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List of Abbreviations

DDI - Diaspora Direct Investment
EOS – Executive Opinion Survey
EPRC – Economic Policy Research Center
FDI – Foreign Direct Investment
GCC – Georgian Chamber of Commerce and Industry
GCI- Georgia Competitiveness Index
GCR – Global Competitiveness Report
Geostat- National Statistics Office of Georgia
GIZ – Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GNIA – Georgian National Investment Agency
GoG – Government of Georgia
IFC – International Finance Corporation
JSC – Joint Stock Company
NBG – National Bank of Georgia
PSDP SC - Private Sector Development Program South Caucasus
UNCTAD – United Nations Conference on Trade and Development
WEF – World Economic Forum
Definitions

**Diaspora** - The unity of Georgian compatriots residing abroad. Within the scope of this study Diaspora representative is considered to be a person who has resided outside Georgia for at least 5 years, and considers himself/herself as Georgian, notwithstanding the current citizenship.

**Diaspora Investment** – investment that has a direct or an indirect relation to a Diaspora representative.

**Ethnic Discount** – implies the readiness of Diasporas to forego some share of return on investment for the notion that they invest in their own homeland.

**Green Field Investment** - A form of foreign direct investment, where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

**Historic Diaspora** – Diaspora that does not have immediate ties with the country of origin, has resided in the country of current residence for an extended period of time and considers himself/herself as Georgian.

**The Ministry** – the Office of the State Minister of Georgia for Diaspora Issues

**Inside Diaspora** – A Diaspora representative who currently operates a business in Georgia.

**Outside Diaspora** – A Diaspora representative who currently does not operate a business in Georgia but operated one in the past, or a Diaspora representative who has never operated a business in Georgia in the past.

**Remittances**– the money sent by migrants/Diaspora representatives to their friends and families in their country of origin.

**Country of Residence** – where a Diaspora representative has been residing for at least past 5 years.
Introduction

In 2011, GIZ’s Private Sector Development Program - South Caucasus (PSDP SC) conducted a study about the investment potential of the Armenian Diaspora, which targeted Diaspora entrepreneurs who operated a business in Armenia at the time of the study. In early 2012, when the results of the study were presented, the Office of the State Minister of Georgia for Diaspora Issues expressed a strong interest in having a similar study conducted in Georgia, although with a wider scope. PSDP SC’s Georgian team (PSDP SC GE) made the decision to support this study and contracted Economic Policy Research Center (EPRC), a local think tank, for this purpose. The study below has been prepared with the joint analytical efforts of GIZ and EPRC.

The aim of the Diaspora study is to assess the investment potential of the Georgian Diaspora in 7 target countries identified by the Office of the State Minister of Georgia for Diaspora Issues. These countries are: Greece, Italy, Spain, UK, USA, Turkey and Russia. The study comprises several interrelated topics, which cover the following: a macroeconomic overview of Georgia in recent years, an assessment of the business engagement level of the Diaspora in both their current countries of residence and in Georgia, the FDI potential of the 7 target countries and their potential as sources of FDI for Georgia, the role of the Diaspora in the process of attracting FDI, and the Diaspora as a facilitation mechanism for promoting Georgian investment opportunities. The study describes and evaluates various matchmaking tools and financial instruments for targeting Diaspora investment, business initiatives and capital markets. It should be noted that the study was conducted at a time when the government was in the process of changing. The course of economic policy under the new government was still to be defined then. Thus, the study’s findings and assessment only relate to policy from before the 2012 parliamentary elections. Furthermore, this paper has ensured that a homogenous pool of secondary data has been utilized by collecting samples from 2011, rather than including 2012 datasets, which were only sporadically available at the time of writing. Readers are encouraged to understand the criticisms presented here as constructive advice intended to be taken into consideration by policy makers.

Primary research has been conducted as part of the study to assess the Diaspora’s perception of Georgia as an investment destination. 25 Diasporas were interviewed from the 7 target countries and split into three groups: inside and outside Diasporas, with the latter divided into two subgroups - those who had never had a business in Georgia, and those who had had a business in Georgia in the past but had since ceased activities. A database of successful Diasporas representing various professions from 16 countries has been created for the purpose of identifying the fields in which members of the Georgian Diaspora are flourishing and the ways that this potential can be mobilized and used for the benefit of Georgia, particularly in regards to the facilitation of research and development by creating channels for knowledge and technology transfer.

Finally, the study attempts to identify the most suitable Diaspora matchmaking tools for Georgia. These tools will serve to increase the engagement of Georgian Diaspora representatives in entrepreneurship, capital markets and innovation and knowledge-transfer processes.
Executive Summary

The wide range of reforms that have taken place in Georgia over the course of last few years have significantly contributed to the improvement of the investment climate, the attraction of foreign investment and the development of the economy. Foreign direct investment has given sizeable impetus to rapid economic growth of Georgia, most notably from the early 2000s onwards. In light of the recent decline in the absolute volume of inward investment, Government of Georgia is facing a serious challenge of attracting FDI at levels necessary for maintaining the pace of growth recorded earlier in the decade, when FDI inflows were considerably higher. Due to unfavorable political and economic developments such as the brief but impactful war with Russia and the protracted global financial crisis, Georgia is still struggling to reach the pre-crisis levels of FDI inflow.

The research has shown that the Georgian Diaspora could play a crucial role in boosting investment inflows into the country. During the interviews conducted with inside Diaspora representatives they stated that they are actively popularizing investment opportunities in Georgia among members of their business network in their countries of residence, with quite a large number of Diasporas being directly involved in bringing large volumes of FDI into the country. The economic potential of the Georgian Diaspora is also reflected in the current remittance flows to Georgia, which constitute as much as 6 % of GDP and are ahead of current FDI flows. This would suggest that engaging the Diaspora in portfolio investment could be a means of supporting the local capital market, both in terms of its sophistication, and the sufficiency and stability of its capitalization. The financial instruments explored in the study are Diaspora bonds, Diaspora deposits (i.e. non-resident deposits), and the securitization of remittance flows.

The research has suggested that there is a potential to increase the engagement of the Georgian diaspora in terms of attracting more investments, and for knowledge and technology transfer purposes. Diasporas have shown a high level of commitment to their homeland, but this potential is not yet exploited, mainly due to the failure of the relevant authorities and Diaspora communities and organizations to provide support and reach-out to the Diaspora. This study has shown that the rate of participation and activity levels of Diaspora organizations is very low. Furthermore, those hindering factors that were mentioned by almost all of the respondents should be given particular attention; these include, but are not limited to, the following: government distortions and interference in private businesses, a lack of free competition and equal opportunities on the market, and the poorly functioning courts and legal system. Moreover, the lack of an independent dispute settlement body was rated as the least favorable facet of Georgian business climate.

In terms of the number and size of Diaspora businesses within the target countries, Russia is beyond competition; a great number of large-scale operations are owned by Georgian businessmen, the value of whose property amounts to millions and billions. However, fully exploiting their financial potential without regulating the political situation first might not be feasible. The political situation is responsible for the lack of a functioning institution for economic issues between Russia and Georgia. Turkey and the USA rank next after Russia in the scale of immigrant business. To sum up, the potential of Georgian Diaspora could be exploited for the economic development of Georgia in terms of their investment potential in financial markets as well as local businesses or start-ups.

The study suggests that that most organized Georgian Diaspora is in Russia, Turkey, Greece and USA. These countries have the largest number of Diaspora Organizations, which could be directly related to the number of Diaspora members involved. However, organizations operating in Russia, Turkey and Greece are mostly oriented towards cultural programs, organizing events and concerts. There are also a number of educational and media projects implemented by these organizations.
Experience from various countries that have succeeded in utilizing their Diaspora as a tool for economic development has shown that Diaspora engagement is a lengthy ongoing process that requires the careful planning of programs and activities targeted towards Diasporas. However, before implementing any type of programs, a well-established strategy, a so-called road map, needs to be designed. This map will define fundamental elements that will help to correctly shape future strategies for engagement. The study has shown that in the case of Georgia, the fundamental elements and baseline prerequisites for shaping programs and tools are missing. Therefore, for the GoG to start implementing concrete activities and programs directed towards increasing the level of Diaspora engagement, it is crucial to first lay out the initial blocks for shaping the strategy.

The government should closely cooperate with the Diaspora and its organizations in this process. One way to ensure that activities are properly coordinated is the creation of a Diaspora council, an initiative that has successfully worked in various other countries. In this regard, we believe that the most feasible and reasonable way to proceed is to complement, improve and advance the abilities of existing organizations and associations and tailor them to the Diaspora’s needs. To receive quicker results, a mentoring-type of involvement is necessary, which may save time and not waste extra resources. Therefore, Diaspora entrepreneurs should not just be networked with each other, but rather aspiring entrepreneurs should be matched with those who seek to expand their operations to Georgia, and would like to tweet with local or Diaspora business leaders. For this purpose a virtual network could be created on the basis of “I am Georgian” (operating on the web-site of the Office of the State Minister of Georgia for Diaspora Issues), and targeted towards uniting large-scale Georgian Diaspora entrepreneurs all over the world. The portal could be promoted through the Diaspora council, as well as by Georgian Chamber of Commerce and Industry’s (GCCI) local representatives, and business associations, etc. At the same time, annual business conferences could be planned and organized through this network, where groups of Georgian Diaspora entrepreneurs would meet and network not only with each other, but also with large-scale Georgian entrepreneurs. In such a case, we would expect mutually funded cost-share projects to be initiated, where Georgian Diaspora and local Georgian entrepreneurs initiate joint ventures. These top executive meetings might even result in activities being outsourced to Georgia, or mergers and acquisitions.

The study has also shown that there is an interest from Diaspora representatives in having relevant and timely information on available investment opportunities. Therefore, during the mentioned annual meetings, the government body responsible for investment facilitation could provide a presentation of new investment opportunities and initiatives that could be of interest to Diaspora entrepreneurs. The latter is of particular importance, since Diasporas tend to be able to identify niche markets in their countries of origin based on the professional experiences they have gained abroad and are able to capitalize on business opportunities back home – although for this purpose they might need timely information and counseling services from relevant state institutions or business associations.

It should not be forgotten that not only can Diasporas be involved in the initiation of a new business venture or joint partnership with local entrepreneurs, but can also be facilitators for attracting FDI to Georgia, by using their managerial experience and technical know-how to persuade members of their respective networks to invest in or outsource some operations to Georgia. The role of a relevant state authority working on attracting foreign investments is crucial in this process. In the case of Georgia, the role of the Partnership Fund/Georgian National Investment Agency (GNIA) should be extended to provide Diaspora representatives with
market information, advisory services and counseling. This could also include online information services that Diasporas could transfer to their local networks to promote and facilitate Georgian investment opportunities. In regards to utilizing the Diaspora’s potential for improving financial markets, the study suggests that Diaspora representatives do not generally trust financial instruments. At the same time, they are mostly unaware of the remittance securitization mechanism. However, considering the role of remittances in the Georgian economy, we believe that if local commercial banks and money transfer microfinance institutions employed such a mechanism, it would be beneficial for broadening their assets. On the other hand, the idea of bonds was not new to the respondents and the majority of them expressed their readiness to invest in bonds issued especially for Diasporas to serve the development of Georgia. International experience shows that these types of bonds are usually issued on the basis of necessity, i.e. to help a country during a recession or a fiscal crisis. On the other hand, Diaspora bonds could also be issued on the basis of opportunity for financing development projects such as schools, enterprises, universities, infrastructure, etc. We believe that the latter initiative would be a better option for raising money, and would give the GoG the option of paying back investors with shares in the projects for which the money had been initially raised. Therefore, Diasporas would become partial owners of the venture, with a joint stock company (JSC) type of ownership and management.

Finally, since the level of innovation in the Georgian economy is relatively low, we believe that Diaspora representatives could serve as capacity builders and transfer the knowledge and expertise they have obtained abroad to Georgian institutions. “Brain gain” programs have been launched in a number of countries and allow developing economies to gain access to their highly skilled and educated Diasporas. The programs have included various policies and incentives to attract professionals via funding activity programs, such as launching official websites for knowledge exchange. Various governments have initiated programs such as: sponsoring short-term visits by guest lecturers, giving advice, supervision and support to joint research projects between local and Diaspora scientists or experts in various fields. These programs were initiated by diaspora organizations, relevant governments or by an international organization.
Topic 1 Macroeconomic Overview of Georgia in Recent Years

Real GDP

Since the Rose Revolution in 2003, the Georgian government has announced and officially launched a series of massive reforms toward the liberalization of the country’s economic framework. Large-scale privatization and restructurization of governmental bodies, representing only a part of the announced reforms, significantly contributed to the improvement of the investment climate, the attraction of foreign investment and the development of the Georgian economy.

As seen from the graph (f.1), the real GDP growth rate was characterized by quite high levels of volatility. It recorded 9.4% in 2006 and reached 12.3% in 2007 - the highest growth rate over the last 15 years. However, the Georgian economy could not manage to keep up the same rate in the following period and decelerated for two years, falling to as low as negative 3.8% in 2009. However, it subsequently rebounded, recording 6.3% growth in 2010, 7.2% in 2011 and 6.1% in 2012. Such a level of heterogeneity in the growth trend could be the result of various internal as well as external shocks, such as the Russian Embargo in 2006, the war with Russia in 2008 and the financial crisis in 2009. The Russian Embargo, imposed on Georgian agricultural products and mineral waters in 2006, is suspected to have been one of the powerful contributors to the reduction of agriculture’s share in GDP from 14.8% to 11.3%, even though it had already been declining steadily over time. The war with Russia and the financial crisis are among those developments that may have had a negative impact on FDI inflows, the effective operation of the banking system, and the construction business. The rebound observed in recent years can be partially explained by the stabilizing effect of donor assistance after the war of 2008. However, when explaining the volatility of the Georgian economy, it should be noted that such fluctuations are generally common in developing countries and countries in transition and that the reasons are rooted in deeper problems, like a low GDP base, fragile institutions and the lack of economic diversification.
Inflation

The National Bank of Georgia (NBG) plays a crucial role in maintaining price stability in the country. Its objective is to research the market, determine price trends and inflation expectations, target future inflation in accordance with expected economic growth and work on implementing its plans. By effectively exploiting relevant monetary policy instruments, NBG managed to limit inflation to within 10% during the last 5 years.

![Inflation Graph](www.geostat.ge)

As seen in the graph (f.2), average annual inflation recorded 9.2% in 2006 and 2007, going up to 10% in 2008 and then dropping down to as low as 0.9% in 2012. Starting from 2012, the National Statistics Office of Georgia has updated the national consumption basket by decreasing the share of food. The major change is a 9.8% decrease in the share of food and non-alcoholic beverages, prices on which has been persistently increasing globally starting from the second half of 2010. The mentioned decrease in the share of food in the national consumption basket might have influenced the overall headline inflation figure and might be partially responsible for such a low inflation indicator.

According to NBG analysts, the main reason behind such high levels of inflation in 2006-2008 was the price hike on goods imported from Georgia’s major trade partner countries, such as Russia, Turkey, Ukraine and Azerbaijan. Furthermore, high inflation in 2007 was also conditioned by an increase in regulated prices. Prices on public transport increased by 13.1% in the city, while the fees for cold water and garbage collection soared by 80.3% and 137.2%, respectively. Another possible factor that triggered even higher levels of inflation (10%) in 2008 was the war with Russia. Overall, the global price hike on fuel must have also been reflected in inflation figures, since Georgia imports almost all of the fuel it consumes from abroad. As for the major drop in inflation to 1.7% in 2009, the NBG annual report explains that it was caused by the decrease in world prices due to the global financial crisis.

Inflation in 2010 and 2011 was much closer to the NBG’s target level than in other years. However, it still overshot the predetermined goal. Similar to before, the high cost of oil, food and other nondurables were probably the major drivers of prices in these years. An increase in commodity prices was detected in other developing countries as well. This was due to an increase in the price of oil in the first half of 2011, and weather-related supply shocks that affected the price of food. Therefore, there is a positive correlation between headline inflation and international food and oil prices in Georgia. At the same time, there is a positive correlation between international food prices and domestic food inflation. Lastly, food inflation in Georgia is higher, more volatile and more persistent than nonfood inflation, thus causing headline or overall
inflation to be higher than core inflation (that is inflation which excludes food and energy).

After its 2011 peak, Georgia’s headline inflation eased in 2012 and was maintained below the targeted 6%. According to NBG and the IMF, this was due to the supply factor, such as abundant local harvests in 2011 and a decrease in global food prices in the first half of 2012. At the same time, weakened economic activity in 2012 created no demand side pressures, thus bringing inflation further down.

**Employment**

The unemployment level appears to be one of the most burning problems in Georgia over the last decades. Despite efforts each government has devoted to its reduction, the unemployment rate still hovers above 10%. Theoretically, the unemployment level should not be so high in Georgia, as state policy has, so far, been based on very liberal principles. From this perspective, less regulation and less government intervention should ensure maximum efficiency in the market and should consequently contribute to high competition and high employment. However, this seems not to be the case in Georgia. The country has occupied one of the leading positions with regard to non-regulation of the labor market so far, but the unemployment level has still remained high, as can be seen in the graph (f.3).

![Unemployment Rate Graph](www.geostat.ge)

According to data from the National Statistical Office of Georgia (Geostat), the unemployment level was 13.3% in 2007, then rose to 16.9% in 2009, but dropped down a little in the ensuing years, recording 15.1% in 2011, which is, however, still quite a high indicator. Official employment figures include “self-employed” people who live in villages and – due to not finding formal jobs – have to partake in the low-productivity agricultural sector, which constitutes only a tenth of Georgia’s GDP. Wages, alongside the high level of unemployment, are quite problematic here. According to the official data, 17.4% of employed people live on less than $1.75 per day, which is much less than the amount necessary for normal living conditions.

The most common and predictable reason for such a high unemployment rate might be the quality of potential workers. It is possible that there is a considerable gap between the skills demanded by employers and those supplied by workers. The insufficient level of professionalism that people receive from the higher education system in Georgia potentially widens this gap. Moreover, the lack of higher level qualifications in labor market participants also shows up in the Global Competitiveness Index (GCI), which will be discussed later in the study. However, it would not be appropriate to claim that this is the only or even the major driver of high unemployment, since other factors are likely to be at force here as well, and assessing their significance relative to one another is a complex task.
Public Finances

Recording a real, positive fiscal balance seems to have been quite a problematic and unachievable task for each successive Georgian government since the transition to a market economy. A real fiscal balance is positive when budgetary revenues exceed budgetary costs without privatization proceeds. Immediately after the Rose Revolution the government managed to maintain a positive general fiscal balance, but with the greatest share of budgetary revenues coming from privatization proceeds. Since then, the Georgian government has mainly recorded considerable fiscal deficits, which we can see from the following chart (f.4):

![Budget Deficit and GDP](www.geostat.ge)

The highest budget deficit was 9.3% of GDP in 2009, possibly as a result of the expansionary fiscal policy utilized to overcome the economic problems caused by the Financial Crisis and the war of 2008. Since then the budget deficit started decreasing, reaching 2.9% in 2012.

As for the state debt, it is considerably high, and has exhibited an increasing trend since 2008. In 2012, foreign debt is projected to equal 4615.7 million USD, and domestic debt is projected to equal 1938.0 million GEL. These figures need to be carefully analyzed and the government should try to reduce them, as their interest payments are current costs that should be financed from the current budgetary income, a fact that leads to a further increase in the budget deficit.

![State Debts](www.geostat.ge)
In addition to considering the figures for state debts, a discussion of several other indicators gives an even broader picture. These are: state debt as a percent of the GDP, state debt as a percent of exports and state debt as a percent of budget revenues.

![State Debt as % of GDP, Exports and Budget Revenues](www.nbg.ge, www.mof.ge)

As we see from the diagram (f.6), since 2010, apart from state foreign debt as a percent of GDP (where the decrease has been negligible), the other indicators have decreased quite notably. This is good news, as it reduces the risk of a recession in the economy. According to empirical economic experience, the smaller the state foreign debt is as a percentage of the budget revenue, the easier it is to service.

**Foreign Trade**

Georgia’s trade statistics are not very favorable as most of the time the country records a fairly large trade deficit. Theoretically, this fact could be assessed from positive as well as negative sides. However, economists and policy advisors mostly consider it to be undesirable, because a trade surplus can potentially contribute to economic development, either by saving and investing in capital accumulation or by boosting demand via spending. Another negative side of Georgia’s large trade deficit is that it needs to be financed, for the most part, by foreign sources, which further increases the country’s level of foreign debt. To see Georgia’s stance on trade clearly, we can look at the picture provided by Geostat (f.7).

![Foreign Trade in (mil. USD)](www.geostat.ge)
As it is seen from this chart, Georgia’s trade balance has been negative in all the years analyzed here, i.e. since 2006. In 2008 it reached a high level of -6301.5 million USD. Then, in 2009, there was a small improvement which, as NBG reports, was the result of the global financial crisis that hampered imports due to the decline in the world supply. Since 2009, import volumes increased again, and in 2012 the recorded trade deficit was at its highest level over the period analyzed (-5465 million USD). According to NBG’s annual report, such a significant increase in imports in nominal terms was primarily conditioned by the price spike on imported goods, such as oil, oil products and others. There was no sizeable increase in the volume of imports.

Overall, to improve the trade deficit, Georgia is trying to develop the sectors of the economy which have the export potential. One of these is agriculture, which the current government has recently designated a priority for the following years. The government hopes that by investing billions and improving access to first-rate technologies in this sector, the characteristics of Georgian agriculture will quickly improve, become capable of satisfying the local market, and also make a significant contribution to the country’s export profile. All other things being equal, this will result in an improvement of the country’s trade balance and a reduction in the level of foreign debt.

Georgia has a serious prospect of enhancing its role as a regional trade hub. In general, international cargo carriers are interested in utilizing sea routes and use a continent’s innermost ports. In this regard, the geographic location of the Black Sea is very attractive to international cargo carriers looking to serve populated areas of continental Eurasia. In addition, Georgia’s transit function will be further bolstered by the fact that China, Central Asia, Russia, Turkey, and Iran are growing rapidly and becoming more open to international trade. Georgian transit routes can be used for the international trade of a wide array of commodities, such as energy, agricultural and manufactured goods, etc.

**Remittance Inflows**

Remittances can play a crucial role for economic growth, especially in developing and emerging market countries like Georgia. Since 2006, if the year 2009 is not taken into account, remittance inflows have been constantly increasing. In 2009 there was an abrupt shrinkage in remittance inflows, possibly due to the world financial crisis which reduced the income of Georgian migrants abroad. The complete picture of the volumes and trend can be observed on the following chart (f.8):
In 2012 remittance inflows amounted to 1,334,170,000 USD (for comparison purposes, in 2012 FDI amounted to USD 865 million), which could be enough to encourage economic growth in Georgia if remittances were used effectively and efficiently. Furthermore, as NBG research reports, remittance inflows in Georgia are characterized by a significantly smaller standard deviation than FDI or other types of foreign resources. A smaller standard deviation means that the trend of remittance inflows is relatively non-volatile and maintains reliability. The potential uses of these reliable money transfers will be discussed later in the study and those global best-practices particularly relevant to Georgia will be investigated. Also the study will recommend on how to attract more money from Diaspora and how to stimulate them to benefit their homeland by the means of their remittances to Georgia.

In general, by contributing to an increase in the level of households’ income, remittance inflows can, at least theoretically, increase consumption and reduce poverty. Such an application of remittance inflows is especially helpful for Georgia, because of the existing high unemployment rate. On the other hand, given the desired aim of directing remittances toward economic growth, it has to be noted that using these inflows for boosting consumption seems to be relatively ineffective for achieving the above-mentioned aim, while investing it or its major part in innovation or small and medium-sized entrepreneurial start-ups can considerably encourage economic development.

The following possibility must also be considered: a continuous surge in the volume of remittances flowing into the country could cause the so called “Dutch Disease”, a phenomenon referring to an appreciation of the home currency due to an increase in the supply of foreign money, which in turn discourages exports and can potentially worsen the trade balance.

**Topic 2 The Recent Trends in FDI flowing in Georgia**

FDI has given a sizeable impetus to rapid economic growth of Georgia, notably from early 2000s onwards. In light of the recent decline in the absolute volume of inward investment, the Government of Georgia is facing a serious challenge of attracting FDI at levels necessary for maintaining the pace of growth recorded earlier, when FDI inflows were considerably higher. Due to unfavorable political and economic developments, largely global in their nature, such as the brief but impactful war with Russia and protracted global financial crisis, Georgia is still struggling to reach the pre-crisis FDI inflow-volume of more than 2 billion USD in 2007.

![Figure 9 FDI by Years (thousand USD) www.geostat.ge](https://www.geostat.ge)
As we can see from the graph (f. 9), annual FDI in 2012 amounted to 865.2 million USD. It should be mentioned that the pattern of FDI flows to Georgia is not unique among developing countries due to the reasons explained below.

According to the 2011 United Nations Conference on Trade and Development (UNCTAD) World Investment Report, FDI promotion policies were a commonplace practice for an absolute majority of developing countries. This factor, combined with soft monetary policies undertaken by the national banks of advanced economies, contributed greatly to an unprecedented increase of global investment flows. Georgia was no exception to the rule. It must be acknowledged that Georgia received large amounts of FDI prior to 2008, but its absolute volume was not exceptionally outstanding; some developing countries with similar sized economies received even more both in absolute terms and as a percentage of GDP. According to the UNCTAD report, more and more developing countries have implemented FDI friendly policies. This increases the degree of competition among countries striving to increase FDI inflows. Given that after 2008 the global economy, and in particular a large majority of advanced countries, still remain in financial crisis, it will be considerably more difficult for developing countries, and Georgia among them, to maintain pre-crisis levels of FDI inflows. This combined with substantially increased competition for FDI will probably result in a somewhat lesser amount of FDI flows into Georgia, as compared to the period immediately preceding the global financial crisis. Attainment of the pre-crisis peak level of FDI will largely depend on how soon the global economy recovers from recession and how successfully Georgia continues its open-door policy towards FDI. Also, somewhat lower level of FDIs might induce an increase of domestic savings to supplement gross capital formation in the economy. In other words, if the capital inflow decreases and the aggregate demand on money stays the same or increases, the price will increase, and thus domestic savers will have more incentive to save.

An examination of FDI flows by sectors reveals the manufacturing sector to be the leader receiving 22% of all investments in 2012 (f. 10). Unfortunately, in our opinion, both the real estate and hotel and restaurants sectors have somewhat underperformed, taken into consideration the country’s transit function and attractive tourist potential.
Figure 11 demonstrates the importance of FDI in the process of capital formation in Georgia. In 2007, when international capital flows reached their peak, the contribution of FDI to the country’s gross capital formation was also at its highest. Subsequently, when capital flows dwindled, the Georgian economy reoriented itself more towards relying on internal sources of investment. Currently, capital formation stands at a level sufficient to support the rapid pace of economic growth. The role of FDI in it is not as significant as it was in 2007, although FDI will still be one of the key drivers of the economy in years to come. FDI can be directed towards large, bulk projects, such as energy, which would be extremely hard to finance through the local banking sector only. In our opinion, in the coming years it will be of key importance for the government to attract more FDI to finance such projects, and thus diversify the Georgian economy’s sources of growth.

For the sake of this study it is important to analyze FDI tendencies by country of origin. It is interesting to note that the top three parent countries of foreign organizations and individuals investing in Georgia change each year. In 2010 these countries were the USA, Turkey and the Netherlands; in 2011: the Netherlands, Denmark, and Cyprus; in 2012: Germany, Netherlands and Turkey. Out of the 7 target countries chosen for this study, three of them - Italy, Spain and Greece - have not been among Georgia’s top investors in the past three years. In general, Italy, Spain, and Greece have considerably less outward FDI stock compared to the UK and the US. In addition, they are currently experiencing serious financial and economic problems. Given this, large flows of FDI from these countries to Georgia should not be anticipated in the immediate future.
As it can be seen from figure 15, Turkey is the largest investor country in Georgia among the target countries in 2012. On top of this, FDI from Turkey and the UK seem to be more stable than that of other target countries. FDI levels from Spain, Italy and Greece are negligible compared to those of Turkey, US, UK and Russia.
By comparing the FDI inflows of various groups of countries (f.16), we see a substantial increase in FDI from countries in the European Union after the slump of 2009, while FDI from the “other countries” category has decreased throughout 2007-2012. A slight increase is observed in FDI inflows from CIS countries in 2011 and then again a decrease in 2012.

![FDI by Country Groups in million USD](www.geostat.ge)

Figure 16 FDI by Country Groups www.geostat.ge

According to information received from Geostat regarding investor (non-resident) and recipient (resident) companies, 397 local companies received FDI from 7 target countries in 2010, and this number increased to 558 in 2011. The following graph shows a detailed distribution of the number of FDI recipient companies (f. 17)

![Number of FDI Recipient Companies by 7 target countries](www.geostat.ge)

Figure 17 FDI Recipient Companies www.geostat.ge

In 2010, 65% of all FDI was from individuals, while only 35% was from companies. The number of individual senders increased to 69% in 2011, and the number of investing companies decreased to 31%. At the same time, it is noteworthy that Turkey leads in the number of individual investors accounting for 85% of them. On the other hand, 75% of UK investments were made by companies.
At the same time, an absolute majority of investing organizations invest in the local branches of their companies, such as Motorola Limited – Georgia Branch, Deloitte Consulting Overseas Project – Georgia Branch, BP – Tbilisi Office (which is responsible for a large volume of UK investments in Georgia), etc. Moreover, Turkish investment was mostly directed towards Turkish owned textile factories located in the Adjara region, which might have a connection to the historical Georgian Diaspora residing in Turkey. Some investments were government outsourced projects such as fiber-optic cables ordered by the Georgian Communications Company. In addition, a number of investments came in the form of humanitarian aid targeted at local hospitals, for example the Hellenicare International and Millennium Challenge Georgia sponsored project for concrete road construction.

Even though a clear link to the Georgian Diaspora was not identified during our primary research on randomly chosen companies, during our interviews, Diaspora representatives from within the Diaspora stated that they are actively popularizing investment opportunities in Georgia among members of their business networks in their countries of residence, with quite a large number of Diasporas being directly involved in bringing large volumes of FDI into Georgia. Some examples include: Turkish investment in Georgian airports (TAV), Turkish and Russian investment in the energy sector (the Paravani hydro-electric power plant), and Russian investment in the production of cement and construction materials (such as Kaspicement, which was later acquired by HeidelbergCement).

It is interesting to compare the volume of FDI vs. remittance inflows from the target countries. In the case of Armenia, these numbers are positively correlated, which suggests that the amount of FDI is influenced by the number of immigrants living in those countries. In other words, there is a trace of Diaspora-related FDI, which, according to the Armenian Diaspora study, amounts to 65% of the country’s total FDI receipts. As it can be seen from the graph (f.18), this does not hold true for Georgia - the number of immigrants is not correlated with the amount of FDI, although it is positively correlated with the volume of remittances. This might be related to the fact that the Georgian Diaspora is relatively young in historical terms and relatively small compared to the Armenian migrant community. The Armenian Diaspora has a long history of having high ranking business positions in various advanced countries and already has institutionalized channels of directing funds to their country of origin.

As mentioned above, we believe that the active engagement of the Georgian Diaspora in Turkey (historic Diaspora) into the relationships with Georgia plays a crucial role in securing FDI from the country. A somewhat similar method could be exploited to target the ethnic-Greek Georgian Diaspora, who might represent a potentially significant source of investment. Georgian Greeks have resided in Georgia for many centuries and formed compact settlements in the southern part of the country. Greeks have a long history of playing an important role in the economic, social, and cultural life of Georgia. Georgian Greeks started leaving Georgia in large numbers after the collapse of the Soviet Union. The majority still retain fixed property and land in the southern part of Georgia, as well as cultural connections to the local community. Even though the potential for Georgian Greeks to facilitate FDI flows to Georgia looks promising, Greece does not seem to have a potential as a significant source of FDI, not only in regards to Georgia, but globally as well, as it will be indicated later in the study.

Russia and Turkey are home to the greatest number of individuals and organizations providing FDI to Georgia, which is largely due to their size, proximity to Georgia, and cultural ties, etc. Russia is relatively insignificant in terms of FDI to Georgia, while it is the number one FDI sender to Armenia. The underwhelming levels of Russian FDI in the Georgian economy compared to both its potential and the flow of remittances is most likely caused by poor political relations between Russia and Georgia. There may be some prospect of improving relations between Russia and Georgia; in such a case, Russian FDI in Georgia might increase substantially.
Topic 3 Investment Climate in Georgia

Introduction

Over the last few years, Georgia has recorded a remarkable improvement in the World Bank’s “Ease of Doing Business” indicator. Breaking into the Doing Business (DB) report’s world top 20, and receiving the World Bank’s award for top-reformer in the years 2006 and 2008, indicates a huge improvement in business regulation and its enforcement. This development reflects the importance the Georgian government has placed on the provision of a liberal market environment, which entailed limiting government interference in the market and ensuring its freedom. Moreover, on July 1st, 2011 the Georgian Parliament enacted the Organic Law of Georgia on Economic Freedom, which further supports a reduction of government intervention in the market, a more liberal framework for the economy and, consequently, higher economic growth.

Despite the favorable results indicated above, World Bank’s Doing Business indicator covers only a small set of the factors that make a country investment-friendly and competitive. The World Economic Forum’s (WEF) Executive Opinion Survey allows a more comprehensive view of the determinants of the investment climate in Georgia. According to WEF (2012), 95\(^1\) companies active on the Georgian market, both local and foreign-owned, were asked for their opinion on the attractiveness of the Georgian business environment. We used the WEF data from 2008 to 2011 to analyze the current stance as well as the dynamics of investors’ perceptions of the investment climate in Georgia over the recent years. We also compared the current scores to the world average to evaluate Georgia’s relative position, and to figure out in which spheres Georgia lags behind or has an advantage at the international level. Distinguishing between foreign-owned and local-owned companies\(^2\) allows us to assess the investment climate in Georgia from the perspective of foreign investors, and get an insight into specific areas they report problems with. All the scores in the tables below, except

1 The number of surveyed companies varies in a small range: for 2011, 92 companies were included in the survey.
2 Unfortunately, the number of foreign-owned companies active in Georgia in the survey sample is low (12 for 2011, 13 for 2010), which raises the possibility of biased results. Additionally the scores on local and foreign company scores are just simple averages and not weighted averages like the overall scores, again possibly providing biased results.
those depicted in the breakdown of foreign and local investors, are based on the weighted average method and the selected sample reflects the GDP sector composition of the Georgian economy. Scores which are not a weighted average need to be analyzed cautiously.

The WEF survey data provides the basis for the Global Competitiveness Report (GCR\(^3\)), which ranks countries according to the competitiveness of their economies, and provides a comprehensive picture of the investment climate. According to the Global Competitiveness Report of 2012-2013\(^4\), Georgia is ranked 77 among 144 countries and is at the efficiency-driven stage of development\(^5\).

The business climate in Georgia has also been explored by the “Georgia Business Perception Survey 2012”, which was conducted by the International Finance Corporation (IFC) in January and February 2012. 1029 Georgian firms were surveyed regarding their business performance and asked for their opinion about the Georgian business environment. The survey complements our analysis of the WEF data and supports its findings regarding Georgia’s investment climate.

**Institutional framework**

The institutional framework provides the grounds on which economic agents interact, and sets legal boundaries based on formal and informal regulations and conventions for socioeconomic activity. Its objective is to support an increase in the competitiveness of local companies and stimulate economic growth.

The structure of the framework is determined by the government’s attitude regarding the free market and the efficiency of state enforcement, which establishes the economic burden stemming from government interference. The frameworks’ public institutions are complemented with private institutions, which together determine the standards of market behavior.

As previously noted, Georgia has been following a distinctly liberal approach so far, which has restricted government interference in the market, keeping it to a minimum. This approach has significantly influenced the current reforms and the refinement of the institutional framework. The importance of the free market and less regulation for the Georgian government is also reflected in the country’s rapid rise in World Bank’s “Ease of Doing Business” index. This index comprises several indicators that provide first insights into Georgia’s institutional framework characteristics. It also reveals that the country’s main goal is to ease the rules for companies and reduce the time devoted to complying with regulations. A considerable portion of this goal has already been achieved as starting a business and dealing with permits and registration currently requires only a few days.

Positive sentiments with regard to legislative innovations are also reflected in the IFC 2012 survey, which reveals the perception among those surveyed that the information about judicial changes are accessible and, to a certain extent, take the interests of business into account. The majority gives a positive evaluation of the business environment and the protection of business rights, and trust current institutional reforms.

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3 Global Competitiveness report (GCR) is a yearly report published my World Economic Forum (WEF).
4 By the time this chapter was written, GCR 2012-2013 was not available, which is why GCR 2011-2012 results are used for the more detailed analysis throughout the whole topic. Only a short reference is made here to GCR 2012-2013 in order to avoid mentioning the outdated overall rank and the stage of development.
5 WEF classifies the development of each country’s economy into one of the following stages: Stage 1-Factor Driven, Transition from stage 1 to stage 2, Stage 2-Efficiency driven, Transition from stage 2 to stage 3, Stage 3-Innovation-Driven.
These positive views of the institutional framework in Georgia are only partly reflected in the WEF survey, presented in figures 19 and 20. While the comparison with the world average reveals a poor current stance on property and intellectual rights with no visible improvement over the last 4 years, the transparency of

6 Efficiency of legal framework in settling disputes and Efficiency of legal framework in challenging regulations are compared with their 2009 value, while irregular payments and bribes are compared with their 2010 value.
government policymaking has been dramatically climbing, and the light burden of government regulation in Georgia is perceived as an advantage.

The Georgian government’s free market approach is confirmed by the Burden of Government Regulation parameter, the perception of which remains consistently low. In combination with positive developments in the transparency of government policymaking during the last few years, the state’s reluctance to intervene in the market remains a major advantage for Georgia, from the point of view of both local and foreign investors. Other positive factors, like the virtual inexistence of corruption and low business costs of crime and violence, further support Georgia’s attractiveness for investment and emphasizes its stable business environment.

However, the Georgian government’s modest control of the economy is not without issues, as is depicted by problems concerning the regulation and observance of intellectual property protections and general property rights, which remain low and have even worsened in the recent years. The problem of intellectual property protection is especially emphasized by foreign investors, who also regard the cost of crime and violence to be of greater concern than their local counterparts.

Earlier weaknesses in judicial independence and the efficiency of the legal system have been improving and are regarded particularly more positively by foreign investors. However, Georgia is still lagging behind the world average in these categories, which is supported by the country’s mediocre rank in DB’s Enforcing Contracts indicator.

Overall, the perspectives of foreign and local investors are predominantly in alignment. However, despite a great effort to improve every aspect of Georgia’s institutions and the fact that the country still remains known for its light regulatory burden on businesses, it is also known for problems in rights protection and the efficiency of its institutional framework. Development is mixed with almost half of the scores having deteriorated.

**Infrastructure**

A well-developed infrastructure plays a crucial role in economic progress. The easy and smooth circulation of goods and employees that is guaranteed by adequate infrastructure ensures that the market can function effectively. Furthermore, the supply of electricity, the quality of roads, and other such infrastructural components constitute the starting base for establishing economic activities.

![Infrastructure scores: Georgia 2011](image)
Infrastructure was a burden for Georgia in the past, and the funds required to make improvements were missing for a long time. However, in the last few years the Georgian government’s efforts to provide a reliable infrastructure have been successful, which has been reflected in a stable rise in nearly all the indicators shown above.

Figure 22 Infrastructure Scores: Dynamics and Foreign vs. Local Perspectives. GCR 2011-2012

Aside from air transportation, Georgia has caught up with the world average in every other aspect. Development in the quality of the electricity supply and overall infrastructure has been especially remarkable over the past few years, although according to IFC, the service cost of the electricity supply is still perceived as a major burden by firms. This is corroborated by Doing Business, according to which, “getting electricity” is perceived to be one of Georgia’s weaknesses. For the most part, foreign investors share this attitude. Furthermore, despite the fact the Quality of Electricity Supply indicator is 5.40 out of a maximum of 7, short cut-offs still happen sometimes. This could be a serious problem for firms utilizing advanced technologies, because significant costs can be incurred due to even a one minute break down of electricity.

Education

The quality of higher education and the provision of advanced training are the basis for an innovative economy. According to the Global Competitiveness Index of 2012-2013, Georgia is at the efficiency-driven stage of development and yet has to go through a transitory stage to reach the innovation-driven stage. This translates into a need to modernize the higher education system alongside vocational education and training, which are important prerequisites for developing more efficient production processes and increasing the quality of products.
As seen in figure 23, the educational system in Georgia still falls short of meeting the needs of a competitive economy and its development is stagnant at best as of 2011. All of the GCI’s education indicators - *Quality of the educational system, Availability of research and training services* and *Extent of staff training* - are significantly below the world average. Moreover, the GCR indicates that Georgia’s inadequately trained workforce is regarded to be the second most problematic factor for doing business, and the prospect that the higher education system can equip the workforce with the needed skills is not particularly bright.

Again, the assessment of the current situation in education given by foreign investors is more positive than that given by local investors. It is possible that foreign investors evaluate the educational situation based on
their experience with the aptitude of their work force, and it can be assumed that the selection of employees in foreign companies is more rigorous due to higher wages and a better reputation.

**Labor Market**

A flexible, effective and mature labor market is crucial for the further development of the Georgian Economy. With just 60% of the indicators exceeding the world average, the negative dynamics reflected in the scores suggests that the Georgian market still needs improvement - since 2008, all labor market indicators of have decreased. As discussed in nearly all research papers and public articles published about the Georgian labor market, the mismatch between the skills demanded by employers and those supplied by workers, Georgia’s low-skilled labor force, the lack of cooperation between teaching institutions and enterprises, the weakness of labor unions and the poor regulation of employment contracts are the main hurdles on the road to a well-functioning labor market.

**Figure 25 Labor Market Efficiency Scores. GCR 2011-2012**

Due to the fact that the labor market was not strongly regulated by the government in the recent years, WEF EOS results showed that *Flexibility of wage determination* scored highest amongst the indicators. In accordance with classical liberal economic theory, which constituted the main basis for the reforms implemented in the Georgian economy, light regulation could be considered to be an advantage.

The indicators’ negative trend and the differences between the scores of foreign and local investors are depicted in the following charts (f.26).

**Figure 26 Labor Market Efficiency Scores: Dynamics and Foreign vs. Local Perspectives. GCR 2011-2012**
Foreign investors are much more positive here than they were in the evaluation of the goods market. In all the indicators, the difference between foreign and local investors has resulted in a positive number, recording the highest gap in **Pay and Productivity**, and the lowest in **Hiring and Firing Practices**.

In conclusion, despite the fact that 60% of the indicators scored above the world average, **Brain Drain** and **Cooperation in Labor-Employer Relations** are still lagging behind. A more open economy, intensified and simplified relations with the European Union and the USA, greater access to better quality education, and attractive labor market conditions abroad are possible motivational factors behind the brain-drain.

**Goods Market**

Well-functioning, competitive, flexible, empty of entry barriers – these are the main characteristics of the classical free market, which is an essential tool for fast and high economic growth and prosperity. Despite the fact that the goods market in Georgia is far from such an ideal, it has been trying to develop towards the desired goal - to become a mechanism for the effective and efficient allocation of resources in the economy, and thereby boosting economic growth. However, half of the indicators fell behind the world average and on top of this the trend was negative from 2008 onwards.

**Burden of customs procedures** is the only indicator above the world average that has recorded a positive change, and a high one at that - 1.10. This considerable improvement is predominantly the result of the various reforms that the Georgian government has been actively implementing since 2008. For example, due to the introduction of cutting-edge technologies and procedures as part of the recently launched customs reforms focusing on effective risk management and simple administrative checking, only 2-3 minutes are needed to clear a car through customs. This and various other reforms supported an increase in the indicator depicted in the following chart (f.27):

![Figure 27 Goods Market Efficiency Scores. GCR 2011-2012](chart)

**Prevalence of Trade Barriers, Business Impact of Rules on FDI and Extent and Effect of Taxation** are the other three indicators above the world average. Their current level is the result of ongoing reforms in Georgian institutions, mainly in the Ministry of Finance. The high score recorded for **Extent and Effect of Taxation** can be explained by the new tax code, which in practice was launched January 1, 2011. **Prevalence of Trade Barriers** is one of the leading indicators, and its success is the result of the customs reforms referred to above. Due to this reform, costs relating to international trade have been considerably reduced.
Burning debates over the necessity of an anti-monopoly agency, various lengthy discussions in the Parliament of Georgia, and the lack of a common opinion might have been reflected in the WEF EOS and brought about the low score in *Effectiveness of Anti-Monopoly Policy*. This indicator lags far behind the world average, and might serve as a signal of possible obstacles to the further development of a free market in the Georgian economy. However, it needs to be mentioned here that with the advent of the new government after the parliamentary elections of 2012 the approach to competition policy has changed. Current signals indicate that a significant emphasis will be laid on the improvement of the competitive environment in Georgia. Therefore, the low score in *Effectiveness of Anti-Monopoly Policy* of 2011 is most likely not reflecting the new reality.

Figure 28 Goods Market Efficiency Scores: Dynamics and Foreign vs. Local Perspectives. GCR 2011-2012

Interestingly, as we see from the charts (f.28), foreign investors were much more generous about the evaluation of the Georgian goods market then their local counterparts. This can be explained by the approach of the Georgian government, which is particularly favorable toward foreign investments and investors. Since 2008, new technologies brought by foreign investors have encouraged the country’s development along its transition path from a factor-driven to an innovation-driven economy. Overall, the current standing of the goods market can be evaluated as satisfactory, with 50 % of indicators above the world average, a fact which could facilitate the processes necessary for the development of the economy.

**Financial Market development**

A developed financial market is an important and necessary tool for sustainable economic progress. Without this mechanism financing new ideas and introducing state-of-the-art technologies is hardly achievable and is one of the major impediments to economic growth and development. Countries with modern financial
markets are equipped with innovative technologies for reducing the cost of financial transactions and provide comprehensive information to ensure more effective resource allocation and higher economic growth. However, a financial market can be a source of considerable instability in the economy if it is supervised insufficiently and its soundness is not ensured.

![Financial market development scores: Georgia 2011](image.png)

**Figure 29 Financial Market Development Scores. GCR 2011-2012**

In the case of Georgia, we can see from the chart (f.29) that the financial market faces certain challenges and lags behind the world average in all indicators. The condition of the financial market may hamper the financing of new ideas and can also reduce the liquidity of already existing firms and enterprises.

*Venture Capital Availability* is crucially necessary for transition economies. Unfortunately, it has received the lowest score of all the indicators. Theoretically, it can facilitate the development of small and medium size businesses in Georgia and support the increase of general well-being. However, as seen in the graph above, investors are afraid of providing venture capital in this country possibly due to a high risk factor.

*Financing through local equity market* has the second lowest score in the Financial Market Development section of WEF EOS and exhibits the largest gap between the country score and the world average in this section, thus reflecting the local financial market’s low level of development. A high interest rate and fairly tough rules for obtaining credit could explain the low appeal of obtaining finances from the local financial market. This fact is also reflected in the *Availability of Financial Services* and the *Affordability of Financial Services*.

*Soundness of banks* holds the highest score. However, it falls behind the world average. This relative level of soundness is the result of increased competition among banks on the Georgian financial market, and has improved the *Ease of Access to Loans* nearly up to the world average.

As for trends in the Georgian financial market’s indicators, they are depicted in the following charts (f.30):
All of the indicators except for Affordability of Financial services have deteriorated over the recent years. As in most of the above cases, foreign investors are again more generous in their assessment of Georgia’s financial market indicators. The biggest positive difference between foreign and local investors was recorded in Ease of Access to Loans. One possible explanation for this fact could be that Georgian financial institutions are more liberal to foreign companies or, on the contrary, foreign investors easily fulfill all collateral requirements with their stronger financial conditions.

In conclusion, an evaluation of the Georgian financial market could regarded as not satisfactory overall, as there is no indicator equal to the world average and, on top of that, 5 out of 6 have deteriorated since 2008.

**Technological Infrastructure**

The introduction of innovative, effective and up-to-date technologies drastically reduces the production costs of goods and services and significantly increases their quality. Assisting the public as well as private sectors in establishing modern technologies appears to be one of the alternatives for any government that is devoted to economic and social development. This is close to what Georgia has been doing since the Rose Revolution. The best example of a fast and effective introduction of new technologies in the public sector is Georgia’s Ministry of Justice. It is perceived to be the most modern branch of the country’s institutional body. This and many other positive and negative technological developments are reflected in the following charts (f.31 and f.32):
Despite an increase in Availability of Latest Technologies, Georgia still falls short of the world average in all the three indicators of technological infrastructure, though not by too much. The most interesting and notable fact here is the difference between foreign and local investors’ sentiments towards the above mentioned indicator. While foreigners have mostly been more generous with other indicators, they turned out to be more critical in this case and gave a lower score to Availability of Latest Technologies than local entrepreneurs. This could be the result of a difference between foreign and Georgian companies’ perceptions of what the latest technology is.

The Georgian technological infrastructure expresses a developing trend overall, gradually catching up with the world average. However, according to the data, it is not driven by FDI - FDI and Technology Transfer has worsened since 2008.
Business Sophistication

Business sophistication is another important aspect of an investment climate. This term concerns two elements that are intricately linked: the quality of a country’s overall business network, and the quality of individual firms’ operations and strategies. Its development leads to intensified economic activity, higher quality business networks in the country, more efficient production of goods and services, and consequently higher economic growth. Increasing the sophistication of the business environment is an essential milestone recommended for use in an economy that has already exhausted all the other means of increasing efficiency.

As for Georgia, all of the indicators that determine business sophistication are below the world average, with only 60 percent of them having improved over the last few years. These results are expressed in the charts (f.33 and f.34):

![Business sophistication scores: Georgia 2011](image)

**Figure 33 Business Sophistication Scores. GCR 2011-2012**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Local supplier quantity</th>
<th>Local supplier quality</th>
<th>State of cluster development</th>
<th>Nature of competitive advantage</th>
<th>Value chain breadth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia 2011</td>
<td>3.70</td>
<td>3.60</td>
<td>3.00</td>
<td>3.30</td>
<td>3.30</td>
</tr>
<tr>
<td>World Average 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![Change in Scores for Business sophistication, 2008-2011](image)

**Figure 34 Business Sophistication Scores: Dynamics and Foreign vs. Local Perspectives. GCR 2011-2012**

![Local and foreign ownership scores on business sophistication, 2011](image)

Similar to the previous cases, foreign investors’ perception of the indicators’ development is much more favorable than that of local ones. The minimum difference in the evaluation of business sophistication indicators is 0.23, which elsewhere increases up to 0.78.

---

7 Foreign entrepreneurs’ mean score minus local entrepreneurs mean score
Innovation

Economies oriented on, and rich in innovative technologies are much more attractive investment destinations for local as well as foreign investors. Theoretically, the necessity of innovation and the production of cutting-edge goods and services is a signal that the economy has already exhausted all existing exogenous sources of technologies, and more resources need to be committed towards the R&D sector for further development. Increasing innovation requires a close and intensive collaboration between leading research centers, as well as industries and educational institutions. Additionally, it needs a sophisticated property rights protection system. Thus, if a country’s economy is innovation-driven, it means that the state has already developed leading institutions, achieved strong law enforcement in all areas of property rights, and thus laid the ground work for a favorable investment climate.

Regarding Georgia, it has achieved mediocre improvements in innovation. Several possible reasons for the lack of innovation could be: the absence of modern research centers, the weak cooperation between universities and the industrial sector, the low level of qualified workers, the poor protection of property rights (including intellectual property rights), the lack of world class scientists residing in Georgia, a high level of brain drain, and the lack of incentives for the private sector. All indicators determining the level of innovation lag behind the world average, and most of them have worsened since 2008.

![Innovation scores: Georgia 2011](image)

**Figure 35 Innovation Scores. GCR 2011-2012**

<table>
<thead>
<tr>
<th>Change in scores for innovation, 2008-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity for innovation</td>
</tr>
<tr>
<td>Quality of scientific research institutions</td>
</tr>
<tr>
<td>University-industry collaboration in R&amp;D</td>
</tr>
<tr>
<td>Availability of scientists and engineers</td>
</tr>
<tr>
<td>Change in scores 2008-2011</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Local and foreign ownership scores on innovation, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity for innovation</td>
</tr>
<tr>
<td>Quality of scientific research institutions</td>
</tr>
<tr>
<td>University-industry collaboration in R&amp;D</td>
</tr>
<tr>
<td>Availability of scientists and engineers</td>
</tr>
<tr>
<td>Difference between foreign and local investors 2011</td>
</tr>
</tbody>
</table>

**Figure 36 Innovation Scores: Dynamics and Foreign vs. Local Perspectives. GCR 2011-2012**
As seen from the graphs (f.35 and f.36), all indicators determining the level of innovation in the Georgian economy are following a negative trend apart from University-industry collaboration in R&D, which stayed the same. However, as in the previous cases, yet again foreign investors gave higher scores than local ones.

Finally, the Georgian economy has not yet developed enough to direct considerable resources toward purely innovative technologies and compete with the world’s leading technology suppliers. It might be more cost-efficient to start by adopting existing foreign technological advancements and then, after gaining more competences and expertise and with proper state incentives, the private sector will probably start seeking ways of increasing efficiency automatically through the sophistication of its technological and innovative processes.

**Summary**

After having discussed and evaluated each aspect of Georgia’s investment climate, here we briefly summarize the strongest and the weakest ten factors from the ones we have analyzed in our study above.

![Figure 37 Summary of the Strongest and Weakest Factors of the Investment Climate. GCR 2011-2012](image)

As we can see from the chart (f.37), the worst aspects of Georgia’s investment climate are those which determine innovation. Three out of four factors related to the level of innovation are represented among the investment climate’s 10 weakest indicators. This picture confirms the WEF’s evaluation that Georgia is far from being an **Innovation Driven Economy**, a status which the WEF mostly assigns to industrial countries.
Another particularly vulnerable area is the financial market, as described by a number of Georgia’s lowest ranking factors in the GCR. Availability of Venture Capital records the weakest score - only 2.20 points. This result is not wholly surprising, as venture capital bears the considerable risks that are associated with the developing and emerging market economies like Georgia. For such countries, monopolies, brain drain and intellectual property protection are also quite problematic issues. Highly intelligent people tend to go abroad, acquire a better education and then seek employment there, because they will be adequately remunerated for their skills.

As for the strongest characteristics of Georgia’s investment climate, Flexibility of Wage Determination holds the record with 5.50 points. This could be the result of the greater flexibility that Georgian employers have had so far. Most of the 10 strongest factors can be ascribed to public institutions and infrastructure. These two areas of the investment climate are exactly those in which the Georgian government has been investing most of its foreign loans and grants in the recent years. Building roads, improving the electricity supply, reforming taxation, and easing business related procedures are just some of the present priorities. This enormous effort is reflected in the high scores given by private companies.

Below, we also provide a chart showing the factors of the investment climate that have recorded the largest positive and negative changes over the recent years. Here it can be seen that Quality of Overall Infrastructure has increased most rapidly, which is likely the result of the reasons outlined above.

![The Largest Positive and Negative Changes in the Factors of the Investment Climate](image-url)

*Figure 38 The Largest Positive and Negative Changes in the Scores of the Investment Climate. GCR 2011-2012*
Topic 4 Assessing the Targeted Diaspora Communities

For the purposes of this study, it is necessary to assess each country in terms of its general economic potential, such as GDP, FDI outflow, future prospects, Diaspora community size and the Diaspora organizations currently operating in those countries, as well as the level of the Georgian Diaspora community’s business engagement, the total flow of FDI and remittances coming to Georgia from those countries, the key institutions in the Diaspora community facilitating business linkages with Georgia, and matchmaking tools already employed for enhancing connections of Diaspora representatives with Georgia.

In order to assess the respective economic potential of the 7 countries, it is important to highlight that the world in general is still climbing out of the recession, and the availability of FDI stock is still very limited – around 23% below its 2007 peak. At the same time, an increase in FDI flows mainly affects developed countries. Projections for 2013 are very moderate, with only a slight increase in the overall stock of FDI around the globe. The availability of FDI is positively correlated with the economic outlook in a country; therefore, we briefly discuss the target countries’ latest economic projections.

Europe is still fighting the recession and facing further contractions in output, which has been offset by robust growth in Russia. The economic prospects in Europe are not very promising, but GDP growth is projected to pick up gradually in 2013; the GDP of the Eurozone contracted at a rate of 0.5% in 2012, and will increase by 0.25% in 2013. Emerging Europe (i.e. Eastern Europe including Turkey) was significantly affected by the Eurozone crisis, especially through the decrease in capital flows. Real GDP growth rates for selected Eurozone and emerging European countries are presented below:

<table>
<thead>
<tr>
<th></th>
<th>Real GDP Projections (Annual Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
<tr>
<td>Italy</td>
<td>-2.3</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.5</td>
</tr>
<tr>
<td>UK</td>
<td>-0.4</td>
</tr>
<tr>
<td>Greece</td>
<td>-6.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: IMF

According to given projections, Turkey and the UK have the most promising growth estimates. Recovery continues in the United States, where output has increased above its pre-crisis peak. However, even though the USA is having a better recovery process compared to other advanced economies, growth is still sluggish due to the heavy effects of negative spillovers coming from the rest of the advanced world (such as through trade, investment, remittances, etc.); the 2013 GDP growth projection for the USA is 2.1% - just about the same as in 2012. Overall, the deterioration of economic conditions in the US economy raises risk aversion among investors and is projected to cause sharp swings in global capital flows.

Russia’s growth is projected to be around 3.8%, although the non-oil fiscal deficit is three times larger than it was before the global recession of 2009.

In figure 39 we present the volume of FDI outflows by country. We can observe that the largest FDI provider is the USA, followed by the UK. The most volatile region is the Eurozone, with a drastic decrease in FDI outflows during the crisis years. Greece does not seem to have much potential as a FDI sender, especially given its current economic situation. Therefore, targeting the historic Georgian Diaspora in Greece might not be feasible. The USA and Russia are the most stable sources of FDI, with less volatility observed. The overall trend is a slow but stable after-crisis recovery. However, the case of Russia is unique – no matter how large its potential is, it could not possibly be exploited until the political situation between Georgia and Russia normalizes.

![FDI outflows by countries](https://www.unctad.org)

Figure 39 FDI outflows by countries www.unctad.org

Below we summarize the target countries in terms of the following criteria: community size of Georgians residing in the country, FDI, remittances, and intensiveness of trade relations with those countries.

As we can see from the table below, Turkey is the top scorer in regards to the volume of FDI sent and international trade turnover, while Russia is Georgia’s largest remittance generator. The case of Turkey is important to observe given that, as seen in the graph above, its global FDI outflow is not very large. Indeed, Turkey has in general the smallest FDI outflow of the target seven countries, and yet it is Georgia’s largest FDI provider.

Italy and Spain saw a recovery in total FDI outflow, but did not bring any investment to Georgia in 2011; on the contrary, a net outflow from Georgia was observed. A possible explanation of the recovery in the total outflow is the character of FDI outflow from these countries. Spanish and Italian investment outflows in 2011 were mainly in the form of intraregional cross-border mergers and acquisitions, rather than green field investments. In case of Spain, this involved mergers of Spanish companies with their Latin American counterparts. As opposed to green field investments\(^\text{11}\), this mode of entry does not provide many benefits to the host country in terms of economic development and increased employment. In order to ensure economic development through FDI, Georgia has mostly concentrated on facilitating and promoting the former type of investment, and thus Italy and Spain have little or no potential as of now, at least until there is global recovery from the crisis.

### Remittances by Selected Countries (thousand USD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Community size</th>
<th>FDI received in 2011 (in thousand USD)</th>
<th>Remittances received (thousand USD) 2011</th>
<th>International Trade thousand USD (Export) 2011</th>
<th>International Trade thousand USD (Import) 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>~ 60,000 (up to 2 million historic Diaspora)</td>
<td>77,393.7</td>
<td>27,643</td>
<td>227,583.8</td>
<td>1,272,426.8</td>
</tr>
<tr>
<td>USA</td>
<td>~ 100,000</td>
<td>29,000.8</td>
<td>75,349</td>
<td>143,466.2</td>
<td>245,796.7</td>
</tr>
<tr>
<td>UK</td>
<td>~ 15,000</td>
<td>37,224.2</td>
<td>14,852</td>
<td>13,842.6</td>
<td>88,481.5</td>
</tr>
<tr>
<td>Italy</td>
<td>~ 7,000</td>
<td>-5,664.2</td>
<td>109,188</td>
<td>75,501.4</td>
<td>184,834.9</td>
</tr>
<tr>
<td>Greece</td>
<td>~ 400,000 (among them 100,000 ethnic Greek)</td>
<td>906.1</td>
<td>144,644</td>
<td>6,186.0</td>
<td>61,905.6</td>
</tr>
<tr>
<td>Spain</td>
<td>~ 30,000</td>
<td>-1,621.0</td>
<td>30,957</td>
<td>23,693.0</td>
<td>82,175.0</td>
</tr>
<tr>
<td>Russia</td>
<td>~ up to 800,000</td>
<td>52,329.3</td>
<td>655,217</td>
<td>36,610.4</td>
<td>389,711.6</td>
</tr>
</tbody>
</table>

Sources: Office of the State Minister of Georgia for Diaspora Issues, www.geostat.ge, www.nbg.ge

Among Georgia’s export partner countries, Turkey is a major trade partner, consuming 10% of total Georgian exports, while the USA absorbs 6%. These countries are the biggest consumers of ferro-alloys produced in Georgia. When it comes to Georgia’s import exposure from the targeted seven countries, 18% of total Georgian imports come from Turkey, with the other 6 countries not being among Georgia’s top 5 trade partners.

Figure 40 Remittances for targeted countries (2010-2011). www.nbg.ge

Figure 40 shows the top remittance sender countries. In the case of Russia and Greece, remittances are positively correlated with the number of immigrants living in those countries. However, in the case of Turkey, even though a large number of immigrants live there, they send less remittance than would be expected. This is mainly due to the nature of the Diaspora; they are historic Diaspora migrants without immediate roots or relatives in Georgia. Italy is one of the largest remittance senders, even though it falls behind other countries in terms of the number of immigrants. This might be due to the large number of unregistered, irregular migrants.
USA

Community Size

According to unofficial statistics, the size of the Diaspora in the USA is up to 100,000 Georgians, out of which an absolute majority are irregular women migrants, taking care of the elderly. Georgians are mostly concentrated in the states of New York and New Jersey. Due to their status, it is hard to locate and describe them. They are not normally members of any organizations or a particular Diaspora community. On the other hand, the small Georgian community in San Francisco is primarily engaged in science, culture, sports and small businesses.

Diaspora Organizations

Georgian Diaspora organizations in the USA are diverse in their nature. The eldest, The Georgian Association, was founded back in 1932 and its mission is “strengthening the Georgian-American community on a national level and to support an independent, democratic and prosperous Georgia”12.

Studio STVR is an audio-video studio serving the Georgian Diaspora in the USA. The studio has established a Georgian folk dance group by the name of Argo, as well as the children’s vocal group, Tamariani. The foundation was one of the principle organizers of Tbilisoba in New York, and other festivals of Georgians in the USA.

Amirani is a New York-based society uniting Georgian women engaged in science and culture.

Tvistomi unites over 1000 Georgians, women in particular, and provides them with free access to healthcare.

Gelani - is a New York based Georgian organization with a Georgian web-based radio station. Moreover, the organization has been involved in a number of national projects, such as Georgian Rtveli in the USA.

The Association -American Friends of Georgia was formed in 1994 to help the people of Georgia during the difficult post-Soviet transitional period. The organization’s mission is to provide practical humanitarian assistance to the peoples of Georgia and the Caucasus mountain region in order to improve educational, economic, social, medical and environmental conditions.

Georgian America Foundation aims to support ethnic Georgians and Georgian citizens living in the United States of America. Organization aims to lobby Georgian business and national interests and to support their further development. The Foundation works to enhance the number of investments, assists Georgian citizens in the matters of immigration and employment in the USA.

The Center for assisting Georgian Emigrants in the USA and Canada provides assistance with various administrative issues.

Georgian Charity Organization - St. George Foundation, Inc was founded in 2004 to provide assistance to the Georgian Community in the USA.

US-Georgia Friendship Association, Inc - Mission of the US-Georgia Friendship Association (“USGFA”) is to

12  http://www.georgianassociation.org/Default.asp
promote friendship and deepen ties between people of the United States of America and Georgia. One of its principal aims is to foster cultural and professional exchanges by expanding people to people contacts between the two countries.

**The Dancing Crane, Inc** – was founded in 1996. The aim of the company is to promote Georgian art and culture within the Georgian-American community and to provide programs that strengthen the sense of identity in Georgians living in the USA.

**Newspaper “Mamuli”** – publishes a Georgian newspaper in the USA, since 2003.

Besides the above mentioned forms of organizations, Georgian church services and Sunday schools play a huge role in terms of spiritual education of local Georgians. They serve as gathering and networking places for Georgians.

**Some Georgian Businesses in the USA**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurant Tbilisi</td>
<td>Food Service</td>
</tr>
<tr>
<td>Restaurant Sakartvelo 21</td>
<td>Food Service</td>
</tr>
<tr>
<td>Restaurant Pirosmani</td>
<td>Food Service</td>
</tr>
<tr>
<td>Georgian Bread (Tone)</td>
<td>Food Service</td>
</tr>
<tr>
<td>Restaurant Tbilisuri Karvasla</td>
<td>Food Service</td>
</tr>
<tr>
<td>Sapir Organization</td>
<td>Real Estate</td>
</tr>
<tr>
<td><a href="http://www.kostaia.com">www.kostaia.com</a></td>
<td>Offering various products and innovative services for Georgians living abroad, such as repairing works, internet shop, tourist services, and courier services.</td>
</tr>
</tbody>
</table>

**Facilitators of Business Linkages Between Georgia and the USA**

The **Georgian Chamber of Commerce and Industry (GCCl)** Representative in the USA – Gela Gelashvili Facilitates and promotes business opportunities, joint ventures, FDI and trade.

The **American Chamber of Commerce in Georgia** “is an association aiming to promote the development of commercial relations between Georgia, the United States of America, and the international community in Georgia.”[^13]. The Chamber was officially registered in Georgia in 1998 and serves as a facilitator of business relations between Georgia and the USA.

The Chamber promotes its goals by establishing relations with key policymakers and appropriate governmental bodies in both the US and Georgia on subjects of interest to its members. Additionally, the Chamber collects and disseminates timely information concerning areas of interest, organizes conferences and seminars, works on legislative initiatives of concern to the business community in Georgia, and most importantly, provides an ongoing forum for members of the American business community to gather and to share knowledge, [^13]: http://amcham.ge/about_us.htm
experiences, problems and solutions.

The America Georgia Business Council “promotes investment opportunities in Georgia and provides support for Georgian companies seeking export opportunities and international partnership”14. A major tool that the council employs for meeting its organizational goals is organizing annual business conferences for bringing together Georgian and American business leaders and policymakers for thorough discussions and networking. The conference has a 15-year history; it is held in various US states, and addresses issues of investment and international trade opportunities in Georgia. The issues range from infrastructural projects all the way to agribusiness, tourism and the energy sector.

THE UNITED KINGDOM

The size of the Georgian Diaspora in the UK is estimated to be up to 15,000 persons, out of which approximately up to 8,000 are irregular migrants employed in the construction and food service sectors. Another large group of Georgian Diaspora is students, who are relatively active participants in Georgia-related projects. There is a small group of Georgian professionals living in the UK and there is a small chance of their return to Georgia, so they try to do something for the better of the country locally. The Office of the State Minister of Georgia for Diaspora Issues believes that with a proper governmental policy, this group of people could be further organized and used in various ways. We believe this especially concerns employing various tools for knowledge transfer.

Generally speaking, the Georgian Diaspora in the UK has the largest intellectual potential together with the US and Russian Georgian Diaspora. As far as Italy, Spain and Greece are concerned, Georgians residing in these countries are mostly labor migrants, with little or no knowledge transfer potential. As for the UK, the Georgian Diaspora here is mainly located in the capital city of London. The creation of a Georgian community in the UK was associated with the social-economic hardships existing in Georgia during the 90s. However, a larger flow of Georgians started entering the UK after the year 2000. It was not until 2005 that an official Georgian community organization was founded in the UK. Before that, an institutionally strong organization did not exist there. Georgian community organizations in the UK are mostly involved in cultural and scientific works, such as helping to organize Georgian art and wine festivals.

Business Facilitators

The British Georgian Chamber of Commerce assists in developing successful business ventures between the UK and Georgia15. They provide various services starting from networking to organizing sector-specific events to match potential business partners. The organization also helps to bring together investors and those who seek financing. For companies seeking to establish market presence and increase penetration, the company provides up to date information regarding specific markets.

Community Organizations

The Georgian Oxford Society was founded in 2010. Its major goal is to connect Georgian citizens living in the UK, support Georgian students in the UK, and organize various events, such as cultural-educational and entertainment.

14 http://www.agbdc.com/About.asp
15 http://www.bgcc.org.uk/
The British Georgian Society was founded in 2004 and focuses on Georgian culture, business development, diplomatic links, architectural heritage, humanitarian aid and human rights16.

The First Georgian Supplementary Sunday School in the UK was founded in 2002. It also includes a kindergarten, together with singing and dancing clubs. The school organizes some annual large-scale activities such as a Georgian Rtveli and a Christmas-New Year musical.

The Association of Caucasus Art aims to popularize of Georgian and Caucasian art in the UK. The association has organized a number of exhibitions and cultural days around Britain.

Georgian Folk Ensemble - “Maspindzeli” - aims to popularize Georgian folklore in the UK. They organize charity concerts around Britain as well as various folk exhibitions.

Some Georgian Businesses in the UK

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurant Tbilisi</td>
<td>Food Sector</td>
</tr>
<tr>
<td>Restaurant Mimino</td>
<td>Food Sector</td>
</tr>
<tr>
<td>Restaurant Iberia</td>
<td>Food Sector</td>
</tr>
<tr>
<td>Restaurant Cholchis</td>
<td>Food Sector</td>
</tr>
<tr>
<td>Restaurant Tamada</td>
<td>Food Sector</td>
</tr>
</tbody>
</table>

THE RUSSIAN FEDERATION

Community Size

Unofficially, there are currently 800,000 thousand Georgians living in the Russian Federation, among which as of 2009 285,94617 have received Russian citizenship. This makes Russia the country where the largest Georgian Diaspora is located, even excluding the historic Diaspora.

The number of Georgian immigrants in Russia emphasizes the fact that Georgians still have a great connection to Russia, and have found a place in the Russian society even after the fall of the Soviet Union.

Diaspora Organizations

All Russian Public Organization “Union of the Georgians in Russia” - is a website created by Georgian immigrants living in Russia. It is mainly a news website sharing information associated with the two countries. It also helps the Georgian community to communicate events organized by Georgians or ones in which Georgians participate.

Moscow Community called Georgian Homeland - The goal of the community is to popularize the Georgian culture, assist refugees and internally displaced individuals.

16 http://www.britishgeorgiansociety.org/about-bgs
17 Information provided by the Georgian’s interests section of the Swiss Confederation’s Embassy to the Russian Federation as of October 1st 2009.
**Regional Community Organization in Saint Petersburg** – major goals are uniting Georgians residing in Saint Petersburg, popularize cultural and language traditions of the Georgian people. It also helps to promote Russian-Georgian ties in the region, and facilitates charitable activities. The organization is also involved in organizing concerts and events.

There are 6 Sunday Schools, 4 public schools with Georgian ethno-cultural components (it means that Georgian language and literature, Geography and history of Georgia are studied in the high classes) and one Public school in Vladikavkaz.


**Georgian Culture Center “Mamuli” in Samara**

**Business Facilitators**

At this stage, business facilitators do not work, and neither does the embassy. Business relations are carried out on private levels only.

**Some Georgian Businesses in Russia**

The Georgian Diaspora in the Russian federation is engaged in both small and large business. Small businesses are mainly involved in trade and food services. Below we present a list of the most significant Georgian Diaspora entrepreneurs doing business in Russia.

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merab Elashvili</td>
<td>Restaurant chain, distribution</td>
</tr>
<tr>
<td>Mindia Gulua</td>
<td>Restaurant chains, services, real estate</td>
</tr>
<tr>
<td>Mikheil Khubutia</td>
<td>Restaurant chain, real estate, chain of gun stores</td>
</tr>
<tr>
<td>Soso Orjonikidze</td>
<td>Road Construction, Oil</td>
</tr>
<tr>
<td>Gia Gvichia</td>
<td>Beer Factories</td>
</tr>
<tr>
<td>Aleksandre Ebralidze</td>
<td>Gambling, Construction, Manufacturing, Development, Trade, Banking, Transport</td>
</tr>
<tr>
<td>Valeri Meladze</td>
<td>Banking, Entertainment</td>
</tr>
<tr>
<td>Levan Vasadze</td>
<td>Finance and Insurance</td>
</tr>
<tr>
<td>Konstantine Mirilashvili</td>
<td>Meat and Sugar</td>
</tr>
<tr>
<td>Badri Kakabadze</td>
<td>Food processing</td>
</tr>
<tr>
<td>Lev Partskhaladze</td>
<td>Construction</td>
</tr>
<tr>
<td>David Iakobashvili</td>
<td>Food processing</td>
</tr>
<tr>
<td>Aleksandre Japaridze</td>
<td>Oil</td>
</tr>
<tr>
<td>Shalva Chigirinski</td>
<td>Oil and Gas</td>
</tr>
</tbody>
</table>
GREECE

Community Size

The Georgian Diaspora has emerged in Greece mainly due to ethnic conflicts and social, political and economic issues of Georgia. According to current data 400,000 Georgian Diaspora representatives reside in Greece (100,000 of them are ethnic Greek). Most Georgians are spread through Athens and Thessaloniki. Greece is the source of the second biggest remittance inflow in Georgia.

Diaspora Organizations

New Georgia ახალი საქართველო is a Georgian Diaspora organization in Greece with more than 200 members, established in Thessaloniki. The objective of the organization is to unite Georgians living in Greece and to protect their cultural and educational interests according to Greek laws. They also aim to protect the Georgian language and traditions, and stimulate cultural development.

The organization has established a Sunday school, where children can learn Georgian language, literature, history, and traditional dances. The school also offers an opportunity to learn the Greek and English languages.

Georgia საქართველო is an organization in Thessaloniki, which mainly aims to support Georgian youth to achieve success in sports. It also publishes a newspaper, “საქართველო”. The honorary president of the organization is Kakhi Kakhiashvili, a three-time Olympic champion in weightlifting, representing Greece.

The Union of Georgian Women in Greece is involved in charitable events and helps unemployed Georgian women find employment.

The Centre for Georgian Culture – Caucasus, Society Kolkhida is engaged in organizing cultural events.

Hellenic-Georgian Student and Youth Association - supports Georgian students in Greece, organizes cultural-educational and entertainment events.

Hellenic-Georgian Association; Georgian Community in Argolis საქართველო “; Hellenic-Georgian Culture Association – the main goal of all these organizations is to support Georgians living in Greece, to promote Georgian culture and history, to organize cultural events.

Diaspora Newspapers - Elada, Taoba, newspaper ქართული, journal ემიგრანტი ქალები

Some Georgian Businesses in Greece

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurant Metekhi</td>
<td>Restaurant, Food</td>
</tr>
<tr>
<td>Din Tour</td>
<td>Tourism</td>
</tr>
<tr>
<td>Restaurant Daisi</td>
<td>Restaurant, Food</td>
</tr>
<tr>
<td>Inex Group, S.A</td>
<td>Tourism, Logistics, Publishing, Telecommunications</td>
</tr>
<tr>
<td>Intelexpress</td>
<td>Money Transfer</td>
</tr>
</tbody>
</table>
**Business Facilitators**

There are no specific organizations aimed at facilitating Georgian-Greek business relations, although several Georgian-Greek business forums have been organized by the Georgian Entrepreneurs’ Confederation.

**SPAIN**

**Community Size**

Unofficially, there are up to 6,000 Georgian Diasporas residing in Spain. However, unofficial sources suggest that this number is even higher, as much as 30,000.

**Diaspora Organizations**

There are a number of cultural associations, such as: the Georgian-Spanish Association, Iberia; the Fundacion Internacional (international fund), “Amigos de Georgia” (“Friends of Georgia”); EuroGeorgia (Association Georgian Cultural Centre); Georgian Diaspora Association; Satvistomo; Georgian Orthodox Association of St. George. The mission of these associations is to promote Georgian cultural integration and deepen the relations between the South of Spain and Georgia.

**Some Georgian Businesses in Spain**

<table>
<thead>
<tr>
<th>Entrepreneurs</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ketil Gorgiladze</td>
<td>Construction</td>
</tr>
<tr>
<td>Nino Ioseliani</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Nino Gogvadze</td>
<td>Real Estate</td>
</tr>
</tbody>
</table>

**Business Facilitators**

Only one organization is working in this direction, or more precisely, a representative of the Georgian Chamber of Commerce and Industry in Spain.

**TURKEY**

**Community Size**

According to the Ministry, there are approximately 60,000 Georgian immigrants living in Turkey and up to 2 Million members of the historical Diaspora.

The absolute majority of the historical Diaspora is assimilated into the Turkish nation and practice Islam as their religion. Even without the historical Diaspora, Turkey is home to one of the biggest Georgian Diasporas. As mentioned above, among the seven target countries, in 2012 Turkey was the largest source of FDI flows into Georgia. Even though Turkey did not provide the largest remittance flow, the fact that Turkey was the main source of FDI is noteworthy and deserves attention.
Turkey is a strategic partner of Georgia in various economic endeavors. The major spheres of economic cooperation with Turkey are:

- Regional cooperation – aims at providing stability and security in the region for sustainable economic growth;
- Energy security – aims at full utilization of the region’s energy and transport potential. These two countries are linked through such important projects as the Baku-Tbilisi-Ceyhan pipeline and the Baku-Tbilisi-Erzurum gas pipeline. Successful cooperation covers various other energy projects and, to diversify the transport infrastructure, the Baku-Tbilisi-Kars railway project is important as well.
- Trade and economic cooperation – Turkey is Georgia’s largest trade partner. The mutual state economic commission and Turkish-Georgian business council are functioning successfully.

**Georgian Diaspora Organizations**

**The Turkish-Georgian Foundation for Education and Culture – The** Foundation’s board of directors are famous businessmen and public figures such as: Ismed Ajarı, Sami Sechkini, Ergund Atbai, Ismed Dindari, Ali Ihsan Ahsqalioghlu, Simon Zazadze, Ali Gunduzi, Ali Nihat Goqiiti. The general director is Mevlud Artvinli.

**The Machakhela Foundation of Education, Culture and Support** was founded in 1995 and is the gathering place of Georgians living in Istanbul, Artvini District. The foundation also publishes the magazine “Machakhela”.

**The Society of Friendship with Georgia** was established in 2005 in Istanbul and offers Georgian language courses. The Chairman is Ali RizaAltuneli.

**The Georgian Culture Society** was established in 2008 with the purpose of offering Georgian language courses. In the future it plans to organize a Georgian week, inviting Georgian writers and public figures.

**Georgian Culture Centre; Caucasian Culture Society; Society in Bursa; Caucasian Folk and Culture Society in Inegol** - their main goal is maintaining public awareness of the Georgian Nation and preserving Georgia’s identity and culture.

The very first Georgian magazine, Chveneburi, was established in Bursa by local Georgian Ahmed Ozkan (Melashvili).

**Some Georgian Businesses in Turkey**

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ergun Atabai (Kokoladze)</td>
<td>Energy, Services</td>
</tr>
<tr>
<td>Ismet Dindiri (Mikeladze)</td>
<td>Medical</td>
</tr>
<tr>
<td>Orhanlavuzi</td>
<td>Biotechnology, mining</td>
</tr>
</tbody>
</table>

**Business Facilitators**

**The Turkish-Georgian Business Council** was founded in 1992. Its aim is to strengthen economic and commercial ties between the two neighboring countries. The business council is directed towards facilitating investments and ensuring the smooth operation of Turkish companies in Georgia.
ITALY

The Georgian Diaspora in Italy does not exist as such; the community there is better classified as labor migrants. According to unofficial information, there are up to 7,000 Georgians living in Italy. According to the National Statistics Office of Italy – ISTAT, there are around 6520 Georgians residing in Italy legally and another 9031 without having an official residence document, out of which the absolute majority are women. Moreover, according to the Ministry of Internal Affairs of Italy, around 5366 Georgians were given legal status in 2011. Therefore, we can estimate that in total there are around 15 thousand Georgians living in Italy18.

Georgian Diaspora organizations

Association for protecting the rights and humanitarian aid of Georgian immigrants

The Italian-Georgian Society – Association “Con la Georgia Nel Cuore” popularizes Georgian culture and language, and supports the building of cultural and economic ties between the two countries.

Italian-Georgian Association; Georgian-Italian culture Centre “ჟალეთი”; Cultural Association “Georgians in Calabria” – popularizes Georgian culture and language, supports building cultural and economic ties between the two countries.

Some Georgian Businesses in Italy

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paata Kandaurashvili</td>
<td>Wooden floors, Wood processing</td>
</tr>
<tr>
<td>Konstantino Meskhi</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>Nino Maziashvili</td>
<td>Trading</td>
</tr>
</tbody>
</table>

Business Facilitators

There are representatives of the Chamber of Commerce and Industry of Georgia in various regions of Italy. However, we were unable to receive any kind of information from the representatives of the chamber in these regions due to nonresponse.

Chapter Conclusion

From the information presented above we can conclude that the most organized Georgian Diasporas are in Russia, Turkey, Greece and the USA. These countries have the largest number of Diaspora organizations, which might be directly related to the number of Diaspora members involved. However, organizations founded in Russia, Turkey and Greece are mostly oriented towards cultural programs, organizing events and concerts. There are also a number of educational and media projects implemented by these organizations.

Furthermore, it is worth mentioning that among our respondents, only one person from Russia turned out to be involved in a Diaspora organization as a participant and a founder. Among our respondents, Diasporas from Turkey, the USA and Greece seemed to be more active. However, a difference is observed in the scale

18  http://saqmeitaliuri.wordpress.com/2012/07/14
of businesses, which we shall discuss below. The least organized Diaspora is in Spain and Italy. This fact might be related to the number of Diasporas residing in those countries. As we have mentioned, these countries mostly accommodate labor migrants, who are less coordinated.

The UK, USA and Turkey are distinguished by the presence of business organizations that focus on developing mutual cooperation between Georgia and those countries (one in the UK and Turkey respectively, and three in the USA). The Georgian Chamber of Commerce and Industry has representatives in Spain, the UK, the USA and Italy (7 representatives in total). However, these organizations are not solely focused on Diasporas, but rather their function is to deepen partnerships between businesses in Georgia and their respective countries. In case of the USA and the UK, the directors of such organizations are Diasporas themselves. Despite this, they were unable to assist us in making contact with local Diasporas, which makes us think that they do not have many contacts themselves.

When talking about Diaspora businesses, the study shows that Russia is beyond competition with a great number of Georgian businessmen with large-scale operations, whose property is valued in millions and billions. However, experience shows that these entrepreneurs are divided into two groups: One group is politically active alongside their business operations, lobbying certain political powers; others refuse to do business in Georgia. Therefore, for Russian entrepreneurs, it seems that politics and business are intertwined. Thus, fully exploiting the financial potential without first regulating the political situation might not be feasible. The political situation is responsible for the lack of a functioning institution for economic issues with Georgia. Turkey and the USA come next after Russia in the scale of immigrant business. On top of this, as observed, the majority of these businesses are in food sector – such as Georgian restaurants.

**Topic 5 Diaspora Investment in Capital Markets**

**Financial instruments**

The matchmaking tools described above are by far not the only way to involve the Diaspora in the economic development of a country. Another approach that has been successfully practiced by different countries worldwide is Diaspora investment in capital markets. Besides investing directly in their home countries, the Diaspora has the potential to become a source of portfolio investment as well. This latter option of investing is possibly even more suitable for the second or higher generation of Diaspora, who may not have the motivation to get involved in direct investment, but are looking to be involved in a more accessible, convenient, risk managed and less time-consuming way. Such an engagement in the domestic capital market still provides some of the satisfaction that comes from supporting the home country – the particular appeal of such an instrument stems from the possibility of contributing to the extension of the homeland’s capital market.

The financial potential of the Georgian Diaspora is reflected in the current remittance flows to Georgia, which accounted for up to 5.1% of GDP in 2012 and were way ahead of the FDI flows that year. The development of remittance flows has been stable over the last few years, even in the war of August 2008 and the global financial crisis, the fact which is in line with the practical observation that remittances are, in general, less volatile than private capital flows\(^{19}\). However, the positive effect brought about by this considerable source of external funding for Georgia is mitigated by the well-known evidence that remittances are usually expended

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\(^{19}\) The fact that remittance flows are quite altruistic in nature and are not that much susceptible to financial downturns in the receiving countries emphasizes their importance in terms of offsetting the cyclical effects.
on daily household consumption instead of being invested in innovative entrepreneurial activities – especially in developing countries.

Even at present, the flow of remittances helps to strengthen the domestic banking system by increasing the deposits and credit capabilities of banks in Georgia. However, similar to comparable countries, the Georgian capital market still lacks local funding and heavily depends on foreign capital to finance domestic investment. Access to capital remains one of the main obstacles to conducting business, which is further confirmed by the WEF EOS scores. Diaspora financial funds might, to some extent, serve to reduce the gap between the low financial supply and the desired level of capital investment through domestic savings. Thus, the engagement of Diaspora in portfolio investment is a means of supporting the local capital market both in its capitalization sufficiency and stability, and in the development of capital market sophistication.

The financial instruments explored in this study are so called Diaspora bonds, Diaspora deposits (i.e. non-resident deposits) and the securitization of remittance flows. Diaspora bonds are issued by the government to emigrants and these bonds are supposed to be more profitable for their holders than bank deposits in their countries of residence. Non-resident deposits are also designed for emigrants, and are distinguished by favorable deposit conditions. The securitization of remittance flows allows local banks to use their future flows of remittance receivables as collateral for issuing bonds on the international capital market at preferential rates. By supporting the introduction of Diaspora bonds, Diaspora deposits and the securitization of remittance flows, countries can capitalize their markets to a considerable extent. All these instruments make use of remittances as a stable source of financing by offering an investment opportunity for previously untapped Diaspora wealth.

This study does not aim to describe a feasible model of a specific financial instrument for attracting Diaspora investment in Georgia. Rather, it seeks only to demonstrate the general framework of those instruments mentioned above while suggesting good practices for their use. In case a decision is made to promote a particular instrument proactively, specific product research and development by financial institutions in close cooperation with regulating entities will be necessary.

**Securitization of remittance flows**

“It is a waste if a predictable revenue stream is only used as a revenue stream - and not as a tool to reduce financing costs”\(^{20}\). The opportunity to engage in the international capital market which remittance flows offer to local banks should not be left aside in Georgia.

The basic motivation behind securitization is the possibility of countries to gain access to a reliable and stable source of financing at a lower cost (bonds with lower interest rates resulting from ethnic discount) than the country/bank could otherwise borrow by its own pool of resources. Securitization is the process of converting an illiquid (non-marketable) asset (remittances in this context) into a financial package that can be bought and sold in the international capital market. The structure of securitization ensures the availability of bonds that place a lower financial burden on the issuer and absorbs some of the risk of the sovereign, which is why securitized bonds can obtain a higher rating than sovereign ones.

The potential of being used as collateral in issuing a bond emphasizes the attractiveness of remittance flows as a means of securitization. The future flow in this respect is the foreign currency sent by individuals to their families through a local bank from abroad. Here, the bank pledges its future remittance receivables to an

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\(^{20}\) “Using commodity revenue flows to leverage access to international finance”, UNCTAD 2009
offshore Special Purpose Vehicle (SPV)\textsuperscript{21}. The SPV transfers the rights to the cash flow to an offshore trust, which issues the debt backed by future cash flows. The trust then sends the proceeds from the issuance of those debts to the SPV, which in turn transfers the proceeds to the local bank. The foreign clearing banks or agents sign notice and acknowledgement agreements to transfer the cash to the offshore trust account rather than directly to the local bank, and the trust as the collection agent accumulates the remittances for paying the interest and the principal to the investors. After the whole payment is finalized, the trust transfers the excess cash (if any) to the local bank (f.41).

The main principle of the instrument is that the remittances do not directly enter the issuer’s country, and the rating agencies believe that such a structure effectively mitigates the usual sovereign transfer and convertibility risks.\textsuperscript{22}

The benefit of the instrument is that acquiring money is cheaper for the issuer in those unfavorable circumstances when local interest rates are too high. The cheaper money by itself means an enhanced access to credit and more capital for development.

![Figure 41 Remittance Securitization Model](image)

\textbf{Figure 41 Remittance Securitization Model}

The more money is raised, as well as the lower the interest payment and the longer the maturity of a bond, the more successful this financial instrument turns out to be in comparison with an ordinary sovereign bond. The rank assigned by a rating agency contributes to determining how favorable the bond is, and depends on whether the company will have access to future remittance flows that are sufficient to repay the debt and interest payments.

\textsuperscript{21} A legal entity fulfilling a special and temporary objective, set up for the reason of isolating the originating firm from financial projects’ implementation.

\textsuperscript{22} Convertibility risk implies that in the case of a national crisis the government might impose a foreign exchange moratorium in order to reduce the outflow of hard currency from the country.
The lenders (international investors) should be convinced that:

- the local bank will continue to process workers' remittance deposits in its course of business,
- workers will continue to live in the foreign country and send remittances to their home country,
- workers will continue to use this channel for sending remittances,
- the competitive position of the local bank in this business is sustainable,
- the regulatory environment of the remittance sending country will permit the local bank to continue processing such flows,
- the local bank technology systems are efficient for transferring remittances,
- the capability of the local bank and the reliability of the correspondent party is high.

Risks associated with securitization are basically reflected in the rating of a relevant agency. Fluctuations in remittance flows due to an economic decline or loss of customers can be addressed with an overcollateralization of the securitized transaction, the fact which offers an adequate cushion to offset different kinds of risk. The idea of a recipient bank securitizing a flow of remittances, which in principle are not at its disposal, can be justified with reference to the intermediary function of the bank. The bank purchases foreign currency from the originator of the remittances and promises to deposit the same amount in the local currency, but in a securitization these deposits can be funded by the bank's other cash reserves. There is thus little danger to the migrant's deposits.

Constraints in the securitization process are the lack of strong and clear-cut legislation, high legal costs, and low levels of domestic financial market development. A clear and strict legal system is necessary for ensuring certainty; however, it is associated with high legal costs. Furthermore, specialized skills are required to develop the often unique securitizations.

Another incentive for the promotion of remittance flow securitization lies in its possible positive externalities. Its implementation requires a greater deal of scrutiny of the legal and institutional environment\(^2\) than that of unsecured transactions. Moreover, this financial instrument is under strict examination by experts from rating agencies, investment banks and legal firms, which try to alleviate elements of sovereign risk. Naturally, preparation through reforms in the legal and institutional environment for the future securitization of remittances facilitates domestic capital market development and contributes to its attractiveness to foreign investors.

In short, this structure ensures that hard currency receivables do not enter the country until the bondholders have been paid. As a result, the government of the borrower cannot impede the timely servicing of securitized bonds. Thus, the structure mitigates the usual transfer and convertibility risks, allowing borrowers in developing countries to pierce the sovereign credit ceiling and obtain financing at lower interest costs and for longer durations.

Moreover, remittance securitizations can provide an incentive for banks to encourage remittance senders and receivers to use the formal banking system. The more remittances are transferred over official channels, the more equipped local banks will be to apply the instrument of securitization to these flows. Marketing strategies have to be devised which focus on explaining the securitization concept to remittance senders and convincing them of the contribution to their homeland's development (or motivating them by sharing some of the revenues with them).

\(^2\) Especially in regard to laws relating to property rights and bankruptcy procedures.
Remittance securitizations are most commonly connected with diversified payment rights\textsuperscript{24}, but in the case of Georgia, most of the remittances are transferred via money transfer companies (like Western Union). Thus, implementing the securitization of remittance flows in Georgia seems to be feasible only through an agreement with the money transfer agencies.

**Diaspora Deposits**

The most basic way to encourage a Diaspora to contributing to the development their country’s capital market is the introduction of deposit accounts. These deposits can be denominated in foreign or local currencies, though the experience of other countries shows that foreign currency deposits are more commonly used. Another distinction in the structure of these deposits can be their current or fixed-term approach.

The motivation from the Diaspora’s side to maintain deposit accounts in their home country stems from ongoing or expected future financial obligations in this country. This instrument helps to expand bank capitalization, and is the easiest step toward engaging the Diaspora in the capital market.

Nevertheless, the weakness of this particular instrument is the volatility brought about by the possibility of the funds to be withdrawn anytime (notwithstanding the fact that fixed-term deposits have stronger limitations on the timing of withdrawing the principal, they can still be withdrawn anytime, even though a portion of accrued interest would be foregone).

In Georgia’s case, local banks have already established foreign currency deposits with quite high interest rates and tax exemptions. This limits the attractiveness of special Diaspora deposits, but nevertheless, the implementation of this instrument could still draw the interest of the Georgian Diaspora and increase financial funds.

Despite similar offers already existing, Diaspora deposits could be promoted by using sophisticated marketing tools and by suggesting additional profitable services. Furthermore, the notion of a Diaspora deposit being a means of supporting the home country could raise the attractiveness of such deposits. One initiative that might work successfully would be to allow deposit accounts to be opened in Georgia remotely (i.e. electronically). The problem of correctly identifying the person and the origin of the money might be a difficult task, but Georgia already has a successful experience of issuing passports and providing other services electronically.

**Diaspora Bonds**

Diaspora Bonds are debt securities purchased by foreign nationals to support the development of their home countries. They are issued to individuals with long-term maturity, and the issuers of Diaspora bonds (e.g. a government or banks) gain access to fixed-term funding at often discounted interest rates. The role of Diaspora bonds, as a development and engagement instrument, includes providing countries with funds to finance infrastructure projects on the one hand, and enabling the Diaspora to invest in long-term fixed income instruments on the other hand.

The issuance of Diaspora bonds is subject to certain limitations which have to be taken into account. The size of the respective Diaspora has to reach a certain level to ensure sufficient demand for a bond. The countries also need to have a clear and stable legal infrastructure and be free of internal strife.

\textsuperscript{24} Diversified payment rights are the rights of a bank to receive the funds which are transferred to the bank from abroad by Diaspora. It is separated from the obligation of the bank to pay the party to whom the remittance was sent, and thus diversified payment rights are attractive for securitization.
Diaspora bonds can:

- be issued in a variety of structures and in different currencies,
- have different maturities,
- be limited just to the Diaspora or open to all investors,
- market different face values,
- be sold in different areas of the world,
- be registered at the U.S. Security and Exchange Commission (SEC) (which is a prerequisite for selling bonds on the US market) or forgo registration.

Both the country and the issuing entity can benefit from Diaspora bonds. It is a cheap and stable source of external finance and offers the possibility of benefiting from a “patriotic discount” (i.e. “ethnic discount”) from Diaspora investors. They can also have a favorable impact on the country’s sovereign credit rating by providing a source of funding which is available during both booms and downturns and thus regarded positively by rating agencies.

A Diaspora’s interest in these kinds of bonds stems from both personal and rational motivations. Attachment to a home country creates the basis for the “patriotic discount” on the bonds, which translates into lower interest rates for the country or an issuing bank. Similarly, the satisfaction the Diaspora gains by contributing to their motherland’s economic development could amplify the desire to purchase Diaspora bonds. A significant risk that sovereign bonds face in general is the danger that the issuing country will not be able to pay back the interest and principal in hard currency. For the Diaspora, unlike for other nationalities, this risk is mitigated by the alternative of at least receiving these payments in local currency, which can be used for fulfilling possible liabilities in the home country. Additionally, Diaspora investors usually have better access to information regarding their domestic economy, and such a comparative advantage paves way to a country-of-origin bias in their portfolio.

As in the case of Diaspora deposits, marketing efforts play a decisive role in the success of issuing Diaspora bonds as well. Their chance of success can be raised by earmarking their proceeds to specific projects such as community infrastructure improvement, housing, railway modernization, extension of transport infrastructure, etc. This again gives Diaspora investors the satisfaction that they are contributing to the desired development of their home country, but still under the rules of capital market investments. It is important to note here that in order to develop the channels for accessing Diaspora with these specific bonds, the local legislation of countries with Georgian Diaspora communities need to be taken into consideration.

Israel has issued a number of Diaspora bonds since 1951 and raised more than 52 billion USD; India started issuing these types of bonds in 1991 and has managed to raise up to 11 billion USD to date\textsuperscript{25}. Similar types of bonds have been issued in Sri Lanka, Egypt, and Ghana, and there are some projections that Greece might issue such bonds to help survive a possible default. In the case of Israel, over 200 million USD bonds have never been claimed and redeemed; this mere fact highlights once again the philanthropic purposes of these bonds.

Israel’s issuing authority was the Development Corporation for Israel, the mission of which was to raise foreign exchange from the Jewish Diaspora abroad. These bonds are not only viewed as the source of external resources, but also as a means of maintaining ties with the Jewish Diaspora. Minimum subscriptions for these bonds range from 100 to 100,000 USD.

Topic 6 Review of Matchmaking Tools

Increasing Diaspora Engagement

The Diaspora’s engagement in different public and private spheres of Georgia is not new. However, this engagement has been largely spontaneous in nature; there is thus an opportunity to make it more organized and therefore increase the Diaspora’s stake in the development of the country. The most visible and commonly recognized contributions that representatives of the Georgian Diaspora make are remittances sent back to their families, as well as being famous philanthropists. The overall objective of this study is to find ways to foster relationships with the Georgian Diaspora by creating targeted government policies and programs, and possibly public-private partnership schemes.

Best practices suggest that for its programs and policies to be effective, the government should have a concrete strategy for enhancing Diaspora engagement. For the strategy to be effective it needs to identify goals and capacity. The government should first assess its own capacities as well as the ability of the targeted Diaspora to reach the identified goals (for example: if the goal is to reduce poverty, policies will most likely be focused on remittances, investments, and capital markets; if the goal is to improve the country’s competitiveness of the country, the focus will most likely be on knowledge and skills transfer26) and map the geography, skills and expectations of the Diaspora (i.e. data collection, such as a Diaspora census, understanding what they are ready to offer, what they expect from the government in return etc.). The government should then work to create a relationship of trust between Diasporas and the governments of their origin countries, which will involve improving the domestic business climate, greater regulation transparency, the consistent application of property law, and (ultimately) mobilizing Diasporas to contribute to sustainable development (f.42). The government should closely cooperate with the Diaspora and its organizations in this process. To implement the strategy successfully, it will be necessary, although not sufficient, to have adequate funding, and the acquisition of technical know-how will also be required. Governments in a number of countries have found efficient ways of sharing financial costs and using technical know-how in this regard. One such example is Diaspora councils, which are a mix of community leaders and government officials27.

26 Developing a Road Map for Engaging Diasporas in Development. International Organization for Migration (IOM), Migration Policy Institute. 2012
27 Developing a Road Map for Engaging Diasporas in Development. International Organization for Migration (IOM), Migration Policy Institute. 2012
Ongoing monitoring to evaluate and measure the success of the initiative is an important part of implementing any Diaspora engagement program. This component is missing in the case of Georgia, due to the fact that the relationship between Georgia and its Diaspora are not institutionalized, and the required material and human resources are not yet available.

In the case that the government’s goal is to facilitate Diaspora engagement without any prior objectives or a concrete direction, there are six actions28 that they can carry out:

- **Flexible citizenship laws and residency and visa requirements** – Georgia grants dual citizenship, Compatriots ID, and a visa-free regime to the citizens of almost all countries.

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• **Political rights** (such as voting) - Georgia grants such rights
• **Special property rights** - there is no restriction on the purchase of land in case of dual citizenship. If a foreigner is looking to buy agricultural land, they must establish an entity run by a Georgian citizen to buy it. This is a fairly minor complication and the law reads rather ambiguously, i.e. the law dealing with these issues is somewhat vague.
• **Tax incentives** – foreign investors and Diaspora representatives are treated in the same way that local residents are.
• **Portable benefits** – pensions, medical and life insurance. This does not exist in Georgia and might not even be desirable given the various administrative and technical burdens it will bring forward. Moreover, we do not think Georgia has the resources to afford it.

Popularizing these benefits, monitoring their effects and eliminating their possible shortcomings is an important part of the overall strategy.

The roadmap presented above, as well as various other initiatives that encourage Diasporas to engage with their homeland, is very broad in nature. If the government wants to address Diaspora engagement of Diaspora in a specific area, various so-called matchmaking tools previously employed in other countries can be replicated and modified. Historically, Diasporas have played an important role through six means: remittances, direct investments, human capital transfers, philanthropic contributions, capital market investments, and tourism29. Once the government “knows” its Diaspora and assesses its potential in any of these areas, a specific matchmaking tool could be designed for targeting and activating Diaspora engagement in that particular sphere. Below we present some examples of how engagement can be fostered in remittances and Diaspora Direct Investments (DDI), as utilized by other countries. These two directions were chosen due to their current importance and impact on the Georgian economy. Moreover, Diaspora engagement in capital market investments has been tackled in topic 5.

**Remittances Senders**

Matchmaking tools employed towards remittance sending Diaspora representatives are directed toward strengthening the remittance infrastructure for fostering their flows through formal levels. Some governments have launched campaigns to inform the Diaspora about existing remittance transfer mechanisms and have even created more efficient channels for sending remittances by partnering with non-state actors such as banks and microfinance institutions.

*Launch a Score Card* – in 2006, the Inter-American Development Bank launched a remittance scorecard that compares money transfer operators and banks by transaction costs and other predetermined criteria.

*Compare Transfer Fees* – Mexico’s Remesamexallos helps remittance senders to compare the fees of a wide range of transfer companies.

Likewise, the Netherlands Ministry of Foreign Affairs has supported the creation of Geld Naar Huis, and GIZ launched a similar website, Geld TransFAIR, in 2007 - both serve the same goal of informing remittance senders regarding services offered by banks and other money transfer organizations.

*Directo a Mexico* allows remittance senders to send money from a bank account in the USA to any bank account in Mexico. It is a joint initiative by the US Federal Reserve and Banco de Mexico that offers a safer and

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cheaper alternative to money transfer operators. Some governments have linked postal networks with other countries; Chile, Spain, Uruguay, the United Republic of Tanzania, and Uganda have chosen this alternative for ensuring efficient and secure transfers.

Some governments have issued identity cards to their migrants so that they can open bank accounts in their countries of residence notwithstanding their immigration status.

In some countries, local commercial banks provide opportunities for the more productive investment of remittances such as the cross-selling of complementary financial services to remittance receivers, offering remittance-backed mortgages, and securitizing future remittance flows. These instruments help to formalize and better utilize the potential of remittances.

**Diaspora Direct Investments**

As opposed to remittances that only serve as a short-term solution and are directed towards consumption rather than productive investments, direct investments play a crucial role in the long-term economic well-being of developing countries. Countries with higher Diaspora engagement not only tend to have promising prospects for economic growth, but also employ proactive policies for Diaspora engagement initiated by both the government and other public or private organizations. Important instruments for attracting Diaspora investment include, but are not limited to, the following:

1) Provide access to information by means of information-sharing on how to invest or obtain a business loan. (E.g. Bosnia and Herzegovina’s Department for Diaspora maintains an enquiry portal for local investment opportunities).

2) Provide access to networks by organizing business events for Diaspora members and match local entrepreneurs, business owners, and government leaders with their Diaspora counterparts to create an international network of top business leaders include E.g. GlobalScot in Scotland, ChileGlobal in Chile, and the Mexican Talent Network.)

3) Provide access to business training programs through the government’s own resources or those of private or international organizations. (E.g. IntEnt, based in Netherlands, provides support to Diaspora entrepreneurs seeking assistance in developing business plans for implementation in Morocco, Turkey, Suriname, Ghana, Ethiopia, Curacao, and Afghanistan; the African Foundation for Development (AFFORD) was founded by Africans living in the UK in 1994 and helps the African Diaspora to create wealth and jobs in Africa.)

4) Provide entrepreneurs with access to financing by setting up matching funds and extending loans to help entrepreneurs launch their businesses. Matching funds are usually set up by a government to allocate one dollar per dollar invested by a Diaspora.

These programs and initiatives are divided into five main categories according to the level of commitment from the side of the government or other relevant institutions – the most passive (networking) to the most active (venture capital and partnerships). The pyramid in figure 43 presents the various levels of commitment.
Networking Organizations

Networking organizations promote Diaspora engagement by organizing events where local and Diaspora leaders meet to network and discuss potential business initiatives. Examples of these are the Mexican Talent Network and the African Network, which offer forums for in-person networking. Others, such as the Business in Development Network, which unites up to 12 countries, offer virtual networking via the Internet. Networking organizations might also be involved in public-private partnerships to facilitate meetings between local entrepreneurs and Diaspora members.

The Mexican Talent Network was founded in 2005 by the Secretariat of Foreign Relations of Mexico in partnership with Mexicans Abroad and the National Council on Science and Technology, and with the financial support of the United States-Mexico Foundation for science. The network was created within the government of Mexico’s initiative to leverage the resources of its qualified Diaspora members in order to develop a knowledge-driven economy. This network fosters innovation and the creation of a favorable image of Mexico abroad.

The African Network (TAN) is a US-based nonprofit organization which was founded in 2004 in Silicon Valley, and whose goal is to alleviate poverty in Africa by motivating the African Diaspora residing in the US to invest in Africa to create jobs in low-income communities.

The Business in Development (BiD) Network – offers Diaspora members and local entrepreneurs assistance to develop business plans and raise funds for entrepreneurial ventures in 12 developing countries (Argentina, Bolivia, Columbia, Ecuador, Mexico, Peru, Jordan, Kenya, Uganda, Rwanda, Tanzania, and the Philippines). The website enables participants to upload their business plans and seek funding. It is visited by thousands of experts and professionals, and serves as a matchmaking tool between financiers and entrepreneurs.

The South African Diaspora Network – created in 2001, helped South African and Diaspora businessmen living overseas to connect with each other for business-related matters, and supported businessmen living in South Africa to expand their businesses in overseas markets. The network suspended operations in 2003 due to the lack of staff.
The Korean IT Network (KIN) – was formed by Korean engineers in 2001, and supported for three years by the government. The network is involved in organizing annual conferences with the sponsorship of large Korean companies, Korean-owned companies in Silicon Valley, and the government. Despite active engagement in various activities, the organization failed to start companies and facilitate job creation in a systematic way.

**Mentoring Organizations**

Mentoring Organizations are more actively involved in attracting Diaspora investments and supporting entrepreneurship among Diaspora representatives. Not only do these organizations help local entrepreneurs and Diaspora business representatives to network, but they also actively match them. Some organizations even provide assistance in conducting market research and feasibility studies.

**GlobalScot**

GlobalScot is Scotland’s Diaspora-based network. It is directed towards promoting economic growth and development. It was founded in 2001 by the Scottish Enterprise (which is funded mostly by the Scottish Government). It represents an international network of Scottish business leaders. The mission of the network is to market Scotland as an attractive place for investors through its members. GlobalScot has generated over GBP 30 million in gross value added for Scotland. As of 2010, GlobalScot united 850 members.

**Armenia 2020**

This organization encourages the Armenian Diaspora to actively participate in the development process of Armenia by identifying various development scenarios. It organizes discussions and forums to provide advice to the policymaking authorities of Armenia, including policies directed towards attracting investments.

**Training Organizations**

Training Organizations assist Diaspora entrepreneurs in starting up and operating a successful business. These training programs include the transfer of knowledge from Diaspora experts to country-of-origin entrepreneurs by offering lessons on business management and financing a start-up.

**IntEnt**

IntEnt was founded in 1996 and is based in the Netherlands. It promotes entrepreneurship among immigrants, and assists Diaspora entrepreneurs seeking to develop a business in their country of origin (Morocco, Turkey, Surinam, Ghana, Ethiopia, Afghanistan, and Antilles). Its services include orientation sessions and training programs, counseling, advisory services, the provision of market information, referral and mediation, assistance during and after start-up, networking, management, online services, and supplementary financing. IntEnt has helped launch 236 businesses, creating 990 jobs. An average IntEnt entrepreneur invested 62,000 Euros.

**The Economic Initiatives and Migration Program** - was created by a nonprofit organization to help African immigrants in France to implement economic projects and initiatives in their countries of origin. Today their network consists of 27 organizations in four French regions and ten countries in Africa. They annually offer support to up to 1,000 African entrepreneurs. There has been a wide range of projects initiated by African migrants in various sectors in 16 African Countries.
Investment Organizations

These organizations provide initial start-up funding and possible additional capital infusions to Diaspora entrepreneurs with novel business ideas. These funds are given from a private-public pool of capital. Investment organizations might be passive, just providing money, or be actively involved in overseeing how their money is spent during the project implementation process. These organizations do not provide business training, rather they provide the financial resources needed for realizing the business ideas of Diaspora entrepreneurs.

The African Diaspora Marketplace (ADM)
ADM was a competition held in 2009, with the participation of African Diaspora representatives to initiate business plans for SMEs to contribute to the economic development of Africa. Applicants were required to find a partner organization in Africa, and the goal of the initiative was to create jobs, generate income, and provide innovative goods and services. In 2010, 14 winners were identified and awarded with up to 100,000 USD grants for funding business initiatives in 7 countries.

The 1X1 Program, Mexico
This initiative was launched in 2009 by the Mexican government. The program matches Diaspora representatives’ investment funds for business projects with government money. Later on, repayments are not made to the government but rather in the form of contributions or social investment. In this sense, the program promotes both individual business investment as well as collective community investment.

Venture Capital and Partnership Organization

These organizations provide more than just funds for starting up a business – they are actively involved in the operation of business projects and even take part in the management process, especially at the early stages of investment. They form so-called strategic alliances with other venture capitalists and business leaders. Investments are made in highly profitable business initiatives, having tangible results on economic growth in strategic sectors.

Fundacion Chile
Fundacion Chile is a small public-private foundation seeking to leverage the Chilean Diaspora to transform Chile into a knowledge-based economy. Thus, the foundation helps entrepreneurs to launch innovative agribusinesses in Chile by including them in professional networks and offering financial support. The foundation has helped 76 companies with more than 50 domestic and international partners. A flagship program of the foundation is ChileGlobal, which designs and finances business projects through its network of about 80 influential Chileans living in the USA, Canada, Europe, and Chile to introduce innovative technologies to Chile by promoting technology and knowledge transfer.

Migration for Development in Africa (MIDA)
MIDA was launched in 2001 by the International Organization for Migration. It seeks to build capacity in African countries by working with the African Diaspora to transfer technological skills and knowledge resources to their countries of origin. The organization is located in various countries.

The African Foundation for Development (AFFORD)
AFFORD was founded in 1994 by Africans living in the UK. Its programs are mainly directed towards using the skills, knowledge and wealth of the African Diaspora to support SMEs in Africa.
**Topic 7 & 8 Perceptions of the Investment Climate by Inside and Outside Diasporas**

**Methodology**

The purpose of the research was to explore the perception of the Georgian investment climate by representatives of the Georgian Diaspora. The research focused on seeking new insights and assessing the Georgian business climate in a new light. The study was of a qualitative nature and in-depth interviews were chosen as the method for collecting data. Interviews were semi-structured; the researcher had a predetermined list of questions and themes, but the respondent was encouraged to elaborate freely and additional questions were allowed to emerge as the interview progressed. The data was recorded by audio devices after receiving consent from the respondent; note-taking was also used.

Due to the fact that the population was hard to identify, given that there is no comprehensive database of Diaspora entrepreneurs, snowball sampling was used for finding respondents. An initial list of respondents was established by using a multi-dimensional approach; we used the databases provided by the following organizations: the Office of the State Minister for Diaspora Issues, the Embassies of Greece and Turkey, the Chamber of Commerce and Trade, the Georgian-Spanish Business Association – Iberia, and the Chamber of Commerce of Georgia in the US. At the same time we have employed the personal and organizational contacts of the team involved in the project.

A major prerequisite for the respondents was the following criteria: a person must have had an active (or closed) business in Georgia, and must have had at least an active business in the current country of residence. The analytical process targeted three groups: those who have an active business in Georgia, those who had a business in the past, and those who have never had an active business in Georgia but do have one in their current country of residence.

Given the small sample size (25 Diaspora representatives in total) the study did not aim to generalize the results to the entire population, i.e. the entire Georgian Diaspora. The study aimed to explore a particularly complex issue. There might be a respondent bias given that the study was limited to 7 countries. Questionnaires included both open-ended and closed questions, including rating questions (on a scale from 1 to 10). Interviews were conducted both face-to-face and through synchronous electronic means, i.e. in real time using Skype, and telephone interviews. 13 respondents in total were interviewed face-to-face, 7 by Skype and 5 by telephone. Interviews were conducted in three languages depending on the willingness of the respondent (Georgian, English and Russian), thus the questionnaires were translated accordingly.

One of the challenges faced during conducting the interviews was the length of the questionnaires designed, which included 40 to 45 questions on average.

**Analyzing the data**

Even though most of the data were qualitative, some questions included quantifiable data, especially those concerned the rating questions. Analysis was conducted by separating the respondents into three different categories to identify key trends in the perception of the investment climate among various groups: inside Diaspora – those who currently operate a business in Georgia, outside Diaspora who have never operated a business, and outside Diaspora who have ceased business in Georgia. Afterwards, an overall analysis of the trends for all three groups was undertaken. The data collection started without a predetermined theoretical framework behind it, apart from having a study on the Georgian investment climate based on the
Competitiveness Report conducted by World Economic Forum. However, the research approach used in this study can be regarded as inductive one: first we collected the data, and then explored them to see the themes and topics to follow up and concentrate on. The received results were compared and contrasted against the data presented on the investment climate study in topic 3.

In the analysis process, the data was first transcribed. Since the data collected was complex and multidimensional in nature, the questions were classified and grouped into three categories: personal experience, investment climate and future plans. Finally, the data were summarized to find key points that emerged.

**Reliability of the Data**

Parts of the interviews were conducted before the parliamentary elections of 2012, while others afterwards. Therefore, due to the change in government, we faced difficulties regarding the interpretation of questions concerning the trust of the government, or the ability of government to improve the existing business environment. Respondents did not know whether to refer to the old or the upcoming government. To overcome this hurdle, we have asked respondents to rate the government in office; since the interviews were finished by October 20th, the scores given therefore rate the previous government.

Below we present the list of the respondents interviewed:

<table>
<thead>
<tr>
<th>No</th>
<th>Country</th>
<th>Sector</th>
<th>Diaspora Type</th>
<th>Duration of the Business</th>
<th>Size of Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Turkey</td>
<td>Energy, Services</td>
<td>Inside</td>
<td>Over 5 years</td>
<td>Above 100.000</td>
</tr>
<tr>
<td>2.</td>
<td>USA</td>
<td>Food, Services</td>
<td>Inside</td>
<td>Up to 3 years</td>
<td>50 to 100.000 USD</td>
</tr>
<tr>
<td>3.</td>
<td>Russia</td>
<td>Construction, Agriculture, manufacturing, Tourism</td>
<td>Inside</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>4.</td>
<td>Turkey</td>
<td>Mining, biotechnologies</td>
<td>Inside</td>
<td>Over a year</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>5.</td>
<td>UK</td>
<td>Manufacturing</td>
<td>Inside</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>6.</td>
<td>Italy</td>
<td>Trading</td>
<td>Inside</td>
<td>3-5 years</td>
<td>50,000-100,000 USD</td>
</tr>
<tr>
<td>7.</td>
<td>Spain</td>
<td>Manufacturing</td>
<td>Inside</td>
<td>3-5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>8.</td>
<td>Spain</td>
<td>Real estate, consulting</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>9.</td>
<td>UK</td>
<td>Energy, heating and construction sectors</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>50,000-100,000 USD</td>
</tr>
<tr>
<td>10.</td>
<td>USA</td>
<td>Retail</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>11.</td>
<td>UK</td>
<td>Financial Services</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>---</td>
</tr>
<tr>
<td>12.</td>
<td>Russia</td>
<td>Construction</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>13.</td>
<td>Russia</td>
<td>Financial Services</td>
<td>Outside never operated</td>
<td>5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>14.</td>
<td>Spain</td>
<td>Construction</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>15.</td>
<td>Russia</td>
<td>Hotel-Restaurants</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>Above 100.000 USD</td>
</tr>
<tr>
<td>16.</td>
<td>Greece</td>
<td>Restaurant, food services</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>50,000-100,000 USD</td>
</tr>
<tr>
<td>17.</td>
<td>Greece</td>
<td>Tourism</td>
<td>Outside never operated</td>
<td>Over 5 years</td>
<td>50,000-100,000 USD</td>
</tr>
<tr>
<td>No.</td>
<td>Country</td>
<td>Industry</td>
<td>Status in Georgia</td>
<td>Period</td>
<td>Investment Range</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>----------</td>
<td>-------------------</td>
<td>--------</td>
<td>------------------</td>
</tr>
<tr>
<td>18</td>
<td>Italy</td>
<td>Manufacturing</td>
<td>Outside never operated</td>
<td>3-5 years</td>
<td>50,000-100,000 USD</td>
</tr>
<tr>
<td>19</td>
<td>Italy</td>
<td>Wood processing, wooden floors</td>
<td>Outside Closed Business</td>
<td>1-3 years</td>
<td>Above 100,000 USD</td>
</tr>
<tr>
<td>20</td>
<td>UK</td>
<td>Banking/micro finance</td>
<td>Outside Closed business</td>
<td>2 years</td>
<td>50-100,000 USD</td>
</tr>
<tr>
<td>21</td>
<td>UK</td>
<td>Metal/Steel industry</td>
<td>Outside Closed Business</td>
<td>Less than a year</td>
<td>Above 100,000 USD</td>
</tr>
<tr>
<td>22</td>
<td>Russia</td>
<td>Food Services</td>
<td>Outside Who ceased business</td>
<td>2 years</td>
<td>Up to 100,000 USD</td>
</tr>
<tr>
<td>23</td>
<td>Spain</td>
<td>Food Services/Restaurant</td>
<td>Outside Who ceased business</td>
<td>More than 5 years</td>
<td>Up to 100,000 USD</td>
</tr>
<tr>
<td>24</td>
<td>Russia</td>
<td>Metallurgy</td>
<td>Outside Who ceased Business</td>
<td>More than 5 years</td>
<td>More than 100,000 USD</td>
</tr>
<tr>
<td>25</td>
<td>USA</td>
<td>Energy</td>
<td>Outside Who ceased business</td>
<td>1-3 years</td>
<td>More than 100,000 USD</td>
</tr>
</tbody>
</table>

**Inside Diaspora**

**Personal Experience**

In total, 7 entrepreneurs representing Diaspora from 6 countries were interviewed from this sub-group. Apart from two smaller scale entrepreneurs involved in trading and food services, most of the businessmen were large scale investors. Respondents represent many different sectors of the economy and possess a wide spectrum of viewpoints. Most of them are familiar with the local business environment, since the majority of them have had a business in Georgia for over 5 years. In one case, an investor came back to invest in Georgia after closing a business in the year 2000 due to the heavily corrupt business practices existing in Georgia at that time. The respondent has re-invested in a different sphere after the Rose Revolution, being optimistic about the reforms brought about by the then new government.

All of the respondents were able to answer the questions provided by us competently, since they are co-founders or founders of the businesses concerned and are actively involved in the management processes. Investors involved in large-scale investments in Georgia also operate a business in their countries of residence. However, those with smaller sized investments are not involved in any kind of business activity in other countries, including their current countries of residence. Moreover, those who do have businesses in their countries of residence typically employ other local Georgians there. This is especially true in Turkey and Russia.

The overall experience of operating a business in Georgia ranges from favorable to very favorable among those who currently operate a business in Georgia. This perception goes hand in hand with the opinion that their business ventures are successful because they are profitable, have expansion opportunities, and have introduced innovations to the country such as manufacturing techniques, service know-how, production methods, new technologies, and new management principles.

It is noteworthy that none of the entrepreneurs sought or were offered support to start or operate a business in Georgia. In some cases, private consultations were held among their partners, but not with official sources of support. A particular Turkish investor expressed concern regarding the relatively low number of consultations that he has received from the Georgian National Investment Agency. He suggested that the agency’s strategy for recruiting investors could be improved, as private consultations are expensive and time consuming to pursue. It also seems that Diaspora organizations are quite passive in reaching out to the businessmen living in their respective countries. Only in two cases were investors involved in the activities of a Diaspora organization, and in those very cases they were either founders or sponsors of the organization.
and were thus providers rather than recipients of support. When it came to business networks, respondents were part of relatively large networks abroad, mostly in their countries of residence.

Factors that Triggered Investment decisions

All of the interviewed respondents mentioned that they have invested in Georgia because it is their homeland, suggesting that this fact was the major motivator for their decision. Among the other motivating factors, most notable were knowledge of the local market and culture, as well as existing connections and low operating costs. The majority of respondents reported that Georgia does not provide as many incentives as their countries of residence, thus the motivating factor for investing was a sense of responsibility to give something back to their homeland, rather than material interest. This argument is once again strengthened if we take into account the fact that even though return on investment plays a crucial role in the decision to invest in a venture, this works differently in Georgia – in the case of homeland investments, respondents are willing to give up almost all profits if the investment will do some good for Georgia. The ethnic discount mentioned by the respondents at least equaled 10% out of hypothetical investment profits equaling 30%, and 5 out of 7 respondents stated that they would give up their entire profit.

Favorable and Unfavorable Factors

Respondents have elaborated on the importance of the favorable reforms that have taken place over the past few years in regards to the ease of starting up a business, taxation reforms (such as a reduction in number and rates of taxes), and the elimination of corruption. While the majority of them did not highlight any hindering factors, some of them mentioned the importance of having an independent court system, the need of eliminating business distortions emanating from the government, and the high cost of borrowing when operating a business in Georgia, especially given expansion opportunities. One respondent believes that taxation policy still needs adjustment, since the reforms notwithstanding, it still is fairly vague and causes many misunderstandings.

Investment Climate in Georgia

On a scale from 1 to 10 (1 being very unfavorable and 10 very favorable), the business climate was awarded an average of 6.5 by the Diaspora respondents currently operating a business in Georgia. The scores were more or less evenly distributed among respondents, with the highest and lowest scores, 9 and 4 respectively, given by just one respondent each. The given scores were justified by the belief that even though reforms already undertaken are visible and advantageous, there is still quite some room left for improvement, especially when it comes to the rule of law, the level of democratization, free competition, equal opportunities on the market, and increasing the purchasing power of the population through poverty elimination brought about by sustainable and uninterrupted economic growth.

Shortcomings aside, respondents expressed their readiness to recommend Georgia to their networks. As a matter of fact, 5 of them had already done so and attracted large-scale investments from Turkey and Russia. With the help of mediation with local businessmen in their countries’ of residence, a number of well-known economic initiatives have been kick-started. On a scale from 1 to 10 – with 1 being least likely to recommend Georgia as a country for investment, and 10 being most likely – respondents gave a score of 8 points on average. Therefore, this suggests that they actively popularize Georgia and its investment opportunities among their partners, even though 5 out of 7 mentioned that Georgia does not have a positive reputation in their countries of residence and is perceived as a country with an unstable economic environment and high political risks, with specific concerns regarding the rule of law.
When asked about Georgia’s most attractive sectors for FDI, 5 sectors were mentioned by all respondents: construction, mining, energy, communication and transportation. At the same time, 5 out of 7 respondents are themselves involved in at least one of these sectors, which might have caused a certain bias.

**Business Climate Factors**

During the interview, respondents were asked to rate a number of factors that directly or indirectly affect Georgia’s business climate. The rating was presented on a scale from 1 to 10, with 1 being very problematic and 10 being very favorable. As we can see from the graph (f.44), the least problematic issue is crime, while the least favorable factor is the availability of an independent dispute settlement body in the country. It is noteworthy that government distortion of business, free competition, inflation, political stability, and the quality of Georgia’s workforce are also viewed as relatively problematic.

![Factor Ratings](image)

*Figure 44 Factor Ratings by Inside Diaspora*

Afterwards, the respondents were asked to name those factors that have seen the most significant improvement and deterioration since they started up a business in Georgia in the last 5 years.

<table>
<thead>
<tr>
<th>Improvement</th>
<th>Deterioration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>Economic stagnation</td>
</tr>
<tr>
<td>Corruption</td>
<td>Inflation</td>
</tr>
<tr>
<td>Ease of Starting up a business</td>
<td>Political Stability</td>
</tr>
<tr>
<td>Administrative Burden</td>
<td>Decrease in FDI</td>
</tr>
<tr>
<td>Crime</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
</tr>
</tbody>
</table>
It is noteworthy that most of the factors that, according to the respondents, have deteriorated over the past 5 years are largely caused by exogenous shocks that GoG cannot directly control. On the other hand, factors deemed to have improved are largely those determined by direct reforms conducted by GoG. It is also notable that 4 out of 7 respondents said that no improvements have taken place, while 3 out of 7 did not give any factors that have deteriorated.

In line with this, respondents believed that the major spheres to be improved if Georgia is to become more attractive for investors is the further liberalization of tax legislation (even though tax legislation is already ranked highly) and free competition on the market. Overall, they believe that long-term, sustainable economic growth will bring the desired results. All of the respondents found it difficult to compare the Georgian business climate to that of their current countries of residence, due to fundamental differences in both economic and other concerns. Although a Russian respondent believed that Georgia is characterized by more freedom and transparency compared to the reality of Russia.

A crucial factor when considering investing is the degree of trust one has towards the local government in regards to their ability to provide a favorable business environment, fair treatment and the rule of law. On a scale from 1 (being least) to 10 (being most), respondents were asked to rate their trust in the government. On average, trust was rated 5.5. The ability of the government to create a favorable environment for businesses was rated 7.6, with even higher expectations for the new, upcoming government.

Another important factor to consider is the conditions that representatives of the Diaspora find themselves in compared to local residents or other foreign investors. Respondents believe that compared to the locals it is harder for them to assess the reality from a distance, without being directly involved in the country’s activities. Thus, they find themselves in a less advantageous conditions compared to locals who might have better access to information. However, when compared to other foreign investors, they believe they have a comparative advantage by knowing the local culture, language, and having contacts, etc.

Respondents were asked to give possible reasons why Georgian Diaspora representatives are passive when it comes to investing in Georgia. Several issues were named, such as a lack of trust in long-distance management, lack of activities implemented by the government to consolidate the Diaspora members, the small size of the Georgian Diaspora, their limited financial resources, and relative risk-aversion, having emigrated to seek a more stable environment. All of the respondents believed that there is the possibility to expand the Diaspora’s involvement in Georgia by means of activities initiated by both the government and privately, such as marketing and promoting Georgia, organizing business visits, better communication, and political and economic stability.

**Future Plans**

**Financial Instruments**

None of the respondents had ever invested in any type of financial instrument. Likewise, they do not trust these kinds of investments generally, and are not willing to purchase bonds. This would suggest, therefore, that the issuing authority was not the cause for mistrust. Respondents were completely unaware of the concept of remittance securitization; none of them had ever heard of this mechanism. After a detailed explanation from the interviewer, the respondents still did not believe that the mechanism was trustworthy enough for investment. However, when offered Diaspora Bonds for purchase, bonds specifically tailored and issued for Diaspora representatives, two respondents expressed their readiness to invest up to 10,000 USD, although not for the sake of receiving profit, but rather for helping finance activities implemented for the
future of Georgia.

![Matchmaking Tools for Facilitation of Investments from Diaspora Representatives](image)

**Figure 45 Assessment of Matchmaking Tools - Inside Diasporas**

Increasing the number of business visits and organizing promotion and marketing campaigns on Georgia, are important instruments for integrating the Georgian Diaspora and fostering their investment potential.

**Outside Diasporas who Have Never Operated a Business in Georgia**

**Personal Experience**

In this sub-group, a total of 11 respondents were interviewed covering 6 countries. 3 respondents represented the Diaspora in Russia, 2 were from Spain, Greece, and the UK each, and 1 was from the USA and another one from Italy, representing various sectors. An absolute majority of respondents were experienced entrepreneurs with large-scale enterprises in their current countries of residence. Only three of the respondents had invested less than 100,000 USD in their respective countries. In two cases this was partially due to the nature of the business – tourism and a restaurant, which are less capital intensive – and in the particular case of an Italian respondent, it was due to the fact that the business had been operating for up to 5 years. 8 respondents were founders or co-founders of businesses, while 3 others were managers. In the case of an entrepreneur from Spain, the respondent also operated a similar business in Germany. In those cases where Diaspora representatives were the actual founders of a business, they claimed to employ Georgians living in their respective countries.

None of the respondents have actually tried to start up a business in Georgia. However, most have considered this option. Quite some number have been offered to start up a business with their partners and peers. It is noteworthy that these recommendations were made by members of the Georgian Diaspora already operating a business in Georgia and that these connections were established through membership of Diaspora organizations. However, membership of such organizations is not so prevalent among the respondents – in this particular sub-group of 11 respondents, only three of them are involved in Diaspora organizations.
Moreover, two of them were actually founders of these organizations: the Georgian-Spanish Society and the Georgian Diaspora and Confederation in Greece. One respondent is a member of the Georgian Diaspora Organization in the USA. The Engagement rate in Georgian based business networks was also very low, and respondents claimed to be a part of local business networks in their respective countries. At the same time, in certain cases, Diaspora members were offered to start-up a business by their relatives and friends living in Georgia – essentially, they were asked to finance their friends and relatives’ business ideas. However, none of the respondents agreed to be involved in such ventures. Only two respondents stated that they might consider initiating a start-up in anticipation of better conditions after the change of the government. This suggests, therefore, that Diaspora members are not overly anxious to engage in business ventures.

Predictably, respondents stated that return on investment plays a significant role when deciding on an investment. One respondent elaborated that considering giving up a portion of a business’ profit to make a social contribution is quite typical, not only in their country of origin, but in any other country. An important precondition for such a consideration is that all other institutional frameworks for doing business should be in place (such as low market entry costs, protection of property rights, transparent taxation system, and absence of corruption). Thus, if a business does not face any other hindrances, it is more feasible that 10% of profits could be given up for social contributions. On the other hand, 6 respondents already claimed to have foregone up to 10% as an ethnic discount, 2 would not consider any discount, and 3 respondents refused to name their “contributions” in percentage terms, but claimed that they would be willing to give some part of their return on future investments.

The Investment Climate in Georgia

Respondents were asked to name advantages and disadvantages that currently exist in the Georgian business climate. Some respondents found it difficult to name concrete favorable and unfavorable factors. However, a number of advantages were stated. These were the absence of petty corruption, the existence of a lot of open yet unexploited opportunities, and low crime levels. Respondents were more open when it came to naming hindering factors for businesses; three of them mentioned the existence of so-called “elite corruption”, the favorite treatment rendered by the government to certain businesses, access to finance, high investment risks, and low returns. Overall, on a scale from 1 to 10, outside Diasporas gave the Georgian business climate a score of 5. This perception is more negative than that of the inside Diasporas, who gave the Georgian business climate a score of 6.5. However, the discrepancy between the perceptions of these two groups is not very large. Ranks given by respondents were equally distributed, largely falling within the range of 4-7. None of the respondents ranked the climate as either least or most favorable.

When asked about the likelihood that they would recommend Georgia as a place for investment among their partners and colleagues, respondents gave an average score of 5. All respondents gave a score between 3-6, except for one respondent who gave a score of 10. None of them has actually recommended Georgia, and have not initiated any type of investment in Georgia. Some of them stated that it does not make sense to recommend a country for investment if they have not actually invested themselves first.

Interestingly, three respondents stated that starting up and operating a business in Georgia is an easier task for foreigners of a non-Georgian origin, since they are provided with far more support and assistance, and they also enjoy a higher degree of both safety and freedom in their actions, as opposed to local and Diaspora entrepreneurs. Two respondents stated that all entrepreneurs enjoy equal conditions. Three respondents believe that the external knowledge enjoyed by Diasporas places them in a more advantageous condition as compared to local entrepreneurs, and knowledge of the local culture and language puts them in a more advantageous condition compared to foreign entrepreneurs of a non-Georgian origin. So, in this case
viewpoints were divergent, and it is difficult to assume whether it is generally harder or easier for a Diaspora to start and operate a business in Georgia compared to locals or foreigners of non-Georgian origin. They enjoy some advantages, but at the same time also face disadvantages, especially when it comes to access to local information. We believe that the inside Diasporas were more qualified to answer this question.

Quite a wide range of assumptions were made regarding the passiveness of Diasporas when it came to engaging in business activities in Georgia. When it came to respondents from the Diaspora in Russia, the answer was that tense relationships between the two countries made investment even riskier; problems might arise in both countries for an investor, who may face political prosecution and be accused of financing pro-Russian initiatives in Georgia. Among other reasons were underdeveloped markets, issues related to the lack of free competition, an underdeveloped economy, the low purchasing power of the population, and the relatively low returns on investment given the high rates of risk. At the same time, the inability to be actually present and personally involved in all business operations also presents a hindrance.

It is believed that Diaspora engagement will be made possible by eradicating the problems mentioned above with a strong rule of law, an independent court system, and the development of free capital markets. The Diaspora living in Russia believe that the level of engagement can only be expanded if the political situation between the two countries changes and that employing other mechanisms will do no good in the meantime. One respondent was pessimistic about expansion possibilities, since the majority of Diaspora representatives are already established in their countries of residence and are reluctant to come back to the “instability of Georgia,” as they put it. However, one respondent has initiated the creation of a Diaspora fund where all immigrants could contribute to the betterment of Georgia. The profitable sectors for investment given by this group were similar to those named by the inside Diasporas. These were: energy, hotel and restaurants, transport and communication, and the financial sector.

![Factor Ratings](Figure 46 Factor Ratings by Outside Diaspora (who never operated a business))
As can be observed from the chart (f.46), crime is considered to be the least problematic factor for the Georgian business climate, while the availability of an independent dispute settlement body is the least favorable factor. The overall trend regarding the perception of various factors is similar to that of inside Diasporas. The difference is that inside Diasporas gave higher scores to favorable factors; whereas in this case the maximum score given was 7. A minimum score of 3 was given to three factors; to compare, in case of inside Diasporas, only one factor was given a 3. Thus, the subgroup of outside Diasporas was more reserved when ranking the factors affecting the Georgian business climate. A possible explanation for this is the lack of information among this particular group.

<table>
<thead>
<tr>
<th>Improvement</th>
<th>Deterioration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Stability</td>
<td>Government distortion of business</td>
</tr>
<tr>
<td>Corruption</td>
<td>Free Competition</td>
</tr>
<tr>
<td>Crime</td>
<td>Property rights</td>
</tr>
<tr>
<td>Ease of Starting up a business</td>
<td></td>
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<tr>
<td>Taxation</td>
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</table>

The perception of outside Diasporas, who have never operated a business in Georgia, is very different when it comes to those factors that have improved and deteriorated in Georgia over the past 5 years. With some similarities on the improvement side, the deterioration picture looks very different. Inside Diasporas did not mention free competition and government distortion of business as major worsening factors in the business climate of Georgia. The overall impression was that they were reluctant to mention any negative factors, mainly concentrating on favorable aspects.

The Georgian business climate seems to have a more or less positive reputation in Europe and the USA according to the respondents, with a deteriorating reputation after the war in 2008 and the recent prison scandal. However this does not hold true for Russia, where Georgia is viewed as a highly unstable country with significant political risks. Respondents named a number of factors that should change in order to make the Georgian business climate more attractive for investors. Among these factors are free competition and employing SME supportive activities in the form of easy access to relatively cheap finance. The suggestion was made that the government should not only concentrate on attracting and developing large scale businesses, but rather focus on wider possibilities and create a favorable atmosphere for smaller scale businesses as well. Moreover, building trust among investors by means of ensuring that businesses are free from governmental intervention, and ensuring a strong protection of property rights in the country, are essential. When compared with their current countries of residence, although free competition is in place there, Georgia has lower taxes; a respondent from Greece believes that the Georgian business climate is far more favorable than that of Greece.

**Government Trust**

Interestingly, respondents from this particular subgroup have greater trust in the government than inside Diasporas-on average trust was given a 6 out of 10. Scores were mainly distributed from 5 to 8, while the actual ability of the government to create a favorable business environment was scored lower, at 7 points, compared to the inside Diasporas, who’s scores varied between 6 and 8. One possible explanation could, once again, be the lack of information and having difficulty in assessing the situation from a distance. None of the respondents gave government trust a 10. One scored their ability to create favorable conditions at 10.
**Future Plans**

Respondents have shown a strong willingness to invest in Georgia if the opportunity arises; 7 out of 11 are intensively thinking of investing and are actively searching for unexploited opportunities, 2 respondents are still doubtful regarding investment and the rest are absolutely positive that they do not want to invest any amount of money in Georgia due to high risk. However, the interviews have shown that the respondents do not have concrete business ideas and are at a loss regarding which sector to choose and how to proceed. Only one respondent knew for sure that he would be interested in investing in the financial and IT sectors.

**Financial Instruments**

The study has shown a low level of awareness regarding the various types of financial instruments among the respondents. In this subgroup, only 3 respondents had an actual experience of investing in financial instruments such as bonds, mutual funds, certificate of deposits. However, the level of trust in bonds issued by the Georgian government or by a Georgian based commercial bank is quite low, due to their perceived high risk. As for Diaspora specific bonds, the majority of respondents have expressed their readiness to invest up to 10,000 USD out of philanthropic motivations. One respondent had the idea of having Diaspora bonds convertible later into shares of the infrastructural projects that these bonds will finance, such as shares in ports, railways, power plants or whatever else is built with the money raised.

Only one respondent had information regarding remittance securitization and the opinion was that this process was a matter of willingness from commercial banks. Other respondents, due to a low awareness, claimed that the instrument was not trustworthy enough for them to consider.
The two subgroups interviewed gave quite divergent results in their assessment of the importance of potential matchmaking tools to be used for increasing the level of engagement of the Georgian Diaspora. This particular subgroup placed high importance on venture capital and public private partnerships. The latter was less important for the inside Diasporas, but both groups agreed that conferences and roundtable discussions bring little benefit. Inside Diasporas favored networking and mentoring types of activities, while outside Diasporas rated activities with the highest commitment levels. Significant importance was placed on organizing business visits, providing advisory services and market information, as well as establishing business partnering programs.

**Outside Diasporas Who Ceased Business in Georgia**

In total, 7 respondents were interviewed from this subgroup covering 5 countries. They represent a wide spectrum of sectors, and are mostly large-scale investors with various levels of experience of doing business in Georgia, starting from less than 1 year to up to 10 years of operation.

**Personal Experience**

All respondents have business in their current countries of residence. These businesses are in the same sector as the ones that they had initiated in Georgia. In those businesses they are either founders or co-founders. In three cases respondents started up in Georgia and then transferred to their respective countries of residence with a similar business. Four respondents stated that they employ local Georgians in their countries of current residence. Respondents named various factors responsible for the closure. They included the following: social factors, unfair competition practices, prosecution and distortion of business from the government, and harsh tax administration practices. 4 out of 7 respondents complained about strong interference into business from the government, the selective application of taxes, favoritism, and lack of independence in actions as required by law, poorly functioning courts, pressure from regulators, and the strong political pressure on businesses. Thus, all respondents evaluated their experience of doing business in Georgia as unfavorable to very unfavorable.

The majority of respondents claimed that they had brought innovations to the Georgian market, such as manufacturing methods, technologies, management and service know-how. Once again this particular subgroup turned out to be quite passive when it came to engagement in Diaspora organizations or local business networks. They did not receive any support during the start-up or operating phases of their businesses, nor did they seek any help. Initial triggering factors for starting up a business were the unexploited opportunities that usually exist in developing countries, developing more efficient businesses than their existing counterparts using the knowledge acquired abroad, and the willingness to bring knowledge from their countries of residence to establish innovations in Georgia, thus helping their homeland to develop.

Facilitating factors were divided into two groups, those pertinent during the start-up phase and those pertinent during operating phase.

Pros for the start-up phase were: the small number of bureaucratic procedures, opportunities granted by the privatization of state assets, favorable international market conditions, and the fact that there is no licensing for the restaurant business.

Pros during operation stage were: good connections, and good understanding of the business.
Therefore, start-up phase favorable conditions are of an exogenous nature, concerning aspects of the overall business climate in the country, while favorable conditions mentioned during the operation phase are more endogenous in nature, and have to do with an entrepreneur’s experience and connections, rather than being dependent on the overall business climate.

A major obstacle in the start-up phase was finding experienced people. However, later on, during the operating phase, the encountered obstacles mentioned above were the major reasons for business shutdown. To name a few, these were: uneven and unfair competition practices, government interference and distortion of businesses, poorly functioning courts, and pressures from the regulator, together with harsh taxation policies and heavy fines from taxation authorities. In some cases, the unstable political situation and difficult operating environment caused by the global economic and financial crisis made it impossible to continue with the business and forced its closure. Overall, the respondents were naming overall favorable and unfavorable factors in regards to business ventures without distinguishing between those of the start-up and operating phases.

Although ROI played the leading role in making a decision to invest, respondents claimed that they would give up a part of their profit as an ethnic discount, ranging from 5% to 20%. Two respondents stated that they would give no ethnic discount. One respondent stated that due to having international partners in their businesses, it would not be possible to give up any profit percentage as an ethnic discount. However, overall the idea of an ethnic discount was taken very positively by the respondents.

The Investment Climate

Overall the Georgian business climate was given a score of 4 on a scale of 1 to 10. This is less than the 6 given by the inside Diasporas subgroup, and 5 given by the outside Diaspora subgroup who never operated a business in Georgia. Scores ranged from 2 to 5, three respondents having given a score of 5. However, the scores might well be biased, since entrepreneurs who fail tend to blame the investment and business environment for their failure, and may tend to be more reluctant to look for an explanation in the business itself, or in their own capabilities.

The likelihood that they would recommend Georgia as a potential place for investment to their partners and acquaintances was given a score of 4, less than the 7 and 5 given by the inside and outside Diaspora (who never operated a business) subgroups respectively. The explanation for this score was that the unstable political and business climate was to blame for not recommending Georgia as a country to invest in. However, some respondents stated that they described the positives and negatives existing in the country objectively. Another two said that they did not actively recommend either for or against investing in Georgia. Some respondents mentioned that even though they have strong dislike of the business climate existing in Georgia, they nevertheless do not wish to discourage investment in Georgia by spreading negative perceptions about the actual situation, so they choose to be more neutral when describing the investment climate of the country to their partners abroad. That said, the respondents mentioned patriotic intentions when recommending Georgia for investment, notwithstanding the negative factors.

Sectors attractive for investment given were similar to those proposed by other subgroups. These were: energy, manufacturing, mining, agriculture, hotels and restaurants, and transport and communication.
Figure 48 Factor Ratings by Outside Diasporas Who Ceased Their Business in Georgia

This particular subgroup indicated that property rights and government distortion of business were the most problematic factors, and the level of crime and ease of starting up a business as the most favorable ones.

The given scores closely reflect the subgroup’s opinion regarding the most significant deteriorations and improvements presented below.

<table>
<thead>
<tr>
<th>Improvement</th>
<th>Deterioration</th>
</tr>
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<tbody>
<tr>
<td>Taxation rates and administration</td>
<td>Government distortion of business</td>
</tr>
<tr>
<td>Petty Corruption</td>
<td>Property rights</td>
</tr>
<tr>
<td>Crime</td>
<td>Political stability</td>
</tr>
<tr>
<td>Licensing and administrative burden, ease of starting up a business</td>
<td>Free competition</td>
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</table>

According to investors, the reputation of the Georgian investment climate in the respondents’ countries of residence is not very positive. The major concerns are political stability, and the weak legal system. Respondents have different views regarding the ease of operating and starting up a business as a Diaspora representative. Just like in the other subgroups, opinions are split, although 4 respondents believe that it is quite hard to operate a business from a distance and have regular visits to Georgia, especially if their current country of residence is on a different continent. Diaspora passiveness was explained as having direct ties to hindering factors such as poor protection of property rights, and the fear of business distortions from the government. All agreed that there is room for expanding Diaspora engagement if the problematic factors change for the better, if there are new governmental reforms, and if the political situation is improved –
particularly concerning the tense relations with Russia.

**Future Plans**

One respondent stated that moving his business to Georgia will be an option if the new government delivers on its pre-election promises. Another 3 claimed that reinvesting is an option for them as well, given that the courts are independent, and equal opportunities exist in the market.

This particular subgroup was also quite skeptical about investing in financial instruments. They do not trust state issued bonds due to the lack of transparent information regarding public finances, which is essential when making a decision to invest in a state-issued bond. Moreover, respondents expressed the concern that commercial banks are not apolitical, and are not supervised by the state equally. One respondent stated that even the National Bank is not independent from politics, thus making it untrustworthy.

This particular subgroup ranked the tools almost equally, giving slightly more importance to the capacity development of Diaspora networks, and slightly less to promotion and marketing.

![Figure 49 Assessment of Matchmaking tools - Outside Diasporas Who Ceased Business in Georgia](image)

As we can conclude, inside Diasporas give more importance to networking and mentorship organizations and the same might be said of the outside Diasporas who ceased their business in Georgia. However, the outside Diaspora subgroup who have never operated a business in Georgia believe that there is a need to strengthen organizations with strong commitment activities by providing investment-type organizations, communities and tools, and thus promoting venture capital and strengthening public-private partnerships. In general, the problem of networking is quite acute for all subgroups. Even though most of the respondents stated that they were part of local business networks in their countries of residence, none of them happened to be part of business networks or associations in Georgia. That said, we believe it would be beneficial to enhance the participation rate of Diasporas in Georgian business networks by promoting activities such as capacity development for Diaspora networks through business visits, mentorship programs, trade specific fairs, etc.
Conclusions

To sum up the perceptions of all the three subgroups, we present charts below which indicate that all the subgroups deem the low level of crime as the most favorable factor in Georgia. Ease of starting up a business is also viewed as a favorable factor, but those who ceased their businesses in Georgia give it a higher score than other groups. Government distortion of business and the issue of property rights are considered most problematic by the third subgroup, but are not considered to be highly favorable by other subgroups either. A discrepancy in views occurred regarding the issue of corruption; those who ceased their businesses viewed it to be far more problematic than inside Diasporas did, who deemed corruption to be not so problematic, and named it as the largest improvement during the last 5 years.

Figure 50 Institutional Factor Ratings by All Subgroups

Figure 51 Economic Policy Factor Ratings by All Subgroups
Overall perceptions do not vary among the subgroups, although a significant variance exists between the inside and outside Diaspora subgroups in the perception of those factors which have deteriorated most during the last 5 years. Inside Diasporas tend to mention exogenous factor deterioration, over which the Georgian government has little or no impact, while the outside Diasporas group lists those issues that are directly linked to government policies that shape the overall business and investment climate, and to the existence of the so-called “elite corruption”.

The research has shown that there definitely is a potential to increase the engagement of the Georgian Diaspora in terms of attracting more investment, as well as for knowledge and technology transfer purposes. Diasporas have shown a high level of commitment to their homeland; this is proved by the fact that they employ local Georgians in their countries of residence, are ready to give up part of their potential profit as an ethnic discount, and cite providing support to their homeland as the major motivating factor for their investments. Therefore, we believe there is potential that is not yet exploited, mainly due to the passiveness of the relevant authorities and Diaspora communities and organizations in providing support and reaching out to the Diaspora. This study has shown that the rate of participation of Diaspora organizations is very low. None of the respondents have ever been offered help to start up a business, nor have they been presented with the opportunity to invest in a particular venture. Those particular hindering factors mentioned by almost all of the respondents should be given due attention. These include, but are not limited to, the following: government distortion and interference in private businesses, the lack of free competition and equal opportunities on the market, and poorly functioning courts and legal system. Moreover, the lack of an independent dispute settlement body was rated as the least favorable factor of the Georgian business climate.

Sufficient information regarding potential investment opportunities should be provided in the fields that were indicated as being the most profitable for FDI by the respondents. These were: construction, energy, transport and communications, and hotels and restaurants.

The results of the study suggest that some potential Diaspora investors are interested in investing in Georgia. Due to the small sample size it is difficult to infer their preferences with certainty, although some conclusions can be drawn with reasonable accuracy. Interestingly enough, potential investors from the Diaspora are well aware of lucrative sectors, but they lack focus and knowledge of specific instruments to optimally utilize their capacities.

Georgia’s recent success in undertaking market-friendly reforms has been welcomed by the international business community. Georgia is one of the global leaders in terms of ease of doing business and the removal of formal bureaucratic regulations. Unfortunately, these achievements do not always translate in practice. As is the case in many developing countries, the practical implementation of business-friendly laws is often inefficient. Favoritism, the disregard of private property by authorities, and the lack of trust in the courts are frequently cited by the Georgian and international media. The preference indicated for specific matchmaking tools such as advisory services, public private partnerships, and venture capital is another sign of Diasporas looking for suitable tools for channeling their funds to Georgia. It is also noteworthy that interviewees regard Georgia’s performance in such “broad” factors as the level of crime, trade barriers, geopolitical location, and starting up a business, etc., very highly. Some of these factors are not directly related to the business environment of a country in a practical sense. This pertains to trade barriers and geopolitical location. On the other hand, indicators such as the level of crime, efficient implementation of laws, and the state authorities’ fair and equal treatment of business operations are much more relevant indicators, against which the long term success of a country in maintaining a good business climate should be judged.
The anticipation of positive changes with the advent of the new government might be another indication of the fact that doing business was not that easy in Georgia, even for people who have local roots and are eager to give away a large chunk of their profit as an ethnic discount. On the other hand, incidences of people willing to give away everything they can earn here is a manifestation of a mixture of enthusiasm and some disappointment, possibly related to many of the respondent’s inability to pursue something durable and serious in Georgia. It can be inferred that Diasporas are still anticipating something more concrete from their host country than an overall improvement of the macroeconomic situation. In this regard, it can be said that Georgia still lacks targeted, professionally designed investment promotion policies. The investment promotion campaign undertaken by state representatives has an overall tendency of being excessively focused on “broad” achievements, such as WB indicators and the overall success of business climate reforms. Meanwhile, well-targeted information on the most promising sectors, their trends, costs and profitability is missing. In this regard, the development of investment proposals for Diasporas focusing on specific sectors of the economy could be much more efficient.

We think that the sectors indicated to be of particular interest to Diasporas will continue to be so in the near to medium future, although some of them – such as energy, infrastructure, and the hotel business – should be given special attention by policy makers. Even if Diasporas lack the money to undertake large-scale projects themselves, they can be greatly productive as facilitators, channeling business proposals to institutions and individuals with capital. Instead of maintaining what is, in our opinion, a somewhat exaggerated focus on the benefits of investing in Georgia in general, the GoG should start promoting and advertising success stories of doing business in Georgia among key business communities in Diaspora countries. In this way, the Diaspora will also play a facilitating role.
Topic 9 Matchmaking Tools to Be Used in Georgia

The experience of various countries that have succeeded in utilizing their Diaspora as a tool for economic development has shown that Diaspora engagement is a lengthy process, which requires careful planning of programs and activities targeted towards them. However, before implementing any kind of program, a well-established strategy, a “road map”, needs to be designed. This map will define the most fundamental elements that will help to correctly shape future strategies for engagement. The study has shown that in case of Georgia, these fundamental elements and baseline prerequisites are missing. Therefore, for the GoG to start implementing activities and programs directed towards increasing the level of Diaspora engagement, it is crucial to first lay out the initial blocks for shaping the strategy.

A roadmap for constructing a strategy was presented by this paper in topic 6. However, due to the fact that each Diaspora and each country is unique in its own sense, a “one-size-fits all” model does not work. That is why, based on the results of this study, we will shape a roadmap designed specifically for the Georgian situation, to be utilized by the GoG and relevant ministries. Firstly, we should highlight that a priority for the GoG is alleviating poverty through sustainable economic development, increasing employment, and supporting the national balance of payments – therefore, its Diaspora policy will most likely be focused on better utilizing remittances, increasing foreign direct investments, and capital markets. These objectives are more or less clear cut. However, the second crucial step is for the government to know the Diaspora that it hopes to engage. This includes data gathering, mapping the location of Diaspora and growth trends of Diaspora communities in their respective countries, compiling a comprehensive list of local businesses managed/founded by Georgian Diasporas, the level of engagement of Georgian Diasporas in the business networks of their countries of residence, and Diaspora skills and experience; basically, this translates into the creation of a Diaspora profile for fully understanding the Diaspora’s potential in each respective country. The data will also encompass information on the share of Diaspora-related FDI in the volume of Georgia’s total FDI inflow. This material will provide a clear picture of the potential of the Georgian Diaspora, together with favorable sectors for investment.

In this process, the government should closely cooperate with the Diaspora and its organizations. One way to ensure the proper coordination of activities is the creation of a Diaspora Council, an initiative that has successfully worked in different countries. The council would comprise of the representatives of various organizations: the Office of the State Minister of Georgia for Diaspora Issues, Diaspora communities, inside Diasporas, Diaspora professional associations, alumni associations, Georgian National Investment Agency (GNIA), business councils, embassies, and consular offices. At the same time, we believe Geostat will have an important role providing investment/economic related information. In this case, a universe of possibilities will be created for the Diaspora, presenting not only what Diaspora members have to offer but also what they expect in return.

This very first step is of crucial importance, since governments often lack reliable data on Diasporas, which is a significant obstacle. The same is true for Georgia; during a personal communication with representatives of the Office of the State Minister of Georgia for Diaspora Issues, the problem of identifying the exact number of Diasporas presented a huge difficulty. Therefore the government should try to collect data from various sources, as well as rely on information from destination countries. The study has shown that representatives of relevant organizations are not sufficiently active in providing information on Diaspora-related businesses in their respective countries, or in trying to promote the Georgian business environment to possible FDI investors.
Therefore at the preliminary stage we recommend that the following actions are carried out:

- The creation of a **Diaspora Council** that will be directly accountable to the Office of the State Minister of Georgia for Diaspora Issues; the council will help in shaping the Georgian Diaspora profile;
- Identifying the share of Diaspora-related FDI in the total FDI inflow by Geostat for the target countries with a sectoral breakdown; in this case Geostat might cooperate with the statistics offices of target countries. Some forms of cooperation might include signing memorandums for information-sharing and organizing meetings and workshops, etc.
- The GCCI has an extensive database of its members. Therefore, it should research Diaspora-related businesses in various countries, and present the results to the Office of the State Minister of Georgia for Diaspora Issues;
- Georgian embassies should step-up their work identifying Diaspora businesses and investment potential in their respective countries;

With the help of these actions, government engagement with Diaspora representatives will increase, and better communication will be facilitated among the various relevant actors.

**Diasporas as Entrepreneurs**

Notwithstanding this paper’s relatively small sample size and the incompleteness of available information, the study has still delivered a number of tangible results that show general trends and perspectives on the potential of Georgian Diaspora. Firstly, it is important to note that as of now, no specific matchmaking tools, programs or activities have been specifically directed towards Diaspora entrepreneurs to engage them in business activities in Georgia. Existing business associations in their respective countries, the GCCI and its representatives in various countries have concentrated on attracting local businessmen to Georgia, rather than employing and utilizing tools to target Diasporas. The same was observed in the respondents’ answers – none of them have ever been offered the opportunity to take part in any kind of Diaspora-related activity, have never been offered the opportunity to start up a business in Georgia, or presented with any kind of specific investment opportunity. However, through their own contacts and sources, quite a few of them have started up a business in Georgia, and facilitated investment inflows through their local business networks. Therefore, we believe that formulating a targeted strategy for employing various matchmaking tools that specifically aim to utilize and increase the level of the Georgian Diaspora’s engagement will bring positive results.

At the same time, existing business facilitator organizations have a very low level of involvement, and are more focused on networking. The GCCI’s level of involvement is higher – they are more focused on mentoring and training. The chamber’s web-site offers businessmen help in finding a suitable business partner for them, as well as assisting potential investors in the various kinds of research that need to be undertaken before investing (these services are not, however, free of charge). In addition, the study has also shown that Diaspora representatives favor organizations with higher levels of involvement, all the way up to venture capital and partnership organizations, which are both finance and human capital intensive, and might not be feasible given Georgia’s limited resources. However, the experience of other countries has shown that local ministries working on Diaspora issues have sought donor help, utilized public-private partnership resources, cooperated with private institutions, etc.

We believe that the most feasible and reasonable way to proceed is to complement, improve, and advance the abilities of the existing organizations and associations, and tailor them to the needs of the Diaspora. To receive quicker results, mentoring-focused involvement is necessary, as it may save time without wasting extra resources. Therefore, Diaspora entrepreneurs should not just be networked with each other, but rather
aspiring members of the community should be matched to those who seek to expand their operations to Georgia and would like to tweet with local or Diaspora business leaders. For this purpose a virtual network should be created on the basis of I am Georgian (operating on the web-site of the Office of the State Minister of Georgia for Diaspora Issues), and be focused on uniting large-scale Georgian Diaspora entrepreneurs all over the world. The portal could be promoted through the Diaspora Council, as well as by local GCCI representatives and business associations, etc. At the same time, annual business conferences could be planned and organized through this network, where groups of Diaspora entrepreneurs from the Georgian Diaspora could meet and network with not only each other, but also with Georgian large-scale entrepreneurs. We expect mutually funded cost-share projects, where Georgian Diaspora and local Georgian entrepreneurs initiate joint ventures, to result from such events. These top executive meetings may also result in activities being outsourced to Georgia, or even mergers and acquisitions.

The study has also shown an increased interest from Diaspora representatives in having relevant and timely information on available investment opportunities. Therefore, during the above mentioned annual meetings, the government body responsible for investment facilitation could provide a presentation of new investment opportunities and initiatives that could be of interest to the entrepreneurs. This would be of particular importance, since Diasporas tend to be able to identify niche markets in their countries of origin based on professional experiences gained abroad, and capitalize on business opportunities back home – although to this end they will need timely information and counseling services from relevant state institutions and business associations.

Not only can Diasporas be involved in the initiation of new business ventures or joint partnerships with local entrepreneurs, but they can also be facilitators for attracting FDI to Georgia by using their managerial experience and technical know-how to persuade members of their respective networks to invest in or outsource some operations to Georgia. In the process, the role of the relevant state authority working on attracting foreign investments is crucial. In the case of Georgia, the role of the Partnership Fund should be extended to provide Diaspora representatives with market information, advisory services and counseling. This could also include online information services that Diasporas could transfer to their local networks to promote and facilitate Georgian investment opportunities.

As we discussed in topic 6, a partnership between the government and private or non-governmental institutions and associations could engage at various levels of commitment to foster entrepreneurship among Diaspora representatives. However, we believe that at the initial stage the more passive forms of support, such as networking and mentoring, are more likely to proliferate and dissipate more quickly. At the same time, these forms are less costly and basically envisage the adequate and successful usage of existing human, technical and knowledge resources. Thus, we recommend starting out with relatively low levels of commitment and later on, if the financial and human resources are available, continue up the commitment pyramid to the creation of venture capital and partnership funds with the participation of Diasporas. However, the important part of these initial programs will be the constant monitoring and evaluation of results. The Office of the State Minister of Georgia for Diaspora Issues should direct its representative to monitor not only the level of engagement of Diaspora entrepreneurs in the created web-portal, but also the interest and outcomes of the organized business twinning meetings and forums. The representative could also receive feedback directly from Diaspora entrepreneurs regarding the outcome of the initiated programs and ask for additional ideas and recommendations on how to make activities more engaging and fruitful. We strongly believe that the above-mentioned program initiatives would interest Diaspora entrepreneurs. The study has shown that the interest and enthusiasm is present; Diasporas are always willing to participate in mutually profitable activities, which will not only serve their personal business interests, but will also foster economic development of their countries of origin.
Diasporas as Investors in Capital Markets

The study has shown that the Diaspora representatives do not generally trust financial instruments. At the same time, they are unaware of the remittance securitization mechanism. However, considering the role of remittances in the Georgian economy, we believe that were such a mechanism employed by local commercial banks and money transfer microfinance institutions, it might be beneficial for broadening their assets.

Another benefit of future flow-securitization for Georgia will be a better rating from debt rating agencies. According to the World Bank, a number of countries (including Georgia) have great potential for remittance-based future-flow securitization\(^{30}\). On the other hand, however, a typical remittance securitization transaction is in the investment grade (BBB- or higher), while Georgia currently stands as BB-, which is interpreted as “less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions”\(^{31}\).

Currently, the main stream of remittance flows comes through money transfer agencies via Georgian banks. According to statistics produced by the National Bank of Georgia, there are 7 major players (83% share) in total on the market. These are Zolotaya Korona, Western Union, Unistream, MoneyGram, Intel Express, Contact, and Anelik. We believe that at the initial stage a workshop should be organized with the participation of Georgian commercial banks, money transfer agencies and representatives from the World Bank and International Finance Corporation. During the workshop, Georgia’s potential will be further assessed, and a possible scenario for Georgia will be worked out based on the resulting recommendations and international experience. Due to the fact that this financial instrument is quite innovative and novel, major agents in the process do not have good information on how to make use of it.

On the other hand, the idea of bonds was not new to the respondents; the majority of them expressed their readiness to invest in bonds designed especially for Diasporas and thus to serve the development of Georgia. As international experience shows, these types of bonds are usually issued on the basis of necessity, i.e. to help a country during a recession or a fiscal crisis, but Diaspora bonds could also be issued on the basis of opportunity, for financing development projects such as schools, enterprises, infrastructure, universities, etc. We believe that this initiative will be a better way for raising money, and will also give the GoG the option of paying bonds back with shares of a project for which the money has been initially raised. Therefore, Diasporas will become owners of the venture, with a joint stock society model of ownership and management.

Like in other countries, Diaspora bonds in Georgia could also be issued by the National Bank of Georgia. The role of marketing and promoting should be handled by the Diaspora Council, with the active participation of local embassies and consular offices. The National Bank of Georgia would have to find a partner bank in each country that will be responsible for promoting Diaspora bonds, or use the services of international branches of Georgian Banks, namely the Bank of Georgia and TBC bank, which have international branches in 5 countries altogether (Belarus, Israel, Hungary, Great Britain, Azerbaijan).

Diasporas as the Source of Knowledge Transfer

According to the Global Competitiveness Report, Georgia has quite a disadvantage in terms of level of innovation. Therefore, we believe that Diaspora representatives could serve as capacity builders, and transfer the knowledge and expertise they have obtained abroad to Georgian institutions. The so-called “brain gain” programs have been launched in a number of countries, allowing developing countries to gain access to


highly skilled and educated Diasporas. The approach has included various policies and incentives to attract professionals via funded programs, activity programs, and the launch of official websites for knowledge exchange. Various governments have initiated programs such as: sponsoring short-term visits for guest lecturers, and providing advice, supervision and support to joint research projects between local and Diaspora scientists, and experts in different fields. The programs mentioned were initiated by Diaspora organizations and relevant governments, or through international organizations.

We believe that the following initiatives will prove to be beneficial for Georgia: organizing public lectures by prominent Diasporas, and facilitating exchanges in scientific research and development. These programs already function in some form, especially in the fields of biology and physics, and the same could be applied and expanded to cover the spheres of culture and art.

We would also recommend the creation of a student and alumni network portal in Georgia that would unite Georgians who started out their education in this country and continued their studies and/or careers abroad. There has been an attempt by a number of Georgian universities to create such a network, although due to limited financial and human resources the initiative has never been fully implemented. Therefore, training might need to be provided for Georgian universities on how to realize the project. Alumni networks would be used by local Georgian scientists to find partners abroad for a joint scientific projects or a particular research initiative.

_Potential according to countries_

One of the strongest intellectual Georgian Diaspora seems to be in Austria. Diasporas in Austria can be found in the spheres of medicine, physics and arts. The country is home to the world’s largest concentration of Georgian doctors outside of Georgia. In the USA, Georgian Diasporas are mostly scientists, particularly in the field of physics, but at the same time, a number of Georgian Diasporas are engaged in the field of international finance. Together with Diasporas from UK, who are also mainly economists, university researchers and entrepreneurs, this group could serve as consultants for developing Georgian financial markets.

The Georgian Diaspora in Israel, which mainly comprises Georgian Jews, is one of the strongest and most represented Diasporas. They are involved in local businesses, politics, and medical sphere.

Georgian Diasporas in Spain, Belgium, Germany and (partially) France are representatives of art and culture. Therefore, the major transfers from these countries would be concentrated on those related to cultural activities. However, France also includes many Georgians in the sphere of medicine, who also may be an interesting group to target. The Netherlands is home to a very heterogeneous group of Diasporas, ranging from football players to musicians; we do not see a serious potential for that country in terms of intellectual transfer. The same is true for Greece and Italy – even though the number of Diasporas is quite large, they are mainly labor migrants. The Diaspora in Russia is the strongest in a number of aspects, intellectual potential among them, but it is worth highlighting the potential in the spheres of medicine, banking, culture, and business.

Below we present a graph (f.52) that depicts a roadmap for facilitating Georgian Diaspora engagement in the three directions discussed above: investments, capital markets and knowledge transfer.
Figure 52 Roadmap for Increasing Diaspora Engagement