



# Quantitative and Qualitative Aspects of Remittances, Comparative Analysis of Albania and Macedonia

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## Abstract

The issue of emigration is a very important concern for Albania and Macedonia due to the fact that a high percentage of their population has left the countries in the last two decades, making these two countries one of the countries with the highest emigration percentage flows in the world. Migrant remittances are an increasingly important source of income for both countries. For these two economies, remittances are the largest type of international financial inflow and are larger than either capital inflows or official development assistance. These remittance inflows have allowed domestic consumption and investment to be substantially higher than what would have been possible otherwise and have contributed significantly to the developmental prospects of these two economies. In addition, the outflow of labor from these economies has helped to relieve chronically high unemployment which has characterized them since the transition process began in the early 1990. This paper analyses the quantitative and qualitative aspects of the remittances flows and highlight migration issues that are of specific context for Albania and Macedonia, respectively.

## Keywords

*Remittances, Migration, Quantitative, Qualitative, Albania, Macedonia*

## 1. INTRODUCTION

### Increased use of water and energy

Remittances have grown rapidly in recent years and have proved to be a stable source of finance for many countries, which can be of relief during difficult economic times. Albania and Macedonia are interesting case studies for various reasons. Firstly, they are countries that have experienced extensive emigration. Large number of Macedonia's and Albania's populations has emigrated. Secondly, South-Eastern Europe is the region that receives one of the highest amounts of remittances in the world. Albania and Macedonia, as small Southeast European economies, have been receiving a growing amount of remittances throughout the years. There are a high percentage of remittance-receiving households at national level in both Albania and Macedonia.

## 2. LITERATURE REVIEW

Migration and remittances may have important economic consequences. It is widely acknowledged that remittances have positive effect on the receiving country. Money sent by emigrants can reduce the poverty and generate substantial welfare gains for migrants and their families (WB, 2006). Large size of remittances relative to other external flows and to the GDP indicates that macroeconomic effects are also substantial. Remittances flows can influence the foreign exchange rate, domestic interest rates, and the balance of payments. Large inflows can also have some undesirable side effects weakening the institutional capacity of the state.

Earning remittances through emigration is seen by most Albanians as the most effective way of coping with the country's very difficult economic conditions and ultimately to escape poverty at the individual and household level (De Soto et al., 2002). Albanian migrants working abroad have sent home remittances variously estimated (because of the uncertainty over the volume of unrecorded transfers) to be somewhere between \$300 million and \$1 billion per annum: the country's major source of external income after aid. Put another way, the remittances sent by one Albanian migrant are equivalent to 2.5 times the sum of the average wages of all members of a family (Misja and Misja, 1995).

Connected to a long lasting migration history, remittance flows into Macedonia are remarkable. However, as in many other remittances receiving countries in the world, official data on remittances are scarce and they may significantly underreport actual money transfers, as many migrants send remittances via informal channels. By definition of the IMF and the World Bank, official remittances data include migrants' transfers in addition to workers' remittances and compensation of employees. This data cannot be calculated in the case of Macedonia, because the Macedonian national bank records migrants' transfers as part of cash exchange which also incorporates payments for unrecorded trade and services. An estimation which included all three remittances categories found remittances in Macedonia to amount to 15.2% of GDP in 2004 (Mansoor and Quillin, 2007).

### 3. QUANTITATIVE ASPECTS OF REMITTANCES

#### 3.1. QUANTITATIVE ASPECTS OF REMITTANCES IN MACEDONIA

Remittances constitute an increasing source of revenue for many families in the former Macedonia. At a macro level, remittances finance the balance of payment (i.e. without remittances the current account balance would deteriorate) (Markiewicz, 2006). In fact, is among the top 30 developing countries with respect to the highest remittances received as a percentage of GDP, 11th, and with the highest remittances per capita, 278th in 2002 and that makes it the 14th, (OECD, 2006).

What constitutes remittances varies from one source to another. For example, the figures show different amounts when considering the National Bank of Macedonia (NBM) and the World Bank (WB) data. The difference lies in the definition adopted. The WB one is much broader and is the summation of three components, namely: workers' remittances, compensation of employees and migrant transfers. In other hand NBM, the migrant transfers include in the cash exchange. Since this category includes also payments for unrecorded trade and services, the realistic estimate of migrants' transfers is somewhere within this range (Markiewicz, 2006).

This difference becomes even more complex when considering other sources, such as the IMF data. The figures on remittances as percentage of GDP and of exports vary dramatically according to the source. For instance, in 2002 remittances amounted to 15.2% of GDP according to the Center for Research and Policy Studies in Skopje, whereas in 2003 this constitutes only 3.7% (Schorooten, 2005). For 2005, Joanne Van Selm cites IMF figures on remittances as high as 18% of GDP. This is mainly due to the slightly different definitions of remittances of IMF: the sum of the compensation of employees, worker's remittances, and other current transfers in other sectors (Van Selm, 2007).

Table 1: Annual remittance flows for Macedonia (BPM5 Framework)\*

	Inflows				Outflows			
	Workers' remittances	Compensation of employees	Migrants' transfers	Migrant remittances	Workers' remittances	Compensation of employees	Migrants' transfers	Migrant remittances
2000	80.5	0.4	0	80.9	14.2	0.0	0	14.2
2001	68.0	5.4	0	73.4	20.5	0.0	0	20.5
2002	92.4	13.5	0	105.9	22.5	0.7	0	23.3
2003	145.7	27.9	0	173.7	15.4	0.6	0	16.1
2004	161.1	52.0	0	213.0	14.7	1.4	0	16.2
2005	169.4	57.2	0	226.6	14.0	1.5	0	15.5
2006	197.6	68.9	0	266.6	15.6	2.2	0	17.8
2007	239.2	105.8	0	345.0	22.3	2.5	0	24.9
2008	266.1	140.5	0	406.6	28.2	4.8	0	33.0
2009	260.1	121.0	0	381.2	22.3	4.0	0	26.3
2010	259.9	128.1	0	387.9	19.3	3.4	0	22.6
2011	271.3	162.4	0	433.7	20.7	3.6	0	24.3

Source: National Bank of Republic of Macedonia, Statistics, Balance of Payments Database

\* BPM5: The sixth edition of the Balance of Payments and International Investment Position Manual (BPM6, the Manual) published in 1993 serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world.

Most remittances are sent from Western Europe. Based on the World Bank's estimates, more than 70 percent of remittances come from Western Europe (more than 60 percent from EU countries). While Germany, Switzerland, and Italy are undoubtedly the most prominent contributing countries, other survey-based sources also list the United States as a secondary remittance sending country (see, for instance, Roberts et al., 2008).

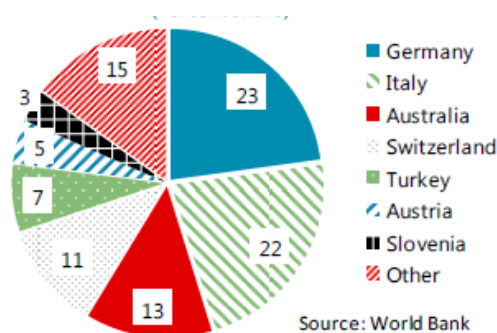


Figure 1 Origin of Remittances, 2012 (Percent share)

### 3.2. QUANTITATIVE ASPECTS OF REMITTANCES IN ALBANIA

The Bank of Albania calculates remittances as the difference between foreign currency coming in and foreign currency going out. This calculation does not exclude the possibility that income from suspicious activities, such as trafficking, is also taken into account.

Table 2: Annual remittance flows for Albania (BPM5 Framework)

	Inflows				Outflows			
	Workers' remittances	Compensation of employees	Migrants' transfers	Migrant remittances	Workers' remittances	Compensation of employees	Migrants' transfers	Migrant remittances
2000	530.8	67.0	0.0	597.8	0.0	0.0	0.0	0.0
2001	614.9	84.4	0.0	699.3	0.0	0.0	0.0	0.0
2002	643.4	90.1	0.0	733.6	0.0	0.0	0.0	0.0
2003	778.1	110.6	0.0	888.7	0.0	4.1	0.0	4.1
2004	1,028.4	132.3	0.0	1,160.7	0.0	4.9	0.0	4.9
2005	1,160.7	129.0	0.0	1,289.7	0.0	6.5	0.0	6.5
2006	1,175.6	183.9	0.0	1,359.5	0.0	26.5	0.0	26.5
2007	1,304.6	163.5	0.0	1,468.0	0.0	9.9	0.0	9.9
2008	1,225.5	269.5	0.0	1,495.0	0.0	15.9	0.0	15.9
2009	1,091.2	227.3	0.0	1,318.5	1.4	8.6	0.0	10.1
2010	924.3	231.7	0.0	1,156.0	8.9	15.3	0.0	24.2
2011	965.0	196.8	0.0	1,161.8	7.0	14.2	0.0	21.2

(US \$, millions)

Source: IMF Balance of Payments Database

With over a million Albanians living outside of the country, it is no surprise that both research and politics increasingly pay attention to the role of these emigrants. Many emigrants send remittances, with an immediate impact on the disposable household income of family members left behind. Indeed, remittances have been considered a major factor for boosting consumer expenditure in Albania, and are widely credited for fuelling the construction sector in the country. Figure 2 shows that the total amount of remittances sent to Albania has steadily increased between 2001 and 2008. Very broadly, this increase seems to correspond to the increasing number of Albanian emigrants. The highest amount of remittances recorded was in 2008 with 1,495 million USD. This is equivalent to 11.5 percent of the annual GDP that year, highlighting the important role that remittances play in the Albanian economy.

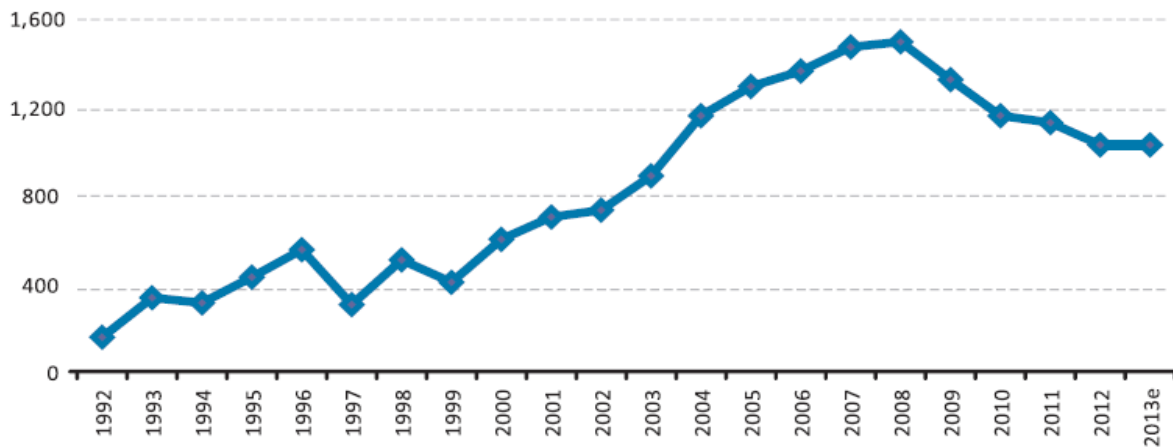


Figure 2 In-flow of remittances, 1992 – 2013, in millions of USD  
Source: World Bank: Migration and Remittances data (updated as of January 2014).

During the same period, Albania enjoyed considerable and uninterrupted economic growth at an average of 5.9 percent annually (2003 – 2008). In the wake of the Great Recession, as Figure 3 illustrates, the flow of remittances has clearly decreased. This is directly related to the economic situation in Greece and Italy, the two countries accounting for the largest shares of remittances. Figure 3, illustrates that Greece and Italy jointly account for 85 percent of the remittances. This compares to around 85 percent of the emigrant stock in these two countries.

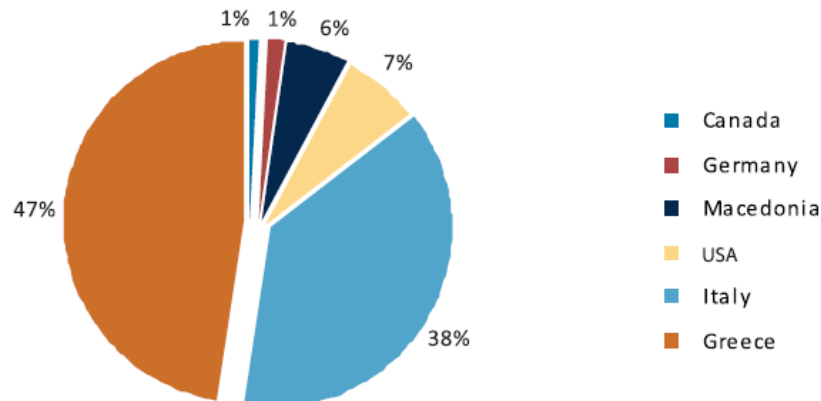


Figure 3 Remittances in 2011 by country of origin, in (%)

Source: World Bank

## 4. QUALITATIVE ASPECT OF REMITTANCES

### 4.1. QUALITATIVE ASPECT OF REMITTANCES IN MACEDONIA

There is no official governmental measurable feature of the qualitative aspect of remittances in Macedonia. However, the study done by the Center for Research and Policy Making (2007), estimates that only 15% of the financial transfers were made through official channels (i.e. banks – there is no mention of money transfer operators). The study estimated that the remainder is brought in the country either by migrants themselves or through “couriers” such as friends, relatives, coach carriers or other private tour operators, but no figures are provided. The Macedonian migrant sends home remittances very often, i.e. on a monthly or bimonthly basis. 32.4% of Macedonian Migrants are estimated to be remittance senders. Male migrants are more likely to send home remittances, although the gender discrepancy in this case is rather small. The same source reveals that 33% of the migrants believe remittances are important to their families and a World Bank study estimate that remittances constitute up to 5% of the total household expenditure (Mansoor and Quillin, 2007).

### 4.2. QUALITATIVE ASPECT OF REMITTANCES IN ALBANIA

The amount of remittances to Albania is three times as high as foreign net direct investments and nearly twice as much as the official development aid received by Albania (Social Policies Institute, 2007). Albanian emigrants mainly send remittances through informal channels (77.4%) – primarily by hand; and less with the formal ones (22.6%) - the banking system remaining the least preferred formal channel (World Bank, 2006). Due to geographical locality Albanians residing in Greece or Italy travel an average of 2-3 times per year to Albania and bring the money with them.

Money Transfer Operators (MTOs) dominate the formal market for money transfers to Albania from Italy (WB, 2006). The MTOs have advantages compared to the banks, such as faster transfer services, and no requirement for a bank account for

the sender. In addition, recipient migrant households in Albania lack easy access to the banking sector. The results of the emigrant households' survey undertaken by IOM in Albania in 2005 indicate that emigrant households in Albania show little familiarity with the banking system in Albania. Only 45.3% of all households in Albania maintain a bank account. When only emigrant households residing in rural areas are considered, the percentage is even lower (IOM, 2005).

Overall, the following factors seem to limit the formal transfer of migrant remittances to Albania: difficulties in accessing banking services by migrant senders in the host country, relatively slow speed of bank transfers, little trust in the Albanian banking services among senders and recipients of remittances, high transfer fees, and the strength of an informal money exchange market in Albania (De Zwager, 2005).

68.6% of emigrants send remittances back to Albania. The most common recipients are the parents of the sender, then spouse and children, followed by extended family. Financing the families' daily needs is the primary use of remittances, followed by construction, upgrading and furnishing homes; and investment in real estate. According to the results of the Living Standard Measuring Survey (LSMS) in 2002, remittances from emigrants represented 13% of the average household income, while for recipient households they represented 47% of the household income. The average size of monthly remittances was 13,600 Lek or USD 95 (IMF, 2005).

Using data from the LSMS 2012, with regard to remittances, it is possible to describe the flow of remittances from the perspective of households that receive them. The households were asked about members that were currently abroad to get information on the status of employment, remittances and some demographic characteristics. As Figure 4 illustrates, about 46 percent of current migrants send remittances at home, mostly in cash (35 percent) but also in kind, or both. The figures are well related with the status of employment, those who are currently working accounting for 66 percent.

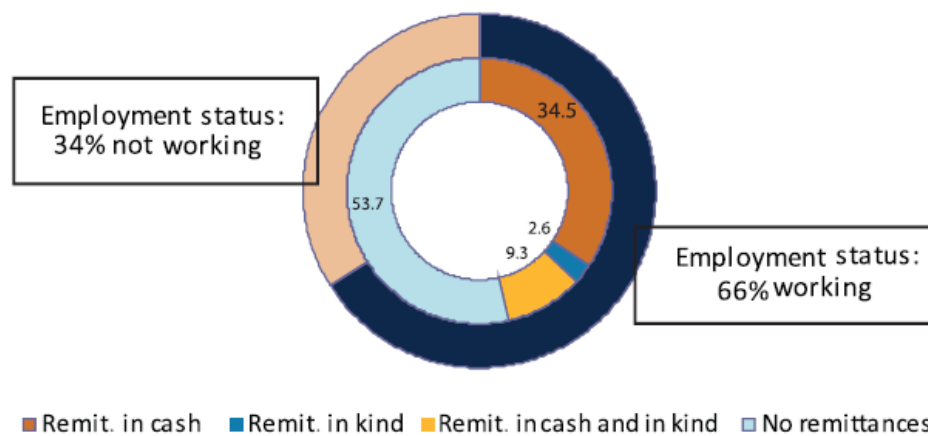


Figure 4 Flow of remittances to households during 2012 and employment status of current migrants, in (%)  
Source: LSM 2012, INSTAT

Data from LSMS 2012 show that remittances are used for household expenditures and a small part is dedicated to the remittance sender's use. Only 3 percent of the migrants living currently abroad seem to send money for their own use (according to the declaration of the household). When it comes to how these remittances for the sender's use are used once sent to Albania, nearly 80 percent of the money is invested in construction work, with another 16 percent invested in business development. These estimates correspond with other studies that report that between 10 and 12 percent of remittances are invested rather than spent on household expenditure (LSMS 2002, ETF 2007, de Zwager et al. 2010). With so much money invested in property; it is easy to see why remittances and the construction sector are seen as closely linked in Albania. These are forms of investment where remittances add to long-term development in some form, in the sense that almost all the money is invested in potentially durable products – as opposed to direct consumer spending. This said, with the figures presented here it is impossible to establish the quality and sustainability of the investments undertaken. A new building in the wrong location may end up unused, hence making no durable contribution to the country. By contrast, investments in buildings where members of the family live in reflect upgrades in living standards that are a sustainable contribution to the family and the country more widely. For example, investments in sanitation will have direct benefits for the health of the family, which indirectly benefits the country by keeping healthcare costs down.

## 5. CONCLUSIONS

Private transfers including remittances are a major source of financing for the large trade deficit in Macedonia. Private transfer inflows have represented a stable and major source of financing of external accounts over the past decade. The amount of private transfers in percent of GDP, in the last ten years, has fluctuated between 13 and 21 percent of GDP.

Macedonia is also an exceptional case insofar as remittances and other private transfer inflows are large enough to almost cover the entire trade deficit, thus making a key contribution to reserve accumulation and external stability in the context of the peg to the euro. Other than exports, private transfers constitute the largest source of foreign exchange for Macedonia. As a fairly stable source of financing, private transfers have contributed to the economy's resilience to the crisis.

During the last two decades, Albania received large amounts of remittances and became a main source of financing the great imbalance between the exports of goods and imports of services, by reducing the current account deficit. Inflow of remittances affects economic growth positively improving the balance of payment position and reducing dependence on external borrowing.

Remittances are an important economic source for many Albanian families too, and it appears that a significant part is invested – particularly in buildings – rather than simply spent on consumer goods. This suggests that in many cases, migration does indeed improve livelihoods with wider benefits for society such as in terms of improved health and welfare. These trends are reflected in lower poverty rates in households involving migrants, although differences may be less pronounced than they were in the past.

Both, for Albania and Macedonia, the proper measurement of remittances are essential for estimating their impact on the economy and making optimal policy decisions. There is broad consensus in the literature as well as at policy-making levels on the uncertainty of the true magnitude of remittances. Considering the critical nature of remittances for the Albanian and Macedonian economy, domestic surveys on recipient households should be conducted on a more frequent basis. These should be combined with a comprehensive census of the diaspora through consular offices, so as to allow a better understanding of the location, skills, and experience of migrants.

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