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Asian Development Bank



ASIAN DEVELOPMENT BANK

**A Study on International Migrants' Remittances
in Central Asia and South Caucasus**

**Country Report
on**

**Remittances of International Migrants and Poverty
in Azerbaijan**

The study was carried out in Azerbaijan by the Center for Local Economic Development and Vagif Rustamov is the author of this report.

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ABBREVIATIONS AND ACRONYMS

ADB	–	Asian Development Bank
AR	–	The Republic of Azerbaijan
AZN	–	New Azerbaijan Manat
BOP	–	Balance of Payments
CIS	–	Commonwealth of Independent States
CLED	–	Center for Local Economic Development
CRRC	–	Caucasus Research and Resource Center
GDP	–	Gross Domestic Product
EBRD	–	European Bank for Reconstruction and Development
HH	–	Household
HHH	–	Household Head
HHM	–	Household Member
IADB	–	Inter-American Development Bank
IERP	–	International Expert in Remittances and Poverty
IFAD	–	International Fund for Agricultural Development
NB	–	National Bank of the Republic of Azerbaijan
MTO	–	Money Transfer Operators
PPP	–	Purchasing Power Parity
PSU	–	Primary Sampling Unit
SDC	–	Socio-demographic characteristic
SSC	–	State Statistical Committee of the Republic of Azerbaijan
US\$	–	United States Dollars
USA	–	United States of America
WB	–	World Bank
Xtab	–	Cross-tabulation

I. INTRODUCTION

1. Remittances are one of the largest financial inflows in the world to many transition and developing countries and this form of financial inflows exceeds even that of international aid. According to World Bank estimates, total remittances in 2006 were globally equal to 250 billion US\$ and these figures are increasing by almost 30% year by year. However, an IFAD and IADB study¹ showed that 150 million migrants worldwide sent more than 300 billion US\$ to their families in developing countries during 2006. Remittances contribute to the economic growth and to the livelihoods of the indigent people worldwide. Moreover, remittance transfers can also promote access to financial services for the sender and recipient, thereby increasing financial and social inclusion.

2. After independence in 1991, economic crisis, war and transition have had a significant influence on labor migration in Azerbaijan. The results of studies show that the role of remittances has sharply increased in Azerbaijan during the last years.

3. Remittance inflows have been registered in the balance of payments (BOP) of Azerbaijan since 1995. Thus, total remittance inflows in BOP were equal to 38.2 million US\$ in 1997 and 806.9 million US\$ in 2006. Therefore, the balance of remittance flows during the last 10 years has changed from negative to positive. The total remittance balance was -27.82 million US\$ in 1997 and +25.8 million US\$ in 2003, from this period the balance increased roughly and achieved +507.22 million US\$ in 2006. The main reason for positive changes was improving registration process of remittances in the country and increasing positive balance in migration. Also, migrants that left the country several years ago, have already arranged their businesses and increased contributions to their families and relatives in Azerbaijan.

4. BOP data on remittance inflows covers compensation of employees², worker's remittances³, migrants' transfers and it is based on the official data of banks and MTO. Compensation of employees was not registered in the balance of payment in 1997 but it increased sharply during 2005-2006 and was equal to 127.9 million US\$ in 2006. Worker's remittances were equal to 30 million US\$ in 1997 and 662.3 million US\$ in 2006. Migrants' transfers were equal to 8.2 million US\$ in 1997 and 16.7 million US\$ in 2006.

5. Significant changes appeared in the ratio of remittance inflows and outflows to GDP during the last 10 years. The ratio of total remittance inflows to GDP was about 1% in 1997, over 5% in 2005 and 4% in 2006 but the ratio of outflows to GDP did not change too much: 1.7% in 1997 and 1.5% in 2006.

¹ Sending Money Home - Worldwide Remittance Flows to Developing Countries.

² Compensation of employees: Compensation of employees comprises wages, salaries, and other benefits (in cash or in kind) earned by individuals—in economies other than those in which they are residents—for work performed for and paid for by residents of those economies. Included are contributions paid by employers, on behalf of employees, to social security schemes or to private insurance or pension funds (whether funded or unfunded) to secure benefits for employees. Employees, in this context, include seasonal or other short-term workers (less than one year) and border workers who have centers of economic interest in their own economies. Because embassies and consulates are considered extraterritorial to the economies in which they are located, the compensation received by local (host country) staff of these institutional entities is classified as that paid to resident entities by non-resident entities.

³ Worker's remittances and Migrants' transfers: Workers' remittances cover current transfers by migrants who are employed in new economies and considered residents there (A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more.). Workers' remittances often involve related persons. Persons who work for and stay in new economies for less than a year are considered non-residents; their transactions are appropriate mainly to the component for compensation of employees.

6. Permanent data on remittances was obtained from the BOP as mentioned above and from the National Accounts which are calculated by the State Statistical Committee (SSC) up to study. It should be noted that the National Accounts envisage gathering official data and non official estimates on remittances, therefore this figure becomes higher than BOP's data, so the figure of total remittances was equal to 1.41 billion US\$ in 2005 (current transfers and salary from abroad) and estimated about 2 billion US\$ in 2006. On the other hand, SSC has carried out a Household Budget Survey in the country every year since 2001. However, only a few questions regarding remittances are included to these questionnaires which are not enough to analyze the existing situation on remittance and its effect to poverty. A report on poverty, which is being prepared by the government every year in the country, notes that remittances have a significant effect on reducing poverty in Azerbaijan. However, there are no figures given to prove this point.

7. Caucasus Research and Resource Center (CRRC) has been carrying out HH Survey in Azerbaijan since 2004, and the survey covers data on social and economic issues including some data on poverty and migration. Moreover, World Bank, IFAD and IADB, EBRD etc. have carried out regional and worldwide studies where Azerbaijan has been included. These studies present some figures on total remittance inflows and migration. However, a detailed data on remittances and information about the real situation are not available from the existing sources in the country.

8. In an effort to fill these knowledge gaps, ADB launched a regional study on remittances in Central Asia and South Caucasus in 2006. The study covers Azerbaijan, Armenia, Kazakhstan, Kyrgyz Republic and Tajikistan. Azerbaijan, Armenia, Kyrgyz Republic and Tajikistan are treated as remittance-receiving countries, whereas Kazakhstan is treated as a remittance-sending country. The study has two components. One component assesses the effects of remittances on poverty in Azerbaijan, Armenia, Kyrgyz Republic and Tajikistan. The other component examines the relationship between remittances and financial sector development in Armenia, Kazakhstan, Kyrgyz Republic and Tajikistan. The study is being conducted in collaboration with local research institutions from Central Asia and South Caucasus, including Center for Local Economic Development⁴ (CLED) and Center of Economic Reforms (CER), Azerbaijan. State Statistical Committee, Ministry of Economic Development and National Bank of the Republic of Azerbaijan supported the study.

9. The purpose of this report is to present preliminary findings of the assessment of effects of remittances on poverty in Azerbaijan to various stakeholders and solicit their comments. This is the first report that provides detailed data on remittances and their effect to poverty in Azerbaijan. It is hoped that the report will help fill the existing gaps in the knowledge about remittances and be useful to the Government of Azerbaijan in designing policies aimed at enhancing positive effects of remittances on poverty reduction in the country.

10. The report was discussed at a seminar in Baku in November 30, 2007. Following the seminar, the report was revised, taking into account comments received. Subsequently, it will integrate into ADB's regional report on remittances in Central Asia and South Caucasus, which is expected to be published in 2008.

11. The rest of this paper is organized as follows. Section 2 presents the 2006 household survey on remittances and poverty in Azerbaijan and gives some descriptive statistics on

⁴ Center for Local Economic Development helped organize the household survey and carried out research in Azerbaijan.

migration, remittances and the household income and composition. Section 3 presents data and analysis of remittance-receiving households, while section 4 deals with remittance senders. Section 5 reviews remittance transfer channels and presents analysis of the current situation. Section 6 presents data and analysis of the effects of remittances on household consumption, savings and investment. Section 7 computes effects of remittances on poverty and income inequality. Section 8 presents data and analysis of the effects of remittances on community development. Section 9 draws conclusions and provides policy implications.

II. HOUSEHOLD SURVEY ON REMITTANCES AND POVERTY

12. This chapter describes questionnaires of the survey, as well as sections, questions and areas covered; explains the definition of “household”, “household member”, “migrant of household member”, “external migrant” and “remittances”; presents the procedure of sample selection, the training of interviewers/supervisors and the pilot survey. The full-fledged survey, as well as the interview dates, language, average length of the interviews, refusal rate and mapping of survey by locality are described in this chapter. The summary on survey sample households by geographical distribution, income of sample households, breakdown of sample households, households with migrant household members, survey sample by household members, groupings of sample HHs and sample HHMs by location and income and social-demographic characteristics of sample HHMs is analyzed.

13. A household survey on remittances and poverty was conducted in Azerbaijan, Armenia, Kyrgyz Republic and Tajikistan in early 2007 to collect data needed to assess effects of remittances on poverty in these countries. The survey questionnaire consisted of 207 questions grouped into 19 sections. Sections I and IV consisted of questions about HHM and external migrants, including their socio-demographic characteristics and remittances they sent in 2006. Sections V and VI focused on cash remittances at the HH level and included questions on the total amounts of cash remittances received by the HH in 2006 through various channels, advantages and disadvantages of these channels, and use of specific money transfer operators (MTOs) by the HH. Sections VII-IX comprised questions about income of the HH in 2006, including wage income, explicit and implicit crop and livestock income, and financial assistance from the government. Sections X-XV consisted of questions on HH expenditures, saving behavior, housing conditions, ownership of assets, business/entrepreneurial activities, borrowing and lending. Sections XVI-XVII comprised questions about use of health care services by and school attendance of HHMs as well as household expenditures on health care and education. Sections XIII and XIX were intended to collect data for instrumental variables to be used in econometric analysis of effects of remittances on poverty.

14. The questionnaire included both questions on HH income and questions on HH expenditures so that effects of remittances on poverty could be assessed using both income and expenditure measures of poverty. While HH income is relatively easy to measure, respondents are often reluctant to give truthful answers about their income. On the other hand, respondents are generally candid about their expenses, but HH expenditures are relatively difficult to measure in part because they are subject to seasonal fluctuations. To address these seasonal fluctuations, expenditure surveys are usually conducted over the course of a year. However, this was not implemented in the ADB study to due to time constraints.

15. For the purposes of this report and the ADB study in general, a household (HH) is defined as a group of the two categories of individuals: (i) individuals who shared the same budget in 2006, including those who lived and/or worked abroad in 2006, and (ii) individuals who lived abroad in 2006 and did not share the same budget with those members of the household

who lived in Azerbaijan, but did so prior to leaving abroad and would have done so if they stayed in Azerbaijan. The individuals comprising a HH are referred to as HH members (HHM). A migrant HHM is defined as a HHM who lived and/or worked abroad in 2006. An external migrant is defined as an individual who lived and/or worked abroad and sent or brought remittances to a particular HH in 2006 but is not a member of that HH. Remittances are defined as money or goods sent or brought by migrant HHM or external migrants to a particular HH. A distinction is made between cash remittances and in-kind remittances. Cash remittances are defined as money sent or brought by migrant HHMs or external migrants to a particular HH. In-kind remittances are defined as goods sent or brought by migrant HHMs or external migrants to a particular household, or travel expenses paid by these migrants on behalf of a particular HHM.

16. A stratified two-stage random sampling procedure was used in selecting households that were to be surveyed. The procedure involved the following seven steps:

- (i) The households included in the 1999 census data for Azerbaijan, (excluding Nakhchivan) were divided into the three categories: a) households residing in the capital city - Baku; b) households residing in other urban areas; and c) households residing in rural areas;
- (ii) The households in each category were then grouped into primary sampling units (PSU) consisting of more than 30 households residing within one administrative unit or in several neighboring administrative units;
- (iii) The target sample size 3900 HHs were divided among the three strata namely, the capital city, other urban areas, and rural areas proportionately to their share in the total number of households in the census data;
- (iv) The resulting target sample sizes for individual strata were then adjusted, if needed, to ensure that they were all divisible by 30;
- (v) The number of PSUs to be surveyed in each stratum was obtained by dividing the target sample size for the stratum by 30;
- (vi) This number of PSUs were then randomly selected separately for each stratum, with the probability that a particular PSU would be selected set equal to the share of that PSU in the total number of households in the stratum;
- (vii) 30 households were randomly selected from each PSU selected at the previous stage, with all households in a PSU having an equal probability to be selected.

17. The reason for using this procedure was to (i) try to obtain a sample that would be representative not only for the country as a whole, but also for the capital city, other urban areas, and rural areas separately and (ii) ensure that the sample includes sufficiently large number of households residing within the same administrative unit or in neighboring administrative units so that community-level indicators (such as the share of remittance-receiving households and the share of poor households) could be computed and analyzed.

18. The team for the survey, 19 professional supervisors and 70 interviews were selected and trained. Training of interviews/supervisors was conducted in 3 cities of Azerbaijan from 16th to 27th of October 2006.

19. The first training workshop was organized on 16–20 October, 2006 in Baku. This training was attended by 42 participants, including 19 supervisors and 23 interviews. Mrs. Shamsia Ibragimova, expert from Kyrgyzstan, took part in the workshop as trainer. During the training the supervisors and interviewers received instructions and document templates that were prepared in Russian and Azerbaijani languages.

20. Another training workshop was held on 23–26 October 2006 in Alibayramli city and was

attended by 23 interviewers. The last training workshop was held on 24–27 October 2006 in Yevlakh city and 24 interviews participated in the training.

21. At the end of the training the interviewers conducted a pilot survey. Each supervisor and interviewer conducted 1–2 surveys in households selected at random. 42 households were surveyed on the 20th of October 2006 in Baku, 29 households were surveyed on the 26th of October 2006 in Alibayramli and 29 households were surveyed on the 27th of October 2006 in Yevlakh. The data obtained was input in SPSS software. The results of the pilot survey contributed to the creation of a database and making proposals on amending the text of the questionnaire.

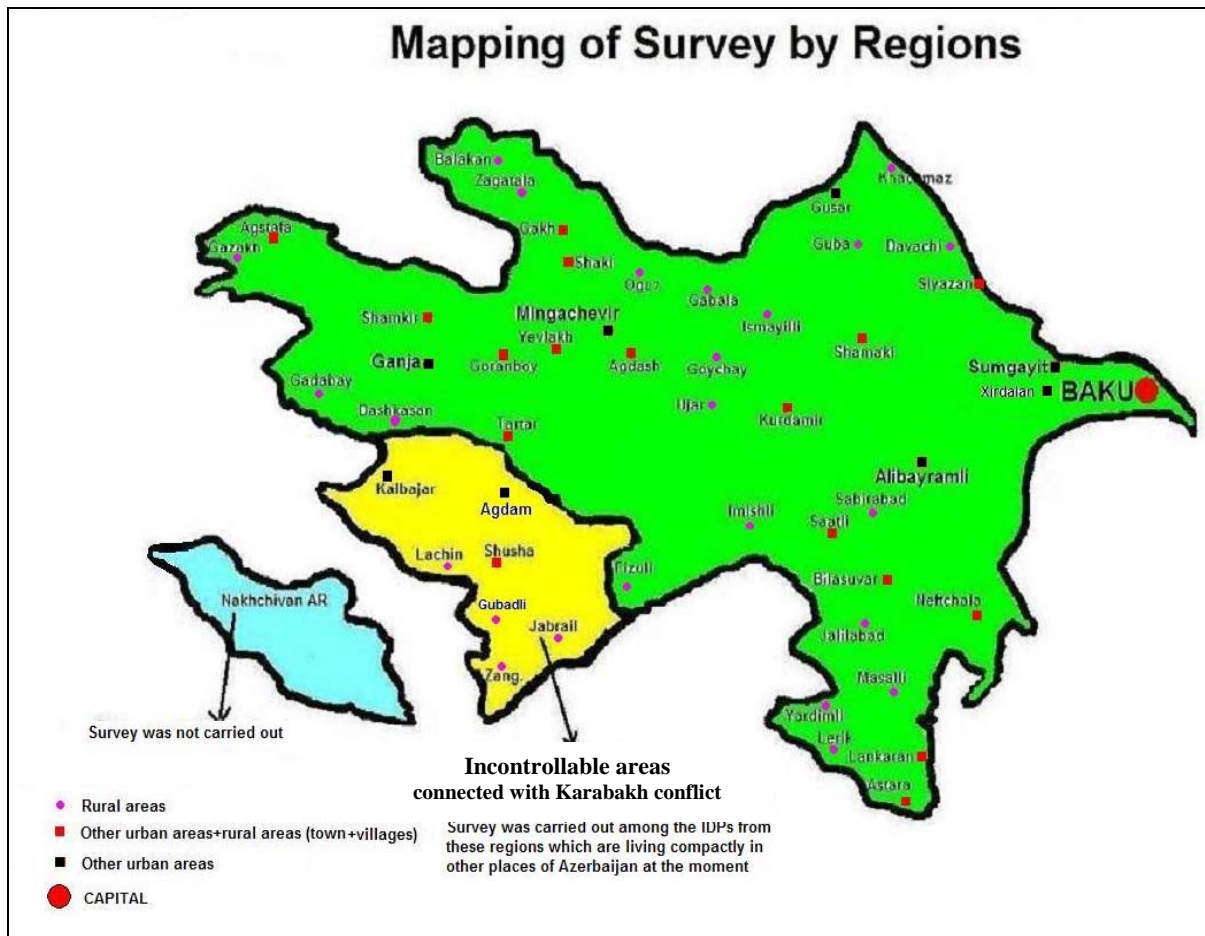
22. More than 2 months passed between training and survey, therefore a one day training for all the employees involved into the survey process was held on the 7 January 2007, before the survey started. Thus, 80 interviews (later, according to ADB's initiative the sample size was increased from 3500 HHs to 3900 HHs and the interviews number increased accordingly) and 19 supervisors were involved in the survey process. Finally the total number of supervisors and interviews reached 99 persons.

23. The full-fledged HH survey (face-to-face interviews) on "Remittances and poverty" was carried out from 17 January to 13 February 2007 in the selected area of the country. The survey representatively covered the whole country, and selection of geographical areas was based on a representative sample. Generally, the Survey Sample was divided to three groups: capital, other urban areas and rural areas. Baku was represented as a capital, other urban areas covered 3 cities (Ganja, Sumgayit and Alibayramli), and 24 towns, rural areas covered 58 villages. Settlements selected for the survey covered all regions of Azerbaijan. The broad information is given in the below map.

24. As it was noted the survey was not carried out in Nakhchivan, as the territory of this region is separated from the main part of the country, and there were certain difficulties and organizational issues connected with the survey in this territory.

25. The survey was held in houses of respondents using "face-to-face" method. All answers received during the survey were entered in the standardized form questionnaire. Total number of interviews held during the survey was 3900 HHs.

26. The interviews were conducted in Azeri language. An average length of each interview was 1 hour 12 minutes (min – 25 minutes, max – 3 hours) and the refusal rate was 13%. At the same time, 45 mixed questionnaires (1.15% of total questionnaires) were found and canceled, and a new survey for 45 HHs was carried out (There were sufficient mistakes founded in 45 questionnaires. These mistakes were revealed and corrected within a new survey).



27. *Interview quality control and checking:* The supervisor controlled the quality and the completion of questionnaires. In addition, the supervisor made control visits (3 controls for each interviewer), visiting interviewed respondents selected at random, questioning them and completing the relevant check report. The documents checked by supervisor were submitted to the Administrative Assistant and Research Assistant, who, in turn, also made control visits. 5% of interviews were checked during second visits, 10% of interviews were checked by way of telephone polls. All these actions envisaged the completion of check reports.

28. *Data cleaning and processing:* Additional control and cleaning process of the data was done by two Specialists in the Center for Local Economic Development. The Specialists performed data input as they received the processed questionnaires. Input and processing of data was done by 10 Operators in the Center for Local Economic Development, using "FoxPro" statistical data processing software and then this data was converted and merged into a single database in SPSS format.

29. *Data input and processing scheme included:* i) Coding of questionnaires; ii) Development of data input program on the basis of "FoxPro" software package; iii) Data input and primary logical control; iv) Cleaning database with SPSS software package; v) Aggregating data in tables, cross-tabulation; v) Data analysis; vi) Drafting of the analytical report; vii) Preparation of presentations on the results of survey for the country seminar.

30. Seasonal patterns did not have any affect to the survey results because it covered the whole year. At the same time, no holiday had any proximity to the interview dates.

31. Table 2.1 shows, the survey covered 3,900 HHs, including 1,050 HHs in Baku, 1,110 HHs in other urban areas, and 1,740 HHs in the rural areas. In other words, approximately 27% out of total sample HHs were from Baku, 28% from other urban areas and 45% were from rural areas. Each quintile covered approximately 780 HHs.

Table 2.1: Summary of Survey Sample: Households

	Sample Size HHs	Share in Total Sample
	N	%
COUNTRY	3,900	100
Capital	1,050	26.92
Other Urban Areas	1,110	28.46
Rural Areas	1,740	44.62
Quintile 1	780	20.0
Quintile 2	780	20.0
Quintile 3	781	20.0
Quintile 4	779	20.0
Quintile 5	780	20.0

32. Randomly 130 sample PSUs (covering 94 communities) were selected over the territory of Azerbaijan, each PSU covered 30 HHs and share of one PSU in total sample HHs was equal to 0.77%. According to the sample design, the locality distribution of the PSUs is similar to the locality distribution of HHs. (see table 2.1 and 2.2).

Table 2.2: Summary of Survey Sample: Communities and PSUs

	Communities in the Sample	Sample Size, PSUs	Share in Total Sample
	N	N	%
COUNTRY	94	130	100
Capital	11	35	26.92
Other Urban Areas	25	37	28.46
Rural Areas	58	58	44.62

33. Income of HHs and per capita income are calculated based on Income Aggregate and the main components are as follow: i) Cash income⁵ (including cash remittances); ii) Value of in-kind remittances; iii) Crop income⁶; iv) Livestock income⁷; v) Other agricultural income⁸; vi) Value

⁵ Included salaries, wages, income from self-employment and businesses received from domestic sources, dividends and interest income, rent and lease income, monetary transfers from the Government and other Azerbaijanian HHs and all types of cash transfers from abroad.

⁶ Crop income is measured as the difference between the total market value of crop output (per types of crops) and the production costs thereof.

⁷ Income from stockbreeding is measured as the difference between the total value of livestock output and expenditures of HHs on stockbreeding activities. Livestock output is measured as the annual change in the market value of animal and bird stock, market value of sold and slaughtered stock, as well as income from secondary stockbreeding products (milk, eggs, honey, wool, etc.), excluding the investments in the livestock during 2006.

of food received from relatives/friends; vii) Value of assets received from another HH in the country in 2006.

34. According to the survey results, the average HH annual income in Azerbaijan in 2006 was equal to 2,782.2 AZN (3,114.2 US\$) or monthly 231.9 AZN (259.5 US\$). After excluded remittances from the total income of remittance-receiving HHs the annual income was equal to 2,568.5 AZN (2,874.9 US\$) or monthly 214.1 AZN (239.6 US\$) in the country. By the locality, the highest index was observed in the Baku and the lowest one in the other urban areas. It shows that incomes in Baku are significantly higher than in other parts of the country.

35. The median of income was equal to 2,328 AZN in the country in 2006 and after exclusion remittances from the total income of remittance-receiving HHs this index was equal to 2,180 AZN. The highest index was registered in the Baku and the lowest one in the other urban areas. After excluded remittances from the total income of remittance-receiving HHs the Standard Deviation decreased over 64 AZN in the country. However, Standard Deviation is over 2 times higher in Baku than in other parts of the country.

36. The minimum income of the sample HHs was -51 AZN and the maximum was 72,400 AZN in 2006. During the survey one HH noted that its income was 72,400 AZN (this HH received apartment as present form other HH in the Baku and the cost of this present was equal to 70,000 AZN). It is exceptional case and if we do not include this figure to the calculation of annual income of HHs the range will be 36,000 AZN and it dose not has any significant impact to the other indicators. Thus, the evidences show that the range was significantly higher in Baku than in other populated areas (see table 2.3). At the same time, during the survey one HH noted negative income in rural area and two HHs (one HH from the Baku and one from other urban areas) noted that they didn't receive any income. As apparently, the number of such HHs in the total sample is not considerable and it couldn't have any significant impact on the results of survey.

Table 2.3: Annual Income of Sample Households
(In AZN)

	Mean	Median	Standard Deviation	Minimum	Maximum	Range
COUNTRY	2,782.24	2,328.00	2,293.03	-51.00	72,400.00	72,451.00
Capital	3,639.08	2,984.40	3,457.82	0.00	72,400.00	72,400.00
Other Urban Areas	2,347.26	2,098.00	1,501.02	0.00	29,262.00	29,262.00
Rural Areas	2,642.68	2,208.00	1,586.88	-51.00	16,892.00	16,943.00
<i>When remittances are excluded from total income of remittance-receiving HHs</i>						
COUNTRY	2,568.47	2,180.50	2,228.10	-59.00	72,400.00	72,459.00
Capital	3,438.66	2,880.00	3,378.83	0.00	72,400.00	72,400.00
Other Urban Areas	2,169.51	1,960.00	1,487.93	0.00	29,262.00	29,262.00
Rural Areas	2,297.86	2,048.50	1,462.91	-59.00	16,892.00	16,951.00

37. Per capita income was calculated based on adult equivalents and actual population estimations. To obtain a total number of HHMs, a real number of adults and an adjusted to the adult equivalent number of children were calculated simultaneously⁹. The justification is that the

⁸ Other agricultural income is measured as the net estimate for incomes from hunting, fishing, collecting of berries, mushrooms, etc.

⁹ Each HHM from 1 to 16 years is considered equivalent 0.67 adult.

consumption and income demands of children are much lower than of adults. The income of HHs is very dependent from the number of present and absent HHMs, as information about consumption and income usage of HHMs abroad is not included into the survey. Therefore, to obtain a real data on the number of HHMs in Azerbaijan in 2006 we used information based on those months when these HHMs were in the country (were not abroad).

38. The average per capita annual income (adult equivalent) in 2006 in Azerbaijan was equal to 793.8 AZN (888.5 US\$). This figure was 1.5 times higher in Baku than in other populated areas. Almost the same tendency was observed for median. Standard Deviation was equal 836.5 AZN in the country and by the locality this index was over 3 times higher in Baku than in other areas. The range between minimum and maximum incomes was 33,106.8 AZN and the highest range was again registered in Baku. This figure shows inequality between Baku and other areas (see table 2.4).

39. Table 2.4 shows that the per capita annual income (adult equivalent) was 336 AZN in the first quintile and 1671 AZN in the fifth quintile that is the per capita income was approximately 5 times higher in the fifth quintile than in the first quintile. The median was 359 AZN in the first quintile and 1,348 AZN in the fifth quintile, so the median in the fifth quintile was about 4 times higher than in the first quintile. A significant difference for mean and median is observed between forth and fifth quintiles. After excluded remittances from the total income of remittance-receiving HHs the same tendency was observed and the average per capita income and the median did not change significantly.

40. There are not significant differences between minimum and maximum per capita income of HHs by quintiles, except the fifth one, so the lowest range is observed in the second quintile (117 AZN) and the highest one in the 5th quintile (32,032 AZN). After excluded remittances from the total income of remittance-receiving HHs the range was increased in the most of quintiles except the 5th one. The same tendency was observed for Standard Deviation. It suggests that per capita income of population in the 5th quintile is much more dependent from remittances.

Table 2.4: Per Capita Income of Sample Households by Income Quintiles
(In AZN)

	N	Mean	Median	Standard Deviation	Minimum	Maximum	Range
COUNTRY	3,900	793.82	622.75	836.52	-51.00	33,055.80	33,106.80
Capital	1,050	1,069.10	816.00	1,409.76	0.00	33,055.80	33,055.80
Other Urban Areas	1,110	672.81	561.80	411.22	0.00	6,742.40	6,742.40
Rural Areas	1,740	704.90	585.00	446.38	-51.00	4,648.65	4,699.65
<i>When remittances are excluded from total income of remittance-receiving HHs</i>							
COUNTRY	3,900	713.76	580.00	606.02	-51.00	18,000.00	18,051.00
Capital	1,050	969.16	776.16	951.27	0.00	18,000.00	18,000.00
Other Urban Areas	1,110	612.19	524.34	382.36	0.00	6,742.40	6,742.40
Rural Areas	1,740	624.44	537.60	361.05	-51.00	3617.13	3668.13
<i>Per capita income quintiles of HHs when the remittances are included in total income of remittance-receiving HHs</i>							
Quintile 1	780	335.73	359.28	81.78	-51.00	427.96	478.96
Quintile 2	780	485.47	480.76	32.58	428.27	545.19	116.93
Quintile 3	781	627.02	622.75	49.38	545.76	719.10	173.34
Quintile 4	779	850.11	840.00	87.62	719.42	1022.75	303.33
Quintile 5	780	1,671.08	1,348.53	1,541.96	1,023.00	33,055.80	32,032.80
<i>When remittances are excluded from total income of remittance-receiving HHs</i>							
Quintile 1	780	328.97	356.06	88.94	-51.00	427.96	478.96
Quintile 2	779	476.17	480.00	60.30	0.00	545.00	545.00
Quintile 3	781	594.42	609.33	117.92	0.00	719.10	719.10
Quintile 4	780	789.49	815.46	189.15	0.00	1,022.75	1,022.75
Quintile 5	780	1,380.00	1,204.57	1,052.48	0.00	18,000.00	18,000.00

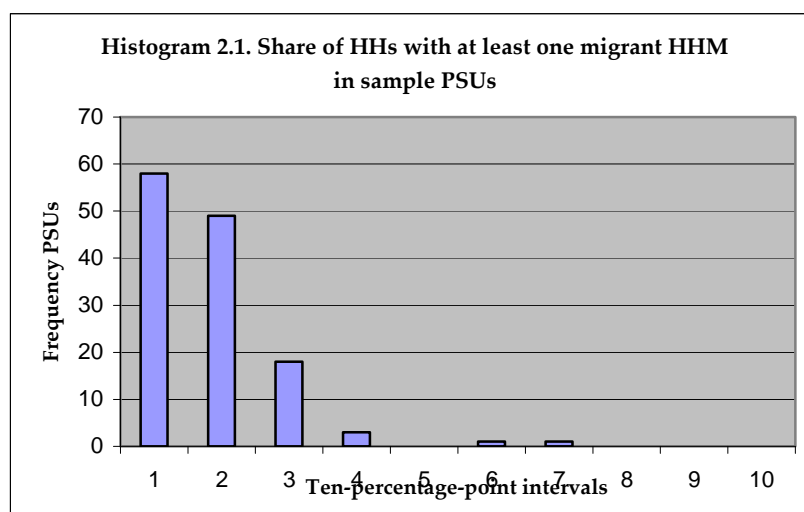
41. Table 2.5 shows the proportions of HHs with and without migrants and, the number of migrant HHMs in country/locality/quintile. According to the survey results, 11.2% out of total HHs had at least one migrant HHM in 2006 and the most of HHs had one migrant HHM (7.8% of all sample HHs or 70% of HHs with migrants), 2.8% of all sample HHs (or 24.7% of HHs with migrants) had two migrant and only 0.6% of all sample HHs (or 5.3% of HHs with migrants) had more than two migrant HHMs. According to the locality distribution there were 13.3% of HHs with at least one migrant HHM registered in the rural areas; 10.2% in other urban areas and 8.7% in the Baku. It shows that there is a significant difference among locality distribution of migration, and the rural HHs are more active in migration. Almost the same tendency is observed for HHs with one migrant HHM and HHs with two migrant HHMs.

42. The second and the third parts of table 2.5 show the link between migration and per capita income. The share of migrant households in poor quintiles is substantially lower than in the rich ones. The share of HHs with at least one migrant HHM is over 6 times higher in the richest 5th quintile than in the poorest 1st quintile: 3.9% and 24.4% respectively. This tendency is observed for all categories HHs with migrant HHMs. It suggests that rich households participate in the migration more often than the poor ones. However, after exclusion remittances from the total income of remittance-receiving HHs the most of remittance-receiving HHs placed in the 1st poorest quintile and the positive correlation between remittances and income observed above was reversed.

Table 2.5: Households with Migrant Household Members
(In % of the total number of sample households in country/locality/quintile)

	HHs with One Migrant HHM	HHs with Two Migrant HHMs	HHs with More Than Two Migrant HHMs	HHs with at Least One Migrant HHM	HHs with Out Migrant HHM
	N=305	N=108	N=23	N=436	N=3,464
COUNTRY	7.82	2.77	0.59	11.18	88.82
Capital	5.52	2.76	0.38	8.67	91.33
Other Urban Areas	7.03	2.16	0.99	10.18	89.82
Rural Areas	9.71	3.16	0.46	13.33	86.67
<i>Per capita income quintiles of HHs when the remittances are included in total income of remittance-receiving HHs</i>					
Quintile 1	1.92	1.67	0.26	3.85	96.15
Quintile 2	3.97	0.77	0.26	5.00	95.00
Quintile 3	7.43	2.94	0.00	10.37	89.63
Quintile 4	8.73	2.70	0.90	12.33	87.67
Quintile 5	17.05	5.77	1.54	24.36	75.64
<i>Per capita income quintiles of HHs when the remittances are excluded from total income of remittance-receiving HHs</i>					
Quintile-R1	16.92	5.13	1.15	23.20	76.80
Quintile-R2	5.64	2.18	0.13	7.95	92.05
Quintile-R3	5.63	1.41	0.38	7.42	92.58
Quintile-R4	5.01	2.82	0.26	8.09	91.91
Quintile-R5	5.90	2.30	1.03	9.23	90.77

43. The histogram below shows the share of HHs with at least one migrant HHM in sample PSUs ranges mainly between 3.3% and 20%. There are some PSUs that don't have any HHs without migrant HHM. There are some villages having mass/group (generally relatives and friends) migration to Russia and several of such villages are included to the random sample of PSUs, so the highest share was 63% in one PSU. Generally, there are some considerable differences in the share of migrant of HHM in the sample PSUs and as it is explained above there is no a "Normal Distribution". For more information, see Appendix 1.



44. Thus, the survey covered 16,706 persons in total, from which approximately 54% were from urban areas and 46% from rural areas (see table 2.6). For the comparison, 52% of total population lived in urban areas and 48% in rural areas in 2006 according to the SSC.

45. Table 2.6 shows that the number of HHMs decreased from poor quintiles to rich quintiles, so the average size of the HHs was approximately 5 persons in the first quintile and 3.7 persons in the fifth quintile. This proves that, in Azerbaijan, poor HHs has more HHMs. Thus, it suggests that the size of family has a significant impact to the per capita income of HHs, so the large a family is and the more children it has the lower per capita income it receives.

Table 2.6: Summary of Survey Sample: Household Members

	Sample Size	Share in Total Sample
	N	%
COUNTRY	16,706	100
Capital	4,454	26.66
Other Urban Areas	4,637	27.76
Rural Areas	7,615	45.58
Quintile 1	3,888	23.27
Quintile 2	3,603	21.57
Quintile 3	3,336	19.97
Quintile 4	3,037	18.18
Quintile 5	2,842	17.01

46. Table 2.7 shows that 50.1% out of total sample of HHMs was male and the rest of them female (According to SSC: 49.3% male; 50.7% female). The largest age group was 16-24 years old and the smallest one was younger than 6 years. The majority of sample HHMs was married (see table 2.7).

47. Most of sample HHMs (98.3%) were educated to some level: secondary education - 56.4% and tertiary education- 22.7%, only a small share did not have any formal education (1.7%).

48. Approximately 9.6% out of total sample HHMs was unemployed and looking for a job (According to the Labour Force Survey of SSC the unemployment level was 6.8% in 2006), 10.4% unemployed but not looking for a job and 16% pensioner. According to the survey data 3.85% out of total sample HHMs lived/worked abroad in 2006 (according to the International Organization for Migration the share of international migrants was equal to 2.2%). The comparison shows that most figures in Table 2.7 are close to the figures of statistical data and other studies.

Table 2.7: Social-Demographic Characteristics of Sample HHMs

	Sample Size	Share in Total Sample
	N	%
Male	8,373	50.1
Female	8,333	49.9
Younger Than 6 Years	1,005	6.0
6 – 15 Years Old	2,749	16.5
16 – 24 Years Old	3,100	18.6
25 – 34 Years Old	2,305	13.8
35 – 44 Years Old	2,654	15.9
45 – 54 Years Old	2,432	14.6
55 – 64 Years Old	1,006	6.0
65 Years or Older	1,455	8.7
No Formal Education*	264	1.7
Primary Education	2,940	18.8
Secondary Education	8,812	56.4
Tertiary Education	3,543	22.7
Post-graduate Education	61	0.4
Not Married**	5,166	39.9
Married	7,786	60.1
Self-Employed*	2,082	13.9
Entrepreneur with Hired Worker(s)	125	0.8
Employed in Public Sector	1,934	12.9
Employed in Private Sector	865	5.8
Unpaid Family Work	861	5.7
Unemployed (Looking for Work)	1,440	9.6
Unemployed (Not Looking for Work)	1,565	10.4
Pupil/Student	3,632	24.2
Retiree with Pension	2,413	16.1
Other	72	0.5
Lived/Worked Abroad in 2006*	601	3.9
Did Not Live/Work Abroad in 2006	15,019	96.1
Total	16,706	100.0

* Education and employment indicators refer to population of 6 years and above.

** Marital status indicators refer to people of 15 years and above.

III. REMITTANCE-RECEIVING HOUSEHOLDS

49. This chapter analyses remittance-receiving HHs by type of remittances and remittance-senders, their share in sample PSUs; describes an average amount of remittances per receiving HHs and their average share in total income of receiving HHs, estimated share of remittance-receiving HHs and average amount of remittances in Azerbaijan in 2006; provides information on estimated aggregate remittance inflows, error margins for aggregating remittance inflows, comparison of cash remittances in 2006 with cash remittances in 2005; presents data on selected characteristics, cross-tabulation and gender profile of sample HHs, as well as use of financial services by sample HHs.

50. According to the result of the study, 12.7% of HHs in Azerbaijan received remittances in 2006 and the most part of remittances was received in cash (12.2% of the total number of sample HHs). There are small differences in distribution of remittances by populated areas, so, in the rural areas more HHs received remittances than in other areas (14%). It is connected with the point that the number of migrants from rural areas to foreign countries (Russian) was higher than from the Baku and other urban areas, and there were limited work places and low income in rural areas. But share of in-kind remittance-receiving HHs was higher in other urban areas than Baku and rural areas (see table 3.1).

51. Comparison of all remittance-receiving HHs on quintiles shows that most of remittance-receiving HHs are concentrated in the 5th quintile but after exclusion remittances from income of remittance-receiving HHs the most of remittance-receiving HHs were concentrated in the first quintile. This tendency is almost same for cash remittances and in-kind remittances (see table 3.1). It suggests that there is positive correlation with level of remittance-receiving and income.

Table 3.1: Remittance-Receiving Household by Type of Remittances¹⁰
(In % of the total number of sample households in country/locality/quintile)

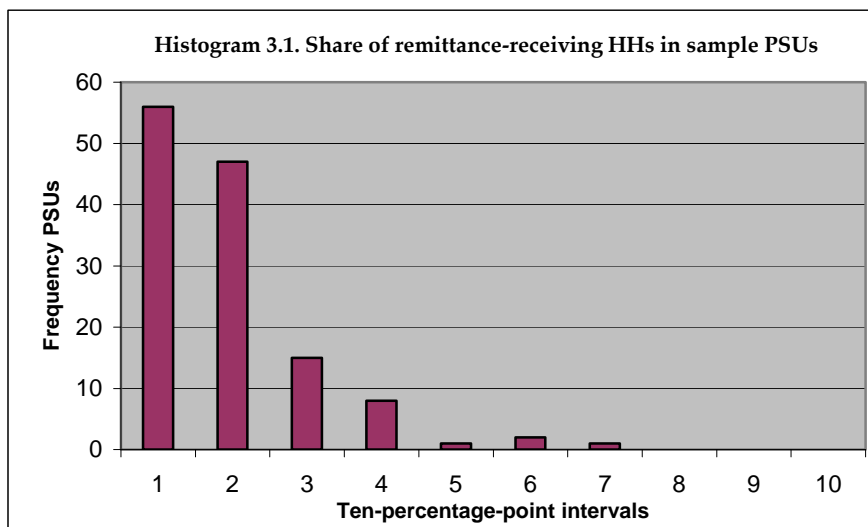
	HHs that Received Cash Remittances	HHs that Received In-Kind Remittances	All Remittance- Receiving HHs
	N=477	N=120	N=495
COUNTRY	12.23	3.08	12.69
Capital	9.90	3.33	10.76
Other Urban Areas	11.80	3.78	12.43
Rural Areas	13.91	2.47	14.02
<i>Per capita income quintiles of HHs when the remittances are included in total income of remittance-receiving HHs</i>			
Quintile 1	3.97	0.51	4.10
Quintile 2	4.62	0.77	4.87
Quintile 3	12.04	2.31	12.80
Quintile 4	14.00	3.34	14.63
Quintile 5	26.56	8.46	27.10
<i>Per capita income quintiles of HHs when the remittances are excluded from total income of remittance-receiving HHs</i>			
Quintile-R1	24.49	5.38	24.62

¹⁰ The sum of the second and third columns in this table will be greater than the fourth column if some HHs in the grouping received both cash and in-kind remittances.

Quintile-R2	9.11	2.95	9.24
Quintile-R3	9.09	3.20	10.12
Quintile-R4	8.97	1.67	9.49
Quintile-R5	9.49	2.18	10.00

52. As histogram below shows, the share of remittance-receiving HHs in sample PSUs ranges mainly between 3.3% and 20%. These figures are almost same as a share of HHs with at least one migrant HHM in the sample PSUs, so there is no a big difference between number of remittance-receiving HHs and HHs with migrant HHM.

53. The histogram suggests that the share of remittance-receiving HHs in the PSUs is not equally distributed. This can be explained by the fact of populated areas (capital/other urban/rural) and migration trends. For more information, see Appendix 1.



54. Table 3.2 shows that 10.1% of HHs received remittances from the migrant HHMs and 2.8% of HHs received remittances from external migrants in 2006 in Azerbaijan. It shows that most of remittance-receiving HHs received remittances from the migrant HHMs. There are small differences among locality distributions of remittance-receiving HHs. So, more HHs received remittances from the migrant HHMs in the rural areas than in other populated areas but from external migrants more remittances were received by HHs in other urban areas.

55. Comparison of quintiles shows that 2.9% out of total HHs in the 1st quintile received remittances from migrant HHMs and this share was gradually increasing by quintiles becoming 23.2% in the 5th quintile in 2006. The same tendency was observed for those HHs which received remittances from external migrant. Thus, the share of all remittance-receiving HHs was about 4% in the 1st quintile and 27% in the fifth quintile. It proves that most of remittance-receiving HHs concentrated in the fifth quintile. After excluded remittances from the total income of remittance-receiving HHs most of HHs was concentrated in the 1st quintile (22.4%) which received remittances from migrant HHM and the lowest one in the 3rd quintile (5.8%).

Table 3.2. Remittance-Receiving Households by Type of Remittance-Sender¹¹
(In % of the total number of sample households in country/locality/quintile)

	HHs that Received Remittances from a Migrant HHM N=394	HHs that Received Remittances from an External Migrant N=110	All Remittance- Receiving HHs N=495
COUNTRY	10.1	2.8	12.7
Capital	8.0	2.9	10.8
Other Urban Areas	9.5	3.2	12.4
Rural Areas	11.7	2.6	14.0
<i>Per capita income quintiles of HHs when the remittances are included in total income of remittance-receiving HHs</i>			
Quintile 1	2.9	1.3	4.1
Quintile 2	4.1	0.9	4.9
Quintile 3	9.1	3.7	12.8
Quintile 4	11.2	3.7	14.6
Quintile 5	23.2	4.5	27.1
<i>Per capita income quintiles of HHs when the remittances are excluded from total income of remittance-receiving HHs</i>			
Quintile-R1	22.4	2.6	24.6
Quintile-R2	7.2	2.1	9.2
Quintile-R3	5.8	4.6	10.1
Quintile-R4	7.3	2.3	9.5
Quintile-R5	7.8	2.6	10.0

56. An average amount of total remittances for per remittance-receiving HHs was 1,885 US\$ in 2006. This figure for HHs that received in-kind remittance was 353.4 US\$ and for cash remittances 1867.6 US\$ (see table 3.3). It shows that the average amount of cash remittances was several times higher than in-kind remittances. It should be noted that share of remittances in total income of receiving HHs was very high and it is about 46%. Based on this figure we could say that the remittance-receiving HHs strongly depend on remittances that protect them from poverty incidence. Locality distribution shows that the highest average amount of remittances was in Baku and the lowest one in other urban areas. The reason of this disproportion is that the living standards in Baku are higher in comparison with other areas of country. The highest share of remittances in total income of remittance-receiving HHs was observed in the other urban areas and the lowest one in the Baku. It shows that the dependency from remittances in the other urban areas is higher and in the Baku it is lower.

57. Remittances are a main source of HHs income for remittance-receiving HHs by all quintiles, particularly in the richest quintiles (38-50% of HHs income). It shows that the income of the 5th quintile much more depends on remittances. If quintiles are examined under no remittances assumption, the share of remittance in income increased in the 1st quintile (from 46.4% to 70.3%) and decreased in the other quintiles (see table 3.3).

¹¹ The sum of the second and third columns in this table will be greater than the fourth column if some HHs in the grouping received remittances from both a migrant HHM and an external migrant.

Table 3.3: Average Amount of Remittances per Receiving Household and their Average Share in Total Income of Receiving Households

	Cash Remittances [Base: HHs that received cash remittances] N=477 US\$	In-Kind Remittances [Base: HHs that received in-kind remittances] N=120 US\$	Total Remittances [Base: remittance- receiving HHs] N=495 US\$	Share of Remittances in Total Income of Receiving HHs [Base: remittance- receiving HHs] N=495 %
COUNTRY	1,867.56	353.40	1,885.32	46.1
Capital	2,124.33	417.69	2,084.51	38.4
Other Urban Areas	1,577.57	337.85	1,600.38	49.6
Rural Areas	1,914.18	316.26	1,954.22	47.7
<i>Per capita income quintiles of HHs when the remittances are included in total income of remittance-receiving HHs</i>				
Quintile 1	762.5	218.8	766.0	46.4
Quintile 2	947.2	156.7	922.1	38.8
Quintile 3	1,052.2	137.7	1,013.9	40.1
Quintile 4	1,509.2	256.5	1,501.5	47.3
Quintile 5	2,752.0	476.5	2,848.9	49.6
<i>Per capita income quintiles of HHs when the remittances are excluded from total income of remittance-receiving HHs</i>				
Quintile-R1	2,508.0	411.8	2,585.0	70.3
Quintile-R2	1,620.4	295.2	1,692.2	41.8
Quintile-R3	1,214.0	252.7	1,171.0	30.0
Quintile-R4	1,365.4	466.8	1,373.6	28.5
Quintile-R5	1,553.8	349.3	1,550.2	24.8

58. The results of econometric analysis show that the level of remittances received is positively related to the number of migrants from the HHs. The results also show that migration and remittances have different effects on non-remittances income sources in country. There are statistically significant effects on some sources of income, both positive and negative. The out-migration effect on wage income is not *significant*; agricultural income is *positive significant*; business income is not *significant*; total non-remittance income is *positive significant*. However remittances effect on wages is *negative significant*; agricultural income is *positive significant*; business income is *negative significant*; total non-remittance income is *negative significant*.

59. The results of econometric analysis also show that level of remittances received by the household increased the probability of the individual adult members being in waged-employment at the individual level. However, the count data regression at the household level show, the numbers of adults in waged employment is negatively related to the level of remittances received. These results are not necessarily inconsistent. As the level of remittances is a function of the number of migrants, it is not altogether surprising that the higher the level of remittances, the lower the number of remaining household members in waged employment. On the other hand, if an individual non-migrant adult is living in the remittance-receiving household, the level

of remittances received by the household does not affect his/her probability of being employed. In other words, these findings are consistent with the interpretation that migration and remittances are a substitute for wage employment in the domestic economy, where those household members who have become migrants (and now send remittances) are the same individuals who would otherwise work in the domestic economy as waged employees. The remittance-receiving households experience a decline in the numbers employed in the home economy not because of the inflow of remittances but because of the outflow of their migrants. The migrants leave as they are able to earn more wages abroad than domestically.

60. According to the survey data estimated share of remittance-receiving HHs was equal to 12.69% and the error margin was equal to 1.045% for the country in 2006. By locality the highest point estimate is observed in the rural areas and the lowest one in the Baku. The error margins in locality are higher than in an average by the country (see table 3.4).

61. Average amount of total remittances per remittance-receiving HH was 1,885 US\$ in the country in 2006 and error margin was equal to 189 US\$. By locality the highest point estimate and error margin were registered in the Baku. The lowest point estimate and error margin were registered in the other urban areas.

62. Lower estimation of the share of remittance-receiving HHs with 95% confidence interval was equal to 11.65% and upper 13.74%. By locality distribution it was 8.89% (lower) and 12.64% (upper) in the Baku; 12.39% (lower) and 15.65% (upper) respectively in the rural areas.

63. Average amount of total remittances per remittance-receiving HH with 95% confidence interval was equal to 1,696 US\$ (lower) and 2,074 US\$ (upper). By locality the highest index was registered in the Baku and the lowest in the other urban areas.

Table 3.4: Estimated Share of Remittance-Receiving Households and Average Amount of Remittances in Azerbaijan in 2006

	Share of Remittance-Receiving HHs		Average Amount of Total Remittances per Remittance-Receiving HH	
	Point Estimate	Error margin	Point Estimate	Error margin
	%	%	US\$	US\$
COUNTRY	12.69%	1.045	1,885.32	188.92
Capital	10.76%	1.874	2,084.51	556.32
Other Urban Areas	12.43%	1.941	1,600.38	220.52
Rural Areas	14.02%	1.632	1,954.22	254.04
	95% Confidence Interval		95% Confidence Interval	
	Lower Bound	Upper Bound	Lower Bound	Upper Bound
COUNTRY	11.65%	13.74%	1,696.40	2,074.24
Capital	8.89%	12.64%	1,528.19	2,640.83
Other Urban Areas	10.49%	14.37%	1,379.86	1,820.89
Rural Areas	12.39%	15.65%	1,700.19	2,208.26

64. Aggregate remittance inflows to Azerbaijan in 2006 were estimated based on official data on total number of HHs and survey result. Estimated aggregate total remittance inflows to Azerbaijan were 428 million. US\$ in 2006. The main part of remittances was in cash (96%) and the share of in-kind remittances was insignificant. The locality distribution shows that the most part of remittances was addressed to the rural areas (51.9%) (See table 3.5). According to IFAD and IADB's study over 60% of remittances to Azerbaijan go to rural areas in 2006.

65. According to BOP data the remittances were equal to 806.89 million. US\$ in 2006. It shows that the survey's estimation is much smaller than BOP's data. It should be noted that, some transfers connected with petty trade, purchasing operations, payments for consulting services of domestic experts by international organizations, using individual accounts for some activities were registered in BOP as remittances, therefore the figure mentioned in BOP is higher than the same figure of the survey. Furthermore a workers remittances and migrants transfers through Bank/MTO was 679.01 million. US\$ according to the BOP data. According to the survey's results Bank/MTO transfer was equal to 32% out of total remittances, while using this data for the official figures the total remittances inflows could be estimated 2108.73 million. US\$ in 2006. According to the National Accounts (SSC) the total remittances was equal to 1.41 billion US\$ in 2005 and estimated about 2 billion in 2006. Moreover, according to the IOM the workers' remittances were estimated as 693 million. US\$. According to the IFAD's study the total remittances were equal to 1.87 billion. US\$ in Azerbaijan in 2006 and the ration to GDP was 9.3%.

Table 3.5. Estimated Aggregate Remittance Inflows to Azerbaijan in 2006 by Area of Destination
(In million. US\$)

	Total Remittances	Cash Remittances
COUNTRY	428.09	408.64
Capital	102.07	95.74
Other Urban Areas	104.06	97.37
Rural Areas	222.25	215.91

66. All error margins were considered in accordance with 95% confidence intervals for aggregating remittance inflows to Azerbaijan in 2006 by lower and upper bounds. So, total remittance inflows to the country in 2006 were equal to 372.6 million. US\$ by lower-bound and 483.6 million. US\$ by upper bound. These figures for cash remittances were 355.6 million. US\$ and 461.7 million. US\$ respectively. By locality the highest index was observed in the rural areas and the lowest one in the Baku and other urban areas. This index was similar for the cash remittances (see table 3.6).

Table 3.6. 95% Confidence Intervals for Aggregate Remittance Inflows to Azerbaijan in 2006 by Area of Destination
(In million. US\$)

	Total Remittances		Cash Remittances	
	Lower-Bound	Upper-Bound	Lower-Bound	Upper-Bound
COUNTRY	372.58	483.60	355.60	461.67
Capital	69.62	134.53	65.28	126.19
Other Urban Areas	82.40	125.72	77.19	117.55
Rural Areas	183.49	261.00	178.10	253.72

67. Table 3.7 shows that the amount of remittances increased in most HHs in 2006 in comparison with 2005. Locality distribution shows that the largest increase in the amount of cash remittances was observed in other urban areas (57.6%) and the largest decrease in the Baku (53.3%), in rural areas the amount of remittances was mainly stable (36.6%).

68. During the survey most sample HHs emphasized that the share of remittances increased (46%) in their HH income in 2006 in comparison with 2005. Distribution of populated areas suggested that the highest growth in the share of remittances in total HH income was observed in the other urban areas (52%), the highest decrease in the Baku (40%) and the highest index of remittances which remained the same was registered in the rural areas (28%). It could be explained by the fact that the share of remittance senders (migrant of HHMs and external migrants) in other urban areas was higher (in comparison with number of HHs) than in other populated areas. From the other point during the recent years job opportunities have been increased more in Baku and rural areas than in other urban areas that creates a demand for remittances in other urban areas.

69. Summarizing the above, we can note that the growth of amounts of remittances had directly impact to the growth of the share of remittances in total HH income in 2006, in comparison with 2005. This situation in turn increased the dependency of income of HHs from remittances.

70. Significant changes in the amount of remittances were observed by all quintiles. So, the total growth balance by all quintiles was positive or stable. At the same time, considerable changes in the share of remittances in total HH income were observed, so the gap between the growth and decrease was high and the total balance by quintiles was positive. It proves that the share of remittances in total HH income is increasing year by year.

71. After excluded remittances from the total income of remittance-receiving HHs the responses of respondents were as follow: the total growth balance by quintiles in 1, 2, and 3 was positive and negative in the 4th and 5th quintiles. Share of remittances in total HH income shows that the total growth balance by all quintiles was positive.

Table 3.7. Cash Remittances in 2006 Compared with Cash Remittances in 2005
(In % of total number of sample households that were able to make comparisons)

	Amount of Remittances [Base: HHs that were able to answer Q73, N = 145]			Share of Remittances in Total HH Income [Base: HHs that were able to answer Q90, N=191]		
	Less	Same	More	Less	Same	More
COUNTRY	28.3	29.7	42.1	30.6	23.5	46.0
Capital	53.3	26.7	20.0	40.4	17.0	42.6
Other Urban Areas	27.3	15.2	57.6	28.3	19.5	52.2
Rural Areas	19.5	36.6	43.9	27.4	28.4	44.2
<i>Per capita income quintiles of HHs when the remittances are included in total income of remittance-receiving HHs</i>						
Quintile 1	36.4	18.2	45.4	36.0	20.0	44.0
Quintile 2	28.6	42.8	28.6	17.9	25.0	57.1
Quintile 3	25.0	33.3	41.7	24.4	19.2	56.4
Quintile 4	22.0	22.0	56.0	26.7	26.6	46.7
Quintile 5	32.3	33.9	33.8	21.8	29.1	49.1
<i>Per capita income quintiles of HHs when the remittances are excluded from total income of remittance-receiving HHs</i>						
Quintile-R1	21.1	32.4	46.5	16.1	29.0	54.9
Quintile-R2	17.7	29.4	52.9	17.0	28.3	54.7
Quintile-R3	32.0	24.0	44.0	38.2	20.6	41.2
Quintile-R4	50.0	7.1	42.9	32.1	26.4	41.5
Quintile-R5	44.4	44.4	11.2	28.1	19.3	52.6

72. An average size of the sample HHs was 4.28 persons (min – 1, max – 15) in the country and by the locality the average size of HHs was bigger in rural areas. At the same time the average size of remittance-receiving HHs was bigger than of non-remittance-receiving HHs (see table 3.8). According to the HHs Budget Survey held by the SSC in 2006, the average size of HHs was 4.47.

73. The survey data shows that only 1.7% out of total HHHs does not have education, 57% out of total HHHs have secondary education and 34.9% have tertiary education. The educational level of non-remittance-receiving HHHs is a little higher than of remittance-receiving HHHs. Persons with higher education account for 35.4% of non-remittance-receiving HHHs, while this figure among remittance-receiving households amounts to 31.7%.

74. Table 3.8 shows that 28.2% out of total HHs with at least one HHM have an International Travel Document (passport) so this figure was 60.8% for remittance-receiving HHs and 23.4% for non-remittance-receiving HHs. The average number of acquaintances living and/or working abroad was 5.1 persons per one respondent by all sample HHs but this figure for remittance-receiving HHs was approximately 2 times higher than for non-remittance-receiving HHs: 8.04 persons; 4.69 persons respectively. The average number of acquaintances living and/or working abroad and being able to assist their relatives in finding work abroad was 1.71 persons for remittance-receiving-HHs and 0.71 persons for non-remittance-receiving HHs. This indicates that remittance receiving HHs have higher propensity to migrate than non-remittance-receiving HHs.

Table 3.8. Selected Characteristics of Sample Households:
 [Base: all HHs in the category]

	Unit	All Sample HHs	Remittance-Receiving HHs	Non-Remittance-Receiving HHs
		N=3,900	N=495	N=3,405
HH Size (Mean)	N	4.28	4.70	4.22
Age of HHH (Mean)	N	52.91	53.64	52.80
Education of HHH				
No Formal Education	%	1.67	1.21	1.73
Primary Education	%	6.15	7.27	5.99
Secondary Education	%	56.97	59.19	56.65
Tertiary Education	%	34.95	31.72	35.42
Post-graduate Education	%	0.26	0.61	0.21
Share of HHs with at Least One Migrant HHM	%	11.18	79.80	1.20
Share of HHs in Which at Least One HHM Has an International Travel Document	%	28.18	60.81	23.44
Number of Acquaintances Living and/or Working Abroad (Mean)	N	5.11	8.04	4.69
Number of Acquaintances Living and/or Working Abroad Who Can Provide Assistance in Finding Work Abroad (Mean)	N	0.85	1.71	0.73

75. Table 3.9 shows, 12.7% HHs out of total sample HHs received remittances and 10.1% HHs out of them received remittances from migrant HHMs and 2.6% HHs received remittances from external migrants. However, 9.4% of HHs with at least one migrant HHM didn't receive remittance; in other words, some migrant HHMs didn't send remittances to their family in home country. It could be explained by the fact that these migrants were female (spouse), single or new migrants (less than 1 year), so new migrants couldn't find job or they didn't earn enough money to support their family.

Table 3.9. Cross-Tabulation of Sample Households

	HHs with at Least One Migrant HHM	HHs without a Migrant HHM	Total
<i>Number of HHs</i>			
Remittance-Receiving HHs	395	100	495
Non-Remittance-Receiving HHs	41	3,364	3,405
Total	436	3,464	3,900
<i>% in the Total</i>			
Remittance-Receiving HHs	10.13	2.56	12.69
Non-Remittance-Receiving HHs	1.05	86.26	87.31
Total	11.18	88.82	100

76. Table 3.10 shows, 79% of HHH were male and 21% female. There is no significant difference between remittance-receiving and non-remittance-receiving HHs.

77. According to the survey data, approximately 95% of budget of sample HHs was managed by the female member (wife) of HHs when the HHHs lived abroad. Only 5% was managed by a male member, mainly by elder sons or younger brothers. There are no big differences between remittance-receiving and non-remittance-receiving HHs in share of male and female.

78. The last item of Table 3.10 shows that 77.5% of HHs budget in 2006 was managed by male, when HHH was in the home country and 22.5% was managed by female. It confirms that when HHHs return to home country most of them manage HHs budget and only in a few cases wives of HHs continue to manage of HHs. It could be explained by the fact that HHHs return to the home country for a short time, therefore female member (wife) of HHMs continue to manage HHs' budget. Summarizing of table 3.10 shows that the most of HHH was male but the budget of HH was managed by female member of HH when HHH lived abroad.

Table 3.10. Gender Profile of Sample Households, in %

	All Sample HHs	Remittance- Receiving HHs	Non- Remittance- Receiving HHs
	N=3,900	N=495	N=3,405
Sex of HHH [Base: all HHs in the category)			
Male	79.00	78.38	79.09
Female	21.00	21.62	20.91
Sex of HHM Who Managed HH Budget in 2006 When HHH Lived Abroad [Base: all HHs in the category to which Q15 in the survey questionnaire was applicable]			
Male	5.08	5.20	0.0
Female	94.92	94.80	100.0
Sex of HHM Who Managed HH budget in 2006 When HHH Was in the Home Country [Base: all HHs in the category to which Q16 in the survey questionnaire was applicable]			
Male	77.45	71.05	78.29
Female	22.55	28.95	21.71

79. Table 3.11 shows the difference in the use of financial services between remittance-receiving and non-remittance-receiving households. 36.6% out of total sample HHs had at least one HHM owning bank account and this figure for remittance-receiving households was 33.5%, for non-remittance-receiving households it was 37%.

80. 36.6% out of all sample HHs had at least one HHM using credit/debit cards and ATM, and this figure for remittance-receiving HHs was 33.5%, for non-remittance-receiving HHs 37%.

81. The government of Azerbaijan started to use cards system 3 years ago. All pensioners and employees of public institutions already receive their pensions/wages by debit/credit cards in the Baku, other urban areas and center of rural areas (towns). That's why the share of card and ATM users is higher but they don't use these cards to receive remittances. Generally, HHs receives remittances by bank accounts.

82. Table 3.11 also presents the data regarding money borrowed by HHs in 2006. As it is seen from the table there is small differences in financial behavior between remittance-receiving and non-remittance-receiving HHs, so approximately 27% out of total remittance-receiving HHs borrowed money from financial institutions and other sources, this index was 34% for non-remittance-receiving HHs. It shows that non-remittance-receiving HHs borrow money from financial institutions and other sources more frequently than remittance-receiving HHs. This could be explained by the fact that non-remittance-receiving HHs has financial problems more frequently so, they try to solve this problem by borrowing money from different sources.

83. The majority of all sample HHs borrowed money from relatives/friends (27.1%). This figure for remittance-receiving was 21.6% and for non-remittance-receiving 27.9%. During this period only 1.9% of all HHs borrowed money from banks. This data for remittance-receiving was 1% and for non-remittance-receiving 2%. In general, the table proves that the financial institutions

are still not much developed in Azerbaijan and the access to such institutions in the regions is limited.

Table 3.11. Use of Financial Services by Sample Households
(In % of the total number of households in the category)

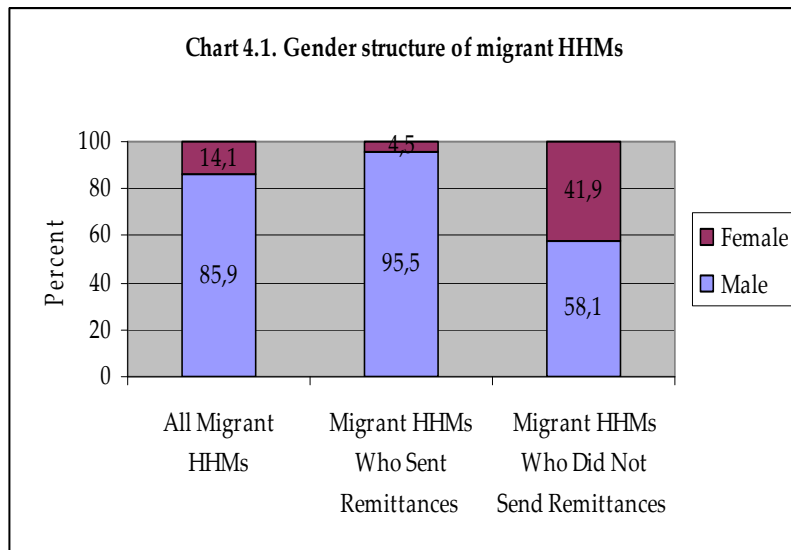
	All Sample HHs	Remittance- Receiving HHs	Non- Remittance- Receiving HHs
	N=3,900	N=495	N=3,405
At Least One HHM Has Bank Account	36.56	33.54	37.00
At Least One HHM Uses Credit or Debit Card	36.56	33.54	37.00
At Least One HHM Uses ATM	36.56	33.54	37.00
Borrowed Money in 2006	33.10	26.67	34.04
From Relatives/Friends	27.08	21.62	27.87
From Banks	1.90	1.01	2.03
From Credit Unions	0.72	1.01	0.68
From Microfinance Institutions	0.41	0.40	0.41
From Employers	0.38	0.61	0.35
From Individual Money Lenders	1.18	1.21	1.17
Through Purchase on Credit	1.87	1.41	1.94
From Other Sources	1.74	1.01	1.85

84. The results of econometric analysis show that ownership of some form of banking account (or card) and the likelihood of using an ATM are not statistically significant related to remittances. At the same time, there is not statistically significant relationship between remittances and level of borrowing.

IV. REMITTANCE SENDERS

85. *It is very important to achieve the objective of this study by analyzing remittance senders from different angles. In this section, the remittance senders are analyzed on the basis of survey data from the points of socio-demographic characteristics, occupations, type and sectors of employment of migrant HHMs, socio-demographic characteristics of remittance senders, relationship of remittance-senders with head of remittance-receiving HHs, breakdown of remittance senders by foreign countries, length of stay abroad, length of sending remittances and frequency of sending remittances in 2006. More over an average amount of remittances per sender share of selected foreign countries in remittances received by sample HHs and estimated aggregate remittance inflows into Azerbaijan in 2006 by country of origin are reviewed.*

86. Table 4.1 shows that the majority of migrant HHMs and remittance-sending migrants of HHMs were from the rural areas (over 50.0%). Most of migrants were male and share of male was higher than female in the remittance-sending migrants. The survey data has shown that some female migrants were staying abroad with their husbands including children. In this case, they using money for their own consumption did not send remittances to the home country.



87. Socio-demographic characteristics of various aged migrant groups shows that the highest share for sending remittances is observed in the 25 – 34; 35 – 44; 45 – 54 years old groups. This can be explained by the fact that the most of migrants in these age groups were HHHs or sons/daughters so most of them sent remittances to their families.

88. Table 4.1 shows, all of the migrant HHMs have education, the majorities have secondary and tertiary education and most of them sent remittances. Regarding married status of migrants the survey showed that most of migrants were married and 62% out of them sent remittances in 2006. It suggests that most of migrants sent remittances to their family or close relatives and the married migrants sent more remittances than not married.

Table 4.1. Socio-Demographic Characteristics of Migrant Household Members¹²
(In % of the total number of migrant household members in the category)

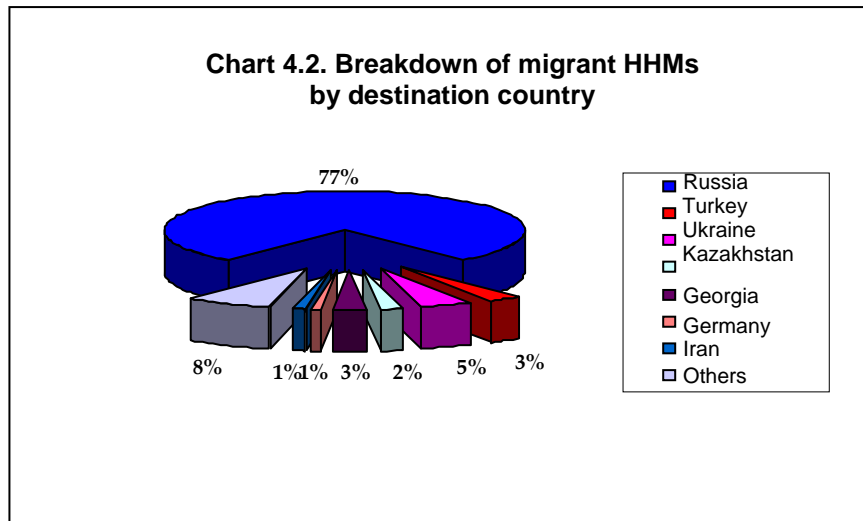
	All Migrant HHMs	Migrant HHMs Who Sent Remittances in 2006	Migrant HHMs Who Did Not Send Remittances in 2006
	N=601	N=446 (74.2%)	N=155 (25.8%)
COUNTRY	100.0	100.0	100.0
Capital	21.3	20,6	23.2
Other Urban Areas	28.0	27,8	28.4
Rural Areas	50.8	51,6	48.4
Male	85.9	95.5	58.1
Female	14.1	4.5	41.9
15 Years Old or Younger	0.0	0.0	0.0
16 – 24 Years Old	18.3	14.4	22.6
25 – 34 Years Old	27.0	24.0	34.0
35 – 44 Years Old	29.5	30.7	34.0
45 – 54 Years Old	20.6	25.1	7.6
55 – 64 Years Old	3.7	4.5	1.9
65 Years or Older	1.00	1.3	0.0
No Formal Education	0.0	0.0	0.0
Primary Education	1.7	1.3	2.6
Secondary Education	71.9	73.5	67.1
Tertiary Education	26.1	24.9	29.7
Post-graduate Education	0.3	0.2	0.7
Not Married	41.9	37.7	54.2
Married	58.1	62.3	45.8

89. The chart below shows that the main destination country for the migrant HHMs was Russia (77.0%)¹³ and Ukraine (5.0%)¹⁴, next Turkey (3%), Georgia (3%), Kazakhstan (2%), Germany (1%) and Iran (1%). It suggests that Russia has considerable share in the labor migration.

¹² The locality in this table refers to the location the HH to which the migrant HHM belongs.

¹³ According to CRRC study this index was 91.9% in 2006.

¹⁴ According to CRRC study this index was 4.7% in 2006.



90. Table 4.2 shows that migrant HHMs' occupations were mainly self-employment (46.3%), pensioner (26.9%), private sector employees (9%), unemployed (not looking for a work) (9%), pupil/student (6%), unemployed (looking for a work) (3%) in home country. As we see most of migrants are self-employed and it should be noted that under this category land owners (including farmers and others) and petty traders are envisaged. An income of employees in this category is low and not enough for their HH's well-being, therefore they prefer to go abroad. Pensioners also prefer to go abroad, mainly they are young people who retired before the time (as a result of sickness, work injuries and disabled from wars) and are classified on the 2nd and the 3rd disabled pension groups. These young people who partially lost their working capacities were engaged with petty trade abroad.

91. Migrants are generally engaged abroad in self-employment including petty trade (59.8%) and private sector (20.1%). As it is seen from the table there is no big difference between two groups of unemployed who are not looking for a work in home country and abroad. It could be assumed that being wives of migrants they weren't looking for a job.

92. Generally self-employed and private sectors' employee migrants (about 89%) send remittance to their family in home country.

93. Summarizing the above mentioned it could be assumed that mainly the people with low income, unemployed and pensioners go abroad and intensively supports their families and relatives in home country.

Table 4.2. Occupation of Migrant Household Members¹⁵ (In %)

	Abroad [Base: all migrant HHMs]	In Home Country [Base: migrant HHMs who worked in the home country in 2006]	Remittance- Sending HHM [Base: migrant HHMs who sent remittances in 2006]
	N=582	N=67	N=438
Self-Employed	59.8	46.3	67.8
Entrepreneur with Hired Worker(s)	5.2	0.0	6.6
Employed in Public Sector	3.1	0.0	3.2
Employed in Private Sector	20.1	9.0	21.0
Unpaid Family Work	0.2	0.0	0.2
Unemployed (Looking for Work)	1.0	3.0	0.5
Unemployed (Not Looking for Work)	7.0	9.0	0.2
Pupil/Student	3.1	6.0	0.0
Retiree with Pension	0.2	26.9	0.2
Other	0.3	0.0	0.2

94. Table 4.3 shows that types and sectors of migrants' employment in the home country and abroad are different. Only 24.0% of total migrants were engaged in seasonal works abroad and approximately 81.0% of migrant HHMs who worked in the home country were engaged in seasonal work in home country in 2006. It could be explained by the fact that most of migrants prefer to find a permanent job abroad for provision of their demand and support their family in home country.

95. Analysis of migrant HHMs shows that majority of migrants worked in agriculture (54.1%) and wholesale and retail trade (16.2%) in home country. These migrants while living abroad work mainly in wholesale and retail trade (65.9%) and in construction (15.8%). It confirms that the sector of migrants' employments abroad differs from the ones in their home country. Survey shows that the most part of remittances was sent by HHMs working in wholesale and retail trade, and construction sectors.

¹⁵ It should be noted in the text that the bases of the categories "abroad" and "in home country" in this and the next table can be different because migrant HHMs who worked abroad may be unemployed in the home country.

Table 4.3. Type and Sector of Employment of Migrant Household Members¹⁶ (In %)

	Abroad [Base: all migrant HHMs]	In Home Country [Base: migrant HHMs who worked in the home country in 2006]	Remittance-Sending HHM [Base: migrant HHMs who sent remittances in 2006]
	N=601	N=37	N=446
Commuting Migrant	0.0	0.0	0.0
Seasonal Worker	24.3	80.8	29.4
Other	75.7	19.2	70.6
	N=508	N=37	N=430
Agriculture	2.6	54.1	3.0
Industry	5.9	5.4	5.1
Construction	15.8	10.8	15.6
Wholesale and Retail Trade	65.9	16.2	67.0
Others	9.8	13.5	9.3

96. Relationship between level of education and sector of employment abroad of HHMs migrant shows that increasing level of education led to the decrease of the share of wholesale and retail trade and to the growth of the share of other sectors (industry etc.) (See table 4.4).

Table 4.4. Relationship between level of education and sector of employment abroad of HHMs migrant (in %)

	N	Agriculture	Industry	Construction	Wholesale and Retail Trade	Others
Primary Education	7	0.0	0.0	0.0	100.0	0.0
Secondary Education	373	2.4	4.3	17.2	68.9	7.2
Tertiary Education	127	3.2	11.0	12.6	55.9	17.3
Post-graduate Education	1	0	0	0	0	100.0

97. Relationship between age, marital status and sector of employment abroad of HHMs migrant don't show any significant differences existing among these categories, so the share of wholesale and retail trade is ranging between 60-70% by all categories. However, in comparison with not-married HHMs migrants married HHMs migrants prefer more to work in agriculture and young age groups prefer more to work in construction/industry than older (See table 4.5).

¹⁶ The sector categories in this table are a reduced form of the categories in the survey questionnaire: "Agriculture" is Q12 = 1, "Industry" is Q12 = 2, 3 or 4, "Construction" is Q12 = 5, "Wholesale and Retail Trade" is Q12 = 6 and "Others" is Q12 = 7, 8, 9, 10 or 11.

Table 4.5. Relationship between age, marital status and sector of employment abroad of HHMs migrant (In %)

	N	Agriculture	Industry	Construction	Wholesale and Retail Trade	Others
16 – 24 Years Old	87	1.2	12.6	16.1	63.2	6.9
25 – 34 Years Old	132	0.0	6.1	14.4	69.7	9.8
35 – 44 Years Old	147	4.1	2.7	20.4	61.2	11.6
45 – 54 Years Old	117	4.3	6.0	12.0	69.2	8.5
55 – 64 Years Old	20	5.0	0.0	15.0	70.0	10.0
65 Years or Older	5	0.0	0.0	0.0	60.0	40.0
Not Married	213	0.9	8.5	16.0	63.4	11.2
Married	295	3.7	4.1	15.6	67.8	8.8

98. Majority of HH migrants in all sectors are male. Relationship between sex and sector of employment in abroad of HHMs migrant shows that males prefer much more to work in wholesale/retail trade and construction and females in wholesale/retail trade and industry. However, male migrant HHMs prefer much more to work in agriculture and females in wholesale/trade in home country (See table 4.6).

Table 4.6. Relationship between sex and sector of employment (in abroad and in home country) of HHMs migrant (In %)

	N	Agriculture	Industry	Construction	Wholesale and Retail Trade	Others
In abroad						
Male	480	2.5	5.8	16.5	65.8	9.4
Female	28	3.6	7.1	3.6	67.8	17.9
In home country						
Male	35	57.1	5.7	11.4	14.4	11.4
Female	2	0.0	0.0	0.0	50.0	50.0

99. Table 4.7 presents the share of remittance-sending and non-remittance-sending migrant HHMs in locality, level of education, host country, occupation in host country, sector of employment in host country, length of stay abroad, relationship to HHH.

Table 4.7. Share of Remittances-Sending and Non-Remittance-Sending Migrants in Various Groups of Migrant Household Members¹⁷
(In % of the total number of migrant household members in the group)

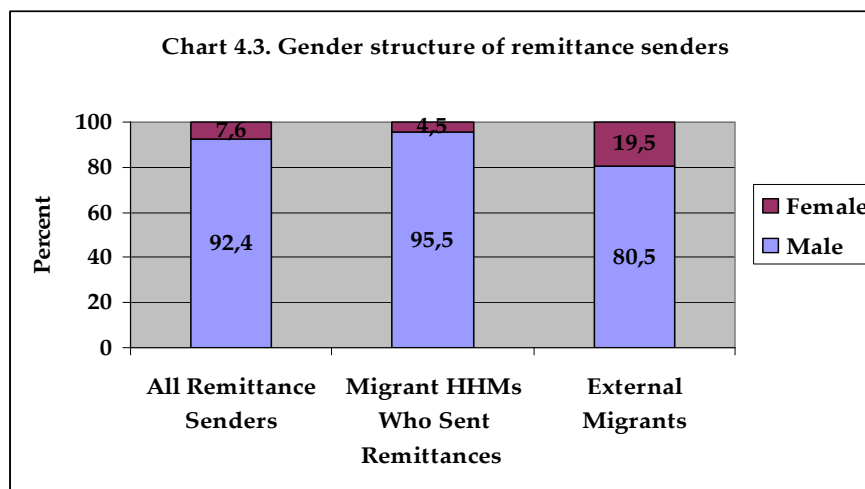
	Migrant HHMs Who Sent Remittances in 2006	Migrant HHMs Who Did Not Send Remittances in 2006
All Migrant HHMs (N=601)	74.2	25.8
Locality in Home Country		
Capital (N= 128)	71.9	28.1
Other Urban Areas (N=168)	73.8	26.2
Rural Areas (N= 305)	75.4	24.6
Level of Education		
No Formal Education (N=0)	0	0
Primary Education (N=10)	60,0	40,0
Secondary Education (N=432)	75,9	24,1
Tertiary Education (N=157)	70,7	29,3
Post-graduate Education (N=2)	50,0	50,0
Host Country		
Russia (N=465)	78.3	21.7
Turkey (N=19)	57.9	42.1
Ukraine (N=28)	60.7	39.3
Kazakhstan (N=13)	69.2	30.8
Georgia (N=17)	47.1	52.9
Germany (N=6)	100.0	0.0
Iran (N=6)	66.7	33.3
Others (N=47)	57.4	42.6
Occupation in Host Country		
Self-employed (N=348)	85.3	14.7
Entrepreneurial activities (N=30)	96.7	3.3
Employed in the public sector (N=18)	77.8	22.2
Employed in the private sector (N=117)	78.6	21.4
Unpaid family work (N=1)	100.0	0.0
Unemployed looking for work (N=6)	33.3	66.7
Unemployed not looking for work (N=41)	2.44	97.6
Student (N=18)	0.0	100.0
Retiree with pension (N=1)	100.0	0.0
Other (N=21)	42.9	57.1
Sector of Employment in Host Country		
Agriculture (N=13)	100.0	0.0
Industry (N=30)	73.3	26.7
Construction (N=80)	83.8	16.3
Wholesale and Retail Trade (N=335)	86.0	14.0
Others (N=50)	80.0	20.0
Length of stay		

¹⁷ The locality in this table refers to the location the HH to which the migrant HHM belongs.

	Migrant HHMs Who Sent Remittances in 2006	Migrant HHMs Who Did Not Send Remittances in 2006
Less Than One Year (N=47)	70.2	29.8
1-4 Years (N=293)	72.0	28.0
5-8 Years (N=147)	75.5	24.5
9-10 Years (N=46)	78.3	21.7
11-15 Tears (N=41)	78.0	22.0
More Than 15 Years (N=27)	85.2	14.8
Relationship to HHH		
Himself/Herself (N=176)	97.2	2.8
Spouse (N=28)	35.7	64.3
Son/Daughter (In-Law) (N=351)	67.8	32.2
Father/Mother (In-Law) (N=3)	66.7	33.3
Brother/Sister (In-Law) (N=23)	65.2	34.8
Grandparent (N=0)	0.0	0.0
Grandchild (N=8)	62.5	37.5
Other relatives (N=12)	41.7	58.3

100. Table 4.8 shows that socio-demographic characteristics of remittance-sending migrant HHMs and external migrants are slightly different. Almost half of remittance senders are from rural areas by migrant HHMs.

101. The gender structure of remittance senders shows that the majority was male (92.4%). There is a small difference in gender structure observed between migrant HHMs and external migrants (see chart 4.2). It is characterized by an absolute majority of males; however this share decreases for the external migrants: it was equal to 95.5% for migrant HHMs and 80.5% for external migrants. As it was mentioned a share of female among external migrants reached 19.5% and this figure for all remittance senders was 7.6%. Traditionally, the majority of workers are male and in many cases women accompany their husband abroad. Age group of all remittance senders shows that the largest group is a group of 35–44 years old people, and there are some small differences between migrant HHMs and external migrant age groups.



102. Analysis of education level of remittance senders shows that most of these have secondary (67.4%) and tertiary education (30.6%). However, there are significant differences between educations levels of two groups, so external migrants are much better educated than

migrant HHMs. It is clear that an economic situation of the most of external migrants sending remittances is good. Education level has directly impact to the income of migrant. Therefore the education level of external migrants is higher than of migrant of HHM.

103. Majority of remittance senders was married. Comparison of married with not married people in two groups show that among external migrants the share of married people is higher than among migrant HHMs. It is connected with age groups, so an average age of external migrants is higher than migrant HHMs.

Table 4.8. Socio-Demographic Characteristics of Remittance Senders¹⁸
(In % of the total number of remittance-senders in the category)

	All Remittance Senders	Migrant HHMs Who Sent Remittances in 2006	External Migrants
	N=564	N=446	N=118
Capital	21.81	20.63	26.27
Other Urban Areas	28.37	27.80	30.51
Rural Areas	49.82	51.57	43.22
Male	92.4	95.5	80.5
Female	7.6	4.5	19.5
15 Years Old or Younger	0.0	0.0	0.0
16–24 Years Old	11.97	14.4	1.03
25–34 Years Old	24.31	24.0	25.77
35–44 Years Old	34.07	30.7	49.48
45–54 Years Old	23.94	25.1	18.56
55–64 Years Old	4.60	4.5	5.15
65 Years or Older	1.10	1.3	0.0
No Formal Education	0.2	0.0	0.9
Primary Education	1.4	1.3	1.7
Secondary Education	67.4	73.5	44.0
Tertiary Education	30.6	24.9	52.6
Post-graduate Education	0.4	0.2	0.9
Not Married	34.2	37.7	20.3
Married	65.8	62.33	79.7

104. Analysis of the relationship of migrant to the head of household shows that a significant part of total remittances was sent by son/daughter of HHHs and HHHs himself/herself (over 80%). So, 53.6% son/daughter (in-law) of HHHs and 38.3% HHHs himself/herself sent remittances as migrant HHMs in 2006. At the same time, most of remittance senders as external migrants were brother/sister (in-law) and son/daughter (in-law) of HHHs (over 82%). (See table 4.9).

¹⁸ Locality in this table refers to the location of the HH to which remittances were sent.

Table 4.9. Relationship of Remittance-Senders to Head of Remittance-Receiving Households

(In % of the total number of remittance-senders in the category)

	All Remittance Senders	Migrant HHMs Who Sent Remittances in 2006	External Migrants
	N=564	N=446	N=118
Himself/Herself	30.3	38.3	0.0
Spouse	1.8	2.2	0.0
Son/Daughter (In-Law)	50.2	53.6	37.3
Father/Mother (In-Law)	0.7	0.4	1.7
Brother/Sister (In-Law)	12.1	3.4	44.9
Grandparent	0.0	0.0	0.0
Grandchild	0.9	1.1	0.0
Other Relative	3.5	0.9	13.6
Friend	0.5	0.0	2.5

105. Table 4.10 shows that the majority of remittances senders are from Russia Federation (83%). This figure for migrant HHMs was 81.6% and for external migrants 88.1%. Large share of external migrants from Russia shows that these migrants are traditional migrants and working there for a long time, therefore they can support their relatives/known people in home country. Insignificant number of migrant HHMs lived/worked in Ukraine (3.7%), Turkey (2.1%), Kazakhstan (1.6%), Georgia (1.6%) and Germany (1.06%). There is no significant difference between migrant HHMs and external migrants except Turkey, so the financial status of external migrants is not so well, therefore they can not support their family in home country.

Table 4.10. Breakdown of Remittance Senders by Foreign Country

(In % of the total number of remittance-senders in the category)

	All Remittance Senders	Migrant HHMs Who Sent Remittances in 2006	External Migrants
	N=564	N=446	N=118
Russia	82.98	81.61	88.14
Turkey	2.13	2.47	0.85
Ukraine	3.72	3.81	3.39
Kazakhstan	1.60	2.02	0.0
Georgia	1.60	1.79	0.85
Germany	1.06	1.35	0.0
Iran	0.71	0.90	0.0
Others	6.21	6.05	6.78

106. Table 4.11 shows, the length of stay abroad of the most of remittance senders is equal to 1-4 (41.8%) and 5-8 years (23.9% of all remittance senders). This tendency seems to be almost same for migrant HHMs: 47.3%, 24.9%. The figures for external migrants' group are a little bit different, so 29.7% are external migrants staying abroad more than 15 years, 21.2% - 1-4 years and 20.3% - 5-8 years. Only a small part (5.85%) of remittance senders stays abroad less than one year. This further indicates that there are a few seasonal workers among all remittance senders.

Table 4.11. Breakdown of Remittance Senders by Length of Stay Abroad
(In % of the total number of remittance-senders in the category)

	All Remittance Senders	Migrant HHMs Who Sent Remittances in 2006	External Migrants
	N=564	N=446	N=118
Less Than One Year	5.85	7.40	0.0
1-4 Years	41.84	47.31	21.19
5-8 Years	23.94	24.89	20.34
9-10 Years	8.87	8.07	11.86
11-15 Tears	9.22	7.17	16.95
More Than 15 Years	10.28	5.16	29.66

107. Table 4.12 shows that the majority of migrants send remittances during 1-4 years, so this share is equal to 42.7% for all remittance senders, 39.2% for migrant HHMs and 64.5% for external migrants. This suggests that during the last 4 years the amount of remittances has been increasing and the remittance-receiving HHs receive remittances in a stable way.

Table 4.12. Breakdown of Remittance Senders by Length of Sending Remittances
(In % of the total number of remittance-senders in the category)

	All Remittance Senders	Migrant HHMs Who Sent Remittances in 2006	External Migrants
	N=564	N=446	N=118
Less Than One Year	23.4	26.1	0.0
1-4 Years	42.7	39.2	64.5
5-8 Years	18.4	19.2	17.2
9-10 Years	6.9	6.8	7.5
11-15 Tears	5.6	5.4	7.5
More Than 15 Years	3.1	3.3	3.2

108. As it is seen from Table 4.13, most of remittance senders (all senders) sent remittances once (42.2%) or 2-3 times (34.9%) during 2006 year. This share is equal to 38.2% and 37.1% accordingly for migrant HHMs and 60% and 25% for external migrants. It means that migrant HHMs send remittances more often than external migrants. On the other hand these figures give us a reason to say that most of remittance senders are not able to provide their HHs with stable remittances. It is assumed that the remittances are usually sent for specially events (wedding, education, purchasing apartment/land etc.) and holidays. At the same time it should be mentioned that because of the difficulties connected with remittances transmitting, most of migrants prefer to send once a big sum of money which is enough to cover expenses of their HHs during several months.

Table 4.13. Breakdown of Remittance Senders by Frequency of Sending Remittances in 2006

(In % of the total number of remittance-senders in the category)

	All Remittance Senders	Migrant HHMs Who Sent Remittances in 2006	External Migrants
	N=564	N=446	N=118
Once	42.25	38.24	60.00
2-3 Times	34.87	37.10	25.00
4-5 Times	12.73	13.57	9.00
6-10 Times	7.20	7.69	5.00
11-12 Times	1.85	2.26	0.0
More Than 12 Times			
Years	1.11	1.13	1.00

109. Relationships between length of stay abroad and length of sending remittances shows that by all categories a number of remittance senders are increasing year by year. It could be explained by the fact that the first year is adaptation period for finding job places; therefore the number of migrants is increasing year by year by all categories (See table 4.14).

Table 4.14. Relationships between length of stay abroad and length of sending remittances

Length of stay abroad	Length of sending remittances					
	Less than a year	1-4 years	5-8 years	9-10 years	11-15 years	More than 15 years
Less Than One Year	42	0	0	0	0	0
1-4 Years	95	167	0	0	0	0
5-8 Years	10	47	70	0	0	0
9-10 Years	1	4	16	18	0	0
11-15 Years	2	4	5	6	19	0
More Than 15 Years	2	3	3	3	0	12

110. Relationships between length of stay abroad and frequency of sending remittances shows that most of migrant HHMs send remittances 2-3 times a year by all categories except the 1st and the 2nd categories. It could be explained by the fact that for establishing business and getting a stable income a period of 1-4 years is needed and the second reason is that there is no opportunity for migrants to send remittances frequently (See table 4.15).

Table 4.15. Relationships between length of stay abroad and frequency of sending remittances

Length of stay abroad	Frequency of sending remittances					
	Once a year	2-3 times a year	4-5 times a year	6-10 times a year	11-12 times a year	More than 12 times a year
Less Than One Year	22	13	3	3	0	1
1-4 Years	126	79	42	18	3	3
5-8 Years	36	58	16	13	7	0
9-10 Years	8	20	7	4	0	2
11-15 Years	11	15	4	5	1	0
More Than 15 Years	12	9	1	2	0	0

111. Relationships between foreign country and frequency of sending remittances shows that the frequency is higher for migrants from Russia (including other CIS) than from other countries. It proves that sending remittances from CIS countries is more convenient than from other countries or connected with availability of “relatives/friends” channel and financial institutions. At the same time, for the adaptation process comparatively less time is needed in CIS countries than in other countries (See table 4.16).

Table 4.16. Relationships between foreign country and frequency of sending remittances

Foreign country	Frequency of sending remittances					
	Once a year	2-3 times a year	4-5 times a year	6-10 times a year	11-12 times a year	More than 12 times a year
Russia	165	166	59	41	10	6
Turkey	8	3	1	0	1	0
Ukraine	9	1	7	2	0	0
Kazakhstan	6	4	2	1	0	0
Georgia	2	7	2	1	0	0
Germany	6	1	0	0	0	0
Iran	2	2	0	0	0	0
Others	17	10	2	0	0	0

112. Table 4.17 shows that an average amount of remittances per sender was equal to 1654.7 US\$ in 2006 and this figure for cash remittances was about 5 times higher than in-kind remittances. It shows that the migrants sent remittances mainly by cash.

113. Analysis of male and female remittance senders shows that males sent more remittances than females. This tendency is almost same for the cash remittances and in-kind remittances. It could be explained mainly by three facts: i) male migrants are working in comparatively higher income sectors than female migrants; ii) female migrants are working assistants with their husband/relatives; iii) most of women are sending remittances as external migrants.

114. Comparison of married and not married remittance senders shows that married migrants sent much more remittances than not married migrants. This tendency is almost same for the cash remittances and in-kind remittances. This could be explained mainly by the followings: i) married migrants are the main income sources of their family in home country; ii) not-married migrants are assistance sources for HHs in home country; iii) they are young, new migrant and lower income; iv) generally ensuring their needs.

115. Average amount of total remittances per sender from foreign countries shows that the highest average amount is observed from Germany (2,970.6 US\$) and the lowest average amount from Iran (795.9 US\$) and the same tendency is observed for cash remittances. It could be explained by the fact that income level is higher in developed countries. The highest average amount for in kind remittances is observed from Kazakhstan (1,223.9 US\$), and no in-kind remittances observed from Germany and Iran.

116. Comparison of average amounts of remittances per sender by length of stay abroad shows that the highest figure is observed in 5-8 years group (2229.3 US\$) and the lowest one in less than one year group (1503 US\$). It could be explained by the increasing stable income opportunities during 5-8 years.

Table 4.17. Average Amount of Remittances per Sender¹⁹ (In US\$)

	Cash Remittances	In-Kind Remittances	Total Remittances
	(N=543)	(N=126)	(N=564)
All Remittance-Senders	1,662.0	336.6	1,654.7
Male	1,647.9	351.4	1,685.1
Female	1,523.5	273.4	1,286.4
Not Married	1,196.7	315.3	1,226.3
Married	1,873.7	345.4	1,875.8
Foreign Country			
Russia	1,649.2	315.0	1,656.2
Turkey	1,086.8	200.00	1,103.5
Ukraine	1,275.1	641.3	1,366.7
Kazakhstan	1,944.4	1,223.9	2,216.4
Georgia	1,133.5	315.9	1,112.9
Germany	2,970.6	0.00	2,970.6
Iran	795.9	0.00	795.9
Others	1,844.8	333.9	1,863.9
Length of Stay Abroad			
Less Than One Year	1,413.4	422.2	1,503.0
1-4 Years	1,636.7	374.8	1,691.1
5-8 Years	2,142.3	462.9	2,229.3
9-10 Years	2,025.9	242.4	2,022.4
11-15 Years	2,105.7	299.2	2,168.8
More Than 15 Years	1,815.9	256.2	1,555.1

117. As it is seen from Table 4.18, main part of remittances (83%) was received by sample HHs from Russia and this figure is almost same for cash and in-kind remittances. Shares of remittances from Ukraine (3.08%), Kazakhstan (2.14%), Germany (1.91%), and Turkey (1.42%) are not so high in total remittances. It should be noted that the in kind remittances are received from most of countries, except Germany and Iran. All these prove that the main part of remittance inflows as well as the biggest number of migrants is observed to come from Russia.

¹⁹ The "Average Amounts" in this table refer to the mean value of remittances sent by various groupings of remittance-senders during entire 2006 and not to the mean value of several remittance transfers made by the same remittance-sender.

118. As mentioned above the survey didn't cover Nakhchivan, but most of migrants from Nakhchivan migrated to Turkey, therefore it could influence to the lower estimation of share of Turkey in total remittances.

Table 4.18. Share of Selected Foreign Countries in Remittances Received by Sample Households

(In % the total amount of remittances in the category)

	Cash Remittances	In-Kind Remittances	Total Remittances
Russia	82.94	85.41	83.05
Turkey	1.46	0.47	1.42
Ukraine	3.01	4.54	3.08
Kazakhstan	1.96	5.77	2.14
Georgia	1.02	2.23	1.07
Germany	2.00	0.00	1.91
Iran	0.36	0.00	0.34
Others	7.25	1.57	6.99

119. According to the survey data estimated aggregate remittance inflows to Azerbaijan in 2006 were equal to 428.09 million. US\$ and over 95% out of total remittances was in cash. By country of origin 83% out of total remittances was estimated from Russia (BOP data also shows that Russia was at the first place in remittance inflows -50.0%), 3.1% from Ukraine, 2.1% from Kazakhstan, 1.9% from Germany and 1.4% from Turkey. These figures are almost same for cash remittances. Thus, the main part of remittances was received from CIS countries especially from Russian Federation in 2006. It proves that the most of migrants are working in Russia and contributing their families in Azerbaijan. (See table 4.19).

Table 4.19. Estimated Aggregate Remittance Inflows into Azerbaijan in 2006 by Country of Origin (in million. US\$)

	Total Remittances	Cash Remittances
TOTAL	428.09	408.64
Russia	355.54	338.93
Turkey	6.07	5.98
Ukraine	13.17	12.28
Kazakhstan	9.15	8.03
Georgia	4.59	4.16
Germany	8.18	8.18
Iran	1.46	1.46
Others	29.93	29.62

V. REMITTANCE TRANSFER CHANNELS

120. *To study remittance transfer channels is very important from the point of financial institution role in the remittance transfer process and improvement of remittance transfer system. This chapter analyzes remittance transfer channels through transfer channels for cash remittances, estimation of aggregate inflows of cash remittances (through various channels) to*

Azerbaijan in 2006, household characteristics and use of remittance transfer channels, advantages of remittance and disadvantages of remittance transfer channels.

121. As Table 5.1 shows, HHs receiving remittances mostly used as channels HH migrant (51.31%), Bank/MTO (32.12%) and friend/relative (29.9%). Looking at figures of the first column we see that the total share of all channels exceeds 100%. This fact proves that one HH used at the same time several (two or more) channels during the year. The highest average amounts of cash remittances were registered in the 4th group “carried by HH migrant” (1656.46 US\$) and the 1st group “transmitted through Bank/MTO” (1629.56 US\$). At the same time, cash remittances were mainly carried by HH migrant (47.23%), transmitted by bank/MTO (29.09%) and carried by friend/relative (21.22%). Thus, almost 35% of total HHs receiving remittances used services of financial institutions and almost 30% of cash remittances were transmitted through financial institutions (mainly by bank/MTO) and the post offices’ role in this process is not significant (0.67%). This fact gives us a reason to state that the role of financial institutions in the remittances transferring process is still very weak. Further, we can infer from the responses that post office, courier and other individual’s services practically are not used to make remittances transfers.

Table 5.1. Transfer Channels for Cash Remittances
[Base: HHs that received cash remittances in 2006]

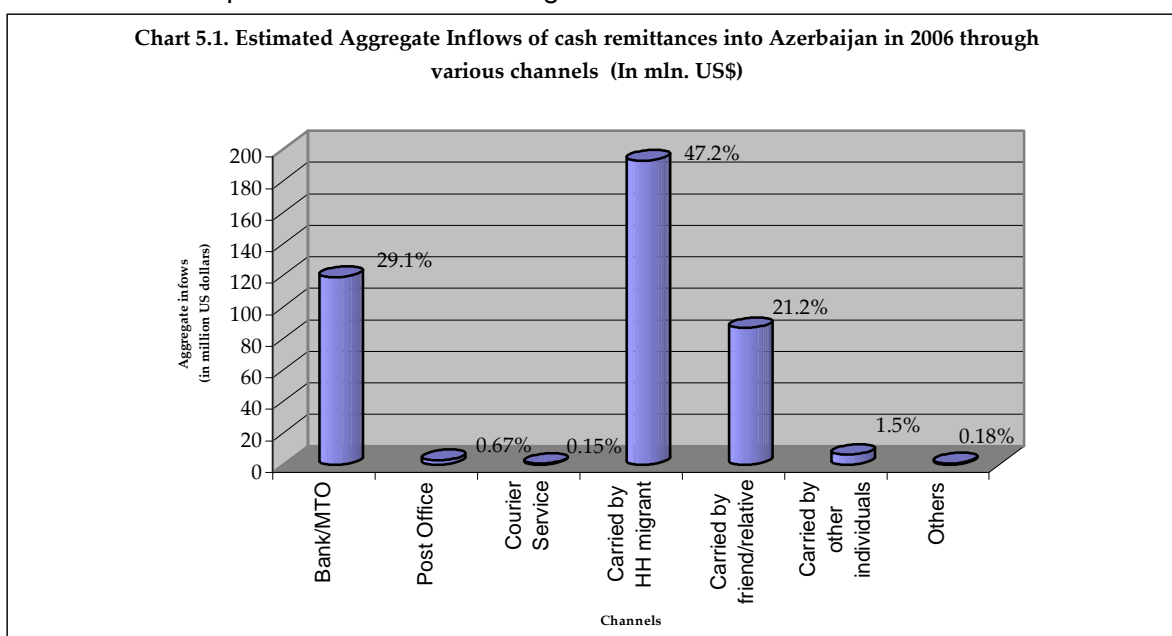
	Share of HHs that Used Channel	Average Amount per Receiving HH	Share in Cash Remittances
	%	US\$	%
Bank/MTO (N=159)	32.12	1,629.56	29.09
Post Office (N=6)	1.21	997.25	0.67
Courier Service (N=2)	0.40	650.00	0.15
Carried by HH migrant (N= 254)	51.31	1,656.46	47.23
Carried by friend/relative (N=148)	29.90	1,277.46	21.22
Carried by other individuals (N=12)	2.63	1,039.05	1.52
Others (N=3)	0.61	520.13	0.18

122. Table 5.2 shows that the main part of cash remittances was carried by HH migrant (192.88 million US\$), transmitted by Bank/MTO (118.91 million. US\$) and carried by friend/relative (86.63 million US\$).

Table 5.2. Estimated Aggregate Inflows of cash remittances into Azerbaijan in 2006 by through various channels (In million US\$)

	Aggregate Inflows of cash remittances	
	US\$	
TOTAL	408.64	
Bank/MTO	118.91	
Post Office	2.74	
Courier Service	0.61	
Carried by HH migrant	192.88	
Carried by friend/relative	86.63	
Carried by other individuals	6.13	
Others	0.74	

123. Estimated Aggregated Inflows of cash remittances into Azerbaijan in 2006 through various channels is presented in the following chart:



124. Table 5.3 shows that “carried by HH migrant” channel (the lowest - 45.9% and the highest - 58.9%) was used as a main remittance transfer channel by all categories including locality and quintile. It proves that financial institutions in the remittance transferring process are still weak by populated areas.

125. There is a slight difference in selecting the preferred remittance transfer channel between the migrants from the Baku, other urban areas and rural areas. The table shows that the highest figure of users of Bank/MTO services was registered for rural areas (38.8%). It could be explained by the following facts: i) HHs in the rural areas have limited opportunities to meet migrants (friend/relative and other individuals) coming by airport and train; ii) multiply payment opportunity is higher in Baku and other urban areas than in rural areas (HH-1 receiving money from HH-2 in home country; migrant HHM-1 paying money to the other migrant member of HH-2 abroad). The most part of population in the Baku use “carried by HH migrant” as a main channel of remittances transferring (58.7%). Other urban areas use the friend/relative’s services (35.11%) more than others for channel of remittances transferring.

126. The most active user of bank/MTO services in remittances transferring process among quintiles was the 4th quintile (41.3%); the most passive was the 2nd quintile (22.2%). The channel of “carried by HH migrant” in delivering of remittances were mostly used in the 5th quintile (58.9%) and the 2nd quintile used it in the most seldom way (55.6%). Friends/relatives were mostly used as transferring channels in the 5th quintile (34.3%) and the 3rd quintile applied to their services in the rarest way (31.9%).

127. The last section of the table shows that presence or absence of bank account of at least of one HHM has small influence to the selection of remittance transfer channel. So, HHs that have a bank account use services of friends and relatives less often than HHs that have no bank account but they use bank/MTO slightly more often.

Table 5.3. Household Characteristics and Use of Remittance Transfer Channels
[Base: all HHs (in the locality/quintile/category) that received cash remittances in 2006]
(In %)

	Bank/MTO	Post Office	Courier Service	Carried by HH Migrant	Carried by Friend/Relative	Carried by Other Individuals	Others
Capital (N=104)	28.9	1.9	0.0	58.7	27.9	2.9	1.0
Other Urban Areas (N=131)	26.7	1.5	0.0	55.0	35.1	3.1	1.5
Rural Areas (N=242)	38.8	0.8	0.8	50.0	30.2	2.5	0.0
Quintile 1 (N=31)	38.7	3.2	0.0	51.6	19.4	6.5	0.0
Quintile 2 (N=36)	22.2	0.0	0.0	55.6	19.4	8.3	2.8
Quintile 3 (N=94)	28.7	1.1	0.0	48.9	31.9	2.1	0.0
Quintile 4 (N=109)	41.3	1.0	0.9	45.9	31.2	1.8	0.0
Quintile 5 (N=207)	32.4	1.5	0.5	58.9	34.3	1.9	1.0
No HHM Has Bank Account (N= 317)	33.2	1.9	0.6	53.7	31.7	3.4	0.0
At least One HHM Has Bank Account (N=167)	33.6	0.0	0.0	52.3	29.7	1.3	1.9

128. During the survey 20.1% of respondents noted that Bank/MTO are readily available in transferring remittances and 10.0% respondents mentioned readily available channel carried by HH migrant. 40.8% of respondents noted that remittances carried by HH migrant, Bank/MTO (35.6%) and carried by friend/relative (21.1%) are secure/reliable. 53.9% of respondents think that remittances carried by HH migrant and friend/relative (35.9%) are cheap. Most of migrants noted that transfer of remittances by Bank/MTO is fast but a big number of respondents (61.9%) think that transfer of remittances by HH migrant and by friend/relative (21.1%) is the most confidential way of transfer. As it is seen, only 13.5% of respondents think that the bank/MTO is confidential. It shows that very few people trust to the Bank/MTO. The majority of respondents (77%) consider that transfers of remittances by HH migrant and friend/relative are convenient for remittance-sender. In summary, we can say that the majority consider transferring remittances through channel which is carried by HH migrant and friend/relative most secure/reliable, cheap, confidential and convenient for remittance-sender. For these advantages remittances are transferred by HH migrant, friend/relative more often than by the bank/MTO (See table 5.4).

Table 5.4. Advantages of Remittance Transfer Channels ²⁰
 [Base: HHs that stated advantages of the channel in response to Q68]
 (In %)

	Bank/M TO	Post Office	Carried by HH migrant	Carried by friend/ relative	Carried by other Individuals
	N=159	N=6	N=250	N=144	N=13
Readily Available	20.1	16.7	10.0	2.1	38.5
Secure/Reliable	63.5	33.3	45.2	40.3	23.1
Cheap	5.7	83.3	44.8	52.1	38.5
Fast	62.3	16.7	3.2	2.8	7.7
Confidential	13.2	0.0	39.6	23.6	15.4
Convenient for Remittance- Sender	30.8	50.0	42.8	62.5	53.8
Other	0.0	0.0	1.6	0.0	0.0

129. As it is seen from Table 5.5, expensiveness (83.2%) and unconfidentiality (51.8%) were mentioned as the main disadvantages of Bank/MTO services in remittance transferring process. The main disadvantages of transferring money by HH migrant were mentioned as unavailability (68.7%) and slowness (69.1%). Transferring remittances by friends/relatives were considered disadvantageous for being not secure/reliable, slow and nonconfidential. Post office, Courier service and other individuals were practically not mentioned during the survey, because of too little respondents applied to these methods of transferring.

130. Summarizing the responds on advantages and disadvantages, we can conclude that the reason of rare usage of services of banks/MTO services is their expensiveness and non confidentiality. This fact proves once more that the rates of services of remittances transferring in the country are still high, so there is an evident need to improve the situation in this sphere in future. We would like to mentioned again, that the survey carried out, proves that after gaining independency and following it economical crisis the population became less confident in bank and other financial institutions' services. Inspire of positive trends toward improving of trust and confidentiality of population to the banks and other financial institutions during the recent years, the situation is still insufficient.

²⁰ For "Courier Service" and "Others" remittance transfer channels we have very small (only 2) answers, therefore these didn't inclusion the table.

Table 5.5. Disadvantages of Remittance Transfer Channels ²¹
 [Base: HHs that stated disadvantages of the channel in response to Q69]
 (In %)

	Bank/ MTO	Post Office	Carried by HH migrant	Carried by friend/ relative	Carried by other Individuals
	N=11 5	N=6	N=233	N=134	N=9
Not Always Available	11.3	16.7	63.1	38.1	44.4
Not Secure/Reliable	0.0	16.7	21.0	25.4	22.2
Expensive	82.6	0.90	4.3	.7	33.3
Slow	5.2	83.3	65.7	35.1	55.6
Confidentiality Not Guaranteed	24.3	50.0	4.7	9.7	44.4
Inconvenient for remittance-sender	4.3	0.0	8.2	3.0	0.0
Other	3.5	0.0	1.7	.7	0.0

VI. EFFECTS OF REMITTANCES ON HOUSEHOLD CONSUMPTION, SAVINGS AND INVESTMENT

131. *This chapter analyzes the effects of remittances on HH consumption, savings and investment by comparing remittance-receiving HHs and non-remittance-receiving HHs in terms of share of consumption, ritual ceremonies, durable goods, health care, education, investment in non-agricultural real estate, investment in agricultural assets, investment in securities, investment in businesses/entrepreneurial activities in total HH expenditure, as well as uses of remittances by survey respondents, saving behavior and savings of HHs, persons/institutions HHs turn to for financial assistance if there is an emergency.*

132. The expenditures of HHs are calculated based on expenditure aggregated, consisted of three components: (i) Consumption, (ii) Investment and (iii) Transfers. The following subcomponents are used for the calculation of the **Consumption**: (i) consumption of in-kind remittances; (ii) Expenditures on ritual ceremonies; (iii) Expenditures on food, clothing, etc.; (iv) Crop consumption; (v) Livestock consumption; (vi) Consumption of other agricultural products; (vii) Food received from relatives/friends; (viii) Explicit or implicit rent expenditure; (ix) Share of consumption in the value of assets purchased or received as a present from another HH in the country in 2006; (x) Share of consumption in expenditures on health care and education. The following subcomponents are used for the calculation of the **Investment**: (i) Investment in businesses or entrepreneurial activities; (ii) Share of investment in the value of assets purchased or received as a present from another HH in the country in 2006; (iii) Share of investment in expenditures on health care and education; and (iv) Gross lending. The following subcomponents are used for the calculation of the **Transfers**: (i) Crop transfers; (ii) Livestock transfers; (iii) Transfers of other agricultural products; and (iv) Cash transfers.

²¹ For "Courier Service" and "Others" remittance transfer channels we have very small (only 2) answers, therefore these didn't inclusion the table.

133. As it is seen from Table 6.1, the most part of cash remittances received by HHs, was spent for the basic expenditures (86.79%), for luxury items (7.97%), emergency expenses (2.73%) and debt repayment (1.26%). This suggests that the most part of cash remittances were used for consumption.

134. The data in Table 6.1 shows that the highest figure of cash remittances spent for basic expenses was registered in the 4th and 5th and the lowest one in the 1st quintiles. The 4th quintile spent for the luxury items more remittances than other quintiles and the lowest one was 1st quintile. Quintiles 1 and 2 spent for emergency expenses more remittances than other quintiles. Quintile 4 spent for emergency expenses the least sum of money. Quintiles 1 spent for debt repayment the biggest amount, while quintile 2 did not spend anything for this purpose. Remittances for business investment were spent only in the 3rd and the 5th quintiles. The most part of in-kind remittances were used for the home consumption, for the gifts for relatives/friends and for the business purposes.

135. Looking at the distribution of in-kind remittances by quintiles we see that the remittances for home consumption was spent by all quintiles almost same except 5th quintile. Share of remittances spent for business purpose was higher in the 4th quintile than others but the 1st and the 2nd quintiles didn't spend any finances. The 3rd quintile spent for gifts the biggest amount and the 1st quintile did not spend anything for this purpose. Donation to religious organizations was done only by the 5th quintile.

Table 6.1. Uses of Remittances as Stated by Survey Respondents

[Base: Remittance-receiving HHs]

(In %)

	All Remittance- Receiving HHs	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
	N= 495	N= 32	N= 38	N= 100	N= 114	N= 211
Cash Remittances (single response)	<i>(n=477)</i>	<i>(n=31)</i>	<i>(n=36)</i>	<i>(n=94)</i>	<i>(n=109)</i>	<i>(n=207)</i>
HH Basic Expenses	86.79	86.67	86.84	84.78	87.39	87.38
Luxury Items	7.97	3.33	7.89	5.43	10.81	8.25
Emergency Expenses	2.73	6.67	5.26	4.35	0.90	1.94
Debt Repayment	1.26	3.33	0.00	3.26	0.90	0.49
Business Investment	0.42	0.00	0.00	1.09	0.00	0.49
Others	0.84	0.00	0.00	1.09	0.00	1.46
In-Kind Remittances (multiple response)	<i>(n=120)</i>	<i>(n=4)</i>	<i>(n=6)</i>	<i>(n=18)</i>	<i>(n=26)</i>	<i>(n=66)</i>
Home Consumption	99.12	100.00	100.00	100.00	100.00	98.41
Business Purposes	3.51	0.00	0.00	11.11	4.17	1.59
Gifts for Relatives/Friends	21.05	0.00	14.29	27.78	25.00	19.05
Donation to Religious Org.	0.88	0.00	0.00	0.00	0.00	1.59
Others	0.00	0.00	0.00	0.00	0.00	0.00

Note: The above table merely summarizes uses of remittances as stated by survey respondents and may not accurately reflect actual uses of remittances due to high fungibility of HH income. While asked what for they used remittances, some respondents may have stated the HH

expenditures for which they “physically” used remittances but which they would have financed even if they had not received remittances. Actual uses of remittances are those expenditures that remittance-receiving HHs would have not been able to finance if they had not received remittances.

136. Table 6.2 shows that the share of consumption in the total household expenditures was 94.1% in 2006. Comparison of consumption expenditures of remittance-receiving HHs with non-remittance-receiving HHs suggests that share of consumption expenditures in total expenditures of remittance-receiving HHs is less than in non-remittance-receiving ones. It could be explained by the fact that the income of remittance-receiving HHs is higher than of non-remittance-receiving ones, therefore the consumption expenditures of remittance-receiving HHs is lower than of non-remittance-receiving ones. There are no significant differences in shares of consumption among populated areas but the share of consumption in remittance-receiving HHs is less than in non-remittance-receiving ones in all populated areas. The share of consumption in the total household expenditures decreases from poor quintiles to rich quintiles, so this share is equal to 95.2% in the 1st quintile and 91.6% in the 5th quintile. Comparison of remittance-receiving HHs quintiles with non-remittance-receiving HHs quintiles shows that in quintiles 1 and 4 the share of consumption in total expenditures of remittance-receiving HHs is less than in non-remittance-receiving HHs, but it is conversely for quintiles 2, 3 and 5.

137. Table 6.2 shows that the share of consumption in total expenditure of sample HHs is very high. This is because of expenditure on agriculture and self-employment, amount of saving were not included to the total expenditure of sample HHs. Furthermore, some HHs hides their businesses and entrepreneurial activities during survey or the rich HHs (with a relatively low share of consumption in total HH expenditures) often refuse to participate in the survey. At the same time according to the SSC the shadow (informal) economy in Azerbaijan is estimated as 20%. Thus, all of these factors have impacted on share of investments in the total expenditures.

Table 6.2. Share of Consumption in Total Expenditure of Sample Households
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	94.1	93.3	94.2
Capital	94.0	92.7	94.1
Other Urban Areas	94.4	94.3	94.5
Rural Areas	94.0	93.0	94.2
Quintile 1	95.2	93.1	95.3
Quintile 2	95.2	95.7	95.1
Quintile 3	94.3	94.4	94.3
Quintile 4	94.4	93.6	94.5
Quintile 5	91.6	92.2	91.4

138. The summary results comparing the marginal propensities between the two income sources (non-remittances and remittances income), for the three measures of consumption (Basic Consumption, Consumption + Health & Education and Consumption, inc. Health, Education & Durables) are show that in all regressions the coefficients on the two income variables are highly significant (all at the 1% level). From these results a number of interesting observations can be made: (i) the marginal propensities from non-remittance income for basics and basics plus health and education is 0.46, when durable goods are included in the measure

of consumption the marginal propensities are considerably higher (approximately by 5 percentage points); (ii) but, the marginal propensities to consume from remittance income is considerably higher than the marginal propensities to consume from non-remittance income (by approximately 10 percentage points for basics and basics plus health and education), and, when consumer durables are added to consumption spending the marginal propensities to consume is extraordinarily high, at 0.92.

139. These results tend to indicate that in country remittances are also perceived and used differently compared with other income sources, but here, the marginal propensities to consume from remittance income is substantially higher, and extraordinarily high for durable goods, suggesting that because of generally higher per capita income levels, and, given the relatively much higher levels of social protection enjoyed by the population, remittances are treated as a windfall gain to be spent largely on the acquisition of, mainly, consumer durables.

140. Table 6.3 shows that 1.9% out of total expenditures of HHs was spent for ritual ceremonies in 2006. Share of expenditures on ritual ceremonies in total expenditures of HHs is higher for remittance-receiving HHs than for non-remittance-receiving ones: 2.2% and 1.9% accordingly. Identical tendency is observed by populated areas. It could be explained by the fact that the financial situation of remittance-receiving HHs is better than of non-remittance-receiving ones and they ask migrant of HHMs for contribution. Therefore they spend much more expenditures for ritual ceremonies than others.

141. Review of HHs' expenditures on rituals by quintiles shows that the highest share is observed in the 5th quintile (2.3%) and the lowest one in the 2nd quintile (1.4%). However, remittance-receiving HHs in the 1st, 4th and 5th quintiles spend for rituals less than non-remittance-receiving HHs. The situation is different in the quintile 2 and 3, so remittance-receiving HHs spends more on rituals than non-remittance-receiving HHs: 2.0 and 3.7% against 1.4% and 1.5% accordingly. It could be explained with different reasons in each individual case.

**Table 6.3. Share of Expenditures on Ritual Ceremonies
in Total Expenditure of Sample Households**
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	1.9	2.2	1.9
Capital	2.1	2.3	2.1
Other Urban Areas	2.0	2.4	1.9
Rural Areas	1.8	2.1	1.7
Quintile 1	2.2	1.2	2.3
Quintile 2	1.4	2.0	1.4
Quintile 3	1.8	3.7	1.5
Quintile 4	1.8	1.5	2.0
Quintile 5	2.3	2.1	2.4

142. Table 6.4 shows that share of expenditures on durable goods in total expenditures of sample HHs in the country is 2.3%. This index is 3.5% for remittance-receiving HHs and 2.1% for non-remittance-receiving ones. It suggests that share of durable goods expenditures in the total expenditures of remittance-receiving HHs are higher than for non-remittance-receiving HHs.

143. Remittance-receiving HHs spent more expenditure on durable goods by all quintiles (except 1st quintile) than non-remittance-receiving HHs. These share increase steadily from the poorest to the richest quintile for both types (remittance-receiving and non-remittance-receiving). It suggests that richer quintiles spend for durable goods more expenditures than poorer ones and the difference between the 1st and the 5th quintiles are over 2.5 times for both types.

**Table 6.4. Share of Expenditures on Durable Goods
in Total Expenditure of Sample Households**
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	2.3	3.5	2.1
Capital	2.5	3.8	2.3
Other Urban Areas	1.8	3.3	1.6
Rural Areas	2.6	3.5	2.4
Quintile 1	1.5	1.2	1.5
Quintile 2	1.6	2.1	1.5
Quintile 3	2.3	2.4	2.2
Quintile 4	2.4	3.3	2.3
Quintile 5	3.9	4.7	3.6

144. In general, across the country, share of expenditures on health care and education in total HHs' expenditures constitutes 5.1%. This share is higher for non-remittance-receiving HHs than for remittance-receiving HHs: 5.1% and 4.5% accordingly (See table 6.5).

145. The highest share of expenditures on health care and education in total expenditure of sample HHs is observed in the Baku and the lowest in rural areas: 6.1% and 4.4% accordingly. This tendency is same for remittance-receiving and non-remittance-receiving HHs. By geographical areas, also share of expenditures on health care and education is a little higher in non-remittance-receiving HHs than in remittance-receiving HHs.

146. As it is seen from Table 6.5, share of expenditures on health care and education is higher in poorer quintiles than in richer quintiles. Non-remittance-receiving HHs by all quintiles except 1st and 2nd spent a little more on these purposes than remittance-receiving HHs.

Table 6.5. Share of Expenditures on Health Care and Education in Total Expenditure of Sample Households
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	5.1	4.5	5.1
Capital	6.1	5.9	6.1
Other Urban Areas	5.0	4.2	5.1
Rural Areas	4.4	3.9	4.5
Quintile 1	6.0	7.5	6.0
Quintile 2	6.1	6.2	6.2
Quintile 3	4.8	4.4	4.8
Quintile 4	4.2	3.9	4.2
Quintile 5	4.1	4.0	4.1

147. The results of econometric analysis show that there is strong positive relationship at the household level between expenditure on education and the level of remittances received, there is also a strong positive relationship at the individual level between adult household members' years of educational attainment and the level of remittances received by the household. It can therefore be concluded that there is strong support for the hypothesis that receiving remittances increases both the immediate household level of expenditure on education and, over the longer term, the educational attainment levels of the non-migrant, adult household members. These findings are consistent with the migration literature on human capital which suggests that both the exposure of households to the opportunity to migrate can induce higher than otherwise investment in human capital, and, the inflow of remittances can relieve the financial constraint on the length of time spent in education.

148. According to Table 6.6, 19.9 % of HHs in the country makes savings. This index in remittance-receiving HHs is higher (31.1%) than in non-remittance-receiving ones (18.3%).

149. The analysis shows that most of HHs prefers savings as cash in local currency (87.6%), cash in foreign currency (20.1%), consumer goods for future consumption (8.0%) and precious metals and stones (6.6%). Remittance-receiving HHs have savings in foreign currency more often than non-remittance-receiving HHs (it could be explained by the fact that remittances are often received in foreign exchanges) but non-remittance-receiving HHs prefer savings as cash in local currency and precious metals and stones. It should be noted that remittance-receiving and non-remittance-receiving HHs don't prefer savings as time/savings deposit in local/foreign currency, investment in real estate, direct investment in business, investment in securities and the difference between them is insignificant. Moreover non-remittance-receiving HHs prefers to invest in business two times more than remittance-receiving ones (1.13 % against 0.65 % respectively).

Table 6.6. Saving Behavior of Sample Households
(In % of the total number of HHs in the category)

	All Sample HHs	Remittance-Receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
Do Not Save	80.10	68.89	81.73
Save	19.90	31.11	18.27
Cash in Local Currency	87.63	85.71	88.10
Cash in Foreign Currency	20.10	29.22	17.85
Time/Savings Deposit in Local Currency	0.64	0.65	0.64
Time/Savings Deposit in Foreign Currency	0.39	0.00	0.48
Investment in Real Estate	0.26	0.00	0.32
Direct Investment in Business	1.03	0.65	1.13
Investment in Securities	1.55	0.65	1.77
Precious Metals and Stones	6.57	5.84	6.75
Consumer Goods for Future Consumption	7.99	4.55	8.84
Other	1.80	0.65	2.09

150. The results of econometric analysis show that in country the probability of a household having undertaken some form of saving is positively related to the level of remittances received. In other words, remittance inflows have strong positive effect on HH propensity to save. In relation to borrowing, there is not statistically significant relationship.

151. Responses of HHs about their use of savings show that HHs mostly used savings in emergencies, home improvements, special events and purchase of durable goods. Comparison of remittance-receiving HHs with non-remittance-receiving HHs shows that remittance-receiving HHs mostly used savings on emergency spending, home improvements, special events, purchase of real estate and education. However, non-remittance-receiving HHs stated that much more spending savings were used on the purpose as purchase/repair of car, direct investment in business, retirement and tourism. Thus, there is correlation between remittances and spending on special event and emergency situations, so remittances are often sent to finance such expenditures (See table 6.7).

Table 6.7. Uses of Savings as Stated by Respondents
(In % of the total number of HHs in the category)

	All Sample HHs with Savings	Remittance- Receiving HHs with Savings	Non-Remittance- Receiving HHs with Savings
	<i>N=776</i>	<i>N=154</i>	<i>N=622</i>
Emergency Spending	53.87	61.69	51.93
Home Improvements	43.94	49.35	42.60
Purchase of Real Estate	7.22	8.44	6.91
Purchase/Repair of Car	7.73	5.84	8.20
Purchase of Durable Goods	16.88	16.88	16.88
Direct Investment in			
Business	3.22	1.95	3.54
Special Events	29.90	32.47	29.26
Education	6.57	7.79	6.27
Retirement	2.45	1.30	2.73
Tourism	2.06	1.30	2.25
Others	1.93	1.95	1.93

152. In general, people to whom HHs turn for financial assistance at times of crisis are mostly their relatives/friends inside the country, but the others' role including government agencies is very weak for the emergency financial assistance to HHs in this regard there aren't targeted government Agencies. Comparison of remittance-receiving HHs with non-remittance-receiving HHs shows that remittance-receiving HHs turn to for emergency financial assistance to HHM working abroad and relative/friend abroad more often than non-remittance-receiving ones. However, non-remittance-receiving HHs much more turns to for emergency financial assistance to relative/friend inside in the country, government, community member/neighbor and employer (See table 6.8).

Table 6.8. Person/Institution Households Turn to for Emergency Financial Assistance
(In % of the number of HHs in the category)

	All Sample HHs	Remittance-Receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
HHM Working Abroad	3.36	25.86	0.09
Relative/Friend Abroad	3.67	16.97	1.73
Relative/Friend in This Country	76.92	64.85	78.68
Government	4.95	3.23	5.20
Community Member/Neighbor	6.74	5.66	6.90
Religious Organization	0.28	0.61	0.23
Employer	1.54	0.61	1.67
Others	1.18	1.21	1.17

153. Table 6.9 shows that the share of investments in non-agricultural real estate (purchased land, apartment, house etc.) in total expenditure of sample HHs was 0.25% in the country in 2006, so it was 0.40% for remittance-receiving HHs and 0.22% for non-remittance-receiving HHs. It suggests that remittance-receiving HHs spend more expenditures on non-agricultural real estate, however, generally this share is very low.

154. By locality the highest share was observed in the Baku (0.48%) and the lowest one in the rural areas (0.02%). Comparison of remittance-receiving HHs with non-remittance-receiving HHs shows that share of investments in non-agricultural real estate is high for remittance-receiving HHs in the Baku (1.4%).

155. In summary, Table 6.9 shows that share of investment in non-agricultural real estate in total expenditure of sample HHs is insignificant, because Targeted State Social Assistance Program has been implementing in Azerbaijan since 2006, so most of HHs hid their investment in non-agricultural real estate and tries to receive state social assistance.

Table 6.9. Share of Investment in Non-Agricultural Real Estate in Total Expenditure of Sample Households
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	0.25	0.40	0.22
Capital	0.48	1.40	0.37
Other Urban Areas	0.37	0.00	0.43
Rural Areas	0.02	0.17	0.00
Quintile 1	0.27	0.00	0.28
Quintile 2	0.18	0.00	0.19
Quintile 3	0.12	0.93	0.00
Quintile 4	0.32	0.37	0.31
Quintile 5	0.36	0.31	0.38

156. Table 6.10 shows that the share of investment in agricultural assets including livestock, land, agricultural machinery and equipment in the total HH expenditure is equal to 1.24% in the country and by the locality the highest share is registered in the rural areas (2.22%) and the lowest share in the Baku (0.24%). Comparison of remittance-receiving HHs with non-remittance-receiving ones shows that remittance-receiving HHs has a large share on investment in the agricultural sector than non-remittance-receiving ones: 1.45% and 1.20 respectively.

**Table 6.10. Share of Investment in Agricultural Assets
in Total Expenditure of Sample Households**
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	1.24	1.45	1.20
Capital	0.24	0.67	0.18
Other Urban Areas	0.63	0.33	0.67
Rural Areas	2.22	2.45	2.19
Quintile 1	0.65	1.09	0.62
Quintile 2	1.23	1.25	1.22
Quintile 3	1.43	1.67	1.40
Quintile 4	1.59	1.72	1.56
Quintile 5	1.28	1.30	1.28

157. Table 6.11 shows that the share of investment in securities in the total HH expenditure is insignificant. The positive share of investment in securities in total expenditure of sample HHs is registered only in the other urban areas for remittance-receiving HHs and non-remittance-receiving ones. The positive share of investment in securities in total expenditure of sample HHs is registered in the 1st, 3rd and the 5th quintiles in the country but for the remittance-receiving HHs it is observed in the 2nd quintile and for the non-remittance receiving ones in the 1st, 3rd and the 5th quintiles. This shows that securities market is not developed in Azerbaijan. Development of securities market would mitigate the negative effects of remittances on inflation and could help bring investments of migrant HHM to country.

**Table 6.11. Share of Investment in Securities in
Total Expenditure of Sample Households**
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	0.005	0.004	0.005
Capital	0.000	0.000	0.000
Other Urban Areas	0.011	0.014	0.010
Rural Areas	0.004	0.000	0.005
Quintile 1	0.012	0.000	0.013
Quintile 2	0.002	0.050	0.000
Quintile 3	0.005	0.000	0.010
Quintile 4	0.000	0.000	0.000
Quintile 5	0.004	0.000	0.005

158. Table 6.12 shows that the share of investment in businesses and entrepreneurial activities in total expenditure of sample HHs (0.69%) is insignificant in the country, and by locality the highest share is registered in the other urban areas (0.9%) and the lowest share in the rural areas (0.57%). The survey findings show that remittance-receiving HHs invests in business and entrepreneurial activities less than non-remittance-receiving HHs in the country: 0.33%; 0.74% accordingly.

159. By quintiles the highest share of investment in businesses and entrepreneurial activities in total expenditure of sample HHs is registered in the 5th quintile (1.86%) and the lowest one in the 1st quintile (0.12%), so this tendency is also observed by remittance-receiving HHs and non-remittance-receiving ones and the share for non-remittance-receiving HHs is higher than for remittance-receiving ones.

160. In summary, Table 6.12 suggests that remittance-receiving HHs don't prefer to invest in business and to open businesses of their own, so there are mostly males, HHH and their sons going abroad, therefore they have no opportunity of starting their business in the home country. On the other hand some HHs hide their businesses and entrepreneurial activities during survey or the rich HHs often refuse to participate in the survey, therefore this share is very low in the country.

**Table 6.12. Share of Investment in Businesses and Entrepreneurial Activities
in Total Expenditure of Sample Households**
(In %, average for the households in the category)

	All Sample HHs	Remittance- receiving HHs	Non- Remittance- Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	0.69	0.33	0.74
Capital	0.65	0.26	0.70
Other Urban Areas	0.90	0.11	1.02
Rural Areas	0.57	0.49	0.58
Quintile 1	0.12	0.00	0.13
Quintile 2	0.21	0.00	0.22
Quintile 3	0.72	0.00	0.82
Quintile 4	0.53	0.13	0.60
Quintile 5	1.86	0.70	2.29

161. The results of econometric analysis show that there is a statistically significant positive relationship between remittances and level of total investment, and, the Chi-squared statistic indicates a strong overall goodness of fit of the model. Other statistically significant control variables include: (i) other cities outside the capital and rural areas, for both of which the level of investment is lower; (ii) if the household head has tertiary education, which will also reflect higher, non-remittances income; (iii) the size and composition of the household as given by the variables for number of seniors (positive), number of other adult members and numbers of children (both positive).

VII. EFFECTS OF REMITTANCES ON POVERTY AND INCOME INEQUALITY

162. *Data on poverty and extreme poverty lines, poverty incidence, poverty gap and income inequality are analyzed in this chapter. Information on poverty and income inequality among sample HHs when remittances are included in or excluded from total income of remittance-receiving HHs, poverty and income inequality among members of remittance-receiving HHs, self-rated poverty among sample HHs, as well as remittances, ownership of assets and access to services, remittances and access to utilities are presented and analyzed in the chapter.*

163. Remittances may be a significant tool for the alleviation of poverty and inequality. More difficult to be assessed is the impact of remittances on inequality, so there is a number of researches that have explored negative and positive influences of remittances and migration to inequality.

164. Given that those who move tend to be from the wealthier families in any community, the remittances logically flow back to those families, exacerbating or at least reinforcing existing inequalities. Poverty can be measured by the proportion of wealth controlled by the various quintiles in any population and if the upper 20 per cent are increasing their “share” as a result of migration, and the lowest fifth decreasing their share, it could be argued that migration was indeed contributing to the intensification of poverty in a society. Yet again, the evidence is contradictory. In Pakistan, although inequalities increased between migrant and non-migrant HHs, the distribution of remittances appears to have spread benefits to a greater range of groups and areas that could effectively “undermine the centre” of traditional power (Addleton, 1992). Migration flows do tend to be generated out of specific “niches” or areas of origin. Hence, certain micro regions may benefit relative to those areas that send relatively few migrants, increasing regional as well as social inequalities (Seddon and others, 2002). Nevertheless, data from Thailand shows that though the per capita amount of remittances to poor households may be much less than to wealthier families, they have a much greater relative impact and help to alleviate poverty (Osaki, 2002). Thus, migration may help to reduce absolute poverty among some, while simultaneously acting to increase feelings of relative deprivation among others. Overall, people may be better fed as a result of migration but the feelings of deprivation may generate resentment. Migration has been shown to be a significant component in the development of particular social and revolutionary movements, a theme that remains under-researched (Skeldon, 1987). The results of those movements have led in the past to destruction that has extended poverty on a massive scale.²²

165. Poverty and extreme poverty lines are used in this report and the calculation is based on monthly per capita income approach. The poverty line is calculated by US\$ 4 per day. Extreme poverty line took the half of poverty line (US\$ 2 per day). It should be noted that this amounts is being calculated with PPP and in 2006 1 US\$ was equal to 0.333 AZN or 1 AZN equal to 3 US\$. Using the survey data the poverty and extreme poverty lines are as follow:

$$[\text{Extreme poverty line 1}] = 1 \times 365 \times 0.333 = 121.5 \text{ AZN (PPP)}^{23}$$

$$[\text{Extreme poverty line 2}] = 2 \times 365 \times 0.333 = 243.1 \text{ AZN (PPP)}$$

$$[\text{Poverty line 1}] = 3 \times 365 \times 0.333 = 365.0 \text{ AZN (PPP)}$$

$$[\text{Poverty line 2}] = 4 \times 365 \times 0.333 = 486.2 \text{ AZN (PPP)}$$

²² Ronald Skeldon, “Migration and Poverty”, Asia-Pacific Population Journal Vol. 17, No. 4, December 2002.

²³ PPP - Purchasing Power Parity (based local currency/US\$ conversion factor for 2006).

166. Hence, the poverty line in 2006 was 486.2 AZN per year or 40.52 AZN per month. The extreme poverty line in 2006 was equal to 243.1 AZN a year and or 20.26 AZN per month.

167. SSC calculates poverty lines on the basis of consumption expenditure (the cost of minimum consumption basket + compulsory payments). National poverty line in Azerbaijan in 2006 was equal to 58 AZN per month. Components of the consumption expenditures are presented in Table 7.1. Since 2003 an extreme poverty line has been computing based on the minimum cost of the food basket. Extreme poverty line in 2006 was 32.5 AZN.

Table 7.1. Value of minimum consumption basket and minimum subsistence (poverty line) in Azerbaijan (Household Budget Survey, SSC, 2006)

	Average monthly per capita consumption expenditure (1 US\$ = 0.8934 AZN in 2006)	
	in AZN	in US\$
Foodstuff	32.5	36.3
Non-foods	12.0	13.4
Services	9.6	10.7
Value of Consumption Basket	54.1	60.5
Compulsory payment	4.1	4.5
Value of minimum subsistence (poverty line)	58.2	65.1

168. Based on survey data, poverty and the extreme poverty headcounts were as follows:

[Extreme poverty headcount 1] – 0.7%

[Extreme poverty headcount 2] - 3.2%

[Poverty headcount 1] - 13.1%

[Poverty headcount 2] - 36.7%

169. According to HBS of SSC the national poverty level in 2006 was 20.9% but by income approach the poverty level was 26.6%, and the extreme poverty level in 2006 was equal to 0.5% but by income approach it was 1.7%.

170. Regarding low level of extreme poverty it should be noted that Targeted State Social Assistance Program has been implementing in Azerbaijan since 2006 and about 50,000 HHs has benefited from this program during 2006. The main objective of this program is elimination of extreme poverty in the country. The amount of social assistance was equal to 30 AZN a month or 1 AZN a day for one person in 2006 or 3 US\$ a day with PPP. Thus, if per capita income of HH is less than 30 AZN this HH can get targeted social assistance. At the same time, this figure increases each year, so it was 35 AZN in January-June, 2007 and 40 AZN in July-December, 2007.

171. At the same time, the policy of increasing social assistances to subsistence minimum (National Poverty Level is calculating based on subsistence minimum) has been continued, so during 2006 the minimum level of pensions, minimum wage and social benefits were increased. These factors had significant impact to the reduction of extreme poverty in the country in 2006. Therefore, the index of extreme poverty became low.

172. Using the survey data, the Index of Poverty Gap Ratio was estimated at 8.3% by the poverty line US\$ 4 per day and 0.9% by the extreme poverty line US\$ 2 per day.

173. The Gini coefficient was estimated at 0.32 for the country as a whole, 0.34 for the Baku, 0.26 for other urban areas, and 0.29 for rural areas. According to HBS of SSC the Gini coefficient in Azerbaijan was 0.166 in 2005, according to the CRRC's study this index was estimated as 0.263 in 2006 and World Bank's study- 0.19 in 2002.

174. Table 7.2 shows that when remittances are included in total income of remittance-receiving HHs the highest poverty incidence (by the poverty line US\$ 4 per day) is observed in other urban and rural areas (42.5%) and the lowest one in the Baku (21.3%). It suggests that the poverty incidence in the Baku was approximately 2 times lower than in rural and other urban areas.

175. While excluding remittances out of total income of remittance-receiving HHs, the poverty incidence in the country, including locality, were increased so by the poverty line US\$ 4 per day the poverty incidence was increased to 4.5 percentage point (p.p.) in the country, 2.4 p.p. in the Baku, 5.0 p.p. in the other urban areas and 5.4 p.p. in the rural areas. The comparison shows that exclusion of remittances out of total income of remittance-receiving HHs has significant impact to the poverty incidence in the country and this impact was much more observed in the rural areas. At the same time HHs in the Baku were less dependent from remittances.

176. The figures show that while excluding remittances out of the total income of remittance-receiving HHs the extreme poverty incidence (by the extreme poverty line US\$ 2 per day) increased from 3.3% to 5.8% in country. This tendency continues in locality and the highest increase is observed in the other urban areas (3.4 p.p.) and the lowest increase is observed in the Baku (1.3 p.p.).

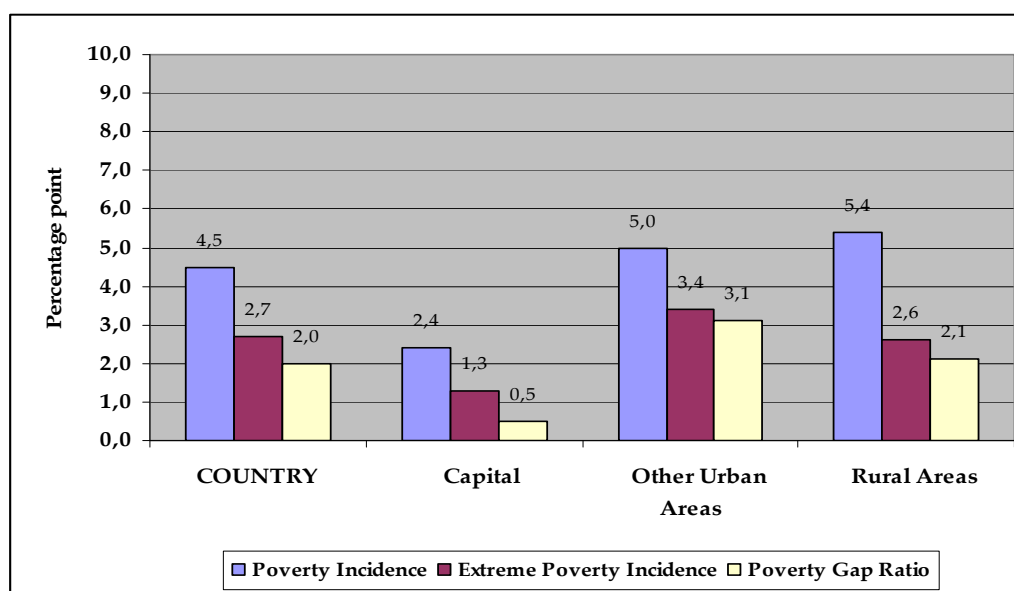
177. While excluding remittances out of total income of remittance-receiving HHs, the Poverty Gap ratio increased significantly. Thus, this index increased over 1.6 p.p. by the extreme poverty line US\$ 2 per day and about 2.5 p.p. by the poverty line US\$ 4 per day; moreover this index by extreme and poverty lines increased much more in the other urban areas.

178. The last column of Table 7.2 presents the aggregate information on the income distribution in terms of Gini coefficient. While excluding remittances out of total income of remittance-receiving HHs, the Index of Gini Coefficient slightly decreased on country (from 0.32 to 0.31). By locality while excluding remittances out of total income of remittance-receiving HHs, the inequality remains same in the Baku (0.34), slightly increased in the other urban areas (from 0.26 to 0.27) and decreased in the rural areas (from 0.29 to 0.28).

Table 7.2. Poverty and Income Inequality among Sample Household Members

	Poverty Incidence		Extreme Poverty Incidence		Poverty Gap Ratio		Gini Coefficient N
	%		%		%		
	US\$ 3 per day	US\$ 4 per day	US\$ 1 per day	US\$ 2 per day	US\$ 2 per day	US\$ 4 per day	
When remittances are included in total income of remittance-receiving HHs							
COUNTRY	13.1	36.8	0.7	3.3	0.9	8.3	0.32
Capital	7.5	21.3	0.6	1.3	0.5	4.6	0.34
Other Urban Areas	13.1	42.5	0.5	3.7	0.9	9.0	0.26
Rural Areas	16.1	42.5	0.7	4.3	1.1	10.0	0.29
When remittances are excluded from total income of remittance-receiving HHs							
COUNTRY	16.7	41.3	2.2	5.8	2.5	10.8	0.31
Capital	9.3	23.7	1.4	2.6	1.4	5.8	0.34
Other Urban Areas	17.5	47.5	2.6	7.1	3.0	12.2	0.27
Rural Areas	20.3	47.9	2.5	6.9	2.8	12.9	0.28

179. Chart 7.1 presents the difference between the actual indices main poverty indicators (poverty incidence, extreme poverty incidence and poverty gap ratio) and assumed case of no remittances among all sample HHMs. As it is seen from the chart remittances have a positive impact on main poverty indicators.

Chart 7.1. Impacts of Remittances on Main Poverty Indicators among Sample Household Members

180. Table 7.3 shows that share of HHs below the poverty line among remittance-receiving HHs is very low. However, if we exclude remittances from the total income of these HHs, the poverty incidence (by the poverty line US\$ 4 per day) will sharply increase, so it will increase

from 11.8% to 51.3% and it is much more than the country average. In the locality, by the highest growth is observed in the rural areas (from 13.0% to 58.3%) and the lowest one in the Baku (from 6.3% to 28.2%).

181. The second section of Table 7.3 shows that remittance-receiving HHs are very much dependent from remittances, and if the remittances are excluded from the total income, the extreme poverty incidence increases from 0.2% to 21.7% by the extreme poverty line US\$ 2 per day. In the locality the highest increase was observed in the other urban areas and the lowest one in the Baku.

182. The third section of Table 7.3 shows that after exclusion remittances from the total income of remittance-receiving HHs the Index of Poverty gap ratio will sharply increase, so it will increase by extreme poverty line US\$ 2 per day from 0.02% to 13.6% and by poverty line US\$ 4 per day from 2.3% to 24.7% in the country. However, by the locality distribution, the highest growth of Poverty gap ratio is observed in the other urban areas.

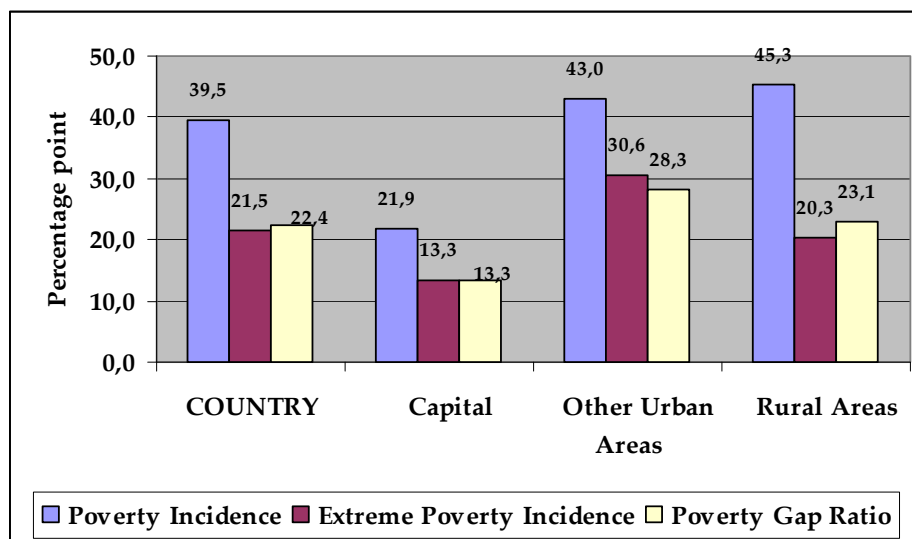
183. The last section of Table 7.3 shows that after exclusion remittances from total income of remittance-receiving HHs the Gini Coefficient will increase from 0.35 to 0.39 among members of remittance-receiving HHs in country. By the locality distribution, the Gini Coefficient increased in the other urban areas from 0.27 to 0.41 and in the rural areas from 0.31 to 0.38, but decreased in the Baku (from 0.43 to 0.37). It is suggests that, generally remittances play a positive role in the reduction of inequality among members of remittance-receiving HHs in country.

Table 7.3. Poverty and Income Inequality among Members of Remittance-Receiving Households

	Poverty Incidence		Extreme Poverty Incidence		Poverty Gap Ratio		Gini Coefficient
	%		%		%		N
	US\$ 3 per day	US\$ 4 per day	US\$1 per day	US\$ 2 per day	US\$ 2 per day	US\$ 4 per day	
When remittances are included in total income of remittance-receiving HHs							
COUNTRY	4.5	11.8	0.0	0.2	0.02	2.3	0.35
Capital	2.5	6.3	0.0	0.0	0.00	1.3	0.43
Other Urban Areas	7.2	14.3	0.0	0.5	0.05	3.5	0.27
Rural Areas	3.7	13.0	0.0	0.0	0.00	2.2	0.31
When remittances are excluded from total income of remittance-receiving HHs							
COUNTRY	35.1	51.3	13.4	21.7	13.6	24.7	0.39
Capital	19.9	28.2	7.6	13.3	8.9	14.6	0.37
Other Urban Areas	44.3	57.3	18.4	31.1	18.5	31.8	0.41
Rural Areas	36.1	58.3	13.2	20.3	13.0	25.3	0.38

184. Chart 7.2 presents the difference between the actual indices main poverty indicators (poverty incidence, extreme poverty incidence and poverty gap ratio) and assumed case of no remittances among members of remittance-receiving households. As it is seen from the chart remittances have a significant positive impact on main poverty indicators among members of remittance-receiving HHs.

Chart 7.2. Impacts of Remittances on Main Poverty Indicators among Members of Remittance-Receiving Households



185. According to respondents' answers the average subjective poverty line was equal to 880.0 AZN in the country in 2006, and the highest figure was registered in the Baku (1200 AZN) and the lowest one in the rural areas (720 AZN). At the same time, the table shows that the lowest subjective poverty line is observed in the 1st quintile (600 AZN) and the highest one in the 5th quintile 1437 AZN, and this index is higher for the remittance-receiving HHs (898 AZN) than for non-remittance-receiving ones (864 AZN) (See table 7.4).

186. Approximately 74% out of total respondents noted that they were living poorly, 5.4% answered that they were getting by and 20.7% noted that they were living well-off. By locality distribution, 79.4% in the other urban areas of respondents noted that they were living poor, 10.5% in the Baku noted that they were living getting by and 27.6% in the other urban areas noted that they were living well-off.

187. The second part of Table 7.4 presents self-rated poverty by quintiles, so relatively to other quintiles, in the 1st quintile more HHs noted that they were living poorly: 86.8% poor; 1.8% getting by and 11.4% well-off. In the 5th quintile more people than in other ones noted that they were well off (37.3%).

188. The third part of Table 7.4 presents figures on self-rated poverty by remittance-receiving and non-remittance-receiving HHs, so 57.8% of the remittance-receiving HHs noted that they were living as poor, 2.8% getting by and 39.4% well-off in the country in 2006. However, 76.3% out of total non-remittance-receiving HHs noted they were living as poor, 5.8% getting by and 17.9% well-off. Thus, non-remittance-receiving HHs considers themselves poorer than remittance-receiving ones.

Table 7.4. Self-Rated Poverty among Sample Households

	Subjective Poverty Line (Median)	Poor	Getting By	Well-Off
	In AZN	%	%	%
COUNTRY	880.0	73.95	5.38	20.67
Capital	1,200.0	76.48	10.48	13.05
Other urban areas	804.9	79.37	3.69	16.94
Rural areas	720.0	68.97	3.39	27.64
Quintile 1	600.0	86.8	1.8	11.4
Quintile 2	718.6	83.7	3.1	13.2
Quintile 3	800.0	80.4	5.1	14.5
Quintile 4	960.0	67.5	5.5	27.0
Quintile 5	1,437.1	51.3	11.4	37.3
Remittance-Receiving HHs	898.2	57.78	2.83	39.39
Non-Remittance-receiving HHs	864.0	76.30	5.76	17.94

189. For estimating poverty and distributional impacts with counterfactual income in this study (during econometric analysis) three counterfactual scenarios are estimated, offering a range of income estimates:

- *Scenario 1* – assume the migrant(s) would otherwise have earned no income;
- *Scenario 2* – assume that the migrant(s) would have earned an income equal to the observed mean household income, excluding remittances;
- *Scenario 3* – assume that the migrant(s) would have earned an income equivalent to observed income of non-migrants with the same characteristics.

190. The poverty and inequality measures derived from the three, ‘*without- migration-and-remittances*’ counterfactual income estimates are compared with the observed, or ‘actual’ ‘*with-migration-and-remittances*’ poverty and inequality measures.

191. As expected, under Scenarios 1 and 2, the poverty rate and depth of poverty are higher in the counterfactual situation, indicating that under these assumptions, remittances reduce poverty and inequality. This result is not surprising given that, by definition, counterfactual per capita income must be higher in the observed situation with remittances added to household income, and, given the assumption underlying the migrants’ imputed counterfactual income. The country with the lowest poverty rate, the effect is weakest, where the estimated poverty rate would increase by only 3 to 6 percentage points, and the depth of poverty by 2 to 3 percentage points. Under Scenario 3 however, the results are not as conclusive. Poverty would actually be lower without migration and remittances. The difference is very small (the poverty rate would be less than 1% lower). Similarly, the depth of poverty would be slightly lower without migration.

192. The effects on income inequality are different in each case. Under Scenarios 1 and 2, inequality it is the same. On the other hand, under Scenario 3, there is less income inequality without migration and remittances.

193. The main conclusions that arise from these results are: (i) the impact of migration and remittances on poverty is generally positive in the sense that under all scenarios analyzed here, at worst, the incidence and depth of poverty rate would be approximately the same (i.e. Scenario

3), at best, it would be slightly higher (Scenarios 1 and 2); (ii) the results indicate that migration and remittances could be contributing to increased inequality, although these results are not conclusive. So, the effect under all three scenarios is negligible.

194. The results estimating poverty impacts with instrumental variable regression analysis at the household level indicate that: (i) remittances have a statistically significant (at the 1% level), negative impact on the probability of a household being in poverty, location in an urban area has a significant negative impact on the probability of being poor; (ii) in country does having a female household head increase the probability of being in poverty (by 4%); (iii) level of education and the number of household members (seniors, and/or adults, and/or kids) is not significant related to the probability of being in poverty.

195. These results provide strong support for the hypothesis that the level of remittances received reduces the poverty gap of the household, controlling for migrant self-selection and other causes of endogeneity.

196. Generally, the effect of remittances is by far the strongest in country, which is also the country that enjoys the lowest poverty rate. Here, each \$1000 of remittances received reduces a poor household's poverty gap by approximately \$107. Of note, is the finding that having a female household head in Azerbaijan reduces the expected poverty gap by US\$12.

197. Estimating the impact of remittances on poverty and inequality indicators using instrumental variable regression analysis at the community level shows that: (i) effects remittances on the Gini Coefficient are statistically negative significant at the 10% level for Azerbaijan. It indicate that the degree of inequality is significantly lower in this country; (ii) the more remittance-intensive the community, the less unequal the distribution of income, it does not necessarily follow that in the absence of migration and remittances; there would be more inequality income in any given community.

198. Table 7.5 suggests that the remittances in general do not have a significant influence on ownership of assets and access to services. Most of HHs has their own house/land (93.9%), and this share is higher for remittance-receiving HHs than for non-remittance-receiving ones: 97.4% and 93.4% respectively. According to the CRRC's study the share of own flat/house was 97.3% in 2006.

199. 19.0% out of total HHs have their own car/heavy agricultural equipment, and this share is slightly higher for the remittance-receiving HHs than for the non-remittance-receiving ones: 20.4%; 18.8% accordingly. It suggests that remittance-receiving households are better equipped with vehicles, agricultural machinery etc. However, own business/entrepreneurial activity is higher among non-remittance-receiving households than among the remittance-receiving ones: 3.2% and 1.8% respectively.

200. Share of remittance-receiving HHs having capital/cosmetic refurbishment of houses in 2006 was higher relatively to non-remittance-receiving ones: 3.6% against 2.7%; 11.3% against 7.8% accordingly.

201. There isn't a big difference among remittance-receiving HHs and non-remittance-receiving ones in having access to services. In particular, 4.4% out of total remittance-receiving HHs were cut from the electricity in 2006 due to non-payment and this figure was slightly less for the non-remittance-receiving HHs. Slightly more HH members from non-remittance-receiving HHs used preventive medical services than in remittance-receiving HHs : 29.1%; 28.5% respectively.

202. 95.2% of all children ≥ 6 and <15 in school. This index was 93.4% for remittance-receiving HHs and 95.5% for the non-remittance-receiving HHs. Children from non-remittance-receiving HHs missed school more often than in remittance-receiving HHs: 3% and 1.4% accordingly.

Table 7.5. Remittances, Ownership of Assets and Access to Services
(In % of the total number of households in the category)

	All Sample HHs	Remittance-Receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
Owns home/land	93.92	97.37	93.42
Owns car/heavy agricultural equipment	19.03	20.40	18.83
Owns business/entrepreneurial activity	3.05	1.82	3.23
House had capital refurbishment in 2006	2.85	3.64	2.73
House had cosmetic refurbishment in 2006	8.21	11.31	7.75
Electricity was cut off in 2006 due to non-payment	4.36	4.44	4.35
At least one HHM used preventive medical services in 2006	28.97	28.48	29.05
All children ≥ 6 and <15 in school	95.20	93.40	95.50
At least one HHM missed school in 2006 (because Q200 = 3, 4 or 6)	2.79	1.41	3.00

203. The results of econometric analysis show that there is a strong positive, statistically significant relationship between remittances and the expenditure on capital refurbishment, expenditure on cosmetic refurbishment and expenditure on house repairs, but out-migration and remittance inflows have strong negative effects on the likelihood of primary and post-primary school students missing school for reasons of economic hardship (including helping in the home, lack of winter clothing or illness). This suggests that the financial benefit of remittances more than offsets the negative impact of the migrants' absence.

204. Table 7.6 suggests that all HHs in the country have access (100%) to drinking water and electricity except natural gas (57.9%). Remittance-receiving HHs have less access to natural gas than non-remittance-receiving HHs. It is connected with the locality distribution, so the majority of remittance-receiving HHs are situated in the rural areas.

205. The survey suggests that there is a problem to access utilities without break. However, remittance-receiving households have a little bit less access to natural gas and electricity than non-receiving ones, but for drinking water the situation is opposite. It can be explained by the fact that the share of migrants in rural areas is higher and the access to gas and electricity in the rural areas is poorer than in the urban areas, therefore migrant households have on average less access to services of gas and electricity than non-migrant ones. However, access to drinking water is better in the rural areas than in the urban areas, therefore remittance-receiving HHs have better access than non-remittance-receiving ones. Summarizing the above table we can note that access to utilities is not at a sufficient level and access to these services in winter becomes more difficult, except access to drinking water.

Table 7.6. Remittances and Access to Utilities
(In % of the total number of households in the category)

	All Sample HHs	Remittance- Receiving HHs	Non- Remittance- Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
<i>in % of the total number of HHs in the category</i>			
HHs who have access to drinking water			
Summer	100.0	100.0	100.0
Winter	100.0	100.0	100.0
HHs who have access to natural gas			
Summer	57.9	55.8	58.2
Winter	57.9	55.8	58.2
HHs who have access to electricity			
Summer	100.0	100.0	100.0
Winter	100.0	100.0	100.0
<i>average for HHs in the category</i>			
Hours of access to drinking water			
Summer	11.66	12.43	11.55
Winter	11.83	12.19	11.78
Hours of access to natural gas			
Summer	11.81	10.47	12.01
Winter	11.28	10.02	11.47
Hours of access to electricity			
Summer	18.02	17.40	18.11
Winter	16.03	15.25	16.14

VIII. EFFECTS OF REMITTANCES ON COMMUNITY DEVELOPMENT

206. *This chapter analyzes the effects of remittances on community development by comparing of remittance-receiving HHs with non-remittance-receiving HHs in terms of business/entrepreneurial activities, employment generation in own city/town/village, share of donations to community/religious organizations in total HH expenditure, share of donations to relatives/friends in total HH expenditure.*

207. Comparison of remittance-receiving HHs with non-remittance-receiving HHs in terms of business/entrepreneurial activities and employment generation in own city/town/village is presented in the table 8.1. The survey data suggests that the share of HHs that is engaged in entrepreneurial activities or owns a business is very low, so only 3.05% out of the total sample HHs have business/entrepreneurial activity in their own city/town/village. This share for non-remittance-receiving HHs was higher than for remittance-receiving HHs: 3.23%; 1.82%. By locality, we can see that the share of non-remittance-receiving HHs is higher than for remittance-receiving ones, except the rural areas. This suggests that remittances are not conducive to business activity growth in local communities except rural areas. The share of owned businesses outside their areas is equal to 11.1% for remittance-receiving HHs and 18.18% for non-remittance-receiving HHs.

208. Number of businesses by remittance-receiving and non-remittance-receiving HHs is almost same: 1.0 and 1.03 respectively. The table shows that non-remittance-receiving HHs invest about 5 times more in business (76.2 US\$) than remittance-receiving ones (16.05 US\$).

Non-remittance-receiving HHs employs about 2 times more non-HHM employees than remittance-receiving HHs.

Table 8.1. Remittances and Local Investment

	Unit	All Sample HHs	Remittance-Receiving HHs	Non-Remittance-Receiving HHs
		N=3,900	N=495	N=3,405
Owens Business/Entrepreneurial Activity	%	3.05	1.82	3.23
In Own City/Town/Village	%	82.35	88.89	81.82
Capital	%	20.17	11.11	20.91
Other Urban Areas	%	32.77	11.11	34.55
Rural Areas	%	29.41	66.67	26.36
Outside Own City/Town/Village	%	17.65	11.11	18.18
Number of Businesses (Mean)	N	1.03	1.00	1.03
Average investment in 2006 (Mean)	US\$	68.56	16.05	76.19
Employs Non-HH Members	%	2.15	1.01	2.32
Number of Non-HHM Employees (Mean)	N	1.99	1.20	2.04

209. The results of econometric analysis show that receiving remittances appears to lessen the likelihood of business ownership and is statistically significant. The reason for this is not obvious, but, on the other hand, nor is it clear why it should be expected that migrant households receiving remittances are more likely to become investors in entrepreneurial activities than others. As migrants are mainly workers who travel to neighboring countries (mainly Russia) for waged employment there is no obvious reason why their remitted wages are more likely to be used for entrepreneurial activities, than wages earned in the domestic economy. On the other hand, if those engaged in entrepreneurial activities are less likely to become migrant workers, it would follow that migrant (and remittance-receiving) households are less likely to own a business. However, as some remittance-receiving households were engaged in business activities, it is conceivable that in such situations, remittances increase the level of investment in the business. Moreover, as remittances supplement household income it would also be useful to explore the possibility that remittances stimulate investment expenditure in other, non-business areas.

210. Comparison of remittance-receiving HHs and non-remittance-receiving HHs in term of the share of donations to community and religious organizations in total HH expenditure is presented in Table 8.2. Share of donations to communities and religious organizations is slightly higher for remittance-receiving HHs than for non-remittance-receiving ones: 0.04% and 0.03%. By the locality more expenditure are spent by the remittance-receiving HHs in the Baku. Reviewing the data by quintiles one can see that there is slight difference (except 2nd quintile by the remittance-receiving HHs) in the share of donations, since, in real terms, these shares are insignificant.

Table 8.2. Share of Donations to Community and Religious Organizations in Total Expenditure of Sample Households
(In %, average for the households in the category)

	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	0.03	0.04	0.03
Capital	0.03	0.07	0.02
Other Urban Areas	0.04	0.05	0.04
Rural Areas	0.03	0.02	0.03
Quintile 1	0.02	0.02	0.02
Quintile 2	0.03	0.11	0.02
Quintile 3	0.02	0.02	0.02
Quintile 4	0.04	0.05	0.04
Quintile 5	0.05	0.05	0.05

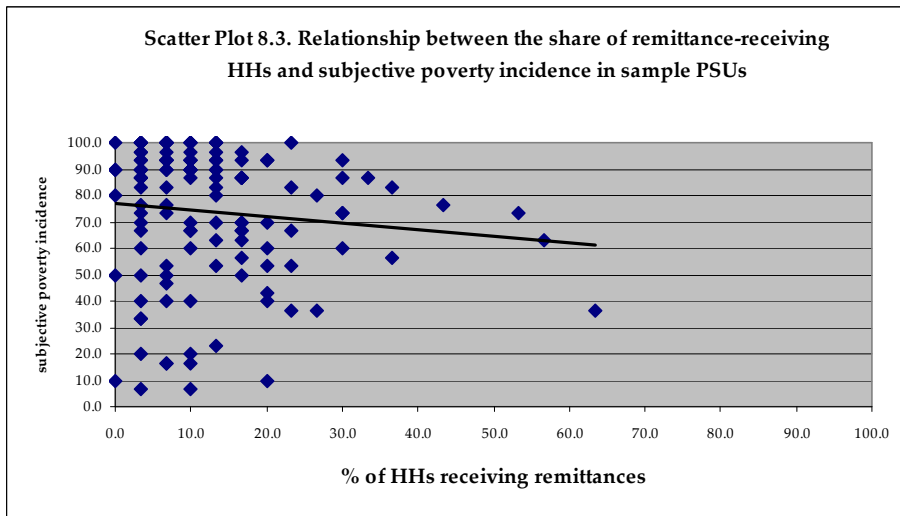
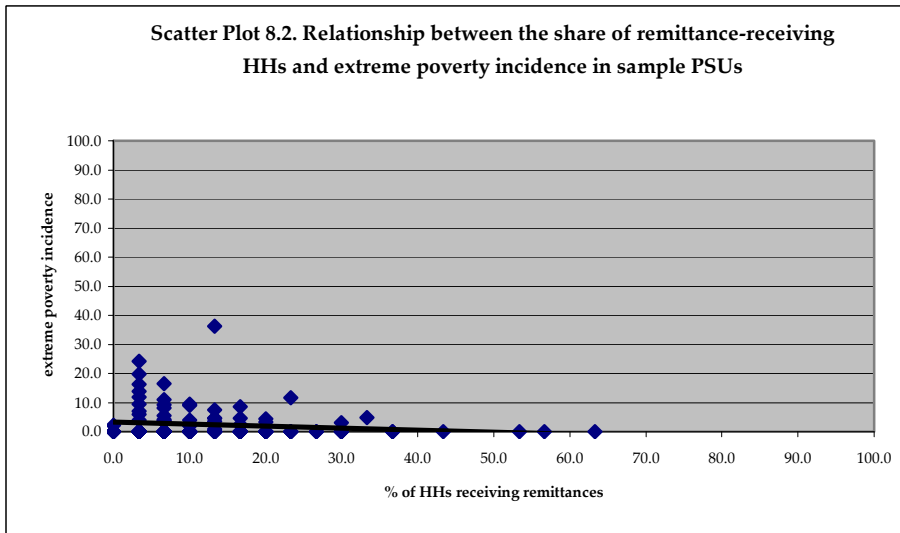
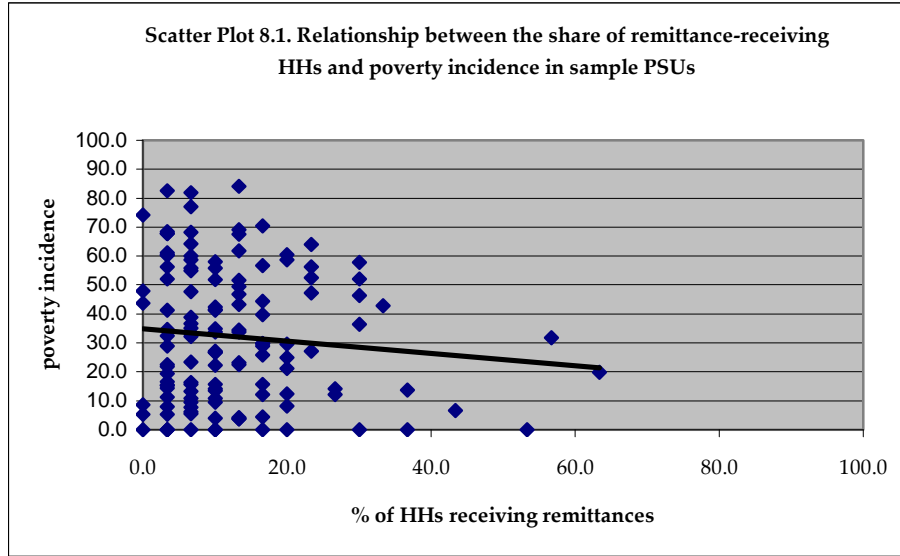
211. As Table 8.3 shows, the share of donations to relatives/friends was not high in the total expenditures of the HHs. It was equal to 0.16% for remittance-receiving HHs and 0.08% for the non-remittance-receiving ones. By the locality, the highest share is observed in the rural areas for remittance-receiving HHs (0.21%) and in the Baku for the non-remittance-receiving HHs (0.17%). The largest share of donations to relatives/friends is observed in the 5th quintile by all categories.

Table 8.3. Share of Donations to Relatives/Friends in Total Expenditure of Sample Households
(In %, average for the households in the category)

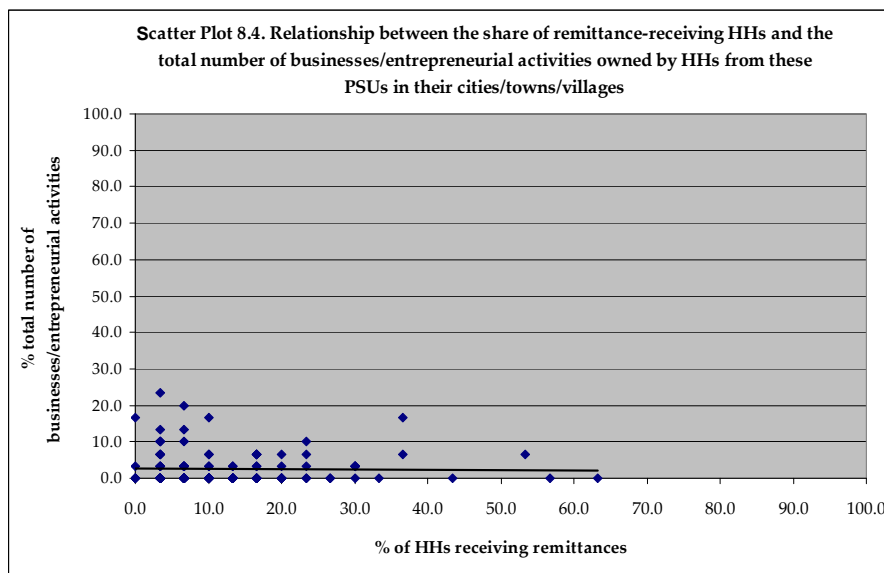
	All Sample HHs	Remittance-receiving HHs	Non-Remittance-Receiving HHs
	<i>N=3,900</i>	<i>N=495</i>	<i>N=3,405</i>
COUNTRY	0.09	0.16	0.08
Capital	0.16	0.11	0.17
Other Urban Areas	0.07	0.12	0.07
Rural Areas	0.06	0.21	0.04
Quintile 1	0.02	0.02	0.02
Quintile 2	0.02	0.00	0.02
Quintile 3	0.02	0.00	0.02
Quintile 4	0.09	0.22	0.07
Quintile 5	0.31	0.25	0.33

212. The results of econometric analysis show that cash donations to individuals or organizations are not statistically significant related to remittances.

213. Impact of remittances on community development is analyzed through scatter plots. The below scatter plots show the relationship between the share of remittance-receiving HHs and poverty incidence in sample PSUs. The tendency in 3 scatter plots shows that the big amount of remittance-receiving HHs in a PSU reduces poverty, extreme poverty and subjective poverty incidences.



214. Relationship between the share of remittance-receiving HHs in sample PSUs and the total number of businesses/entrepreneurial activities owned by HHs from these PSUs in their cities/towns/villages shows that remittances do not contribute to the development of communities. So, the share of businesses/entrepreneurial activities is lower in those PSUs which have higher number remittance receiving HHs than other ones. It is connected with migration of eligible people who are able to establish businesses/entrepreneurial activity in the home country.



215. Results the regression analysis effects of remittances on wealth at the community level show that: (i) the higher the migration and remittances propensity, the lesser the degree of inequality within the community; (ii) remittances have a strong positive effect on the HHs' wealth in terms of ownership of assets, providing insulation against income shocks.

216. Thus, these results indicate that remittances make a significant contribution to the household's accumulation of wealth in the form of physical, financial and/or human capital, and are not spent exclusively on immediate consumption as is often asserted.

IX. POLICY IMPLICATIONS

217. During the first years of its independence (since 1991), the Republic of Azerbaijan witnessed the emigration of a significant number of its nationals to foreign countries. Along with the difficulties related to the transition period, this emigration was particularly caused by the grave economic consequences of the Karabakh conflict with Armenia, and the emergence of about one million. refugees and IDPs.

218. Faced with the majority of the manifestations of migration processes that have multiple facets, the Republic of Azerbaijan has taken serious steps and carried out important measures both at legislative and institutional levels with a view to managing orderly and regulating these processes. The State Migration Management Policy Concept of the Republic of Azerbaijan, adopted in 2004, forms the basis of these actions and it defines the main objectives to be achieved by the relevant governmental bodies.

219. In order to realize the State Migration Management Policy Concept and reach the objectives defined in this Concept, "The State Migration Program for 2006-2008 of the Republic

of Azerbaijan" was approved by the Presidential Decree No. 1575, dated 25 July 2006. The Program is aimed at creation of more appropriate system in the migration field. The following main directions were set up for activities: i) Improvement of management mechanisms in the field of migration; ii) Increase of efficiency of the state regulation in the field of migration; iii) Co-ordination of the activities of relevant state bodies in the field of migration; iv) Improvement of the existing legislative basis; v) Introduction of quotas in the field of labor migration; vi) Implementation of complex measures to prevent illegal migration; vii) Co-operation with migration services of foreign countries and international organizations.

220. Up to now more that 20 laws and normative acts dealing with migration-related issues, including, "Law on Immigration" and "Law on Labor Migration" have been adopted in the Republic of Azerbaijan. In respect to the protection of the migrants' rights and freedoms, it should be noted that the Republic of Azerbaijan is party to the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. Azerbaijan has also acceded to the Palermo Protocols related respectively to trafficking in persons and to smuggling of migrants.

221. As for the migration management, separate governmental bodies are in charge of different aspects of migration in Azerbaijan. With a view to implementation of state migration policy, development of migration management system, regulation of migration processes and coordination of activities of relevant governmental bodies in this field, the State Migration Service has been set up by virtue of the Presidential Decree No. 560, dated 19 March 2007. It should be noted that by another Presidential Decree No. 254, dated 29 June 2005, it was decided to create Migration Service within the Ministry of Internal Affairs and this Service started to function from 16 May 2006.

222. In the development of international cooperation concerning the migration-related issues, the International Organization for Migration (IOM) is among the main partners of the Government of Azerbaijan. The Republic of Azerbaijan became member to IOM in 2001, but IOM had been implementing different assistance and technical projects in Azerbaijan already since 1996. At the same time, a number of technical assistance activities are implemented in cooperation with the Council of Europe and OSCE. In addition, the Action Plan that was agreed between the European Union and Azerbaijan within the European Neighborhood Policy on 14 November 2006 refers to a wide range of issues dealing with migration - border management, increase of effectiveness of border check points, migration management, asylum matters, prevention of illegal migration, readmission agreement, reintegration of migrants returned to the country of origin, visa and other issues, and it foresees the development of cooperation based on mutual interests. Moreover, a constant work is carried out for the development of the cooperation on the bilateral basis with a number of States in the field of migration.

223. This paper analyzed the combined impacts from remittance-inflows and out-migration on the composition of household income in Azerbaijan economies. Generally, this comparative study provided two important findings. Firstly, the dataset allowed for the inclusion of both cash and in-kind remittances in the analysis. Second, the comparative analysis allowed for investigation of the implications for the impacts of remittances to poverty. Implications of the data and analyses presented above for government policies, laws, and regulations in Azerbaijan are expected as follows:

- As mentioned above several programs to reduce poverty, develop regions, migration, employment, SME development etc. are implemented by the Government of Azerbaijan. This data and analyses will be helpful for the government to improve policies on remittances and increase its effectiveness in the poverty reduction under these programs;

- The data and analyses also could be used in the process of improvement of laws on migration, banks, minimum subsistence and poverty etc.

Key Findings and Problems:

224. The study shows that there are several problems on the role of remittances in reducing poverty in Azerbaijan. These are as follow:

- There are some contradictions among existing data on remittances in different sources; it shows that gathering data on remittances is on the imperfect level. Moreover, there are no permanent studies carried out on remittances and poverty issues.
- Several Policy Papers (including programs, action plans, strategies etc.) are approved by the government of Azerbaijan but it is necessary to strengthen also the coordination and implementation of these Papers.
- According to the survey results, 11.2% of HHs in Azerbaijan had at least one migrant HHM in 2006 and most of the HHs with migrants had one migrant (7.8% of all sample HHs or 70% of HHs with migrants), 2.8% of all sample HHs (or 24.7% of HHs with migrants) had two migrant and only 0.6% of all sample HHs (or 5.3% of HHs with migrants) had more than two migrant HHMs. The study shows that 9.4% of HHs with at least one migrant HHM didn't receive remittance and 25.4% out of total migrant of HHMs didn't contribute to their family in the country. The survey data has shown that some female migrants were staying abroad with their husbands (remitting migrants who live and/or work abroad) including children. At the same time, it is connected with spontaneously migration and unskilled employees, which couldn't earn enough income abroad.
- The study shows that the CIS countries have a significant role (especially Russia – 77%) in the migration process. It proves that in spite of the growth of migration to other countries (Germany, Turkey etc) observed in the recent years, a traditional migration is still on a high level. Analysis of occupations of migrant HHMs proves that traditional migrants are mainly uncompetitive migrants, so most of them were self-employed, pensioner and unemployed. Most of them were engaged in foreign country as self-employed (60%). There is lack of regulation/organizing of migration process and awareness campaigns.
- Education level of remittance senders shows that most of them have secondary education that makes them less competitive in the labor market.
- Breakdown of remittance senders by frequency of sending remittances shows that most of remittance senders (78%) send remittances maximum 3 times a year, so stimulation frequency of sending remittances will increase a positive impact of remittances to reduce poverty in country.
- Financial institutions are rarely used as a transfer channels for cash remittances (32%). According to the survey results the following reasons can be subscribed for none using the financial institutions: expensiveness, not guaranteed confidentiality, and inconvenience for remittance-sender (lack of regional branches of banks). It should be noted that after gaining independency and following it economical crisis the population became less confident in bank and other financial institutions' services. In spite of positive trends toward improving of trust and confidentiality of population to the banks and other financial institutions during the recent years, the situation is still insufficient.

- The study shows that the main part of remittances is used for HH basic expenses (87%), only 0.42% is used for business investment. From the point of SME development it is not a positive tendency. It shows that there are no institutions which have to direct incomes of population to investment.
- Comparison shows that the remittance-receiving HHs spend on Education and Health Care less expenditures than non-remittance HHs. It proves that they use remittances generally to reduce their income poverty.
- The study shows that most of HHs prefers savings as cash in local currency (87.6%), cash in foreign currency (20.1%), consumer goods for future consumption (8.0%) and precious metals and stones (6.6%). HHs save little in the form of time/savings deposit in local/foreign currency, investment in real estate, direct investment in business, investment in securities. It shows that financial markets are under-developed and business opportunities are limited.
- The study shows that HHs mainly turns to for emergency financial assistance to their relatives/friends inside the country but they turn to for emergency financial assistance to government less frequently. It proves that the role of government agencies is very weak for the emergency financial assistance to HHs and in this regard there aren't designated government agencies.
- The study shows that based on income approach the poverty level (headcounts) was equal to 0.7% by the 1 US\$ (PPP) based on daily per capita income; 3.3% by the 2 US\$; 13.1% by the 3 US\$ and 36.8% by the 4 US\$ in 2006. It suggests that social protection policy should be addressed to population groups whom has daily per capita income less than 4 US\$ (PPP) in the country.
- The study shows that exclusion of remittances out of total income of remittance-receiving HHs has significant impact to the poverty incidence in the country: by the 1 US\$ (PPP) from 0.7% to 2.2%; by the 2 US\$ from 3.3% to 5.8%; by the 3 US\$ from 13.1% to 16.7% and by the 4 US\$ from 36.8% to 41.3% will be increased. By the locality this impact was higher in the other urban areas and rural areas.
- Exclusion remittances from the total income of remittance-receiving HHs, the poverty incidence will sharply increase among members of remittance-receiving HHs, so by the 1 US\$ from 0% to 13.4%; by the 2 US\$ from 0.2% to 21.7%; by the 3 US\$ from 4.5% to 35.1% and by the 4 US\$ from 11.8% to 51.3% will be increased, so it is much more than the country average, so in the locality, the highest growth is observed in the other urban and rural areas and the lowest one in the Baku. Furthermore, remittance-receiving HHs is very much dependent on remittances.
- While excluding remittances out of total income of remittance-receiving HHs, the Poverty Gap Ratio slightly increased in the country. Thus, this index increased over 1.5 p.p. by extreme poverty line US\$ 2 per day and about 2.5 p.p. by poverty line US\$ 4 per day. But this index will sharply increase among members of remittance-receiving HHs, so it will increase by extreme poverty line US\$ 2 per day from 0.02% to 13.6% and by poverty line US\$ 4 per day from 2.3% to 24.7% in the country. However, by the locality distribution, the highest growth of Poverty Gap Ratio is observed in the other urban areas.
- While excluding remittances out of total income of remittance-receiving HHs, the Index of Gini Coefficient slightly decreased on country (from 0.32 to 0.31). By locality while excluding remittances out of total income of remittance-receiving HHs, the inequality remains same in the Baku (0.34), slightly increased in the

other urban areas (from 0.26 to 0.27) and decreased in the rural areas (from 0.29 to 0.28).

- The study shows that exclusion remittances from total income of remittance-receiving HHs the Gini Coefficient will increase from 0.35 to 0.39 among members of remittance-receiving HHs in country. By the locality distribution, the Gini Coefficient increased in the other urban areas from 0.27 to 0.41 and in the rural areas from 0.31 to 0.38, but decreased in the Baku (from 0.43 to 0.37). It suggests that, generally remittances play a positive role in the reduction of inequality among members of remittance-receiving HHs in country.
- The study shows that the access to utilities (electricity, gas and drinking water) without break is not at a sufficient level and access to these services in winter become a little more difficult, except an access to drinking water.
- The study shows that share of donations to communities and religious organizations are very low for remittance-receiving HHs and for non-remittance-receiving ones: 0.04% and 0.03%. It shows that the community development is not on the sufficient level.

Policy Recommendations:

225. According to the results of the survey the following policy recommendations are proposed to enhance the positive effects of remittances on economic development and poverty reduction in Azerbaijan:

1. Strengthen coordination and implementation of the policy papers (including programs, action plans, strategies etc.) which are approved by the government of Azerbaijan.
2. Develop locality network and infrastructure of appropriate financial institutions on remittances (including ATMs and POS terminals) and improve, phone lines, postal, internet services in regions.
3. Increase efficiency, flexibility and quality of services of financial institutions, and strengthen competition in this area.
4. Carry out awareness campaign including trainings on advantages of remittances through banks and other financial institutions among local population.
5. Increase trust of people in financial institutions (especially banks) and attract remittances to bank deposits.
6. Change trend of remittances from consumption to investment/development. As it is seen from analyses the most part of remittances is used for consumption.
7. Develop securities market in Azerbaijan. The findings of the report show that share of securities in total expenditures of HHs were insignificant that proves the Market of Securities is not developed in Azerbaijan. Development of securities market will mitigate the negative effects of remittances on inflation, increase income of remittance-receiving HHs, and help bring investments of migrant HHM to the country.
8. Improve labor migration system in terms of reforms, structural changes and establishment of new institutions and to develop vocational training systems in communities engaged in labor migration.
9. Establish especial government agency for the emergency financial assistance to HHs.

10. Create of new jobs through development of private sector (especially SME development) and ensure of decent work. It will decrease poverty and income inequality among HHs and dependency rate of HH from the migrant HHM.
11. Improve registration process and social insurance system of migrants.
12. Increase competitiveness of labor migrants. Educational level makes migrants from Azerbaijan less competitive in the external labor markets, therefore it is suggested to improve quality of education, invest in human capital.
13. Improve access to utilities in the regions (including electricity, gas and drinking water).
14. Strengthen community development among migrants.
15. Carry out such comprehensive studies in Azerbaijan every year to renew a database on remittances and to improve methodology in this direction.
16. Strengthening coloration with relative International Organizations in the sphere of migration and remittances.

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SHARE OF HHS WITH AT LEAST ONE MIGRANT HHM IN SAMPLE PSU

PSU Number	Share of HHs with at least one migrant HHM (in %)	Share of remittance-receiving HHs (in %)
1	6.7	6.7
2	3.3	3.3
3	3.3	3.3
4	10.0	10.0
5	23.3	20.0
6	10.0	13.3
7	3.3	3.3
8	10.0	36.7
9	16.7	33.3
10	20.0	36.7
11	23.3	53.3
12	0.0	3.3
13	10.0	10.0
14	10.0	10.0
15	30.0	30.0
16	56.7	56.7
17	26.7	26.7
18	6.7	6.7
19	3.3	3.3
20	3.3	3.3
21	0.0	16.7
22	10.0	16.7
23	23.3	26.7
24	23.3	23.3
25	16.7	16.7
26	16.7	16.7
27	20.0	13.3
28	3.3	3.3
29	3.3	3.3
30	20.0	10.0
31	3.3	3.3
32	26.7	30.0
33	3.3	3.3
34	6.7	6.7
35	30.0	20.0
36	10.0	13.3
37	16.7	23.3
38	6.7	6.7
39	13.3	10.0
40	20.0	16.7
41	6.7	6.7

PSU Number	Share of HHs with at least one migrant HHM (in %)	Share of remittance-receiving HHs (in %)
42	20.0	20.0
43	3.3	0.0
44	23.3	43.3
45	13.3	16.7
46	20.0	20.0
47	3.3	10.0
48	6.7	6.7
49	3.3	6.7
50	3.3	3.3
51	3.3	3.3
52	3.3	3.3
53	16.7	10.0
54	3.3	3.3
55	3.3	6.7
56	10.0	23.3
57	13.3	16.7
58	20.0	20.0
59	3.3	0.0
60	10.0	10.0
61	10.0	13.3
62	23.3	30.0
63	16.7	20.0
64	13.3	16.7
65	6.7	3.3
66	6.7	6.7
67	23.3	16.7
68	30.0	30.0
69	63.3	63.3
70	10.0	13.3
71	3.3	6.7
72	3.3	3.3
73	6.7	6.7
74	16.7	10.0
75	10.0	6.7
76	16.7	23.3
77	13.3	6.7
78	10.0	10.0
79	10.0	10.0
80	13.3	13.3
81	3.3	3.3
82	10.0	10.0
83	13.3	16.7
84	6.7	13.3

PSU Number	Share of HHs with at least one migrant HHM (in %)	Share of remittance-receiving HHs (in %)
85	6.7	6.7
86	6.7	6.7
87	23.3	23.3
88	3.3	3.3
89	13.3	13.3
90	13.3	10.0
91	3.3	0.0
92	13.3	13.3
93	3.3	3.3
94	6.7	6.7
95	3.3	3.3
96	6.7	6.7
97	13.3	16.7
98	10.0	13.3
99	13.3	30.0
100	10.0	6.7
101	10.0	13.3
102	3.3	3.3
103	10.0	10.0
104	3.3	6.7
105	6.7	10.0
106	16.7	16.7
107	6.7	6.7
108	0.0	0.0
109	10.0	10.0
110	6.7	6.7
111	10.0	10.0
112	10.0	10.0
113	6.7	6.7
114	13.3	13.3
115	3.3	3.3
116	0.0	0.0
117	6.7	3.3
118	0.0	0.0
119	10.0	20.0
120	6.7	13.3
121	3.3	3.3
122	10.0	10.0
123	6.7	6.7
124	10.0	13.3
125	6.7	20.0
126	20.0	13.3
127	3.3	3.3

PSU Number	Share of HHs with at least one migrant HHM (in %)	Share of remittance-receiving HHs (in %)
128	3.3	3.3
129	10.0	10.0
130	10.0	6.7