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Remittances and their impact of poverty: the case of Albania

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Abstract:

This article try assess the impact of remittances on poverty in Albania, based on household level data. Surveys data show that from 23 to 26 % of total households in Albania received remittances, with an average annual inflow of remittance per household ranging from 1827 to 2018 euro. The data show that remittances are the second most important source of household income, after labor income. Furthermore, we find that remittances have a significant impact on the reduction of poverty in Albania.

Keywords: Remittances; Household Behavior, Poverty
JEL Classification F24, D10, I32

1. Introduction:

Migration has been identified as one of the most important factor of the 21st century affecting economic relations between developed and developing countries (Adams and Page, 2003). The United Nations, at the beginning of this century has estimated that 2.8% of the world's population or about 174 million people live and work outside their country of birth. In addition the latest figures show that migration is a growing phenomenon (World Bank, 2019). Estimates for 2017 done by United Nations show that the total number of emigrants in the world is 274 million people, increased by 98 million people (or 56%) compared to the figures of year 2000. Emigrants in 2019 make up 3.5% of total world population, where Europe and North America represent the countries with the largest stock of migrants in the world, at 82.3 million and 58.6 million, respectively.

Migration is a multidimensional phenomenon that affects both the economies of sending and receiving countries in many ways. In addition to the economic, social and cultural impact that migration has mainly on countries that export migrants, the income they send to their country of birth is probably the most direct link between migration and economic development of the country (Ratha, 2007). Globally, in 2019 remittance reached the level of \$ 689.404 million (World Bank, 2019) and represent the largest source of income for many developing countries. Remittance flows tend to be more stable and more countercyclical than capital flow and during the latest financial crisis remittances proved to be more resilient (Ratha, 2011). The main data source of recorded international migrant remittances are based on balance of payment data. However the estimation of the exact size of remittances is hard because mostly of remittances are send through unofficial channels. However empirical literature based on cross-country and country-level analysis have showed that remittances have reduced the share of poor people

in the population (Adams and Page 2003, 2005; Gupta, Pattillo, and Wagh 2009) and are an important source of household income. Remittances are used to increase the level of consumption, saving, investments, financial intermediation of household, by contributing in reducing poverty and improving the economic growth perspective in general (Ratha et al, (2011)).

Albania, represent an interesting case where migration is a very widespread and well-known phenomenon. Many Albanians have relatives or friends, who work or live abroad. In 2017, it is estimated that 1.21 million Albanians or 42.7% of the Albanian population live outside the borders of Albania (UN DESA 2017, 2019, World Bank 2017). 98 % of Albanian migrants have moved to the top five destination countries (World Bank, 2019). At the macroeconomic level, remittances in Albania constitute at one of the largest foreign exchange inflows coming from abroad and are an important source of financing the balance of payments. On average during the period 2008-2018, remittances are estimated at 11.7% of GDP (Bank of Albania, 2019). Aggregate remittance data, although indicate their importance at macro level, show less about their importance at the household level. Most of the paper that have discussed the phenomenon of remittances in Albania are focused mainly on the characteristics of emigrants and their motives for remit (Gëdeshi (2000), Zanger-Siegel, (2007), (Abazaj (2011), Gëdeshi-Jorgoni (2012)).

This article based on household level data from two different and representative survey of the Bank of Albania initiated during 2006 (Frashëri, 2007) and 2019 (Dushku, 2019) showed the continuous importance of remittance for the receiving-remittances-households. The data has showed that 23-26 % of Albanian household received remittances, with an annual average flow of remittances per household that range from 1827 to 2018 euro. Tirana, Elbasani and Fieri are the most beneficiaries region in terms of amount and receiving-remittance households. Also we find that remittances reduces the level of poverty for Albania, measured through the direct impact of remittances on household income.

The article is organized into three parts. In the first part we present the methodology of the latest household survey, Albanian Household Wealth Survey, undertaken by Bank of Albania in 2019 and its importance from central bank point of view. In the second part we present some features of Albanian households from both surveys, while in the third part we discuss the main findings in terms of the importance of remittances for Albanian households during the last decade and finally we conclude.

2. Methodology

In this article the main source of data are those from Bank of Albania surveys undertaken in 2007 and 2019. A full description of the methodology and the data collected from the first survey is presented by Frashëri, (2007), which contributed by presented the first results on the importance of the remittance for the welfare of Albanian household. While the latest survey, undertaken in 2019 it is not a migration survey and its main aim is to collected detailed information in different patterns of Albanian households. Below we give an overview of the methodology of this survey and its importance for central bank.

Recent empirical literature has shown that household surveys are an important source of informations to understand not only the behaviors of the households at micro level also to fill the gap at macro level (EHFCN, 2009). Furthermore, household data help to assess various macroeconomic shocks, policies and reforms to different household groups.

For this purpose, the Bank of Albania undertaken in 2019, Albanian Household Wealth Survey (Dushku, 2019) based on the methodology of HFCS (Household Finance and Consumption Survey), applied by other national central banks in European Union. This survey was adapted by Bank of Albania, in line with the characteristics of Albanian households and our economy. The main purpose of this survey is to obtain detailed information on Albanian households, in

terms of income, expenditures, real and financial assets of households, employment status and education level of all household members, etc. These data would be used to further investigate various issues on the transmission mechanism of monetary policy and financial stability; assessing and analyzing various macroeconomic policies as well as macroeconomic shocks (such Covid-19); designing appropriate policies for monetary policy, financial stability, financial inclusion and financial education.

Albanian Household Wealth Survey was conducted in cooperation with Instat (Institute of Statistics), which collected the data through face-to face interviews methods, during the period March-April 2019 and provided the household sample. The sample design was based on the use of probability sampling, which means that each household in the target population has a non-zero probability of being selected. Sampling frame was based on the national population register, where the population size on the 12 region were used as stratification criteria. Simple size included 3,744 households, selected from 312 primary sampling unit (PSU) and 8 (plus 4) households in each PSU, which were selected to be large representative at country level. On the completion of the field-work, 2261 questionnaires was collected, implying an overall response rate of 91 %. It is know that the distribution of wealth is skewed, consequently, to have an adequate representative of full distribution of population wealth, it is essential to have a relatively high proportion of wealthy households in the sample (Kennickell, 2007). However Instat does not have a register of the personal income or wealth data distributed geographically so we couldn't made an oversampling of wealthy households.

Generally, Albanian Household Wealth Survey collect detailed data regarding households in terms of income, expenditures, real and financial assets of households, employment status and education level of all household members, etc. Moreover, we collect data if households have received or not remittances and what amount. More specifically, the two main questions related to the migration are as follows:

- Have you or any household members received remittances during 2018?
- How much (annual) remittances did you or your family receive during 2018?

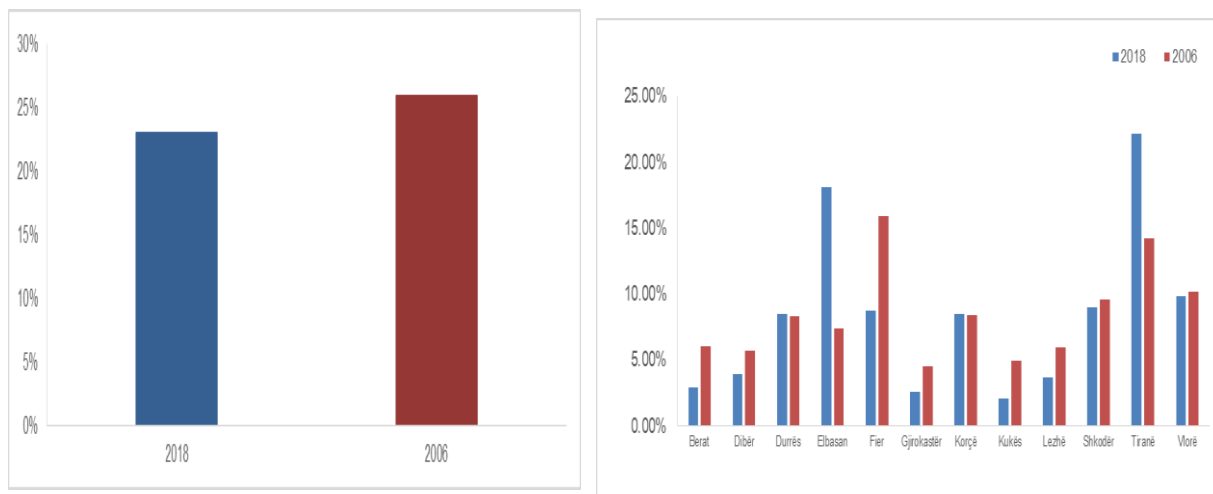
We have to emphasize that Albanian Household Wealth Survey is not a migration or remittance survey, so we have shortage information about the reasons why Albanian emigrate or the reasons they remit or how remittances are used by remittance-receiving households. However, taking into account the advantage of household level, we aim to analyze the impact that remittance have on Albanian households.

3. Result:

Since our aim is to analyze the impact of remittances on household poverty in Albania based on both two survey data, first we would present some results from both survey and then we would show the relevance of remittance for Albanian households.

The results of both surveys showed that from 23 % to 26 % (graph 1) of total households in Albania have received remittances by confirming that during the latest decade around one quarter Albanian households have received remittances. Geographical distribution of remittances-receiving households (graph 1) is almost the same during two periods for the majority of the regions. In 2018, comparing to survey data of 2006 we evidence a double increase of households receiving remittances in Elbasan and Tirana, while we see an opposite path for the households in the region of Fieri.

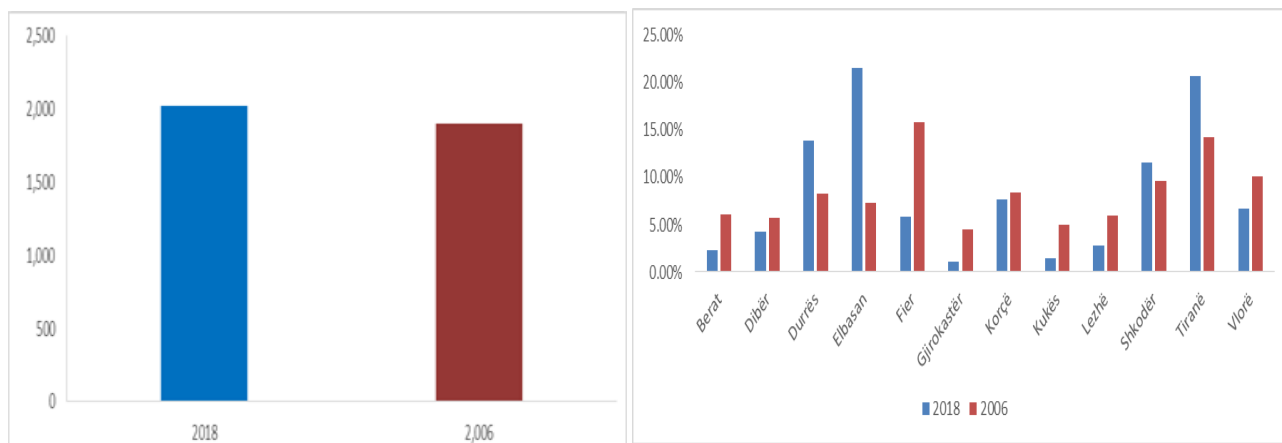
Graph 1: Percentage of household receiving remittances in 2006, 2018 and the geographically distribution of remittances-receiving households as % of total remittances-receiving households



Bank of Albania (2007, 2019)

On average, annual flow of remittances per household (graph 1) is estimated around 1,897 to 2,018 euro and varies on different household groups and regions (graph 2). In 2006 the most beneficiaries households are those located in the region of Fieri, Tirana, Vloara and Shkodra. These households both received 40 % of total remittances. While in 2018, households at the region of Elbasani, Tirana, Durresi and Shkodra received almost 68 % of total households. In 2018 we realize that region of Tirana and Elbasani are those we drive not only the number of the households but also the amount of remittances received.

Graph 2: Annual average flow of remittances per household in euro and the geographically distribution of amount remittances as % of total remittances

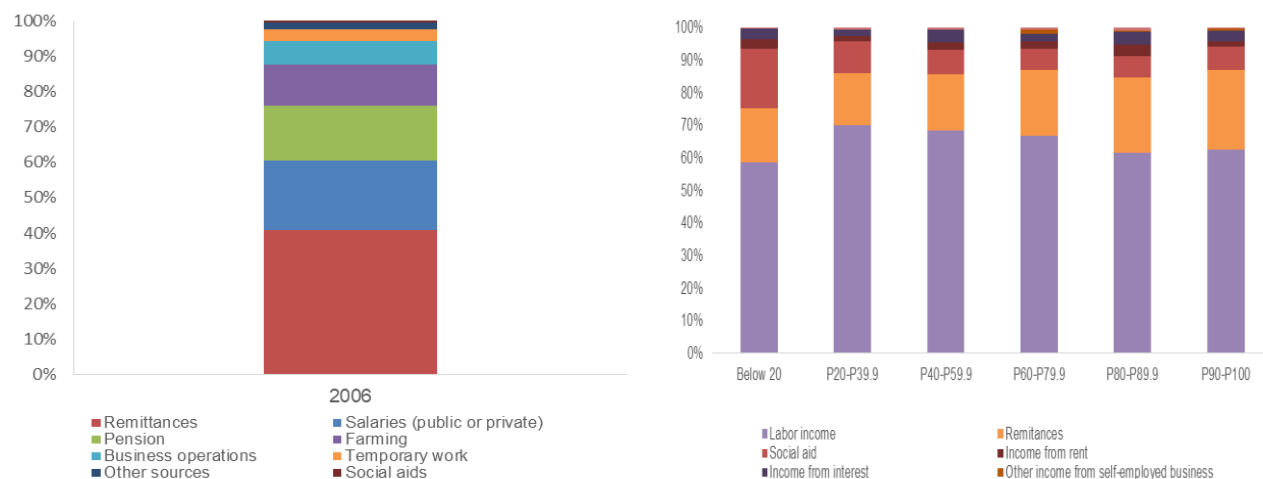


Source: Bank of Albania (2007, 2019)

In addition we have estimated how important remittances are for household income. Based on the detailed information that we have for all sources of household income we have found that remittance are the second most important source of income. Survey data indicate that in 2006 remittances were a critical source of income for households (graph 3), reaching 40.7 % of disposable income of an average household recipient (Frashëri, 2007). While the data of last survey in 2018, showed that remittances account for 14 % -23 % of total income (graph 3), after labor income which accounts for 49% to 64% of the total income. While other sources

of income such as social contribution, rent or interest income comprise 20 % or less of total labor income. However Dushku (2019) showed that for 24.4% of remittances-receiving households, remittances are the only source of household income.

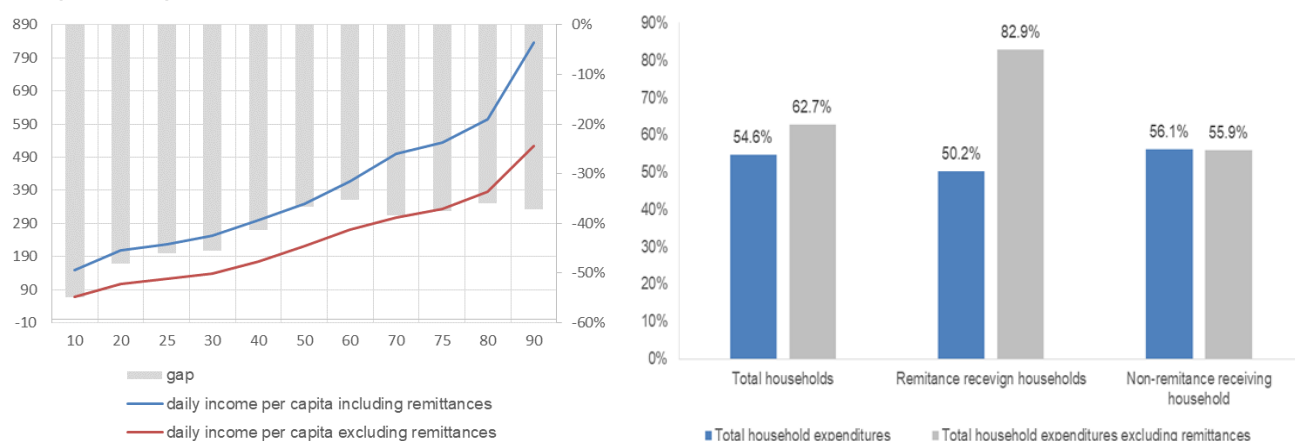
Graph 3: Source of household income in 2006 and 2018



Source: Bank of Albania (2007, 2019)

Since we attempt to explain the impact that remittances have on household poverty, below we present how remittances affect income and expenditure of households. Frashëri in 2007 has found that excluding remittances and measuring the daily income per capita, 40 % of households in 2006 would fall under poverty level (graph 4). We calculate poverty index for the latest survey data based on expenditure data. One reason for this preference is that consumption is less subject to short term economics shock and usually income are underestimated. The estimated results show that excluding remittances will increase the percentage of poor households, especially for the remittances-receiving household group (graph 4)

Graph 4: Impact of remittances on household income, in 2006 at 2018¹



Source: Bank of Albania (2007, 2019)

¹ Poverty is measured through Foster-Greer-Thorbecke index

4. Discussion and Conclusion:

Household are characterized by a considerable level of heterogeneity, not only in terms of their finances, but also in terms of the behavior towards them. This has led to greater attention to micro-level data analysis in order to better illustrate the heterogeneity that exists in households data. Following the latest financial crisis, household's data are used to assess the vulnerability and financial viability of the household based on different family groups. Furthermore, these data are used to identify those groups that are most exposed to various risk factors and how they may impair financial stability.

Household level data confirm that remittances continued to be an important source of Albanian household income during the last decade. In Albania from 23% to 26 % of households have received remittances, with an annual average flow of remittances per household that range from 1,827 to 2,018 euro. Tirana, Elbasan and Fier are the most beneficiaries regions in terms of amount and percentage of receiving-remittance households. The results from both survey show that remittances reduces the level of poverty for Albania, which is in line with literature that remittances increase the level of income of households receiving remittances, as result increase the level of consumption and savings and reduce poverty. As future research we will estimate empirically through binary regressions the importance of the impact of remittance on Albanian household income by controlling for differ socio-demographics factors and household group.

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