

REMITTANCE INCOME AND MIGRANT ENTREPRENEURSHIP IN CENTRAL ASIA

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ABSTRACT

For many Central Asian citizens labor migration has become a part of their lives mainly due to difficult economic condition in their hometown like high unemployment rate and low wages. In order to cover the economic needs of their families majority of the labor migrants send 30-50% of their earnings back home which in total becomes large sums comparing with their home country GDP. In 2017, Central Asian countries in total has received \$5 billion remittance inflow in 2017 where the remittance share to GDP for Kyrgyzstan is 35% and for Tajikistan is 31% one of highest ratios in the world. The potential of remittance incomes on contributing the economic development in these countries has been widely discussed in literature. However, there is lack of information on turning this opportunity into reality part. This paper aims to analyze the recent remittance dynamics and their effect on the economic development in home country.

Keywords: remittance, labor migration, entrepreneurship, Central Asia, income.

INTRODUCTION

There were 266 million international migrants living or working around the world in 2018. While working abroad, labor migrants send a part of their earnings back home to financially support their families. The transferred earnings are called remittances and, in many cases, these incomes make up a large part of household revenues. In 2018, total remittance transfers in the world reached \$689 billion, of which \$529 billion were remitted to low and middle-income countries. In order to underline the importance of this amount, it could be said that it is three times larger than the total foreign aid distributed in 2018 (World Bank, 2019).

Due to various economic conditions, it is mostly citizens of Central Asian countries who search for job opportunities abroad. Russia is an optimal choice for the majority of labor migrants from Central Asia due to the free-visa regime, higher salaries, constant demand for labor and familiar language. The nature of their migration is circular; migrants often work in seasonal jobs and return to their home country after a period of time. The reasons for migrating to another country differ from people to people. However, when we look at the leading causes of Central Asian migrants, economic reasons are the main motivating factors (Constant et al., 2012).

A large part of the economic side of the migration literature focuses on the impact of remittance earnings on the home country's economic development process. In the literature, there is much research supporting the positive and negative sides of remittance transfers. The proponents of the positive side mainly indicate that sending labor migrants abroad lowers the unemployment level, improves the living conditions of the migrant workers' families and increases the foreign currency reserves. On the other hand, opponents mainly argue that the migration process deepens the brain drain and does not contribute to macro-level economic development, as argued by proponents (Matuzeviciute and Butkus, 2016).

In order to assess the contribution of remittance transfers to entrepreneurial activities in Central Asia, we need to look at the expenditure structure of the recipients of the remittance revenues. For this purpose, looking at labor migrants in Russia would give us a general picture of this issue. This paper aims to investigate the entrepreneurship initiatives of labor migrants in Central Asia to identify the potential of the remittance revenues' impact on economic development in the home country. Therefore, it seeks an answer to the question of to what extent remittance income is invested in entrepreneurship in the home country and does migration matter for economic development?

Methodology

This research will be based on mainly secondary sources of information and quantitative data alongside the qualitative data. The quantitative part will include data from different databases related to remittance income dynamics and economic conditions of the Central Asian countries. As for the literature review, research that is conducted on the relationship between entrepreneurship initiatives and remittance income usage will be reviewed to analyze the information gathered from quantitative research for Central Asian countries. Through the gathered remittance income and entrepreneurial activities

information, this paper aims to analyze the effect of remittance transfers on the development of entrepreneurship in the region and its potential for contribution to the economic growth in Central Asian countries.

MIGRATION FLOW AND REMITTANCE DYNAMICS

Migration Flow

Migration from Central Asia to Russia is temporary and circular, meaning migrants immigrate to another country with the purpose of searching for a job, stay for a short period and return to home country (Constant et al., 2012). This migration process benefits all sides: the host country, mainly Russia, can fill its labor shortage in a short time and, by sending labor migrants abroad, unemployment in the home country goes down, since the majority of them are migrating because they could not find a job in their hometown. As for labor migrants, they gain the chance of finding a better job opportunity with a higher salary, obtaining new skills and sending remittance to their home countries (Graeme, 2013).

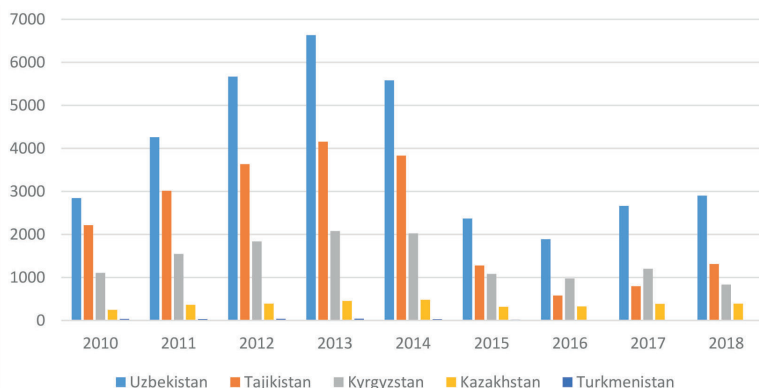
According to the Federal State Statistics Service (Rosstat), in 2005, the number of migrant workers was 702,500. However, due to the simplification of the procedure for obtaining a work permit for Commonwealth of Independent States (CIS) citizens, this figure increased to 1,717,000 in 2007. This increasing trend continued in 2008, reaching 2,425,900, however, due to the effect of the global financial crisis on the Russian economy and labor market, this figure decreased to 2,223,600 in 2009. The figure has gradually fallen to 1 million in 2014; the reason for this decrease is related to the changes in the law on migration. Previously, in order to obtain a work permit, employees needed to rely on their employers to apply for a quota (Rosstat, 2017). However, starting from 2010, the Russian government initiated a “patent” project as a replacement for the quota system. At first, it was distributed only to people who worked for individuals. Thus, a certain number of people might prefer to obtain patents since they could obtain this type of work permit directly themselves (Matveenko et al., 2017). Starting from January 1, 2015, the quota system was abolished and replaced with a patent. Accordingly, the number of foreign citizens with a valid permit to perform labor activities increased to 1.5 million in 2016 (Rosstat, 2017).

Nevertheless, these numbers do not represent the whole picture, since these are only official statistics and, according to the Federal Migration Service, 4.3 million people were working illegally in Russia, most of who were CIS citizens (Moscow Times, 2014). On this point, experts’ opinions agree on around 3 to 5 million (Mukomel and Zavonchkovskaya, 2013).

Remittance Dynamics

Remittance transfer dynamics were actively fluctuating in recent years in relation to the economic situation in the major source country, namely Russia. More than 60% of the remittance inflow to Central Asia comes from Russia. Therefore, remittance transfers are quite fragile and sensitive to changes in the Russian economy (World Bank Group, 2016).

Graph 1. *Remittance transfer from Russia to Central Asia 2010-2018 (Million USD)*

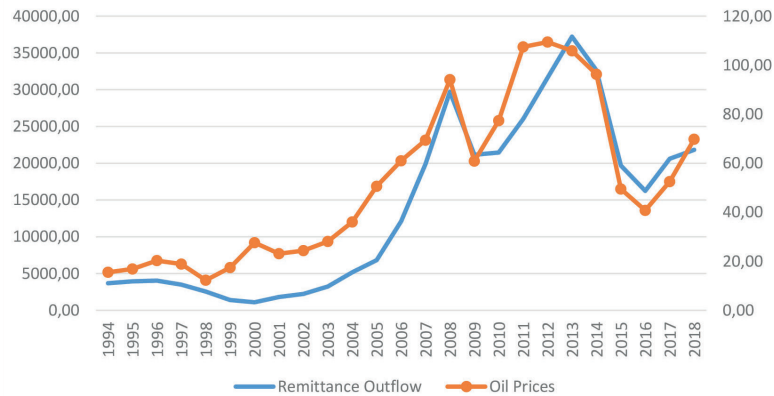


Source: Central Bank of Russia, 2019

Heavy dependence on remittance inflows from Russia has positive and negative consequences on remittance transfers to Central Asian countries. As seen from Graph 1, in line with the increasing economic indicators, remittance transfers also increase during the period 2010-2013. However, starting from 2014, remittance transfers to Central Asia at first slightly decrease and, during 2015-2016, fall sharply from \$13.3 billion in 2013 to \$3.7 billion in 2016. Only after 2017 does it manage to increase, to \$5 billion in 2017 and \$5.4 billion in 2018. If we look at the countries in the region specifically, for Uzbekistan, remittance transfers fall from \$6.63 billion in 2013 to \$1.88 billion in 2016, a \$4.74 billion (or 350%) loss in just three years. As for the rest of the countries in the region, the decreases for Kyrgyzstan are \$1.1 billion or 213%, for Tajikistan \$3.57 billion or 717%, for Kazakhstan \$128 million or 68%, and for Turkmenistan \$32 million (Central Bank of Russia, 2018).

There are a number of reasons for this significant decrease, such as a sharp fall in oil prices, a significant depreciation of the ruble against the dollar and the changes in the law on migration. The Russian economy as an energy-exporting economy is deeply affected by the significant decrease in oil prices that reflected on the remittance transfers. As seen from Graph 2, remittance outflows from Russia are strongly correlated with the changes in oil prices.

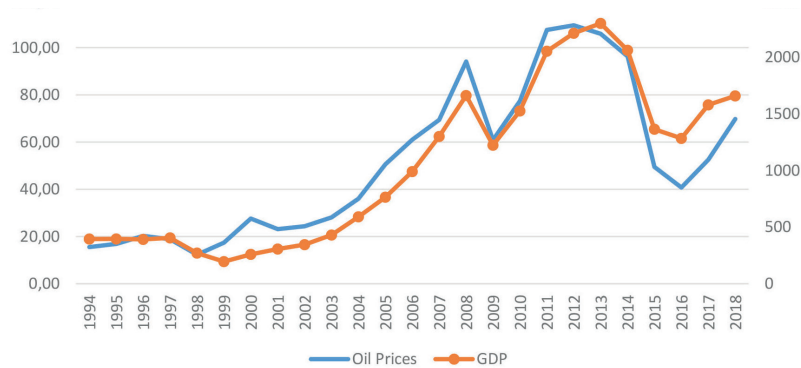
Graph 2. *Remittance Outflows from Russia and Changes in Oil Prices 1994-2018 (Million USD)*



Source: World Bank and Statista.com, 2019

Historical representation of the remittance flow figures indicates that it is quite sensitive to changes in oil prices. The correlation between remittance outflow and oil prices, starting from 2000 has become even stronger, where remittance outflow structure quickly reacts to the sharp fall in oil prices in 2008 and 2014, significantly reduced from \$29.7 billion in 2008 to \$21.4 billion in 2014, followed by a quick recovery period during 2010-2013 and 2016-2018. This correlation is also strongly linked with the fact that economic growth in Russia is closely related to oil prices, since oil export revenues make up a significant part of Russia's GDP (World Bank and Statista.com, 2019).

Graph 3. *Changes in Oil Prices and Russia GDP Growth 1994-2018 (Billion USD)*



Source: World Bank and Statista.com, 2019

Similarly to the remittance outflows, there is a solid correlation between GDP growth and oil prices. Thus, it could be said that remittance outflow depends on the earnings of the labor migrants who are working in the country and their revenues, linked to the economic situation in a Russia that is highly influenced by the changes in oil prices. These trends also reflect on remittance inflow to the Central Asian countries as could be seen in Graph 1. It could be said that oil price levels are one of the main factors that shape the remittance inflows to

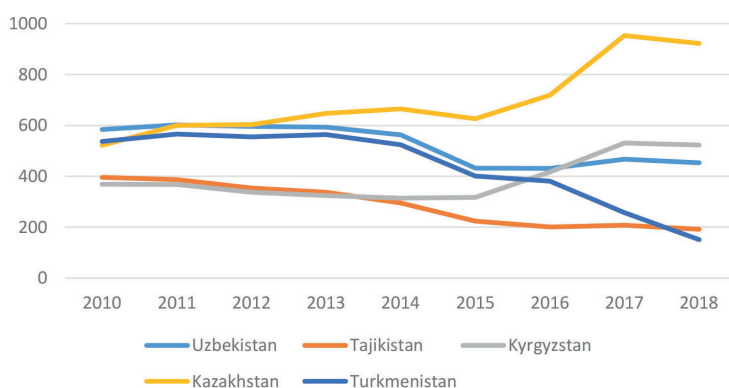
Central Asia due to its heavy dependence on remittance transfers from Russia.

Alongside this general trend, there are a number of other factors that are significant in determining the remittance inflow amount to Central Asian countries. Among them, certain changes in the law on migration in Russia and the currency factor of remittances can be seen (World Bank and Statista.com, 2019).

From January 1, 2015, the Russian government made a number of changes to the law on migration that tightened the procedure and increased the price of work permits. One of the main changes was replacing the quota system with a “patent”. In legal terms, this new change liberates employees from depending on an employer to get a work permit. However, the cost of additional documents and giving the authority to set a work permit price to governors increased the price of work permits, especially in the larger cities, such as Moscow and St. Petersburg, where more than half of the migrant workers arrive looking for job opportunities. The patent is given for a maximum of a year and needs to be renewed every year and, with the new changes, the annual cost of getting a patent reached 58,000 rubles in 2015, equal to the two-month average salary of a migrant worker in Russia (Hashimova, 2015).

In addition, the depreciation of the ruble against the dollar was probably the major reason for the sharp decrease in remittance amounts in dollar value. In December 2014, the ruble lost more than half of its value against the dollar and labor migrants are paid in rubles, but convert into dollars when sending their earnings back. This is also another reason why numbers decreased so sharply, they are calculated and reported in dollar value (Central Bank of Russia, 2016).

Graph 4. *Average Amount of One-Transfer of Remittance 2010-2018 (USD)*



Source: Central Bank of Russia, 2019

Looking at the average amount of one-transfer figures shows a similar picture, such as the total remittance amount (Graph 4). However, certain changes in the remittance transfer can be observed more easily in these statistics. For instance, it is expected that being a member of the Eurasian Economic Union (EEU) would have certain benefits for member countries, such as Kyrgyzstan and Kazakhstan. During the joining process of the EEU for Kyrgyzstan, proponents advocated that entry and finding a job would be easier for Kyrgyz citizens and they would be exempt from obtaining a work permit and its costs. It appears they were right and we can observe the scope of benefits since we have data

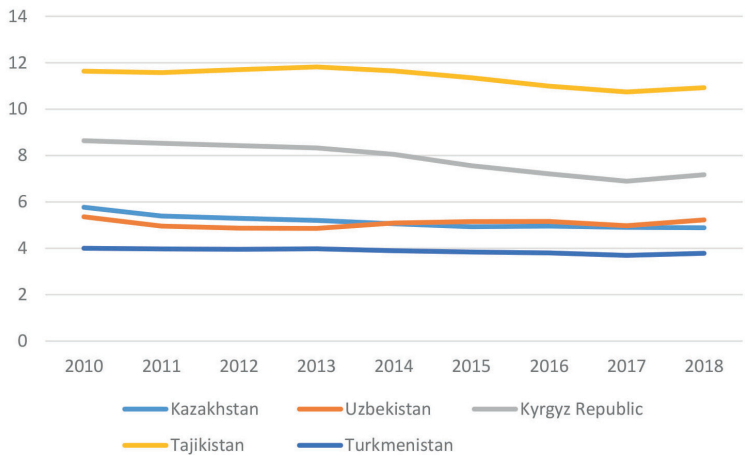
for the post-membership period of 2015-2018. By joining the EEU, the average amount of one-transfer to Kyrgyzstan has increased from \$314 in 2014 to \$523 in 2018 (Central Bank of Russia, 2018). During the 2010-2015 period, the average amount of one-transfer to Kyrgyzstan was in the range of \$314-\$369 and the change in the post-membership period was almost \$200. It could be said that becoming a member of EEU played a role in softening the falling trend in remittance inflow in 2016 and allowed a strong rise in 2017 (Central Bank of Russia, 2018).

As for Kazakhstan, the average amount of one-transfer was in the range of \$522-\$626 during the same period and stood at \$665 in 2014 but, after becoming a member of the EEU, the transfer amount increased to \$922 in 2018. By looking at these numbers it could be said that becoming a member of the EEU added around \$200-\$300 or 60% to the remittance inflows to Kazakhstan and Kyrgyzstan. On this point, negotiations between Tajikistan and EEU have been going on for some time and if, in the near future, they become a member state, their remittance revenues could also increase by an average 60%, as seen in Kyrgyzstan and Kazakhstan (Central Bank of Russia, 2018).

REASONS FOR MIGRATION AND GENERAL ECONOMIC
OUTLOOK IN CENTRAL ASIA

The literature of remittance and economic development correlation is full of mixed opinions where some argue remittance transfer is good for economic development in a country, while others state that the negative effects outweigh the positive contribution (Matuzeviciute and Butkus, 2016; Kakhkharov, 2017). In order to analyze the entrepreneurial activities of migrants and their effect on the economy, it would be useful to start by representing the general economic outlook in these countries; they lay out the main reasons for migration because, in many cases, it is economic reasons that push them to search for a job opportunity abroad and present an idea about the business environment in the home countries.

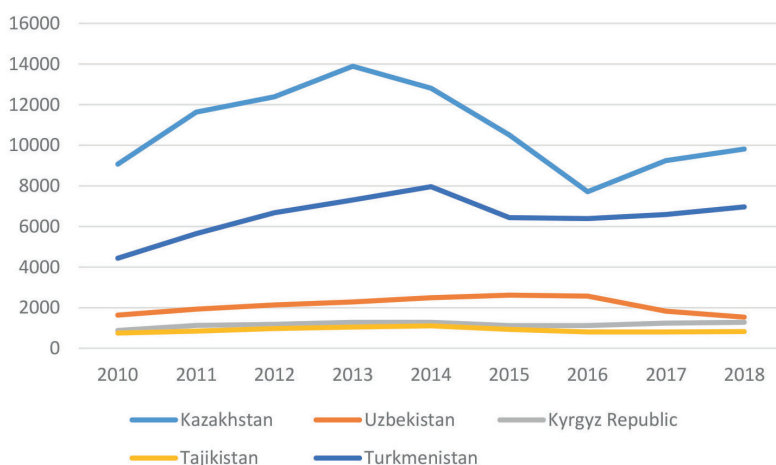
Graph 5. Unemployment in Central Asia 2010-2018 (%)



Source: World Bank, 2019

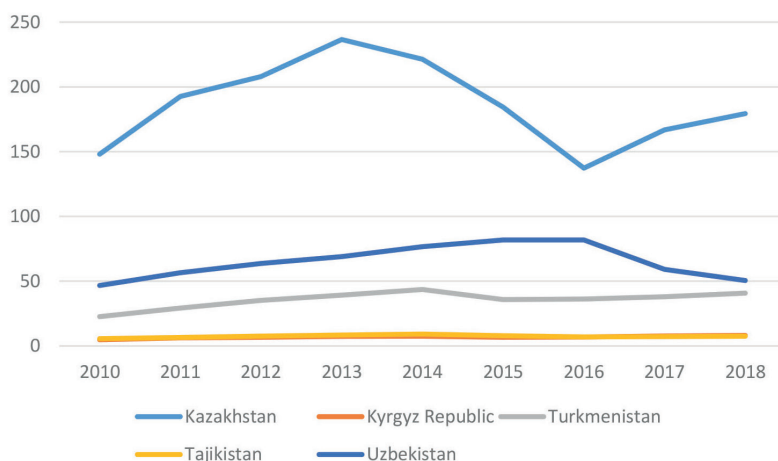
In the region, each country has in a different economic situation: Kazakhstan is the most prosperous country in terms of many economic indicators, such as GDP, GDP per capita, and unemployment rate. Turkmenistan's economy is the closest one in the region to the world market: thanks to its natural gas and other natural reserves, it is in a relatively good position compared with other countries in the region. The rest of the countries (Uzbekistan, Kyrgyzstan, and Tajikistan) have had to face various economic difficulties and regarding migration, the most concerning part is the high unemployment rate. On this point, Tajikistan takes the lead with 10.9%, followed by Kyrgyzstan and Uzbekistan at 7.1% and 5.2%, respectively, in 2018. For Kazakhstan and Turkmenistan, the unemployment rate is 4.8% and 3.7%, respectively. These countries are the major labor migrant-exporting countries in the region, where millions of people go abroad annually and the main destination for many of them is Russia (World Bank, 2018).

Graph 6. *GDP per capita in Central Asia 2010-2018 (USD)*



Source: World Bank, 2019

As mentioned above, due to low wages and high unemployment in the home country, many family members, especially the men, decide to migrate to earn a sufficient income or to improve the living conditions of their family. Another important economic condition that affects the migrants' decision-making process is the purchasing power capacity in the home country. Graph 6 shows major labor exporting countries have lower GDP per capita, compared with Kazakhstan (\$9,812) and Turkmenistan (\$6,966). Tajikistan has the lowest GDP per capita with \$826, followed by Kyrgyzstan with \$1,281, and Uzbekistan with \$1,532 (World Bank, 2019).

Graph 7. GDP current US\$ in Central Asia 2010-2018 (Billion USD)

Source: World Bank, 2019

When we look at the GDP (current US\$), Kazakhstan is distinct from the other countries in the region. With \$179.3 billion, Kazakhstan takes the lead in 2017, while Uzbekistan is a distant second with \$50.4 billion. The difference between the richest and the poorest countries in the region, namely Kazakhstan and Kyrgyzstan, is between 23 times in 2018 and 32 times in 2014 (World Bank, 2018).

RELATIONSHIP BETWEEN REMITTANCE AND ENTREPRENEURSHIP IN CENTRAL ASIA

To grasp the relationship between remittance and entrepreneurship in Central Asia it would be useful to look at the general conceptions of the issue. In the remittance literature, one of the most popular and discussed issues is its potential contribution to the migrants' home country economy. The annual inflow of money remitted by migrant workers to their families is, in certain cases, considerable, equaling around 20-30% of their countries' GDP in Kyrgyzstan and Tajikistan. Every year, almost 30% additional income has been transferred to these countries where their economic growth rates do not generally exceed single digit level. The idea of the potential contributions of this additional income to economic development has been attracting the interest of researchers for many years.

On this point, there are many arguments regarding the remittance inflows effect on economic structure in the migrants' home countries. For instance, Ratha (2013) argues that remittance income reduces the poverty level of households and increases their capability to save and invest in developing countries, which would pave the way for an positive outcome for economic growth prospects for the countries receiving remittances. Adams and Cuechuecha's (2010a) findings complement the arguments of Ratha on poverty alleviation, indicating that the remittance income effect is more powerful in diminishing the depth of poverty rather than its extent.

It could be said that the additional income that comes with the remittance transfers

undoubtedly improves the households' economic conditions and increases their capabilities to solve their economic difficulties. Remittances allow a larger financial 'playground' for them to further develop their economic conditions, permitting them to use the additional income for investment purposes or just save it for 'rainy days'. As Rapoport and Docquier (2005) indicate, that remittance can foster a household's ability to engage with entrepreneurial activities and invest in their businesses that, in turn, would have a positive impact on their country's economic development process. In another case, Haas (2007) points out that some households use their remittance income as a long-term investment strategy by spending on educational purposes. All in all, many researchers put forward various positive outcomes of remittances for the economic development of origin countries.

On the other hand, as Kapur (2004) and Chami et al. (2013) argue, there is an ambiguity of connections between remittance inflow and economic development. According to their views, the researchers who advocate a positive relationship between remittances and economic development do not seem to fully understand how, in reality, these remittances are being used and what the main reasons are for receiving households to engage in entrepreneurial activities. In their arguments, they indicate that not all the received money is spent on investment purposes since a large part of the additional income is used to cover the consumption needs of the families. Moreover, generally the money for investment is not allocated due to entrepreneurial spirit but rather as an insurance mechanism against any economic difficulties. Thus engaging in entrepreneurial activities if it occurs with the remittance revenues is another way for them to reduce their poverty level rather than their willingness to contribute to the economic development of their countries.

Taking into the general conceptions into consideration, the analysis of the economic scope of the remittance transfers to Central Asia and their usage purposes would allow us to see the relationship between remittance income and entrepreneurship in Central Asia more clearly. In 2018, of \$689 billion global remittance transfer, \$529 billion went to low and middle income countries. Central Asia's share stood around \$5 billion or 0.83% and 1.07%, respectively. Although the remittance amount might be small at the global level, for the region it is a quite significant financial resource (World Bank, 2019). In terms of transferred remittance amount equivalence to GDP, Kyrgyzstan and Tajikistan have quite high ratios with 33.2% and 29%, respectively, in 2018. For the rest of the countries in the region, the amount is relatively small where the ratio is around 3% for Uzbekistan, 0.3% for Kazakhstan, and 0.04% for Turkmenistan. This is due to the large difference between countries in terms of GDP amount and number of labor migrants sent abroad (World Bank, 2019).

For Kyrgyzstan and Tajikistan, the annual remittance transfers are great opportunities for the economic development process of these countries. An extra annual income in the amount of 30-35% of GDP could have a significant impact on the business sector if they were fully channeled to entrepreneurial activities, such as foreign direct investment in these countries. This argument has been mostly discussed in the migration literature on the economic development aspect of the remittance income to the home country. The total amount of remittance is seen as potential investment capital and analysis of this issue is often based on

this assumption that a certain amount of this money will be used to open new businesses or develop existing ones. However, the most important point here is the will of recipients for entrepreneurial activity and how much they are willing to invest. To answer this question we need to look at the expenditure structure of the labor migrants' families (Central Bank, 2015).

According to a survey conducted by Central Bank of Russia in 2015, labor migrants living and working in Russia send on average 30-50% of their earnings to their families. The same survey indicates that they send on average \$300-\$400 a month, where the range of the transfer could change from \$100-\$2,000. Out of these remittance incomes, recipients in the home country spend 60-65% of this sum on daily consumption needs, 13% payment for services, 1.8% repayment of loans and 20.2% other expenses (Central Bank, 2015).

Other research conducted on the topic of remittance transfer and entrepreneurship in Uzbekistan states that only 6.4% of their respondents decided to migrate to gather capital to start a business in their hometown. In addition, only 7.4% of the remittance money was used for business purposes in 2013 (Kakhkharov, 2017). As for Kyrgyzstan, the share of investment for entrepreneurial activity was just above 10% in 2013 (Bruck et al., 2018), meaning that a large part of the billions of dollars sent that could have had a macro-level effect on the economies in the region are spent on basic needs of the families. Remittances for many recipients are either only spent on household revenue or significant portion of them.

In Central Asia in general, a large part of the remittances are used for pure consumption needs, such as food and clothing and other basic needs, around 60-70% on average (Central Bank of Russia, 2016). In addition, cultural ceremonies, such as weddings and other commitments also reduce the savings of the families gathered from remittance revenues. Moreover, families of labor migrants put a part of the remittance money aside to save it for 'rainy days'. In many cases only after these priorities, is remittance income is spent on investment purposes.

Within the investment pot, the money again divides into groups because not all the money saved for investment goes on entrepreneurial activities. For instance, migrants also see building a house and other construction expenditures as an investment. However, if the house is not built for business purposes then this type of investment could be considered as consumption that has a value but is not used for profit purposes. Moreover, the entrepreneurial reasons also divide into groups, where it might be used as a startup capital for a business or for options such as buying animals to benefit from their products to cut the costs of food expenditures. Among established businesses, the type of this initiative is either a sole proprietorship (SP) or a small and medium enterprise (SME), due to lack of financial capital (OECD, 2015; Kakhkharov, 2017).

As these surveys indicate, only fraction of the remittance revenues are spent on investing in a new business or developing it. Moreover, when we come to the effect of remittance on the economy, it could be said that, although new businesses provide new job opportunities, however due to their small size, their effect on the economy at the macro level is limited. A research finding for Tajikistan indicates that 77% of the respondents hired fewer than five people and among them, the proportion of individual business owners was 30% in 2014. Having said that they are also the main job providers where SPs and SMEs

provide 98% of the jobs in the labor market (OECD, 2015).

In Tajikistan, within the sectoral composition of businesses, agriculture takes the lead with 38%, transportation and trade are 25%, retail 14%, services 12%, and manufacturing is only 4%. When we look at the region in general, the trade sector is one of the most popular among migrant entrepreneurs (OECD, 2015).

This structure of the firms is also related to the financial capital opportunities of entrepreneurs in the region. Due to financial constraints on access to bank credit, they have few alternatives other than their savings and the remittance income. According to a survey on access to financial resources in Central Asia, difficulty in getting a loan from a bank is top of the list.

Access to bank credit to open a small business in Central Asia is limited, where banks require collateral and charge high interest rates because they see them as high-risk clients and there are only a few long-term loan programs offered by banks. For instance, in Tajikistan, the share of bank credit as major financial capital is only 13.3%. However, this ratio is around 42% for large companies (OECD, 2015). Smaller companies find it difficult to meet the requirements of the banks and are unable to get a credit from a bank to start a business, having to rely on their own savings and remittance incomes. The same issue occurs when they are running their business if they need further financial assistance for their business. Tajikistan survey respondents state that they try to cover their needs from their business revenues at first. If they cannot rely on their personal savings, remittance income, asking friends and family and only after these choices, does obtaining credit from a bank become an option. The last step is asking for help from the government (OECD, 2015).

A survey conducted in Kyrgyzstan reveals an interesting profile for entrepreneurs in this country by dividing them into age, gender and geographical location. According to the results, men are more eager than women to set up in business, middle-aged people are more likely than younger people, and people with no skills and higher education are dealing with business more than people with higher education and skills. The information provided in this survey presents a profile that the majority of entrepreneurs in Kyrgyzstan are middle-aged, married, unskilled people, mostly with secondary education. This representation alone might seem odd but when combined with other factors, it makes more sense (Bruck et. al., 2018), taking into consideration that many operate SPs or small companies that might not require any additional skills and higher education, such as running a small shop, a cafe, driving a car or trading.

Another point is that, within the literature, it has often noted that returning migrants are more eager for entrepreneurial activities compared with circular migrants or locals. The reasons behind this entrepreneurial spirit are often not purely due to a desire to open a business but rather a necessity in relation to the situation in the labor market. This is the case for many migrant workers when they return to their hometown if they did not arrange an employment position prior to their return. After the return, they search for job opportunities with a significant income. However, they also need to earn their living to take care of their dependents therefore, until they can find a suitable employment position, they open a business and become self-employed. This will help them make a living and softens their economic integration into the labor market, and is

defined as a ‘parking lot’ by Harris and Todaro in 1970. Thus, return migrants might be more eager for entrepreneurial activities but the underlying reasons for their actions are rather oriented toward survival rather than strategic economic moves, which would improve their economic prosperity.

The results of the survey conducted in Kyrgyzstan also support these views, since entrepreneurship levels are higher in villages and North and South regions in the country when compared with large cities, such as Bishkek and the Central part of the country (Bruck et al., 2018). Although it is unusual for rates of entrepreneurial activities to be higher in villages than cities, opening an SP or small business can become a life jacket for those who cannot find employment with a decent salary rather than an innovative attempt to develop their economic prosperity that could positively affect the economic development process in the country.

Matuzeviciute and Butkus (2016) studied the remittances effect on economic development with panel data from 116 countries for the period 1990–2014. According to their results, remittances, in general, have a small but a positive effect on economic development. However, depending on the different economic conditions, the country-specific results may vary. The breakeven point for a country to benefit from remittance revenues is that its GDP per capita needs to be higher than \$8,250–\$8,960, depending on estimation technique. Moreover, remittance share to GDP also needs to be lower than 10.4–11.9%, depending on estimation technique (Matuzeviciute and Butkus, 2016).

Under these conditions, remittance inflows would have a positive effect on economic growth in the long run as stated in the literature, meaning that remittance transfers would benefit mostly developed countries and large economies. As for many developing countries, especially the ones below \$8,250 constant GDP per capita and the remittance share to GDP being higher than 10.4%, remittance inflows either have no effect or negatively affects the economic growth in these countries (Matuzeviciute and Butkus, 2016).

Applying these figures to Central Asia, we can see that only Kazakhstan could benefit from remittance transfers, since its GDP per capita is higher and its dependence on remittances is lower than the turning point numbers. However, due to the small size of the remittance transfer compared with Kazakhstan’s total GDP, the positive effect of the remittance incomes could play a fractional role in Kazakhstan’s economic growth rate. As for the other countries, Tajikistan and Kyrgyzstan’s figures fail to match on both indicators, therefore enter the group where remittance transfers have a negative effect on the economic development process.

Uzbekistan and Turkmenistan are not heavily dependent on remittance revenues, which is a good sign because with the improvements in the economic situation and increase in GDP per capita they could join the positive effect group. However, taking into consideration that GDP per capita for Uzbekistan is only \$1,504 and it is quite possible that it will not reach \$8,250 very soon, and remittance transfers to Turkmenistan are quite small, even if these countries reach this level it will not have a significant effect on economic growth.

CONCLUSION

Remittance transfers to Central Asian countries have undergone a difficult time, especially between 2015-2016, where the amount of inflow dropped significantly due to international events. However, as figures also indicate, troubled times seem to be passing and the remittance transfer amounts are gradually recovering in relation to the improving economic situation in Russia and increase in oil prices, starting from 2017. Moreover, becoming an EEU member has positively affected remittance inflows to Kyrgyzstan and Kazakhstan, with a 60% increase on average one-transfers.

A brief investigation of entrepreneurial activities and businesses in Central Asia reveals that entrepreneurs often face problems acquiring financial capital to start or develop their businesses. This is due to the requirements of banks when approving loans to small businesses where they ask for collateral and charge high interest rates since they are seen as high-risk clients. On this point, it should be mentioned that the share of large firms accessing bank loans is twice as high, however, the majority of businesses in Central Asia consist of SPs or small enterprises.

In order to shed light on the topic of the effect of remittance income on economic development, this paper studied the answer to the question of to what extent remittance income is invested in entrepreneurship in the home country. As a result, this research found out that only a small part of remittance income is spent on investing in entrepreneurial activities: the average proportion is around 7% and the rest is spent on the different needs of the family, where more than 70% of the remittance income is spent on basic needs, such as food, clothes, etc. This means that a large part of the remittance money is spent mostly on pure consumption purposes and if some is left after basic needs, cultural ceremonies and savings for rainy days, then the recipients of the remittance might consider using the money for investment purposes.

Self-employment in Central Asia is seen as a temporary solution until employment can be found. Therefore, migrant entrepreneurs are mostly middle-aged people, men with no skills or higher education. For these people, having a business is a way of survival rather than a strategic economic initiative to improve their economic prosperity and contribute to the economic development of the country.

In addition, an econometric study on remittances effect on economic developments reveals that in order for remittance to support economic growth, a home country economy needs to be at a certain economic level. Except for Kazakhstan, the countries in Central Asia fall into the negative effect group and, due to a small amount of remittance transfers, effects on economic growth in Kazakhstan is insignificant at the macro level.

Therefore, when exploring the potential of remittance revenues for economic development in Central Asia these factors need to be taken into consideration in order to create a more realistic analysis. The remittances need to be divided into parts and portion of the remittance amount taken into account rather than the total amount. In this way, calculations regarding the potential would also have more efficient and better results.

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