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# The potentials of remittances for income generating activities leading to local economic development in Albania: the case of Durres

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**THE POTENTIALS OF  
REMITTANCES FOR INCOME  
GENERATING ACTIVITIES  
LEADING TO LOCAL ECONOMIC  
DEVELOPMENT IN ALBANIA  
THE CASE OF DURRES**

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**Durres, February 2007**

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# 1. INTRODUCTION

The project assesses the characteristics of remittances sent by Albanian emigrant workers to their families in the region of Durres. To obtain an overview of remittances and the potential for their use for economic and social development a survey was organised in the region of Durres. The aim of the survey was to identify the characteristics of the recipients and remittances, including their use by the recipient households, the channels through which they are transferred and the financial services available in the Durres's areas. A series of meetings were held with representatives of different institutions such as banks, micro finance institutions, NGOs and local authorities to generate an overview of local and national policies and other relevant factors that could influence the use of remittances for productive investments and contribute to economic development.

## 2. DURRES IN FIGURES

The region of Durres includes two districts: the district of Kruja and the district of Durres. There are two municipalities and ten communes with a total of 372,666 habitants and 90,939 families (Region High Authority Annual Report 2005). The population density is approximately 459 inhabitants per square kilometres, which is four times higher than the national average. The region covers 766 square kilometres and is located in the Western part of Albania. Durres is bordered by the region of Lezha to the North, the region of Tirana to the East and South, and with the Adriatic sea to the West. Durres has a 68 km coastline with both sandy and rocky beaches

and capes that provide the city with a favourable geographical position. Durres is also home to the largest port in Albania.

During communist times the movement of the population was controlled and regulated by the state. With the fall of the communist regime a large scale movement of people started. People moved from the northern and the southern mountainous areas to the largest cities in the West of the country. As a result, the region of Durres has been subject to an enormous inflow of people who settled in the so called “informal zones”, a name which originates from the illegally constructed houses in which they live. Presently, the population movement has slowed down, though it continues at a slower pace. For the year 2005 the natural and mechanical changes of the population are reflected in Table 1.

**Table 1 - Population of the Durres region**

	Population	Natural increase	Mechanical increase	End of 2005
Durres	296, 995	1,432	14,229	312,656
Kruje	75,671	780	176	76,627
<b>Region</b>	<b>372,666</b>	<b>2,212</b>	<b>14,405</b>	<b>389,285</b>

Source: Durres in Figures, 2005

After the end of the communist regime in Albania domestic labour market was liberalised. Due to the structural changes of all sectors of the economy and the lack of subsequent public, private and international investments the unemployment level rose nationwide including in the region of Durres. Table 2 provides an overview of the number of enterprises in the region by economic sector and size measured in number of employees.

**Table 2 – Number of enterprises according to the number of employees**

Economic Sector	No. of enterprises with 1 employee	No. of enterprises with 2-10 employees	No. of enterprises with over 10 employees	Total No. of enterprises
Agriculture, Forestry & Fishery	0	53	14	30
Industry	224	137	150	511
Construction	28	17	111	156
Transport	252	108	44	204
Trade	2,079	291	54	2,424
Hotel and Restaurants	583	22	5	610
Transport & Communication	252	108	44	404
Education	6	11	16	33
Health	46	11	9	66
Others	314	88	57	459
<b>Total</b>	<b>3,532</b>	<b>738</b>	<b>460</b>	<b>4,730</b>

Source: Durres in Figures, 2005

As Table 2 indicates the majority of enterprises are micro or small with few employees. This indicates that the employment opportunities that these kinds of enterprises offer are limited.

In addition to a number of other factors unemployment has contributed to emigration. Regardless of the increasing number of enterprises in the Region of Durres, unemployment levels in the region are still high. Strong incentives to the development of additional productive activities are required, as Table 2 indicates,

the majority of activities is in trade and services sectors such as communication and transportation and hotels and restaurants. An overview of the unemployment and investment trends in the region of Durres is provided in Table 3 and 4.

**Table 3 – Unemployment by Education Level in the Region of Durres**

Name	Level of Education			
	8 years	High school	Professional	University
Region of Durres	3,345	1,192	843	203
Region of Kruja	1,849	780	311	15
<b>Total</b>	<b>5,194</b>	<b>1,972</b>	<b>1,154</b>	<b>218</b>

Source: Durres in Figures, 2005

Investment in transport and trade is mainly through private means. There are no official data neither on the current investments in tourism or trade, nor on the revenues they generate. Durres has significant potential for development of tourism and a comprehensive analysis of this potential is needed. The survey indicates some trends in investment in tourism and small businesses that needs additional incentives. Public investments in the different sectors are outlined in Table 4.

**Table 4- Investments according to the field of activity**

Economic Activity	Investment in 000 lek
Agriculture, Forestry & Fishery	4,648
Industry	71,839
Construction	154,072

Transport	1,367,159
Trade	Na
Hotel and Restaurants	Na
Transport & Communication	1,367,159
Education	85,760
Health	37,792
Others	127,783
<b>Total</b>	<b>2,999,103</b>

Source: Durres in Figures, 2005

The geographic position of Durres, the picturesque and diversified environment and the availability and quality of the human resources make Durres a key region. Durres is ranked the second after Tirana in level of economic activity. In the Durres region there are 25 per cent of the country's agricultural enterprises; 13 per cent of the country's industrial enterprises; 12 per cent of the country's construction enterprises; 16 per cent of the country's transportation enterprises; and 11 per cent of the country's trade enterprises. In terms of size of enterprises, 12 per cent of the country's medium and large enterprises are located in the region of Durres (Strategy of Development in the Region of Durres, 2005).

## 3 - SURVEY

### a. Methodology

To obtain a survey sample of 150 households, recipients of remittances were identified and interviewed in the region of Durres.

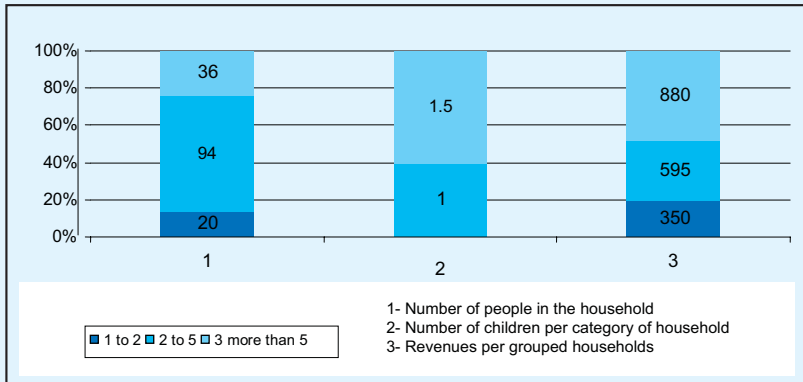
Albania does not have a national database or register providing information about emigrants or their families. Therefore, to identify the target group, students of the University of Durres were asked to identify households among their relatives and in their neighbourhoods that have emigrants living abroad. After identification of the families, a sample of 150 was selected and the addresses were given to the interviewers. The questionnaire prepared by the international expert was tested on 20 households that receive remittances, and minor corrections were made.

20 interviewers from the students of the University of Durres were selected and trained. The interviewers were divided into groups of five with a supervisor to ensure the quality of the interviews. Ten per cent of respondents were selected by the project manager and project coordinator to verify the quality of the work done conducting the surveys. The interviews were realised in a period of ten days during end January to early February 2007.

## **b. The Results of the Survey**

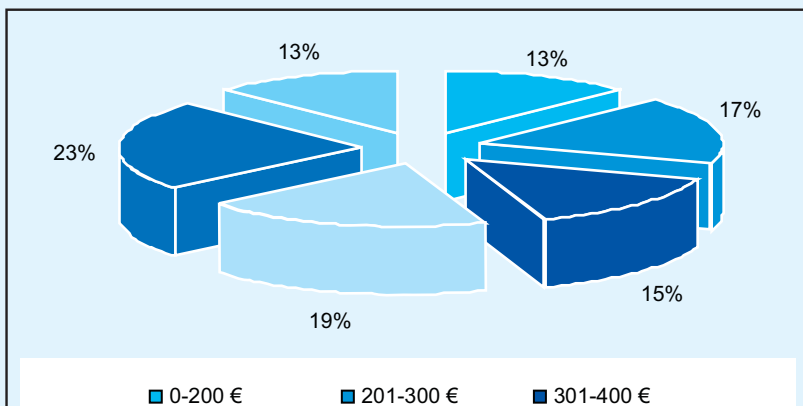
### **PART - A – The characteristics of the households.**

Based on the survey it is found that 72 per cent of the respondents or 108 out of 150 have the father as the head of household. The household size in 73 per cent of the cases (110 households) is two to five persons. 87 per cent of the interviewed households consist of more than two persons, while 36 per cent have more than five persons. In 52 per cent of the cases (78 households) have one to two children, which are of school age. 43 per cent of respondents do not have children under 18 years of age living at home. Half (51 per cent) of these households have household heads who are retired (See Table 5).

**Tab. 5 Characteristics of the household**

The average household size is large and for 22 per cent of all respondents the head of household is retired.

Household incomes (including remittances) vary from 601-1,000 Euro per month in 23 per cent of the cases to 401-600 Euro per month for 19 per cent of the interviewed households. Table 6 provides an overview of the monthly household income including remittances. The average number of persons per household is 4.5 persons, and for 60 per cent of respondents the household income is less than 600 Euros. The average household income for 60 per cent of respondents is approximately 133 Euro per person/per month.

**Tab. 6 Household Income including remittances**

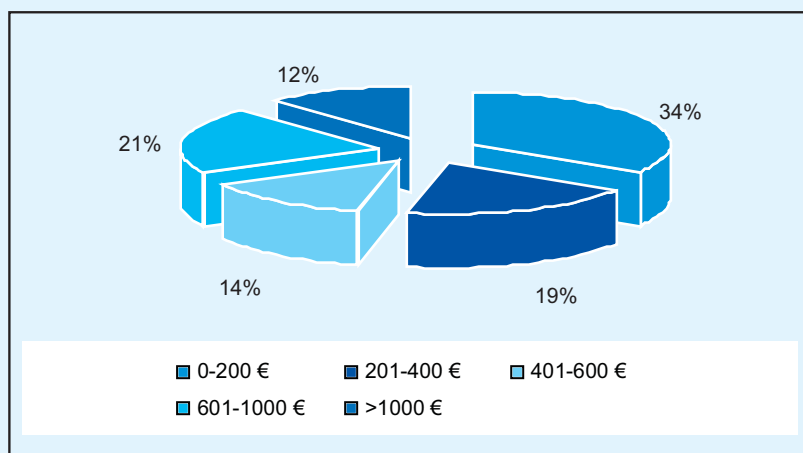
The low average income suggests that remittances mainly contribute to support household expenditure. However, the low average level of revenues per household also indicates that the average remittances size is not large measured per family/per month revenues.

## PART - B- The characteristics of the remittances

The survey indicates that it is mainly a direct member of the family (son, daughter, brother or sister) who sends money (57 per cent of cases). Only in 16 per cent of cases the sender is the father of the family. The average size of remittances per a year varies from 0 to more than 1,000 Euro.

In 67 per cent of the cases the recipients receive less than 600 Euros per year. However, it is important to see how often they do receive the money. On average 37 per cent receive 500 Euro every month, and 26 per cent of households receive this amount every three months. The amount of money that the household receives varies during the year for the vast majority of respondents (75 per cent). Retired recipients receive on average 722 Euro per transfer and 50 per cent of them receive this amount every three months. The distribution of remittances received per household is outlined in Table 7.

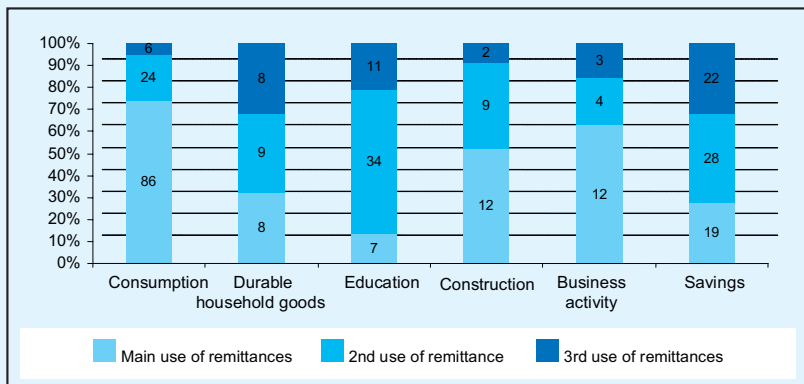
Tab. 7 Inflow remittances per household



place during the summer when the emigrants return to Albania for holidays. The receipt of the remittances varies in time and amount, which makes their management difficult and the future inflows unpredictable.

The characteristics of the use of remittances vary from consumption, to education, savings, business activities and construction, and investment in durable household goods. Table 8 provides a more detailed picture on the characteristics of the first, second and third use of remittances.

**Tab. 8 Use of remittances**



Based on these data it can be concluded that remittances are mainly used on consumption (86 households). The second use of remittances is on children's education (34 households).

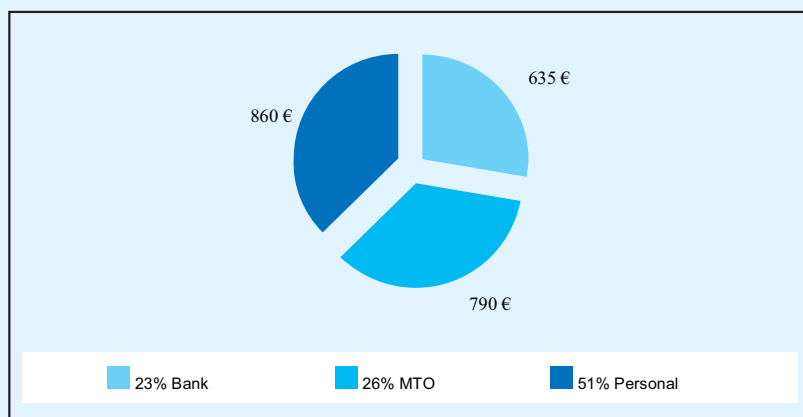
There is an increasing tendency in investing remittances in construction (12 households) and small businesses (12 households). The investments in construction are for residences as well as hotels and restaurants. In the case of the use of remittances for investment in tourism, emigrants send the money to start or expand

an enterprise since obtaining credit is difficult. Obtaining formal credit is particularly limited by the widespread tendency to operate in the informal economy. The low average size of remittances means that the average cost of the transfers of these small amounts will be relatively high if using bank or MTO services.

### PART C – The characteristics of the transfers

The transfer channels used by the emigrants to send money back home differ. In 51 per cent of the cases the transfer of the remittances is done via personal transport, while in some other 26 per cent of the cases MTOs, such as Western Union and Money Gram, are used. Only, in 23 per cent of the cases are banking transfers used. Table 9 gives a detailed description on the channels of transfer and the average size of transfer for each method.

**Tab. 9 Method and average amount of transfers**



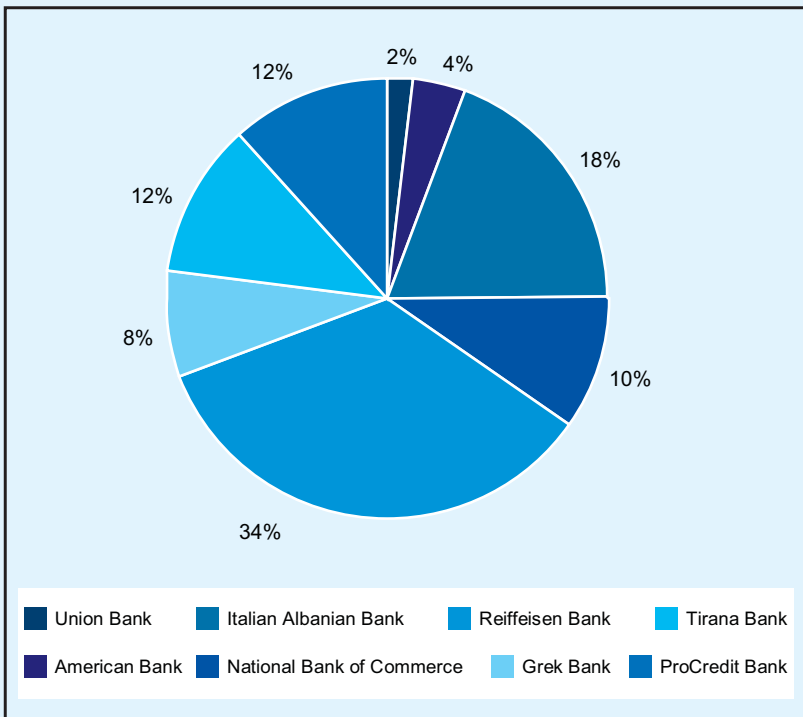
It can be noted that personal transportation accords for the lion's share of the number of transfers and at the same time has the highest average transfer size. Choosing personal transport for transferring remittances is influenced by many factors such as the

illegal status of some Albanian emigrants' abroad, low effectiveness of the banking system, lack of trust in the banking system, high cost of transfer for small amounts, existence and effectiveness of informal channels and a perceived need to keep the transfers discreet. Recently, MTO transfer channels have grown faster due to the simplicity of the procedures; rapidity and reduction of risk that is relatively high for personal transportation of cash amounts.

### Part D – The characteristics of the financial system

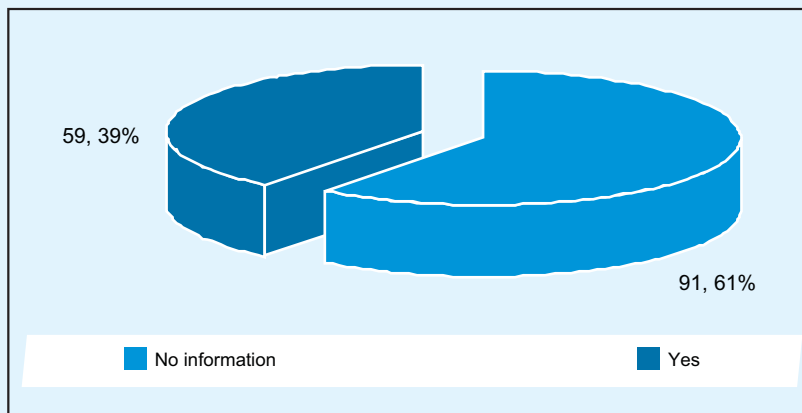
There are 8 banks operating in the region of Durres. Table 10 shows the banks that share the money market in the region of Durres. Furthermore there are several Credit Union Associations and Western Union and Money Gram offices.

Tab. 10 The Banks



From the survey and interviewed persons it is clear that the respondents' relations with the financial institutions are limited. There are different reasons why the remittance recipients have limited interaction with the formal financial system. First, most of the recipients do not have a bank account. Out of 150 interviewed households only 34 per cent of them have a bank account and of these only two per cent have a second account. It is clear that the lack of interaction with the bank does not favour the use of the bank's services. Second, 59.39 per cent of respondents do not know of any other method of transfer than the one they use, and 91.61 per cent of all respondents do not have any specific information about other alternatives methods of transportation.

**Tab. 11 Alternative methods of transfer**



In 82 per cent of the cases, the respondents believe that banks do not offer any advantage or privilege for those who use their transfer services.

Table 12 – Banks' incentives

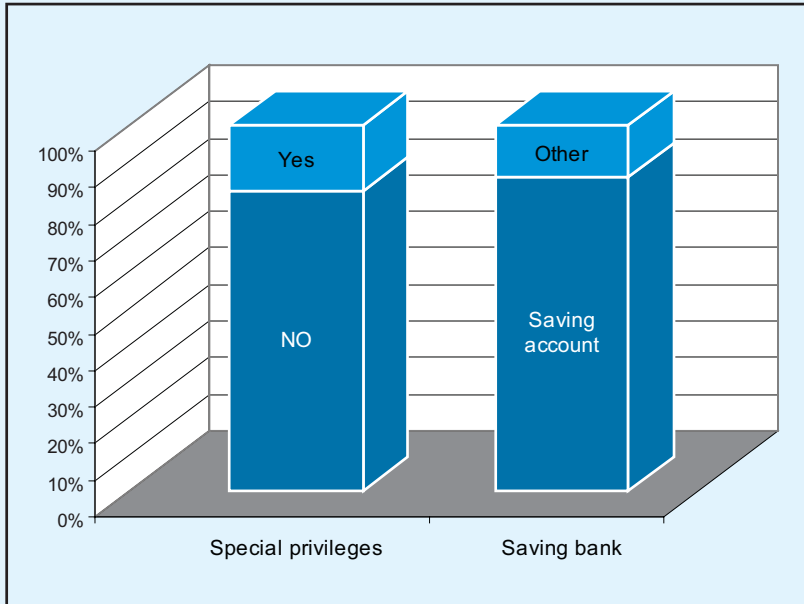
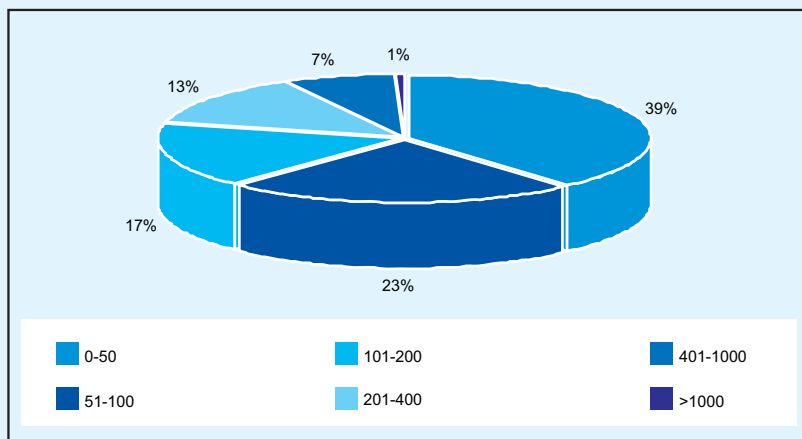


Table 12 highlights the perception by the respondents about the privileges that the banks provide and the relationship they have with the bank as customers. The services offered by the bank are mainly limited to saving accounts, transfers and credits that are offered at very high interest rates and significant collaterals. Remittances do not qualify as collateral for credits in part because the bank does not have proper information on the financial profile of the sender.

### Part E – The characteristic of the usage of the remittances

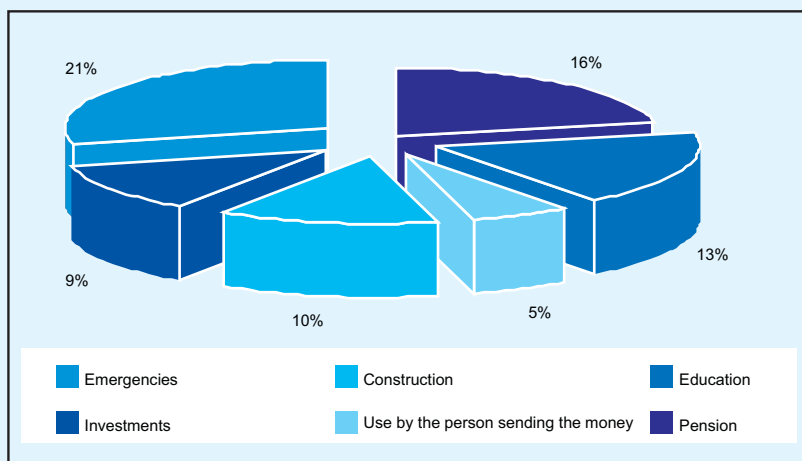
The survey reveals that the recipients do save part of the remittances they receive. 75 per cent of the households save up but a large share does so informally (35 per cent of respondents). The savings rate is influenced by the frequency and size of remittances.

Tab 13: Savings per month in €



Savings are used for different purposes. For 21 per cent of respondents savings are intended for emergencies. 16 per cent use remittances to supplement pensions, mainly through increased consumption and savings for emergencies.

Tab. 14: Object of Savings



Only 19 per cent of the savings are used for productive purposes such as construction and other investments in small business.

## 4. ANALYSIS

1 - The analysis of the survey data indicates that the level of remittances can be expected to depreciate in the future. This observation is based on:

- a. The largest remittances inflows go to the families that have children at school, (52 per cent of cases) or households headed by retired persons (22 per cent). In both cases most of the remittances is spent on consumption and informal savings or, for households with children, on education. These two groups of households are unlikely to invest their remittances and/or savings in businesses or other form of productive investment. The reluctance to invest is further influenced by the common expectation of reunification with the migrant in his or her host country. The procedures of family reunification are facilitated with the countries of the European Union based on the EU directive of 22 September 2003 on the right of family unification and the EU directive of 25 November 2003 concerning the status of third-countries nationals. Therefore, the number of families gaining the right of family reunification is increasing, which means that related remittances inflow can be expected to depreciate. Furthermore, sending children to continue their university education abroad is a growing tendency in Albania. Consequently, the remittances intended for the primary and high school education of the children will disappear once these children start university.
- b. 22 per cent of respondents are retired. Remittances inflow in these cases is expected to be reduced and seldom used for investments. First, these remittances inflows are time

framed. Second, psychological studies indicate that by the third age the money are mainly used to travel and for living and health expenses. During the informal discussion with some of the respondents it was confirmed that inflow remittances are used to cover health problems and travel abroad costs to visit children abroad.

2 - Only small amounts of money from the inflow remittances are invested in productive activities. Only in 12 per cent of the cases where the average remittances size more than 1,000 Euro per month, savings are used for investments. The survey indicates that the average amount that the respondents receive is relatively small, although 75 per cent of the interviewed households try to save part of the money for emergencies and payments in cash. There are several reasons for the lack of investments from the inflow remittances.

- a. Almost all the services and purchases in the public and private system in Albania are paid for in cash. This includes the public health system. This requires all the time the disposition of money in cash to make the payments. The perceived need to keep savings as cash is also influenced by the limited opening hours of the banks and poor geographical coverage by the banks' networks.
- b. Saving are not enough to start and maintain a business or cover a full investment. The banking system and microfinance institutions lack the flexibility to offer investment packages or create investment funds that would make profitable use of savings in interesting investment portfolios.
- c. Due to the previous negatives experiences with informal financial service providers (for example the 1997 pyramid schemes), respondents indicate they prefer to keep money in cash at home.

- d. The banks on the other hand face major problems in operating all the transfers of inflow remittances because of the informality of the emigrants abroad. In a status of illegality the refugees cannot use banks to send money back home or arrange for investments.

As a result for most respondents their savings are kept in cash at home.

3. - Regarding the characteristics of the transfer of the remittance, *the money is mainly transferred via informal channels*, such as personal transport, network of friends or relatives. The reasons for this situation are related to different factors.

- a. Informal channels, such as personal or network of relatives and friends transport of the remittances remain convenient and preferred by the recipients for the following reasons: this channel is perceived to be cheap, fast, discrete and without procedures.
- b. There is lack of information about the advantages that other methods of transportation offer. For the citizen bank service is perceived expensive and bank time-service and network of operation as limited.
- c. The amount transferred is small and the MTO and bank service are expensive.
- d. There is also an absence of a well-established relationship between the bank and the potential clients. This situation is due partly to the relatively new establishment of private banks in the country. During the socialist regime besides the saving accounts ordinary people did not have any other relationship with the bank.

4. - Several banks are operating in the region of Durres, such as Union Bank, American Bank, Albanian-Italian Bank, National Bank of Commerce, Raiffeisen Bank, National Bank of Greece, Tirana Bank, ProCredit Bank (micro-finance institution). The commercial banks charge fees ranging between 0.05-0.10 per cent of the amount transferred. The Western Union or Money Gram charge approximately five to ten per cent of the total amount transferred. However, banks do not appear sufficiently focused on the potential which remittances represent. Currently the banks tend to concentrate on providing transfer services and do not link these with the other financial products they offer. From the interviews with different banks in the region of Durres there are indications that:

- a. Banks seek to improve the service of transfers by shorting the time of transfer in one day and reducing the fees of the transfers.
- b. There are no incentives that encourage the usage of remittances in productive activities.
- c. There are several bank branches in the cities, but their operating network is limited to the urban areas. The interviews showed that the recipients are mainly in the periphery and informal zones of the city. Thus, to receive the money the recipient has to travel long distances to reach a bank outlet.
- d. Most of the recipients do not have information about the advantages of using banks as a provider of transfer service

## 5. CONCLUSIONS AND RECOMMENDATIONS

According to the Bank of Albania 2003, remittances represent around 17 per cent of GDP, a contribution which should be managed to enhance the economic development of the country. In order to facilitate an effective policy on the management of the influx of remittances and their use in productive investments that would contribute to the economic and social development of the region of Durres, a series of policies and regulatory measures should be adopted. To properly manage the inflow of remittances and link them to national and regional economic and social development, first of all, the situation should be well defined at national and then at a regional level. To realise that, a national agency that monitors and manage the issues of emigration in Albania should be established.

The agency should aim to:

- Compile and manage the database on the dissemination of the Albanian emigrants in the world;
- Monitor the inflow of remittances and identify the regions that are mainly affected;
- Undertake advocacy in favour of various procedures of regularisation of illegal status of the emigrants in particular in Italy and Greece where the major part of the Albanian emigrants live.
- Provide information and guide to the emigrants in their efforts to invest in Albania;
- Elaborate incentives in cooperation with other actors at national and regional level to attract more investments from the emigrants;
- Detail programs that facilitate the reintegration of the emigrants that repatriate.

Banking System and Micro Finance Institutions should adopt strategies to encourage both the formal transfers of the remittances and their investment in productive activities. Among the measures that need to be adopted can be mentioned:

- Establish incentives that promote the usage of bank and micro-finance institutions for money transfers;
- Offer investment funds and portfolios that would mobilize all amounts of money on productive investments;
- Organize campaigns of information on the services and advantages offered by the bank on money transfers, investments and savings.
- Enlarge the network of offices operating in the region especially in the zones that have in majority emigrants abroad, such as the zone of “Keneta” in the region of Durres.
- Cooperate with local authorities in establishing joint strategies of action that would aim to attract and guide emigrants in their investment activities.

Different NGOs operate in the region aiming at assisting the social and economic development of the region one of which is TAULEDA. It would be of interest to encourage these agencies to give greater attention to the question of emigration, remittances and their integration in the economic development of the region of Durres. In this respect it would be of great interest to invite public authorities of the region to cooperate with the NGOs operating in the region and all other interested agents in the building of common strategies of actions that would aim at the attraction of remittances in productive activities.

In the Durres Regional Development Strategy, there is no particular focus on the inflow of remittances and their usage for the economic

development of the region of Durres. In conclusion, the question of remittances and their use for productive purposes should be approached in a comprehensive manner and integrated into the national and regional strategies on migration as well as the social and economic development strategy of the region.

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