

REMITTANCES AND DEVELOPMENT: CHALLENGES AND OPTIONS FOR ROMANIA

Son Liana

*University of the West of Timișoara Faculty of Economics and Business Administration
Timișoara, 16 Pestalozzi Street liana.son@feaa.uvt.ro, tel. 0722399300*

Carica Grațîela Georgiana

*University of the West of Timișoara, Faculty of Economics and Business Administration
Timișoara, 16 Pestalozzi Street gratiela_carica@yahoo.com, tel. 0744764002*

This paper aims to focus on the importance of remittances and their use for development in the origin countries of the migrants. The analyse of some indicators for Romania highlights some opportunities and tools to increase their role in reducing poverty, to improve the access to capital markets, to encourage diaspora involvement in project of economic development (reducing the transfer cost, better access on financial services etc.).

Keywords: migrant remittances, economic development, poverty

Cod JEL: F24; F34; G18

1. An overview upon the remittances trend in Romania

Global crisis affects the entire world: the economy is slowdowning, the international markets are strongly influenced by the conjunctural factors, conducting to a global system who difficultly can be governed and stabilized, with negative implications for all states, companies and persons. In the context of these complex issues, to manage the resources and their repartition for specialization in dynamic industries and development becomes a big challenge. One of the potential sources is the remittances of emigrants. Remittances are the most tangible and the least controversial link between migration and development.

1.1 Money transfer flows from emigrants – more stable and contracycli

Remittances (fund) transfers increased since 2000, with annual rates of over 15% until 2006, becoming stable and considerable financial resources. The world official remittances reached \$397 billion, in 2008, increasing with 7% compared to 2007 (eventhough in 2007 the increase compared to 2006 was more then 11%) and with over 113% compared to 2002 (\$170 billion). According to the available data from World Bank for 2008, developing countries are the main receiver tank, with inflows of \$305 billion, growing with 8.5% compared to 2007; in Europe and Central Asia, the amount of the inflows of remittances was \$53 billion. As the financial crisis is emphasizing, it is considered that in 2009, the remittances of emigrants could decrease with 5-8%, from \$305 billion in 2008, in contrast to the growth of over 10% in previous years.²⁹⁴ Despite the announced decrease, remittances will remain high, given that these flows are more resilient than private capital flows and public aid dor development. The "resilience" is explained by the fact that many migrants, even when faced with a hostile environment (increased unemployment), do not choose to return to their home countries and continue to send money to their families in difficulty. However, the crisis has affected all countries, creating additional uncertainties.

294 Ratha Dilip, Mohapatra Sanket "Revised Outlook for Remittances Flows 2009-2011: Remittances expected to fall by 5-8 percent in 2009", Migration and Development Brief, World Bank, March 23, 2009.

Table 1 Remittances flow to developing countries, 2002-2008

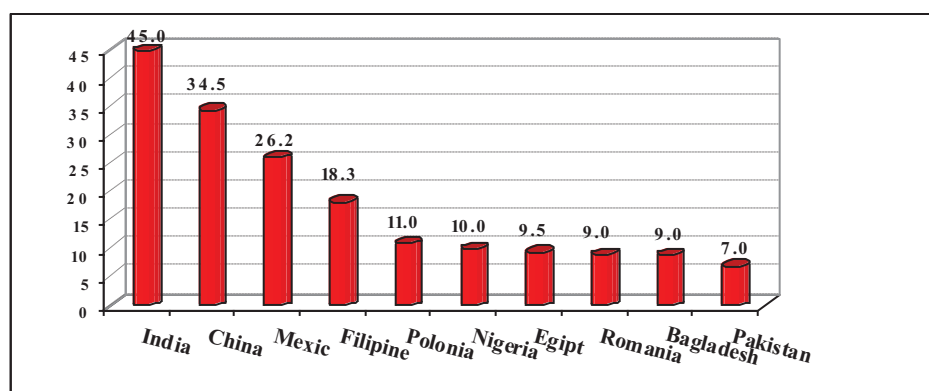
		2002	2003	2004	2005	2006	2007	2008e	2009	2010	2011
World	US\$ billion	170	207	235	268	307	371	397			
	Increase, %		21.7	13.5	14.0	14.5	20.8	7.0			
Developing countries	US\$ billion	116	144	164	195	229	281	305	290	299	317
	Increase, %	21	25	14	18	17	23	9	-5.0	2.9	6.3
Europe + Centr. Asia	US\$ billion	14	16	22	31	38	50	53	48	50	53
	Increase, %	11	13	43	41	23	31	5	-10.1	4.2	7.5

e = date estimate

Source: Ratha Dilip, Mohapatra Sanket, Revised Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 5 to 8 percent in 2009, Migration and Development Brief, World Bank, March 23, 2009

Data on migrants' references shape very different situations between countries: large countries receive important amounts, but the share of remittances in GDP increases, when developing countries are considered. Romanians living abroad have sent home the equivalent of \$9 billion (about €7 billion) in 2008, level that places Romania on the eighth rank in the world top.

Figure 1 Top recipient of migrant remittances among developing countries, billion USD, 2008



Source: World Bank (2008). *Migration and Remittances in the World Factbook*, Washington D.C

Total remittances have two standard components: *personal transfers* (including capital transfers towards household and social benefits) and *employee's compensations*. The *Balance of Payments Manual* (6th edition, BPM6) "personal transfers" are replace the item „employee's remittances" from BPM5, these being included as an additional item in BPM6. According to BPM6, workers' remittances are "current transfers made by employees to residents of another economy" and "personal transfers are defined independetly of the source of income of the sending household, the relationship between the households, and the purpose for wich the transfer is made".²⁹⁵

295 IMF, International Transactions in Remittances: Guide for Compilers and Users, Final Draft, Statistics Department, December 2008, www.imf.org.

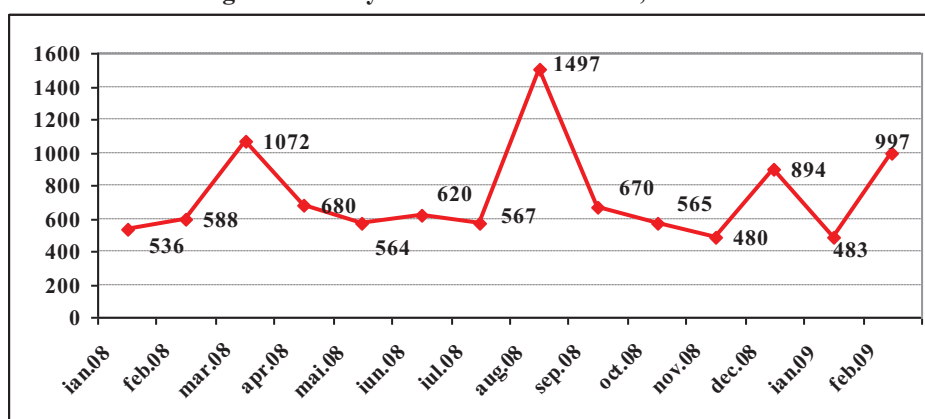
Table 2 Romania Workers' remittances, compensation of employees, and migrant transfers, (\$ million)

	1994	1995	1996	1997	1998	1999	2000	2001
Credit (entries)	11	9	18	16	49	96	96	116
Workers' remittances							2	4
Compensation of employees							94	112
<i>Debit</i>	5	2	2	1	6	8	6	5
								Remitt. % of GDP, 2007
	2002	2003	2004	2005	2006	2007	2008e	
Credit (entries)	143	124	132	4,733	6,718	8,533	9,000	5.6%
Workers' remittances	7	14	18	3,754	5,506			
Compensation of empl	136	110	113	954	1,157			
<i>Debit</i>	7	8	8	33	57	351		0.2%

Source: World Bank, Migration and Remittances Factbook 2008, Romania
Remittances Data, World Bank, march 2009, www.econ.worldbank.org

D. Rath states that "Unlike private capital flows, remittances tend to rise when the container economy suffers an economic downturn following a financial crisis, natural disaster, or political conflict".²⁹⁶ In Romania, the transfers of funds from abroad made by individuals (resident and non-resident) has been decreasing since mid - 2008, growth in December was due to specific period (holidays etc.). Also, in the first two months of this year remittances were about 32% higher compared to the same period last year, which in February 2009 were €997 million, an increase of almost 70% compared to February 2008. Even if the National Bank of Romania from the monthly Balance of Payments, in the Current Transfers chapter, also includes other income and the most of them are Romanian immigrants' remittances, whereas the remittances outflows from Romania are low, data on inflows are prelevant.

Figure 2 Money transfers from abroad, € million



Source: BNR, Balanța de Plăți, Comunicate lunare de presă, 2008-2009, www.bnr.ro

There are many reasons that contributed to a doubling of remittances to developing countries from 2002 to 2008: from better measurement and statistical records, to reducing shipping costs or increasing income and stocks of migrants, especially the number of from poorer countries. This is why developing countries are since 2000 the receivers of 70-75% of total transfers. Basically, in the last decade, remittances have represented the second largest source of external financing,

²⁹⁶ Ratha D., "Increasing the macroeconomic impact of remittances on development" G-8 Outreach Meeting on Remittances, Development Prospects Group, World Bank Nov 28-30, Berlin, 2007.

along with flows of foreign direct investment (FDI), becoming more important than official development assistance (official development assistance, ODA). Thus, after 2000, they have increased rates greater than 15% annually, proving even contracycle, growing in actual crisis, and more stable inflows of foreign currency than direct investment. Consequently, money transfers should be taken into account as real levers for development. The financial crisis of this decade has taken into consideration the problem of management financing source, domestic and international funds, in order to guide them towards development projects.

1.2 The cost of remittances

Reducing the cost of remittances transfer is a benefit for all retail payments. Frequently, the total cost of remittances transfer is not always definite to consumers, because it exist a number of component variables, such as transaction cost, the exchange rate applied and eventually changed margin and speed of transfer services.

Table 3 Inflows of remittances into Romania, by origin countries

	2005	2006	2007			2005	2006	2007
Total (million €)	3.033	4.358	4.987					
Italy	1.174	1.599	2.092		Ireland	48	73	81
Spain	656	1.019	1.299		Austria	29	38	94
US	294	545	176		Switzerland	27	56	29
Germania	216	137	226		Nederlands	25	36	50
United Kingdom	126	216	267		Israel	24	26	n.d.
France	78	102	Rman		Canada	23	47	n.d.
Greece	63	95	140		Belgium	23	41	72
Portugal	57	74	74		Others	170	253	268

Source: V. Lazea, Impact of Remittances on Romania's Balance of Payments, N.B.R., 2008

The most important corridors for which there are comparative data on the cost of remittances to Romania are Germany, Spain, Italy and United Kingdom. Since data on the cost of money transfers from these countries in Romania is provided by the World Bank²⁹⁷.

a) *Costs of transfer* are the most visible component and can vary significantly among market players; they are representing the task that the sender is paying at the starting point and it varies with the sent amount, in the specific values.²⁹⁸

b) *Exchange Rate Fee*: An important part of the cost of remittances is exchange rate spread, which is not quoted / cited in the transfer fee. Even if remittances are usually paid in U.S. in U.S. dollars or euro in EU countries, there is a majority of such transactions paid in local currency and which require replacement operations. To avoid fluctuations in exchange rates or other changes in the structure of fees charged, data from the World Bank are realised through a survey in a corridor on the same day, providing an image at a moment, the total cost being different time.

c) *The speed of transfer*. The survey covers mainly cash-to-cash transactions, or the quickest means available. Transfer speed is indicated on each product offered. If banks will not make cash transactions, but handle account-to-account, the time taken to perform the service will be greater than the "next day". For March 2009 transfer speed has been standardized into 6 categories: less than 1 hour, the same day, next day, 2 days, 3-5 days and 6 or more days. World Bank data are collected for the first 8-10 major suppliers in each corridor, including both primary operator transfer Money Transfer Operator (MTO) and active banks on the market. In some markets it

297 The World Bank Group – Remittance Prices Worldwide, www.remittanceprices.worldbank.org.

298 In some cases there are taxes and expenses at destination (these were not detected in the BM database).

operates several banks or agents MTO (therefore there must be included eighter more banks or more MTO). Chosen companies cover most of the market shares.

Table 4 and Figure 3 include the cost of transfer for an amount of 135 euros sent in Romania, Germany, Italy and Spain and 105 euros from Unitede Kingdom, between 2008 and February 2009.

Table 4 Cost of transfer and its structure, 2008-February 2009

	Germany				Italy				Spain				United Kingdom			
	fee €	RE%	%	€	fee €	RE %	%	€	fee €	RE%	%	€	fee €	RE%	%	€
Total																
2008:	29.2	2.73	24.39	32.93	10.12	0	7.5	10.11	8.89	0	6.59	8.9				
MTO	26.0	1.63	20.89	28.20	10.43	0	7.7	10.44	9.10	0	6.74	9.1				
Banks	32.5	3.82	27.89	37.65	5.16	0	3.8	5.16								
Nonb									7	0	5.19	7.0				
2009*	18.7	0.61	14.47	19.73	9.61	0	7.1	9.61	8.25	030	6.41	8.6	8.1	3.77	11.5	12.1
MTO	20.0	0.82	15.63	21.10	18.0	0	13.3	18.0	8.88	033	6.90	9.3	8.1	3.77	11.5	12.1
Banks	18.4	0.55	14.14	19.09	6.0	0	4.44	5.99								
Nonb									2.00	0	1.48	2.0				

Nonb – nonbanks

RE - Exchange Rate Fee

2009* -first quater

Source: World Bank, Remittance Prices Worldwide, www.remittanceprices.worldbank.org

Table 5 contains the same costs, but the sum of 330 euros transferred from the three countries and 264 euros from UK.

Table 5 Cost of transfer, 2008 - February 2009

	Germany				Italy				Spain				United Kingdom			
	fee €	RE %	%	€	fee €	RE%	%	€	fee €	RE %	%	€	fee €	RE %	%	€
Total 2008	29.2	2.73		38.2	16.92	0	5.13	16.93	17.19	0	5.21	17.2				
MTO	26.0	1.63		31.38	18.16	0	5.5	18.15	18.32	0	5.55	18.3				
banks	32.5	3.82		45.11	5.16	0	1.56	5.15								
nonb									7	0	2.12	7				
2009*	19.5	0.61		21.5	13.55	0	4.11	3.56	9.85	0.3	3.28	10.8	1.37	3.7	8.08	21.3
MTO	23.5	0.82		2.62	18.24	0	5.53	18.25	10.6	0.3	3.55	11.7	1.37	3.7	8.08	21.3
banks	18.3	0.55		20.21	6	0	1.82	6.01								
nonb									2.00	0	0.61	2.01				

RE - *Exchange Rate Fee*

Source: World Bank, Remittance Prices Worldwide, www.remittanceprices.worldbank.org

The purpose is to suggest a reform of the global transmission money system and ways to expand financial services to more users. The remittances flow is performing also on informal channels (drivers, friends, other informal intermediaries), instead of using the formal sector, mainly due to bank fees. Thus, the banking commission for a total of 330 Euros transfer from Germany to Romania in 2008 was over 45 euros, because of additional fees and exchange rates. The highest cost comes to the fast system of transfer (Western Union and MoneyGram), existing significant differences between the perceived costs for the four analysed corridors. Thus, for the same

amount (330 euros) the transfer is double from UK to Romania compared to the Italy–Romania corridor.

Figure 3: Cost of transfer in Romania for 135 Euro

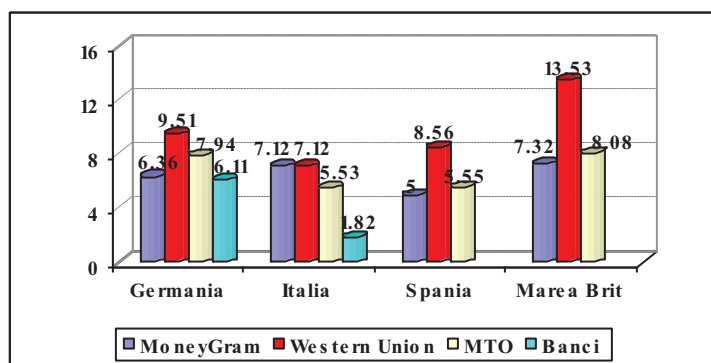
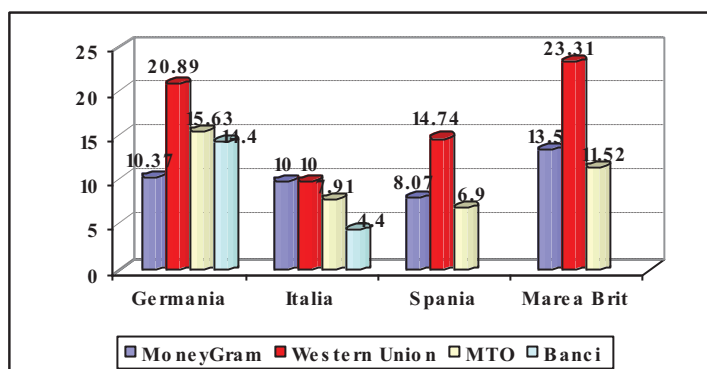


Figure 4: Cost of transfer in Romania for 330 Euro

Source: World Bank, Remittance Prices Worldwide, www.remittanceprices.worldbank.org

A summary on the dynamics of money transfer cost, even if it does not allow some stable conclusions on long term, indicating a decrease in costs in the first two months of 2009 compared with 2008, so regressive costs on all ways of transfers and non banking.

2. Opportunities to use remittances for development

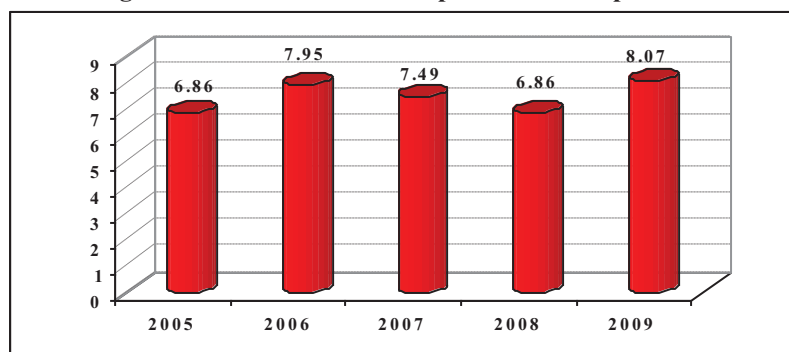
2.1. Remittances can reduce poverty

Migration generates substantial welfare gains and reduces poverty. Country of origin benefits are mainly through remittances, which are often regarded as the most direct link with the process of economic development. A first issue concerns the role of remittances in reducing poverty, being various studies, investigation in this regard in literature. Thus, cross country records show that an increase of 10% per capita remittances leads to a decrease of 3.5% of the share of poor people. In Romania, even if the share of remittances in GDP is not at same level as the one in small countries (approximately over 10%), the absolute volume is significant, and their use in private consumption is more than appropriate, especially now in the period of the current crisis.²⁹⁹ Figure 5 includes share of remittances in private consumption during 2005-2009, respectively the years with the biggest growth, but also 2008 considered as the beginning of the crisis and 2009 the most affected. For this year, we calculated a volume of remittances of \$8.300 billion, applying a reduction of 8% compared to 2008. The crisis year 2009, according to the above, increases the role of remittances in private consumption and in reducing poverty. Maybe it should be remembered that a high number of immigrants means a decrease in population, but in periods of

299 Agenda, Annual Meeting of the International Agricultural Trade Research Consortium: Immigration and Labor in a Global Economy, Washington, DC, January 7, 2008.

crisis in particular, there is no risk of a steep increase in unemployment, the determinant factor for the degree of poverty.

Figure 5 Remittances as % of private consumption



Source: C.N.P. Proiecția principalilor indicatori macroeconomici pentru 2009-2013, Proгноza de primăvară, 28.04.2009; World Bank, Migration and Remittances Factbook 2008, Romania **Remittances Data**, march 2009

2.2 Remittances improve the access of countries to capital markets

The role of remittances in economic development is increasingly present in literature, noting that specific situation is present in each country, but that on long term these effects are not conclusive. However, these funds are used mostly to finance costs of education and health, for consumption, for small entrepreneurial projects.³⁰⁰ However, they may contribute to the relaxation of credit constraints on small businesses, operating as a lever for financial access of households and access to capital markets for financial intermediaries. A conventional measure of the burden of external debt includes external debt ratio to exports of goods and services, and it may include remittances.

Table 6 Romania: Export of goods and services and external debt (MLT)

	2002	2003	2004	2005	2006	2007	2008
Export of goods, (\$bn)	2.326	3.000	3.590	5.056	7.005	9.455	12.780
Export of services (\$bn.)	13.877	17.662	23.553	27.688	32.480	40.559	49.546
Total export – X, (\$bn.)	16.203	20.662	27.143	32.724	39.485	50.014	62.326
MLT Debt (€bn.)	15.0	15.9	18.3	24.6	28.5	38.473	48.1
MLT Debt (\$bn.)	14.183	17.986	22.727	30.593	35.760	52.659	70.325
Remittances (\$bn.)	1.43	1.24	1.32	4.733	6.718	8.533	9.000
Export+remittances (\$bn.)	16.346	20.786	27.275	37.457	46.203	58.547	71.326
MLT/X, %	87.33	87.05	83.73	93.49	90.56	105.29	112.83
MLT/X+remittances, %	86.77	86.53	83.33	81.67	77.40	89.94	98.60

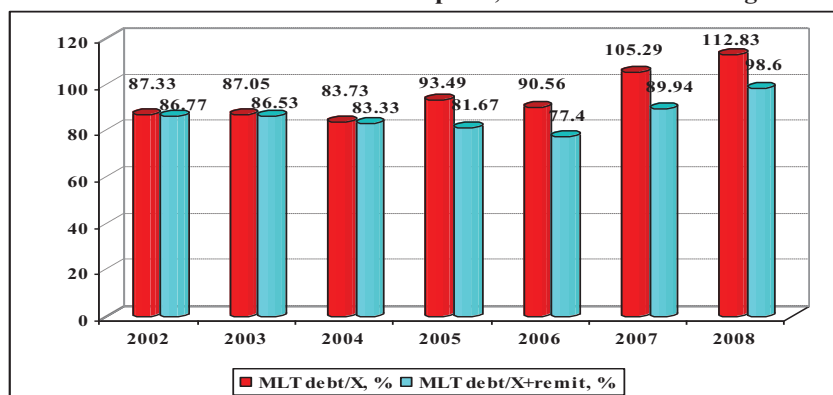
Source: BNR, World Bank, WTO – International Yearbook of Statistics, www.wto.org

The measure indicates the ability of the country to pay, especially in terms of foreign exchange availability. Data on external debt of Romania are from the National Bank of Romania datas, those concerning the export of goods and services are provided by the World Trade Organization and remittances are under the World Bank data. External debt includes medium and long-term debt (MLT debt) and short-term debt (ST debt), expressed in dollars at the annual average rate.

300 Ratha Dilip „, Development Implications of Migration and Remittances: The International Remittances Agenda”, Annual Meeting of the International Agricultural Trade Research Consortium: Immigration and Labor in a Global Economy, Wasghinton, DC, January 7, 2008; Dayton-Johnson, J. (2007) “Gaining from migration, towards a new mobility system”, OECD, Paris.

Including remittances in creditworthiness assessments would lead to improve country rating and thus increase confidence of potential creditors. As a country that receives significant remittances, Romania can take measures to ensure that these entries are reflected in the sovereign rating.

Figure 6 Share of external debt in total exports, without and including remittances



Source: own calculations

Some conclusions on policy options

Mostly the nearest time interval that migration is linked to remittances, whose role it is difficult to quantify, drawn into the national productive circuit. There is in this sense, some policy options to encourage diaspora involvement in projects of economic development. For this, the first step is a communication strategy with the diaspora that will lead to better information on economic opportunities in the country, looking on financial sector for orientating the remittances to development projects. A number of measures considered to contribute to this, would be related to issues such as: *i)* Increased access to banking services: increasing the availability of bank accounts, information on various savings instruments to promote formal channels of transfer of money; *ii)* Governments should not tax remittances or the direct allocation as/ of expenditure financed by remittances; *iii)* In some countries, the emission of bonds abroad has led to funding for the development of cash funds particularly important (especially if the country has a large stock of foreign diaspora), and especially in difficult conjunctural periods (eg. economic and financial crisis); *iv)* Reducing costs of remittance transfers etc.

References

1. Dayton-Johnson, J. (2007). "Gaining from migration, towards a new mobility system", OECD, Paris.
2. Isărescu, M. (2008) Romania in the Context of the Global Financial Crisis: An Overview, How is the World Different After the Financial Turmoil?, Conference organized by the NBR, Bucharest.
3. Lazea, V. (2008). "Impact of Remittances on Romania a Balance of Payments", International Seminar on European Migration IEF, June 14th. 2008, Bucharest.
4. Ratha D., "Increasing the macroeconomic impact of remittances on development" G-8 Outreach Meeting on Remittances, Development Prospects Group, World Bank Nov 28-30, 2007 Berlin.
5. Ratha D., Mohapatra S. (2009), Revised Outlook for Remittances Flows 2009-2011: Remittances expected to fall by 5-8% in 2009, Migration and Development Brief, World Bank.
6. Ratha Dilip (2008), Development Implications of Migration and Remittances: The International

7. Remittances Agenda, Annual Meeting of the International Agricultural Trade Research Consortium: Immigration and Labor in a Global Economy, Washington, DC, January 7.
8. BNR, (2008). Raport anual 2007. www.bnr.ro.
9. BNR, Balanța de plăți, Comunicate lunare de presă 2008-2009, www.bnr.ro.
10. Comisia Națională de Prognoză, Proiecția principalilor indicatori macroeconomici pentru 2009-
11. 2013, Prognoza de primăvară – 2009, 28 Aprilie 2009, www.cnp.ro
12. World Bank, Remittance Prices Worldwide, www.remittanceprices.worldbank.org.
13. IMF, International Transactions in Remittances: Guide for Compilers and Users, Final Draft,
14. Statistics Department, December 2008, www.imf.org.
15. Agenda, Annual Meeting of the International Agricultural Trade Research Consortium:
16. Immigration and Labor in a Global Economy, Washington, DC, January 7, 2008.