

Remittances and Microfinancing in Kyrgyz Labor Migration

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Outline

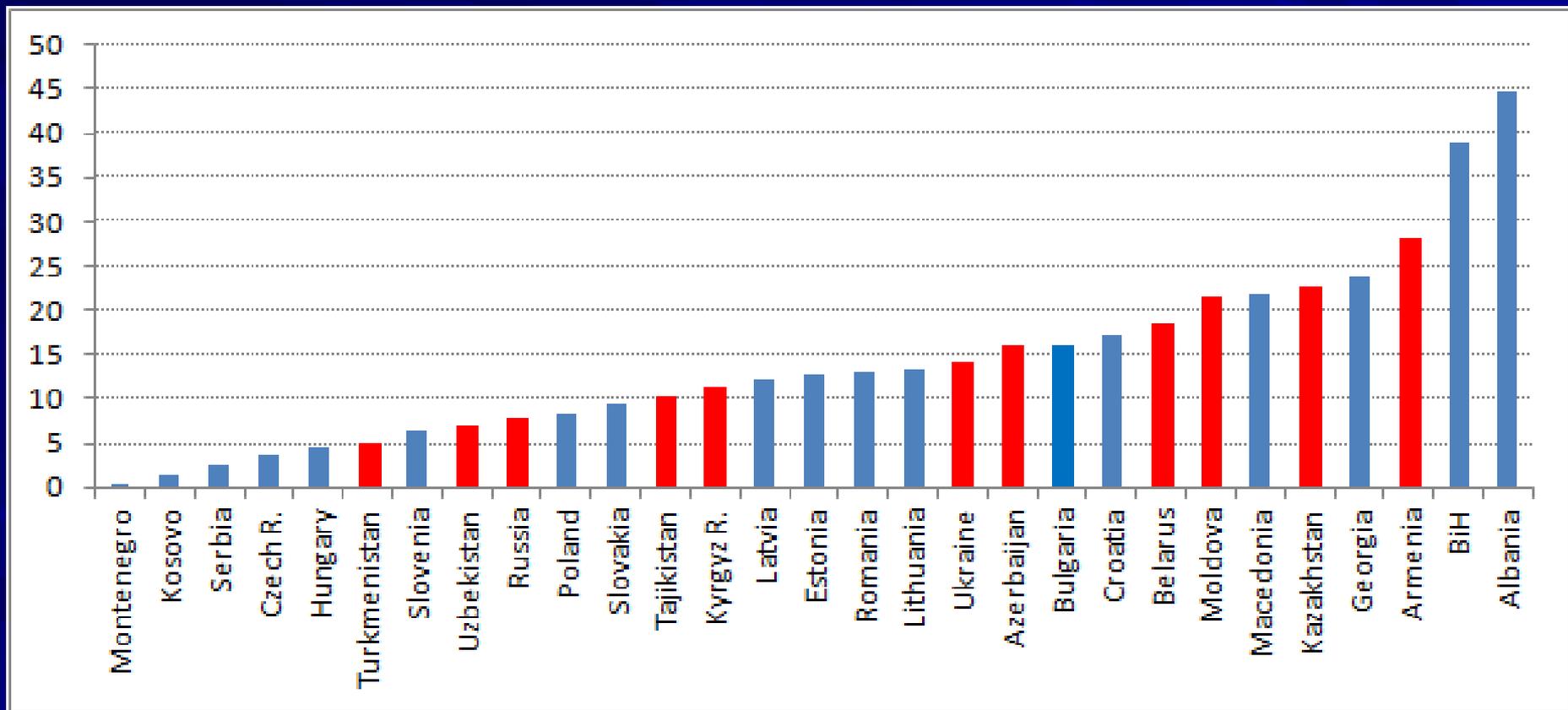
- Remittances trends and problems
- Senders and receivers
- Potential of remittances

Remittances Trends and Problems:

- ❖ Migration and remittances, whether it acknowledged officially or not, continue to be a key pillar of economic development and political stability for the KR
- ❖ Remittances are sent by the majority of the KR's labor migrants
- ❖ Sending remittances affects the development of economy, as remittances amount to 30% of the KR's annual GDP
- ❖ Remittances contribute to poverty reduction, as well as ease political and social tensions
- ❖ Increase household consumption (principal and every day purchases)
- ❖ High costs of transfer (15-20% of total), more charge for smaller amount
- ❖ Inadequate financial infrastructure (bank system not meeting the needs of senders), financial institutions lacking in rural area
- ❖ Lack of financial education
- ❖ Minor investments into business starting
- ❖ Some 80 to 90 percent of remittances is spent on basic necessities such as food, clothing, shelter, health care and education. 30 to 40 per cent of remittances are sent to rural areas (ILO)

Labor migrants' flows are increasing, so remittances flows will remain significant

Figure: Migration stock as percent of total population (from WB Factbook, 2011)



Senders and Receivers:

- ❖ Reportedly, the two thirds of all remittances receivers are women and vulnerable groups (elderly, minors, etc.)
- ❖ Remittance money received and normally spent on necessities
- ❖ Remittances constitute up to 50-80% of the labor migrant's family income
- ❖ Remittances are mainly transferred through informal channels (mail, friends, self)
- ❖ To lesser extent, remittances are transferred formally (banks, money transfer operators)

Potential of Remittances:

- ❖ Migrant workers contribute to the economies of their host countries, but they also boost the economies of the countries of origin by sending remittances (US\$ 351 billion in 2012 worldwide - WB)
- ❖ Remittances make credit available at the local level which in turn create growth opportunities in local communities (ILO on cooperatives)
- ❖ Remittances provide crucial financial support for people (ILO on cooperatives)
- ❖ Some migrants' families getting remittances started to finance small enterprises including cooperatives (ILO).

The channels for investments that could be used to channel remittances for development are:

- Rural Banks
- *Microfinance institutions*
- Cooperatives
- Social enterprises

Problems of Microfinancing Development:

Information constraints

- Lack of information about in what to invest in
- Lack of information about how to manage their investments

Capacity constraints

- Lack of know-how to save
- Lack of know-how to identify objects to invest in
- Lack of know-how to monitor investments

Institutional constraints

- Lack of suitable investment mechanisms
- Lack of effective risk-reduction mechanisms for investments

Microfinancing Opportunities for Migrants:

- ❖ Still difficult for commercial banks to accept that lending to the poor could be a profitable activity, but microfinancing becomes wide spread
- ❖ Allow migrants overseas to guarantee loans for individuals back home
- ❖ Legal support
- ❖ Technical assistance in many sectors:
 - Credit:
 - Portfolio of credits
 - Risk measurement
 - Etc.
 - Appropriate interest calculation
 - Migrants earnings' management
 - Investments into business development
 - Opportunity for the family to get loan at migrant's home country (Loan agreements are signed in RF)

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Thank you for your attention!

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