

## The transformation of remittances from consumption to investment: a challenging strategy to accommodate the future

### Abstract

Remittances can contribute to the economic development of a country also by going directly into productive investment, thereby increasing bank liquidity and making it possible to extend loans to entrepreneurs with competing interests, creating an enabling environment for SMEs and facilitating the attraction of emigrants to return to their countries. The banking system in Albania has undergone rapid development since the collapse of the communist system, but the coverage of financial institutions is still weak in some parts of the country, especially in rural areas. Regardless of the size of remittances and their importance to the economy of Albania, there is, additionally, a general lack of policies and strategies for the management and the use of remittances. In this direction, and for a better development of emigration control, the National Strategy for Migration was developed covering a number of issues surrounding the experience of emigrants and the targeted orientation of remittances, as well as the development of an appropriate legal and institutional framework.

**Keywords:** emigration, money transfer, financial sector reform, remittances, economic development

### Introduction

Remittances possess great potential for creating economic growth. Given the size of the diaspora and that 55% of emigrants send money to their families in Albania, remittances provide a major source of foreign currency and an important stimulus for the national economy. The largest value of transfers from migrants to Albania was in 2007 when it reached over €952m:

**Table 1 – The value of transfers from emigrants, 2004-2013 (million)**

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Remittances	774	802	937	951	833	781	689	664	675	547

Source: Albanian Bank, 2014

Remittances are destined mainly for the financial support of family members. Most emigrants send money to parents, spouses and children. These groups account for 90.5% of all recipients, while other relatives accounted for most of the remaining 9.5%.

This, in turn, points to evidence suggesting that 90% of remittances are used for consumption and just 10% for investment (IOM and ILO, 2007a: 9). Remittances which constitute financial support for families tend to be small-scale which, in most cases, are withdrawn immediately from bank accounts or other financial operators and kept at home. The result is that the capital is insufficient for productive investment purposes.

It is estimated that 60% of remittances come from Greece and 30% from Italy (IOM and ILO, 2007a: 10). The remaining 10% come from other countries, such as Germany, France, Great Britain, etc. Some 69% of remittances head to rural areas (IOM & ILO, 2007a: 10). Most remittances sent by emigrants are irregular, and ebb and flow with the seasons.

### Financial services providers

The use of banks is relatively limited: only 26% of the households that are in receipt of remittances have bank accounts (ILO and IOM, 2007b: 7). Furthermore, the financial products do not always meet the needs and demands of households that receive remittances. The low use of banking services is partly influenced by a mistrust of financial institutions on one part of customers. Furthermore, there is a preference to hold cash rather than in bank or savings accounts (IOM and ILO, 2007a: 11).

Methods of money transfer include: banking methods; money transfer operations; and personal transfers.

### *Banks*

Banks offer a variety of standard financial products, including savings accounts and loans, and all provide transfer services. However, there is still no co-ordinated effort to inform migrants about these services, although some individual branches have begun, in recent years, to promote their services for migrants at border crossings and ports.

Additionally, banks have developed a range of transfer products for expatriates and their families, but few have yet tried to tie transfer services to other financial products they offer. Currently, the only product directly linked to transfers is a mortgage that allows migrants and remittance recipients to buy property based on the documented income of migrants in their host countries (IOM and ILO, 2007a: 12).

Banks tend to consider migrants and their families as having low potential as consumers, while banks are perceived by this group as having very little to offer them: banks are seen as too complicated and bureaucratic, with transfer services that are too slow. There is also a lack of knowledge of the products and services that banks offer. Given that banks do not see this group as the main customer base, there is a limited selection of appropriate financial products.

However, there are indications of an increase in the transfer of remittances through formal financial channels. These were assessed on a scale of 39% in 2001, a dramatic rise from 1994's 7% (Uruçi and Gëdeshi, 2003). This shows that migrants' confidence in the financial system is rising gradually. Confidence in banks is also indicated by the growth in deposits from \$0.7bn to \$4bn in 2004 (IOM and ILO, 2007a: 13).

A particular issue for banks is lending policies. Policies vary from one city to another but, in general, tend towards the restrictive. There is a great reluctance to provide

credit to new SMEs. Some banks require a business record of twelve to 36 months before they will consider lending. This is in addition to a level of collateral that must amount to 150% of the value of the loan. This makes it impossible to access loans to start a business. Furthermore, the adoption of such a policy is an obstacle to the economic development of the country.

Banks are limited in relation to urban SMEs, but most of them do not provide loans to the agricultural sector. This sector is considered high risk, given the problems that people face registering property, the numerous legal disputes over rights to ownership and to land, poor extension services available to the agricultural sector and reports on the abuse of purchasers of agricultural products from those with monopolistic and oligopolistic positions.

There is a large number of recipients of remittances living in rural areas, but the population density is too low to be acceptable to banks to consider expanding their network in these areas. There is one exception, ProCredit Bank, previously a micro-finance institution, which provides micro loans to farms and does not seek to lend in urban areas.

### *Money transfer operations*

Western Union (WU) and MoneyGram are the two main money transfer businesses operating in Albania, having a total of 300 offices between them. WU has the advantage of a comprehensive network, which means that it is better positioned to serve customers in rural and marginalised areas where banks are not present due to the non-profitability of the customer base, drawing on local post offices.

The main reasons that money transfer businesses have been successful at capturing such a large market are:

- fast service. In many cases, transfer time is not more than one hour for money transferred from abroad in Albania
- ease of use. Money transfer operations are described as user friendly, especially for people with limited exposure to the formal financial system. Working with documents is limited and straightforward
- for irregular migrants, it is often the only alternative other than personal transport. Money transfer does not require documents for small amounts, whereas banks often require documents to facilitate a transfer.

The quick and easy service of money transfer businesses means that they, rather than banks, are used in emergencies and for unforeseen expenditures. However, the cost of using their services is high, amounting to 5-10% of the transferred amount (IOM and ILO, 2007a: 16). This means that migrants have good opportunities to save by using traditional bank transfers.

Money transfer operators are part of the formal financial system, but they seem to offer little potential as regards making a direct contribution to the economic development of the country.

### *Micro-finance institutions*

Albania has a growing number of micro-finance institutions, with a market share of total loans amounting to about 5% (IOM and ILO, 2007a: 16). They specifically target those segments of society that are not served by commercial banks, providing loans to businesses (including start-ups) and also giving credit to unregistered businesses. Such institutions have enjoyed a huge increase, but they are limited by law to savings. This means that, for example, NOA (a large micro-finance institution) is bound to attract loans from commercial banks, an action which consequently raises the cost of financial products.

A separate provider of financial services is the Savings and Loans Association. It has the legal authority to accept savings and provide loans, but it serves only the members of the association and the local community. Such associations are scattered across the country, including – like the micro-finance institutions – rural areas, where they have become the largest financial institutions, with 11 500 members operating in 400 villages (Uruçi and Gëdeshi, 2003).

### *Personal transportation*

Personal transport is considered more reliable and cheaper than bank transfers. Illegal emigrants who cannot travel themselves employ others to courier their money home. However, personal transport is not safe and a courier service is not free: a fee of 1% is the norm. Moreover, there is evidence that monies carried by couriers have not reached their destination (IOM and ILO, 2007a: 18). However, personal forms of transport are, nevertheless, the only solution for illegal emigrants. In both Italy and Greece, banks require documentation to make a transfer, which means that illegal emigrants are effectively prevented from using banks for these services.

### *Political environment*

The link between remittances and sustainable economic development should be visible locally; there is clearly a central role for local government, both as co-ordinator and as promoter. However, there have so far been only limited efforts to create an infrastructure for migrants, such as the organisation of information sessions prior to departure or sessions which support the launch of new businesses by migrants. Local government does not promote the use of formal financial channels for transferring remittances, or the provision of training in financial aspects for migrants and their families.

A separate issue is the large informal economy (IOM and ILO, 2007a: 21). The difficulties associated with starting a new legal business and the ability of SMEs to operate easily without permits and licences discourages entrepreneurs who have formalised their businesses. This presents a number of concerns, but it also erects a barrier to the economic development of the country in the long-run.

## The use of remittances

### *The case of Vlorë*

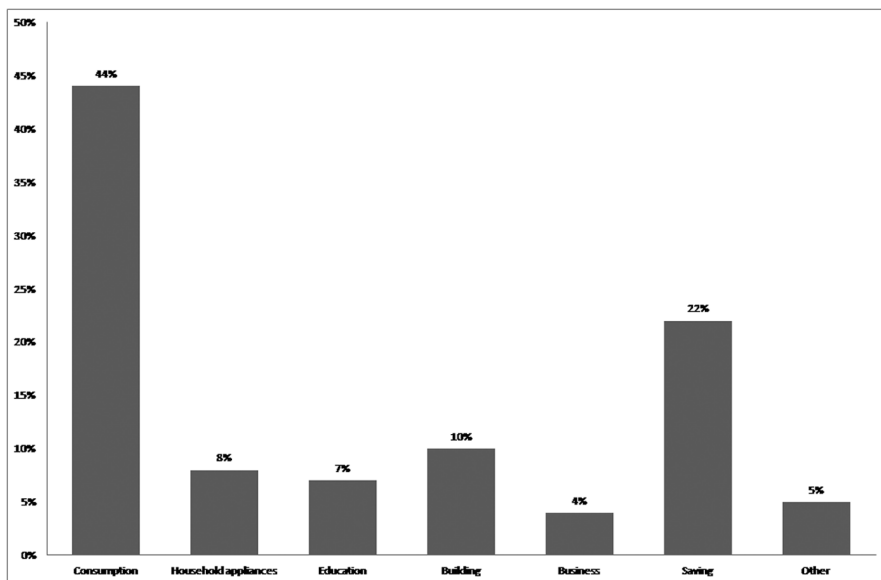
The county of Vlorë is in the southern mountainous area of the country. It includes the districts of Vlorë, Sarandë and Delvinë. The region is very mountainous, with hill meadows and valleys, enabling local people to earn a living through agriculture and livestock production (IOM and ILO, 2007a: 31).

The county has a population of 175 640 inhabitants according to the INSTAT census of 2011. Significant change occurred here after 1990, as in all other parts of Albania. Most of the population is now self-employed, working in small-scale activities in the agriculture, services and tourism sectors: the vast majority of enterprises in the region (95%) are small, being based on no more than five employees. However, there are a few large companies, providing work for more than eighty employees and taking 26.5% of the total number of employees in the region. Tourism is an important sector, generating 23% of the revenue of the region. It is also considered the sector which has the greatest potential to promote economic development in the region (IOM and ILO, 2007a: 31).

A survey conducted by the ILO shows that the average household size is 3.8 people, while less than 13% of households can be characterised as large, i.e. with more than five people. Forty five per cent of families have children of school age, although only one-half of them have more than one child in school. A relatively high number of the heads of households are retired (50%) (IOM and ILO, 2007a: 32).

About 60% of households have consumption and household goods as the main use to which they put the remittances they receive, while only 6% have education as the main use of remittances. This is probably also influenced by the high density in the survey of people who have retired. Given the low level of income, 16% of respondents have savings as the main use of remittances, while saving accounts for 22% of the total use of remittances (Figure 1).

Figure 1 – The use of remittances



Source: IOM and ILO (2007a)

For a large majority of households, the spending pattern has not changed in recent years. For those few that have changed the direction of spending, it seems that a greater proportion is now being spent on education and savings (IOM and ILO, 2007a: 33).

### The national strategy for emigration

The Albanian government, with the support of the International Organisation for Migration, approved a National Strategy for Migration in 2005. Emigration is a major concern for Albania because about 20% of the population has fled the country over the last decade and a bit, making Albania one of the countries with the highest level of migration flows in the world. Migration is also an important aspect in Albania's relations with European Union member states, as countries of destination for the majority of its emigrants. Albania is, in many cases, considered by the EU as a third country where priority should be given to the fight against irregular migration. Management of migration flows has, therefore, been made an integral part of the Stabilisation and Association Process.

The aim of the Strategy was to deliver a more comprehensive policy on migration, a policy that has mainly developed in the context of fighting illegal flows; as well as in a more attuned approach to the management of migration and, in particular, of migration flows.

We have selected two main points of the Strategy and these are outlined in the sections below.

### *Migration and the development of the country*

The improvement of the image of Albanian emigrants abroad.

The image of Albania, and Albanian people, abroad often carries negative effects which do not help in covering the major changes taking place in Albania, the majority of which are positive and leading towards an improvement in the quality of life in a country that has emerged from fifty years of isolation. Albanian emigrants, especially those found in Greece and Italy, where the bulk is concentrated, have been at the centre of an unfavourable climate which, in many cases, crystallises in the form of discrimination and xenophobia. Anti-Albanian propaganda has been launched and continues to be undertaken by media in host countries (Government of Albania, 2005: 29).

One of the factors contributing to the creation of this image is the social composition of a section of emigrants which is characterised by people having a low level of educational and cultural attainment (Government of Albania, 2005: 29).

Another factor is the expression of xenophobia in the political and electoral debates on migration in host countries, which has a major impact on public opinion. According to the press, Albanian emigration appears as a disturbing element to the host society. This misconception extends to a view that the entire community of emigrants is involved in criminal activities when it is, in fact, really only a small part of this community (Government of Albania, 2005: 29).

### The background to the current policy

In May 2003, the Albanian Cultural Institute was opened in Vienna, with the support of the President of the Republic of Albania and the Albanian Ambassador in Austria, and with financial contributions from Albanian emigrants in Austria (Government of Albania, 2005: 29).

Additionally, the United Nations Development Programme implemented a project called *The Image of Albania*, in close co-operation with the Ministry of Foreign Affairs and the Ministry of European Integration. The purpose of this project was to improve the quality and the quantity of information available on Albania and to establish co-operation between government partners, the media and local governments to increase the skills necessary in the creation of a more positive image of the country and its people (Government of Albania, 2005: 30).

### Current and prospective policies

There was at that time no specific policy aimed at the improvement of the image of migrants in host countries. The result of the limited level of financial resources being available for this purpose was that the Strategy focused itself initially on Greece and Italy, the destinations for most emigrants. Communities there may be urged to contribute financially, as well as in other ways (Government of Albania, 2005: 30).

The first Albanian Cultural Institute was opened in Vienna, where the number of emigrants was very small; nevertheless, the community showed vitality and a willingness to co-operate in such projects. By extension, bilateral cultural agreements must relate at least to Greece and Italy, and provision taken for the implementation of existing arrangements to increase cultural exchanges which highlighted the common aspects of

the heritage of the host countries and of the countries of emigrants (Government of Albania, 2005: 30).

Another means of improving the image of Albanians abroad which was considered was to seek out successful cases, at the heart of which lay Albanian emigrants, such as students achieving good results in schools; entrepreneurs running companies; sportsmen and women; scientific researchers; and artists. The document also considered the need to launch an awareness campaign for the title ‘Ambassador of Albania’, and to find the necessary financial resources for a media campaign in which to promote examples of successful emigrants (Government of Albania, 2005: 30).

The contribution of migrants in host countries, and to their economies in particular, is quite substantial. This led to a consideration of whether the government should impose a duty on Albanian Television to prepare a documentary on Albanian migration focusing on the positive and negative consequences for Albania and for host countries, in particular Greece and Italy. The co-operation of Greek and Italian TV companies was identified in the context of the facilitation of the collection of information in host countries and as a means of financing the project (Government of Albania, 2005: 30).

Ultimately, the Strategy focused on the efforts made so far to address migration and, in particular, to combat the levels of organised crime related to it through trafficking and smuggling via the generation of concrete and visible data (Government of Albania, 2005: 31).

### *The orientation of remittances towards business investments*

#### *Analysis of the prevailing situation*

Remittances are the main mechanism for poverty reduction in Albania since they increase, in particular, the income of families. They provide not only an important economic support for the families of emigrants, but also for the social and economic stability of the country. They are used mainly to meet daily needs (food, clothing, etc.). Secondly, they are used to improve the quality of life (via electronic equipment, the furnishing of houses, etc.) Third, they are used to expand and build new homes. A small portion of remittances are used to maintain traditions (marriage), etc., and are kept in the bank or at home. Only in a few cases are remittances used to purchase property in the services sector, agriculture, etc (Government of Albania, 2005: 40).

The importance of remittances to the Albanian economy can be understood by their contribution to the country’s GDP. Their importance can also be comprehended in comparison with foreign direct investment or foreign development assistance.

Remittances play a major role in the partial financing of the large trade deficit, but they cannot be considered as a permanent factor as it is difficult to predict remittance flows in the medium-term (Government of Albania, 2005: 41). Remittances also play an important role in the country’s macroeconomic stability by financing imports, affecting the value of the local currency and influencing the rapid development of the construction and service sectors. In consequence, remittances have been a major factor in determining one characteristic of the Albanian transition; that is to say, that domestic consumption is higher than national production.

The transfer of remittances to Albania has become possible through two channels, i.e. ways that are either formal or informal, the latter of which have been the main ways of transferring remittances to Albania. This is carried out mainly by the emigrants themselves or by a wide circle of relatives and friends (Government of Albania, 2005: 41).

It is clear that the transfer of remittances to Albania depends on a number of factors, including as follows (Government of Albania, 2005: 42):

- the status of Albanian workers in the host country
- whether the migration in question is short- or long-term
- the development and effectiveness of the banking system in Albania
- the confidence of migrants in the banking system subsequent to the 1997 collapse of pyramid schemes
- the level of information of migrants or their relatives about the banking system
- the high cost of transfers for small amounts of money
- the existence and the effectiveness of informal channels
- the unwillingness of migrants to show the quantities of money they have transferred back to Albania.

The remittances transferred in informal ways do bear a significant amount of risk. One part of the expatriate community uses couriers or other services to transfer money by paying a commission. This element continues to be important, but it is virtually impossible to study it accurately.

### The policy background

Article 14 of Law No. 9034, dated 20/03/2003 on *The emigration of Albanian citizens for employment purposes*, is the legal basis for the policy on remittances, according to which:

*The Government of Albania creates favourable conditions for the facilities and the cash distributions of Albanian emigrants via banks (Government of Albania, 2005: 42).*

The government had already aimed, through its 2002-2005 strategy:

*To encourage the absorption of formal remittances by providing a favourable environment for improving the relationship between consumption and long-run investments.*

Comprehensive reforms intended to encourage emigrants to invest remittances in business activities have been undertaken and it was considered a priority that these should continue to be developed (Government of Albania, 2005: 42).

Progress had, however, been made in promoting domestic and foreign investment. The government approved a medium-term strategy on the development of small and medium-sized enterprises with a view to establishing a favourable climate for their establishment (Government of Albania, 2005: 42).

Furthermore, micro-credit and micro-finance institutions have been effective in terms of serving those who do not meet the criteria for being clients of commercial banks. The importance of Albanian micro-finance institutes is given in the *Medium*

*Term Expenditure Framework for 2004-2006*, which is a budget programme prepared by the Ministry of Finance in accordance with the National Strategy for Social and Economic Development (Government of Albania, 2005: 42).

### Policy impact assessment

Despite the importance of the outlined policies in attracting remittances, no policy had been developed or articulated on the management and use of remittances in favour of social development. The weakness of the financial system allows the exclusive use of remittances for the purchase of imported goods and significantly conditions the positive effect that their use may have in the development of the national economic system (Government of Albania, 2005: 43).

In contrast, a coherent policy does need to be developed and, furthermore, implemented regarding the management of migrant workers for two reasons: first, as a result of the extent of their numbers and impact on the economy; and, second, since the flow of remittances will probably decrease in the long-run due to continued integration of migrants in host countries (Government of Albania, 2005: 43).

Economic stability and a favourable investment climate are the necessary conditions to implement all policies on migrant remittances. The main aim is not only to increase remittance flows, but their return to productive investment in Albania. Consequently, any meaningful policy should identify measures increasing the flow of remittances through formal structures. In the meantime, high flows of remittances of migrant workers via unofficial channels increases demand for the improvement of official channels in the name of efficiency, safety, cost and anonymity. The expansion of the banking system in the country, and the creation of new opportunities for the transfer of money, are important elements in such a policy. In particular, Albanian banks may receive remittances from Albanians working abroad through the mediation of correspondent banking institutes in host countries and Albanian micro-credit and micro-finance institutions that can serve as local agencies for the channelling of this process (Government of Albania, 2005: 43).

### *The impact of remittances on the development of the country*

Usually, emigrants do not fall within the focus of providers of banking services, because this client group are considered unstable workers while their transactions have relatively low returns and the cost of managing a service on their behalf is high. Yet the emigrant group could sustain the delivery of various financial products for reasons that include the relationship between remittances and investment (for example, the link of remittance flows with loans or micro-credit products); and support for the contribution of migrants and migrant associations with the development of the country (Government of Albania, 2005: 43).

Finally, the Strategy regarded that an increase in the impact that remittances have might be encouraged by strengthening financial networks and the distribution network in the cities which are most likely to be recipients of remittances in Albania, including in rural areas. The efficient distribution of remittances could be improved, the government felt, if it were to provide proper authorisations for the micro-finance institutions and/or the credit unions that have an extended financial network in the country, have

dealings with the relevant population with low incomes and who participate in the remittances market, either as an external actor or as a distribution partner of the existing institutions (Government of Albania, 2005: 43).

### Conclusion and discussion

Poverty is the main cause of migration. Many rural areas have become depopulated areas.

There are weak links between remittances, the formal financial sector and the factors which lead to people choosing to migrate. Remittances represent significant potential for increased transfers and savings within the banking system, making funds available for productive investment. However, savings from remittances are insufficient by themselves to finance the development of an SME; most potential entrepreneurs would need to seek additional sources of capital prior to starting a business.

The new social, economic and political condition of the country confirms the need for a new National Strategy on Migration. Now, after receiving EU candidate status (formally in June 2014), Albania must develop a new migration strategy that matches the context of new EU directives.

It is important that, in this process, the European Union and the government of Albania consult with migrant workers and the organisations that represent them so that their voices and their families could be heard in debates on the development of migration policies.

Remittances need to be channelled from consumption to investment and production activities, which can be achieved via the adoption of multilateral policies that encourage returned emigrants to invest their earnings back home. In this context, the government should consider the possibility of introducing fiscal incentives to attract emigrants to return home, such as:

- a property tax exemption for returning emigrants to invest
- tax incentives as regards the purchase of new equipment
- tax rebates or subsidies in the event that activities launched by a returning emigrant creates new jobs.

Furthermore, new policies should try to increase the use of formal transfer channels (especially through the banks) and to promote the use of savings accounts via financial awareness campaigns (for emigrants and their families); the inclusion of information on the advantages and facilities of bank transfers; user-friendly treatment from banks; the development of appropriate financial products for emigrants; and support for the emergence of SMEs.

Finally, important attention needs to be paid to the preservation and development of Albanian human capital, including the preservation of cultural heritage and traditions in the country of emigration. Albanian language instruction for emigrants' children abroad should be seen as a priority, while the Albanian government needs to support and encourage the creation of Albanian language courses through Albanian cultural centres abroad.

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