Remittances and Inequality

a Case Study of Albania

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Bachelor Thesis

May 2012

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ABSTRACT

The importance of migrants' remittance transfers in global capital flows is steadily growing. A large body of literature has been dedicated to the study of remittances, its underlying causes, and its effects on development in receiving countries. Albania, one of the poorest countries in Europe, experienced massive emigration in its post-communist transition era, and remittances have since constituted a crucial source of income, helping to lift a large share of Albanians out of poverty. Although the effects of remittance transfers on poverty are quite clear, their implication on the income distribution is less evident. This study explores the net effect of remittances on income equality in Albania by employing a Gini decomposition by income sources proposed by Stark et al. (1986) to World Bank Living Standard Measurement Survey data from 2005. Theory argues that remittances and inequality display an inverted U relationship over time, implying that remittances should be prone to increase inequality in Albania due to its short migration history. Conversely, the results of this study unveil that the marginal effect of remittances on the income equality in Albania is small but positive. This study therefore suggests that the nature, and not the length, of the migration process determines the initial effect of remittances on the income distribution.

ACKNOWLEDGEMENTS

Firstly I would like to thank my supervisors Andreas Bergh and Therese Nilsson for their continuous guidance and patience. Furthermore I would like to express my sincerest gratitude to the FAO for providing me with the RIGA study variables that were used in this study. I would moreover like to thank my parents for their assistance. A final and particular recognition is due to Albion Murati for inspiring my interest for Albania and for his unconditional support during the writing process.

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List of Abbreviations

ALSMS	Albania Living Standard Measurement Survey
FAO	The Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
IMF	International Monetary Fund
INSTAT	The Albanian Institute of Statistics
ODA	Official Development Aid
TFP	Total Factor Productivity

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1. INTRODUCTION

The phenomenon of migration and the remittances migrants channel to their families and friends in their countries of origin are receiving increasing attention from researchers and policy makers. An estimated 214 million people, or 3.2 per cent of the world population, are migrants working abroad, with a majority originating from developing countries. The global flow of remittances to developing countries surpasses ODA by more than the double and is steadily approaching the size of FDI (World Bank 2011).

Albania has experienced a mass exodus since the start of its transition to a market economy in the early 90s and is one of the largest relative receivers of remittances in the world. These transfers have constituted between 10-25 per cent of GDP (figure 1) since the opening of the borders after the fall of the communist regime in 1991 and labour is by far the country's largest export (World Bank 2012a). At present the stock of Albanian migrants working abroad is equivalent to 45 per cent of the population and remittances in 2011 were an estimated 10,9 per cent of GDP (World Bank 2011). Remittance transfers have been a key component in the remarkable Albanian growth during the last 20 years and have contributed to lifting over a million citizens out of poverty (World Bank 2007).

Figure 1. Remittances as % share of GDP, Albania 1992-2011
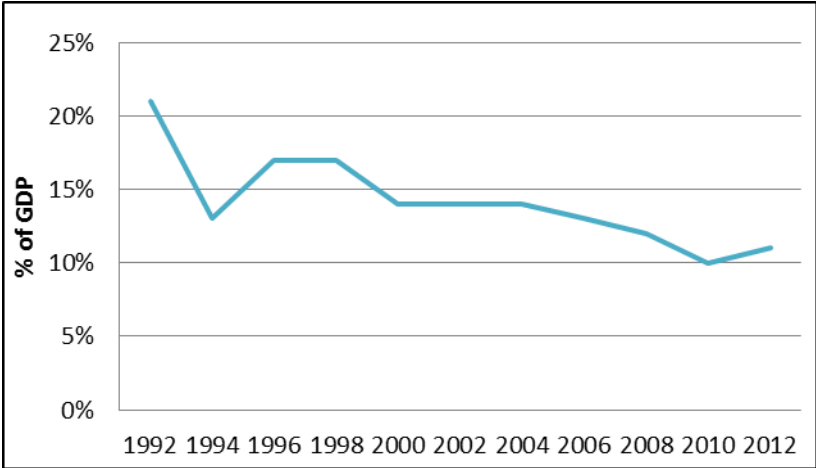
Source: World Bank (2012b)

Albanian migration history has been of an unconventional nature. Three major characteristics stand out concerning the migration process: it was sudden, of enormous

relative proportions and relatively evenly spread across the income spans. Also, monetary migration costs have been fairly low to the main neighbouring destinations, especially Greece. This particular migration course has had large effects on the nature of remittances and their effects on the Albanian society. Unfortunately, research on Albanian migration and remittances is scarce. This article would like to contribute to the study of the remittances phenomenon and its consequences in Albania. The purpose of this paper is to evaluate the marginal effect of remittances on income inequality in Albania, a topic that to the knowledge of the author has not yet been addressed.

The question of whether remittances are beneficial to reducing income inequality is vital, as equality is a goal in itself but also influences long-term growth in several ways. Whereas classic economists viewed inequality as beneficial to economic growth and neoclassical economists disregarded inequality completely, the modern approach during the last 20-30 years has been to emphasize the negative effects of inequality on growth (Galor 2009)[1]. For Albanian policy makers a thorough understanding of remittances and their effect on inequality is crucial, so that migration policies and their implications can be correctly estimated.

This study draws on the remittance-inequality theory by Stark et al. (1986), which states that remittances and inequality have a Kuznet-like inverted U relationship over time. This relationship is in turn based on the idea that the possibility to migrate in the early stages of the migration process is costly, as networks and information are scarce. Therefore remittances will first benefit high-income migrant families, thereby increasing income inequalities. As networks expand over time and information trickles down the social strata, the lower-income households have the opportunity to migrate as well, which eventually will contribute to a decrease in income inequality.

The results of this study show that already after merely 13 years of migration history (with migration inexistent before this), remittances have an equalising effect on the income distribution in Albania. The marginal effect of remittances on the income distribution is found to be small but equalising. This gives evidence against the inverted U theory, as its prediction would have been for remittances to increase inequality due to the short migration history. This study argues that the initial marginal effect of

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[1] For empirical evidence see for example Alesina and Rodrik (1994)

remittances on the income distribution depends on the nature, and not the length, of the migration process. It would suggest that strong push and pull factors at the debut of the migration process and/or low monetary migration costs can enable a country to reach the equalising stage of the inverted U relationship more rapidly. The potential "second half" of the inverted U relationship in Albania is further discussed on the basis of the current migration trends. However, as this study merely investigates the marginal effect of remittances on inequality at one point in time, further research is required to explore past and future developments of the marginal effect of remittances on income inequality.

The study is disposed as follows. The first section will outline the concept of remittances, their characteristics and theories regarding their effect on the economy of the country of origin. Second, a section on Albania and its particular features in regards to migration and remittances will follow. A further section will describe theory and previous findings on the relationship between remittances and inequality, as well as specifications of the model and the data used in this study. The final section will contain the empirical findings and a discussion regarding its implications.

2. PURPOSE OF STUDY

The purpose of this study is to analyse the effects of remittances on income inequality in Albania. In order to find the marginal effect of remittances on the income distribution, a decomposition of the Gini coefficient by income component will be performed. Stark et al. (1986) have shown that the effects of remittance income on inequality depend on the relative magnitude of remittances in total income, the inequality of the remittance distribution and the Gini correlation between remittances and total income. The theory states that remittances and inequality demonstrate an inverted U shaped relationship over time. The validity of this theory will be investigated as the marginal effect of remittances on income distribution in Albania is explored.

3. REMITTANCES

3.1 Concept and trends

Remittances can be described as the financial return that a migrant sending family or country receives from migrants working abroad. According to the IMF (2009:1), what we call remittances is the sum of two items in the balance of payments: workers' remittances (current private transfers from migrant workers residing in the host country for more than a year) and compensation of employees (the income of migrants who have lived in the host country for less than a year). International migrants worldwide represented 3.2 per cent of the world population in 2010, with remittances at more than US$ 440 billion, or 0.7 per cent of world GDP. The share going to developing countries was 74 per cent or US$ 325 billion. In 2009 recorded remittances were three times the size of ODA and nearly the amount of FDI (World Bank 2011).[2] However, there is clearly a general consensus on the underestimation of these numbers (see for example IMF 2009, Kapur 2004).

Figure 2: Global remittance flows compared to FDI, ODA and private capital and portfolio equity, 1991-2010, US$ billions
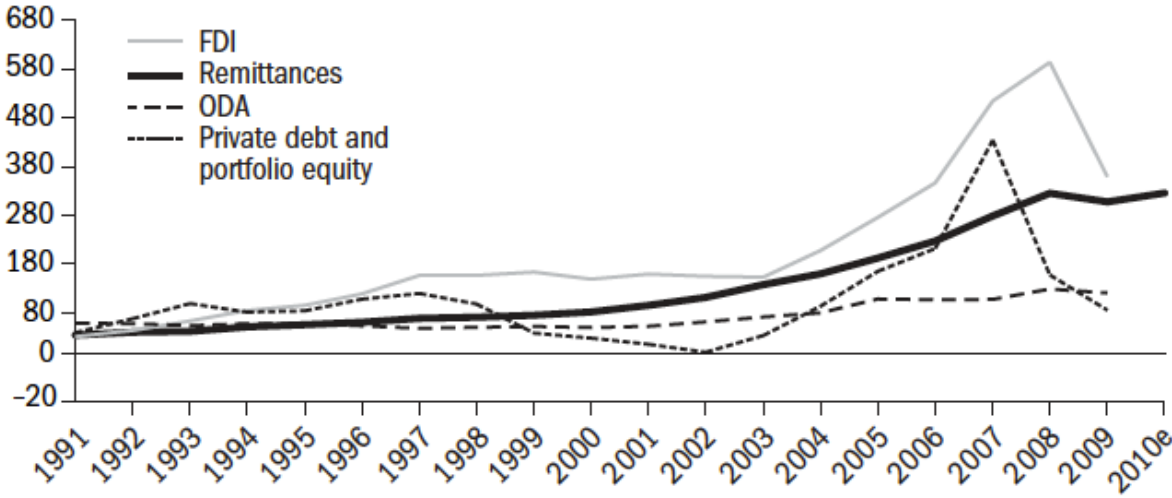
Source: World Bank (2011)

In figure 2 one can note that the flow of remittances compared to the flows of FDI, ODA and private debt and portfolio equity, is quite stable yet continuously growing, with a small decrease in 2008 due to the global economic crisis. However, whilst private debt

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[2] The difficulty in measuring remittances is reflected in the fact that measured inward and outward remittances globally differ by almost US$ 200 billion.

and portfolio equity dropped by 80 per cent, and FDI by 30 per cent between 2007 and 2009, remittances remained stable, decreasing only by 6 per cent between 2008-2009. This stable characteristic of remittances is quite important, as developing countries are vulnerable to suffer from euphoria/sharp withdrawals in response to economic shocks in respect to FDI and portfolio investments (Salomone 2006:5).

Already in the early 1980's remittances caught researchers' attention as these financial flows began to have a large impact on the economies of the countries of origin. In the last ten years a vast body of research has been dedicated to analysing the causes of remittances and migration, and their effects on development. The topic is however quite complex and there is little consensus regarding whether the migration-development nexus is truly advantageous when looking at a long-term growth perspective. Rapoport and Docquier (2005) argue that remittances must be analysed separately from migration as migration and remittance decisions, although interlinked, are not determined by the same factors. This study will attempt to make the separation and thus merely investigate the effect of remittances.

3.2 Microeconomic determinants of remittances

Rapoport and Docquier (2005) in their literature review on remittances summarize the different theories of microeconomic determinants of remittance transfers. Four individual motives, often acting in combination, appear central: altruism, exchange, inheritance and the strategic motive. The altruistic motive was long believed to be the most significant motive of remittances, meaning essentially that migrants remit because they care about family and friends left behind in the country of origin. The exchange theory states that remittances could be a type of compensation in exchange for a service by the remittance receiver, as for example taking care of the migrant's family or assets left behind. A migrant might also remit in the hope of inheriting later on, what is generally called biased altruism. These three motives can also be found in the pioneers of remittance theory in the new economics of labour migration, Lucas and Stark's (1985) "pure self-interest" motives. Finally, the strategic move argument theorizes how a high-productive migrant might "bribe" his low-productive migrant friend with remittances to stay in his country of origin. This so as to inhibit statistic discrimination on the labour

market of the host country, which would lower wages for all migrants (Rapoport and Docquier 2005:11-39).

Nowadays, migration and remittances is mostly believed to be a rational family decision, otherwise called tempered self-interest or enlightened altruism (Rapoport and Docquier 2005:47). An example of this is the investment or loan arrangement where the migrant remits so as to repay the fees of education or migration to his parents or other family members. Finally, the insurance motive relates to the fact that most developing country rural agricultural production is subject to environmental and/or weather stochastic chocks, making this living quite risky. In the absence of functional credit and insurance markets this results in interfamily remittance coinsurance contracts (Rapoport and Docquier 2005). Further motives can be mentioned like for example "remittances as a status-enhancing device" (Stark 2009:151). The author concludes that remittances are a puzzling phenomenon also in regards to if and when they cease to be transferred.

Salomone (2006:10) also emphasizes that the motives naturally depend on individual characteristics, which can be categorized into five components: demographic, cultural, economic, migratory and macroeconomic components. The author also notes that although motives vary between individuals and over time, an altruistic aspect has, according to a majority of empirical studies, often been present. The variability in remittances between countries and populations depending on the factors above mentioned is further developed in Carling (2008).

3.3 Macroeconomic effects of remittances

3.3.1 The balance of payments

Remittances have a number of direct and indirect effects on the balance of payments. Perhaps the most important direct effect is the increase in the stock of foreign exchange, which can ease chronic balance of payment deficits that are common in developing countries. However, this effect can be offset if demand from remittances is channelled towards foreign imports, worsening the trade balance: the "boomerang effect". Another negative effect known as the "Dutch disease" can occur when excess demand falls on tradable goods, leading to an appreciation of the real exchange rate and worsened competitiveness (Kapur 2004). Also, if demand is channelled towards domestic goods

and supply is not flexible, the increased demand from remittances can have inflationary effects. However, remittances constitute a "better" kind income from a macroeconomic perspective than ODA or FDI, as it is not tied to a specific project or interest rate. Finally, remittance flows are known to be stable and countercyclical (OECD 2005).

3.3.2 Remittances, poverty and economic growth

The relationship between remittances and poverty is clearly and strongly positive and has been emphasized in numerous empirical studies (Salomone 2006:13). Regardless of what can be said on remittances and long-term growth, they have been known to significantly decrease poverty (headcount ratio, poverty gap ratio and severity of poverty), especially where poverty has been the most severe (Salomone 2006). Adams and Page (2005) found that a 10 per cent increase in the share of remittances would lead to a 1.6 per cent decline in poverty headcount ratio and a 2 per cent decline in the depth of poverty. What was surprising was that remittances did not have their primary poverty-reducing effect through increases in per capita incomes or changes in the income distribution, but by an independent poverty-reducing effect. Serino and Kim (2011) also find a positive effect of remittances on poverty reduction, especially in the poorest countries and for the poorest quintile. Kapur (2004) argues that the benefits of remittances are rarely felt by the very poorest. This group is rather helped through multiplier effects of increased demand for labour-intensive services like construction.

The effects of remittances on economic growth are less evident. Migration, which is obviously closely linked to remittances, has been known to have a series of negative effects on the economy of the country of origin. This is a matter of complex relationships that will greatly depend on the particular characteristics of a country and their migrants. In any case it is clear that the effect of remittances on the economy, at least in the long run, will depend on how these resources are used. On the one hand, if one assumes an underdeveloped credit and insurance market as in many developing countries, remittances might assist liquidity and credit constrained individuals to invest in productive activities. Studies have shown that this remark holds empirically and that in countries with faulty credit markets remittances can help boost investment and growth (Rapoport and Docquier 2005). However, other studies have argued that remittances are predominantly used to finance basic consumption and health care, as opposed to

investment in production. Although some find this as proof of the fact that remittances are not favourable to growth, when financing consumption remittances can free resources for investments in physical and human capital. Also, remittances funding basic consumption can trigger standard Keynesian multiplier effects, stimulating employment and output growth (Brown 2006).

Several studies state that remittances have negative effects on growth. Adbih et al. (2008) for example argue that remittances, like natural resources, act like a cushion between the government and the people, and that this leads to government appropriation of financial resources. Chami et al. (2005) find that remittances have a negative correlation with growth, unlike FDI, as they are in essence compensatory for bad economic growth, not prone to investment. Also, concerns have been raised in regards to productivity in the community of origin. Households receiving remittances might lose incentives, either to increase productivity in household production, or to actively search for work, as reservation wages are raised. Kapur (2004) finds this moral hazard aspect devastating for the community of origin as villagers have been known to "sit and wait" for remittances instead of working.

One of the arguments in favour of a remittance driven growth is the fact that remittances can be invested in human and physical capital. Remittances have been known to free resources for human capital accumulation, thus allowing farm households to send their children to school for a longer period of time. However, these effects are not unambiguous. Migration generally has a negative effect on the schooling of children in migrant families, as they can be forced to compensate for the absence of the migrant in the household production. Remittances can, but do not always, compensate for this by easing constrained budgets, allowing for children to stay in school. A number of studies, with varying results, have been carried out to estimate the net effect of migration and remittances on educational attainment (see for example Amuedo-Dorantes and Pozo (2010), Bredl (2011), Calero et al. (2009), Hu (2012), Mansour et al. (2011)).

4. ALBANIA

4.1 Albanian Migration

In the light of the transition from communism, Albania has experienced one of the largest internal and international migration trends ever seen after 45 years of near complete isolation from the outer world. Although temporary Albanian emigration to overcome economic difficulties was common already in the 15th century, under the harsh regime of Envers Hoxha even internal migration was prohibited (Carletto et al. 2006). The World Bank (2011) estimates that the present stock of Albanian emigrants abroad represents wholly 45 per cent of the population (1 438 300 people), placing Albania on the 9th place of the countries with largest relative number of emigrants globally. As a comparison, the average stock of migrants of all middle-income countries is 2.7 per cent of the population (World Bank 2011). Furthermore, 34 per cent of Albanian households have at least one migrant abroad, and more than 50 per cent of these have more than one (World Bank 2007). The young Albanian population in 1989 of 3.3 million inhabitants (Lerch and Wanner 2006) actually decreased to 2.8 million (INSTAT 2012) during the following 23 years, due to the mass emigration. It is clear that the phenomenon of migration has been one of the most significant features in the post-communist development of the country. A thorough knowledge of the effect of migration and remittances on the Albanian economy is vital in order to pursue policies beneficial for long-term growth and development of the country.

Albanian migration comes predominantly in three forms: internal, temporary/seasonal international and permanent international migration (Lerch and Wanner 2006). Albanian international migration has seen two significant peaks as can be seen on figure 3: the first in the early 90's and the second around 1997. The first migration wave between 1990-1993 occurred as the Albanian borders were opened at the fall of the communist regime. Citizens could at last issue passports and leave the country. The first democratic election in 1991, leading to political tumult further amplified the migration flow (Dermendzhieva and Randall 2010). This period was also characterised by an economic crisis as GDP dropped by 41 per cent between 1989 and 1991, industrial output by 61 per cent and the previously government controlled agricultural sector dissolved into anarchy. An estimated 10 per cent of the Albanian population left the

country during this wave, mostly to Greece and Italy (King 2004).

Figure 3: Temporary and permanent migration flows, unemployment and real GDP growth in Albania, 1992-2002
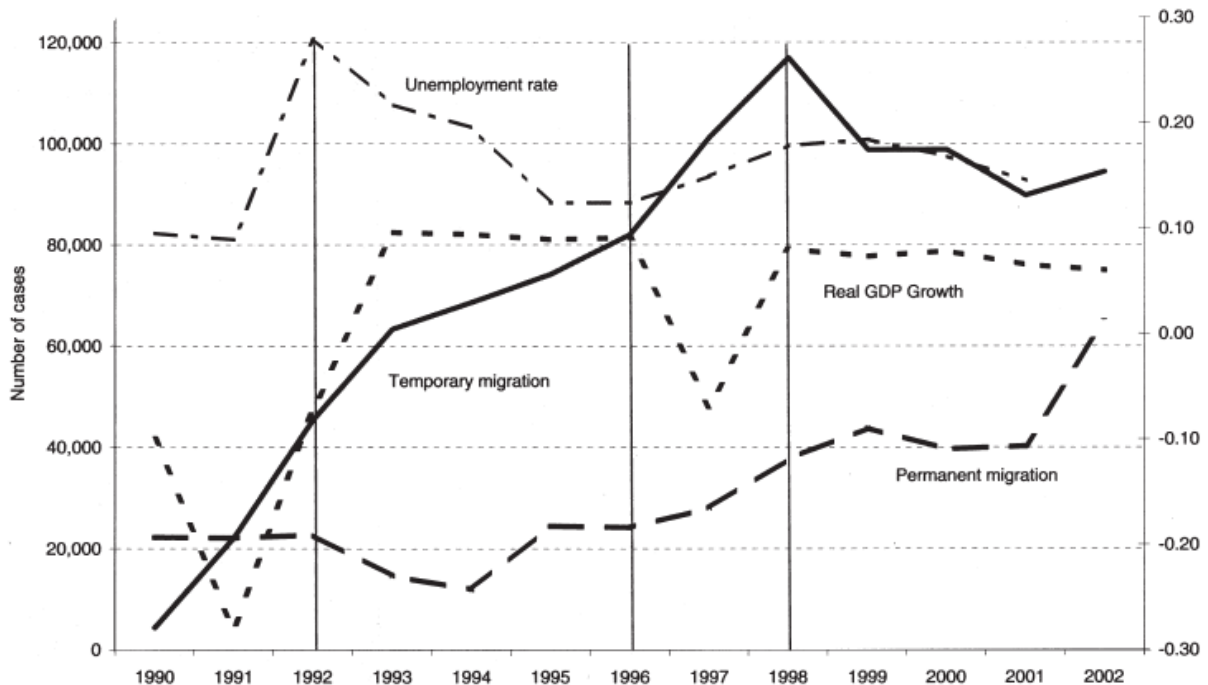
Source: Stampini et al. (2008) from ALSMS 2003 data

The second peak around 1997 was reached at the time of the collapse of a series of pyramid investment schemes that caused an economic and political crisis in the country. During 1995 and 1996 an estimated US$ 1,3 billion, representing 50 per cent of the 1996 Albanian GDP, were deposited in the pyramid schemes. These funds predominantly originated from remittances. The underdeveloped bank sector and complete lack of financial regulation led to the huge amount of Albanians to invest in these schemes, losing their fortunes in 1997 when the schemes collapsed. This led to a second round of mass emigration, a sharp reversal of the strong economic growth and political crisis resembling a civil war (Korovilas 1999).

According to King (2005), Albanian migration is characterized by being recent (only after 1990), intense (a proportionally very high rate of emigration compared to other post-communist countries), driven by mostly economic factors (a form of escape from poverty), irregular (many clandestine emigrants), seasonal or to-and-fro (especially between Albania and Greece) and dynamic and rapidly evolving in regard to new

destinations and possibilities. Azzarri and Carletto (2009) argue that Albanian migration is starting to taper off, perhaps due to stricter migration policies in host countries and a stabilization of the Albanian economy, with less push factors for people to migrate. However, the poorer Mountainous region has just started benefiting from temporary and permanent international migration, and overall migration in Albania is suspected to continue for a good period of time[3].

4.1.1 Determinants of migration

In regard to migration theory, the Albanian case provides exemplary proof of both important push and pull factors. However, push factors have definitely been dominant in motivating migration, at least in the 90s. King (2005) describes how the push factors were both of economic survival: an imploding economy, widespread poverty and starvation in a previously controlled system turning into a free-for-all privatization; as well as one of personal liberation and self expression: having been denied basic rights and freedoms during 45 years, many Albanians felt the need to emigrate in a purpose of self-fulfilment. De Soto et al. (2002) found that migration in Albania was an absolute necessity in overcoming the high unemployment that was left in the vacuum after the collapse of horizontal organizations and enterprises. In figure 3 one can further note the soaring unemployment rate that reached 28 per cent in 1992 and then fluctuated around 20 per cent until 2002. De Soto et al. (2002) further note that in the absence of operational formal institutions, two informal institutions arose to face the enormous social and economic difficulties: informal credit ("the list") and the migration network producing remittances. According to this study 39 per cent of Albanians migrated due to unemployment, 20 per cent due to insufficient income, 16 per cent to obtain a better future for their children and 26 per cent due to economic insecurity (de Soto et al. 2002). It thus becomes quite clear that push factors were predominant in causing the Albanian exodus, especially during the 90s.

However, strong pull factors were also present in Albanian migration decisions. Firstly, Italy became the dream destination for many Albanians as it was viewed as the "Shangri-La" of the West. This was because illegally watched Italian television shows was one of

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[3] The split up into four regions (Central, Coastal, Mountain and Tirana) is not according to administrative regions in Albania but merely agro-ecological areas that have been used by the World Bank (2007) and other researchers

the few glimpses of the outside world that Albanians caught during communism. The importance of this emotional attachment to Italian culture and lifestyle has been emphasized by many studies on Albanian migration (Carletto et al. 2006, King 2005, de Soto et al. 2002). Secondly, the huge wage differentials also served as a strong pull factor: GDP per capita in Italy and Greece was respectively 16 and 9 times larger than that of Albania (Carletto et al. 2004).

4.1.2 Destinations

The principal destination of Albanian migrants has been Greece and Italy, followed by to a less extent other European countries and North America. Greece has been a popular destination thanks to the relative ease with which the border is crossed, the cultural similarities and the reasonably good chances of finding seasonal or temporary work. Italy, however, was early a preference for many Albanians due to the emotional connection described above. The choices of migrants are also strongly correlated with geographic region: migrants from the north and coastal areas were more likely to migrate to Italy whereas migrants from the southern and central regions went to Greece. Greece and Italy roughly account for 80 per cent of Albanian migrants, whereas the rest are dispersed in the United States, the United Kingdom and other European countries (Carletto et al. 2006).

Carletto et al. (2006:772) emphasize the differences between current migration and the South-North labour migration of the 1960's when for example Greeks were encouraged to migrate north to contribute to the formal industrial labour sectors. The more recent South-South migration seen between Albania and its neighbour countries however is according to the authors based on demand for cheap, flexible and informal labour contributing to a marginalization and isolation of immigrants. In Greece and Italy Albanians have formed a "replacement labour force", taking on jobs that are unattractive to Greek and Italian workers. Examples of occupations are farmhands and harvesters on agricultural plots, construction workers, cleaners and care workers (King 2004). Overall, since 1990, legal migration has only constituted 32 per cent of the cases, although its share increased steadily from 10 per cent in 1990 to 47 per cent in 2002. Greece has been by far the biggest destination for seasonal and temporary migrants. On average, Albanian migrants in Greece are less educated, poorer and more often temporary

workers (Azzarri et al. 2009). Despite being continuously and unfairly discriminated against, frequently assaulted by the Greek police and having to travel far, difficult and sometimes dangerous routes to arrive, the lack of opportunities for Albanians has continued to push them over the borders to Greece (Mai and Schwandner-Sievers 2003). However, although the conditions of Albanians migrating to Greece are difficult, monetary costs per se are not very high. The fact that even the poorest Albanians have the opportunity to migrate could suggest that remittances have a larger probability of being evenly distributed. In turn, this could generate a possible equalising effect of remittances on the income distribution.

4.1.3 Migrant characteristics.

The socioeconomic status of the Albanian migrants will to a great extent determine the effect of remittances on inequality in Albania. Whereas de Soto et al. (2002) find no particularity in the socioeconomic origin of Albanian migrants, Zezza et al. (2005) find that migrants from poorer households migrate to a greater extent internally, whereas better off households migrate more internationally (the exception to this being temporary migration to Greece, which accounts for a large share of total migration). The authors draw the conclusion that poverty acts as a push factor for internal migration, but as a constraint for the more costly international migration. Kule et al. (2002) note with regret the strong trend for young high-skilled migrants that migrate permanently.

Figure 4. Flow of first time temporary migrants by region of origin, Albania 1990-2004
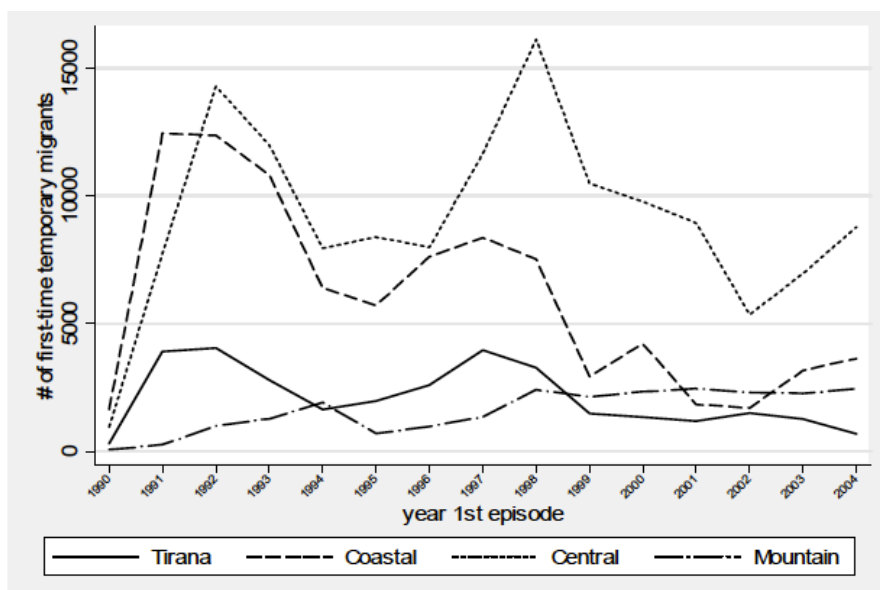
Source: World Bank (2007) from ALSMS 2005 data

According to Stampini et al. (2008) permanent migrants are more likely to have a university degree, whereas temporary migrants most likely have merely completed secondary school[4]. Since poorer migrants are overrepresented amongst temporary migrants, and as temporary migration has been consistently larger than permanent migration (see figure 2), this could point to the fact that they benefit more from migration than the relatively rich Albanians.

Figure 5 shows the stock of permanent migrants by region of origin. One can note here that although the central region is by far the largest in absolute numbers, the mountainous region is the only one displaying a strong positive trend in 2004. Correspondingly, rural poverty reduction has been by far the largest in the mountainous regions (22 percentage points between 2002 and 2005) whereas the overall rural poverty reduction was 5 percentage points. Permanent international migrants are more often children to the household head and thus often younger (Lerch and Wanner 2006).

Figure 5. Stock of permanent migrants by region of origin, Albania 1990-2004
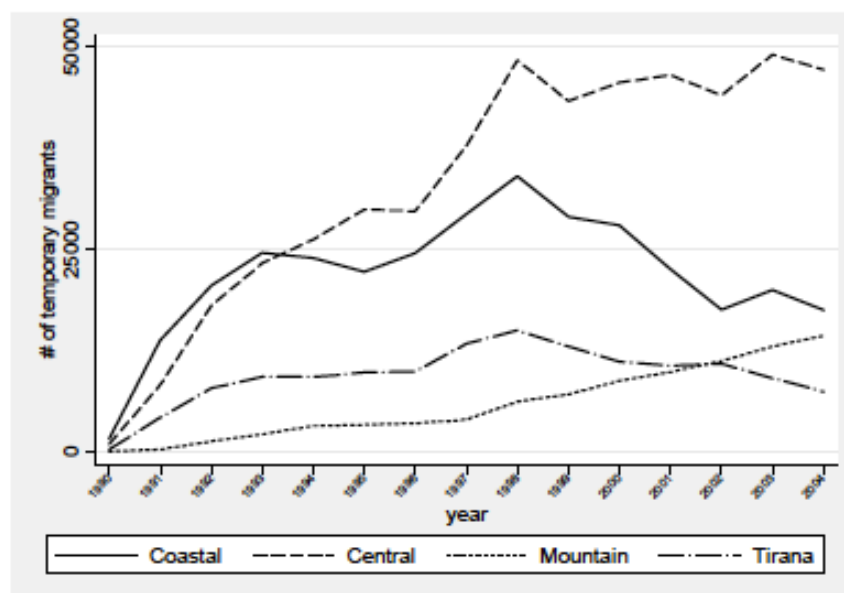
Source: World Bank (2007) from ALSMS 2005 data

4.1.4 Negative effects of migration

Although migration in Albania has constituted a strategy of overcoming extreme poverty, it has also implied some negative effects on society at large. The brain drain

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[4] Few Albanians have no education at all, as one of the rare positive features of the communist regime was the public scholarisation (Lerch and Wanner 2006)

phenomenon is a harsh reality in Albania to the extent where the country has lost half its scientists and academicians since 1990. Both in the educational and the health sector, quality is known to have diminished due to the big proportion of professional emigrants, especially in rural areas (King 2004). As Kapur (2004) emphasizes, remittances cannot be regarded as a substitute for brain drain. Furthermore many elderly Albanians who are left behind when children migrate live in isolation in the absence of alternative support systems, a phenomenon dubbed the "care drain" (Vullnerati and King 2008). Dabalen and Miluka (2010) further find that migration has a negative effect on educational attainment, especially for girls in rural areas and that these effects are not offset by the positive "income effects" of migrants' remittances. The results are endorsed by the World Bank (2007). Reasons for this can be direct substitution of schooling for migration or that children are needed in the household production due to the absence of household members.

4.2 Remittances in Albania

Table 1: Remittance flows in Albania 2003-2010, US$ billions

US$ millions	2003	2004	2005a	2006	2007	2008	2009	2010e
Inward remittance flows	**889**	**1,161**	**1,29**	**1,359**	**1,468**	**1,495**	**1,317**	**1,285**
of which								
Workers' remittances	778	1,028	1,161	1,176	1,305	1,226	1,09	-
Compensation of employees	111	132	129	184	163	270	227	
Outward remittance flows	**4**	**5**	**7**	**27**	**10**	**16**	**10**	**-**
of which								
Workers' remittances	0	0	-	0	-	-	1	-
Compensation of employees	4	5	7	27	10	16	9	-
a. year of the ALSMS 2005 data used in this study								
As a comparison: net FDI inflows US$0.9 billion, net ODA received US$0.4 billion, total international reserves US$ 2,4 billion, exports of goods and services US$ 3.8 billion in 2008.								

Source: World Bank (2011)

Migrants' remittances in Albania have decreased in importance relative to GDP but remain high at 10.9 per cent of GDP in 2009 with an estimated absolute flow of US$ 1.317 billion. In comparison the average remittance to GDP ratio of middle-income countries is 1.8 per cent (World Bank 2011). As can be seen on table 1 (2005, the year of the data used in this study is highlighted), remittances have decreased slightly since 2008. This is probably due to the financial crisis, especially considering the amount of migrants in Greece. Remittances has been the largest source of foreign exchange in Albania where they represent significantly more than exports and FDI together, as well as by far exceeding the amount of ODA (Carletto et al. 2006).

Korovilas (1999) suggests that remittances have had three important effects on the Albanian economy. Firstly, they have eased the chronic balance of payments deficit whilst acting as a stabilizing factor. Secondly, they have been able to finance imports of construction materials and other capital goods, vital to the revival of the economy. Thirdly, and unfortunately, they allowed for the huge pyramid schemes to account for 50 per cent of the Albanian GDP in 1996. Remittances in Albania have largely contributed to the outstanding growth that the country has experienced in the post-communist era with an annual real GDP growth of 6.6 per cent between 1991-1997 after which it dropped drastically due to the pyramid investment scheme crisis. However, growth quickly picked up and remained at an average of 7 per cent between 1998-2006 (see figure 6).

Figure 6: Real GDP % growth in Albania, 1992-2006
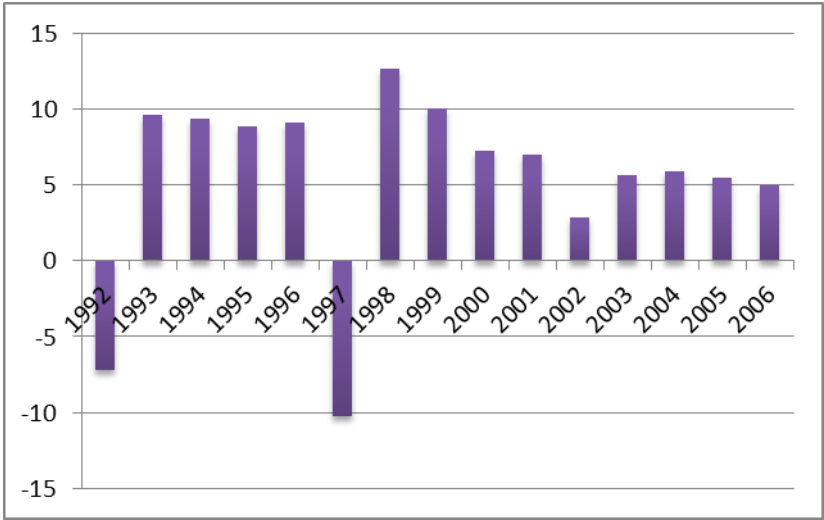
Source: World Bank (2007)

Above all, remittances have constituted a vital role in financing the daily consumption of Albanians of different social groups, contributing to a large raise in living standards. GNI per capita has almost doubled during the last years and the Albanian Human Development Index has increased by almost 10 percentage points (UNDP 2011). One of the great effects of remittances has been their contribution to poverty reduction, contributing to lowering the fraction of Albanians under the poverty line from 25.4 per cent in 2002 (World Bank 2007) to 12.4 per cent in 2008 (World Bank 2012a).

Remittances in Albania have according to surveys mainly been used (in order of importance): 1) to fund basic consumption as food and clothing, 2) to improve the quality of life (purchase of household goods as refrigerators etc.), 3) to enlarge or construct a dwelling, 4) to maintain social, cultural and family traditions, and 5) invest in small businesses (King 2005). Remittances in the mid-90s were often invested in micro-businesses, leading to for example the boom in petrol stations (Korovilas 1999). Remittances have also been known to be invested to a small extent in agricultural production, as well as retail businesses such as shops, bars and restaurants. This of course, is the "ultimate" use of remittances as it makes receivers less dependent on remittances per se, and contributes more productively to long-term growth (Nicholson 2004). Unfortunately, the World Bank (2007) emphasizes that these micro-enterprises are often unproductive and therefore have not to a large extent contributed to the necessary TFP growth.

According to Lerch and Wanner (2006), there were two distinct socioeconomic remittance-receiving groups that could be distinguished in rural areas. One belonged to the low-income span without land, and the other was better off with an agricultural plot and produced more than enough crops for the household consumption. As for urban areas, mostly poor households received remittances. This plays in favour of remittances being beneficial to reducing income inequality.

Table 2. Albanian migration and remittances by destination and migration type

Albanian Migration % of remittances	Greece 60 % of remittances	Italy 30 % of remittances	Beyond 10 % of remittances
Temporary/seasonal migration	Largest destination for temporary migration. Poorer and less educated than average. Especially from rural areas in central region but increasingly from mountain region.	Less poor and more educated than average. Mostly from urban and/or coastal areas.	Some low and middle income migrants to other neighbouring countries such as FYRM or Turkey.
Permanent migration	Previously low or middle-income migrants whose families have joined. Integrating with difficulty.	Some low but more middle and high-income migrants and their families. Many regularized.	High-income families, often academics, to USA, Canada, Germany, France, Belgium.
Source: Azzarri and Carletto (2009), Carletto et al. (2006), Hernandez-Coss et al. (2006), World Bank (2007)			

To sum up, migration and remittances in Albania have been the major fuel of development since 1990, leading to an outstanding growth rate, and have constituted a way out of poverty for a large part of the population. In table 2 that summarizes the characteristics of Albanian migrants and remittances by destination and migration type we can note that 60 per cent of remittances originate from Greece. Greece is also the destination for 87 per cent of temporary migrants, who are on average poorer, less educated and from rural areas in the central, and, increasingly, mountain regions. This would indicate that a large share of remittances goes to poorer households in Albania, thereby contributing to a reduction of income inequalities. This will now empirically be investigated.

5. THEORETICAL AND EMPIRICAL BACKGROUND

Theories and empirics on the effect of remittances on inequality have been more varied than those on poverty. The inequality aspect of remittances is especially important as it 1) is a goal in itself, and 2) is a determinant for long-term growth. Milanovic (1993) states that the effect of remittances on income distribution should depend on three factors:

1) Who migrates:

  a) if motives to migrate are based on strong push factors, like important relative or absolute poverty, then mostly people from the low-end income span will be prone to migrate;

  b) if migration is determined by access to information of prospective opportunities one would expect this to be correlated with skill and thus income, leading to more migration from the high-end income span, at least until information "trickles" down to the rest of society;

2) What migrants earn abroad:

  This second point means simply that if migrants originate from all income levels, remittances will increase inequality if the income differences are greater in the destination country of migration, and decrease inequality if the opposite is true;

3) How much migrants remit:

Naturally, the impact of remittances, whatever it may be, will be more important if migrants remit a large share of their income. This aspect also depends on the two first points as migrants from an income-level that is poorly represented among migrants will probably remit more than those from income levels who are largely represented (Milanovic 1993).

Empirically results on remittances and inequality have been diverse, much due to differences in modelling: static versus dynamic models, including endogenous migration costs or not, and whether remittances are viewed as a substitute of domestic earnings or as an exogenous transfer (Shen et al. 2009). Lipton (1980) was one of the first to conclude that remittances from rural-urban migration worsened rural income disparities. The author argued that remittances were neither a large share of rural income (which has probably changed since for many developing countries) and that the significant amounts of remittances never went to low-income citizens. A study on inequality effects of remittances in rural Egypt showed that remittances had a negative effect on the income distribution as members of low-income families did not have the opportunity to migrate (Adams 1989). A number of studies have used the counterfactual scenario approach by comparing income distribution scenarios of 1) remittance incomes from migrants and 2) estimates of what their income would have been had they not emigrated. These results have found ambiguous or negative effects of remittances on inequality (Brown and Jiminez 2008).

However, numerous studies have shown opposite effects. Taylor (1992) argues that differences in observed effects of remittances on inequality is due to the fact that remittances have direct (an increase in income), indirect (influence in e.g. crop income) and intertemporal effects (investments in income producing assets). According to the author, especially in countries with underdeveloped credit and insurance markets, remittances can help generate non-remittance income, influencing inequality, by enabling rural farm households to overcome liquidity and credit constraints. This theory is further developed in Taylor and Wyatt (1996) where the hypotheses 1) effects of remittances on household farm income is non-unitary and 2) the effects of remittances

depend on initial household-farm asset holdings and differ across the income distribution, are tested. Their idea was that the shadow value of remittances, i.e. their marginal effect on total income, depends on the household's initial asset holdings as they will determine the increase or decrease in households' demand for liquidity, credit and insurance. Their results gave support for the theory that remittances had non-unitary effects and that they depended on initial asset holdings. As the shadow value of remittances was larger for the low-income span, remittances had an equalising effect on the income distribution.
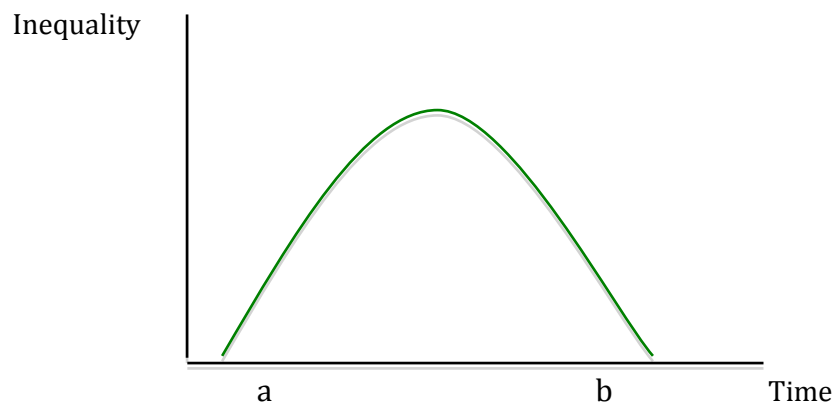
5.1 The Inverted U theory

Generally, it has been accepted that remittances probably do not have static effects, but ones that change over time. Stark et al. (1986) were the first to suggest a Kuznet-like inverted U shaped relationship between remittances and inequality over time. Through a Gini decomposition of household income by income sources they compared Mexican villages with different lengths of migration history to the USA. Their hypothesis was that in the beginning of a country's migration process, migration costs and uncertainty are high. This enables only better-off citizens to take the risk of migrating. Therefore remittances would have an unequalising effect on the income distribution at first. However, once networks expand, migration costs decrease and information spreads, giving the opportunity to the low-income span to migrate and reap the benefits of remittances, thus in the end lowering inequality. Stark et al. (1986) find that the distributional effects of remittances were greater for the Mexican village with the longer history of migration to the USA, supporting the idea that remittances have a non-static effect on income distribution over time.

Rapoport and Docquier (2005) build a model to analyse the long-term effect of remittances on inequality and can theoretically show what Stark et al. (1986) have found: that remittances and inequality display a Kuznet-like inverted U relationship over time. Simply put, migration costs are high with a short history of migration as information and networks in the country of destination are scarce. This leads mostly people from the high-income span to migrate initially, which will increase inequality (point a in figure 7). Over time, as networks spread and information "trickles" down through the population, costs are lowered. An increased migration from the lower-

income span thus follows, reducing inequalities (point b in figure 7) (Rapoport and Docquier 2005).

Figure 7: The inverted U curve between remittances and inequality over time

Source: author's illustration

The inverted U theory of Stark et al. (1986) will be used as a base for this study. Although one could have taken the approach of for example Taylor and Wyatt (1996) to investigate the shadow value of remittances on different income levels, this method is not considered the most pertinent for the Albanian case. Since the lion's share of remittances in Albania is used to finance consumption, household goods, traditional ceremonies etc. and only a very small share is invested in business or crop production (King 2005, World Bank 2007), indirect effects of remittances are not judged to be of the most importance. The Gini decomposition will enable us to obtain the direct effects of remittances on inequality, which for Albania is more worthy of interest.

Following the method of Stark et al. (1986), Acosta et al. (2007) show in a cross-country study in Latin America that remittances have positive, although small, effects on income equality. The authors perform, amongst other methods, a Gini decomposition according to income components. Varying results are found for the different countries, but on average a small equalising effect of remittances on the income distribution.[5] McKenzie and Rapoport (2007), also studying villages in Mexico, found evidence of the inverse U relationship between remittances and inequality. Moreover, Shen et al. (2009) found

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[5] The authors did not link these results to migration history but merely used the method as a tool for computing the effect of remittances on inequality

similar results even when treating migration costs as exogenous (constant), arguing that the inverse U relationship might be due to initial endowments rather than expanding migration networks. Another study on the inverted U relationship by Koechlin and Leon (2007) found further support for the theory whilst analysing panel data, correcting for endogeneity and serial correlations. These authors also show that countries with higher educational attainment and a more developed financial sector can quicker reach the equalising stage of the U curve.

Stark et al. (1986) argued that remittances have unequalising effects when networks are small, and the opposite when they are large. Thus the effect of remittances on inequality takes the form of an inverted U-shaped curve over time. The Albanian migration history is short (13 years at the time of the data used in this study). Therefore, according to the theory of Stark et al. (1986), remittances should be prone to increase income inequality. However, the Albanian migration process has not been of the conventional kind. Due to strong push and pull factors, as well as relatively low costs of migration, a mass exodus of citizens from all income spans took place in the 90s. Whereas high-income Albanians were more likely to migrate permanently, and further away, low-income citizens were more likely to migrate temporarily to neighbouring countries. Since the Albanian migration process enabled citizens from all income levels all at once to migrate and remit, one could suspect that remittances would not have a negative effect on income equality. Instead, the effect might be neutral or even positive.

This paper will determine: 1) the effects of remittances on income inequality in Albania, and 2) whether the inverted U relationship between remittances and inequality over time can be shown to initially depend on the *nature* of the migration process, and not on the *length* of the migration process as such.

6. METHODOLOGY AND DATA

This study will investigate how remittances affect the income distribution in Albania. Although other aspects of migration that affect the income distribution could be analysed as well, this study will only focus on remittances. The analysis will be based on the model developed by Stark et al. (1986) who argued that remittances and inequality

have an inverted U relationship over time. Stark et al. (1986) developed a method for investigating the marginal effect of remittances on the income distribution through a decomposition of the Gini coefficient by income components. This "Gini decomposition" entails decomposing the role of remittances in equality into three parts: a) the magnitude of remittances relative total income, b) the inequality of remittances, and c) the Gini correlation of remittances with total income. Together, these three factors make it possible to calculate the marginal effect of remittances on equality. The results will show whether remittances in Albania are prone to increase or decrease income inequality.

One must however be aware of the limits of this model. As mentioned in Acosta et al. (2007), the Gini decomposition method implies considering remittances as an exogenous factor, independent of migration. This means that the initial negative effects of migration (absence in household production etc.) are disregarded. Remittances are thus viewed not as a substitute for income, but as an exogenous income factor. This feature will bias the results in the sense that a comparison between what would have been the effects of migrants' domestic wages or crop income on income inequality and the effect of their remittances on income inequality cannot be made. The Gini decomposition is described in detail in box 1.

6.1 The Gini Decomposition

Box 1: Mathematical Model, Gini decomposition (Stark et al. 1986)

The Gini coefficient can be expressed as a function of the covariance of income and its cumulative distribution.

$$G_0 = \frac{2\,\text{Cov}(y_0, f(y_0))}{\mu_0} \qquad 1)$$

Where y_0 is total income, $f(y_0)$ is the cumulative distribution of income and μ_0 is the mean income of village/country 0

Following the properties of covariance, the function can be written as following:

$$G_0 = \frac{2\sum_{i=k}^{K}\text{Cov}(y_0, f(y_0))}{\mu_0} \qquad 2)$$

Finally it can be simplified to the following equation:

$$G_0 = \sum_{i=k}^{K} R_k G_k S_k \qquad 3)$$

Where G_k denotes the Gini index corresponding to income component k, S_k is the share of income component k in total income, and R_k is the Gini correlation of income component k and total income.

R_k kan be written as so:

$$R_k = \frac{\text{Cov}(y_k, f(y_k))}{\text{Cov}(y_k, f(y_0))} \qquad 4)$$

Using this model, we can derive the marginal effect of an increase in an income component. Assume an increase in income component k by a factor of m so that $y_k(m) = (1+m)y_k$

This gives:

$$\frac{\delta G}{\delta m} = S_k(R_k G_k - G_0) \qquad 5)$$

Dividing by G_0 gives:

$$\frac{\delta G/\delta m}{G_0} = (S_k G_k R_k / G_0) - S_k \qquad 6)$$

Equation 6 shows that the relative effect on inequality of a marginal percentage change in income component k equals the relative contribution of component k to overall inequality minus the relative contribution to total income. This implies that:

1) if the Gini correlation between remittances and total income is zero or negative, an increase in remittances decreases inequality

2) if the Gini correlation between remittances and total income is positive, then the effect depends on the sign of $R_k G_k - G_0$

6.2 Data

The data that will be used in the study is the household survey data from the Albanian Living Standard Measurement Survey (ALSMS) from 2005 carried out by INSTAT with the assistance of the World Bank. The ALSMS from 2005 is a follow-up of the initial survey in 2002 and will be used as it is the most recent. The ALSMS includes a vast number of modules on 3840 households in 455 Primary Sampling Units (PSU), stratified according to geographic criteria: large geographic areas (coastal, central, mountainous and Tirana), regions and urban/other urban/rural. The four instruments in the survey were the household questionnaire, the community questionnaire, the price questionnaire and the diary for recording daily household consumption. In this study, only data from the household questionnaire will be used. The household questionnaire includes data on household roster, education, communication, labour, agriculture, social capital, non-farm business, migration, subjective poverty, health, fertility as well as different types of incomes and expenditures (INSTAT and World Bank 2006).

The Food and Agriculture Organization of the United Nations (FAO) have aggregated and organised the ALSMS 2005 data by income components in order to investigate the role of for example agriculture in poverty reduction as a part of their project Rural Income Generating Activities (RIGA) project. These aggregated variables are the ones used in this study. The income aggregates were calculated at household level and annualized by the FAO. The total sample included 3840 households. 200 of these were oversampled Roma households (FAO 2008) and were removed prior to the analysis. A further 37 households were removed from the sample since their total income was negative or 0. Thus the analysed sample contained 3603 households.

All of the PSU were not representative, and therefore a weight variable is used in the analysis to correct for this. There were two different total income variables depending on the calculation of crop income. The first was estimated according to the agricultural production module of the household questionnaire, whereas the second included own estimates of crop consumption based on the two week Food Booklet done by each household. Total income 1 includes the variable Crop income 1 and Total income 2 includes variable Crop income 2. Total income 2 will be used in this study, as this is the most common method used in similar studies (Carletto et al. 2007). The variable

described "remittances" in this study is the "private transfer" variable in the FAO data set. This variable includes almost exclusively international remittances both in cash and in kin, but also gifts or benefits from private associations and remittances from internal migrants (Carletto et al. 2007). However, Carletto et al. (2006:781) emphasize that these flows represent an extremely small share of the private transfers. The original total income variable included gross transfers (FAO 2008). This was adjusted to include net transfers, as this was more pertinent to the study. All other income variables were net. Further details on the income variables can be found in the information documents of INSTAT and World Bank (2006) and FAO (2008).

6.2 A note on remittances measurements

A challenge facing researchers wishing to study migration and remittances is the insufficient global data on these flows. Nearly all studies focusing on remittances highlight the difficulty in producing valid results due to the lack of data (see for example Rapoport and Docquier 2005 and Salomone 2006). The IMF (2009) emphasizes that the gap between remittance receipts and payments keeps growing and that there are big differences between countries. One big problem is that remittances most often are sent through informal channels, and often in cash. This is due to the lack of functioning banking sectors in many developing countries and that the alternative, money transfer companies like Western Union, take large commissions. Also, in micro level surveys, households might be afraid to fully or at all disclose transferred sums in fear of having to pay taxes (Piperno 2003).

Researchers who have studied migration and remittances in Albania have done so with uncertain estimates regarding various aspects. Migration for example has not been accurately recorded, neither by Albanian authorities, nor by Greek or Italian ones. The size and importance of remittances is thus also uncertain, with official statistics and other estimations differing greatly (Arrehag et al. 2005). Korovilas (1999) attempts to calculate the value of total remittances in Albania by multiplying a realistic wage earned by temporary Albanian migrants in Greece by the number of estimated migrants. He argues that remittances could be 75 per cent higher than what official statistics show.

The Bank of Albania (2006:4-5) emphasizes three major obstacles in attracting

remittances to the formal banking system, also noted by De Zwager et al. (2005) and Piperno (2003)[6]. Firstly, the geographic vicinity of the majority of migrants in Greece and Italy makes it possible for them to return home a few times a year. By bringing back remittances in cash, commissions can thus be avoided. Secondly, the Albanian banking system is underdeveloped, and inaccessible for a large part of the rural population. Thirdly, Albanians have lost trust in the formal banking system after the pyramid schemes in the late 90s. Also, the Bank of Albania notes that since the housing market in Albania is predominantly in Euros, a large share of remittances are never exchanged into Albanian Lek (Bank of Albania 2006:6). Dermendzhieva and Randall (2010) further note that the substantial amounts of remittances in kind are very rarely reported at all. The Bank of Albania (2006) note in regards to a household survey conducted in 2005 that Albanians might be unwilling to disclose actual remittances transfers. This might be due to the fact that many migrants are illegal and/or involved in the informal sector in Albania. Also since this survey asked about households' consumption of the previous year (just as the ALSMS 2005), the authors stress that substantial margins of error must be presupposed (Bank of Albania 2006).

To conclude, one must keep in mind whilst attempting to analyse remittances in Albania that with great probability, the statistics deviate largely from the true flows. Regarding the ALSMS 2005 data, the authors have not voiced any fear in regard to the validity of households' replies (World Bank 2007). However, due to the uncertainty mentioned above, one could raise the concern that the household data is prone to large margins of error. With regards to inequality measurements, this might play quite an important role. One could assume that the very poorest households are the ones who to the greatest extent have illegal migrant family members, have the greatest fear of disclosing due to fear of paying taxes etc. and are those who send the most through informal channels. Thus the very poorest are probably the least willing to disclose true remittance amounts. With regards to the study at hand, this could imply a systematic bias and that remittances might have a more equalising effect on the income distribution than what is shown in the results.

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[6] For a detailed description of the transfer characteristics between Italy and Albania see Hernandez-Coss et al. (2006)

7. DISCUSSION

### 7.1 Trends in remittance distribution

If one takes a look at the regional distribution of remittances there seemed to be a trend for remittances to increasingly go to poorer areas in 2005. Figures 8 and 9 display that a larger proportion of migrants originating from the mountainous area remit and that they also remit more on average (almost twice as much as migrants from the central stratum). As earlier mentioned, migration from the mountainous region, which is by far the poorest of the country, is increasing. This might suggest that current remittances are contributing to a decline in inequality, at least between regions. The World Bank (2007) has also described this regional convergence and notes that poverty rates in the mountainous area had been 76 per cent higher than the national poverty rates in 2002, but were "only" 36 per cent higher in 2005. It is thus argued that migration and remittances are the driving forces in this poverty reduction. Both in Tirana and the mountainous region remittances had increased between 2002 and 2005 (by 100 and 50 per cent respectively) and it is also there that the largest reductions in poverty have been seen (World Bank 2007). However, it is clear from figure 8 that the largest amount of migrants and remitters originate from the coastal and central regions.

Figure 8. Number of migrants, remitters and % of remitters per stratum, Albania 2005
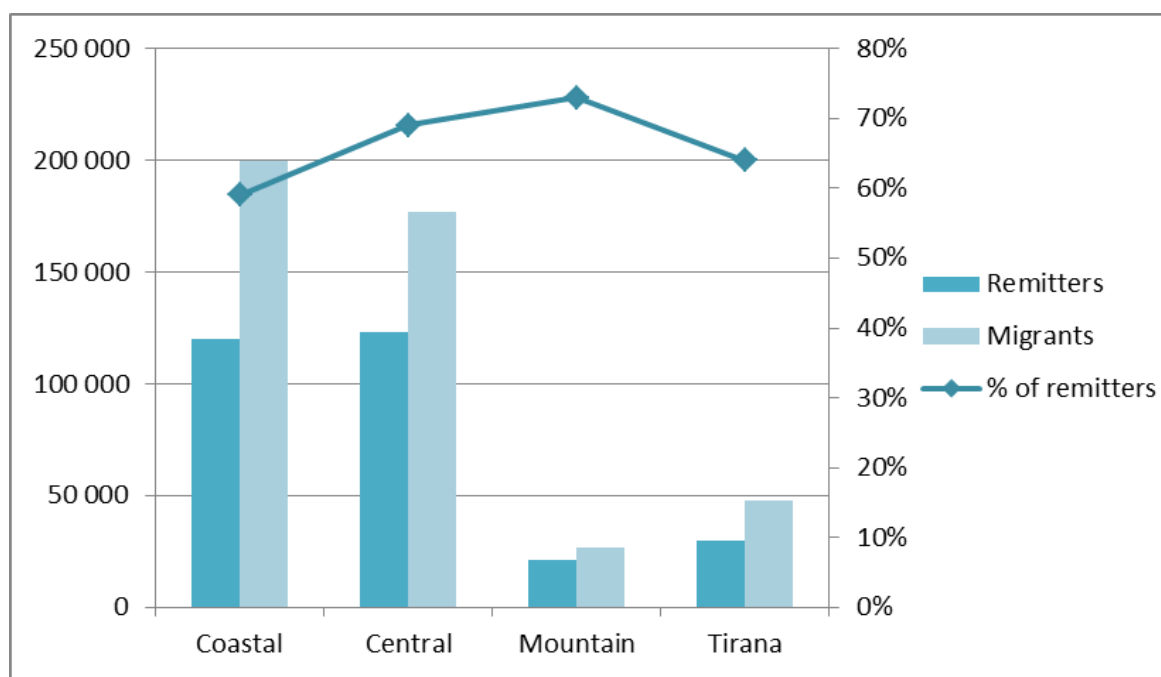
Source: World Bank (2007 from ALSMS 2005 data

Figure 9. Mean amount remitted by stratum (Albanian LEK), Albania 2005
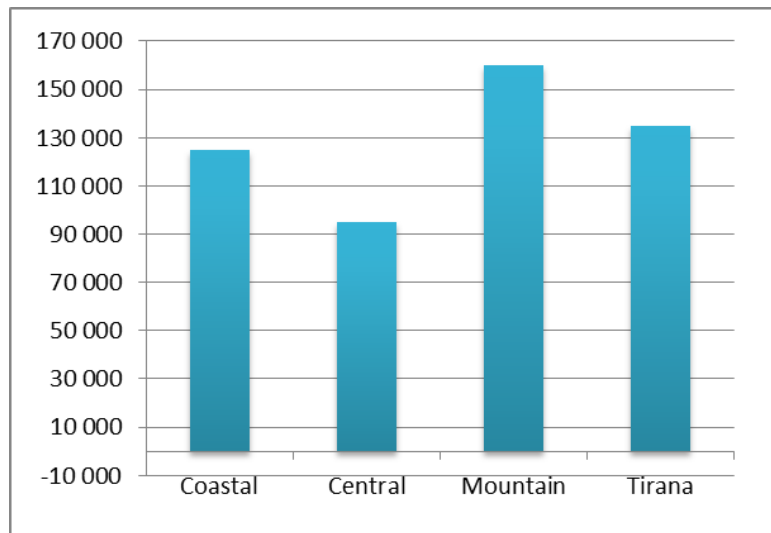
Source: World Bank (2007) from ALSMS 2005 data

As for the impact of remittances on the respective socioeconomic groups, figure 10 demonstrates that the number of households with migrants and remittance receiving households is much higher the higher the income quintile. This would suggest that high-income households are predominantly reaping the benefits of remittances. It does not prove that remittances have a negative effect on equality though, since non-remittance income might be even more unevenly distributed. Interestingly enough, figure 11 shows that there is virtually no difference in the amount remitted by the different income quintiles.

Figure 10. Number of migrants, remitters and % of remitters by quintile, Albania 2005
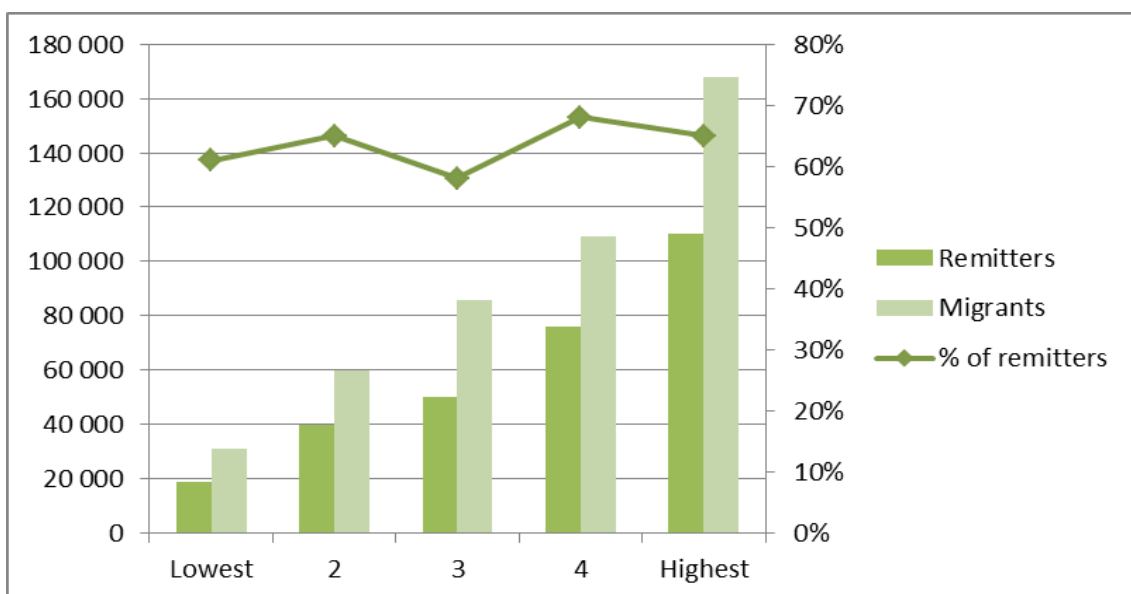

Source: World Bank (2007) from ALSMS 2005 data

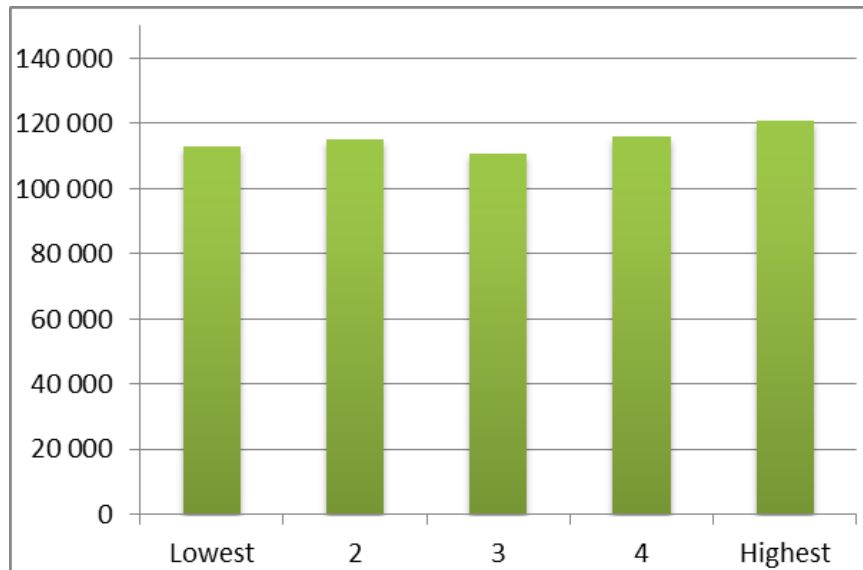**Figure 11.** Mean amount remitted by quintile (Albanian LEK), Albania 2005

Source: World Bank (2007) from ALSMS 2005 data

As displayed in table 3, the ALSMS 2005 data generates a Gini coefficient of total income of 45.5, which is much higher than the World Bank's estimate of 33 for the same period (World Bank 2012a).[7] One can note that inequality is higher in urban than rural areas, which is to be expected. Regarding regional differences in inequality one can note that the poorest mountainous region is the most unequal with a Gini of 46.6. This is the region that until 2005 had benefited the least from migration and remittances, although migration was increasing during the last years. The central region, which is the region that had benefited the most from migration (cf. figure 3), has the lowest Gini coefficient at 42.4. Although no proof of the hypothesis that remittances are beneficial to income equality, it gives us a hint that the regions are more equal the larger their share of migrants and remittances.

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[7] The sample has been checked for outliers, since both the Gini coefficient and the remittance share in total income in this study differed from other estimates. Observations displaying negative or 0 income were removed from the sample. In the higher income span there seemed to be no abnormal deviations. Weights are included in the Gini measurements to account for non-representative PSU:s, and the 200 over sampled Roma households were removed from the sample. All income is net. The income variable includes social transfers (benefits, pensions etc.). The large difference could perhaps be explained by the method of aggregation of income by the FAO whose variables were used in this study. However, the income aggregate components are specified in detail in the information document (FAO 2005) and seem accurate. These can however not be compared to methods used by the World Bank as the latter are not accessible.

Table 3: Gini coefficients and % share of population, total, urban/rural, strata, Albania 2005

Albania 2005	Total	Urban	Rural	Coastal	Central	Mountain	Tirana
Gini coefficient	0,455	0,448	0.427	0,455	0,439	0,452	0,436
Share of population	100 %	54.7 %	45.3 %	27.6 %	27.4 %	27.4 %	17.5 %

Source: author's calculations from ALSMS 2005 data

Table 4 displays the quintile distribution of non-remittance and remittance income respectively. One can already observe at this point that remittances are more evenly distributed than non-remittance income. Although the largest share of remittances goes to the third and fourth quintile, one can note that merely 17.3 per cent goes to the richest quintile, whereas this latter receives more than half of the non-remittance income. Table 4 also shows that 13.7 per cent of the poorest quintile receives remittances, whereas they receive a mere 3.8 per cent of the non-remittance income. It is thus clear that remittances have a negative effect on inter-quintile inequality. In the following section the exact marginal effect of remittances on the Gini coefficient will be explored.

Table 4: Quintile distribution of non-remittance income and remittance income, % Albania 2005

Albania 2005	Q1	Q2	Q3	Q4	Q5
Non-remittance income	3.8 %	8.7 %	13 %	21,6 %	52,9 %
Remittances	13,7 %	16.1 %	26,4 %	26 %	17,9 %
Total income	4,5 %	9.1 %	13,9 %	21,9 %	50,6 %

Source: author's calculations from ALSMS 2005 data

7.2 Empirical Results

The results of the Gini decomposition can be found in table 5. Firstly one can note that the share of remittances in total household income is 6,7 per cent. This figure is a little smaller compared to other estimates (World Bank 2012a, World Bank 2007) that have situated themselves around 11 per cent. If the remittance share in household income estimate is non representative for Albania, it will mean that the analysis of the effects of remittances on income will be too weak, regardless of it being positive or not.

Table 5: Gini decomposition by remittance and non-remittance income, Albania 2005

Albania 2005	% Share in total income	Gini coefficient	Gini correlation with total income	*Marginal effect on Gini of total income**
Non-remittance income	93,33 %	0,481	0,990	0,0447
Remittances	*6,67 %*	*0,833*	*0,013*	*-0,0651*
Total income	100 %	0,455	1,0000	0,0000

* Percentage change in Gini coefficient of total income from a percentage change in the respective income component.
Source: author's calculations from ALSMS 2005 data

Secondly, one can detect a high Gini coefficient for remittances of 0,83. This is expected, since many households receive nothing at all. Similar results have been found in other studies (Acosta et al. 2007). It is apparent that remittances have a positive effect on equality, as the Gini coefficient on non-remittance income is 0,48. This means that if remittances were exogenously excluded from household income, with no compensation in the form of domestic wages, inequality would increase by 6 per cent. The high Gini coefficient of remittances is compensated for by the very low correlation between the Gini coefficient of remittances and the Gini coefficient of total income (0,01). This implies that although both may be unequally distributed, they are not similarly distributed. This can also be read from table 5 where one can see that remittances are quite equally distributed between the income quintiles.

Finally we can show that the marginal effect of a percentage increase in remittances generates a 0.07 per cent decrease in the Gini coefficient of total income. It would thus appear that remittances have an equalising effect on the income distribution in Albania.

Due to a possible bias in the sense that remittances seem to constitute a smaller share of income than what has been estimated in other studies, the equalising effect of remittances could be even larger. To illustrate this, one could imagine that remittances represented 11 percent of household income (as estimated by the World Bank 2007). The marginal effect of a percentage increase in remittances would then, ceteris paribus, be a 0.12 percent decrease in the Gini coefficient of total income.

The possible bias in this study in regards to remittance measurements and its implications deserves to be discussed more in detail. As has been mentioned, there are a few obstacles to measuring remittances in general. Two questions arise in regards to bias in our study. Firstly, we can wonder if the actual *magnitude* of remittances is captured in the ALSMS 2005, since the relative importance of remittances in household income is smaller than has previously been estimated. As has already been mentioned, it is likely that remittances do constitute a larger share of household income than portrayed by the ALSMS 2005 data. Therefore, the marginal effect of remittances is probably larger. Secondly, there is a question in regard to whether the actual *distribution* of remittances has been captured in the survey. Neither INSTAT and the World Bank (2006) nor the FAO (2008) have voiced any concern in regard to any systemic bias in the household replies. It is not the aim of this study to investigate this validity of the ALSMS 2005. However, one can assume that households might be inclined to downplay the amount of remittances received due to for example 1) fear of paying taxes, 2) fear of disclosing that household members are illegal migrants. Both fear of paying taxes (and uncertainty to whether disclosing amounts to an independent survey is safe or not), and illegal migrant household members, should be correlated with poverty. Therefore, *if* there is a bias in the disclosure of remittance amounts, this should according to the mentioned logic of reasoning, be biased towards poorer households declaring less than the true amounts. Thus, it is not impossible that the distribution of remittances is even more skewed towards poorer households. To conclude, we cannot safely say that remittances constitute a greater share of household income than 6,67 per

cent. Nor can we state that the Gini correlation between remittances and household income is smaller or even negative. However, previous research on remittances in Albania would indicate that it is *possible*.

If one assumes that the inverted U relationship between remittances and inequality over time argued by Stark et al. (1986) exists, remittances should have a positive effect on inequality when migration history is short. As Albania had a relatively short history of migration, dating only 13 years (at the time of the collection of the data used in this study), one could be led to believe that remittances would have a negative effect on equality in Albania. However, as has been revealed in previous sections, Albanian migration has not been conventional in any way. King and Vullnerati (2003) emphasize that the Albanian case is special in the sense that no standard, slow development of migration has taken place. Migration was not built on a gradual trickling down of information from high-income migrants. The important push factors at the time of the opening of the borders, combined with a relatively low cost of migration to neighbouring countries, enabled a large share from all income spans to migrate almost at once. It is true that the poorer mountainous region has not been well represented in previous migration cohorts. Also, the very poorest are not likely to have been able to benefit from migration, as it is always a costly project in both a monetary and non-monetary sense. However, as the Albanian case is very particular, with a migration process more resembling a "big bang" than a gradual building on previous experiences (Carletto et al. 2006), there was reason to believe that the theory of the U shaped relationship between remittances and inequality over time would not hold.

The empirical results of this study have shown that despite the short Albanian migration history, remittances have had an equalising effect on the household income distribution in Albania. This gives evidence against the theory of Stark et al. (1986) and would suggest that the effect of remittances on inequality depends not on the migration history in *years* but on the *nature* of the migration process. It shows that when there are strong push and pull factors for migration, and/or when migration costs are relatively low, remittances can quickly constitute an equalising factor in regards to the income distribution. Koechlin and Leon (2007) showed that a high level of education and a developed financial sector could help countries reach the equalising stage of the

inverted U curve more rapidly. This study suggests that a migration process with strong push and pull factors and/or low migration costs will have the same effect. Without a comparison of the marginal effect of remittances on income inequality in Albania in earlier stages of the migration process, the evolution of the marginal effect cannot be investigated. Further research on the relation between remittances and income inequality in Albania could investigate past and future developments of the marginal effect and the potential existance of the inverted U curve relationship.

This study holds only information about the effect of remittances on income inequality in 2005. However, the current migration trend in Albania: less educated and skilled, poorer migrants from the mountainous and Tirana regions, would suggest that remittances increasingly will benefit the lower income span. Consequently, the equalising effect of remittances should continue or increase, supporting the existence of the "second half" of the inverted U curve. However, the remittance to GDP ratio decrease is expected to continue, and therefore the effect of remittances on the Gini coefficient will be smaller.

7.3 Implications and recommendations

The implications of the results are quite important. Firstly it means that remittances as an income component is beneficial to income equality in Albania. This has previously been proven to be vital to long-term economic growth, and, of course, is a goal in itself. It is however not often prioritized in transition economies. The Albanian Gini coefficient was 28 in 1997 and has risen to 34.5 in 2012 (World Bank 2012a) (or perhaps even more given the results from the ALSMS 2005 data). Clearly inequality is increasing in Albania, as is expected for a country in the transition to a market economy. Reducing income inequality is nonetheless an important aspect of development and considering the big role that remittances play in the Albanian economy, the results of this study are encouraging.

Secondly, the results gives evidence against the Kuznet-like U shaped relationship between remittances and inequality over time. This study points to the fact that it is the nature of the migration process, and not the migration history in time per se that will determine the initial effect of remittances on the income distribution. The reason for this

seems to be the non-conventional migration process experienced in the 90s with strong push and pull factors as well as low monetary migration costs. This enabled citizens from all income groups to migrate and remit, quickly making remittances prone to reducing income inequality. At present, remittances in general seem to play a smaller role in the Albanian economy, implying that their effect on inequality probably will decrease. On the other hand due to the migration trends seen after 2005, it would seem that remittances to an even larger extent will benefit low-income households in Albania.

The results of this study would encourage Albanian politicians to increase facility of migration of Albanian citizens. Furthermore, it would encourage the development of the formal banking sector in order to attract remittances through formal channels. As the potential of the Albanian remittance market is large the formal sector has the opportunity to develop financial products to migrants and their families to prohibit money transfer companies reaping the benefits from remittances transfers. This way remittances could, aside from constituting an important factor in family income, be encouraged to be invested in community projects to finance for example infrastructure or education. This study wishes to emphasize the role and importance of remittances and the potential they have in reducing income inequalities, as well as poverty, and in contributing to the future development of the country.

8. CONCLUSION

International remittances are increasingly attracting the attention of researchers and policy makers as the significance of these transfers, especially to developing countries, is steadily mounting. In order to better understand the potential impact of migration and remittances on development, the effects of these phenomenon on the receiving countries have been thoroughly researched. Many praise the effects of remittances on balance of payment deficits, poverty reduction and the easing of credit constraints. However, the migration-development nexus has also been greatly questioned. One doubt has been whether remittances are beneficial to the poorest citizens or whether they increase income disparities, which are often already large, in developing countries.

The question of the net effect of remittances on inequality is not a straightforward

matter. This study builds on the theory developed by Stark et al. (1986) arguing that remittances and inequality display a Kuznet-like inverted U shaped relationship over time. The idea behind the theory is that migration at first is costly and risky as information is scarce and networks inexistent in destination countries. Therefore, only the high-income span will have the opportunity to benefit from migration and remittances. As information trickles down through the social strata and networks become widespread, eventually lower-income individuals have the opportunity to migrate and remit. Following this logic, remittances will at first increase inequality, and only after a longer period of time will this trend be reversed.

This study has explored the effects of remittances on the income distribution in Albania, a country with a particularly great amount of permanent and temporary international migrants. In Albania remittances have played a major role in the outstanding growth and poverty reduction during the post-communist transition. By executing a Gini decomposition by remittance and non-remittance income, the study demonstrated that remittances have a small but positive effect on income equality. These results thus imply that migrants' transfers contribute to reducing income disparities in Albania. The results of this study stand in contrast to the inverted U theory by Stark et al. (1986) which due to the short migration history in Albania would have predicted a negative effect of remittances on the income equality. This study has shown that the non-conventional migration process in Albania, with strong push and pull factors as well as relatively low monetary migration costs, have determined the nature and distribution of remittances, and have done so in favour of lower-income households.

This study provides evidence against the inverted U theory by Stark et al. (1986) and argues that the nature, and not the length, of the migration process will determine the effect of remittances on inequality. On the basis of current migration trends, it would appear as if the equalising effects of remittances would increase, partly compensated for by the decrease of remittances relative to GDP seen in Albania. Additional research on the effect of remittances on income inequality in Albania could investigate the development of the inequality impact of remittances over time. Further research could also attempt to develop alternative theories with regards to the relationship between remittances and inequality as a result of the nature of the migration process. To

conclude, the results of this study are encouraging and would recommend that Albanian policy makers assure that the opportunities and means of migration and remittances are enhanced. This would further augment the income inequality reducing effects of remittances on inequality in Albania.

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