Chapter 6

Strengthening the links between migration, investment, financial services and development

Policy makers have long been interested in harnessing the development potential of migration. This chapter explores whether and under what conditions migration is likely to promote both greater well-being for migrant households, and more long-term development, through increased investment and entrepreneurship. The chapter starts by examining if and how migration and remittances can spur business and real estate investments. Potential differences between rural and urban areas when it comes to investments following migration and remittances are also analysed. It then examines the role of return migration for investments in migrant origin countries. Finally, the chapter analyses the role of public policies for investment decisions linked to return migration and remittances, with particular focus on sectoral policies to improve the wider investment and financial service sector such as financial training and more inclusive financial services.

Migration and remittances have the potential to strengthen development processes through long-term investments that benefit migrants, their households and their countries of origin. Policy makers widely acknowledge the positive impacts of migration and remittances on development globally, most recently in the 2030 Agenda for Sustainable Development (UN, 2015a). The total amount of international remittances sent home by migrants to developing countries is estimated to have reached USD 432 billion in 2015 (World Bank, 2016a), constituting a significant and important source of funding for development in low and middle-income countries. Migrants can accumulate savings abroad and bring financial resources to their countries of origin on their return. Migration and remittances can help overcome financial constraints and stimulate investments and entrepreneurship, especially in countries where access to credit is limited and formal financial markets are underdeveloped (see for example Acosta, 2007; Woodruff and Zenteno, 2007; Yang, 2008). In addition, remittances can have a broader impact, by boosting domestic demand, especially if they are channelled into productive investments (Durand et al., 1996).

The development potential of the increasing flow of remittances into low and middle-income countries has generated interest among policy makers in boosting remittance volumes and channelling remittances into more productive investment. Signatories to the Addis Ababa Action Agenda have committed to ensuring that affordable financial services are available to migrants and their households, as well as to reducing remittance transfer costs (UN, 2015b). Other initiatives to promote remittance investments include tax exemptions for migrants on imported capital for investments, match funding and support for diaspora bonds. There is also a growing interest in harnessing the migration-development potential through return migration.

Apart from policies directly targeting migration and remittances, the sending and use of remittances and investment decisions by return migrants also depends on other factors, such as a favourable investment climate and inclusive financial systems that stimulate saving and investments. It is therefore important to understand the conditions under which remittances and return migration are likely to promote well-being for migrants' households and more long-term development.

This chapter explores these conditions, contributing new insights on the importance of public policies for enhancing the development impacts of migration and remittances.

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Table 6.1. **Migration, investment and financial services: key findings**

How does migration affect investment?	How do investment and financial service policies affect migration?
• Remittances support business ownership in urban areas and stimulate investment in real estate.	• A poor investment climate negatively affects households' abilities to invest remittances and accumulate savings.
• Households with return migrants are more likely to run businesses than non-migrant households.	• Financial inclusion translates into more formally sent remittances.
	• Lack of financial training represents a missed opportunity to channel remittances towards more productive investment.

Note: These findings do not apply to all countries. More country-specific findings can be found in the IPPMD country reports.

Overview of the investment and financial service sector in the ten partner countries

Access to finance and basic financial services can help individuals manage and grow their funds and plan for both long-term goals and short-term emergencies. Yet around 2 billion individuals worldwide – 38% of all adults – are estimated to lack access to basic financial services (Demirguc-Kunt et al., 2015). More than 200 million formal and informal, micro, small and medium-sized enterprises in developing economies are also estimated to have their financing needs either unserved or under-served (Stein et al., 2013).

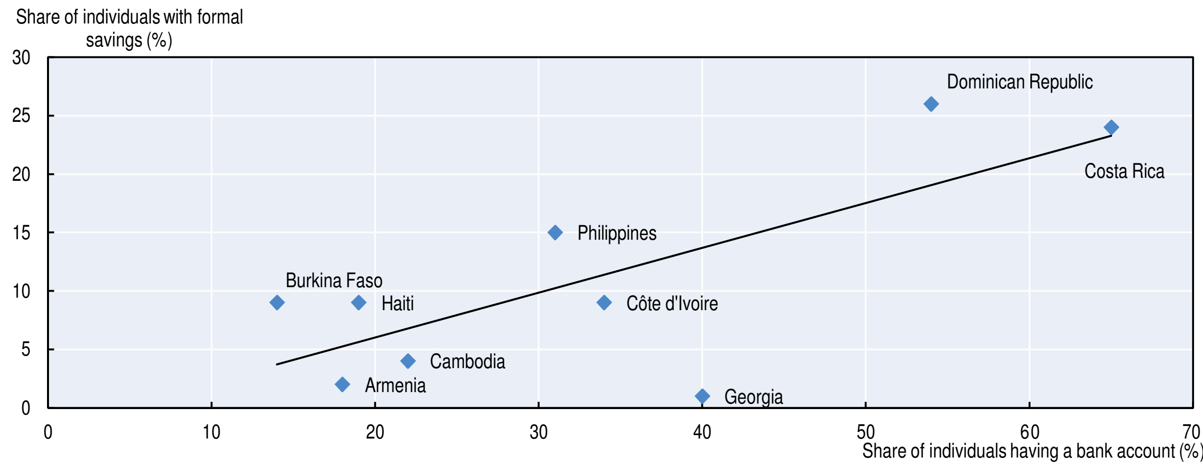
Access to financial services varies across the IPPMD partner countries (Figure 6.1). Access to bank accounts and formal savings is particularly low in Armenia, Burkina Faso, Cambodia and Haiti. The Dominican Republic and Costa Rica are the most advanced countries in the sample for access to banks, being the only partner countries where more than 50% of adults have access to a bank account. Armenia and Georgia stand out for their low rate of formal savings: only 1% of adults in Georgia and 2% in Armenia save formally.[1] In Armenia this may partially be due to the low share of people with access to bank accounts (less than 20%), but this explanation does not hold for Georgia, where around 40% of the population has access to a bank account. Having a bank account does not automatically imply formal savings – globally only 42% of account holders save (Demirguc-Kunt et al., 2015). The IPPMD sample does however show a positive association between access to a bank account and formal savings.

The IPPMD community survey collected data on the existence of formal financial service providers (banks, microcredit organisations and money transfer operators) in the localities where the household and community surveys were implemented. Figure 6.2 displays the share of urban and rural communities with service institutions across the partner countries. The gap between urban and rural areas is most prominent in Armenia, followed by Burkina Faso and Cambodia. More than 90% of the sampled communities in urban areas of Armenia have bank branches, while the corresponding share for rural communities is less than 10%. The low share of adults with a bank account and the low rate of formal savings shown in Figure 6.1 are likely to therefore be linked to weak financial service infrastructure in rural Armenia, Burkina Faso and Cambodia. The Dominican Republic and the Philippines have the smallest difference between rural and urban areas when it comes to financial infrastructure. The share of communities with bank offices in rural areas is almost as high as in urban areas.

Formal banks constitute the most common financial institution in urban areas in most countries. However, microcredit organisations are more common than formal banks in urban areas in Cambodia and the Philippines. In the Philippines, microcredit organisations also outnumber banks in rural areas.

Figure 6.1. **Possession of bank accounts and formal saving rates are positively correlated**

Formal savings (%) and bank account possession (%)



Note: The definition of formal savings is having saved in a formal bank or other financial institution. Only individuals 15 years and older are included. Data are not available for Morocco.

Source: World Bank *Global Financial Inclusion Database*, *http://databank.worldbank.org/data/reports.aspx?source=global-findex*.

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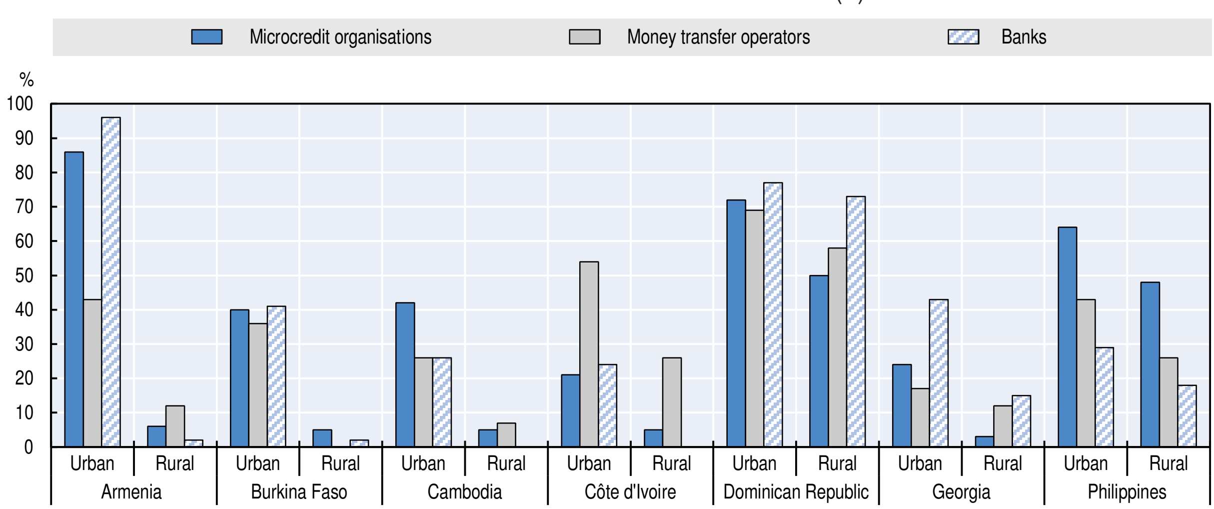
Figure 6.2. **Urban communities are better covered by financial service institutions**

Share of communities with financial institutions (%)



Note: The community survey was not implemented in Haiti due to financial and logistic constraints. Cross-country comparisons of financial service institutions require some caution as the size of the communities differs across countries (Chapter 2), as do urban-rural definitions. Data for Costa Rica, Haiti and Morocco are not available.

Source: Authors' own work based on IPPMD data.

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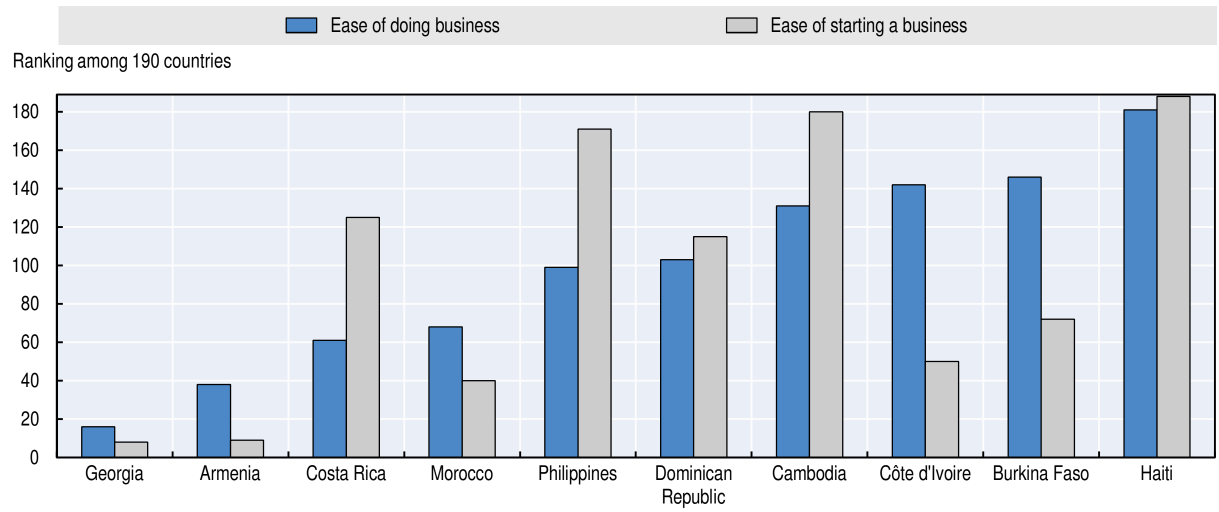
Another factor that may impede productive investments is an unfavourable investment climate. The World Bank *Doing Business Index* ranks countries by how favourable their regulatory environment is for the start-up and operation of local firms. A high ranking (i.e. a low numerical value) indicates a more favourable business environment (World Bank, 2016b). The IPPMD countries differ markedly in the 2017 index (Figure 6.3). Both Georgia and Armenia are within the top 40, while Cambodia and Haiti rank close to the bottom of the 189 countries ranked.

Figure 6.3. **IPPMD countries vary enormously in their ease of doing business**

Ease of doing business ranking by country



Note: A high rank (represented by a *low* numerical value) indicates a relatively more favourable business environment. Starting a business is one of the sub-topics in the overall ease of doing business index. The countries in the figure are ordered according to their overall ease of doing business ranking.

Source: World Bank Doing Business Index (2017 ranking), *www.doingbusiness.org/rankings*.

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Georgia and Armenia rank among the top ten countries globally when it comes to the ease of starting up a business: Georgia at number 8 and Armenia at number 9. Other partner countries have significant discrepancies between their overall ease of doing business rank and their ease of starting a business. While Costa Rica ranks 58 overall, it ranks 121 for the ease of starting up a business. In Côte d'Ivoire and Burkina Faso, it is the other way round: while there seem to be few barriers to starting a business, keeping it going is more challenging.

It is worth noting that the ease of doing business seems correlated with overall development. The four countries faced with most barriers to doing business – Burkina Faso, Cambodia, Côte d'Ivoire and Haiti – are the lowest on the Human Development Index, while Armenia, Georgia and Costa Rica are the most advanced economies in terms of human development (UNDP, 2015). It is also important to keep in mind that the *Doing Business Index* measures business regulations that apply mainly to businesses that are officially registered, while many small businesses in developing countries operate on an informal basis and may face other types of obstacles.

How does migration affect investments?

Migration can affect investments in various ways:

- migrants can accumulate savings and start and run businesses while abroad or on their return
- remittances can fund productive investments, for example in businesses and real estate
- return migrants can bring funds, entrepreneurial skills and valuable networks back to their country of origin.

The link between migration and productive investments has been widely discussed in the literature. However, the overall effect of migration and remittances on investments is not straightforward. Migration and remittances can offer a way to overcome credit market imperfections and enable households to invest in productive activities such as businesses or land and property (Adams and Cuecuecha, 2010a; Massey and Parrado, 1998; Woodruff and Zenteno, 2007; Yang, 2008). Several studies have shown that return migrants are more likely to start a business than individuals who have never migrated (McCormick and Wahba, 2001; Mesnard, 2004; Wahba and Zenou, 2012).

On the other hand, other studies found that the effect of remittances on productive investments is often limited. For example, households are more prone to spend their remittances on daily needs and consumption goods than to invest them for the future (Basok, 2000; Chami et al., 2003; Zarate-Hoyos, 2004), and remittance-receipt is sometimes associated with lower likelihood of business ownership (Amuedo-Dorantes and Pozo, 2006). This is particularly true in countries where remittances are received by some of the poorest households – those in more urgent need of satisfying their daily requirements for food and clothing (Adams and Cuecuecha, 2010b). Furthermore, the fact that emigrants and return migrants are often over-represented among the self-employed is not necessarily an active investment decision, but could reflect the fact that barriers to formal wage employment push them towards self-employment (Brixy et al., 2013). Migration could also have disruptive effects on investment if households need to sell their businesses or other valuable assets to finance the cost of migration.

However, it is important to keep in mind that remittances have potential multiplier effects (Durand et al., 1996). For example, remittances spent on consumption may, apart from being an important income source for the household, also contribute to development and growth by increasing the demand for goods and services and stimulating production and employment. Migration has been shown to reduce poverty even in households without migrants, due to an increase in economic activity driven by remittance flows and by remittances directed to households without migrants (Martinez and Yang, 2007).

The link between migration and investment was extensively discussed in the IPPMD stakeholder interviews. Remittance and return migrant investments in business activities, land and construction were identified as positive outcomes of migration for both migrant households and the local and national economy. However, stakeholders also identified some barriers to productive investment, including poor infrastructure and the security situation in Haiti and (return) migrants' lack of business skills in Georgia. Despite their favourable ranking when it comes to business regulations (Figure 6.3), stakeholders in both Georgia and Armenia mentioned that the investment climate should be improved in order to maximise investments stemming from remittances and return migration. Stakeholders in Armenia and Cambodia also pointed out that a better investment climate – one that facilitates business investments and job creation – could prevent people from emigrating in the first place.

Finally, diaspora investments were also mentioned frequently in the stakeholder interviews. Governments have in general become increasingly interested in how to engage their diasporas in the development processes and how to channel diaspora investments into entrepreneurship, innovation and priority sectors of the economy (Agunias and Newland, 2012). Such effects are however hard to capture using surveys administrated in migrant-sending countries and are therefore not analysed in this chapter.

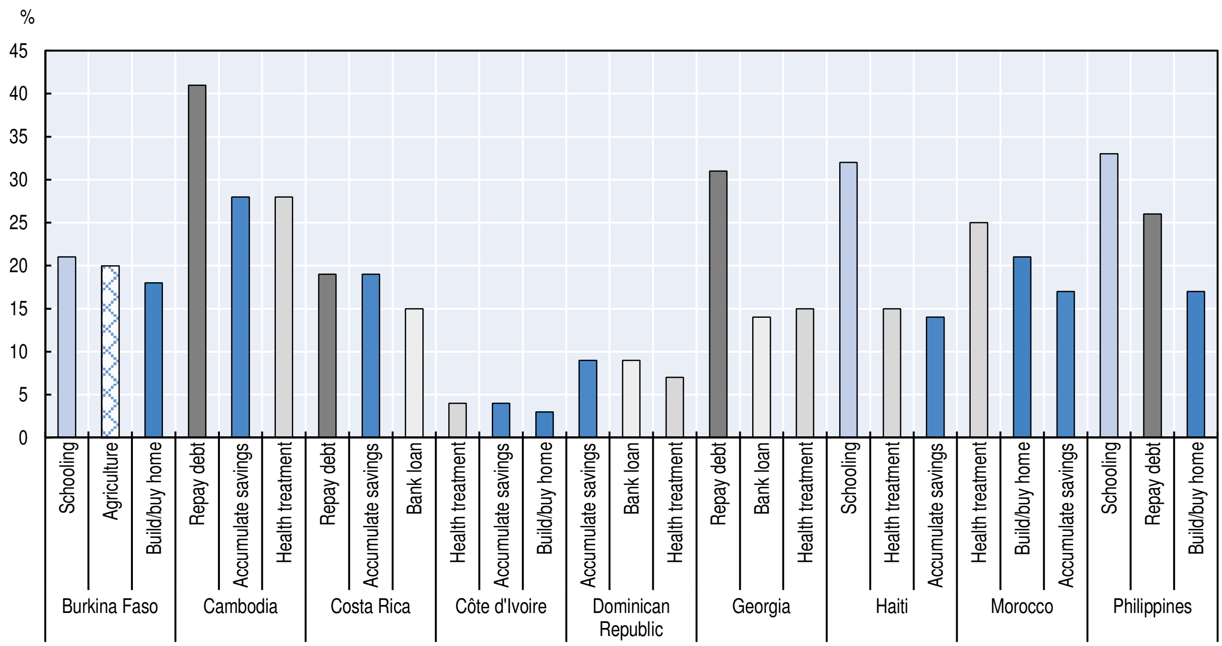
Remittances are often used to repay debt, secure a loan and finance healthcare

Understanding the motives underlying the sending and use of remittances is important when analysing and developing policies related to the linkages between migration and productive investments. The IPPMD questionnaire explored this by asking remittance-receiving households about the long-term and short-term activities carried out following the emigration of a household member.[2]

Three activities were common to most countries: taking out a bank loan, paying for a member's health treatment and repaying a loan or debt (Figure 6.4). Paying for the schooling of a household member and accumulating savings were other common activities. The fact that many households repay debts after a household member emigrates may not be surprising if households took out a loan to finance emigration costs. Accumulation of debts with very high interest rates was mentioned as a push factor for emigration by a stakeholder during the expert interviews in Cambodia.

Figure 6.4. **Many households choose to repay debts after a member has emigrated**

Top three activities undertaken by households since emigrant left the household



Note: The figure displays the top three most common activities reported by households for each country. The sample only includes households that received remittances from a former member. Households could specify up to three different activities undertaken after a migrant left the household from the following list: taking a loan from a bank, paying for health treatment or schooling of a household member, accumulating savings, repaying a debt/loan, building or buying a home, investing in agricultural activities, taking out a loan from informal sources, accumulating debt, setting up a business, building a dwelling to sell to others, buying land, and restoring or improving housing. The households were also free to specify other alternatives, not included in the list.

Source: Authors' own work based on IPPMD data.

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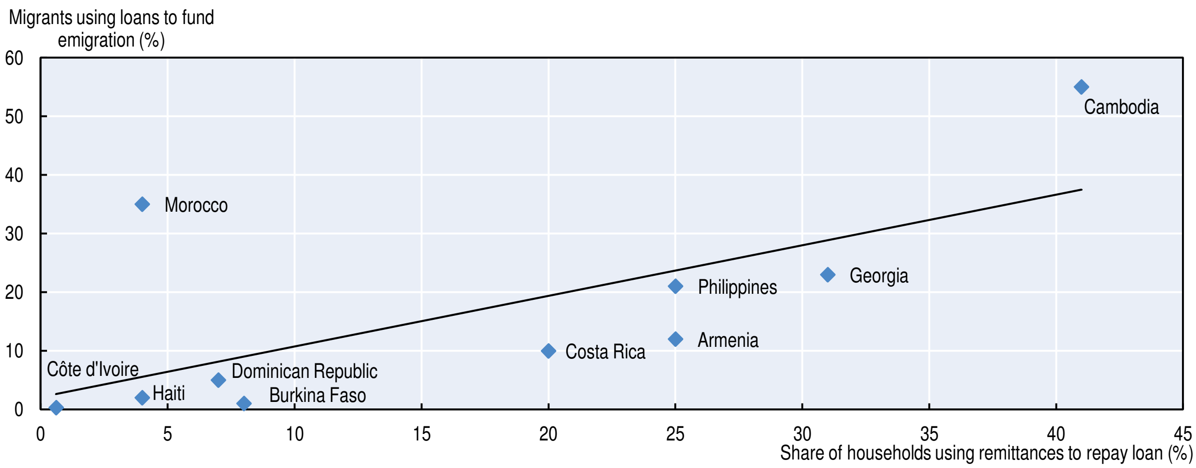
Indeed, investigating how migrants in the sample financed their migration reveals that the use of loans is highest in countries with the highest share of households using remittances to repay debts (Cambodia, Georgia and the Philippines). Some 55% of Cambodian, 23% of Georgian and 21% of Filipino emigrants stated that loans were the main means of funding their migration. In Burkina Faso, Côte d'Ivoire, the Dominican Republic and Haiti – where few households used remittances to repay loans – the share of households using loans to finance emigration was much lower, at 1%, 0.3%, 5% and 2% respectively (Figure 6.5).

Figure 6.5. **Remittance use for debt repayment is linked to emigration funded by loans**

Share of households using remittances to repay loan (%) and share of emigrants funding emigration by loans (%)



Source: Authors' own work based on IPPMD data.

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Using remittances for savings was among the top activities in Costa Rica and the Dominican Republic – the two countries with the highest rate of access to bank accounts – although it was also top in Cambodia and Haiti where the share of individuals with a bank account is considerably lower (Figure 6.1).

The rate at which households take out a bank loan following the emigration of a household member may suggest that remittances augment household collateral. Remittance income may be factored in when financial institutions and providers evaluate the creditworthiness of applicants for microloans, consumer loans and small business loans. International remittances also serve as an external income source that can help smooth the income of poor households that face income volatility and negative income shocks; this would make remittance-receiving households more attractive to lenders (Ratha et al., 2011).

Few households in the IPPMD sample stated that they used the remittances to start a business (around 6% of the households in the Philippines and 4% or less in the other countries). This is not enough to conclude that remittances are not used for investments in business start-ups or investments, however. Using remittances for daily consumption may free up resources in the household budget for investment, such as starting a business or investing in an existing one, thereby indirectly contributing to an increase in investments. The next section of this chapter investigates the link between migration and business entrepreneurship.

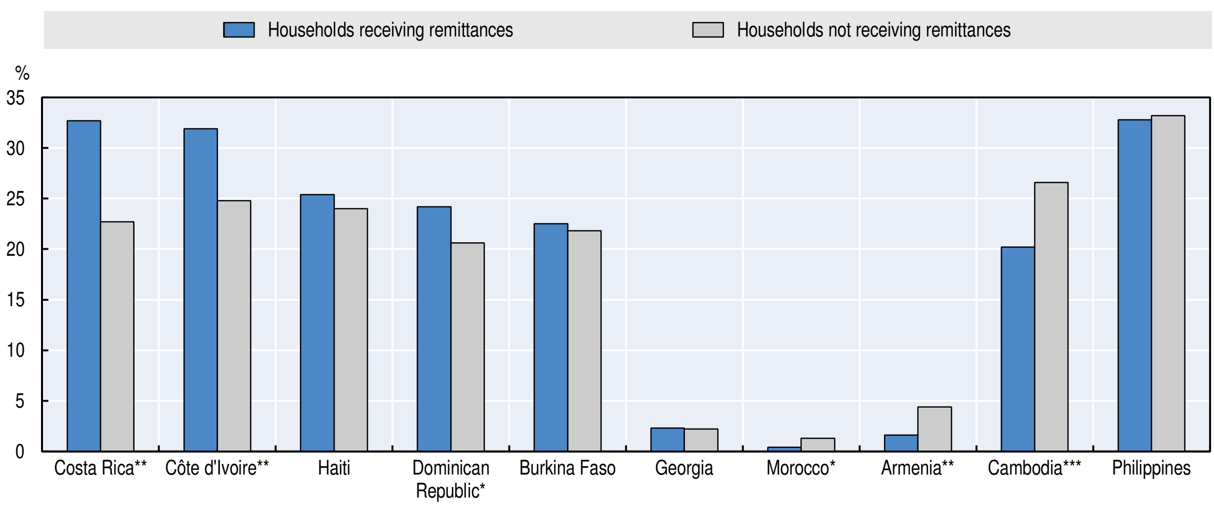
Remittances are mainly associated with business ownership in urban areas

As discussed above, the empirical evidence for the link between migration and business investments is mixed. The IPPMD data contain detailed information about households' business ownership in the non-agricultural sector. Overall, about one-quarter of the households across the ten countries own at least one business. Figure 6.6 compares business ownership between households receiving and not receiving remittances. Households receiving remittances are more likely to own a business than those without in Burkina Faso, Costa Rica, Côte d'Ivoire, the Dominican Republic, Georgia and Haiti, while the opposite is true for Armenia, Cambodia, Morocco and the Philippines. The difference is statistically significant in six countries (Armenia, Cambodia, Costa Rica, Côte d'Ivoire, Morocco and the Dominican Republic).

Business ownership is in general much lower in Armenia and Georgia than in the other countries, which is a bit surprising given that they have the most business-friendly regulations in the sample, as shown in Figure 6.3. One potential explanation is that households in these countries were less likely to include small informal businesses in the definition of a business, though the questionnaire was designed to capture business activities ranging from informal self-employment to larger enterprises.

Figure 6.6. **Households that receive remittances are often more likely to be business owners**

Share of households owning a business (%), by whether they receive remittances



Note: Statistical significance calculated using a chi-squared test is indicated as follows: ***: 99%, **: 95%, *: 90%.

Source: Authors' own work based on IPPMD data.

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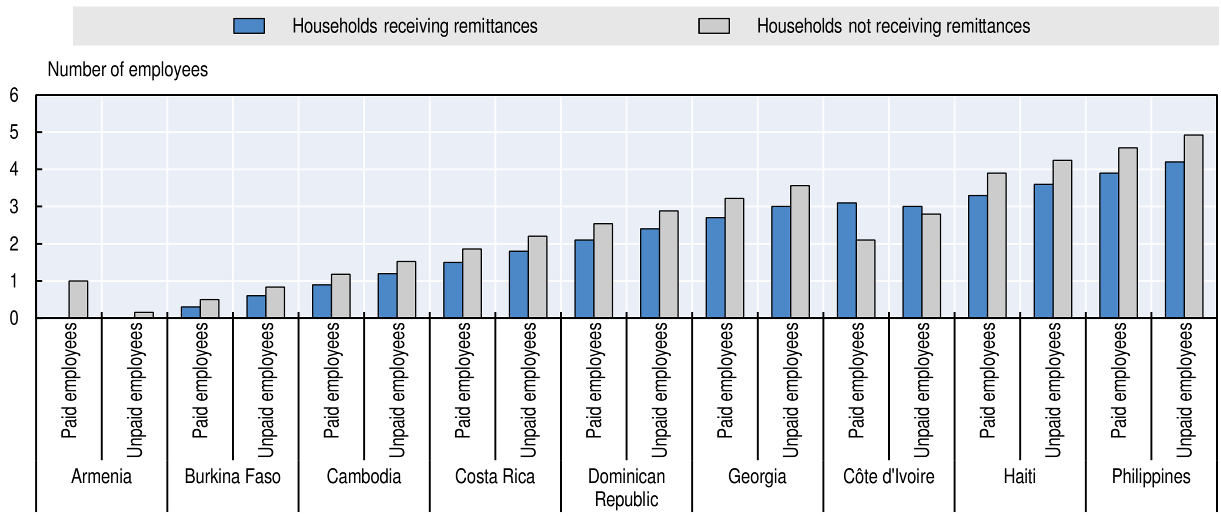
Business ownership can also generate employment opportunities within and beyond households with remittances. A majority of the businesses run by households in the sample are small, however, and do not have any paid employees. Less than one in five households with a business hire any paid employees in all countries except Georgia, where one out of three households with a business hires paid employees. In Cambodia and Haiti, very few household businesses employ anyone outside the household, at 6% and 7% respectively.

Among those households that do hire employees, households receiving remittances employ on average slightly fewer paid employees than households without remittances. This is true for both paid and unpaid employees, and for all countries except Côte d'Ivoire. This indicates that remittances play a limited role in job creation beyond households receiving remittances.

Figure 6.7. **Households not receiving remittances run slightly larger businesses**

Average number of paid and unpaid employees hired by households running businesses, by whether they receive remittances



Note: The figure displays the average number of employees (paid and unpaid) among households with businesses that have employees. None of the businesses run by remittance-receiving households in Armenia had any employees. Morocco is not included due to limited sample size.

Source: Authors' own work based on IPPMD data.

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Table 6.2 analyses the relationship between migration, remittances and business ownership using regression analysis controlling for individual and household characteristics.[3] The results show a mixed relationship between remittances and business ownership. There was a positive link between receiving remittances and running a business in Burkina Faso, Costa Rica and the Dominican Republic. However, the link was only significant in urban areas. Furthermore, in line with the descriptive statistics (Figure 6.6) the link between remittances and business ownership is negative in Cambodia (urban areas). Analysis also showed a positive link between the amount of remittances and business ownership in Burkina Faso and Haiti, and a negative link in the Philippines.

Overall, the results show a fairly weak association between migration and business ownership in most of the partner countries, especially in rural areas. This implies that households may not be receiving enough remittances to finance business investments. Productive investments normally require higher levels of remittances or accumulated savings than purchase of consumption goods. The descriptive statistics on the use of remittances also suggest that remittances are being used to pay for health care and debt repayments rather than productive investments (Figure 6.4).

The fact that the only positive links between remittances and business ownership are found in urban areas suggests that barriers to investments may be higher in rural areas. The negative relationship between receiving remittances and business ownership found in Cambodia, and to some extent in Armenia, is likely explained by the fact that the decision to migrate is influenced by poverty and lack of employment, as migrants in general come from a poorer part of the population (Chapter 8). Remittances may in this case become more of a last resort for households to cover short-term expenses rather than a means to finance long-term investments.

Table 6.2. **The links between remittances and business investments**

Dependent variable: Household owns a business
Main variables of interest: Household receiving remittances and amount of remittances
Type of model: Probit
Sample: All households and by geographical location

Variable of interest:	Receiving remittances			Amount of remittances
Sample:	All households	Urban areas	Rural areas	All households
Burkina Faso		⬆		⬆
Cambodia		⬇		
Costa Rica		⬆		
Côte d'Ivoire				
Dominican Republic		⬆		
Haiti				⬆
Philippines				⬇

Note: The arrows indicate a statistically significant positive (upwards arrow) or negative (downwards arrow) relation between the dependent variable and the main independent variable of interest. In some specifications, the sample size is very limited given the small sample of households running a business (Armenia, Georgia and Morocco) or limited sample of remittance-receiving households (Costa Rica). Morocco, Armenia and Georgia are therefore not included in the analysis.

Remittances seem to stimulate investments in real estate, but only in a few countries

Apart from business activities, migrant and remittance-receiving households may also decide to spend their remittances on other productive assets, such as investments in real estate (here defined as land and property). Real estate is often considered a relatively safe investment that requires less financial, human and social capital than investment in business activities. Investments in land and property can thus be a way for migrants and their households to save, and can also act as collateral for further borrowing and investments, especially if access to credit is hampered by imperfect credit markets. Investments in real estate can give households access to new sources of income such as rental income, and can potentially create multiplier effects in the local economy by boosting demand for construction (Chappell et al., 2010; Mezger and Beauchemin, 2010).

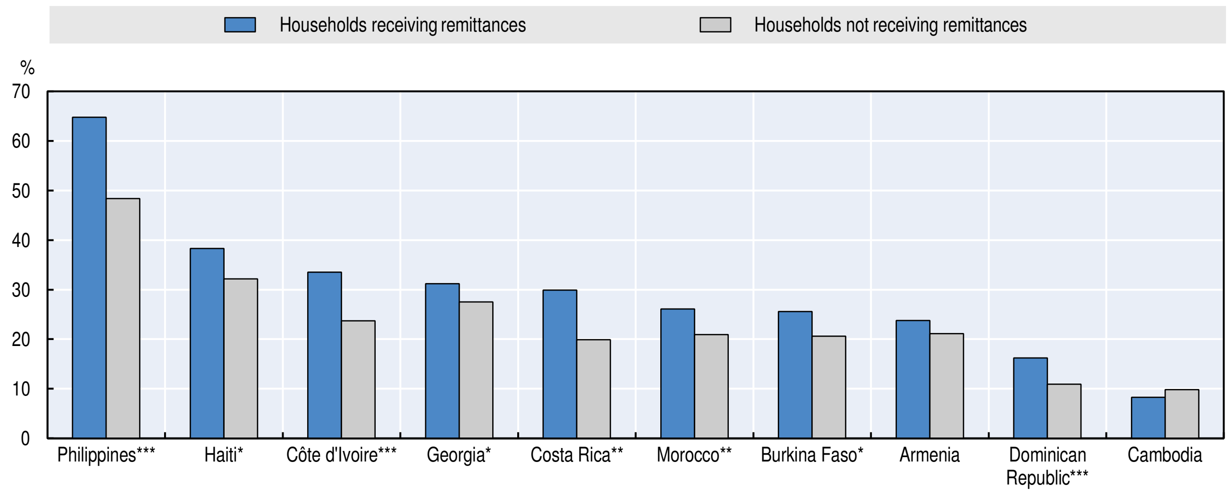
The IPPMD questionnaire asks about household land and property ownership (defined as non-agricultural land and property assets, such as houses and apartments other than the building in which the household lives).[4] Figure 6.8 compares ownership of non-agricultural land and/or property assets among households that receive and do not receive remittances.[5] In all countries but Cambodia remittance-receiving households are more likely to own real estate than those not receiving remittances. The difference is significant for all countries except Armenia and Cambodia.

Table 6.3 presents the results from regression analysis examining the link between remittances and real estate ownership.[6] The results show a statistically significant positive association between remittances and real estate in Armenia, Côte d'Ivoire, Georgia, Haiti, Morocco and the Philippines. In Armenia and Georgia, however, the effect is only significant for higher levels of remittances, indicating that receiving remittances is not enough on its own; the amount received is important.

All in all, the results show mixed and fairly weak associations between real-estate ownership and remittances. In contrast to the results for business ownership, there are no differences between rural and urban areas. The fact that significant results are only found in countries where real estate ownership is higher (Figure 6.8) indicates that some results may in part by driven by a fairly small sample size.

Figure 6.8. **Real estate ownership is in general higher among remittance-receiving households**

Share of households owning real estate (land and housing) (%), by whether they receive remittances



Note: Real estate includes non-agricultural land and property (housing and/or apartments) other than the house the household currently lives in. Statistical significance calculated using a chi-squared test is indicated as follows: ***: 99%, **: 95%, *: 90%.

Source: Authors' own work based on IPPMD data.

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Table 6.3. **The links between remittances and real estate ownership**

Dependent variable: Household owns real estate
Main variables of interest: Household receive remittances and amount of remittances
Type of model: Probit

Variable of interest:	Receiving remittances			Amount of remittances
Sample:	All households	Urban areas	Rural areas	All households
Armenia				↑
Burkina Faso				
Cambodia				
Costa Rica				
Côte d'Ivoire	↑	↑	↑	↑
Dominican Republic				
Georgia				↑
Haiti	↑ 1			
Morocco	↑	↑		
Philippines	↑	↑		↓ 2

Note: the arrows indicate a statistically significant positive or negative relation between the dependent variable and the main variable of interest. 1. The association is only statistically significant for emigration, not for remittances. 2. Emigration is positively and remittances are negatively associated with business ownerships. Separate analyses were carried out only for land ownership, but the results did not differ from the aggregated measure of land and property.

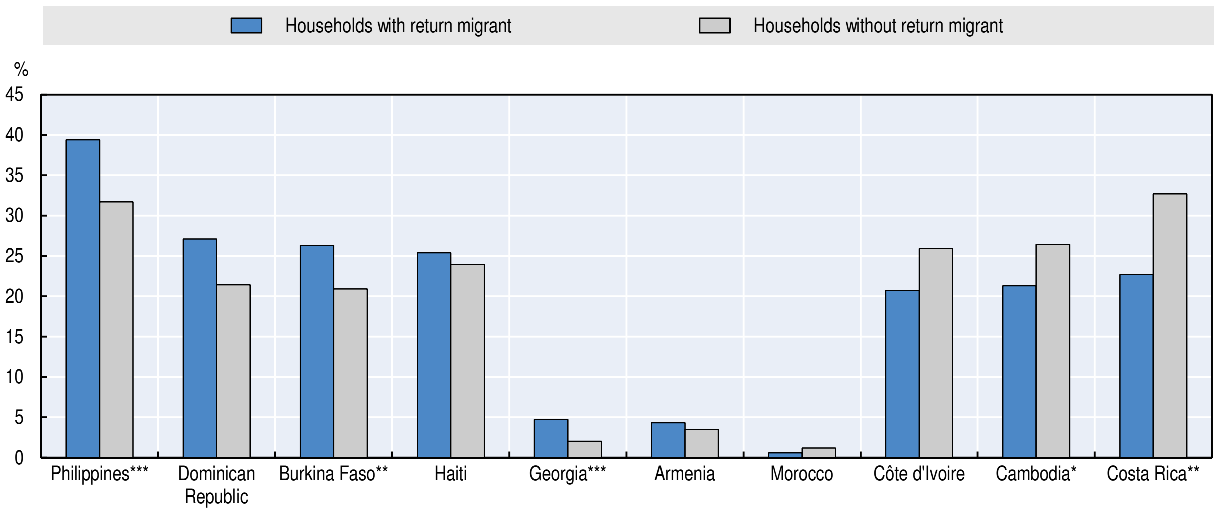
Return migrants have the potential to invest in their countries of origin

As discussed above, return migration may generate investments in business activities and real estate. Migrants may return with new knowledge and capital that can be used to finance business activities and invest in productive assets. On the other hand, migration may also undermine return migrants' labour market integration if their experience involved employment below their qualifications or weakened their social ties in their country of origin. Creating a business can sometimes then be the "last resort" for returning migrants who cannot find a job locally (Mezger and Flahaux, 2013).

IPPMD data include information about return migrants in the household as well as household business activities. However, the information about business activities is at household level, so it does not show if the business is run by the return migrants themselves or by other members of the household. The analysis therefore can only compare productive assets and business activities at household level. Figure 6.9 shows that return migrant households are more likely to operate a business in a majority of the countries except Cambodia, Costa Rica, Côte d'Ivoire and Morocco.

Figure 6.9. **Households with return migrants are in general more likely to run a business**

Share of households running a business (%), by whether they have a return migrant



Note: Statistical significance calculated using a chi-squared test is indicated as follows: ***: 99%, **: 95%, *: 90%.
Source: Authors' own work based on IPPMD data.

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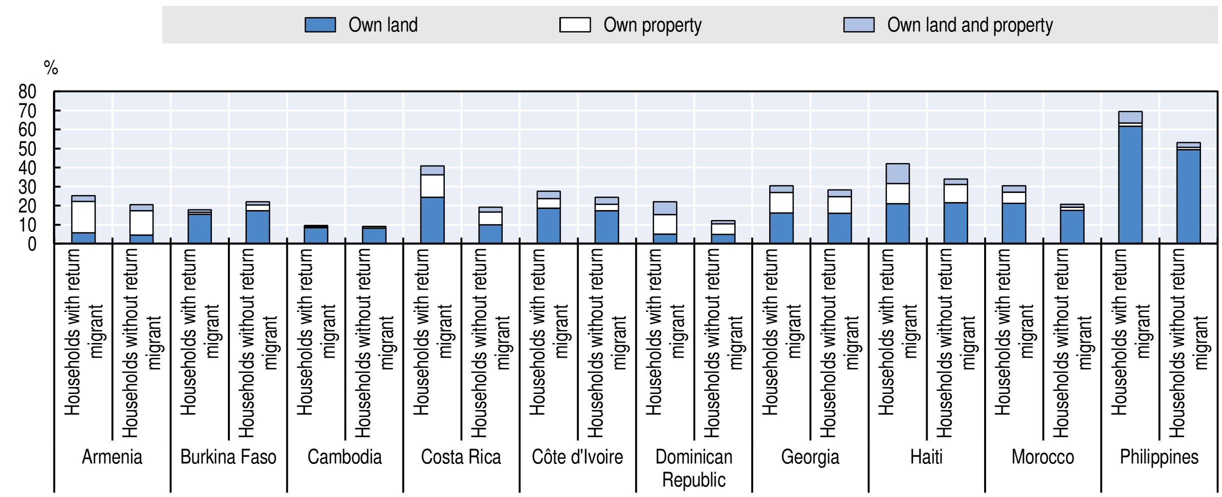
In most countries real estate ownership is more likely in households with return migrants than in those without. Land is a more common real estate asset than property in a majority of the countries, particularly in Burkina Faso, Cambodia and the Philippines. Property ownership is more common in Armenia and the Dominican Republic (Figure 6.10).

A probit regression analysis was run to explore the link between return migration and productive investments in business and real estate in urban and rural areas, controlling for additional individual and household characteristics (Table 6.4).[7] The results reveal both positive and negative linkages. Return migration is associated with higher asset ownership (of both businesses and real estate) in urban areas of Costa Rica; in the Philippines return migrant households had higher business ownership rates in rural areas, but were more likely to own real estate in urban areas.

In Burkina Faso, the association between real-estate ownership and emigration is negative in rural areas, but not in urban areas. One explanation may be that households use real-estate assets to finance emigration, selling them off to finance the migration of a member. Another explanation may lie in the profile of return migrant households. Migrants from the poorer part of the population who move to neighbouring countries to work in unskilled occupations may not be able to accumulate enough savings to invest in businesses or real estate on their return.

Figure 6.10. **Households with return migrants are slightly more likely to own real estate**

Share of households owning real estate property (%), by whether they have a return migrant



Note: Real estate includes non-agricultural land and buildings other than the household's own house.

Source: Authors' own work based on IPPMD data.

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The link between return migration and investments is weak in several of the partner countries. This may reflect emigration's potentially disruptive effect on labour market integration and access to financial services. For example, stakeholders in Costa Rica mentioned that return migrants face problems opening bank accounts on their return.

Table 6.4. **The links between return migration and productive investments**

Dependent variable: Business and real estate ownership
Main variables of interest: Household has a return migrant
Type of model: Probit
Sample: All households, by geographical location

Dependent variable:	Business ownership		Real-estate ownership	
Sample:	Urban	Rural	Urban	Rural
Armenia				
Burkina Faso				↓
Cambodia				
Costa Rica	↑		↑	
Côte d'Ivoire		↑		
Dominican Republic				↑
Georgia[1]	↑	↑		
Haiti				
Morocco	n/a	n/a		↑
Philippines		↑	↑	

Note: the arrows indicate a statistically significant positive or negative relation between the dependent variable and the main variable of interest. There was no difference in results when land only was analysed separately.

1. There is a statistically significant association between business ownership and return migration when the overall sample is analysed (rural and urban), no analysis could however be performed for urban and rural areas separately due to a limited sample size of households owning a business.

How do investment and financial service policies affect migration?

Policy makers have paid substantial attention to the relationship between migration and investment in recent decades. Countries with significant migration and remittance flows have implemented policies to harness the potential of remittances to finance development. These include migrant entrepreneurial training, policies linking migrants to financial institutions to obtain loans for business start-ups, promoting village savings groups with a focus on remittances, developing new technologies to address the costs and ease of sending remittances, and issuing diaspora bonds to stimulate investment in development projects (see for example Ratha, 2013; IFAD, 2015).

However, most of the attention has focused on policies that explicitly target migrants, their households and diaspora communities. Public policies to improve the wider investment and financial service sector have received less attention. Given the large inflows of remittances to low and middle-income countries and the potential multiplier effects that remittances can have at local, regional and national level, policies not directly targeting migration can also be an important tool to enhance the positive linkages between migration and investments. The rest of this chapter focuses on policies on financial inclusion, financial training and their impact on remittance patterns.

The IPPMD household survey includes modules on business ownership, and financial services and businesses. All households were asked questions about financial services, while households with at least one business were also asked about business operation, investment policies and obstacles to running a business (Box 6.1).

Meeting bank requirements is a barrier to access to bank accounts in many countries

Realising the full multiplier effect of remittances requires households, both with and without remittances, to have access to formal financial institutions. Figure 6.1 showed a positive correlation between access to bank accounts and formal savings. Access to the formal financial system encourages migrants to send remittances though formal channels and can strengthen the impact of remittances on development by encouraging more savings and better matching of savings with investment opportunities (UNDP, 2011). Remittances sent through formal channels are not only more secure for the sender and the receiver, they can also contribute to the development of the financial sector and create multiplier effects by making resources available to finance economic activities, which in turn can encourage more productive investments.

Figure 6.12 gives an overview of the use of bank accounts among households in partner countries, by remittance status. Households receiving remittances are more likely to have access to bank accounts in a majority of the partner countries, with a substantial (and statistically significant) difference in Cambodia, Costa Rica, Côte d'Ivoire, the Dominican Republic, Haiti, Morocco and the Philippines. In Burkina Faso and Georgia there is virtually no difference in access. Armenia is the only country where remittance-receiving households are less likely to have access to a bank account.

The overall rate of holding bank accounts among households also differs substantially across countries. Less than 10% of households in the Cambodian sample have a bank account, compared to around 80% of households in Costa Rica and Georgia.[8]

Box 6.1. **Investment and financial service policies covered in the IPPMD survey**

The IPPMD household questionnaire includes a number of questions on business investment policies, business obstacles and access to the formal financial sector (Figure 6.11). Business policy questions included questions related to tax subsidies and other subsidies from which the household business has benefited. However, these questions were only asked to households with businesses with at least four employees. The sample size is therefore limited.

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

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

Figure 6.11. **Investment and financial service policies explored in the IPPMD surveys**

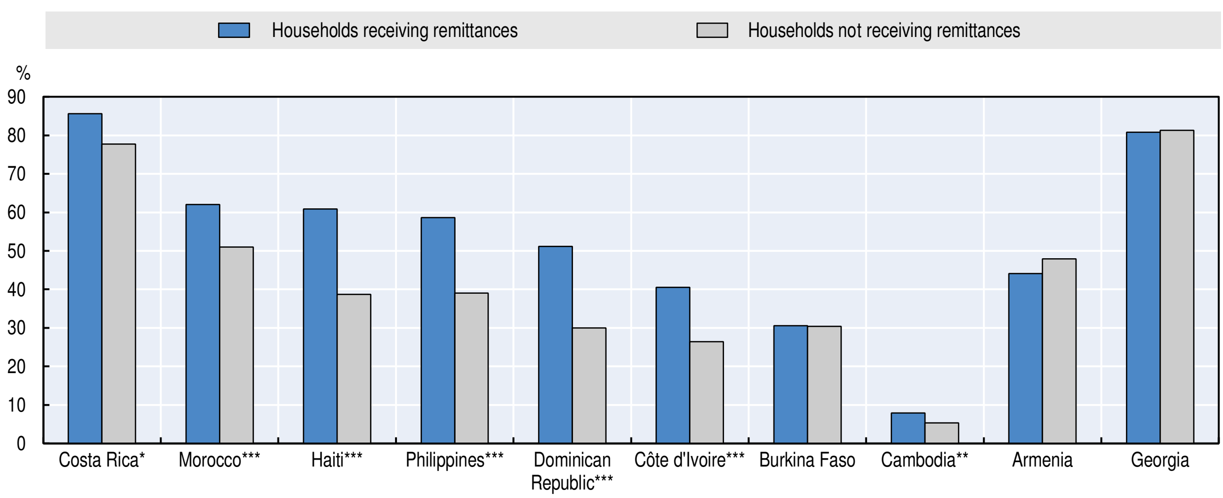
Policies related to businesses	Policies related to financial services	Programmes incuded in the community survey
• Economic zone • Tax subsidies • Other type of government subsidies	• Financial training programme • Access to bank accounts	• Banking and financial tools/financial literacy training • Business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

The link between access to bank accounts and remittances could work in two directions. Having a bank account makes it easier to receive remittances and so may increase the chances of receiving them. On the other hand, receiving remittances may create a need among households for a formal account to deposit the money. In the latter case, it is the remittances that lead to better access to financial institutions rather than the other way round. Studies have shown that an inflow of remittances can stimulate financial development (Gupta et al., 2009). Comparing the information about the time of emigration and when the household opened its first bank account shows that households generally opened a bank account before the member left the household.

Financial exclusion can be driven by barriers on both the supply and the demand side. On the supply side, high costs and strict requirements can prevent poorer households from accessing financial services. Demand-side barriers include language barriers, low levels of financial literacy and a lack of trust in financial institutions (Atkinson and Messy, 2015). The IPPMD survey asked households about their reasons for not having a bank account. Figure 6.13 shows the main reasons for not having a bank account in selected countries where access to bank accounts is relatively low. The responses can be divided into two main groups: (1) the household does not need a bank account or (2) it cannot access one – either because it is too expensive or because the household cannot meet the bank's requirements. For around 15% of the households without a bank account in the Dominican Republic and the Philippines it is because a bank account is too expensive. Hence, addressing supply side barriers of high costs and strict requirements could improve unbanked households' access to the financial sector. Developing financial products to meet the needs of households and providing information about available products and services could also lead to an expansion in financial exclusion. The inability to access an account is more common among households not receiving remittances, which might suggest that remittances are a means for households to access the financial sector.

Figure 6.12. **Households receiving remittances are substantially more likely to have bank accounts in a majority of the partner countries**

Share of households having a bank account (%), by whether they receive remittances



Note: Statistical significance calculated using a chi-squared test is indicated as follows: ***: 99%, **: 95%, *: 90%. Remittances include all remittances, from former members and migrants that never been part of the household.

Source: Authors' own work based on IPPMD data.

StatLink http://dx.doi.org/10.1787/888933418086

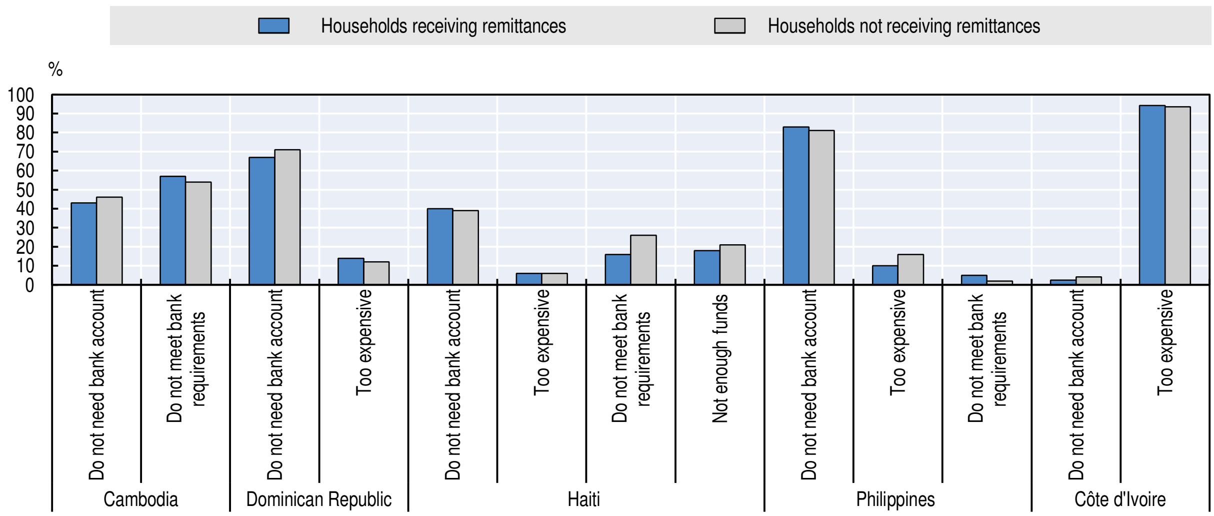
Access to the formal financial sector translates into more formal remittances

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

Figure 6.14 compares the total amount of remittances received for households with and without bank accounts. Households with bank accounts receive on average more remittances, the only exception being Georgia (in the Dominican Republic there is essentially no difference). The difference in average remittances received between banked and unbanked households is quite striking in Cambodia and the Philippines. Households with a bank account in Cambodia receive on average almost twice the amount of remittances compared to households without bank accounts (USD 3 800 vs. USD 1 800). In the Philippines, the difference is USD 4600 for households with a bank account compared to USD 2 600 for households without bank accounts.

Figure 6.13. **Meeting bank requirements is a barrier to access in many countries**

Main reasons for not opening a bank account, by whether the households receive remittances



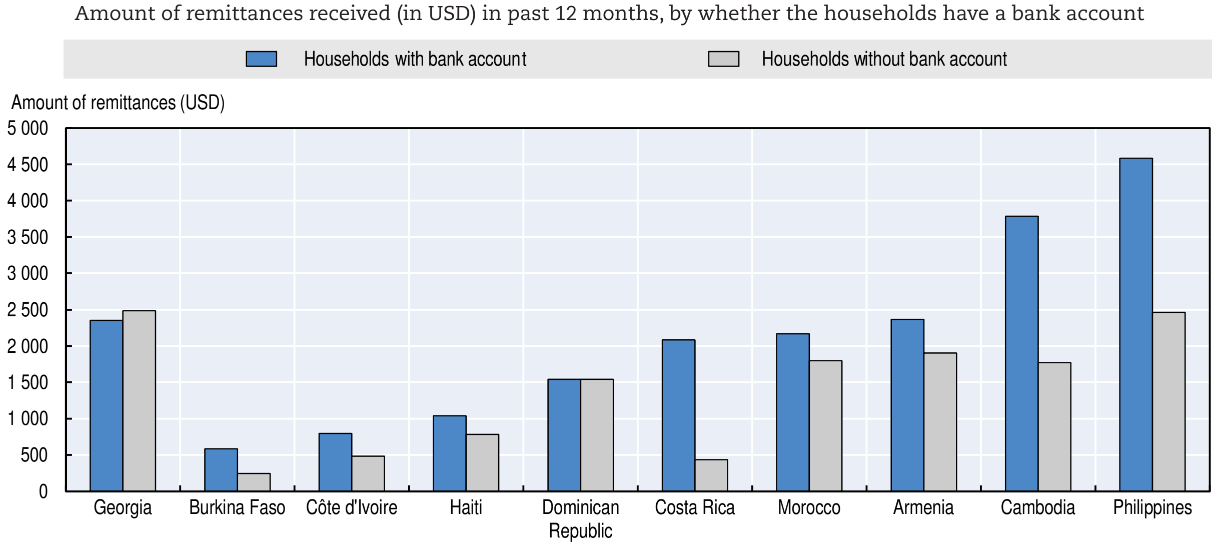
Note: The figure displays the most common reasons for not having a bank account in selected countries where access to bank accounts is relatively low. All reasons stated by at least 4% of the sample are displayed.

Source: Authors' own work based on IPPMD data.

StatLink http://dx.doi.org/10.1787/888933418096

Figure 6.14. **Remittance-receiving households with bank accounts receive more remittances on average**

Amount of remittances received (in USD) in past 12 months, by whether the households have a bank account



Note: Remittances are defined as the average amount of money (in USD) received from anyone living abroad by the households in the 12 months prior to the survey. The sample only includes households that receive remittances.

Source: Authors' own work based on IPPMD data.

StatLink http://dx.doi.org/10.1787/888933445254

Table 6.5 presents the results of a regression analysis on the link between access to bank accounts and the level and formality of remittances.[9] The results suggest that in most of the sampled countries having access to a bank account is positively and significantly associated with households receiving higher amounts of remittances, and lowers the likelihood of receiving remittances through informal channels. Access to a bank account is associated with higher amounts of remittances in Cambodia, Costa Rica, Côte d'Ivoire and Haiti, although the difference is only statistically significant in rural areas for Côte d'Ivoire and Haiti. Remittances are less likely to be sent through informal channels if the receiving households have a bank account in all countries except Armenia and Georgia. In Georgia, most households already have access to a bank account, which might be driving the results.

Table 6.5. **The links between bank accounts and remittance-sending behaviour**

Dependent variable: Household has access to a bank account
Main variables of interest: Amount of remittances and household receives informal remittances
Type of model: Ordinary Least Square (OLS) and probit
Sample: Households receiving remittances

Variable of interest:	Informal remittances	Amount of remittances
Armenia		
Burkina Faso	↓ [1]	
Cambodia	↓	↑
Costa Rica	*n/a*	↑
Côte d'Ivoire	*n/a*	↑ [2]
Dominican Republic	*n/a*	
Georgia		
Haiti	↓	↑ [2]
Morocco		
Philippines	↓	

Note: the arrows indicate a statistically significant positive or negative relation between the dependent variable and the main variable of interest. Very few households receive remittances through informal channels in Côte d'Ivoire, Costa Rica and the Dominican Republic (12, 2 and 8 households respectively).
1. Only statistically significant in urban areas. 2. Only statistically significant in rural areas.

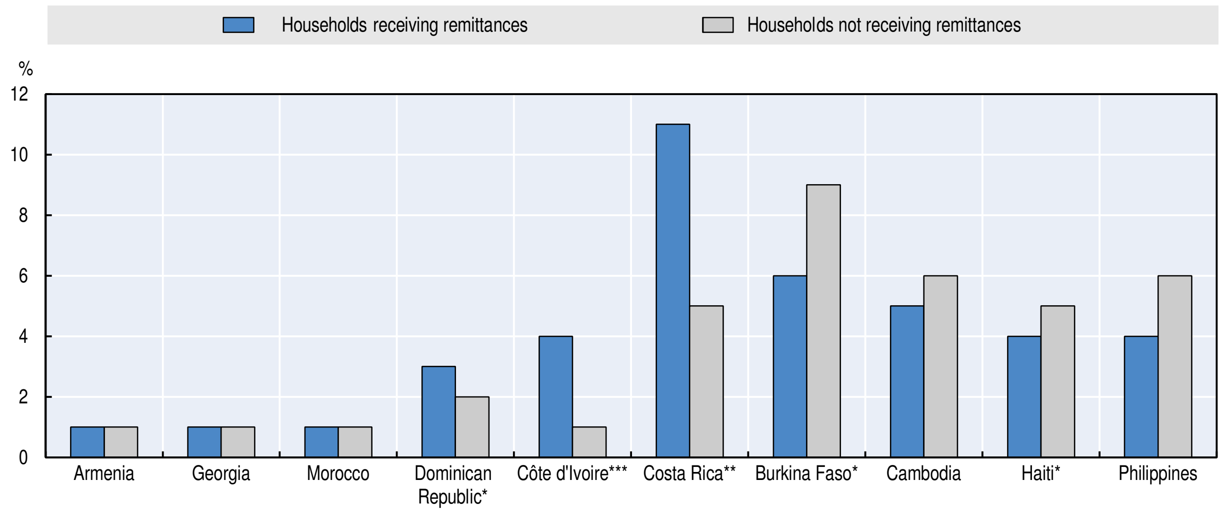
Few households have benefited from financial training programmes

If remittances are to be used productively, households need to be aware of the investment products available, and any saving and investment opportunities. This applies to both households receiving remittances and households in communities where remittances inflows are high and thereby subject to multiplier effects. Starting up and operating businesses also require business management skills. Financial training programmes help to build financial literacy, which can encourage investment in productive assets. To date there are few empirical studies evaluating the impact of financial education programmes on migrants and their households; nevertheless there is some evidence that training increases financial knowledge and in some cases also encourages saving of remittances by household members in the country of origin (Doi et al., 2012; Atkinson and Messy, 2015).

Based on the number of households in the IPPMD sample benefiting from financial training programmes in the previous five years, the coverage of such programmes is relatively low in most partner countries (Figure 6.15). The overall participation rate is around 5%, with Burkina Faso the highest at around 10%. Less than 1% of households in Georgia and Armenia have benefited from a financial training programme. Remittance households are more likely to have attended a financial training than households not receiving remittances in a majority of the countries, but the difference is often marginal.

Figure 6.15. **Few households participated in financial training programmes**

Share of households taking part in a financial training programme in the past five years (%), by whether they receive remittances



Note: Statistical significance calculated using a chi-squared test is indicated as follows: ***: 99%, **: 95%, *: 90%.

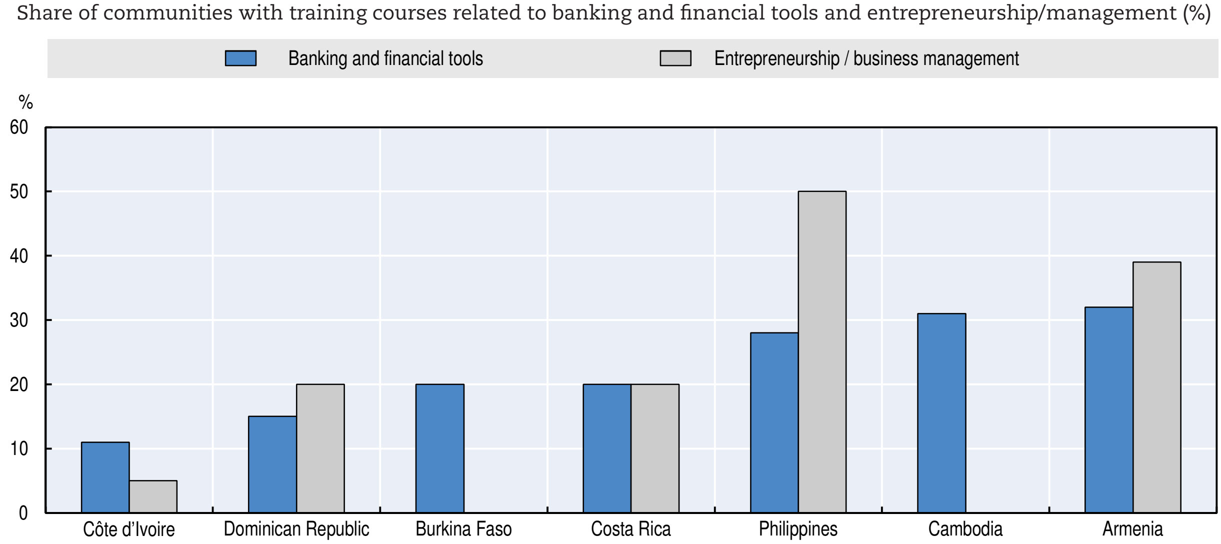
Source: Authors' own work based on IPPMD data.

StatLink http://dx.doi.org/10.1787/888933418108

The community survey also found that the share of communities in the sample covered by government financial and business education programmes varies across countries (Figure 6.16). Few communities have access to training in banking and financial tools (i.e. savings and loans) or entrepreneurship. All countries for which data is available, except Georgia, had courses related to financial services while in Burkina Faso or Cambodia no communities had any training programmes related to entrepreneurship.

Figure 6.16. **Courses on entrepreneurship and business management are available in less than half of the communities in the sample**

Share of communities with training courses related to banking and financial tools and entrepreneurship/management (%)



Note: Georgia is not included in the figure as no communities sampled offered any courses, and no communities offered entrepreneurship/ business management courses in Burkina Faso and Cambodia. No data is available for Haiti and Morocco.

Source: Authors' own work based on IPPMD data.

StatLink http://dx.doi.org/10.1787/888933418115

Policy recommendations

Migration and remittances generate income for millions of households in low and middle-income countries, which can help households overcome financial constraints and become a source of developing funding. The results from the ten IPPMD countries confirm previous findings that savings accumulated by return migrants and from remittances can spur investment and entrepreneurship, but that the link is not automatic. Households receiving remittances and having a return migrant are generally more likely to own businesses or real estate than those without, particularly in urban areas. However, the link between migration and investments is not clear cut, and the results suggest that the impact of migration and remittances on investments has not yet been fully realised. A poor investment climate may negatively affect households' abilities to use remittances and accumulate savings. Facilitating business creation and operation of small-scale businesses is particularly important as remittance households tend to run businesses with no or few employees. Offering small business loans and business management training could help strengthen remittance investments in business activities.

In addition, migration is often financed by debt, and remittances are more likely to be used to repay debt, secure loans or pay for healthcare than invest in business directly. The costs of emigration could also contribute to the absence or delay of productive investments following emigration. In the absence of functional credit markets, households may have to pay high interest rates. The amount of time and resources it takes the household to repay debts may then undermine their ability to invest. It is therefore important to provide information about safe and secure migration channels to enable emigrants to make well informed decisions.

The sending and use of remittances and investment decisions by return migrants depends on contextual factors such as a favourable investment climate and inclusive financial systems that stimulate saving and investments. The countries vary widely from access to bank accounts and the availability of financial literacy training, to the ease of starting and doing business. Participation in financial training programmes is very low among both migrant and non-migrant households in the sample, which might be a missed opportunity to channel remittances into more productive investments. Financial service institutions and level of financial inclusion, such as the share of the population who have a bank account, are also fairly poor in several countries, especially in rural areas. Yet, financial inclusion is shown to be positively linked to greater amounts of remittances and less reliance on informal channels. In addition, expanding financial inclusion could also stimulate more competition among service providers, which in turn would contribute to lowering the costs of transferring money. Sectoral policies could hence help create a more enabling environment by for example introducing measures to expand financial inclusion and provide financial literacy training for migration and remittance funds to be used more efficiently.

Table 6.6. **Strengthening the links between migration, investment, financial services and development**

	Policy recommendations
Remittances	● Support the start-up and operation of small-scale businesses through providing small business loans and business managements training to encourage remittance investments. ● Expand financial service provision, especially in rural areas, by increasing competition among service providers and adapting the regulatory framework. ● Increase financial literacy among households in communities with high emigration rates.
Return migration	● Provide information about local investment opportunities to return migrants through tailored investment networks and websites.

Notes

1. It is worth noting that World Bank data on formal savings concern only savings accumulated in the 12 months prior to the survey date.
2. A pre-specified list of activities was provided in the questionnaire, but households could also state activities beyond those included in the questionnaire.
3. The control variables included in the regression were the following: household size and household size squared, dependency ratio (share of children and elderly to working age population in the household), mean education level of adults in the household, urban/rural location, household headed by male or female, number of children in the household, region in which the household is located, and household wealth (measured by an asset index).
4. The questionnaire included a question recording the number of certain assets, such as land and property assets, which the household owns, but no details on when these assets were acquired. It is hence not possible to distinguish between assets acquired before and after a migrant left the household and/or started receiving remittances, which limits the analyses.
5. Receiving remittances is analysed here regardless of whether the household has a migrant or not. Not all remittance-receiving households are migrant households, and not all migrant households receive remittances. Whether the household has a migrant or not is however included as a control variable in the regression models.
6. The control variables included in the regression are the same as in the specification in Table 6.2; see endnote 3.
7. The control variables included in the regression are the same as in the specification in Table 6.2; see endnote 3.
8. The rate of access to bank accounts differs slightly from the data shown in Figure 6.1. This is probably because Figure 6.1 displays individual access to bank accounts while Figure 6.12 represents household access. Sampling may also have affected the levels in Figure 6.12. In most countries the sample is not nationally representative, and the areas included may be over/under represented when it comes to access to bank accounts.
9. See endnote 3.

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