they need to be coordinated to provide the infrastructure necessary for development or sending governments must find additional funds to invest in infrastructure (1992, p. 39)."

Ballard (2005) offers useful suggestions to offset the spiral of 'de-development' that could be potentially initiated by the arrival of remittances. Specifically, he suggests 'smart-aid' designed to kick-start the neglected productive potential of local communities characterized by high emigration. The smart aid initiatives have two complementary objectives: first to remedy specific deficiencies in the local infrastructure, and second, to support more sustainable local entrepreneurial initiatives (Ballard, p. 116).

Tajikistan is fortunate in having a variety of international government and non-government organizations working to improve the standard of living for the Tajik people. It is also the only FSU country that has been granted the status of a pilot MDG country. However, the potential benefits from their programs are not realized fully because of lack of coordination. Lack of coordination among donors results in duplication of administrative expenses and failure to realize the full benefits of such assistance. A case in point is that of microfinance institutions (MFIs). At the present time, there are a variety of MFIs working towards the same goal but in a much uncoordinated way.

Given the low level of managerial capacity and absence of prior experience, direct policies aimed at valorizing remittances at the local level can be effective only in so far as

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facts are more consistent with a story of development in which "development happens when many agents have the institutional environment that allows and motivates them to take small steps from the bottom, as opposed to development happening from a Big Push planner at the top" (p. 32).

[241] With the possible exception of China, underdeveloped means of communication make it relatively inaccessible.

[242] It is gratifying to note that the recently brought out NDS for Tajikistan is premised upon these objective conditions. See NDS for Tajikistan to 2015 … Section 2. (pp. 15-16)

[243] NDS (2006) rightly identifies the coordination with the level of economic development in neighbouring countries as an important strategic criterion for Tajikistan (p. 15).

the donor community is closely engaged in promoting institutional capacity building and improving the market and financial infrastucture. As discussed elsewhere in the report, the institution of Jamoat holds great promise in leveraging remittances for development at the local level.

VII.B.1. Remittances Roundtable

Donor coordination is no small task. IOM can take the initiative to convene a roundtable conference of donors and stakeholders. They need to work closely together to identify best practices and to fund and implement them jointly.

VII.B.2. Leveraging Millennium Development Goals (MDG) Funds

As mentioned earlier, Tajikistan is fortunate in being chosen to be one of the few MDG pilot countries and the only one in the FSU. Tajikistan should take full advantage of the international goodwill fund it has accrued as a result of being an extremely poor economy ravaged by war and needing a big helping hand. Tajik public-sector capacities continue to require active development and strengthening, and it is important to maintain government focus and energy on this task. Donor agencies such as USAID, the World Bank, and others that have provided a great deal of technical assistance to the Tajik government over the past decade presumably enjoy a degree of leverage to strengthen capacities enabled by their funding of projects. Given the privileged position of Tajikistan among the MDG target countries, Tajikistan can expect to receive several hundred million dollars of Millennium Challenge Account funding over the next several years. Given the size of the Tajik economy, this may be an exceptionally large amount of money, and it will be given to the government as grants mainly to finance infrastructure projects.

There is a potential danger here in that this 'manna from heaven' might distract government attention away from capacity building and undermine the commitment to structural reforms. Thus, coordination between the Millennium Challenge Corporation and other donor agencies would be highly desirable, nay essential.

VIII. Diversify, Diversify, and Diversify![244]

We have proposed a strategy for Tajikistan to achieve self-sustained growth via export of labor while reducing its economic vulnerability at the same time. The strategy takes a dynamic view of Tajikistan's comparative advantage. The key elements of such a strategy are: enhancement and diversification of human capital to target new destination countries to include the non-oil based Western economies (mainly English speaking countries of Canada, the U.S., and Australia), promotion of tourism and hydroelectric power as alternative sources of foreign exchange over the medium term, promotion of English and IT capacity of the population, increasing the proportion of women migrants to empower women as well as to reduce social tensions in the countries of destination, creation of a

[244] It is gratifying for the author of the report to note that the partnership strategy for the next four years that the government of Tajikistan has worked out with the World Bank includes some of the key recommendations in this report, and if implemented faithfully, are likely to usher in an era of prosperity and continued growth in Tajikistan, ceteris paribus. Both the World Bank and UNDP had an input in the preparation of the strategy.

cohesive Tajik Disaporan community in Russia, and coordination of microfinance activities by donors to reduce administrative costs.

We believe that Tajikistan is shortchanging itself by not attempting to diversify its economy! The quality of Tajik labor needs to be projected enough among would-be labor importing countries.[245]

To reiterate, the best strategy for Tajikistan is to treat migration for what it is, i.e., trade through different means and diversify! Because it is unlikely that sources of growth in the recent past (a postwar recovery in productivity, remittances from a single source) will be sufficient to ensure continued future high growth.[246] Tajikistan would do well to focus upon producing mobile and flexible intellectual and human capital assets (such as knowledge of English and information technology) that could be used in a variety of destination countries. A well-educated Diaspora in advanced countries can improve access to capital, technology, information, foreign exchange, and business contacts for firms in the countries of origin. The available information (data and literature) indicates that migrants who travel to liberal democracies of Western Europe, Australia, and North America where rule of law and due process prevails enjoy much higher increases in income, are less likely to be irregular, are subject to fewer risks of exploitation, and are less likely to be expelled than are those who migrate from developing countries to Other developing countries (Ratha, 2007, p. 33).[247]

The following table provides a snapshot of various recommendations to boost and leverage remittances for development.

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[245] An example would illustrate the point. A recent report published by the Australian Department of Immigration and Citizenship shows that the median wage for Australia is AUD $47,000 (1 Australian $=0.85 US $ as of Sep 20, 2007). Migrants living in regional and low-growth areas have 99% employment rates and salaries over AUD $50,000 ($42500 US$). Immigrants who have been in Australia for longer than 18 months experience lower unemployment rates and higher wages. The survey also shows a high correlation between higher English language test scores and better employment.

[246] IFC. 2005 International Development Association and International Finance Corporation Country Partnership Strategy for the Republic of Tajikistan for the Period Fy 06-09. Ifc Report No. 32294-Tajikistan, October 3,2005central Asia Country Unit, Europe And Central Asia Region

[247] A by-product of labor migration to Russia with adverse implications for rule of law is the fact that the majority of Central Asian migrants in Russia are employed in the informal economy and must frequently deal with the mafia, most often as victims. After returning home, "the trauma caused by these experiences can make former migrants more likely to resort to illegal activities as a coping strategy. The avoidance of laws is becoming a habit, and legal disobedience is becoming the social norm. Such a social anomie can create societal obstacles to pro-democratic changes in the country" (Ilkhamov, Alisher. 2006. "Geographic Mobility Of Uzbeks: The Emergence Of Cross-national Communities Vs. Nation-State Control." Paper Prepared For NBR Conference On "Generational Change And Leadership Succession In Uzbekistan" Thursday, March 2, 2006, Washington D.C.)

Table 9.3. Snapshot of Policies to Boost and Leverage Remittances for Development in Tajikistan

	Tajikistan	Russia	OECD	English Countries
I. Boosting Remittances				
A. Ways to Diversify Sources of Remittances				
1. Disseminate information about the global labor market opportunities	x		x	x
2. Pursue bilateral agreements for Guest worker programs with major immigrant countries (such as Canada in agricultural and oil sectors)	x		x	x
3. Promote GPT type skills (English, IT, accountancy) to make Tajikistan's intellectual assets more flexible and mobile	x		x	x
4. Target English speaking immigrant countries				
5. Use the special MDG status to negotiate guest worker programs with OCED	x		x	
6. Pursue bilateral agreements for guest worker programs as a substitute for aid	x		x	x
7. Enhance Russian proficiency of migrant workers	x	x		
8. Strengthen linkages with the Diasporan Community	x	x		
9. Encourage English speaking labor importing countries to open information and cultural centers				x
10. Strengthen technological linkages with South and South East Asia	x			
11. Commission research to diversify countries of destination and identify lucrative sectors of work	x			
12. Enhance and diversify human capital to target new destination countries to include the non-oil based Western economies (mainly English speaking countries	x		x	
13. Consider making English as a second language compulsory starting 4th grade .	x			x
14. Allow 10 days for registration		x		
15. Shorten the waiting time for the issuance of work permits to 3 days		x		
16. Educate the population about the positive effects of migration		x		
B. Ways to Reduce Transfer costs				
17. Ensure competition among MTOs	x	x		
18. Prevent oligopolistic practices such as exclusive arrangements between an MTO and a bank	x	x		
19. Create a level-playing field for financial institutions (Harmonize regulation and capital requirements)	x			
20. Introduce and harmonize electronic payment systems (such as IMT cards and Smart cards)	x	x	x	
21. Improve data on migration corridors	x	x	x	
II. Leveraging Remittances for Development				
22. Improve business climate	x			
23. Make formal sector operations more convenient and user friendly	x	x		
24. Encourage MTOs to contribute to the development of local communties	x			
25. Encourage microfinance institutions and credit unions to tailer financial products to the needs of the poor	x			
26. Improve banking access of the rural population by opening branches in remote areas.	x	x		

Chapter X- Further Research

We are only beginning to learn how to make migration work more consistently for development. Each of us holds a piece of the migration puzzle, but none has the whole picture. It is time to start putting it together.

- UN Secretary-General's report on International migration and development for the UN High Level Dialogue

I. Data and Research Issues[248]

The significance of improving the knowledge base on remittances and the use thereof for development cannot be exaggerated. Although ours is the first comprehensive report on Tajik remittances, it is just the beginning. We expect to generate serious discussion in all relevant circles on this issue and expect donors to be generous with their funding of research on this issue.[249]

I.A. Soviet Legacy: Low Quality of Research in Social Sciences

Research *in social sciences* during the Soviet era was mainly ideological and was conducted outside academia by research institutes. Whatever the level of intellectual and cultural activity during the Soviet era in Tajikistan, the quality of intellectual and cultural life has deteriorated considerably in the post-Soviet era.[250] The government is fully aware of this as the following excerpt from a government report shows: "The material basis for carrying out scientific research was partially destroyed during the civil war and the resulting period of instability. Equipment has become outdated and does not meet modern standards. One of the factors constraining the development of science in the country is a backlog in creating infrastructure based on use of the newest information and communications technologies" (GOT, 2006, p. 51). There are no research universities and there is virtually no local independent research capacity in *social sciences* in Tajikistan.[251] Despite some good research in natural sciences, "Research is conducted in unproductive areas of the natural, technical, medical, and agricultural sciences, and in the humanities and social studies" (GOT, 2006, p. 50). Speculative research produced by Soviet trained scholars may have some influence over the local public in so far as they care to read it but it is not taken seriously by the international academic or policy research community. The author has observed distrust of, and contempt for local scholarship among international organizations, and vice versa.

Like in other areas of life, the local research community in Tajikistan is characterized by a certain dualism. Many senior and mid-career social scientists trained during the Soviet era remain tethered to their speculative mode of research. They have failed to adjust to the new market conditions and make themselves useful to the donors. There are others, who

[248] This section has benefited greatly from Roberts (2004).
[249] For the author, this report has been mostly labor of love.
[250] To our knowledge, Tajikistan still does not have a daily newspaper.
[251] One possible exception is the Strategic *Research Center of the Republic of Tajikistan.*

managed to upgrade their skills and/or who have acquired proficiency in English, have created NGOs, receive lucrative (by local standards) contracts and grants from Western institutions or donor organizations that offer significant premium to such individuals. Many NGOs receive funds, part of which is used for research projects. "The collapse of the USSR and civil conflicts damaged prestige of analytical work, thus the smartest analysts having lost sustainability and incomes started creating non-government organizations" (CAG, p. 8).[252] In the absence of competitors, some of these NGOs are disproportionate recipients of research funds.

Obtaining grants or contracts from international organizations, however, does not translate into higher quality work. In terms of the quality of research produced by the donor funded local researchers and the work done by international consultants for World Bank and IMF, there is a wide gap. Independent research produced by largely IT illiterate local scholars leaves much to be desired and will not be publishable in serious peer-reviewed international journals.[253]

We propose the following specific measures to expand the knowledge base in the realm of migration and remittances:

I.B. Maximizing the Potential of Goskomstat

I.B.1. Easier and Faster Public Access to Data

Tajikistan is a challenging place to conduct research. Custodians of information guard the information collected as their private property to be protected from the world outside except if publication of such information and data can bring them some benefit.[254] Goskomstat should be more transparent and expeditious about sharing data.

I.B.2. More resources for Goskomstat

Goskomstat and Tajik national bank provide a wealth of information on their websites but without any explanation of their methodology and concepts, and, therefore, not of much use. It is easy to rant against Tajik State Statistical Committee but when one finds out how

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[252] These NGOs include organizations as Shark Scientific-Research Center, Law and Welfare, Scientific-Technical Intellectuals Association, Support Center for Citizen Initiatives, Open Asia, Mirror Center for Sociological Research, National Association of Political Scientists of Tajikistan, Association of Women Scientists of Tajikistan, Manija Center, etc. "Later than in neighboring republics, upon the very initial signs of stability, general NGO professional spheres were expanded by post-conflict management, refugees, etc. International organizations focusing on those specific issues ensured demand and financing of such projects. Local NGOs specialized in one or another sphere in their turn attended to deal with implementation of those projects." The second development stage of analytical institutions of Tajikistan initiated in 2002 and is still in progress. Currently the country has centers with the prime focus on analytical and research activities since the market and donors have strict requirements to professionalism of experts and quality of analytical products. Unlike the first tide these analytical structures were established not as NGOs with broad scope of activities but focused on specific analytical services.

[253] It would be highly valuable to investigate the role and impact of local 'think tanks' or consultancy organizations on policy development in Tajikistan.

[254] The author was shocked when asked to pay $1000 by a prominent NGO for the data on migration that the latter had collected with funding from international donors and did not even own the data. LSMS survey data for Albania and Tanzania collected in 2003 and 2004 respectively is already available on the web. Yet, the TLSS 2003 data collected two years ago in Tajikistan was not released as of August 2006.

grossly underfunded it is, one cannot but sympathize with them.[255] They cannot keep skilled professionals. They work with outdated technology and cannot keep up with the demand of the research community.

I.B.3. Enhanced Simplification and Usability of Data

Goskomstat must not only provide easier access to TLSS data, it must also provide users with a complete dictionary with each database to maximize the potential usage of the data. TLSS 1999 has a very small subset of data prepared at the household level.[256]

I.C. Surveys of Migration

Research should be carried out on a regular basis on the dynamics of remittances and impact thereof, and this research should inform public policies and donor projects.

I.C.1. Expanded Modules on Remittances and Migration in Future TLSS

Next TLSS must include an expanded module on migration and remittances. Although imperfect in its present form, KLSS 2005 offers a template for the future TLSS.[257]

I.C.2. Regular Migration Survey

The government should streamline the procedure to collect migration data and should publish it regularly on its website for public usage. Such regular migration surveys should serve as a check against subsequent data collected through TLSS.

I.C.3. Panel Studies by Microfinance Institution

Due to the nature, structure and low density of the economy coupled with an underdeveloped and un-trusted banking system, donor-funded microfinance institutions (MFIs) have become important players in Tajikistan's financial system. Microfinance institutions that interact with a large number of clients dispersed over a wide geographic area have a comparative advantage in gathering information about remittances and their use. We suggest that UNDP should initiate a panel study project on their matching funds borrowers in Khatlon. KLSS 2005 provides information on a small fraction of the borrowing community. We suggest that all borrowers should be included in a survey conducted every six months over the next several years. IOM is constant touch with these families and has generated some capacity to gather information at low cost during the KLSS survey. Microfinance institutions should consider the possibility of initiating research with randomized trials.

I.D. A Think-tank for research on migration and remittances

It is a pity that Tajikistan has virtually no think-tank to carry out independent non-contract research on economic, social, and political issues. Such research ought to be translated in Tajik and Russian and ought to be widely shared with the government and

[255] As of July 2005, the research institute associated with the Ministry of Trade and Finance had no regular Internet connection. The staff used prepaid Internet cards to access Internet.

[256] More than 3 years have elapsed since the TLSS 2003 survey and it was not made available publicly as of August 2006.

[257] It is gratifying to learn that TLSS 2007 has incorporated an extended module on migration similar to KLSS 2005.

scholarly circles. The establishment of such a think-tank is long overdue. Most of the serious research on Tajikistan is carried out by non-Tajik itinerant consultants working mainly for the Word Bank and IMF or other international organizations and independent scholars.[258]

World Bank has a comparative advantage as a global knowledge institution.[259] However, research carried out by scholars associated with Western universities or consultants working for the World Bank or other international organizations remain inaccessible (unless translated into Russian or Tajiki), and is underutilized due to English and professional deficit and/or mistrust of expatriates.

I.D.1. Sustainable Collaboration

Tajikistan needs a truly collaborative think-tank that is staffed by qualified local and international economists capable of understanding and producing quality research (particularly quantitative research.) Donors should provide seed money. Such a think-tank should be supported by a group of highly-qualified western economists who will work collaboratively with the Tajik researchers and provide peer review. It is essential that the think-tank have effective channels of communication with government officials and the media. It is also essential that the think-tank become institutionalized, sustainable, and viewed as an asset to the Tajik government and public. Initially such a think-tank will have to be run by international economists. Any existing local capacity should be tapped.[260]

I.D.2. Existing Models

Models for effective think-tanks already exist in several transition countries.[261] In the context of Central Asia, the Uzbek Center for Policy Research could serve as a model.

See the Box on CER Uzbekistan.

[258] The author has heard numerous complaints about the aloofness and snobbish attitude of these organizations towards the local academic elite.

[259] World Bank, 2005a, 2005b.

[260] The author was involved in training local faculty members in econometrics under EdNet - a USAID sponsored program. At least some of these trainees can be enlisted before their knowledge becomes petrified.

[261] Struyk (2002) offers valuable insights into the development and management of public-policy think tanks in transition countries.

Box 10. 1 - Center for Economic Research (CER)

Center for Economic Research (CER) is an independent non-profit research institution established in April 1999 with assistance from the United Nations Development Program to enhance economic management capacities of Uzbekistan toward market economy through policy advice to the GoU, capacity building, economic analysis, assessments, forecasts, facilitating nationwide dialog and building broad consensus over socio-economic development in Uzbekistan. For 5 years UNDP and GoU put unprecedented efforts and resources in setting up and developing the CER as a policy advice think-tank institution.

Since its inception up to date CER has managed to develop into the first policy institution in Uzbekistan organized as a modern think tank, and serves as a model for domestic nascent think tank sector. The Center is exclusively positioned not only as a think-tank that has capacities and mechanisms for research effort, but also as an institution that built the capacities and mechanisms to shape public opinion and national dialogue with its activities, over the last years, and to involve a wide range of partners and donors into various projects and initiatives thus serving as a bridge between the GoU and the international donor community.

CER has a wide range of projects implemented with financial support from various international financial and development institutions, including WB, ADB, GDF, USAID, Eurasia Foundation, DFID, TACIS, Open Society Institute and other international foundations; the main goals of these projects are to improve socio-economic policy, to contribute to the national capacity-building through formal and informal training, to raise public awareness of economic development issues, as well as other aspects of development strategies and policies, including all development aspects — politics, mass media, society, ICT development strategy formulation, etc.

These projects include, but are not limited to, Training Courses on Economic Policy Analysis (World Bank); Development of Living Standards Assessment Methodology (DFID (UK); Uzbekistan Development Gateway (World Bank); Publication of Statistical Bulletin Uzbekistan: Economic Trends (TACIS); Development of Economic Education in Uzbekistan and Preparation of Methodological Manual on Teaching Macroeconomics in Uzbek (Soros Foundation—Open Society Institute), Central Asia Gateway (UNDP RBEC), Community Empowerment Network (World Baneconomic issues.

The reason for citing CER as an example is not to highlight its successes in fulfilling its mission but to underscore the point that even in the worst possible circumstances, it is possible to continue solid research activities and accumulate research capital for a day when propitious political conditions would enable Uz to reap dividends from the capacity and knowledge generated through the activities of CER.

Source: adapted from information on the CER website: http://www.cer.uz

Box 10. 1 - Center for Economic Research (CER)

Over the last few years significant research has been conducted on the subject of remittances. Yet, the nexus between remittances and development in the Russia-CIS corridor is one of the least explored areas. The present study is among the first serious attempts to fill this gap. It makes a small contribution to the emerging cottage industry of development economics. However, there remains a vast area of ignorance about the subject that needs to be addressed.

II. Limitations of the Study

II.A. Technical Limitations

- Although we were able to revisit over 86% of the original households, attrition from the sample in 2005 need not be random. If the disappearance from the panel is linked to certain characteristics—for example households with good education move away from Khatlon—then the estimation results from the survey may have *systematic bias*. Also, due to budgetary reasons, we could not pursue all split off members of the 1999 sample and had to confine ourselves to one split off member if she/he happened to live in the same village/town. Again, if the split-off members excluded from the interviews share some unique common characteristics, our results will be biased.[262]
- Also, as time passes by, panel surveys can become less representative if they fail to include new members of the population--new births or immigrants. We decided to sample new households but due to budget limitations, we could not include a large enough sample of new households, resulting in lower precision.
- As other surveys, panel data can also suffer from Measurement errors, especially those related to household income and consumption, which can affect the quality of mobility statistics.

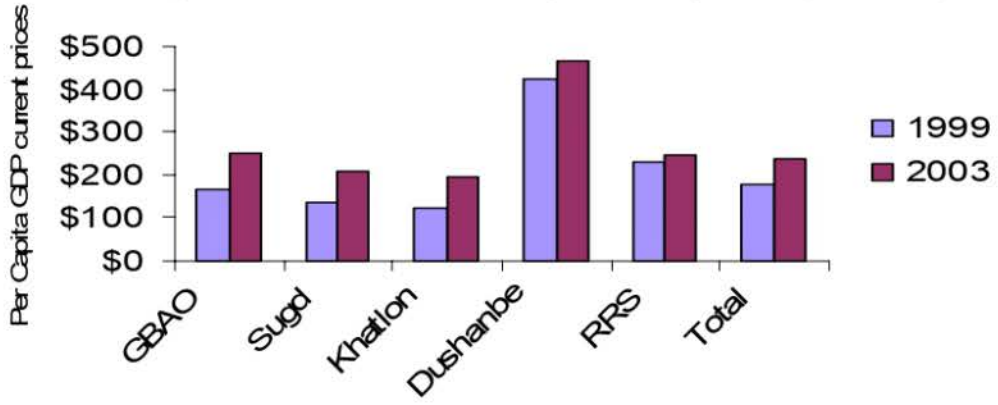
II.B. Limited Regional Scope

Given the limited regional scope of KLSS 2005, the results from this survey do not allow us to draw any strong conclusions about the whole country in so far as there are regional differences. This would be particularly true of the educational attainment. Khatlon being a relatively poor and predominantly agrarian region has a lower proportion of highly educated population relative to Dushanbe and other urban areas, and also has the lowest per capita income in 2003 as shown in Figure 11.1. Thus, the estimates of migration, migrant characteristics, and remittances extrapolated in the study for the whole country are tentative and need to be interpreted with caution.

As emphasized elsewhere, refinement of these estimates necessitates a national survey which would make it possible to assess the veracity of the estimates from the household

[262] Time and budget constraint prevented the author from pursuing these issues in detail.

Figure 11.1. Per Capita Income in Different Regions of Tajikistan (1999-2003) 1



Source: TLSS 1999 and TLSS 2003

survey by checking them against BALANCE OF PAYMENT data for the country. A national survey with a large sample size will yield estimates that are more precise as sampling error and precision are inversely related. See Annex III.

The full balance sheet of gains and losses from international migration and remittances is beyond the scope of this report and cannot be worked out with a regional study. We would be remiss not to reiterate the need for a nationwide living standards Measurement survey using the panel design used to carry out KLSS 2005.

II.C. Neglect of the Narco Shadow Economy in Tajikistan

Workers' remittances are intertwined with money generated in the shadow economy. The shadow economy of Tajikistan thriving on narco traffic remains a relatively non-researched area. There has been considerable anecdotal evidence and some descriptive analysis but little rigorous research into this elusive phenomenon. For this reason alone, the analysis and policy recommendations for migration and remittances presented in this report must remain tentative. In particular, if Khatlon accounts for a small percentage of the total shadow economy, and, therefore, if the proportion of informal remittances in Khatlon is lower relative to other regions, our extrapolation of informal remittances from Khatlon will be downward biased. At the same time, we will be less confident about the size of remittances actually representing 'workers remittances'.

There is a need for rigorous work in this area. It is unfortunate that no serious data collection and multivariate analysis has been undertaken in this area.

II.D. Internal vs External Migration

From a theoretical point of view, internal and international migration have different implications. For instance, the theory of relative deprivation maintains that internal migration does not change the reference group of migrants whereas international migration is likely to do so resulting in different degrees of relative deprivation. Different categories of people engage in internal and international migration. Migrants may initially migrate internally before going abroad or vice versa. Internal and international migration simultaneously and strategically deployed within the same family/household by different members. The impact of the two kinds of migration on poverty alleviation, return, family

dynamics etc may be entirely different due to significant differences in earning potential and other socio-political factors. With oblast level data, it is not possible to separate the differential impact of internal vs international migration.

III. The Case for a Binational Mixed Methodology Study of Tajik Migration to Russia

Good econometric studies usually require large datasets. Khatlon Living Standards Measurement Survey 2005 results could be used to conduct a number of econometric studies. Some sequels to this report will be forthcoming. There is a range of microeconomic issues that will be discussed in a number of follow-up papers.[263]

However, we strongly believe that *migration and remittances are multinational issues* and a unilateral approach may not unfold the full developmental potential of remittances for the following reasons.

First, a systematic analysis of migration and remittances behavior is invariably constrained by the partial nature of information available to the investigator who relies on household level surveys in the sending countries where limited information tends to be available on migrants living abroad. Surveys of actual migrants in labor markets can be effective at profiling their demographic and labor force characteristics but are generally poorer at generating accurate information on the structure, welfare status and composition of the households from which migrants originate. [264] There is a need to refine and make precise estimates of remittance flows using data from multiple sources from both countries.

Yet another reason for a binational approach is amply demonstrated by the preponderance of Tajik migration to Russia. There are shared interests in the flow of Tajik migration to Russia but aligning them will require enlightened policies informed by sound research and data. There is a lot of fog around that needs to be cleared and requires a coordinated binational approach. This is in keeping with the approach taken in the recently published document.

Thirdly, although there is little disagreement among Russian, Tajik, and international scholars that the bulk of Tajik migration is seasonal and temporary, the composition of Tajik migrants who do settle permanently has not been adequately studied. [265] This further underscores the need for a binational study. Finally, any unilateral measure by the sending country could be easily neutralized by another unilateral measure by the receiving country.

Lessons learned from our experience of the limited scope regional study of Khatlon should be highly valuable in designing a two-nation study.

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[263] In a sequel to this report, a paper will use the panel dataset specifically collected for this study to assess the impact of remittances using regression analysis on poverty and income distribution in Khatlon oblast (Mughal, 2007b). Depending on funding, we are also planning to carry out two additional studies: i. a study to investigate the factors that render a Tajik migrant worker most prone to send money; ii. a study of whether emigration has put pressure on wages and whether it has triggered any substitution of capital for labor.

[264] Adriana Castaldo, Julie Litchfield And Barry Reilly, 2005, pp. 7-8

[265] There is some discussion of the ethnic composition in the following reports but it is very limited. Tishkov et al (2005), Tyuryukanova (2005), Olimova and Bosc (2003).

IV. Methodological Innovations: Need to Use Mixed Methods and to Incorporate Intentions

IV.A. Need to Use Mixed Methods

Migration is a multi-faceted phenomenon and has social, legal, and political implications that may be just as important as the economic ones discussed here. More research is needed to investigate into the non-economic implications. This calls for a mixed methodology which involves not only quantitative analysis of data but also qualitative analysis involving ethnography and focus groups. Trained as he is as an economist, the author strongly supports a mixed methodology because of the multi-faceted nature of the issue of migration.

A no less important reason has to do with the prevalence of a shadow economy in Tajikistan. A purely quantitative approach is limited in the context of a country with a substantial shadow economy based on drugs. Lack of funding has prevented the implementation of the mixed approach.

IV.B. Need to Incorporate Intentions in Household Surveys

The discipline of economics has been, in general, highly skeptical of studies based on attitudes and intentions (Manski, 1990). The discipline emphasizes how behavior can generally be predicted through judicious use of appropriate econometric models from actual revealed preference (and not intended) outcomes. This aversion to intentions studies stems from the view that 'expressed motives' may not be 'reasons'. However, limitations of behavior based data have prompted some economists (See, for instance, Louviere, Hensher and Swait, 2000) to explore migrant behavior more indirectly through the use of intentions data, and cast the empirical analysis in terms of migration willingness (Adriana Castaldo, Julie Litchfield and Barry Reilly, 2004).[266] We believe, with Louviere, Hensher and Swait (2000) and Adriana et al that stated (rather than revealed) preferences are capable of generating data consistent with economic theory and facilitate the estimation of econometric models that are almost indistinguishable from those using revealed preference data. In addition, the empirical track record of stated preference data models is as impressive as their revealed preference counterparts (ibid.).

The time is ripe for a comprehensive bi-national multidisciplinary study of remittances and migration with scholars from both countries as well as international scholars representing a broad spectrum of disciplines, including economics, sociology, demography, and political science. The expected payoff in terms of sound policy analysis is huge.

V. Areas of Further Research

Some areas of further research have been suggested in the section on the limitations of the study. Other possible avenues of policy relevant research are briefly discussed below.

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[266] For instance, see Hughes and McCormick (1985), Papapanagos and Sanfey (2002), Ahn, De la Rica, Ugidos (1999), Ahn, Jimeno, Garcia (2002), Drinkwater (2003a), Drinkwater (2003b).

V.A. Need for Rigorous Econometric Studies Based on KLSS 2005

Descriptive analysis is very important and necessary to generate insights about the phenomena under study and to suggest hypotheses to be tested.

To test hypotheses about causal relationships, we need to carry out econometric studies. Such studies are almost non-existent in Tajikistan. The field is wide open to study the following issues:

a. Determinants of propensity to remit
b. the impact of remittances on inequality
c. the impact of remittances on poverty
d. the impact of remittances on labor supply
e. the impact of remittances on savings and/or physical capital accumulation;
f. the impact of remittances on health
g. a study to assess where Tajik communities are in the emigration lifecycle - using the approach of Stark et al (1988)

Good econometric studies usually require large datasets. Khatlon Living Standards Measurement Survey 2005 results could be used to conduct a number of econometric studies. Some sequels to this report will be forthcoming in the next few months. There is a range of microeconomic issues that will be discussed in a number of follow-up papers.

Results from KLSS 2005 will be used in regression analysis to examine the factors that render a Tajik migrant worker most prone to send money. Another paper will use the panel dataset specifically collected for this study to assess the impact of remittances on poverty in Khatlon oblast. In another sequel to this report, we would examine whether emigration has put pressure on wages and whether it has triggered any substitution of capital for labor. We are also planning to investigate the impact of remittances on poverty and income distribution.

However, these studies will be regional and results may not be generalizable to the whole country. Given the regional differences within Tajikistan, the need for a comprehensive nation-wide survey is amply demonstrated. Ideally one would like to carry out nation-wide random surveys in both Tajikistan and Russia to get a reliable representative picture.

V.B. Impact of Remittances on Savings Mobilization

It is clear that for remittances to have sustained and long term impact they should be saved, therefore, it is imperative that senders and receivers open depository accounts. No study has come to our knowledge on this important aspect of the nexus between remittances and development. In this regard, the role of credit union in countries such as Uzbekistan needs careful investigation and the possibility of duplicating the Uzbek experience should be explored.

It may be possible to work with Desjardins International Development on a preliminary study on the promotion of savings through the development of local credit unions in Tajikistan.[267]

[267] Grace (2005) has an excellent discussion of exploring the credit union option in Latin America.

V.C. Brain Drain and Brain Gain

Although the survey results from Khatlon suggest the predominance of low-skilled workers among recent Tajik migrants, and, there is a clear tendency for relatively unskilled younger people to migrate to Russia on a seasonal basis, Tajik Diaspora from earlier times in Russia and elsewhere is likely to have a disproportionate number of highly educated professionals. Very little is known about the small but significant number of highly educated Tajik emigrants who are settled in Russia. Whether there is a significant continuing brain drain cannot be determined with the regional data because of important differences in the educational attainment of the population in different regions – the urban areas have a much greater proportion of highly educated people. Additional work needs to be done, particularly in Russia and other receiving countries.

Whether brain drain has benefited Tajikistan through the channels identified above deserves serious attention of the research community and further underscores the need for a binational study. To operationalize the idea of diversifying countries of destination with a view to maximize brain gain, additional research needs to be conducted to identify the most promising avenues.

V.D. Political Economy of Russian Immigration Policy

Immigration into Russia from ex-Soviet republics in the 90s took place in a highly murky legal environment and constantly changing rules and regulations. Although information about the labor market conditions in Russia is easily available to prospective Tajik migrants, frequently changing rules and regulations makes formation of expectations about the costs and benefits associated with migration difficult.[268] The political economy of the changing immigration regime remains an unexplored area and requires collaborative work with Russian scholars who are well initiated into the political game played by different stakeholders. A political economy analysis should help predict future direction of Russian immigration policy.

V.E. Migration and Gender Inequality in Tajikistan

By all accounts, Tajikistan has experienced significant deterioration in gender equality since the breakup of the FSU. Changes in the demand for labor, national and international, resulting from market forces and the introduction of private ownership may have worsened women's socio-economic status. This issue needs serious study. Although some work has been done, a lot more needs to be done to identify the forces that underlie this alarming situation. The project of empowerment of women may be doomed without economic parity. Short-term negative distributional consequences can stall economic reform (see e.g., Przeworski, 1991; Kim and Pirttila, 2003). The effect of migration on the gender

[268] As of today, Russia has no clear *immigrant policy* (Turukanova, p. 96). An immigrant policy is distinguished from an immigration policy in focusing upon the integration and assimilation of immigrants already in the receiving country. An immigration policy involves rules regarding who can enter the country. Russia needs to have a clear immigrant and integration policy.

composition of agricultural labor with women filling low skill agricultural positions, particularly, in the cotton sector remains relatively unexplored.[269]

V.F. Paucity of Information on the IFT and IVT Methods within the Russia-CIS Corridor

Another important but under-researched area consists of the various informal value transfer (IVT) and informal funds transfer (IFT) methods being employed by remitters. This is important for two reasons: regulation and supervision of these informal methods and channeling the transfers to formal systems. To some extent, the World Bank study (2006) complements the analysis because it was based on a snowball sample. But, this area needs more research. It would be interesting to analyze if the existence of banking facilities in the community has any correlation with the typical mode of transfer by migrants from that community.

V.G. Assessing the Impact of the UNDP / IOM Matching Funds Program through Non-experimental Methods

A highly promising subject of further research is *the assessment of the Impact of the UNDP / IOM Matching Funds Program* discussed in chapter 9. The Matching Funds borrowers were selected after a survey in chosen areas through a non-random process. As stated above, the Matching loans program was confined to only two Jamoats (Telman and Sayyod) even though households in other neighboring Jamoats with similar characteristics would have been eligible to participate but could not because the program was not piloted there.

Since many characteristics that make borrowers different from non-borrowers are observable in the sample, the relevant conditioning factors – age, education, gender, per capita income, amount of remittances - can be accounted for in evaluating the impact of the matching loans program. KLSS 2005 allows us to find a control group of remittances receiving migrant households with similar characteristics. KLSS 2005 was also accompanied by a community survey which could allow us to disentangle the 'community' or village effects that can also impinge upon the outcomes.

A key challenge in evaluating the Matching Loans program arises because borrowers may have some unobservable characteristics that make them different from non-borrowers – borrowers may possess a more entrepreneurial spirit, enjoy better business connections, or just be more focused than non-borrowers. Since these unobservable characteristics are correlated with participation in the Matching Loans program, *what seems like the impact of matching loans program may in fact largely reflect the impact of these unobservables*. Estimated impacts of the Program will be biased if unobserved heterogeneity is not controlled. Having a panel dataset (the same individuals/ households observed in 2005 and 2007) will allow for netting out such unobservable characteristics.

Thus, a follow-up survey of the households participating in the Matching Loans program who were included in KLSS 2005 will be necessary along with a survey of the control

[269] Nargis Halimova. 2005. "The Cotton Sector in Tajikistan from Macro-Economic Impact to Social and Environmental Consequences." Paper presented at the conference "*Cotton Sector In Central Asia: Economic Policy And Development Challenges*," SOAS, University of London, November 3-4, 2005.

group of non-borrowers from the same villages/rayons that are otherwise similar to participants. An important source of selection bias consists in the location of the pilot program. Since KLSS 2005 was accompanied by a community survey, such bias can be potentially eliminated.

VI. The Knowledge Divide between Tajikistan and Other Central Asian Countries and the Need for Remedial Funding

The relative position of Tajikistan in the intellectual hierarchy of the region has received serious setback. One figure would be telling. The share of teachers with tertiary education in Azerbaijan, Armenia, Belorussia, Moldova, Russia, and the Ukraine ranged from 80 to 87% of the total number of teachers, from 71 to 75% in Georgia, Kazakhstan, Kyrgyzstan, and only 59% **in Tajikistan**.[270]

It is not only the share of people with tertiary education that has declined. The picture becomes gloomier when one considers the proportion of people with tertiary education from abroad. Until fairly recently, Tajikistan has been a virgin territory in so far US scholars are concerned. Until 2006, Fulbright did not offer fellowships for Tajikistan to US scholars, a distinction that Tajikistan shared with Turkmenistan! The absence of Fulbright and other international research funds (mainly US-based) over the last fifteen years or so has created a wide gap in knowledge as well as local capacity to conduct research between Tajikistan and other Central Asian republics, including Kyrgyzstan. The knowledge divide between Kazakhstan and Tajikistan is particularly sharp as young Kazakhs enjoy greater opportunities to study at English medium institutions in Kazakhstan as well as travel abroad with the help of various funds, such as the government provided Bolashak scholarship, personal funds (as per capita income in Kazakhstan has been increasing rapidly) , and support from international donors.[271]

This calls for extraordinary remedial funding to bridge the knowledge gap.

Funding for research on Tajik migration and remittances into Tajikistan is imperative not only from an economic but also from a broad political perspective. The data and the research based on the data should help scholars and policy makers better understand the dynamics of poverty in Tajikistan and help design appropriate approaches to alleviate poverty, contribute to the achievement of the Millennium goals, and prevent the drift towards radical ideologies and drug trafficking, in so far as the latter thrive in conditions of poverty and hopelessness.

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[270] Education in CIS countries, June 2005, CIS Statistical Committee, p.6.

[271] Institutions, like the Kazakhstan Institute of Management, Economics, and Strategic Research (*KIMEP)* which is the largest English medium university in Central Asia have been bankrolled by USAID, TACIS, and HESP Fund of Soros Foundation. Bolashak scholarship for higher education abroad is funded by the Kazakh government, and, as of September 2007, *over 800 young people are reported to have graduated, returned and currently working within the economy of Kazakhstan.* Source: http://www.edu-cip.kz/eng

Concluding Remarks

Both geography and history seem to have conspired to turn Tajikistan into a major labor exporting economy. The fundamental insight from the theory of international economics is that for a small, remote, landlocked economy, migration is trade through different means. International migration is neither a long run panacea nor a problem to attack. Remittances have helped a significant number of households in Tajikistan overcome severe deprivation. Given the specific geographic, historical, and economic situation, a long run development strategy for Tajikistan must hinge upon the development of dynamic comparative advantage and diversification of trading/labor-importing partners.

Over the long run, migration carries the seeds of its own destruction Structural factors and level of economic development shape migration. Migration, in turn, shapes the process of development. However, in the short to medium term, there is little escape from it for Tajikistan. It will be a grave mistake to try to "Keep People on the Farm" where their marginal productivity is low or even zero. The decision to migrate is a rational decision to invest in one's human capital. Thus, even if it is possible to increase income through alternative means, it would not stop people from voting by their feet in the short to medium run. When people's income increases, they become more mobile. So, there may be a migration hump in the short to medium run as became clear in the case of Mexico in the aftermath of NAFTA.

Tajikistan must make a virtue of necessity. Migration is a mechanism for social mobility for most people. The key policy question is how Tajikistan can use international migration as a development tool and leverage remittances for development. At present, Tajikistan is selling its comparative advantage short by relying exclusively on the export of labor to Russia. To reduce its economic vulnerability resulting from the monogamous relationship with Russia, Tajikistan must create highly flexible and mobile intellectual assets that can be deployed in multiple places in an increasingly globalized economy.

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Appendix

I. *Survey Methodology*[272]

Although the first LSMS conducted in 1999 was not designed to be a panel survey, it was possible to implement a panel design by identifying and revisiting the sample of households in Khatlon oblast that were interviewed in 1999 for the first LSMS. To represent changes in the households since 1999, new households were randomly selected over 44 population points within Khatlon, stratified across urban and rural areas. A total of 699 households were interviewed. In addition, a 20% sample of remittances receiving households participating in the UNDP loan matching program was selected for comparison. The questionnaire was adapted from TLSS 1999 and TLSS 2003, with additional modules on credit and communications designed to collect in-depth information on different aspects of remittances in the context of a worldwide IT revolution.

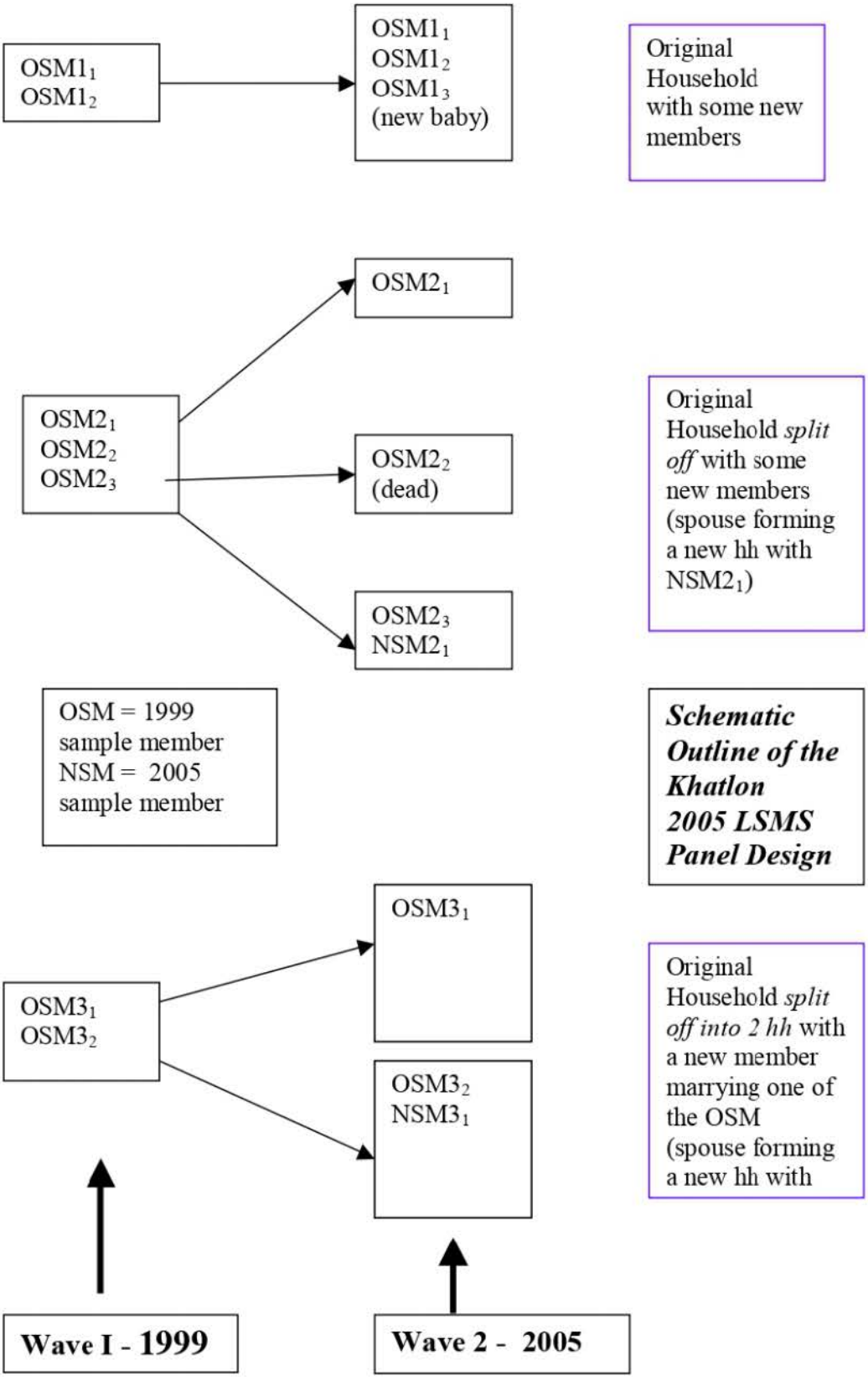
The survey was conducted at two levels – household and community. In addition to the household survey, a community survey provides information regarding community and municipal characteristics. Included in the community questionnaire were questions regarding population, labor force, industry, natural resources, agriculture, standard of living, community development, infrastructure (IT and Internet), institutions, and migration patterns.

The availability of this rich data set from KLSS 2005 offers a unique opportunity to scholars to fill an important gap in the literature on the socio-economic dynamics of remittances in Tajikistan.

Cross section studies can only identify correlates of poverty but they cannot isolate the determinants of poverty because unobserved factors may be correlated with explanatory variables. A panel design can overcome this limitation. With panel data we can isolate the effect of unobserved characteristics by carrying out fixed effects estimation.[273] KLSS 2005 survey sample offers a unique opportunity to construct a panel study. The panel consists of two waves of data, Wave 1 (from TLSS 1999) and Wave 2 (KLSS 2005). Such a panel is particularly suitable for the study of the *determinants* of poverty and income distribution and the role of remittances in this process. Retrospective questions on remittances going as far back as 1999 were asked of the respondents. This has made it possible to assess differences in the living standards associated with the increased flow of remittances since 1999. See the Flowchart below for an illustration of the panel design. (next page)

[272] The author strongly believes in combining methods of various disciplines to study aspects of a multidimensional phenomenon like international migration and the remittances associated with it. A purely quantitative approach is limited in the context of a country with a substantial shadow economy based on drugs. Lack of funding has prevented the implementation of the mixed approach.

[273] An excellent accessible reference on this is Wooldridge, Jeff. 2005. *Introductory Econometrics*.


OSM1₁
OSM1₂
OSM1₁
OSM1₂
OSM1₃
(new baby)
Original Household with some new members
OSM2₁
OSM2₁
OSM2₂
OSM2₃
OSM2₂
(dead)
OSM2₃
NSM2₁
Original Household *split off* with some new members (spouse forming a new hh with NSM2₁)
OSM = 1999 sample member
NSM = 2005 sample member
Schematic Outline of the Khatlon 2005 LSMS Panel Design
OSM3₁
OSM3₁
OSM3₂
OSM3₂
NSM3₁
Original Household *split off into 2 hh* with a new member marrying one of the OSM (spouse forming a new hh with
Wave I - 1999
Wave 2 - 2005

The survey was conducted by Zerkola under the close supervision of IOM. The author and local consultant provided training and technical assistance. Although the main objective of the survey was to gather data on migration and remittances, the survey was designed as a living standards survey in accordance with recommendations by the World Bank technical Group.[274] the survey gathered a wealth of information an LSMS survey typically does. Thus, we have a rich dataset The survey was specifically designed to address the objectives listed above.

The geographical coverage of the Tajik survey involved six districts in Western Khatlon province, comprising the major sending districts as well as the most impoverished in the country. They are the following:

- Shaartuz
- Kabodiyon
- Kumsangir
- Pianj
- Dzhilikul
- Kolkhozobod

Since all of the studies of poverty are based on CS data, all studies of poverty on Tajikistan suffer from severe limitations, i.e., they can only assess the correlates of poverty, but not the 'determinants of poverty 'because of endogeneity.

Module	**Target population/Broad Definition of the Information Collected**	**Respondent**
Cover	Metadata: Enumerator, supervisor, and data entry operator information. oblast, rayon, city, household head, PSU and household number, Georeferencing [?]	Compiled by the enumerator
1. HH Roster	Names of all household members, relationship to head of household, age, marital status and identification of spouses, ethnicity and religion, actual presence in the household over one year period, identification of actual household members as defined in the survey	Head of the household or, if not available, "principal respondent"
2. Migration	Information on whether each household member is originally from the municipality, whether they have moved to and from the municipality, for how long and for what reasons, with particular detail for the period since 1997. Questions on the intention or failed attempts to migrate are also asked to members over 15 years of age	Most knowledgeable person

[274] Adams, 2005a.

3. Education	Part A. Pre-school: Attendance, type of school, costs.	Mother or guardian for children of age 3-5
	Part B. School: Reading ability, school attendance, level and grades completed, highest diploma obtained, school attended (attendance, quality, costs, distance, scholarships), reasons for not attending/enrolling,	All household member age 6 or over; parent or guardian answers for children under 15
4. Health	Part. A. General health status: Occurrence of chronic and sudden illnesses, subjective health assessment, use and cost of health services (including hospitals) and medicines.	All members 15 and older answer individually; parent or guardian answers for children under 15
	Part B. Access to health care: Ability (including financial) to access health services as needed	Most knowledgeable person
5. Dwelling, Durables, Utilities	Part A. Dwelling: type, construction, age, conditions, size, length of residence, number and use of rooms, ownership, (potential or actual) rent, availability of services (toilets, garage, etc.).	Most knowledgeable person
	Part B. Utilities: Access, quality and cost of water, central heating, electricity and other energy and fuel sources, and telephone.	Most knowledgeable person
	Part C. Durables: Ownership, description, age and value of household durable goods (TV, refrigerator, Central Asia, etc.)	Most knowledgeable person
6. Labor	Part A. Labor force participation: Current employment status and efforts to find job if unemployed	All members age 14 and older
	Part B. Overview last 7 days: Occupation(s) in the last 7 days, and weeks worked in the same occupation(s) over last 12 months	All members age 14 and older
	Part C. Main and secondary job in the last 7 days: workplace, length of current occupation, type of work/employment, social security, earnings and benefits	All members age 14 and older who reported not working last 7 days
	Part D. Main job in last 12 months: Jobs in last 12 months (type of work/employment, social security, earnings and benefits, etc.), or reason to stop working.	

7. Transfers	Part A. Transfers from others: Source, use, and magnitude of transfers from persons or institutions, including remittances	Most knowledgeable person
	Part B. Transfers to others: Destination, use, and magnitude of transfers to persons or institutions	Most knowledgeable person
	Part C. Social assistance: Payments received and eligibility to transfers from various sources of social assistance, arrears	Most knowledgeable person
8. SUBJECTIVE POVERTY AND FOOD SECURITY		Best informed / responsible
9. Food expenditure	Households	Best informed / responsible
10. Non-food expenditure	Part A. Past 30 days: Value of purchases of 14 frequent nonfood items (personal care, fuels, alcohol and cigarettes, etc.) with one additional open category ('other')	Best informed/who pays the bills,
	Part B. Past 6 months: Value of purchases of 17 less frequent nonfood items (clothing, household articles, books etc.) with one additional open category('other')	
	Part C. Past 12 months: Value of purchases of 14 infrequent nonfood items (house and vehicle maintenance, holidays, ceremittancesonies etc.) with one additional open category ('other')	
11.Agriculture	Part A1. Own plots: Size and quality of own agricultural land, crops planted, method of acquisition and legal title, estimated value	Person most knowledgeable about agriculture
	Part A2. Plot rented in: Size and quality of agricultural land, crops planted, sharecropping, rent paid	Person most knowledgeable about agriculture
	Part A3. Plot rented out: Size and quality of agricultural land, , method of acquisition and legal title, estimated value, sharecropping, rent earned	Person most knowledgeable about agriculture
	Part B. Machinery: Type, quantity, (shared) ownership, estimated current value	Person most knowledgeable about agriculture
	Part C. Crops: Area harvested by crop, amount harvested, unit price received	Person most knowledgeable about agriculture
	Part D. Inputs: Quantity used and amount spent, source	Person most knowledgeable about agriculture
	Part E. Livestock: Animals owned by type, sales and earnings, veterinary and input expenditure	Person most knowledgeable about agriculture
	Part F. Livestock products: Earnings obtained (if sold)	Person most knowledgeable about agriculture

12.Non-farm Enterprises	Part A. List of nonfarm enterprises	Most knowledgeable person
	Part B. General information: Type, where operated, ownership details, (share of) profits earned by household, (members and non-members) employment	Most knowledgeable person
	Part C. Revenues and operation: Days operated, revenues, self-consumption, length of and revenues from operation over 12 month period	Most knowledgeable person
	Part D & E. Expenditure and assets: input expenditure assets per enterprise Income from rents, sales of assets, inheritance, gambling, and 'other	Most knowledgeable person
13.Other Income	Income from rents, sales of assets, inheritance, gambling, and 'other'	Most knowledgeable person
14.Credit		Most knowledgeable person
15. Communications		Most knowledgeable person

II. *Direct Estimate of Total Remittance Flows into Khatlon from KLSS 2005*

We can directly estimate the amount of remittances in Khatlon from KLSS 2005 with the following pieces of information:

(a) total remittances sent by family members in the sample;

(b) using the sampling fraction calculate the total amount of remittances sent by family members in 2004;

(d) total remittances sent by non-family members in the sample;

(b) using the sampling fraction calculate the total amount of remittances sent by non-family members in 2004.

The results are given in Table Appendix B. *The total amount of remittances in Khatlon in 2004 is estimated to be approximately $110 million.*

Table Appendix B. - Estimate of Total Remittances in Khatlon in 2004 Using the Estimated Total Remittances of Migrants from Khatlon from KLSS 2005)

A. Remittances from Household Members	
Per capita remittances in Somoni	**3849.667**
Remitters in 2004 in the Sample	156
Total family remittances in the sample	600548.052
Sampling fraction in 2004	0.002039433
tota family rem in 2004 in Khatlon	294468197.4
B. Remittances from non-household Members	
Av nonfamily rem in the sample	**774.4878**
Number of recipient households	82
total non family remittances in the sample	63507.9996
tota non-family remittances in 2004 in Khatlon	31140033
Total remittances (family + non-family) in Khatlon 2004	325608230
Total remittances (family + non-family) in Khatlon 2004	109595500

These estimates are downward bias because a number of households in our household survey probably underreported the remittance income that they receive, as many of those familiar with the survey believe that households often do not report receiving remittance income, and when they do, they underreport the amount received. This finding is robust in the literature. *However, it would be safe to say that these represent a lower bound on the estimates of remittances in Khatlon in 2004.*

III. Alternative Estimates of Formal and Informal Remittances in Tajikistan (2004-2005)

Next, we estimate remittances into Tajikistan *indirectly* using 2 different methods.

III.A. Estimate of Total Remittance Flows into Tajikistan: *Using Estimates of remittances per Migrant from KLSS 2005*

We can estimate the amount of remittances into Tajikistan in 2004 extrapolating from KLSS 2005 the number of remittance receiving households in each category (defined by the number of migrants) and the average amount of remittances per migrant. As noted in chapter 4, roughly one-fourth of all households in our sample reported receiving some remittance income. The calculations are given in Table Appendix. C. I

Table Appendix. C. I - Estimate of Total Remittances in Tajikistan in 2004 Using the Estimated Remittances of $1296 per Migrant in Khatlon (from KLSS 2005)

Estimate of Total Remittances Using Household Size in Tajikistan - Indirect Method I

Number of Migrants per Migrant Sending household	Fraction of all Migrant Household	Amount Received per household ($1296 times # of migrants)	Total Estimated Number of Households in Tajikistan	Percentage of Remittance Receiving household	Number of Receiving householdsin Each Category	Total Remittances in Each Category of Remittance Receiving households	
1	0.615	1296	831,754	0.24	122766.89	159,105,890	
2	0.284	2592	831,754	0.24	56692.353	146,946,578	
3	0.096	3888	831,754	0.24	19163.612	74,508,124	
4	0.005	5184	831,754	0.24	998.1048	5,174,175	
Total from household members							385,734,767
Total from non family members							84,298,952
Total Remittances							470,033,720

Source: Number of households in Tajikistan from State Statistical Committee

Based on the information from KLSS 2005 about remittances per migrant and the number of migrants per receiving households, the total amount of remittances in Tajikistan in 2004 is estimated to be about $470 million. The indirectly estimated amount *underestimates the total remittances by a sum no less than $70 million ($540 m. - $470 m.)*

III.B. Estimate of Total Remittance Flows into Tajikistan: *Using Estimates of remittances per Migrant from World Bank*

We can estimate the amount of remittances into Tajikistan in 2004 extrapolating from KLSS 2005 the number of remittance receiving households in each category (defined by the number of migrants) and the average amount of remittances per migrant estimated by the World Bank 2004 Survey. In 2004, World Bank conducted a survey specifically to estimate the amount of remittances per migrant. According to their survey, an average Tajik migrant sends home about $1345 per year. See Table 4.7.The calculations are given in Table Appendix. C. II.

Table - Tajik migrant's income statement

Table 4.5. Tajik migrant's income statement

US$		
Gross **earnings**	2,700	
Cost		
Fixed expenses		410
Transportation		330
Border crossing		30
Other		50
Variable expenses		945
Food		540
Accommodation		225
Police		135
Other		45
Remittances **(Gross Earnings-Cost)**		1,345

Source: Unpublished World Bank survey of a typical seasonal worker staying in Russia nine months at a time.

Table Appendix. C. II - Estimate of Total Remittances in Tajikistan in 2004 Using the Estimated Remittances of $1345 per Migrant in Tajikistan (from World Bank 2004 Survey)

Number of Migrants per Migrant Sending household	Fraction of all Migrant Households	Amount Received per household ($1345 * # of migrants)	Total Estimated Number of Households in Tajikistan	Percentage of Remittance Receiving households	Number of Receiving householdsin Each Category	Total Remittances in Each Category of Remittance Receiving households	
1	0.615	1345	831,754	0.24	122766.8904	165,121,468	
2	0.284	2690	831,754	0.24	56692.35264	152,502,429	
3	0.096	4035	831,754	0.24	19163.61216	77,325,175	
4	0.005	5380	831,754	0.24	998.1048	5,369,804	
Total from household members							400,318,875
Total from non-household members							84,298,952
Total remittances							484,617,827

Source: Number of households in Tajikistan from State Statistical Committee; average amount of remittances per migrant from unpublished World Bank Survey (2004).

Based on the information from World Bank about remittances per migrant and information from KLSS 2005 about the number of migrants per receiving households, the total amount of remittances in Tajikistan in 2004 is estimated to be about $485 million. The indirectly estimated amount *underestimates the total remittances by a sum no less than $55 million ($540 m. - $485 m.)*

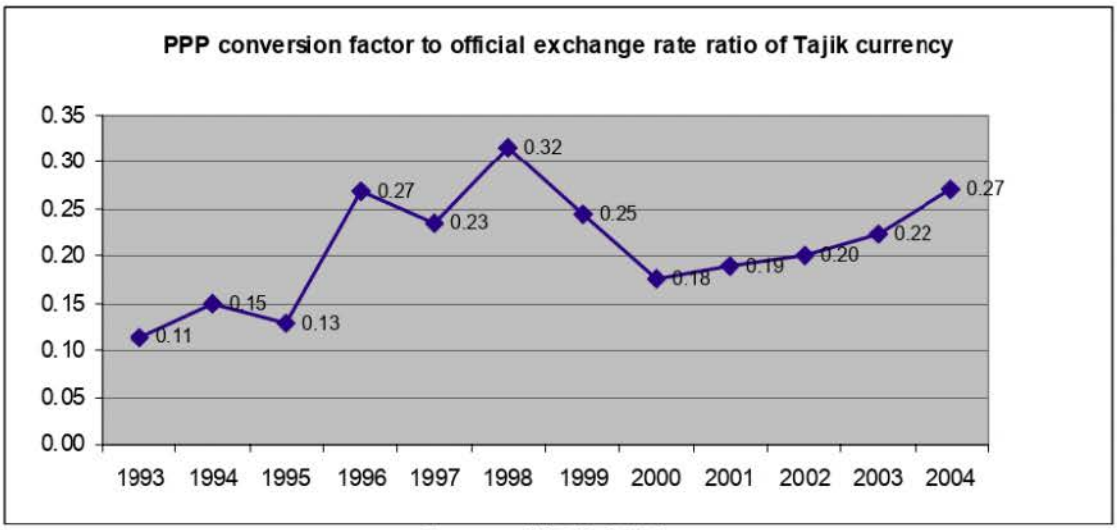
IV. The Logic of Using the PPP Conversion Factors

There is a considerable body of opinion which holds that international comparisons of GDP when converted at market exchange rates are far from meaningful because they do not take into account price differences across countries. The volatility of market exchange rates, the propensity for them to have long periods of misalignment, and the very large declines that occur in foreign currency denominated GDP immediately after a large devaluation have all been cited as arguments against the use of GDP comparison based on market exchange rates. Many developing and transition countries show a much lower GDP when market exchange rates are applied for conversion. This to a large extent reflects the high proportion of non-tradable goods in these economies.

The IMF uses PPP converted data for inter-country comparisons in its World Economic Outlook to overcome these shortcomings of using market exchange rates for the conversion of GDP.

When we say that one dollar is equal to 3 Somoni based on the market exchange rate, does it mean that one dollar can buy the same goods in the U.S. as 3 Somoni can buy in Tajikistan? Anyone who is familiar with the prices in both countries knows full well that while 3 Somoni goes a long way in Tajikistan, one $ does not buy much in the U.S. Thus, the answer to the question is obviously, 'no'. This is the basic Logic of converting GDP data to reflect Purchasing-Power Parity or PPP. Purchasing-power parity is a theory of exchange rates whereby one dollar should be able to buy the same quantity of goods in Tajikistan as well as in the U.S. Since one dollar can buy more goods in Tajikistan than it can in the U.S., the market rate of $1:3 Somoni underestimates the purchasing power of Somoni, suggesting downward revision in the exchange rate. If it costs 2$ to buy the same goods in the U.S. as 3 Somoni can buy in Tajikistan, the exchange rate needs to be revised downward to 1½ Somoni per $. Thus, if at the market exchange rate GDP was 100, on the basis of PPP, it would be $200. The PPP between two countries (A and B) is defined as the rate at which the currency of A needs to be converted into the currency of B in order to enable a given amount of A's currency to purchase the same volume of goods and services in both countries.

The PPP conversion factors are derived from price surveys covering 118 countries conducted by the International Comparison Program. The PPP conversion factors for Tajikistan have been estimated by IMF and are presented below:



Source: WDI, 2005

Using these national PPP conversion rates takes into account differences in price levels. This allows us to compare people's purchasing power between countries, just as conventional price indexes allow comparison of purchasing power over time within a country. PPP based GDP figures make the comparison of HDI values across countries meaningful.

Difficulties in PPP computations may arise because expenditure patterns across countries can vary markedly. Also, there are many non-tradable goods – goods that are not easily traded or shipped from one country to another. Moreover, tradable goods are not always perfect substitutes either when they are produced in different countries

Annex Table I - Tajikistan: Key Economic Indicators

	Actual							Projection				
Indicator	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
						As % of GDP						
Gross domestic producta	100	100	100	100	100	100	100	100	100	100	100	100
Agriculture	25	25	24	22	24	22	21	21	20	20	19	19
Industry	27	36	36	36	34	25	24	23	21	20	19	17
Services	40	31	31	32	32	40	42	44	45	47	49	50
Total Consumption	81	99	98	94	90	92	89	87	84	82	80	78
Gross domestic fixed investment	17	7	9	14	14	12	12	12	12	12	12	12
Exports(GNFS)b	66	87	65	62	57	50	48	48	48	48	48	48
Imports (GNFS)	67	89	77	75	74	70	67	67	67	66	66	66
Gross domestic savings	15.9	7.5	-2.3	4	-2	-6.4	-6.2	-5.8	-5.8	-5.9	-6.1	-5.9
Gross national savingsc	20	-4	7	17	25	23	25	28	30	32	34	36
Memorandum items												
Gross domestic product (US$ million at current prices)	1087	980	1104	1238	1553	2078	2338	2550	2757	2979	3220	3481
GDP per capita (US$)	179	158	175	192	236	310	342	366	387	410	435	46 1
Real annual growth rates (%, calculated from 1997 prices												
Gross domestic product at market **prices**	3.7	8.3	10.2	9.1	10.2	10.6	8	7	6	6	6	6
Gross Domestic Income	-0.2	6.8	7.7	-1.3	11.1	8.5	3.8	8.5	6.2	6	6	6.3
Real annual per capita growth rates (%, calculated from 1997 prices												
Gross domestic product at market pr	1.6	6.1	8	6.9	8	8.4	5.9	4.9	3.9	3.9	3.9	3.9
Total consumption	1.1	1.2	1	1.1	1.2	1.2	1.1	1	1	1	1	1
Private consumption	1.1	1.3	1	1.1	1.2	1.2	1	1	1	1	1	1
Balance of Payments (US$ millions)												
Exports (GNFS)b	718	849	714	768	884	1047	1132	1229	1320	1420	1532	1656
Merchandise FOB	666	788	652	699	799	915	985	1070	1 I48	1233	1331	1438
Imports (GNFS)c	733	868	847	929	1142	1446	1576	1704	1834	1978	2141	2309
Merchandise FOB	693	811	777	824	1003	1247	1361	1471	1580	1703	1842	1986
Resource balance	-16	-19	-133	-161	-259	-399	-445	-475	-513	-558	-609	-653
Net current transfers	35	37	131	184	329	399	44 1	468	500	536	578	624
Current account balance	-10	-6 1	-73	-33	-20	-8 1	-98	-107	-120	-135	-152	-159
Net private foreign direct investment	21	24	9	36	32	272	40	84	69	76	79	84
Long-term loans (net)	38	40	20	14	32	-1	63	74	89	96	119	128
Official	42	21	36	12	30	86 -188	61	71	86	92	1 I4	121
Private	-4	18	-16	2	2	2	3	3	4	4	5	6
Other capital (net, incl. errors & omissions)	-57	27	52	-16	-4	48	41	-20	-9	-7	-17	-22
Change in reservesd	7	-29	-8	-1	-39	-54	-46	-30	-30	-30	-30	-30
Memorandum item												
Resource balance (% of GDP)	-1.4	-2	-12.1	-13	-16.7	-19.2	-19	-18.6	-18.6	-18.7	-18.9	-18.8
Real annual growth rates (at year 97 prices)												
Merchandise export (fob)	9.4	10.5	3.7	14.7	6.9	5.9	12.5	5.1	5.2	5.3	5.4	5.4
Primary	13.6	17.2	-16.2	7	14.6	14.6	7.7	8.6	7.3	7.5	7.9	8.1
Manufactures	64.3	145.1	-25.7	22.8	3.8	33.9	13.7	-6	-1.3	-1.4	-1.7	-1.1
Merchandise import (cif)	-11.9	7.3	14.9	-1.1	12.5	80	9.2	6	5.3	5.2	5.4	5.4

a. Includes public and publicly guaranteed debt private use of IMF credits and net short term capital

b 'XGS' denotes export of goods and services including workers remittances

c Preferred creditors are IDA. ADB. IMF. IDB and EU

d. Includes present value of guarantees

e. Includes equity and quasi-equuity types of both loans and equity instruments

Source: WB, 2005a, 2005, CAS Annex B6

Annex Table II - Remittances from and to Russia via Money Transfer Systems and Post Offices

	Remittances, $ mln.											*Memo items: average remittance, $*		
	2003	Q1 2004	Q2 2004	Q3 2004	January-September 2004	Q4 2004	2004	Q1 2005	Q2 2005	Q3 2005	January-September 2005	Q1 2005	Q2 2005	Q3 2005
Remittance flows from the Russian Federation	**1,310**	323	438	618	1,379	690	2,070	515	792	1,099	2,406	359	427	504
to non-CIS countries	…	…	35	46	…	54	…	52	67	88	208	902	998	1,106
to CIS countries	…	…	403	573	…	636	…	462	725	1,011	2,198	336	405	481
Remittance flows to the Russian Federation	**588**	162	183	202	547	231	777	207	254	286	748	370	421	483
from non-CIS countries	…	…	129	138	…	154	…	140	163	169	471	473	505	539
from CIS countries	…	…	54	64	…	77	…	68	91	117	276	256	325	421
Balance	**-722**	-160	-255	-417	-832	-460	-1,292	-307	-538	-813	-1,658			
with non-CIS countries	…	…	94	92	…	100	…	87	96	81	264			
with CIS countries	…	…	-349	-509	…	-560	…	-395	-634	-893	-1,922			

Notes:

1. Negative balance reflects the excess of the amount of remittances from the Russian Federation over the amount of remittances to the Russian Federation.

2. The table covers data on remittances via the following money transfer systems: Anelik, Bistraya Pochta, Contact, InterExpress, Guta Sprint, Migom, MoneyGram, PrivatMoney, Ria Envia, STB-Express, Travelex Worldwide Money Ltd, UNIStream, VIP Money Transfer, Western Union, StranaExpress; and via Pochta Rossii (government post service).

Updated November 28, 2005.

Source: Bank of Russia

Annex Table III

Education in Tajikistan

Primary	**1990**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Gross Enrollment Ratio											
MF	91	91.1	92.6	95.1	..	102.8	104.5	104.3	106.8	110.6	..
M	91.9	92.5	94.1	96.5	..	105.7	108.5	108.3	109.4	113.5	..
F	90	89.7	91.2	93.8	..	99.9	100.5	100.2	104.1	107.7	..
Gender Gap	2	2.8	2.9	2.7	..	5.7	8	8.1	5.4	5.8	..
Net Enrollment Ratio											
MF	76.7	..	..	..	..	94.3	..	..	..	..	..
M	77.5	..	..	..	..	97.2	..	..	..	..	..
F	75.9	..	..	..	..	91.3	..	..	..	..	..
Gender Gap	1.7	..	..	..	..	5.9	..	..	..	..	..
Primary Completion Rate											
MF	..	99.6	..	..	..	97.5	97.3	99.2	101.3	100.5	..
M	..	..	..	..	..	99.9	102.4	103.2	103.9	103.3	..
F	..	..	..	..	..	95.1	92	95	98.5	97.5	..
Gender Gap	..	..	..	..	..	4.8	10.4	8.2	5.4	5.8	..
Secondary											
Gross Enrollment Ratio											
MF	102.1	82.8	80.6	78.2	..	72.6	75.6	78.5	82	85.8	..
M	..	87.2	88	82.7	..	78	81.4	85.7	89.9	93.7	..
F	..	78.2	73	73.6	..	67	69.8	71.2	73.9	77.8	..
Gender Gap	..	9	15	9.2	..	11	11.6	14.5	16	15.8	..
Net Enrollment Ratio											
MF	..	..	..	..	..	68	72.8	75.6	79.5	83.3	..
M	..	..	..	..	..	72.1	78	81.9	86.3	90	..
F	..	..	..	..	..	63.8	67.6	69.2	72.6	76.4	..
Gender Gap	..	..	..	..	..	8.3	10.4	12.8	13.7	13.6	..
Ratio of Girls to Boys											
In pri/sec education (%)	..	92.8	..	92.7	..	89.9	88.9	87.1	87.6	87.9	..
Tertiary											
Gross Enrollment Ratio											
MF	22.8	20.6	20.4	20.4	20.5	13.8	14.6	14	14.8	16.4	..
M	28.4	27.4	26.9	27.4	27.5	20.3	21.7	21.2	22.2	24.4	..
F	17.3	13.6	13.8	13.3	13.3	7.1	7.4	6.8	7.3	8.3	..
Gender Gap	11.1	13.9	13.1	14.1	14.2	13.2	14.2	14.4	14.9	16.1	..
Literacy Rate (% of population 15+)											
MF	98.2	98.7	98.8	98.9	99	99	99.1	99.5	..	..	..
M	99.2	99.4	99.4	99.4	99.5	99.5	99.5	99.7	..	..	..
F	97.2	98	98.2	98.3	98.4	98.6	98.7	99.3	..	..	..
Gender Gap	1.9	1.4	1.2	1.1	1	0.9	0.9	0.4	..	..	..

Annex Table IV -

Higher education, 1991-2004

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	99-2000	2000-2001	2001-02	2002-03	2003-04	2004-05
Number of higher education institutions	13	18	21	22	24	25	25	24 1/	29 1/	30 1/	31 1/	33 1/	35 1/	35 1/
Number of students, thous.	69.3	70.6	69.0	73.3	74.0	76.0	76.7	75.5	79.2	77.7	84.3	96.6	107.6	118.4
per 10 000 of population, persons	124	127	122	128	126	127	126	123	130	127	135	151	165	175
o/w women, thous.	23.3	21.9	19.3	20.2	19.9	19.6	20.0	19.1	19.9	18.4	20.1	24.2	26.7	30.6
per total number of students	34	31	29	28	27	26	26	25	25	24	24	25	25	25
o/w studied at departments, thous. :														
day	47.9	48.6	45.5	49.7	53.4	52.3	51.2	49.9	50.6	47.9	51.3	60.1	67.9	74.5
correspondence	18.4	19.6	22	22.4	20.6	23.6	25.5	25.6	28.6	29.8	33.0	36.5	39.7	43.9
Total number of matriculates (thous.)	13.4	13.6	16.8	19.2	19.1	15.7	16.1	16.1	17.3	16.3	20.1	24.2	28.1	27.9
o/w to departments:														
day	10.2	10.8	12.6	14.6	14.9	11.6	11.8	11.5	12.1	10.9	14.2	16.8	19.7	19.4
correspondence	2.9	2.6	3.9	4.4	4.2	4.2	4.3	4.5	5.1	5.4	5.9	7.4	8.4	8.5
Number of graduates, thous.	10.0	11.8	13.2	10.2	9.7	11.6	10.1	11.8	13.1	13.6	12.0	11.6	13.4	14.4
o/w studied at:														
day department, thous.	6.9	8.1	9.7	6.7	6.7	7.9	7.1	9.1	9.2	9.7	7.8	7.3	8.3	8.6
per 10 000 of population, units	18	22	23	18	17	20	17	19	19	22	19	18	20	21

1/ Branches included.

Source: Tajik State Statistical Committee

Main Statistical Sources Consulted

1. Bank of Russia
2. CIS Statistical Committee
3. ILO
4. IMF
5. IOM
6. MPI
7. NBT (National Bank of Tajikistan)
8. OCED
9. Russian Goskomstat
10. State Statistical Committee of Tajikistan
11. UN
12. UNDP
13. UNESCO
14. UNHCR
15. US Census Bureau
16. World Bank

Main Web Resources

Web resources on Migration

http://www.migrationinformation.org/
www.iom.org
www.ilo.org
www.worldbank.org/

Web resources on Tajikistan

The following U N website serves as a portal and a clearing house of web resources on Tajikistan and is perhaps the most useful and valuable source of information on the country.

http://www.untj.org

Other key sources of data on Tajikistan include the following:

Economic Intelligence Unit
http://countrydata.bvdep.com/

World Bank
http://www.worldbank.org

CIS State Statistical Committee
http://www.cisstat.com

IMF
www.imf.org

Web resources on Tajik NGOs

http://www.xeno.sovacenter.ru

Web Sources on Tajik Money Transfer Operators

http://www.anelik.Diaspora.ru/
http://www.stb-express.ru
http://www.sodirotbonk.com/index.php?filein=&lng=eng
http://www.migom.com/
http://www.unistream.ru/en/
http://www.Anelik.com
http://www.etrust.ru/en/services/migom

Glossary

African Union

The AU is an entity encouraging African countries to cooperate in matters of peace, good governance, and development.

Association of Southeast Asian Nations

The Association of Southeast Asian Nations or ASEAN was established in 1967.

ASEAN's aims and purposes are: (i) to accelerate the economic growth, social progress and cultural development in the region and (ii) to promote regional peace and stability through abiding respect for justice and the rule of law and adherence to the principles of the United Nations Charter. In 1995, the ASEAN Heads of States and Government re-affirmed that "Cooperative peace and shared prosperity shall be the fundamental goals of ASEAN."

Caribbean Community

CARICOM's mission is to provide dynamic leadership and service, in partnership with Caribbean Community institutions and Groups, toward the attainment of a viable, internationally competitive and sustainable Community, with improved quality of life for all.

*Excludes Montserrat because no UN data is available.

Commonwealth of Independent States

Created in December 1991, the Commonwealth of Independent States signed an Agreement (in 1993) on the creation of an economic union grounded in the free movement of goods, services, labour force, and capital; to coordinate monetary, tax, price, customs, external economic policy; to bring together methods of regulating economic activity; and create favourable conditions for the development of trade relations.

Covariate or collective risks

Covariate or collective risks affect a whole group, such as droughts, floods, earthquakes; idiosyncratic risks affect individuals, such as loss of job, illness etc.

Developing economies

These economies have standards of living lower than developed economies and economies in transition. Many have deep and extensive poverty. Developing countries are usually importers, rather than developers, of innovations in science and technology. They also tend to be more vulnerable to economic shocks. The countries in this list include those that are not considered either High Income or Economies in Transition although some of the latter may well be considered to be developing economies in many respects.

Dutch disease

The decline of the traditional export as a result of appreciation of domestic currency which results from the export boom associated with a natural resource, such as oil.

European Union

The European Union (EU) was set up after the 2nd World War. In 1950 France officially proposed to create 'the first concrete foundation of a European federation'. Six countries joined. Today, the EU has 15 Member States and is preparing for the accession of 13 eastern and southern European countries.

The principal objectives of the Union are to establish European citizenship, ensure freedom, security and justice, promote economic and social progress, and assert Europe's role in the world.

*The following countries will join the European Union 1 May: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia.

High, Middle, and Low Income Countries

The World Bank's main criterion for classifying economies is the gross national income (GNI) per capita which is similar to but not the same as the gross domestic product (GDP). Based on its GNI per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income.

- In low income countries the GNI per capita is $745 or less;
- in lower middle income countries it is $746 - $2,975;
- in upper middle income countries it is, $2,976 - $9,205;
- and in high income countries it is, $9,206 or more.

There are no official definitions of "developed" or "developing" countries in the UN system. Some use High Income countries as indicators of developed economies, others use the shorter list of High Income OECD countries. Developed economies, on average, have the highest material standards of living, frequently use the most advanced production techniques and equipment, and have many research and technology centers. Agriculture is typically a very small share of output and the share of manufacturing is declining. Governments of developed countries are likely to offer assistance to other countries.

Human Development Index (HDI)

This index measures the average achievement of each country in three basic areas of human development:

- Life expectancy at birth;
- Adult literacy and school enrolment;
- Standard of living as measured by the Gross National Product per capita.

The HDI uses a scale from 0-1. Zero is the lowest score and would indicate the lowest level of human development; one is the highest score and would indicate the highest level of human development. The index is divided into three categories: High, Medium, and Low.

High Human Development

All countries scoring .80 and higher on the HDI are considered to be countries that have achieved "high human development."

Least Developed Countries

Least Developed Countries (LDCs) are the poorest countries in the world with the greatest need of assistance. Although more than 10 percent of the world's population lives in LDCs, they are responsible for only 0.4 percent of world trade. There are currently 50 LDCs. The list is approved by the General Assembly and reviewed every three years.

This classification is based on quality of life and economic measures that include: life expectancy at birth, per capita calorie intake, combined primary and secondary enrolment, adult literacy, instability of agricultural production, instability of exports of goods and services, diversity of exports, percentage of GDP that is generated by manufacturing and service industries, and population size.

Given their vulnerable situation, LDCs are the least able to cope with natural disasters and external shocks resulting from changes in international prices and demand. Their estimated average GDP per capita (over three years) is under $900 and total population is less than 75 million.

Landlocked Countries

A state which has no seacoast, according to the UN Convention on the Law of the Sea [Article 124]. Landlocked developing countries are generally among the poorest of the developing countries, with the weakest growth rates, and are typically heavily dependent on a very limited number of commodities for their export earnings. Lack of access to the sea, remoteness, isolation from world markets, and high cost of transportation continues to restrain the overall socio-economic development of landlocked developing countries.

League of Arab States

Encourages unity of Arab countries with respect to economic and political sovereignity. Originally comprised of seven Member States, the Arab League now has 22 Member States.

*Excludes Palestine because no UN data is available.

Low Human Development

All countries scoring below .50 on the HDI are considered to be countries that have achieved "low human development."

Medium Human Development

All countries scoring between .50-.79 on the HDI are considered to be countries that have achieved "medium human development."

Organization of the Islamic Conference

The OIC has fifty-seven Member States. the OIC seeks to safeguard the interests and secure the progress and well-being of their peoples and of all Muslims in the world by pooling its Member States' resources, combining their efforts, and speaking with one voice.

*Excludes Palestine because no UN data is avaialble.

Group of Eight

In 1975, the leaders of the largest industrialized democracies (Canada, France, Germany, Italy, Japan, the United Kingdom and the US-originally the G-7) started meeting annually to discuss major economic and political issues. These economies account for about two-thirds of the world's economic output. In 1994, the Russian Federation began participating in a portion of the meetings became the eighth member in 1997. However, while Russia is a G-8 member, it does not participate in financial and economic discussions, which continue to be conducted by the G-7. Russia has the G-8's smallest economy. (The Size of the G-8 Economies)

Nordic Council

The Nordic Council, formed in 1952, is the forum for inter-parliamentary co-operation among Nordic countries. The Council has 87 members from five countries and three autonomous territories. The members of the council are members of national parliaments. Led by a presidium, the Nordic Council has held annual ordinary sessions since 1996. It also arranges "theme sessions" for comprehensive treatment of selected issues.

*Excludes the Faroe Islands, Greenland, and Åland, because no UN data is available.

Organization of American States

The Organization of American States (OAS) is playing a central role in working toward many of the goals shared by the countries of North, Central and South America and the Caribbean. Through the Summit of the Americas process, the hemisphere's heads of state and government have given the OAS important responsibilities and mandates, including:

Strengthening freedom of speech and thought as a basic human right;

Promoting greater participation by civil society in decision-making at all levels of government.

Improving cooperation to address the problem of illegal drugs; and

Supporting the process to create a Free Trade Area of the Americas.

The OAS also brings together government leaders from member states to focus on education, justice, security and other issues that touch people's lives in tangible ways.

South Asian Association for Regional Cooperation

The South Asian Association for Regional Cooperation (SAARC) was established in 1985. SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to accelerate the process of economic and social development in Member States.

High Income OECD countries

These countries belong to OECD and have a Gross National Income (GNI) per capita of $9,206 or more. In the absence of an established definition of "developed" economies, some use High

Long run

n Economics, long-run refers specifically to the decision-making time frame of a firm in which all factors of production may be varied and all constraints can be relaxed. Before a firm starts its operation, it is in the long run. Thus, t*he long run refers to the planning horizon over which it is possible to vary all factors of production/ constraints.* In a broader sense, the long run is the time period in which all constraints on the fulfillment of objectives can be relaxed.

Medium run

The concept of medium run has to do with the ease with which constraints can be relaxed rather than a specific time period. The medium run is conceived of the time frame in which most, if not all, constraints can be relaxed. Thus, it falls between the short and the long run.

OECD

The Organisation of Economic and Cooperative Development's 30 member countries share a commitment to democratic government and the market economy. Best known for its publications and statistics, OECD's work concerns economic and social issues. OECD helps governments ensure responsiveness of important economic areas within a country by monitoring. It notes emerging issues and effective policies, in general and for individual countries.

See High Income definition for further information.

Oligopoly

A market structure dominated by a small number of firms.

OPEC

OPEC is an international organization of developing countries heavily reliant on oil revenues as their main source of income. Membership is open to any country which is a substantial net exporter

of oil and which shares the ideals of the Organization. OPEC's eleven Members collectively supply about 40 per cent of the world's oil output, and possess more than three-quarters of the world's total proven crude oil reserves. Since oil revenues are so vital for the economic development of these nations, they aim to bring stability and harmony to the oil market by adjusting their oil output to help ensure a balance between supply and demand.

Short run

In economics, short run refers *specifically* to the time frame in which, certain factors are assumed to be fixed, because there is not sufficient time for them to change. In a broader sense, the short run is the time period in which there is a large number of constraints on the fulfillment of objectives can be relaxed.

Shallowness of the banking system

Shallowness of the banking system refers to penetration of the banking services in society and is usually measured in terms of 3 RATIOS of the banking system: Credit to GDP. Deposit to GDP, Assests to GDP.

Transition Economies

Countries that have either established or reestablished market-based economies. Many transitions began to take place in the 1980s.

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Meetings Held

I. 2007

- Jamshed Yusupov, National Bank of Tajikistan
- Asadullah Ghafoorov, National Bank of Tajikistan
- Elena Turukanova, Valery Tishkov, Galina Vitkovskaya
- Gavhar Juraeva, Tajikistan Foundation
- Shamsia Ibrahimova,
- Roman Mog

II. 2006

- Shakhnoza Muminova, Chief of Party, Action Against Hunger
- FAO Rep
- Tajik scholar, Faridun Khudaizoda
- Cynthia Buckley

III. 2005

- Mr. Shahbazov, Chairman State Statistical Committee, Tajikistan
- Chairman State Statistical Committee, Kulyab
- World Bank Reseacher, Jariya Hoffman and others
- Khwaja Umarao, Ministry of Finance and Trade
- Leader of the Social Democratic Party
- Ilhom Illyalov, Tajik Minister of Labor
- Bolat Turaev, Deputy Chairman, State Statistical Committee
- Hisamuddin, NGO leader

IV. 2004

- His Excellency Maxim Peshkov, Russian Ambassador to Tajikistan
- Head of Tajik Migration Services, Garm.
- Aziz Hyderoff, World Bank
- IMF Local Representative, Khwaja Sarmad
- Elena Turukhanova,
- Saodat Olimova, Sharq
- Muzaffar Olimov, Sharq

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