

# COMPETING *for* REMITTANCES

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## FOREWORD

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International emigration is an established feature of contemporary social and economic life. And both countries of origin and host countries benefit from emigrants; with countries of origin in need of foreign financial resources to foster their development while host countries have a need of certain categories of labor. It is conservatively estimated that worldwide remittances now amount to more than 93 Billion USD per annum. In tandem, emigrants gain important social and human capital while abroad; and they often represent the first investors in their respective home countries. In this way remittances represent a potential compensation for the costs associated with their emigration.

Current emigrant remittances have had a pronounced impact on individual households, as well as Albanian society as a whole, over the proceeding fifteen years. It is not overstating the case that at an estimated record of 1,028 Million Euro, reflecting an estimated 13.7 percent of GDP for 2004, that remittances flows are a major factor in the financial survival of the country. For instance this figure represents more than twice the income received from exports; which, bitter as it may sound, in effect makes labour Albania's primary export.

The importance of remittances and their potential role as the country's main source of funding for the financing of growth and development has in recent years caught the attention of Albanian government. On this basis, the present study – financed by the European Union through its CARDS programme – was produced within the framework of the *National Strategy on Migration* and its *Action Plan*. It is intended to provide policy makers with an outline of the primary issues and current debate related to remittances. As such it intends to facilitate the dialogue in regard to remittances and their effective management.

As this study shows, in the case of Albania, emigration and remittances have reached a stage of maturity. As a result, and over the short to medium-term, current remittances can be expected to level off and then diminish. On the other hand, according to the data and conclusions presented in these pages, there is substantial scope for potentially forestalling, and in part countering, this negative trend. Based on projections of their emigration cycle and the stated intention of many emigrants to exercise their right of independent return to Albania, substantial amounts of capital - financial, human, and social - could be mobilized to support the economic development of the country. If acted



upon in a coordinated fashion, the Government of Albania, working in partnership with the private sector, civil society and specialized agencies has sufficient time to introduce an integrated policy framework designed to mobilize, formalize and attract a portion of the savings retained by long-term emigrants abroad.

Important preconditions for such a policy framework exist. Not least amongst them is the fact that “any initiatives would need to be based on the clear recognition that remittances are *private transfers* and that the savings involved belong to the migrants and their families, whose primacy of choice in their allocation is paramount.” In this regard the study also shows that emigrants believe that much would have to change in Albania before return and investment could be contemplated as a feasible option. Hence, Albania is truly in a position of *Competing for Remittances*.

The publication of this study would not have taken place without the work and support of a number of people. First, there are the authors : Nicolaas de Zwager, Ilir Gedeshi, Etlejva Germenji, and Christos Nikas. Each contributor brought their own perspective and rich experience into this study. There is, moreover the entire team at the National Strategy on Migration, in particular Professor Philippe de Bruycker and Ms. Andrina Sol, that provided valuable support and constructive criticism.

Maurizio Busatti, Chief of Mission, IOM Tirana

## EXECUTIVE SUMMARY

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The objective of this study is to provide the Government of Albania input to the *National Strategy on Migration* and the subsequent *National Action Plan*. This study has two broad areas of inquiry: (a) the extent and scope of remittance flows, and their transfer process, and (b) the potential of enhancing the impact of remittances' on economic growth and development. Its content, conclusions and recommendations should be read and understood within the emphasis (management of emigration flows), and timeframe (to 2010), identified by these framework documents. In support of this objective we utilized mutually reinforcing qualitative and quantitative approaches.

A survey of Albanian emigrants, legal and illegal, was conducted in the period April-May 2005 within targeted areas of Greece, Italy and the UK, as these host countries represent 94% of Albanian emigrants. Simultaneously, we carried out family surveys of 1004 households that had at least one member working abroad. This survey was conducted in rural and urban areas of Korca, Kukes, Elbasani, Gjirokaster and Shkoder. This combination allows some scope for comparison and contrast of the remittance and savings behavior of both the senders and recipients.

A desktop review of the literature addresses issues related to: emigration, delivery of remittances and their use at the household level in Albania, as well as policies and practices implemented by countries experiencing migration outflows and remittance inflows. In-depth interviews, carried out with: short-term and long-term emigrants in Greece and Italy; emigrant households and returnees in Albania; representatives of interested specialized agencies and government ministries. These qualitative methods were designed to provide information that could not be effectively addressed through the above quantitative methods.

In the fifteen years since the beginning of the transition to a market economy more than 20% of the Albanian population emigrated, primarily to Greece and Italy; and more latterly to the United Kingdom and North America. The years 1991-1998 were particularly characterized by high migration intensities. Most of these emigrants were young, male and relatively well educated. Reflecting the ongoing maturation of the 'emigration cycle', and in line with opportunities presented to legalize their status, many emigrants chose to reunify their families



in their host countries (for instance, 55.6 percent in Italy).

The main sectors of male emigrant employment in Greece are construction (49 percent) and agriculture (21 percent). While in Italy the primary sectors are construction (43 percent), industry (19 percent) and services (16 percent) for men. In both neighbouring countries women are primarily occupied by domestic work. In the United Kingdom, construction and services are the two main sectors of occupations for men (33 percent and 32 percent respectively), while for women the services sector seems the most “preferred” (66 percent).

Our findings show that Albanian emigrants have a high propensity to save; with an average annual savings level estimated at approximately 5,390 Euro per household. 75 percent of emigrants maintain a bank account in their place of residence, and keep their savings there.

It has been widely accepted that emigrants’ remittances have been a major factor in the financial survival of the country, and. When comparing percentage weight of emigrant remittances against GDP Albania places firmly at the top of the list of 20 emigration countries. Remittances are substantially higher than the value of Foreign Direct Investment, Foreign Economic Aid and exports. Our study confirms that remittances also play a key role in alleviating poverty. For many families in Albania, access to a migration network and family exposure to migration (because of the remittances that follow) is one of the most viable means to escape poverty. The current macro and micro-economic situations show that there is a high dependence of Albania on remittances; nonetheless remittances have not been able to fuel substantial growth in the country.

While the majority of emigrants enjoy banking facilities in their place of residence, our surveys show that Albanian emigrants prefer to send remittances through informal channels (77.4 percent) – primarily hand-carry; and less with the formal ones (22.6 percent) - the banking system remaining the *least preferred* formal channel. This can be explained by institutional, geographic and personal factors. In brief, the lack of breadth and depth of formal intermediation channels in Albania, the convenient proximity of the host countries, when combined with close family ties and regular visits home by the emigrants themselves make formal channels unattractive to the emigrant.

68.6 percent of emigrants send remittances to Albania. The most common recipients are the parents of the sender, then spouse and children, then brothers and sisters, etc. Empirical data shows that 37.9 percent of emigrants expect to

remit less in the following years, 37.3 expect to remit the same amount and only 24.8 percent more. This, and a number of other findings, pointing in this direction, confirms the observation that the emigration cycle and remittance flows have entered a stage of maturity. When compared with the initial years of emigration Albanian migrants seem to be doing better in terms of their employment and income in their host countries; furthermore they are more often than not reunified with their immediate families, implying a certain amount of security of situation within the host countries. As part of this process, upon family reunification and their integration in the host country, migrants can be expected to remit less, even though their income levels may have increased at the same time.

The overwhelming majority of our sample both senders and receivers declare the financing of family daily needs as the primary use of remittances. Building, upgrading and furnishing the home, follows this; with investment in real estate as the next primary category. While undoubtedly important for poverty alleviation, this implies a very limited role in sustainable job creation. This in turn can lead Albania to share the experience of other labor exporting countries, where a dependency on remittances themselves can establish a vicious cycle - where migration creates pressure for more migration.

A large majority (56 percent) of long-term emigrants have a stated wish to return to Albania. The survey data indicates an average 'emigration cycle' of 17.6 years from the "first experience of migration" and 14.6 years from the point of obtaining legal status. Clearly, the stated wish to return reflects the interaction of many factors; both in the host country and Albania. Nonetheless, if we accept the hypothesis of a 14 to 18 year emigration cycle, it can be forecast that long-term Albanians emigrants wishing to return will begin to exercise that option in the following years; and that this return trend will continue to build through the period 2010 – 2015 before tapering off again.

This return projection is noteworthy, as this particular category of emigrant has the capacity to bring with them substantial financial, human and social capital. Which in turn has the potential of playing an important role in the socio-economic development of the country. Conservatively estimated, our projections show, that long-term emigrants will have accumulated a total pool of retained savings of between 10 and 15 thousand million Euro. Of this group of emigrants, 38.15 percent have indicated an intention to return and invest in Albania. This leads us to an estimated remittance pool of Euro 4.75 to 5.38 Billion. Which in turn

represents some 86.9% to 98.5% of the Albania's Gross Domestic Product for 2003. Applying an average multiplier of 1.8, these retained savings (or 'migrant transfers') represent a potential and additional (remittance generated) GDP of between Euro 8.55 Billion to Euro 9.68 Billion; or between 156% and 177% of GDP for 2004.

At the same time, given the logic of the emigration cycle, and the factors that influence remittance behaviour, current remittances, now at record levels, can be expected to diminish steadily over the medium to long-term. This negative trend can be balanced and even reversed by introducing appropriate policies and measure specifically designed to increase the managed return of those retained savings (migrant transfers) mentioned above.

Most emigrants prefer to invest their retained savings in retail trade and restaurants, construction, real estate, tourism and agriculture. The calculation correlation coefficient between the sector of emigrant's employment abroad and the sector where they would like to return is 0.20. That said, our in depth interviews clearly reveal that emigrants believe that much would have to change in Albania before return and investment could be contemplated as a feasible option.

Given the five-year window of opportunity open to it, the Government of Albania has every motivation to prioritize and implement those related policies and measures establishing a viable remittance management framework. The study therefore concludes with a number of policy recommendations and other measures in support of these findings and the stated objectives of the Government. In this regard, supporting the legalization of Albanian emigrants merits particular attention. As this will directly support: their income levels; their savings rates and savings behavior, and; their use of formal remittance channels. The document also provides remittance-related recommendations for the broadening and deepening of the financial intermediation institutions and processes; as well as measures promoting more effective direct investment by the emigrants, should they wish to do so.

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## CHAPTER I

### INTRODUCTION

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Massive emigration from Albania since the beginning of the process of transition in the early 1990s is one of the most impressive ones globally on the basis of both its relative size and its economic impact. In a period of less than fifteen years Albania, a country of a little more than 3 million inhabitants “lost” a quarter of its population to emigration, mainly to Greece and Italy.

While there have been several push factors to emigration the primary and ongoing ones have been related to the low level of living conditions, widespread poverty and high unemployment. Simply put, Albanians emigrate looking for better living standards and job opportunities. Pull factors include some features of the Greek and Italian economies; such as the large difference in income levels compared to Albania; or the opportunities presented by the large share of the informal economies in both Greece and Italy, a factor certainly encouraging the inflow of illegal emigrants. Broad access to foreign television channels in Albania, by highlighting the deficiencies in the Albanian daily life, have also acted as a pull factor in motivating emigration.

Economic theory views emigration, from the sending country’s point of view, as a loss of labour force and human capital that could be compensated to a certain point by the inflow of remittances emigrants send to their country of origin. Other than representing a net inflow of foreign exchange, helping to balance the Current Account, remittances most commonly function as a poverty alleviation mechanism. In theory, they can represent one engine of economic growth and development for the receiving country; provided of course, that they are used in a coordinated and efficient way to stimulate investment, modernization and restructuring of the economy.<sup>1</sup> Still, experience has shown that source countries have had great difficulty in converting remittance income into sustainable productive capacity.

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<sup>1</sup> **Current Remittances** - are defined as that portion of total savings that the migrant transfers to Albania over the term of his emigration. These are international transfers of money (goods are excluded from our calculations) sent to Albania by nationals or emigrants, including the Diaspora, from the country where they are living or working<sup>1</sup>.

**Retained Savings or Remittances (sometimes termed ‘migrant transfers’)**- are the amount of total savings that the migrant does not regularly transfer, but saves or invests in the country of migration. The emigrant may intend to remit this amount, or a portion thereof, to Albania at some future date.



Labour is the most important export of Albania. Indeed, money sent home by emigrants to close family and other kin in Albania has assumed substantial proportions; with remittance flows rising in tandem with emigrant flows. In 2004 the return flow of money was estimated at US\$ 1,028 million, a record amount. That figure represents 13.7% of the country's GDP, and more than twice the income from exports. Remittances are also about three times more than inward foreign direct investment (FDI); and exceed by a respectable margin the official development aid (ODA) granted to Albania. Even disregarding the unfortunate experience with the pyramid schemes in the mid-1990s, which was fuelled to a considerable degree by remittances, the flow of remittances has a pronounced impact not only on individual households but also on Albanian society as a whole.

In recent years, the Albanian government has paid increasing attention to the importance of remittances and their potential role as the country's main source of funding for the financing of growth and development. Assisted by the European Union through its CARDS programme and the technical support of the International Organization for Migration (IOM), the Albanian government recently produced two important documents in part addressing this issue, the *National Strategy on Migration* and its *National Action Plan on Migration*.

In regard to policy making the objective of remittance management is quite straightforward. Namely, identify the means by which remittances can assist in reversing the vicious cycle, poverty-economic stagnation-further poverty Albania seems to be trapped in and move to a virtuous, growth generating one. The policy task may be easy to identify but the necessary measures are challenging to implement, given that such an exercise includes amongst others: determining and influencing individual (emigrants) saving and investing attitudes; and, shifting people from the traditional methods of remitting to bank intermediation. Furthermore, the limited breadth and depth of the financial intermediation and institutional framework within a transitional economy such as Albania complicates the implementation of any proposed measures. One should also note that the implications of the infamous pyramid scandal apply even today - effectively undermining the confidence building and trust between the emigrants and the Albanian financial institutions.

### **1.1 Objectives of the study**

The objective of this study is to provide the Government of Albania input to the

*National Strategy on Migration* and the subsequent *National Action Plan*. More specifically, this paper together with its conclusions and recommendations, should be read and understood within the emphasis (the management of emigration flows) and timeframe for action (to 2010) identified by these framework documents.

This work is intended to be *prescriptive and practical*; as such it is intended for non-specialist readers, and should not be seen as a comprehensive or theoretical study of migration flows or remittances. Our intention is to provide policy makers with an outline of the primary issues and current debate related to remittances – both in general and as it relates to Albania. Where relevant we introduce and analyze the findings of our own quantitative and qualitative survey work, and conclude by proposing selected policies, actions and initiatives that might be considered by the Albanian government and other actors with a view to enhancing, if and where possible, the positive aspects of remittances; in particular their possible function as a support to further socio-economic development of the country. For more detail on the information and arguments provided in this paper we refer the reader to the attached bibliography.

The specific objectives of the study are to:

- explore the origin and the scope of emigrant remittances in Albania;
- examine the current features and needs of remittance-sending and remittance receiving persons;
- assess the characteristics, conditions and obstacles of remittance transfer process;
- assess the current impact of remittances as it relates to poverty alleviation, macroeconomic indicators, and development prospects, as well as;
- gauge potentials and constraints of gearing remittances towards productive investments.

The above basically represents an examination of remittances from an 'emigration cycle' perspective, and the relationship between this 'cycle' and remittance flows. Such an approach allows us to: better identify the current situation as regards emigration and remittances, as well as examine the linkages between them. While taking full account of the need for more research in certain key areas such as return potential (Chapter VII) this analytical approach also provides us with a measure of tentative forecasting ability in regard to

both. Thereby allowing us to put forward some policy recommendations and related measures to support the stated objectives of the government of Albania as regards remittance management.

## **1.2 Methodology**

As stated, this study has two broad areas of inquiry: (a) the extent and scope of remittance flows, and their transfer process, and (b) the potential of enhancing the impact of remittances' on economic growth and development. An enquiry such as ours, based on the 'emigration cycle', requires a review of the available literature on emigration and remittances, as well as timely information from banks (central and commercial), government institutions and specialised agencies. Moreover, as we are discussing what are clearly private transfers, - based on personal/family decision-making processes -, it requires a clear understanding of the current views and future intentions of both the remittance sending emigrant and the remittance receiving beneficiaries/households (i.e. remittance behaviour). It is therefore natural that our work focuses to a large extent on the individual; and that it entails the use of mutually reinforcing qualitative and quantitative approaches.

### **1.2.1 Quantitative Approaches**

#### *- Emigrant survey*

A survey of Albanian emigrants, legal and illegal, was conducted in the period April-May 2005. Within targeted areas of Greece, Italy and the UK, 712 randomly selected emigrants were interviewed. We chose to include in our sample mainly emigrants residing in Greece, Italy and the UK, because together they represent the place of residence of almost 94% of Albanian emigrants. Respondents were asked a variety of questions offering explanations to reasons for emigration, participation in labour markets of the countries where they resided, their earnings, savings and remittance transfers made to Albania, their future plans, as well as several other aspects of interest.

The survey enabled a satisfactory outreach over the whole territory of Albania in regard to the place of origin of the emigrant. However, it had the shortcoming of excluding from the study emigrants that were residing in countries other than Greece, Italy and the UK. In order to correct this bias somewhat, we also conducted a number of interviews (150) with emigrants exiting Albania at Mother

Teresa International Airport in Albania. This latter group were individuals who were exiting the country legally but because of the time constraints, we agreed that this would be the least biased solution.

Due primarily to the time of year the survey took place, seasonal Albanian emigrants, who migrate mainly to Greece and Italy during planting and harvest times, were also excluded from our survey.

*- Household survey*

This survey covered 5 regions of Albania: Korca, Kukës, Elbasan, Gjirokastër and Shkodër. The selection of regions was based on the following criteria: to ensure (1) a geographically representative cover of the country; (2) a fair representation of disparities in economic development among regions; and (3) a fair representation of the disparities in migration intensity among the regions.

Only households that had at least one member working abroad were selected. The sample obtained includes 1,006 emigrant households (about 200 for each region) that did or did not receive remittances from members abroad. Households that were selected were located in both, rural and urban areas of the regions.

The target of the survey was the household head. However, when the household head was not present, another household member, old enough to provide the information was interviewed. Through the questionnaire, information was gathered about household composition and personal characteristics of household members, household production activities, sources of income in 1999, etc. Information was gathered also about transfers from abroad, their senders, and the uses of transfers.

### **1.2.2 Qualitative Approaches**

*- Literature review*

The review of the literature focused primarily on materials (books, articles, reports from WB, IMF, UNDP and other international institutions, INSTAT publications etc.) addressing issues related to: emigration, delivery of remittances and their use at the household level in Albania, as well as policies and practices implemented by countries experiencing migration outflows and remittance

inflows. All sources have been listed in the bibliography of the study.

- *Semi-structured/In-depth interviews*

30 in-depth interviews were carried out with short-term and long-term emigrants in Greece and Italy as well as 32 interviews carried out with emigrant households and returnees in Albania.<sup>2</sup> Interviews with representatives of government ministries and specialised agencies were also carried out. These interviews were designed to obtain views and information that could not be effectively addressed through quantitative methods. In particular relating to some key aspects of modes of emigration (legal, illegal, cost etc), and their relation to remittance behaviour, channels of transfer, and use of remittances. The interviews were undertaken during the period April-May 2005.

This document consists of eight chapters, including introduction and conclusion. Chapter II highlights the origin and the scope of emigration from Albania. Chapter III presents the volume of remittance flows to Albania, and discusses their determinants. Chapter IV presents and evaluates current remittance transfer channels, both formal and informal. On this basis, an evaluation of macro and micro-economic impacts of remittances is presented in Chapter V. Chapter VI then reviews some of our observations regarding remitting, saving behavior and investment attitudes of emigrants and households in Albania that receive remittances. Chapter VII introduces the issues of return migration and retained remittances (or migrant transfers). The last chapter draws conclusion on each of the areas of investigation and provides a series of related measures that will support the Government of Albania's policy of facilitating a more formal, efficient flow of remittances and encourage their productive use for Albania.

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<sup>2</sup> **Terminology Note:** This document looks at the process of emigration from the Albanian perspective. Therefore in order to avoid unnecessary repetition "emigrant" and "emigration" are understood to mean of 'Albanian emigrant' and 'Albanian emigration', unless otherwise stated. Following this logic, and for the sake of consistency, the term "emigrant" is used consistently throughout this paper - rather than interchanging the terms emigrant, migrant and immigrant.

## CHAPTER II

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### THE ORIGIN AND SCOPE OF ALBANIAN MIGRATION

Emigration from Albania is an age-old phenomenon. Situated in the west of the Balkan Peninsula, Albania has been, during various historical periods, a labour-sending region. Its history and its economic development have been affected by emigration flows, which in turn have reflected the actual and expected economic and political conditions in the country.

Migration has always been an important and hotly debated issue. This discussion has become even more acute over the preceding 15 years. The collapse of the socialist system in the early 1990s was followed by an increase in unemployment and “push” pressures for emigration in the former socialist countries. The E.U. member-states, already experiencing high domestic unemployment, attempted to regulate these flows and deal with this new (and unexpected) wave of immigrants. Within this context, the most impressive contemporary intra-European migration flows (legal or illegal) was the rapid influx of hundreds of thousands of Albanians to its E.U. neighbours (primarily Italy and Greece) since the early 1990s.

Existing data suggests that, since 1990, between 600,000 and 800,000 Albanians have availed themselves of the option of temporarily or permanently moving across the borders (Barjaba, 2004; INSTAT, 2002; Kule *et al.*, 2002) - with some more recent estimates placing this figure as high as 1,000,000. In a country of little more than 3 million inhabitants, these are substantial numbers, and therefore it comes as no surprise that the Albanian exodus has started to receive considerable attention in both policy circles and in research. Yet, as the wide variance in the above key figures clearly shows, much of the movement has been chaotic, clandestine and hence poorly recorded. Simply put, systematic information on those Albanians who emigrate, and those who do not exercise this option, remains hard to find.

Italy and Greece have tried to mitigate immigration from Albania by tightening immigration regulations and laws, and by introducing aid programmes targeted at improvements of the economic situation in the country in the hope that it would reduce the incentives of Albanians to emigrate. On the other side, Albanian governments have taken some steps to try and expand legal channels of emigration, while at the same time taking measures to eliminate the illegal ones.

The following sections aim to provide a summary of the facts and structure of Albanian emigration and the current socio-economic situation of the emigrants in Greece, Italy and the UK. This will include both background information gained from the literature on the subject, as well as some results of our survey where relevant.

## 2.1 A Brief Historical Overview until 1990

Towards the end of the 19<sup>th</sup> century, Albanians were emigrating mainly to Asia Minor, Romania and North Africa (Egypt) while for the first half of the 20<sup>th</sup> century the overseas routes to the USA, Argentina and Australia became increasingly important (Civici et al., 1999). According to national statistics there were about 10,000 Albanians living in Bucharest and 20,000 Albanians in Istanbul in 1907. In the same year there were about 500 Albanians living in Biddeford (USA) and others were expected to go (UNDP, 2000). During WWI, the destruction of the agricultural economy, the lack of industry and the lack of exploitation of natural sources, led to the emigration of entire families. National statistics indicate that, between 1921 and 1923, about 21,000 Albanians left the country (Ibid).

In the following years, due to political insecurity and economic backwardness, the intensity of emigration increased. Approximately 111,000 people or 12% of the entire population emigrated during 1923-1939 (UNDP, 2000). Most of the Albanians who left to go abroad were unskilled men from rural and urban areas. On the eve of WWII there were almost 130,000 Albanian emigrants residing overseas and they were concentrated mostly in various industrialised immigration countries. During the years of WWII, about 19,000 Albanians emigrated.

The entire level of emigration during the communist regime (1945-1990) consists of approximately 20,000 people. Economic emigration was absolutely prohibited in the country during these years. The regime considered emigration as a result of the capitalists system's inability to provide labourers with assured permanent employment in peripheral geographical regions. Due to that, workers had to seek employment in the main centres of capitalist production, where they experienced extreme exploitation at the hands of their capitalist employers (King et al, 1998). In this context the communist regime regarded emigration as a criminal act, treason against the state, which could be severely punished.

## 2.2 Contemporary Emigration Flows

The events in Central and Eastern Europe at the end of the 1980s were a catalyst for change in Albania as well, and helped to put in motion the organisational skills and energy of those who had been waiting for the right time to act. In the summer of 1990, thousands of people stormed the embassies of Western European countries in an attempt to obtain visas to leave. After negotiations between Albanian authorities and international community representatives, these persons were allowed to go mainly to Italy, France and Germany (Meksi, 1996).

In December 1990 the political transition and the democratisation process officially started. Albanian border guards were ordered to discontinue the harassment of people trying to cross the borders<sup>3</sup>. As a result, in late December the flow of Albanian escapees across the southern border with Greece increased dramatically. In the single night of December 30<sup>th</sup> more than 800 Albanian citizens (many of whom were ethnic Greeks) entered Greece, and the dynamic of this outflow remained unaltered during the first days of 1991 (Antonopoulos, 1995).

At the beginning of March 1991, thousands of Albanians stormed ships at the port of Durres to reach the Italian coastline. According to the Italian Ministry of Internal Affairs, in the three days from 7<sup>th</sup> to 10<sup>th</sup> March alone, some 25,000 Albanians arrived in Italy. Around 3,200 of them returned to Albania after a few days while the others were sent to special shelters set up in barracks in several regions (Meksi, 1996). A new exodus of the Albanian population followed in August 1991. 18,000 Albanians set foot on Italian soil, but about 17,000 of them were sent back in a few days via sea and air by the Italian authorities (Rutili, 1998). Apart from these very spectacular exoduses, each and every day small groups of Albanian crossed on foot the mountainous southern border to enter Greece.

The last wave of the massive emigration from Albania occurred in March 1997, triggered by the severe civil disorder precipitated by the collapse of pyramid schemes. Thousands of Albanians left (around 15,000 to Italy and not less than 10,000 in Greece) during March 1997 (Barjaba, 2002). The year after (1998) continued to be politically unstable (civil unrest of September 1998), which

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<sup>3</sup> Up to that time Albanian border guards were ordered to open fire and kill anyone that would attempt to pass the border.



again pushed Albanians to seek emigration as the best solution for escaping the insecurity as well as smoothing the poverty. Different sources estimate that about 100,000 Albanians left the country during that year (Kule, *et al*, 2002).

Findings from our survey show that years 1991, 1992, 1994, 1997 and 1998 have indeed been characterised by high migration intensity while the years after have been characterised by a steadily decreasing intensity. Table I also shows that many emigrants took advantage of the legalisation process offered by the Greek and Italian Governments. It is on this basis that we can explain the high numbers of respondents reporting a change of status to permanent residence in the years 1998 – 2002.

**Table I: First year of experience with emigration**

| Nr | Year         | First year of migration |            | Year of permanent residence |            |
|----|--------------|-------------------------|------------|-----------------------------|------------|
|    |              | Nr.                     | %          | Nr.                         | %          |
| 1  | 1989         | 2                       | 0.3        | 1                           | 0.1        |
| 2  | 1990         | 21                      | 3.0        | 3                           | 0.4        |
| 3  | 1991         | 61                      | 8.7        | 15                          | 2.2        |
| 4  | 1992         | 70                      | 10.0       | 17                          | 2.5        |
| 5  | 1993         | 50                      | 7.2        | 13                          | 1.9        |
| 6  | 1994         | 81                      | 11.6       | 29                          | 4.2        |
| 7  | 1995         | 59                      | 8.5        | 27                          | 3.9        |
| 8  | 1996         | 63                      | 9.0        | 45                          | 6.6        |
| 9  | 1997         | 88                      | 12.6       | 26                          | 3.8        |
| 10 | 1998         | 67                      | 9.6        | 165                         | 24.1       |
| 11 | 1999         | 53                      | 7.6        | 68                          | 9.9        |
| 12 | 2000         | 39                      | 5.6        | 74                          | 10.8       |
| 13 | 2001         | 24                      | 3.4        | 108                         | 15.7       |
| 14 | 2002         | 7                       | 1.0        | 43                          | 6.3        |
| 15 | 2003         | 7                       | 1.0        | 27                          | 3.9        |
| 16 | 2004         | 6                       | 0.9        | 18                          | 2.6        |
| 17 | 2005         |                         |            | 7                           | 1.0        |
|    | <i>Total</i> | <i>698</i>              | <i>100</i> | <i>686</i>                  | <i>100</i> |

Source: Our Survey

Until very recently, there have been no serious attempts by the Albanian Government to accurately determine the number of emigrants. Publication of the results of the 2001 Census enabled estimates of the scale of emigration during 1990s. The Census revealed an estimated net loss due to emigration of 628,000, calculated by the census residual method. However, the census explicitly excluded short-term migration of less than one year's duration.

### 2.3 Direction of Emigration

According to estimates provided by the Albanian Ministry of Labour and Social Affairs, since 1990, Albanians have emigrated to approximately twenty European countries, the USA, Canada and Australia. Given the rapid evolution of new migration channels and routes, recently Albanians have emigrated also to Malaysia and Saudi Arabia, New Zealand and South Africa. However, Greece and Italy seem to have been the major destinations and the natural choices for Albanian emigrants. At present, emigrants who are in Greece and Italy make up approximately 87 percent of the overall figure of emigrants. With the United Kingdom included, almost 94 percent of all known Albanian emigrants are accounted for.

Existing research on emigration from Albania reveals that a range of factors governs the direction of emigration. The prevailing criterion amongst them is geographical vicinity (Konica, 1999; Germenji and Swinnen, 2004). Their geographic location, and inherent challenges in monitoring their borders, makes it easier for Albanians to go to relatively prosperous neighbouring countries like Greece and Italy. Information and support from networks of family and friends also influence not only the direction, but also the probability of surviving the new environment in the host country. Culture, especially similarity in the way of thinking and familiarity with the language, has also had a large influence on the choice of emigration's country by Albanians.

As a result, people emigrate to Greece primarily from South and Southeastern areas of Albania. These are areas populated mainly by Albanian Christians (orthodox) and ethnic Greeks. Meanwhile, Italy is the most preferred destination for Albanians from the Central and Western areas - where the Italian TV channels are most popular.

Last but not least, many Albanians retain close connections to Albania and wish to visit regularly; many others (up to 60 percent of our survey) think that they might come back at some point. As a result, and because of the difficulties of travel and communications, they prefer proximity.

### 2.4 Characteristics of Emigrants

The massive emigration of Albanians refers to a considerable part of the economically active (working age) section of the population. In 1995 for example,

only 5 years after opening up of the borders, the number of emigrants represented 26 percent of the population of working age (15-64 years old), 35 percent of the work force and 43 percent of the employed population. Approximately 22 percent of Albanian families had one to two of their family members who had emigrated. (Civici *et al*, 1999).

In 1998, UNFPA calculated that 83 percent of Albanian emigrants were males, 71 percent of whom were aged between 20-34 years (UNFPA, 1998). Estimates of the 2001 (latest) Census showed that about three fourths of the Albanian emigrants were young males (INSTAT, 2002).

The majority of Albanians leave without their family and only later on, if possible, does the rest of the family join the emigrant in the host country. According to a 1998 survey in Greece and Italy, only 31 percent of the interviewees had emigrated with one or more members of their family (UNDP, 2000).

Another survey conducted in 1999 with Albanian emigrants in Greece indicated that about 70 percent of female emigrants had at least one male family member (husband, brother or son) who had migrated to Greece during a previous period (Germenji, 2005). Patriarchal authority structures still present in Albanian families constrain women's activities, including emigration. Family reunion has been the main reason for emigration of women from Albania (Misja, 1998; Carletto *et al*, 2004).

The largest flows of emigrants originate in the countryside, where the economic situation is considerably worse than in the urban areas. Employment opportunities are scarce in rural areas, and agriculture is not considered a profitable activity, especially in the more remote areas where agricultural land is in short supply. Young people see no future in the countryside. Moving to urban areas in Albania is also difficult, as one must have a place to live, which is as difficult to find as a job. Hence the route to emigration seems the easiest option for most.

Regarding education, the bulk of emigrants have completed at least primary school<sup>4</sup>. Existing research has indicated that Albanian emigrants are positively selected, i.e. those that emigrate are better educated compared to those that do not. The likelihood of emigration is higher for those that have some secondary school education (Germenji and Swinnen, 2004; Konica, 1999). The rate of

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<sup>4</sup> The first 9 years of education are compulsory in Albania.

emigration among Albanian specialists and researchers is also high, at least compared with other Balkan countries.

## 2.5 Channels of Emigration

Starting in 1990, Albanians emigrated by all means, legal and illegal. Government policies towards emigration have aimed at promoting legal channels of emigration from Albania, especially to Western countries. In December 1991 a labour agreement was signed between Germany and Albania according to which for a period of three years 500 Albanian guest workers would migrate to Germany annually. Only 600 Albanians could benefit from this bilateral agreement, as Germany was not interested in renewing it when it expired since almost none of the Albanians that benefited from the agreement respected the contract by returning to Albania after 18 months of working in Germany (Barjaba, 2002).

In June 1996, there was a bilateral labour agreement between Italy and Albania on employment in Italy of seasonal Albanian workers. The agreement was foreseen to be valid for 2 years but it was not implemented because of the political upheavals in Albania after the collapse of Pyramid schemes on spring 1997 (Albanian Ministry of Labour and Social Affairs, 2002). In June 1997 an agreement on seasonal employment of Albanians in Greece was signed between Albania and Greece allowing the emigration of Albanian labour to meet seasonal needs of the Greek labour market. Although there are no statistics, it is believed that at least a few thousand Albanians, mainly from the Southern regions of the country have benefited from this agreement (Barjaba, 2002).

Since 1998 a number of private agencies that offer their services on arranging emigration and employment of Albanians abroad have been established. There are 6-7 such agencies that have obtained the relevant licence from the Albanian Ministry of Labour and Social Affairs. The most successful one has been "La Speranza" having managed to arrange the migration to Italy of 35 nurses from Albania in 2001 and 15 more in 2002 (Barjaba, 2002).

However, despite the efforts made by the Albanian government and private agencies to somehow regulate and organise emigration of Albanian citizens, illegal emigration has been and still remains the most common. Illegal emigration of Albanians takes place in the following ways:

- *Overstaying the tourist or business visas.*
- *Illegal crossing of land state borders on foot.*
- *Illegal crossing of Adriatic and Ionian Sea speedboats.*
- *Illegal border crossing by taxi, ship or air.*
- *Claiming Kosovo identity (practiced during the period of Kosovo crisis).*

## **2.6 Emigrants in Greece, Italy and the UK**

Greece and Italy and to a lesser extent the UK have been the favourite destinations of Albanian emigrants. In this section, referring to Greek, Italian and British sources as well as on the findings of our survey, we present some information about Albanians in these three host countries.

### **2.6.1 Emigrants in Greece**

Greece has been the most important destination of Albanians. And although the influx of immigrants from Albania has caused much concern, there have been no serious attempts by either the Albanian or the Greek Government to accurately determine the number of Albanian migrants in Greece. Therefore the data on migration from Albania to Greece vary according to the source.

The 2001 Greek Census indicated that Albanians constitute the largest immigrants' group there, 57.5 percent of the total (Kasimis, 2004). The first waves of emigrants started in 1990. Throughout that year large groups of Albanians, mainly ethnic Greeks, attempted to escape and enter Greece; which initially decided to open the borders and issued a large number of visas mainly to allow members of the Greek minority in Albania to reunite with their families over the border (Vidali, 1999). Many of the Albanian ethnic Greeks who crossed the border at that time settled and obtained Greek nationality. Afterwards, the majority of Albanians who entered Greece were ethnic Albanians and have been characterised as economic emigrants.

Crossing borders illegally has been (and remains) the main way for Albanians to reach Greece. Each year thousands of Albanians that cross the border illegally are immediately deported back to Albania. In 1993 alone, 220,665 Albanian citizens were apprehended and returned (Droukas, 1998). According to Reyneri (2001) over 1.4 million Albanians were deported in the period 1990-1998. This figure represents more than 1/3 of the Albanian population, although it must be recognized that, because a lot of Albanians tend to return to Greece as soon as

they are taken to the border, the same persons may have been deported several times. According to the findings of our sample 87 percent of emigrants entered Greece illegally.

In January 1998 the Greek government launched a program of legalisation of illegal immigrants. The legislation was aimed at granting amnesty to an estimated 450,000 illegal immigrants in Greece. The registration phase started on January 2, 1998 and ended on May 31, 1998. The illegal foreigners who registered with Organization for Employment of the Work Force (OAED) numbered 352,632 persons, and Albanians constituted more than half of the registered illegal foreigners (228,884 persons or 64.9 percent of the registered; Lianos, 2001). However the legalization process was considered to be incomplete. Over 200,000 illegal immigrants, including thousands of Albanians, were estimated by Greek authorities not to have filed an application in 1998 (Fakiolas and Maratou-Aliprati, 2000). In June 2001, the Greek government launched the second program of legalisation of illegal immigrants. Again thousands of Albanians participated.

Our survey data indicate that indeed Albanian emigrants benefited from both large amnesties applied by the Greek government. 41 percent of them managed to obtain a legal status with the amnesty of 1998 while another 29 percent managed to obtain it with the amnesty of 2001. The rest of the sample continues to stay in Greece illegally.

The Albanian Government's own estimates suggest that approximately 500,000 Albanians (about 63 percent of the total number of Albanian emigrants) have migrated to Greece. According to estimates from the Greek Ministry of Foreign Affairs in 1998, approximately 470,000 Albanians were living in Greece (Kule *et al*, 2002). The 2001 Census in Greece indicated the presence of 433,249 Albanian emigrants, although it is estimated that the real number of Albanian emigrants in Greece is higher (Kasimis, 2004). Given that after 2001 migration of Albanians to Greece continued, while there have been no indications of any substantial return migration, it is reasonable to assume that at least 500,000 Albanians have emigrated to Greece since 1990<sup>5</sup>.

The 2001 Census indicated that Albanian emigrants concentrate in large urban areas and more particularly in: Athens and Thessalonica; in rural areas where intensive agricultural predominates, and, in tourist islands. The 2001 Census

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<sup>5</sup> According to Barjaba (2004), there are 600,000 Albanians residing currently in Greece.

also indicated that about 59 percent of Albanian emigrants were male. Albanians had the youngest age composition, with 76.5 percent in the 16-64 age bracket and almost 70 percent of them less than 35 years old (Kasimis, 2004). The seasonal nature of intensive agriculture and construction in Greece, the rapid expansion of the services sector and the need of the technologically backward areas of the Greek economy for cheap, unskilled and non-unionised labour have created many opportunities for Albanian emigrants. They are employed mainly in labour-intensive sectors and firms operating in the underground economy, earning between 6 and 30 Euro per day. There is job segregation by sex in that Albanian women concentrate mainly in domestic work as live-in housekeepers and elderly care, but not exclusively since they also work as seamstresses or waitresses, while Albanian men concentrate in construction or agriculture (Germenji, 2005).

Some research concludes that Albanians are not integrated in the Greek labour market. They make no use of the human capital obtained in Albania or in Greece (e.g. Greek language). The need to avoid unemployment (since they cannot afford to stay out of the labour market for a long time) pushes Albanian emigrants to underutilise their human capital and accept jobs that are below their level of qualification (Germenji, 2005).

The findings of our survey, confirm the previous findings concerning the characteristics and integration of Albanian emigrants in Greece. Indeed, emigration to Greece is dominated by young males, with almost 82 percent of emigrants in our sample being males and almost 68 percent of all emigrants being younger than 40. 89 percent of emigrants have completed at least 8 years of education in Albania, while 34 percent of them have completed at least 12 years of education. The main sectors of emigrants' employment in Greece are construction (49 percent) and agriculture (21 percent) for men and housekeeping for women (63 percent). For the largest part (53 percent) Albanian emigrants live in Greece with their families (wives and children); only 26 percent of them live alone.

### **2.6.2 Emigrants in Italy**

Italy is the second most favourite destination of Albanian emigrants. By the end of 2000, according to the Italian Ministry of the Interior sources, the number of Albanian citizens legally residing in Italy was 142,066 and constituted the second biggest foreign group after Moroccans (Piperno, 2002). However, the latest

data indicate that since 2003, Albanians constitute the largest group of immigrants in Italy (Zinn, 2004). Data from Italian sources indicate that the Albanian presence in Italy is characterised by its relatively homogenous distribution over the whole Italian territory. However, the presence is particularly high in the South (18.5%) and in some central regions, and lower in the islands (Piperno, 2002; Bonifazi and Sabatino, 2003).

Concerning legality, Albanian regular presence in Italy has increased sharply since the end of 1996. This increase is certainly related to the regularisation campaigns undertaken by the Italian government in 1995/1996, 1998 and 2002. 64 percent of emigrants in our sample have benefited by the regularisation campaigns. In 2000 and 2001, Italy established quotas for foreigners. These quotas have been regarded as successful in reducing illegal immigration.

After more than 14 years of migration experience, the Albanian community in Italy appears to be firmly rooted into the Italian social and economic context. There has been a gradual ageing of the first generation of emigrants and no relevant return flows to Albania. Many Albanians have achieved a deeper inclusion in the Italian labour market and settled in Italy with their families. 59 percent of emigrants in our sample live in Italy with their families. The tendency of Albanians to re-create family groups and to permanently settle down in Italy is confirmed by the high number of married people (79,003 persons or 55.6 percent in the Albanian community, against an average of 48.6 percent for Italy as a whole). Unmarried immigrants comprise only 39.9 percent of the Albanian community (Piperno, 2002). According to our data, unmarried emigrants comprised 32 percent

The extraordinarily high rate of school enrolment of Albanian children is another indicator of the Albanians integration in Italy. The number of Albanian pupils has increased significantly since 1995. Between 1995-1996 and 2000-2001, the rate of enrolment of Albanian children at school grew by 600 percent, twice the rate of increase of the Albanian immigrant community (Caritas, 2001; Zinn, 2004).

Another interesting characteristic of Albanian emigrants in Italy is their high propensity towards obtaining Italian citizenship. Thus, in 1999, 746 Albanians obtained Italian citizenship (of a total of 11,291 acquisitions of citizenship). Until recently, Albanians have represented the third largest group in Italy in number of naturalisations (Piperno, 2002).



However, according to Bonifazi and Sabatino (2003), the tendency for the stabilisation of Albanian emigrants in Italy does not necessarily seem to be accompanied by a proper integration process, with the Albanian community in Italy not properly integrated in the economic, social and cultural life of the country. As regards their economic integration, it has been observed that male Albanian emigrants are mainly engaged in construction or agriculture, whereas women are employed in domestic work. It is argued that employment in these sectors is a way of survival but it is not a means of integration or emancipation. It reduces their chances of improving professional qualifications and familiarising themselves with modern skills and technologies. As regards their social and cultural integration, several researches confirm that Albanians in Italy feel themselves as the victims of a biased negative image. Due in part to the wide coverage that they have received by the media, Albanians in Italy result among the foreign groups more strongly stereotyped and stigmatised (Piperno, 2003; Mai, 2002).

According to the findings of our survey, almost 82 percent of Albanian emigrants in Italy have completed at least the first 8 years of education while almost 63 percent of them have obtained at least a secondary school diploma. Repeating the pattern elsewhere, Albanian emigration to Italy is dominated by young males (68 percent of emigrants are males, while 79 percent of all emigrants are younger than 40). The main sectors of employment are construction (43 percent), industry (19 percent) and services (16 percent) for men and housekeeping (56 percent) for women. The percentage of those self-employed is higher in Italy than in Greece (8 percent compared to 5 percent).

### **2.6.3 Emigrants in the UK**

The UK is a relatively new destination, explored by Albanians after the collapse of the pyramid schemes in 1997 and by the late 1990s. The UK has emerged as one of the favourite destination for Albanian emigrants – it has come to be considered as a country where Albanians could start a “new” life, away from the repressive stigmatisation and criminalisation they had encountered in Greece and Italy (King *et al*, 2003) Data from the Albanian Ministry of Labour and Social Affairs indicate that there are approximately 50,000 Albanian emigrants living in the UK. Migrants mainly originate from the Northern regions of Albania (Kukes, Shkoder, Mat etc.). However, those originating from other (Central or South) parts of the country are also included.

Unlike the Albanians that emigrated to Greece or Italy, for most of those that manage to emigrate to the UK, this destination has been the final one of quite a complex migration trajectory, which has usually involved an initial period in Greece (or Italy) followed by a passage to Italy, and travel overland across Europe to Britain.

Data available from a number of sources and the data collected reveal that the emigration of Albanians to the UK is “male dominated”; women follow men. It is males that move first to establish themselves and then invite females including wives, relatives or just friends for whom they find a job or an occupation, mainly as cleaners or domestic helpers.

Because of their dubious legal status and lack of knowledge of English, most Albanian emigrants, especially at the beginning of their stay in the UK, are “forced” to work in the hidden economy; typically in the construction industry, in the catering trade and pubs for men and shops, restaurants, or as cleaners and other manual occupations in hotels or private houses (King et al, 2003). The level of payment is often at or below the minimum wage.

Most Albanian emigrants entered the UK as asylum seekers, and were initially provided with accommodation by social services and were registered with the local education and health services. Many of those that obtained asylum status, had access to the advantages inherent in the social services system of the UK. The others, if not repatriated to Albania, went underground and lost their access to these benefits.

The findings from our survey indicate that emigrants are relatively well educated. 87 percent of them have completed at least the first 8 years of education while 78 percent of them have obtained at least a high school diploma. Emigrants are mainly males (81 percent). 76 percent of emigrants reside legally while the others have applied to obtain legal status. Construction and services are the two main sectors of occupations for men (33 percent and 32 percent respectively) while for women services sector seems the most “preferred” (66 percent).

### CHAPTER III

#### EMIGRANT REMITTANCES AND THEIR DETERMINANTS

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Remittances<sup>6</sup> are considered as the main compensation that an emigration country receives in return for losing a considerable part of its labor force and “brains”. The focus on remittances is justified because of certain characteristics they have. Thus, it has been widely recognised that first and foremost, remittances are person-to-person transfers: the flow of money is from the emigrants to their families. And, unlike many other kinds of financial flows, they do not create liabilities, they are not channelled through bureaucrats, and by their very nature they are targeted towards the groups that need them most. As such, remittances have had a very significant effect, maybe even greater than traditional foreign aid, towards the alleviation of household poverty in developing countries (Nikas, 1991). In addition, remittances display another characteristic, namely their “counter-cyclical” nature, which means that they appear to be less vulnerable to economic fluctuations than other sources of external funding to developing countries such as foreign direct investments or official development assistance (Buch and Kuckulenz, 2004).

The recent interest in remittances is also a reflection of the fact that they provide developing countries with foreign currency, sorely needed by them to bolster hard currency reserves, finance imports and enhance the abilities of banks to finance loans.

As regards Albania, remittance flows have been continuously increasing since 1992, demonstrating a stable growth over time in tandem with the overall trends in emigration. In the following sections the volume of remittances and their determinants within the Albanian context will be discussed.

#### 3.1 The Magnitude of Emigrant Remittances

It is quite difficult to make an accurate and realistic assessment of the remittance flows to Albania. The largest proportions of remittances are made outside formal channels, and as such they escape recognition in official records of capital transfers.

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<sup>6</sup> In our study remittances are defined as monetary funds sent by individuals working abroad to recipients in Albania. Our definition of remittances thus includes all funds sent by Albanian migrants to households in Albania. In-kind transfers are also included, as the recipient household presumably has influence over what is sent.

The Bank of Albania registers only remittances transferred through the official networks, i.e. through the banking system and money transfer companies (Bank of Albania, 2004). Remittances transferred through informal channels (mostly money hand-carried by emigrants themselves when they travel to Albania, or through friends, acquaintances or paid couriers) can only be estimated. Therefore, the available data on total remittances are for a large part estimates.

In addition, a considerable part of remittances (according to some surveys, up to 1/6 of the total) is made in kind, mainly long-term durables and electronic equipment (Misja, 1998). According to our own survey such non-monetary transfers amount to a not insignificant 13.5 percent of total remittances.

Different institutions, depending on the techniques that they use to measure the volume of remittances, report different statistics. Nevertheless, the reports (IMF, 2005; IMF, 2003; Bank of Albania 2004) clearly show that remittance flows have been rising in tandem with rising emigrant flows, and that the amounts involved have been very substantial. In its report for the year 2004, the Bank of Albania estimates remittances of Albanian emigrants at about US\$ 1028 million for 2004<sup>7</sup>. This amount is more than twice the foreign exchange revenues from exports, effectively making labour the most important export of the country.

**Table 2. Remittances of Albanian emigrants, in million US\$**

| <i>Year</i> | <i>Formal channels</i> | <i>Informal channels</i> | <i>Total</i> | <i>In % of GDP</i> |
|-------------|------------------------|--------------------------|--------------|--------------------|
| 1992        | -                      | -                        | 150.0        | -                  |
| 1993        | -                      | -                        | 274.8        | 22.3               |
| 1994        | 28.3                   | 349.6                    | 377.9        | 19.4               |
| 1995        | 59.5                   | 325.1                    | 384.6        | 15.5               |
| 1996        | 60.0                   | 439.6                    | 499.6        | 18.6               |
| 1997        | 83.6                   | 183.3                    | 266.9        | 11.6               |
| 1998        | 113.7                  | 338.6                    | 452.3        | 14.8               |
| 1999        | 89.1                   | 279.0                    | 368.1        | 10.0               |
| 2000        | 162.8                  | 368.0                    | 530.8        | 14.3               |
| 2001        | 243.9                  | 371.0                    | 614.9        | 15.2               |
| 2002        | 282.3                  | 349.2                    | 631.5        | 13.9               |
| 2003        | 310.3                  | 467.8                    | 778.1        | 11.4               |
| 2004        | 470.0                  | 558.0                    | 1028.0       | 13.7               |

Sources: a) Bank of Albania, b) 2005; Karafolas, 2005

<sup>7</sup> In this section we refer to Bank of Albania statistics. The Bank calculates remittances as the difference between foreign currency coming in and foreign currency going out. This calculation does not exclude the possibility that income from suspicious activities, such as illegal trafficking, are also taken into account. The World Bank relies on Bank of Albania remittances' estimates as well. Estimates from IMF are somehow smaller.

As most remittances brought to Albania by hand, it is not surprising to find the flows being seasonal; with the largest amounts arriving mostly during the summer and the end of the year, when emigrants are visiting their families or relatives in Albania.

### 3.2 Determinants of Remittances

Literature identifies a number of factors determining remittance flows. These factors are grouped in three categories:

- factors that have a definite positive correlation to remittance flows such as the number of workers abroad, economic activity in the host and labour source country, facility of transferring funds, education level and the marital status of migrants; with married migrants having the tendency to remit more to their families left behind.
- factors that have a definite negative correlation to remittance flows such as political risk factors in the source country, the ratio of females in the migrant population, the number of other employed people in the household left behind in the home country, and family reunification. Also, the host countries themselves can provide incentives in order to tempt the immigrants not to remit – with the objective of avoiding the outflow of foreign exchange.
- factors that may have a positive or negative correlation to remittance flows such as wage rates, relative and real interest rates, household income level, legality status and years since emigration.

As far as Albania is concerned, the factors determining the inflow of remittances have not been analysed in a systematic way. This is mainly due to the relatively short period of emigration flows and the poor quality of data, which left little freedom for a comprehensive econometric investigation. Therefore, here too, much of the discussion is largely of an anecdotal nature. As far as we know there have been only a few attempts to estimate the remittance function for Albanian emigrants (see for e.g. Germenji 2004; Konica, 1999; Lianos, 2004). Nevertheless, there is evidence that, indeed, the aforementioned factors do determine remittance flows to Albania.

Thus, all the reports (IMF 2005; Bank of Albania 2004) indicate that, while the economic activity level in Albania has improved, the inflow of remittances to Albania has been increasing in tandem with the number of emigrants that left the country. The Bank of Albania only (IMF also) reports data on the total remittance flows without distinguishing them by country of origin. Therefore little analysis can be provided from the existing data about possible correlations between the economic activity level in the host country and the level of remittances entering Albania.

The amount remitted is positively affected by the emigrants' education level (Gedeshi *et al*, 2003; Germenji 2000; Germenji *et al*, 2002) and marital status; married emigrants with families remaining in Albania tend to send significantly more in comparison to their counterparts (Gedeshi *et al*, 2003; Germenji 2004; Konica, 1999). However, available evidence also indicates that once Albanian emigrants have achieved family reunification in the host countries, the amount of remittances sent diminishes significantly (see Gedeshi *et al*, 2003).

Survey data and a few empirical analyses indicate that there is indeed a positive correlation between the emigrants' wages and remittances sent to Albania (see for e.g. Germenji, 2004; Konica 1999). Most importantly, the legal status of Albanian emigrants seems to significantly and positively affect the volume and means of remittances as well.

There is some evidence regarding the effect of job stability and relative deprivation on remittances of Albanian emigrants in Greece. This indicates that while job stability negatively affects the amounts remitted, relative deprivation also negatively affects the emigrants' probability of remitting (Lianos, 2004).

Regarding the emigrants' gender, data indicate that, indeed, the amount remitted by emigrants is negatively correlated to females (Gedeshi *et al*, 2003; King *et al*, 2004; Konica, 1999). As pointed out, increasing numbers of Albanian female emigrants are likely to be married and living with their husband in the host country. That said, Albanian tradition obliges them to have more moral and economic responsibilities towards the family of their husbands than their own families. As a result it is normally the pattern that sons rather than married daughters are the ones sending remittances to their parents.

The volumes of remittance inflows have been closely affected by political stability in Albania. A remarkable decrease in volume was registered for the country in

the years 1997 and 1999 that are the years characterised by political instability, with 1997 being the year of chaos in the Albanian economy and society due to the pyramid schemes' collapse and the 1999 being the year of the Kosovo crisis.

It is believed that the increase in the volume of remittances has been helped by the development of the financial sector in Albania. An important role in this direction has been played by the involvement in money transfers' network of the money transfer companies like Western Union and Money Gram as well as a number of foreign banks which operate in Albania.

Last but not least, we would like to mention that there is little evidence that the volume of remittances to Albania is affected to any significant degree by changes in the exchange rate (Haderi *et al*, 1999).

## CHAPTER IV

### REMITTANCE TRANSFER CHANNELS

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Remittances are often delivered with stunning inefficiency; as much as 15 to 20 percent of their value is said to disappear, commonly through high transfer fees and poor exchange rate offerings (Newland 2003). In the case of Albania, just like in other developing countries, remittance transfers are carried out through both informal and formal channels. Findings from our survey showed that for the year 2004 only 22.6 percent of emigrants preferred to resort to formal channels, the rest, 77.4 percent, preferred to resort to informal ones – primarily hand-carry (see table 5). However, as emigrants did not report the actual amounts remitted through each available channel, we cannot estimate the share of remittances (by value) transferred through formal and informal channels respectively.

Data from the Bank of Albania (see tables below) indicate that after the chaos of the pyramid schemes in 1997, the use of formal channels actually increased. As can be seen from table 3 this occurred while estimated remittance transfers through informal channels were characterised by a limited fluctuation.

Although there is some evidence of increased use of formal channels in transferring remittances (see for e.g. Orozco, 2003 and the Bank of Albania figures reproduced here), there remains a general consensus in the literature that the transfer of most remittances is carried out through informal channels (Russell, 1996; Puri and Ritzema, 1999; Bracking, 2003). This phenomenon was also observed by Taylor (1999) when he indicated that less than 50% of remittances flow through formal channels.

Our research indicates that these preferences are due to a variety of reasons, both institutional and personal. And indeed, the literature identifies a number of factors that are supposed to determine the emigrant's choice of what channel to use for remittance transfer. These can include any combination of the following: the emigrant's legal status; transaction costs; speed of the remittance transfer process; reliability and security offered by the channel; destination of the remittances to be transferred etc. Importantly, the literature shows and our research confirms that such informal remittance channels are often influenced by and linked to the same wider networks that facilitate emigration and induction of emigrants into the host labour markets in the first place (Osili, 2002).



#### 4.1 Formal Channels of Remittance Transfer

Available data indicates that formal channels, although still used far less frequently than informal ones, appear to be winning the confidence of some Albanian emigrants in recent years. Information presented in tables 3 and 4 show that the size of remittances transferred through the formal network has continuously increased, both in absolute and relative terms. In absolute terms such transfers almost doubled between 2000 and 2003, and was more than 10 times the volume of 1994 (table 3); while in relative terms formal transfers reached almost 40 percent in 2003, compared to 7.5 percent in 1994 (table 4)

**Table 3. Evolution of remittances of emigrants 1994 – 2004; 1994= 100**

| <i>Year</i> | <i>Formal channels</i> | <i>Informal channels</i> | <i>Total</i> |
|-------------|------------------------|--------------------------|--------------|
| 1994        | 10.0                   | 1000                     | 100.0        |
| 1995        | 210.2                  | 93.0                     | 101.8        |
| 1996        | 212.0                  | 125.7                    | 132.2        |
| 1997        | 295.4                  | 52.4                     | 70.6         |
| 1998        | 401.8                  | 96.9                     | 119.7        |
| 1999        | 314.8                  | 79.8                     | 97.4         |
| 2000        | 575.3                  | 105.3                    | 140.5        |
| 2001        | 861.8                  | 106.1                    | 162.7        |
| 2002        | 997.5                  | 99.9                     | 167.1        |
| 2003        | 1,096.5                | 133.8                    | 205.9        |
| 2004        | 1,660.7                | 159.6                    | 272.0        |

Source: Table 2

**Table 4. Distribution of remittances by transfer channels, 1994 – 2004; in %**

| <i>Year</i> | <i>Formal channels</i> | <i>Informal channels</i> | <i>Total</i> |
|-------------|------------------------|--------------------------|--------------|
| 1994        | 7.5%                   | 92.5%                    | 100.0%       |
| 1995        | 15.5%                  | 84.5%                    | 100.0%       |
| 1996        | 12.0%                  | 88.0%                    | 100.0%       |
| 1997        | 31.3%                  | 68.7%                    | 100.0%       |
| 1998        | 25.1%                  | 74.9%                    | 100.0%       |
| 1999        | 24.2%                  | 75.8%                    | 100.0%       |
| 2000        | 30.7%                  | 69.3%                    | 100.0%       |
| 2001        | 39.7%                  | 60.3%                    | 100.0%       |
| 2002        | 44.7%                  | 55.3%                    | 100.0%       |
| 2003        | 39.9%                  | 60.1%                    | 100.0%       |
| 2004        | 45.7%                  | 54.3%                    | 100.0%       |

Source: table 2

The interest shown by foreign banks, especially the Greek ones<sup>8</sup> as well as the Money Transfer Operators have helped to establish a functional and fairly efficient formal network. One that can be regularly accessed by Albanian emigrants residing abroad and their families left behind in Albania.

There is some related evidence that the Albanians' trust in the formal financial system in the country is increasing (Piperno, 2003). This of course could serve as further incentive for the banks operating in Albania to make remittance transfers work right.

#### **4.1.1 Banking sector**

By the end of 2004 the Albanian banking system was composed of 16 banks, of which two had joint capital and the rest had private capital. Until recently, banks operating in Albania showed no marked interest in capturing part of the remittance market. The banks' reduced commitment in loan policies is the main factor that made them little interested in attracting savings and consequently in channelling remittance.

Concerning the money transfer procedure, Albanian banks can receive emigrants' remittances through the intermediation of "corresponding banking institutes" in the host countries. By specifying the corresponding Albanian bank where they wish to transfer their money, emigrants remitting money to Albania can do so from any institute in the host countries. Of course, this is a quite complex system that involves relatively high costs, a long transaction period (sometimes up to a month) and the awareness of the emigrants about the specific banking network they are going to use. On the other side, those that are supposed to receive the money in Albania, rarely have access to the local banking system (Piperno, 2003).

As a result, Albanian emigrants largely prefer to resort to informal channels (hand-carry), or if this is not possible, to MTOs (Western Union and Money Gram). These charge substantial fees, but offer rapid and safe services, widespread over the Albanian territory.

Albanian emigrants residing in Italy and making use of the banking network to remit funds usually resort to the Italian Albanian Bank (BIA), the only Italian bank operating in Albania. As the BIA operates exclusively through its own

<sup>8</sup> Currently there are 4 Greek banks operating in Albanian financial market.

agency in Tirana the bank does not need to intermediate with corresponding banking institutes. It therefore offers its clients a simple transaction mechanism; however, having a single agency in Albania causes the recipients of the remittances to be bound to Tirana.

Immigrants that reside in Greece and make use of the banking network to send their remittances, usually resort to 4 Greek banks (National Bank of Greece, Emporiki Bank, Alpha Bank and the Pireaus Bank) and the American Bank of Albania (ABA). These banks operate in both Albania and Greece. Two of the Greek banks are present with a subsidiary bank, the Pireaus Bank (owner of the Tirana Bank) and Emporiki Bank. Two others are present with a branch network. The American Bank of Albania, a private bank owned by USA shareholders, has chosen the form of subsidiary to operate in both countries.

All five banks have a network of 49 branches in Albania, in 16 towns. Most of the branches (18 in total) are in Tirana. Some other towns like Durres, Fier, Gjirokaster, Elbasan, Korça and Vlora host more than one branch. The largest network in Albania belongs to the subsidiary bank of Pireaus Bank – the Tirana Bank with 21 branches in 15 towns. The second largest network belongs to the ABA with 15 branches in 15 towns. This relatively well-extended network allows the Greek banks and ABA to be much more active than BIA or Albanian banks in the remittance market.

Each bank reports monthly to the Bank of Albania the volume of international transfers into and out of Albania. These figures are then combined to help to estimate the size of remittance transfers.

Results obtained from our survey indicate that among emigrants that remit to their households and relatives left behind to Albania, the banking system remains the *least preferred* formal channel. While 15.2 percent of migrants show some preference to the system, only 9.0 percent report it as the preferred channel for sending their remittances. The findings from our household survey confirmed this finding. Only 9,4 percent of the households report that the preferred form for their relatives to send money was via the banking network.

While still low, the highest preference for the banking system is registered among Albanian migrants in Greece, 11.9 percent. The relatively better access by migrants to the banking system in Greece – 73.8 percent of migrants residing in Greece and 71.2 percent of those that remitted in 2004 reported to have a

bank account there (table 6) - combined with the relatively broad network of the Greek banks in Albania - can be offered as an explanation for this result.

Although the banks charge much more favourable commission rates<sup>9</sup> than MTOs, they are still not able to attract a substantial share of the remittance market. Semi-structured interviews carried out in parallel with our surveys indicate that factors influencing the migrant's decision included:

- Geographical vicinity of Albania to Greece and Italy (Albanians residing in Greece or Italy annually travel an average of 2-3 times to Albania and hand-carry the money with them);
- Lack of easy access of migrant households in Albania to the banking sector. The results of our emigrant and household surveys indicate that while Albanian emigrants are to large extent familiar with the banking systems in the host countries (74.4 percent of them keep their savings in banks in their place of residence), emigrant households in Albania show to be considerably less familiar with the banking system in Albania. Only 45.3 percent of households in Albania maintain a bank account. When only emigrant households residing in rural areas are considered, the percentage is even lower;
- Paperwork asked by the banks in order to open accounts or make a regular money transfers;
- Inconvenient working hours of banks' agencies in the host countries and Albania,

Our survey and interviews with Albanian emigrants and Albanian experts also revealed that decisions related to the use of the banking sector by the emigrants to channel their remittances to Albania has a lot to do with trust. For example, persons transferring small-values avoid banks because they fear that bank will become insolvent or illiquid.

#### **4.1.2 Money Transfer Operators**

Two money transfer operators (MTOs) are present in Albania: Western Union (WU) and Money Gram (MG) and their function is under the supervision of the Bank of Albania (BoA). Since the end of 1990s they have had a very important

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<sup>9</sup> ABA for example charges only 5 Euro for the regular transfer of any amount up to 3.000,00 Euro while Pireaus Bank charges 6 Euro for the regular transfer of the amount up to 5.000,00 Euro.

presence in Albania. Their networks compensate somewhat for the absence of banking facilities in several towns and villages (including quite some of the remote areas) and facilitate effective money transfers.

In total there were 285 agents of MTOs in Albania in 2004. The Albanian Government's own estimates suggest that between 650,000 and 800,000 citizens have emigrated. Using the higher figure as potential number of clients results in an average of 2,800 emigrants per existing MTO agent. This average clearly reflects the proximity of these operators to emigrants and their families in Albania, this being one of the key determinants influencing the emigrant's decision in their choice of transfer intermediary. Usually, it is Albanian emigrants that reside in relatively far (further than neighbouring countries, including Greece and Italy) or very far away destinations who prefer to resort to the services provided by agencies of MTOs.

Results derived from our survey showed that in total 13.6 percent of Albanian expressed a preference for sending their remittances through MTOs. The highest percentage was for emigrants residing in 'other' host countries (including the UK) than Greece and Italy. The main reasons for Albanians in other destinations and in the UK resorting to the services of MTOs' agencies can be summarised as a combination of:

- the relatively long distances and commensurate high costs of travelling often to Albania;
- the bad reputation perceived by emigrants of the banking network in general, and closely related;
- a lack of knowledge about the developing banking network in Albania.

**Table 5. Remitting emigrants by country of destination and the most preferred means of remitting**  
The most preferred means for remitting to Albania

| Country      | Informal means |             |                 |             |                                      |            | Formal means           |            |            |             |               |            | Total        |             |            |             |            |              |
|--------------|----------------|-------------|-----------------|-------------|--------------------------------------|------------|------------------------|------------|------------|-------------|---------------|------------|--------------|-------------|------------|-------------|------------|--------------|
|              | By myself      |             | Through friends |             | Through other persons with no charge |            | By paying others a fee |            | Total      |             | Through banks |            | Through MTOs |             | Total      |             |            |              |
|              | Nr.            | %           | Nr.             | %           | Nr.                                  | %          | Nr.                    | %          | Nr.        | %           | Nr.           | %          | Nr.          | %           | Nr.        | %           |            |              |
| Greece       | 184            | 68.7        | 33              | 12.3        | 8                                    | 3.0        | 3                      | 1.1        | 228        | 85.1        | 32            | 11.9       | 8            | 3.0         | 40         | 14.1        | 268        | 100.0        |
| Italy        | 100            | 62.2        | 20              | 12.4        | 2                                    | 1.2        | 0                      | 0.0        | 122        | 75.8        | 6             | 3.7        | 33           | 20.5        | 39         | 24.2        | 161        | 100.0        |
| The UK       | 8              | 15.1        | 15              | 27.8        | 2                                    | 3.7        | 2                      | 3.7        | 27         | 50.0        | 6             | 11.1       | 21           | 38.9        | 27         | 50.0        | 54         | 100.0        |
| Other        | 5              | 33.3        | 1               | 6.7         | 0                                    | 0.0        | 1                      | 6.7        | 7          | 46.7        | 1             | 6.7        | 7            | 46.6        | 8          | 53.3        | 15         | 100.0        |
| <b>Total</b> | <b>297</b>     | <b>60.4</b> | <b>69</b>       | <b>13.6</b> | <b>12</b>                            | <b>2.4</b> | <b>5</b>               | <b>1.0</b> | <b>383</b> | <b>77.4</b> | <b>45</b>     | <b>9.0</b> | <b>69</b>    | <b>13.6</b> | <b>114</b> | <b>22.6</b> | <b>498</b> | <b>100.0</b> |

Source: Our survey

**Table 6. Emigrants by host country, remitting status and access to the banking sector of the host country**

| Country      | Emigrants that remitted in 2004 by: |             |                           |             |            |             | Emigrants that did not remit in 2004 by: |             |                           |            |            |             | Total      |              |
|--------------|-------------------------------------|-------------|---------------------------|-------------|------------|-------------|--|-------------|---------------------------|------------|------------|-------------|------------|--------------|
|              | Having a bank account               |             | Not having a bank account |             | Total      |             | Having a bank account                    |             | Not having a bank account |            | Total      |             | Total      |              |
|              | Nr.                                 | %           | Nr.                       | %           | Nr.        | %           | Nr.                                      | %           | Nr.                       | %          | Nr.        | %           | Nr.        | %            |
| Greece       | 191                                 | 47.1        | 77                        | 19.1        | 268        | 66.2        | 108                                      | 26.7        | 29                        | 7.2        | 137        | 33.8        | 405        | 100.0        |
| Italy        | 112                                 | 51.3        | 49                        | 22.5        | 161        | 73.8        | 45                                       | 24.4        | 12                        | 1.8        | 57         | 26.2        | 218        | 100.0        |
| The UK       | 44                                  | 73.3        | 10                        | 16.7        | 54         | 90.0        | 4  | 6.7         | 2                         | 3.3        | 6          | 10.0        | 60         | 100.0        |
| Other        | 14                                  | 60.9        | 1                         | 4.4         | 15         | 65.3        | 8  | 34.7        | 0                         | 0.0        | 8          | 34.7        | 23         | 100.0        |
| <b>Total</b> | <b>361</b>                          | <b>51.1</b> | <b>137</b>                | <b>20.4</b> | <b>498</b> | <b>70.5</b> | <b>165</b>                               | <b>23.4</b> | <b>43</b>                 | <b>6.1</b> | <b>208</b> | <b>29.5</b> | <b>706</b> | <b>100.0</b> |

Source: Our survey

Table 7. Households in Albania as remittance receivers by access to the banking sector in Albania

| County             | Households that received remittances in 2004 by: |      |                           |      |       |      | Households that did not receive remittances in 2004 by: |     |                           |      |       |      | Total |       |
|--------------------|--|------|---------------------------|------|-------|------|---|-----|---------------------------|------|-------|------|-------|-------|
|                    | Having a bank account                            |      | Not having a bank account |      | Total |      | Having a bank account                                   |     | Not having a bank account |      | Total |      | Nr.   | %     |
|                    | Nr.  | %    | Nr.                       | %    | Nr.   | %    | Nr.   | %   | Nr.                       | %    | Nr.   | %    |       |       |
| <i>Elbasan</i>     | 69   | 34.8 | 118                       | 59.6 | 187   | 94.4 | 5   | 2.6 | 6                         | 3.0  | 11    | 5.6  | 198   | 100.0 |
| <i>Gjirokaster</i> | 116  | 54.7 | 57                        | 26.9 | 173   | 81.6 | 21  | 9.9 | 18                        | 8.5  | 39    | 18.4 | 212   | 100.0 |
| <i>Korça</i>       | 79   | 39.7 | 94                        | 47.2 | 173   | 86.9 | 9   | 4.5 | 17                        | 8.6  | 26    | 13.1 | 199   | 100.0 |
| <i>Kukes</i>       | 36   | 18.7 | 138                       | 71.5 | 174   | 90.2 | 2   | 1.0 | 17                        | 8.8  | 19    | 9.8  | 193   | 100.0 |
| <i>Shkodra</i>     | 52   | 30.1 | 74                        | 42.8 | 126   | 72.9 | 17  | 9.8 | 30                        | 17.3 | 47    | 27.1 | 173   | 100.0 |
| <b>Total</b>       | 352  | 39.3 | 481                       | 53.7 | 833   | 93.0 | 54  | 6.0 | 88                        | 1.0  | 142   | 7.0  | 895   | 100.0 |

Source: Our survey

- *Western Union*

The largest share of formal remittance transfers to Albania is realised by Western Union (WU). The company, being present in Albanian since 1998 has been expanding its operations, and now enjoys the biggest network of offices in the country of any intermediary. By the end of 2004 WU had a network of 181 agents in 61 towns. A strong presence is especially observed in the largest urban areas of the country, with 47 agents in Tirana alone. Other centres include Durres (14 agents), Shkoder (11 agents), Fier (11 agents), Vlore (10 agents), Elbasan and Lushnje (8 agents each). In order to realise a good geographical coverage of the country, the strategy of the company has been to set up an agent office for each administrative unit populated by at least 10,000 inhabitants. As a result, today one can find outlets of WU even in the remote areas, and in each and every district (36) of Albania<sup>10</sup>.

Our qualitative interviews with emigrants confirmed that, regardless of the costs related to effecting transfers through this agency (see table 8), the company enjoys a reputation for being very fast and very correct to its clients. It consistently takes less than 1 hour for money to be transferred from the emigrant abroad to his beneficiaries in Albania. According to experts from the agency, clients are happy with the service and this is reflected in the continuous increase in both the numbers of transactions and the volumes of monies transferred.

Emigrants interviewed in our survey also appreciated the simplicity of the money transfer procedure applied by Western Union. The procedure was considered simple; not only for emigrants themselves but also for their relatives residing in Albania, often elderly parents that never entered a commercial bank office to pick up their money.

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<sup>10</sup> The principal local partner of WU is the National Albanian Post-office, ALBAPOST, which has a network of 30 agents. In the second place is the UNIXEL Company with 10 agents and in the third the "Union B" with 7 agents.



**Table 8. Western Union commission rates (in \$US)**

| <i>Amount of money to be transferred</i> | <i>Commission</i> |
|--|-------------------|
| 0.00 – 50.00                             | 13.00             |
| 50.01 – 100.00                           | 14.00             |
| 100.01 – 200.00                          | 21.00             |
| 200.01 – 300.00                          | 27.00             |
| 300.01 – 400.00                          | 32.00             |
| 400.01 – 500.00                          | 37.00             |
| 500.00 – 750.00                          | 42.00             |
| 750.01 – 1,000.00                        | 47.00             |
| 1,000.01 – 1,250.00                      | 55.00             |
| 1,250.01 – 1,500.00                      | 60.00             |
| 1,500.01 – 1,750.00                      | 70.00             |
| 1,750.00 – 2,000.00                      | 80.00             |
| 2,000.01 – 2,500.00                      | 100.00            |
| 2,500.01 – 3,000.00                      | 120.00            |

Source: Western Union Bureau

- *Money Gram*

Money Gram (MG) is the second important MTO in Albania with a network of 104 agents in 44 towns of the country. The most important presence of the operator is in Tirana with 26 agents, followed by Fier (7 agents), Durrës (7 agents), Shkoder (6 agents), Berat (6 agents) and Vlore (5 agents).

Commission rates charged by MG are somewhat lower than those charged by Western Union. Like Western Union, Money Gram bases its network on local companies in Albania (as local agents). There are 36 companies that act as partners of Money Gram.<sup>11</sup>

#### **4.2 Informal Channels of Remittance Transfer**

Informal channels come in several forms. Remittances are usually hand-carried to Albania by the remitters themselves, either during regular visits, or upon

<sup>11</sup> MG's principal partner is Raiffeisen Bank Albania (formerly the Savings Bank - to January 2004) with 52 agencies. The second biggest network of local partners belongs to the "Exchange" company with 8 agencies, followed by "AK Invest" with 5 agencies.

return from temporary work abroad. Other family members, relatives or trusted friends and neighbours can bring them back as well. Sometimes, emigrants who wish to send money to their families or relatives in Albania may use, although very rarely, paid couriers.

Figures in our survey show that for 60,4 percent of emigrants, the most preferred means of sending back remittances to Albania was “to bring the money by myself” (table 5). 13,6 percent of emigrants would trust their remittances to their friends and neighbours that would travel to Albania. Only 1 percent of emigrants would prefer to transfer their money through couriers against a fee.

The highest preferences for informal channels are registered for Albanian emigrants residing in Greece and Italy. About 85 percent of Albanian emigrants in Greece and 76 percent of Albanian emigrants in Italy use informal channels to make remittance transfers, against 50 percent in the UK and 47 percent in the other countries. The main reason for this is geographical proximity; emigrants who reside in Greece and Italy travel more often to Albania to visit their families and relatives left behind.

**Table 9. Emigrants by the host country and number of times they visited Albania annually**

| Nr. of visits | Emigrants by the host country |       |       |       |        |       |       |       | Total |       |
|---------------|-------------------------------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
|               | Greece                        |       | Italy |       | The UK |       | Other |       |       |       |
|               | Nr.                           | %     | Nr.   | %     | Nr.    | %     | Nr.   | %     | Nr.   | %     |
| 0             | 35                            | 8.6   | 22    | 9.9   | 26     | 41.2  | 0     | 0.0   | 83    | 11.6  |
| 1-2           | 138                           | 34.1  | 104   | 46.6  | 24     | 38.1  | 13    | 59.1  | 279   | 39.1  |
| 3-4           | 131                           | 32.3  | 67    | 30    | 8      | 12.7  | 6     | 27.3  | 212   | 29.7  |
| 5-6           | 47                            | 11.6  | 18    | 8.1   | 3      | 4.8   | 2     | 9.1   | 70    | 9.8   |
| More than 6   | 54                            | 13.3  | 12    | 5.4   | 2      | 3.2   | 1     | 4.5   | 68    | 9.7   |
| Average       | 3.1                           | 100.0 | 2.5   | 100.0 | 1.5    | 100.0 | 2.5   | 100.0 | 2.7   | 100.0 |

Source: Our survey

The results of our survey reveal that Albanian emigrants visited Albania on average 2.7 times in the last two years. Albanian migrants living in Greece and Italy visited Albania more often than those living in the UK or other destinations. The differences are significant. Thus, Albanian migrants living in Greece visited Albania, on average, 3.1 times annually (in the last two years), and those living in Italy 2.5 times annually. In contrast to these two groups, emigrants that lived in the UK visited Albania, on average, only 1.5 times.

It is important to note that informal channels are naturally preferred by illegal emigrants or legal, short-term emigrants. Illegal migrants by their very nature

find it difficult if not impossible to operate bank accounts or make use of the banking system to transfer their remittances to Albania. As stated, informal remittance channels are often influenced by and linked to the same wider networks that facilitated the illegal or legal emigration in the first place. And, the use of informal channels, although carrying quite some risk (emigrants can get robbed on the way to Albania, etc.), might be seen as optimal from the individual point of view because it represents the most cost-effective (in most of the cases free of charge) means of money transfer.

However, informal channels impose very real costs on society as a whole. First of all, remittances sent through informal channels rarely enter the banking system in Albania and thus delay the probability that they will be available for intermediation. A remitted dollar that is left in the banking system would generate approximately \$2.70<sup>12</sup> of additional lending in the banking system through multiple deposit expansion. Furthermore, it has been shown that remittances which are transferred through informal channels (i.e. through emigrants themselves when they travel home or paid carriers) are more likely to be used for the immediate consumption needs of emigrants' families, than those remittances which are transferred through, and deposited, in bank accounts. These formal transfers are more likely to be used for purposes that have direct development impacts, such as savings and investments (Stein, 2003).

Last but not least, the use of informal channels for remittance transfers inhibits the ability of the Bank of Albania to measure the presence of foreign currency in the system. As a result, the conduct of monetary and stabilisation policies becomes complicated. Furthermore, as remittance transfers are not steady, either seasonally (with clear spikes in the summer and winter holiday seasons experienced) or annually, not having accurate data on their flows makes the exchange rate-based management of monetary policy more difficult.

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<sup>12</sup> This is approximately the value of the M2 money multiplier as projected for the year 2003.

## CHAPTER V

### THE ECONOMIC IMPACT OF REMITTANCES

Literature describes two opposing views on the issue of the impact of remittances on migrant sending countries. In the early 1990s, for example, the dominant view was that remittances do not promote growth but on the contrary, create dependency of the sending countries on migration and decrease the likelihood of an improved economy. Supporters of this pessimistic view argued that the inflow of remittances, encouraging as it does the continuation of migration of working age population, decreases the likelihood of investment by the government or foreign investors because of an unreliable workforce or one that is accustomed to not working (Pastor, 1989/1990; Itzigsoh, 1995). As a result, some supporters went so far as to advise the governments of migrant sending countries and donors to discourage migration and remittances.

In recent years there has been a sea-change in the view on remittances' impacts, and currently there is a great deal of excitement about the potential of remittance inflows to support growth and development. This is partly due to the fact that remittance inflows to developing countries have become so large, recorded at \$93 billion worldwide for 2003 (Ratha, 2004), and partly because the theoretical understanding of remittances has changed.

Nevertheless, although the views on remittances have recently become rather more positive, the questions that fuelled the scepticism in the early '90s remain open; and there is yet no decisive answer as to whether remittances facilitate or hinder growth and development in the receiving countries.

Table 10 summarises the views of the economic benefits and costs of remittances to a receiving country.

**Table 10. Potential benefits and costs of remittances for receiving countries**

| Potential benefits  | Potential costs  |
|---|--|
| Ease foreign exchange constraints and help finance external deficits              | Ease pressure on governments to implement reforms and reduce external imbalances (moral hazard)  |
| Permit imports of capital goods and raw materials for industrial development      | Spent on consumer goods, which increases demand, increases inflation and pushes up wage levels   |
| Potential source of savings and investments for capital formation and development | Reduce savings of recipient families and thus negatively affect growth and development (moral hazard)  |
| Facilitate investment in children's education and human capital formation         | Reduce labour effort of recipient families and thus negatively affect growth and development (moral hazard)  |
| Net addition to families' income source; raise the living standard of recipients  | Replace other sources of income, thereby increasing dependency, eroding positive working habits, and heightening the potential negative effects of return migration (moral hazard) |
| Reduce income inequality  | Increase income inequality   |
| Reduce poverty  | Promotes the development of money laundering   |

As the table shows, the potential costs of remittances are viewed as largely derived from moral hazard problems. The main argument is that the large inflow of remittances could ease pressure on governments faced with large external deficits to engage in difficult structural reforms. They also could negatively affect the labour efforts and saving and investment behaviour of recipient households, even if the remittance sender wants the family to work hard, save and invest. In the following sections we will examine the impact of remittances, based on findings of previous researches and our survey, and thereby present a balance between the benefits and costs of remittances for Albania.

## **5.1 Microeconomic Impact of Remittances**

### ***5.1.1 The impact of remittances on poverty***

The fact that remittances tend to be counter-cyclical implies that they can represent an important source of both income and consumption smoothing strategies for vulnerable poor and non-poor households; meaning in turn that remittances can have a direct impact on poverty reduction. However, up to now little attention has been paid to analysing the issue. Two factors seem to be responsible for this gap. The first is a lack of poverty data: it is quite difficult to estimate accurate and meaningful poverty levels in developing countries. The second is an absence of remittances data: a very limited number of household surveys collect useful data on the size and volume of remittance transfers to emigrant households in home countries.

As a result, although researchers agree that theoretically, under plausible assumptions, remittances can reduce poverty, there is little agreement in the empirical literature concerning the impact of remittances on poverty. Stark (1991) and Adams (1991) find some supporting evidence on the positive role of remittances towards reducing poverty in Mexico and rural Egypt respectively. However, their conclusions are of somewhat limited utility because of small sample size (Stark's findings are based on 61 households from two Mexican villages while Adams's are based on 1,000 households from three Egyptian villages).

Maybe the strongest empirical support on the impact of remittances in reducing poverty comes from the findings of Adams (2004), analysing a sample of 7,276 urban and rural Guatemalan households (one of the largest sample ever used for this type of studies). The author finds that remittances reduce the level, depth and severity of poverty in Guatemala.

As regards Albania, to the best of our knowledge, no study has ever tried to empirically examine the impact of remittance flows on poverty reduction. However, several pieces of survey evidence in various part of Albania shed light on the benefits of remittances as concerns the poverty issue. Thus, a household survey conducted in rural areas of Albania in 1998 indicated that 69 percent of money income of rural households were generated from off farm activities, and the main source of the off farm money income (about 56 percent) was remittances (Civici *et al.*, 1999). A household survey carried out in rural Albania in 2000 indicated that during 1999, 26.2 percent of the rural households had received money from household members or relatives abroad while for 61.5 percent of the households that received remittances this money represented the most important source of income (Germenji *et al.*, 2002).

A qualitative assessment study by the World Bank in 2001 showed that emigration and remittances formed an important part of household livelihood strategies in Albania. Remittances had contributed directly to rising household income as well as household consumption of goods and services. The study concluded that emigration and remittances were the main factor distinguishing a poor family from non-poor ones. Families benefiting from remittances were more likely to be non-poor (De Soto *et al.*, 2002).

According to the results of the Living Standard Measuring Survey (LSMS) 2002, across all households, remittances from emigrants represented 13 percent of the household income while for households that received remittances they presented 47 percent of the household income. The average size of monthly remittances was 13,600 Lek or US\$95 (IMF, 2005).

The general view among Albanian authorities and foreign specialists is that remittances are indeed playing a key role in alleviating poverty. For many families in Albania, access to a migration network and family exposure to migration (because of the remittances that follow) is seen as one of the most viable means to escape poverty (IMF, 2005).

Data from our emigrant household survey indicate that emigration, through remittances, has indeed played an important role in improving the overall financial situation of the households that benefited from them. Thus, from 1006 emigrant household surveyed, 897 of them (or 89 percent) received remittances during 2004. The total amount of remittances received by these 897 households is 2,350,000 Euro while the average amount received by household is 2,620 Euro

(or 327,500 Lek) representing (always on average) 43 percent of the emigrant household income budget. The highest average amount received is for the Gjirokastra region while the lowest is for the Kukës region, (table 11)

When households were asked to declare their perceptions about the effect of emigration and remittances, the findings were very interesting. Indeed households that receive remittances perceive a positive effect of them. Only for 3.7 percent of these households reported that the financial situation did not improve. This can be compared to those households that did not receive remittances; where fully 58.7 percent of households reported no perceived improvement in their financial situation.

### **5.1.2 The impact of remittances on inequality**

The literature does not give firm predictions on whether remittances can be expected to increase or decrease inequality between those who have access to remittances and those that do not. This is because, as Stark (1991) would conclude, “the impact of migrant remittances on (recipient village) income distribution depends critically on the degree to which migration opportunities of different types become diffused through a village population, as well as on the returns to human capital embedded in migrants’ remittances and on the distribution of potentially remittance enhancing skills and education across village households”.

Several techniques have been proposed to measure the impact of remittances on inequality. The simplest way is to evaluate tables showing the distribution of total income and remittance income across deciles or quintile household groups. Using this technique, Adams (1998) finds that in the case of rural Pakistani households, remittances increase inequalities. A more sophisticated approach is to calculate inequality measures for household incomes once by excluding remittance income and then by including remittance income. If the inequality measure falls when remittance income is included, then it can be claimed that remittances reduce inequality. A number of studies have used this approach but the evidence found, depending of the sample used, supports both claims: remittances *increase* inequalities and remittances *decrease* inequalities.

As regards Albania, empirical research has not been conducted to measure the impact of remittances on household income inequalities. However, there are several research that indirectly touch the issue. Germezi and Swinnen (2004)

find an inverted U-relationship between household income and emigration probability. This means that emigrants originated neither from the poorest households nor from the richest: the poorest do not migrate because they lack the financial means to migrate, while the rich can lack the incentive to migrate. Next, findings from the LSMS 2002 highlight that non-poor households are more likely to receive remittances from abroad (23.5 percent) than poor households (16.8 percent) or extremely poor households (10.1 percent). If these findings are combined, it can be concluded that those that benefit more from emigration and remittances in Albania are not the poor households. If this is the case, then the risk of increasing income inequality because of emigrant remittances may be present in the country. De Soto *et al* (2002) also noticed that living conditions of those households who did not receive remittances in Albania, especially in rural areas, were very bad.



Table 11. Remittances received in 2004

| Region<br>Albania | Household surveyed |       | Households<br>receiving<br>remittances |       | Total value of remittances |             | Average value of<br>remittances per<br>household |         |
|-------------------|--------------------|-------|--|-------|----------------------------|-------------|--|---------|
|                   | Nr.                | %     | Nr.                                    | %     | In Euro                    | In Lek      | In Euro  | In Lek  |
| <i>Elbasan</i>    | 200                | 19.8  | 187                                    | 20.8  | 617,064                    | 77,133,000  | 3,299  | 412,476 |
| <i>Gjirokastr</i> | 214                | 21.2  | 190                                    | 21.2  | 677,046                    | 84,630,826  | 3,563  | 445,425 |
| <i>Korca</i>      | 205                | 20.3  | 188                                    | 20.9  | 408,664                    | 51,083,050  | 2,173  | 271,718 |
| <i>Kukes</i>      | 193                | 19.1  | 175                                    | 19.5  | 298,312                    | 37,289,000  | 1,704  | 213,080 |
| <i>Shkoder</i>    | 196                | 19.5  | 157                                    | 17.5  | 348,960                    | 43,620,000  | 2,223  | 278,344 |
| <b>Total</b>      | 1006               | 100.0 | 897                                    | 100.0 | 2,350,046                  | 293,755,876 | 2,619  | 327,487 |

Source: Our survey

Table 12. Perceptions on the remittance impact on household's financial situation

| Financial situation              | Households that received remittances |       | Household that did not receive remittances |       | Total |       |
|----------------------------------|--------------------------------------|-------|--|-------|-------|-------|
|                                  | Nr.                                  | %     | Nr.  | %     | Nr.   | %     |
| <i>No improvement</i>            | 33                                   | 3.7   | 64   | 58.7  | 97    | 9.66  |
| <i>A slight improvement</i>      | 483                                  | 54.0  | 28   | 25.7  | 511   | 60.46 |
| <i>A significant improvement</i> | 379                                  | 42.3  | 17   | 15.6  | 396   | 99.90 |
| <b>Total</b>                     | 895                                  | 100.0 | 109  | 100.0 | 1004  | 100.0 |

Source: Our survey

### **5.1.3 Remittance impact on household's labour supply**

A key question concerning remittances is whether they affect the labour supply of household members that do not emigrate. A number of studies have been devoted to it. Among others, Lipton (1980) and Palmer (1985) argue that remittances may allow receivers, i.e. households that receive remittances, to achieve a given level of income with less labour effort (substitute labour for leisure). There is available empirical evidence that support the hypothesis (see for e.g Ahlburg, 1991; Azam and Guberd 2002; Itzigsohn, 1995).

Stark (1991), Taylor et al (1996) and, Taylor and Wyatt (1996) in contrast argue that remittances have the potential to enhance the household production enough to compensate for the reduced availability of labour.

As regards Albania, Fuga (2004) draws attention on this impact of remittance for the country. However, we are aware of only one study analysing empirically this issue, Germenji and Swinnen (2004). Analysing the impact of remittances on farming activity of rural households in Albania, they find that the provision of remittances significantly hindered farm efficiency, because of reduced labour effort. Clearly more qualitative and quantitative research has to be conducted.

## **5.2 Macroeconomic Impact of Remittances**

Traditionally, analyses of the macroeconomic impact of remittances have focused on their multiplier impacts. Ranges of estimates have been developed for different countries. Using a simple Keynesian structural model to estimate the remittance multiplier for Pakistan, Nishat and Bilgrami (1991) find a value 2.43 of it. Stahl and Habib (1989), using input-output tables, obtained a multiplier of 1.24 for Bangladesh. Glytsos (1993) also uses input-output tables to construct a remittance multiplier for Greece, obtaining an overall estimate of 1.7.

The impacts of remittances on exchange rates and external balance also have received attention. The literature notes that when remittances are significant they make a dent in the national balance of payments and their impact is felt in foreign exchange reserves and current account of the balance of payments of the receiving country (Ramamurthy, 2003).

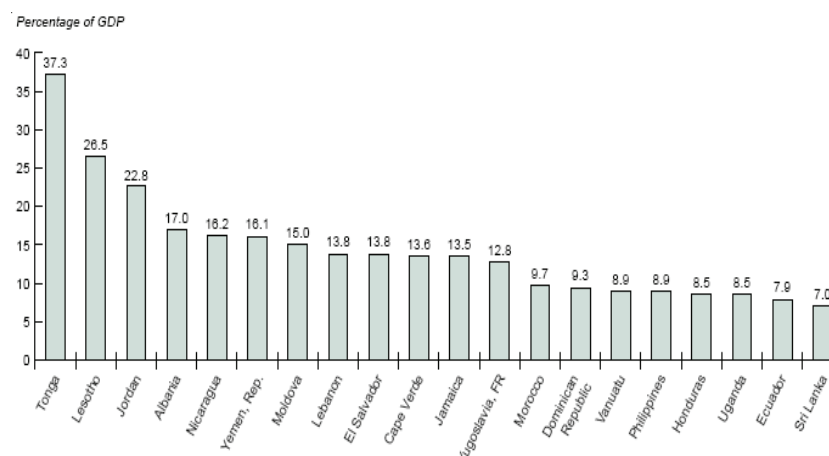
Considerable attention is also given to the impact of remittance flows on a receiving country's macroeconomic stability. Researchers argue that remittance

flows will typically lead to an appreciation of the local currency. In this sense, remittances are analogous to increases in private or public foreign capital flows. However, part of the remittances will flow back out through imports. The magnitude depends on the capacity of domestic production to expand sufficiently by producing within the country the goods that people want to buy.

Last but not least, remittances may give rise to a sort of “Dutch Disease” effect and thereby have an adverse effect on the competitiveness of the tradable sector. This is particularly true when remittances lead to higher inflation because they are used to purchase non-tradable goods. The effect will be particularly harmful for families that do not receive remittances.

As regards Albania, it has been widely accepted that emigrants’ remittances have been a major factor in the financial survival of the country. A tabulation of IMF data on the percentage weight of emigrant remittances against GDP in 2001 places Albania firmly at the top of the list of 20 emigration countries (Figure 13, reproduced from World Bank, 2003 – GDF volume).

**Fig. 13: Top-20 Developing Country Recipients of Remittances, 2001**

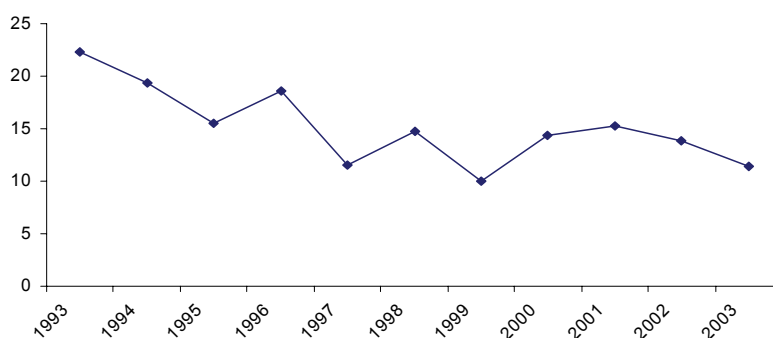


Source: GDF, 2003

The size of remittances flowing to Albania in the period 1993-2003 was indeed enormous both in absolute and relative terms. According to the Bank of Albania a total of 778.1 million USD was transferred from the immigration countries to Albania in 2003, an amount representing 11.4 percent of the GDP (almost the size of an economic sector), almost three times the FDI inflows, covering more

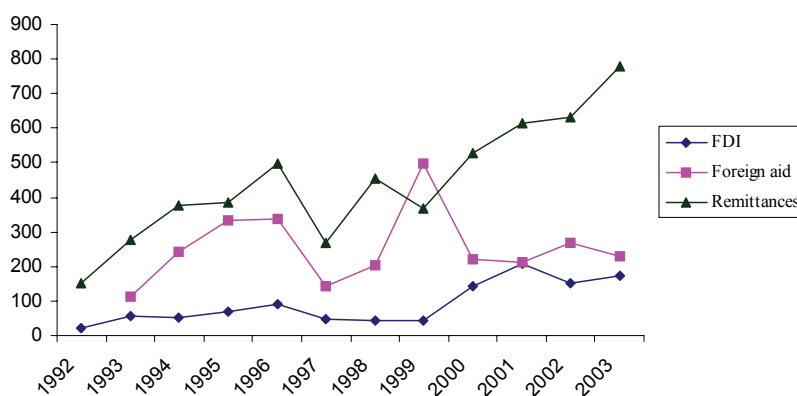
than 50 percent of the country's trade deficit on average (Bank of Albania, 2004).

**Fig. 14: Remittances on GDP formation (in %)**



Source: Bank of Albania, 2004

**Fig. 15: Remittances, FDI and Foreign Aid, 1992-2003 (in millions of US\$)**

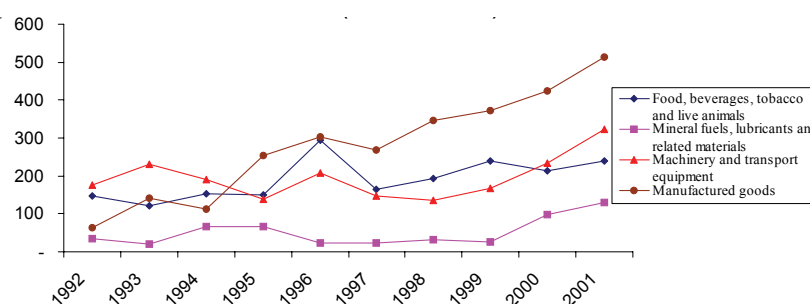


Source: Bank of Albania, 2004

Remittances have shown to be reasonably stable and less volatile than FDI and foreign aid but having a null effect in the monetary equilibrium. (Buch and Kukulenz, 2004). They have contributed significantly to the development of tourism since a good share of emigrants, in particular those settled in Greece or Italy choose to spend their summer vacations in Albania, together with their families or relatives. As noted by the Bank of Albania (2003), the money spent by emigrants during the tourist seasons constitutes a significant share of the revenues from tourism in Albania.

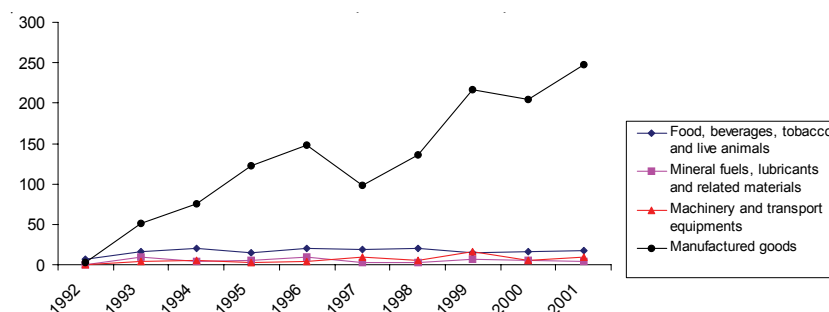
Nevertheless, although large in size, remittances have not been able to fuel substantial growth in the country. Referring to the statistics provided by IMF (2003) on the national balance of payments, the data show that while imports of manufactured goods are growing considerably faster than imports of machinery and transport equipments (Figure 16), exports of manufactured goods, although growing much faster than the other categories, represent less than half of imported manufactured goods (Figure 17).

**Fig. 16: Dynamics of the main imported goods in Albania (in millions of US\$)**



Source: IMF, 2003

**Fig. 17: Evolution of the main exported goods in Albania (in millions of US\$)**



Source: IMF, 2003

Furthermore, the data from IMF (2005) show that, although the trade deficit has remained large, even in comparison to other transition countries (at almost 25 percent of GDP in 2003), the current account deficit, thanks to remittances, has remained small (at 8.2 percent of GDP in 2003). As such, remittances have strengthened the Lek<sup>13</sup> (IMF, 2003; Muco *et al.*, 1999; Nikas, 2005), an immediate

<sup>13</sup> Lek is the Albanian currency.

negative effect of which is that Albanian exporters are crowded out while local producers (especially the farmers) targeting the national or local market are facing higher levels of import competition. The strong Lek has also contributed to increasing the demand for non-tradable services and goods. Indeed, since the late 1990s emigrants' remittances have been the major factor in maintaining the building industry in Albania while economic growth has been led by growth in the tertiary sector (Bank of Albania, 2003; IMF, 2003).

Bitter as it may sound, the current macroeconomic situation of the country shows that there is a high dependence of Albania on remittances. Is the over-dependence on remittances risk free? Definitely not! A sudden decline in their size, due to a recession in the countries of destination for example could devastate the Albanian economy (Nikas and King, 2005). There are potential side effects though even if they remain at the same level or even increase. If spent on consumption they contribute to demand-pull inflation. If spent on imported consumer goods because of domestic supply limitations, they will simply cause an increase of imports. This can have an adverse effect on the balance of payments if they finance mainly imports (the «boomerang effect») (Nikas, 1991). Furthermore by providing affluence on foreign exchange they keep the Lek appreciated taking into account the country's poor performance in exports and structural trade deficit. Thus the Albanian products (exportable and import substituting) loose in terms of competitiveness, a phenomenon identified by economic theory as the "*Dutch Disease*" (Christodoulou & Nikas, 2004).

**CHAPTER VI****OBSERVATIONS ON THE REMITTANCE, SAVINGS AND THE INVESTMENT ATTITUDES OF ALBANIAN EMIGRANTS AND THEIR FAMILIES**

As stated in Chapter I two surveys were carried out simultaneously. One referring to the emigrants/remittance senders (712 questionnaires) and one to the emigrant families/remittance receivers (1006 questionnaires) The two questionnaires had a number of questions in common as well as others tailored to gauge the attitudes of the respective reference group.

**6.1 A Brief Presentation of the Findings of the Emigrant Survey**

Although some of the findings have already been mentioned in previous chapters, in this section we will highlight some findings of the emigrant survey we consider important in order to reach conclusions on the savings and investment attitude of the emigrants and their families.

1. The stock of Albanian emigrants largely consists of young males. This applies to a larger extent to those living in Greece and to a lesser extent to those living in Italy. In this age group the propensity to remit, compared to other groups, is relatively high.
2. The emigrants seem to be positively selected; with the vast majority having completed at least 8 years of obligatory schooling, and a substantial part having obtained high school diplomas. Those living in Italy appear to have achieved a higher educational standard than those living in Greece. Our study confirms the general finding of previous studies that higher education levels lead to higher income levels.
3. More than 2/3 of the emigrants are married with an average of 2 children.
4. Approximately 80 percent of our respondents initially emigrated from the beginning of the 'transitions years' (1990) to 1998. Permanent residence abroad was chosen by approximately 68 percent of these respondents during the five years between 1998

and 2002 inclusive. This choice of permanent residence abroad was most probably influenced by some combination of a) the series of amnesties offered by the Italian and Greek governments as well as b) the collapse of the pyramid scheme and resulting social chaos in Albania.

5. The majority (more than 63 percent) of the emigrants are living in the destination countries with their immediate family, or part of it. Family reunion has therefore in large measure been achieved. This important determinant on remittance behavior will continue to have an impact on their savings and remitting attitude.
6. 76% of our respondents were gainfully employed prior to their emigration. While 24% of our respondents did not consider themselves to have been gainfully employed prior to departure.
7. Of those employed, and reflecting the structure of the Albanian economy prior to the transition, a large majority of our respondents reported their prior profession as being within the agricultural and extracting industries, or manufacturing and construction sectors. The balance of those who were employed prior to departure were civil servants (such as teachers). Of the 24 percent that considered themselves unemployed, most categorized themselves as gainfully unemployed, students, pupils or housewives. As most respondents are now employed in the agricultural, construction and service sectors (see point 8), a tentative conclusion can be drawn that, contrary to conventional wisdom; most emigrants are in fact not under-employed in their respective host countries.
8. Regarding their reported occupation in the destination countries differences exist by country. In Greece 49 percent of the men work in construction and 21 percent in agriculture, whereas 63 percent of the women work as housekeepers. In Italy 43 percent of the men work in construction, 19 percent in manufacturing and 16 percent in services, while 56 percent of the Albanian women in Italy work as housekeepers. It appears therefore that Albanians in Italy have achieved a higher step in the hierarchy of professions than in Greece. It is also indicative that a considerable number of Albanians in Italy have moved to self-employment by starting their own businesses.



9. 75 percent of emigrant respondents maintain a bank account in their place of residence and keep their savings in banks. Clearly, the organized banking sector in the host countries, including bank intermediation in the carrying out of day-to-day payments, is attractive enough to persuade Albanian emigrants not to use informal saving and hoarding methods. The positive and strong correlation between the propensity to save in a bank account and the level of development of the banking system is reinforced by the fact that the corresponding figure is 73.8 percent in Greece (also due to the larger proportion of illegal to total migrants), 75.7 percent in Italy, 80 percent in the UK and 95.6 percent for other host countries.
10. The majority of respondents answering this question declare a household income of between 1,000 and 2,500 Euros; with considerable number declaring higher levels. If, for comparison purposes only, we define our average poverty level at a monthly net family income of Euro 1,000 within the three host countries surveyed, then 74.5 percent of Albanian migrants are above this poverty level (with 21.4 percent being in the 500 to 1000 Euro range). Only 4 percent of our sample reported a household income below 500 Euro, which is definitely below the poverty line. In general we can report that 80 percent of the respondents held a full time position, and only 14 percent declared that they held a second job. Furthermore, 58 percent of the respondents had at least one additional household member in some form of employment, thus adding to the overall family income.
11. 68 percent of our sample declared that they are sending remittances to Albania, although as we have seen, their immediate families accompany most of them.
12. Reflecting the close-knit nature of the Albanian family, most of the respondents send remittances to their parents. That the immediate family of the emigrant, as a category of recipient, should come second can be explained on the basis of point 9 (i.e. successful reunification in the host country). The third primary category of remittance beneficiary is siblings and other members of the extended family.

13. The overwhelming majority of our sample declares the financing of family daily needs as the primary objective of sending remittances. Building, upgrading and furnishing the home, follows this. With investment in real estate as the next primary category.
14. The majority of the emigrant sample expects to remit the same amount or less in the following year with 37.9 percent of emigrants expecting to remit less in the following years, 37.3 expect to remit the same amount and only 24.8 percent more. This is another sign of maturity of the emigration process; with the propensity to remit stabilizing after an initial period of substantial ups and downs. Experience has shown that family reunion is another important factor for this leveling and deceleration of remitting.
15. In fact, an analysis of the data reveals that the family members who receive the remittances are believed (by the emigrants) to have a Marginal Propensity to Save out of the remittances in the area of 0.3. Taking into account that we are referring to people with a low pre-remittance income level, often the elderly, this propensity to save is high. This reflects the inherently conservative attitude of the recipients in regard to managing their funds, or alternately can be explained through these persons saving in order to acquire expensive durables in the future.
16. Hand-carry methods of transferring the remittances prevail (four times more attractive than transfers); with the most usual one being emigrants transferring the money themselves when they visit Albania. This seems to be in contradiction to point 2, in the sense that Albanian emigrants seem to be comfortable with bank intermediation for their savings, but not for their remittances.
17. Regarding emigrants general willingness to invest in Albania, we have a split sample with a considerable number being indecisive.
18. Regarding planned investment of remittances, most prefer to invest in real estate, retail trade and restaurants, construction and agriculture being their 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> choice respectively. Very few seem willing to invest in any form of manufacturing.

19. Very few (20 percent) of those willing to invest in Albania would be interested in some kind of a partnership with the public sector (e.g. public-private partnerships, or the financing of public works).
20. However, the low risk inherent in holding government bonds seems to catch the attention of some emigrants. Certainly more than corporate stocks and other options.
21. In private sector investments retail trade, real estate, tourism and agriculture are the emigrant's choices in descending order; manufacturing again being very low in their preference list.
22. The conservative nature and attitude of the emigrants is also indicated by their preference to invest individually or with other members of their families, rather than exploring other partnership opportunities and options.
23. Those interested in investing in Albania plan to use bank loans as a source of (co) financing their investment; although (point 16) they do not generally make use of these same banks to transfer their remittances.
24. On the perspectives on remittances there is a split vote between those who plan to return to Albania eventually and those who will not or do not know. Obviously the continuation of the remittance flows is to be expected from the second group.
25. Even those who plan to return however will do so after 5 or 10 years. This amplifies the conclusion derived in the previous point.
26. Lastly, most of those who will return to Albania will settle to a place other than their place of origin, or have not made up their minds yet. This points to a expedited urbanization process, with many emigrants planning to return to the Tirana-Durres region. This implies some geographic bias in the unfolding remittance process (for investment and housing).

These findings seem to support most of the beliefs on migrant savings and remitting attitudes, although there are some new elements arising. In particular:

- Following a product life cycle approach, one could say that emigration from Albania seem to have entered a stage of maturity. A number of the findings of our surveys point in this direction. When compared with the initial years of emigration Albanian migrants seem to be doing better in terms of their employment and income in their host countries; furthermore they are more often than not reunified with their immediate families, implying a certain amount of security of situation within the host countries.
- Regarding their savings attitude as well as their propensity to remit, the emigrant population continues to be very skeptical in using bank intermediation as a regular remitting mechanism; although this option seems to be becoming more popular.
- Remittances mainly finance consumption and investment in the primary home and real estate. This should come as no surprise given the pressing subsistence needs of the emigrants' family members left behind.
- While there is evidence of an impressive propensity for beneficiaries of remittances to save a portion of their incomes, the apparent small propensity to invest out of the remittances in dynamic sectors of the economy is clear.
- What little productive investment is achieved by the use of remittances is concentrated in the primary and tertiary sectors of the Albanian economy.
- Albanian emigrants do not currently seem to trust the Albanian public sector as an investment partner, but might be willing to invest in government bonds.
- Family ties are still very strong both regarding the destination of remittances and potential partnership in private businesses.
- A considerable number of the Albanian emigrants will not independently repatriate in the short-term (see Chapter VII). Thus the stock of the Albanians residing and working abroad and the perspectives on maintenance of substantial remittances will, at least in the medium-term (to 2010) remain high.

## 6.2 A Brief Presentation of the Findings of the Family Survey

Although the sample was considerable larger (30 percent) it was quite

representative of the composition of the migratory flow on the basis of the primary host countries. We can divide the findings to two basic categories: those which are in accordance and in fact verify the findings of the emigrant survey, and; those which show a significant discrepancy which we will attempt to explain.

**6.2.1. In regard to those questions and answers that confirmed the findings of the emigrant survey:**

1. 75 percent of respondents declare informal methods as the most preferred means of remittance, with 42 percent declaring that the emigrants hand-carry the monies personally. Of the remaining 25 percent in the formal sector, only 9.4 percent is remitted through bank intermediation.
2. Regarding the utilization of the remittances received, the ranking of the recipients coincides with the estimates of the remitter (i.e. provision of daily needs, furnishing the home, upgrading the home).
3. The family member verified the frequency of remittance receiving (2 or 4 times annually) and the fact that the emigrants transfer the monies when visiting.
4. They also confirm that most received in 2004 the same or less value in remittances as in preceding years.
5. The beneficiaries also confirm a high propensity to save out of remittances received (more than 70 percent of recipients saving, and average of 20-30 percent of the total remittances received).
6. The family members share the emigrant's skepticism in regard to investing their savings in Albania, and they are most definitely not interested (83 percent) in investing in partnership with the government in large-scale construction projects.
7. Family businesses are what is projected as the preferred option for those planning to invest, with 94 percent planning to do so either individually or with other immediate family members.

**6.2.2. In regard to evident differences with the answers given by emigrants surveyed we can summarize as follows:**

1. The families of the emigrants do not share the emigrant's preference to keep their savings in bank accounts; only 41 percent actually have a bank account, with storing the monies at home being nearly as popular an option.
2. Family members are more optimistic regarding the amounts of remittances they will be receiving in the following years, with 70 percent declaring that they expect to receive the same amount or more.
3. Regarding the sectoral distribution of investments made out of retained remittances agriculture predominates (50 percent).
4. Reflecting both lack of opportunity and information, family members have a poor understanding of various potential investment options; with less than 10 percent of the respondents showing any interest whatsoever in the investment vehicles put forward by the questionnaire (i.e stocks, bonds, and treasury bills).
5. Expressing a perfectly understandable wishful thinking, family members expect the eventual return of their relatives, this is in contrast to the stated intention of a large percentage of the emigrants themselves.

In conclusion, the socio-economic background of the family members to a large degree determines their responses to the questions posed.

- They do not trust the banking system or the state as a partner in their investment options.
- Hoarding their savings at home or investing it in the family smallholder agricultural business seems to the respondents' the most rational option, given the circumstances.

## CHAPTER VII

### RETURN MIGRATION

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Transfers of financial capital can occur both through remittances whilst emigrants are abroad, and also through the transfer of savings when emigrants return home. It is estimated that one third of emigrants return back to their country of origin (Murphy 1999). Although a part of them fail to integrate in the host societies, most succeed in accumulating human and financial capital that is transferred home with their return.

Literature identifies a number of return migration determinants. According to Cerase (1974), difficulties in taking an active part in the host societies or in adopting themselves to its norms can represent strong motivations for migrants to return back to their country of origin. Failure to integrate in the host country, owing to the prejudices and stereotypes migrants encounter abroad, is another of the determinants identified. On a more positive note, Dustmann (1997) emphasises that return migration may be part of an optimal life-cycle location decision. At the time they emigrate, migrants realise that after they require physical or human capital in the host country it may be optimal for them to return because the returns on that type of capital are higher in the home country. If, for instance, the home country has lower prices, the assets that migrants accumulate in the host country will have higher purchasing power at home. Migrants' preference for location is another reason for return migration (Hill, 1987). Return migration may also be the result of unexpected events, either in the host country or in the home country. Unexpected changes in earnings or in preferences for living in the host country, for instance due to the death of family members back at home, might alter migrants' decisions. However, often the decision determinant on return migration is the situation in the home country. If economic outlook improves, then returning home will seem more attractive to migrants. Ireland is a good example.

As concerns the impact of return migration on the home countries, consensus views have been subject to cycles of pessimism and optimism. In the early 1970s, for example, the general pessimistic view was that return migration would exacerbate unemployment in the home country (neoclassical approach of international migration [NELM]). In the recent years, the consensus view has become more positive, and currently there is a great deal of excitement about the potential return migration has to support development in the migrant

sending countries (the new economics of labour migration [NELM] approach). According to the NELM approach overseas work experience in high wage countries may enable return migrants to facilitate 'modernisation' and economic growth in the origin country: first, accumulated savings may help to overcome domestic liquidity constraints, and secondly, the overseas work experience may generate new skills and ideas. Reflecting this view, many initiatives by national and international agencies have been directed at encouraging (voluntary) return migration<sup>14</sup> – especially of the highly skilled (Ghosh, 2000).

Notwithstanding the positive view of the NELM approach towards return migration, supporters of it emphasise that the effectiveness of return migration in enhancing development is to a large degree dependent on developments within the country of origin; both while migrants were abroad and after they return. As we shall see, this is clearly the case in regard to Albania.

### 7.1 Independent Return

Clearly, the above-mentioned determinants concern voluntary and independent return migration. Not surprisingly, migrants that do not manage to achieve legal status in the host countries are often repatriated, sometimes forcefully. These involuntary returnees to Albania, some 30,000 in 2004 alone, are beyond the scope of this study. This chapter also distinguishes between the definitive return from the temporary one, since in many cases emigrants in Greece, and to a smaller extent those in Italy, may make a few intervals between long periods of stay abroad.

A process of independent return migration began to take shape by the mid-1990s. These returnees were, in large part, members of the first wave of emigrants to Greece and Italy. The collapse of the pyramid schemes, together with the economic and political crisis that followed, interrupted this return trend, and as we have shown, in fact drove many returnees abroad once more.

At the present time, there is very little independent return migration to Albania<sup>15</sup>. Those that do return are either temporary migrants, who seek in migration the means to accumulate capital to start a micro business, or, in the case of farmers, a way to struggle against inactivity during the winter season. As identified in the

<sup>14</sup> The International Organisation for Migration (IOM) has been involved in such initiatives for a long time and its expertise in migration logistics has proved to be an asset.

<sup>15</sup> There are no statistics on return migration to Albania.



literature, the main other reason for independent return has been the failure of the Albanian emigrant to become integrated in the host countries. Discrimination is a significant push factor. However, the lack of opportunities in Albania and the more favourable economic situation mitigate the return motivation. As a result, returnees are but few.

The Albanian government has taken steps to attract successful emigrants to return. Thus, in 1996 the Albanian government in collaboration with the Italian government initiated a project to stimulate Albanian emigrants in Italy to return and invest. The reaction of the Albanian community in Italy was totally insignificant with less than 10 emigrants interested in this project. In 1998 a project by the Albanian Ministry of Labour and Social Affairs to financially support the return of successful emigrants never was implemented due to lack of financial means on the part of the ministry (Barjaba, 2002). Between 2000 and 2004, over 300 individuals have returned to Albania through IOM voluntary assisted return programs, mainly from Western Europe and USA. Depending on the programme of return, some material and financial assistance has been given to returnees (National Strategy on Migration, 2004).

## 7.2 Potential of Return

Notwithstanding the very limited flows of independent returnees at the present time, many Albanian emigrants seriously consider the option of coming back at some time in the future. This, as we have shown, is because, in the Albanian case, emigration is usually a solution to an immediate problem. There are many who wish to leave for good, and often these headed to far destinations (North America or Australia). For the majority, emigration is seen as a temporary expedient (Nicholson, 2002). After working in Greece, Italy or other destinations for several years and accumulating a certain capital sum, many Albanians intend to return home and invest their savings there. Some older emigrants may doubt that they will be able to make a living in Albania before the end of their working life, but then they may return. On the other side, those that have emigrated illegally expect sooner or later to return or be sent to Albania. The important thing to them is not to settle, but to stay just long enough to earn sufficient money to take home (King *et al*, 2003).

Little research has been undertaken as to the potential of independent return migration to Albania. However, there is a growing interest in this phenomenon. From a survey of legal Albanian emigrants Gedeshi *et al* (2003) found that almost

two thirds (66%) of them would like to return back, almost one fifth (19.7%) had left with no intention of returning, while the rest adopted a “wait and see” attitude. In our survey, 54.5% of respondents expressed a readiness to return to Albania, while 21.1% are not willing to return and 24.4% ‘did not know’.<sup>16</sup> The pools of potential returnees by country are: from Greece (57.6%), from Italy (53.7%) and from the UK (41.7%) (see table 20). The desire to return is stronger among emigrants of age groups between 21 and 30, and between 31 and 40 with 56.7% and 55.6% of emigrants for each respective group wanting to return.

**Table 18: Emigrants by the desire to return and age group**

| Age group    | I would like to return |             | Definitely not |             | I don't know yet |             | Total      |              |
|--------------|------------------------|-------------|----------------|-------------|------------------|-------------|------------|--------------|
|              | Nr.                    | %           | Nr.            | %           | Nr.              | %           | Nr.        | %            |
| >20          | 6                      | 0.9         | 8              | 1.1         | 5                | 0.7         | 19         | 2.7          |
| 21-30        | 131                    | 19.0        | 47             | 6.7         | 52               | 7.4         | 230        | 32.6         |
| 31-40        | 153                    | 21.7        | 53             | 7.5         | 69               | 9.8         | 275        | 38.9         |
| 41-50        | 75                     | 10.5        | 30             | 4.2         | 37               | 5.2         | 142        | 20.1         |
| 51+          | 20                     | 2.8         | 11             | 1.6         | 9                | 1.3         | 40         | 5.7          |
| <b>Total</b> | <b>385</b>             | <b>54.5</b> | <b>149</b>     | <b>21.1</b> | <b>172</b>       | <b>24.4</b> | <b>706</b> | <b>100.0</b> |

Source: Our Survey

When the education level of emigrants is considered, findings of our survey reveal that compared to other groups of emigrants, the group of emigrants that have managed to obtain a better education than just a high school diploma shows less willingness to return (table 19). Thus, only 45,8% of emigrants of this group would like to return while 28% of them wouldn't. Such an attitude towards return to Albania of this category of emigrants is understandable if we remember that this category of emigrants has a greater chance of successfully integrating into the host societies.

**Table 19: Emigrants by the desire to return and years of education**

| Years of education | I would like to return |             | Definitely not |             | I don't know yet |             | Total      |              |
|--------------------|------------------------|-------------|----------------|-------------|------------------|-------------|------------|--------------|
|                    | Nr.                    | %           | Nr.            | %           | Nr.              | %           | Nr.        | %            |
| 0                  | 0                      | 0.0         | 2              | 50.0        | 2                | 50.0        | 4          | 100.0        |
| 1-8                | 136                    | 61.8        | 35             | 15.9        | 51               | 22.3        | 220        | 100.0        |
| 9-12               | 200                    | 53.6        | 82             | 21.9        | 91               | 24.5        | 373        | 100.0        |
| More than 12       | 49                     | 45.8        | 30             | 28.0        | 28               | 26.2        | 107        | 100.0        |
| <b>Total</b>       | <b>385</b>             | <b>54.5</b> | <b>149</b>     | <b>21.1</b> | <b>172</b>       | <b>24.4</b> | <b>704</b> | <b>100.0</b> |

Source: Our survey

Emigrants that are considering making a definitive return to Albania are mainly residing and working in Greece and Italy; while those that are not willing to return are residing and working in the USA and Canada. Analysing the case of

<sup>16</sup> The variance between these surveys can be explained in part by the survey methodology; with the 2003 survey being carried out primarily at the ports of entry (borders), while our surveys were both larger and geographically disbursed.

illegal Albanian emigrants in the UK, King *et al* (2003) find that for most of emigrants return to Albania was something that was talked about but, in the majority of cases not acted upon. Uncertain legal status made repatriation a fear and a possibility for many; yet largely for economic reasons most wanted to prolong their stay, if not indefinitely, at least for some time. Findings of our in-depth interviews and of our emigrant survey are in the same line.

**Table 20: Emigrants by desire to return and host country**

| Country      | I would like to return |             | Definitely not |             | I don't know yet |             | Total      |              |
|--------------|------------------------|-------------|----------------|-------------|------------------|-------------|------------|--------------|
|              | Nr.                    | %           | Nr.            | %           | Nr.              | %           | Nr.        | %            |
| Greece       | 233                    | 33.0        | 62             | 8.8         | 110              | 15.5        | 405        | 57.3         |
| Italy        | 117                    | 16.6        | 58             | 8.2         | 43               | 6.1         | 218        | 30.9         |
| The UK       | 25                     | 3.5         | 22             | 2.9         | 13               | 1.9         | 60         | 8.5          |
| Other        | 10                     | 1.4         | 7              | 1.0         | 6                | 0.9         | 23         | 3.3          |
| <b>Total</b> | <b>385</b>             | <b>54.5</b> | <b>149</b>     | <b>21.1</b> | <b>172</b>       | <b>24.4</b> | <b>706</b> | <b>100.0</b> |

Source: Our survey

### 7.3 Emigration Cycle – Projection

According to our survey, of those emigrants with a stated wish to return the average projected time-line to eventual return is **8.2 years from time of interview**. The average total period of emigration reported by the respondents was 9.4 years (from first experience to date), while the average period of permanent and regular emigration (under legal status) was 6.4 years. This implies an average 'emigration cycle' of 17.6 years from the "first experience of migration"<sup>17</sup> and 14.6 years from the point of legalization. When examined by host country: emigrants living in Greece and planning to return permanently to Albania stated a wish to do so after 7.5 years - implying an emigration cycle of 16.9 (7.5+9.4) years; while, emigrants in Italy, plan to return after 8.6 years – implying an emigration cycle of 18.0 (8.6+9.4) years.

**Table 21: Emigrants intending to return permanently to Albania, by number of years to projected return**

| Period of Return   | Nr         | %            |
|--------------------|------------|--------------|
| <b>0-5 years</b>   | 151        | 40.2         |
| <b>6-10 years</b>  | 171        | 45.5         |
| <b>11-15 years</b> | 32         | 8.6          |
| <b>16-20 years</b> | 22         | 5.8          |
| <b>Total</b>       | <b>376</b> | <b>100.0</b> |

<sup>17</sup> 'first experience of migration' may include those remaining in the host country on an irregular basis; as well as those emigrants, especially common in Greece, and to a smaller extent those in Italy, that may initially make a few intervals between long periods of stay abroad prior to regularizing their status. For the respondents of our survey this gap represented a period of 5.6 years.

This stated wish to return to the country of birth, and the emigration cycle itself, are average indicators only. They reflect the interaction of many factors; both in the host country and Albania. Nonetheless, if we accept the hypothesis of a 14 to 18 year emigration cycle, it can be forecast that long-term Albanians emigrants wishing to return will begin to exercise that option in the following years; and that this return trend will continue to build through the period 2010 – 2015 before tapering off again.

#### 7.4 Returning Emigrants, Their Savings and Remittances

The literature and related surveys show that, compared to emigrants from other countries, Albanian emigrants are distinguished by their strong propensity to save money. Korovilas (1999) for example estimates that each Albanian emigrant in Greece should have presumably saved at least US\$ 2,340 annually. Conti et al (2003) estimate that Albanian emigrants in Italy save on average 55.2% of their earnings and remit 65.9% of their savings. A survey in 2002 (Gedeshi) estimated the average annual household savings for long-term Albanian migrants at 5,056 Euro, this constituted 26.9 percent of the household's annual income.

According to our own survey, average annual savings are estimated at 5,390 Euro per household. As the table below shows, there is significant variance in the savings levels of Albanian households. The level of household savings depends on the duration of stay in migration, legal status, number of household members, number of dependents, type of employment and time of employment, wage level, expenses related to daily needs etc.

**Table 22: Level of annual savings per year, by percentage**

| Nr | Savings per Year in Euro | Nr  | %     |
|----|--------------------------|-----|-------|
| 1  | 0 – 2,000                | 192 | 28.69 |
| 2  | 2001 – 3,000             | 94  | 14.05 |
| 3  | 3001 – 5,000             | 158 | 23.61 |
| 4  | 5001 – 10,000            | 165 | 24.66 |
| 5  | More than 10,000         | 60  | 8.96  |
| 6  | Total                    | 669 | 100.0 |

Source: Our survey

It is important to note that most Albanian emigrants (73.8% percent according to our survey) keep these savings in the banking system of the host country.

Therefore, and in addition to the remittances emigrants send to Albania, a substantial pool of emigrant savings continues to be accumulated in banking

systems abroad. This propensity to save, multiplied by the very numbers of Albanian emigrants and the extended emigration cycle (projected average period of emigration), implies that these retained savings, in Greece and Italy alone, must have a value of many thousands of millions of Euro (see Section 7.5 for one estimation). By way of indication, in 1992, or only two years after the initiation of the first massive wave of emigration, Albanian migrants in Greece had already deposited in Greek banks an estimated 80 Million USD.<sup>18</sup>

According to our results, 38.15% of all emigrants, or 57.4% of those that would like to return, are considering to transfer or invest part (or all) of their retained savings in Albania. Such savings therefore represent potential future remittances, sometimes also known as “migrant transfers.”<sup>19</sup>

As reported previously, according to stated intention, most emigrants prefer to invest their retained savings in retail trade and restaurants, construction, real estate, tourism and agriculture being their 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> choice respectively. Very few seem willing to invest in any form of manufacturing. However, among emigrants that would like to return, the preferences are somehow different. Retail trade and construction remain the 1<sup>st</sup> and the 2<sup>nd</sup> choice respectively but agriculture appears as the 3<sup>rd</sup> choice.

Moreover, there seems to be a clear preference for emigrants to invest in the same sector/activity in which the emigrant is currently occupied while in the host country: with about 65% of those working in the services sectors wishing to invest in activities such as bars, restaurants, trade and tourism; 52% working in agriculture considering investing in agriculture upon their return, and 33% of those working in construction forecasting investing in that sector. The calculation correlation coefficient between the sector of emigrant’s employment abroad and the sector where they would like to return is 0.20.

Very few (20%) of those willing to invest in Albania would be interested in some kind of a partnership with the public sector (e.g. public-private partnerships, or the financing of public works).

Importantly, our in depth interviews clearly reveal that emigrants believe that

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<sup>18</sup> WALLDEN A. S., Les relations gréco-albanaises : politique et économie, Le Courrier des Pays de l’Est, N° 315, janvier 1994

<sup>19</sup> I.e. capital transfers of financial assets made by migrants as they move from one country to another and stay for more than one year

much would have to change in Albania before return and investment could be contemplated as a feasible option. Usually, lack of security, poor infrastructure, political instability and lack of long term credit are perceived as the most important factors limiting Albanians' confidence in investing in their own country.

### 7.5 Indicative Pool of Savings

In closing this chapter we would like to provide an estimation of savings accumulated and retained by the emigrant community, and to forecast the potential investment pool such retained savings might represent. As stated previously they reflect the interaction of many current and future factors; both in regard to the individuals and the situation in the host country and Albania. While conservatively estimated, the following initial figures are highly speculative. They are presented here for indicative purposes only, and should be viewed as such.

Our calculations are based on the following assumptions from the literature and our findings:

- average estimation of Albanian emigrants currently abroad (750 to 850,000);
- average annual savings of Euro 5,390 over the *legal part* of the emigration cycle (14.6 years), i.e. from the point of permanent emigration.<sup>20</sup>
- average household composition of 3.5 household members; and,
- average intention of returning emigrants to remit (i.e. 38.15% of retained savings).

This leads us to an estimated potential investment pool of Euro 4.75 to 5.38 Billion. Which in turn represents some 86.9 percent to 98.5 percent of the Albania's Gross Domestic Product for 2003.<sup>21</sup>

Applying an average multiplier of 1.8 - with 2.4 considered optimistic and 1.2 being pessimistic as the literature on other countries suggests – see Chapter V

<sup>20</sup> This calculation therefore excludes the estimated savings of the following categories of emigrants: casual workers, seasonal workers, irregular emigrants,. It also excludes the 3 years (average) of irregular and intermittent stays of the remaining long-term emigrants.

<sup>21</sup> The 2003 GDP estimate of Euro 5,461,352,000 is utilised; as the 2004 GDP calculation was being recalculated at the time of publication

- these 'migrant transfers' represent a potential additional (and remittance generated) GDP of between Euro 8.55 Billion to Euro 9.68 Billion; or between 156 and 177 percent of Gross Domestic Product (for 2003).

When combined with the social and personal capital gained by the returning emigrant this capital forms an impressive development potential for Albania.

**Table 23: Indicative pool of retained savings; by estimated emigrant population(s)**

| Total Emigrant Population | Estimated Number of Households (total pop. divided by 3.5) | Those Households with Bank Accounts (73.8%) | Average Household Savings (Euro 5,390 over 14.6 yrs of legal emigration) <sup>22</sup> | Indicative Pool of Savings | Of which there is an indication to Return and Invest (38.15%) |
|---------------------------|--|---|--|----------------------------|---|
| 650,000                   | 185,715  | 137,060                                     | 78,700   | 10,786,620,000             | <b>4,115,100,000</b>  |
| 750,000                   | 214,285  | 158,140                                     | 78,700   | 12,445,620,000             | <b>4,748,000,000</b>  |
| 850,000                   | 242,860  | 179,230                                     | 78,700   | 14,105,400,000             | <b>5,381,200,000</b>  |
| 950,000                   | 271,430  | 200,315                                     | 78,700   | 15,764,790,000             | <b>6,014,267,000</b>  |

Source: Our survey

**Note:**

The figure for the indicative pool of savings is obtained by:

- calculating the total average household savings (over the term of the legal emigration - i.e. Euro 5390 x 14.6) cycle; and,
- multiplying by the total number of households with established bank accounts.

This pool of savings therefore includes only long-term migrants with legal status in their respective host countries. It excludes irregular, seasonal and short-term migrants. It also excludes the period from 'first migration experience' to 'obtainment of legal status' (an average of 3 years according to our survey)

38.15% of our respondents expressed a willingness to both return and invest all or part of their savings in Albania; resulting in figure found in the last column. Assuming the emigrants use a portfolio approach to their investments, it can be expected that a certain percentage of this figure will be repatriated or remitted by the emigrants at some future date.

<sup>22</sup> In 2002, Gedeshi estimated the total retained savings (using average stay duration of 13-14 years) at about 46.000 Euro (i.e. 40.800 in Greece and 71.986 in Italy).

## CHAPTER VIII

### CONCLUSIONS AND POLICY RECOMMENDATIONS

In its 2005 report, IMF stresses that “while emigration, and resulting remittances, have greatly contributed to increase household’s income and keep many families out of poverty, it is not likely to be a sustainable mechanism for socio-economic development and long-term growth”. Remittance flows do not represent a sustainable mechanism because they are not a finite resource; in fact, as we have tried to show, in the case of Albania emigration and remittances have reached a stage of maturity. As a result and over the medium-term, remittances can be expected to level off and then begin to diminish. Compounding the IMF observation is the fact that, as shown in the previous chapters, no concerted effort has to date been made to utilise remittances as a significant source of capital for socio-economic development for Albania.

The question then becomes: In the forecast 5 to 10 years remaining to Albania before the large return of emigrants takes place, what policies and measures can facilitate, *not impose*, an increase in the volume of remittances, their formalization and their channelling towards productive investments? Transformation of remittance flows into development capital requires changing the very nature of the remittances; from compensatory transfers to formal savings and investments. Achieving such an ambitious objective is likely to be a difficult task.

In order to summarise the present situation in Albania in regard to issues that may impact on future returns and remittances, as well as current flows of remittances, a SWOT (Strengths, Weakness, Opportunities, and Threats) would be an appropriate analytical tool.

**Table 24: SWOT Analysis**

|                  |  |
|------------------|--|
| <b>Strengths</b> | <ul style="list-style-type: none"> <li>- Large numbers of Albanian emigrants exist, leading to a potentially large pool of remittances, both immediate and retained;</li> <li>- Related governmental policies/measures, such as: macro-economic stability, development of a sound financial intermediation market, and transferring the country from a cash-based to a bank-base economy exist. Such policies and</li> </ul> |
|------------------|--|



|                          |  |
|--------------------------|--|
|                          | <p>programmes provide the necessary pre-conditions and complementary framework in regard to quantity, quality and liquidity of remittance transfers;</p> <ul style="list-style-type: none"> <li>- Incomes are rising and professional upgrading is being experienced in host countries, leading to a potential increases in remittances;</li> <li>- Conservative spending/savings behaviour of both the emigrants and their beneficiaries, with high propensities to save on both levels, leads to substantial stocks of savings and potential remittances;</li> <li>- Remittances, can be considered between the ‘development’ and ‘maturity’ phases when seen from a product lifecycle perspective, implying that while the remittance flow may level off there will be no serious declines in the medium-term;</li> <li>- There is a high intention on the part of most emigrants to return to Albania with their accumulated saving; and a stated interests amongst such potential returnees to invest at least part of those savings Albania;</li> <li>- The majority of the emigrants are young persons with relatively high educational standards; i.e. the economically-active part of the population with an ability to develop further;</li> <li>- The majority of the potential returnees wish to return within the next 5 to 10 years. They will return relatively young, and with accumulated financial, human and social capital.</li> </ul> |
| <p><b>Weaknesses</b></p> | <ul style="list-style-type: none"> <li>- The legacy of the pyramid schemes, and lack of secondary market for securities undermines motivation to invest;-</li> <li>- The inefficiency of the public sector and the limited reach of the banking system within Albania; leads to persistence by emigrants to avoid bank intermediation (at least within Albania) and use self-carry to remit;</li> <li>- The general model of remittances use is reflected in the handling by the beneficiary. Consequently, remittances, as a capital resource, remain fragmented and are mainly used to finance immediate consumption rather than pooled for investment purposes;</li> <li>- Underdeveloped business environment and business-class in Albania; leads emigrants to prefer investments that are perceived to be ‘safe’ – such as real estate, bonds, etc, and to</li> </ul>  |

|                      |   |
|----------------------|---|
|                      | <p>focus their entrepreneurial energies on personal or family enterprises;</p> <ul style="list-style-type: none"> <li>- Over concentration of the investment arising from remittances in the real estate and construction sectors; besides having an income multiplier lower than for other productive investments could lead to an over-pricing of real estate and housing, leading in turn to a bubble and eventual crisis.</li> <li>- Demand-pull inflationary pressures and appreciation of the Lek; and 'Dutch Disease' due directly to the large inflows of remittances.</li> </ul>   |
| <b>Opportunities</b> | <ul style="list-style-type: none"> <li>- Emigrants maintain close connections with Albania; even though they may be reluctant to invest at present, they seem to be waiting for better conditions and opportunities in order to form their investment portfolio. This implies that correct policies can stimulate remittances and channel them to productive investments;</li> <li>- The recent awareness of the Albanian government of the importance of remittances as a source of capital to finance the ongoing growth of the economy as well as its potential as a source of foreign direct investment.</li> <li>- The European perspective of Albania and the progress of transition itself will assist the country in modernizing its structures and over-time eliminate many of its administrative deficiencies; - Political stability in the wider Balkans region is likely to continue in a positive manner, thereby contributing to a relatively benign environment;</li> <li>- The ongoing shift of some Albanian emigrants towards entrepreneurship in their host countries might contribute to increasing the flow of remittances in the short to medium-term; but perhaps more importantly this could provide the foundation and critical mass for the creation of a business class upon their return over the following 5 to 10 years;</li> <li>- The relatively long-term nature of Albanian emigration and the ongoing process of regularization of status within the host countries imply a certain stability and predictability in the emigration process, and the lessened chance of large-scale returns and repatriation to Albania.</li> </ul> |

**Threats**

- Host countries may adopt counter-measures to encourage emigrants to retain their savings in the respective host country;
- Host countries may decide to increase the number of repatriations;
- Future returns, as well as current flows of remittances, may be impacted should negative perceptions deteriorate in regard to:
  - political stability,
  - sound economic policies, or,
  - attitudes towards the public sector in general;
- Inflationary pressures may be aggravated by any future massive and unregulated inflow of remittances;
- The use of remittances for the financing of non-productive activities might victimize the potential of productive investments;
- The over-expansion of certain activities (i.e construction) may lead to problems such as uncontrolled urbanization and environmental impacts, thereby degrading certain tourist-potential areas.

**8.1 Policy Guidelines**

In large part evidence from our surveys complement the existing literature insofar as recipients of remittances use these funds to increase the family consumption rather than to invest in businesses or other productive assets. Emigrants' remittances are indeed used to increase the families' consumption and stock wealth.

On the other hand, our results clearly point to a higher overall family income in the host countries than is commonly presumed (especially amongst emigrants with legal status), and that this income level is combined with a high propensity to save (both at the emigrant and the beneficiary levels). In addition, the vast majority of legal and long-term emigrants have experience with the banking systems of their respective host countries and entrust their savings to those intermediation agencies. Our results also highlight the high return potentiality, over the following 5 to 10 years, of long-term Albanian emigrants, in particular from Greece and Italy.

It is in this context that measures facilitating and stimulating the emigrants' capital productive investments in support of the government's policy of utilising remittances to support the economic development of the country should be examined. This in turn implies that policies and measures would need to convince emigrants, as well as their families in Albania, that they would benefit by investing a greater portion of their remittances into productive investments. Any such initiatives would need to be based on the clear recognition that remittances are *private transfers* and that the savings involved belong to the migrants and their families, whose primacy of choice in their allocation is paramount.

In summary, our proposed initiatives can be grouped under the following policy guidelines:

1. Promote research and data development on remittance flows, with a particular focus on return potentiality;
2. Increase incomes, remittances, and the use of formal remittance channels by taking steps to support the regularisation and legalization of Albanian emigrants, with a particular focus on Greece and Italy;
3. Provide the means for emigrants and their beneficiaries to shift their remittances and savings from informal to formal channels, and from MTO to banking channels, by supporting the existing government policy of broadening and deepening the financial intermediation market;
4. Increase overall savings and investments in Albania by providing emigrants with selected incentives;
5. Increase incomes, remittances, the use of formal remittance channels and investment knowledge by offering emigrants with pre-departure and return training - including savings/business/ investment counselling and training.

A successful outcome to any strategy aimed at maximising remittance flows and channelling their use is based on two crucial pre-conditions. Pursuing sound macroeconomic policies that foster stability, growth and development in Albania is a self-evident and necessary pre-condition to increasing the flow of remittances

and creating opportunities for channelling them towards productive uses (i.e. productive investments). In this context, first and foremost, promotion of economic and financial stability is necessary.

A credible macro policy is required to ensure that the money supply remains under control. Fiscal policy must be tight and the budget deficit must be under control. The major aim of the macroeconomic policy must be to ensure that the domestic currency, Lek, is as good a store of value as foreign currencies; and this is achieved by avoiding inflation and devaluations. Simply put, if emigrants and their families see foreign currencies as a better store of value, the inflow of discretionary remittances will be restricted.

Such a policy must take into full account the aim of the Government of Albania to make the economy of the country competitive. Therefore any remittance management policy framework must take a balanced approach, and be cognizant of the potential upward pressure that large remittances flows can put on the national currency.

The second, and related pre-condition is achieving a change in the *public perception* that Albania is primarily characterized by institutional deficiencies such as bureaucracy and corruption. In this context, first and foremost, the quality of the statistical data has to be improved in order to design and implement the appropriate policies on emigration and remittances. Simply put, policy-makers need accurate and up-to-date information supporting their decisions. The Government of Albania has recognized that the credibility of administrative and statistical mechanisms needs to be improved, and is undertaking actions in these areas.

## **8.2 Measures and Actions**

In the following paragraphs we will expand on these policy guidelines and link them to specific actions that can be implemented within the time-period to end 2005, as specified in the National Strategy on Migration.

### ***8.2.1 Strengthen research and data on remittance flows to Albania***

In order to understand the evolving trends in remittance behavior it is necessary for Albania to systematically improve the volume and accuracy of the information on emigration and remittance flows. Although it is generally accepted that

remittances have affected the alleviation of poverty and economic stabilization in Albania, the issue has not been analyzed in a systematic way, neither at the micro nor at macro-economic level. In fact, what data has been collected has been largely used to estimate balance of payments flows. More empirical work needs to be done to understand remittance behavior and its link to economic development.

Current understanding of what motivates remitting behavior of Albanian emigrants remains limited and policy development is hindered by this paucity of information and analysis. The undertaking of serious empirical analysis and its effective circulation at the appropriate levels, which would inform policy actions in this area, is also in high need. The Ministry of Finance as the authority of fiscal policy in Albania and counterpart to international financial institutions, as well as the Ministry of Economy, the Bank of Albania, the Institute of Statistics, and the Ministry of Labour and Social Affairs, can undertake these actions - each within their respective expertise and mandates.

Given its particular importance to Albania, special mention must be made of the urgent need for in-depth and empirical research on the '*return potentiality*' of long-term emigrants. The aim would be to understand both, a) the conditions required to support their sustainable return, and b) to provide attractive and viable incentives to encourage their retained savings/remittances towards productive investment. This will require repeated assessments of their changing requirements, and a flexible approach.

A related set of research activities could focus on the strong role of 'social capital' in all phases of emigration, as well as the creating of structural capital such as NGOs and other associations, informal and formal networks, organizations, etc. This research would be directly linked to remittances, remittance behaviour and return management; and would feed directly into the other measures proposed in this paper; and specifically the public information campaigns and training programmes envisaged in Section VIII.3.e

As the impact of remittance transfers take some time to be effective, longitudinal surveys are very appropriate. Specialised agencies, national and international institutions can play an important role here.

In support of these activities the government of Albania could intensify its participation, and take full advantage of, the following three international initiatives of particular interest:

*a. Inter-Agency Remittance Task Force*

The World Bank and the Department for International Development (DFID) are co-chairs of this Task Force. The main themes are:

- Establishing core principles for remittance transfers (guidelines for regulators and governments, standards for service, costs, and access for banks and money transfer companies, legal underpinnings),
- Coordinating, collecting remittance data (standards for collecting data),
- Dissemination of information on remittances.

*b. Technical Subgroup (TSG) on the Movement of Natural Persons – Mode 4*

The UN Statistical Commission established the TSG in 2004 with the objectives of:

- Developing a conceptual framework for the measurement of the Movement of Natural Persons, and in particular of GATS mode 4,
- Developing indicators/variables which provide a measure of impact of the movement of natural persons in the host and home countries, and;
- Preparing data collection guidelines
- To expand the statistical framework to incorporate the measurement of remittances

*c. G8 Action Plan*

At the 2004 Sea Island Summit the leaders of the G8 made a commitment to intensify work on remittances, including improvement of data, making the transfer of funds cheaper and more secure and enhancing their development impact. The paucity of accurate and comparable data on remittance flows was clearly recognised. The intention is to create a statistical working group under the leadership of the World Bank with the goal of designing a single international framework for collecting data on remittances.

**8.2.2 Support the regularisation and legalization of Albanian emigrants**

Evidence from our surveys confirmed empirical research carried out previously (Germenji, 2004; Konica, 1999) that Albanian emigrants who secure an employment position prior to departure enjoy substantially higher income levels, as well as a tendency to remit more and more often through formal channels. Similarly, those emigrants that have managed to obtain legal status in their host countries also have substantially higher incomes and make use of formal financial intermediation possibilities.

On the other hand, those Albanian emigrants who enter host countries illegally and remain illegal are more likely to perform low paid casual jobs; and are often not gainfully employed for long periods. They are usually engaged in casual and grey-market labour when possible, making themselves open to abusive practices and so on. Related, the cost of the irregular migration itself is very high (whether thru 'smugglers' or 'visa-facilitators'), which often represent a debt that must be paid back as a matter of urgency. Due to lack of proper documents the irregular migrant is unable to travel freely between the host country and Albania (hand-carry) and less able to establish a banking relationship within the host country. Out of need s/he reverts more frequently to the relatively expensive MTOs. All of these factors are costs and risks not faced by the emigrant with legal status; resulting in a markedly lower ability for the irregular migrant to gain income, or remit monies to Albania. And when the irregular emigrant does remit it is more often through informal or MTO channels.

Therefore, reinforcing legal migration through a concerted effort by the Albanian government to reach labour exchange and employment agreements with EU Member States and other countries would be of direct benefit to emigrants on many levels. At the same time, such an agreement framework would both increase remittance flows and encourage the use of formal channels. These results would be of direct benefit to the emigrant and his/her beneficiaries in Albania through increased remittance flows, while simultaneously representing a direct benefit to the broader Albanian economy.

The Ministry of Finance, the Ministry of Economy, the Ministry of Foreign Affairs, and the Ministry of Labour and Social Affairs, each within their respective expertise and mandates, can act to create relevant and coordinated policy measures and guidelines in each of the Line Ministries. Such measures would require additional and focused research, referring back to 8.2.1.

Reinforcing such an agreement framework, the Government of Albania could:

- a) actively support, through appropriate incentives, the establishment of labour exchange bureaux (private or state sector) that would be responsible for identifying suitable employment positions for the emigrants prior to their departure. Such agencies could also play a fundamental role in providing the emigrant with pre-departure training and related counselling (see 8.3.5 below).
- b) strengthen their embassies and consulates with labour and trade consuls.



### **8.2.3 Provide attractive channels for emigrants and their beneficiaries to shift their remittances and savings**

Note: Any of the following measures regarding encouraging intermediation and formalization of remittance flows need to be coordinated with, and take into full account of, the existing programmes of the Government of Albania to encourage a move from a cash-based society.

Our survey shows that 77.4% of remittance flows enters Albania through informal channels (primarily self-carry). The formalization of even part of these remittances is in high need and the process would be helped by:

- *Improvements in the banking infrastructure that would grant to emigrants and their beneficiaries in Albania better access to banking system, as well as lower remittance transfer costs.*

Our study indicates that, amongst legal emigrants, significant portions of Albanian emigrants in the host countries<sup>23</sup> are familiar with, and make use of, the banking structures available to them ('first mile' issue). The bottleneck seems to lie in the 'last mile' of the intermediation process; with the beneficiaries in Albania, especially in rural and underserved areas, remaining largely "unbanked". Due, in part, to this lack of access, most Albanian emigrants prefer to resort to informal channels or, when necessary, to the money transfer operators. Western Union or Money Gram may charge relatively high fees but in return they offer a convenient, rapid and safe service, widespread over both the host countries and Albanian territories.

One key finding of our surveys is a clear need for broader and more accessible ('ease of use' is equally crucial) banking facilities in Albania. In this regard a priority objective of a sound remittance management framework should be to provide incentives for banks to make the *transfer of remittances through the banking system more convenient, cheaper and safer* (for instance by broad introduction of the SWIFT transfer standard).

*Actively encouraging the commercial banks to provide broad access to new products* such as prepaid account options, expanded and more flexible card-based services for recipients of remittances in Albania, increased access to ATMs and other

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<sup>23</sup> According to our survey, an overall average of 75% of emigrants made regular use of banking facilities in their host countries. Separate research has shown that amongst illegal emigrants, access to these facilities was almost zero (Gedeshi, et al, 2003; Germenji, 2004).

modern payment systems, would undoubtedly help to “bank the unbanked”.

On a broader level, the Government of Albania will need to consider such measures as *obtaining and maintaining a national credit rating and reaching other related international standards*. This would increase the likelihood of intermediation by international efficient players, thereby facilitating more effective competition in the remittance market.

*Public information service campaigns (see 8.2.5)* - highlighting the safety and cost advantages of banking structures would produce some of the desired results. In particular, and taking into account the ongoing legacy of the pyramid schemes, a targeted information dissemination campaign regarding the strides already made in the financial sector over the preceding years, e.g. the existing deposit insurance legislation, as well as its relevance to the small account-holder, would be useful.

With an existing and very dense network of offices, and with experience in transferring funds/accepting payments etc, *Posta Shqiptare* seems well positioned to reach rural remittance beneficiaries. The government can *adopt a policy of encouraging Posta Shqiptare* to examine possibilities of direct cooperation with Post Offices and Post Banks from other countries, and in particular the primary host countries. Profitable cooperation in the area of remittance transfer could lead to pilot projects in providing other banking facilities traditionally carried out via some Post Offices and Post Banks in Europe. In the case of Albania they might begin with providing small entrepreneur support (i.e. micro-finance, capacity building, management training and consulting).

The *establishment of branches of Albanian commercial banks in the host countries*, especially in Greece or Italy, can provide another positive stimulus. Experience from other countries (like Greece, Philippines, Morocco etc.) indicates that the presence of national commercial banks abroad play an important role towards encouraging the growth of remittances, and their leveraging.

In order to *develop relevant incentives to emigrants* in attracting their savings to the formal sector, the Ministry of Finance, Ministry of Economy, Bank of Albania and the Commercial Banks should *undertake related, specialised research in this area*. Market research areas might include: providing special offers for emigrants when they most frequently visit Albania, or developing Albania-specific measures in terms of exchange rates, interest rate, credit terms, etc.

- *Channelling remittances towards the micro-credit system*

Micro-finance institutions are generally well positioned to serve as local agencies of a remittances canalisation process due to their extensive networks. Since they are closer to their markets, micro-finance institutions can also have an important role in channelling remittances towards productive investments, enhancing the social impact of the latter ones in depressed rural areas.

Associations of credit unions would be of special interest. Research indicates that, in particular members of credit union associations are more likely to save some portion of the value of remittances than those using other non-bank financial institutions such as money transfer operators. Also, and most significantly, the provision of remittance services by credit unions often results in the opening of depository transaction accounts and consequently the integration of 'unbanked' senders and receivers into the financial system.

To date, micro-credit and micro-finance institutions in Albania have not implemented policies aimed at channelling remittances; although the officials of these institutions are interested in the issue. This is because of specific obstacles mainly related to their size. Governments and NGOs in both host countries and Albania could consider a variety of measures including: supporting micro-finance institutions' capacity building; implementing projects of training and consulting; establishing specific actions aimed at improving their access to central bank clearing/ settlement systems, and; even funding projects aimed at leveraging remittances and addressing them towards investments.

In support of measures and actions related to developing formal channels of remittance the Government of Albania could intensify its participation in, and take full advantage of, the above-mentioned initiatives of the international community in regard to remittance management.

#### **8.2.4 Increase overall savings and investments in Albania by providing emigrants with selected incentives**

- *Mobilisation of emigrants' savings*

As shown, emigrants' savings, present a potential pool of funds that can, as with other forms of Foreign Direct Investment (FDI) be transferred through formal channels and mobilised for the development in Albania. The establishment of

branches of Albanian financial institutions (commercial banks and insurance companies) in the host countries can be one means of tapping into the emigrants' savings. Alternatively, or in tandem, negotiations could take place with established banks in the primary host countries to develop representative or correspondent relationships, with a view to providing channels that can offer emigrants special tariffs and incentives. These proposed measures imply a more active policy by the Government of Albania, especially the Ministry of Finance and the Bank of Albania; as well as the commercial banks themselves.

The objective would be to give to emigrant workers the possibility to have a saving account where they can save their money and obtain market interest rates. The crafting of creative investment instrument by the Albanian commercial banks (such as investment and loan programs to emigrants) could also assist in the mobilisation of savings. The savings so mobilised could be brought back to Albania to assist in the development process in the country. Transparency and good track record of the banks are of course needed to engender the confidence of the Albanian emigrants.

Initiation of a functional formal capital market in Albania would also serve the objective of emigrants' savings mobilisation. In fact, a formal Albanian capital market is still non-existent (except T-Bills). Emigrants' savings could also be mobilised by Albanian financial institutions through offerings of pension funds and insurance products.

In order to enhance remittance flows and their development potential, it may also be useful to explore alternative ways of reaching out and engaging with emigrant associations. The Albanian government and locally-based NGOs could explore opportunities that would assist in establishing stable and permanent links between them. Albanian NGOs and associations in the host countries could also play a key role. In this latter area the role of strengthened Albanian Embassies and Consulates would be critical.

- *Supporting return emigrants and their entrepreneurial activities*

Evidence indicates that a majority of long-term Albanian emigrants would be willing to return to Albania after having achieved certain objectives. As shown, a good part of those who plan to return aim at undertaking some investments upon return. Policy initiatives that would attract their savings towards self-employment and entrepreneurial activities would be welcome. Such policy

initiatives could take the form of favourable tax treatment to successful return emigrants that may want to invest their savings in Albania. When applicable, the government could offer the same tax treatment offered to foreign investors, especially for those emigrants that would show interest in investing in priority areas of the economy (such as the manufacturing sector).

However, it must be noted that experience from other countries shows that it is rather difficult to convert emigrants with no prior business experience into dynamic entrepreneurs. The basic idea would be to design policies to transfer funds of the migrant workers through to entrepreneurs.

- *Assisting emigrants to establish businesses to be managed by their relatives*

Our survey revealed that the majority of emigrants wishing to invest in Albania prefer to set-up businesses individually or with their relatives. For this category of emigrants, the microfinance institutes and development cooperation actors operating in the countries where Albanian emigrants reside may help to set up pilot projects aimed at channelling emigrants' savings towards businesses to be managed by their relatives in Albania. Piperno (2003) suggests that the Ethic financial institutes in Italy for example, "after having favourably evaluated the investment projects, could provide personal or collective loans or set themselves up as guarantors. A different way of implanting the same strategy could involve the emigrants themselves as guarantors of the investments, while the credit could be provided by local micro-credit institutions networking with the ethical finance institutions in Italy". The micro-finance institutions in Greece can implement the same strategy.

- *Strengthening emigrant hometown associations*

The presence of emigrants' hometown associations in the host countries could prove to be crucial in the process of enhancing the impact of remittances on development. These associations could act as promoters of local development by collecting voluntary donations among their members to finance social investment projects in their native towns - for example small size infrastructure.

In the case of Albanian emigrants, there is no evidence to suggest that they have established any important unions, hometown associations or other organization to strengthen the links between themselves and their villages and

cities of origin. It seems that Albanian emigrants are individualistic, family captured and not prone to community activities. Little associations exist in Greece, Italy and the US; but these associations seem to be unaware of the evolving investment environment in Albania.

As a result, and with a view to enhancing remittance flows and their development potential, it is necessary to explore means of reaching and engaging with the emigrant associations. The Albanian government and civil societies in the primary host countries need to examine opportunities that would establish permanent communications, links and networks. The Albanian Embassies and Consulates will undoubtedly play a crucial role in this effort.

#### ***8.2.5 Carry out Public Information Campaigns, Provide Pre-departure and Return Orientation - Including Business Counselling and Training***

One of the key findings of our surveys was a widespread and general lack of knowledge about the financial market, its institutions and regulations. Equally, popular understanding of government policy and actions in regard to remittance-related issues such as savings channels, investment opportunities, incentives and disincentives is for all intents and purposes non-existent. In order to ensure that emigrant's and their beneficiaries receive correct information regarding financial intermediation structures, their opportunities, benefits, uses and risks, a series of related information campaigns or "financial literacy efforts" should be carried out.

Public Information Campaigns of direct relevance to the remittance management challenge can be carried out via mass media outlets, emigrant's associations, ports of entry, look-see visits etc. A collaborative and coordinated effort on the part of all interested actors, including the Line Ministries and private institutions such as commercial banks etc would add additional emphasis and impact to any such campaign.

Relevance of the campaign should be ensured by means of the market research to be carried out under 8.2.1; especially as regards the changing concerns and requirements of the emigrants themselves. A pluralistic approach, taking into full account of the wide differences within the emigrant community, their income levels and savings, as well as their experiences in the various host countries is crucial in this regard.

One of the interesting features of Albanian emigration is its localised nature in Greece and Italy, allowing emigrant frequent visits to their place of origin. When combined with a strong social network in the place of emigration a natural and trusted distribution mechanism for the dissemination of information exists. Therefore, public information campaigns that carefully target the places of origin, will not only reach the beneficiaries of the remittances, but the emigrants themselves.

Labour exchange offices (see 8.3.2), non-profit organisation and strengthened Albanian Embassies/Consular Offices could offer, in Albania or in the host countries, accurate information as well as savings and investment advisory services to emigrants (or those that want to return). Current and impartial information on available credit facilities, saving schemes, training in small-scale business management, as well as assistance in obtaining services from relevant government departments could prove especially helpful.

#### **8.4 Epilogue**

Designing and implementing the appropriate strategy on emigration, and remittances in particular, is necessary for all emigration /remittance receiving countries. When a remittance receiving country has no other major source of foreign exchange, failing to build such a policy could be disastrous. In the case of Albania it is the sine qua non prerequisite for the economic development of the country because of their size, relative importance and development potential.

Emigration countries often face problems in regulating the flows and use of the remittances they receive. As stated in the introduction to this chapter, this challenge is heightened by the fact that these are private (individual or family) savings. For the Albanian government, the difficulty of this task is compounded by the legacy of the pyramid scheme scandal of the late 1990s. This event seriously impacted upon the emigrant community; of which many members lost all their savings, leading them break the remaining links of confidence between themselves and their government.

Re-building this confidence will be quite a task, and certainly requires carefully designed and mutually reinforcing policies. Difficult as this might be, it is a challenge the Albanian policy makers will have to address. Making the best out of the remittances is essential so that Albania turns the temporary loss of a large part of its population and labor force to a permanent development asset.

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