

Migrants' Remittances

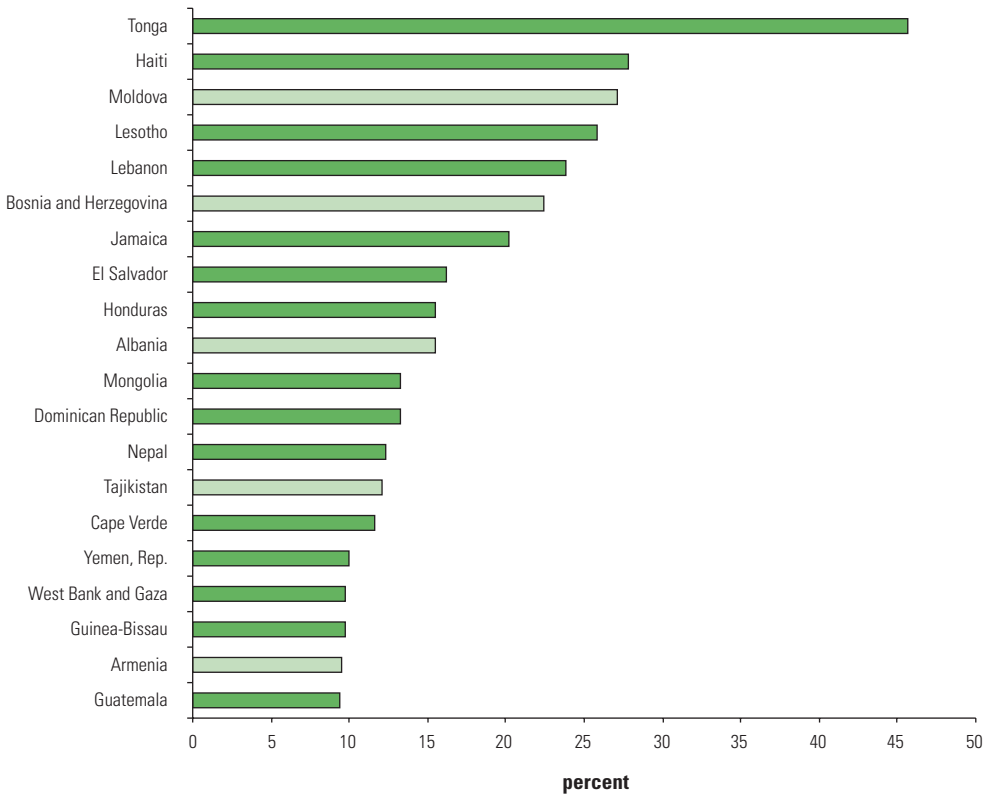
For most countries in the Europe and Central Asia (ECA) region, remittances are the second most important source of external financing after foreign assistance and foreign direct investment. For many of the poorest countries in the region they are the largest source and have served as a cushion against the economic and political turbulence brought about by transition.

The situation is substantially different in the new European Union (EU) member countries (EU-8). Income levels are higher, cross-country income differentials are lower, and there is less need for workers living abroad to support their families' consumption. Moreover, the current and improving opportunities at home mean that there can be large gains from accumulating human and financial capital abroad, although as the economic situation at home improves, the incentives to migrate may themselves decrease.

Yet, relative to GDP, remittances are significant in many ECA countries (figure 2.1).¹ Four of the world's largest recipients of remittances as a portion of GDP are in ECA (Moldova, Bosnia and Herzegovina, Albania, and Armenia). In 2004, officially recorded remittances to the ECA region amounted to over US\$19 billion, the equivalent of about 8 percent of the global total (US\$232.3 billion) and 12 percent of remittances received by developing countries (US\$160.4 billion).

The first section of this chapter seeks to complement chapter 1 in providing a statistical overview of migrants' remittances in ECA (figure 2.2).

FIGURE 2.1
Leading 20 Remittance-Receiving Countries in the World
 (percentage of GDP in 2004)



Source: IMF Balance of Payment Statistics; World Bank.

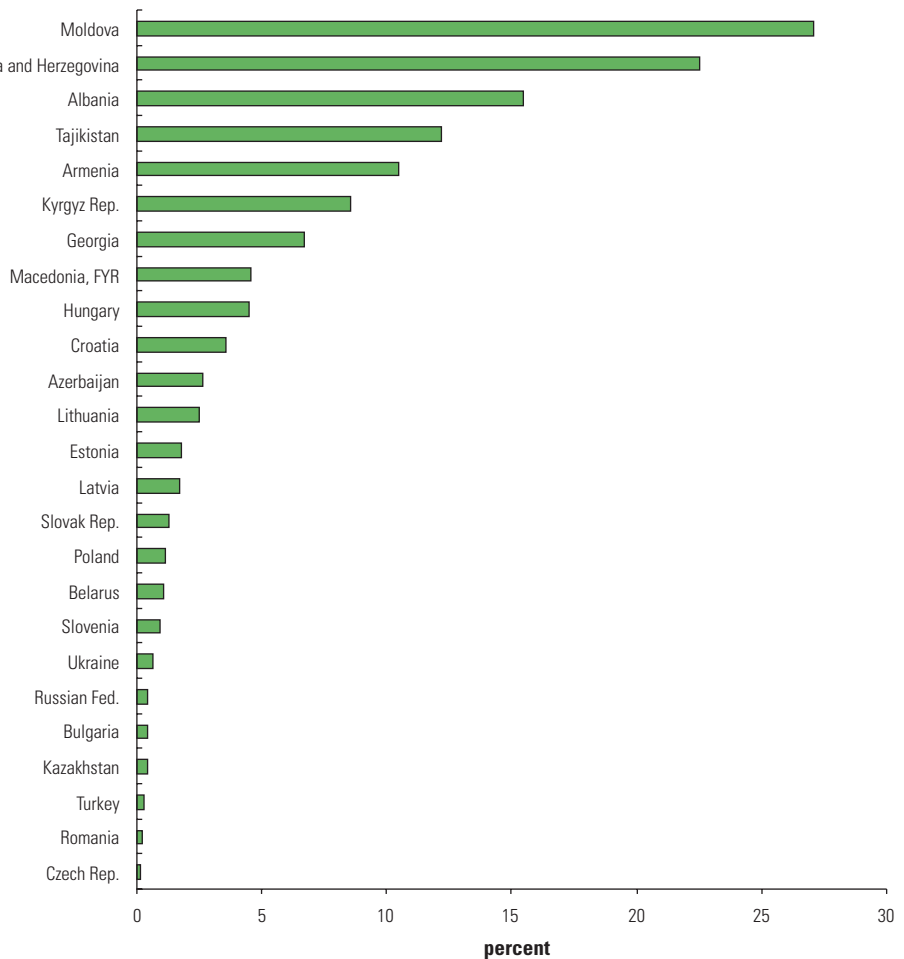
Note: Received remittances = received compensation of employee + received worker's remittances + received migrants' transfer. Lighter bars in the graph are ECA countries.

As before, the problems of data quality are pervasive because of the difficulties of measuring remittances sent outside of the formal financial sector are very difficult to quantify. Further complicating these data problems are that large year-on-year increases in remittances may reflect improvements in central banks' remittance recording systems rather than changes in migrants' behaviors.

Data

While remittances have increased dramatically in a number of countries, they have slowed for others. A review of remittance flows over the past nine years demonstrates this pattern (figure 2.3). Interestingly, while remittances from migrants who have lived out of their

FIGURE 2.2

Remittances as a Portion of GDP in Eastern Europe and the Former Soviet Union, 2004

Source: IMF *Balance of Payments Statistics*.

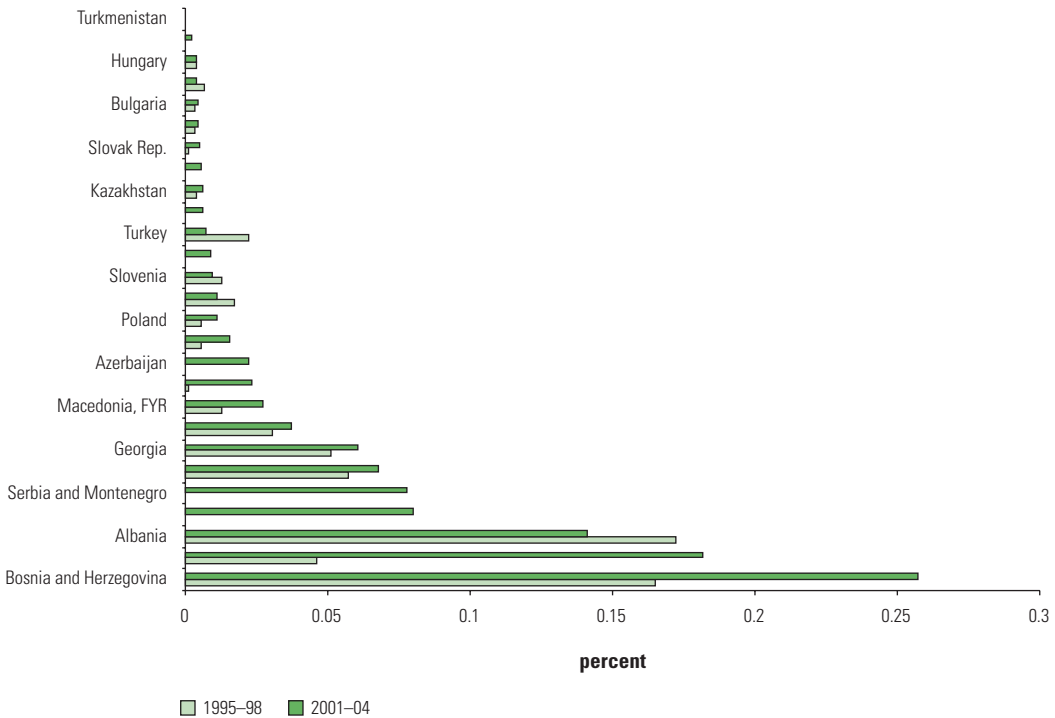
Note: Received remittances = received compensation of employee + received worker's remittances + received migrants' transfers. Albania and Slovak Republic are 2003 data, other countries are 2004 data. GDP is \$ converted current price.

home countries for more than one year represent the largest share of inflows, remittances from migrants who have lived abroad for less than a year represent an increasingly large share.

Not all migrants, however, send remittances, particularly in those cases where the stay in destination countries is short. Surveys conducted for this report found that in Bulgaria, 80 percent did not; in Bosnia and Herzegovina, 37 percent; and in Romania, 62 percent.

Generally remittance flows in ECA follow the same two-bloc pattern as migration (table 2.1). The EU and the middle-income Commonwealth of Independent States (CIS) countries are the main sources of

FIGURE 2.3
Growth Rate of Remittances in ECA: 1995–98, 2001–04
 (percent)



Source: IMF Balance of Payments Yearbook.

Note: Remittances defined as the sum of received workers’ remittances, compensation of employees, and migrants’ transfers.

remittances, with the EU accounting for three-quarters of the total and the rich CIS countries for 10 percent. The amount contributed by the EU-8 and accession countries is also significant, just below 10 percent.

Impact of Remittances on Development

The theoretical and empirical record on the economic impact of remittances is far from clear. Remittances can reduce poverty and fuel high rates of household savings and investment (Rapoport and Docquier forthcoming; Roberts 2004). At the same time, however, remittances may exert upward pressure on the real exchange rate and reduce the competitiveness of exports (similar to arguments about the Dutch disease). Some have found that remittances can also create incentives that reduce the domestic work effort (Chami, Fullenkamp, and Jahjah 2003).

This section explores the development impact of remittances in ECA. Considering each in turn, we find that remittances are often an impor-

TABLE 2.1
Remittance Flows by Subregion, 2003

| Receiving | Sending | | | | | | Total |
|------------------------------|-----------------------------------|----------------------|---------|------------------------------|---------------------|-----------------------|-------|
| | EU-15 | New and accession EU | Balkans | Russia and resource-rich CIS | Moldova and Ukraine | Non-resource-rich CIS | |
| | (\$ million) | | | | | | |
| New and accession EU | 2,813 | 244 | 1 | 46 | 18 | 36 | 3,159 |
| Balkans | 1,322 | 168 | 0.1 | 2 | 0.3 | 2 | 1,495 |
| Russia and resource-rich CIS | 357 | 85 | 1 | 183 | 200 | 61 | 886 |
| Moldova and Ukraine | 223 | 23 | 0.2 | 165 | 29 | 3 | 443 |
| Non-resource-rich CIS | 428 | 35 | 0.4 | 340 | 8 | 54 | 865 |
| Total | 5,143 | 555 | 2 | 736 | 255 | 156 | 6,848 |
| | (percent for sending subregion) | | | | | | |
| New and accession EU | 55 | 44 | 35 | 6 | 7 | 23 | 46 |
| Balkans | 26 | 30 | 5 | 0 | 0 | 1 | 22 |
| Russia and resource-rich CIS | 7 | 15 | 30 | 25 | 78 | 39 | 13 |
| Moldova and Ukraine | 4 | 4 | 10 | 22 | 11 | 2 | 6 |
| Non-resource-rich CIS | 8 | 6 | 20 | 46 | 3 | 35 | 13 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| | (percent for receiving subregion) | | | | | | |
| New and accession EU | 89 | 8 | 0 | 1 | 1 | 1 | 100 |
| Balkans | 88 | 11 | 0 | 0 | 0 | 0 | 100 |
| Russia and resource-rich CIS | 40 | 10 | 0 | 21 | 23 | 7 | 100 |
| Moldova and Ukraine | 50 | 5 | 0 | 37 | 7 | 1 | 100 |
| Non-resource-rich CIS | 49 | 4 | 0 | 39 | 1 | 6 | 100 |
| Total | 75 | 8 | 0 | 11 | 4 | 2 | 100 |

Source: World Bank staff calculations from migration and remittance data in chapters 1 and 4.

Note: Remittances are defined as workers' remittances and compensation of employees. Cell contents refer to the total remittance flows or percentage flows into the receiving region from the sending region. Shaded areas are 10 percent or more of receiving or sending subregion or 5 percent or more of ECA flows.

tant source of foreign exchange, domestic consumption, and investment. Unlike other international transfers, remittances may be counter-cyclical. Remittances also are an important and stable source of income for many households in the region, especially in the rural areas. Though the underlying remittances data are poor, our estimations of the broader, macroeconomic impact of remittances suggest that they exert a mild positive impact on long-term patterns of macroeconomic growth, while evidence on their impact on the distribution of poverty is mixed.

Remittances as a Stable Source of Foreign Exchange

Remittances often serve as a key source of foreign exchange for the countries in the region. For example, remittances have represented a key source of foreign exchange for Albania and helped to finance its rapidly mounting deficit on trade in goods and services since 1990. In

contrast, both official and private financial inflows on capital account have played a relatively small role, although some increase in direct investments in Albania since the turn of the millennium has occurred. Remittances financed more than 70 percent of the deficit since 1995 (Lucas 2005). A recent World Bank study found that remittances provided similar financing of the trade deficit in Moldova since the late 1990s (World Bank 2005). In general, remittances have played an increasingly important role in the foreign exchange flows to the poorer countries in the ECA.

Figure 2.4 depicts shares of total remittances to exports of goods and services for selected ECA countries. Taking into account that in many cases exports are the major source of foreign exchange into the country, this ratio can be a good approximation of the importance of migrants' transfers for the foreign exchange revenues of the country.

Being a significant source of foreign exchange, remittances can serve as a pillar to support and improve creditworthiness and access to international capital markets for many countries in the ECA region. The ratio of external debt to exports, a common indebtedness indicator, declines substantially for some ECA countries if remittances are also included as a potential source of foreign exchange.

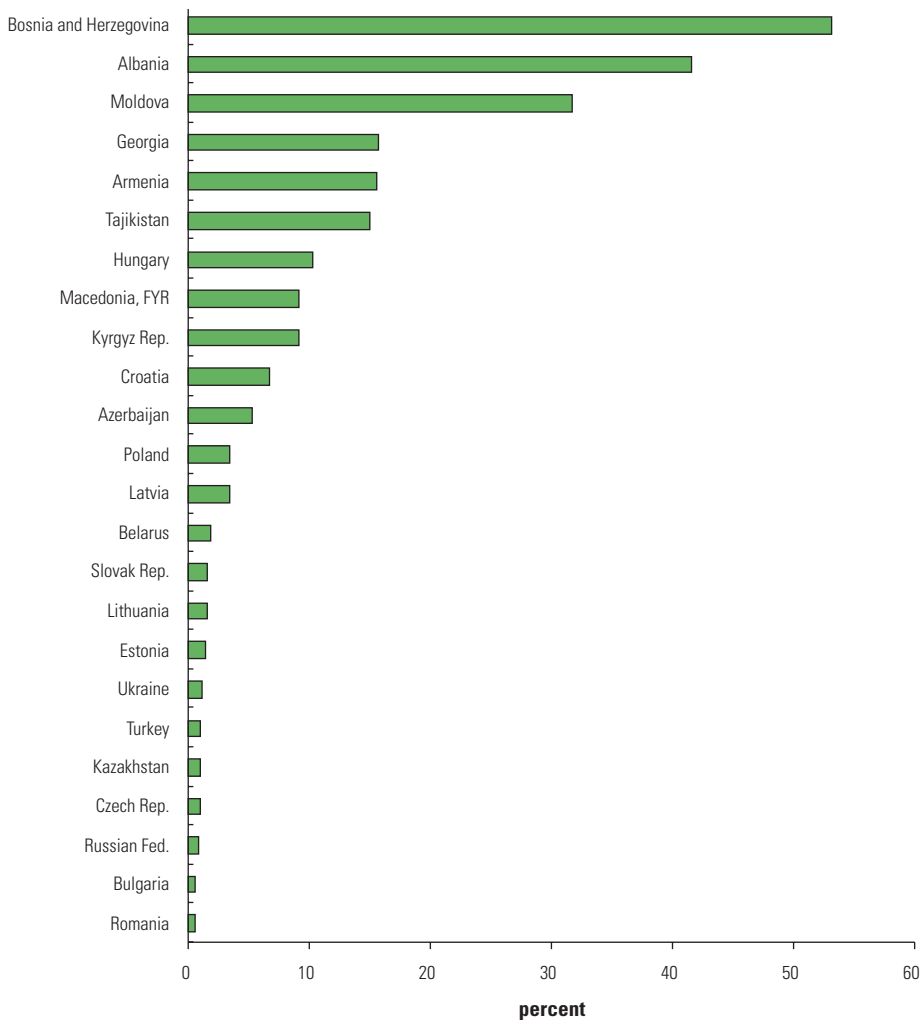
Because they are a significant source of foreign exchange, remittances can improve creditworthiness and access to international capital markets for many ECA countries. For example, if remittances are included as a potential source of foreign exchange, the ratio of debt to exports falls by close to 50 percent for Albania and for Bosnia and Herzegovina. Unlike capital flows, remittances do not create debt servicing or other obligations. Thus, they can provide financial institutions with access to better financing than might otherwise be available. Among ECA countries, Turkey has been in the lead in using such remittance securitization, but Kazakhstan has also used this instrument to raise financing.

Remittances are one of the defining factors of exchange rate dynamics and, as a consequence, macroeconomic policy in the small open economies. Lucas (2005) observed that from 1992 to 2002, the Albanian lek depreciated by some 7.6 percent per year on average against the U.S. dollar. Because this is less than the rate of inflation, this means a real appreciation of the lek, and this rate of real appreciation has continued at more than 7 percent on average in the five years to 2002. No doubt exports would have been stronger in the absence of this real appreciation. Even so, U.S. dollar earnings from merchandise exports grew on average by almost 20 percent in the decade to 2002, outstripping import growth even though exports started from a much smaller base (Lucas 2005).

FIGURE 2.4

Remittances as a Share of Exports in 2003

(percent)



Source: IMF Balance of Payment Statistics, World Bank.

Note: Received remittances = received compensation of employee + received worker's remittances + received migrants' transfer.

Economic Impact of Remittances

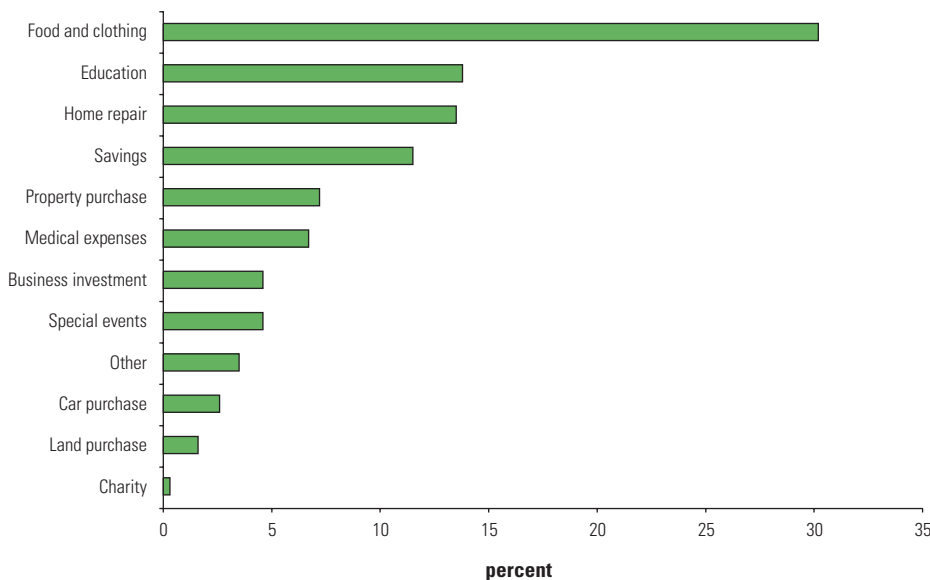
The economic consequences of remittances are hard to disentangle—they can affect growth through a variety of channels. Lucas (2005) divides the discussion of remittances in two: the effects on poverty and inequality (which are considered in the subsequent section of this report); and the influences upon investment, growth, and macroeconomic stability, which are considered here.

Remittances augment national income and aggregate demand as a whole. Figure 2.2 provided estimates of the income received from friends and relatives abroad as a proportion of the national income. The leaders in this respect are Moldova, Bosnia and Herzegovina, Albania, Tajikistan, Armenia, and Kyrgyz Republic. It is interesting to note that in Moldova, for example, earnings abroad constitute almost one-quarter of the national income.

Like any income, remittances are partially spent on household consumption and partially saved and invested. If we subscribe to a traditional macroeconomic model, the expansionary effect of remittances will be greater if they are spent on investment or saved in the formal financial sector. Results from surveys with returned migrants in ECA found that the majority of remittances are utilized for funding consumption of food and clothing but that large quantities are also used for education and savings (over 10%). Smaller amounts are spent on business investment (less than 5%) (see figure 2.5).

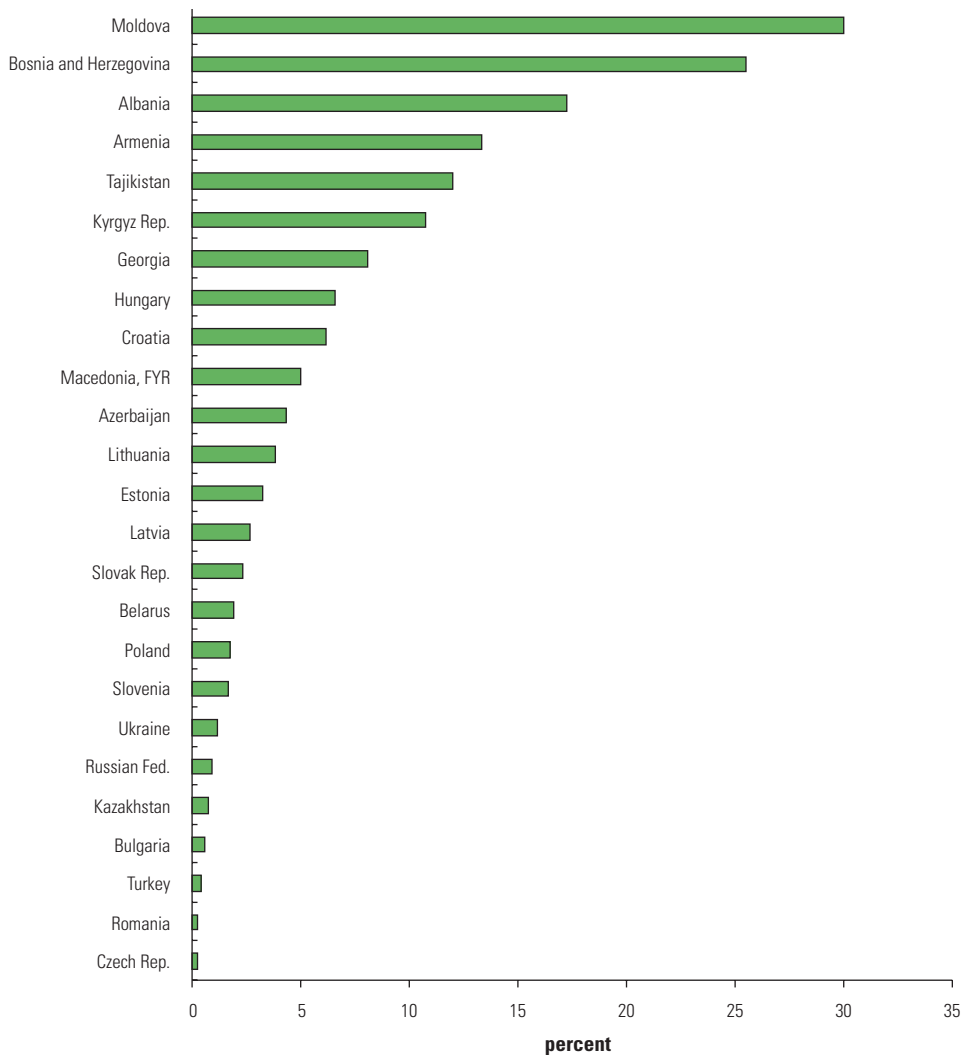
Figure 2.6 provides the share of total remittances compared with total household expenditure for selected ECA countries in 2003. It is not surprising that the results are well correlated with GDP shares, given that consumption is a main component of GDP. If the propensity to consume from remittances is similar to other income, it can be

FIGURE 2.5
Expenditure Patterns from Remittances in Six ECA Countries



Source: Results from a World Bank survey with returned migrants in Bosnia and Herzegovina, Bulgaria, Georgia, Kyrgyz Republic, Romania, and Tajikistan. See appendix 1.1 for further information on the survey.

FIGURE 2.6

Remittances as Share of Total Household Expenditure in 2004

Sources: IMF, *Balance of Payments Statistics*, *World Economic Outlook*; World Bank.

Note: Received remittances = received compensation of employee + received workers' remittances + received migrants' transfer. Albania and Slovak Republic are 2003 data. Otherwise, in 2004 data. Household expenditures is \$ converted current price.

concluded that, for some countries, remittances spurred a significant portion of total consumption. For example, in Moldova or Albania, every fifth dollar spent in 2003 came from remittances.

There is a debate over the extent to which remittances actually boost the economy of the migrant-source country, because, as the discussion above demonstrates, a substantial portion of income has been used for consumption purposes and not saved or invested (Drinkwater, Levine, and Lotti 2002). Recent strands of literature, however,

indicate that remittances can lead to economic growth simply by increasing the migrant's household income, regardless of whether this additional income is spent on consumption or savings. For example, Ratha (2003) indicated that if remittances are invested, they contribute to output growth, but they generate positive multiplier effects if consumed. Research on Moldova corroborates this information, as economic growth has been strongly driven by a spike in gross national disposable income since the late 1990s, a period characterized by high levels of international remittances (World Bank 2005).

Furthermore, significant empirical evidence indicates that remittances lead to positive economic growth, whether through increased consumption, savings, or investment. Lucas (2005) cites several case studies that show signs that remittances may indeed have accelerated investment in Morocco, Pakistan, and India. Glytsos (2002) models the direct and indirect effects of remittances on incomes and hence on investment in seven Mediterranean countries, and finds that investment rises with remittances in six out of the seven countries. Additionally, the results of the analysis conducted by León-Ledesma and Piracha (2001) for 11 transition economies of Eastern Europe during 1990–99 show support for the view that remittances have a positive impact on productivity and employment, both directly and indirectly through their effect on investment. A recent study by Roberts (2004) on remittances in Armenia concludes that, overall, empirical evidence suggests that the propensity to save out of remittance income is high (almost 40 percent) and remarkably consistent across studies.

There is also evidence of important multiplier effects from remittance spending, particularly from housing construction (Roberts 2004; Lucas 2005, citing Glytsos 1993; Adelman and Taylor 1990; Zarate 2002). The multiplier effect can be high—Durand, Parrado, and Massey (1996) find that every “migradollar” that enters a local economy generates as much as \$4 in demand for goods and services, though such analyses may rely on extreme assumptions. Moreover, Desai et al. (2003) indicate that additional consumption increases indirect tax receipts, thus also increasing government consumption or savings.

Therefore, there is evidence that remittances have enabled economic growth through greater rates of investment. Even more certainly, remittances have important multiplier effects, raising income levels in the economy beyond the households of remittance recipients. There are, nevertheless, at least two points of reservation regarding these optimistic conclusions. One is the possibility that countries can face a situation similar to the Dutch disease, in which the inflow of remittances causes a real appreciation, or postpones depreciation, of

the exchange rate, restricting export performance and hence possibly limiting output and employment (Lucas 2005). More importantly, research by Chami, Fullenkamp, and Jahjah (2003) ascertained that income from remittances may be plagued by a moral-hazard problem, permitting the migrant's family members to reduce their work effort.

Part of the explanation for these distinct findings may be that the studies suffer from an omitted variable bias: the role of institutions. We hypothesize that the impact on remittances of macroeconomic growth and development is conditioned by the quality of the recipient country's political and economic policies and institutions. The quality of institutions might play an important role in determining the exact effect of remittances on economic growth, because institutions exert substantial influence on the volume and efficiency of investment.

Overall, estimations conducted with dynamic-panel methods find that remittances have a positive impact on macroeconomic growth. Moreover, the results are not inconsistent with the argument that institutions play a role in conditioning this relationship (see box 2.1).

Distribution, Poverty, and Inequality

In addition to absolute indicators of growth and macroeconomic stability (Lucas 2005), remittances may have distributive effects on poverty and inequality. Of the two factors, the effect of remittances on poverty seems much less controversial, because remittances per se do not lower anyone's income. Remittances contribute to household income and thus, in the short run, reduce poverty. Recent analysis by Adams and Page (2003) confirms that a 10 percent increase in the share of international migrants in a country's population will lead to a 1.9 percent decline in the share of people living on less than \$1 per person per day. In addition, Adams finds that international remittances have a negative statistically significant effect on three poverty measures (poverty headcount measure, poverty gap, and squared poverty gap measure) (Adams and Page 2003).

When it comes to the overall impact of remittances on income inequality, Ratha (2003) finds the evidence mixed. Some find that remittances sharpen inequality (Stark, Taylor, and Yitzhaki 1986; Adams 1991), while others claim that in the long run, income distribution becomes more equal as a result of the liquidity provided for capital accumulation, or through trickle-down effects in the labor market (Taylor and Wyatt 1996).

Richard Adams in his "The Effects of International Remittances on Poverty, Inequality, and Development in Rural Egypt" (1991) finds

BOX 2.1

Estimating the Impact of Remittances on Macroeconomic Growth

This dynamic-panel investigation estimates the impact of workers' remittances on per capita GDP growth in a sample of developed and developing economies (for information on the estimations and alternative specifications, see appendix 2.2). The estimator used in most of the sample equations below is the Anderson and Hsiao (1981) method. The results of using the GMM estimator are also relevant because we do not have specific Monte Carlo evidence on the appropriateness of each estimator for our panel settings. In all the estimations we have used the

Worker Remittances and Growth: Dynamic Panel Estimation (1970–2003)

(dependent variable: growth of GDP per capita; endogenous variable: log (remittances/GDP))

| | (i) AH | (ii) AH | (iii) AH | (iv) AH | |
|----------------------------------|---------------------|---------------------|---------------------|--------------------|--|
| Growth GDPpc (t-1) | 0.233*** (0.015) | 0.203*** (0.018) | 0.315*** (0.076) | 0.051 (0.352) | |
| Log(remittances/GDP growth) | -0.002 (-0.003) | 0.001 (0.002) | 0.024*** (0.008) | 0.053 (0.045) | |
| Log(GCF/GDP) | | 0.041*** (0.011) | -0.010 (-0.048) | -0.161 (-0.250) | |
| Log(NPCF/GDP) | | | -0.003 (-0.004) | -0.019 (-0.012) | |
| TI corruption index | | | | -0.037 (-0.039) | |
| UNHDI | | | | -1.711 (-1.257) | |
| Voice and accountability | | | | | |
| Political stability | | | | | |
| Government efficiency | | | | | |
| Regulatory quality | | | | | |
| Rule of law | | | | | |
| Corruption | | | | | |
| Observations | 1926 | 1660 | 566 | 150 | |
| Number of ID | 121 | 108 | 90 | 51 | |
| Wald | 0.000 | 0.000 | 0.000 | 0.088 | |
| Sargan | 0.358 | 0.443 | 0.452 | 0.867 | |
| AR(1) | 0.000 | 0.000 | 0.000 | 0.140 | |
| AR(2) | 0.532 | 0.406 | 0.254 | 0.854 | |
| Long-run remittances coefficient | -0.003 (-0.010) | 0.001 (0.003) | 0.035*** (0.012) | 0.055 (0.054) | |

Source: World Bank Staff calculations.

Note: Specifications (1) to (6) were obtained using the Anderson-Hsiao estimator (AH). Specifications (7) to (9) were obtained using the 2-steps GMM estimator of Arellano and Bond (1991) with robust standard errors.

Standard errors in parentheses.

* significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent.

logarithm of the remittances/GDP ratio as our independent variable, as well as the control variables described in further detail in appendix 2.2. Finally, we provide the long-run dynamic solution for the coefficient on remittances, which is to be interpreted as the impact of remittances on growth in equilibrium.

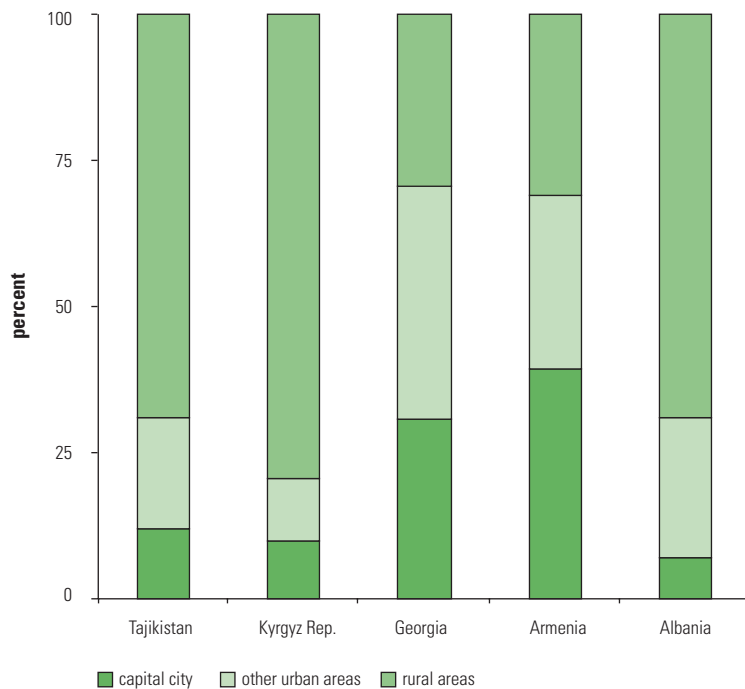
According to the results below, remittances appear to have a positive and statistically significant impact on growth in four out of six of these specifications. We could safely conclude that we can reject the existence of a negative impact of remittances on growth and that there is some indication of a positive, albeit mild, impact.

| | (v) AH | (vi) AH | (vii) GMM | (viii) GMM | (ix) GMM |
|--|---------------------|---------------------|---------------------|----------------------|---------------------|
| | 0.939 (1.432) | 0.585 (1.344) | 0.293*** (0.071) | 0.164** (0.069) | 0.061 (0.090) |
| | -0.032 (-0.114) | 0.05 (0.177) | 0.028* (0.016) | 0.023* (0.012) | 0.043* (0.023) |
| | 0.336 (0.441) | -0.372 (-1.719) | 0.012 (0.018) | 0.062*** (0.016) | 0.047*** (0.014) |
| | -0.007 (-0.106) | 0.002 (0.181) | -0.003 (-0.003) | -0.001 (-0.002) | |
| | | -0.033 (-0.096) | 0.001 (0.005) | | |
| | | -1.262 (-12.510) | -0.034 (-0.034) | | |
| | 0.688 (0.950) | 0.011 (1.450) | 0.018 (0.020) | 0.008 (0.019) | |
| | -0.590 (-0.676) | 0.020 (0.708) | -0.023 (-0.014) | -0.006 (-0.007) | |
| | 0.100 (0.519) | 0.353 (1.296) | -0.018 (-0.016) | 0.009 (0.012) | |
| | -0.221 (-0.329) | -0.147 (-0.148) | -0.005 (-0.015) | -0.025** (-0.012) | -0.023* (-0.016) |
| | 0.285 (0.782) | 0.431 (1.668) | 0.025 (0.022) | 0.024 (0.018) | |
| | 0.047 (0.514) | 0.081 (0.779) | 0.0114 (0.016) | -0.027** (-0.012) | -0.0001 (-0.002) |
| | 344 | 150 | 150 | 334 | 530 |
| | 77 | 51 | 51 | 77 | 93 |
| | 0.936 | 0.782 | 0.000 | 0.000 | 0.001 |
| | 0.998 | 0.845 | 0.216 | 0.51 | 0.973 |
| | 0.367 | 0.646 | 0.017 | 0.000 | 0.000 |
| | 0.369 | 0.967 | 0.127 | 0.242 | 0.346 |
| | -0.536 (-13.800) | 0.12 (0.691) | 0.040** (0.021) | 0.027** (0.014) | 0.045** (0.023) |

that when remittances are included in predicted per capita household income, the Gini coefficient increases by 24.5 percent. He explains this by the fact that the poorest quintile of households produces a proportionate share of still-abroad migrants, the richest 40 percent of households produce more than their share, but the second and third quintiles are under represented. “It is these variations in the number of migrants produced by different income groups—and not differences in either migrant earnings abroad or marginal propensities to remit—that cause international remittances to have a negative effect on rural income distribution” (Adams 1991, p. 74).

The distribution of remittances across urban and rural as well as capital-city areas for the abovementioned case studies is presented in figure 2.7. As can be seen from the figure, different countries are characterized by different patterns. For example, in Tajikistan and Albania the bulk of remittances goes to the rural areas (almost 70 percent), while in Armenia and Georgia the pattern is the opposite—almost 70 percent of remittances channeled into the countries go to large metropolitan areas and other cities. There appears to be a link

FIGURE 2.7
Distribution of Remittances by Location in 2002
 (percent)



Source: Authors’ calculations; World Bank, Household Data Archive for Europe and Central Asia.

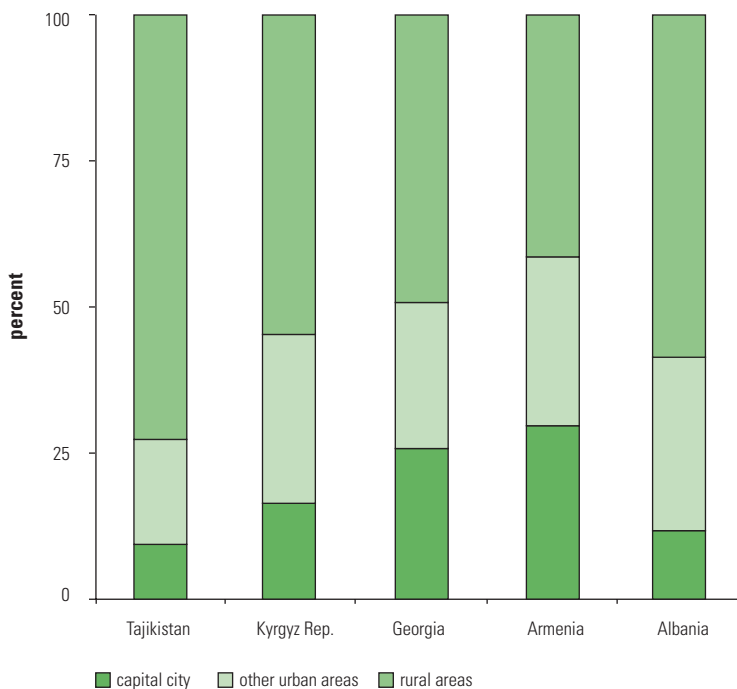
Note: Data for Tajikistan are for 2003.

between such findings and population distributions; figure 2.8 demonstrates that Armenia and Georgia have proportionally less of their populations living in rural areas.

The relationship between remittances and inequality becomes even more evident when we look at the specific areas from which international migration is more prevalent. In the case of Albania, it is the poor regions in the north and other rural areas in the country that send international migrants.² In Armenia or Georgia, most households that report receiving remittances (and thus have relatives or other acquaintances abroad) hail from urban areas; the majority share of remittances reported by households goes into urban areas as well.

There are two explanations for the trend toward remittances to urban areas. First, individuals may find it relatively difficult to migrate abroad from rural areas. Second, most households that receive remittances might move into cities as a result of their newfound wealth. The latter situation is of special relevance to Armenia, where some portion of households may receive relatively high amounts of income from remittances from the so-called "old diaspora" on a regular basis.

FIGURE 2.8
Distribution of Population by Location in 2002
(percent)



Source: Authors' calculations; World Bank, Household Data Archive for Europe and Central Asia.

Note: Data for Tajikistan are for 2003.

As a result, their incomes increase by a substantial amount, thus enabling a move to urban or capital areas, which are considered safer and more convenient to live in, though more expensive.

Table 2.2 presents estimates of average remittances and consumption per quintile for receiving and all households for the selected ECA countries. One of the key findings of the table is that richer households receive more remittances as a proportion of all households. This tendency is prevalent for all countries in the investigation, where data quality allows such investigation.

There can be several explanations for this migration bias skewed toward better-off families. First, movement internationally may be costly. Fixed costs of migration include transportation, as well as visa and work-permit fees. Furthermore, migrants likely support themselves for the first months of living abroad. Such expenditures may be relatively expensive once the differences in prices between host and sending countries are taken into account. Second, richer households have better access to information: they can employ expensive con-

TABLE 2.2

Annual Consumption and Remittances per Capita by Quintile

(US\$)

| Quintile | 1 | 2 | 3 | 4 | 5 |
|---|--------|--------|--------|--------|----------|
| Albania (2002) | | | | | |
| Consumption per capita (all households) | 283.66 | 425.76 | 560.02 | 761.15 | 1,403.13 |
| Share of receiving households (percent) | 16.87 | 13.23 | 18.08 | 24.31 | 28.37 |
| Remittances per capita (receiving households) | 147.58 | 186.59 | 261.76 | 294.35 | 541.85 |
| Remittances/consumption (receiving households; percent) | 52.03 | 43.82 | 46.74 | 38.67 | 38.62 |
| Armenia (2003) | | | | | |
| Consumption per capita (all households) | 135.39 | 194.02 | 244.81 | 312.24 | 547.30 |
| Share of receiving households (percent) | 16.51 | 16.30 | 16.40 | 17.61 | 21.20 |
| Remittances per capita (receiving households) | 67.88 | 105.36 | 74.30 | 112.47 | 167.51 |
| Remittances/consumption (receiving households; percent) | 50.13 | 54.31 | 30.35 | 36.02 | 30.61 |
| Georgia (2002)^a | | | | | |
| Consumption per capita (all households) | 24.73 | 46.66 | 67.38 | 96.06 | 193.85 |
| Share of receiving households (percent) | 2.58 | 2.15 | 1.83 | 1.91 | 2.53 |
| Remittances per capita (receiving households) | 35.83 | 35.76 | 35.18 | 50.49 | 76.57 |
| Remittances/consumption (receiving households; percent) | 144.88 | 76.63 | 52.21 | 52.56 | 39.50 |
| Kyrgyz Republic (2003) | | | | | |
| Consumption per capita (all households) | 78.31 | 115.55 | 148.32 | 198.93 | 337.12 |
| Share of receiving households (percent) | 0.84 | 1.63 | 1.38 | 3.41 | 7.04 |
| Remittances per capita (receiving households) | 7.73 | 7.14 | 10.80 | 41.76 | 46.02 |
| Remittances/consumption (receiving households; percent) | 9.87 | 6.18 | 7.28 | 20.99 | 13.65 |
| Tajikistan (2003) | | | | | |
| Consumption per capita (all households) | 67.20 | 103.88 | 139.03 | 188.13 | 344.35 |
| Share of receiving households (percent) | 8.01 | 9.82 | 9.33 | 8.96 | 7.66 |
| Remittances per capita (receiving households) | 23.56 | 28.12 | 34.25 | 41.85 | 55.68 |
| Remittances/consumption (receiving households; percent) | 35.07 | 27.07 | 24.63 | 22.25 | 16.17 |

Sources: Authors' calculations; World Bank, Household Data Archive for Europe and Central Asia.

a. Quarterly.

sulting services and on average have higher education levels, factors that may facilitate migration. Third, existing social relationships help facilitate migration. Richer households with better opportunities to move initially may also pass on the knowledge and networks they obtain to households that interact with them—households that are most likely to be from the same or neighboring quintile. Finally, remittances received have an effect on household income—some households are likely in the top quintiles of income distribution precisely because they receive remittances.³ Even so, it is likely that over time the difference in shares of remittances received for every quintile equalizes and even reverses; migrants who moved earlier on may return home to start their own businesses. Furthermore, the costs of moving will decrease in the long run through a reduction in the fees of consulting companies for migrants.⁴

Another finding of table 2.2 is that richer households receive greater remittances on average in per capita terms than poor households. Migrants in many cases remit two or three times as much to rich households. It is worth noting that this situation is present for all countries under our investigation, even those where only tiny proportions of the households surveyed report actually receiving remittances.

One of the explanations for this finding can be, as mentioned above, better access to information for richer households than for poor ones. Richer households can pay for costly consulting services to help them find better jobs, a cost that in many cases poor households cannot afford. Decisions made throughout the migration process are another reason for this phenomenon. Given expected future earnings at home and abroad, the cost of moving, and the time spent apart from family, migrants from rich households may have greater discretion over which job offers to accept than one who represents a household from a poorer quintile. It is possible that migrants from poor households have on average worse paid jobs than migrants from rich ones, at least at the beginning. A further explanation relies on connections to the “old diaspora.” For example, in Armenia relatively large values of remittances are sent abroad by distant relatives or friends from the West.⁵ If richer households have more connections within the old diaspora, they may have greater networks through which to receive remittances.

The third key finding from table 2.2 is that remittances constitute a considerable proportion of household expenditure and a higher portion of consumption per capita for the poor households than for the rich, suggesting that remittances are more important for poor than for rich households.

Endnotes

1. More detailed remittances data, including more extensive international comparisons, are presented in appendix 2.1.
2. For more evidence on migration patterns in Albania see Albania Poverty Assessment 2003 and A. Sarris (2004).
3. For more information on this topic, see Adams (2004).
4. Consulting companies or most of the so-called travel agencies in ECA countries assist migrants with visa documents, work permits, traveling, job search, and so forth. For many migrants this assistance is crucial in their decision to move. At the beginning of the migration era, this array of services was provided by just a few companies, which could result in price-setting power.
5. For more information on the Armenian diaspora and its role in remittances, see Roberts (2004).