

REMITTANCES AND POVERTY IN ALBANIA

by

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Abstract

With increasing labor and capital mobility in the world, remittance flows have risen significantly to become the second source after FDI of external funding for developing countries. Remittances are now viewed by many development practitioners as an important development tool for recipient countries. This paper studies the impact of remittances on poverty in Albania – one of the top 20 remittance-receiving countries in the world. It is found that remittances have a significant impact on the reduction of absolute poverty in the country by directly raising household income and consumption. However, since emigration is costly, remittances do not reach the poorest individuals, which can have a negative impact on inequality. Moreover, there seems to be a high degree of dependency on remittances in Albania, both on the micro and macro level. Therefore, the sustainability of this source of income is of special concern.

Key words: Remittances, poverty, inequality, migration, trade balance, consumption

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List of abbreviations:

BOA: Bank of Albania

CESS: Center of Economic and Social Studies

ETF: European Training Foundation

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

IMF: International Monetary Fund

INSTAT: Institute of Statistics

IOM: International Organization of Migration

LDC: Less Developed Countries

LSMS: Living Standard Measurement Survey

MTO: Money Transfer Operators

ODA: Official Development Assistance

WB: World Bank

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1. Introduction

1.1 Background

As globalization has eased labor and capital mobility remittance flows have increased immensely, to become the second source after FDI¹ of external funding for developing countries. Remittances are defined as the portion of international migrant workers' earnings sent back from the country of employment to the country of origin.²

The growing importance of remittances as a source of foreign exchange is reflected in the fact that remittance growth has outpaced private capital flows and ODA over the last decade³, going up from 31.2 billion USD in 1990 to 166.9 billion USD in 2005. This phenomenon has turned great attention to the causes and effects of international migration and remittances, both in the migrant source and destination country. Earlier literature on remittances has emphasized their negative impacts and cautioned against the possible damaging effects of labor migration and remittance sending, arguing that remittances, being compensatory, are mainly spent on consumer goods instead of productive investment and thus create a culture of dependency which undermines the prospects for development. Recently, development practitioners have viewed remittances as having an important role to play in the development efforts of recipient countries. This opens up a debate about possible mechanisms that could be developed or improved to maximize the positive development impacts from remittances. Such policy implications are especially interesting for developing country governments.

With an annual inflow of remittances amounting to 14% of its GDP⁴, Albania is ranked among the top 20 remittance recipient countries in the world.⁵ From 1994 to 2002 the Albanian economy experienced the fastest rise in real GDP in Eastern Europe.⁶ During the same period, the country experienced a massive outflow of labor, with some 25% of the population living and working abroad by the end of 2005.⁷ At the same time, remittances received showed an upward trend. Studies by the World Bank, IMF and INSTAT show a positive relationship between remittances received from migrant workers and poverty

¹ Ratha (2003), page 20

² Russell (1986), page 677

³ World Bank (2006), page 88

⁴ World Bank (2007)

⁵ World Bank (2006), page 90

⁶ Korovilas (2005), page 176

⁷ Gedeshi (2006), page 113

reduction in the country. However, the sustainability of this source of finance is put into question.

1.2 Purpose

The purpose of this field study and the thesis itself is to evaluate the impact of remittances on poverty in Albania.

The questions I will seek to answer are:

- What is the magnitude of remittances in Albania?
- How are remittances distributed across the country?
- What are remittances spent on?
- Which transfer channels are most commonly used?
- How do remittances affect: 1. Absolute poverty; 2. Relative poverty and 3. inequality in Albania?

1.3 Data

This study is based on secondary sources, mainly from the nationally representative household survey – LSMS 2005- carried out by INSTAT in collaboration with the WB, as well as household surveys/studies undertaken by CESS, which is also the most experienced institute in the field in Albania. Other sources of information are the Bank of Albania, from where I have collected macro-economic indicators as well as figures on the magnitude of remittances. The description of migration patterns and characteristics are mainly based on data from IOM but also from previous studies on remittances' impact on the Albanian economy/society. I have found no available data on poverty patterns previous to 2002. The most comprehensive data on poverty reduction comes from the World Bank poverty assessment 2002-2005, which is used as a basis when explaining poverty trends.

1.4 Disposition

This paper is disposed in the following way: The first chapter gives an introduction to the phenomenon of remittances and why this is relevant to Albania. In chapter two follows a brief review of the theoretical approaches to the causes and consequences of remittances. Some of

the best known empirical studies on the effect of remittances on poverty and inequality are summarized in this chapter. Background information on migration trends and migrant profile in Albania is presented in chapter three. Chapter four looks at the characteristics of remittances in Albania and their magnitude since 1990 onwards. In chapter five poverty measures that will be used in the analysis are discussed, followed by a description on poverty patterns and poverty reduction in the country. An integrated analysis on poverty and remittances is carried out in chapter six. The impact of remittances on absolute and relative (perceived) poverty is discussed, and lastly some of the indirect effects of remittances on the macroeconomic level are outlined. The paper ends with a conclusion in chapter seven.

2. Remittances and poverty - Theoretical considerations and previous studies

The theoretical and empirical literature on remittances focuses mainly on three aspects:

1. The causes of remittances (motives and determinants)
2. The use of remittances
3. The impact of remittances on the economy

Data on remittances is mainly micro-data based on household surveys, and results of their effects are quite variable depending on setting, country or migrant group studied. This hinders general inference. Moreover, measuring remittances is a difficult task since most of the money remitted goes through informal channels and is not recorded in official accounts.

2.1 Motives and Determinants of Remittances

The basis for the current discussion and extensions on motives that migrants have to remit was set by Stark and Lucas in 1985. Drawing conclusions from studies made on a household level in Botswana, they suggested the main motives to be “pure altruism”, “pure self-interest” and “tempered altruism or enlightened self-interest”. The most common and most accepted motive for remitting money back home is what is known as altruism- the migrants concern about the well being of the family members left behind in the home country. The migrant cares about the financial situation of the family, receives positive utility from consumption and welfare of the family and consequently sends remittances. The altruistic model advances a number of hypotheses. First, the amount of remittances should increase with the migrant’s income. Second, the amount of remittances should decrease with an increase in the family income. And third, remittances should decrease over time as the attachment to the family gradually weakens.⁸ In contrast to altruism, pure self interest is shown to be another motive to remit. The migrant’s behavior is in this case driven by the desire to inherit family assets or to insure that those left behind are taking care of his/her assets back home. It can also be that after a certain period of time, the migrant intends to return home, and thus remits money to accumulate assets as an investment for the future. These two motives to remit are not mutually exclusive. Often, the case lies somewhere between these two extremes. Therefore

⁸ OECD (2005), page 16

Lucas and Stark (1985) developed a new model to explain the motivation to remit, called “tempered altruism” or “enlightened self interest”. In this model the migrant and the family at home mutually benefit from migration, through some kind of implicit contractual agreement. For a household as a whole, there may be a Pareto-superior strategy to allocate certain members as migrants, and remittances should be the mechanism for redistributing the gains.⁹ Stark (1991), as well as Agarwal and Horowitz (2002) and Guibert (2002), suggest that the family can function as an insurance company that provides members with protection against income shocks by diversifying the sources of income. On the other hand, Poirine (1997) and Ilahi and Jafarey (1999) model the family as a bank that finances migration for some members. The borrowers remit funds in order to repay the loans, which are put toward more loans to further the interests of other individual family members.¹⁰

So far only microeconomic determinants of remittances have been considered, but in order to have an encompassing view of the remittances situation, macroeconomic determinants need also to be mentioned. To clarify the intermediate relationships between the determinants and effects of remittances, Russell (1986) set out a framework of factors that affect: the total pool of remittance income, the decision whether or not to remit, the amount to remit, the way to remit and the uses of remittance incomes. The macroeconomic factors in this framework are: number of workers, wage rates, economic activity in host country, economic activity in sending country, exchange rate, relative interest rate between labor-sending and receiving countries, political risk factors in sending country and facility of transferring funds. Below follows Russell’s model of a remittance system where these determinants are listed and the expected direction of the relationship between them and the five “intermediate effects” of remittance are specified. As can be seen, microeconomic factors are also included in this framework.

⁹ Ibid, page 17

¹⁰ Quoted by Chami, Fullenkamp, Jahjah (2003), page 6

Table 1 The remittance system: determinants and intermediate effects

POTENTIAL DETERMINANTS OF REMITTANCES	Expected direction of relationship	Available pool of remittances	Decision to remit or not	How to remit	Amount to remit	Uses
Number of workers	+	X	X	X	X	X
Wage rates Economic activity in Host country	+/-	X	X	X	X	X
Economic activity in sending country	+	X	X	X	X	XT>
	+	X	X	?	X	?
Exchange rate	+/-	?	X		X	X
Relative Interest rate between labour-sending and receiving countries	+/-		X		X	X
	-		X		X	
Political risk factors in sending country	+		X			
Facility of transferring funds	-		X			
Ratio of females in population in host country	+/-		X			
	-		X			
Years since out migration Household income level Employment of other household members	-					
	+					
Marital status	-					
Level of education	-					
Occupational level of migrants						

Source: Russell (1986) "Remittances from international migration: A review in perspective", *World Development*. Vol. 14, page 679

2.2 Use of remittances

The empirical evidence on the use of remittances is quite diverse and even contradicting, mainly because the studies on this issue only consider one country at a time. The way in which remittances are used is what determines their effect on the economy. So if remittances go to productive investment, education and health they have positive growth effects through increased output and productivity. If they on the other hand are only spent on consumption their effects depend on whether the consumed goods are locally produced or imported. If they are locally produced, a multiplier effect is generated and remittances thus have an indirect

contribution to growth by encouraging investment in related industries. But, if they are spent on imported consumer goods, besides the positive multiplier effect on the economy they also tend to have a negative effect on the balance of payments. We stated earlier that the primary motive for remitting money is altruism. This directly implies that remittances are compensatory income for remittance receivers (they increase when receiver's income decreases). It is thus logical to assume that most remittances are mainly spent on consumption of daily necessities (consumer goods). This is supported by numerous studies: From a household survey in 22 Mexican communities Massey and Parrado (1994) found that two thirds of remittances go to consumption- mainly on food and maintenance followed by housing.¹¹ Similar spending patterns are found by Glytsos (1993)¹² for Greece and Gilani (1981)¹³ for Pakistani households.

Some literature on remittance use also shows that a significant part of remittances go to investments and savings. For example: in a case study in the Fujian province of China (the home town of half a million international migrants), Zhu finds that migrants are core agents in the development of the region, mainly through investments in physical and human capital. It is well documented in numerous studies that the dramatic development of China in the last decades has mainly been concentrated along its coastal areas. Although this may be attributed to many factors, including its favorable location, it is noteworthy that Chinese overseas and Chinese in Hong Kong, Macao and Taiwan have been the major sources of foreign investment in China.¹⁴

In a study based on the Pakistan rural household survey (PRHS) 2001-2002 Mansuri finds that remittances are indeed invested in physical capital such as farm machinery and agricultural land, tractors and tube wells, as well as human capital such as schooling and early childhood growth.¹⁵ Egypt is another example where remittances have been used in investment and productive activities. Return migrants are responsible for 15% of the capital invested in small enterprises and 15% of the associated employment generation.¹⁶ As far as savings are concerned, development theory maintains that the propensity to save out of transitory income is higher than the propensity to save out of permanent income (see for example Gersovitz, 1988). Ample empirical evidence shows that saving out of remittances,

¹¹ Massey, Parrado (1994)

¹² Glytsos (1993)

¹³ Gilali (1981)

¹⁴ Zhu (2006), page 169

¹⁵ Mansuri (2007)

¹⁶ Wahaba (2005), page 188

which are considered as temporary income, is indeed much higher than savings from regular earnings in the home country.¹⁷

The pessimistic view on migrants' role in development (Hugo 1998:146, Massey et al 1998) argues that because the majority of remittances are used for consumption, they are not considered as being used in productive investment. However, not only directly invested remittances should be considered as investments. Expenditure on education and health are in fact investments in human capital and are very likely to increase productive capacity in the long run. Moreover, if remittances are saved in financial intermediaries they are loaned to investors, thus indirectly contributing to productive investment. An important characteristic of remittances is that they are *fungible* by nature – they free up other resources. So even if remittances are not directly used for investment by the households receiving this money, they can free the households' other resources to finance investment.

Having said that altruism and self interest are the main determinants of remittances and that remittances are used primarily for the provision of basic needs but also invested in productive activities, there is no doubt that remittances improve the standards of living for the receiving households. The critical question is whether they have a positive growth/development effect on the receiving economy as a whole.

2.3 The impact of remittances on poverty and inequality

There exist two extreme views on the relation between remittances and poverty, an optimistic and a pessimistic view. Proponents of the optimistic view argue that migration reduces poverty in the labor exporting areas by shifting the population from a low income rural sector into a relatively high-income urban economy. Remittances improve the standards of living for the receiving households and if the migrants are from poor households remittances contribute to poverty alleviation. The pessimistic scenario accepts that households involved in migration benefit but these beneficiaries may not include the poor. This because the poor households face constraints to migration- such as high costs and risk. The migrants are thus more likely to come from middle and high income groups and only contribute to the widening of income gaps. Further, if remittances are spent on imported goods migration can affect local

¹⁷ Glytsos (2002), page 14

production and decrease the income of the poor, consequently increasing poverty and inequality.

Below follows a summary table of 10 studies which, through different methods analyze the impact of remittances on poverty and inequality.

Table 2: Studies on the impact of remittances on poverty and inequality

Author/s, Year, Country/area	Method	Results
Richard H., Adams Jr., John Page 2003, 74 low & middle income countries	Cross country regression. Uses 3 poverty measures: Poverty headcount, poverty gap, squared poverty gap. Gini coefficient is used to measure inequality.	Estimates for the poverty headcount measure indicate that a 10% increase in the share of remittances in country GDP will lead to a 1.6% decline in the share of people living below the poverty line. The remaining two measures suggest that remittances have a larger effect on poverty: 10% increase in share of remittances will lead to a 2% decline in the depth and severity of poverty. Moreover, the impact of migration and remittances on poverty seems to vary according to regions of the developing world.
IMF, 2005	Cross country study (101 countries over the period 1970-2003)	The results suggest a strong link between poverty, wether measured using the poverty gap or the poverty headcount, and remittances. Though the impact may seem economically small: on average, 2.5 % increase in remittances/GDP ratio is associated with 0.5 % decrease of people living in poverty.
Lipton 1980, India,	Regression analysis of data from 40 villages.	Migration increases rural inequality, both within and among villages, because pull migration allows the better off migrants to advance in better jobs, while push migration weakens the poor. Positive remittances go disproportionately to the better off <i>townward</i> migrants; international remitters who send back big sums are seldom from the poorest village groups. Remittances are thus unlikely to do much to reduce rural poverty.
Richard H., Adams Jr 1991/1993 Arab republic of Egypt	The study uses predicted income equations to estimate the changes that occur between two situations: when remittances are included in and excluded from household income.	International remittances have a small but positive effect on poverty. The results indicate that the number of households living in poverty declines by 9.8%, when predicted per capita household income includes remittances. Remittances account for 14.7% of total income for poor households. However, when remittances are included in predicted per capita household income, inequality increases. The main reason for this is that most of the migrants came from upper-income households.
Gustafsson B., Markonenn N. 1993, Lesotho	The analysis is based on the Lesotho Household Budget Survey 1987.	Simulations for size and structure of poverty are done assuming that remittances are removed. In this case, an additional 11% to 14% of the households would be classified as poor. But the simulated increase of poverty is much higher when aspects of severity of poverty are taken into account than when

		only the number of poor households is measured.
Acosta, Calderon, Fajnzylber, Lopez, 11 Latin American Countires	Household surveys and cross country regression analyses are used. Gini coefficient, 2 head count poverty indicators corresponding to extreme & moderate poverty.	With each percentage point increase in the share of remittances to GDP, the fraction of the population living in poverty is reduced by 0.4%. 9 out of 11 countries exhibit higher Gini coefficients for non-remittances incomes, suggesting that if remittances were exogenously eliminated inequality would increase.
Lopez, Cordova 2004, Mexico	The study uses a cross-section of Mexican municipalities and analyzes wether as the fraction of remittance-receiving households in a municipality rises, development indicators improve.	Remittances do not seem to dent the incidence of extreme poverty in a statistically significant way. This might reflect the high cost of migration which only households above some given level might be able to pay for. However, increases in the fraction of households receiving international remittances are generally correlated with better schooling and health outcomes.
Taylor, Mora, Adams, Lopez-Feldman 2005, Mexico	The paper utilizes new data from the 2003 Mexico National Rural Household Survey, together with inequality and poverty decomposition techniques.	International migration slightly increases rural inequality, whereas internal migrants are income equalizers. However, both international and internal migration have equalizing effects on incomes in high-migration areas ¹⁸ . International migrant remittances reduce rural poverty by a greater amount than internal migrant remittances do.
Richard Adams Jr. 2006, Ghana	Uses Ghana Living Standards Survey 1998/99. Uses econometric estimations to predict the income of households with and without remittances.	Remittances have a greater poverty-reducing effect when measured by more sensitive poverty measures: Poverty gap and squared poverty. The latter measure shows that including international remittances in household expenditure reduces severity of poverty by 34.8%. Remittances have a small impact on inequality. With the receipt of international remittances the Gini coefficient increases by 3.5%.
Richard Adams Jr. 2004, Guatemala	The study is based on data from national household survey (7276 households). Predicted income functions are used to estimate the income status of households when remittances are included and excluded.	Remittances reduce level, depth and severity of poverty. The greatest impact is on severity – the squared poverty gap decreases by 19.8% when international remittances are included in the household income. This is because households from the lowest decile group receive a great proportion of their total income from remittances. Households in the bottom group receiving international remittances receive 60% of their total income from this source. Remittances have on the other hand little impact on income inequality. Most of the poverty reducing effects of remittances come from increases in mean per capita income rather than from any progressive change in income inequality caused by these income flows.

¹⁸ These findings reinforce the argument advanced in Stark, Taylor and Yitzhaki (1986) that expansion of migration has an initially unequalizing effect on the rural income distribution, but the diffusion of access to migration eventually makes the effect of remittances on rural incomes more equitable.

As can be seen, the evidence on the impacts of remittances on poverty and inequality vary depending on country, pattern of migration and poverty measure. Generally, the correlation between remittances and poverty reduction is positive but there seems to be an indication that remittances have a larger effect on reducing the severity of poverty, than level of poverty. The impacts on inequality are contradicting between studies, mainly due to the pattern of migration. When remittances are associated with higher inequality it is mainly either because overall migrants come from higher income groups or that those who do come from higher income groups remit relatively greater amounts compared to the migrants from poor households.

2.4 The impact of remittances on the overall economy

The literature shows no consensus as to whether the net effect of remittances on the receiving country is positive or negative. Again, evidence varies among countries depending on what mechanisms/policies exist to utilize their use, because remittances are private transfers and market forces alone cannot channel them to productive uses. Remittances are inflows of foreign exchange into the receiving country. Given the persistent problems in the balance of trade in LDCs, the limited effect of foreign aid, and the difficulties of borrowing, migrant remittances can substitute for the lack of foreign exchange. Remittances can further be used to purchase capital goods, contributing to growth and the restructuring of the economy towards international competitiveness. In this respect, migration in the form of remittances can be considered as an exchange of abundant unskilled labor for scarce foreign exchange, which renders possible the financing of those capital goods.¹⁹

The potential risk is that LDC governments see remittances as a stable source of income and rely on them to finance deficits instead of adopting long-term economic policies to create a competitive domestic market.²⁰ In this line of reasoning, the instability of remittances as a national source of income is of special concern. Birks and Sinclair (1980:1) view remittances as unpredictable because manpower demands can presumably have wide swings. They argue that just as remittances can rise rapidly due to a feverish build up of manpower demand, so too there can be a steep drop in remittances due to rapid repatriation. Their decline would thus

¹⁹ Glytsos (2002), page 6

²⁰ Chami, Fullenkamp, Jahjah (2003)

be due to: 1) a decline in wage rates as overheated economies cool off; 2) a decline in real wage rates due to inflation that leaves less to send home; and 3) the propensity of workers to settle and be joined by family and thus have less incentive to remit. Therefore, dependency on the unpredictable remittances destroys the process of development.

Kritz and Keely (1981) question the effect of remittances on development, comparing this dependency to drug addiction. However, proponents of international migration argue that labor export is no more productive of dependency than export of commodities or trade in general.²¹

Another macroeconomic impact stemming from remittances inflow is the appreciation of the national currency as the total amount of money in the economy increases without affecting the inflation rate. However, this real appreciation of the exchange rate makes the country's exports relatively more expensive and worsens the competitiveness of the sectors exposed to international competition. As a result, increasing imports and decreasing exports will cause a deficit in the external current account. This phenomenon is known as the Dutch Disease (see Bourdet & Falck, 2006). Other negative effects include the potential impact of remittances on inflation and wage rate. Remittances are expected to increase demand for goods and services. If this demand is not met by responsive supply, inflation rises, sometimes to such a level as to annihilate the positive effects of remittances on development. The increased demand may also lead to a rise in wages and in turn shift the production to non-traded goods and, again, harm the competitiveness of the exporting sector. The wage increase can also come from reduced labor supply caused by increased leisure of recipients.²²

As stated earlier, remittances also contribute to increased savings and investment. However, some studies show a negative relationship between remittances and growth. Chami, R., Fullenkamp, C., Jahjah, S. (2003) show empirically that remittances tend to be compensatory in nature and have a negative effect on economic growth. They also show that moral hazard problems created by remittances can be severe enough to reduce economic activity.²³

In conclusion: there are two opposing views on the impact of remittances. The negative view which is built on four arguments: dependency, instability, developmental distortion and a

²¹ Keely, Tran, (1989) page 503

²² Glytsos (2002) page 18

²³ Chami, Fullenkamp, and Jahjah (2003), page 21.

Moral hazard occurs when the receiver takes advantage of the remitter by substituting the remittance money for labour. This decreases labour supply in the receiving country.

resulting economic decline that overshadows the temporary advantage for a fortunate minority of beneficiaries.²⁴ And the positive view which turns each of these arguments on its head. Remittances are responsive to market forces, provide resources for a transition to otherwise unsustainable development, improve income distribution, and help a significant part of society improve its quality of life²⁵

²⁴ Keely, Tran, (1989), page 3

²⁵ Ibid, page 5

3. Migration in Albania

3.1 An overview from 1990 onwards

After the fall of communism, Albanians gained the right to move freely within and outside the country as the Parliament approved the law on fundamental human rights in 1991. Hence, the first Albanian mass emigration began (the so called “embassy migration”) as thousands of Albanians sought refuge in western embassies in Tirana, in hope of leaving poverty behind and starting a better life in the prosperous neighboring countries. Below follows a brief summary of migration trends since 1990 in chronological order:

1991: During the first years of democracy in Albania, 25,000 migrants fled to southern Italy. Of these 20,000 were repatriated back. At the same time, mass emigration to Greece was taking place, but this is less well-documented. About 100,000 Albanians were forcibly repatriated back to Albania during the Greek “sweep-up” operations in December 1991.²⁶ Altogether, between 1991 and 1992, an estimated 300,000 Albanians left the country.²⁷

1993-1996: Migration continues due to high unemployment as factories and plants are shut down. However, migration is more stable during this period as this is a period of economic growth in Albania. The figures show an estimate of 400,000 emigrants for the mid 90s, with Greece as the main destination country²⁸.

1997: This is a year of political and economic unrest in the country and even civil war in some parts, resulting mainly from the break-down of the financial system caused by some investment schemes²⁹. During this year another mass emigration took place, mainly to Italy and Greece but also onward migration to other EU countries such as France, Germany and Belgium was evident.

1999: Another migration outflow followed with the political crisis in Kosova in 1999. During this year about half a million Kosovar refugees sought shelter in Albania as they were fleeing from the ethnic cleansing of the Serbian regime. As they later on sought asylum in European countries, many Albanian citizens mixed themselves in with them.

²⁶ Barjaba, King (2005), page10

²⁷ Carletto et al. (2006), page 770

²⁸ Vullnetari (2007), page 33

²⁹ The link between these schemes and remittances will be briefly explained in chapter six.

2000-2007: This period marks the end of large scale mass migration in Albania, although Carletto *et al.* (2006: 782) argue that migration levels remained rather high during 2001-2002.³⁰

By the end of 2008, over 1 million people or more than 25% of Albanian citizens, and over 35% of the Albanian workforce were estimated to be living abroad.³¹ It should be noted that there is no consensus over the exact number of migrants in total or for each destination country. Exact calculations become difficult given the high mobility of migrants and that much of migration is illegal or periodical. Data that exist come from two types of sources: Albanian and destination country sources.

3.2 Structure and profile of migrants

The latest Migration Profile done by IOM in Albania estimates the following figures:

Number of emigrants: 860,485 (2005, World Bank)

As percentage of total population: 27.5% (2005, World Bank)

Gender ratio: 75% male/25% female (INSTAT)

Table 3: Main Countries of Destination for Albanian Emigrants

Country	Number	Year	Source
Greece	434,810	2003	European Commission Annual Report on Statistics on Migration, Asylum and Return
Italy	348,813	2006	ISTAT Italian Statistics Office
USA	113,661	2000	US Census
UK	50,000	2005	Ministry of Labor, Social affairs and Employment and Equal Opportunities, Albania
Canada	14,935	2001	Canadian Consensus
Germany	11,630	2002	Federal Statistics Office

Source: IOM Migration Profile 2007

The largest flows of emigrants originate in the countryside, where the economic situation is considerably worse than in urban areas.³² According to WB estimates', by 2002 temporary international migration from rural households accounted for about two thirds of total

³⁰ Vullnetari (2007), page 35

³¹ Gedeshi I (2008), page 205

³² De Zwager, Gedeshi, Germenji, Nikas (2005) page 12

migration.³³ Since this study focuses on poverty reduction, it is worth mentioning that it appears that the poorest of the poor cannot migrate, not only because of the lack of financial capital, but also because of limited social capital which would crucially allow them to borrow from businesses locally, so that the family survives until the migrant returns.³⁴ Furthermore, they lack human capital, because, as will be shown below, the chances to migrate are positively correlated to the educational level.

Migrant occupation: The main sectors of male Albanian emigrant employment in Greece are construction (49%) and Agriculture (21%). In Italy the primary sectors are construction (43%), manufacturing (19%) and services (16%) for men. In both neighboring countries women are primarily occupied by domestic work. In the United Kingdom, construction and services are the two main sectors of occupation for men (33% and 32% respectively), while for women the services sector seems the most “preferred” (66%).³⁵

Education Level of migrants and brain drain: Considering that the first 9 years of education are compulsory in Albania, most migrants have at least completed primary school. Studies indicate that the likelihood of migration increases with the level of education (Germenji and Swinnen 2004, Konica 1999). A comprehensive study done in rural Albania shows that none of the migrants is illiterate and, on average, they have almost 2 years more of schooling than non-migrants. (10 versus 8.3 years of schooling).³⁶

The emigration rate of tertiary educated is quite high and estimated at 20% by the World Bank.³⁷ Every year, highly qualified professionals emigrate due to unsatisfactory working/living conditions in Albania. Evidence from the CESS Data Banks 1 and 2 estimates that the pool of Albanian academics holding a PhD, and working in universities, laboratories, research institutions and research departments in industrialized countries comprises some 200 persons. This pool of academics is concentrated in a number of countries: USA (26%), France (25%), England (9%), Austria (6%) and Germany (5%), and the remaining 29% in Canada, Italy, Switzerland, Holland and Greece. For a small country like Albania, this is not an insignificant number. This process of *brain drain* has been going on since early 1990 – a recent CESS survey shows that more than half of the lecturers and researchers of the

³³ World Bank (2005)

³⁴ Vullnetari (2007), page 46

³⁵ De Zwager, Gedeshi, Germenji, Nikas (2005)

³⁶ Germenji, Swinnen (2005)

³⁷ World Bank (2005)

universities and research institutions of Albania emigrated during the period 1991-2005, 47% of them aged 25-34 at the time of emigration.³⁸ As a result, the Albanian higher educational system has weakened substantially for the last years. Such a loss of human capital and potential is fatal to a country like Albania which is in its early stage of state rebuilding and democracy and is struggling to build its path to the integration in the European Union and world markets. Moreover, it is estimated that over 25,000 young Albanians are currently studying abroad and many hundreds are attending Masters or PhD programs at universities in industrialized countries. Many of these have no willingness to return to Albania in current conditions.³⁹

3.3 Motives and characteristics of Albanian Migration

Three types of international migration can currently be identified in Albania. First, short-term international migration (for periods of days, weeks, or months), almost exclusively to Greece, particularly from bordering regions; second, long-term international migration, to Greece, Italy as well as to other countries of the European Union; and third, legal long-term international migration to the US and Canada.⁴⁰

In their National Strategy of Migration, the Albanian government identifies the 3 main motives behind the decision to emigrate:

1. Economic Factors- such as lack of employment opportunities and poor living conditions.
2. Public security: Civil unrest is the other main cause of emigration – Many Albanian professionals with a good financial situation have immigrated to safer and more prosperous countries to ensure a safer life for themselves and their families.
3. Weak institutions: Corruption and organized crime are two widely accepted features of state institutions. This paralyses their normal functioning and results in the skepticism of the citizens for improvement of the social, political and economic situation in the country.

Besides these push factors, there are also pull factors that attract Albanians to leave their country. These are: higher wages in the west and labor market demand for cheap labor force in fields such as agriculture, construction, tourism etc.; better living conditions; better

³⁸ Gedeshi (2006), page 116

³⁹ Ibid, page 126

⁴⁰ Carletto, Davis, Stampini, Zezza,(2004)

opportunities for the future of immigrants' children; personal development; the glamorous image of life in the West as portrayed by foreign television, particularly in the Italian case.⁴¹ In 2000 Barjaba first suggested an “Albanian model” of emigration. In this model, Albanian emigration is characterized by the following features: It is *intense* (a rate of emigration much higher than any other Eastern bloc country); it is largely *economically driven* – a form of *survival migration*; it has a *high degree of irregularity*, with many undocumented migrants; it displays lots of *to-and-fro movement*, especially with Greece; and it is *dynamic and rapidly evolving*, especially as regards new destinations and routes of migration.⁴²

⁴¹ Mai (2002)

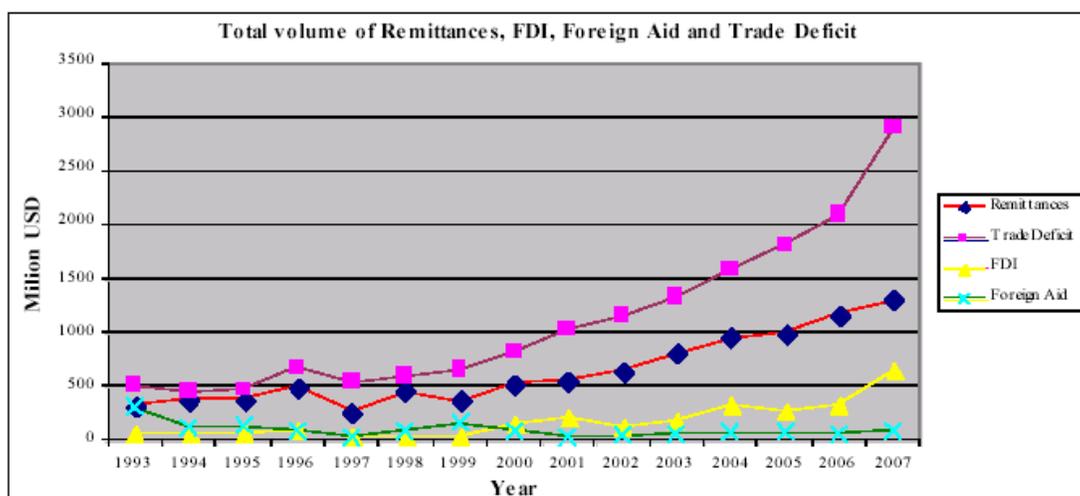
⁴² Vullnetari (2007), page 40

4. Remittances in Albania, development and patterns

4.1 Trends

Remittances in Albania have been continuously growing since 1992, from 10 to 22% of the country's GDP. They exceeded by several times the amount of FDI in the country, exports as well as the amount of aid received from international institutions.⁴³ During the 1992-2001 period the accumulated FDI was 774.7 million USD, while the accumulated remittance flow was 3 924.2 million USD or about 5 times more.⁴⁴

Figure 1: Volume of Remittances in relation to FDI, Foreign Aid and Trade Deficit



Source: Bank of Albania, 2008

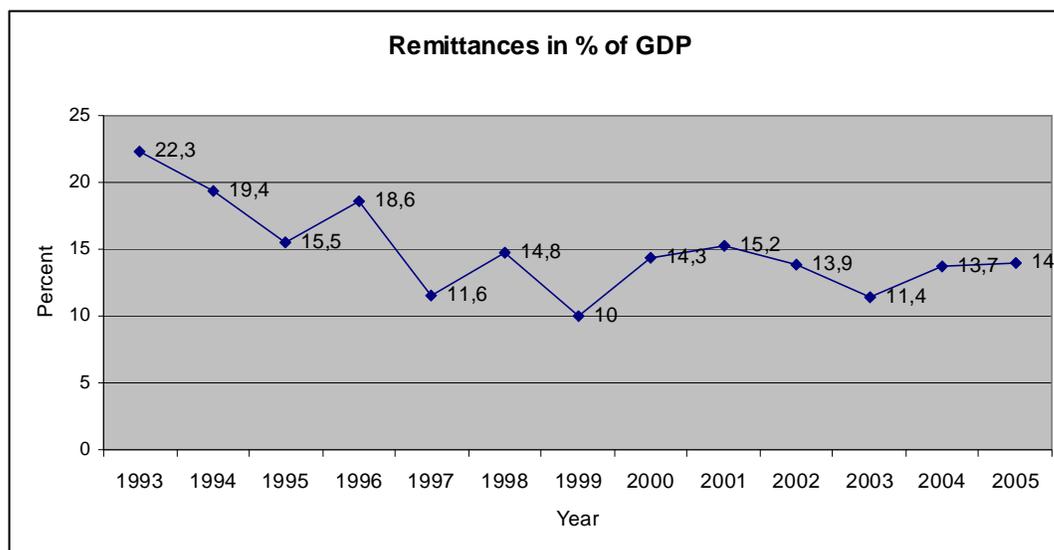
However, it has been difficult to report exact figures and realistic assessment of the remittance flows to Albania, the reason being that large proportions of remittances are transferred through informal channels and are consequently not recorded in official data. Moreover, much of remittances are made in-kind such as long term durables, electronic equipment, clothing, cars etc. and are also left out of official records. Remittances in kind are estimated by De Zwager, Gedeshi, Germenji, Nikas (2005) to amount to 13.5% of total remittances, which is not an insignificant figure.

⁴³ Bank of Albania (2008)

⁴⁴ INSTAT (2002)

Thus, the volume of remittances reported varies between different institutes, depending on the techniques they use in their estimations. The table below shows remittances in percentage of GDP for the period 1993-2005, as estimated by the Bank of Albania.

Figure 2: Remittances in % of GDP, 1993-2005



Source: Based on data from BoA 2006

The 2007 total remittances are estimated to be 947 million Euros (slightly growing at 1.3% /year) or 12% of GDP. This growth rate is arguably the lowest in the last 10 years.⁴⁵

In per capita terms, remittances rose from around USD 100 in early 1990s to more than USD 200 in 2002 and to almost USD 400 in 2007.⁴⁶ Remittances are expected to decrease as emigrants complete family reunification or create own families and integrate in the host countries. Bonds with the family left behind in Albania weaken as new needs and expenses are born together with the new life abroad. Many scholars think that a cycle exists in Albanian migration.⁴⁷ De Zwager et al (2005) estimated the Albanian “emigration cycle” to be about 17 years. After this time, emigrants either wish to return to Albania, or permanently settle in the host country.

However, until 2007 there was no noticeable decrease in remittances in Albania. Ilir Gedeshi, expert in Albanian migration issues, proposes 3 reasons for this: 1. Migration in Albania has been on the rise during the whole period since 1991. 2. There has been a trend in migration away from lower income countries (Greece, Italy) towards higher income countries (USA,

⁴⁵ Bank of Albania (2007), page 59

⁴⁶ Gedeshi (2008)

⁴⁷ See for example Hatziprokopiou, H. and Labriandis, L. (2005)

Canada). 3. “Dirty money” (earned from illegal activities) is also recorded as remittances in official accounts. On the other hand, the latest findings of CESS show maturation of the overall migration cycle, evidenced by the high level of legalization and unification of families in places of migration (90%). Consequently, remittances are expected to decrease, at the same time as migrant savings abroad increase.

4.2 Motives and characteristics of remittances

It is widely accepted that the determinants of remittances in Albania are an area that lacks adequate systematic research. One reason might be the relatively short period of emigration flows and the poor quality of data. But another reason is that it is difficult to test the motives to remit empirically. One such attempt was made by Hagen-Zanker & Siegel (2007) who used 3 different econometric models to test for the motivations to remit in Albania and Moldova, but reached no significant results. They concluded that while there is some agreement on some remitting motives, e.g. altruism towards spouses, many of these results remain ambiguous due to a number of methodological problems. In real life behavior, altruism and self-interest are not as strictly defined as in theory. However, family bonds are one of the strongest elements which define Albanian culture and society. Over the years, the family has come to play the role of an institution which, besides bearing the normal function of a family, even aims at providing that kind of support which state structures fail to provide. Therefore, it can be stated with quite enough certainty that altruism is one of the main motives to remit. Estimates by the IOM⁴⁸ show that 68.6% of emigrants send remittances back home to Albania. The most common recipients are the parents of the sender, then spouse and children, followed by extended family. Albanian tradition obliges men more than women to have economic responsibilities towards their families, and females are expected to show this obligation towards the families of their husbands instead of their own. Studies thus show that the amount remitted is positively correlated to males (Gedeshi *et al* 2003) – it is more the married sons than the married daughters that send remittances home to their parents. The amount remitted is positively affected by the emigrants’ educational level (Gedeshi *et al*, 2003; Germenji 2000; Germenji *et al*, 2002), wages and marital status; married emigrants with

⁴⁸ IOM (2007), page 17

families remaining in Albania tend to send significantly more in comparison to their counterparts (Gedeshi *et al*, 2003; Germenji 2004; Konica 1999)⁴⁹.

4.3 Transfer channels

Formal channels: The formal sector of capital transfers is composed by the Banking Sector and the Money Transfer Operators. To send remittances through the banking sector is a quite complex procedure which requires that the banking institutes are established both in the host and receiving country. The results of the emigrant household survey undertaken by IOM in Albania in 2005 indicate that among emigrants that remit to their households/relatives in Albania, the banking system remains the least preferred formal channel – only 9% report it as a preferred channel⁵⁰. MTOs dominate the formal market for money transfers. There are two MTOs currently operating in Albania – Western Union and Money Gram. Although these charge higher fees they are more preferred since they offer faster services, are wider spread across the territory of Albania and do not require a bank account for the sender and more importantly for the receiver. The same study shows that households in Albania are considerably less familiar with the banking system than the emigrants in the host countries - only 45.3% of all household in Albania have a bank account (compared to 74.4% of emigrants in host countries). This is especially true for rural households.

Informal channels: Remittances sent through informal channels are hand-carried by the remitters themselves, or through family members and friends. Paid couriers are another form of informal transfer, but not so popular.

The use of informal transfer mechanisms poses real costs to the society as a whole. Firstly, it prevents the Bank of Albania from fully measuring the presence of foreign currency in the country, which in turn complicates the conduct of monetary and stabilization policies. Secondly, remittances sent this way do not become available for intermediation since they rarely enter the banking system.

Figures from the Bank of Albania show an increasing trend in the use of formal transfer channels from mid 90s and onwards. The use of formal channels even increased after the

⁴⁹ De Zwager *et al* (2005), page 23

⁵⁰ Ibid, page 28

pyramid schemes in 1997 (when in fact one would expect a substantial decrease due to loss of confidence in the banking sector).

Table 4 shows a continuous increase of formal transfer channels used, both in absolute and relative terms. As can be seen, the use of formal channels during this period has, in absolute terms, increased more than 150 times!

Table 4: Remittances of Albanian emigrants, million USD (percent), total, formal and informal channels, 1994-2004

Year	Formal Channels	Informal Channels	Total
1994	10.0 (7.5%)	1000 (92.5%)	100.0
1995	210.2 (15.5%)	93.0 (84.5%)	101.8
1996	212.0 (12.0%)	125.7 (88.0%)	132.2
1997	295.4 (31.3%)	52.4 (68.7%)	70.6
1998	401.8 (25.1%)	96.9 (74.9%)	119.7
1999	314.8 (24.2%)	79.8 (75.8%)	97.4
2000	575.3 (30.7%)	105.3 (69.3%)	140.5
2001	861.8 (39.7%)	106.1 (60.3%)	162.7
2002	997.5 (44.7%)	99.9 (55.3%)	167.1
2003	1,096.5 (39.9%)	133.8 (60.1%)	205.9
2004	1,660.7 (45.7%)	159.6 (54.3%)	272.0

Source: Bank of Albania, 2005

If the set of data in the table (absolute terms) is compared to estimations of the WB (2005) and BOA 2008 (fig. 1), it is clear that these figures are considerably lower (in total). WB estimates a total of 400 million USD of remittances received in Albania during 2005– a figure considered by them as an underestimation of total remittance flows as it ignores foreign earnings and savings brought back in person by migrants. BoA (2008) gives an estimate of about 1000 million USD for the same year. This demonstrates the problems with collecting unified data about remittance flows- even within an institute, the figures differ from year to year (as is the case with BoA).

5. Poverty in Albania—Incidence, spatial distribution and characteristics

5.1 Poverty and poverty measures

Although it is widely agreed that poverty is a state of being with many more dimensions than strictly the income dimension (which classical literature emphasizes the most), it is difficult to measure the non-income aspects of poverty. Therefore, the most widely used measurement of poverty is income-poverty. Income poverty is defined as the lack of sufficient income to meet minimum consumption needs. This minimum level of income is usually called the "poverty line". Every country has a National Poverty Line, which is derived by the Purchasing Power Parity (PPP). There are two main ways of setting poverty lines in a relative or absolute way: *Absolute poverty* lines are anchored in some absolute standard of what households should be able to count on in order to meet their basic needs.⁵¹ The absolute poverty line in Albania is set at 4891 Albanian Lek/month (about 47USD). The most common measurement of income poverty is the Headcount index (also called poverty rate). This index gives the incidence of poverty, i.e the percentage of the population whose per capita incomes/expenditures are below the poverty line, and is derived by dividing the number of people below the poverty line by the total population. However, this index is only a descriptive one and does not capture aspects of poverty which are important for policy-making, such as depth and severity of poverty. For example, the headcount ratio does not change when a part of the population becomes poorer, or a very poor group becomes less poor. Therefore, other measures of poverty need to be used to measure how far below the poverty line the poor are situated, and how severe poverty is. The measures I will use to describe poverty in Albania are the Headcount ratio, depth of poverty and severity of poverty.

Depth of poverty is measured by the poverty gap index which is a combined measurement of the incidence of poverty and depth of poverty. It shows how far from the poverty line the poor are situated and is defined by:

$$PG = \frac{\sum_{i=1}^G (x - y_i)/z}{N}$$

⁵¹<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20242879~menuPK:435055~pagePK:148956~piPK:216618~theSitePK:430367~isCURL:Y~isCURL:Y,00.html>

Severity of poverty is in addition sensitive to inequality among poor. The poverty severity index gives more weight to very poor than to less poor and is defined as:

$$P2 = \frac{\sum_{i=1}^G ((x - y_i)/z)^2}{N}$$

Relative poverty lines are defined in relation to the overall distribution of income or consumption in a country; for example the poverty line could be set at 50% of the country's mean income or consumption. While absolute poverty is measured by comparing a person's total income against the total cost of purchasing a basket of goods and services representing the basic needs of daily life, relative poverty compares a person's total income and spending patterns with those of the general population.

Inequality is a key concept when analyzing poverty. Income inequality is the existence of disproportionate distribution of total national income among households whereby the share going to rich persons in a country is far greater than that going to poorer persons. The most common measure of inequality is the Gini-Coefficient. The Gini coefficient is measured graphically by the Lorenz Curve, dividing the area between the perfect equality line and the Lorenz curve by the total area lying to the right of the equality line in a Lorenz diagram. The Gini coefficient ranges income inequality from 0 to 1. The higher the value of the coefficient, the higher is the inequality of income distribution.⁵²

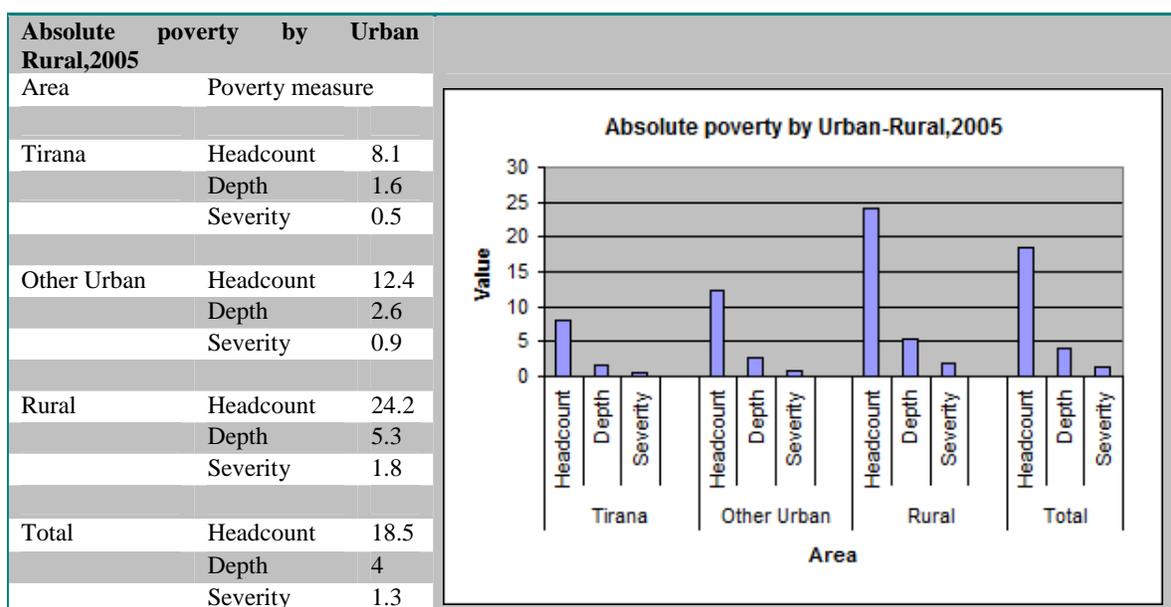
⁵² Definitions taken from Todaro, Smith (2006), page 814 and 816

5.2 Poverty trends in Albania

5.2.1 Rural-Urban poverty

As expected, the majority of the poor live in rural areas. All three poverty measures are significantly higher in rural areas than in urban – the incidence of poverty is almost 3 times higher in rural areas compared to Tirana, and twice as high compared to other urban areas. The lowest poverty is found in Tirana where the poverty gap is only 1.6% compared to 2.6% in other cities and 5.3% in rural areas. Also the severity of poverty is twice as high in rural areas as in cities, and almost 4 times higher than in Tirana.

Table 5, Figure 3



Source: LSMS 2005

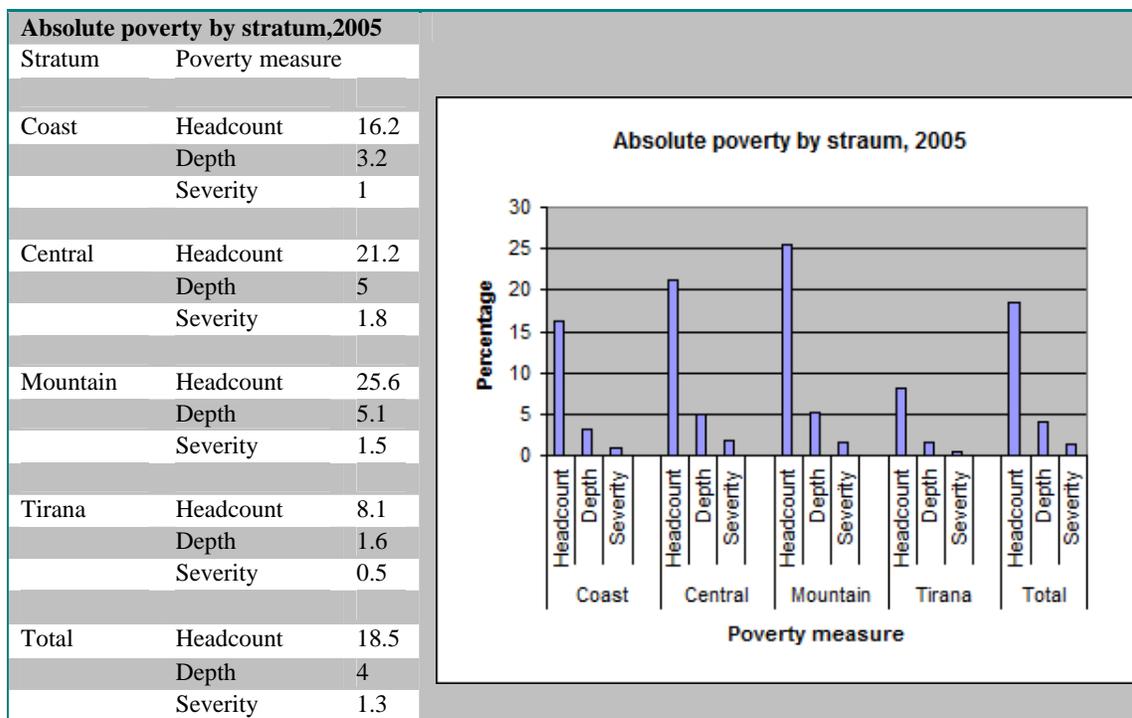
5.2.2 Regional poverty

The poorest of the four defined regions is the Mountain region.⁵³ There are considerable differences in all poverty measures between this region compared to the Coast, and especially Tirana. These differences were substantially higher in 2002, but as a result of regional

⁵³ It is important to note that these broadly defined regions are not the same as administrative regions – commonly referred to as prefectures. Rather, these are areas that have been grouped together because they share similar geographic contiguity and endowments. There are four such areas defined for survey purposes, while there are 12 prefectures (*WB 2005*)

convergence during 2002-2005, especially the mountain areas have narrowed their distance with Coast, Central and Tirana. The Central region is the second poorest, but with highest severity of poverty (1.8% compared to 1.5% in the Mountain and 1% in the Coastal regions). Also, in regional terms, Tirana remains the area with lowest incidence, depth and severity of poverty.

Table 6, Figure 4



Source: LSMS 2005

5.2.3 Poverty reduction

The only means-tested anti-poverty program in Albania is the “Ndhma Ekonomike” program. It aims to provide support to rural households with very small landholdings and urban households with no other income source. The program was established in 1993 in reaction to persistent unemployment and rising social chaos following the breakdown of the communist regime. The largest receivers of social help from this program were rural households (16.5% compared to 8.5% urban) and households from the Mountain region, followed by the central region, Coastal region and lastly Tirana. The benefit level per recipient family was about 2113 Lek/month (2006) (in 2009 exchange rates that is about 19euros).

Table 7: Percentage of households concerned by Ndihma Ekonomike by Poverty status and region, poor includes extreme poor

	Ext. Poor	Poor	Non-Poor	All
Coastal	12.3%	9.7%	2.8%	3.6%
Central	60.2%	41.6%	13.0%	17.9%
Mountain	60.7%	45.0%	29.9%	32.9%
Tirana	42.5%	19.7%	2.0%	3.0%
Urban	52.4%	32.9%	6.3%	8.5%
Rural	50.0%	32.4%	12.7%	16.5%
Albania	50.7%	32.5%	9.5%	12.7%

Source: LSMS 2005

Poverty reduction between 2002 and 2005 was impressively large – 41% of the poor population in urban areas and 24% in rural areas were helped out of poverty. Generally, absolute poverty declined from 25.4% to 18.5% between 2003- 2005 and extreme poverty⁵⁴ from 5% to 3.5%. Also, the poverty gap and the severity of poverty declined during this period. According to WB, INSTAT, BOA, this success is mostly attributed to the high economic growth which Albania has been experiencing since 1992. Evidence shows that most of the reduction in poverty is due to high growth in mean incomes in a fairly stable inequality context – meaning that growth has been pro-poor in Albania. The other way from which changes in poverty can occur is through redistribution to the lower tail of the distribution, even when there is no change in average mean incomes.

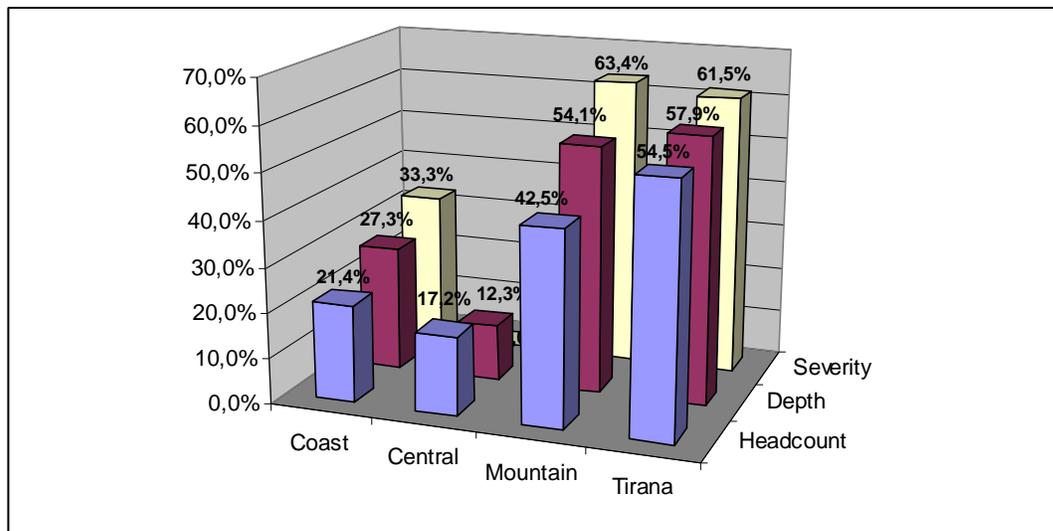
5.2.4 Poverty reduction by region

If we look at poverty reduction by region we see that there are quite big differences between the developments in the Mountain area and Tirana on the one hand and the coastal and central regions on the other hand. During 2002-2005 Tirana experienced the highest rates in poverty reduction among the regions, with a 54.5% reduction in the poverty headcount, 57.9% in depth and 61.5% in severity of poverty. The high rates of poverty reduction in the Mountain regions, which are predominantly rural and poor, are rather surprising. Severity of poverty decreased by an impressive 63.4% and depth and headcount poverty by 54.1% and 42,5%

⁵⁴ Extremely poor are those who have difficulty in meeting basic nutritional needs

respectively, all almost twice as high as on the coast! The lowest poverty reduction rates were recorded in the central regions where no improvement took place in the severity of poverty.

Figure 5: Poverty reduction by Stratum, 2002-2005



Source: LSMS 2005

According to the WB⁵⁵, migration explains, in part, the observed trends of poverty reduction. Firstly, Tirana and the Mountain rural regions are the areas with the largest increase in the share of households receiving remittances during the period 2002-2005. Secondly, the amount of remittances has also increased substantially – more than doubled in Tirana and increased by 50% in the Mountain regions. And lastly, the impressive pace of poverty reduction in the Mountain regions is explained by the continuing outflow of new permanent international migration.

5.2.5 Characteristics of the poor

The characteristics of the poor can be established by looking at the incidence of poverty. In Albania, the incidence of poverty rises with size of family, illiteracy and lower education level, and of course – unemployment. The risk of poverty is also considerably higher for self employed (46%) than employees (14%). In 2001, self employment in rural areas accounted

⁵⁵ WB (2007)

for 89.8% of total employment, compared to only 39% in urban areas.⁵⁶ A surprising observation is that households headed by females have a lower incidence of poverty. According to the WB, part of the explanation may be that these female-headed households live in households with migrants who boost household incomes through remittances. Moreover, the incidence of poverty is rising for younger heads of households. 90% of the poor live in rural Albania, which is characterized by lack of infrastructure, high population density and unemployment.

5.2.6 Income inequality

Inequality in Albania is considered low and by the standard of the most commonly used measure, Gini, it remains low⁵⁷. Inequality is slightly higher in urban regions compared to rural (0.297 and 0.273 respectively). The highest inequality is noted in Tirana followed by the Coastal areas, Central areas and lastly the Mountain regions.

Table 8: Income inequality in 2005 measured by the GINI coefficient

	Gini
National	0.296
Urban	0.297
Rural	0.273
Coast	0.294
Central	0.286
Mountain	0.241
Tirana	0.298

Source: LSMS 2005

From 2002 there has been a modest increase in inequality in all areas (generally from 0.282 to 0.296) except for the mountain regions which have actually experienced a decline in inequality (from 27.1 to 24.1)

⁵⁶ SIDA (2006), page 39.

Self employed includes employers and unpaid family members

⁵⁷ WB (2007), page 9

6. Remittances and Poverty in Albania

6.1 Distribution of remittances

According to LSMS 2002, remittances from emigrants represent 13% of the average household income, while for recipient households they represent 47% of the household income.⁵⁸ 87% of total remittances are sent by split-off migrants⁵⁹ (who are estimated to be around 451,000) and the average amount remitted is UDS 1,179. The remaining 13% is sent by other distant relatives or friends.⁶⁰ Before moving on to see how remittances are distributed across regions, it should be noted that 44.5% of split-off migrants originate from the coast, 39% from central regions, 10.5% from Tirana and only 7% from mountain regions. Figure 6 shows that the pattern of remittance-receiving households (as a percent of total households) is in line with this ranking. The highest level of remittance-receiving households is in the coastal regions, followed by the central regions, Tirana and lastly mountain areas. However, proportionally speaking, the largest receivers are from the mountain areas (74% of split-offs from the mountain areas send remittances), while the lowest are from the coastal areas (60%). The proportions of emigrant households receiving remittances in the central areas and Tirana are 70% and 65% respectively.

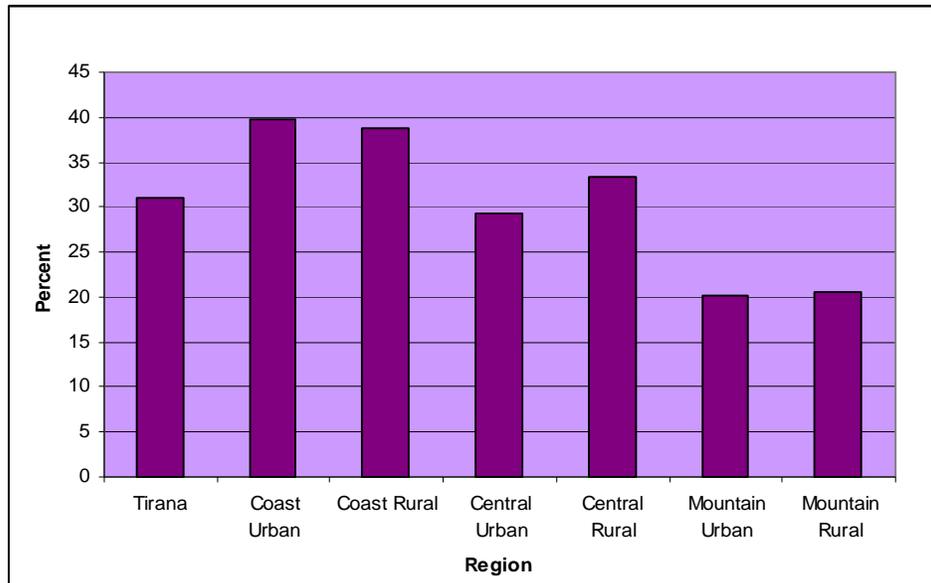
As can be seen, the evidence on the impacts of remittances on poverty and inequality vary depending on country, pattern of migration and poverty measure. Generally, the correlation between remittances and poverty reduction is positive but there seems to be an indication that remittances have a larger effect on reducing the severity of poverty than level of poverty. The impacts on inequality are contradicting between studies, mainly due to the pattern of migration. When remittances are associated with higher inequality it is mainly either because overall migrants come from higher income groups or that those who do come from higher income groups remit relatively greater amounts compared to the migrants from poor households.

⁵⁸ IMF (2005)

⁵⁹ Defined as members of a nuclear family who have been away from the household since 1990 and now live abroad.

⁶⁰ WB (2007)

Figure 6: Percentage of households receiving remittances by region, 2005

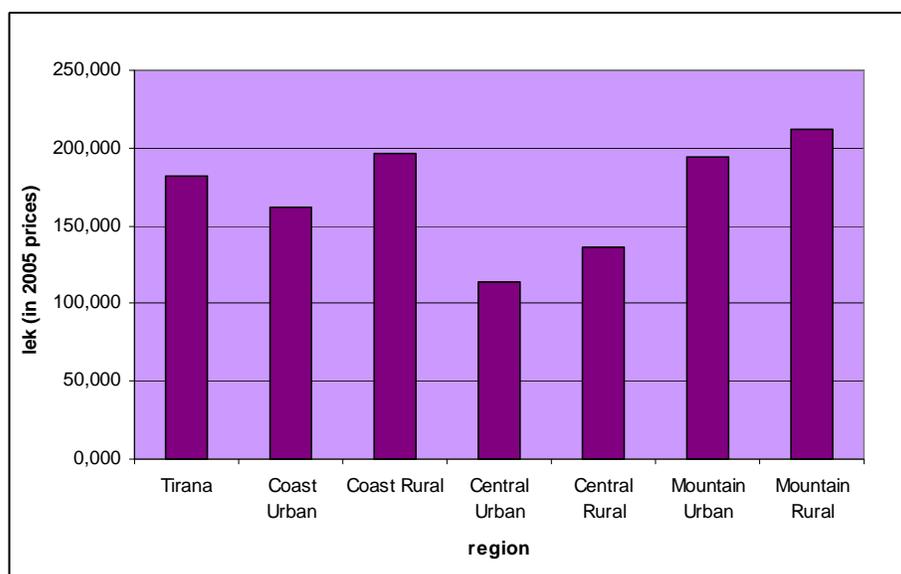


Source: LSMS 2005

Regarding the amount of remittances, it is interesting to note that although a small portion of emigration comes from the mountain regions, split-offs from these areas tend on average to remit the highest amounts – almost twice as much as the central areas. This means that proportionally more and larger amounts are flowing into the poorer mountain region compared to the richer areas of the country.⁶¹ In general, split offs from rural areas send more than their counterparts from urban areas in the same region (see fig. below). This can have positive effects on poverty alleviation since the majority of the poor (90%) are situated in the rural areas of the country.

⁶¹ WB (2007), page 45

Figure 7: Average amount remitted to household (at 2005 prices, leks), 2005

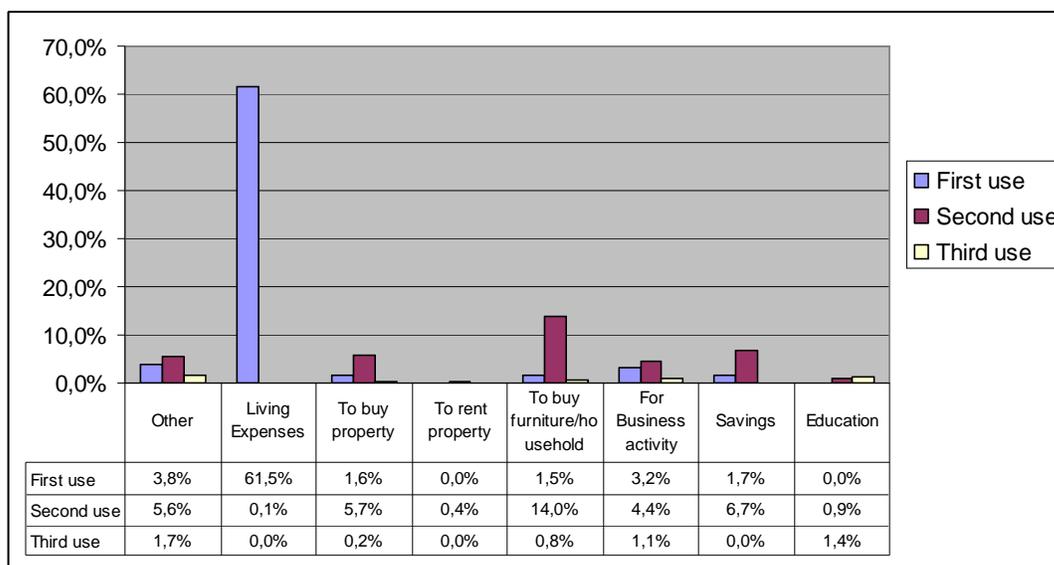


Source: LSMS 2005

6.2 Use of remittances

The data below shows the use of remittances based on a household survey conducted by CESS with 1000 randomly selected emigrant households in 6 prefectures in Albania (where emigration is most prevalent). It shows the primary, secondary and tertiary use of remittances received from abroad. Some of the correspondents only spend their remittances on one category, or two and therefore the total number of correspondents is lower in the second and third column. As could be foreseen, the majority of households prioritize the use of remittances to finance living expenses (61.5%). 3.8% prioritize remittances for other purposes and 3.2% for business activity. The second most popular use of remittances is to buy household goods and the third for savings. None of the households use remittances primarily to finance education. Education comes only in second place for 0.9% of households, and third for 1.4% of households.

Figure 8: Use of remittances, 2005



Source: Internal data from CESS

Similar results were found by De Zwager and Gedeshi (2005). They found that the primarily remittances go to finance family daily needs, then comes building upgrading and furnishing the home, followed by investment in real estate. The propensity for beneficiaries of remittances to save a part of this income was quite high, and estimated to be about 20-30 %. However, the same is not true for investments in the dynamic sector of the economy. What little productive investment is achieved by the use of remittances is concentrated in the primary and tertiary sectors of the economy.

A fair share of the consumption growth (22.1% in urban and 10.6% in rural) that Albania has been experiencing in the last years is explained by remittances. The large pool of migrants and the remittances they send have contributed to consumption growth by reducing family size, financing consumption directly and providing working capital for business start-ups.⁶²

In order to find out weather migrant remittances has an effect on the consumption *patterns* of recipient households Castaldo & Reilly (2002) use data from the 202 LSMS to estimate budget share equations for four broadly defined categories of commodities: food, non-food, durables and utilities⁶³. The estimated effects for the international remittance recipients are

⁶² WB (2007), page 18

⁶³ Description of expenditure categories: Food: Purchased products, non-purchased products (own produced and received as gift), food eaten outside home, items purchased before reference period; Non-food: Clothing and personal care, house cleaning, home improvements, transport, entertainment and hobbies, other products and

found to be statistically significant for all categories except non-food. The effect on food is shown to be negative (i.e remittance receivers' average budget share on food compared to non-receivers' is 4.5% lower, *ceteris paribus*). The effects on durables and utilities, on the other hand, are shown to be positive. Receivers of international remittances spend on average 25% more of their budget share on durables, and 16% more on utilities. Remittances thus allow households to improve their standards of living, by financing home appliances, use of electricity, gas, fuels for heating, access to water etc.

6.3 Impact of remittances on poverty

It has been widely acknowledged that since the start of mass emigration from Albania, in early 1990s, remittances have served as a survival strategy for poor families in the country, and emigration is perceived to be the most viable means to escape poverty. However, as for Albania, there is no empirical study that examines the impact of remittances on poverty reduction. But, several surveys in different parts of the country give evidence on the benefits of migration and remittances in poverty alleviation.

6.3.1 Remittances, consumption and absolute poverty

Below follows a comparison between households with migrants abroad and those without regarding consumption and poverty, based on LSMS 2005 data. As is obvious, there are large differences in consumption levels as well as incidence and depth of poverty between households with permanent migrant/s abroad and those without. The incidence of poverty is almost half as low and the depth of poverty more than half as low for households with permanent migrants compared to households without such. Also per capita consumption is higher for migrant households – 9.856 lek compared to 8.813 lek for non-migrant households. These differences are all statistically significant at 99% level of significance. The outcomes between households with and without temporary migrants on the other hand show no marked differences.

services; Durables: Domestic appliances, TV, computer, video and DVD-player, Vehicles (bicycle, motorcycle, car, truck tractor); Utilities: Electricity, gas and water, Telephone (landline, mobile, public phone), Fuels for home use (firewood, coal, kerosene, diesel)

Table 9: Poverty indicators and migrant households

	Permanent	migration		Temporary	migration		Total
	no	yes	difference	no	yes	difference	
Per capita consumption*	8.813	9.856	1.043***	9.202	8.943	-259	9.109
Poverty headcount	21.2	11.8	-9.4***	18.6	18.4	-1.0	18.5
Poverty gap	4.7	2.2	-2.5***	4.0	4.0	0.0	4.0
Number of observations	2,486	1,154		2,544	1,069		3,640
*Computed at the individual level							
***Significant at 99% level							

Source: WB (2007)

From this set of data it can be concluded that remittances have a reducing effect of absolute poverty – both in the incidence and depth of poverty. Moreover, remittance receiving households also have a higher consumption level which implies a better standard of living. However, the data should be interpreted with caution, since it can for example be the case that households with permanent migrants already had a higher consumption per capita and lower poverty even before migration.

6.3.2 Remittances and Relative poverty

Due to the difficulty in assessing the impact of remittances on absolute poverty, I have chosen to look at the beneficiaries' own perceptions about the role of remittances in their wellbeing. Results taken from CESS database, linked to households own perceptions about their financial situation will be presented, where the answers of remittance-receiving households and non-receiving households will be compared. Table 10 presents the results of "Perceptions on the remittance impact on the households' financial situation" from a household survey conducted by CESS in 2005 with 1004 randomly selected households. 42.3% of the beneficiaries declared a significant improvement of their financial situation due to remittances, compared to only 15.6% of the non-beneficiaries. The fraction of beneficiary households that declare no improvement is significantly lower compared to their counterparts – 1.3% and 58.8% respectively. Generally, 96.3% of the 895 remittance receiving households declare a POSITIVE impact of remittances on their financial situation, compared to only 41.2% of the 109 households that don't receive remittances.

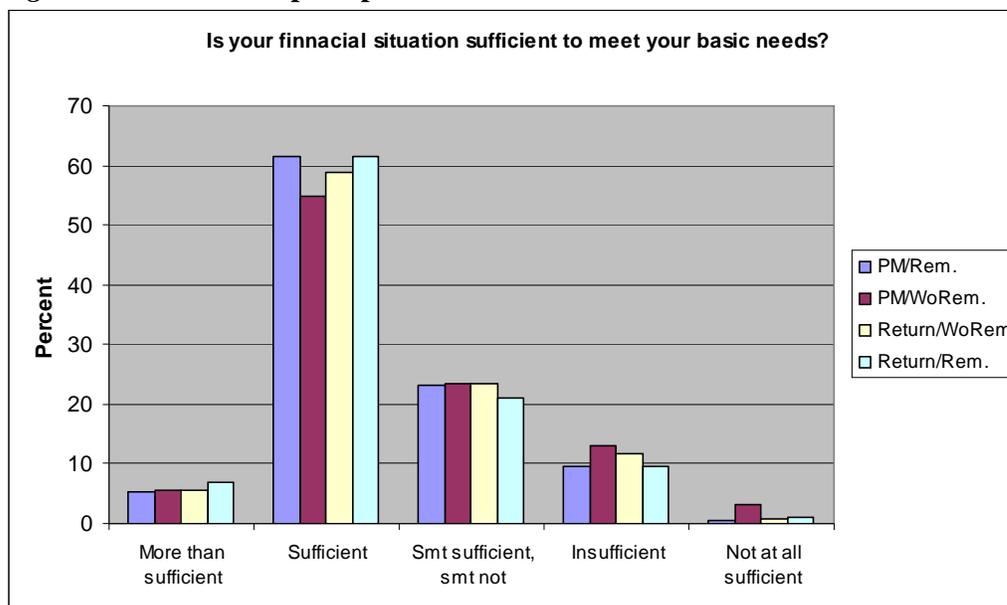
Table 10: Perceptions on the remittance impact on the households' financial situation

Financial situation	Households that receive remittances		Households that don't receive remittances		Total	
	Nr.	%	Nr.	%	Nr.	%
No improvement	33	3.7	64	58.8	97	9.66
A slight improvement	483	54.0	28	25.7	511	60.46
A significant improvement	379	42.3	17	15.6	396	99.90
Total	895	100.0	109	100.0	1004	100.0

Source: De Zwager, N., Gedeshi, I., Germenji, E., Nikas Ch., (2005)

The data below is taken from another household survey by CESS in collaboration with ETF, this time with 2000 households across 6 prefectures in Albania. These households belong to two groups: 1000 of them are potential migrants (labeled PM), and 1000 are families with return migrants (labeled Return). The answers to the question “Is your financial situation sufficient to meet your basic needs?” are presented in figure 9. Concentrating on the right tail of the x-axis we see that generally, relatively fewer remittance-receiving households perceive their financial state to be “insufficient” and “not at all sufficient” (with an exception of return migrants who receive remittances and think their state is “not at all sufficient” – 1.1% compared to 0.7% for return migrants that do not receive remittances). We also notice that relatively more beneficiaries perceive their financial state to be “sufficient” than non-beneficiaries. There are however no noticeable differences in the other two categories.

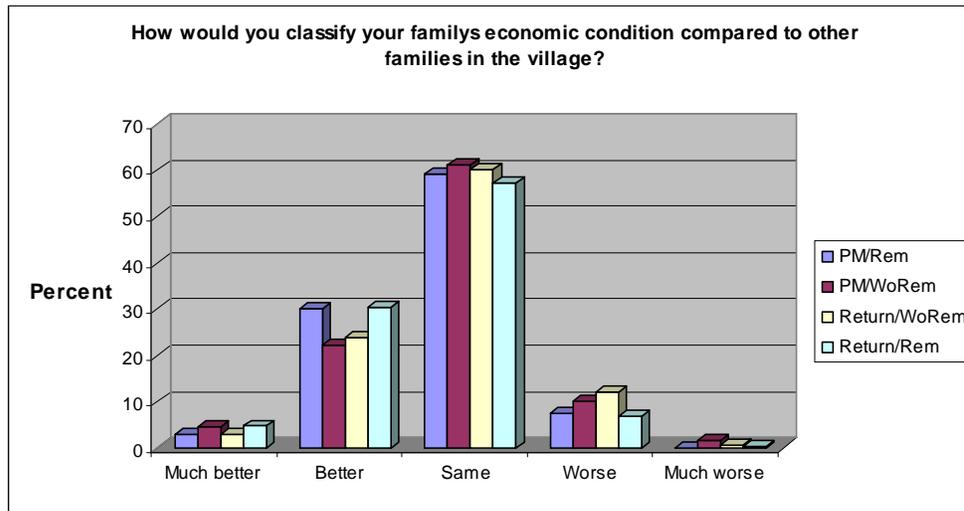
Figure 9: Households' perceptions about their financial situation



Source: Internal data from CESS

Before drawing conclusions I finally look at the differences between the same set of groups but for another question, namely how they perceive their economic condition relative to others. The results are presented in figure 10 below.

Figure 10: Households’ perception about their financial situation compared to others



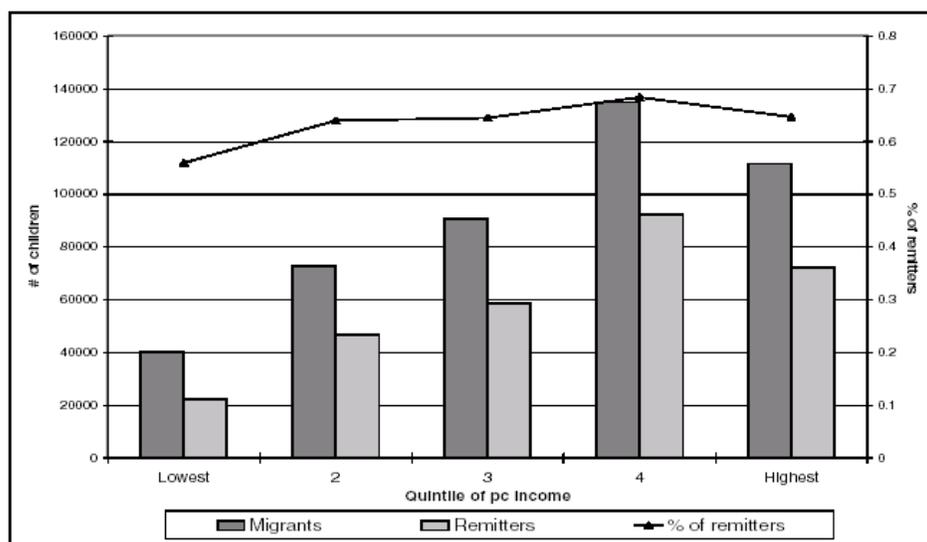
Source: Internal data from CESS

Here we can distinguish a pattern for households that receive remittances. They seem to be fewer compared to their counterparts in perceiving their situation as “worse”, “much worse” or “same” as other families in the village. They are also relatively more who perceive their situation as “better” – 30.1% Potential migrant households and 30.5% of return migrants households, both who receive remittances, place themselves as being better off economically than other families in the village. These figures are 22.4% and 24% for non-beneficiaries. Again, there are no noticeable differences between households that do and do not receive remittances when it comes to the better extreme of this ladder. Generally, the pattern holds and is the same for both of these indicators – remittances seem to have an impact when it comes to easing households’ financial situation, but do not affect them in such a way as to distinguish them as being much better off than their counterparts. From this analysis I can conclude that, among these 2000 households, remittances seem to have a positive impact on easing poverty, but no noticeable impact on wealth accumulation. This conclusion reinforces the evidence that remittances are mainly spent on consumer goods to meet basic family needs.

6.4 Impact of remittances on inequality

In order to see what kind of effect remittances may have on inequality, the distribution of remittances across quintiles of per capita expenditure will be viewed. Because quintiles are affected by the amount of remittances received, I will look at percent of remitters and fraction of migrants⁶⁴ for quintiles of per capita consumption net of remittances. Figure 11 shows that the majority of migrants and remitters come from the fourth quintile. Second in the rank is the highest quintile, followed by the third, then second and lastly lowest quintile.

Figure 11: Number of Migrants and Remitters, and % of Remitters by Quintile (per capita expenditure net of remittances)



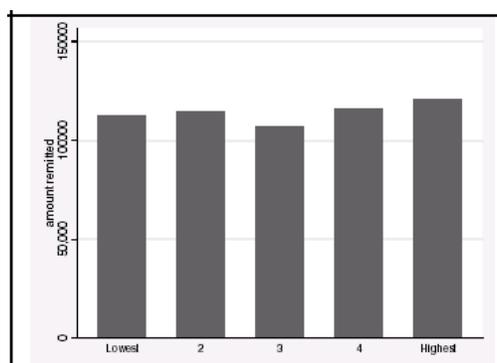
Source: WB (2007)

Clearly, relatively better off households send out more migrants and receive relatively more remittances. This can suggest a negative impact of remittances on inequality. However, these indications are by no means conclusive. In order to assess the real impact of remittances on for example the GINI coefficient, more qualitative research needs to be undertaken in the field. Looking at the relation between welfare level and the *share* of migrants sending remittances in each quintile we see that the trend is almost flat. It is also interesting to note

⁶⁴ We are speaking of split-off migrants

that there is no substantial difference across quintiles in the mean amount remitted by the split-off migrants (figure 12).

Figure 12: Mean amount remitted by quintile



Source: WB (2007)

Lastly, a word about the utilization of the remittances received by poor compared to non-poor households. We have seen that there are no substantial differences in the share of remittance-sending migrants across quintiles, nor in average amount remitted; we also have seen that, proportionally, the largest amounts are flowing into the poor Mountain regions compared to richer parts of the country. Knowing also that the purchasing power of money is slightly higher in poor rural areas and that an increase in poor household income has a larger wealth-improving effect on the margin than an equal increase in non-poor household, I can conclude that the effect of remittances on poverty alleviation is larger than evident from numerical values in official statistics. In order to calculate the precise effect, weighted indexes need to be used that give more weight to the utilization of remittances on basic needs than on luxury consumption.

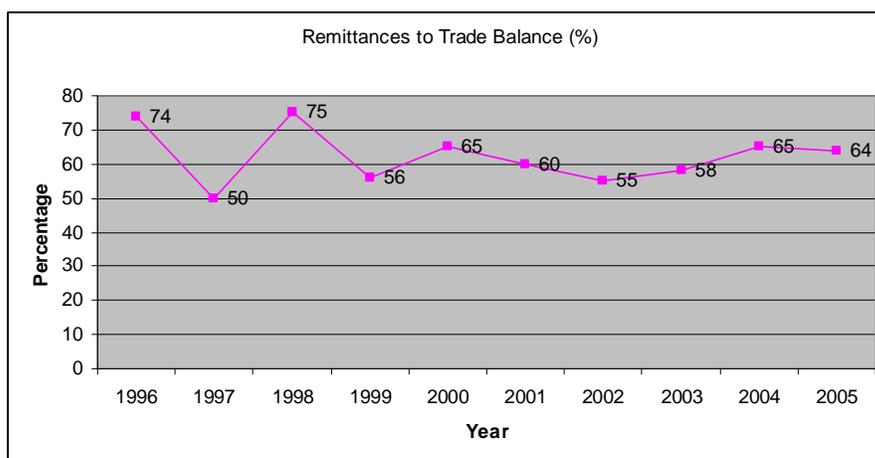
6.5 Indirect effects of remittances

On the macroeconomic level, consensus holds that remittances have been crucial for the economic survival and poverty alleviation in Albania (De Soto et al 2002, King 2005). Maybe the most important macro economic impact to be mentioned is the remittances' contribution to the reduction of the country's trade deficit, through the foreign exchange they provide. An influx of foreign currency allows an economy to invest more than it saves, to spend more than it produces or to import more than it exports. Albania is a country with a poor industrial infrastructure and export sector, and relies heavily on imports. Labor is (unfortunately) the county's main export. Consequently, remittances enable the Albanian economy to import

much more than it exports. As can be seen from figure 13, remittances have financed between 50% and 75% of the trade deficit during the period 1996-2005. In recent years there has been a decline in the financing of trade balance by remittances.

However, since remittances are mostly spent on imported consumer goods, there is an adverse effect on the balance of payments, but this is hard to measure. An immediate effect following the financing of the trade deficit is the real appreciation of the local currency - the Lek. Consequently, the Dutch Disease phenomenon is felt, as the country's exporters and local producers are hurt in the face of higher imports and competition. This argument is supported by *De Zwager et al 2005* who argue that Albanian exporters are crowded out as a result of currency appreciation caused by remittances.

Figure 13: Remittances in relation to trade balance, 1996-2005



Source: Bank of Albania 2005

Two sectors that have experienced the highest benefits from remittances are Construction and Tourism. In 2007 the export earnings from tourism reached a level of 1 billion euro, which is 27 times higher than income from the export of goods.⁶⁵ The major part of this money comes from Albanian emigrants who spend their holidays in Albania. According to BOA, economic growth in Albania since the late 1990s has been led by growth in the tertiary sector, and remittances have been the main factor contributing to the building industry (BoA, 2003).

Capital formation: Only a few studies have focused on the role of remittances in capital formation in Albania, and a number of them indicate that remittances have indeed contributed

⁶⁵ Bank of Albania (2007), Balance of Payments

to capital formation in the country. The results from the survey carried out by Kule et al 2002 show that remittances contribute about 17% to the establishment of businesses.

Table 11: Contribution of Capital Sources for the Establishment of Firms in Albania

N=190	Mean %	Std. Dev
Remittances	17.20	33.59
Loan from Albanian banks	4.73	15.71
Loan from international banks	1.16	8.13
Loan from financial institutions in Albania	0.22	1.70
Loan from Family/Relatives	7.52	18.50
Loan from friends	8.75	20.31
Own capital	55.58	40.52
Other sources	4.83	17.16

Source: Kule *et al* 2002

Another study carried out by Kilic *et al* 2007 analyzes the impact of past migration of current household members on business ownership. Using data from a nationally representative household survey (LSMS 2005), they prove that there is a strong, positive relation between past (return) migration and business ownership⁶⁶.

Historically, there is evidence that remittances played a role in financing a series of investment schemes in Albania between 1995-1997 which promised the investors unsustainable high returns on and finally collapsed to result in huge socio-economic unrest and even civil war in some parts of the country. Some argue that remittances drove the emergence of the pyramid schemes (Korovilas 2005), as the Albanian economy at the time was far too small to finance such large deposits (between 1995 and 1996 the schemes attracted between 1 – 1.3 billion USD, roughly equal to half of Albania’s GDP for 1996⁶⁷). However it is difficult to measure the amount of remittances injected into these schemes, as a large amount of foreign currency invested in them came from illegal activities, which certainly are not to be regarded as remittances, even though official accounts group all foreign currency entering the country (that does not come from exports) as remittances.

⁶⁶ However, it can not be concluded that this positive relationship only comes from the contribution of remittances in business establishment, since human capital and skills may also be included.

⁶⁷ Korovilas (2005), page 186

6.6 Current issues regarding the impact of remittances on the Albanian economy

Today in Albania, the topic of remittances is very popular and frequently debated on national media. What is happening now, (mainly) as a result of the world financial crisis, is that remittances are decreasing substantially due to loss of jobs among emigrants and difficult days to come. Consequently, the local currency Lek is depreciating in value, causing an inflationary pressure.⁶⁸ Since most goods are imports, inflation is now on the rise, and the group most hurt is the poor population. According to WB, a significant share of the Albanian population lives just above the poverty line. If the price-level keeps going up, this group of people will soon find themselves below the national poverty line – poverty will increase. This situation is a concrete example of the level of dependency on remittances in the Albanian economy, and the consequences following this dependency. Nikas and King (2005) foresaw that “a sudden decline in the size of remittances, due to a recession in the countries of destination for example, could devastate the Albanian economy”.⁶⁹ As it appears, this situation is now a living one and has left its first impression. The future will show just how devastating it will become for the Albanian economy.

⁶⁸ Note, decline in remittances is not the only cause of this.

⁶⁹ De Zwager *et al.* (2005), page 47

7. Summary and Conclusions

The flow of remittances into Albania began around 1993, two years after the opening of the country's borders for international migration, and has since then been growing at a rapid pace. Migration has come to characterize the Albanian society and remittances are viewed by many households as the only escape from poverty. A qualitative assessment by the WB in 2001 concluded that the main factor distinguishing a poor family from non-poor ones is remittances.

The most common channels for remittance flows to Albania are the informal ones – a concerning fact given their size and potential benefits if used for intermediation. However, despite the financial schemes of 1996/97, the use of formal channels to remit money has actually increased impressively, by almost 40% between 1994-2004, which reflects peoples confidence in the banking system.

As for the geographic distribution, in absolute terms, the largest flows are to the coastal and central regions. However, proportionately speaking, more and larger amounts flow into the Mountain areas, which are also the poorest in the country. At the same time, these are the regions that experience the highest rates of poverty reduction, after the capital Tirana, and the only ones to experience a decline in inequality. I believe that the link is more complicated than simply straightforward, although remittances do play a role in the observed trends. In order to assess their real impact on poverty reduction and inequality on a regional basis, models need to be constructed to take into account other influencing factors. This paper also shows, by comparing migrant to non-migrant households, that remittances from permanent migration have contributed to higher consumption and lower absolute poverty. As for relative poverty, recipient families' perceptions are that remittances have improved their financial situation.

Attention should be paid to the sustainability of remittances as an income source and especially their impact on agricultural production of the poor households. Studies indicate that there are indeed moral hazard problems related to remittances in Albania. They point to reduced labor efforts, lower farming efficiency and lower household levels of investment in productivity-enhancing and time-saving technologies in agriculture, as a result of remittances.

Remittances represent 47% of household income for recipient households (13% for total households) and are mainly used to finance living expenses and to some extent for home improvements. Many view the use of remittances for basic consumption as a concern and argue that the government should channel this money into productive investment. But, this argument ignores the very nature of remittances – that they are compensatory. Instead, focus should be turned to attracting into Albania the formal savings of Albanian migrants abroad, and use these as a source of capital to finance growth. This is where the real development potential from migration lies.

The impact of remittances on inequality is somewhat harder to assess. Relatively better off households receive relatively more remittances than poor households, which can have a negative impact on inequality. On the other hand, the share of remitting migrants and the mean amount remitted do not differ much between quintiles.

Because remittances in Albania are a relatively recent phenomenon, their long-term effects have not yet been assessed. Although the direct impact of remittances has so far been positive for recipient households, this source of income is not stable and does not constitute a sustainable mechanism for long-term growth and development. According to predictions the volume of remittances is expected to gradually diminish in the medium term, and in the case of Albania they are believed to have reached a stage of maturity. The current micro and macro situations in the country show high dependency on remittances. Consequently, this decrease is likely to have some negative effects, both on the individual household level, and on the macro level. Heavily dependent households will most likely return to poverty, and on a national level there will be currency depreciation and widening of the trade balance.

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