



Bank of Albania

Remittances:

A support for development

16 June 2018

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Foreword

Dear reader,

Today, on the International Day of Family Remittances, the Bank of Albania publishes "Remittances: A support for development." Over the years, the Bank of Albania has conducted and published various researches on remittances; but, today, for the first time, it publishes this document dedicated entirely to remittances, to highlight the role of remittances and their importance to the Albanian economy, which are always at the focus of the central bank.

I would like to note three points in my message:

- First, labour migration and remittances in Albania have been on a steady upward trend, similarly to many countries around the world*
- Second, there is considerable space to maximise benefits from remittances for the development of the Albanian economy*
- Third, the collaboration between all relevant actors may play a role for channelling remittances more effectively towards the activities that boost production.*

Albania has a considerable migratory population presence throughout the world (around 1.2 million emigrants), almost half of the population currently residing in Albania. This migratory population has been increasing over the years and the possible expansion of EU in the Western Balkans may encourage further migratory outflows from Albania.

The high number of migrants has generated considerable flows of remittances over the years (on average EUR 1.15 billion per year in 2017 and 2018, or around 12% of Albania's GDP). These flows are an extraordinary and unique source of financing the Albanian economy and have often shown resilience in economic crisis situations. Expectations point to even higher contributions in the future, driven by the outlook on the improvement of the economy in the host countries.

Notwithstanding these facts and positive figures, I must say that the use of these sources remains far from the potential levels. The main reason lies behind the sending of remittances thorough informal channels. As a result of the use of these channels, the increasing contribution of remittances is assessed as narrower and the multiplication effects as slower.

The second impeding element is that of costs. This element contributes to decelerating remittances and discourages the use of official transfer channels, encouraging the sending in cash, which in turn affects the amount of currency outside banks. The costs of sending remittances are estimated at the 8-10% interval, notably higher than the regional average. These values are also far from the global objective to reduce costs at 3% and to eliminate corridors with costs higher than 5%, by 2030.

The elimination of these two barriers would provide a more complete utilisation of the economic and social potential of remittances in Albania. Hence, it is crucial to formalise the transfer channels and narrowing the spaces for the informal sending of remittances. If this is realised, the contribution of remittances to economic growth would be even higher, and these flows will also serve to a better balance and diversification of economic growth sources. It provides for a better resilience in times of economic crises.

The second advantage relates to financial inclusion. Given that remittance-receiving households are relatively

less included in the financial sector, the provision of specific financial products to these categories would help to enhance the financial inclusion of the population. If this is achieved, the economic benefits will further increase as a result of the multiplication effects.

The Bank of Albania is committed to paying special attention to the regulatory, legal and infrastructural improvement with regard to channelling remittances through the formal channels and reducing costs. In collaboration with other markets operators, we will also focus on the establishment and promotion of special financial products that simultaneously address both the senders and receivers of remittances. The collaboration will involve all the actors operating in the remittances market, aiming at maximising these flows.

Joint efforts by the Government, the regulators and the financial sector are needed in order to address the legal and policy limitations, to improve the formal financial systems and to enhance financial literacy for consumers. Finally, it will drive to the deepening and expansion of both financial inclusion and investment in economy, which, in a longer term, will contribute to the development of a stable national industry, capable of generating employment, and curbing both poverty and the current trend to leave Albania.

Concluding, I am optimistic that this initiative will provide for the complete economic utilisation of these flows, rendering remittances an even more important catalyser for the economic, financial and social development of the country in the future.

Gent SEJKO

Governor

International Day of Family Remittances - 16 June

The IDFR was unanimously proclaimed by all 176 member states of IFAD's Governing Council at its 38th session in February 2015, and was noted in the UN General Assembly's Resolution on International Migration and Development A/RES/71/237.

An International Day of Family Remittances represents an invaluable opportunity not only to recognize the efforts of migrant workers globally, but also to promote the role of remittances in facing the economic, social and environmental challenges for developing countries. This day highlights the importance of remittances' potential to achieve the ultimate target, that is, transforming migration for future generations into a solution rather than a need.

The 16th of June celebrates the work, sacrifice and generosity of workers, and the services provided by the financial industry, to turn remittances into a reality to millions of migrants worldwide.

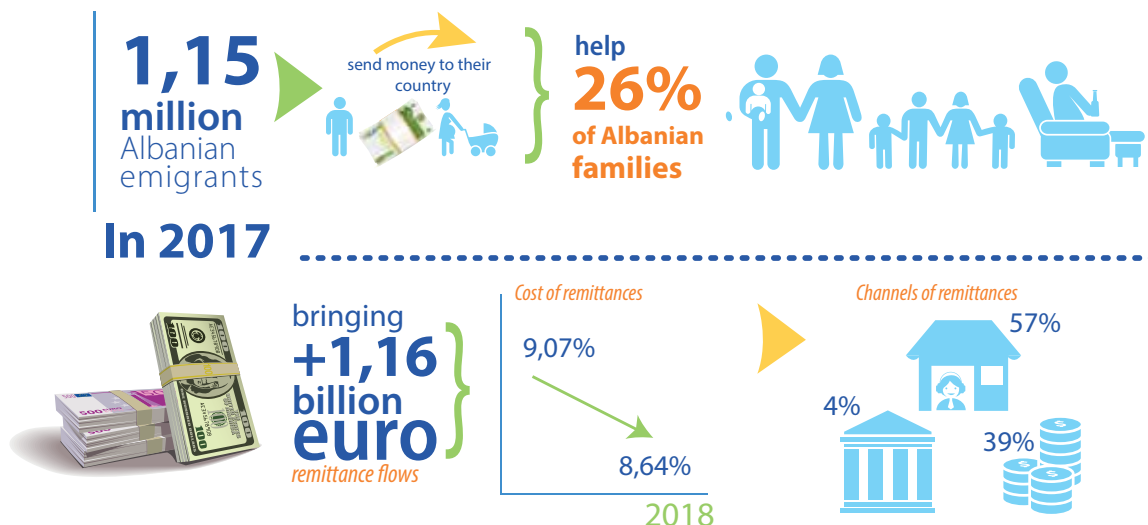
The number of international migrants worldwide - people residing in a country other than their country of birth - reached 258 million in 2017, 49% higher than in 2000. It accounts for about 3.4% of global population (from 2.8% in 2000) according to the United Nations.

[\(http://www.un.org/en/events/family-remittances-day/\)](http://www.un.org/en/events/family-remittances-day/)



**International Day
of Family Remittances**
16 JUNE

International Day of Family Remittances



Statistics for Albania	
Population, 1 January 2018 (million)	2.87
Population growth (% average 2010-2017)	-0.21
Population density, 2017 (habitant per km2)	100.1
Labour force, 2017 (million)	1.4
Unemployment rate, 2017 (%)	14.1
Urban population, 2011 (%)	55.0
Area (km2)	28748
Gross Domestic Product, GDP, 2016 (Euro billion)	11.6
GDP per capita 2016 (euro)	4041.0
GDP growth (% average 2010-2017)	2.5
LPoverty headcount ratio at national poverty line, 2012 (% of pop.)	14.3
Level of employment 2017 (% of population of working age)	57.4
Number of banking accounts, 2017 (% < 15 years old)	40.0
Mobile phone subscriptions, 2017 (per 100 people)	111.5
Internet active users, 2017 (per 100 people)	69.7

Source: INSTAT, Electronic and Postal Communications Authority - Annual Report 2017, BoA's calculations.

Migration	
Migrants stock, 2017 (million)	1.15
Stock of migrants as percentage of pop., 2017	40.07
Countries with the highest migration	Italy, Greece, United States, Macedonia, United Kingdom, Germany, Canada, France, Belgium

Source: United Nations, 2017.

Remittances (EUR million)	2010	2011	2012	2013	2014	2015	2016	2017
Remittance inflows	1,198.43	1,114.44	1,104.20	964.81	1,073.25	1,165.11	1,179.84	1,156.38
of which:								
Compensation of employees	174.87	138.66	118.42	189.23	250.05	271.20	279.75	285.49
Personal transfers	1,023.56	975.78	985.78	775.58	823.20	893.91	900.09	870.89
Remittance outflows	158.05	108.40	168.04	143.45	134.77	138.27	132.72	94.51
of which:								
Compensation of employees	11.61	10.23	28.97	35.09	30.44	25.89	19.40	22.52
Personal transfers	146.43	98.18	139.07	108.36	104.32	112.38	113.32	71.99

Source: Bank of Albania, (2017).

DEFINITION AND MEASUREMENT OF REMITTANCES

The economic significance of remittances lies beyond what official statistics of the balance of payments suggest, for both sending and recipient countries. The economic significance of remittances may be defined as the transfer of monetary or in-kind “income and wealth” from workers in one country to their country of origin. Monetary transfers contribute to the direct growth of foreign currency amount in the home country of migrants; meanwhile, in-kind transfers contribute to the increase of savings in the host country of the migrant. These are important distinctions when modalities, quantity and impact of remittances are analysed. For example, when remittances are sent via formal channels, they are recorded in the current account of the balance of payments of both the home and the host country of the migrant. On the other hand, remittances sent informally, in cash, overall remain outside the official registration, driving to the need to estimate inflows mainly through statistical surveys.

Remittances may be in-kind, for example goods sent to families in the country of origin. Only a part of them is recorded as imports. Migrants also may donate in the host country to entities, like churches, charity organisations which are established by compatriots. They also may make certain payments (for insurance premia, education, tickets for international flights directly to air lines) on behalf of their relatives or friends in the country of origin. Although the major part of these payments, in economic substance, should be dealt with as “remittances”, in reality they are rarely recorded as such. All these considerations should be taken into account when assessing the real amount of remittances flow based on official statistics, which, based on the above-mentioned reasons, tend to underestimate their full impact on the economy.

The methodology to record remittances, compiled by the International Monetary Fund – BPM6¹, classifies them into three items of the balance of payments:

- a) “compensation of employees” – gross income of migrants that live abroad for less than 12 months, including the value of profits in kind (classified in the current account, “compensation of employees” sub item”);*
- b) “worker remittances” – total of monetary transfers sent at home by migrants that live abroad for more than one year (classified in the current account, “current transfers” sub-item” and*
- c) “transfers of migrants” – net value of transfers from migrants moving from one country to another (classified in the capital account, “capital transfers” sub-item”).*

At country level, the data are published in the IMF official Website:

<http://data.imf.org/?sk=7A51304B-6426-40C0-83DD-CA473CA1FD52&slid=1390030341854>.

¹ Balance of Payments and International Investment Position Manual, sixth edition (BPM6).

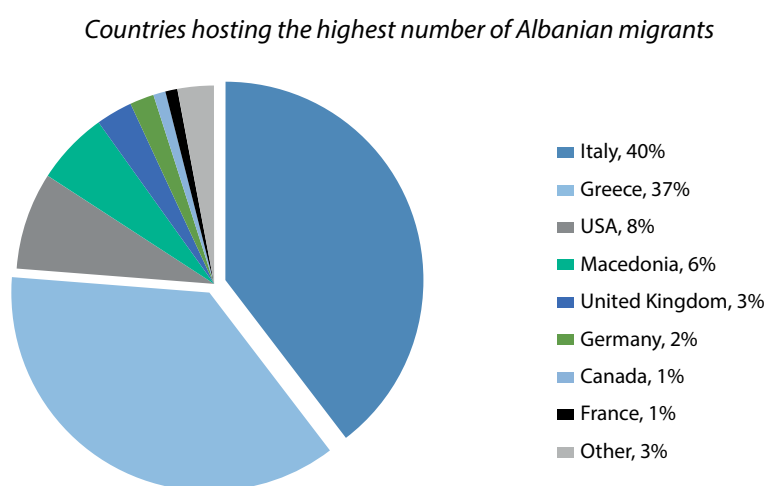
I. Albanian migration and its characteristics

After the 1990s, Albania was dominated by migrant flows which may be considered as intensive, irregular and evolving because of the combined action of economic and political push factors.² Informality has been a widely-present phenomenon in the Albanian migration, with a large number of undocumented Albanian migrants, whose numbers is impossible to estimate. Nevertheless, various researchers assess that from Albania, with a population of around 3.2 million habitants, almost 1 million have migrated mainly to Greece and Italy (Lianos and Cavounidis, 2004).

According to the United Nations (2017)³, the number of Albanian migrants that currently live and work abroad is estimated at 1.15 million.

- around 90% of Albanian migrants live in Europe, the rest in the US;
- 99.5% (1,142,748 individuals) in more developed regions and only 0.5% (5,396 individuals) in less developed regions.
- 93.2% (1,069,693 individuals) in high-income countries, 6.8% (78,441 individuals) in medium-income countries and a rather low percentage in countries of below- average income. .

Albanian migrants have mainly migrated in neighbouring countries, Italy (455,468 or 40% of migrants) and Greece (429,428 or 37%). The geographical vicinity, similarities in culture and lifestyle and the creation of migrants' networks make Greece and Italy the two most preferred destinations to work and live abroad⁴. Greece used to be country with the highest number of Albanian migrants, until 2010. Due to the global financial crisis in 2009 that hit the labour market in the main countries of destination for Albanian migrants, and in particular Greece, a part of these migrants returned to Albania or migrated to other destinations. Currently, Italy has the highest overall number of Albanian migrants. The United States are another preferred international destination, outside Europe, for Albanian migrants.



Source: United Nations Department of Economic and Social Affairs, Population Division (2017).

² Ministry of Interior, Migration Profile 2016

³ United Nations, Department of Economic and Social Affairs, Population Division (2017). Trends in International Migrant Stock: The 2017 Revision (United Nations database, POP/DB/MIG/Stock/Rev.2017).

⁴ Gender perspectives in Albania, Gender analysis of the 2011 population and housing census results 2011, INSTAT, UNFPA, UN Women, October 2014.



AN OVERVIEW OF MIGRATION WAVES

Albanian communities⁵ abroad are the new definition of the diaspora. The Albanian diaspora has been established at various time periods. The so-called “old diaspora” consists of migrants who have migrated before 1990s, whereas the “new” diaspora consists of migrants who have migrated after the 1990s. The old diaspora mainly settled in the USA and in some Western Europe countries, while the new diaspora settled in Greece, Italy, the USA, the United Kingdom, etc.

The phenomenon of Albanian migration is not recent. It is documented at least since the fifteenth and sixteenth centuries, with the departure of a large number of Albanians leaving the country, especially from the southern territories, after the conquest of the Balkan Peninsula by the Ottoman Empire, and the death of Skanderbeg. As a result of these migratory waves, significant Albanian settlements were formed in southern Italy, Greece, on the coast of Dalmatia and elsewhere. The most prominent model is that of the Arbëresh communities in Sicily and Calabria.

In the following centuries, until the establishment of an independent Albanian state in 1912, migratory processes continued in the form of “internal” movements, from Albanian lands to other regions of the Ottoman Empire or neighbouring countries, which, over time, won their autonomy or independence from the Sublime Porte. These movements led to the creation and consolidation of relatively significant Albanian communities in regions of present-day Turkey, Egypt, Syria, Bulgaria, Romania, etc.

The period coinciding with the beginning of the 20th century and, in particular, the establishment of the Albanian state, saw changes in migration routes. Emigration to Turkey continued, mainly for the sake of existing ties with people residing there; but, with all the range of problems leading eventually to the fall of the Empire, this country was no longer a preferred destination to migrate. Therefore, Albanians shifted their focus towards the United States, Argentina, Australia and moderately, to some European countries (France, Austria, Italy).

Political emigration represented a special category of people, who left Albania as a result of their opponent views and activities towards the regime of King Zog, and, subsequently, the new regime established after the end of World War II. In the period 1945-1990, migration phenomena were almost completely inexistent.

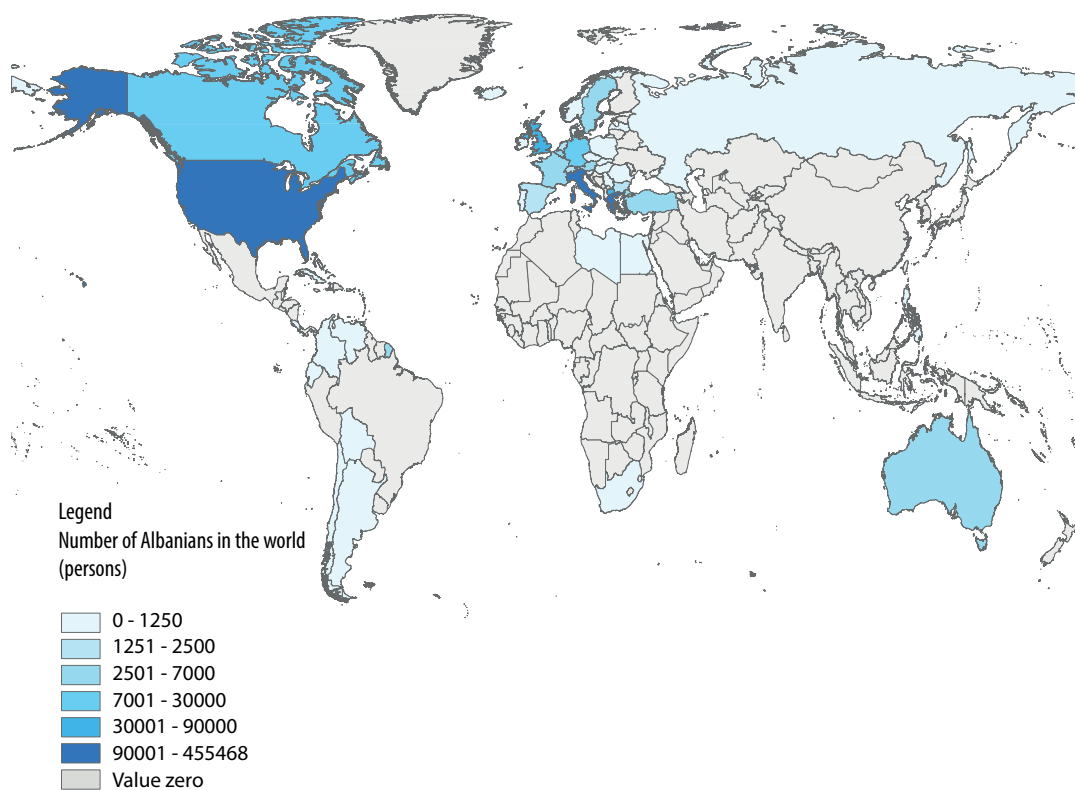
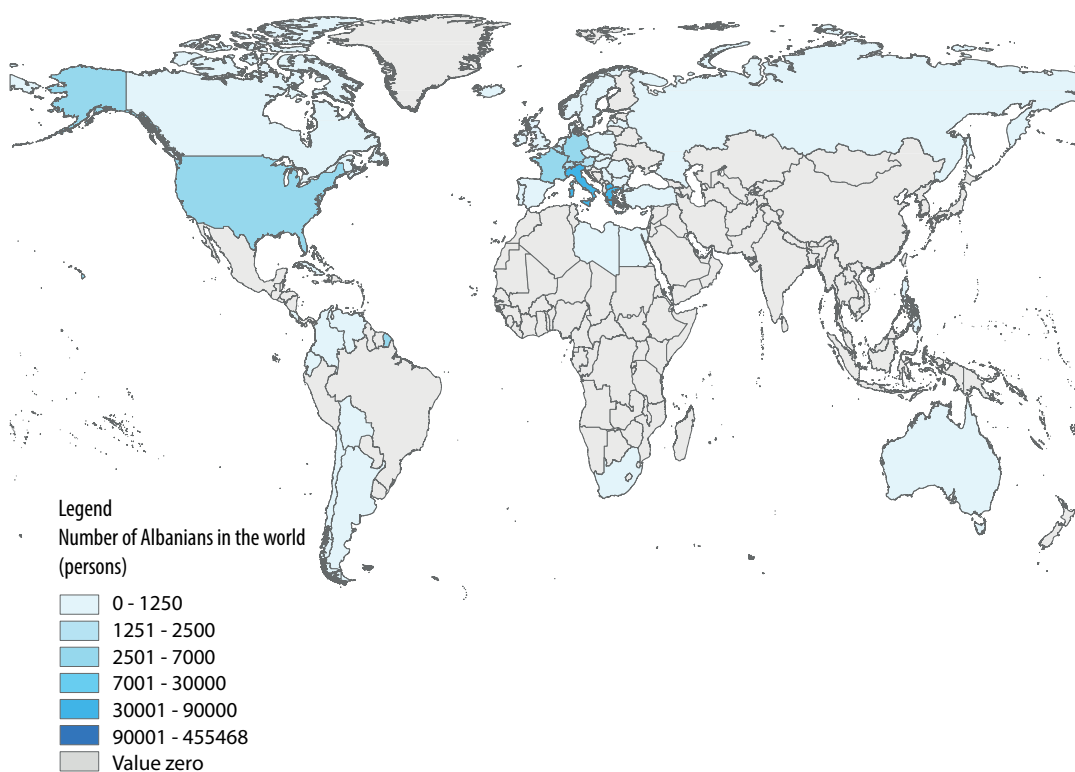
Emigration re-emerged in Albania in July 1990. In the last two decades, around 25% of the country's total population, or about 35% of the active population has emigrated.

In general, the trend of Albanian migration flows over the years has been concentrated in the most advanced Western European countries (Italy, Germany, The Netherlands, Scandinavia, United Kingdom etc.), as well as the United States and Canada. The geographic distribution of Albanian emigrants in host countries is dictated by the demand of the labour market. In Greece and Italy, for example, Albanian emigrants are located almost everywhere across these countries, with a greater concentration in major cities.

Source: Ministry for Europe and Foreign Affairs. <http://www.punetegashtme.gov.al/en/mission/albanians-in-the-world>

⁵ *Diaspora, Migrants: a group of people who move from the home country to other host countries, either temporarily or permanently and keep relations with their country of origin or their relatives. The communities of diaspora usually are both emotionally and financially related with the relatives in the home country.*

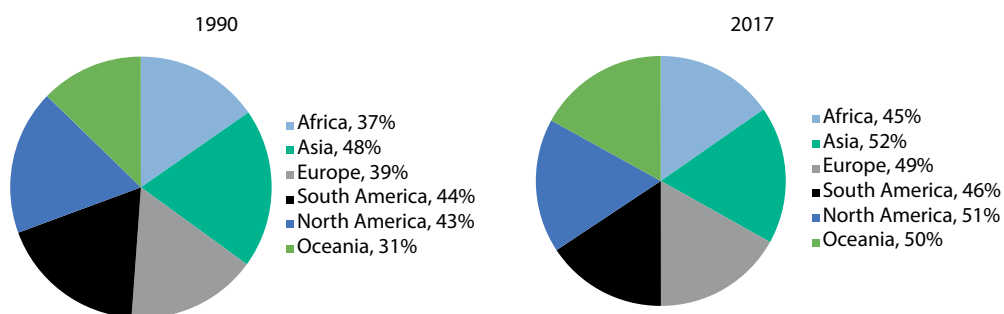
Diaspora in 1990 and 2017



Source: United Nations Department of Economic and Social Affairs, Population Division (2017)

In 1990s, migration was a common phenomenon, mostly among men (109,056 males and 70,434 females, 1990). However, referring to the latest data of 2017, the gender discrepancy has decreased, standing almost at equal levels (580,344 males and 567,800 females). Female emigration has increased as a result of family reunifications and better opportunities abroad⁶. By continent, females are dominant in North America 51% (mainly in the United States of America) and in Asia 52% (mainly in Turkey).

Share of women in total number of migrants



Source: United Nations Department of Economic and Social Affairs, Population Division (2017).

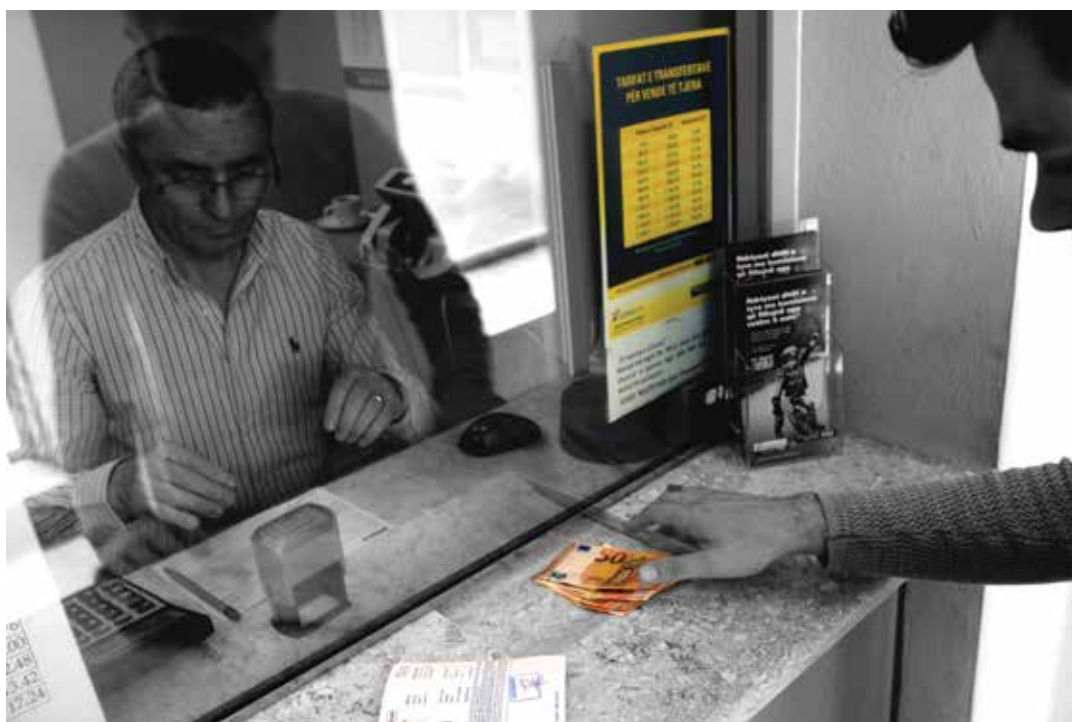
⁶ Gender perspectives in Albania, Gender analysis of the 2011 population and housing census results, INSTAT, UNFPA, UN Women, October 2014.

II. Remittances and their impact on development

Remittances are a crucial source both for income and for funding aggregate demand, as well as a crucial element in the family savings (Quibria, 1997). As such, remittances have absolute effects on the welfare and an impact on macro-economic terms (OECD, 2006). Theoretical literature and empirical studies assess that the importance of remittances is affected by the way they are used. Hence, the possible macro-economic effects of remittances reflect the spending-income structure that characterises them.

Research studies argue that spending for the formation of capital would provide higher direct impacts on the economic growth due to the multiplier effects, which stimulate the aggregate demand in the future (forward linkages) (Taylor, 1999). These effects imply increased production attributable to the growth of aggregate demand (in the form of consumption and exports). On the other hand, remittances are assessed to cover the financing of households' consumption for basic needs (food, health care, education, real state) according to the hierarchy of needs (Lowell & de la Garza, 2000). A higher incentive of consumption does not decrease the significance of remittances for economic growth. Consumption provides increased value added to the branches of economy that supply consumer goods and services and to the sectors of economy that provide inputs for the production of these goods and services (backward linkages).

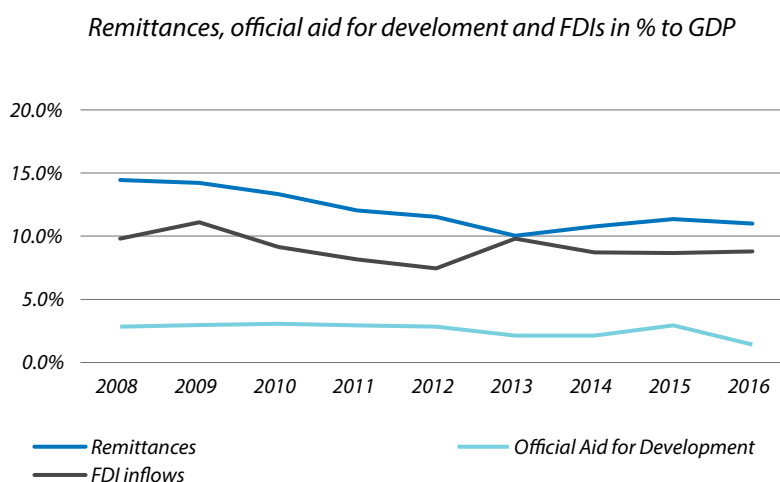
An extensive literature shows the high values of remittances multipliers on production. Ratha (2000) studies the case of Mexico, where 1 US dollar of spent remittance generated USD 2.69 national income in the case of urban areas; and USD 3.17 in case of rural areas. Another important case is that of Greece. It is estimated that in '70s, remittances contribution was estimated at around half to economic growth in Greece (Glytsos, 1993). Others studies show the importance of remittances for the formation of capital and employment (Drinkwater et al., 2003).



Following, are presented some facts and assessments regarding the importance and the impacts of remittances in macroeconomic terms in Albania. Initially, we look at the remittances indicators in terms of performance and importance as an item of the balance of payment. Then the importance of remittances at the level and dynamic of disposable income is assessed. The last part of this analysis shows an assessment of remittances' impact on both the Gross Domestic Product and the economic growth over the years. This assessment is based on the detailed data of remittances' use by categories of population's consumption and the input-output calculation platform.

II.1 Remittances as an item in the balance of payments

Remittances⁷ are a crucial item in the statistics of the balance of payments of Albania. This is shown by the relative share of this item in terms of Gross Domestic Product (GDP) and other macroeconomic indicators.



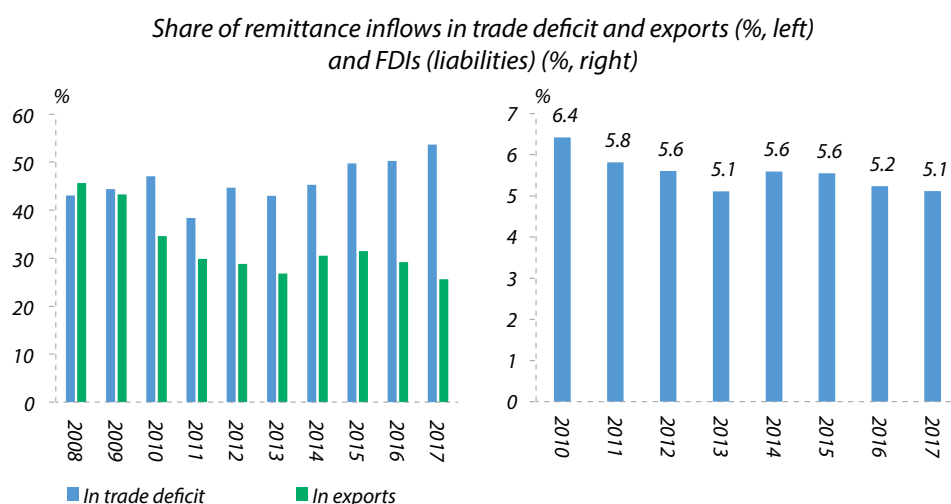
Source: Bank of Albania, for Remittances and FDI
<http://data.worldbank.org/indicator/DT.ODA.ALLD.CD> for Official Aid for Development.

During 2008-2017, the remittances to GDP ratio averaged 9.1%. This share fell slightly only once after the global crisis, yet it did not affect the important contribution of this item to the macroeconomic framework of the country.

The importance of remittances is also shown by its ratios against the other indicators. At the beginning, within the statistics of the current account, remittances represent an important financing flow of trade deficit. During 2008-2017, remittance inflows averaged 36.7% of trade deficit in goods. This ratio increased at 46% for the period, if placed as a ratio to the overall financial deficit in goods and services. At the same time, the average remittances ratio to the export of goods was 32.6%, while to foreign direct investments (liabilities) almost 100%.

An important aspect in the macroeconomic consideration of remittances relate with their contributions in the dynamics of current account deficit. Although, the current deficit dynamics are broadly determined by the trade in goods and services, frequently remittances turn into an important contributor. Hence, during 2011-2017, the current account deficit narrowed 2.3% and the contribution

⁷ They include primary income "for employees' compensation" and non-official transfers from secondary income.



Source: Bank of Albania, INSTAT.

of remittance inflows in this regard is estimated at around 1.2 percentage points. Also, during 2005-2010, although the expansion of current deficit was around 26.1%, remittances contributed in the opposite direction (averagely at 2.4 percentage points of current deficit narrowing, an opposite contribution with the overall dynamic of the current deficit). While the contribution of remittances may be lower, they remain an important flow (albeit not determinant) in shaping the dynamics of the current deficit, and, from time to time, they may make a significant difference in these dynamics.

II.2 Remittances and disposable income

Remittance flows are an integral role in calculating the disposable income. In average terms, in 2008-2017, remittances accounted for around 9.8% of disposable income. At the same time, remittances contributed by 0.5 percentage point to the average growth of 3.7% of disposable income for the period 2014-2017.

II.3 Impact on GDP and economic growth

The estimating approach according to the structure of input-output tables is implemented to calculate the impact of remittances on GDP and economic growth⁸. This approach enables the estimation of the impact of aggregate demand components (in this case of population consumption and investments) on the value added level in Albania. The assessed impact of remittances on population consumption and investment (presented in the previous section) are the exogenous element. The contribution is allocated in terms of sectoral aggregate demand according to the data detailed in INSTAT's Household Budget Survey.

The estimation is realised for the sectoral value added in economy, which is later aggregated to attain the value added as a whole. Given that the estimation is realised at nominal level, the deflators of sectoral value added are applied to attain estimations in real terms. The estimations belong to the period 2008-2016 according to the available data and are based on the input-output structure of 2014 (the latest available statistics for these tables). Table 1 shows the sectoral allocation of expenditure for remittance-receiving households, according to the Level of Living Survey.

⁸ The input—output structure provides the interconnection between the aggregate demand and production in an economy. That is, it provides the assessment of the impact on the domestic production owing to the growth of aggregate demand as a whole or by components (consumption, investments or export).

Table 1 Household budget structure of remittance-receiving households

Main groups of consumption	% to total
Food and non-alcoholic beverages	48
Alcoholic beverages, tobacco	3.2
Clothing and footwear	4.5
Housing, water, electricity, paid rent	11
Furnishing, household appliance and routine maintenance of the dwelling	5.3
Health	5
Transport	4.8
Communication	3
Recreation and culture	2.7
Education	3.3
Restaurants and hotels	3.2
Miscellaneous goods and services	5.9
Total	100

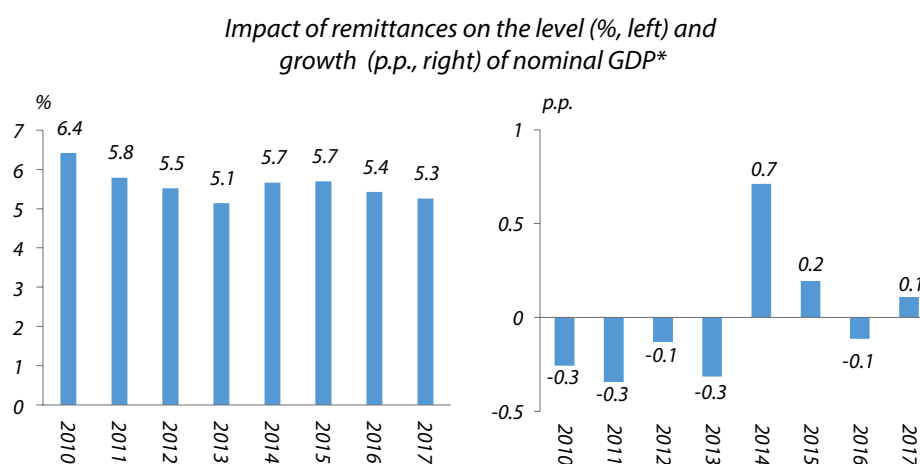
Source: INSTAT.

Table 1 shows that expenditure focus on “food and non-alcoholic” group and on “housing, water, electricity, etc.” category. Based on this sectoral allocation and the total value of remittances for 2016, and on the size of financing population consumption, (explained in the prevision section), the degree of impact on nominal GDP, real level of GDP, and the contribution to annual real GDP growth are assessed. For the other years, the relevant values of annual remittances against the same allocation structure in consumption are applied, due to the lack of detailed data of the structure. This assessment considers the fact that a part of remittances are for savings. The intermediate ratio between consumption and savings is also received from the data in this survey.

Estimations are based on input-output structures of the Albanian economy in 2014. Sectoral multipliers of value added may be generated from these tables. They imply the sectoral value added (sectoral production) per one unit of aggregate demand added (consumption) for the relevant sector. In this case, the aggregate demand added relates to the population consumption financed by remittances. Due to consumption, the first multiplier provides the estimation of the first round. Also, value added in economy generates income to the respective sectors, by triggering a second round of consumption. Here, the assumption is that the generated income will totally contribute to the growth of population consumption, implying a maximum impact in the second round. As the estimations are conducted at nominal level, the sectoral deflators are applied to attain the real value of GDP (2010 as the base). It provides estimation of remittances contribution to the real economic growth (percentage points).

II.4a. Impact in nominal terms

The chart below shows the estimations of the impact of remittances on the nominal GDP level and on the growth rate of this indicator. During the analysing period (2010-2017), remittances are assessed to have contributed at around 5.6% to the GDP level of Albania. On the other hand, estimations show that the size of this contribution has been slightly downward from 5.8% in 2010, to around 5.3% in 2017. Nevertheless, the contributions were higher in the last three years, compared with the performance over 2010-2013.



*The right chart shows the contribution of remittances in p.p. to economic growth. For example, if in 2017 nominal economic growth resulted 5.3%, contribution by remittances to it was 0.1 p.p.
Source: INSTAT and Bank of Albania estimations.

A similar situation is noted in the case of remittances' contribution to the nominal economic growth of Albania. The contribution was negative in 2010-2013 (averaging -0.3 percentage points), but it surged up in the forthcoming years. In 2014-2017, the impact of remittances on economic growth was estimated at 0.2 percentage point. An important contribution is noted in 2014 (0.7 percentage point), and a slight contribution in 2015 (0.2 percentage point). The contribution in 2014 was a considerable one. The nominal economic growth rate in 2014 was reported at 3.4%, and the contribution of remittances in this regard was estimated at around 20% of this rate.

The cases when remittances have provided negative contributions relate to periods when these flows have shown a downward dynamic. This does not less significance, but highlights once more the importance of remittances on the degree of reliance of both aggregate demand and domestic product on these flows.

II.4b. Impact in real terms

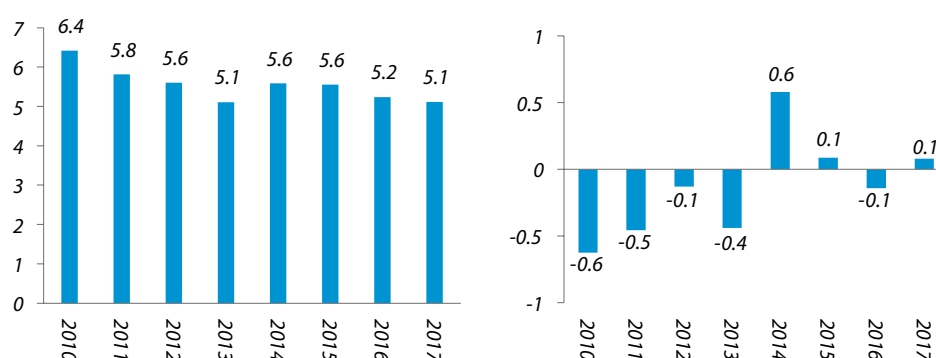
As mentioned in the introduction section, the real impact is assessed by applying the deflators of sectoral value added on the nominal estimations in the above-mentioned sector. The chart below shows the results in terms of the contribution on the real GDP level and the real annual economic growth.

Estimations of indicators in real terms are relatively similar with those in nominal terms, at least regarding the assessments in terms of level. The impact of remittances is estimated to average 5.6% of the total. The share of this impact, also, has been reducing from 6.4% in 2010 to around 5.1% in 2017.

The spread between real and nominal estimations is higher regarding their contribution to economic growth. Thus, during 2010-2013, remittances are assessed to have generated a negative impact at -0.4 percentage point. This impact is not deemed as a low one, considering that the average economic growth was 2.2% in this period. In 2014-2017, the impact of remittances on economic growth is estimated at 0.2 percentage point for an average 2.8% economic growth.

Similar to the case of nominal estimations, special attention should be paid to the situation in 2014. The contribution of remittances to economic growth is estimated 0.6 percentage point. Considering the 1.8% economic growth rate for this year, the impact of remittances is estimated at around 33% (higher compared with the impact in the case of nominal growth). Also, it should be noted that due to the multiplier effect the economic growth might have been higher.

Impact of remittances on the level (% , left) and growth of real GDP (percentage points, right)



Source: INSTAT and Bank of Albania's estimations.

The graph shows the crucial impact of these flows on the macroeconomic dynamic and balance in Albania. Maintaining growth rates or at least the levels of remittance flows is rather important. Also, the avoidance of situations when flows decrease is equally important in maintaining the level of income, consumption and, consequently, of economic growth at home. Lastly, it should be noted that the above estimations take into account both direct and indirect effects (via backward-linkage) from remittances; but, there is a lack of estimations of indirect effects (the impact of income in the second round). Hence, the contribution of remittances might have been higher than suggested by the above estimations (both in the case of positive impacts and increasing negative impacts).

III. Households and remittances

The socio-economic phenomenon of labour migration is part of the Albanian's everyday life. Many Albanians have relatives or friends, who work or live abroad. Remittances are closely related to emigration as emigrants send money or goods to their families back home. According to a survey by the Bank of Albania (2007), it is estimated that about 26% of households in Albania receive remittances from abroad⁹.

Remittances constitute an important mechanism for the transfer of resources from advanced to developing countries (Russell, 1992) and are among the largest external financing flows for developing countries (Ratha, 2003). At the macro level, data show that remittances are an important foreign currency and liquidity source for Albania.

The estimations of the Bank of Albania during 2017 showed that the total remittances amounted to EUR 1.158 million, of which EUR 286 million came from seasonal workers and EUR 872 million as personal transfers (mainly worker remittances).

Aggregated data of remittances, however, show little of their benefit to the receiver or how the receivers use these funds, making it difficult to analyse their impact at micro level. Unlike other capital flows, such as government grants for development and foreign direct investment, remittances directly increase the household budget and are an important source of income in the receiving countries (Rapoport and Docquier, 2016)¹⁰. Household surveys show the importance of these flows for the income level of the receiving households. Remittances contribute to a higher standard of living and better health and education conditions, as well as to creating human and financial values.



⁹ Information on Household Survey Results, Bank of Albania, Economic Bulletin, 10-th volume, September 2007

¹⁰ Rapoport, H. and Docquier, F. (2006). *The Economics of Migrants' Remittances*, volume 1 of *Handbook on Economics of Giving, Reciprocity and Altruism*, pages 1135-1198. Elsevier.

III.1 Microeconomic Contribution

The impact of remittances in Albania is significant, because they constitute an additional source of income for remittance-receiving households. The World Bank research¹¹ on receiving households, estimates that remittances represent about 13% of the annual households' budget in Albania.

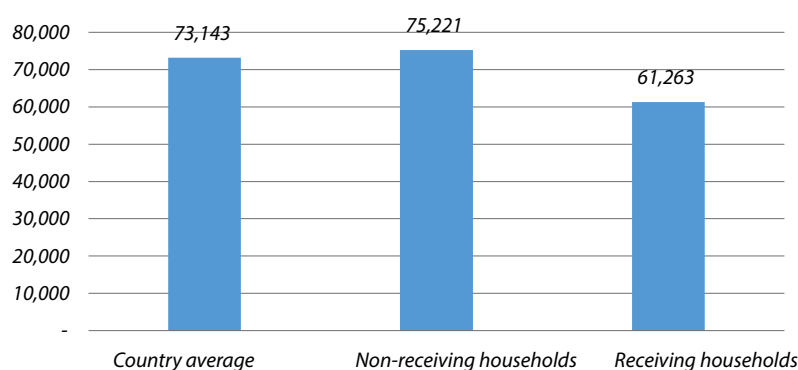
The importance of remittances is not felt only at the household level; a considerable part of them goes to remittance-receiving households living in rural areas. Moreover, remittances spent in rural areas may have a greater effect than those spent in urban areas, as they tend to be spent for consumption of goods and local services.

The Household Budget Survey (INSTAT, 2016) shows that Kukës and Dibra are the cities where remittances account for around 15-19% of total household income. At the same time, these two cities, compared to other cities, show the highest concentration of remittance-receiving households in total, respectively 37% and 17%.

Referring to the Living Standards Measurement Survey (INSTAT, 2012), Kukës has the highest rate of poverty, estimated at 22.5% and emigrants' remittances give their positive contribution to reducing poverty in this city.

It is difficult to accurately identify the use of additional household's income in the form of remittances, separated from other means of income. However, by increasing household income, remittances affect their behaviour regarding consumption, investments and savings.

Monthly expenditures of remittance receiving and non-receiving households



Source: Household Budget Survey 2016, INSTAT.

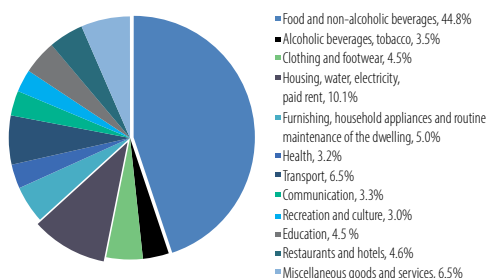
Empirical measurements (INSTAT, Household Budget Survey, 2016) show that remittance-receiving households have, however, lower monthly average expenses compared to the country's average and non-receiving households.

Also, the analysis of the average monthly expenses behaviour of households shows that households that receive remittances spend more on consumption (food, beverage and clothing) on housing (furnishing, household equipment and routine maintenance of the dwelling) and on health services.

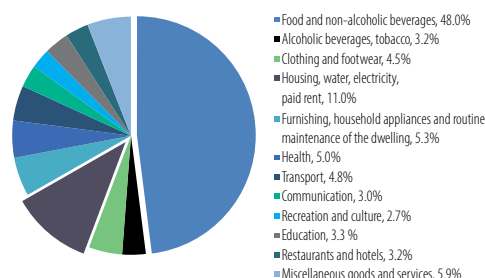
¹¹ Baseline survey on remittance beneficiaries' financial behaviours in Eastern Europe and Central Asia (2017).

Structure of average monthly expenses for consumption

Households that do not receive remittances



Households that receive remittances



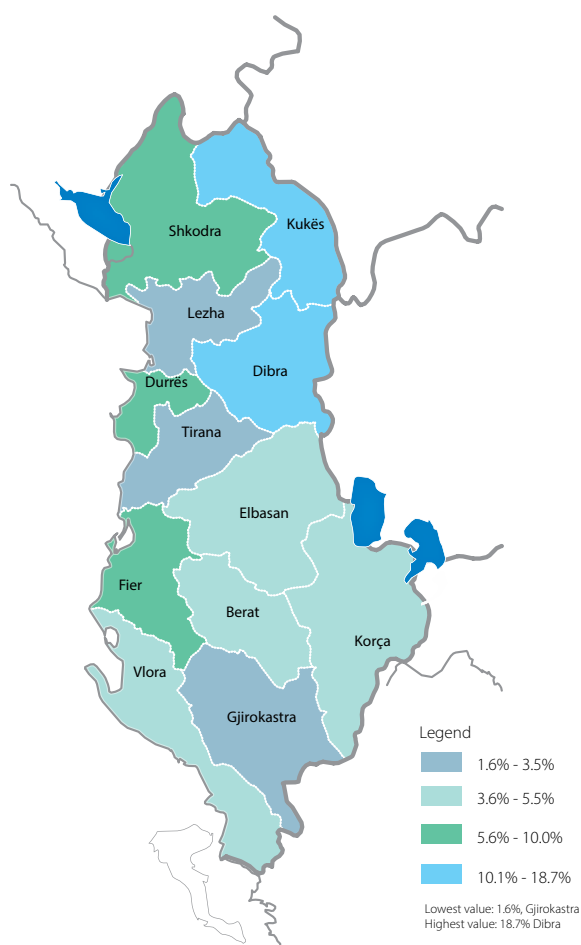
Source: Household Budget Survey 2016, INSTAT.

The large share of remittances used for consumption shows the primary goal, part of the emigrants' and their families' choice in Albania, to emerge from poverty and improve the standards of living.

Numerous studies on economics of remittances acknowledge that sooner or later these cash flows will fall. For the continuity of the positive effects, the priority lies in channelling them towards investments. The use of formal and informal channels for the transfer of remittances directly affects their potential use.

In Albania, the majority of remittances are transferred informally. Emigrants make little use of banks. A combination of high transaction costs and socio-economic exclusion of households in rural areas and or/ households with low financial literacy may be the main factors for the continued use of informal channels of transactions.

Share of remittances in total income, by Region



Source: Household budget survey 2016, INSTAT.

IV. Remittances market in Albania¹² - Current situation and needs for intervention

Remittances at the focus of the Bank of Albania

In view of economic development and households' well-being, the routing of remittances through official channels is extremely important, thus creating access to basic banking services for the remittance-receiving households of emigrants

Establishing such a relationship with banking and non-bank financial institutions enables access to even more sophisticated financing and investment products, thus supporting the creation of a customer history. Hence, remittances contribute to the household welfare not only by directly funding their consumption, but also by creating greater access to finance and investment for them. In this way, remittances are estimated to have a direct impact on the degree of financial inclusion of the population - for Albania, this indicator is estimated at 40%, a low level compared to the global average of 69%.

Engagement of public and private sectors

On the other hand, the use of official channels promotes the intermediary activity of financial institutions, contributing to the development and the welfare of the country.

Promoting the use of the financial system for remittances has been at the focus of the Bank of Albania also in the framework of reducing the use of cash in the economy. In 2017, the Bank of Albania in cooperation with the World Bank, undertook an in-depth study of the remittance market in Albania - part of the retail market. This aim of the study was to identify regulatory and infrastructural gaps and scope for intervention by all market players for alignment with best practices and standards developed internationally by the World Bank and the Bank for International Settlement.

The findings of this study form the basis for drafting the national strategy "On reforming the retail payment systems market in Albania".



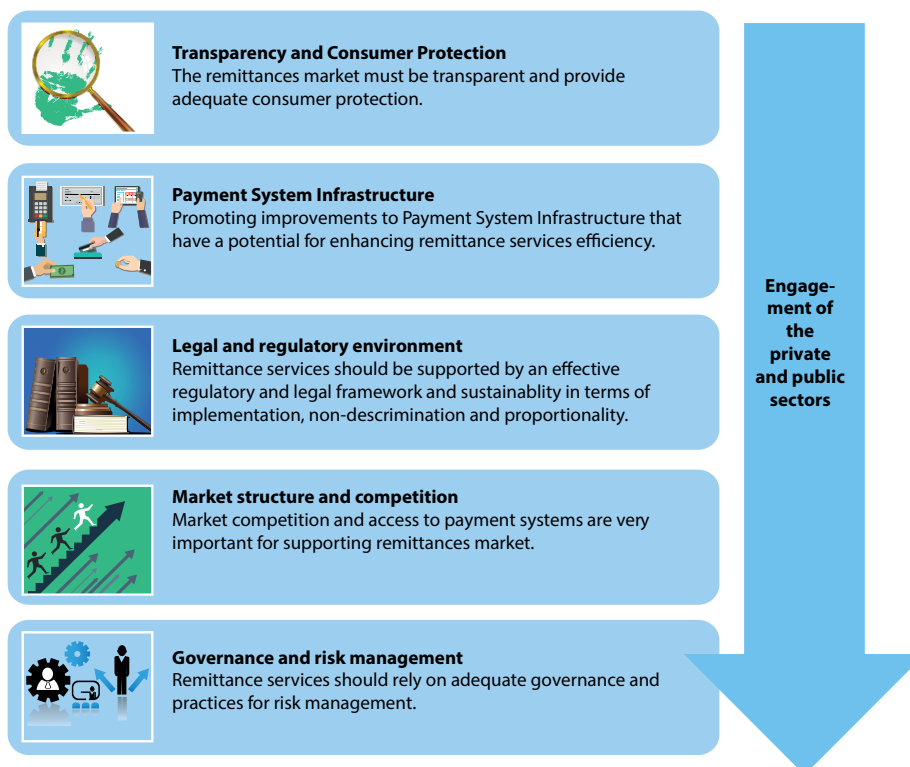
¹² In the sense of service providers for the transfer of these funds.

PRINCIPLES ON WHICH REMITTANCE MARKET ANALYSIS AND INTERVENTION RECOMMENDATIONS ARE BASED

In 2004, the G8 and the G7 finance ministers (Boca Raton, 2004), with a view to boosting the market, sought the establishment of standards and guidelines on remittance services. In this regard, the World Bank, the Committee on Payment and Settlement Systems at the Bank for International Settlement, some central banks and the main market players drafted the "General Principles for International Remittance Services".

This initiative was followed by a number of international initiatives in the field of promoting remittances as a very important factor for sustainable economic development, with the primary objective to reduce costs for remittances.

In support of this objective, in certain countries, the World Bank applies the Remittance and Payments Program (RPP), which aims to increase the efficiency of retail payments, with a particular focus on international remittances. This program is based on the standards developed by the World Bank and the Bank for International Settlement and is enriched with the Payment Aspect of Financial Inclusion (PAFI) report.



The implementation of this project in Eastern Europe and Central Asia is financially supported by the State Secretariat for Economic Affairs (SECO). The program is based on international standards and best practices defined by the World Bank and the Committee on Payments and Market Infrastructures (CPMI), such as General Principles (GPs), and most recently the CPMI-BB (PAFI) Paying Aspects of Financing Inclusion Report.

*Delivery of remittances and space
for intervention*

Albania is a remittance-receiving country. Based on the analysis of the way that remittances are delivered, it is estimated that 39% of remittances flows are channelled through unregulated channels, while 57% through non-bank financial institutions and only 4% through banks¹³. It

is also noted that remittances in Albania, even when channelled through official delivery channels, are disbursed in cash, thus promoting the use of cash in the Albanian economy. Empirical measurements¹⁴ show that cash is a costly instrument for the Albanian economy, which costs about 0.68% of GDP to payment service providers, while for payment service users these costs¹⁵ amount to 0.8% of GDP.



¹³ Baseline survey on remittance beneficiaries' financial behaviors in East Europe and Central Asia (WB 2017).

¹⁴ Bank of Albania study in cooperation with the World Bank on the cost of payment instruments in Albania, 2018 http://blogs.worldbank.org/psd/initial-findings-implementation-practical-guide-measuring-retail-payment-costs?cid=SHR_BlogSiteShare_XX_EXT.

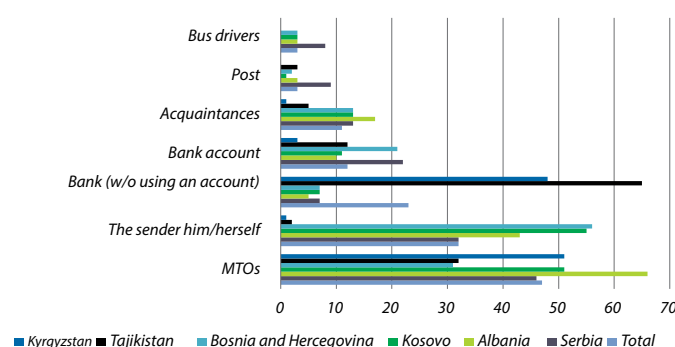
¹⁵ Costs in a broader sense than commissions, including all fixed and variable costs, both monetary and non-monetary, which are carried by the use of the payment instrument both by the instrument provider and the user.

MAIN RESULTS OF THE WORLD BANK SURVEY ON THE FINANCIAL BEHAVIOUR OF ALBANIAN REMITTANCE-RECEIVING HOUSEHOLDS

In 2016, the World Bank Group within the Remittance and Payments Program, funded by the Swiss State Secretariat for Economic Affairs (SECO), conducted a survey on the financial behaviour of remittance recipients in six countries in Eastern Europe and Central Asia (ECA), namely Albania, Kosovo, Serbia, Bosnia and Herzegovina, Tajikistan and the Republic of Kyrgyzstan. The main objective of the survey was the perception of the behaviour of remittance recipients in the selected countries and their level of satisfaction with the existing remittance products and services.

According to the results of this survey (a survey of 806 households, which received at least one remittance), 86% of the households interviewed in Albania receive remittances from a 30-44 year old, who is in permanent emigration, two or three times per year, for more than 10 years. The average amount received in one year is about USD 2,350 or USD 499 per transaction, which is the second highest value in the region after Kosovo. Most of the remittance flows come from Greece and Italy (more than 60%).

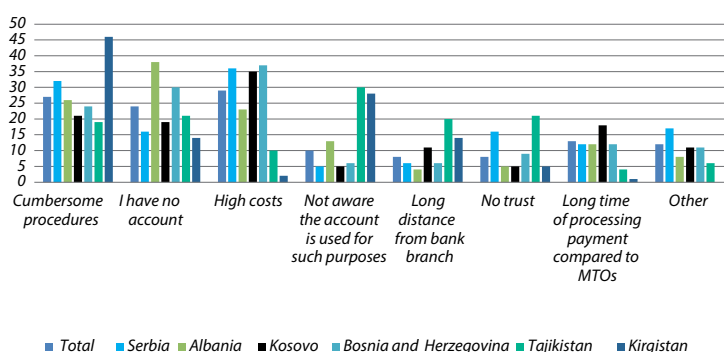
Channels of remittances, used in the last 12 months



Source: Baseline survey on remittance beneficiaries' financial behaviors in East Europe and Central Asia (2017).

This survey shows that Albania has the least use of banks for channelling remittances compared to the region, mainly due to the complexity of the process (bank procedures are perceived as complex and cumbersome) and due to high transfer costs. Survey results show also that in Albania, more than 50% of respondents, do not own a bank account, while only 35% use a payment card.

Reasons for not using banks for remittances



Source: Baseline survey on remittance beneficiaries' financial behaviors in Eastern Europe and Central Asia (2017).

The Albanian retail payments market through which remittances are transferred

Retail payments market, important component to formalise the delivering of remittances

An important factor for the financial inclusion of remittance-receiving households and the channelling of remittances through regulated channels is the development of a country's retail payment market according to international practices¹⁶.

The Albanian retail payments market consists mainly of banks and some non-bank financial institutions, which concentrate their activity mainly on money transfers (cash-in-cash-out).

Banks dominate the financial system accounting for about 90% of total assets of the system. At the same time,¹⁷ of the 16 banks in the system, 13 are foreign owned. The banking sector has 462 branches in Albania, mainly concentrated in urban areas; with the highest concentration in Tirana.

The number monetary financial institutions branches per 100,000 inhabitants over the age of 18 is at 21.5, standing lower than in neighbouring countries (for Serbia, the indicator is 30 and for Macedonia it is 25).

Table 3: The number of branches in Albania

District	Number of branches	Population by district	Branch ratio per capita
Berat	20	127.431	6.372
Dibra	9	120.978	13.442
Durrës	46	289.628	6.296
Elbasan	26	278.547	10.713
Fier	37	298.144	8.058
Gjirokastra	16	62.952	3.935
Korça	31	210.178	6.780
Kukës	8	77.394	9.674
Lezha	23	126.800	5.513
Shkodra	21	204.994	9.762
Tirana	194	883.996	4.557
Vlora	31	189.282	6.106

Source: Bank of Albania, INSTAT, 2017.

Non-bank financial institutions provide limited alternatives to using electronic payment instruments

Currently, there are nine licensed non-bank financial institutions in the Albanian market for payment and transfer services, of which 6 may be considered actively involved in the market. It is estimated that main remittances are channelled mainly in two of these institutions. It is worth pointing out that the services currently provided by these institutions do not support the use of electronic payment instruments, inter alia as a

result of the existing legal and regulatory framework. On the other hand, the presence of innovative institutions, such as electronic money institutions, is still at a limited level in the Albanian market.

¹⁶ For more information about the impact that the development of retail market has on financial inclusion and remittances, see <http://www.worldbank.org/en/topic/financialinclusion/brief/pafi-task-force-and-report>; https://www.afiglobal.org/sites/default/files/publications/2017-10/DFS_GN_29_stg4.pdf;

¹⁷ Until the end of 2017.

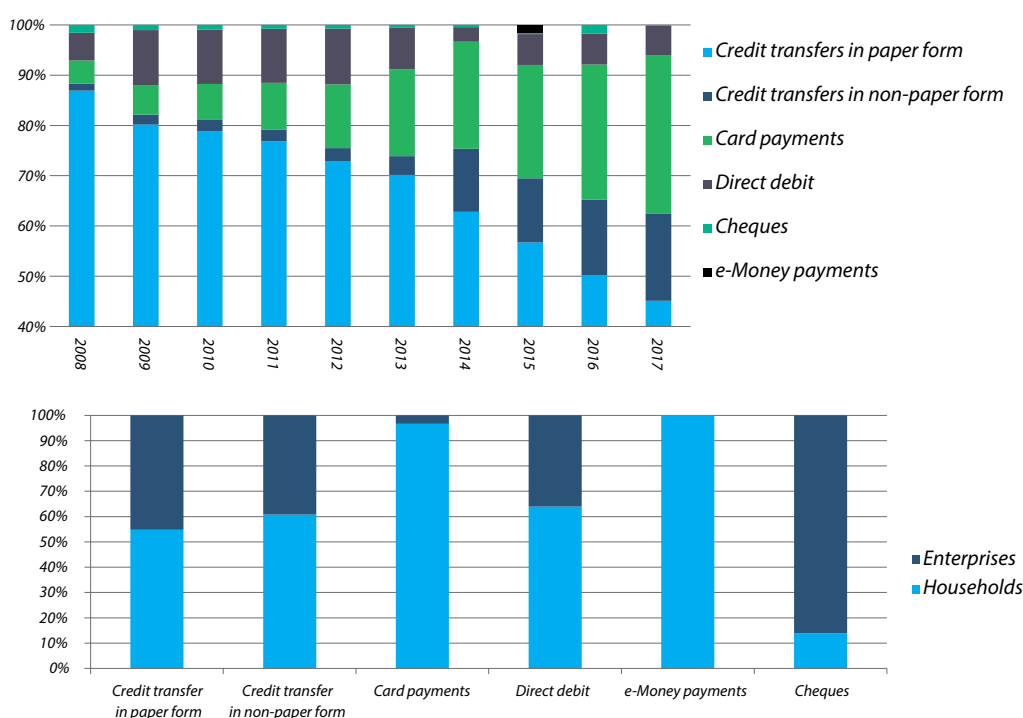
From the point of view of the provided services, the Albanian banking market offers home banking services and bank cards, while prepaid products are introduced only recently. Fourteen out of sixteen banks operating in the market offer home banking services and are card issuers; meanwhile, only 9 of them receive card payments (they offer POS). Referring to innovative services, currently in the Albanian market there are two banks that offer electronic commerce services, which are estimated to have a direct impact on the channelling of remittances in the case of remittances in the form of consumer goods, provided through online purchase.

Instrumentet elektronike të pagesave të ofruara nga bankat mund të përdoren më gjerësisht për dërgimin e remitancave

Shërbimet Home banking kanë krijuar potencial për dërgimin dhe administrimin e remitancave

With regard to payment instruments, in their everyday life, Albanian households use cash to a very large extent (over 90% of the cases). However, the use of electronic instruments has increased in recent years.

Number of payment instruments over the years -number (above) and use of payment instruments in 2017, by households and enterprises (below)

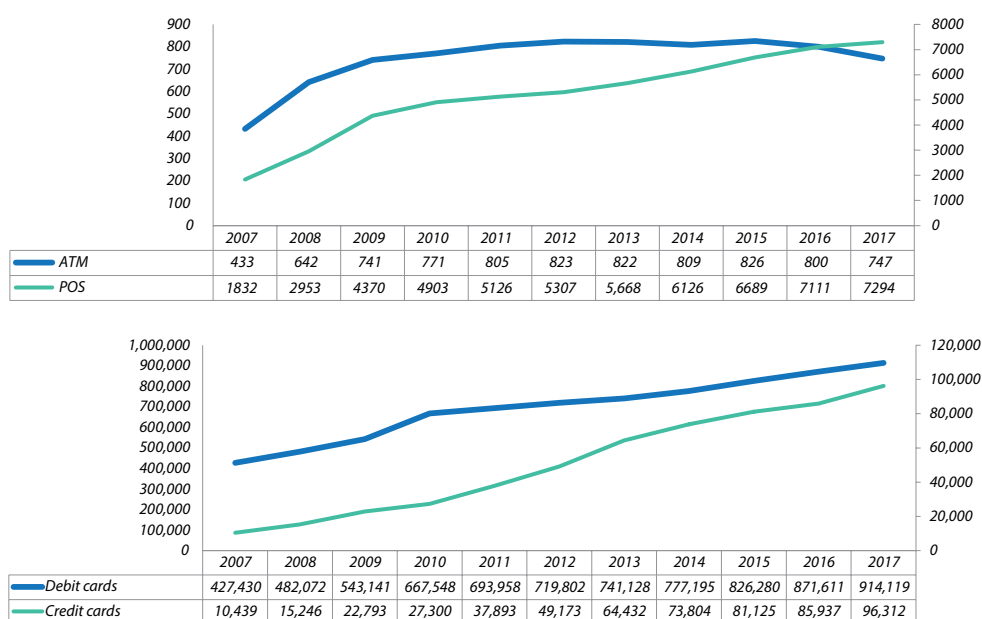


Source: Bank of Albania.

From the financial access point of view, the percentage of the Albanian population that owns a bank account, compared to the global indicators is limited. The use of these accounts for electronic payment shows that in 2017 approximately 10% of banks accounts can be accessed online through home banking services. Despite the low number of these accounts compared to the total, recent years, their performance has been increasing, and doubled since 2014. This upward trend was also reflected in a higher number of transactions carried out through home banking services. The development of these services can have a direct contribution to the channelling of remittances to the

banking sector through creating spaces for emigrants to remotely access their funds for payments and transfers, as well as investments, such as deposits and participation in government securities auctions and potentially private securities. The use of bank cards in the Albanian market has increased; yet, it remains low compared to the countries of the region. Currently, in our market about one third of the population owns a debit card and only 8% a credit card.

Developments in ATMs and POSs (above) and in debit and credit cards (below)



Source: Bank of Albania.

Table 4 Comparative table of the number of terminals and payment instruments in 2016

No	Description	Kosovo	Albania	Serbia	Bosnia	Montenegro	Croatia	Macedonia
1	Inhabitant	1.77	2.89	7.08	3.52	0.62	4.19	2.07
2	Area (km2)	10,887	28,748	77,474	51,197	13,812	56,594	25,713
3	Density (per km2)	163	101	91	69	45	74	81
4	ATM	522	800	2,983	1,512	388	4,543	1,039
5	Per 1 million inhabitants	295	277	421	430	626	1,084	502
6	For 100 km2	5	3	4	3	3	8	4
7	POS	10,589	7,111	84,412	26,324	12,829	106,081	34,974
8	Per 1 million inhabitants	5,982	2,461	11,923	7,478	20,692	25,318	16,896
9	Per 100 km2	97	25	109	51	93	187	136
10	Credit Cards	154,637	85,937	991,522	N/A	39,633	141,119	375,654
11	Per 1 million inhabitants	88,382	29,736	140,045	N/A	63,924	33,680	181,475
12	Debit Cards	856,718	871,611	5,806,688	N/A	421,666	6,872,982	1,443,022
13	Per 1 million inhabitants	484,021	301,596	820,154	N/A	680,106	1,640,330	697,112
14	E-Banking	230,905	209,157	-	383,761	109,988		695,220

Source: Central Bank of Kosovo, Comparative Report on Payment Instruments 2017.

The infrastructure for the use of cards as a means of payment has improved. But, compared to the region, this infrastructure is limited mainly to urban areas. In Albania, payment cards are used for basic services, such as withdrawals from ATMs.

In addition to the contribution for promoting the use of electronic instruments and reducing the use of cash in the economy, the expansion of ownership of cards and infrastructure can contribute directly to the remittance market. More concretely, international card schemes are increasingly trying to expand their activity, by introducing services that enable the transfer of funds through their infrastructure, consequently reducing the costs of these services by avoiding commercial banks.

Moreover, the expansion of virtual POS for electronic commerce by Albanian businesses can serve as a new channel for remittances to finance consumption at the source (online orders from emigrants for their families).

Regional ATM and POS terminals, according to Bank of Albania branches, 2017



Source: Bank of Albania.

Payment systems as a support infrastructure for the transfer of remittances

Currently, there are two payment systems, AIPS and AECH, that operate in the domestic market, which accommodate the need for the clearing and settlement of national currency transactions only for banks. The systems are operated by the Bank of Albania in line with its legal mandate in the field of payment systems.

Meanwhile, the access of non-bank financial institutions in AIPS and AECH is limited and is provided to them through commercial banks. The inclusion of these institutions in the facilities provided by the payment systems promotes inter-institutional interaction, contributing to the expansion of the presence of banking and financial institutions in the territory of the Republic of Albania. The law "On Payment Systems" provides opportunities for creating private systems that can accommodate these needs.

Cross-border settlement services are accommodated by correspondent banks, which may result both time costly and time consuming. In this context, the creation of the necessary legal and infrastructural preconditions for connecting domestic infrastructures with those of the Single Euro Payments Area (SEPA) will significantly contribute to reducing the costs for a significant part of remittances from European Union countries, when Albania is part of the common market.

Innovative services, which can be developed thanks to block chain technology and instant payment, can significantly affect and reduce the cost and the time for cross-border transfers, as evidenced by the report *On retail payment systems for cross-border transfers*.

Approximation toward SEPA and promotion of innovation in the field of payment systems are very important developments

Remittance-sending costs appear high compared to the global and regional average

Costs - a determinant factor for the way remittances are sent

Costs are estimated to be a key factor for the delivery of remittances. The study of remittance market identifies 'cost' as the third reason why banks are not used as channels for remittances delivery. The first two reasons why banks are not being used to deliver remittances, are: the perception that banking procedures are complicated and the lack of a bank account from inhabitants. The need for interventions in the context of cost reduction is also evidenced by a number of initiatives from international institutions related to the field. The World Bank has created a database on remittance costs in important remittance corridors, which aims to increase public awareness, transparency and ultimately serve as a monitoring tool to target cost reduction.

The database also contains data on remittances in Albania through certain corridors (such as Italy, Germany, United Kingdom and Switzerland). The data analysis shows that remittances in Albania are high. More specifically, the cost of delivering remittances to Albania in 2018 Q1 is 8.64%¹⁸ of the total amount to be sent, standing above the global level (7.13%) and the regional average for Europe and Central Asia (7.55%).

From the analysis of the remittance delivery corridors, the most expensive one is that of Switzerland, while the cheapest is of Italy.

Table 5: Delivery prices by delivery corridors

Delivery locations	Average Prices (In % of amount)	Delivery with the cheapest cost (in% of the amount)	Delivery with the most expensive cost (in% of the amount)
Italy (for 140 EUR)	7.25	1.53 MTO via internet	15.0 (bank)
MB (for 120 GBP)	9.50	5.42 (MTO)	14.0 (MTO)
Germany (for 140 EUR)	7.55	1.05 (MTO via internet)	12.87 (MTO)
Switzerland (for 160 CHF)	10.28	5.96 (Post)	24.01 (MTO)

Source: Remittances prices, World Bank T12018.

Special attention may be paid to innovation, which in most cases reduces the costs of using the services and facilitates the procedures as evidenced in Table 5.

Key measures for addressing gaps / needs according to international principles for the development of the remittance market

**Increase of competition,
transparency and consumer
protection is crucial**

Under the current conditions of retail market in Albania, as well as of remittances as an integral part of it, it is considered that special attention from the regulatory point of view should be given to promoting competition, transparency and consumer protection. Supported with infrastructure and innovative developments they are estimated to have a particular impact on cost reduction.

In this context, the Bank of Albania is paying particular attention to the regulation of the retail market. A concrete step in this direction is the drafting of the law "On payment services", which is estimated to significantly support the fulfilment of these needs. The draft law aims to approximate the Albanian legal framework with the European Union directive "On payment services in the domestic market", which is considered a revolution in the framework of supporting innovation in the field of payments.

¹⁸ Simple cost average for 4 delivery channels.

The draft law and other regulatory initiatives by the Bank of Albania in the context of integration are estimated to contribute to the creation of institutions with adequate governance and risk management structures, thus directly helping to promote security and efficiency in the payment services market. The implementation of these European practices also boost the confidence in Albanian payment institutions at the cross-border level.

Infrastructural developments and the promotion of stakeholder interaction are also at the focus of the Bank of Albania. Approval by the National Payment Systems Committee (NACP) of the national strategy "On Retail Market" will initiate a series of projects in this regard.

*Infrastructure developments
an important pillar for
market development*

From the cost reduction point of view, the expansion and detailing of the database created by the Bank of Albania on commissions, is considered to be an added value that promotes transparency and competition in the market. Also, inclusion of non-bank financial institutions in this database is estimated to have contributed in this regard. Moreover, meeting the objectives and their effects on the market can be measured through a constant monitoring of costs using this database in order to converge with the objectives set by international organizations (G8, G20, United Nations, World Bank).

Last but not least, the financial education of the public is also important. A first step taken in this regard is the presentation of the Project Greenback, which through raising the financial awareness has the ultimate goal of reducing remittance costs and formalizing them so that these deliveries add value to the household and national economy.

*Support for financial
education is pivotal*





PROJECT GREENBACK

The Project Greenback is an initiative of the World Bank Group that is committed to promoting the financial education of emigrants and their families who are expecting remittances in cities selected based on the volume of remittance flows. The overall objective is to increase the efficiency of the remittance market through an innovative approach, mainly aimed at promoting change based on the real needs of final beneficiaries of international transfers. Under these conditions, cooperation between emigrants and their families, remittance service providers and public authorities is the key to achieving the project objective.

The Project Greenback 2.0 has been implemented in several cities around the world - for both sending and receiving remittances, among others: Italy, France, the United Kingdom, Malaysia, Indonesia and Haiti. This project has supported the design of financial education programs in these countries.

The regional character of the project helps to address concrete needs of the community and promotes changes geared to the needs of the population. The project has produced new tools / approaches and has helped to better perceive the issues, contributing significantly to the behaviour of emigrants and their families. Meanwhile, since the project is implemented both by senders and receivers, its effects can be extended at the corridor level of remittance delivery.

The World Bank, in partnership with the Bank of Albania, has chosen Berat as a Champion City for the Project Greenback 2.0. The implementation of the project in Berat started with focus-group meetings with the return of emigrants for the end of the year celebrations. Their findings were launched during the presentation the project in March 2018, together with the subsequent measures for its continuation. The project action plan foresees the realization of its targeted objectives within 2019.

ANALYSIS OF THE SURVEY ON THE PROVISION OF SERVICES AND PRODUCTS IN THE REMITTANCES MARKET

In March 2018, the Bank of Albania conducted a survey on products provided by the Albanian financial market for remittances, in the framework of the national plan for promoting the role of the Diaspora in the development of Albania. The purpose of the survey is to shed light on products and services provided by the Albanian financial system for channelling remittances¹⁹.

The questionnaire has qualitative and quantitative questions, in order to identify the range of products and services provided currently by money transfer institutions for remittances. The survey targeted 16 banks, 31 non-bank financial institutions and 10 Savings and Loan Associations, of which 47 institutions responded: 13 banks, 24 NBFIs, and 10 SLAs.

The challenge for developing specific and innovative products, to serve emigrants and their families should be encouraged and promoted to allow them access to financial system services and greater financial inclusion. In this regard, the survey asked financial institutions also on the expectations for products that may be developed by the Albanian financial system for remittances.

In greater detail, the findings of the survey are divided by sector:

- services and products for remittances, provided by banks
- services and products for remittances, provided by microcredit institutions
- expectations for future products by the financial system for remittances.

Services and products for remittances, provided by banks

Albanian banks currently offer a series of services to Albanian emigrants and their families. The 13 banks that responded to the questionnaire account for 98.6% of total banking system assets.

Table 6: Banking services for Albanian emigrants

Service/product	No of banks	
	2007	2018
Bank transfer	14	13
Deposits	12	11
Mortgage loan for emigrants and their families in Albania	10	9
Business loan for emigrants and their families in Albania	6	5
Card services	8	10
Other services	3	5

Twelve banks that account for 86% of the banking system assets reported they offer services for emigrants and only one bank, accounting for 12.7% banking system assets states it does not offer products or services to emigrants.

“Banking transfers” is the main product that banks offer. A second product is “deposits” (for 11 banks, 84%). Compared to 2007 survey results, the number of banks offering basic services for emigrants has reduced by one.

¹⁹ An analysis of the products and services related to remittances was conducted in 2007, entitled: “Dërgesat në para të emigrantëve dhe produktet financiare në Shqipëri: realiteti dhe e ardhmja”, authored by . E. Meka, L. Bendo, A. Frashëri. With the authors prior consent, the same questionnaire of 2007 was used for a comparison between the two periods.

Asked whether they offered specific services tailored for emigrants, in March 2018, nine banks accounting for 63.3% of banking system assets stated they offer “mortgage loans for emigrants or their families”. Survey results in 2007 showed that 10 banks accounting for 81% of banking system assets offered: “Mortgage loans for emigrants”. The reasons for banks withdrawing from this product may come from both demand and supply factors.

“Business loan for emigrants and their families” is another service that banks seem to continue to provide, although at a lesser extent (only 5 banks accounting for 23.6% of assets, from 6 banks accounting for 42.8% of assets in 2007). Again, the factors for banks withdrawal from this product may be studied more at length.

In contrast to the 2007 Survey results, when 13 banks offered consumer loans to emigrants and their families, in this Survey only 4 banks accounting for 23.5% of banking system assets offer consumer loans to emigrants. These results show that banks are no longer paying the attention they used to show for services they may offer to emigrants.

A positive development in terms of services for emigrants is only with regard to the provision with electronic cards, a service offered by 10 banks, accounting for 65.6% of banking system assets, against 8 banks (accounting for 57% of banking system assets) in 2007.

Asked whether they offer transfers without commissions, only one bank reported that for emigrants they offered commission-free transfers up to a certain amount (EUR 900). Instead, in 2007 there were 5 banks that reported offering commission-free transfers up to a certain amount for emigrants.

About the method of remittance transfers from the emigrants to the beneficiaries, 3 banks accounting for 55.5% of the banking system assets, of 12 banks that offer services for emigrants, report that they transfer them in cash against only 2 banks accounting for 22% of banking system assets that reported



cash remittance transfers in 2007. The rest of the banks reports that they transfer remittances to an account (as per the instructions by the sender).

Regarding the currency used for bank payments, 5 banks accounting for 65.5% of banking system assets reported they disburse the transfer in the original currency of the transfer (of them, 3 banks report that they disburse the transfer also in Albanian lek) and 7 banks report that they disburse the transfer according to the wish of the recipient, with which the transfer has been ordered. In the meantime, 3 banks accounting for 55.5% of the banking system assets offer the three options on the type of currency used for disbursing the transfer (in the original currency, in Albanian lek, according to the wish of the recipient). It appears that banks do not discriminate against a certain currency and are flexible for satisfying the wishes of the emigrants and their families.

Albanian banks were asked about the existence of agreements with banks in emigrants' host countries and, in contrast to 2007, only 2 banks report to have an agreement with banks in the host countries of the emigrants. Notably, the previous survey showed 10 banks in agreement, and that the main countries were Italy and Greece.

Only 3 banks report they offer real-time transfer services (i.e. services within 24 hours), whereas 9 banks require two days for transferring the money. In the 2007 Survey, 8 banks reported real-time transfers for remittances. All the banks reported they used the SWIFT for the transfers and 2 banks report that, in addition to the SWIFT, they used other methods.

The banks have apparently shifted away their attention from remittances, although remittance flows is high and a part of these flows is channelled outside formal transfer channels. Banks should refocus their attention on the remittance business, as: first, it is profitable for them because of commissions; second, foreign currency remittances are a source of income for banks because of the exchange rate; third, banks may sell other products related to remittances, both to emigrants and beneficiaries of remittances, e.g. debit cards, credit cards, and consumer credit. Shying away from the remittance transfers market, banks position themselves in an unfavourable place vis-à-vis money transfer operators.

Services and products offered by microfinance institutions

Thirty four microfinance institutions responded to the questionnaire on the availability of remittance-related products in March 2018. In 2007, only 5 microfinance institutions were interviewed; therefore, data comparison for this section is irrelevant.

Of 34 microcredit institutions that participated in the survey, only 10 state that they offer services for emigrants. In the questionnaire, institutions are asked to list services and products they offer to emigrants according to the significance they have in their activity.

The first product they list is "time deposit". This product is listed as the first one in 9 out of 10 institutions that state they offer services to emigrants.

The second reported product is "business loans to families of emigrants". This product is reported among their services by 3 out of 10 institutions that offer services to emigrants. Two microfinance institutions report they offer "mortgage loans" and only one institution reports offering "cash collateralised loans", with a guarantor in Albania.

The third reported service is “transfers”, reported by only one microfinance institution.

Apparently, microfinance institutions offer products tailored for emigrants and almost half of them offer services related to remittances.

Expectations for future products by the financial system for emigrants and remittances

Financial institutions were asked about the expectations and future plans in their activity about the provision of new remittance-related products and services.

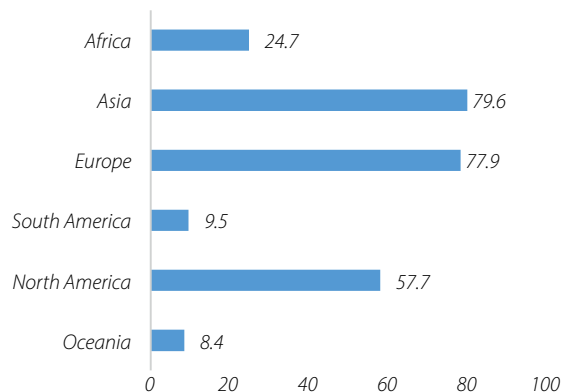
Only one bank, accounting for 5.3% of banking system assets, showed positive expectations about plans to offer such products in the future (against 9 banks in 2007, reporting to plan offering new products to emigrants). The type of product selected by priority is “depositing” and then “prepaid cards”. Eleven banks responded “NO”, i.e. 93.2% of the Albanian banking system has no future plans, added attention and provision of new products related to remittances.

Microfinance institutions seem to have more optimistic expectations for the provision of products to emigrants. Thirteen institutions, of 34, responded to have plans to add new products for emigrants and their remittances in the future. The type of financial products and services they plan to offer to emigrants differs from the ones that the banks plan. In addition to new products related to the depositing of remittances, similarly to banks, microfinance institutions expect to offer products related to loans for housing, which is the second choice of the sector. Unlike banks, microfinance institutions have opted to plan in the future products related to “intermediation for investments and portfolio management” as well as “long-term saving schemes”.

The approach of non-bank financial institutions to the remittance market is different from that of the banks. These institutions pay more attention to the remittance market as they have tailored products that serve specifically to emigrants and their families, and plan to serve them in the future with products that are in accordance with new developments and evolution of the remittances’ development cycle.

EMIGRATION AS A GLOBAL PHENOMENON

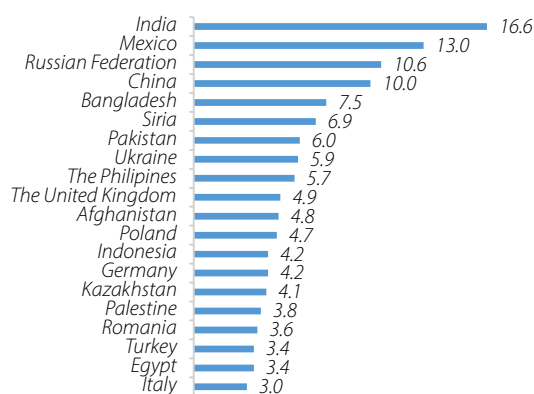
Number of international migrants (millions) by region of destination



- Around 258 million migrants worldwide in 2017
- Asia main destination, followed by Europe and North America
- 64% of migrants head to high-income countries

Source: United Nations (2017a)

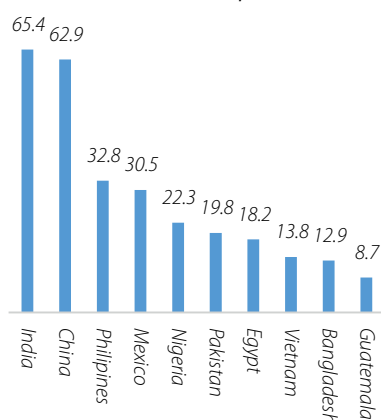
Top 20 countries of origin for international migrants (in million migrants)



- India is the top country of origin, followed by Mexico and Russia
- Flows are higher for Middle Eastern and other countries such as Pakistan, Afghanistan, Siria and Irak
- By continent, Asia is ranked at the top, followed by Europe and Africa

Source: United Nations(2017a)

Top Remittance Receivers (in billion \$)



- Remittance flows envisaged to reach USD 596 billion in 2017
- Remittance flow uptick, after declining for two consecutive years, was driven by stronger economic growth in EU, Russia and US
- Top receiving countries of remittance flows are India, China and the Philippines.

Source: International Monetary Fund; World Bank, World Development Indicators.

V. International commitment on remittances

International migration and its significance have been treated in several events and forums over the years. The first steps in the international efforts were set in the “World Population Plan of Action”, approved at the “World Population Conference” in Bucharest, Romania in 1974. It was followed by the “Recommendations for the Further Implementation” agreed at the “International Conference on Population” in Mexico in 1984. Both these events paid attention to respect for human rights for migrants, mitigation of the “brain drain” effect, support for labour standards for migrant workers, prevention of discrimination, promotion of migrant contributions, control of migrant flows through bilateral and multilateral agreements, and finding sustainable solutions to the refugee situation.

Since 2006, the international community has undertaken significant steps to integrate international migration in the global development agenda. After a series of discussions over the years, a high-level dialogue was summoned by the General Assembly to address exclusively international migration and development. In this event, the proposal of the Secretary General for establishing an informal, voluntary forum to continue discussions on international migration and development was embraced by a broad base. Since 2007, in the Global Forum on Migration and Development, the governments of participating states have discussed a number of issues, such as: migrant rights, relation between migration and environment, and challenges to forced migration. Moreover, the Forum promotes partnership and cooperation and fosters interaction with the civil society.

A key development in addressing migration is the second High-Level Dialogue, which took place in October 2013. The General Assembly approved by consensus a historic document, recognising the role of migration in the realisation of Millennium Development Goals, and that the movement of people is a key factor for sustainable development. As such, it should be included in the 2030 Agenda for Sustainable Development. Migration is an integral part of the 10 key Sustainable Development Goals 2030.

The 2030 Agenda Declaration highlights the multidimensional reality of migration as follows:

- Respect for human rights for all migrants, regardless of their migration status;
- Taking into account the vulnerabilities of migrants, refugees and internally displaced persons;
- Recognising the contribution of migrants for sustainable global development;
- Addressing the forced displacement and humanitarian crisis;
- Fostering international cooperation;
- Strengthening the resilience of hosting communities;
- Supporting the right of migrants to return to the country of citizenship.

The goals and targets for sustainable developments are as follows:

- strengthening a healthy workforce in developing countries;
- expanding the number of scholarships for studying abroad;
- ending trafficking in human beings;
- protecting the rights of migrant workers;
- facilitating regular, safe and responsible migration;
- reducing the cost of transfer for remittances;
- providing legal identity, including the right to birth registration;
- detailed data according to migration status.

At the International Conference on Population and Development (2014) an action plan was approved, to address some key migration issues. They include:

- Opportunities and challenges of migration in the context of development;
- Specific rights of migrants;
- Proposal for concrete actions to address challenges.

The following conferences and events organised by the United Nations in the economic and social aspects have confirmed the support for the human rights of the migrants, respect of labour standards for migrant workers, increase in the contribution of international migration to economic and social development, addressing migration challenges and fostering international cooperation on migration.

Involvement of international institutions in addressing remittances

Over the decades, remittances have been given particular attention at the international level. The UN's approach to migration is reflected and incorporated in the work of international institutions that create standards in relation to the remittances market. The first nine recommendations for the remittances market were issued by FATF (Financial Action Task Force) in 2001 and the fourth recommendation (Alternative Remittance System) is the first international standard on remittances. These recommendations have been reviewed over the years and a new set of recommendations were published in February 2012 titled "Recommendations on money or value transfer services".

In 2007, in response to the increased volume of remittances global wide, international organisations, namely the Payments Committee and BIS and the World Bank issued the "General Principles for International Remittance Services" for safe and efficient remittance transfers. One of the principles requires that remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework. Also, the Financial Action Task Force (FATF) asks the supervisory authorities to ensure that financial institutions (and remittance services) be subject to regulation and supervision, and implement international recommendations and standards.

The EU Blue Card Directive (2009), through the support and added attention the employment of highly qualified workers, is now part of contemporary diaspora agendas. One of the main objectives of the European Agenda on Migration 2015 is maximising the development benefits for countries of origin.²⁰ The UN Department of Social and Economic Affairs²¹ states in its International Migration Report (2015) that "When supported by appropriate policies, migration can contribute to inclusive and sustainable economic growth and development in both home and host communities".

Other global forums, including the Global Forum on Migration and Remittances, Global Forum on Migration and Development, have set objectives to explore ways and possibilities for an efficient use of migration, diaspora and their relation to development. The Global Commission on International Migration argues that "the countries of origin may benefit significant advantages from the talents and resources of the diaspora populations."

In September 2014, the G20 approved the "Plan to Facilitate Remittance Flows" with specified objectives: working to reduce the global average cost of transferring remittances to less than 3%; enhance competition in remittance markets; improving financial system infrastructure and including technology innovation in remittance services; enhancing transparency and consumer protection in remittance services.

In 2017, the G20 reaffirmed these objectives adding also the objective of using remittances to enhance financial inclusion and promote development, and countries were asked to take comprehensive actions at national level to improve the remittance environment.

²⁰ http://ec.europa.eu/dgs/home-affairs/ehat-ee-do/policies/european-agenda-migration/background-information/docs/summary_european_agenda_on_migration_en.pdf

²¹ U.N. Department of Social and Economic Affairs, *International Migration Report 2015: Highlights*, p.2. Available at http://www.un.org/en/development/desa/population/migration/publications/migrationreport/docs/MigrationReport2015_Highlights.pdf

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