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Remittances and their impact on poverty: the case of Albania

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I. Introduction

- At the beginning of this century, UN estimated that 2.8% of the world's population or about 174 million people live and work outside their country of birth (UN, 2019).

- In 2019, the number of international migrants is estimated 272 million people or 3.5 % of world population (UN, 2019).

- India continued to be the largest country of origin of international migrants
  - India had the largest number of migrants living abroad (17.5 million), followed by Mexico and China (11.8 million and 10.7 million respectively).
  - The top destination country remained the United States (50.7 million international migrants).

- International remittances increased to USD 689 billion in 2018.
  - The top 3 remittance recipients were India (USD 78.6 billion), China (USD 67.4 billion) and Mexico (USD 35.7 billion).
  - The United States remained the top remittance-sending country (USD 68.0 billion) followed by the United Arab Emirates (USD 44.4 billion) and Saudi Arabia (USD 36.1 billion).

I. Introduction

Remittances (million euro)
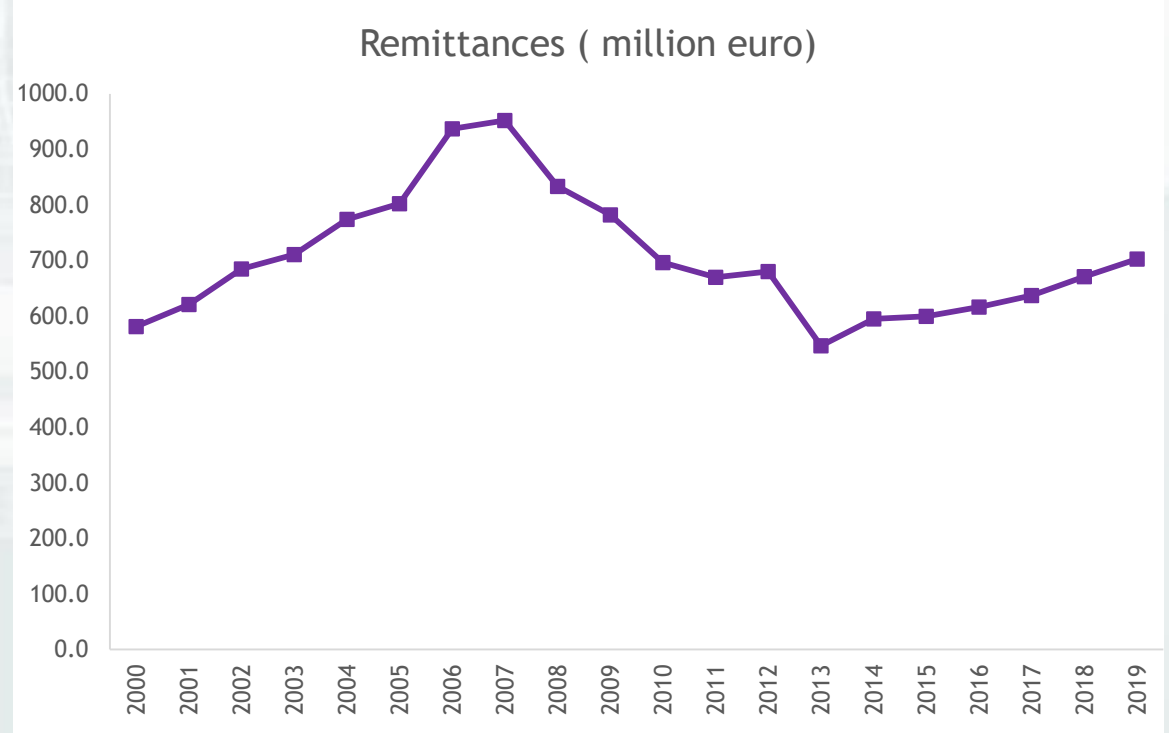
Source: Bank of Albania

- Albania is a country in South-Eastern Europe, with 2.83 million people, where migration is a very widespread and well-known phenomenon, especially after the ex-post communism.

- 1.21 million people or 42.7 % of total Albanian population live outside Albania (UN, 2019).

- 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 2008-2019, remittances are estimated at 11.7% of GDP (Bank of Albania, 2019).

I. Introduction

- After the recent financial crisis household surveys are becoming an important and predominant source of micro-level data on household wealth for:

    - Collecting detailed information on households such as: demographic, socio-economic information on income, employment, consumption, assets, liabilities etc.

    - Analyzing different aspect of hhouseholds patterns based on different group of households

- The aim of this article is to asses the importance of the remittances on Albanian households based on the micro data from two main survey:
    - 2006, Migration Survey (Frashëri, 2007)
    - 2019, Albanian Household Wealth Survey (Dushku, 2019)

II. Methodology

- Albanian Household Wealth Survey (AHWS), introduced in 2019 by the Bank of Albania, was based on the methodology proposed by HFCS (Household Finance and Consumption Survey).

- The main purpose of Albanian Household Wealth 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.

- The relevance of micro data from AHWS :
    - Analyzing and evaluating various aspects of the transmission mechanism of monetary policy and financial stability.
    - Detailed assessment of the behavior of the household and its members.
    - Assessing and analyzing various macroeconomic policies as well as macroeconomic shocks.
    - Designing appropriate policies for monetary policy, financial stability, financial inclusion and financial education.

II. Methodology

| Sample design of AHWS	Two-stage stratified sample (random selection)
Sampling frame	National population register
Stratification criteria	Region, population size
Primary sampling unit	312 (8+4 household)
Region	12
Panel component	No/in future
Excluded groups	Population in institutions, homeless
Oversampling of wealthy	No
Weighting procedure	the unit's probability of selection; coverage issues; unit non-response

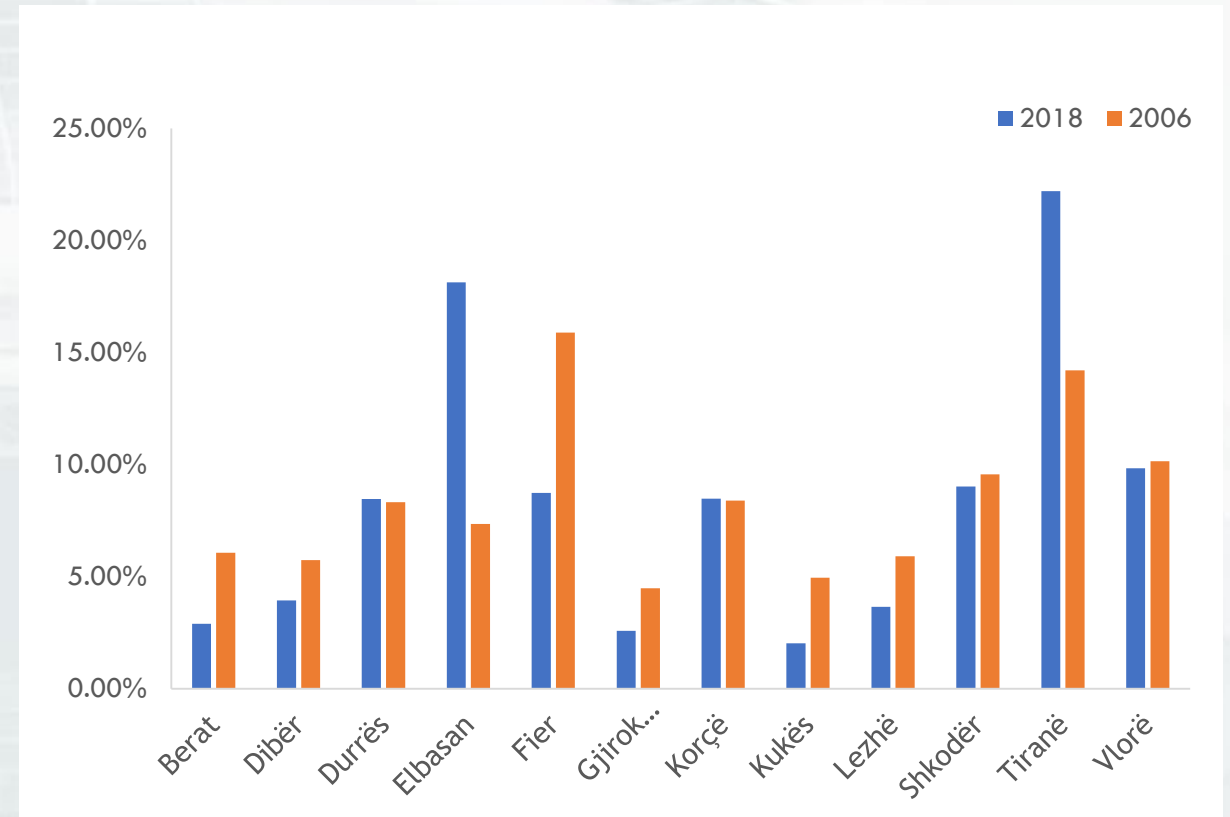# II. Methodology

Main questions in AHWS:

- Have you or any households member received remittances during 2018?

- How much (annual) remittances did you or your family receive during 2018?

III. Data

Graph 1: Percentage of households receiving remittances
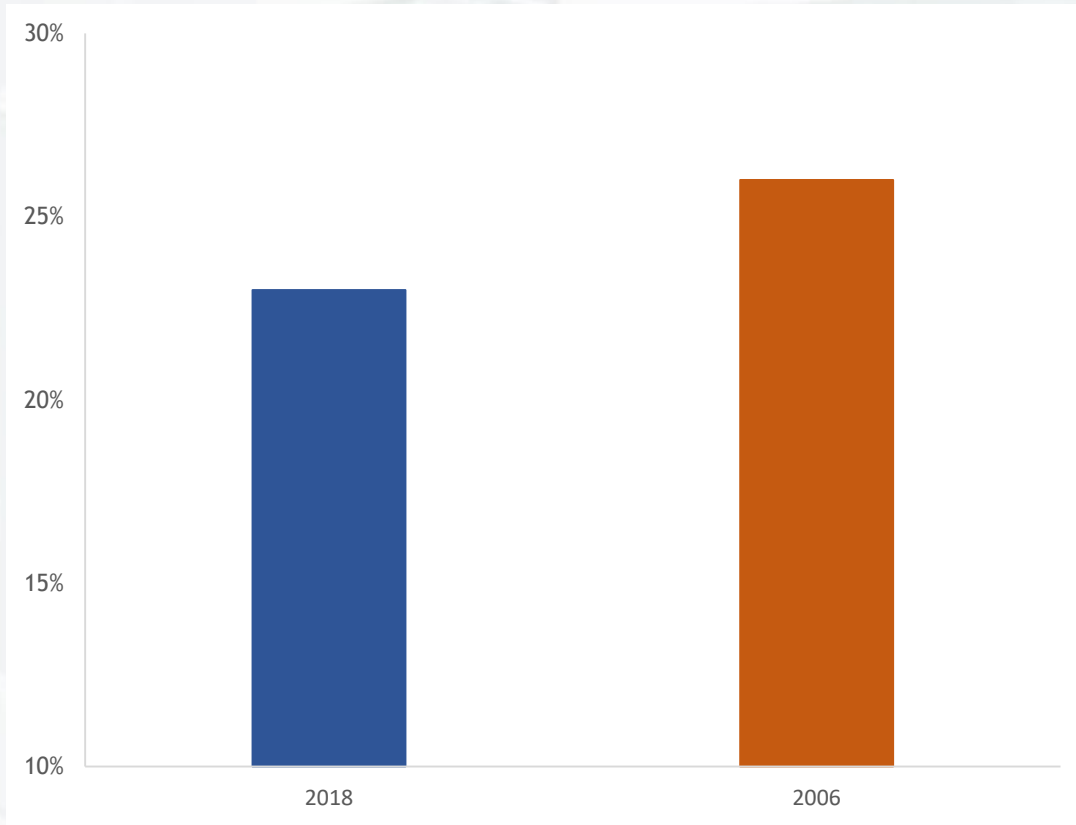
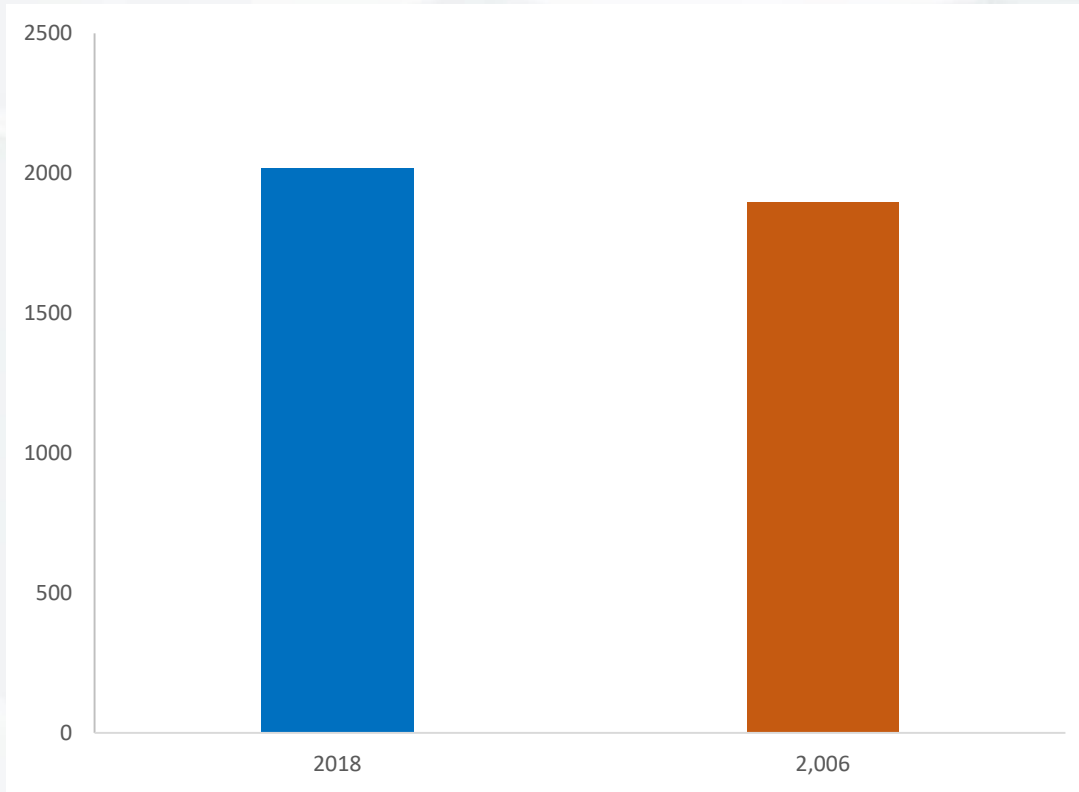**Graph 2: Geographical distribution of remittances-receiving households as % of total**

Source: Frashëri, (2007), Dushku (2019)

- 23%-26% of households in Albania received remittances.

- Geographical distribution of remittances-receiving households is almost the same during two periods for the majority of the regions. In 2018, the regions of Elbasan and Tirana, showed double increase of households receiving remittances, while reverse path showed the region of Fieri.
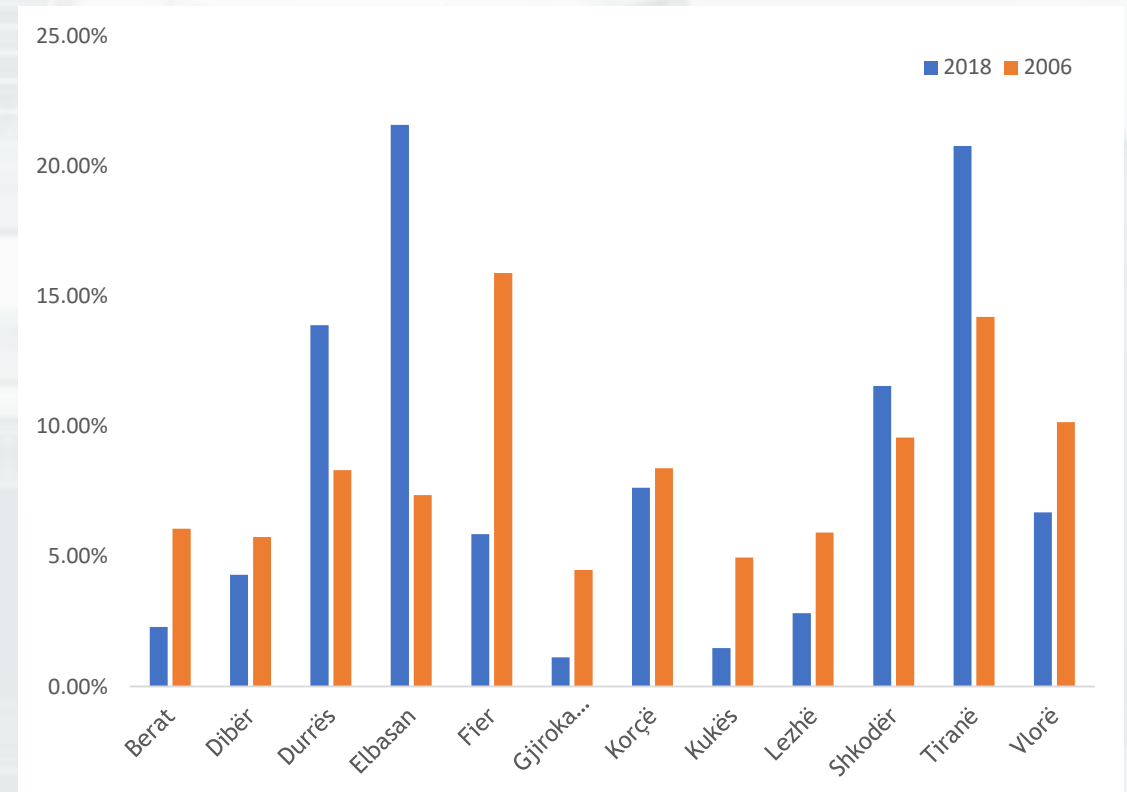
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III. Data

Graph 3: Annual average flow of remittances per household in euro

Graph 4: Geographically distribution of amount remittances as % of total remittances

Source: Frashëri, (2007), Dushku (2019)

- On average, annual flow of remittances per household is estimated around 1,897 to 2,018 euro.

- In 2006 the most beneficiaries households are those located in the region of Fieri, Tirana, Vlora and Shkodra, while in 2018, are those located at the region of Elbasani, Tirana, Durresi and Shkodra.

III. Data

**Graph 5: Source of household income in 2006 and 2018**
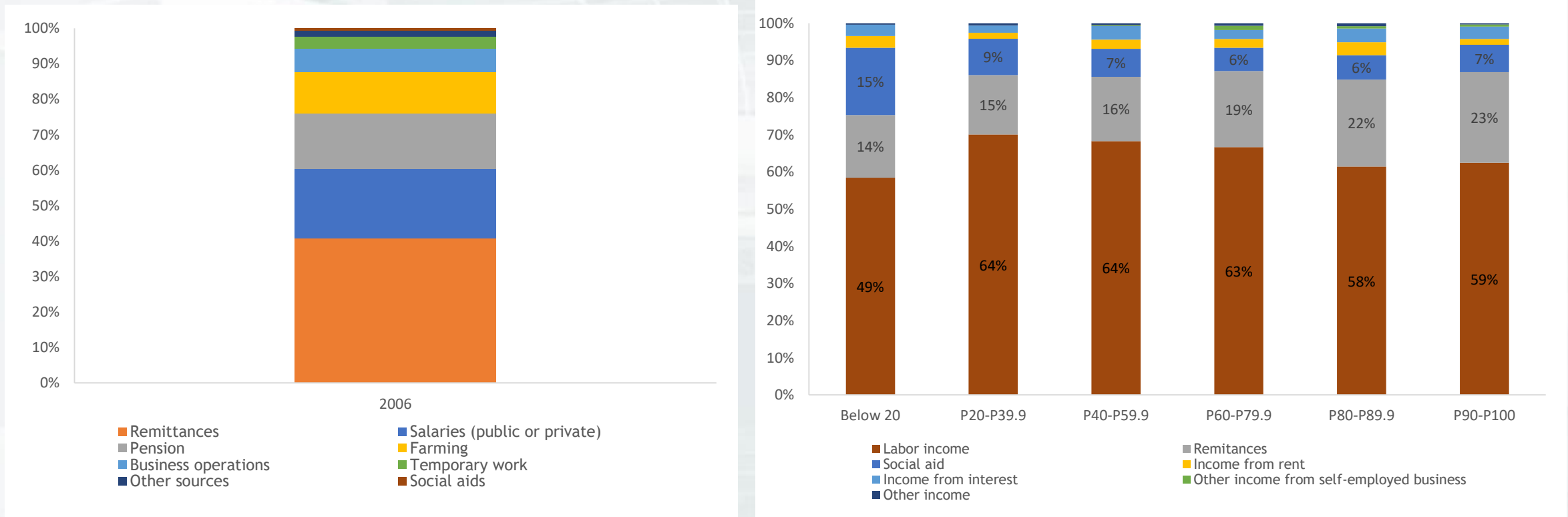
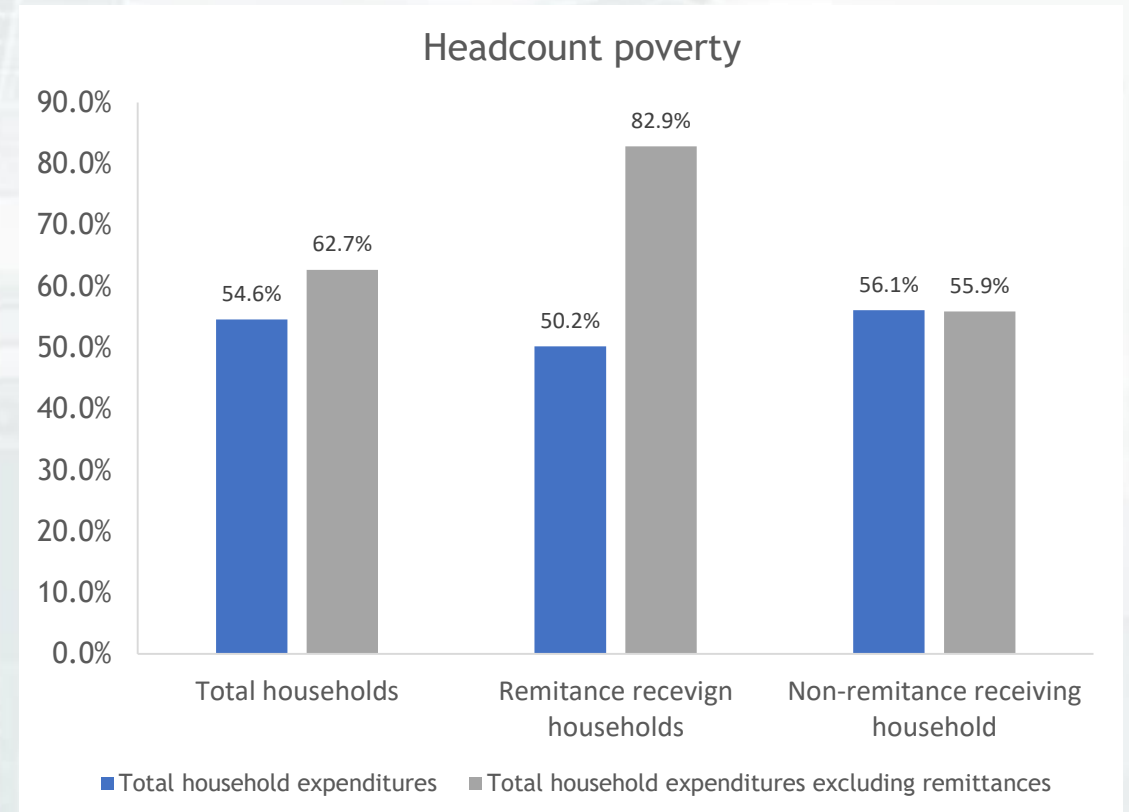Source: Frashëri, (2007), Dushku (2019)

- Remittances are the second most important source of household income, they accounted from 14 % to 23 % of households income.

- The households survey data in 2019, showed that for 24.4% of remittances-receiving households, remittances are the only source of household income.

III. Data

Graph 6: The impact of remittances on household poverty
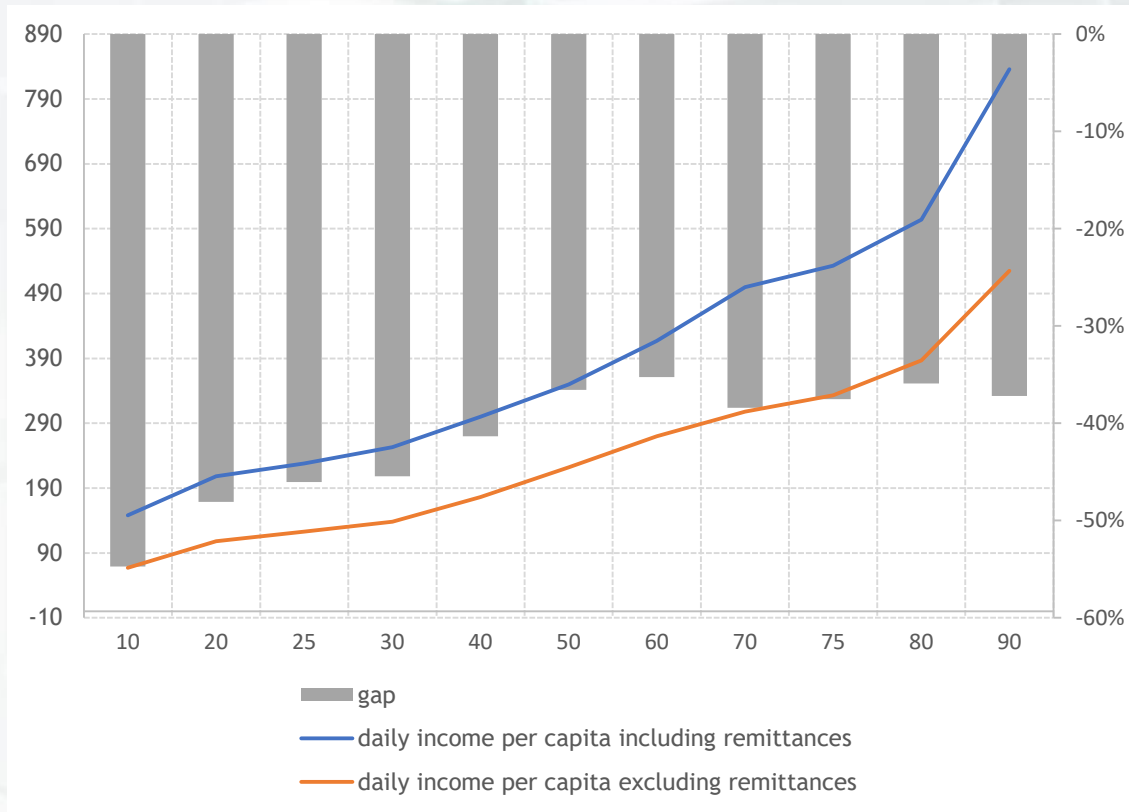
Source: Frashëri, (2007)

Source: Dushku (2019)

- In 2007, Frashëri showed that excluding remittances, 40 % of households would fall under poverty level.

- The estimated results for 2019, showed that excluding remittances will increase the percentage of poor households, especially for the remittances-receiving household by 30 pp (Dushku, 2019).

IV. Estimation strategy

We aim to model the impact of receiving remittances on household poverty based on probit models.

$$P\_H^*_i = x'_i\beta + \mu_i$$

$$P\_H_i = \begin{cases} 1 \; if \; Poverty\_line^* - H\_income_i > 0 \\ 0 \; if \; Poverty\_line^* - H\_income_i \leq 0 \end{cases}$$

P_H_i is a dummy variable, which is used to define whenever the households is consider poor or not. A households is consider poor if the gap between poverty line and household income is positive, otherwise non-poor.

The probability of a household being poor is:

$$\Pr(y_i = 1|x_i\beta) = \Pr(Poverty^*_i > 0) = \Pr(x'_i\beta + \mu_i > 0) = 1 - F_{u_i}(-x'_i\beta)$$

F_{ui} is the cumulative distribution function of ui,

IV.Regression results

	I-WB poverty line	II-60 % of the median of expenditure per capita	III-60 % of the median of equalized expenditure
Head: Male	0.248	0.352	0.226
p-value	(0.009)	(0.002)	(0.040)
Head: Age	0.016	-0.031	0.007
p-value	(0.053)	(0.001)	(0.458)
Head:Age2(/100)	-0.020	0.013	-0.012
p-value	(0.024)	(0.205)	(0.228)
Head: Married	0.072	-0.075	-0.239
p-value	(0.496)	(0.554)	(0.047)
Head: Year of education	0.059	0.030	0.042
p-value	(0.085)	(0.461)	(0.302)
Head: Year of education2/(100)	-0.774	-0.685	-0.709
p-value	(0.000)	(0.003)	(0.0032)
Head: unemployment	0.300	0.316	0.271
p-value	(0.003)	(0.001)	(0.0066)
Number of persons in the households	0.251	0.215	-0.031
p-value	(0.000)	(0.000)	(0.227)
Number of children under 5 years old	0.115	0.188	0.136
p-value	(0.125)	(0.010)	(0.075)
Household expenditure per capita (excluding remittances)	-0.088	-0.013	-0.061
p-value	(0.000)	(0.000)	(0.000)
Receipt of remittances	**-0.701**	**-0.405**	**-0.712**
p-value	(0.000)	(0.000)	(0.000)
Observations	2106	2106	2106

V. Conclusions

- Household level data confirm that remittances continued to be an important source of household income in Albania during the last decade.

- 23-26 % of Albanian households received remittances, with an annual average flow of remittances per household that range from 1827-2018 euro.

- Tirana, Elbasan and Fier are the most beneficiaries region in terms of amount and receiving-remittance households .

- Estimated results show that remittances reduces the probability of household being poor by 30 %.

Thank you for your attention !

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