

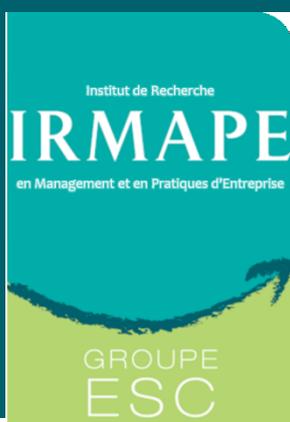
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**Remittances,
political stability
and growth:
evidence in Post-
Soviet States**

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Remittances, political stability and growth: evidence in Post-Soviet States

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ABSTRACT

This paper examines the empirical relationship between remittances and economic growth in post-Soviet states, and the role that political stability plays in this context. Using Feasible Generalized Least Squares to tackle group heteroskedasticity and serial correlation in panels, we find that remittances have a significant negative correlation with the receiving countries' economic growth. In addition, this relationship is contingent upon the political stability the country enjoys.

JEL Classification: F22, F43, O16

Keywords: Remittances; Political Stability; Economic Growth; General FGLS; Post-Soviet States

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1. INTRODUCTION

Globally, remittances reached \$581 billion in 2015 (World Bank, 2016a). Remittances are considered as the most important financial flow to developing countries after foreign direct investment (FDI) (Ratha, 2013). It is now recognized that remittances play a major financial role in developing countries. The involvement of governments of some developing countries in the management of Migration Affairs can stimulate the remittances.

Theoretical and empirical research on the economic impact of remittances has produced different results. On the positive side, remittances contribute to the reduction of poverty and, in some cases, provide capital to finance household investments and savings (Chami et al 2003; World Bank, 2006. IMF, 2005). On other countries, remittances have impacted economic growth, by increasing the national income. Indeed, remittances can contribute to the enhancement of the living conditions of the beneficiaries. They can substitute for traditional insurance mechanisms in countries that do not have sufficiently reliable insurance systems. They can also play an important role in the health and education of children. For example, Lopez-Cordova (2004) has associated the decline in infant mortality with an increase in remittances to Mexico. Remittances also positively contribute to the inclusion of children in school and the decline in child labor (Dessy and Rangeloma, 2009; Mughal and Makhoulf, 2013). Similarly, Medina and Cardona (2010) found that Colombian households who received remittances spend 10% more in education than non-recipients. In a study of the region of Souss-Massa in Morocco, Bouoiyour and

Miftah (2013) show that remittances reduce child labor and reduce the probability of dropping out of school. Remittances in many developing countries finance local development. In the same way, it is shown that remittances reduce poverty (Adams et al., 2008; Adams and Page, 2005; Quartey and Blanson, 2004).

Remittances have a positive impact on economic growth, through consumption, savings or investment. Lucas (2005) mentions several studies that show that remittances could be used to accelerate investment in Morocco, Pakistan and India. Glytsos (2002) models the direct and indirect effects of remittances on income and therefore the investment in seven countries of the Mediterranean and concluded that investments increase with remittances in six of the seven countries. In addition, the work of Léon-Ledesma and Piracha (2004) for eleven countries in transition in Europe during the period 1990-1999 shows that remittances had a positive effect directly and indirectly, through investment, on productivity and employment. Finally, a study by Banaian and Roberts (2004) on remittances in Armenia concluded that overall, the propensity to create savings from remittances is high (almost 40%).

However, some analyses have shown that remittances may have a negative impact on economic growth in the mid and long term (Chami et al., 2003). Indeed, remittances can feed inflation, disadvantage the sector of tradable goods by an appreciation of the real exchange rate, and reduce the rate of participation in the labor market for households receiving income from migrants. In addition, on the political level, the contribution of remittances to growth and poverty reduction could reduce the commitment of public authorities to finance essential structural reforms. Thus some studies emphasize that remittances exacerbate inequalities. Rodriguez (1998) observes that remittances deepened

inequality in the Philippines. Adams (1991) notes, in the case of Egypt, the same phenomenon, like Mughal and Diawara (2011) in the case of Pakistan.

There are at least two justifications concerning the negative effects of remittances on growth. One is the possibility that the country could have a situation such as the Dutch disease where the inflow of income of migrants causes a real appreciation of the exchange rate (Montiel, 2006; Acosta et al., 2007). This has a negative effect on exports and therefore possibly on production and employment. The second explanation relates to the argument put forward by Chami et al. (2003) where revenue from remittances can lead to a situation of moral hazard, allowing the families of migrants to reduce their labor supply.

This article seeks to complement empirical studies on the relationship between remittances and growth. Indeed, previous empirical work (non-exhaustive) suggests that the relationship between remittances and growth may be uncertain and contradictory. Some of these results may come from an omission in the selection of the variables (Haas, 2005).

We suggest here that to enhance the development of remittances in long term, states should implement an economic framework and adequate institutional (World Bank, 2007). Strong arguments are advanced in this sense, based on analyses of Acemoglu and al. (2001), Knack and Keefer (1995) and La Porta et al. (1997) for example.

We propose to study the sensitivity of remittances to the definition of a framework for the establishment of a commercial or legal environment conducive to investment, securing the financial sector and the quality of public services (education, health, etc.). These policies should permit savings and investment to allow households that have additional income to save and invest. It may be noted that the policies necessary to achieve real convergence between developing countries and developed countries are also those that can increase the

impact of remittances on growth. We will test the hypothesis that these policies govern the relationship between remittances and economic growth.

Empirical research suggests that institutions influence the role of remittances on growth in the long term⁴. Faini (2002) found a positive relationship between remittances and growth. He interprets this positive factor as the result of policy implementation, namely a clean political environment, and the strengthening of social and productive infrastructure. Moreover, Ratha (2013) notes that between 1996 and 2000, remittances on average represented 0.5% of GDP in countries with a high level of corruption and 1.9% for countries with a low level of corruption. This study allows an assessment of the effect of corruption on the level of income from remittances.

In our study we shall focus on the analysis of this relationship in countries in transition, located within the former Soviet bloc. This is justified by the fact that, by definition, the process of transition of these countries operates within the institutions. Among these countries some are part of the European Union (Estonia/Latvia and Lithuania) while others are grouped under the Commonwealth of Independent States (CIS), where Russia retains a predominant role. The crisis in Ukraine, born of the refusal by Kiev to sign a privileged partnership with the EU in November 2013, illustrates that the countries of the former USSR are often torn between the desire to favor (including commercial) relations with Russia and opponents of the Russian regime, preferring a rapprochement with the Union European.

⁴ On a global point of view, better governance is seen to be needed for equitable growth (World Bank, 2017).

In the first part we introduce general elements on migration, remittances and the institutions in the countries studied. Then, we apply an econometric application to see the impact of remittances on growth and study the role played by the institutions.

2. STYLIZED FACTS

In part I, we shall see that Russia is the main partner of most of the other former Soviet Republics for migration and remittances (WorldBank, 2016a). The Russian federation has the world's second largest number of immigrants after the United States (almost 11 million in 2013) (World Bank, 2016a). In Russia, there is also a xenophobia problem with riots towards non-whites (Avril, 2013).

In this part, we describe migration, the flows of remittances and the quality of institutions in former Soviet Union states.

I.1. Migration in former Soviet Union States

In the Soviet Union, migration was within its borders and we shall see that this is still the case. After the dissolution of the Soviet Union, in 1991, many migrants came back to the Russian federation (Korobkov et Zaiontchkovskaia, 2004). Table 1 shows migration in 2013 and more than 30 million people emigrated from their countries in 2013.

Table 1: Emigration in the former Soviet Union in 2013

	Number of emigrants	% of emigrants to the Russian federation	% of emigrants to other country of former Soviet Union	Russia+ former Soviet Union
Armenia	785 740	64,99%	12,44%	77,43%
Azerbaijan	1 620 196	45,68%	36,55%	82,24%
Belarus	1 287 404	57,72%	33,46%	91,18%
Estonia	191 205	29,76%	15,13%	44,88%

Georgia	746 017	58,44%	21,53%	79,97%
Kazakhstan	3 826 984	64,79%	12,96%	77,74%
Kyrgyz Republic	738 283	77,57%	10,50%	88,07%
Latvia	342 317	25,29%	18,14%	43,43%
Lithuania	588 897	11,69%	17,84%	29,53%
Moldova	859 400	33,17%	24,43%	57,60%
Russian Federation	10 910 492		77,99%	77,99%
Tajikistan	607 802	74,33%	17,20%	91,53%
Turkmenistan	249 523	72,06%	18,62%	90,68%
Ukraine	5 583 906	52,63%	16,59%	69,23%
Uzbekistan	1 912 897	58,06%	32,25%	90,31%

Source: World Bank and author's calculations

In the Russian Federation, Ukraine and Kazakhstan, we find the highest number of emigrants of our sample. On average, 51.9% of the total of those that emigrate go to Russia. The link between all the countries of the former Soviet Union is still noticeable: in Belarus, 91.18% of emigrants live in Russia or in other former Soviet Union State. Overall, 72.8% of migrants in 2013 remained in the former Soviet Union.

However, three countries in our sample are different: in Estonia, Latvia and Lithuania, most emigrants live in European countries. Russia's influence in these states is less significant.

Usually, differentials in wages, levels of poverty, in education between countries cause people to emigrate. There must also be political (lack of democracy, corruption) social or cultural reasons. In the Former Soviet Union, « *It appears from available data that ethnic causes of migration, namely diaspora migration, did dominate trends in the early 1990s,*

but economic motives are now becoming the major factor influencing migration » (Worldbank, 2006, p.79).

In European countries (here Estonia, Latvia and Lithuania), there is free movement of EU citizens. For the non-EU workers, there is a common set of rights but each member has its own immigration policy (Organisation internationale pour les migrations, 2009).

We saw that except for the Baltic States and Moldova, the highest contribution of remittances comes from emigrants living in Russia. So it seems important to analyze the framework for legal immigration from Russia to other former Soviet States. Visa-free agreements exist between Russia and former Soviet Republics (Worldbank, 2013, p.16). Furthermore, there are bilateral agreements signed according to the « Agreement on cooperation in the field of labor migration and the social protection of migrant workers » accepted in 1994 by all of the CEI member states (Worldbank, 2006). Since 2015 new legislation applies to foreign citizens in Russia through a Russian language testing and an integrated examination.

I.2. Remittances per country

Table 2 takes into account remittances in value and relative to GDP. The most relevant information is the comparison with GDP. In our sample, four countries differentiate themselves with a huge contribution of remittances as a percentage of GDP: Tajikistan (28.8% relative to GDP), Kyrgyz Republic (25.7%), Moldova (23.4%) and Armenia (14,1%). In the world, Tajikistan and the Kyrgyz Republic are largest recipients of remittances as a portion of GDP (World Bank, 2016a). Economies in these countries seem to be very dependent on money sent by emigrants. But it is important to see that these countries are also the poorest in the former Soviet Union (low income countries according to World Bank).

Between 2014 and 2015, there was a sharp decline of 20,3% in remittances for our countries. In 2014 and 2015, oil prices fell and it contributed to a reduction in economic activity in Russia. Furthermore, oil prices and remittances outflows from Russia have a strong correlation (WorldBank,, 2016b).

Now, better economic conditions and greater stability in the ruble-dollar exchange rate should boost remittances flows by 5,1 % in 2016 in our region (WorldBank,, 2016b).

Table 2: Remittances (in value and relative to GDP) in 2014 and 2015⁵

	Remittances in 2014 (millions of dollars)	Estimation of remittances in 2015 (millions of dollars)	Remittances in 2015 (as a percentage of GDP)
Armenia	2 079	1 491	14,1%
Azerbaijan	1 846	1 270	2,4%
Belarus	1 231	696	1,3%
Estonia	544	446	2 %
Georgia	1 986	1 459	10,4%
Kazakhstan	229	184	0,1%
Latvia	1 774	1 416	5,2%
Lithuania	2 113	1 374	3,3%
Kyrgyz Republic	2 243	1 688	25,7%

⁵ We do not have data for Turkmenistan and Uzbekistan.

Moldova	2 084	1 533	23,4%
Russian Federation	7 777	6 870	0,5%
Tadjikistan	3 384	2 259	28,8%
Ukraine	7 354	5 845	6,5%

Source : Data from World Bank, 2016.

Table 3: Origin of remittances in 2015

	Share of remittances from Russian federation (as a percentage of total remittances)	Share of remittances from other former Soviet countries (as a percentage)
Armenia	63,65%	8,72%
Azerbaijan	58,05%	29,62%
Belarus	45,48%	30,14%
Estonia	28,89%	12,30%
Georgia	58,85%	15,99%
Kazakhstan	63,62%	9,87%
Latvia	24,26%	14,30%
Lithuania	11,27%	13,36%
Kyrgyz Republic	76,72%	6,56%
Moldova	32,69%	18,56%

Russian Federation		68,97%
Tadjikistan	76,38%	12,87%
Ukraine	51,43%	11,61%

Source: World Bank and author's calculations

In most countries, remittances from the Russian federation are very high (Table 3). For Kazakhstan, emigrants from Russia send 63% of global remittances received by this country. Countries from the European Union and Moldova distinguish themselves with a lower proportion of remittances from the Russian federation and a higher proportion from the European countries.

A study made from USAID in 2008 shows that many remittances in Eastern Europe flow through an informal sector, such as the hawala system (USAID, 2008). For example, in Armenia, 80% of emigrants never use a formal sector (PA Consulting Group, 2006) and nearly 50% in Moldova (Orozco, 2007). For most countries, average remittances costs from Russia to other former Soviet Republics for the fourth quarter 2016 are around 2.50%. But costs are lower from Russia to Azerbaijan (1.48%) or Russia to Ukraine (1.32%). And they are higher for the Baltic republics with, for example, costs of 5.97% for remittances from Russia to Lithuania (Remittances Prices Worldwide, The World Bank, 2017).

I.3. Quality of institutions in the countries studied

In 1991, the Soviet Union disintegrated into 15 separate countries and its collapse was seen as the end of communism and the triumph of capitalism and the market economy.

Institutions are defined “*in terms of the degree of property rights protection, the degree to which laws and regulations are fairly applied, and the extent of corruption*” (Edison, 2003). The quality of institutions is difficult to measure (Edison, 2003) because of: (i) the subjective perceptions for some measures such as quality of public services; (ii) the

institutions are endogenous: “good institutions require time and resources to develop, suggesting that richer countries are more likely to enjoy good institutions”.

The World Bank defines six measures of institutions (Worldwide Governance Indicators) from different types of source data⁶ : (i) Voice and Accountabilities ; (ii) Political Stability/No violence ; (iii) Government Effectiveness ; (iv) Regulatory Quality ; (v) Rule of Law ; (vi) Control of corruption.

Table 4 introduces the six measures of institutions for 2015 in our study. In order to compare we also include the average of High Income OECD, Lower Middle Income, Upper Middle Income and the SubSaharan countries. On the whole, in the former Soviet Union, we find the same results as in middle income countries (lower or upper). For measure 1 (Voice and Accountabilities) and 6 (Control of corruption) the average value could be compared with the value of the sub-Saharan countries. To summarize, the institutional framework in the former Soviet Union is not attractive for investments such as remittances.

However, the quality of governance or institutions is different between the 15 countries. In the Baltic republics and Georgia, the quality of institutions seems to be comparable with developed countries (except for measure 2 of Georgia). On the contrary, in Turkmenistan or Uzbekistan, the quality of institutions is particularly poor (except for measure 2).

Table 4: Quality of institutions according to six measures of Worldwide Governance Indicators (2015)

P-Rank	Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)						
	1	2	3	4	5	6	

⁶ Surveys of households and firms, commercial business information providers, non-governmental organizations and public sector organizations.

Armenia	30	36	49	61	43	39
Azerbaijan	7	22	46	46	31	20
Belarus	9	48	38	15	24	46
Estonia	85	66	83	93	87	87
Georgia	55	33	67	79	65	73
Kazakhstan	17	43	51	54	41	25
Kyrgyz Republic	32	19	18	36	15	12
Latvia	73	60	84	82	76	68
Lithuania	76	69	86	88	81	70
Moldova	47	34	29	51	40	17
Russian Federation	19	13	48	32	26	19
Tajikistan	7	20	20	14	14	14
Turkmenistan	0	41	19	2	6	8
Ukraine	48	6	35	30	23	15
Uzbekistan	2	32	26	3	13	11
High Income OECD	87	74	88	87	88	85
Low Income	25	23	17	22	21	20
Lower Middle Income	42	39	33	33	34	37
Upper Middle Income	48	49	53	49	49	49
Sub Saharan Africa	33	32	27	30	31	31

Source : *Worldwide Governance Indicators, World Bank, 2017.*

In this section, it was important to analyze migrations, the flows of remittances and the quality of institutions in the former Soviet countries. We now perform econometric tests in order to see the impact of remittances on growth and to introduce the quality of institutions into this relationship.

3. MODEL AND ECONOMETRIC ESTIMATIONS

II.1. Model

The model that will be estimated in this paper is based on model developed by Mankiw et al. (1992) in order to capture determinants of economic growth.

Consider the following production function:

$$Y(t) = F(K(t), H(t), A(t)L(t)) = k(t)^\alpha H(t)^\beta (A(t)L(t))^{1-\alpha-\beta} \quad (1) \quad \alpha > 0, \beta > 0 \text{ and } \alpha + \beta < 1$$

With

Y : GDP ; K : physical capital ; H : Human capital ; A : technology; L : labor ; and t :time

Labor supply and technology are assumed to be exogenous, and their evolution can be modeled as follow:

$$A(t) = A(0)e^{\pi t} \quad (2)$$

$$L(t) = L(0)e^{\theta t} \quad (3)$$

With a constant return to scale the production function can be written as follow

$$y(t) = f(k(t), h(t)) = k(t)^\alpha h(t)^\beta \quad (4)$$

With :

K : physical capita per capita ; h is the share of human capital in the population.

We shall estimate the equation (4) with panel data, in the case of former Soviet Republics. To do so we shall adapt equation (4). By using logarithms equation (4) can be written as follow:

$$\log y_{it} = \alpha \log k_{it} + \beta \log(h_{it}) + \gamma_i X_{it} + \varepsilon_{it} \quad (5)$$

$\varepsilon_{it} \rightarrow N(0, \sigma)$. ε_{it} are independent and identically distributed

II.2. Choice of Variables

The model represented by equation (5) highlights the relationship between human, physical capita and GDP per capita. Indeed, education can be used to estimate human capital, as shown by Mankiw et al. (1992) and Temple (2001). Education and training are considered as a major factor in economic growth. Other common sources of economic growth were added to the model (5), namely the degree of openess of the economy, foreign direct investment (FDI), financial development (FD). Similarly, remittances received and political stability of the country are also used.

Trade openess is measured by trade flows as a percentage of GDP. Dollar (1992) and Edwards (1989) support the idea that a higher degree of openess leads to an increase in economic growth. A country that is more open to international trade can benefit from technological knowledge and can also have access to larger markets. FDI may impact economic growth in host countries. Several studies have investigated on the effect of FDI on economic growth (Balasubramanayam et al, 1996; Alfaro et al, 2003). Similarly, studies show that financial development promotes economic growth (Deisting et al., 2012). Nevertheless, the relationship between funds transfers and financial development may be substitutable or complementary. The assumption of substitutability will be tested in this paper.

The main objectives of this paper are: (i) to estimate the impact of remittances on economic growth (Tansel and Yasar, 2010; Barajas et al, 2009; Fayissa and Nsiah, 2008; Pradhan et al. 2008); (ii) whether the political stability and economic growth of a country are linked (Alesina et al., 1992). Political instability is considered in the literature as an obstacle to economic growth (Alesina, 1992); (iii) to measure the interaction between

remittances and the quality of institutions. To measure the quality of institutions, we then chose to retain among the six governance indicators calculated by the World Bank, the one that seemed most relevant namely political stability (index 2 of Table 4).

To detect the impact of the economic environment on the growth we take inflation as a proxy. Variables used are described in Table 5.

Table 5: Explicative variables

Variables	Definition	Sources
Trade	Trade flow (imports +export) (% of PIB)	World Bank
K	Gross capital formation (% of GDP)	World Bank
IPC	Inflation (% annuel)	World Bank
FDI	Foreign direct investment, net (% of GDP)	World Bank
Remit	Personal remittances, received (% of PIB)	World Bank
H	School enrollment, secondary (% gross)	World Bank
FD	Domestic credit provided by financial sector (% of GDP)	World Bank
PStability	Political Stability and Absence of Violence/Terrorism	Worldwide Governance Indicators (WGI)

II.3. Data

Annual data were used for 12 countries of the former Soviet Republics namely: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Latvia, Lithuania, Kyrgyzstan, Moldova, Tajikistan and Ukraine for an unbalanced panel (n=12, T=6-10years, N=108).

Production is measured by GDP per capita in constant dollars. Human capital is represented by the percentage of the number enrolled in higher education compared to the overall population. Remittances are measured by interpersonal transfers to GDP. The variable "trade" is measured by summing trade flows divided by GDP. Inflation is measured by changes in the consumer price index. To capture the level of financial development, and estimate its effect on economic growth and also evaluate interactions with remittances on economic performance, we have taken the share of credit provided by the banking sector in GDP. The variable related to political stability (See index 2 of Table 4) varies between -2.5 and +2.5. If the value is close to -2.5, it means that the probability of insecurity and political instability is high. Conversely, if the indicator is close to +2.5 the probability of political instability and violence is low. For the countries studied this indicator varies between -1.38 and 1.01. In our sample, Lithuania represents the lowest risk, as showed by the ranking of Table 4 for the index 2. In Tajikistan, the risk of political instability is stronger.

Descriptive statistics for the variables used are given in Table 6.

Table 6: Descriptive statistics

	Min	Mean	Standard deviation	1st Quintile	3rd Quintile	Max
Y	1069.989	8449.257	6360.093	2971.58	12527.063	24374.02
K	9.382	26.622	8.282	21.157	32.018	57.990
H	17.804	51.497	20.266	37.680	70.254	85.697
Remit	0.094	9.323	11.966	1.6799	10.709	51.999
Trade	33.629	88.876	25.829	68.352	107.580	155.092
FDI	-0.277	7.177	6.708	3.5339	8.765	45.1498
IPC	-1.145	7.7194	6.533	4.012	10.005	53.228
FD	5.559	38.654	26.173	17.925	54.050	104.417
PStability	-1.38	-0.136	0.681	-0.675	0.515	1.01

To avoid the problem of heteroscedasticity and intra-group correlation of residuals we will use the model FGLS "General Feasible Generalized Least Squares". This technique allows

us to estimate the model in two stages. The first step allows recovering the estimated residuals for use in the matrix of estimated variances and covariances as showed in the formula below.

$$(\hat{V} = I_n \otimes \hat{\Omega}). \text{ with } \hat{\Omega} = \sum \frac{\hat{u}_{it} \hat{u}_{it}^T}{n}.$$

Estimations results are given in Table 7.

II.4: Results and Discussion

Firstly, all results given in Table 7 show that the remittances have a negative and significant effect on growth. This effect can be explained by moral hazard behavior (Chami et al, 2005). Thus, the inhabitants of the countries studied would benefit from remittances as an insurance system to meet their daily needs, or more unusually, could be encouraged to do more (or less) to work. This result corroborates the result of the work of Chami et al. (2005). To test the threshold effect of remittances on economic growth, the variable squared remittances is included in our estimates. The estimation results show that the squared variable effect is negative and significant. This demonstrates that the relationship between remittances and GDP per capita would follow an *inverted “U”* shape.

Political stability plays an important role in economic growth since its effect on GDP per capita is positive and significant. This result confirms that obtained by Aisen and Veiga (2011). Further, political instability is seen as a hindrance to economic growth. Regarding the interaction between remittances and political stability, the results show a positive effect: the impact of remittances on growth is more favorable if the political stability of a country is satisfactory. In general, the quality of institutions plays a significant and positive role in the effect of remittances in a country. In other words, the positive effects of remittances on economic growth depend on political stability.

Table 7: Results

	Dependent variable GDP per capita					
	(1)	(2)	(3)	(4)	(5)	(6)
k	0.401*** (0.012)	0.351*** (0.015)	0.295*** (0.030)	0.389*** (0.031)	0.685*** (0.02)	0.713 *** (0.022)
H	1.175*** (0.010)	0.677*** (0.017)	0.397*** (0.041)	0.522*** (0.033)	0.541*** (0.02)	0.085 *** (0.025)
Remit		-0.306*** (0.002)	-0.294*** (0.010)		-0.153*** (0.015)	-0.140 *** (0.0040)
Trade		0.190*** (0.015)	0.195*** (0.025)	0.207*** (0.038)	0.685*** (0.03)	0.506 *** (0.024)
FDI			0.001 (0.002)	-0.003** (0.001)	-0.0005*** (0.0001)	-0.069 (0.0072)
IPC			-0.0003 (0.0006)	0.003 (0.001)	0.0003*** (0.00009)	-0.0018 *** (0.001)
FD			0.206*** (0.017)	0.216*** (0.0261)		0.071*** (0.032)
Remit^2						-0.116 *** (0.0023)
PStability			0.088*** (0.018)			
Remit* PStability				0.025*** (0.0021)		
Remit*FD					-0.00009*** (0.000005)	
Residual Sum of Squares	40.396	21.351	16.318	21.667	13.168	9.6715
Multiple R -Squared:	0.53423	0.75	0.77	0.70	0.81	0.87

○ Standard error

Unbalanced Panel: n=12, T=6 -10, N=108

***, ** and * significant at 1%, 5% and 10% respectively

As we have seen before, the relationship between financial development and remittances can be complementary or substitutable. Our results show that the relationship between remittances and financial development is substitutable. Our results corroborate results found by Giuliano and Ruiz-Arranz (2005). Substitutability in our case indicates that remittances do not promote financial development. In this case, the families of migrants may fund their investment through remittances. Our results also indicate that remittances can have a positive effect on growth in countries with low financial development. While most results appear to correspond to those one would expect, the impact of FDI is insignificant or negative depending on the model used. Indeed, FDI has a more limited impact on growth in less developed economies (OECD, 2002). Remittances have a negative impact on economic growth. The quality of different parameters is required by the OECD in order to take advantage of foreign investment as the level of education, technology, health, or the level of development of financial markets. For the OECD, the need for transparency in the host country is the most important element to have a favorable environment for investment (OECD, 2002, p.30). Results confirm the strength of rules of good governance. Widely, the economic, social, financial, and political environment must be favorable to FDI: this may not be the case in most countries in our sample.

4. CONCLUSION

The intention of this article was to contribute to the debate of the empirical relationship between remittances and economic growth in post-Soviet States. Furthermore, the goal is also to see the role that political stability plays in this context.

In part 1, we describe migration, the flows of remittances and the quality of institutions in former Soviet Union states. We saw that the relationship between post-soviet States is still ever-present for migration and remittances because in this area migrants live in Russia or in other post-Soviet States. Baltic States are different in our sample because most emigrants from Estonia, Latvia or Lithuania live in European countries. The crisis between Russia and Ukraine will certainly have consequences for migration and remittances between these countries. Finally, the institutional framework and the quality of governance in the former Soviet Union are not attractive for investments such as remittances or FDI, taking into account the six measures of governance of World Bank.

In part 2, using feasible Generalized Least Squares to tackle group heteroskedasticity and serial correlation in panels, three key findings emerge : (i) first, remittances have a significant negative correlation with the receiving countries' economic growth (Chami *et al*, 2003) ; (ii) second, this relationship is contingent upon the political stability the country enjoys, that is to say impact of remittances on growth is more favorable if the political stability of a country is good; (iii) third, a logical result shows that the relationship between political stability and economic growth is positive.

So it seems important for Post-Soviet States to emphasize the quality of institutions. This assumes political choice in these countries.

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