

# REMITTANCES AND ECONOMIC DEVELOPMENT IN THE REPUBLIC OF TAJIKISTAN: IMPACT ON MACROECONOMIC STABILITY

Bakhrom SHARIPOV

*Ph.D. (Econ.), Chief Researcher  
at the Institute of Economics and Demography,  
Academy of Sciences of the Republic of Tajikistan  
(Dushanbe, Tajikistan)*

## ABSTRACT

**T**his article analyzes the growing role of migrants' remittances in the new reality created by the significant changes in the functioning of the global and national economy. It attempts to show that economic development based on the use of primarily recurring external financial sources pegged to indicators of threshold values of the external debt under formation and indicators for retaining macroeconomic stability is creating significant risks.

The author examines the dynamics of the volume of migrants' remittances in this respect, as well as their importance for Ta-

jikistan's economic and social development, particularly in ensuring the country's macroeconomic stability. This is shown in the drawing up of a new National Mid-Term Development Strategy.

The article also states the need for taking efficient steps to transform remittances into investment and financial assets; in the near future, they should be used to create the country's production potential. This will create conditions not only for making the Tajik economy less dependent on external factors, but also allow it to gain additional advantages from its accession to the WTO.

**KEYWORDS:** migration, remittances, Tajikistan, macroeconomic stability, state debt, payment balance, financial tools, development.

## Introduction

Tajikistan is a small country in the very center of Eurasia that is developing integration ties with the Near and Far Abroad. Labor migration, which ensures a flow of remittances into the country, is one of the most important factors promoting integration.

Tajik researchers have devoted a fair number of their studies to migration. Their continued interest in this topic is generated by the rapid changes going on in the global economy, as well as the political cataclysms impacting the changes in migration volumes and patterns. The last few years have shown that migrants' remittances are having a growing impact on the macroeconomic and financial stability of Tajikistan's economy and financial market.

This article aims to study the different aspects of the steadily growing role of migrants' remittances in the new reality created by the changes in the functioning of the global and national economy.

## Migration and Remittances: International Experience

The great need of rapidly developing economies for labor resources, their shortage in some countries and surplus in others, is an inherent part of the globalizing world (see Fig. 1). According to the results of a study carried out by the Organization of Economic Cooperation and Development containing assessments from the World Bank, the U.N. Population Department, and others, the number of migrants throughout the world amounts to approximately 140 million people, including in such leading economies of the planet as the U.S., Canada, and Australia that have long traditions of receiving immigrants.<sup>1</sup>

As globalization of the international economy develops, the percentage of migrant workers in the world economy is constantly growing. At the same time, the amount of remittances migrants send home is also growing. In so doing, it should be noted that the volumes and amounts of remittances are growing at a faster rate than the number of migrants themselves.<sup>2</sup>

Remittances not only play an important role in ensuring the financial independence of migrants' families, but are also becoming a driving force behind economic development of the remittance-receiving countries.

The analysis shows that in many countries migrants' remittances are becoming increasingly larger in volume than foreign direct investments and official aid allotted by international financial institutions (see Fig. 2).<sup>3</sup>

In 2012, official remittances to the developing countries amounted to approximately \$400 billion;<sup>4</sup> this amount is much higher than the amounts of international technical aid and volumes of

---

<sup>1</sup> See: *Round Table on Sustainable Development. Working Abroad — the benefits flowing from nationals working in other economies*, Prepared by Anne Harrison assisted by Tolani Britton and Annika Swanson, OECD, General Secretariat, 2004, p. 8.

<sup>2</sup> See: A. Gaidutskiy, "Migratsionnyy kapital v Ukraine: skrytaia realnost," available at [[http://gazeta.zn.ua/ECONOMICS/migratsionnyy\\_kapital\\_v\\_ukraine\\_skrytaya\\_realnost.html](http://gazeta.zn.ua/ECONOMICS/migratsionnyy_kapital_v_ukraine_skrytaya_realnost.html)], 6 April, 2014.

<sup>3</sup> See: *Urgent Questions of Economic Sciences: Papers from the 3rd International Scientific Conference (Ufa, June 2014)*, Ufa, 2014, pp. 84-88, available in Russian at [<http://www.moluch.ru/conf/econ/archive/95/5747/>], 11 October, 2014.

<sup>4</sup> [<http://www.worldbank.org/ru/news/press-release/2012/11/20/developing-countries-to-receive-over-400-billion-remittances-2012-world-bank-report>], 13 April, 2014.

Figure 1

Top Immigration Countries, 2010 (million people)

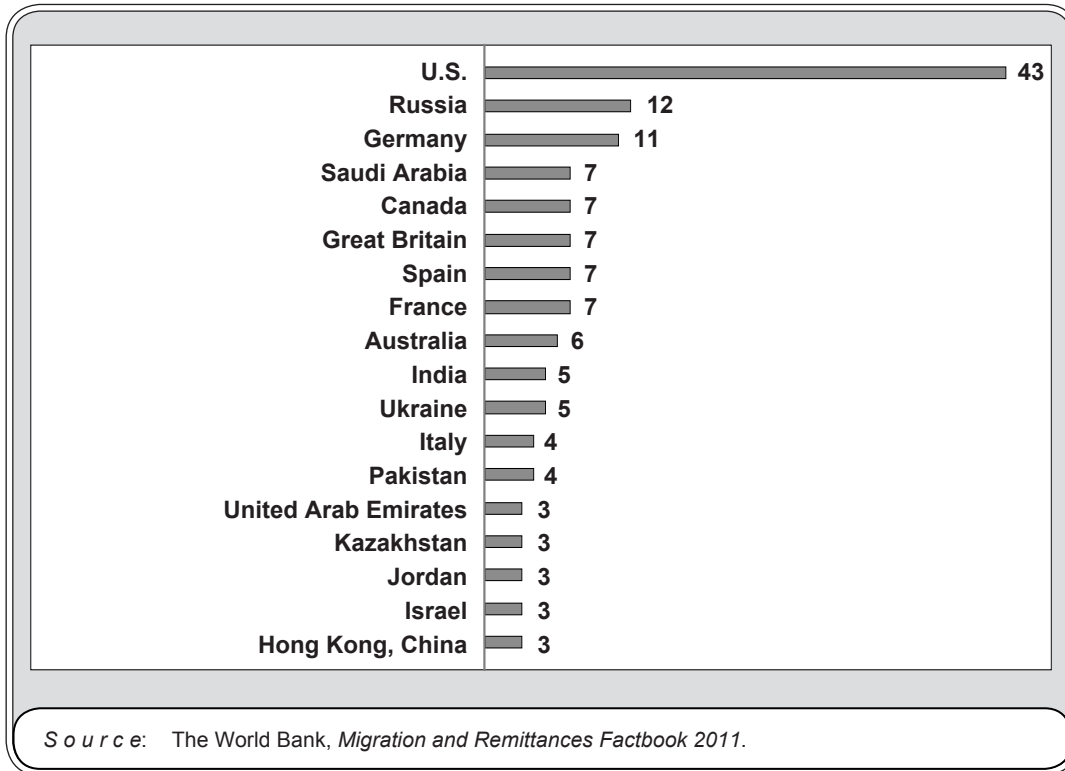
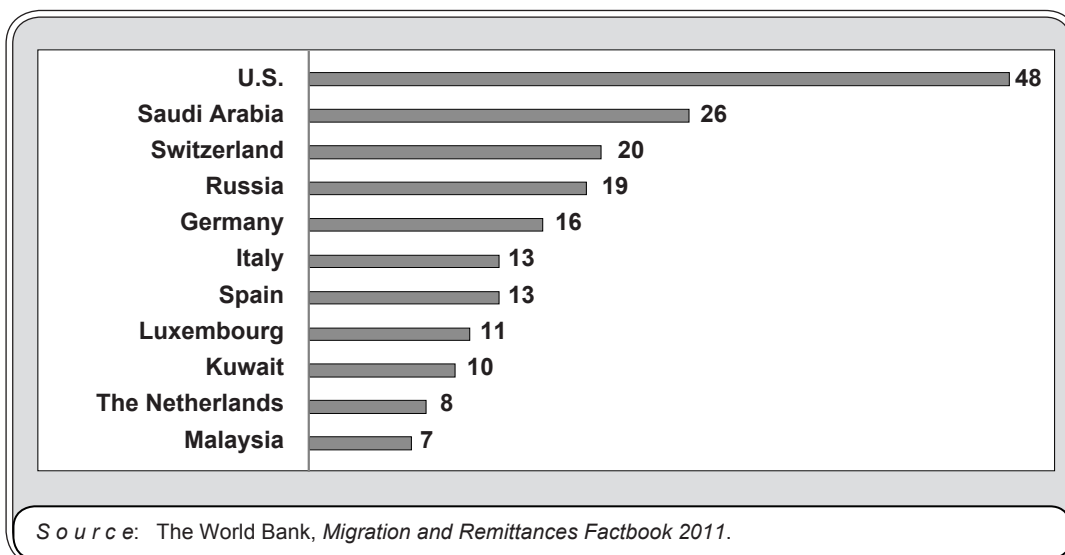


Figure 2

Main Remittance-Sending Countries, 2009 (\$bn)



portfolio investments they are rendered (and almost equal to the capital attracted in the form of direct investments).

In 1970-2005, the volumes of remittances in the world (primarily from developed to developing countries) grew thirteen-fold, while the number of migrants increased only 2.3-fold.<sup>5</sup>

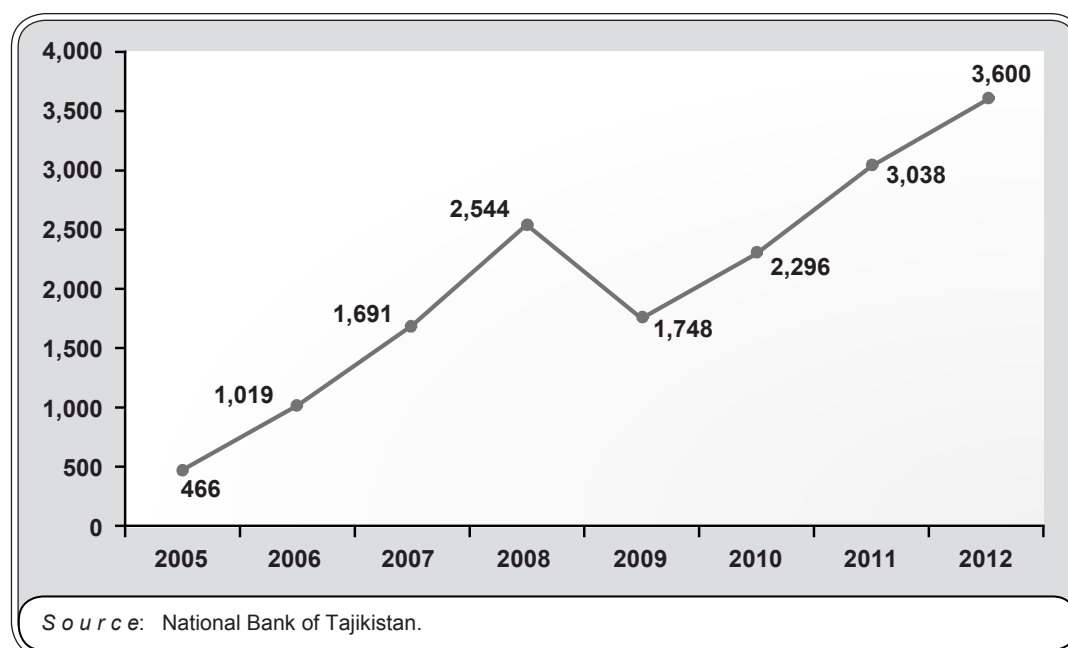
## Remittances to Tajikistan

Tajikistan's scientists, international financial institutions, state power structures, and financial market regulators are focusing increasing attention on migrants' remittances. Enormous in size, they have become a qualitative new form of contemporary capital movement and financial flows that are already being regarded as "international migration capital."

The rapid growth of their volumes shows the investment potential of Tajik labor migrants' remittances (see Fig. 3); an exception is the global financial crisis between 2008 and 2009.

Figure 3

Dynamics of Migrants' Remittances  
through Tajikistan's Banks  
(\$m)



It should also be noted that in contrast to other countries, most remittances to Tajikistan go through legal bank channels. The main reasons for the increase in official migrants' remittances through banking systems are the following: cancellation of the 30% tax on remittances at the begin-

<sup>5</sup> See: A. Gaidutskiy, op. cit.

ning of the 2000s, which made them equal to bank operations, and the development of different types of payment systems. This has resulted in an increase in migrants' remittances from \$200 million in 2002 to more than \$3.6 billion in 2012 and more than \$4.2 billion in 2013.

On the whole, between 2005 and 2013, the volume of remittances from labor migrants to Tajikistan exceeded \$20.6 billion. It is worth noting that migrants' remittances are tens of times higher than the country's export revenue from the sale of domestic goods in the world markets and the volumes of foreign direct and other investments, which makes them the most important component in financing the Tajik economy.

At the same time, an increase in migrants' remittances is making Tajikistan more dependent on the host countries, primarily Russia (where 98% of all migrants from Tajikistan work). Moreover, the direct dependence of Tajikistan's economy on remittances is growing. According to the IMF, 37% of Tajikistan's GDP constitutes labor migrants' remittances from Russia (it ranks first in the world in terms of this index). Nevertheless, it is involuntarily becoming a lever of political pressure on the country itself and increasing its dependence on the dynamically developing Russian economy. In this respect, I would like to remind you that more than one million able-bodied and economically active Tajik citizens are labor migrants in Russia.

Mention should also be made of the low level of savings in the total volume of remittances. A comparison of the indices of personal deposits of the Tajik population attracted by banks and micro financing organizations (around \$300 million) with the volumes of remittances that come into the country shows that a large percentage of the latter is not incorporated into the official financial system, but spent on consumption by the households that receive them. At present, only a tenth part of remittances is used in the banking system, which restricts money supply in the country's economy and contributes to conservation of high interest rates both on deposits and on loans.

## **The Growing Impact of External Factors on the Tajik Economy: Risk Increase**

The small open Tajik economy, which is an integral part of the global economy, has been subjected to the strong impact of external shocks; the impact of the global crisis is a good case in point.

Compared with other countries, Tajikistan survived the financial crisis of 2008-2009 with fewer losses. But its consequences for the republic were very perceptible: economic development rates dropped from 8% to 3.5% a year, and the budget was short more than 1 billion somoni (\$0.3 billion) due to the cutback in various tax revenues and customs receipts.<sup>6</sup> At the same time, foreign investments have decreased (both those made by the international community under the State Investment Program and privately) and foreign exchange export earnings abruptly dropped due to the decrease in demand for cotton and aluminum in the world markets caused by a drop in their price and export volumes.

Despite the measures adopted to restore the precrisis economic development rates, Tajikistan continues to feel the negative consequences of the crisis, one of which is decreased availability of

---

<sup>6</sup> See: *Urgent Questions of Economic Sciences: Papers from the 3rd International Scientific Conference (Ufa, June 2014)*.

foreign financing (due to the instability of the foreign finance markets). What is more, the recession and slowdown in world GDP rates, budget problems in the leading economies of the U.S., EU, Russia, and other countries (“the debt crisis”), as well as the situation involving Ukraine indicate that a new crisis wave is possible.

Unfavorable trends in Tajikistan’s partner countries are of a long-term and systemic nature; they are reducing the republic’s opportunity to attract foreign financing, particularly privileged.

Moreover, the Millennium Development Program being implemented in Tajikistan under the auspices of the U.N. and World Bank should be completed in 2015. It is possible that financing the country’s economy by means of significant and privileged servicing of the available noncommercial external resources (long return times, low interest rates, the grant component that includes technical assistance, including from international consultants, new technology, experience, etc.) will be significantly cut back or ceased altogether.

The availability of foreign privileged financing, particularly under the Millennium Development Program, has led to regulators taking much less interest in mobilizing other monetary means, including internal resources and labor migrants’ remittances.

At present, the opportunities of Tajikistan’s Ministry of Finance to support economic development are also tapering off; they are limited to several mandatory tasks relating to the rendering of social services, maintenance and development of infrastructure, as well as servicing the external debt. For example, most of the state budget resources (including foreign investments in the state debt) that are monitored by international organizations are intended primarily for social purposes, creating infrastructure (building roads, schools, and other facilities), and servicing the external debt.

## **External and Internal Sources for Financing the Tajik Economy: The Role of Remittances**

The volumes of financing for the Tajik economy according to the main sources show that their external component is higher than the internal. According to the data of the State Committee for Investments and State Property Management of the Republic of Tajikistan, in 2002-2011, \$2,133 million were used to finance the economy and social sphere. External receipts amounted to 94.4% (\$2,014 million) of the total volume of financing; the contribution of the Tajik Government, or internal budget sources, accounted for 5.6% (\$119.1 million). Between 2007 and 2011, the average annual volume of foreign investments amounted to \$420 million.<sup>7</sup> So the high economic growth rates were mainly achieved by means of foreign financial resources, including migrants’ remittances.

The significant flows of migrants’ remittances coming into the country, which serve as an important source of foreign financing, become targeted after they reach Tajikistan. In terms of Tajikistan’s economic and social development, these monetary means perform the following functions:

- they ensure the formation and growth of domestic solvent demand of the population, which alleviates the negative consequences of government policy aimed at curtailing wage increase

---

<sup>7</sup> See: *Analysis of the Investment Climate and Attraction of Investments in the Republic of Tajikistan*, Dushanbe, 2012, p. 35, available in Russian at [<http://www.gki.tj/ru/262/>], 12 November, 2013.

- carried out to maintain Tajikistan's reputation as a "low salary" country in order to form a favorable investment climate;
- they act as a significant source of real GDP growth (by means of consumption growth);
  - they lower the poverty level; in the past 10 years, it has decreased from 85% to 32%;
  - they are an internal financial source and means for compensating for "cash gap" and smoothing out fluctuations in foreign financing;
  - they maintain import growth of both consumer and investment goods and ensure replenishment of the state budget by means of customs payments and other taxes;
  - they promote the formation of internal savings in the form of an increase in personal deposits in banks and micro financing organizations;
  - they are a powerful financial source that allows the state budget to lower the spending burden on social targets (primary, secondary, higher and post-graduate education, public health, and so on) by transferring to minimum standards of budget financing and placing responsibility for maintaining these institutions on the shoulders of the population by offering paid services;
  - they help to overcome the depressed state of certain regions of Tajikistan and bring their development up to the level of the rest of the republic;
  - they make it possible to increase the volumes of internal loan issuing and financing the economy, in particular by moving corporate securities nominated in the national currency and in so doing supporting the development potential of the national financial market.

The prospect of a cutback in the volumes of privileged external financing is prompting not only a search for new sources, but also maximum use of migrants' remittances for forming internal reserves, primarily by mobilizing personal savings.

This methodological approach will make it possible to solve the important task Tajikistan faces of diversifying external sources. It could be reached by identifying new (primarily commercial) sources of unlimited financing and should mainly be carried out by attracting the resources of entities interested in long-term investments in the economy in the form of direct investments that do not drain away in crisis conditions. This would make it possible to augment the volumes of foreign financial resources in more acceptable and safer forms.

We will note that at present this process is accompanied by a high risk of deterioration in macroeconomic and financial stability. The thing is that foreign financial resources are primarily loans and even a short-term deterioration in the market situation stimulates a "flight of capital" capable of aggravating the already unfavorable situation in the country.

An analysis shows that in 2012, miscellaneous investments accounted for 98% of the total volume of foreign investments, while direct and portfolio investments amounted to only 2%. This correlation limits foreign financing, since the slightest increase in instability in the foreign markets causes an outflow of capital from the Tajik economy. This leads to violation of the macroeconomic and financial proportions, which could not only slow down the country's economic development, but also throw it ten years back.

World practice is full of examples of how in a short time countries have lost the results it took them years to achieve; this happens most often during crises. This situation is largely related to the mass outflow of previously attracted foreign financial resources that cannot be compensated for; as a rule, it leads to a breakdown in financial and then macroeconomic stability.

The search for a solution to this problem appears to be extremely urgent, since the size of Tajikistan's external gross debt (government and non-guaranteed private) has reached threshold values.



It is also important to note that in the absence of state insurance (reserve) funds, as well as the limited resources of the stabilization fund and strategic goods, migrants' remittances are the only thing stabilizing the country. They help to form the financial resources (including in foreign exchange) necessary for the Tajik economy to survive in a crisis. Despite the drop in remittances, their volume is higher than the outflow of resources from the national economy, which makes it possible to escape the "liquidity" trap.

Further economic development based on the use of primarily recurring external financial sources pegged to indicators of threshold values of the external debt under formation and indicators for retaining macroeconomic stability is creating increasingly growing risks. Nevertheless, a transfer to the prevailing use of commercial external financial resources is quite difficult since this will be accompanied by a high share of their speculative component and could lead to an increase in the budget deficit.

Despite the government's efforts to lower possible risks by means of various mechanisms available (these include writing off the external debt, its restructuring based on more privileged conditions, conversion of debt to equity, and so on), the situation in the Tajik economy can be described as only relatively stable. Taking into account the limited resources for servicing the external financial liabilities already formed (both of the state and of the private sector) and the low profitability of domestic business, it can be said that there is quite a high potential for deterioration in macroeconomic and financial stability.

The efficient functioning of the national economy and return on investment remains low, which is related to the small volume of the local market and the low export potential. With respect to Tajikistan's accession to the WTO, the republic's government has done a great deal to overcome these limiting factors, but a certain amount of time is required for their full elimination. We will note that for the time being Tajikistan's international investment position continues to be unattractive for investments and business development.

Maintaining the dynamic development of the national economy requires increasingly larger allocations. These should be not only preferential investments (attracted by the government within the State Investment Program against an increase in external debt), but also money resources that are characterized by minimum risk of attraction and application, including the non-repayable nature of their use with respect to the source of formation.

World practice and Tajikistan's experience show that the above-mentioned characteristics are inherent in such financial tools as migrants' remittances, part of the profit obtained from the main activity of market economy entities (particularly in the branches of the real economy) and invested in development, as well as government expenditure and investments in capital stock.

## **Remittances in Tajikistan's New Development Strategy: From Battling Poverty to Raising Personal Prosperity**

The Tajik economy is currently functioning in conditions of growing uncertainty and aggravation of all kinds of risks. Migrants' remittances are the main financial resource for preserving the country's macroeconomic stability and further development. Other financial tools mentioned above are still unable to fully perform their functions since there is a low level of internal savings in the



country. This has given rise to the need for the government of Tajikistan to draw up a qualitatively new national mid-term development strategy reoriented from the previous “battling with poverty” to “raising personal prosperity” and keeping in mind the dynamics and volumes of migrants’ remittances. We will note that Tajikistan’s new development strategy has been widely supported by the international community.

Its adoption makes possible an additional inflow of foreign investments, particularly by raising the upper level of the safe threshold value of the external debt from 40% of GDP (defined by the IMF for countries with a high poverty level) to 60% (for a country with moderate income; this is precisely how Tajikistan is positioning itself today on the global platforms).

At the beginning of 2012, Tajikistan’s external state debt was equal to 32.2% of GDP. As for the amount of the total external debt (including non-guaranteed external debt of the private sector, which amounted to \$898.7 million in 2008), it topped \$2,250 million and amounted to 44.1% of GDP.

At present, thanks to pursuing a state policy on restructuring the external state debt, the above indices have been reduced. All the same, they remain a long-term factor that creates prerequisites for preserving a high level of potential risk of a worsening of macroeconomic and financial stability.

Tajikistan’s nascent financial market with its inherent shortcomings cannot mobilize the internal savings available and transform them into long-term investment financial assets that could be used with minimum risk.

In these conditions, migrants’ remittances, which have become an integral part of present life, are a very important factor in preserving macroeconomic and financial stability. The significance of their use as the main resources for developing and maintaining the stability of the Tajik economy was expressed in the National Mid-Term Development Strategy of the Republic of Tajikistan until 2015. Suffice it to say that when developing four possible scenarios (from pessimistic to favorable) of the development of the national economy in the near future, the volumes and dynamics of migrants’ remittances were defined as the most important factor.

Solving the task of increasing money supply in the Tajik economy requires a rise in the monetization level; this requires the use of migrants’ remittances. The country’s internal savings must be mobilized as much as possible and transformed into investment tools. In order to overcome the negative consequences of the dollarization effect of the Tajik economy, it is extremely important for these steps to be taken using national currency. An increase in the volume of internal resources and their percentage in the composite crediting of the Tajik economy will make it possible in the future to attract additional foreign borrowing (by extending the boundaries of their use and raising the potential and efficiency of the domestic financial market).

## **Remittances as a Way to Provide Macroeconomic Stability in Tajikistan**

A stable inflow of remittances, the amounts of which are steadily rising, is the main tool for preserving the macroeconomic and financial stability of the Tajik economy; at the same time, there is an inflow of foreign currency and capital into the country that has made it possible over the past seven years to maintain the stability of the payment balance and national currency, somoni. This has also made it possible cover the enormous payment balance deficit; however, it continues to rise, becoming a risk factor for the economy.

Until recently, the trade balance deficit, which tops \$1.5 billion, has mainly been covered by migrants' remittances. According to some data, in 2009, the remittances of labor migrants was 17-fold higher than the total amount of foreign direct investments in Tajikistan in monetary terms; they are also more than 200% higher than export earnings. Between 2003 and 2008, the average annual increase in migrants' remittances amounted to 60%, while in 2012 it reached \$3.5 billion (or more than 47% of the GDP).<sup>8</sup>

According to the reports of the World Bank, migrants' remittances are the main source of income for 40-50% of Tajikistan's households. Since 2007, the republic's government has declined the use of IMF international loans. An exception was only during the world financial crisis when the funds allotted by the IMF were used for social payments.

Moreover, international comparative studies show that the remittances coming through official channels amount to only half of all remittances. The West also encounters similar problems—according to the estimates of specialists, even in the EU only two thirds of remittances to third countries go through banks or extra-bank fund transfer systems.

At present, Tajikistan is experiencing another problem relating to the statistical accounting of remittances. The studies show that in Tajikistan most remittances come through official channels; however, their accounting statistics are complicated and confusing. This largely happens because small domestic businessmen and agricultural manufacturers export their products simultaneously with labor migration.

What is more, small and medium business funds are included in the amounts of remittances that come to Tajikistan. Due to the shortcomings of the current Tajik tax legislation, businessmen are making use of unofficial transfer channels. In so doing, some of the funds settle in the country of origin of remittances, since they are invested in the development of business at the local level.

For example, Russia is already drawing up programs for assimilating successful business migrants into its economy, in particular those who have a turnover of more than 10 million rubles. This practice is also used in the world's developed countries.

Full mobilization of migrants' remittances is theoretically possible if the potential of the nascent domestic financial market is used (including by developing the corporate securities market). The use of this reserve would make it possible to partially relieve large domestic banks from the burden of financing extensive investment projects envisaged under state programs.

However, the low awareness of the nature and dynamics of remittance flows, as well as issues relating to their formation, dimensions, movement, and multidirectional influence on the economy, is leading to the emergence of new risks and challenges that require in-depth comprehension. Without carrying out corresponding studies, it is difficult to assess the possibility of using the potential of remittances for sustainable and balanced development both in the migrant host countries (from where remittances come) and in the originating countries (where these remittances are mainly consumed).

The risks relating to remittances and posing a threat to macroeconomic stability are the following:

1. The unpredictability of the amounts of remittances.
2. The change in their transfer channels caused by a change in the situation in the host country.

All kinds of myths and false stereotypes, as well as the internal and external political situation, are having an impact on the immigration policy of the host state. Certain legislative changes can, in a very short time, adjust the amounts of remittances and the financial behavior of migrants (relating to the choice of remittance transfer channels, among other things).

---

<sup>8</sup> See: B. Karimov, "Pravitelstvo dolzhno priznat iskluchitel'nuiu vazhnost migratsii," *Azia plus*, 16 December, 2013.

For example, a deceptive idea is forming among the public of host countries that migrants are primarily employed in the shadow economy, do not pay tax, take their earnings out of the country, and in so doing, on an equal footing with local citizens, take advantage of the basic social services.

In so doing, it turns out that migrants place a heavy burden on the budgets of the host countries and their taxpayers. Correspondingly, measures are being taken to toughen up the regime for receiving migrants, incorporate the funds they earn into the official domestic turnover of the host countries, and so on. This will give rise to additional risks for the originating countries counting on a stable volume of remittances.

It should also be noted that Tajikistan is incapable of covering its import for three months (as IMF regulations and the preservation of macroeconomic stability demand) by means of its international reserves (even despite their increase).

As of the beginning of 2014, the import cover of foreign exchange reserves in Tajikistan amounted to 1.3, which indicates a potential threat to the macroeconomic stability of the country's economy. In 2013, the total amount of Tajikistan's international reserves topped \$900 million, which is approximately \$100 million more than for the same period the previous year.

Today, the volumes of migrants' remittances (just as the structure of their currency components) allow the National Bank of Tajikistan to cover the cash gap between foreign exchange inflows (including export takings) and outflows. In so doing, the country's international reserve fund is replenished by means of remittances that are used when carrying out conversion operations both by the National Bank of Tajikistan and the network of commercial banks and micro financial organizations.

## The Role of Remittances in Alleviating Regional Disproportions

At present, the task of evaluating the potential of remittances and their use for alleviating regional disproportions is looming increasingly large, which could be an important factor in Tajikistan's development.

During the market reforms, the high differentiation in the socioeconomic development of the regions that has historically developed in Tajikistan has increased even more. Practice shows that remittances play an important role in overcoming this differentiation and in maintaining the country's internal stability, although the resolution of the most acute territorial problems is carried out by allotting the regions in need extensive state financial aid (which is an important vector in Tajikistan's state policy).

It must be admitted that the problem of the growing disproportions in the development of Tajikistan's regions could lead to aggravation of social tension and macroeconomic instability. At the same time, world practice and Tajikistan's experience show that the socioeconomic backwardness of some regions is capable of automatically reducing the sustainability and balance not only of the national economy, but also of the entire state system, as well as have an impact on the outside world.

For example, the 8-fold (in EU countries only 4-fold) difference in the country in terms of per capita GDP volume between the wealthiest and poorest regions shows the vast disproportions in the level of their development (the same picture is also seen in Russia).<sup>9</sup> Moreover, Tajikistan's regions

---

<sup>9</sup> See: S.K. Smirnova, "Investitsionnaia podderzhka regionov iz Fonda regionalnogo razvitiia, in: Nedvizhimost i investitsii," *Pravovoe regulirovanie*, No. 3-4 (16-17), 2003; M. Karimova, "Problemy regionalnoi differentsiatsii v Respublike Tadzhikistan," available at [<http://www.moluch.ru/conf/econ/archive/95/5723/>], 21 April, 2014.

significantly differ in terms of level of per capita income and level of unemployment. This all shows the potential risks, including for investments. As for the level of regional development of the banking system, it remains extremely non-uniform.

The scope and reach of the activity of banks and micro financial institutions cannot fully satisfy the existing needs of developing business and entities wishing to open their own business; this is particularly true of the rural and mountainous regions. As a rule, the financial services offered by banks and institutions are concentrated in areas with a relatively high level of economic development and compact population. But even today many small rural population settlements (belonging to *jamoats*),<sup>10</sup> which amount to 5-20 thousand residents, do not have physical access to credit or other financial services. They not only do not have bank branches, they do not have micro financial organizations either.

All the same, it can be stated that the situation is changing for the better. The remittances being sent to the rural and mountainous areas of Tajikistan, from where the main migration flows come, are promoting rapid territorial development of the banking system (in particular the development and extension throughout the entire country of a network of bank branches and other operating divisions). In so doing, remittances are not only leveling out the disproportions in development of the regions, but are also become a driving force behind the country's sustainable and balanced development. Keeping in mind this positive trend, a network of bank branches and micro financial organizations must be set up in the most remote and hard-to-access regions with a high level of migration using mobile and other transfer methods for rendering financial services.

## Returning Migrants and Business Development

The influence of labor migration is being increasingly felt at the micro level too. For example, a trend has been designated toward some migrants returning home, as well as some domestic businessmen transferring their business to Tajikistan, which is related to the improved investment climate in the country.

According to studies, a potential migrant needs an average of \$500 (calculated for a family of four people) in order not to have to go abroad to work. Practice shows that if they earned that amount, former migrants would prefer to stay at home, working in construction, commerce, at small business enterprises producing various goods and services, in branches engaged in the processing of raw agricultural produce, and so on.

It can be presumed that many of them who become highly qualified specialists have professional and life experience, their own savings and assets, as well as good opportunities for finding decent jobs.

The level of employment among former migrants is relatively high—it amounts to 68%. Most of them prefer to work independently (in their own business or as self-employed), and not be hired at state and private enterprises.<sup>11</sup>

The possibilities for integrating former migrants into the Tajik economy are still very limited; polls show that 29% of them want to work at home and set up their own business, but several serious barriers prevent this, among which are the following:

---

<sup>10</sup> *Jamoat*—territorial unit of government in Tajikistan, rural administration.

<sup>11</sup> See: S. Olimova, M. Olimov, "Tadzhikskie trudovye migranty vo vremia krizisa," available at [<http://www.demoscope.ru/weekly/2010/0415/tema05.php>], 15 July, 2013.

- no or insufficient initial capital;
- high cost of loan resources and their insufficient availability at the local level;
- problems and contradictions in legislation, tax pressure, corruption, audits, and so on;
- acute shortage of the necessary information, knowledge, business experience, and investment skills;
- heavy expenses and difficulties in executing documents required to start a business;
- Tajikistan's complicated and unintelligible tax system, and so on.

The reintegration of recent migrants is having a positive effect on the Tajik economy—the composite internal demand is growing; goods turnover is increasing; small and medium business is developing (particularly in rural and mountainous areas, which is lowering the level of unemployment at the local level), and so on. Positive shifts are also being seen in the construction industry and related branches. They were achieved by the participation of migrants in financing the building of housing and social infrastructure facilities (as well as their direct participation in their construction).

Often former migrants acquire minibuses, trucks, and other transportation that they use for moving the population and serving industrial facilities.

Former migrants are promoting Tajikistan's technological development to a certain extent; the tools, lathes, and production lines they bring in are not very expensive. However, they are sufficiently mobile and quickly adaptable to the changing requirements of both the internal and external labor market.

The most active migrants go to the U.S., EU, UAE, and so on; this helps to diversify the sources of remittances, the stable inflow of which is rising.

## *Conclusion*

So it can be concluded that the range of challenges and risks potentially capable of becoming a threat to the fundamentally vulnerable Tajik economy is relatively wide. In this respect, remittances are an important way to ensure the country's stability.

The limited amount of foreign exchange reserves is leading to dollarization; this is making the country's economy vulnerable to various upheavals. Weakening of the currency exchange rate might have a serious negative impact on the balance of companies, which, in turn, is fraught with undermining stability of the financial sector due to a rapid increase in unreliable loans. In economies with a high level of dollarization, the possibilities for carrying out an independent monetary and interest rate policy are very limited, therefore the special currency control regimes being introduced prove inefficient.

So it is becoming increasingly urgent to take steps to ensure macroeconomic and financial stability of the economy. This requires raising the population's trust in national currency, optimizing state tax policy, improving the investment climate, ensuring the safety of investments and savings, and so on.

In so doing, great attention should be paid to the efficacious use of migrants' remittances as the most efficient way of developing Tajikistan from the viewpoint of preserving long-term macroeconomic stability. Efficient steps must be taken to transform remittances into investment and financial assets by using them in the future to create domestic production potential.

All of these measures could not only make the Tajik economy less vulnerable to unfavorable external factors, but also create opportunities for obtaining additional advantages from the country's accession to the WTO.

This could expand the channels for attracting personal monetary funds and increase the income base of Tajikistan's budget, as well as give a new boost to the country's development as a whole.

As of today, it is extremely important to overcome old stereotypes that prevent a transfer from the non-productive consumption of remittances (or their freezing) to a new model of their use as an unlimited resource for economic development.

---