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The Development and the Side Effects of Remittances in the CIS Countries and Georgia: The Case of Georgia

Alexi Gugushvili

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CARIM-East
Creating an Observatory of Migration East of Europe

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The Development and the Side Effects of Remittances in the CIS Countries and Georgia: The Case of Georgia

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CARIM-East – Creating an Observatory East of Europe

This project which is co-financed by the European Union is the first migration observatory focused on the Eastern Neighbourhood of the European Union and covers all countries of the Eastern Partnership initiative (Belarus, Ukraine, the Republic of Moldova, Georgia, Armenia and Azerbaijan) and Russian Federation.

The project's two main themes are:

(1) migration from the region to the European Union (EU) focusing in particular on countries of emigration and transit on the EU's eastern border; and

(2) intraregional migration in the post-Soviet space.

The project started on 1 April 2011 as a joint initiative of the European University Institute (EUI), Florence, Italy (the lead institution), and the Centre of Migration Research (CMR) at the University of Warsaw, Poland (the partner institution).

CARIM researchers undertake comprehensive and policy-oriented analyses of very diverse aspects of human mobility and related labour market developments east of the EU and discuss their likely impacts on the fast evolving socio-economic fabric of the six Eastern Partners and Russia, as well as that of the European Union.

In particular, CARIM-East:

- builds a broad network of national experts from the region representing all principal disciplines focused on human migration, labour mobility and national development issues (e.g. demography, law, economics, sociology, political science).
- develops a comprehensive database to monitor migration stocks and flows in the region, relevant legislative developments and national policy initiatives;
- undertakes, jointly with researchers from the region, systematic and *ad hoc* studies of emerging migration issues at regional and national levels.
- provides opportunities for scholars from the region to participate in workshops organized by the EUI and CMR, including academic exchange opportunities for PhD candidates;
- provides forums for national and international experts to interact with policymakers and other stakeholders in the countries concerned.

Results of the above activities are made available for public consultation through the website of the project: http://www.carim-east.eu/

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Abstract

The volume of remittances in Georgia has been growing every year since 2001, but so has the size of the economy. This means that the share of remittances fluctuated at 5-7 percent of GDP, 2001-2010. Survey data indicate that one-tenths of households receive remittances, while the size of a typical monthly transfer amounts to 265 GEL (149 USD), most of it delivered via formal money transfer systems. There is a positive association between economic growth and remittances, but the causal effect is apparently limited to trade services because, on average, 80 percent of received transfers is spent on primary consumption. Remittances are linked to a households' propensity to save and to have bank accounts and the higher interest in various investment options. Remittances have only a marginal impact on small business activity in rural recipient households and are associated with lower employment chances. Linkage between inflation and remittance is vague. However in those months when remittances increase, the monthly inflation rates, typically, decrease. Recipient households spend more on education and healthcare and urban recipients also report higher subjective health status and educational enrollment. The effect on inequality and poverty is not straightforward because households in the middle income range benefit disproportionately from remittances. Still, the regions with the higher rates of recipient households do experience lower levels of poverty, while individuals from recipient households have higher subjective and objective perceptions of welfare. Remittances arguably create moral hazard, at the public level, as the elderly and the poorest are less likely to be remittance recipients. This coincides with the social policies implemented, 2004-2012 , when the increase of old-age pensions and the introduction of targeted social assistance became a priority for the government.

EXECUTIVE SUMMARY

Data and methods

This report uses macro and micro data from various sources. The National Bank of Georgia provides annual, quarterly and monthly statistics on remittances by country of origin and by transfer mode. For comparative reasons data from the World Bank's Migration and Remittances Database is also employed. Related data on economic and social developments are derived from the National Statistics Office of Georgia and the Social Service Agency, as well as other sources and reports. Micro data derive from: the 2007 National Public Opinion Survey on Remittances in Georgia and Life in Transition Survey for 2006 and 2010 both by EBRD; the Caucasus Barometer and EU Survey for various years by the Caucasus Research Resource Centers; the data from the Georgia on the Move Survey for 2008 by the Institute for Public Policy Research; and the 2007 Survey of South Caucasus by Bendixen and Associates. In addition to synthesising and illustrating the existing findings from the scholarly literature, this report employs several complementary methodological approaches. These include: basic bivariate correlations or the description of changes in various relevant variables over time; and ordinary least squares and linear probability regressions, using the long series of monthly, quarterly and yearly data to explore how remittances associate with various dependent variables.

Emigration from Georgia

In 2011, more than 50 percent of respondents in a nationally representative social survey reported at least one family member or close friend living abroad. The initial and most intense emigration wave in the history of independent Georgia started in 1989 and lasted until the middle of 1990s. In 1997-2003, negative net emigration was maintained, but the number of migrants more than halved; while during the most recent migration phase, 2004-2011, changes in political, economic and social life coincided with positive net migration rates. The recent trends have been increasingly viewed as being driven by economic reasons. They, therefore, have important implications for remittances. The profile of migrants – working age population, married, with children, unemployed in Georgia from poorer households – indicates that emigration would have strong associations with remittances as the household members left behind almost certainly require financial assistance from migrants. The available data indicate that Russia and Ukraine, are the main destination countries in the former Soviet Union, while among the Western destinations Germany, Greece, and the US dominate. Evidence also suggests that emigration not only determines remittances, but also that remittances have an effect on emigration by stimulating the desire to emigrate among recipients.

Trends in remittances

Macro-level data on remittances

Two items from the current transfers section of the Georgian balance of payments– workers' remittances and other personal transfers – can be considered as the official volume of remittances in Georgia. In absolute terms personal remittance increased from 46.8 in 1995 to 1175.3 million USD in 2011. The estimates from the National Bank of Georgia are slightly higher than those provided by the World Bank. The volume of remittances has been growing every year since 2001, but so has the size of GDP, which means that the share of remittances fluctuated at 5-7 percent of GDP, 2001-2010. The 2008 economic crisis in Georgian migrants' main destination countries – e.g. Russia, Ukraine, and Greece – meant that remittances grew, in nominal terms, at a lower rate than the nominal growth of GDP in Georgia. This meant that the share of remittances in overall economic output fell. Alternative estimates for remittances can be derived from the payments of electronic transfers according to which the ten major remittance sending countries in order of importance -Russia, the USA, Italy, Greece,

Ukraine, Turkey, Spain, Germany, UK, and Kazakhstan – account for about 90 percent of all monetary transfers to Georgia.

Remittances in household level surveys

Those nationally representative social surveys, which contain information about remittances, are very helpful for understanding the nature of remittances at the micro-level. Five different datasets for 2006-2010 indicate that the spread of remittances varies between 8.3 and 14.3 percent of all remittance receiving households. The same datasets show that residents of Tbilisi are those most likely to receive remittances and that rural residents are the least likely to receive the same. Estimates for 2010 suggest that monthly remittances received by a typical household amount to as much as 265 GEL (149 USD)[1] in Georgia. This is close to EBRD's estimate of 189 GEL (106 USD) in 2006 and the Georgia on the Move project's estimate of 219 GEL (147 USD) monthly remittances in 2008. The largest amounts of remittances *per* transfer are sent from the North American destinations, about GEL 300 (201 USD) in 2008. Most transfers take place via formal money transfer systems, but informal channels, such as a courier or a family member travelling to or from Georgia accounted for nearly one third of transactions. Informal remittances appear to be higher in rural areas, probably because of the undeveloped financial infrastructure in rural Georgia.

Profiles of senders and receivers

The survey data indicate that the probability of remitting is negatively associated with the size of migrant groups: number of migrants who reside together, generally family members or close friends. Migrants are more likely to remit back home if they leave their children behind and have more frequent contacts with the recipient household. Similarly, they are more likely to remit if that household is located in a rural area and if the remitters are located in Western Europe, Northern America and Turkey and if remitters are well educated and have a job. The duration of stay abroad is also an important factor. The third year of stay provides the highest expectations for remittances, but this effect diminishes over time. On the other hand, the probability of receiving remittances is positively associated with residency in urban areas. The young aged 18-24 and adults aged 50-64 are slightly overrepresented among recipients. The receipt of remittances is negatively associated with the number of retirees in the families and the number of male adults in general. The least educated, employed, and the poorest are significantly under-represented, while the most educated, unemployed, relatively wealthier individuals are over-represented among recipient households. Households in Samtskhe-Javakheti, Samegrelo-Zemo Svaneti, and Imereti and households with ethnic minority status have the higher probability of being recipients.

The development and the side effects of remittances to Georgia

Remittances and growth

Economic growth in recent years was primary led by a few selected sectors such as construction, financial intermediation, manufacturing and trade services. The growth in the last sector is arguably the most affected by remittances because, on average, 80 percent of received transfers are spent on primary consumption. By 2010, the volumes of foreign direct investments and remittances were equal. Remittances remained one of the main sources to mitigate high negative current account balance and it contributed to the share of imported goods, industrial and food products, which is very high in the consumption structure. Estimates from the computable general equilibrium model suggest that without remittances private consumption and GDP growth rates would decrease by

[1] This, and all other, conversions of currency are done with the average yearly exchange rate of the National Bank of Georgia.-

respectively, 24.7 and 13.3 percent. The regression analysis, meanwhile, shows a strong positive correlation between economic growth and remittances, both probably being the product of broader economic trends in the region and the world.

Remittances, investment and financial development

Georgia is characterized by low levels of gross national savings. This is often explained by low incomes and the country's financial culture. But the banking sector remains one of the most developed in the economy. The financial assets coming from external sources, other than remittances, have been identified as the main component of loans and investments in Georgia, but remittances receipt is linked to households' propensity to save. Recipients in urban areas and higher income brackets, and in more frequent receipt of remittances are much more likely to have bank accounts. Recipients also have higher interest than general population in various investment options such as loans to finance a business, or a mortgage to buy or build a home. Indeed, some fragmented evidence suggests that a part of remittances is accumulated for investment in real estate. Nevertheless, the regression analysis does not reveal that the monthly growth of deposits in commercial banks is significantly related to the monthly growth of remittances, 2002-2012.

Remittance and employment

Employment is one of the most important social problems in Georgia. Since the 1990s unemployment has remained at double digit levels, while two sharp increases were the result of public administration reforms in 2004-2006 and the consequences of the economic crisis in 2008-2009. Available studies indicate that remittances have only marginal impact on small business activity in rural households with absent migrant members. The primary analysis for this report also shows that living in a recipient household reduces employment chances in Tbilisi, urban and rural areas, especially when remittances serve as the main source of income. On the other hand, remittances are, respectively, negatively and positively associated with being inactive and being unemployed and looking for a job. Apparently, remittance provides resources to search for a better job and simultaneously drives up the reservation wage of job-seekers.

Remittance and inflation

Inflationary processes intensified in Georgia after 2004, when more robust fiscal and monetary policies increased the broad measures of money supply. Regressing the monthly data points, 2000-2012, on inflation rates and the corresponding monthly data points on various measures of remittances, it becomes evident that remittances have a statistically significant and negative relationship with inflation rates: in other words, in those months when the remittances increase, the monthly inflation rates, on average, decrease. However, in January 2008 to June 2012, one month lagged remittances have positive and significant associations with the rate of inflation. If there is, indeed, any significant association between remittances and inflation, then the effect might stem from the appreciation of the Georgian Lari and the relative decrease of prices of imported goods.

Remittances and human capital formation

Insufficient education, lack of competitive qualifications and skills, and poor health status are identified as predictors of labour market performance in Georgia. If the relative share of expenditure on education in household consumption remained the same, 2001-2011, the share of healthcare expenditure almost doubled over the same period. Survey evidence indicates that: a quarter of remittance recipient households used them for education (an extra 66 GEL annual expenditure); and one-fifth for health/life insurance purposes (an extra 221 GEL annual expenditure). These effects are especially apparent in Tbilisi and other urban areas. In the latter type of settlement individuals from recipient households also report a higher subjective health status, while for those under the age 30, the probability of being in education increases in the capital city.

Remittances, poverty and income inequality

Poverty and inequality levels remain consistently high in Georgia, but the role of remittances in social welfare is not clear. Available evidence indicates that households in the middle income range benefit disproportionately from remittances compared to the poorer households. In those cases remittances may intensify inequality and poverty, if the latter is estimated by relative poverty measures. Remittance flows do not affect all sectors and residents symmetrically and have a rather limited impact in terms of poverty and income inequality. Overall, this report finds that regions with the higher rates of recipient households experience lower levels of poverty. Individuals, meanwhile, who live in recipient households see themselves as being higher on the socio-economic ladder. they experience better welfare outcomes and they spend more than non-recipient households.

Remittances, public moral hazard, informalised welfare and policy trap

Remittances arguably play an important role in the political economy of social welfare in Georgia. Neoliberal economic and social policies, founded on the idea that the private sector should drive the country‘s advancement, intended to reduce public involvement in private lives by reducing regulations and the size of the civil service in the country. Remittances were most likely viewed as one of the components of that private sector. The elderly and the poorest are less likely to be remittance recipients than the younger and the better-off, which coincides with the social policies implemented since 2004, when an increase in old-age pensions and the introduction of targeted social assistance became the priority for the government. A moderate but negative correlation has also been observed between the number of remittance recipients and the number of social assistance beneficiaries in Georgian regions. This might suggest that remittances serve as a social safety net for those individuals who are not the poorest but who would be in need of targeted social assistance without remittances. Regression analysis indicates, too, that remittances are negatively correlated with receiving any type of government benefits. At the same time, the country started to implement more inclusive migration policies by effectively allowing dual citizenship and granting a number of political and economic rights to expatriates.

1. Introduction

An appraisal of growth and an examination of the side effects of remittances in Georgia are both important and timely exercises. After all, in 2009, the country was among the world's top 10 remittance recipients (World Bank, 2011), while in 2011 money transferred from abroad amounted a record high of USD 1.26 billion, up 20.5% from 2010 (NBG, 2012). For Georgia remittances are the most important source of external financing after net official development assistance and official aid and close, numerically, to foreign direct investments. Since the end of 1990s they have arguably served as a cushion against the economic and political turbulence brought about by the transition and associated reforms (Mansoor and Quillin, 2006). A significant portion of the Georgian population are unable to cover major human needs: given this remittances constitute 6.9 percent of GDP in 2005 and are vital for the livelihood of recipient households (Caucasus Research Resource Centres, 2007). Furthermore, Georgia in the last few years started to conduct more proactive citizenship policies toward its expatriates. It did so, inter alia, to promote links between its foreign residents and domestic socio-economic development (Gugushvili, 2012b). Remittances in Georgia are correlated to the same two-bloc pattern as emigration, while emigration is itself mostly driven by economic considerations. The European Union, particularly Greece and Italy, and the Former Soviet Union states, particularly Russia and Ukraine, are the main sources of remittances to Georgia.

Fragmented evidence exists that, since the 1990s, remittances have played a key role in poverty alleviation, especially for ethnic minorities which have been socio-politically and economically excluded in Georgia (Caucasus Research Resource Centres, 2007). However, there has not been a systemic assessment of the impact of remittances on development and their possible side effects. It is well know that the bulk of remittances are spent on consumption rather than savings and investments. But the causal links between remittances and economic growth are not clear. It has been also argued that remittances decrease the motivation to work and to undertake innovative entrepreneurial activities. However, existing studies do not control for various employment statuses among recipients. Nor do they look at whether or not the degree of dependence on remittances matters for recipients' labour market positioning (Tchaidze and Torosyan, 2010, Gerber and Torosyan, 2010). Furthermore, few or no empirical studies exist which show the relations between remittances, on the one hand, an inflation rates, educational attainment, health status, and inequality levels, on the other. A few existing studies could be also affected by the selection bias problem, which means that an effect attributed to remittances might stem from other individual and household characteristics, making recipients incomparable to non-recipients. This report tries to take into account these shortcomings in compiling available studies and data on remittances in Georgia and, at the same time, generates new empirical evidence for remittances.

The report is structured as follows. In the next section the data, variables and methodology of the study are described. Section 3 distinguishes three stages in modern migration trends and outlines their implications for remittances in Georgia. This is followed by the analysis of quantitative and qualitative trends in remittances since the mid 1990s, particularly emphasising the profiles of remitters and receivers of remittances. Section 5 studies the links of remittances with the various dimensions of development. Subsection 5.1 looks at economic growth, its driving factors and empirical evidence on the effect of remittances in this process; subsection 5.2 looks at how investments and financial sector development are associated with remittances; in Subsection 5.3 employment and unemployment trends and characteristics are related to remittances; Subsection 5.4 studies whether or not remittances play any role in inflationary processes; Subsection 5.5 tests how educational and health related characteristics are linked to remittances; in Subsection 5.6 associations are investigated between various measures of poverty and inequality and remittances. Last but not least, Section 6 is partially based on the derived findings. Here we speculate about public moral hazard, informalised welfare and policy traps, all stemming from remittances. Each substantive subsection of the report has two main sections: the first describing the general conditions and trends regarding an investigated topic, the second part bringing forward already available studies or generating new empirical evidence within the scope of the project.

2. Research design

This report uses various data sources and eclectic methodological approach to address the impact of remittances. More specifically we look at the impact on: growth, investment, financial development, employment, inflation, human capital formation, poverty, income inequality, public moral hazard, informalised welfare and policy traps. Because there is little if any empirical analysis available on some of the outlined issues, the report is based on a first-hand analysis of accessible datasets. Using various data sources increases our understanding of the role of remittances in the development of Georgia, but it also, of course, has its shortcomings. At the macro level, remittances are defined as part of the balance of payment and also crudely estimated by money transfer payments. However at the micro level, remittances are represented as the money received from family members, relatives, or friends living in another country. Using different definitions and data-sources inevitably affects the consistency of findings. However, this is a necessary compromise, the cost of having an empirically grounded analysis of various aspects of remittances.

2.1 Statistical data

Georgia is characterized by reasonably good coverage of statistical data on remittances. At the macro level the National Bank of Georgia (NBG) provides annual, quarterly and monthly statistics on remittances by country of origin and by the transfer systems used (NBG, 2012). From 2010 these data also includes information from all financial institutions. To facilitate comparisons with other countries, data from the World Bank's Migration and Remittances Database is employed (World Bank, 2012a). Other macroeconomic variables such as monthly and annual figures on overall economic growth and in different sectors are available through the National Statistics Office of Georgia. These include: employment/unemployment, active and inactive population, inflation, aggregate consumption, investments and financial sector development, relative poverty levels and households income composition, (Geostat, 2012). NBG also provides data on deposits and loans at the commercial banks, as well as currency rates. For regional poverty levels data from Working Group on Poverty Reduction and Employment (2009) is used. For social assistance levels across regions data from Social Service Agency is employed (SSA, 2012), while data on dual Citizenship comes from Civil Registry Agency (Gugushvili, 2012b).

At the micro level, two Life in Transition Surveys (EBRD), 2006 and 2010, the nationally representative probabilistic samples of the adult population of Georgia, contain information on remittances in the overall household income structure. Here and with other surveys, this report has the following definition for a household in receipt of remittances: namely, a respondent asked to list all sources of monetary income in her/his household in the last 12 months mentions 'Money from family members, relatives, or friends living in another country' as one of the sources. For longitudinal developments, the CRRC (Caucasus Research Resource Centers, 2009, 2010) dataset is more appropriate because it provides information on remittances since the late 2000s, allowing us to look at the evolution of remittances in income composition. The summative data from the EBRD's 2007 National Public Opinion Survey on Remittances in Georgia is also available (EBRD, 2007) and is used for descriptive purposes. The data from the 'Georgia on the Move' Survey (GOTM) which was conducted as part of a six-country study of the relations between migration and development – the Development on the Move Project – is also utilised (IPPR, 2010). Considering complications related to data on remittances in general and in the Georgian context in particular, this study interprets data very cautiously. Other micro data which are employed in the analysis include the EU Survey by CRRC (Caucasus Research Resource Centers, 2011b) and the Survey of South Caucasus by Bendixen and Associates (2007).

2.2 Methodology

In addition to synthesising and illustrating the existing findings from the available scholarly sources, the report employs several complementary methodological approaches. For the macro-economic part

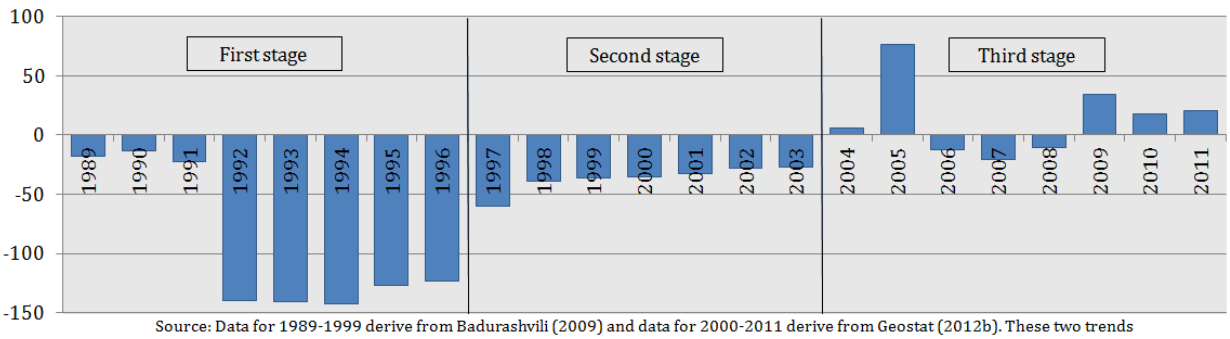
of the study with the links between the growth of remittances, on the one hand, and the growth of economic output, inflation, and bank deposits on the other, ordinary least squares (OLS) models and long series of monthly and quarterly data are used. The role of remittances in relation to the foreign direct investment, official development assistance, exports, current account balance, GDP, sectoral growth, annual growth rates, employment and unemployment, consumer price index, average annual inflation, households' consumption structure, Gini coefficients, poverty measures, regional distribution of poverty, rate of social assistance beneficiaries, and the number of granted citizenships is analysed though basic bivariate correlation or the description of overtime changes in these variables. Although, this type of analysis cannot reflect the causal effects deriving from remittances, it is useful for making tentative conclusions.

In terms of micro-data, the report is based on statistical analysis of the aforementioned individual and household level surveys. As the surveys ask households whether or not they receive remittances, they provide an opportunity to investigate statistically significant characteristics associated with remittances. On the one hand, the report detects what demographic and socio-economic factors correlate with the propensity to receive remittances. On the other, we ask what type of behaviour and conditions there are associated with remittances in terms of savings, employment, unemployment, consumption, health, education, poverty, inequality and social assistance. Conditioned by the nature of dependent and independent variables, the analysis uses two main regression techniques, ordinary least squares and linear probability models, to explore how remittances associate with various dependent variables. However, results from matching and logistic regressions from other studies are also presented. Coefficients from linear probability models are similar to marginal effects for logistic regressions, but the former are easier to estimate and interpret (Bernardi and Cebolla, 2011). To account for heteroskedasticity in regressions robust standard errors are estimated (Cameron and Trivedi, 2009). However, because of space constraints these are not shown in presented tables and figures. Last but not least, the regressions are run for Tbilisi, other urban, and rural areas sample separately, and we distinguish when remittance are the main versus other source of income for a household.

3. Emigration from georgia and its links to remittances

Approximate estimates suggest that Georgia has lost about 20 per cent of its 1989 population to migration (Caucasus Research Resource Centres, 2007). Indeed, in 2011, more than 50 percent of respondents in a representative social survey reported at least one family member or close friend living abroad (Caucasus Research Resource Centers, 2011a). Although migration has intensified, since the 1990s, it is by no means a new phenomenon for Georgia. Already in the 1920s, the natural increase of population in rural areas was high, leading to an imbalance between supply and demand in local labour markets: this led, especially in the mountainous regions with scarce arable land, to migration to Russia (IOM, 2003). During the decades of Soviet rule Georgia experienced the centrally-channelled immigration of Russian-speakers, determined by economic and political considerations, including the deliberate attempt to change the ethnic population structure. From the 1970s the immigration of Russians into the South Caucasus slowed and was gradually reversed. In 1979-1988, Georgia lost about 15% of its Russian population (Korobkov, 2007). As seen in Figure 1, the initial and most intense emigration wave from independent Georgia was related to previous trends and lasted until the middle of 1990s. In 1997-2003, the negative net migration was maintained but the number of emigrants more than halved, probably as a result of the political and economic stabilisation of the country. The most recent migration phase, 2004-2011, coincides with the so-called "the Rose Revolution", when the changes in political, economic and social life became associated with positive net migration rates. In addition to the size of migration, the various phases have have divergent implications for remittances in Georgia.

Figure 1: Net annual migration in Georgia, in thousands



Source: Data for 1989-1999 derive from Badurashvili (2009) and data for 2000-2011 derive from Geostat (2012b). These two trends are not directly comparable, but give us a general idea of migration rates in the country

In spite of high scale migration in the first half of the 1990s there are two reasons why this phase might not have lasting consequences for remittance in Georgia. First, a substantial share of migrants left the country permanently; among these the ethnic minorities were probably the dominant groups. The available data suggest that, after the immediate collapse of the Soviet Union, the ethnic dimension explained a good part of emigration trends. There are also indications that emigration trends were exacerbated by the rhetoric of the post-communist nationalistic elites, such as alleged statements made by the first president of Georgia (Brubaker, 1992). In the mid 1990s, the United Nations survey indicated that at least one family member of 35 per cent of the Russian, 32 per cent of the Azerbaijani and 28 per cent of Armenian respondents in Georgia had already emigrated permanently. For the Georgian respondents, meanwhile, the corresponding figure was only 10 per cent (UN, 1996). Many of those who left permanently probably did not have close family members left behind to send remittances to. On the other hand, as we will see in the next sections, the probability of sending remittances decreases dramatically over time.

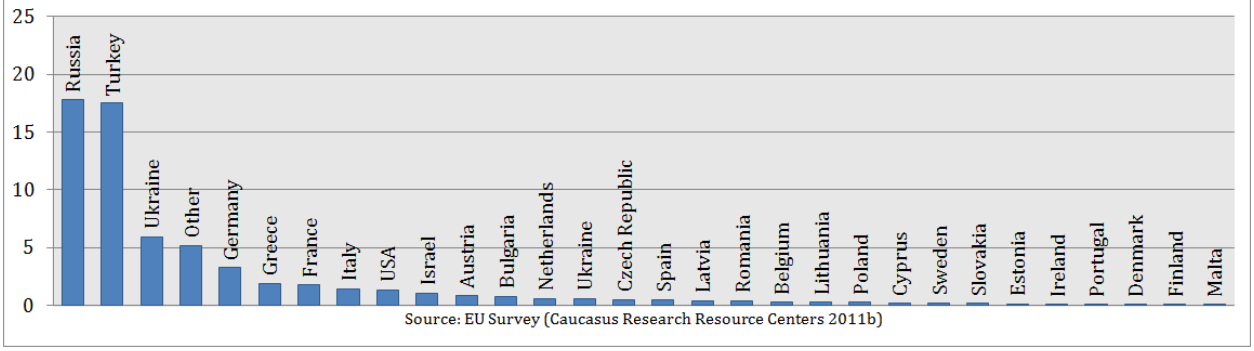
If the initial stages emigration has been mostly explained by the collapse of the Soviet Union and the resultant ethnical mismatch, later population movements have been judged to depend more on economic factors. From 1996 to 2003, emigration was already related to economic conditions and most of the migrants were ethnic Georgians who habitually sent money back to Georgia. For the first half of 2000s, the majority of those who migrated were previously unemployed (Asatryan, 2007), while females tended to emigrate in larger numbers. The poorer economic conditions stimulated migration decisions, but no statistically significant relations were found between individuals' education and their willingness to emigrate. Overall, in the first half of the 2000s employment was the most common purpose of emigration (Dermendzhieva, 2011). Highly educated individuals, it transpired, had up to a four times higher probability of emigration to a high-income OECD country. For the nature of remittances it is important to understand the profile of migrants and their destination countries. According to the last census of the population of Georgia, 78 percent of absent emigrants were abroad so as to improve the economic position of their family; only 10 percent were employed before leaving. Emigrants were represented by both sexes (58.7 percent were males) and by a fairly young population: over 80 percent were people of working age, while one quarter of migrants were tertiary educated (Badurashvili, 2009).

Table 1. Migrant stock from Georgia in 10 major destination countries in the first half of 2000s

	Russia	Ukraine	Greece	Armenia	Germany	Israel	Azerbaijan	USA	Turkey	Other	Total
Thousands	629.0	95.7	71.7	70.1	30.2	17.5	12.6	12.0	6.5	90.4	1035.7
Percent	60.7	9.2	6.9	6.8	2.9	1.7	1.2	1.2	0.6	8.7	100.0

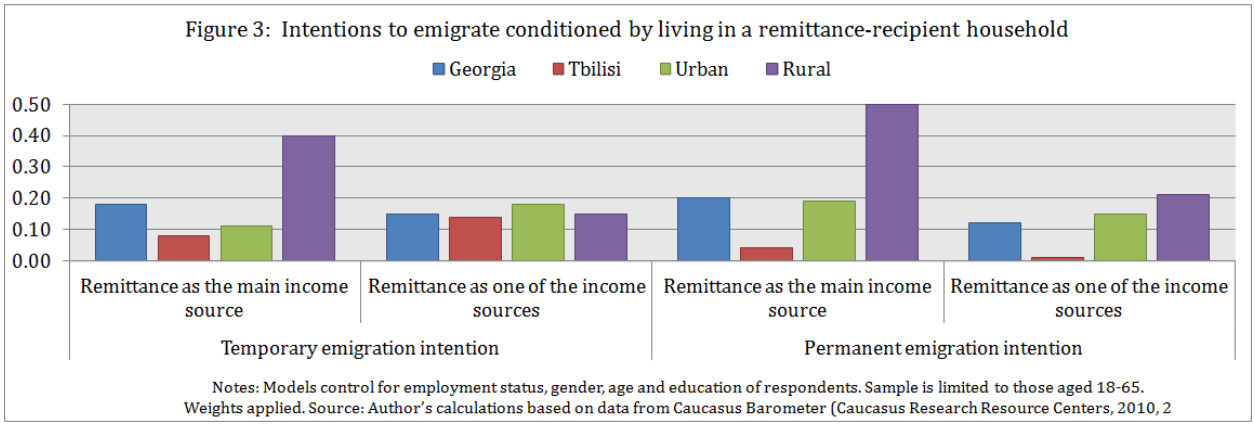
Source: Migration DRC (2007)

Figure 2: Percentage of respondents or their household members who have travelled in 1993-2011 to different countries



Source: EU Survey (Caucasus Research Resource Centers 2011b)

After the so-called "the Rose Revolution" emigration trends slightly reversed with positive net migration rates in some years. This might indicate that, in recent years, the net emigration rates did not substantially change, and, therefore, that the size of remittances apparently remained stable. The 2006 migration survey of 329 returnees and 677 families with at least one household member abroad revealed that over 60 percent of current and former migrants were married with children. At the same time, well educated women from Georgia were more likely to migrate to the Western European and North American destinations, while the typical migrant to the non-EU member former Soviet Union countries was married, less educated and a middle-aged man (Badurashvili, 2009). Among the most important determinants of temporary emigration, were: age, a negative impact of university education and rather low family attachments (Danzer and Dietz, 2009). There is no good data on the population distribution of emigrants from Georgia in destination countries. The Development and Research Centre on Migration, Globalisation, and Poverty in Table 1 provides national-census-based migrants' stock data from most countries of the world but compiled data refer to the beginning of 2000s and might be characterised, though, by some major shortcomings. An alternative approach for estimating the main destination countries of Georgian migrants might be the EU Survey by the Caucasus Research Resource Centers (2011b). This survey includes questions in a representative sample on the countries that they or their family members have visited since 1993 (Figure 2). Both of these methods indicate that Russia and Ukraine, as the main destination countries in the former Soviet Union, while among Western destinations Germany, Greece, and the US are dominate.



To summarise the available evidence, migrants initially were motivated by ethnic and political concerns, while from the mid 1990s emigration has been increasingly determined by unemployment and decreasing living standards. Arguably, this is the phase when remittances started to become an important component in the socio-economic life of Georgia and data on remittances become available for the country. The profile of migrants – working age population, married, with children, unemployed in Georgia, with lower educational levels, coming from the poorer households – indicates that emigration would, naturally, have a strong association with remittance as household members left behind almost certainly required financial help from migrants. It is reasonable to argue that emigration is strongly associated with remittance waves. At the same time, emigration not only determines remittances but also that remittances might affect emigration, and, therefore, lead to further remittances. Data from the Caucasus Barometer in Figure 3 show that that those respondents who live in the rural households in which remittances represent the main source of income are 40 and 50 percent more likely to consider temporary and permanent emigration. This effect is also strong in urban areas, where remittance reception increased emigration intentions by about 20 percent.

4. Trends in remittances

This section describes three alternative estimates of the inflow of remittances in Georgia and notes how they change over time. The macro level trends stem from the National Bank of Georgia and the World Bank's Migration and Remittances Database. Data on remittances entering Georgia through various money transfer systems are also provided by the National Bank of Georgia. However, note that these cannot reflect the full size of remittances to Georgia. Last but not least, a valuable method in estimating the volume of remittances is their distribution across households, something which can be studied via representative social surveys. This type of date also allow us to describe the profile of remittance senders and receivers: this is important in understanding the developmental consequences of remittances in Georgia.

4.1 Macro-level data on remittance

The National Bank of Georgia provides statistics on its current account within the balance of payments of the country. The current account is comprised of goods, services, income and current transfers. Two items from the current transfers – workers' remittances and other personal transfers – can be considered the official volume of remittances that have flowed into Georgia in 1995-2011. Table 2 illustrates the dynamics of changes in transfers across the years. In absolute terms, personal remittances have increased from 46.8 to 1175.3 million dollars. In 2011 workers' remittances and other personal transfers were almost equally matched, the former accounting for 51.7 percent, while the later 48.3 percent of transfers. The highest growth in remittances took place in 2004 when the new government came to power and before the Russo-Georgian war in 2008. The growth in transfer volumes was caused particularly by workers' remittances. After a slight decline in growth, 2009-2010,

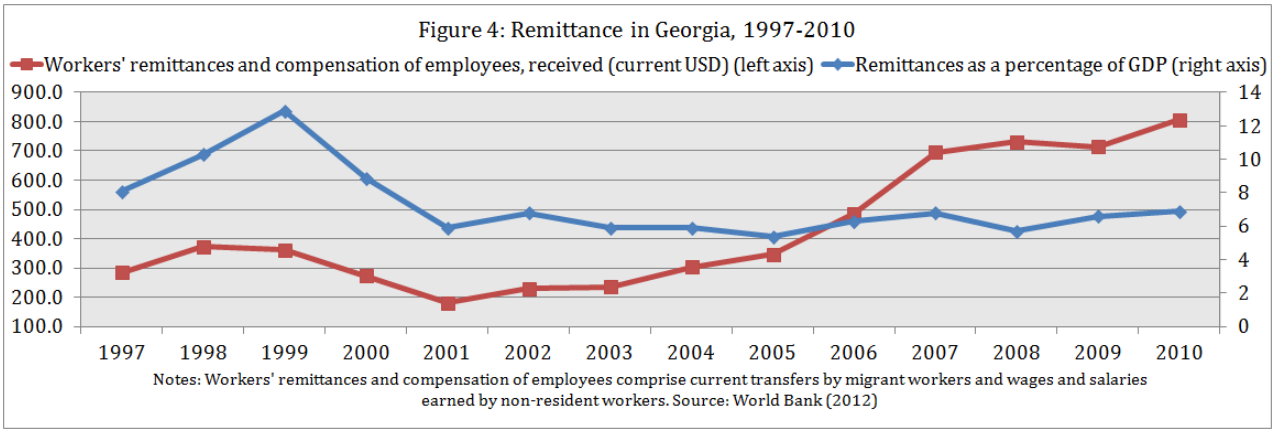
in 2011 workers' remittances and other personal transfers increased by, respectively, 46.2 and 11.7 percent. On the other hand, sending remittances from Georgia is a marginal factor in absolute as well as relative terms. Due to methodological differences NBG data on remittances are slightly higher than those provided by the World Bank. For instance, according to the World Bank's migration and remittance database remittances stood at 806.1 million USD in 2010, while the NBG figure for that year was 12.8 percent higher and reached 924.2 million USD.

Workers' remittances and the compensation of employees comprises of current transfers by migrant workers and wages and salaries earned by non-resident workers. Data are the sum of three items defined in the fifth edition of the IMF's Balance of Payments Manual: workers' remittances, compensation of employees, and migrants' transfers. Although the volume of remittances has been growing every year since 2001, so has the size of GDP, which meant that the share of remittance stabilised at 5-7 percent, 2001-2010. Two main trends are worth noting here. First, the volume of remittances decreased, 1999-2001, probably as a consequence of Russian financial crisis and a stricter visa regime introduced for Georgian citizens by that country in 2000 (Mataradze and Mühlfried, 2009). Second, remittances, and their relative share in GDP, started to grow, 2005-2007. One of the reasons for this was the liberalisation of the economy and proactive citizenship policies conducted by the new Georgian government (Gugushvili, 2012b). As a consequence of the 2008 economic slowdown in the main destination countries for Georgian migrants – e.g. the Russian Federation, Ukraine and Greece –remittances grew in nominal terms only by 5.3 percent. This was a lower rate than the nominal growth of GDP. However, already in 2009, in spite of the reduction of their absolute volumes, remittances again increased to 6.6 percent as a share of GDP because of even stronger contractions in the Georgian economy.

Table 2. Remittances based on the Balance of Payments statistics, 1995-2011, million current USD

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(1) +(2) Personal remittances																	
Net	46.8	32.3	179.7	211.1	174.6	142.2	157.9	170.8	156.9	221.8	258.7	384.1	550.0	695.4	826.5	924.2	1175
Growth (%)	n/a	-31.1	456.8	17.5	-17.3	-18.5	11.0	8.2	-8.2	41.4	16.6	48.5	43.2	26.4	18.9	11.8	27.2
Credit	46.8	32.3	179.7	211.1	197.0	147.4	163.0	175.7	166.3	233.7	272.0	395.5	561.4	712.8	838.3	951.1	1191
Debit	0.0	0.0	0.0	0.0	-22.5	-5.2	-5.0	-4.9	-9.5	-11.9	-13.3	-11.4	-11.5	-17.4	-11.7	-26.9	-15.2
(1) Workers' remittances																	
Net	0.0	0.0	103.1	137.3	127.1	61.5	73.6	72.6	58.8	56.6	86.2	149.1	243.3	302.7	315.8	415.3	607.1
Growth (%)	n/a	n/a	n/a	33.1	-7.4	-51.6	19.6	-1.4	-19.0	-3.8	52.4	73.0	63.2	24.4	4.3	31.5	46.2
Credit	0.0	0.0	103.1	137.3	149.5	64.0	75.7	74.7	64.5	64.0	93.8	153.0	245.0	305.1	317.4	416.6	608.0
Debit	0.0	0.0	0.0	0.0	-22.5	-2.5	-2.0	-2.1	-5.7	-7.4	-7.6	-3.8	-1.7	-2.4	-1.5	-1.3	-0.8
(2) Other personal transfers																	
Net	46.8	32.3	76.6	73.8	47.5	80.7	84.3	98.2	98.1	165.2	172.5	235.0	306.6	392.7	510.7	508.9	568.2
Growth (%)	n/a	-31.1	137.3	-3.6	-35.6	69.8	4.5	16.5	-0.1	68.5	4.4	36.2	30.5	28.1	30.1	-0.4	11.7
Credit	46.8	32.3	76.6	73.8	47.5	83.4	87.3	101.0	101.9	169.7	178.2	242.6	316.4	407.6	520.9	534.5	582.5
Debit	0.0	0.0	0.0	0.0	0.0	-2.7	-3.0	-2.8	-3.8	-4.5	-5.7	-7.6	-9.8	-15.0	-10.2	-25.6	-14.3

Source: NBG (2012)



Statistics on electronic money transfers made from foreign countries to Georgia can be an illustrative measure of the most recent developments in the volumes and origin of remittances. These data include two main sources of electronic transfers: (a) Money transfers to bank accounts of recipients; and (b) cash transfer systems via Western Union, Unistream, Intel Express and the like. It is difficult to distinguish what part of bank account transfers are remittances, but transfers to personal accounts rather than business accounts are more likely to be remittances. On the other hand, cash transfer systems are more likely to be utilised as a means of sending remittances in Georgia, and this is particularly so for poor and rural migrants, who are unlikely to have bank accounts (Welton, 2009b). Data on cash transfers is provided by the NBG (2012) and is disaggregated by months, after July 1999, countries of origin and payment systems. There is a significant growth in cash-transfers in the second half of 2000s. This may indicate that the real volume of remittances increased, or, more likely, that the cost of transferring money electronically dropped substantially so that more people began sending remittances with this method than before (Welton, 2009a). After 2010 NBG includes in cash transfer systems statistics information derived from micro-financial organisations, which are eligible to perform money transfers. Therefore, the latest developments in remittances can be estimated through this type of data, while the overtime changes can be better analysed through the balance of payments' statistics.

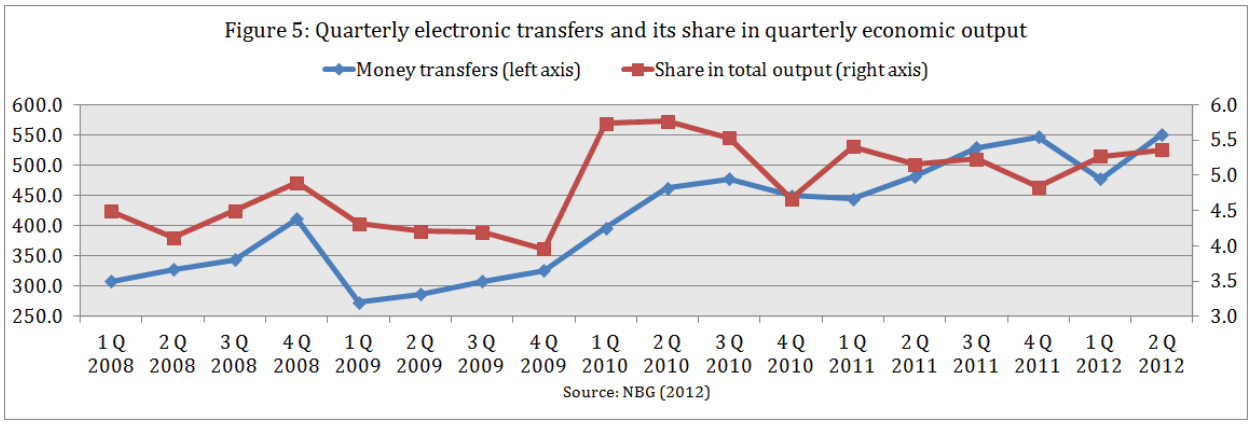


Figure 5 shows how the volume of electronic transfers changed from the first quarter of 2008 to the second quarter of 2012. There has been significant increase in quarterly volumes of remittances in 2010 especially for the second and third quarters. This continued through 2011. For the first months of 2012 remittances declined, which is typical for the first quarter, and then increased again. The share of remittances in total output remained within a 4.5-5.5 percent margin. In contrast to total remittances, the share of electronic transfers increased, 2008-2012. Electronic transfers are also helpful in highlighting the top remittance-sending destinations. Table 3 lists 10 major sending countries to Georgia: Russia, the USA, Italy, Greece, Ukraine, Turkey, Spain, Germany, the UK, and Kazakhstan. This list, with some exceptions, coincides with the distribution of the Georgian migrants reviewed in the previous section. Together they account for about 90 percent of all monetary transfers. The

Russian Federation accounts for more than a half of all electronic transfers made, but its share has been decreasing from 63 percent since 2008. On the other hand, the share of transfers from the USA increased from 4.7 to 11.5 percent. Remittances from Italy also increased almost two times over, but decreased in Greece.

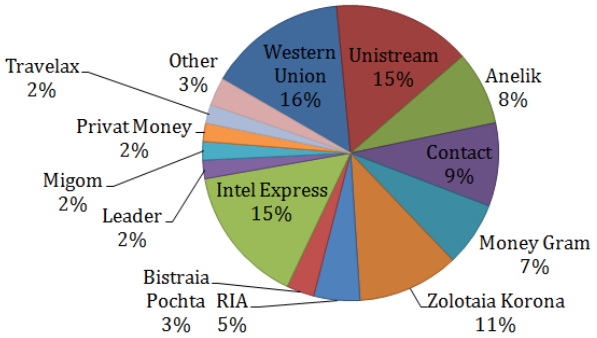
Table 3. Money transfers from ten major countries, millions of current USD

	2008		2009		2010		2011		2012 (8 months)	
	Mln. USD	Share in total	Mln. USD	Share in total	Mln. USD	Share in total	Mln. USD	Share in total	Mln. USD	Share in total
Russia	633.9	63.3	450.4	53.5	555.6	52.8	655.2	51.7	450.8	52.5
USA	47.2	4.7	60.4	7.2	103.8	9.9	144.6	11.4	98.9	11.5
Italy	36.6	3.7	46.3	5.5	76.7	7.3	109.2	8.6	69.6	8.1
Greece	63.9	6.4	68.1	8.1	75.3	7.2	75.3	5.9	51.4	6.0
Ukraine	70.5	7.0	65.1	7.7	59.0	5.6	52.4	4.1	29.9	3.5
Turkey	20.9	2.1	25.9	3.1	33.6	3.2	27.6	2.2	19.5	2.3
Spain	20.4	2.0	21.3	2.5	27.3	2.6	31.0	2.4	18.7	2.2
Germany	8.3	0.8	6.2	0.7	13.5	1.3	14.9	1.2	12.1	1.4
UK	8.4	0.8	9.0	1.1	12.1	1.1	14.4	1.1	9.2	1.1
Kazakhstan	10.4	1.0	7.8	0.9	9.9	0.9	26.2	2.1	7.0	0.8
All 10 countries	920.5	91.9	760.5	90.3	966.7	91.9	1150.9	90.8	767.1	89.3

Source: NBG (2012)

There have been some important changes in terms of money transfer system in recent years. The Western Union which, in 2009, accounted for a quarter of all money transfers saw its market share shrink to 14 percent in the first eight months of 2012. Other large transfer systems include Zolotaia Korona and Unistream accounting for 20 and 17 percent of electronic transfers in 2012. In remittance-sending industry the companies frequently use various marketing tools to attract new customers, but the main mode of competition is pricing models such as economy of scale, standard percent and special corridor pricing (Jgamadze and Markarashvili, 2009).

Figure 6: Shares of various electronic money transfer systems in total, 2011

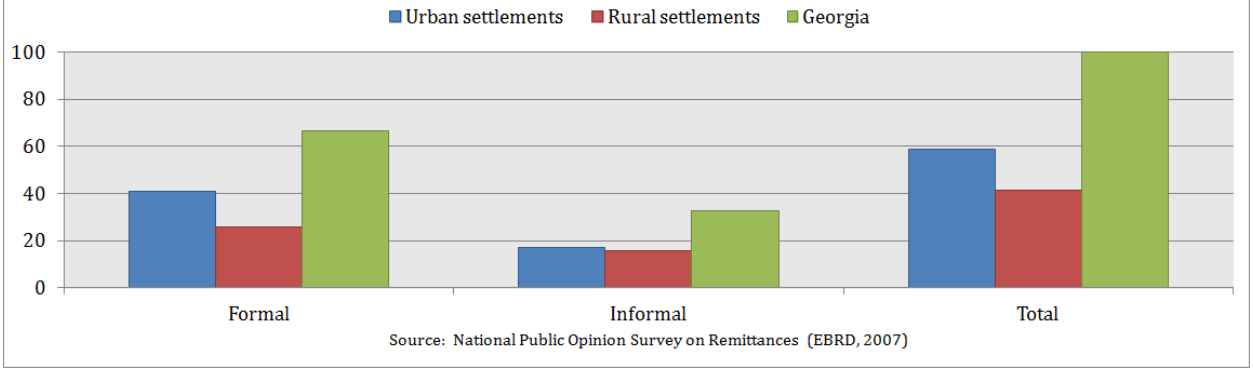


Source: NBG (2012)

4.2 Remittances in household level surveys

Statistics on remittances most likely do not capture the whole story related to remittances and their nature. It is well established that official money transfer services have to compete with a very large informal sector (Guruli, 2012). It is known that many migrants are likely to send remittances through couriers, acquaintances, and friends travelling back to Georgia. They tend to consider this form of transfer as the most convenient and reliable. At the same time, remittances also might include goods and household appliances, which are brought upon return rather than sent home through various channels (Badurashvili, 2009). According to the 2007 Georgia's National Public Opinion Survey on Remittances most transfers take place via the formal money transfer systems. But informal channels, such as a courier or a family member travelling to or from Georgia accounted for nearly one third of transactions. Figure 7 shows that informal remittances appear to be higher in rural areas than in urban areas, which can probably be explained with the undeveloped financial infrastructure in rural Georgia (Jgamadze and Markarashvili, 2009). One way to better address the scope and scale of remittances might be the individual/household level surveys. Because these surveys generally inquire about already received transfers, they show us the share of remittance-recipient households, from all channels, and the amount of received transfers across recipient households. Both of these variables are instrumental in understanding the dynamics of remittances and their impact on development.

Figure 7: Distribution of formal and informal remittances, percent in total



Source: National Public Opinion Survey on Remittances (EBRD, 2007)

Table 4 presents descriptive statistics on the share of households receiving remittances from abroad, 2006-2010. Three different micro-level datasets indicate that the spread of remittances varies between 8.3-14.3 percent of all households. This share remained stable in the second half of 2000s. At the same time residents in the capital are most likely, while those from rural backgrounds are least likely to receive remittances. Considering that the volume of remittances increased over the same time period, it can be concluded that roughly constant numbers of households received higher volumes of remittances. We estimate that the average monthly remittances received by households was as high as 265 GEL (Geostat, 2012). This figure derives by using information available from the Georgian Statistical Agency on monthly remittances for an average Georgian household. Then using CBS for 2009-10, the average size of Georgian households is calculated. The division of Georgian population by the average size of its household members, allows us to extrapolate the average monthly remittances for those 11 percent of households which received remittances in Georgia. These calculations are close to those derived by the EBRD for 2006 which estimated the size of monthly remittances at around 189 GEL (EBRD, 2007). These calculations are also close to figures derived from Development of the Move dataset, which estimated 219 GEL monthly remittances in 2008. Table 5 also shows that the scale of remittance varies substantially according to the countries of residence of remitters. North American residents send the highest amounts. This explains why relatively low stocks of migrants in the US account for the second highest share of electronic transfers. Almost 300 GEL extra each month can positively affect many aspects of household behaviour. These outside contributions might also generate adverse incentives on individual and public levels. These issues are addressed latter in the report.

Table 4. Prevalence of remittances in households in Georgia

	Datasets				
	LITS 2006	CBS 2007	GOTM 2008	CBS 2009	CBS 2010
Share of households reporting 'income from relatives and friends abroad' as one of the sources of income	10.3	8.6	14.3	11.2	11.0
Of which, rural settlements	4.6	10.5	12.5	9.6	8.7
Of which, urban settlements	13.2	7.3	21.6	13.2	12.7
Of which, Tbilisi	16.4	8.3	18.5	11.5	14.4
Sample size of the survey	1000	3306	1500	1791	1951

Notes and sources: LITS=Life in Transition Survey (2006); CBS=Caucasus Barometer(2009, 2010); GOTH=Development of the Move (2008)

Table 5. Remitted amounts by sending countries (GEL)

	Russia	Greece	Western Europe	Other non-FSU	Turkey	Other FSU	North America
Number of observations	50	34	30	10	9	8	5
Mean monthly transfers	154.6	179.8	161.9	261.7	111.1	192.2	299.2
Standard deviation	178.5	125.5	173.0	168.5	148.3	183.5	336.0

Source: Georgia of the Move Survey (2008)

4.3 Who sends and who receives remittances?

The first step in understanding the impact of remittances on development is to define who sends and who receives remittances. This is a complicated task because most of the surveys are not able to adequately capture the characteristics of absent migrants. Georgia on the Move Survey for 2008 is one of the few sources which asked respondents in Georgia detailed questions about their kin or other family-related emigrants. This can provide us with a profile of the typical remittance sender. Table 6 shows that 72.2 per cent of migrant groups remitted to their households in 2008, but the probability of remitting is negatively associated with the size of the migrant group. More frequent contacts between the migrant group and the household also facilitates the probability of remitting. Migrants who leave children behind are more likely to remit back. If the recipient household is located in a rural area then the probability of sending remittances to that household is higher. Residency in Western Europe, North America and Turkey is also positively related to the probability of remitting. The duration of stay abroad is an important factor and has a curvilinear association with the probability of remitting. The third year of stay provides higher expectation of remitting to Georgia, but this effect diminishes with a longer duration of stay. More educated emigrants are much more likely to send remittances. Last but not least, employment status strongly determines a migrant's ability to remit. Furthermore, if migrants have a job arranged before emigration then they are more likely to remit (Tchaidze and Torosyan, 2010).

Table 6. Characteristics of remitting migrant groups

Characteristic	% of remitting	Characteristic	% of remitting
Percent of migrants who remit	72.2	Urban	73.9
Size of group in migration		Tbilisi	69.7
1 person	76.8	Destination	
2 person	76.2	Greece	65.8
3 person	61.2	North America	73.1
4 person	56.3	Russia	59.7
Frequency of contacts		Turkey	82.9
Never	18.2	Western Europe	89.4
Less than once a year	22.1	Other FSU	71.4
More than once a year	27.9	Other	75.4
More than once every 6 months	36.1	Duration in migration	
More than once every 3 months	36.8	Less than 1 year in migration	58.9
Monthly	79.9	1-3 years in migration	72.5
More than once a month	63.1	3-6 years in migration	83.9
Weekly	78.8	6-10 years in migration	81.6
More than once a week	87.1	10-16 years in migration	53.1
Children in Georgia not in HH		HMG education before migration	
No	74.3	Primary education	21.4
Yes	51.7	Secondary education	69.4
Children in Georgia in HH		Higher education	78.0
No children	60.2	HMG job status	
1 child	91.7	No Full-time job	54.7
2 children	90.8	Full-time job	78.4
3 children	100.0	Job not fixed before migration	69.5
Settlement type		Job fixed before migration	85.1
Rural	72.8		

Notes: HH=household, HMG: Households with migrants. Source: Tchaidze and Torosyan (2010)

After reviewing a remittance senders' typical profile we can now describe the profiles of recipient households. For this purpose data from the Development on the Move Survey, the EBRD's Georgia National Public Opinion Survey on Remittances, and the Caucasus Barometer for 2009-2010 are employed. Table 7 shows the distribution of respondents in recipient and non-recipient household according to demographic and socio-economic variables. Once again, the probability of receiving remittances is negatively associated with residency in rural areas. If non-recipient rural households make up 46.3 percent of the overall settlement distribution, rural settlements' share among recipient households is 37.1 percent. In terms of age distribution of recipients, youth aged 18-24 and adults aged 50-64 are slightly overrepresented among recipient households (Caucasus Research Resource Centers, 2010). The latter characteristics is also in line with the findings from EBRD's Georgia National Public Opinion Survey on Remittances (EBRD, 2007), which shows that youth are overrepresented, while the elderly are underrepresented among remittance recipients. Related to that is the finding that remittances are negatively associated with the number of retirees in families and the number of male adults. The probability of getting remittances decreases by 4-6 per cent for each additional adult household member. Apparently, among recipient households slightly more than half get remittances from absent household members and another half from non-members (Tchaidze and Torosyan, 2010).

The least educated are significantly under-represented, while the most educated are over-represented among recipient households. Employment status seems to be one of the most significant variables which distinguishes recipient from non recipient households. Distribution is 11.0 percentage points higher among employed respondents in non-recipient households. The distribution of recipient households is much higher among the unemployed who are looking for a job. The chances of being among recipient households are also higher for housewives, disabled and the unemployed who are not looking for a job (Caucasus Research Resource Centers, 2010). Non-recipients are much more likely to be at the bottom of income distribution with less than 101 USD monthly income in 2009-10. On the other hand, households with 251-800 USD income are more likely to be recipients. The regional distribution of remittance recipients does not coincide with the population's regional distribution. Households in Samtskhe-Javakheti, Samegrelo-Zemo Svaneti, and Imereti have the higher probability of being recipients with respectively 4, 3 and 1 percent higher share of remittance distribution, while Adjara and Shida Kartli have much lower share of recipient households than their share in the overall household distribution. Those households with at least one return migrant are much more likely to get remittances. Last but not least, ethnic minorities are more likely to receive remittances than ethnically Georgian households. This is particularly true for the Armenian minority which represents about 4 percent in terms of household distribution, but 26 percent among recipient households. Interestingly, families which reside in voting districts with the higher emigration rates are themselves more likely to receive remittances.[2] The chance of receiving remittances is also higher for more religious households, where the number of under aged children is higher (Gerber and Torosyan, 2010).

[2] This might happen via neighboring families.

Table 7. Demographic, socio-economic and settlement characteristics of remittance recipient and non-recipient households

Characteristics	(1) Non recip. HH	(2) Recip. HH	(2)-(1) Differe.	Characteristics	(1) Non recip. HH	(2) Recip. HH	(2)-(1) Differe.
Gender of recipients				Monthly household income			
Male	43.7	42.5	–1.2	Less than 50 USD	14.4	8.4	–6.0
Female	56.3	57.5	1.2	51 to 100 USD	33.1	29.0	–4.1
Settlement type				101 to 250 USD	30.8	32.0	1.2
Rural	46.3	37.1	–9.2	251 to 400 USD	13.6	17.0	3.4
Urban	31.3	37.1	5.8	401 to 800 USD	5.8	12.0	6.2
Capital	22.4	25.8	3.4	801 to 1200 USD	1.7	1.7	0.0
Age groups				More than 1200 USD	0.8	0	–0.8
Age 18-24	9.6	10.4	0.8	Regions of Georgia			
Age 25-34	15.6	13.8	–1.8	Guria	3.0	3.0	0.0
Age 35-49	25.4	24.0	–1.4	Mtskheta Mtianeti	3.0	3.0	0.0
Age 50-64	26.3	29.5	3.2	Shida Kartli	7.0	5.0	–2.0
Age 65+	23.2	22.3	–0.9	Adjara	9.0	6.0	–3.0
Level of education				Kakheti	9.0	8.0	–1.0
Did not complete secondary sch.	12.7	8.91	–3.8	Samtskhe Javakheti	5.0	9.0	4.0
Completed secondary school	33.3	37.1	3.8	Kvemo Kartli	12.0	11.0	–1.0
Some university or technical sch.	26.2	24.8	–1.4	Samegrelo-Zemo Svaneti	11.0	14.0	3.0
University graduate or more	27.8	29.2	1.4	Imereti	16.0	17.0	1.0
Employment status				Tbilisi	25.0	24.0	–1.0
Employed	32.6	21.6	–11.0	Ethnicity			
Unempl. and looking for a job	23.2	28.1	4.9	Georgians	88.2	62.7	-25.5
Unempl. and not looking for a job	6.5	7.5	1.0	Azerbaijanis	6.1	6.3	0.2
Students	2.1	3.0	0.9	Armenians	3.7	26.0	22.3
Housewives	9.1	11.6	2.5	Other ethnicities	0.8	2.7	1.9
Retired	23.1	24.0	0.9	Russians	0.7	1.9	1.2
Disabled and other	3.5	4.6	1.1	Other Caucasian ethnicities	0.6	0.5	-0.1

Notes: HH=Household. Source: Caucasus Research Resource Centers (2010), European Bank for Reconstruction and Development (2007)

5. The development and side effects of remittances in georgia

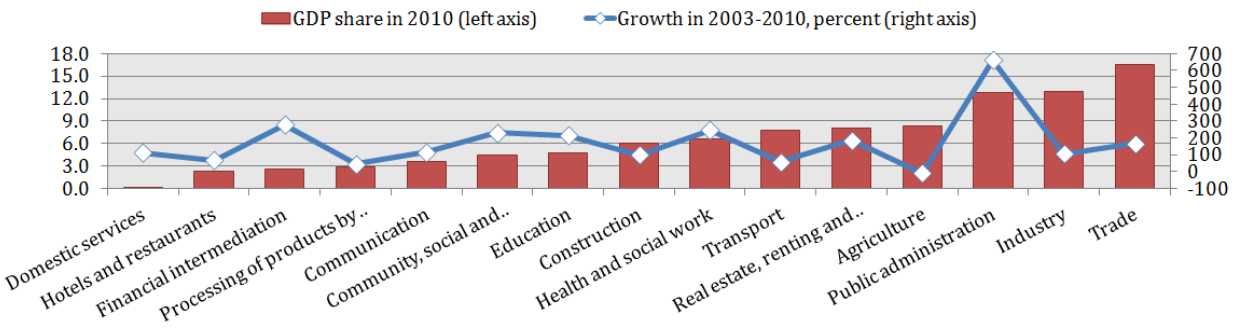
5.1 Remittances and growth

There is no conclusive evidence in economic and developmental literature that remittances have a positive effect on economic growth. Some studies find positive associations (Pradhan et al., 2008, Siddique *et al*., 2012), but others reveal little or even negative evidence that remittance affect growth rates in receiving countries (Barajas *et al*., 2009, Chami et al., 2005). These studies as a rule use cross-national comparisons and employ macro-level data, while single country studies, like the current report, are relatively rare and are more difficult to conduct (see Siddique et al., 2012).

Economic growth, its driving factors and possible links with remittances

Georgia's economic performance was relatively successful in the post 2003 "Rose Revolution" period, prior to 2008. In this period reforms implemented by the government were associated with 9 percent average annual GDP growth rates, which shrank as a consequence of the double shocks of the world financial crisis and the Russian-Georgian confrontation over South Ossetia. As shown in Figure 8, growth was driven by selected sectors such as trade services, construction, financial intermediation and manufacturing.[3] Agriculture retained the fourth and first position in, respectively, total output and employment, but experienced overall decline, 2003-2010. In this list the most relevant sector in terms of remittances' impact, might be the growth in trade services which was largely the result of high domestic demand (World Bank, 2009). At the same time, because imports account for a higher share of locally consumed goods, trade is excessively dependant on external transactions. The share of trade and other related activities in GDP increased to more than 17 percent in 2010 and became the biggest sector in the economy. It was also one of the driving factors of economic growth in 2003-2010, increasing by 169 percent in nominal prices, along with expansion of public administration, financial intermediation, social, educational and healthcare services. Economic growth should be affected by remittances as an average "migrodollar" recipient household is estimated to spend approximately 80 percent of its monetary income on consumption (Kakulia, 2007).

Figure 8: GDP composition and economic growth in 2003-2010



Source: Geostage 2010

[3] Agriculture as the biggest employer in Georgia has experience volatile growth rates because of Russia's sanctions and negligence from the government.

Table 8. Remittance and current account balance in Georgia 1998-2010 (in millions of current $US)

	1998	2001	2004	2007	2010
Remittances, paid	10.6	25.7	25.9	28.4	50.2
Remittances, received	372.9	181.3	303.2	695.5	806.1
Foreign direct investment, net inflows	265.3	109.8	492.3	1750.2	816.7
Net official development assist. and official aid	208.5	291.4	313.4	380.1	625.2
Net trade in goods	-694.6	-506.8	-915.6	-2895.8	-2586.3
Current account balance	-275.7	-198.1	-354.4	-2009.4	-1196.6

Source: Word Bank (2012)

Remittances directly influence the central domains of Georgia's economy as one of the main sources of foreign exchange and national reserves (EPRC, 2011). Table 5 shows that, by 2010, the size of FDI and remittances was almost equal and the former remains the main source to mitigate a high negative current account balance. While it is often argued that FDI are one, if not the most important factors of growth (Gürsoy and Kalyoncu, 2012), much less emphasis is placed on remittances. The impact on economic growth stems primarily from consumer goods as recipients spent more than 80% of the remittances on food, housing, clothing, utilities and medicine. They also contribute to the growth of imports because the share of imported goods, industrial and food products, is very high in the consumption structure (Branco, 2010). In terms of pro-poor economic growth consequences, remittances seem to be favourable in comparison to foreign direct investment because most remittance money is spent on the consumption of primary goods and services (Welton, 2009a). Primary consumption is thought to generate multiplicative effect for goods which are produced locally and might, therefore, stimulate pro-poor growth. On the other hand, FDIs in Georgia are mainly directed to industries such as banking, telecommunications and property, which might not generate pro-poor growth. In addition, remittances are a more reliable source of foreign revenues to the country than FDIs, something amply demonstrated in the 2008 crisis (Welton, 2009a).

Empirical evidence on the remittances' effect on growth

Available data for Georgia do not allow any investigation into direct causal links between remittance and growth. But it is reasonable to hypothesise that remittances might have a significant effect on growth. Two types of evidence can be drawn on the links between remittances and growth. On the one hand, the report of the Center for Social and Economic Research (Atamanov *et al*., 2009) analyses the direct and indirect effects of remittances and the country's economic performance, using a computable general equilibrium (CGE) model and taking into account some of the basic features of the Georgian household sector, as well as its macroeconomic and institutional environment. The findings indicate that the impact of remittances is strongest on private households' consumption, but less relevant for GDP growth rate. According to this assessment, in the counterfactual scenario of the lack of remittances, private consumption and GDP growth rates would decrease by, respectively, 24.7 and 13.3 percent. Across the different sectors of economy, a simulated hypothetical discontinuation of remittances was estimated to have the strongest influence on manufacturing output, –14.9 percent, while large-scale agricultural production would be expected to decrease by about 8.7 percent. The main conclusion is that remittances have macroeconomic consequences, but that they do not affect all sectors symmetrically (Atamanov et al., 2009).

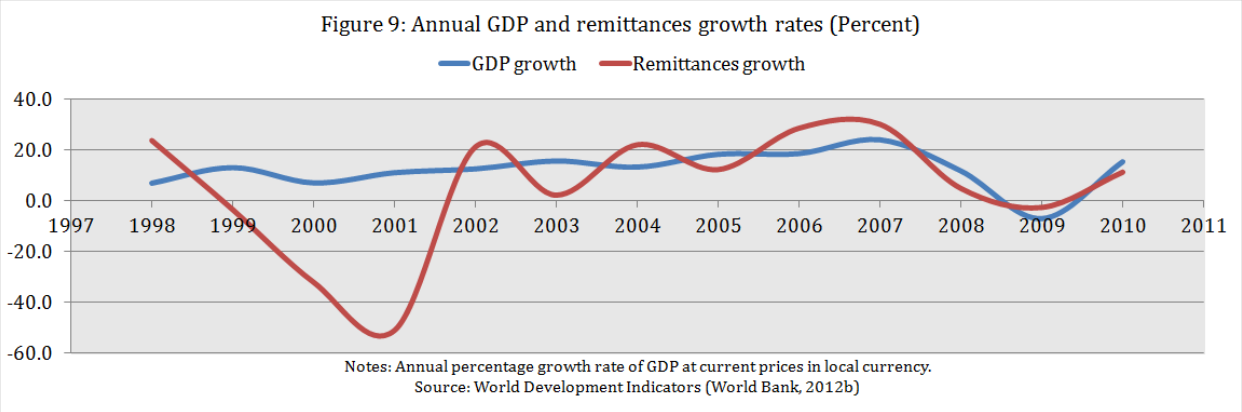


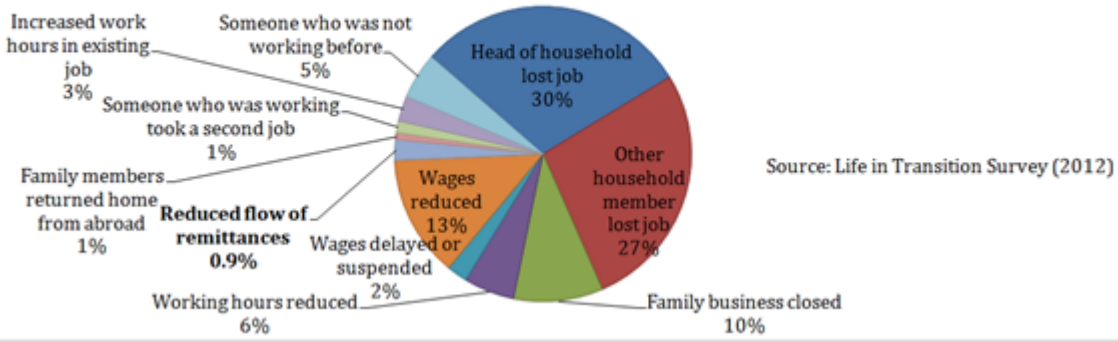
Table 9. Quarterly GDP and remittances growth rates, coefficient from OLS models

	Dependent variable: GDP quarterly growth rates in 2006-2012			
	Model 1	Model 2	Model 3	Model 4
Remittances growth rate	.61***	.62***	.51***	-
One quarter lagged remit. growth rate	-	-	-	.29
Time effect	-	.10	.07	-.15
Quarters	-	-	3.9**	11.1***

Notes: *** denotes statistical significance at the 0.01 level. Robust standard errors have been calculated but are not shown.
Source: Author's calculations based on data from the National Bank of Georgia (2012)

On the other hand, the associative analysis of remittances also shows that a strong correlation exists between growth in remittances and economic growth rates. Figure 9 charts annual growth rates in remittances along with annual GDP growth rates. The correlation for these two trends is moderate but statistically significant, especially after 2005. More rigorous but still simple OLS regression models in Table 9 associate quarterly growth rates in remittances with corresponding GDP growth rates (controlling for time and quarter effects). Associations between these trends are significant. Still this association does not indicate that there is a direct causal impact. Since much of the remittance in Georgia come from neighbouring countries, it seems more likely that both growth in remittances and GDP growth are the product of broader economic trends in the region and the world. Last but not least, the role of remittances in development can also be judged by the consequences of the World Economic Crisis. EBRD's "Life in Transition Survey" for 2010 indicates, however, that the reduced flow of remittances was not a major problem for the population of Georgia during the recession. Only 0.9 percent of respondents in the 2010 representative survey named it as the factor most affected by the crisis.

Figure10: Factors which were affected the most as a result of the economic crisis, percent



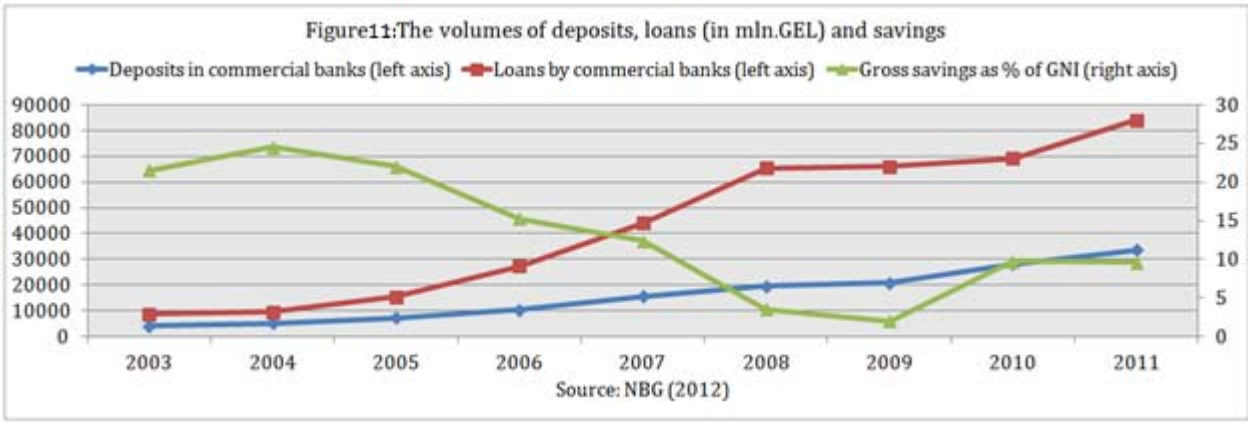
To conclude this section, we can say that there appears to be a strong association between economic growth and remittances in Georgia, much of which stems from the confluent economic trends in Georgia and remittance sending economies. If there is any direct effect on economic growth, it most likely comes via the trade sector which by 2010 became the largest part of the Georgian economy. Remittances represent the major source of foreign currency, which helps Georgia to sustain its negative trade balance. Nonetheless, the possible links of remittances with economic growth cannot only be attributed to the consumption stimulation and multiplier effect, but can also include the effects stemming from currency appreciation, inflation, investments and savings, human capital formation, employment and unemployment, all these links are discussed in the following sections.

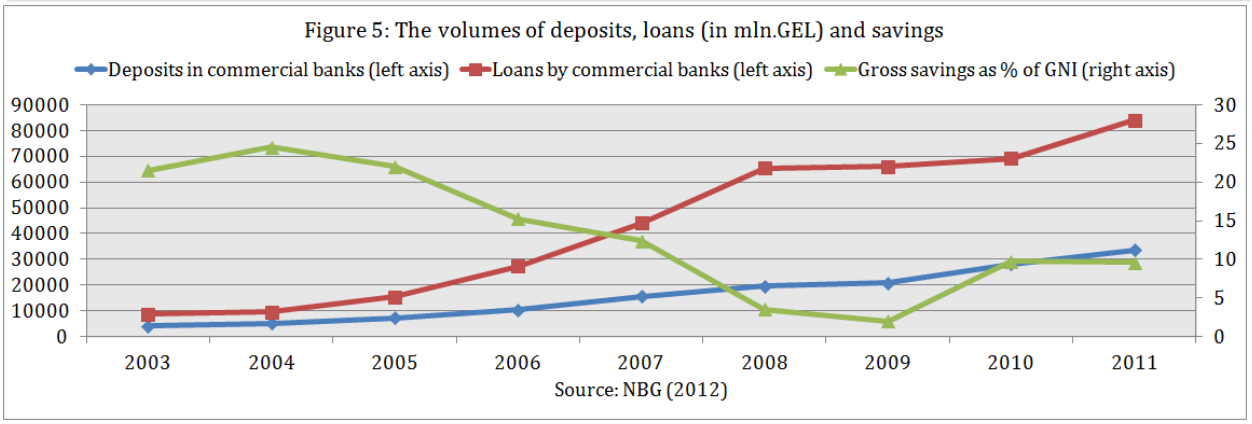
5.2 Remittances, investment and financial development

Remittances could lead to better economic outcomes for the country via their effect on savings, investment and financial sector development. On the one hand, the effect largely depends on how much and by what means remittances are sent, and how recipients utilise transferred resources (Kupets, 2012). On the other hand, as noted above, remittances are primarily spent on food and basic subsistence needs, housing and sometimes on children's education. This leaves only a limited space for remittances to affect the overall level of savings and investments in the country.

Investments and the financial sector in Georgia

The banking system, which is one of the most developed sectors in the Georgian economy (representing more than 90% of the financial sector's total assets), is the dominant component of the financial sector in Georgia. Other constituent parts of the financial sector include insurance companies and microfinance institutions. The available data indicates that the total assets in the banking system steadily grew in terms of volume and as a share of GDP in the second half of 2000s (Government of Georgia, 2011). Without considering the potential effect of remittances, Georgia is characterized by low levels of gross national savings. Low incomes and cultural characteristics are possible explanations for the observed trends. The financial assets originating from foreign sources other than remittances have been identified as crucial component of savings and investments in Georgia. Figure 11 shows the gradual increase of deposits since 2003, but it lags far behind the growth of loans especially post 2007. This means that commercial banks make loans using funds from external sources. The savings, in terms of their share in gross national income, have also declined in recent years, partially due to the effects of the dual shock of the Russian-Georgian war and the 2008-2009 Global Financial Crisis (GFC).





Evidence from the mid 2000s indicates that financial intermediation through cross sales of products to either remittance senders or remittance recipients was almost nonexistent. For the financial sector remittances are resources for loan collateral, instruments for the modernisation of the payment industry through advanced technologies. Remittances can be a source of asset accumulation, credit history and collateralization. The 2009 study revealed that, though attracting remittance recipients was one of the main goals of financial institutions, they expressed a concern about a lack of financial literacy among customers. One of the major banks in Georgia, TBC Bank, offered bank accounts to all clients with a main selling point that international account-to-account transfers could be less expensive than transfers through money transfer systems. Revenue received by the money transfer payments constituted around 20 percent of the net income of financial institutions in 2008 (Jgamadze and Markarashvili, 2009). One of the ways through which remittances might affect investments is the development of the real estate sector in Georgia. It has been suggested that a substantial portion of remittances is accumulated for investment in real estate. Evidence exist from qualitative studies that migrants, after satisfying basic needs for families, begin to accumulate sources for purchasing an apartment, preferably in the capital (Zurabishvili, 2007). What part of financial resources intended for investment in real estate is transferred and accumulated via remittances and what fraction is brought by the return migrants themselves is not known.

Remittances, savings and investment

Evidence on the effect of remittances on investment and financial sector development is scarce, especially at the macro level. However, individual and household level surveys might indicate some sort of relationship between these variables. Table 10 shows how receiving remittances are linked to households' propensity to save. Regression coefficients indicate that when remittances are the primary source of household incomes they marginally increase the propensity to save in rural areas (by 6 percent). However, in urban areas outside Tbilisi receiving remittances as a supplementary source of income, increases the chances of saving by 9 percent. Apparently remittances contribute to the higher savings among recipients. But it is less clear how these saving are used. Are they kept at home,

deposited in bank accounts or invested via other means? The CBS analysis, 2009-2010, indicates that remittance recipients do not have different trust relations to banks and financial institutions in statistical terms.[4] Overall, among recipients slightly more than 50 percent trust or fully trust banks, while this share is slightly, but insignificantly higher among the general population. Mistrust in the banking sector can be seen in the rapid decline of deposits in commercial banks during the war in 2008. The regression output by Orozco (2007) also shows that those in Georgia who receive remittances, especially in higher volumes, have an interest in investing in various assets.

Table 10. Availability of savings in households and remittances, regression coefficients from linear probability models

	Total sample	Tbilisi	Urban areas	Rural areas
Dependent variable: Household having savings				
RR households	.04**	.00	.07**	.03
RR households: the main source	.02	–.03	.04	.06*
RR households: not the main source	.05***	.07	.09***	.01

Notes: *** denotes statistical significance at the 0.01 level. Models control for gender, age, education and dummy for 2010. Robust standard errors are calculated, not shown. Source: Author's calculations based on the pooled data from the Caucasus Barometer in 2009 and 2010

In the middle of 2000s the majority of remittance recipients in Georgia collected their remittances at a financial institution without the use of a bank account (only about 11 percent of remittance recipients had accounts). Recipients in urban areas and higher income brackets were much more likely than recipients in rural areas and lower income brackets to have bank accounts. The size of remittances also tended to positively associate with a probability of having an account. Further, recipients who received remittances were frequently more likely to have a bank account: 40 percent of those who receive remittances twice a month or more have a bank account but only 2 percent of those that receive remittances about once a year s (Jgamadze and Markarashvili, 2009). Logistic model in table 11 uses bank account ownership as the dependent variable, while the independent variables are various remittance-related characteristics most of which are significantly and positively associated with the ownership of a bank account. The number of years of receiving remittances are negatively associated with the dependent variable. Bendixen and Associates' survey also inquired about links between remittance recipients and recipients' potential interest in investing in some asset building activity such as a mortgage loan or a loan to finance a business. The share of remittance recipients who expressed a strong interest in various investment options ranged from 22 to 40 percent (Orozco, 2007).

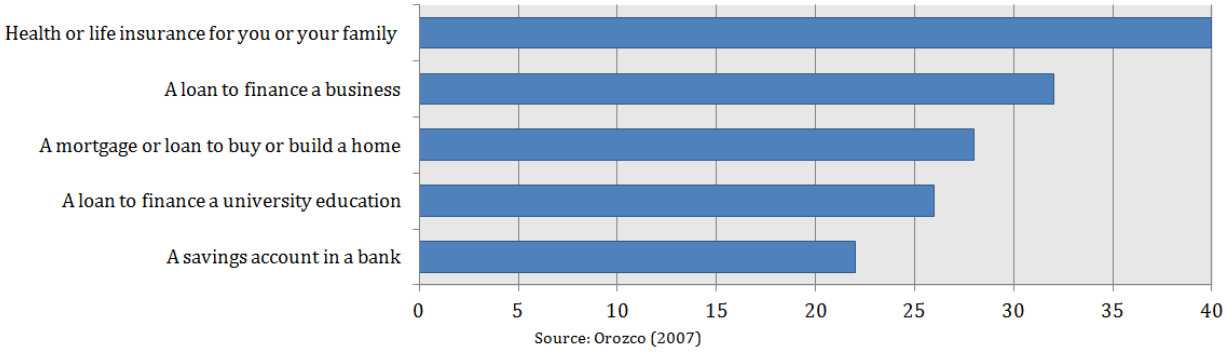
Table 11. Determinants of bank account ownership, coefficients from logit model

	Independent variables				
Dependent variable	Assets or investments	Interest in investing	Income levels	Years receiving	Amount received
Bank account ownership	1.67***	.005***	.000***	–.537***	.313***

Notes: *** denotes statistical significance at the 0.01 level. Source: Orozco (2007) based on the nationwide survey conducted in 2006

[4] We use here an ordinal variable "trust banks, financial companies" with answer options from 1 "fully distrust" to 5 "fully trust" as the dependent variable, while receiving remittance served as an independent variable.

Figure 12: Financial interest among remittance recipients to invest on an asset such as...



Source: Orozco (2007)

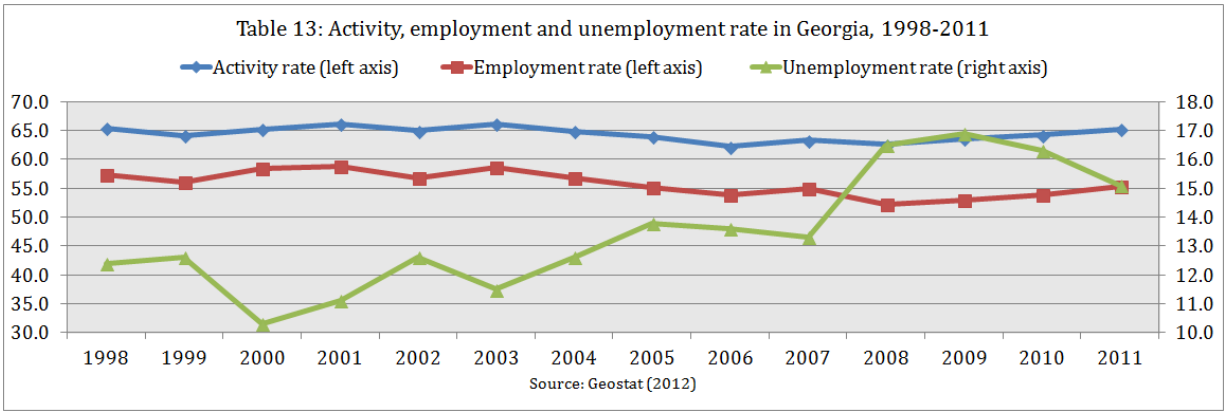
Although it looks like that there is a statistically significant association between remittances, savings, bank account ownership and investment intentions, it does not mean that remittances lead to higher levels of bank savings and investments at the macro level. To test whether or not remittances are associated with the overall levels of saving accounts, monthly growth of deposits is regressed (in GEL and other currencies) in commercial banks by the monthly growth of remittances since 2002. OLS models did not show any statistically significant association between these two trends. To summarise, it is likely that remittances have some effect on financial development and investments in Georgia, but the scope of this impact does not seem to be big enough to affect overall saving and investment levels in the country.

5.3 Remittances and employment

In this section we look at the relationship between remittances and labour market outcomes in Georgia. Research from various countries and contexts indicates that the relationship between the two is not linear, as remittances may reduce or increase employment depending on the recipient's characteristics: e.g. gender, location, and the type of work and occupation (Amuedo-Dorantes and Pozo, 2006).

Employment and unemployment and possible links with remittances

In recent years public opinion surveys have continuously named unemployment as the major problem facing the country (Navarro and Woodward, 2012). Official unemployment has, since the 1990s, stayed continuously at double digit level. Two sharp increases in unemployment were the result of public administration reforms in 2004-2006 and the consequences of the economic meltdown post 2008 (Working Group on Poverty Reduction and Employment, 2009). Furthermore, it has been argued that the official unemployment and employment level in Georgia do not reflect the situation on the labour market. In the above mentioned public opinion survey 33 percent of interviewed individuals claimed to be unemployed and looking for work. One of the main reasons why official unemployment rates are lower than individuals' perceptions is their engagement in subsistence agriculture, which is considered to be employment by the official statistics. It is also known that the risk of unemployment in Georgia is higher for the young, the better educated (because of 'educational attainment' mismatch) and residents of urban areas. Women, older people, and individuals with specialized experience, meanwhile, suffer longer spells of unemployment (World Bank, 2009).



Measuring a direct association between remittances and recipients' labour market conditions is problematic. To start with, the main driving factor for remittances is all too often labour market driven emigration intentions and behaviour. This means, of course, that without considering remittances' effects on employment/unemployment consequences, its existence has substantial links with labour-market development. In a labour market with restricted opportunities of obtaining well-paid jobs remittances have the potential to provide a disincentive for recipients to work in two distinct ways: (1) remittances can provide easy alternative income and stimulate intentions to not work at all; (2) remittances can help individuals to raise the reservation wage which means that they would be more likely to look and wait longer for an appropriate job. This line of thought implies that remittances increase the probability of unemployment in recipient households (Gerber and Torosyan, 2010). On the other hand, in less likely and indirect scenarios, remittances can help recipients to find a job by providing resources for job hunting and by allowing human capital investments. The next paragraphs presents available evidence on these hypothesised relationships.

Remittances and labour market outcomes: available empirical evidence

Using Georgia on the Move dataset, Gerber and Torosyan (2010) find little or no evidence that remittances in Georgia are associated with having a small business. Nor do they find evidence that remittances associate positively with unemployment. However, when the analysis is split into rural and urban samples, some evidence of a positive effect of remittances on small business activity is revealed in rural households with an emigrated member. Likewise, in urban areas, there is some evidence that remittances facilitate urban unemployment. One of the main shortcoming of the presented analysis of migration on the move data is that the authors do not distinguish between those households in which remittances play different role in overall composition of incomes. Analysing the same data but in a different study, Tchaidze and Torosyan (2010) claim that remittances do not have a significant impact on unemployment and employment rates. However, they find that having a migrant member or a returned migrant in a household increases the chances that the individual will be in work. This is most likely the compositional effect as high levels of unemployment stimulate emigration, which in turn leaves households with fewer unemployed members.

Table 12. The matching estimators of remittance effects on expenditures on owning a business and unemployment, average affects of migration on migrant households

	All Urban Households	All Rural households	Urban AM households	Rural AM households
Owning business in last yr.	.00	.04	.01	.12*
Anyone unemployed	.03	–.12	.14*	–.16

Notes: *denotes statistically significant effect. AM=Absent migrants. Source: Gerber and Torosyan (2010)

To further test remittance impact on labour market outcomes more rigorously, we conducted an analysis of the Caucasus Barometer with pooled dataset for 2009-2010. Three dependent variables – being unemployed and not looking for a job, being unemployed and looking for a job, and being employed – are used. Employment is defined by a positive answer on the following question: 'Are you currently employed? This employment may be part-time or full-time, official, informal, or self-employment, but it brings monetary income;' while two categories of unemployed are those who describe themselves as unemployed and who are looking for a job and those who are unemployed and who are not looking for a job. The regression output indicates that living in a household which receives remittances is associated with significantly lower chances of employment and this is true of all types of settlements. Especially negative associations with employment prospects come out when remittances serve as the main source of household income. This associates with 21, 30, and 24 percent lower probability of employment in the capital city, urban and rural areas, respectively. The listed associations are highly significant even after controlling for respondents' individual characteristics such as gender, age and education. Remittances also correlate with the higher risk of unemployment and job searching, but the effect is mainly observed in Tbilisi and other rural areas. If respondents lives in a household where remittance are the main source of income then they have 28 and 20 percent lower chances of being unemployed rather than having other labour market status. At the same time, remittances are negatively associated with being out of employment and not looking for a job.

Table 13. Remittance and labour market outcomes, regression coefficients from linear probability models

	Total sample	Tbilisi	Urban areas	Rural areas
Dependent variable: Unemployed and does not look. for a job				
RR households	–.01	–.07	–.01	.04
RR households: the main source	.03	–.02	.04	.10*
RR households: not the main source	–.08***	–.15***	–.06***	–.03
Dependent variable: Unemployed and look. for a job				
RR households	.12***	.22***	.08	.03
RR households: the main source	.19***	.28***	.20***	.04
RR households: not the main source	.01	.07	–.08	.02
Dependent variable: Employed				
RR households	–.13***	–.14**	–.11**	–.15***
RR households: the main source	–.25***	–.21***	–.30***	–.24***
RR households: not the main source	.06	.04	.14*	–.03

Notes: ***, **, and * denote statistical significance at the 0.01, 0.05, and 0.10 levels. Each coefficient derives from separate regressions. Models control for respondents' gender, age, education, and year dummy for 2010. Sample is restricted to population aged 25-59. Weights applied. Robust standard errors calculated, not shown. The statistics and fits of the models are available upon request. Source: Author's calculations based on data from CBS (2009-10)

Based on the evidence to hand it seems that, if anything, remittances have a negative association on prospects of individuals in terms of success on the local labour market. However, the observed effect is not conclusive and besides the income effect from remittance inflows is confounded with the effect caused by the emigration of family members. The selection effect of the remittance receiving households had to be taken into account to have more conclusive evidence of how remittances affect employment.

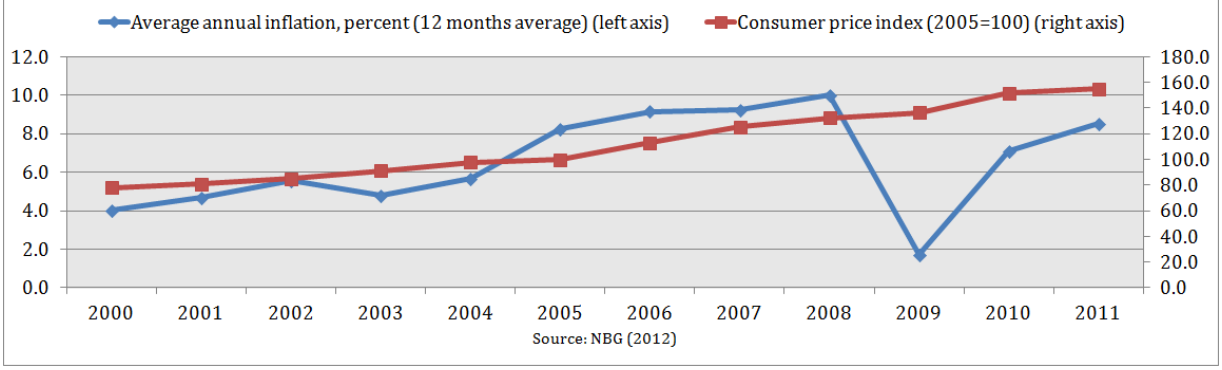
5.4. Remittances and inflation

Recent evidence from cross-national analysis indicates that remittances do generate inflation and this effect is more pronounced over the long run (Narayan et al., 2011). Nonetheless, these findings are based on the aggregated country-level data, which does not, of course, mean that there should be a positive impact of remittance on inflation in Georgia.

Inflation in Georgia and its possible links to remittances

In recent years, after a hyperinflationary episode in 1993-1994, when inflation reached 15.607%, Georgia has managed to achieve a relatively stable macro-economic environment, keeping inflation under a single-digit level (Maliszewski, 2009). In 1999-2003, inflationary processes were mainly related to the continuous depreciation of GEL against the USD because the National Bank of Georgia was forced to float GEL in the aftermath of the GFC (Bakradze and Billmeier, 2007). However, after 2003 robust monetary policy and general macroeconomic health meant increased confidence on the part of private sector and the households. This resulted in a significant increase in the broad measures of money supply (World Bank, 2009), and the loans-to-GDP ratio surged from 8.8 percent in the beginning of 2004 to 31.1 percent in the beginning of 2012 (NBG, 2012). These trends, as can be seen in Figure 14, resulted in significant higher inflation rates over 2004-2008. In addition to money growth and real households' incomes, according to the National Bank of Georgia inflationary processes have been determined by the volatile relative prices of foodstuffs and the price of oil on international markets. One of the main determinants of short-run and long-run dynamics of inflation are changes in the current exchange rates, which in turn can be related to the inflow of remittances in Georgia.

Figure 14: Inflation in Georgia



Source: NBG (2012)

Remittances might have links with inflationary process in Georgia through: (a) increased demand on goods and services; and (b) currency exchange effect. In the former scenario higher demand would drive prices up. Nevertheless, the effect should be small because remittances make about 4 percent of overall income, and not all of remittances are spent on consumption. On the other hand, remittances, which, along with capital inflows and official assistance from international donors, come in foreign currency, might cause appreciation of the Georgian Lari. In an underdeveloped domestic capital market such as Georgia, the state via its National Bank has limited capacity for sustaining large sterilised interventions[5] (EPRC, 2012). It is possible that because of remittances the recipient households have to exchange the received USD/EUR/other currencies into GEL. This higher demand for the local currency increases its price and, in the end, leads to lower purchasing power for remittances, but also to deflationary process because a significant part of consumption in Georgian is

[5] "Sterilisation" refers to the process by which a central bank takes actions to negate potentially harmful capital inflows. A central bank can intervene on the foreign exchange markets to prevent currency appreciation by selling its own currency for foreign currency-denominated assets, building up its foreign reserves as a happy side effect.

import-based. If foreign currency becomes cheaper through inflation it must also reduce import prices. The causal mechanism of these processes is complicated still more because money transfer figures are calculated in USD, but most money flowing into the country is sent in different currencies.[6]

Testing the links between remittances and inflation

No studies available for this report empirically show the links between remittances and inflation. The only evidence are the results of the simple bivariate analysis. In the models of table 14, we use monthly data points on inflation rates from the beginning of 2000 to the middle of 2012 and corresponding monthly data points on various remittance measures.[7] The first part of the table estimates the associations across the whole period (149 months from January 2000 to June 2012) and reveals that the absolute volume of remittances, growth in absolute volumes of remittances and growth rates in remittances have negative relations with the monthly inflation rates. In other words, the results indicate that in those months when remittances increase, the monthly inflation rates on average decreases. Model 4 shows too that one month lagged remittances have no statistically significant association with the inflation rate. But if the sample is restricted only to the most recent 53 months (January 2008 – June 2012), the one month lagged remittance have, instead, a positive association with the rate of inflation.

Table 14. Association between monthly inflation rates and monthly remittances, regression coefficients from OLS models

	January 2000 – June 2012			
	Model 1	Model 2	Model 3	Model 4
Absolute volume of remittances	–.68**	–	–	–
Absolute growth of remittance	–	–.30***	–	–
Remittances growth rate	–	–	–.29***	–
Remittances growth rate, one month lagged	–	–	–	–.02
	January 2008 – June 2012			
	Model 1	Model 1	Model 1	Model 1
Absolute volume of remittances	–1.32***	–	–	–
Absolute growth of remittance	–	–.26**	–	–
Remittances growth rate	–	–	–.51**	–
Remittances growth rate, one month lagged	–	–	–	.47**

Notes: *** denotes statistical significance at the 0.01 level. Models include seasonal and time controls. Dependent and independent variables are standardized. Source: Author's calculations based on data from NBG (2012).

All in all, there is no straightforward answer as to how remittances are related to inflation in Georgia, as the latter is determined by a myriad of factors and within the framework of this analysis it is not possible to isolate the hypothetical effect from remittances. Another question is how precisely remittances are associated with inflationary processes, if there is, indeed, any significant association between those two. The exact effect is hard to define because, on the one hand, remittances might decrease inflation through the appreciation of GEL – what we observe in immediate positive associations in Table 14. Then, simultaneously, they might increase inflation through the stimulation of demand and consumption on the market . This is what we observe for lagged remittances data for the more recent period.

[6] For instance, in 2007, only 17% of remittances were transferred in USD; 62% in RUB; 8% in EUR; 2% in TRY, all of which have different exchange rates and defining processes. How the listed effects actually take place is a question for empirical investigation and is, in any case, beyond of the scope of this report.

[7] All employed variables are standardised and compared across models.

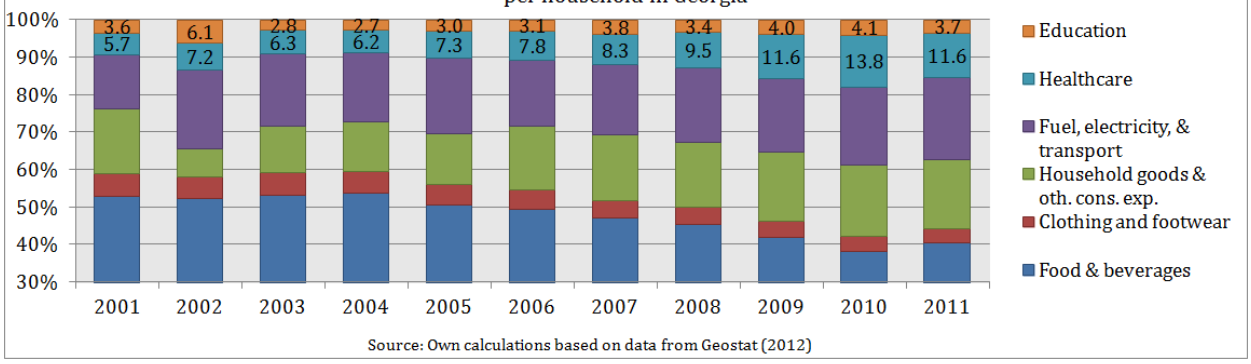
5.5. Remittances and human capital formation

Human capital is a multidimensional concept, but this report operationalises it with individuals' educational attainment and their health status. Human-capital formation in turn can be defined as the process of directing resources to educational and health related investments. Empirical evidence from various contexts and countries suggests that remittances often act as a source for investment in human capital or help families to preserve these investments if they face various types of shocks (Calero *et al*., 2009). Although, remittances tend to have positive association with both education and health, this effect is often restricted to specific groups of the population, or even within recipient households (Acosta *et al*., 2007).

General problems of human-capital formation

The government of Georgia in its constraints analysis identifies that unemployment is a major problem largely determined by insufficient education and lack of competitive qualifications and skills among labour force (Government of Georgia, 2011). Georgia also ranks consistently low in international educational rankings for children and young adults (Kutaladze, 2012). Although the value of education has been shrinking over the decades, it still matters, while people with better subjective health have better chances of attaining a higher educational and occupational status (Gugushvili, 2012a). The main tool through which government invests in healthcare is the Medical Insurance Program for the Poor. Although the programme decreases mean out-of-pocket expenditures for some groups and reduces the risk of high inpatient expenditures, no systematic effect on the health behaviour, management of chronic illnesses, and patient satisfaction are observed (Bauhoff *et al*., 2011). The majority of Georgians have to make out-of-pocket payments for their medical bills. Therefore, we would expect that one of the main channels through which remittances can positively affect development in Georgia is the expansion of possibilities for educational and healthcare investments.

Figure 15: Shares of education and healthcare expenditure in average monthly cash consumption per household in Georgia



Source: Own calculations based on data from Geostat (2012)

The most appropriate way to evaluate the links between remittance and human capital formation is to understand associations between remittance recipients, on the one hand, and their human-capital status and investment patterns, on the other. If there are links between remittances and investments in health and education, they must be manifested in better educational attainment and health status and higher expenditures on healthcare and education services among recipients, in comparison to non-recipients. The trend in the share of education and healthcare expenditure in an average household's monthly consumption in Figure 15 indicates that the relative expenditure on education has not changed much, 2001-2011, remaining at about 4 percent of household cash consumption. Still the cost of higher education has increased in recent years reaching 2515 USD for tuition at the most prestigious and 928 USD at the least prestigious university by 2007[8] (Chankseliani, 2012). On the other hand

[8] This is significant amount of money as 2,515 USD was, in 2007, two times the subsistence minimum of an average family for an entire year.

expenditure on healthcare has been increasing in relative terms, and it almost doubled from 5.7 to 11.6 percent in the last decade. This can be explained by ongoing privatisation in healthcare system and by households' higher ability to invest in healthcare for their members. This leads us to believe that if there is a positive impact of remittances for human capital formation, this is most likely manifested via healthcare investments.

Empirical evidence on the links between remittances and human capital development

The available empirical evidence on the links between remittances and human-capital development is fragmented and inconclusive. The analysis of the Caucasus Barometer for the early 2000s shows that remittances were not associated with the higher probability of spending on education among migrant households (Dermendzhieva, 2011). On the other hand, the EBRD's National Public Opinion Survey on Remittances for 2007 indicates that 26 percent of remittance recipient households used them for educational and 21 per cent for health/life insurance purposes (EBRD, 2007). The analysis of the 2008 Georgia on the Move survey reveals that receiving remittances increased absent migrant households' annual expenditure on healthcare by 221 GEL, while a higher level of spending on education costs by 66 GEL was also detected in recipient households. The latter might be the result of the higher costs and fees households pay for better quality healthcare and educational services, while the former trend is in line with significantly growing healthcare expenditure shown in Figure 15. In addition, while households in rural areas that receive remittances are less likely to have members in poor health, in Tbilisi the effect is reversed (Tchaidze and Torosyan, 2010). It is also demonstrated that remittances are much more strongly and positively correlated with spending on education and healthcare in cities than rural areas. This probably can be explained by the fact that the overall level of human capital investment is much higher in urban Georgia (Gerber and Torosyan, 2010).

Table 15. The matching estimators of remittance effects on expenditures on health and education, average affects of migration on migrant households

	All Urban Households	All Rural households	Urban AM households	Rural AM households
Medical care	237.47*	82.26	301.69*	71.41
School expenses	89.39*	-18.67	119.58*	10.86

Notes: *denotes statistically significant effect. AM=Absent migrants. Source: Gerber and Torosyan (2010)

For the current report we also conducted the primary analysis of the LITS and the CBS surveys. The first dataset showed that, in 2006, those who were aged 18-25 and who lived in remittance recipient households were more likely to be outside the educational system than those youngsters living in non-recipient households.[9] Different results emerge from the analysis of the Caucasus Barometer which refers to 2009-2010. First of all, those who live in (remittance) recipient households have slightly higher trust in the healthcare system controlling for age and gender of respondents.[10] Table 16 shows that those who live in receiving households express higher subjective health: though this relationship is significant only in urban areas outside Tbilisi. In rural areas, meanwhile it negatively correlates with perceived health status when remittances function as a second or other source of income. The same table also shows that the relationship between remittances and the respondent's (those who are under 30 years old) probability of being a student. If anything, receiving remittances is identified as having positive links with being in education in Tbilisi, while this association is negative in other urban and rural areas.

[9] Receiving remittances decreased the probability of being in education by 23 percent and this relationship is held at 95 percent of statistical significance. Model controlled for age of respondents.

[10] The level of trust in the healthcare system depends on a 5-point scale from full distrust to full trust.

Table 16. Subjective perception of health and propensity of being a student and remittance, regression coefficients from OLS models

	Total sample	Tbilisi	Urban areas	Rural areas
Dependent variable: Subjective health conditions				
RR households	.05	.07	.17***	–.08
RR households: the main source	.06	.06	.01	.10
RR households: not the main source	.02	.07	.30***	–.23**
Dependent variable: Being a student				
RR households	.11*	.19*	–.05	.01
RR households: the main source	.17**	.27**	–.01	–.05***
RR households: not the main source	.01	–.01	–.09***	.07

Notes: RR=Remittance recipient. Respondents' age, gender, education are controlled for. When the dependent variables is being a student, the sample size is restricted to those aged 18-30. Source: Own calculations based on the Caucasus Barometer for 2009 and 2010

Based on the evidence presented it can be concluded that remittances appear to have some positive effect on educational and health status and investments in both of these areas. The effect of remittances in human capital formation is observed in urban areas, probably due to the greater availability of healthcare and educational service there. However as remittances are received by about 10 percent of the population and as most of their share is spent on immediate consumption, remittances overall have only a marginal effect on Georgia's human capital formation. As outlined at the beginning of this section, the major reason for unemployment as declared by the government is the mismatch of skills on the labour market and it seems unlikely that remittances should have any meaningful effect on this problem.

5.6. Remittances, poverty and income inequality

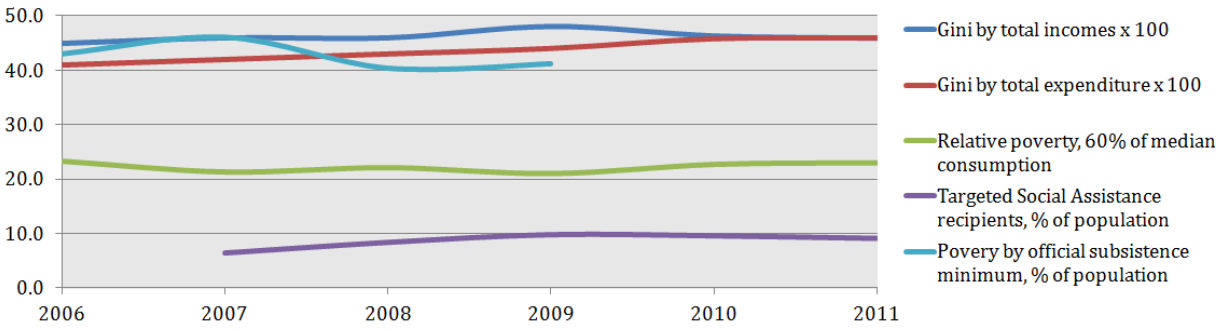
The effect of remittances on poverty and inequality depends, primarily, on what type of households are likely to be recipients. Many comparative studies show that remittances reduce the level, depth, and severity of poverty in recipient countries (Adams Jr and Page, 2005). But the effect on poverty and inequality is generally small (Acosta *et al*., 2008). The measuring of remittances' true effects requires longitudinal data on actual poverty and inequality levels before and after receiving remittances, something which goes beyond the scope of the present report. Nevertheless, the short review of poverty and inequality trends and available empirical evidence and a simple first-hand analysis of the issue can shed some more light on our understanding of social welfare impact of remittances.

Poverty and inequality in Georgia

From the early 1990s, poverty and income inequality in Georgia were linked to labour market conditions: unemployment, underemployment and low incomes from the precarious jobs (World Bank, 1999). This relationship intensified in recent years (Gugushvili, 2011). Figure 16 shows that the poverty level according to the national subsistence minimum in 2009 was 41.2 percent; while, on the other hand, the relative poverty level measured by 60 percent of median consumption in 2011, stood at 23.0 percent. Inequality levels in Georgia are also high. The country inequality levels were already substantial during the Soviet period (Dikhanov, 1996) and, then, intensified with the start of the transition. Figure 16 also shows that Gini coefficients for total incomes and expenditure were more than .40 which is considered to be high in terms of international comparisons. Inequality levels are

higher if the Gini coefficient is estimated by total monetary incomes and expenditure which remain above .50 threshold. The described trends indicate that poverty and inequality remained consistently high over recent years, but it is unclear to what extent remittances contributed to observed trends.

Figure 16: Poverty and inequality indicators in Georgia for 2006-2011 period



Source: European Commission (2011) and Geostat (2012)

Emigration intentions (Gugushvili, 2012d) as well as emigration behaviour (Badurashvili, 2004) are strongly correlated, in Georgia, with the households' socio-economic conditions. Sending remittance for the family members who stay in Georgia is, on the other hand, largely motivated by poverty and inequality concerns. The question, though, is how remittances affect poverty and inequality. By establishing approximate income levels of emigrants abroad in relation to their probable income had they remained in Georgia, the IMO report asserts that this discrepancy is a strong pull factor for emigration decisions not only towards European and North American destinations, but also towards the Russian Federation (IOM, 2003). If relatively better off households are more likely to receive remittances then they can intensify inequality in the country. The effect of remittance on poverty and inequality might entail the appreciation of the local currency and inflation rate. The strengthening of the GEL since 2004 brought a relative decrease in the value of remittances. Higher inflation cannot only reduce relative importance of remittances for recipient families, but can also decrease the real income of populations. Regardless of how remittances influence inflation, higher prices lead to the devaluation of remittances and are, therefore, associated with the lower wellbeing of overall population.

How far do remittances affect poverty and inequality levels?

There are a few studies which estimate the impact of remittances on social welfare. To start with, 29.4 per cent of the Georgia on the Move survey respondents claimed remittances were instrumental in alleviating poverty and helping recipients (Tchaidze and Torosyan, 2010). Through analysis of the impact of remittances on poor households' production patterns across Georgian regions, it has been found that remittance flows do not affect all sectors and residents symmetrically. They have, in fact, a rather limited impact in terms of poverty and income inequality (Uzagalieva and Menezes, 2009). This limited effect is explained by the fact that wealthier households benefit disproportionately from remittances compared with poorer households. Another factor why remittances are not decisive for poverty reduction is that they are disproportionally directed towards urban areas as opposed to the families in rural Georgia: it is rural Georgia, which since the end of 1990s, has had the higher poverty levels (UNDP and Government of Georgia, 2005). Remittances might even intensify inequality and poverty if the latter is measured by relative poverty levels.[11] Overall, it is also acknowledged that remittances only alleviate poverty in recipient families, and maybe other families. Remittances

[11] In fact, the government of Georgia has used relative poverty levels as the default measurement for poverty since 2004.

stimulate demand, but they fall short in terms of eliminating or even substantially reducing poverty in the country (Kakulia, 2007).

The recent report on the Social Impact of Emigration in Georgia, employing data from the Integrated Household Surveys 2004-2009, shows that remittances associate with the lower poverty levels by 2-2.5%, if 60% of median consumption is taken as the poverty threshold. At the same time, only 3-4% of remittance-receiving households are from the poorest consumption quintile. This share is, meanwhile, 8-9% for the wealthiest 5th quintile. The authors also conclude that the Gini-coefficient derived with hypothetical absence of migrants' remittances is associated with about 2 percentage points higher level of inequality (Badurashvili and Nadareishvili, 2012).

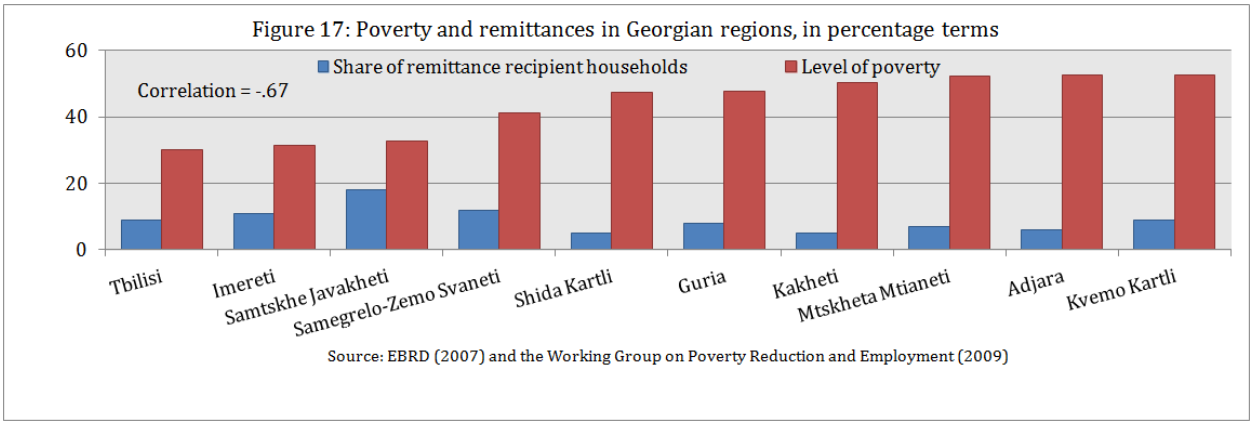


Figure 17 shows the levels of poverty and remittance recipients across Georgian regions. The distribution of the poor strongly associates with the distribution of remittances (not shown on the graph). This association does not imply that remittances affect poverty, but rather shows that the distribution of poverty and remittances both depend on the relative share of populations in the corresponding regions. More informative is the second graph, which shows a crude relationship between poverty levels and recipients share. A simple correlation between these variables is negative and significant, which means that those regions which have a higher level of remittance recipients poverty levels are generally lower. This does not necessarily imply that remittance reduce poverty. But it might be taken to mean that people are more likely to emigrate from regions where poverty is not very extensive and, thereafter, begin sending remittances. Whatever the relationship may be, the regions with relatively low poverty rates such as Tbilisi, Imereti, Samtskhe-Javakheti, and Samegrelo-Zemo Svaneti have a relatively high share of remittance receivers. The opposite is the case for the most deprived regions such as Kvemo Kartli, Adjara, Mtskheta-Mtianeti and Kakheti.

Table 17 shows the associations between various objective and subjective measures of poverty, living in a remittance-recipient households based on the CBS dataset. We present models with three separate dependent variables: perceived economic status of a household where 1 is the lowest and 10 the highest status; perceived relative wellbeing of household where 1 is very poor and 5 is very good; and households' monthly spending where 1 is up to 50 USD and 7 is more than 1200 USD. OLS regressions coefficients indicate that significant and positive associations exist between remittances and utilised social welfare measures. In all geographic areas, and across three dependent variables, receiving remittances in the form of the first or other source of income leads to higher welfare outcomes. The associations are particularly strong in rural areas for the perceived relative wellbeing of households. Receiving remittance in these families leads to .48 and .29 points higher value of dependent variables in comparison to non-receiving households. Last but not least, for sensitivity checks, we also analysed whether or not the effect of remittances is maintained when models include only those at the bottom of of welfare distribution: the three lowest ranks for perceived economic status of household; the two lowest categories of relative wellbeing of household; and the two lowest

ranks of households' monthly spending. The results again confirm that remittances, with the outlined restrictions, maintain a significant effect on poverty and inequality measures.[12]

Table 17. The wellbeing of households and remittances, regression coefficients from OLS models

	Total sample	Tbilisi	Urban areas	Rural areas
Dep. var.: Perceived economic status of household				
RR households	.47***	.50***	.45***	.46***
RR households: the main source	.60***	.48**	.50**	.94***
RR households: not the main source	.27**	.45	.35**	.02
Dep. var.: Perceived relative wellbeing of household				
RR households	.30***	.20***	.31***	.39***
RR households: the main source	.32***	.20**	.32***	.48***
RR households: not the main source	.24***	.14	.26***	.29***
Dep. var.: Household spending last month				
RR households	.25***	.37***	.21*	.04
RR households: the main source	.21**	.32**	.10	-.01
RR households: not the main source	.26***	.38*	.30**	.07

Notes: Perceived economic status of household: 1=the lowest rung, 10=the highest rung; Perceived relative wellbeing of household: 1=Very poor, 5=Very good; Household spending last month: 1=up to 50 USD, 7=More than 1200 USD. Respondents' age, gender, education and employment status are controlled. Source: Own calculations based on the Caucasus Barometer for 2009 and 2010

It can be concluded that poverty and inequality in Georgia remain a central problem. However, the effect of remittances in the observed trends is not clear. If we assume that migrants are rational agents who prefer emigration to staying in the country then we must conclude that remittances increase social welfare. Better quality data is necessary to assess causal links, but the available evidence indicates that the regions with higher remittances experience lower poverty levels, while living in a remittance recipient household is associated with scoring higher on various welfare indicators and avoiding the bottom portion of welfare distribution. This leads us to the final question of the report: if remittances are indeed correlated with better welfare outcomes, do they affect public policies implemented in the country?

6. Remittances, public moral hazard, informalised welfare and policy trap

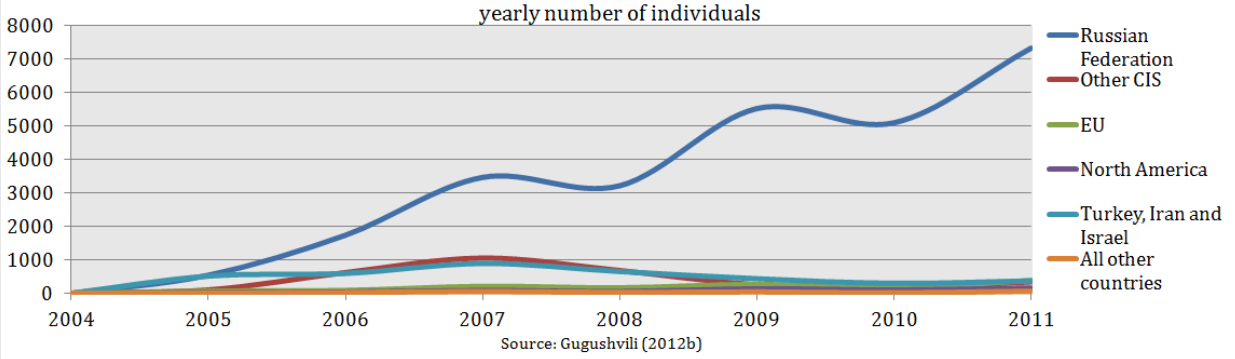
Remittances may create a "public moral hazard" because recipient households are able to resolve their immediate problems, at least partially, with the help of transferred resources, which in turn encourages the state to divert its attention to other priorities. It has been shown that in a poorly governed countries remittances have a negative impact on public spending for education and health (Hubert Ebeke, 2012). It is not possible to observe directly whether or not a "public moral hazard" exists in Georgia because we are not able to observe how government would have behaved in the absence of remittances. We can, though, still speculate on possible links.

[12] In addition, we have also checked how remittances are associated with the top welfare categories in relation to the middle welfare categories. The results showed that the effects of remittance are not significant for the highest part of welfare distribution and therefore that they cannot contribute to inequality in this way.

6.1 Possible impact channels

One of the main means by which incomes are generated in the private sector is the transfer of remittances. This leaves room for the possible existence of a 'public moral hazard' problem, which would mean a reduction in the political will to undertake investments and reforms across economic and social policies. As about 10-15 percent of Georgia's households are recipients, remittances play an important role in the political economy of social welfare. The large inflow of remittances allows a significant share of the population to satisfy their basic needs and possibly to improve their health and education. Neoliberal economic and social policies intended to reduce public involvement in private lives by reducing regulations and the size of civil service in the country. Georgia's socio-economic policies, 2004-2011, mostly derived from the vision, according to which the driving force of the country's advancement would be the private sector (Government of Georgia, 2011). As we saw in the previous sections, the elderly, fifty or over, and the poorest are less likely to be remittance recipients than the younger and the better-off population. This coincides with the social policies implemented by the government since 2004. The government's social policies were directed mainly in two dimensions: investing in old-age pensions; and targeted social assistance programmes. Pensions have been continuously growing since 2004, reaching on average 125 GEL by September 2012, but without attempting to reform it systemically (Gugushvili, 2012c). On the other hand, targeted social assistance has been introduced since 2006, targeting the most disadvantaged. However the number of those who seek assistance is much higher than those who actually qualify for the benefits (Baumann, 2012). At the same time, while remittances allow the recipients to spend more on health and education, Georgia spends a considerably lower share of public resources on public health and education than politically and economically more successful transition societies.

Figure 18: Granting of dual citizenships according to the number and citizenship of applicants, yearly number of individuals



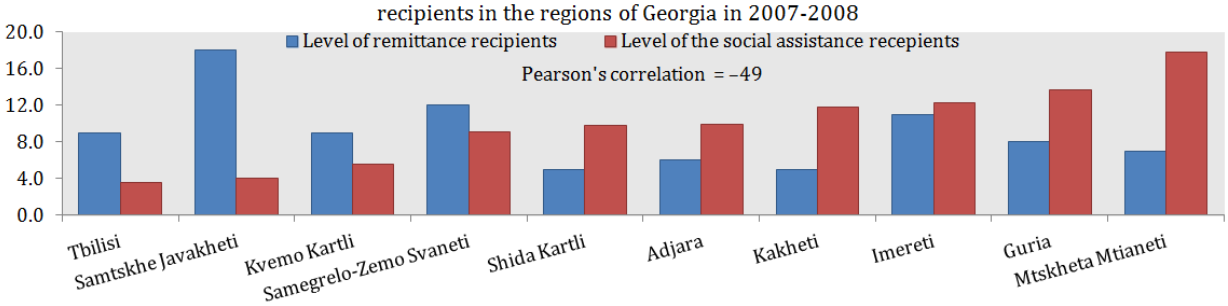
Source: Gugushvili (2012b)

Recent citizenship policies may be linked to remittances. Since 2004 Georgia has been classified as an emigration state, which according to De Haas (2007), have long-term economic incentives to strengthen ties with their absent migrants. As we have seen in the previous section Georgia is largely dependent on remittances to finance its trade deficit and to avoid the discontent of the poor but not the poorest population. Since 2004 the government of the country has implement more inclusive migration policies by effectively allowing dual citizenship and by granting some political and economic rights to expatriates (Gugushvili, 2012b). Indeed, the dual citizenship initiative was justified by huge brain drain in Georgia, since the early 1990s. According to the President of Georgia, around one million Georgians lived abroad, among them many businessmen and well-trained professionals. Thus, favourable conditions had to be created for attracting them back and dual citizenship became one of the central mechanisms for achieving this goal (Civil Georgia, 2003). The question of whether dual citizenship affects remittances and how this in turn has an effect on public moral hazard is beyond the scope of this report. The fact, though, that more than 26,900 Russian Federation citizens, mostly of Georgian decent, were granted Georgian citizenship, might have consequences for remittances and related public moral hazard. After all, about half of total transferred remittances are sent from Russia.

6.2 Empirical evidence on the links between public moral hazard and remittances

As with most of this report, on the basis of available evidence only associative conclusions can be made on the links between remittances and "public moral hazard." Figure 19 shows that there is a moderate but negative correlation between the levels of remittance recipients and the levels of social assistance beneficiaries across the Georgian regions. The correlative analysis also suggests that the higher number of TSA recipients is associated with the lower GDP *per capita* rates in the listed regions, but the share of remittance recipients is not significantly linked to *per capita* economic output in these territorial units. This might suggest that remittances serve as a social safety net for those individuals who are not the poorest but who would be in need of targeted social assistance without remittances. On the other hand, micro-level data in table 5 shows how receiving remittance relates to the probability of receiving public benefits in Georgia. Linear probability models control for age, gender, education and the employment status of respondents, while independent variables is respondents' households receiving government benefits. As can be seen, the association between the two is negative in all types of settlements, but this relationship reaches statistical significance only when remittances constitute the prime source of household income. This effect is particularly strong in Tbilisi where remittances reduce the chances of receiving public benefits by 18 percent. Table 5 also presents regression coefficients which exclude retirement-age population, thus isolating the effect of old-age pensions. Although the statistical significance of the results decrease, the direction of the relationship persists: having remittances in a household mean that it is less like that the household will receive public benefits. This is again particularly true for Tbilisi.

Figure 19: Association between remittance recipients and social assistance recipients in the regions of Georgia in 2007-2008



Source: Authors' own calculations based on data from Social Service Agency (2012), the Working Group on Poverty Reduction and Employment (2009) and EBRD (2007)

Table 18. Receiving state benefits and remittances, regression coefficients from OLS models

	Total sample	Tbilisi	Urban areas	Rural areas
Dependent variable: Receiving state benefits (pensioners included)				
RR households	–.09***	–.13***	–.06	–.06
RR households: the main source	–.15***	–.18***	–.13*	–.12**
RR households: not the main source	–.01	–.02	.03	–.00
Dependent variable: Receiving state benefits (pensioners excluded)				
RR households	–.09***	–.14***	–.03	–.07
RR households: the main source	–.12***	–.15***	–.07	–.09
RR households: not the main source	–.04	–.08	.02	–.03

Notes: ***, **, and * denote statistical significance at the 0.01, 0.05, and 0.10 levels. Each coefficient derives from a separate regression. Models control for respondents' gender, age, education, employment status, and year dummy for 2010; weights applied; robust standard errors calculated, not shown. Statistics of models and fits of the models are available upon request. Source: Own calculations based on the CBS for 2009-10

In sum, this section focused on possible links between remittances and "public moral hazard" in Georgia. It focussed particularly on, first, stimulating relationships with ethnically Georgian expatriates by introducing dual citizenship. Then, second, it looked at two social policy areas – targeted social assistance for the poorest and old-age retirement pensions – which are less likely to be affected by remittances, as seen in Section 4 of this report. The empirical evidence we have looked at shows that individuals who live in recipient households are less likely to be beneficiaries of welfare assistance, including pensions, while those regions which have a higher share of remittances also have the lower share of social assistance recipients. Earlier report has showed that remittance associate with the lower odds of employment and higher odds of unemployment which possibly relaxes pressure from the government in terms of job creation, or more intensive reforms in healthcare and education systems.

7. Conclusions and policy recommendations

Migration and remittances: From the mid 1990s remittances started to become an important component of socio-economic life in Georgia and data on remittance inflows became available for the country. Although there is a relatively good coverage on formal macro-level trends in remittances, the data on informal channels and the individual-level datasets are of limited use. Much of the findings presented in this report were derived from standalone surveys on migration and remittances, which do not allow us to make a longitudinal analysis. A measure for improving data coverage might be an integration of additional questions on remittances in the Caucasus Barometer, which is the annual survey of a representative sample of the Georgian population. It is also worth contemplating on systematically conducted migration surveys for the country.

Remittance and growth: The strong observed association between economic growth and remittances is likely to stem from the confluent economic growth in Georgia and the major remittance sending economies. But the greatest impact on growth seems likely to be consumption stimulation and the multiplier effect in the trade sector, which by 2010 became the largest part of the economy. The major effort to increase the value of remittances for economic growth needs policies which affect the indirect channels of remittances – investments and savings, human-capital formation, and employment.

Remittances, investment and financial development: Our study indicates that remittances have some effect on financial development and investments in Georgia, by affecting savings, bank account ownership and investment intentions. However, the scope of this impact does not significantly affect the overall savings and investments in the country. One way of increasing the positive effects of remittance on investment and financial development would be to encourage commercial banks to provide a greater variety of financial products and attractive special offers to clients who have a proven permanent inflow of remittances.

Remittances and employment: Employment (or rather its absence) is one of the most severe socioeconomic problems in Georgia and remittances do not appear to have any significant impact, even on self-employment and entrepreneurship. Furthermore, remittances are likely to increase unemployment chances among those individuals who reside in recipient households. On the positive side, it in the narrow labour market, remittances seem to stimulate the likelihood of employment among those who would otherwise have to compete with remittance recipients. One way by which remittances might be helpful for labour market is the provision of resources for successful job hunting and better matching between employers and employees.

Remittances and inflation: One reason that we have not found any significant links between remittances and inflation in Georgia is that the effect might go in two ways. On the one hand, remittances, through the appreciation of GEL, might negatively affect inflation. Then, on the other hand, remittances might have a positive impact on inflation through the stimulation of demand and market consumption. Any direct policy intervention in the remittances-inflation nexus seems to be unnecessary. It could, though, be useful to quantify the exact channels by which remittances raise the general level of prices of goods and services over a given period of time.

Remittances and human capital formation: The results show that recipient households spend more on education and healthcare and urban recipients also report higher subjective health status and educational enrolment. This might be one of the most positive effects stemming from remittances. However a major problem is that investment in human capital formation is an almost exclusively urban phenomenon. In order for remittances to have a stronger effect on skills and health conditions in rural areas, educational and healthcare services should be provided locally. This, of course, relates to broader structural problems in the country.

Remittances, poverty and income inequality: Remittances seem to have positive impact on social welfare but the identification of causal effect is problematic. On the one hand, remittance recipient households are better off than non-recipients households. With the available data it is not, though, possible to conclude that remittances reduce poverty levels. It might well be the case that migrants, and consequently remitters, come from a selected group of households who would be better off even without remittances. One way to understand the causal effect is to integrate remittance questions in longitudinal social surveys. The direct and indirect facilitation of migration for the most disadvantages social groups through provisioning migration-related information and consolations could have, then, poverty implications

Public moral hazard: There is some indication that remittances create public moral hazard in Georgia. Those regions and social groups which are underrepresented among remittance recipients are more likely to receive public investments through targeted social assistance and old-age pensions. These policies help to reduce poverty in Georgia but targeting social security has been characterised in relevant literature with substantial side-effects and stigmatisation. A major recommendation in terms of the links between public moral hazard and remittances would be more inclusive social and economic policies which improve life chances of individuals, and especially children, regardless of their households' remittance recipient status.

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