CIDOB • Barcelona Centre for International Affairs

ISSN: 2013-4428

notes internacionals CIDOB

42
DECEMBER
2011

# DO EMIGRANTS FINANCE EUROPEAN CONVERGENCE? Toward an EU remittance policy

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**The EU is the main issuer of remittances in the world, most of which are directed toward its own member countries.**

**Rumania receives more remittances from its emigrants than transfers from European institutions, structural funds included. And it is not the only country in the Union that receives more from its emigrants than from Brussels.**

**Nevertheless, Brussels only develops efforts regarding the remittances that end up outside the Union, having no policy in place for those received by its own member countries.**

**According to the Stockholm Program, before 2012 the European Commission must present proposals on its remittance policy in several areas. The objective of this document is to analyze several options.**

The European Union has become the main issuer of remittances in the world. Its remittances almost double those of the United States, and the Union counts four Euro zone countries among the ten main issuers of remittances in the world. The volume issued by the UE is so great that it is equal to the entire GDP of five of its member countries. According to the IMF, in 2010 the GDP of Lithuania, Latvia, Cyprus, Estonia and Malta totaled $111 billions, while the remittances of the EU came to $95 billions that same year[1].

It is important to note that the global preponderance of the EU remittances has a short history. In the year 2000 the United States remitted more funds, and those issuing from Europe only doubled their figures in recent years.

Nevertheless, the most important dimension of European remittances is indeed measured in millions, but millions of people, not of Euros: the people who send and receive them. Though their exact profile is not known, since to date a pan-European investigation of remitters has not been carried out, we estimate that they come to at least 30 million issuers, while the beneficiaries could reach twice that number[2]. That is to say, European remittances involve at least 90 million persons who do not appear in the statistics. Thanks to their remittances, we know that they exist, and that their output represents the principal source of solidarity in the EU, once it surpassed, in 2007, the figure attained by the exemplary European aid to development. It is pertinent to compare remittances and aid to development since both represent international economic fluxes "free rider".

This chart compares remittances with aid to development in the broadest sense, as was reflected in the note of the OECD-

1. The last year for which statistics on remittances are available from international organizations is 2010. Some countries, such as Spain, can already provide data from the two first trimesters of 2011, but few other countries follw this example and some have not yet finalized their 2010 data.

2. Remesas.org has carried out six research projects on remitters in Galicia, the Balearic Islands, and Madrid, according to which a median of 65% of emigrants send remittances. The percentage varies between 86% in the Balearic Islands in 2007 (remesas.org 2007) and 62% in the Madrid Community in 2009 (remesas.org 2010). If the median percentage of remitters is calculated to be 65%, in all of Europe there would be 30 million remitters, taking into account a total immigrant population of 46.9 million as calculated by the publication Trends in International Migrant Stock from the Population Division of the United Nations.

DAC "Official development assistance gross disbursements" including the 27 members of the EU, in addition to the European institutions.

## The general geography of remittances

European remittances are mainly directed toward the EU itself. They are sent to Rumania, for example, by Romanian emigrants who live in Italy. According to EUROSTAT, this type of remittance represents 60% of the total, while the remaining 40% is sent outside the EU. Beginning with the least important aspect, that 40% of remittances flowing beyond the European community is remarkable for its noteworthy macroeconomic impact. The reason lies not in its volume, but in the very depressed conditions of the extracommunitary recipients. Some have elaborate statistics that allow us to see how much they receive in remittances from Europe. For example, Morocco carries out an exemplary accounting of its remittances and reports that remittances from Europe account for 5% of its GDP, while in the Philippines its impact 2% of the GDP. It is estimated that in other countries the impact of remittances is even greater, though precise data are not available. In Albanian and Moldavia it is believed that European remittances amount to greater than 15% of the GDP, while in Bolivia, Serbia, Tunisia, or Bosnia they may reach over 6%. Percentages of this magnitude have the ability to reduce poverty decisively, as well as to stimulate development. But it must be recalled that this is a minority of the remittances that flow from Europe.

The destination of the majority of the EU remittances is within the Union itself.  It is important to stress that inter-European remittances are above all a political phenomenon as they are the direct consequence of one of the four basic freedoms of the EU: free circulation of capital, merchandise, and persons. This last provision has allowed for the emigration of millions of Europeans toward other European countries. They represent the majority of the 46.9 millions immigrants that the Population Division of the United Nations estimates to reside in the EU in 2010. In the few years since the entry of Poland into the Union, Polish emigrants have come to lead the ranking of emigrants to the UN. Rumanians in an even shorter time have become the main emigrant nationality in Spain. These new communities of inter-European emigrants joined with previous waves, for example, of Portuguese emigrants, who are the principal foreign group in Luxembourg. EU regulation also facilitated the appearance temporary emigrants, such as the cross-border workers who reside in Poland but work in Germany.

The consequence of this human movement is that Rumania takes in more transfers from its immigrants than from European institutions. In 2010 Rumanian immigrants sent 2,879 billion Euros home while receiving 2,390 billion Euros from the EU in structural funds, cohesion funds, and other items. This European aid is listed in the "balance of payments of the European institutions". It is the broadest measure of such aid as it includes instruments reserved for the poorest countries, such as structural funds, as well as instruments available to all members, such as the PAC. Moreover, it includes notes that cannot be considered transfers, such as loans from the European Investment Bank, which must be reimbursed. And

### Ranking of remittance issuers

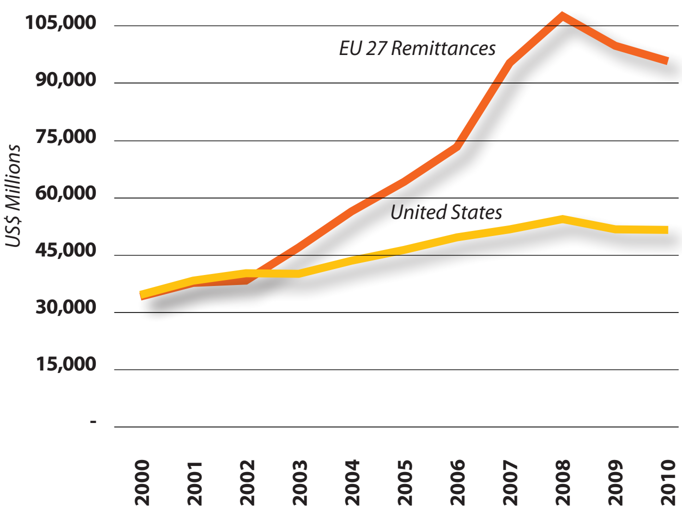
*Data in US$ mill. according to the World Bank "Remittances Data Outflows Dec. 2011"*

| Rank. | countries | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| | ***UE-27*** | ***107,657*** | ***99,819*** | ***95,764*** |
| 1 | United States | 54,399 | 51,639 | 51,597 |
| 2 | Saudi Arabia | 21,697 | 26,470 | 27,069 |
| 3 | Switzerland | 18,982 | 19,562 | 21,668 |
| 4 | Russian Federation | 26,323 | 18,779 | 18,796 |
| 5 | **Germany** | **15,018** | **15,951** | **15,908** |
| 6 | **Netherlands** | **14,908** | **14,226** | **12,923** |
| 7 | **Spain** | **14,826** | **12,743** | **12,227** |
| 8 | **Italy** | **13,058** | **12,868** | **12,201** |
| 9 | Kuwait | 10,323 | 11,749 | 11,770 |
| 10 | Korea, Rep. | 9,114 | 8,648 | 11,385 |

This ranking follows the World Bank practice of considering remittances to be two different items of the balance of payment: "immigrant remittances" and "employee compensation"

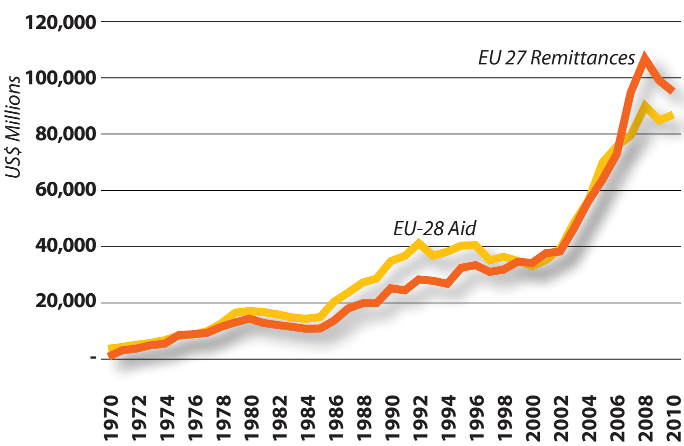
### Remittances from the EU27 vis-à-vis the US

*Data in millions of US$ 2001-2010 according to the World Bank*




### EU: remittances vs aid

*Data in US$ millions for 1970-2010. sources: World Bank (remittances) OECD DAC (Official development assistance gross disbursements, including all UE27 DAC memebers+European Institutions)*



## Destination of European remittances

*Data in billions of Euros following World Bank methodology (the sum of remittances and employee compensation)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Total remittances | 49,9 | 57,5 | 64,6 | 70,5 | 74,2 | 71,2 |
| Intra-UE | 32,7 | 37,7 | 41,6 | 43,7 | 44,3 | 43,0 |
| Extra-UE | 17,3 | 19,7 | 23,0 | 26,8 | 30,0 | 28,3 |

**Source**: Eurostat, Statistics in Focus, Daniela COMINI, Franca FAES-CANNITO, 40/2010, "Remittances from the EU down for the first time in 2009, flows to non-EU countries more resilient".

## Net contribution of European Institutions

*2003-2010 figures in millions of Euros according to Eurostat*

| Country | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Slovakia | -106 | -144 | -215 | -260 | -520 | -615 | -454 | -1,144 |
| Rumania | -312 | -582 | -678 | -710 | -433 | -1,225 | -1,326 | -1,103 |
| Portugal | -2,723 | -2,548 | -1,781 | -1,625 | -1,787 | -1,866 | -1,526 | -1,946 |
| Poland | -693 | -1,311 | -1,649 | -2,723 | -4,723 | -3,727 | -6,007 | -7,756 |
| Bulgaria | -189 | -301 | -309 | -397 | -275 | -366 | -483 | -769 |

Un signo negativo significa un coste neto para las Instituciones Europeas
**Fuente:** Eurostat, bop_euins_a

## Influx of Net Remittances + Compensation

| Country | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Slovakia | 361 | 407 | 727 | 828 | 1,029 | 1,293 | 1,100 | 1,148 |
| Rumania | 92 | 1,401 | 3,782 | 5,230 | 5,922 | 5,855 | 3,296 | 2,611 |
| Portugal | 1,949 | 1,838 | 1,557 | 1,666 | 2,013 | 1,874 | 1,590 | 1,694 |
| Poland | 1,727 | 3,287 | 4,637 | 6,083 | 6,745 | 5,890 | 4,815 | 4,571 |
| Bulgaria | 47 | 1,364 | 1,266 | 1,322 | 1,116 | 1,186 | 1,069 | 1,030 |

A minus sign represents a net cost for the European institutions
**Source:** Eurostat, bop_q_c

## Who Pays More: Emigrants or Brussels?

| Country | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Slovakia | 255 | 263 | 512 | 568 | 509 | 678 | 646 | 4 |
| Rumania | -220 | 819 | 3,104 | 4,520 | 5,489 | 4,630 | 1,970 | 1,508 |
| Portugal | -774 | -710 | -224 | 41 | 226 | 8 | 64 | -252 |
| Poland | 1,034 | 1,976 | 2,988 | 3,360 | 2,022 | 2,163 | -1,192 | -3,185 |
| Bulgaria | -142 | 1,063 | 957 | 925 | 841 | 820 | 586 | 261 |

A minus sign indicates that the European institutions give more money to the country than the remittances
**Source: The sum of the previous tables**

it even takes into account the value of the services lent by European institutions, money which does not reach the destination country, derived from the activities of organizations such as the Justice Tribunal. If we compare the figures for such assistance with the remittances, we can see that, for Rumania, the principal source of solidarity are not the European institutions but its own emigrants. Until 2009 this was also the case for Bulgaria, and until 2008 of Slovakia.

If net remittances are compared with net transfers from the EU, instead of gross income, it becomes evident that the remittances finance Rumania to a greater extent thank Brussels, Slovakia and Bulgaria. Until 2009 Portugal perceived more from its immigrants than from Brussels, and the same was true of Poland until 2008. Measured by influx of Euros, the real convergence with Europe of these economies is fueled more by remittances than by Brussels.

It is possible that the list of countries that receive more from their emigrants than from the EU may be longer: while the EU accounts for and budgets its expense in detail, the figures for remittances are, to a large extent, based on estimations, at times a simple approximation, which usually undervalues the real flows by not including, for example, informal remittances.

The impact of the arrival of such funds is of very high. Simply analyzing their effect on the balance of payment, the remittances of Bulgaria, Poland, Portugal, Slovakia and Rumania are critical as a counterweight to a negative current account balance. Something that cannot be said of the Brussels supports as only part of those figures actually reaches the destination country. In contrast, the truth is that the on-the-ground impact of European support is very positive, for example, in the form of construction of public infrastructures, while remittances are lacking in a more detailed impact analysis, though in all probability without them the poverty levels would increase noticeably in the receiving countries.

What is relevant is that the EU, by permitting the free circulation of person, created a mechanism to finance its less-developed members: by their remittances. Astonishingly, European institutions have paid no attention to this consequence of their freedom of circulation policy. Until now Europe has not developed a specific formal policy in this matter, aside from a few isolated programs. There is no one in Brussels whose business card reads "Director of Remittances". Europe has no Rule or specific Directive on remittances, which are regulated by generic norms, and though it sends almost $100 billions in remittances which involve 90 million persons, today there is not so much as a detailed statistical study of these flows. Only generic figures. The EU created remittances, but it left them at the mercy of the elements.

## European Policy on Remittances

The EU and its member countries have initiatives on remittances, but they are uncoordinated efforts with scant concrete impact. The most remarkable thing is that they are concentrated in countries foreign to the Union and, as a result, they only affect a minority share (40%) of the remittances with an extra-community destination. The reason is that on a political level the remittances are considered something like a tool of the "migration and development" sector whose theater of action are countries beyond the Union.

The first substantial mention of remittances appears in the still relevant 2005 Communiqué on Migration and Development. This document analyzed the role of remittances in development and suggested two lines of action. On the one hand, it advocated for "incentivizing cheap, quick, and safe mechanisms for the sending of remittances", and on the other, "facilitating the contribution of remittances to the development of the origin countries of the emigrants." These ideas, cost and development, were taken up in the Conclusions of the Council adopted in 2008 and 2009 in the framework of the Global Approach to Migrations, Financing for Development and Policy Coherence for Development. The legacy of the 2005 paper is the recognition that remittances have a role in development, offering a conceptual point of departure for working with the 40% of remittances heading for non-member countries.

The problem is the lack of a parallel communication that would acknowledge that 60% of European remittances are not related to development, but rather to the economic convergence of the peripheral members of the Union. This situation accounts for why the DG of Development has an active agenda on remittances to non-member countries but there is no similar effort for member countries in other General Directorates.

The initiatives of the DG for Development appears under the Aeneas program, and now they continue under the thematic program of "Migration and Asylum". Their purpose is to support non-member countries in order to manage migratory flows. Although remittances are not the focal point of the program, it has financed some interesting NGO projects in countries like Moldavia to promote the productive use of remittances. Its most ambitious project is the African Institute for Remittances, carried out with the World Bank to develop the capacities of the African Union in the field of remittances, an initiative that could also find reasons to exist among European countries.

## Other Policies

Though only the DG of Development has a program for long-term action on remittances, some DGs in the European Commission have developed one-ff initiatives in this regard. It is a question of policies that, while not focusing on remittances, at least include them among their secondary objectives. The most relevant one originates in the Internal Market DG, with the Directive of Paid Services, which regulates all types of payments, such as that of bills for the supply of household electricity. The market for payments was dominated by banks, but the Internal Market DG realized that a bank was not necessary to pay the electric light bill. A new type of institution was created called "payment entity" which allows for seven different type of payment activity. Their authorization requirements are less stringent than those of banks and, for this reason, their operational costs are lower and, hence, the price of their services. Though this Directive does not focus specifically on remittances, for they are only one of the seven payments services it regulates, its effect has been to free up the market for remittances in countries where it was severely limited. For example, in France it was practically necessary to have a license for banking activities in order to offer services for the sending of remittances. Thus, there were only four companies authorized in the country before the Directive. Now the number is almost ten times higher.

For the entire Union it is hoped that the Directive will allow for the creation of a greater number of companies specialized in the sending of remittances, which would increase the offering and could reduce the prices. Nevertheless, this is only a hypothesis and not the intent of the Directive, which does not contain any diagnostics regarding the price of remittances nor any specific objective with regard to the reduction in price.

> It is estimated that there are more than 30 million persons over the age of 18 without access to bank accounts (European Parliament 2011). This occurs because opening a bank account is only regulated in 12 member countries as the right of a user to open one. The other 15 members regulate it as a possibility for the bank.

This initiative, and others are reflected in the Stockholm Program, which defines the European agenda in the area of Justice and the Interior. Remittances had not been mentioned in previous Programs (Tampere and The Hague), in spite of the fact that emigration is their basis. But they appear in the "Stockholm Program", which requires the Commission to suggest proposals before 2012 on "how to assure efficient, safe, and cheap remittance services, and increase the impact on the development of remittances, as well as evaluating the viability of creating a common portal of the Union for remittances to inform emigrants on their prices and to encourage competition among different providers" (European Council 2010).

## Development and Cost

The main point of the Stockholm program with regard to remittances is related to their price and the possibility of creating a data base in this regard. Though data already exist in some member countries on the price of remittances, they are not sufficient to carry out a cross-Union diagnosis. Without a doubt with this instrument it could be established whether situations of abuse exist in the price of remittances.

But if Europe creates this data base, it will be reaching the same level achieved by Mexico twenty years before, in 1990. At that point, Mexico created the first data base of remittances because it didn't have any other means of preventing the abuse of its emigrants by U.S. transfer service operators. Since its jurisdiction ends at the Río Grande, the only thing Mexico could do was condemn the situation. Perhaps the European Union, in the case of the remittances destined for extracommunity countries can be satisfied with this. But with regard to the member countries of the EU it has powers to take action beyond simply emitting a diagnosis. In fact, it also has the obligation to do so, since the intracommunity remittances are sent from the EU and end up in the same EU, and Brussels has jurisdiction over both.

This is why the EU ought to add another tool, a pan-European analysis of the cost of the remittances, and not just of the price. Only a cost analysis can say whether these prices can be reduced, and how. this is important, as part of these costs is created directly as a result of the European normative or those of the member countries. One example is the policy of the Commission to prevent money laundering and the financing of terrorism. Though remittances are not the ideal device for such purposes, obligations of surveillance and control that imply additional costs are imposed on the remittance operators. For example, the Regulation (CE) nº1781/2006 requires that the files of a remittance that has been sent be kept for five years. Despite the doubtful terrorist threat that might be represented by a remittance of 100 Euros, never mind the minimal risk of money laundering, the operators have to pay for storage. Obviously , this cost is passed on to the final user. The cost is additionally incremented by the add-ons attached by member countries to the European obligations. In Spain remittance operator have to keep their files for ten years, by virtue of article 25 of the law 10/2010, always at the cost of the user. In fact, the prevention of laundering has become an excuse for all kinds of restrictive measures in member countries, and the result is an incentive for the development of informal, black market methods. Italy, for example, requires remittance operator to inform the local police within 12 hours if the person who wishes to transfer funds cannot immediately produce a residency permit (Legge 15 luglio 2009, n.94). More examples can be placed in this regard, such as the recent creation in Italy of a 2% tax on the sending of remittances, which obviously does not reduce its price.

But the main reason for determining the costs is that this was the path chosen by the EU to manage other cases. For example, the Commission created a data base of cell phone roaming prices, finding that certain operators were extremely greedy. The solution was Regulation (EC) 717/2007, which sets a maximum price. When the European institutions found that a national bank transfer was cheaper than a transfer between two euro zone countries, the same path was taken. In this case Regulation (EC)2560/2001, was replaced with Regulation (EC) 924/2009, according to which the price of international euro transfers (between EU countries) must be the same as that of national transfers. Why should immigrants receive different treatment from that of cell phone users?

In fact, the fastest route to attenuating the price of remittances (together with the adjustment of the norms regarding laundering to the reality of these flows) is related to the abovementioned regulation regarding charges for bank transfers, which will be reviewed in 2012. Despite the fact that intra-European bank transfers have become cheaper, immigrants barely use them. It is estimated that there are more than 30 million persons over the age of 18 without access to bank accounts (European Parliament 2011). This occurs because opening a bank account is only regulated in 12 member countries as the right of a user to open one. The other 15 members regulate it as a possibility for the bank. Facilitating the access of emigrants to banking services within the EU would save them a lot of money, but it would also represent an important step in their integration into their host countries.

The second point of the Stockholm Program is related to the impact of remittances on development. This is a much more complex question, and it does not depend exclusively on emigrants and remittances, nor does it respond to a single prescription. One of the focuses of the Commission has attempted to "increase the impact of remittances on development", as the Stockholm Program requires, by financing projects that attempt to derive productive investments from the diasporas and their remittances. This implies promoting investment in the immigrant's country of origin. In order to do this, they offer the emigrants programs of aid and cooperation. But if the investor abroad is not an immigrant, the same institutions offer a very different system of services, almost always through public entities and at the cost of the State. For example, an insurance policy to protect an investment from political risks or long-term financing, which are impossible to get in the destination countries. These services are offered with practices that, in fact, close their doors to immigrants. On occasion this is due to their only insuring investments over a certain amount, which are beyond the spending power of the emigrants, or formal status in the country is required. The result of this is that Europe insures investments against political risk for its nationals, even though political risk affects immigrants just as much as nationals. Europe offers public financing for investors abroad, but not to its immigrants.

**If the EU really wants to "increase the impact of remittances on development" by means of investments, it will have to begin by leveling the playing field. If its objective is for immigrants to invest abroad it must treat them as it does any other international investor.**

It would not be surprising if programs for immigrants had little success. It must be said that such segregation also exists in the immigrants' countries of origin. In all of them there is a law of foreign investment that offers incentives to foreign investors, such as tax deductions or land concessions for the construction of factories. But these laws do not always consider emigrants to be foreign investors, since they were born in the country, and they do not give them the right to access to these incentives. In fact, there are countries that, in practice, prohibit investment by emigrants in the country of origin, as occurs in Cuba, where only foreigners can invest.

The problems an emigrants faces on investing in his or her country of origin are exactly the same as those that a non-emigrants might encounter. It is simply discriminatory not to offer them all access to the same types of aid. If the EU really wants to "increase the impact of remittances on development" by means of investments, it will have to begin by leveling the playing field. If its objective is for immigrants to invest abroad it must treat them as it does any other international investor.

Nevertheless, these measures will not be sufficient to manage the question of remittances. For this, at least three additional steps are needed.

The first is coordination. Remittances represent a flow of $100 billion that affects the lives of millions, perhaps as many as 90 million. Dimensions of this nature can only be efficiently handled institutionally. But in Europe there are no institutions meant to deal specifically with remittances, which lie in a gray area, at the intersection of several DGs. There are initiatives regarding remittances in Development, Internal Market, Emigration… but no one coordinates their efforts. This explains why the Internal Market DG is trying to liberalize remittances with the Directive of Payment Services, while the same DG increases their price with exaggerated measures to prevent money laundering. Europe will have no credibility regarding remittances until it designates someone with coordinating powers in this area.

The second pillar is reflection. The source of the Commission's thinking on remittances is the U.S.-Mexican border. This explains why the main objectives of Brussels are the price of remittances and development, but not convergence, which makes no sense in the context of the U.S. and Mexico. Price and development are important objectives, of course, but a European perspective ought to be based on the fact that 60% of its remittances take place between member countries, and from European citizens to European citizens.

The third pillar are data. It is impossible to use remittances to promote development in Senegal if we have no information about how many remittances are sent from Europe to Senegal. No detailed statistics of these flows exist because the EU excluded remittances from the flows it had to account for by disaggregating their destination. The member countries only have to show if the remittances are directed toward the EU or not (Regulation (CE( nº 707/2009). Another example: it is also not possible to date to carry out an analysis of the impact of the crisis on the EU remittances. The reason for this is that there are still countries that have not reported their data for the 2010 fiscal year to Eurostat, some of them as significant as the United Kingdom, Ireland, or Denmark.

It would be natural for the Commission to devote more interest to the accounting of remittances, since it has done so with other international economic flows. For example, there now exists a specific Regulation for European statistics on tourism (Regulation (EU) nº 692/2011). Why not do something like that for remittances?

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