Chapter 7

Migration, investments and financial services in Georgia

Migration and remittances have the potential to promote development through household investments in entrepreneurial activities and other types of productive investments. This chapter explores if and under what conditions migration is likely to promote investment, and how sectoral policies linked to investments and financial services may affect migration investment decisions in Georgia. The chapter starts by giving an overview of financial inclusion and the investment sector in Georgia. It then examines if and how emigration, return migration and remittances can spur investments in entrepreneurship and real estate assets. Finally, the chapter discusses the role of public policies, particularly sectoral policies related to financial inclusion and financial training, for remittance decisions. The chapter concludes with a discussion on the policy recommendations of the findings.

The potential positive effects of migration and remittances on investments in the origin country have been acknowledged in research as well as by policy makers. The new 2030 Agenda for Sustainable Development recognises the positive contribution of migrants and diaspora to sustainable development, and commits to ensuring that affordable financial services are available to migrants and their households, as well as to reducing remittance transfer costs (UN, 2015). Migration and remittances can help overcome financial constraints and stimulate long-term investments, especially in countries where access to credit is limited and formal financial markets are underdeveloped. Sectoral policies linked to investments and financial services may also play an important role in enhancing the positive impacts of migration on productive investments. This chapter investigates some of these linkages in the context of Georgia.

Remittances contribute significantly to Georgia's gross domestic product (GDP), constituting 10% of the national income in 2015 (World Bank, 2016). Remittances, together with human and financial capital brought back by return migrants, are hence important sources of income for the country. Understanding if and under what conditions remittances and return migration promote investment is important to enhance the well-being effects of migration for households as well as the wider economy.

The chapter starts by giving an overview of the investment and financial service sector in Georgia, and then moves on to examine the impact of migration on business and real estate investments. The third section looks at the role of public policies related to investment and financial services on remittance patterns, followed by a concluding section that discusses some policy recommendations of the findings.

A brief overview of the investment and financial service sector in Georgia

Access to formal financial institutions and basic financial services allows households and individuals to better manage their finances and plan investments in both the long and short term. However, many households worldwide still lack access to bank accounts and other types of financial

services, and formal and informal small and medium-sized enterprises in developing economies are often financially unserved or under-served (Stein et al., 2013).

The banking sector is one of the most developed sectors in the Georgian economy (Gugushvili, 2013). About 40% of adults in Georgia have access to a bank account, which is relatively high in comparison to other countries in the region (Figure 7.1). However, the formal saving rate is very low; at only 1% it is below the regional average. Low income levels, cultural characteristics and little trust in the banking system have been suggested as reasons for Georgia's low saving levels (ACT Research, 2011; Gugushvili, 2013).

Figure 7.1. **Georgia has low levels of formal savings compared to other countries in the region**

Formal savings (%) and bank account possession (%)
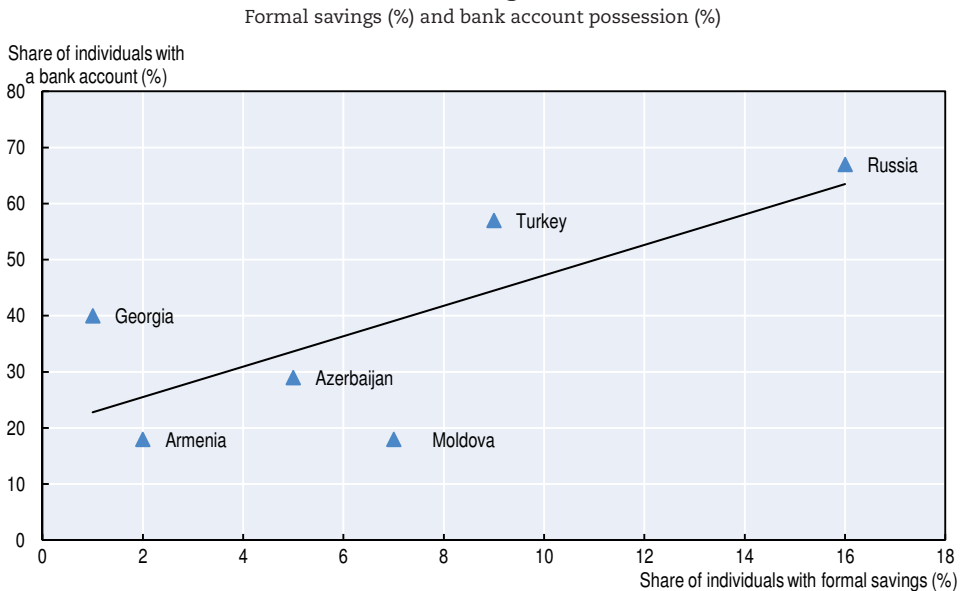
Note: The definition of formal savings is having saved in a formal bank or other financial institution. The sample includes adults 15 years and above.
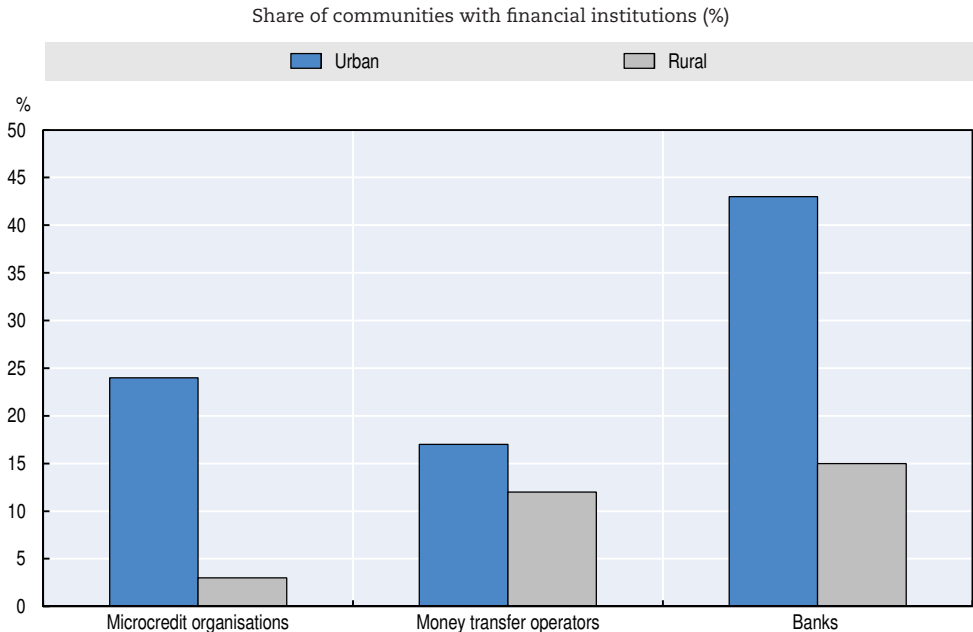
Source: World Bank Global Financial Inclusion Database, *http://datatopics.worldbank.org/financialinclusion/*.

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Besides banks, other essential financial institutions in Georgia include insurance companies and microfinance institutions (Gugushvili, 2013). The IPPMD community survey included a question on financial institution coverage in the sampled communities.[1] As expected, urban communities are better covered when it comes to all three types of financial service institutions: banks,

microcredit institutions and money transfer operators. The biggest difference found in coverage is for banks: 43% of urban communities have at least one bank office while only 15% of rural communities have a bank. Microcredit organisations are very scarce in rural areas, while almost one in four urban communities has a microcredit organisation (Figure 7.2).

Figure 7.2. **Urban communities are better covered by financial service institutions**

Share of communities with financial institutions (%)

Source: Authors' own work based on IPPMD data.

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An important factor in promoting productive investments is a favourable investment climate. The Georgian government has in recent years introduced measures to promote entrepreneurship and self-employment activities by introducing liberalising policies; with the aim of reducing, for example, bureaucracy and tax burdens (Tchaidze and Torosyan, 2009). The World Bank's ease of doing business ranking, which measures the regulatory environment around the start-up and operation of a local firm, ranks Georgia as number 16 in the overall ranking. It ranks Georgia as number 8 for starting a business and 7 for getting credit (World Bank, 2017).

Figure 7.3. **Georgia has the most favourable business regulatory environment in the region**

World Bank ease of doing business ranking, overall and selected indicators
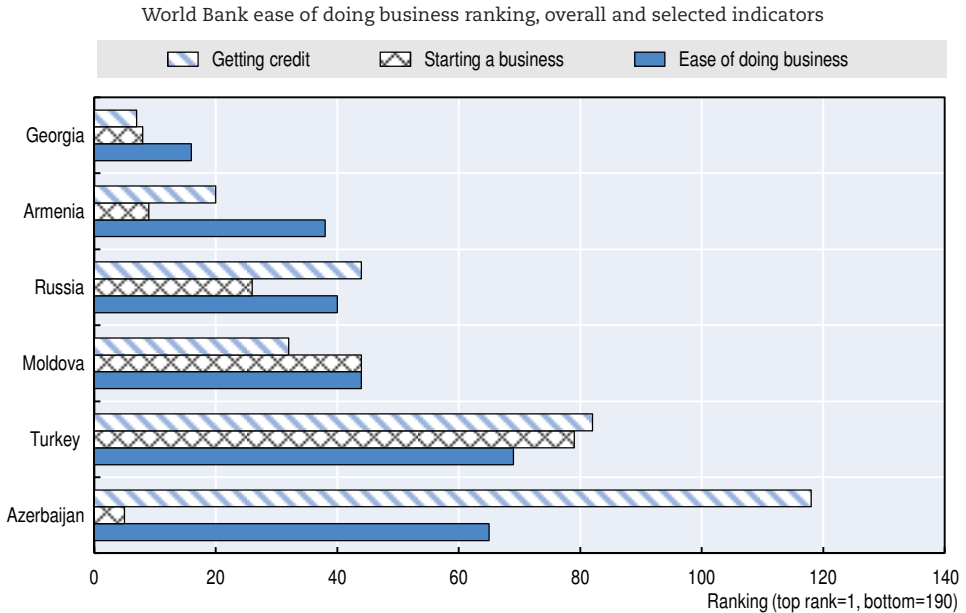
Note: A high rank (represented by a *low* numerical value) indicates a relatively more favourable business environment compared to other economies worldwide. In total, 190 countries are included in the ranking. Starting a business and getting credit are two sub-topics of the ease of doing business ranking.

Source: World Bank Doing Business Economy Rankings, *www.doingbusiness.org/rankings*.

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How does migration affect investments in Georgia?

Migration can have various effects on the investment and financial sector. On the one hand, remittances can be used by migrant households to invest in productive assets such as non-agricultural land and housing. Similarly, return migrants may accumulate capital and knowledge abroad and invest in business activities on their return. On the other hand, migration could have disruptive effects on investment if households need to sell their business or other valuable assets in order to finance the cost of migration. The net effect of migration and remittances on investments is therefore ambiguous. The analysis below examines separately how different aspects of migration affect investment outcomes linked to business ownership and productive assets.

Migration and remittances have limited effects on productive investments

The impact of migration and remittances on household investments in business activities has been widely discussed in the literature. Migration and remittances can offer a way to overcome credit market imperfections and enable

households to invest in productive activities such as business start-ups and investments. Empirical studies on the topic provide mixed evidence, making it hard to draw any firm conclusions. One stream of literature found positive and significant impacts of remittances on business investments (Amuedo-Dorantes and Pozo, 2006; Massey and Parrado, 1998). The receipt of foreign earnings by households and communities seem to significantly increase the odds of business formation and productive investment in Mexico (Massey and Parrado, 1998). Similar results are found in the Dominican Republic: remittances increase the likelihood of family-run business investments (Amuedo-Dorantes and Pozo 2006). Another stream of literature finds limited associations between migration and productive investment (Basok, 2000; Zarate-Hoyos, 2004).

Given their large inflows to Georgia, remittances have the potential to stimulate savings, investments and financial sector development, and thereby contribute to better economic outcomes. However, previous empirical evidence from Georgia has shown that remittances are mainly spent on food and basic subsistence needs, housing, and to some extent on investments in child education. The link between migration, remittance and other types of investments, such as investments in business activities and land, is shown to be weaker or non-existent (Gerber and Torosyan, 2010; Gugushvili, 2013).

The IPPMD questionnaire contains a question about what activities households with migrants and remittances have carried out following the departure of a household member. The most common activity was repaying a loan, followed by paying for health treatment or household members' education and taking out a loan from a formal bank (Chapter 3). Few households stated that they used remittances for direct business investments or savings[2] (3% of rural households and less than 1% of urban households set up a business after an emigrant left the household; Chapter 3, Figure 3.6).

The IPPMD survey also collected data on business and real estate (land and housing) ownership. Overall business ownership among the households in the sample is very low. Only about 2% of the households in the sample run a business. One potential explanation for the low levels of business ownership in the data could be the way households interpret "business ownership". The aim of the IPPMD data was to collect information about all types of business activities, formal and informal, including microenterprises and self-employment activities. However, the difference in reported self-employment activities (which are significantly higher, as shown in Chapter 4) and the data captured in the business module indicates that respondents may have been reluctant to include self-employment activities in the business module. The small sample size of households running a business limits the analysis related to migration and business ownership.

Remittances may also contribute to investments in the real estate sector. Qualitative evidence has found that remittances are accumulated to invest in real estate such as apartments in the capital (Zurabishvili, 2007). In the IPPMD sample, households receiving remittances are in general slightly more likely to possess both land and housing other than the house in which the household currently resides than households not receiving remittances, although the differences are small (Figure 7.4). The share of remittance-receiving households that own non-agricultural land is 22%, compared to 19% among household without remittances. The difference across the two household groups is even smaller when it comes to housing ownership (14% vs. 12%), and there is no visible difference in business ownership across households with and without remittances. The differences are not statistically significant.

Figure 7.4. **Business and real estate ownership is higher among households receiving remittances than households not receiving remittances**

Share of households owning a business and real estate, by remittance status
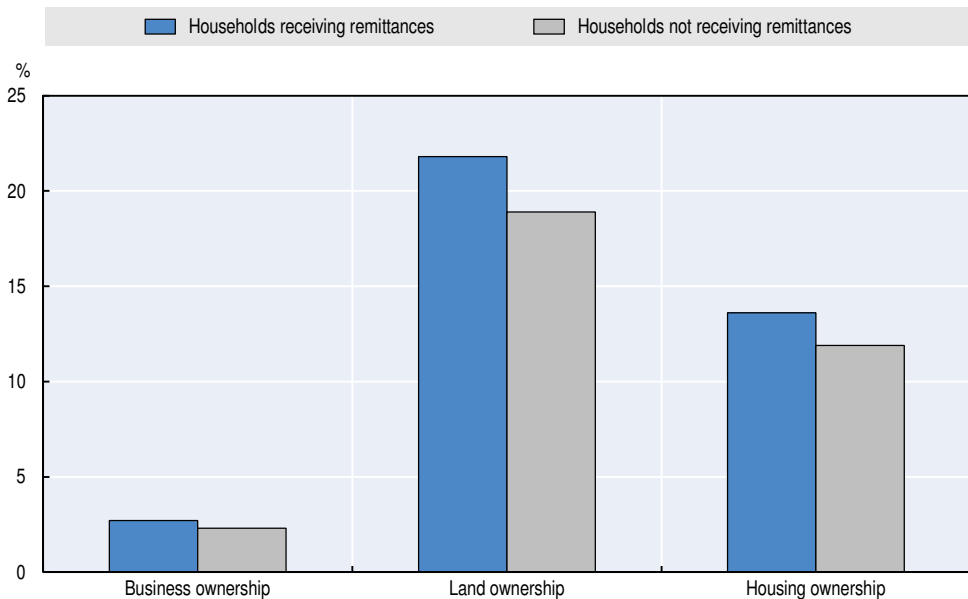
Note: Business ownership is defined as the household running at least one business. Real estate includes non-agricultural land and housing other than the property the household currently lives in. Results that are statistically significant (calculated using a chi-squared test) are indicated as follows: ***: 99%, **: 95%, *: 90%.

Source: Authors' own work based on IPPMD data.

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The relationship between migration, remittances and productive investments is further investigated in Box 7.1. The estimations show no association between business ownership and emigration or remittances. When it comes to real estate, the results show a positive link between the amount of remittances received by the household and owning real estate in the form of either non-agricultural land or housing, while the probability of receiving remittances is not statistically significant. Having an emigrant in the household is negatively associated with business ownership, indicating that migration may have a disruptive effect on entrepreneurship.

Taken together, the findings show a relatively weak relationship between migration, remittances and productive investments. The amount of remittances is positively linked to real estate ownership, which indicates that remittances need to be relatively large to promote real estate investments. No link between remittances and business ownership was identified. This may in part be explained by the low sample size. Yet, Chapter 4 showed a positive link between remittances and self-employment for men in rural areas, which suggests that remittances in some cases can spur more informal self-employment activities – but does not seem to be linked to other business activities.

Return migration is linked to entrepreneurship, but not real estate investments

Another potential link between migration and investments is return migration. Migrants may return with new knowledge and capital that can be used to finance business activities and invest in productive assets. Growing evidence shows that return migrants can accumulate savings abroad and start a business on their return (Labrianidis and Hatziprokopiou, 2006; McCormick and Wahba, 2001). On the other hand, migration may also have a disruptive effect on labour market integration and business activities can sometimes represent the "last resort" if return migrants face challenges in the local labour market (Mezger Kveder and Flahaux, 2013).

The IPPMD data include information about return migrants in the household and their employment status. The information about business activities is however limited to household level, and does not reveal if the businesses are run by the return migrants themselves or by other members of the household. The analyses will therefore be carried out at a household level, comparing productive assets and business activities across households with and without return migrants.

Box 7.1. **The links between migration and business and real estate ownership**

To test the magnitude of the impact of migration and remittances on business and real estate ownership, a probit model regression was run, taking the following form:

$$Prob(binvestment_{hh}) = \beta_0 + \beta_1 remit_{hh} + \beta_2 emig_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (1)$$

where $investment_{hh}$ is either business ownership or real estate ownership (depending on the specification) undertaken by the household. $investment_{hh}$ takes the value "1" if a household owns at least one business/owns real estate and "0" otherwise. $remit_{hh}$ represents either a remittance binary variable or the amount of remittances the household receives (in thousand Georgian lari). The binary variable for remittances takes the value "1" for households that receive remittances and "0" otherwise. $emig_{hh}$ represents a binary variable for whether the household has a migrant or not, and $controls_{hh}$ is a set of observed household characteristics that are believed to influence the outcome.[1] δ_r represents regional fixed effects and ε_{hh} is the randomly distributed error term.

Table 7.1. **Higher volumes of remittances can stimulate business ownership**

Dependent variable: Household runs at least one business/owns real estate
Main variables of interest: Household has an emigrant/receives remittances
Type of model: Probit
Sample: All households

| Variables of interest	Dependent variables		
	(1) Household runs a business	(2) Household owns real estate	(3) Household owns real estate
Household has an emigrant	0.012 (0.009)	-0.042 (0.028)	-0.043** (0.022)
Household receives remittances	-0.012 (0.010)	0.024 (0.029)	*n.a.*
Amount of remittances received	*n.a.*	*n.a.*	0.007** (0.003)
Number of observations	1 979	1 967	1 967

Note: Real estate includes non-agriculture land and housing other than the house in which the household lives. No analysis for amount of remittances was carried out for business ownership due to limited sample size (only 51 households in the sample runs a business). Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors in parentheses and robust to heteroskedasticity.

1. The set of household and individual explanatory variables included in the specifications are the following: household size and household size squared; household dependency ratio (defined as the number of children and elderly in the household as a share of the total members of working age); mean education level among adult members; a binary variable for household located in the capital; a binary variable for head being female; and finally an asset index (based on principal component analysis) that aims to capture the wealth of the household.

The descriptive statistics in Figure 7.5 reveal small differences between households with and without return migrants when it comes to real estate ownership. No visible difference is found for land ownership (20% of households own non-agricultural land, regardless of having a return migrant or not). Households with a return migrant are slightly more likely to own housing (14% compared to 13% for households without return migrants). The only statistically significant difference (using a chi-squared test) between households with and without return migrants is found for business ownership. About 5% of households with return migrants run a business compared to 2% of households without return migrants. This is also in line with findings in Chapter 4, showing higher levels of self-employment among return migrants than individuals without migration experience.

Figure 7.5. **Business ownership is higher among return migrant households than households without return migrants**

Share of households owning a business and real estate, by return migrant status
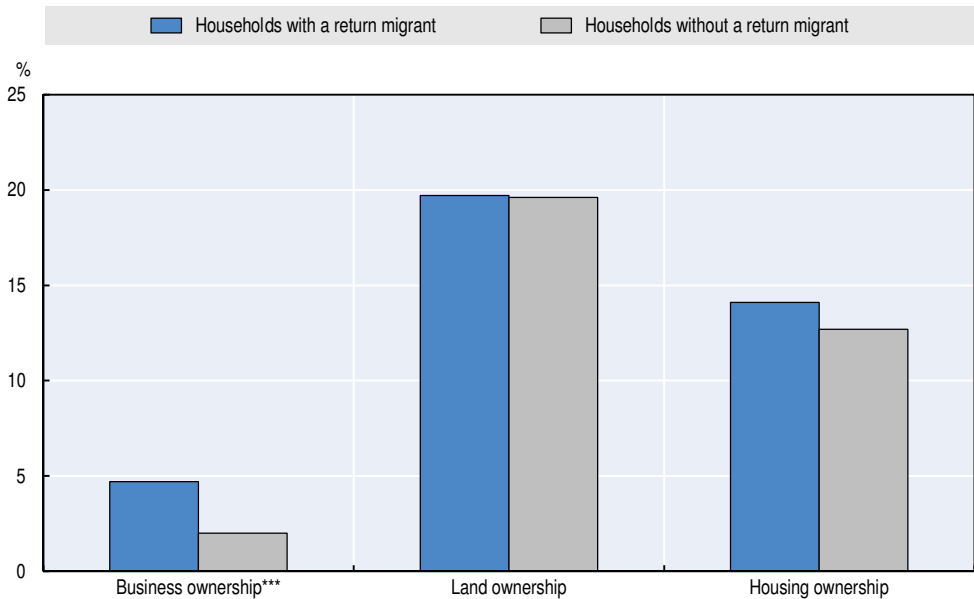
Note: Business ownership is defined as the household running at least one business. Real estate includes non-agricultural land and property (housing and/or apartments) other than the property the household currently lives in. Results that are statistically significant (calculated using a chi-squared test) are indicated as follows: ***: 99%, **: 95%, *: 90%.
Source: Authors' own work based on IPPMD data.

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A regression analysis was conducted to estimate the link between return migration and productive investments in business and real estate. More detailed results are presented in Box 7.2. The results show that return migration is

positively linked to business ownership, while no statistically significant effect was found between return migration and real estate ownership. The analysis for real estate was also performed separately for rural and urban households, but no separate effects were found for either of the household groups.

Box 7.2. **Exploring the links between return migration and productive investment**

To test the magnitude of the impact of return migration on productive investments, a Probit model taking on the following form is applied:

$$Prob(investment_{hh}) = \beta_0 + \beta_1 return_{hh} + \beta_2 emig_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (2)$$

where $investment_{hh}$ is either business ownership or real estate ownership (depending on the specification) undertaken by the household. $investment_{hh}$ takes on value "1" if a household owns at least one business/owns real estate and "0" otherwise. $return_{hh}$ represents a binary variable for return, where "1" denotes a household that has at least one migrant and "0" otherwise. $controls_{hh}$ is a set of observed household characteristics that are believed to influence the outcome.[1] δ_r represents regional fixed effects and ε_{hh} is the randomly distributed error term.

Two different specifications are presented. Specification (1) investigates the link between return migration and household business ownership. Specification (2) looks at the household real estate ownership and return migration.

Table 7.2. **Return migration is positively associated with business ownership**

Dependent variable: Household runs at least one business/owns real estate
Main variables of interest: Household has a return migrant
Type of model: Probit
Sample: All households

Variables of interest	Dependent variables	
	(1) Household runs a business	(2) Household owns real estate
Household has a return migrant	0.013* (0.008)	-0.016 (0.029)
Number of observations	1 979	1 967

Note: Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors in parentheses and robust to heteroskedasticity.

1. The set of household and individual explanatory variables included in the specifications are the following: household size and household size squared; household dependency ratio (defined as the number of children and elderly in the household as a share of the total members of working age); mean education level among adult members; a binary variable for household located in the capital; number of children in the household; a binary variable for head being female; and finally an asset index (based on principal component analysis) that aims to capture the wealth of the household.

How do Georgia's investment policies affect migration?

Policy makers have paid substantial attention to the relationship between migration and investment in recent decades. Countries with significant migration and remittance flows have implemented policies to harness the potential of remittances to finance development. However, most of the attention has focused on policies that explicitly target migrants, their households and diaspora communities, while sectoral policies to improve the wider investment and financial service sector have received less attention. Policies not directly targeting migration can also be an important tool to enhance the positive linkages between migration and investments. The rest of this chapter focuses on policies on financial inclusion, financial training and their impact on remittance patterns.

Box 7.3. **Investment and financial service policies
in the IPPMD sample**

The IPPMD household questionnaire included a number of questions on business investment policies, business obstacles and access to the formal financial sector (Figure 7.6). Business policy questions included questions related to tax subsidies and other subsidies from which the household business has benefited. However, these questions were only asked to households with businesses with at least four employees. The sample size is therefore limited.

The questionnaire also asked about access to bank accounts and participation in financial training. Access to an account in a formal bank gives people access to the formal financial sector, which can facilitate remittances and other capital transfers, encourage more remittances to be sent through formal channels, and facilitate access to credit and other financial services. Households without bank accounts ("un-banked households") often have to pay more to access basic financial services. The questionnaire also asked if anyone in the household had taken part in a financial training programme in the previous five years. Financial training can provide guidance to migrants, return migrants and remittance-receiving households on investment products and investment opportunities that can help households to use their remittances in more productive ways.

The community questionnaire included a number of questions about policies and programmes related to investment and financial services available in the communities being surveyed. These include financial and business training programmes, loans for business start-ups and other types of economic advantages to stimulate investments such as tax exemptions, business subsidies, and favourable import and export tariffs.

Box 7.3. **Investment and financial service policies
in the IPPMD sample** (cont.)

Figure 7.6. **Investment and financial service policies explored
in the IPPMD survey**

Policies related to businesses	Policies related to financial services	Programmes incuded in the community survey
• Economic zone • Tax subsidies • Other type of government subsidies	• Financial training programme • Access to bank accounts	• Banking and financial tools/financial literacy training • Business creation and business management training • Loans for business creation • Economic advantages (tax exemptions, subsidies, lower export/import tariffs) provided to businesses

Many households have access to bank accounts, but this does not seem to impact remittance patterns

Access to the formal financial sector may facilitate the sending and receiving of remittances and stimulate increased remittances in general, particularly those sent through formal channels. Remittances sent through banks or other financial intermediaries have also been shown to stimulate savings (Aggarwal et al., 2006; Gupta et al., 2009).

A proxy indicator for access to the formal financial sector in the survey is whether any member of the household has a bank account. Figure 7.7 compares the share of households in the IPPMD sample with access to bank accounts by remittance status, overall and for rural and urban areas (Tbilisi and other urban areas) separately. As was also shown in the first part of the chapter, most households in Georgia have access to bank accounts. Households receiving remittances are more likely to have a bank account in urban areas other than the capital, while the opposite is true in rural areas and in Tbilisi.

Access to the formal financial system facilitates the sending of remittances through formal channels, which can encourage more savings and better matching of savings with investment opportunities; and thus strengthen the development impacts of remittances. Remittances sent through formal channels can also generate multiplier effects by making more financial resources available to finance economic activities.

Figure 7.7. **Most households have access to bank accounts, particularly households receiving remittances in urban areas**

Share of households with access to bank accounts, by geographical region and remittance status
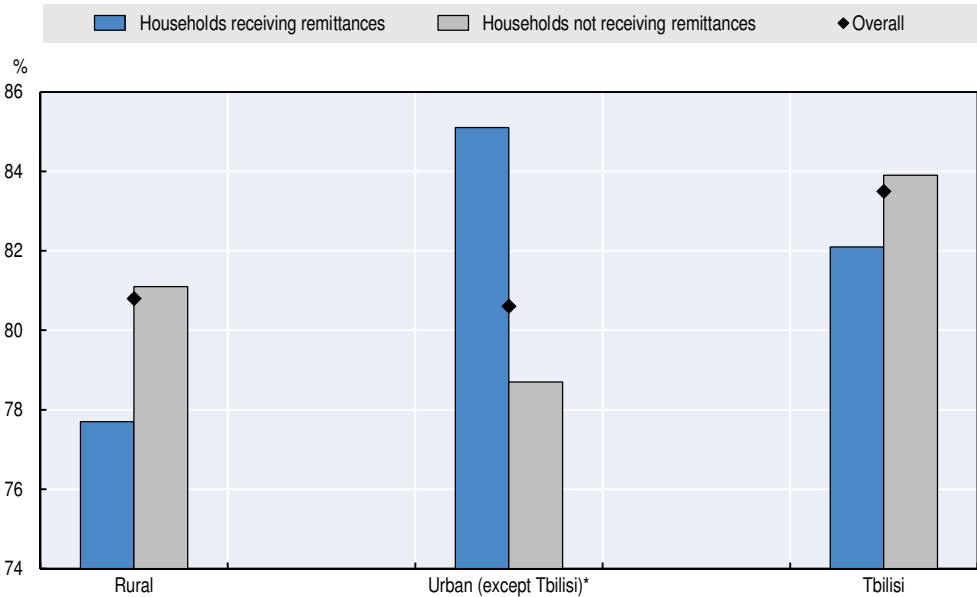
Note: Results that are statistically significant (calculated using a chi-squared test) are indicated as follows: ***: 99%, **: 95%, *: 90%.

Source: Authors' own work based on IPPMD data.

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The relationship between having access to a bank account and remittances' volume and sending channel is further investigated in Box 7.4. The findings do not show that households with access to bank accounts receive more remittances, or are more likely to receive remittances through formal channels. Separating the analysis for rural and urban household does not change the results.

One reason why these linkages are weak could be that financial inclusion is already high in Georgia, where a majority of households have access to bank accounts. A majority of remittances are also sent through formal channels; only 8% of the households that receive remittances receive them through informal channels.

Financial training programmes are scarce in Georgia

The findings in the previous section show that most remittances to Georgia are channelled through the formal financial system; this creates the potential to stimulate savings and generate multiplier effects in the economy beyond the households receiving remittances. However, this also requires households to have basic financial literacy and to be informed about available investment

opportunities. Better knowledge about savings and investment possibilities can channel remittances into more productive investment. Yet previous studies indicate that despite the high share of banked individuals in Georgia, lack of financial literacy is a concern for financial institutions (Gugushvili, 2013).

The IPPMD data show that very few households in the sample have benefited from any financial training programmes. Only about 1% of households in the sample have participated in a financial training programme in the past five years. Furthermore, the community survey revealed that no courses related to financial literacy or business creation are available in the sampled communities.

Box 7.4. **The links between bank accounts and remittance-sending behaviour**

Regression analyses were applied to estimate the effects of bank accounts and financial training on remittance patterns, using the following two models:

$$Prob(informal\_remitt)_{hh} = \beta_0 + \beta_1 bank\_account_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (3)$$

$$Ln(amount\_remitt)_{hh} = \alpha\beta_0 + \beta_1 bank\_account_{hh} + \gamma controls_{hh} + \delta_r + \varepsilon_{hh} \qquad (4)$$

where the dependent variable in model (3) and (4) is the amount of remittances the household receives, and in column (2) the probability of receiving informal remittances. $bank\_account_{hh}$ represents a binary variable indicating if the household has a bank account, where "1" denotes a household with a bank account and "0" if not. *controls* are a set of observed household characteristics influencing the outcome.[1] δ_r represents regional (municipality level) fixed effects and ε_{hh} is the randomly distributed error term.

Table 7.3. **Having a bank account does not affect remittance patterns**

Dependent variable: Amount of remittances received/household receives formal remittances
Main variables of interest: Household has a bank account
Type of model: Probit/OLS
Sample: All households receiving remittances

Variables of interest	Dependent variables	
	(1) Amount of remittances received	(2) Household received informal remittances
Household has a bank account	-0.306	-0.007
	(414.4)	(0.008)
Number of observations	339	1 901

Note: Results that are statistically significant are indicated as follows: ***: 99%, **: 95%, *: 90%. Standard errors in parentheses and robust to heteroskedasticity.

1. The set of household and individual explanatory variables included in the specifications are the following: household size and household size squared; household dependency ratio (defined as the number of children and elderly in the household as a share of the total members of working age); mean education level among adult members; a binary variable for household located in the capital; number of children in the household; a binary variable for head being female; and finally an asset index (based on principal component analysis) that aims to capture the wealth of the household.

In addition, migration is often financed by debt in Georgia, and remittances are often used to repay debt (Chapter 3). The costs of emigration could present an obstacle to remittance investments and contribute to the absence or delay of productive investments following emigration. In the absence of functional credit markets, households may have to pay high interest rates, which may undermine their ability to invest.

Conclusions and policy recommendations

Remittances from migrants are a key income source for a significant part of the Georgian population, and constitute an important contribution to the country's national income. Financial resources sent in the form of remittances or brought back by return migrants can help households overcome financial constraints and finance productive investments such as business activities and real estate.

The findings in this chapter suggest that remittances can spur investments in real estate, provided that the amounts of remittances received are large enough. The results also showed a positive relationship between return migration and households running a business. However, the link between migration and investments is not clear cut, but the results suggest that the impact of migration and remittances on investments has not yet been fully realised. Despite a high ranking on the ease of doing business scale, the share of households with businesses in the IPPMD sample is low, and no link between remittances and business activities were found, which is in also in line with previous empirical findings for Georgia. Facilitating business creation and small-scale business operations, through offering small business loans and business management training for example, could support households to channel more of their remittances into business activities.

Furthermore, the findings show that Georgia is already advanced when it comes to financial inclusion. However, low financial literacy may impede investments. Participation in financial training programmes is very low among both migrant and non-migrant households in the sample, which might be a missed opportunity to channel remittances into more productive investments. In addition, remittances are often used to repay debt, which may be linked to migration often being financed by loans. The amount of time and resources it takes the household to repay debts may then undermine their ability to invest. Sectoral policies could hence help create a more enabling environment for migration and remittance funds to be used more efficiently, for example by providing financial literacy training, and could make sure that cheap and secure ways of funding migration are available to potential migrants.

Findings from the analyses suggest several recommendations for policy:

- Provide business management and entrepreneur skills courses, promote entrepreneurship and help remittance-receiving households and return migrants overcome barriers to investments. Providing more information about local investment opportunities to return migrants could also increase investments.

- Develop financial education programmes to enhance financial literacy, especially in areas with high emigration rates and remittance flows.

Notes

1. The community survey defined a community as a fairly small area which does not reflect the country's official administration division. In urban areas for example, municipalities were divided into smaller units in the sampling process (Chapter 3). Hence, in certain cases the community data may not capture all financial institutions located in the municipality where the household resides, and may therefore underestimate the financial institution coverage in the community.

2. However, this is not enough to conclude that remittances are not used for long-term investments. Spending remittances on consumption or other short-term activities that only indirectly contribute to development may free up resources that can be redirected and used for investments in other activities.

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