



FLOWS OF ROMANIAN REMITTANCES AND ITALIAN BANKING AND FINANCIAL SYSTEM

Different points of view and possible links and correlations

**Angela Bevilacqua and Georgia Bertagna
Consorzio Etimos S.c.**



May 2010

This survey was carried out within the project SME (Support to Migrants' Entrepreneurship) promoted and financed by the specialized agency of the United Nations IFAD (International Fund for Agricultural Development).

Head Partner:

Veneto Lavoro

Regional Agency for Employment

Veneto Region-Italy

Via Ca' Marcello 67/b

30172 Mestre-Venezia

Tel. 041 2919311

Partners:

Consorzio Etimos S.c.

Via Giusto De' Menabuoi 25

35132 Padova PD

Tel. +39 049 8755116

Banca Popolare Etica

Via Niccolò Tommaseo 7

35131 Padova

Tel. +39 049 8771111

Veneto Region

Brussels Delegation Office

Avenue de Tervueren 67B

1040, Brussels, Belgium

Tel. +32 27437010

Veneto Banca Holding Scpa

Gruppo Veneto Banca

Piazza G.B. Dall'Armi, 1

31044 Montebelluna (Treviso)

Tel. +39 0423 875600

F.D.P.S.R (Fundatia Dezvoltarea Popoarelor Prin Sustinere Reciproca)

Balciului Street, No 2, 2nd district

021502 Bucharest-Romania

INDEX

INTRODUCTION

1. ROMANIAN SOCIAL, ECONOMIC AND POLITICAL SITIATION

2. FINANCIAL SERVICES AND PRODUCTS OFFERED TO IMMIGRANTS

2.1. The Money Transmitters Operators

2.2. The banking services

2.3. Best practice: Obiettivo Lavoro

3. CONCLUSION

4. ANNEX

a. Agenda meetings in Romania

b. Useful links

INTRODUCTION

Remittances are commonly defined as transfers of money by foreign workers to their home countries. In other terms, a “remittance transfer” is a transfer of money from an individual, usually a person who has emigrated from her/his city or country of origin, to another individual, usually a relative (parent, wife/husband, etc.) who remains at home¹.

Remittances are therefore person-to-person payments of low unitary value.

There are two basic categories of remittance transfers: domestic and international.

The former occurs when an individual transfers funds from one location to another within the same country. The predominant pattern within this category is that the individual sending the funds (the remitter) hails from a rural area and has relocated to an urban centre.

In contrast, an international remittance involves an immigrant in a foreign country who sends funds to his country of origin or to a third country to relatives or individuals. Frequently the remitter has moved for the purpose of employment and of a better life from a Less Developed Country to a More Developed one.

In this research we will refer only to international remittances flows (in particular between Italy and Romania) and on their impact on international economy and on the lives of millions of people.

The flow of funds from migrant workers back to their families in their home country is an important source of income in many developing economies. The recipients often depend on remittances to cover day-to-day living expenses (education, health or housing for example), to provide a cushion against emergencies or, in some cases, as funding for small investments (small business start-ups and expansion of already existent income generating activities).

The total value of remittances has been increasing steadily over the past decade and World Bank estimated that in 2008 the total value worldwide was over USD 397

¹ Final Report, WP2 “Remittances and Migration” by Migravalue.

billion equivalent of which \$305 billion went to developing countries, involving some 190 million migrants or 3.0% of world population².

International migrant remittances are perhaps the largest source of external finance in developing countries and for some countries they can account for as much as a third of GDP³; moreover, the flow of remittances seems to be significantly more stable than that of other forms of external finance.

Moreover, remittances were certainly larger if flows through informal unrecorded channel would be also included. In fact, a range of unofficial and informal modes of transferring funds and sending money exist: from a temporary or traveller mailing cash or checks using regular postal service, or, alternatively, carrying cash on his/her person when he/she returns to his/her country of origin.

When transfers are made using unofficial techniques, remitters can avoid or mitigate commissions and fees. Moreover, they can bypass official currency-exchange rates and governmental regulation. In certain countries, the use of unofficial modes of remittances, and their lack of transparency, allows the remitter to avoid taxes. Because most informal transfers are neither reported nor monitored, measuring them accurately is highly problematic, so projections for unofficial remittances flows are normally imprecise.

As the development community continues the search for additional resources to finance the Millennium Development Goals, remittances-pro-poor are cyclically stable, compared to other capital flows and they appear to be a promising source. Remittances also appear to be the least controversial aspect of the overheated debate on international migration. Both remitting and recipient countries are considering the long-term economic implications of these transfers.

However, remittances can be expensive if considered the often low incomes of migrant workers and the rather small amounts sent (typically no more than a few hundred dollars or its equivalent at a time). Moreover, it may not be easy for migrants to access remittance services if they do not speak the local language or do not have the necessary documentation, while the relatively undeveloped financial infrastructure in some countries may make it difficult for recipients to collect the

² Migration and Remittances Factbook 2008, Paperback, by Dilip Ratha and Zhimei Xu.

³ The gross domestic product (GDP) or gross domestic income (GDI), a basic measure of a country's economic performance, is the market value of all final goods and services made within the borders of a nation in a year.

remittances. In some cases, the services are unreliable, particularly concerning the time taken for the funds to be transferred. In addition, some markets are uncompetitive or have regulatory barriers to the provision of remittance services.

A number of remittance initiatives are underway. The Sea Island G-8 Summit in June 2004, for example, called for “better coherence and coordination of international organization working to enhance remittance services and heighten the developmental impact of remittance receipts”⁴.

The G8 countries agreed to take action with developing countries to help reducing the cost of making remittances and to attract remittance flows into formal channels. This plan of action could strengthen financial systems in developing countries and reduce the risk that remittances will be diverted for illicit purposes. To accomplish this the G8 program involved the creation of a task force to develop principles for international remittance services. The task force consisted of experts from central banks of both sending and receiving countries and from international financial institutions. They are working with the World Bank, Micro Finance Institutions, and other bodies to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries. G8 countries will also lead an international effort to help reduce the cost of sending remittances.

During the June 2009 Summit held in the Italian city L'Aquila, the G8 Heads of State faced the Remittances topic, assuming a reduction of the global average costs of transferring remittances.

In the last section of the document entitled “Responsible leadership for a sustainable future” they declared: “Given the development impact of remittance flows, we will facilitate a more efficient transfer and improved use of remittances and enhance cooperation between national and international organizations, in order to implement the recommendations of the 2007 Berlin G8 Conference and of the Global Remittances Working Group established in 2009 and coordinated by the World Bank. We will aim to make financial services more accessible to migrants and to those who receive remittances in the developing world. We will work to achieve in particular the objective of a reduction of the global average costs of transferring

⁴ G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty Sea Island, June 9, 2004.

remittances from the present 10% to 5% in 5 years through enhanced information, transparency, competition and cooperation with partners, generating a significant net increase in income for migrants and their families in the developing world”.

Regional development banks, bilateral aid agencies, and other international agencies have also started ambitious programs to collect information and facilitate remittance flows. Both source and destination countries are eager to understand these flows and their policy implications.

In addition, there is a continuing debate over what role migration should play in the mix of policies available in order to promote economic development. Although mechanisms for liberalizing goods, services and capital markets are in place, the international mobility of workers still faces stringent restrictions.

That’s why remittances should be analysed for various reasons - for example, because of their impact on development, because of the close relationship with often politically sensitive migration issues or because of the need to monitor the flows for balance of payments purposes. All these aspects of remittances are interrelated and cannot be ignored.

However, in line with the project financed by IFAD entitled “Support to Migrants' Entrepreneurship”, the topic of this report is to analyse the Romanian social, economical and political situation (rural areas in particular) and to understand the links between Italian banks and institutions system and the Romanian immigrants community.

The main focus on this research is on the system of remittances between Italy (Veneto Region in particular) and Romania and how remittances could play a key role for development and struggle against poverty and deprivation.

The survey underlines how remittances could be a key of economic development and improvement for Romanian citizens if they are properly used and they are part of a formal remittances system.

The whole world is currently facing an economic crisis and as every less developed country, Romanian citizens have been hardly hit by lack of occupation, economic and social instability, poverty and psychological frustration because of that.

Entrance in the European Union is a great opportunity for Romania but is also a

great challenge and the way to achieve Lisbon parameters and to become a well developed country, is probably not so close.

This research is also an attempt to identify and discuss what is needed to develop policies, processes, and infrastructure to foster a development-oriented transfer of financial resources between migrants in Italy and their families in Romania and to define a model of a Trans-National Guarantee Fund able to sustain business start-up and local development in Romania's rural areas.

This paper is structured as follows: in the overview the nature of remittances is described and analyzed, focusing in particular on socio-economic impact of remittances on poverty reduction and examining the positive, and sometimes negative, effects on recipient households, communities and regions.

In the first section the Romanian socio-cultural context is analyzed and, according with the Ifad project, the focus is on rural areas⁵ situation and on their slow and weak development.

Section two discussed the financial services and products Italian banks (Gruppo Veneto Banca, Banca popolare Etica) are offering to immigrants and the role of banking institutions and of Veneto Region about remittances flows and formal and informal channels of money transfer.

In fact, although the number of guest workers is very high, they are not sufficiently integrated into the Italian banking and financial system. If immigrants population do not trust nor use the banking and financial formal system it means that the only

⁵ Rural/Urban Population - Usually the urban area is defined and the residual is taken as rural. In practice, the criteria adopted for distinguishing between urban and rural areas vary among countries. However, these criteria can be roughly divided into three major groups: classification of localities of a certain size as urban; classification of administrative centres of minor civil divisions as urban; and classification of centres of minor civil divisions on a chosen criterion which may include type of local government, number of inhabitants or proportion of population engaged in agriculture. Thus, the urban and rural population estimates in this domain are based on the varying national definitions of urban areas.

For Romania we adopted the definition by FAO Corporate Document Repository and the OECD methodology (Organisation for Economic Cooperation and Development) and we identified only the city of Bucharest as urban area.

In fact, despite the many studies that have involved rural areas of different countries, there is no internationally acknowledged definition of what a "rural area" actually is; the Commission has thereby decided to adopt the OECD methodology (Organisation for Economic Cooperation and Development), since it is the only one recognised internationally, even if criticised for not representing rural areas in full, especially in regard to densely populated areas.

The said methodology is based on population density: rural areas are marked by a population density below 150 inhab./km². As a result, the following distinction was made:

1. Predominantly Rural regions (PR): where more than 50% of the population live in rural areas;
2. Intermediate Regions: where from 15% to 50% of the population live in rural areas;
3. Predominantly Urban regions (PU): where less than 15% of the population live in rural areas.

In the EU 25, rural areas (predominantly rural and intermediate regions) account for 92% of the territory and 19% of the population. Rural areas play a significant role in terms of territorial distribution.

Further details might be found on the web site: <http://www.terragri.eu/images/zone001.gif>

channel used and known is the informal and uncontrolled one of remittances and savings collection.

It is necessary to change the trend and to deeply understand the obstacles and necessary actions to fight this phenomenon.

Moreover, a mission in Romania was organized with the collaboration of the partners of the project. The mission took place from the 13th July to the 17th July 2009 in Bucharest. The principal aim was to understand better the current social, economic and financial situation of Romania and to consider how Romanian citizens are facing economic crisis consequences.

The mission was functional to meet MFIs, traditional banks, non governmental organizations, institutions and job agencies which helped us to focus on:

- negative and positive effects of remittances system,
- new tools and perspectives about the future,
- role of banking and financial institutions in Romania, in particular in rural and marginalized areas,
- how different points of view could contribute to analyze better the phenomenon.

The method used for the survey is the qualitative one, based on personal interviews, telephone calls, meetings among the partners of the projects with the collaboration in particular of Letitia Popa (Banca Italo Romena), Mario Iaccarino (ICE), Bianca Buzzetto (F.D.P.S.R), RAEF and Floriana Puscasu (Obiettivo Lavoro) during the mission in Romania.

The last section of the study could contribute to the debate on policies, incentives, mechanisms and initiatives for banks and credit institutions to get better outcomes and to make use of best practices.

As mentioned the principal idea is the creation of a trans-national guarantee fund model to assess the impacts of remittances on well-being in order to control and facilitate the formal money transfer between Romania and Italy.

Before to report the content of the interviews done, a short overview could help to understand better the positive and negative effects of remittances and how banking and financial institutions are facing the limits and problems which affect informal channels used by remitters.

1. ROMANIAN SOCIAL, ECONOMIC AND POLITICAL SITUATION

From the late 1940s to the early 1960s, the Communist government established a reign of terror, carried out mainly through the so called Securitate (the secret police). During this time the Government launched several campaigns to eliminate “enemies of the state” in which numerous individuals were killed or imprisoned for arbitrary political or economic reasons. Punishment included deportation, internal exile, and internment in forced labour camps and prisons; dissent was vigorously suppressed. Historical records show hundreds of thousands of abuses, deaths and torture against a wide range of people, from political opponents to ordinary citizens.

In 1965, Nicolae Ceausescu came to power and started to pursue independent policies.

But as the Romanian foreign debt sharply increased between 1977 and 1981 (from 3 to 10 billion US dollars), the influence of international financial organisations such as the International Monetary Fund or the World Bank grew, conflicting with Nicolae Ceausescu's autarchic policies. He eventually initiated a project of total reimbursement of the foreign debt by imposing policies that impoverished Romanians and exhausted the Romanian economy, while also greatly extending the authority of the police state, and imposing a cult of personality.

All these led to a dramatic decrease in Ceausescu's popularity and culminated in his overthrow in the Romanian Revolution in 1989.

After the revolution, the National Salvation Front, led by Ion Iliescu, took partial multi-party democratic and free market measures and several major political parties of the pre-war era were resurrected.

After Ceausescu's period, Romania moved so from a communist regime to a democratic political system, from a state-planned to a market economy, and from a state-governed and controlled family life to independently functioning family systems. The transformation into a democratic setup and a market economy was not smooth. The breakdown of the economic and social infrastructure resulted in worker unemployment, underemployment, and job insecurity, all of which translated in economic hardships for many families and communities. Thus, between 1991 and 2000 an average of 70 percent of Romanians estimated their incomes as barely

sufficient or insufficient to cover basic necessities.

Poverty rates vary by region as well: in 1998, the poverty rate in rural areas was 50% higher than in urban areas.

Post-Cold War Romania developed closer ties with Western Europe, joining NATO in 2004. The country applied in June 1993 for membership to the European Union (EU) and became an Associated State of the EU in 1995, an Acceding Country in 2004, and a member on January 1st, 2007.

Following the free travel agreement and politic of the post-Cold War period, as well as hardship of the life in the post 1990s economic depression, Romania is facing an increasingly large diaspora, estimated at over 2 million people. The main emigration targets are Spain, Italy, Germany, Austria, UK, Canada and the USA.

With a Gross Domestic Product (GDP) of around \$264 billion and a GDP per capita of \$12,285 estimated for 2008, Romania is an upper-middle income country economy.

After the Communist Regime was overthrown in late 1989, the country experienced a decade of economic instability and decline, led in part by an obsolete industrial base and a lack of structural reform. From 2000 onwards, however, the Romanian economy was transformed into one of relative macroeconomic stability, characterised by high growth, low unemployment and declining inflation.

In 2006, according to the Romanian Statistic Office, GDP growth in real terms was recorded at 7.7%, one of the highest rates in Europe.

Growth dampened to 6.1% in 2007, but was expected to exceed 8% in 2008 because of a high production forecast in agriculture (30-50% higher than in 2007). The GDP grew by 8.9% in the first nine months of 2008, but growth fell to 2.9% in the fourth quarter and stood at 7.1% for the whole 2008 because of the financial crisis.

According to Eurostat data, the Romanian PPS⁶ GDP per capita stood at 46 per cent of the EU average in 2008. Unemployment in Romania was at 3.9% in September 2007, which is very low compared to other middle-sized or large European countries such as Poland, France, Germany and Spain. Foreign debt is also comparatively low, at 20.3% of GDP. Exports have increased substantially in

⁶ Purchasing Power Standard.

the past few years, with a 25% year-on-year rise in exports in the first quarter of 2006. Romanian main exports are clothing and textiles, industrial machinery, electrical and electronic equipment, metallurgic products, raw materials, cars, military equipment, software, pharmaceuticals, fine chemicals and agricultural products (fruits, vegetables and flowers). Trade is mostly centred on the member states of the European Union, with Germany and Italy being the country's single largest trading partners. The country, however, maintains a large trade deficit, which increased sharply during 2007 by 50%, to €15 billion.

After a series of privatisations and reforms in the late 1990s and early 2000s, government intervention in the Romanian economy is somewhat lower than in other European economies. In 2005, the government replaced Romania progressive tax system with a flat tax of 16% for both personal income and corporate profit, resulting in the country having the lowest fiscal burden in the European Union, a factor which contributed to the growth of the private sector. The economy is predominantly based on services, which account for 55% of GDP, even though industry and agriculture also have significant contributions, making up 35% and 10% of GDP, respectively. Additionally, 32% of the Romanian population is employed in agriculture and primary production, one of the highest rates in Europe.

Following the Fao study entitled “Romania: bank lending to small and medium sized enterprises in rural areas - an analysis of Supply and Demand”, large part of Romanian economic potential is not fully used. In general Bucharest and a few other big towns (in the North of the country) account for the bulk of the growth while small cities and rural communities have under-utilized economic and financial resources.

The average gross wage per month in Romania was 1855 lei in May 2009, equating to € 442.48 (US\$ 627.70) based on international exchange rates.

In line with the Dossier 2008 by Caritas Italiana⁷ Romania, supported by the entrance into the EU, has benefited from being a low cost-country. Several Italian companies have relocated there their productive facilities; but maintaining in their countries the most important managerial activities, design of products, communication offices and higher value added businesses.

Romania has attracted increasing amounts of foreign investment, becoming the

⁷ Caritas Italiana, Dossier 2008, “Romania. Immigrazione e Lavoro in Italia. Problemi, statistiche e prospettive”.

single largest investment destination in South-eastern and Central Europe. Foreign direct investment was valued at €8.3 billion in 2006. According to a 2006 World Bank report, Romania currently ranks 49th out of 175 economies in the ease of doing business, scoring higher than other countries in the region.

Foreign investments continue to be high (7.2 billion euros in 2007), and they are directed especially towards some sectors like banking, construction, telecommunications, network retails, car, energy and private services.

There are nearly 4 billion remittances annually received in Romania, and they represent a great help for the development of the country and better conditions of life for receiving families.

These factors have accomplished to a dynamic of consumption and investment. But the negative aspects are, instead, created by widespread poverty, by muddled bureaucracy, diffused corruption and to be underlined, the difficult approach with not integrated minorities (Roma community for example).

The excessive turnover of skilled workers is starting to be consistent and many times in their home country the number of Romanian qualified workers is not sufficient, especially in construction sector, where more than 300,000 workers are needed.

Sometimes Romanians are laid off in Romania to replace workforce in Italy.

Romania is no longer cheap as in the past, compared to the possibilities offered by several Asian countries, but it continues to canalize attention not only because of its less saturated domestic market, but also as a starting point to enter in touch and invest in other Eastern Europe countries.

According to the organization Unimpresa⁸, Italian companies operating in Romania are 20,000 to employ 800,000 people and for a profit of 12 billion euros per year.

Because of this, Italy is the first trading partner and one of the first investors country. For example, Enel⁹ is the largest energy investor in the country with 2.5 million customers and 5,000 employees. According to data, the turnover of Italian companies is equivalent to 7% of GDP in the country. Unicredit¹⁰ has also created, in Bucharest, an International Desk, which assists thousands of these companies.

⁸ Italian Enterprises Union.

⁹ Enel is Italy's largest power company.

¹⁰ Unicredit is one of the largest Italian banks.

Before the fall of the Berlin Wall, 300,000 people, mostly belonging to the German and Jewish minorities, emigrated from Romania towards European Countries.

After 1989, flows of Romanian migrants significantly increased, mostly towards neighbouring countries and then towards Italy, Spain, Usa, England etc...

Women and people from rural areas are the main immigration target and the biggest cause is linked with forced urbanization wanted by Ceausescu' s regime and with the consequent suppression of more than 7000 villages and rural communities. With the closure of factories workers carried on with the exodus but on a transnational level, especially since 2002, the year of Schenghen Treat.

In the first stage, Romanians developed the so-called informal or circular migration, often of short duration and functional to the economic survival of families. The number of immigrants increased, hardly supported by parental and friendship networks, despite the hardness of conditions laid down in legislation for foreign travellers (medical insurance, ticket to return, foreign currency) and the bilateral agreements signed by Romania to facilitate the repatriation of irregular immigrants.

In 2007, coinciding with the formal accession to the European Union of Romania and Bulgaria, the restrictive policies of almost all European countries proposed the containment of these flows.

Early in 2006 there were more than 1 million of Romanian citizens in the EU-15; the largest settlements were dislocated in Spain and Italy: two years after these countries are still the main points of arrive, while the number of Romanian residents (workers or not) has risen and has achieved about 2 millions of individuals.

According to the Soros Foundation Romania¹¹, a family every three and the 23% of adults have experienced emigration abroad and in 50% of cases, the place of emigration was Italy.

The present one is certainly a situation of transition. Many Romanians citizens would agree to return home under certain economic conditions, and with a positive and new professional background. At the same time a lot of Romanians who have settled down in Western Europe, especially those who tried the Italian experience do not want actually to go back to their origin country.

¹¹ The Soros Foundation Romania supports activities focusing on EU accession, NGO development, interethnic relations, education, child protection, domestic and EU legal issues, public health, and economic development.

In Italy the Romanians were 8000 in 1990, and their number is continuously increasing; in 2008 Romanians were one million.

The unification of the European territory and the liberation by the quota system has made it easier their transfers, but this more favourable legal regime do not make Romanians immigrants free from exploitation, illegal work and social discrimination.

To better understand the Romanian social and economic situation, during the mission in Romania, Consorzio Etimos had a meeting in Bucharest with Bianca Buzzetto, the project officer of the Fundatia Dezvoltarea Popoarelor (The People Development Foundation).

The foundation is the Romanian partner of the project and its presence is fundamental because it constantly works and cooperates with Romanian citizens.

The foundation is helping the other partners of the SME project to understand the cultural and sociological elements which are influencing development policies and perspectives in Romania.

The origin of Fundatia Dezvoltarea Popoarelor is related especially to the problem of children living with HIV and in a situation of cultural and social emargination. In 1996, Romanian and Italian volunteers founded, after a project supported by the Italian organization AVSI, a non governmental, non profit organization with no political affiliation called Fundatia Dezvoltarea Popoarelor.

Its mission is to offer to disadvantaged children and teenagers the opportunity for social, educational and professional integration and development.

During that meeting Bianca Buzzetto underlined in particular their work as Foundation to carry on projects to fight poverty, cultural and scholastic diseases, focusing also on rural areas and on minorities such as Roma or Gipsy.

Romanian rural context is very poor: there is a lack of infrastructures, streets, modern transports, primary services. Because of their living conditions, a lot of people decided to start a new life abroad.

Many children are often left alone with just one parent, grandparents or in orphanages and this emerging phenomenon is the subject of a controversial debate within the civil society.

Scholastic abandon, crime, suicides and psychological diseases are spreading

among children and teenagers who live in disaggregated families and communities. This social aspect is a negative effect of immigrations and it is essential to find new solutions and to work to face the problem as soon as possible, promoting within civil society a culture of "taking care of-culture".

The Foundation is not working alone because, on a national scale, is part of the FONPC (Federation on Non-Governmental Organizations for Children), a network of organizations which together protect and promote children rights.

Following Mrs. Buzzetto's perspective, economic crisis is an obstacle to every development policy because a lot of Romanian citizens lost their job, and many families are turning into poorer conditions of life.

The roots of this situation are entrenched on a deficient savings culture and on a generalized tendency to buy fictitious and expensive goods such as powerful cars, computers, televisions etc that sometimes are less important than other enduring goods as house, education and training, health.

Besides, in 2008, a lot of small enterprises closed because of the economic crisis and for the shortage of adequate and efficient governmental policies and actions.

Banks and financial institutions are present in Romania, also in rural areas, but people are again diffident; sometimes they have no skills and will to have experience of new and well tailored financial products.

Confirming this point of view, the second meeting held with Mario Iaccarino underlines a similar situation, but focusing more on the economic and Romanian entrepreneurial context.

Mario Iaccarino is the Director of ICE in Bucharest and ICE is the Italian Office for External Trade.

In Bucharest ICE Office manages a lot of activities for assisting Italian and local enterprises, such as for example collection and publication of information about sector-based market researches, or about positive or negative development circumstances for Italian enterprises in Romania.

In addition ICE organizes training and promotional activities to spread a positive entrepreneurial culture in Romania.

Many aspects emerged by the meeting, in particular the difficulty for Romanian

citizens to start up enterprises and to enforce in their country an entrepreneurial attitude.

Mario Iaccarino underlined the idea that Romania has embarked on a series of social and economical reforms aimed at transforming the country from a highly centralized administration into a democratic and market oriented economy.

Rural sector is probably the most important sector in Romania but is not enough valorised. Many lands and territories are abandoned and a lot of small landowners and farmers do not participate to the commercial economy and are often unable to develop farmer activities and small enterprises.

With over 40% of the total population living in rural areas and with 15 million hectares of total farm land, agriculture is the traditional backbone of the Romanian economy. Farm households, associations and cooperatives, commercial farms and large business groups, agribusiness enterprises, agricultural producer associations and agro-processing associations employ more than 40% of Romanian total workforce¹².

One of the main problems is about land privatization: although it began early (after 1989), most of the transferred land went to elderly people and the remainder went to younger, but generally poor households. Land restitution resulted in ownership of small, fragmented plots and split into several parcels. Small landowners do not have access to equipment needed for extensive farming and do not have enough resources to improve seed, fuel and fertilizer.

The structural problem of the Romanian agricultural sector is so represented by the marked dichotomy in farm size and the way of farming. On the one hand, there are more than four millions of small farms which produce mainly for own consumption, while on the other hand there are big commercial farms (about 100.000) such as crop farms, livestock farms, fish farms and mixed farms.

For the majority of the small farms the low capital intensity and the current state of used technology have a negative impact on their production volume, cost effectiveness and product quality. In fact, many food processing companies complain that the supply of raw materials from domestic agricultural sources is

¹² Data from Romania: bank lending to small and medium sized enterprises in rural areas-an analysis of Supply and Demand, FAO, Report Series N.9-January 2005.

insufficient and unreliable, relatively costly and is often of low quality.

Romania is traditionally one of the major agricultural economies of Central and Eastern Europe. Romanian agriculture industry shrank by 17% in 2007 compared to the year before and the country Domestic Gross Product (GDP) rose in 2008 of 6%, to Lei 404 billion (€ 121 billion) but agriculture contributed just for 1.3% to that growth.

Unfortunately land under cultivation also shrank; more than a million hectares of farmland was not even worked on and many resources are actually not properly run. As a matter of fact Romania is now a net agricultural importer with an especially large trade deficit in livestock products and prepared foodstuff.

According with Iaccarino's vision, also some data by Ifad¹³ demonstrate that “while it was expected that changes in key incentives would rapidly trigger off overall improvements and better living conditions, it is now clear that considerable effort will be required to support the development of the new market links, entrepreneurial skills and institutions that rural people in particular need to succeed in the new economy”.

Mario Iaccarino focused also on the problem of starting up an activity in Romania without having an efficient and close cooperation with the Governmental institutions, donors and non-governmental agencies.

Focusing on the governmental policies, fiscal incentives should be encouraged and development funds should promote a new entrepreneurial culture to join the European Union and to increase the country's competitiveness in agriculture.

In the second half of 1990s the number of people living below the poverty line more than doubled from 20% to 41%, and those living in extreme poverty increased from 8% to 17% over the same period. Despite signs of economic recovery at a national level, the incidence of poverty is still growing, especially in rural areas where more than 41% of the population live in poverty compared with 28% in the towns and big cities.

More and more people from rural areas decide to go abroad and to re-start a new life there, hoping in better conditions of life.

Unfortunately who decides to leave the country could be a resource and a tool of

¹³ Romania: Country Strategic Opportunities Paper, Ifad, 2003.

development for his/her country and many times he/she do not come back, bringing abroad skills and trusts for future.

Another meeting held in Bucharest with RAEF, the Romanian American Enterprise Fund, underlined instead the need to find new tools and alternative way to recover from the current financial crisis. For example one of these tools could be a Guarantee Fund Model and RAEF agreed with this solution.

RAEF is a private U.S. corporation established by the U.S President and the Congress in 1994, in accordance with the principals of the Support for East European Democracy Act.

The mission of RAEF is to promote free enterprise and entrepreneurship in Romania by investing in small and medium size private companies. RAEF is a catalyst for attracting private capital and plays a significant role in the development of Romania emerging market economy.

RAEF, through its fund manager, Enterprise Capital (EC), works with leading global companies, individuals and institutions pursuing strategic investment opportunities in Romania and neighboring nations. It provides investment banking services to international and domestic clients, manage private equity investments and provide advisory services to corporations and the government of Romania.

Its senior management and board are committed in the growth of investments and in recognizing that advancing the enterprise economy in Romania is a key of development. RAEF is strictly connected from 2007 to Capa Finance, the largest non-bank financial institution in Romania targeting the micro, small and medium-sized business sector, in both urban and rural areas.

RAEF and CAPA have built a solid relationship during the last 10 years, CAPA acting as loans originator for RAEF micro-lending program.

CAPA started in 1996 as a microfinance project inside World Vision Romania¹⁴ with technical assistance from MEDA¹⁵ (Mennonite Economic Development Associates). It was initially created as a non profit credit activity and was delivering loans in urban

¹⁴ World Vision is an international aid Christian humanitarian organization which is placed in nearly 100 countries around the globe. It works with children, families, and their communities worldwide to reach their full potential by tackling the causes of poverty and injustice.

¹⁵ MEDA was founded in 1953 and it (Mennonite Economic Development Associates) is an association of business women and men who invest in favor of better conditions of life of families living in poverty around the world. Besides direct investments, through technical assistance, training and project management, MEDA offers a range of solutions to build viable, rural and urban microfinance organizations.

areas, under a service contract with Romanian-American Enterprise Fund.

Until 2005 CAPA Foundation Romania operated also with rural loans (about 25% of the total loan portfolio) including loans for livestock, vegetables for sale, cereal crops (maize and wheat), reconstruction of buildings and purchase of equipment. Besides rural lending, the NGO provides training and advisory services to clients for the development of their business and management skills.

During 2005 most of the operations were transferred from CAPA Foundation to CAPA Finance SA.

The Company has its headquarters in Cluj-Napoca while its network comprises 5 regional centers and more than 25 rural offices.

As of September 30, 2007 CAPA reported Total Assets of approx. \$ 25 million and about 100 employees. The Company targets Total Assets of over \$ 33 million for year end.

The main shareholders of CAPA Finance are Word Vision Group (three entities holding together 72.75% of shares) and MEDA (24.25% of shares).

Following the completion of the selling transaction, RAEF shall own 97% of CAPA's shares.

The meeting with RAEF and its operators re-marked the idea that Romanian enterprises need help and technical support to achieve their goals and to develop investments and recovery.

As in the other mission meetings, RAEF staff underlined Romanians do not have a saving culture and many times use banking system just for basic operations.

In addition financial crisis create panic and mistrust toward future economic and social developments; at the same time maybe it could created a new sense of savings and prudent investments changing psychological attitudes and economic and financial conducts.

Explaining S.M.E goals and the Ifad project entitled "Financing Facility for Remittances" RAEF officers agreed with the idea that the flows of Romanian remittances are often channelled into informal systems and explained the common diffidence of rural areas inhabitants to use banking and financial formal institutions.

They underlined that probably, in a situation of global financial crisis, a model of guarantee fund is the best tool to collect savings and to invest them in future actions.

A guarantee fund is safer than other financial services and people could probably feel more confident, steering better their savings.

RAEF does not offer specific products or services for immigrants clients nor it does make any distinction among customers. Their main goal remains oriented to create a flexible and dynamic culture of investments: to develop individual expectations but also to foster the growth of Romania as country using economic and financial tools and implementing politics and actions.

2. FINANCIAL SERVICES AND PRODUCTS OFFERED TO MIGRANTS

The market of remittances involves a lot of different institutions and operators.

On one side there are the Money Transmitters Operators (MTOs) such as Money Gram or Western Union while on the other side there are traditional banks or institutions such as Poste Italiane.

There are many differences among the services they offer and the immigrant normally prefers to use Money Transmitter Operations, even if often migrant people are not well informed on the available options.

It would then be essential to analyze the differences between these services to underline critical points and to find new solutions and best practises for the remitters, and moreover it would be even more important to make migrant people aware on the range of the service they are offered.

There are currently some initiatives aiming at helping the project target to better evaluate the cost of money transfer, and therefore to choose more consciously. It is the case for example of the web site “Manda i soldi a casa”, meaning *send money home*, (http://www.mandasoldiacasa.it/beta/cosa_e.html) the Italian site allowing to compare the costs of the remittances, in order to foster operators to improve their offer in favour of migrants¹⁶. The website provides migrants with a variety of information, such as the different way to send money home, the importance of saving money and investing in development projects, the initiatives promoted in Italy for migrants, and more. This is a way to help migrant people knowing that there are other ways to transfer their savings, different than the informal one and than MTOs.

¹⁶ The website was created by CeSPI (Centro Studi di Politica Internaiuonale) in partnership with OIM (Organizzazione Internazionale delle Migrazioni), ACLI, ARCI, ARCS, Banca Etica, ETIMOS, IPSIA, UCODEP, WWF Italia. The site was made possible also thanks to the Italian Ministero degli Affari Esteri (Direzione Generale per la cooperazione allo sviluppo e Direzione Generale cooperazione economica e finanziaria multilaterale). An English version is also available.

2.1. The Money Transmitters Operators

The market of remittances is overwhelmingly dominated by a small number of Money Transmitters Operators (MTOs) with more than 90% share. In spite of reduction in costs in the last years due to higher competition, these companies charge large fees and exchange rate commissions, which greatly diverge among locations and destinations. This suggests that the market has an oligopolistic structure and that it is very segmented. It also underscores that a significant slice of remittances goes to the operators as rents, as highlighted, rather than to the families of the migrants in developing countries. In spite of banks being at the core of the financial system, they have traditionally kept aside of this apparently attractive financial market.

This situation can be partly explained by the higher effectiveness of MTOs to reach distant receivers, but also to the reluctance that migrants have traditionally shown towards the banks system

Most receiving countries are characterized by scant access to credit by the low income groups (those more prone to receive remittances) and by a low degree of bancarisation. Contrary to banks, MTOs cannot offer financial services attached to their intermediary role. Therefore the bancarisation of remittances is seen as an important lever to promote financial services and democratization in the receiving countries.

Money gram

Money Gram is one of the most famous Money Transfer Operator; it includes a network of 180,000 local agents across 190 countries and territories.

Its services are linked to the transfer of money all around the world and on its web site Money Gram present itself as:

- quick, because money is where it's needed in just 10 minutes (where and when it is possible);
- convenient, with 180,000 money transfer agents around the world;
- available to everyone (the client doesn't need a bank account or credit card);

- easy, because the client has just to visit a MoneyGram agent and complete one simple form;
- personal, because the client can add a complimentary 10-word message for the receiver.

Anyway the required fees don't seem to be that convenient because for example to send 1000 euros from Italy to Romania the added expenses are 48,50 euros. But Money Gram, as any other MTO, actually represents for immigrant one of the best way to remit because of capillarity of MTOs network and their streamlined/simplified procedures of money transfer.

Western Union

The Western Union Company is actually one of the leader industry in global money transfer with over 379,000 agent locations in 200 countries and territories.

Western Union offers to consumers a variety of ways to send money through Western Union, Orlandi Valuta and Vigo agents worldwide and an Agent location is simply available from the biggest cities to the most remote towns.

Western union offer consumers different options for receiving a money transfer.

Here are some examples:

1. Walk-in Money Transfer Service

More than 90 percent of transactions are still done in person where consumers receive the attention and expertise of an agent clerk. The agent clerk collects cash from a consumer and within minutes, payment is available for pick-up at an agent location convenient to the receiver.

2. Online Money Transfer Service

Western Union transactional Web site allows consumers to send funds online using a credit or debit card. Additionally, consumers can conveniently check the status of their transfer online.

3. Telephone Money Transfer Service

Telephone Money Transfer service allows consumers to send funds by telephone without visiting a Western Union Agent location. Consumers may call a toll-free number in the United States or the United Kingdom and use a debit card or credit

card to initiate a transaction. The money transfer is then available for pay-out at a participating Agent location.

4. Mobile Money Transfer Service

Western Union is starting to work with mobile phone operators in select countries to introduce money transfers that consumers can send and receive with a cell phone.

Receivers can typically pick up available funds within minutes of the sender completing a transaction. In some countries, funds can be sent for next-day payout, bank account delivery or loaded to a stored-value card. In a number of countries in Latin America and the Caribbean, Western Union agents offer a bank deposit service, in which the paying agent provides the receiver with the option to direct funds to a bank account or to a stored-value card. Vigo also offers Direct to Bank and home delivery service in certain countries.

Telegiros

TeleGiros Worldwide Money Transfer is a company born in 2004.

It is actually handling money transfers (sending/receiving) for individuals and companies between Africa and Latin America on one side and Europe and The United States on the other side. In addition, it is also increasing the possibilities to send and receive orders of payment among the African countries.

It is important to stress that, by their nature and contrary to banks, the analysed MTOs do not offer financial services attached to remittance, they only act as mere money transmitters.

MTOs charge an explicit fee that can be a percentage of the amount remitted or a fixed amount (often in dollars) and the fee usually depends on the services offered (speed of delivery, home delivery, etc...). The exchange rate spread is the difference between the exchange rate applied by the money transmitter company to convert dollars into local currency and the market exchange rate. Money transfer companies usually offer a less favourable exchange rate to the sender than the market rate. In spite of narrowing in the last decade, the cost of remittances remains high and large

differences are observed among different destinations.

According to “sendinghomemoney.org”¹⁷, the average cost of sending £100 through MTO in 2001 for a sample of 40 countries was between 8% and 40% without including the exchange rate charged on money transfers located in local currency. Therefore, currently a significant slice of remittances goes to the operators as yield profit rather than to the families of the migrants in developing countries. Furthermore, most of the migration countries are characterized by low financial development.

In this context, it is rather striking that the main financial intermediaries, commercial banks in both the source and recipient countries, have a low share of the global remittances market and, until recently, they have shied away from this apparently attractive business. Thus there is a clear reason why increase competition in remittances markets through banks entry.

2.2. The banking services

If the market of remittances is dominated by Money Transmitters Operators the participation of banks is strictly small.

The Italian banks situation is similar compared to the international remittances services panorama. Both in terms of volume and number of transactions, Italian banks play a fairly limited role in the remittance market.

In 2004, less than 10% of all formal remittance flows were transferred through the bank owned money transfer services (the MTOs are not included on the percentage).

Although the migrant population makes out a good portion of Italian population (the number of immigrants in Italy is increasing of 500.000 units for year)¹⁸ it seems it is not yet sufficiently integrated into the Italian banking and financial system.

According to data and statistics, many legal immigrants in Italy do not have a bank account nor have access to any financial service (including remittances transfer).

¹⁷ <http://sendingmoney.org>

¹⁸ XVIII Rapporto, “Immigrazione: Dossier Statistico 2008”, Caritas Italiana, Fondazione Migrantes, Caritas Diocesana di Roma, 2008.

In terms of nationality, in 2003, Romanians accounted for 7.3% of migrant bank account holders, while Albanian accounted for 5.1%, both lower than their respective share of foreign population.

But which are in Italy the services offered by banks and traditional institutions such as Poste Italiane¹⁹?

Poste Italiane

The Poste Italiane which has approximately 14.000 offices all over the country, constitutes the largest Italian network for remittance transfers. Its services are generally considered "reliable and cheap" by the immigrant community. Cards and accounts are designed to manage savings and payments needs in a similar way to banks services but they are commonly cheaper and closer to the immigrant customer demands.

The first service offered is the International Money Order which allows the customers to send money abroad from any post office in Italy. The international money order is payable at the post office mentioned in the order or at any post office.

Another example of financial product offered for immigrant customers is the Money Transfer Service by Poste Italiane. It allows to send money without being a Bancoposta or bank customer, in 4-8 days to the countries that are part of the Eurogiro²⁰ circuit.

Transactions involving EU countries are made in euros while transactions with other Eurogiro countries are converted into local currency.

The system allows the client to send and receive money via the IT network linking the countries belonging to the Eurogiro circuit. Cash payments of funds coming from abroad via Eurogiro (free of charge service) are made with "Non-transferable" postal cheques.

Charges are equal to 5,16 euros if the money is up to 103, 29 euros and 10, 33 euros if the transfer is over 103, 29 euros.

¹⁹ Poste italiane S.p.A. is the government-owned postal service of Italy.

²⁰ Eurogiro is an international circuit including Albania, Austria, Cabo Verde, Croatia, France, Germany, Japan, Greece, Ireland, Israel, Luxembourg, Morocco, Poland, Portugal, United Kingdom, Romania, Senegal, Serbia, Slovakia, Spain (including Andorra), Switzerland, Togo, Tunisia and Turkey

The MoneyGram Service Abroad by Poste Italiane is another service which allows the transfer of money in real time. Shortly the migrants' money reaches more than 190 Countries worldwide. In some countries anyway the transfer can demand an additional time.

It is not necessary to have a postal checking account or to be a bank customer.

The characteristics of this service are different: at the moment of the emission, the sender client can write in a free message of 10 words (maximum 80 characters) that will be communicated to the beneficiary in the Country of reception. It will be cure of the sender to communicate to the receiver the amount and the code of reference of the transaction.

Moreover the maximum transferable and payable amount is of 2,582.28 euro, but it is possible to carry out more transactions, in obedience to the rules previewed from the Italian anti-recycling law (D.Lgs 231/07).

At the moment of MoneyGram transaction towards some countries, the sender can choose in which currency to carry out the payment to the beneficiary (Multicurrency Service).

In addition to money transfer services through MoneyGram is also possible to receive money and this transaction is free.

Italian banks of Gruppo Veneto Banca and Banca Italo Romena

Among banking institutions in Italy, it is really limited the number of banks which have planned target-oriented banking and financial products directed to immigrants and their families and communities.

Banca Italo Romena, for example, a bank of Veneto Banca Group that operates in the Romanian market, created two specific products (Money 4 Family and Conto Senza Frontiere) to meet needs and demands of Romanian workers transferred in Italy.

Because of this, during the mission in Romania a meeting was scheduled with Letitia Popa who is the Products and Market Manager for Banca Italo Romena.

Banca Italo Romena started its activities in 1980, and it actually has a Central Office in Bucharest and 20 branches (19 branches in Romania and 1 branch in Italy).

The number of employment is growing faster, year by year, and in 2008 the bank had a total of 238 employees and 42 credit officers.

The 20 branches are located mainly in rural areas and the 70% of clients are entrepreneurs who probably find in Banca Italo Romena an institution which offers well tailored services.

There are branches in rural areas eventhough, according with Letita Popa the population of rural areas does not have any positive relation with the traditional banking and financial system. Population from rural areas is diffident towards banks system and financial investments and many of them do not have a checking account. This enforced the use of informal channels because many immigrants from rural areas direct their savings and remittances into non institutional channels.

At the beginning the target of Banca Italo Romena was directed to Italian entrepreneurs and towards people who wanted to invest on Romanian enterprises. Actually the focus of the bank are also the Romanian immigrants who live in Italy and for them Banca Italo Romena created specific services to promote a different culture of saving and to enforce an entrepreneurial attitude.

The specific products for immigrants are four:

- Conto Senza Frontiere;
- Mutuo Senza Frontiere;
- Money 4 Family;
- Sovvenzione Senza Frontiere.

Money for Family and Conto Senza Frontiere are thought to give better conditions and more favourable remittances costs for Romanian citizens. They were projected to meet needs and expectations of immigrants and of their families and to give an alternative way to think about the future.

Money 4 Family is the service wich allows the transfer of money from all the banks included in Veneto Banca system towards Banca Italo Romena.

It is oriented towards people who want to transfer funds from Italy to Romania and it is not necessary for the beneficiary of transfer to open a bank account with Banca Italo Romena. The operations start from every bank included in Veneto Banca Group and the daily budget doesn't have to exceed 3098 euros.

Who cashes in the money (from every decentralized agency) doesn't have to pay any fee because it's on the back of the sender person. Agency fees are cheap and operations are fast and safe.

Conto Senza Frontiere instead is the checking account which allows the client to receive free and fast credit transfers from and towards Italy.

The main characteristics of this product are the following:

- it is addressed towards individuals and in particular Romanian citizens;
- it makes easier the transfer of funds, using leis or other foreign currency, among Banca Italo Romena and the other banks belonging to Veneto Banca Group;
- it could be opened in lei, euros or dollars;
- the bank account you can add a VISA Classic International credit card;
- you can take advantage of cash deposit and withdrawal, payments among different banks, national and international interbanking payment systems, deposit on credit cards;
- more accessible and streamlined currency exchange operations;
- Internet Banking and correlated web services.

In such a period of financial and economic crisis Letitia Popa underlined how Romanian citizens lost hope about the economic growth of their country and about their possibilities for new and better conditions of life.

Many of them have all spent their money to buy consumption goods such as car, TV, household appliances and took out a loan they are now not able to pay back. This phenomenon created a sense of frustration and strengthen the gap between the poor and the rich.

As Letitia Popa emphasized, Banca Italo Romena, in cooperation with the Italian banks of Veneto Banca Group, wants to provide more than simple financial products and services, considering the relationship with costumers essential and established a strong deep-rooted service culture based on transparency, trust, quality and international expertise.

It is important to consider that commercial banks are by far the strongest players in

Romanian financial system but the presence of banks in smaller rural communities is weak and they are reluctant to open new bank branches or agencies in rural areas because large cities offer plenty of profitable business opportunities an room of expansion. In fact, transaction costs of banks in rural areas are high without being compensated by corresponding high revenue levels and the bottom line is reached when the total costs of operating a small retail bank outlet with a low volume of transactions are not compensated by earned income²¹.

During this financial crisis Romanian banks must play a central role on recovery and on giving trust and services to citizens. They should be dynamic and flexible organisms ready to meet the market requirements and people's needs.

Maybe the economic crisis could be a sort of watershed and maybe Romanians could understand the importance of savings and of prudent choices, in line with their personal portfolio.

Actually the Banca Italo Romena products focusing on immigrants are not that used and diffused because the economic crisis forced many Romanians to go back home and also the amount of remittances is slowly reducing.

Letitia Popa explained also that she hopes in a future recovery and use of banking services tailored on migrants needs and financial and economic capabilities.

Why have then banks been unable to capture a substantial part of remittances markets?

On the one hand, the branching distribution system of banks seems ill-suited to reach quickly the recipients in remote areas in countries with low financial development where bancarization is scarce. This contrasts with capillarity of MTO network, which has given them a comparative advantage.

Also, behavioural evidence suggests that many remittances senders take a sceptical view of banks and other formal financial institutions. Many immigrants fail to understand and are suspicious of the bank prices structure. In many cases this mistrust is linked to the dismal performance of banking systems in the origin countries of migrants, characterized by financial crises, appropriation of savings or

²¹ Romania: bank lending to small and medium sized enterprises in rural areas-an analysis of Supply and Demand, FAO, Report Series N.9-January 2005.

depletion of their value.

Finally, the requirements of documentation and transparency in banking transactions tend to be higher than on MTOs; the large share of informality in the migrants' job market and their irregular legal situation act as strong deterrents of both access to and use of banking channel.

Given these obstacles, banks, in order to be competitive in the remittances market, are developing several initiatives to increase financial literacy and build confidence.

The initiatives take different forms, such as targeting the migrants market at the host countries and this is in many cases complemented by a variety of strategies at the origin country of migrants, either through joint ventures with local financial and non-financial institutions or even MTO's.

Only a part of the strategies developed so far convey the possibility of banks to directly play their natural role of inter-temporal allocation of financial resources in the origin countries, which is opening savings accounts or giving credit to remittances recipients contemplating such resources as collateral. But some of the initiatives indirectly imply the use of the remittances to promote individual or community investments. These direct or indirect initiatives, as well as some others with less intrinsic financial content will contribute to generate more trust and customer linkages which will broaden the scope of banking activities in this market. Furthermore, if the use of banking channel has positive effects on savings, then banks would have strong incentives to create lasting banking relationships with migrants who use remittance products.

Remittance could also serve as collateral for future credits as they have proved to be more stable when compared to other private capital flows. At the same time, remittances are less affected by economic downturn; on the contrary, they are known to rise during periods of downturns or crises in the migrants country of origin. Of course as we are currently facing a worldwide financial crisis, the situation is quite different, as this global emergency is negatively impacting also the migrants' possibility to save and transfer money.

This counter-cyclical behaviour is an attractive feature for banks during recession periods in emerging economies.

Finally, a positive effect of the use of the banking channel on savings will reinforce

both, the social and the economic impact of remittances on emerging economies. Regarding the nation of origin of remittances, they can become the levers to lure migrants into the banking system; migrant consumers can also benefit from the use of financial products linked to the remittances business. In any case, the largest expected benefit from banks entry in this market is to increase the competition in a sector in which large rent-appropriation is perceived on behalf of MTOs.

After what has been said in this subsection, there are no doubts about the benefits that the introduction of banks in the remittances market would entail for both, remittances senders and receivers.

2.3. Best practice : Obiettivo Lavoro

During the mission in Romania, a meeting with Obiettivo Lavoro was organized because this organization is carrying on an interesting project focusing on the integration of Romanian citizens in Italy and on the use of formal channels to remit.

Obiettivo Lavoro is an Italian job agency and has actually decentralized offices in Brasil, Poland, Peru, Andes and Romania. It was born by the idea that the world of job needed a qualified and dynamic agency focusing on quality of job offer and social responsibility.

In Italy, in 1997, the so called "pacchetto Treu"²² introduced in Italy the temporary work agencies to meet job supply and demand and to obtain a more dynamic and flexible market.

Its Romanian Office is placed in Bucharest and Floriana Puscasu is its General Manager.

During the meeting Floriana Puscasu described the main goal of Obiettivo Lavoro Romania which is to meet the job demand in Romania and the job supply in Italy dovetailing Romanian workers and Italian entrepreneurs needs.

A lot of Romanians have found in Italy a good and well retributed job and with their

²² The "pacchetto Treu" is a set of rules regarding the regulation of temporary employment and was introduced first during the 1996–2001 centre-left government. It was then changed by Minister of Labour Roberto Maroni in 2003, introducing a high number of temporary labour forms and made temporary labour cheaper than permanent.

salary (usually 5 times more than the Romanian one) they can normally increase their families well being and improve their professional skills.

Women are commonly requested as nurses. Obiettivo Lavoro gives hospitality to them in Padova and for one month they study Italian language and prepare an entrance examination to obtain the Italian qualification as nurse. Financial crisis doesn't hit their category and Romanian nurses are again requested.

For men situation is different.

In 2008 Obiettivo Lavoro sent to Italy 300 building and factory male workers. They experienced in Italy a positive stay because of the conditions of work and a well-paid wage (usually around 1500 euros after tax).

They had to open, according with Obiettivo Lavoro, a bank account in Romania and one in Italy and their wage was paid into their Italian bank account. The worker, at the beginning of his stay, could decide how much money to deposit from the Italian bank account into the Romanian bank account (usually 75% of the net salary).

Then, every month, the monthly wage is split in two: normally 75% goes to the Romanian bank account while 25% goes to the worker for every day expenses.

This system is obligatory for workers who decide to join Obiettivo Lavoro and it protects them by thefts into the constructions sites for example, or by informal remittances system which is more unsure and less controlled.

According to Floriana Puscasu this system of transfers is really appreciated by workers who feel more confident and become conscious their families and relatives constantly receive every month a consistent amount of money.

Unfortunately economic crisis in Italy hit the building and manufacturing sector and about 150 workers loss their job. It means that about 50% of workers employed by Obiettivo Lavoro had to leave Italy and to go back to Romania.

Floriana Puscasu underlined that many of the workers frequently call her to ask if there are new job opportunities because they are actually unemployed and they do not know how to face domestic and every day expenses.

Romanian citizens, this is an aspect underlines also by Bianca Buzzetto, Mario Iaccarino, Letitia Popa, Adrian Chindris, have a poor culture of saving and low investable funds arising from it.

In particular after 1989, Romanians started to think about the future in terms of

richness and better conditions of life. But developing processes need time, organization and strong institutions, new policies tailored with local economy and country resources.

In the last decade many Romanians started to spend their money for consumption goods such as car, TV, household appliances and to be indebted. The main idea was to demonstrate to others that the period of poverty and deprivation was gone.

When times are good lifestyle debt is not such a problem but during economic crisis people do not have savings set aside to support themselves through the tough times.

The poverty level and the gap between rich and poor people is increasing and many Romanians are frustrated by this situation. For many of them the solution is to emigrate abroad and to leave, temporarily or not, their country.

In addition the saving culture is an essential key to improve the entrepreneurial culture, thinking about savings as tool to star up a family business or to invest in financial activities.

The systematic muzzling of a saving culture and future enterprise could start at the opening of a bank account where the person soon realises that a checking account is far much better than a savings account, on which so many restrictions are imposed with no commensurate return by way of a real interest rate.

In particular in rural areas this doesn't happen and many people do not use bank services nor financial facilities and do not even have a checking account.

The major reasons quoted for the under representation of rural credit in the overall loan portfolio of banks are²³:

- absence of bank branches in smaller rural communities due to the high transaction costs and non-profitability of rural lending;
- bankers' perception of rural clients as being risky due to their low repayment capacity and credit discipline;
- a lack of trust that rural people have in banks and bank services;
- lending terms of banks which do not correspond with the specific features of rural clients and types of investments in rural areas;

²³ Romania: bank lending to small and medium sized enterprises in rural areas-an analysis of Supply and Demand, FAO, Report Series N.9-January 2005.

- non-compliance of potential rural borrowers with the loan application requirements of banks, including their lack of capability to prepare adequate business investment plans.

At the same time, a lack of trust towards the Romanian banks system is common among Romanian immigrants and for this is essential to promote a saving culture and to channel migrants economic resources in effective and dynamic financial products devoted to facilitate investments and start ups of new businesses.

The way undertaken by Obiettivo Lavoro could result as a positive solution to solve the Italian shortage of labour and to create the condition to address immigrants towards legal banking and financial products.

Certainly a good example to fulfil different needs and situation, creating more awareness about immigrant own capabilities and trust on a different future.

3. CONCLUSION

During the mission in Romania and following the analysis of some social and cultural aspects inherent Romanian people and the flows of remittances, many issues should be considered.

First of all the Romanian people's attitude toward saving and investments; Romanian do not have any saving culture and they usually spend much money for some kind of consumption goods (car, TV etc.) and do not think to invest their money in something more enduring and fundamental.

A lot of Romanians, in particular in rural areas, do not have access to any bank service such as checking account or investment funds and mistrust traditional banking and financial institutions. The same happens in Italy, where not many Romanian people have bank accounts: it must be anyway considered that normally to open a bank account in a credit institute in a foreign country, it is often necessary to present formal documents, such identity card, or to accomplish to some formal criteria, such as having the formal residence in the hosting country, and this is not always possible.

Many times, remittances flows are routed to informal channels because of this and because it does not exist any positive nor dynamic entrepreneurial prospective by immigrants and Romanian citizens.

If the people have a limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinders the ability for entrepreneurs to engage in new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable.

Furthermore economic crisis hardly penalized middle class people and poor people who are losing their job, facing economic difficulties and are strongly indebted with banks and credit institutions. Many immigrants due to the recent economic and financial crisis are returning to their origin countries and also the number of unemployment is growing worldwide.

Italy too has been hit by crisis and the European Commission expects Italy's economy to contract by 2% during 2009; that means it will be much more difficult for migrants to get a job in the next future.

Nevertheless unemployment, which hit a record low of 6.0% in the second quarter of 2007, has edged up only gradually to 6.7% in 2009 and Italy traditionally low-growth but low-risk economic structure is a source of strength in the current crisis.

In Italy actually the problem is linked with immigration phenomenon and diffidence Italian citizens have met accepting substantial migration flows and also a radical change on the composition of Italian society.

In addition, new rules, the so called "Pacchetto Sicurezza"²⁴, are directed to control migratory flows and to stop clandestine immigration.

Of course Italian people have to accept the migration phenomenon and to think on a different future makes of mutual acquaintance.

At the same time, in a period of so uncertain economic situation and mistrust on future Romanian people have to cope with the idea of developing new tools and actions in their country to overcome not only the economic crisis but also the social and economic delay of post-communism societies.

²⁴ This law was promulgated on the 24th July 2008, law n. 125 and it deals with illegal immigration.

New tools means investments, creation of occupation through entrepreneurial activities, trust on banking institutions, culture of saving, culture of prudent and tailored investments.

To achieve these goals citizens need a strong, flexible and transparent banking system, opened to change and to afford goals and challenges from European Union and Globalized World and a more fair society. In this sense also the world of Governmental institutions have to give a substantial contribute fighting against corruption and lack of transparency of the system and developing policies oriented towards the entrepreneurial sector.

That's why it is important to try to use remittances as a tool to promote local development²⁵, and it is really necessary to foster new initiatives to make remittances pass through formal channels. Making migrants address to banks instead than to informal means to send their money home, means to promote a more competitive market (and therefore more competitive costs), to give some advantages to consumers which can profit from a wider range of choices, it means also more safety (as formal means are of course safer than informal), and moreover, it means to foster the local development of the receiving countries.

Banks have currently understood the economic importance and potential of attracting the migrant target and make them become clients, but they've also already noticed it is not an easy group to reach, and it can be somehow even riskier, as they don't know it at all (anyway migrants are normally good savers and therefore potentially good clients, even if it seems that is not the case of Romanian people).

Banks interested in offering remittances service to migrants should bear in mind that it is important that this service is easily accessible, safe, not too expensive and flexible. Banks should really study a precise strategy to enter the market and should also train their operators on how to relate to migrants, helping them to feel more comfortable.

Offering formal transfer service to migrants means to help them approaching banks and in this way also making them becoming a client, who will in the future use not only the remittance service, but all the products normally provided by a bank.

²⁵ It was proven that in some countries remittances have higher impacts than international aid funds.

In theory banks, if willing to do it, could offer transfer services at lower costs, compared to those of MTOs and they could also assure a very quick service. But banks present also some weak points, such as the lack of capillarity in rural areas: often a bank is present with many service points in cities and urban contexts, but when approaching more rural areas, it becomes more difficult to find formal credit institutes. On the contrary, one of the strengths of MTOs is to be present everywhere: to have counters worldwide, it doesn't matter if rural or urban area. Moreover, banks need to overcome the migrants' mistrust toward formal services, due also to an excessive bureaucracy. They therefore need also to carry out some marketing and commercial promotion activities. We already mentioned that it is much easier to go to a MTO, present a passport, pay a commission and send the money home, rather than go to a bank, register, and accomplish to all the formalities required.

On the other hand non-governmental organizations and Micro Finance Institutions have become more numerous worldwide and their fields of activity have widened. Some of them are engaged in rural development and serve to empower the poor, providing a valuable tool to assist the economic development processes. Many MFIs serve in their countries exactly the target that becomes migrant and therefore needs the transfer service. The mission of microfinance institutions as dedicated providers of credit and other financial services to the economically active poor is strong and urgent, also in European emerging countries.

Microfinance institutions give credits but develop also training, saving and investments education and give new perspectives of life and trust on future, they have a high potential to foster local development.

Actually, we can observe that in the last period the attention of microfinance toward remittances has increased: many are the surveys on this topic, that is on how to link remittances to microfinance and therefore to local development. There are even some practices in that field, but mainly in Latin America, where the remittance sector is really developed and microfinance is highly developed too, and the two markets are in general more competitive. For example an Ecuadorian bank specialized in microfinance, Banco Solidario, signed an agreement with a Spanish Bank, la Caja

Murcia, to try to reach together the target of Ecuadorian migrants leaving in Spain. Those migrants represented exactly the target normally served by microfinance: people traditionally excluded from the formal financial sector in Ecuador. These people were used to address to money operators to send their saving home, rather than using banks, even if the service provided by banks was cheaper.

In order to overcome the mistrust of migrants, the Banco Solidario created an Ecuadorian enterprise working in Spain, Enlace Andino, which had to promote the banking services of Banco Solidario and the transfer services of Caja Murcia among migrants, helping them also to open a bank account at Banco Solidario, even if they were still living in Spain.

Remittances of small amounts were collected all together by Caja Murcia, who then had to transfer them to Banco Solidario (to collect them in big amounts was necessary to reduce the transfer costs). Migrants could therefore profit from the services offered by a bank, Banco Solidario and transfer some saving directly to their account. In this way they could also have a better control on the money sent home and decide to use only a part of it to satisfy the everyday needs of the families leaving in Ecuador, while keeping another part deposited. To have a current account meant also to have access to other products, such as microcredit. After a while, Banco Solidario signed some other agreements with other banks in Europe and USA and therefore widened its field of action and modified also its offer. Anyway Banco Solidario had also to face some risks and challenges: first of all the competition of other subjects who entered the market, and secondly the bad payment of some of the microcredits given to migrants. This latter was mainly due to lack of control on the people having received the money: Enlace Andino was mainly involved in promoting the service, rather than assessing the risk and solve the problems which could raise.

This experience has been reproducing in other contexts, such as for example Senegal: a big Union of Microfinance institutions, ACEP (Alliance de Cr dit et d'Epargne pour la Production), is currently involved in a project with an international money transfer operator to directly transfer migrants' money, through that MTO, into a current account opened at one of the ACEP branches (Caisse). To save some money on this account allows the migrant to have access to the services offered by

the MFI, mainly to the credit service. Also in this case the migrant can decide if he/she will be the only person having access to that current account or he/she can also delegate someone different, such as a family member to make operations on that account. In this way migrants have a stricter control on their savings and can avoid this money to be used in a way they don't agree with.

There are currently many MFIs signing agreements with MTOs, but often it is only a commercial agreement: that is that the MFI's counters offer also a transfer service of that operator (basically we just find at the same counter the MFI and the MTO).

While the first type of partnership between MTOs and MFIs is normally possible only when we are talking about big microfinance institutions, who have many clients, are better known and can also renounce to the fees in favor of the MTO, as it can profit from the *acquisition* of new clients, the second type of collaboration are more accessible even for small MFIs, who only have to make available its counters to MTOs.

Linking remittances with microfinance represent an important way to foster local development, as we have seen, but the path to be done to improve this relation is still very long, even if the number of experiences in this sense are increasing quickly.

Currently, there is anyway no available experience in Romania to report on the issue microfinance linked with remittances, this sector hasn't been really explored nor tested yet; therefore the goal to achieve local development by means of remittances and microfinance seems still far away. And it seems more likely that what is needed currently for Romanian migrant in Italy is a promotion activity showing the possibilities offered to them by banks, such as Veneto Banca. In this case it would be probably necessary to approach migrants and to sensitize them on the importance to use remittance in a more productive way: if some migrant will then be satisfied of the services offered by the bank, it will be easier to reach also other migrants, as normally one of the best promotion activity is "passing the word". Romania needs moreover a coordinated mobilization of different actors to face not just the recent economic crisis but the challenges European Union and future deserves.

Moreover, it must be considered that it is not possible to define a model of money transfer suitable for all the contexts, as much depends from the remittances corridor and its specific characteristics. As we have seen, in contexts where microfinance is well developed and the remittance market is more competitive, different actors than MTOs, such as IMF and banks, will be interested to enter the sector and in this way more products will be made available to migrants. While for example in those contexts where the mobile technology is well spread, there will be probably some phone companies trying to enter the remittance market through the use of services via mobile phones. So, while thinking about the best way to foster the use of remittance to promote local development, it is necessary to analyze the features of the target (for example if in their origin countries migrant do not have access to banks, it will be even more difficult to make them address to bank in the host country), the importance they give to join migrants' associations, the characters of the reference market, the diffusion of microfinance, of banks, of technology, in order to develop systems and services suitable to them.

There are currently also many studies on the opportunity to create a guarantee fund by means of remittances, which should allow migrant and their families living in the origin countries to have access to credit, especially microcredits. But there are some difficulties preventing the implementation of such a hypothesis, both from the microcredit institutions side and migrants' side. First of all when sending directly remittance to the family or to a personal bank account, the migrant has the direct and concrete perception of the benefice she/he can get: they can support their family, can save some money to invest it lately, they can save for having access to credit, etc. And somehow they always keep the control on their money. While if migrant decide to transfer their savings into a guarantee fund, they'll only have an indirect feeling of the benefice they can have, as it is not sure that this fund will also allow them to get a credit. They'd promote local development, allowing people belonging to the same community to have access to credit, but not all of the migrant people would directly get this possibility. Moreover, they wouldn't have control on their money and they could also risk to lose it for someone they don't know. So, even if usually migrant people feel a strong attachment to their country, it is not that

easy to make them risk their money in that way²⁶, even if only in part, for promoting in general local development. Microfinance institutions from their part must always sign agreements with local banks in host countries or with MTOs, and that means that the costs can become higher for migrants, if all ask for service fees. Moreover as we mentioned in the case of Banco Solidario, it is then difficult to give microcredits to people living in other countries, as there is no control on the delinquency risk. It therefore seems that this possibility must be explored, but maybe the right time to put in action this project is not yet arrived, even if some pilot experiences could help understanding how to concrete implement this funds.

From their part, what public organism and international agencies and organizations should do is to promote transparency of remittances services among migrants: it is really important to make migrants conscious of the different possibilities they have when sending money home, the different consequences linked to choose a mean rather than another one, the costs of the services, the time, the information on the different operators involved, the different services they provide. It is important to make migrant aware that there are not only MTO o formal way to transfer their savings, that's why initiatives such as the above mentioned *mandaisoldiacasa* are very important and must be implemented and advertised among migrant communities.

²⁶ Normally even if MFIs precisely evaluate and assess their possible clients before giving a microcredit, a risk is always present.

4. ANNEX

a. Agenda meetings in Romania

13th July 2009, meeting with Bianca Buzzetto

FUNDATIA DEZVOLTAREA POPOARELOR

16th July 2009, meeting with Mario Iaccarino

ICE

meeting with Floriana Puscasu

OBIETTIVO LAVORO

meeting with RAEF

(Romanian American Enterprise Fund)

17th July 2009, meeting with Letitia Popa

BANCA ITALO ROMENA

b. Useful links

<http://sendingmoney.org/>

http://www.mandasoldiacasa.it/beta/cosa_e.html

<http://www.iom.int/jahia/jsp/index.jsp>

<http://www.cespi.it/doc-banking.html>

<http://www.venetobanca.it>

<http://remittancesgateway.org/>