



Leveraging Remittances for Development and Investment in Kyrgyzstan

Remittances sent by migrant workers to their community of origin are one of the channels through which migration influences the economic performance of the country of origin.

More than 10% of Kyrgyzstan's active population are considered to be labour migrants, with Russia the destination country for more than 90% of this group. The concentration of migration outflow to one destination makes Kyrgyzstan's economy dependent on Russia's economic performance.

According to the World Bank, in 2015 international remittances inflow into Kyrgyzstan accounted for 25.7% of GDP, ranking it fourth amongst remittance receiving countries in the world.

The large remittances inflow is an important source of income for remittance-receiving households. However, because of the high proportion of expenditure for consumption in the spending of remittance-receiving households, channelling remittances into productive investment remains an important challenge.

Key Messages

- Labour migration and remittances are a short-term means to sustain livelihoods in Kyrgyzstan. Remittances are primarily used to finance short-term consumption expenditures.
- There is little evidence to suggest that remittances are a source for investment in Kyrgyzstan. Developing entrepreneurial and business skills in remittance-receiving households, creating a favourable business environment for left-behind household members, and cooperation between labour migrants and government authorities at local community level might contribute to increase investment from remittances.
- Investment of remittances into human capital and physical infrastructures should be encouraged by the government to improve and expand public services, develop infrastructures and improve the general investment environment.

Understanding labour migration tendencies

Three factors are key to influencing labour migration and receipt of remittances.

First, the greater the number of adult males per household, the more likely a household is to send a household member for labour migration. This suggests that at a household level, the choice for labour migration depends at least partly on the labour force available within a household. Therefore, government policies that support employment opportunities for young people in communities of origin and within Kyrgyzstan could be effective in slowing rates of labour migration.

Second, remittance-receiving households show clear geographical differences. Households located in the southern regions of Kyrgyzstan (Osh, Batken and Jalal-Abad Oblasts, including Osh city) are more likely to be receiving international remittances than households in other regions. Households in the north regions in Kyrgyzstan (Chui Oblast) are more likely to receive internal remittances. This is to be expected given that the northern region includes Kyrgyzstan's capital, Bishkek, the centre of Kyrgyzstan's economic activities and the destination for the majority of internal labour migrants. Government policies aimed at reducing regional economic disparities are important for maintaining Kyrgyzstan's social and economic stability, and could play a role in reducing international and internal labour migration.

Third, links to community-level labour migration networks provide information about international migration opportunities and appear to increase the probability that a household will receive international remittances. To some extent this evidence supports the argument that many labour migrants use unofficial networks of labour migrants from their local community to secure the migration process. At the same time this suggests that labour migrants rely on their social networks rather than official government consulting mechanisms for information about labour migration. Strengthening local government information and support services is likely to be important in informing potential labour migrants about their rights and opportunities in destination countries.

Encouraging investment-oriented use of remittances

Despite the prevalence of migration and associated remittances in Kyrgyzstan, there is little evidence that remittance-receiving households increase investments. Research supports the argument that, in general, households tend to increase their current consumption, for instance through increased

spending on leisure and other goods and services. There is no clear evidence suggesting a productive use of remittances. Remittance-receiving households do not appear to increase investments in human capital, such as education and health, or increase investments in housing, which could improve their living conditions.

Receiving both internal and international remittances appears to predominantly affect the spending behaviour of households belonging to the two lowest income groups (1st and 2nd quintiles). More precisely, international remittance-receiving households in the 1st quintile (households with incomes in the lowest 20% of the population) reduce the proportion of expenditure on education and housing. A decreased proportion of spending on education is also observed in the case of 2nd quintile households. However, it seems that among higher income groups, there are no significant differences in expenditure patterns between households that receive international remittances and those that do not. Internal remittance-receiving households from the 2nd and 3rd quintiles decrease the proportion of expenditures on housing, while the proportion of expenditures on leisure decreases in the 2nd and 4th quintiles. Across all income quintiles, there appears to be no significant difference in the proportion of expenditure on education and health between households receiving internal remittances and those that do not. These findings suggest that both internal and international remittances do not represent an important source of financing improvements in human capital or the living conditions of remittance-receiving households.

Lack of investment may occur because remittance-receiving households have little knowledge and skills regarding investment activities and business; it may also be related to much broader issues such as the investment climate, and political and macroeconomic stability. Moreover, a lack of incentives for investing in human capital, particularly education, may be the result of insufficient public services. The absence of these services may create disincentives for households to increase expenditures on a particular category. Government policies aiming to foster increased investment in human capital will need to take into account the complex nature of household spending if they are to be successful. Further research is needed to better understand the motives for the expenditure patterns of remittance-receiving households in order to provide robust policy approaches for increasing investment.

The provision of business trainings that develop business skills and entrepreneurship would likely increase income-generating activities among remittance-receiving households. An important channel for increasing investment activities in local communities in Kyrgyzstan could be the creation of a platform for dialogue between labour migrants and local government authorities. Within this platform, labour migrants and local authorities could discuss new business ideas and opportunities for investment in the local community, with the possibility of co-financing from local government. Another important policy direction would be the creation of an overall favourable investment climate in Kyrgyzstan.

Understanding spending on social networking events

It appears that there is no great difference between remittance-receiving and non-receiving households regarding their expenditure on customs and

traditions. In both cases (internal and international remittances), households from lower income groups tend to increase their expenditure on customs and traditions, but the statistical significance of this difference is not high. Remittance-receiving households from low income groups may have a higher tendency to be involved in social networking events because they are motivated by the informal social security and mutual support that these networks can bring; this may be a rational step when facing economic uncertainty. This suggests that there may be a positive relationship between receiving remittances and participating in social networks, which may vary according to household income level. Further research is required to understand the motivations and attitudes of households towards spending on customs and traditions, and on social networking events.

Case Study: Remittances of Kyrgyz Migrants

CAARF fellow Kamalbek Karymshakov conducted research on the impacts of international and internal remittances on household expenditure patterns in Kyrgyzstan. Empirical estimations were based on data from the nationally representative household survey "Life in Kyrgyzstan" for 2011. The dataset includes data for 3,000 households representative at the national level as well as for urban and rural areas of the country. The effects of remittances were evaluated at the level of income groups.

Results indicate that internal and international remittances change household expenditure patterns only with respect to a few categories of expenditures. International remittances appear to decrease proportional expenditure on education, while domestic remittances decrease proportional expenditure on consumption goods, housing and leisure. Further analysis by income quintile groups revealed that remittances mostly affect the spending behaviour of households from the lowest income quintiles. There is no strong evidence that internal and international remittances increase productive expenditures or investment.

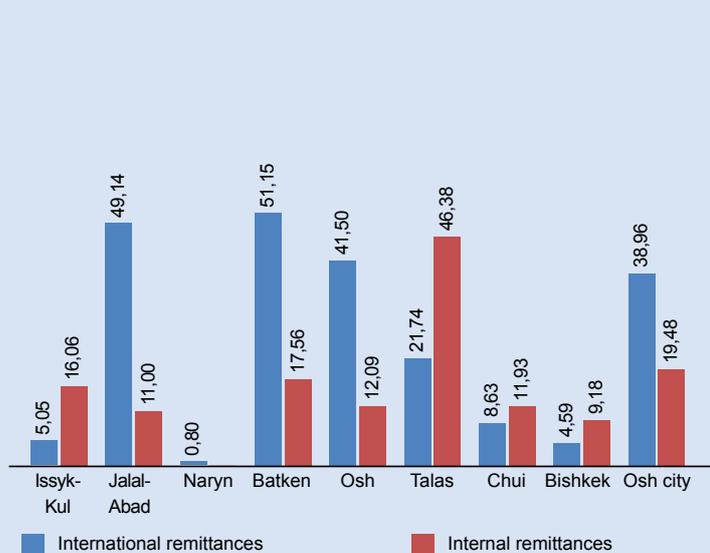


Figure 1: Share of international and internal remittance-receiving households by regions (by% of total households)

Source: Life in Kyrgyzstan, 2011

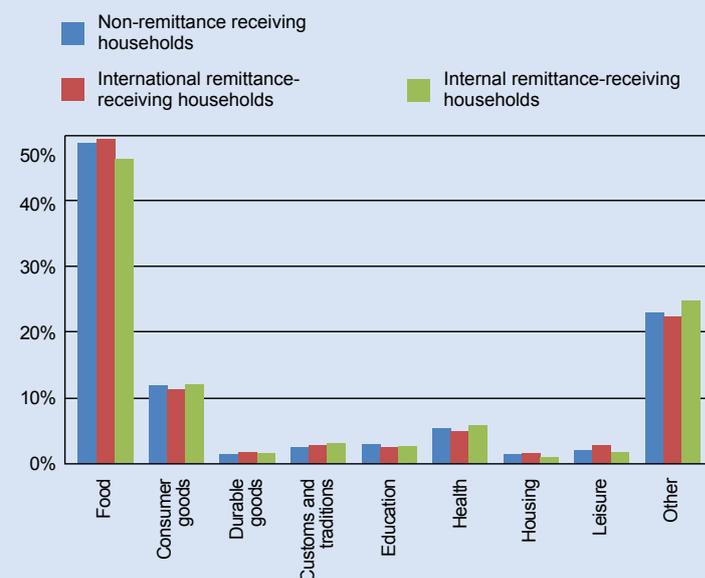


Figure 2: Average Budget Share of Household Expenditure Categories (% of total expenditure)

Source: Life in Kyrgyzstan, 2011

Definitions

Consumption expenditures: Money spent on goods and services consumed by the household, e.g. food, products for everyday needs, housing, etc.

Human capital: The knowledge, skills, health, and social resources of an individual or community that bring value to their work and community.

Further Reading

1. Clément, M. (2011). “Remittances and household expenditure patterns in Tajikistan: A propensity score matching analysis”. *Asian Development Review*, 28(2), pp 58-87.

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