Maximizing the development impact of remittances the cases of Macedonia and Bosnia

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Abstract

The main purpose of this research is to show the possibilities of maximization of the development impact of remittances in the cases of Macedonia and Bosnia. Furthermore, this paper aims to examine the impacts of remittances on these countries' economic development, using panel data during five years period (2008-2012). We will study Macedonian and Bosnian cases mainly because over the past, economies of these countries have experienced a major increase in emigration outflow and as a result remittance inflows are increased. For the economies of these countries, recently remittances constitute the largest source of foreign investments and represent more than 20 per cent of GDP in case of Macedonia and 10 per cent of GDP in case of Bosnia. The major results of this research is through the better understanding such impacts could help policy makers to design appropriate policies involved with the inflows of remittances. This topic of this paper is related to the conference topic: Migration development.

Keywords:

Remittances, Economic Development, Macedonia, Bosnia and Herzegovina

Introduction

Remittances are private flows of foreign exchange, completely different from the other balance of payments flows. For many developing countries, such remittances constitute the largest source of foreign exchange earnings, even exceeding export revenues, FDI, aid, or other private capital flows. Remittances become, therefore, a relatively attractive source of foreign earning for developing countries. Part of this flows are used for consumption and part for investment. Generally, the international literature in this field agree that major part of remittances are spent on current consumption, building houses, investment in land, and only a small part is used in productive investments. Unfortunately this field is not examined properly by the domestic scientific community. While, in the world there is an extensive literature that explores the issues of remittances, and recently the possibilities how these international flows of funds will be used to accelerate the economic growth and the development of receiving countries.

The main text of this paper is divided into five sections. Starting with this introduction and continuing with se second section where are analyzed the volume of remittances in national level. In the third section are discussed different opportunities of using private public partnership as a concept that in the best way connect the huge potential of these countries emigrants and the needs of domestic economies for fresh capital and ideas. In the forthsection is analyzed the possibility of investment the remittances inflows in existing successful companies. The paper finishes with conclusion where I give my opinion and idea about the topic of this paper.

Volume of Remittances in National Level

We would like to start this point with small explanation of table1, in the case of Macedonia. In Macedonian case, unfortunately remittances are not recorded based on the methodology accepted worldwide. That's why, here instead of what is recorded officially as remittances¹ we will use the inflows recorded as private transfers "as these transfersrefer mainly to workers' remittances". Methodologically, the question of remittances and private transfers in the case of Macedonia is explained more deeply in the doctoral dissertation of the author of this paper (BilallKasami, 2012).

¹ Statement by Menno Snel, Executive Director for the Former Yugoslav Republic of Macedonia and MetodijHadzi-Vaskov, Advisor to Executive Director January 29, 2014, (p.3) as an annex of IMF Country Report No. 14/62, Former Yugoslav Republic of Macedonia, IMF, February 2014, available at: <http://www.imf.org/external/pubs/ft/scr/2014/cr1462.pdf>

The first fact that is obvious here, when we analyze the inflow of remittances to these countries, is the total amount of these inflows for the period of time of five years that is more than 19 billion of USD. Having in mind the economic potentials of analyzed countries these inflows are one of the most important resources of the economic development. If we analyze individually, in Macedonian case for this period of time we have inflow of remittances (8,657 million USD) that is almost equal to its GDP for the year 2008 (9,834 million USD). In the case of Bosnia and Herzegovina, the same analyze shows that the inflows of remittances for this period of time (10,473 million USD) are almost half of its GDP for the year 2008 (18,543 million USD).

Table1: Remittances, GDP and FDI in Macedonia and Bosnia 2009-2012

Year Country		2008		2009		2010		2011		2012	
		million USD	% of GDP	million USD	% of GDP	million USD	% of GDP	million USD	% of GDP	million USD	% of GDP
Macedonia (NBRM)	GDP	9,834	100.00	9,314	100.00	9,339	100.00	10,439	100.00	9,613	100.00
	FDI, net inflows	612	6.22	260	2.79	301	3.22	495	4.74	283	2.94
	Remittances	1,370	13.93	1,526	16.38	1,770	18.95	1,971	18.88	2,020	21.01
Bosnia and Herzegovina	GDP	18,543	100.00	17,083	100.00	16,775	100.00	18,252	100.00	17,466	100.00
	FDI, net inflows	1,005	5.42	139	0.81	445	2.65	469	2.57	350	2.00
	Remittances	2,718	14.66	2,127	12.45	1,822	10.86	1,958	10.73	1,848	10.58

Source: Official World Bank (WB) database on remittances, (downloading date: 04.03.2014), available at: <http://data.worldbank.org/indicator/BX.TR.FP.WKR.CD.DT/countries?display=default> and official web page of National Bank of Macedonia (NBRM), (downloading date: 04.03.2014), available at: <http://nbrm.mk/?ItemID=2838056595DEF04190DEAE9B9980FA23> (04.03.2014)

If we compare remittances and GDP we can see that Macedonia is in the top of the list with remittances inflow around 20% of GDP for this period of time. In the case of Macedonia we can find increasing trend of remittances as percentage of GDP, starting from 13.93% in 2008 and reaching the peak in 2012 with an amount that represent 21% of GDP. In the Bosnia and Herzegovina case the trends

are opposite of Macedonian case. In Bosnia and Herzegovina remittances inflow are at maximal level in 2008 with an amount that is 14.66% of GDP, and in the next analyzed period we have downward trends. In 2012 Remittances inflow in Bosnia and Herzegovina reached the floor with an amount of 10.58 % of GDP. It is well known in the economic theory the importance of investment for economic growth. The main sources of investments are domestic savings. For an economic grow of 5 per cent there is a need to invest around 30 per cent of GDP. We know the fact that developing countries are facing with a permanent deficiency of national saving. One way to compensate these lag are FDI. From the table above we can conclude that analyzed countries have the other also important source of economic growth, remittances. In the case of Macedonia, the total amount of the remittances inflows (around 9 billion USD) is not comparable with the total inflows of FDI (around 2 billion USD) in the analyzed period of time. These inflows of remittances represent a huge source of economic growth for Macedonian economy. Almost in the same position is Bosnia and Herzegovina if we compare Remittances and FDI. In Bosnia and Herzegovina the inflow of Remittances (around 10.5 billion USD) are more than 4 times the inflow of FDI (around 2.5 billion USD). The question here is if these huge sources of economic development such are remittances for Macedonian and Bosnia and Herzegovina are used efficiently or not? Having in mind the economic situation of these countries we can conclude that despite of these huge potential, these economies are in the bottom of Europe. This is why we would like to give our small contribution to these economies by giving our ideas how to use remittances for economic growth of these countries.

Public-Private Partnership (PPP)

As an introduction to this point, we would like to give some basic information about the Mexican program for Mexican immigrants known as *Iniciativa Ciudadana 3x1*. With this program, Mexico has managed in the best way the question of raising funds from Mexican emigrants for social and economic development through a public private partnership. Therefore, we think that this re-designed program for Macedonia and Bosnia can be used as a good example of how to use the money of our emigrants to achieve social and economic development goals. According to Meseguer and Aparicio, “The precedents of the current 3x1 Program for Migrants are found in the state of Zacatecas, which is the state with the strongest and oldest migratory tradition in Mexico. The Federation of Zacatecan Clubs started in the early 1960s to raise

funds to help expatriates abroad (mostly in the event of illness or death) and to fund social and recreational projects back home” (Meseguer and Aparicio, 2010, p.11). The primary purpose of this program is to support social projects for communities in Mexico where the population lives on the poverty threshold. But, although this is still the main objective of the program we should mention that this is not the only one. Other also important objectives of the program are to assist in economic development projects in these communities in Mexico and to assist in maintaining ties with Mexican immigrants. The long history and ups and downs of this program made it one of the pillars of external support for the Mexican economy. This is an important component in social and developmental projects in the Mexican state. Following the example of Mexico or the so-called *Iniciativa Ciudadana 3x1*, for every emigrant’s one USD invested in the economies of analyzed countries, the central government would add another dollar and local government will do the same. That would mean an emigrants investment of 10,000 USD, by adding these public funds from central and local government would have received a total investment of 30,000USD. These funds would be used for development projects under certain conditions such are, for example, projects that use new technologies, projects that fulfill certain environmental standards, public projects, projects that employ a certain number of unemployed people, projects vital for local communities such are infrastructure projects (local roads, water, and sewer), projects in education, and culture projects. The program 3x1 dedicated to our emigrants in analyzed countries would be managed by some ministry or government agency, following the initiatives of migrants’ associations. It can be established a project evaluation committee. This committee would include representatives from all three parties involved (emigrants, municipalities and government). This committee would decide on the technical viability and priority of projects. The experience of Mexico says that, as expected, more developed municipalities or local communities have more opportunities to use this program. The weak side of this program is that, municipalities that are in the edge of poverty and with inadequate local administration to manage such projects will have fewer opportunities to use these funds if we compare with municipalities that are more developed. Of course, taking into account the needs of local communities that are undoubtedly great, there are more opportunities and ways of implementation of this experience transferred from Mexico in the case of selected Balkan countries. However, here we

would like to analyze only the possibility of implementing this public private partnership through two projects: technological parks and business incubators. The best way of implementation of both of these projects is, if there is close cooperate between public and private sector. In our case the public sector is consisting by central and local government and private sector by emigrants.

Technology Park

In a study of the United Nations Industrial Development Organization (UNIDO), Technology Parks are defined as “a property-based initiative, which provides businesses with high quality premises on a site in close proximity to a knowledge base (university or a complex of research institutions). These businesses are generally either start-ups established by researchers or academics wishing to commercialize their research or spin-offs to larger industrial companies. Usually, but not exclusively, the companies located in a technology park started their entrepreneurial activities in a TBI, which can be an integral component (“a nursery”) of the TP” (UNIDO, 1999, p.3). In the same study is noted that although in Technology Parks are located companies that are already well established and without needs of an start-up services, however Technology Parks offer to the companies located there some services and facilities such as: the location, infrastructure, skilled labor, and further development opportunities. An important component of technology parks, which is necessary for companies that are located there, is their own strategic position (location). The location of these technology parks should be close to universities and research centers. Also, it is desirable this location to be close to the international airports or close to international and well-developed road (railway) infrastructure. This relationship between Technology Park and international environment is of particular importance for their development. This is because intellectual property rights on which are based these parks require a close ties with international business companies and research institutions. The other important element of Technology Park is the infrastructure inside the park. The most important elements of this infrastructure which is necessary for Technology Park are: communication links inside the park between the companies operating there, the network data transfer such as telephony and Internet, conference halls and fair premises. Given the fact that it is a Technology Park, where by definition it is supposed to be developed new technologies, their promotion is crucial. Highly skilled labor, which would be able to put into operation innovations, is the next component that is necessary for techno-

logical parks. Of course, the best for the TechnologyPark would be if park is as close as possible to such a highly skilled workforce. This would facilitate the work of companies that operate there, as much easier would put into operation their innovations.

Business Incubator

Definition of business incubators given here is taken from the same study cited above regarding the definition of Technology Park.”Business incubators constitute real estate operations with buildings, where new businesses are housed for a fixed period of time and are provided with a variety of services to help them start and grow. The incubator has a management who oversees the real estate operations as well as the service system, collective and individual, to the enterprises. Incubators are usually associated to a number of incentives which relate to the rent paid as well as of a fiscal and financial type” (UNIDO 1999). One of the main objectives of business incubation process is the transfer the technology that is widely dispersed throughout the world, in developed as well as in the developing economies. In essence, it is one way to create a suitable cover on starting the micro and small businesses. The idea for business incubators for a long time has been used throughout the world for commercialization of the technological development. “Incubators started to appear in developed countries, namely in the U.S., in the early 1980s. According to the NBIA, there are currently about 900 incubators in the United States” (Elena Scaramuzzi 2002, p.5). The idea originated from the modern universities and their academic staff, who, supported by the relevant legislation, run these incubators to promote their business and ideas of their students. Businesses that are allowed to be placed in these incubators are strictly selected through a developed system of selection, often created by themselves and its academic staff and researchers within the research institutes which also appear as shareholders of these incubators within a specified period. There are several basic requirements that have to meet a project to be categorized as a business incubator. These conditions can generally be derived from the definition of incubators given at this point but other definitions provided by various authors.

Financing Technology Parks and Business Incubators by Remittance Inflows

The experience of analyzed countries with business incubators is little

bit different. The common feature for both countries is that this activity has been initially supported through international funding organizations and programs. Unfortunately, the other similar think of analyzed country is the fact of deficiency of local finance and support of this idea. Incubators in Macedonia have been developed between 1996 and 2002 with the money the World Bank and other international donors or projects to support Macedonia. In this period are established incubators that continue to operate to this day. Since then, Macedonia has not done a significant step forward in the work of further developing this idea. In the case of Bosnia and Herzegovina the introduction of business incubators first started in 2001 as a joint initiative of group of non-governmental organizations in close cooperation with municipal governments. "The process of establishing incubation support has been financed, and in most cases implemented, by the public institutions on Republic of Srpska, cantonal or municipal level. Initiative came primarily as a recognized mechanism for local economic development. Through this initiative concepts of business incubation have been introduced (Brčko, Jablanica, Modriča, Prijedor, Sarajevo, Trebinje, Tuzla, Zavidovići, Zenica, Zepče) within existing municipal government institutions or non-government organizations." (Mandić, 2014, p.22). Because of this stated above, we think that the orientation of remittances and their investment in technology parks and business incubators is one of the best ways these funds to be used productively. But of course this is not possible without a serious strategy prepared by the state. This is due to the fact that investing in incubators is considered one of uncertain investment. To be able to orient our emigrants to invest in incubators, first state should develop a comprehensive strategy with the active involvement of experts and coordinated by state agencies. Furthermore, our emigrants working in Western economies may bring with them significant experience that is so called in the literature knowledge and skills (know how). This knowledge and skills combined with their ability to further modernize precisely through these technology parks is an ideal combination that can have a big impact of the economies of these countries.

Investment of Remittances in Existing Successful Companies

Macedonia and Bosnia already have finished the second decade of transition of their economic systems from a system based on state ownership and central planning system to the economic system based on private ownership and the market economy. In these two decades, unless the problems facing businesses in these economies, have been established many successful enterprises, espe-

cially small and medium size. Transition as a process by definition prevents the growth and development of the economic system. But apart from the enormous problems facing businesses in a time of transition it still has a positive side. One of that positivity that can be described is that during the transition survive only the best and most successful businesses. Those businesses that succeed in the turbulent transitional circumstances have far greater opportunity to be successful in a more stable economic environment. Even in these circumstances, when the economic system of these countries slowly but surely adjusts to join the common market of the European Union (EU), we can say that is the right time to develop some new institutions that will help to handle these new rules. Competitiveness of the economic system is a decisive characteristic to survive in the harsh rules of the market economy. The rules of the free market dictate who survives and who does not. In such circumstances and in these countries should be promoted and pushed forward only successful, while those who cannot cope with the new rules of the game need to reorganize and look for a new chance in new businesses. In the context of what we stated above, our suggestion is to promote our best and most successful companies to our emigrants who undoubtedly have significant potential these successful businesses to make them more successful. Our suggestion is to be organized some kind of stock exchange market for small and medium enterprises, where according to the strict rules of the game most successful businesses would be offer to our emigrants. Our emigrants would have the option to either invest in these companies and to act as co-owners or to buy it and became the sole owners. Here, you can immediately ask the question, if the company is already successful, why the existing owners will show interest to sell it? However the answer is simple, in the market economy, everything has a price and that price is determined on the free market. Through this exchange of small and related businesses would be given an opportunity to inject new fresh capital of our economies.

Conclusion

Based on this short analyze of Macedonian and Bosniana pproach toward remittances, here we can conclude that the major part of remittances inflows in this countries are used for consumption and only small part for some kind of investments. There are a lot of opportunities these recourses to be used in the function of economic development instead of using for consumption. Our recommendation goes in the way of changing the approach of our society toward emigrants and their money. If we do this the solution is so simple. Then, we need only a systematic approach, which will be based on a national strategy for migration and remittances. The main topic of this strategy must be how we can use these huge resources in productive investments instead of consumption. Some of the options that can be used are given in this paper.

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