

CeSPI

CentroStudi di Politica Internazionale

Working Papers

5/2003

Remittances management in Albania

Esmeralda Uruçi e Ilir Gedeshi

Programma MigraCtion

Coordinatori: Ferruccio Pastore e Andrea Stocchiero

CONTENTS

Introduction.....	2
1. Importance of remittances for the Albanian economic development	3
1.1 The importance of remittances	3
1.2 Main characteristics of remittances	6
1.3 Channels of remittances transfer.....	7
1.3.1 Formal channels of remittance transfer.....	7
1.3.2 Informal channels of remittance transfer	9
1.4 The remittances use.....	9
2. Institutions and policies for the management of remittances.....	10
2.1 Monetary policy	11
2.2 Exchange rate policy	14
2.3 The Albanian Banking System.....	15
2.3.1 Financial crisis	19
2.3.2 Banking system lending and depositing activities	21
2.4 Microcredit institutions and lending activity of non-bank institutions.....	23
3. An Inquiry: remittances in the District of Scutari.....	25
3.1 Methodology of the study.....	25
3.2 Scutari District.....	25
3.3 Results of interviews	26
4. Conclusions and recommendations	29
List of contacted institutions.....	32
Bibliography.....	33

INTRODUCTION

The Albanian transition process from a centralized economy to a market economy, starting at first years of 90s, has been characterized by a huge phenomenon of emigration with a particular peak in 1997-1998 after the Pyramid Scheme collapse. An important *brain drain* process and a massive migration flow most of it towards Greece and Italy, but also towards USA, Canada and Western European countries in general, has been due to a very scarce job opportunity and a general underdevelopment of the country. Consequently an important remittances flow that constitutes a major source of foreign revenue for Albania, increased.

The Albanian Government has been urged, by the International Community (IMF in particular), to create instrument and design policies to manage this currency flow and in particular to explore ways to encourage emigrants to return and to invest remittances for local development. To date, policies channeling remittances through formal structures and promoting saving and investment in the country are still inexistent. The weakness of the financial system and the little productive capacity of Albanian firms entails the almost exclusive use of remittances for the purchase of imported goods, and lessen therefore their potentially positive impact on the local economic system.

In the very recent years, Albania Government is grappling with a reform process concerning in particular the banking system and economic privatization. Other reform to be carried out should aim, on one hand, at creating a conducive economic environment (adequate basic infrastructure, good level of access to local markets, local supply and marketing capacity, effective regulatory system), and, on the other hand, at reducing bureaucracy, eliminating waste and corruption in the public sector.

The study describes the remittances flow in Albania and the financial reform process with a particular focus on the banking system reform. It aims at analyzing the existing conditions in Albania to formalize a productive use of remittances and to put forward some cooperation policy proposals. The study is accompanied by an inquiry on emigration and remittances flow regarding the Scutari district and some final recommendations.

1. IMPORTANCE OF REMITTANCES FOR THE ALBANIAN ECONOMIC DEVELOPMENT

1.1 The importance of remittances

The remittances of Albanian immigrants continue to constitute a valuable economic aid not only for their families, but for the socio-economic stabilization of the country as a whole¹. In an analysis of remittances flow, during the transition period, we see a considerable increase during the years. Estimates of the Bank of Albania² show that in the year 1992 immigrant remittances amounted to 150 million US dollars, whereas in year 2002 remittances reached to 606.8 million US dollars. Looking at these considerable amounts, the IMF Executive Board has legitimately asked the Albanian authorities for due attention to remittances³. Specifically, due attention has been recommended towards three major issues:

- Specialized institutions paying more attention to remittances.
- Applying stimulating policies aiming at increasing remittances flow to the homeland.
- Applying efficacious policies in order to encourage Albanian immigrants on the usage of the Banking System for remittances.

These important recommendations become of due importance if we look at remittances in proportion to other important economic indicators in the country.

Referring to the Bank of Albania Report⁴ for the year 2002, we see that remittances represent about 12.9 per cent of GDP, are almost twice as much as income from exports and about 4.5 times bigger than direct foreign investment. Remittances are greater than foreign aid granted to Albania each year.

Appreciating the considerable value of remittances from the Albanian immigrants, we evaluate the multi-dimensional importance they have. In the year 2001 these flows have financed with about 53 per cent the commercial deficit, or 7 per cent less than the previous year (financing 60 per cent of commercial deficit). These sources play a major role in the partial finance of high commercial deficit, but they cannot be considered as eternal⁵, because it is difficult to foresee remittance flow from the immigrants in medium-term perspective.

¹ UNDP, Report on Human Development in Albania 2000.

² The Bank of Albania calculates emigration remittances as the difference between foreign currency coming in (goods and services exports, credits, foreign investments) and foreign currency going out (goods and services imports, foreign currency going out through the banking system). This calculation does not exclude the possibility that in the remittances amount be included income from suspicious activities, such as illegal trafficking. Other authors give more optimistic amount growing over 700 million of US dollars in a year (Bank of Albania, 2002)

³ Baleta, T., Tanku, A., Is cost increase a rational way to absorb immigrant remittances, Tirane, 2000.

⁴ Bank of Albania, Annual Report 2002

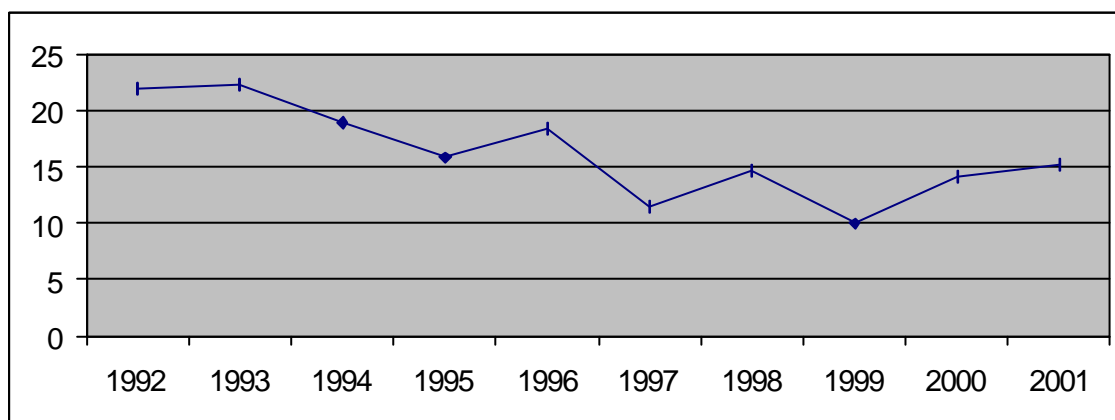
⁵ Gedeshi I. The role of remittances from Albanian emigrants and their influence in the country' economy; in Kotios and Petrakos (eds.) Restructuring and Development in South Eastern Europe, University of Thessaly Press, SEED, 2002

Tab. 1 The amount of remittances sent during the period 1992 - 2000

Year	Total of remittances sent (in mil. USD)	In % of GDP	In % of export	In % of commercial deficit	Total of remittances per person
1992	150	-	-	-	47.0
1993	274.8	22.3	224.5	92.1	86.7
1994	377.9	19.4	267.4	92.8	118.0
1995	384.6	15.5	190.7	85.8	118.3
1996	499.6	18.6	237.3	71.5	152.1
1997	266.9	11.6	188.8	55.7	80.2
1998	452.3	14.8	219.0	76.8	134.8
1999	368.1	10.0	133.6	58.9	109.1
2000	530	14.3	205.4	60.0	170
2001	620	15.2	203.2	53.0	200

Source: Bank of Albania , 2000

During 1991-2001 period, immigrant remittances have continually increased and have represented about 10 to 22 per cent of GDP. In the year 2001, according to an assessment by the Bank of Albania remittances amounted to about 620 millions US dollars, or about 15.1 per cent of GDP, from 150 millions of US dollars or about 22 per cent of GDP in the year 1992.

Graphic 1 - Remittances on GDP formation in %

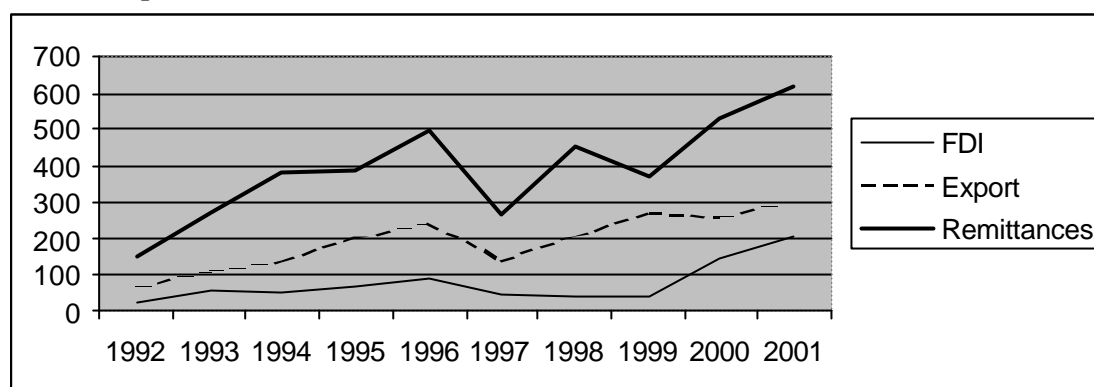
Another way to assess the importance of the remittances is that they weigh more than other economic indicators in the country, such as direct foreign investments and foreign aid and foreign currency income from export. During 1992-2001 period the accumulated direct foreign investments have been 774.7 millions US dollars while the accumulated remittances flow has been 3924.2 millions of US dollars or about 5 times more.

The proportion of remittance flow to direct foreign investments have moved from 750 per cent in the year 1992 to 1000 per cent in the year 1998, and they decrease 299 per cent in the year 2001 as a consequence of a sharp increase of direct foreign investments⁶ In

⁶ INSTAT, Albania in figures, Tirana June 2002

general they have been greater than the foreign aid Albania gets each year. In the year 2001 remittances were about twice as big as foreign currency income from export.

Graphic 2 - Dynamics of remittances, exports and direct foreign investments during the 1992-2001 period.



We can also look at the importance of remittances by comparing the per capita income during the years. Thus, in the year 2001 this indicator was about 200 dollars per capita. During 1991-2001 period this indicator has improved as a result of the growing remittances flow and the decrease of country's population due to emigration. But compared to some developing Mediterranean countries, which have high migration flows, this indicator is still low.

Remittances are the main mechanism for the alleviation of poverty in Albania and for increasing family income in particular. A qualitative poverty assessment study by the World Bank⁷, conducted in ten districts of Albania in the year 2001, show that emigration and remittances are the main factor distinguishing a poor family from non poor family. The study show that many people distinguish the rich from the poor by the number of family members who emigrated.

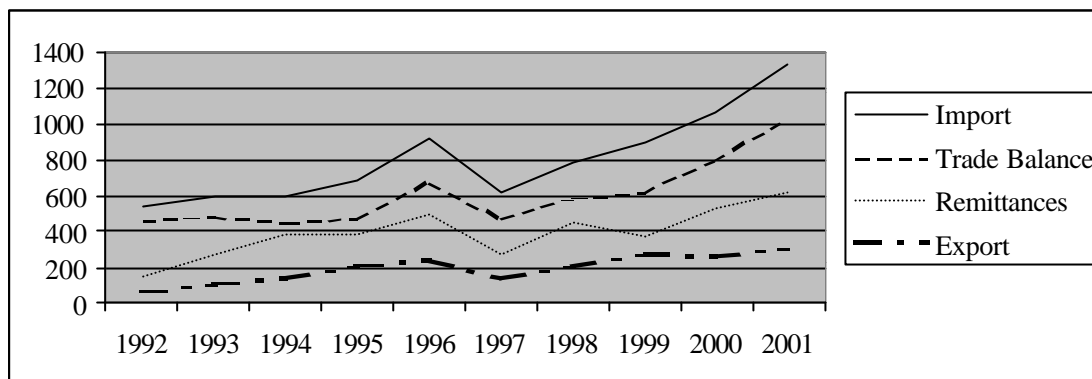
Remittances have also played a major role in financing imports and covering the commercial deficit. They have played an important role in maintaining the exchange value of local currency and for the fast development of construction and services sectors. Thus they have had a positive effect on the macroeconomic stability of the country.

As a consequence remittance have been the main factor determining one of the characteristics of Albanian transition, the *extroversion*⁸ of economy, which means that internal consumption is bigger than national production. Whereas from the point of view of injection of foreign financial flows, compared to other east and central transition economies, Albania is the only country similar in this respect to East Germany.

⁷ De Soto, H. Gordon P. Gedeshi I. Sinoimeri Z., Poverty in Albania. A qualitative assesement, The World Bank, Washington DC, 2002

⁸ Samson I., Albania experience among transition trajectories, Working Paper , Grenoble 1996

Graphic 3- Dynamics of remittances, imports, exports and the commercial deficit during the 1992-2001 period.



1.2 Main characteristics of remittances

Precise evaluation of remittance flow is difficult to be done because most of them are not transferred through banking system. Apart from this, after Misja analysis in 1998⁹, part of remittances, estimated to be 1/6, come in goods (mainly long term consumption goods, electrical equipments and cars). Other studies show that monetary transfers outside of the banking system are very large¹⁰.

This money transfer structure in Albania can be explained by at least two main categories of factors. The first category consists of low quality service in the Albania banks, lack of banks branches throughout the country, higher exchange rate in the informal market, little knowledge of emigrants and their families of the functioning of the banking system, unwillingness of part of emigrants to be identified about the large amount of money that they transfer to Albania (in this category there are emigrants who, in the emigration country conduct illegal activities such as drug, trafficking, prostitution, etc.), etc. Whereas the second category consists in the fact that part of the emigrants, mainly in Greece and in Italy, are illegal and short term and they cannot use the banking system to send money home.

Meanwhile the growing of foreign banks in Albania, activity of international agencies such as Western Union and Money Gram, or grater engagement in the future for the Albanian post office, will facilitate Albania remittance transfer to homeland.

From a quantitative point of view, according to data from Bank of Albania, it results that Albanian emigrants remittances transferred to the homeland through the banking system and other agencies has increased and in the year 2001 they represented 39.3% of the total sent remittances, from 7.5 per cent in the year 1994. Data analysis (Table 2) shows that during the 1994-2001 period they have twice reached the peak, in the year 1997 with 31.3 per cent and in the year 2001 with 39.3 per cent of total sent remittances. While in the

⁹ Misja V., Emigracioni nderkombetar ne Shqiperi gjate periudhes se tranzicionit, Shtepia Botuese "Marin Barleti", Tirane 1998

¹⁰ Gedeshi I. The role of remittances from Albanian emigrants and their influence in the country' economy; in Kotios and Petrakos (eds.) Restructuring and Development in South Eastern Europe, University of Thessaly Press, SEED, 2002

year 1997 the main reason of this increase has been the political and social chaos after the collapse of the pyramid schemes, in the year 2001 the increase represents the normal trend of remittance sending through the banking system and other agencies.

Tab. 2 The banking system and emigrant remittances

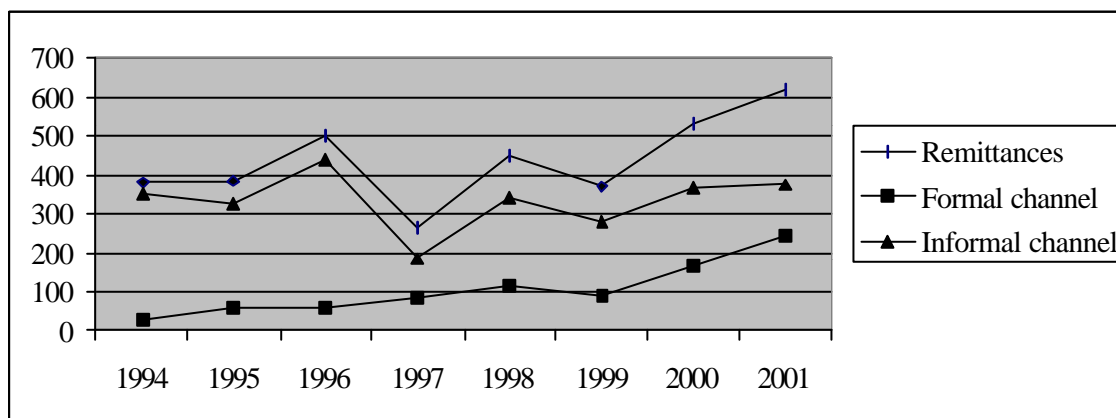
Indicator	1994	1995	1996	1997	1998	1999	2000	2001
Remittances	377.9	384.6	499.6	266.9	452.3	368.1	530	620
Remittances transferred through the banking system and other agencies (in million USD)	28.3	59.5	60.0	83.6	113.7	89.08	162.8	243.8
In % against the total remittances	7.5	15.5	12.0	31.3	25.1	24.1	30.7	39.3

Source: Bank of Albania, 2002

1.3 Channels of remittances transfer

Remittance transfer in Albania, just like other countries that have high migration flows, is done through formal and informal channels. The selection of type of channel for remittance transfer depends on several factors, such as legal or illegal status of the emigrant in the host country, the short or long term aspect of emigration, the development and efficiency of the banking system in homeland, the knowledge emigrants and their families have on the functioning of the banking system in the homeland, the existence and efficiency of informal system, etc.

Graphic 4 - Remittances, formal and informal channels



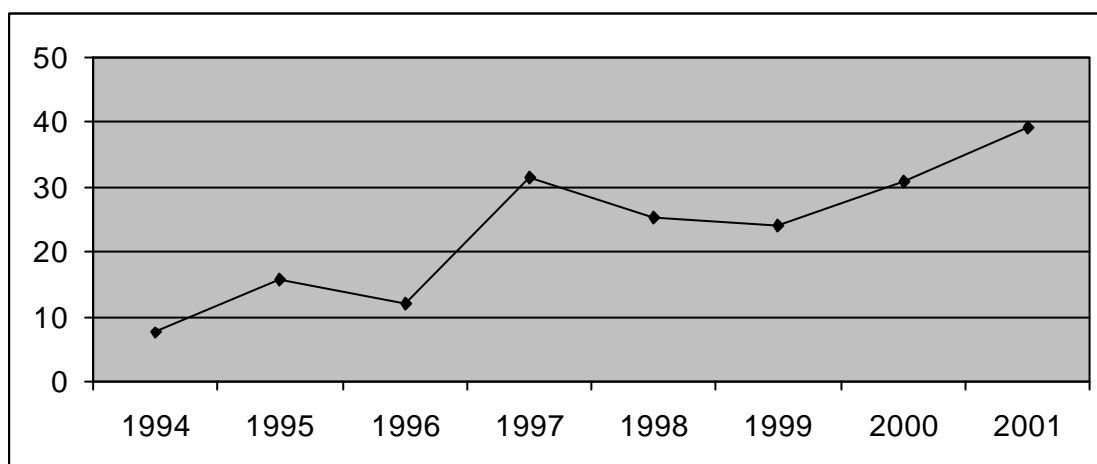
1.3.1 Formal channels of remittance transfer

Only part of remittance of the Albania emigrants are transferred through formal channels, which include the banking system, several specialized international agencies for money transfer like Western Union and Money Gram, and the Albania post office. In the year 2001 about 39 per cent of remittance flow or 243.8 million of US dollars were transfer

through this channel, from 7.5 per cent or 28.3 millions of US dollars representing the year 1994.

In the graphic below we see that the trend of money transfer through formal channels, proportional to total transfer, is increasing, especially in the last two years. On the one hand this shows the rate of legalization and integration of Albanian emigrants, mainly medium and long term ones, in the host country. On the other hand it also shows the rate of development and knowledge of the banking system in Albania.

Graphic 5- Percentage of remittance transfer through formal channels on total remittances



Most of the remittances transfer through formal channels is realized by the international agency Western Union. This agency which started its activity in Albania in the year 1993 ranks first due to its quality (speed and simplicity) and they have branches in most of the country, even though they apply higher tariffs of its service are 47 US dollars per 1000 US dollars. At the end of the year 2001 this agency has opened several branches in all the district of Albania. In the district of Scutari, only, this agency has 14 offices in the villages and in the city.

The growing of foreign banks and their new branches in some main districts of the country has played an obvious role in remittance transfer through formal channels. Their tariffs for transfer services are lower than those of Western Union. Whereas Tirana Bank, a branch of the Greek Bank of Piraeus, which has opened 5 branches in Albania, applies zero tariffs for transfer for its clients.

The Albanian post office by using the service of its offices in all the district of the country is increasing the amount of remittances transfer through it to Albania. Moreover, the Savings' Bank has signed agreements with the commercial banks in Greece that allow the overcoming of legal impediments¹¹.

¹¹ Baleta T., Tanku A., Is the increase of the cost for withdrawing immigrant's deliveries rational? Speech held in the seminar organized by the "Friedrich Ebert" Foundation in cooperation with the Center for Social and Economic Studies (CESS) "Role of Albanian immigration remittances and their influence in the country's economy", Tiranë, 10 November 2000.

1.3.2 Informal channels of remittance transfer

The main route of remittances transfer to Albania continuous to be the informal channels. According to data of the Bank of Albania about 61 per cent of the amount of remittances for the year 2001 were transferred through this channels. This is mainly done by the emigrant himself or by the large network of relatives and friend they have. The informal channels are mainly use by illegal emigrants and legal or illegal short term emigrants. Remittance transfer through informal channels bears also risks. Small part of emigrants use couriers by paying a commission. The income from narcotics and prostitution that occupies very important rates and basically they are brought in Albania by very secure messengers sent by the members of the network, with the main purpose of laundering and a small amount for the needs of the family in their homeland, etc. Even Albanian migrants that have not yet confirmed the country they actually live, according to the migratory country legislation, prefer to send the money, amounts that cannot be ignored, with their familiars or loyal messengers.

This component still remains very important but practically is impossible to be studied in an accurate way.

1.4 The remittances use

Most of the remittances are used for consumption, rather than investments. Including the expenses of emigrants families to afford daily needs for food and clothing, as well as the purchase of different long term equipment. Food import only moved from 157 millions US dollars in the year 1993 to about 321 millions US dollars in the year 1999.

The main source for financing the import of consumption goods has been remittances. Part of the remittances are used for reconstruction or building new houses. Even in this case remittances have been the main source for financing the fast development of construction sector in cities and villages. Parallel with this, remittances has been invested in the service sector as well such as small scale trade, bars and restaurants, hotels, etc. Another part of remittances have been deposited in the banking system for saving and profiting the respective interest, or to be used in the future for any specific needs.

2. INSTITUTIONS AND POLICIES FOR THE MANAGEMENT OF REMITTANCES

Despite the importance of remittances and recommendations by the international community, Albania still lacks a state policy and a national strategy for the management and use of remittances to the benefit of the socio – economic development of the country.

On one hand, the legal framework to monitor and govern the migration and remittances flow is still fragile, almost inexistent, Ministry of Labor and Social Affairs drafted a law on immigration trying to provide the necessary legal, financial and fiscal facilities for the effective management of remittances and to set up the necessary conditions for a successful immigrants return. The draft was considered incomplete by the Parliament in the year 2001 and was thus not approved.

On the other hand, the economic and financial reform process and in particular new banking policies, started during last years, will play an important role for the improvement of the remittances management in Albania.

The extension of the banking system throughout the country, opening new branches in several regions of Albania, and the creation of new facilities for the transfers, Safety Code usage, through bank correspondents, as well as the usage of Visa Cards would be important for an increase in formal transfers. Here we can mention the Tirana Bank, which does not take money for commission and has its own correspondents in Italy and Greece.

The economic reform process, in Albania, started in June 1992 with the support of the “Stand By” Agreement with the IMF, foreseeing the following main objectives:

1. Macroeconomic stability: reduction of budget deficit, inflation control and price liberalization
2. The restructuring of public sector , the incentive and development of free competition and the reorganization of public sector including the financial sector
3. The economic privatization

Concerning the reform of the financial sector, it comprises the reorganization of financial and banking institutions, insurance institute and pension funds. Until now steps are taken on the privatization of banking system with the collaboration of World Bank and IMF (concerning the banking system reform refer to paragraph 2.3 and followings).

The most relevant policies concerning the remittances flow that we are going to analyzing in the next pages are the monetary policy and the exchange rate policy. These define the basic factors to stimulate or to discourage to the use of formal channels for remittances transfer.

2.1 Monetary policy

The main objective of the monetary policy of the Bank of Albania has focused on maintaining the stability of prices. It started with setting up the required reserves, the basic interest policy as well as the inter-bank liquidity management, by implementing direct and indirect instruments. In order to realize these objectives the Bank has given priority to establish the rate of increase of monetary supply, based on the economy's demand for monetary means. This way, the Bank has followed a tight policy, at first by employing direct instruments, such as the minimum of interest on deposits. However, at the beginning of the year 2000 the Central Bank started using indirect instruments, which permit for a more liberal determination of interest rates through the market. Nevertheless, the monetary policy of the Bank of Albania remains tight because of lack of developed financial markets and lack of capital.

The actual monetary policy regime applied in Albania is of *monetary targeting*. In the medium-term (3-5 years), inflation targeting of monetary policy will be applied as well. This regime is still in its preparatory phase. The circumstances for such a change seem in favor, as a result of the progress achieved in the macroeconomic stability and fiscal consolidation.

Tab. 3 Monetary indicators and inflation in %

	1998	1999	2000	2001	2002
M3 growth	20.7	22.3	12	19.9	13.7
Treasury bills rates	20.7	22.3	7.8	7.8	...
Inflation	20,6	0,4	0	3	3*

*: estimate. Source: Bank of Albania 2002 and Economist Intelligence Unit 2002

In response to inflation pressures, but also to encourage money return to the banks, after March-May 2002 (see the paragraph on financial crisis), the Bank of Albania has tightened the monetary policy. This has been made concrete by a twofold increase in interest rates and a total increase of 1.5 per cent, as well as by constant signaling of the appropriateness of maintaining or further tightening of monetary policy. On the other hand, the increase of interest rates has aided money return to the banking system and has soothed inflation pressures, having a more complete affect in the second half of the year. Thus, time deposits have increased starting from July 2002, while in September they marked a considerable increase of 3.4 billion lek. Another stimulating element has been the increase in the real interests and in the difference between lek interests as opposed to foreign currency interests. The latter has been further enlarged as a result of the reduction of foreign currency interest in the international markets. All these further enhance interest in local currency.

Independent of the fact that banks in Albania, from a legal point of view, are the most complete institutions in the country, it is the aim that in this regard, respective legislation be more adapted to international standards for promoting competition among banks for the improvement in the payment system through installing the Real Time Gross Settlement system, for establishing the credit information office and promoting the expansion of savings-credit schemes and the banking system countrywide. The

continuous improvement of banking supervision through both legal enhancements and drafting and perfection of licensing rules, supervision and regulation is yet another positive phenomenon of the time. Currently, the Bank of Albania is using a contemporary system for the evaluation of second level bank system, whose implementation is based on respective human resources and legal bases.

The new regulation “On the minimum compulsory reserve held at the Bank of Albania” is predicted to play a specific role in achieving these objectives. This new regulation on the compulsory reserve for second level banks, which they have to keep at the Bank of Albania, aims at controlling the money supply and liquidity of the banking system.

It is aimed that through this regulation, the Bank of Albania, on the one hand, predicts the demand for reserves and avoids excess liquidities, and on the other hand, accommodates structural changes in the demand for reserve. The improvements on the minimum reserve, foreseen by the new regulation also aim at approaching the standards currently employed by the Central European Bank. The changes made to this regulation include the way of calculating the minimum reserve, the time period it is kept in the Central Bank, rules of administration of the minimum reserve, the average monthly level of this reserve, etc.

The Agency for Deposit Security, established pursuant to Law 8873, date 29.03.2002 “On deposit security” is predicted to play an important role in realizing the monetary policy of the Bank of Albania. The law clearly defines the elements of deposit security system in the Republic of Albania. This new institution has as its main duty deposit security, organization of the deposit system, sources of financing, member institutions in deposit security system, the types of secured deposits, the secured amount.

The Deposit Security Agency is that institution responsible for the realization of deposit security activity in Albania. It is a legal-public person, centered in Tirana. It is independent of any other subject, both operationally and financially.

The main function of the Agency is deposit security and compensation. The Agency secures deposits of up to 700 thousand lek, time deposits in lek and foreign currency, timeless deposits in lek and foreign currency, certificates of lek and foreign currency deposits. Membership in the Agency for Deposit Security is compulsory for all subjects applying for banking license to the supervisory authority.

The Tirana Stock Exchange is part of the financial system and market of Albania. It was officially established as an independent institution in the year 1996, in the framework of Law n.8080 “On security”, but it has not really functioned. During the 2001-2002 period not a single securities transactions was registered. From the organizational point of view the Tirana Stock Exchange was located at the facilities of the Bank of Albania, and was operating under its jurisdiction. In 2002 it has been separated from the bank of Albania and accord to it has been had an independent status. Nevertheless, up to now, there is not any company listed, neither those derived from massive privatization or stock transaction are made. The only transaction are those with treasury bills of one year maturity, five governments bonds and privatization vouchers . It should be noted that the capital market is one of the areas where the financial system has significant drawbacks and deficiencies. It is a widely accepted fact that, the Albanian opinion is not very familiar with the stock exchange, with the importance and function they pose for the market economy. In

Albania, the term “Stock Exchange” implies only currency exchange, while its role and function is much bigger. The short term goal is that the Tirana Stock Exchange serves as a common marketing platform (centralized market) for the following means: shares, treasury bills (primary and secondary market), foreign currencies, governmental and private obligations, and for the obligations emitted by municipalities (Local Government).

In realizing its monetary policy, the Bank of Albania has shown special attention to the administration of foreign currency reserve. Bank’s policy on this issue has been a prudent one. In this respect, the Bank has always aimed at realizing the maximization of the reserve value, within the risk limits, and the sustainability of the liquidity of foreign currency investments. As a consequence, reserve policies on different currencies have had a relatively short duration, which shows the maturity and caution in foreign currency funds’ administration. This policy has made possible not only meeting the needs for intervention in the domestic foreign currency market, but also increasing the reserve amount. As a consequence, the net foreign currency reserves of the Bank of Albania for the year 2002 were 668.6 million US dollars, or 42 million US dollars more than the previous year.

Tab. 4 Foreign Currency Reserves (in million USD)

Years	1994	1995	1996	1997	1998	1999	2000	2001	2002
Reserve	204.39	240.32	279.98	308.28	384.22	479.96	607.83	736.96	838.93

Source: Bank of Albania, 2003

The aim of the current policy on foreign currency administration is maintaining the same the reserve value and guaranteeing, at any time, to meet the needs of the economy for liquidity at lowest cost. This objective is aimed to be achieved through very cautious financial investments of reserves.

As for the banking reform and liberalization of the interest rate, BERS in the “Transition Report” 2002, asked for:

- a) an important progress in insuring bank’s ability to pay
- b) a regulatory framework of banking supervision
- c) complete liberalization of interest rates with little preferential access related to low cost re-financing
- d) considerable loans for private enterprises
- e) an important presence of private banks

As far as it concerns Albania, it is necessary to undertake the following steps:

- important actions related to banking rules and laws, in accordance with Basle standards
- proper functioning of the competition and effective banking supervision
- large scale credit with a long term maturity period for private enterprise
- important expansion of the financial sector

2.2 Exchange rate policy

The policy on exchange rate has had a specific role within the monetary policy of the Bank of Albania. From the year 1993 to the year 2000 the lek went through a strong devaluation because of the Pyramid Scheme phenomenon (to refer to Box 2). During the years 2001-2002, there was an appreciation of the value of lek, respective of the main foreign currencies present in the Albanian exchange market. Thus, respective to the US dollars, at the beginning of the year 2001 (according to average rates), the exchange rate of lek, was 141,74 lek –US dollars and at the end of the year it was 138,58 lek – US dollars. Whereas, at the beginning of the year 2001, the value of lek to the Euro was 131.4 lek-euro and at the end of the year 2001 it was 118,5 lek-euro.

The main factors influencing the valuation of lek have been:

- the positive difference of interest rates offered by the deposits in lek as opposed to the deposits in foreign currency;
- the introduction of Euro. It causes a surge of lek demand to exchange European national currencies that were no longer in circulation.
- sustainability of monetary and fiscal parameters in the predicted level;
- seasonal factors, such as the crisis in Macedonia, the country's energetic crisis
- high emigrant remittances.

Tab. 5 Exchange rate

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Mean										
Lek/USD	75.3	102.06	94.68	92.79	104.5	148.93	150.64	137.69	143.71	143.48
Lek/Euro								146.96	132.58	128.47
Lek/Dem		61.75	58.27	64.81	69.46	85.73	85.65	75.14	67.79	65.68
Lek/per 100 GDR		44.59	39.15	40.08	43.4	54.48	51.07	45	39.41	37.7
Lek/per 1000 Lit.		65.13	58.72	57	67.68	87.36	86.78	75.91	68.47	66.35
Lek/CHF		66.9	71.43	80.92	76.85	103.59	103.25	91.59	85.15	85.08

Source: Bank of Albania 2002.

Moreover, it has increased the number of licensed operators, operating as foreign exchange bureau. At the end of the 2000 their number was 28. Based on the reported data from licensed operators, the total volume of performed operations in buying and the selling of foreign exchange reaches the value of 1,171.45 millions US dollars.

Box Informal exchange market¹²

The Albanian foreign exchange market is composed by the formal and the informal exchange market. The formal market includes licensed operators to exercise foreign exchange activity. The informal market includes a group of unlicensed individuals performing foreign exchange transactions and there are called “free dealers”. As such there are not submitted to the application of any of Bank of Albania’s approved rules on the foreign exchange market and do not report to it. They have a significant operation since at the early 90’s and have been generally located in the center of Tirana next to the Bank of Albania headquarters. Between both markets groups of operators stand business and individuals performing exchange transactions for daily needs, investments or saving needs.

The informal market reflects three distinctive features:

Low cost: Such market transactions have a lower cost as to the more favourable exchange rates offered by it compared to the formal market operators

A higher dexterity in operation: The exchange operation is immediately and adroitly performed, saving time and money even more

A higher liquidity: the informal market is highly liquid as everyone can change any money amount (large or small) at any type of currency and at any time. It provides the possibility of exchange even for the considered rare coins.

These three features increase this market efficiency making it more competitive. Foreign exchange transactions performed during 2001 recorded the average value of 1032 transaction with a total average volume of nearly 2,1 billion USD against 1,2 billions transactions performed by commercial banks and foreign exchange bureaus, every year. During the 2002 the trend has been nearly the same¹³. Thus informal market transactions are estimated at nearly 1.75 times more than the formal one. The strategy of Bank of Albania aims at stimulating the licensing of free dealers rather than close this market.

2.3 The Albanian Banking System

Attempts to harmonize banking activity with the reforms and developments of the new historical process started with the transition toward a market economy. Thus, in April and May of the year 1992 monetary policy formulation and implementation began, with legislation on the establishment of commercial banks and the regulation of their activity. By the approval of Law on the Bank of Albania and the Law on Banking System, the reform focused in the setting up and putting into function a two-tier banking system composed by

- the Bank of Albania as the highest organ responsible for designing and supervising the implementation of monetary policies and supervise the banking system of the whole country
- a second level banking system or Commercial banks, mostly of universal type. The commercial banks may accept deposits from and extend loans to Albania resident and enterprises in either lek or foreign currency. They can do transfers

¹² Bank of Albania, “Annual report 2002”

¹³ Bank of Albania, “Annual report 2001”

and transactions as well as investment in the international money markets. The commercial banks activities are supervised by the Bank of Albania using internationally accepted standards and practices

In the year 2002 the situation of the banking system in Albania has generally improved. Currently it constitutes the largest and most developed system of the financial market in the country, banks have expanded the network of their activity by opening new branches and the bank structure discloses in favor of private capital and the foreign one. Some banks are trying to use contemporary methods of bank functioning, such as the use of automated teller machines (ATM), the use of credit cards, the use of internet banking, credit giving for buying houses, cars, domestic appliances, at mitigated circumstances especially for their clients. Nevertheless the reform of the sector has not achieved yet, all the targeted objectives. Major problems still remain, such as: the poor infrastructure and information technology, the manual national payment system, the lack of diversified banking services, the low level of human resources capabilities. Furthermore the banking system is characterized by fluctuations in trust levels among public opinion, inappropriate system of payment, insufficient competition and ruling of the system by a single bank (Savings Bank), lack of a totally efficient legal framework, etc.

The banking system is characterized by segmentation and specialization of the financial market. Thus, in the year 2001 the Savings Bank possessed 58 per cent of deposits of family savings, the National Commercial Bank possessed 70 per cent of deposits from enterprise savings and about 90 per cent of total loans. It held the same position in the area of agricultural financing and credit even before the Commercial Agrarian Bank closed.

In the year 1996 branches of several foreign banks, such as Bank of Greece, Piraeus Bank, established in Albania. At the same time legal bases for the Saving Bank privatization of state owned banks were designed.

The financial crisis of the year 1997 worsened the indicators of state owned banks' activity. As a consequence the Commercial Agrarian Bank was dissolved, whereas the National Commercial Bank was privatized. During the last three or four years, new private banks have started their activity in the Albanian financial market.

At the end of the year 2002 there were 13 banks were part of the banking system, only one of which of state owned capital, the Savings Bank, two banks of joint capital and 10 banks of private capital.

Concerning the privatization of the Savings Bank, that is the largest bank in Albania and the last one still in state hands, was postponed from the end of the 2001 due to a lack of investors interest. The completion of the sale by the end of 2002 failed again for the same reason. A major factor deterring foreign investors is the Saving Bank's role in financing the government deficit, covering 80 per cent of the Treasury bill market. Its shareholder, the Ministry of Finances, has prepared a plan of action for the restructuring of this bank during the period December 2002 - September 2003. The focus of this plan is the intensive restructuring of the bank, by taking into consideration the main issues identified

by strategic investors. With these measures the financial situation of the Savings Bank will be improved, thus making it more attractive to foreign strategic investors.

Tab. 6 Banks in Albania

	Banks	Capital	Shareholder	%	Ownership	Source of capitals
1	Savings Bank	700.000.000 lek	Ministry of Finances	100%	State owned	Local (Albanian)
2	National Commercial Bank	10.000.000USD	KentBank-Insurance agency .Dep Turkey	60%	Private	Foreign (Turkey)
			BERZH	20%	Private	Foreign (International Institution of Finances)
			IFC	20%	Private	Foreign (International Institution of Finances)
3	Italian-Albanian Bank	12.500.000 USD	Ministry of Finances	40%	State owned	Local (Albanian)
			CAPITALIA sha	40%	Private	Foreign (Italy)
			BERZH	20%	Private	Foreign (International Institution of Finances)
4	Arabic-Albanian Islamic Bank	10.000.000 USD	Ministry of Finances	40%	State owned	Local (Albanian)
			Shamil Bank	20%	Private	Foreign (Arab)
			IDB.Jeddah	15%	Private	Foreign (International Institution of Finances)
			Dallah Albaraka Holding	10%	Private	Foreign (Arab)
			Malaysian CoBusnes Fokus	6.30%	private	Foreign (Malaysia)
			Individe	8.70%	private	Foreign (Arab)
5	American Bank of Albania	5.017.000 USD	Albanian-American Enterprises Fund	100%	private	Foreign (USA Government)
6	Tirana Bank	7.620.000 USD	Piraeus Bank	61.90%	private	Foreign (Greece)
			Datamedia.SA	15%	private	Foreign (Greece)
			Piraeus Finance	5%	private	Foreign (Greece)
			Dafnila SA	1.30%	private	Foreign (Greece)
			individe	16.80%	private	Foreign (Greece)

7	Branch of National Bank of Greece	5.097.907.61USD	Banka Kombetare Greqise	100%	private	Foreign (Greece)
8	Branch of Alpha Bank	10.080.000 USD	Alfa Bank Greqi	100%	private	Foreign (Greece)
9	Dardania Bank	4.953.503USD	Qeveria e Kosoves	100%	private	Foreign (Kosovo)
10	Fefad Bank	700.000.000 leke	Fefad-fondacioni	25%	private	Local (Albanian Government)
		10.000leke x70.000 aksione	EBRD	20%	private	Foreign (International Institution of Finances)
			IFC	20%	private	Foreign (International Institution of Finances)
			IMI	15%	private	Foreign (German)
			COMMERZ BANK	20%	private	Foreign (German)
11	International Commercial Bank	5.450.000 USD	Individ	100%	private	Foreign (Malaysia)
12	Branch of the First Investments Bank	700.000.000 leke	First Invesment Bank	100%	private	Foreign (Bulgaria)
13	Commercial Bank	7.800.000 USD	Comercial Bank of Greece	100%	private	Foreign (Greece)
14	Albanian Bank of Credit	700.000.000 leke	Jassem Al Kharafi	33.30%	private	Foreign (Kuwait)
			Nasser Al Kharafi	33.30%	private	Foreign (Kuwait)
			Mohammed Al Kharafi	33.30%	private	Foreign (Kuwait)

Banks have focused their activity in Tirana, but during the year 2002 they expanded by opening new branches in several parts of the country. During the year 2002, 9 new bank branches and one banking agency were opened.

At the end of the year 2002 the condition of the banking system was estimated to be good with a net positive result of 3.9 billion lek. The proportion of capital sufficiency of this system is presented at a relatively high level of 31.5 per cent from 12 per cent, which is the minimum norm according to the law. The satisfactory level of liquid assets to the whole of bank assets and the facilities about liquidity offered by the Bank of Albania made possible that also during the year 2002 banks were not exposed to liquidity risk.

Tab. 7 Banking system indicators

Banks ¹⁴	N. of branches	Paid/up capital/total balance (%)	Total deposits/total balance (%)	Total of loans (net)/total balance (%)	Problem loans/total of loans (%)	Treasury bills in % to the banking system
<i>Group I</i>						
1. Savings Bank	38	0.4	92.4	0.5	7.3	81.2
<i>Group II</i>						
2. Albanian-italian Bank	2 branches.	10.5	76.0	37.0	19.2	0.9
3. Albanian Arab Islamic Bank	1	63.4	36.0	6.3	0.0	0.0
<i>Group III</i>						
4. National Commercial Bank	10	4.9	92.5	0.3	0.0	8.8
5. Dardania bank		56.4	17.6	0.0	100.0	0.0
6. Tirana bank	5	5.5	77.2	17.4	4.5	4.3
7. National Bank of Greece – Tirana branch		12.9	83.4	3.4	16.0	0.8
International Commercial bank	1	43.4	55.9	33.5	11.4	0.0
9. Alpha credit bank – Tirana branch	4	7.7	49.7	51.0	0.0	0.9
10. American bank of Albania	1	3.8	92.4	13.1	6.1	1.7
11. FEFAD Bank	6	8.7	84.1	26.2	2.2	1.2
12. First Investment Bank – Tirana branch		61.0	13.7	0.2	0.0	0.0
13. Commercial Bank of Greece		48.6	55.2	54.0	0.0	0.2

2.3.1 Financial crisis

Despite the progress of the Albanian economy and the banking system described above, the latter is still vulnerable to crisis. The best evidence of the fragility of the Albanian banking system are the financial crisis of the year 1997 caused by the collapse of the pyramid schemes and the crisis of bank deposits that exploded at the beginning of the year 2002.

When transition began in the 1991, Albania had been reduced to poverty and the majority of its population was unfamiliar with market institutions and practices. Albania formal financial system was rudimentary, and the banks were unable to satisfy the private sector demand for credit. As a consequence, an informal credit market based on family ties and financed by remittances grew¹⁵.

¹⁴ Bank classification by groups is made according to the criteria of capital ownership. Utterly state owned banks comprise the first bank group; joint venture banks, the second bank group and other banks make up the third bank group. In “Annual Report 2001”, Bank of Albania, May 2002.

¹⁵ IMF, “The raise and fall of Albania’s Pyramid Schemes”, March 2000

The informal lending companies were initially regarded as beneficial and even as making an important economic contribution. These companies were the ones that turned into pyramid schemes. In a typical pyramid scheme a fund or company encourage investors or simply people in depositing their money, attracting them by high rates of return; these returns are paid to the first investor out of the funds received from those who invested later. The scheme grows until the interest and principal due to the early investors exceeds the money paid in by the new investors. To attract new investors, a scheme may raise interest rates, but the larger interests payments soon force it to raise rates again.

In Albania there were several investment schemes which contained the classic characteristic of using deposits to meet unsustainably high rates payments. Some of the largest of the companies – in particular VEFA, Gjiallica, and Kamberi – had substantial real investments. These companies were informal and arguably illegal since they were never licensed to take deposits. They grew out of a credit system based mostly on private loans from migrant workers to friends and family. They were also widely believed to be engaged in criminal activities that were thought to be the source of the high returns they paid and they have been in business for a long time, in some case since the 1992. In 1996 new schemes entered the market, Xhaferri and Populli, and an already existing scheme – Sude – that had no real investments, stepped up its activities, offering even higher rates reaching the 12-19 per cent a month. By November 1996 the face value of the schemes' liabilities totaled 1.2 billion US dollars which was about half of Albanian GDP. Albanians sold their houses to invest in the scheme; farmers sold their livestock; emigrants invest remittances in the schemes.

Throughout the year the government was a passive spectator to the unfolding crisis and although the enormity of the problem became clear there was no answer by the Ministry of Finance. On November 1996 Sude defaulted on its payments, and the collapse began. The collapse shook the public's confidence in all the companies and new deposits were dried up. All the schemes soon ceased to make payments.

By march 1997 Albania was in chaos. Large part of the country was no longer under the government's control, 1 million weapons had been looted from the armouries police force deserted, and mass migration began. The first economic effects were the depreciation of the lek by 40 per cent against the dollar, the increase of prices by 28 per cent. Many industries temporarily ceased production and trade was interrupted. Despite the tremendous political effect, however, the economic effects of the pyramid scheme phenomenon in Albania have been surprisingly limited.

The banking system was confronted with the panic on deposits in March 2002, which is the gravest event for the Albanian financial sector after 1997, and even more important a very clear event of the banking system. The analysis of the causes which led to banking panic showed the fragility of the banking system, stemming from its inner nature as a system based on the fragile trust of the people. The panic started and expanded mainly in the Savings Bank, which was at the eve of privatization and comprised most of the banking system, and to a lesser extent at the National Commercial Bank, as country's second large bank. Deposit flows from these two banks reached 12 billion lek in March and 9.4 billion lek in April, at a time when the Savings Bank had 96.3 per cent of these,

which brought a decrease of this bank's weight in the banking system from 59.2 per cent at the end of 2001 to 56.6 per cent in April 2002. The crisis had nationwide effects, but worst in the rural area due to the lack of confidence with the banking system and lack of information among people living in rural areas.

These financial crises have appeared at times, that they have been called the "Albanian paradox". The financial crisis accompanying the collapse of the pyramids exploded when Albania was showing an impressive macroeconomic performance (IMF and World Bank) and was considered successful in reform implementation. Whereas the massive deposit withdrawal in April – May 2002 started at the moment when the banking system was at its best performance level ever.

2.3.2 Banking system lending and depositing activities

A positive characteristic of the developments in the Albanian banking system is the increase in its financial mitigation.

Two of the main activities of the banking system, credits and deposits, have experienced an increase in total value from the beginning of 1992 to 2002. Especially deposits raised from 18.9 bil. Lek in 1992 to 285.9 Lek in 2002, while credits increased less from 11.5 to 47.4 bil. Lek. Consequently the credit/deposit ratio decreased from 60,8% in 1992 to 16,5% in 2002, which is a percentage very low for the financing of the economy. The liquidity of the banking system is diverted to the financing of the State budget.

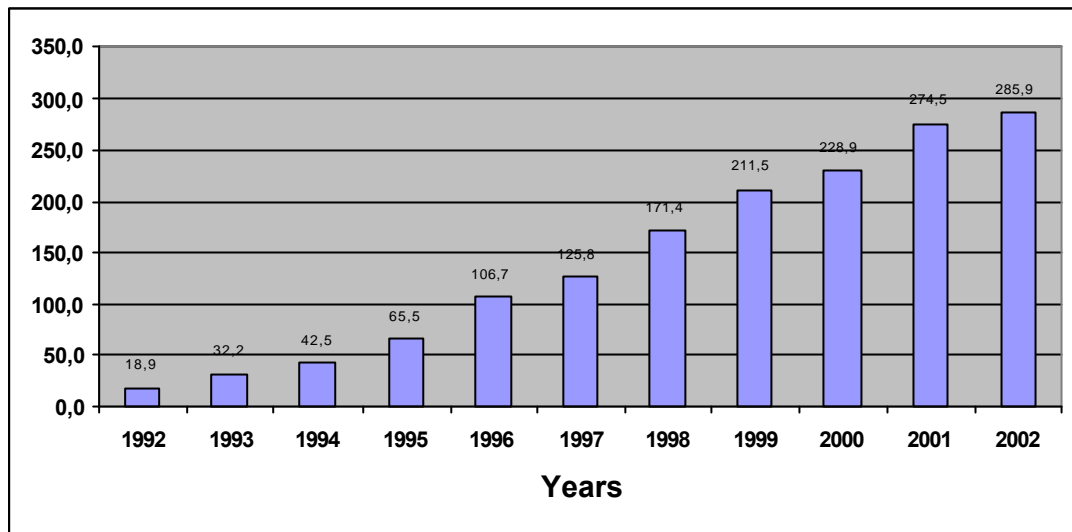
In relative terms the deposits percentage on GDP has been constant during the period around an annual average of 40%, while the credit to GDP ratio continued to slide from 22.7% in 1992 to 3.8% in 1998, and then increased a little until 7,2% in 2002. Practically the Albanian economy is functioning without the support of the credit system. In this sense even the remittances deposited are not allocated to the economy and don't give impulse to the development.

These data show the very modest contribution that the banking sector is giving to the Albanian economy.

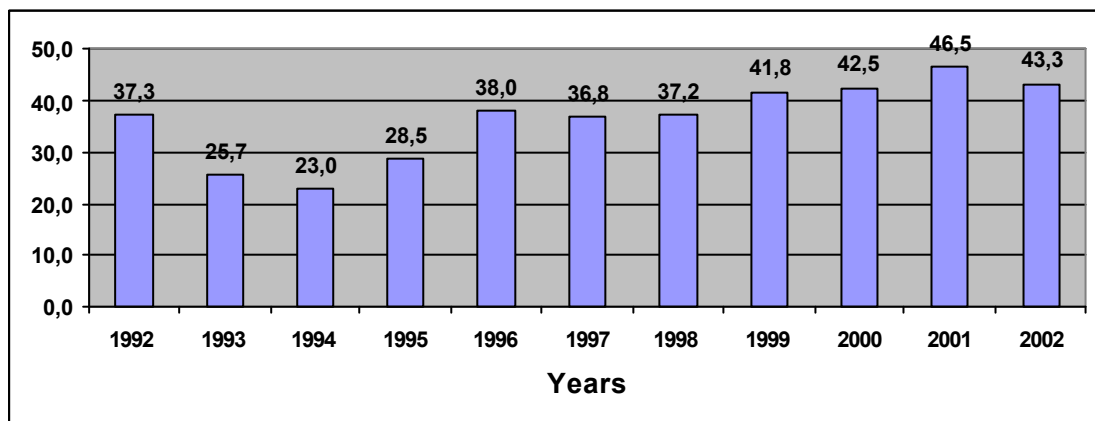
Tab 8 – Credits

	1992	1994	1996	1998	2000	2002
Credits in bil Lek	11,5	9,7	14,3	17,7	25,9	47,4
Credits in % of GDP	22,7	5,3	5,1	3,8	4,8	7,2
Credit/deposit ratio	60,8	22,5	13,4	10,3	11,3	16,5

Graphic 6 Deposits in bil. Lek per years



Graphic 7 Deposits in percentage of GDP per years



Lek deposits have the largest proportion to the total of deposits, deposits in foreign currency rank second. Rate of interest in Lek is higher than those on foreign currencies and it compensates the little devaluation of Lek in last years.

During the first half of the year 2003 emerges an increase of bank loan activity to individual even if the banks are still rather rigid because of lack of collateral. Most of loans are for houses and cars (FEFAD Bank, Italian-Albanian Bank, International Commercial Bank, National Commercial Bank), furnishing, electrical household appliances, and computers (FEFAD Bank, Italian-Albanian Bank).

2.4 Microcredit institutions and lending activity of non-bank institutions

In order to encourage the contribution of small and middle enterprises to the country's socio-economic development, several financial non-bank institutions exercising credit giving activities have been established. Moreover, there are currently 36 credit-saving associations operating throughout the country. Their establishment and practicing was made possible by the new law nr. 8782, date 05.03.2001 on "Credit-savings Companies". At the same time, the Supervisory Council of the Bank of Albania has approved the rules and regulations on "Licensing credit-saving companies and their unions" and "Norms for supervision of credit-saving companies and their unions". According to the Law, the Bank of Albania has the right to obtain information and reports from these institutions and supervise them in all respects: licensing, regulation, reporting and inspection in the country. To this end, the World Bank has a project for supporting the training of the human resources to build the complete framework of supervision.

Financial non-bank institutions perform one or some related activities, characteristic for licensed bank, but they are forbidden to take and collect any type of monetary assets from broad public audience. The saving credit associations, legally, are permitted to perform deposit taking credit issuing and transactions with third parties. It is also established by law that the deposit taking and credit delivery are only carried within the community of members of these saving and loan associations. The object of their activities is in uncovered areas from the banking system. In this way, new actors emerge in the market to meet customer demands, increasing the competition in the system. Their clientele comprises mainly individuals for small business mostly in rural areas.

Although the current number and size of this kind of institutions is relatively small today, their current effect in the overall financial stability is considered positive since that the basis of market discipline are precisely set and because they may serve as basis where future banks can be established

There are some foreign foundations, of joint Albanian capital, operating in Albania. These foundations exercise crediting activity mainly to support small and middle scale Albanian businesses. They have focused on business crediting activity in urban and rural areas. These institutions have the right to invest, to issue credit, to offer technical assistance in order to encourage free private enterprise in diverse sectors of the economy, craftsmanship, trade, tourism etc.¹⁶

The current operating foreign and Albanian foundations, that exercise lending activity to Albanian businesses, are of a small number in Albania.

Some of them are the following:

- Albanian American Fund of Enterprises : The United States government in support of the democratic developments of Eastern European Countries founded the Albanian-American Fund of Enterprises in year 1989. This fund is vested with the right to perform investments and accord credits, offer technical assistance to instigate the free private incentive, undertaking and privatization in Albania. It's more focused in

¹⁶ Bank of Albania. Annual Report 2001

providing support to small and medium firms and to open new enterprises and joint ventures.

- BESA Foundation : It is a credit institution for small business. Raising such foundation purposed the incentive of micro and small business, including self-employed persons in low economy activities. All types of very small business that realize commercial, productive, processing and handcrafted etc. income are financed by this foundation.

Besa Foundation, through its services, offers customers:

- financial support to further develop their business
- opportunities to increase their income and to create employment
- training in preparing a simple business plan, accounting on the money flow

Credit beneficiaries include:

- persons that have just a small activity
- persons asking for further development of their business
- persons that cannot benefit from bank lending

- Rural Financing Fund. It is practiced in the framework of the Albanian Development Fund and it has as main target the reduction of poverty. The Fund is the result of the signed agreement between the World Bank and the Albanian Government. It helps in:

- Developing rural areas through the provision of employment and the strengthening of economic activities
- Developing the private sector
- Arousing the foundation of villages associations
- Establishing a decentralized financial system on villages basis

Until now rural credit program has offered a new lending system based on the cooperation between the credit council of the village and the credit officers. It cooperates only with organized villages in association.

- Irish Credit Union. The core activity of this foundation is the technical assistance provided for the establishment of saving and loan associations. The Union cooperates with Land'O Lakes and IFDC foundation financed by USAID. It supports the creation of groups of interested persons based in small country areas mainly in the rural sector.

- The Organization of "Opportunity International". It sustains the "Albanian partner in Microcredit" which operates according to the law on the saving and loan associations. It operates in granting small credits (10-25 thousand lek) developing at the same time training of their customers. This business covers the highest credit demand. It takes into account the Associations' limited monetary capacities to credit other types of business.

Besides the formal sector in the crediting field there is an informal sector as well. Included in this sector, there are: private creditors and family savings which invest in small and middle scale private enterprises. This sector is operating outside of governmental regulation and control structure, for this reason their activity is not represented in official statistics. The informal crediting market is believed to have

experienced a decrease during last years. The main reasons for this decrease have been the rise in the number of formal crediting institutions, their higher security as compared to the informal market, and the credit rates which have been going down in the formal market.

3. AN INQUIRY: REMITTANCES IN THE DISTRICT OF SCUTARI

This inquiry aimed at analysing both the transfer channels of the remittances and their use. With this analysis we intended also to know which is the level of knowledge and awareness of the Albanian emigrants and their families about the need for orientation and rational remittances management for the benefit of local economic development.

The inquiry refers to emigrants from the District of Scutari which represents one of the Albanian location with less development perspectives.

3.1 Methodology of the study

A qualitative assessment has been carried out through interviews to emigrants and their families. A first part of interviews was realized by the Center on Economic and Social Studies (CESS) during a study on Albanian emigration in 2001-2002. The target were scores of emigrants met at the borders in the south of Albania and in towns like Scutari and Durazzo and they have been interviewed random by CESS operators. In the framework of our study 48 interviews were selected referring to emigrants from Scutari.

A second part of interviews was realized in Scutari in 2002. The target was 48 emigrants' families, all living in the District of Scutari, interviewed by CESS-CeSPI operator. Moreover, other interviews with representatives of the local government, NGOs both local and international, local banks and foundations were carried out (list attached). The questions have been all oriented to better understand the quality of migration with a focus on remittances use and transfer, to know the willingness and possibility to invest remittances in Albania. The study, then, refers to 96 interviews with multiple choice questions.

It's important to say that talking about remittances with emigrants and their family is not so easy. This fact is due to the still large number of non-legalized immigrants who are not so available about describing their migration trip and job experience abroad and because of lack of confidence in institutions and in the new economic Albanian system.

3.2 Scutari District

The district of Scutari is located in northwest of Albania, with a surface area of 197 km square, and a population of about 105 thousand inhabitants, it is one of the biggest districts of the country. During the transition period there is a tendency in the district of Scutari to return to the old economic tradition, especially in the field of trade. According to data from INSTAT in the year 2001 over 60 per cent of enterprises in the city of Scutari dealt in commercial activity. Besides trade, the last year have marked a slight

invigoration of the industrial sector, such as agro-food processing industry, clothing, shoemaking, textile, wood processing.

Even though commercial enterprises represent 44 per cent of the total number of enterprises in the city of Scutari, they have only 17 per cent of the total number of employed people. The conclusion is the following: business in Scutari continues to develop on family basis, away from genuine private companies.

Data of the year 2001 show that around 60 per cent of the population of Scutari lives in poverty. This situation is caused by the high unemployment rate, resulting from the shutting down of industrial plants during the transition. Even agriculture, one of the main sectors of production in the country, was hit hard during the transition.

The business of Scutari is right at the crossroad. Its development has been hampered by lack of infrastructure, and especially lack of power supply. For this reason it is in search of ways of recovery.

Another hard problem for the city of Scutari is emigration. The causes of emigration are: poverty, high unemployment rate and various social problems. Data from the Labor Office at the Scutari Prefecture show that for a sample of 358 families, consisting of 1439 members, of whom 1045 of work age, 17 per cent of them have emigrated.

3.3 Results of interviews

The first questions confirm that most of the emigrants from Scutari leave Albania because of lack of job opportunities and very little confidence on positive economic prospects in their country. The majority of them are young people in working age who don't see any better economic and social development in the short term.

Most of them contribute to the wellbeing of their parents and families sending regularly remittances. In this sense remittances represent an important source of income for the daily live of the families.

1. Why did you emigrate?

Answers	Num. of persons
Unemployment	23
Low salary	13
Dissatisfaction about social life in Albania	12
Instability of economic politics	21
Lack of positive economic prospects	29
To assure a better future to my family	19

2. Whom do you send remittances to?

Answers	Num. of persons
Wife and children	6
Parents	46
Sisters and brothers	14
Relatives	0
Friends	0

3. Do you receive remittances regularly?

Answers	Num. of persons
Yes	35
No	10
No answer	3

The great majority of Albanian emigrants transfer remittances through informal channels. It makes difficult to determine the real value of remittances in the district. The interviewed think that the banking and post systems offer a low service quality, and that the informal exchange rate is better. From the other side, there exists a low level of knowledge on the functioning of the banking system by the immigrants and their families in the hometowns. Moreover one must consider that part of the Albanian emigrants in the west Europe is not yet legalized and cannot use the banking system to transfer money home. As a consequence, they have found other ways to send their money to Albania. It is to be noted that the operations of foreign agencies such as Western Union cover about one third of remittances transfers.

4. How do you transfer the remittances?

Answers	Num. of persons
Cash brought by friends by hands	10
Cash brought by emigrants themselves by hand	60
Transfer through bank	6
Official transfer / Western Union	24
Official transfer / Post Office	8
In goods	1
No answer	1

The remittances are used principally for consumption goods (foods and clothes) and houses expenses. About one third of the families spend remittances for education and health, confirming that remittances have an important role in the improvement of the human capital.

Only few of them think to open a productive business or invest in some other fields. However acquisition of machineries and appliances for small enterprises already operating are of some relevance.

Finally families spend remittances in buying cars or motorcycles for status symbol need.

5. How do you or your family spend remittances?

Answers	Num. of persons
Education	10
Health	18
Food and clothes	72
Creation of small and medium enterprises	5
Buy or Build a house	23
House furniture	17
Machinery and appliance	16
Buy a car or motorcycle	5

It emerges clearly (Tab.6) that investments of remittances are most of them in immovable property, that explains the existence of a flourishing construction sector in Albania. Other few investments are directed to commerce and tourism sectors, which appear to be low risk and low capacity demanding. Scores of rural areas immigrants work in the farms of the neighboring countries, but there is no such investment in agriculture and no interest yet to do something in this respect in the country.

6. How do you invest the remittances in Albania?

Answers	Num. of persons
Agriculture	1
Industry	1
Commercial enterprises (bar/restaurant)	3
Family firm	1
Tourism	2
Immovable property	26
Means of transport	5

If emigrants don't use banks for channelling remittances, their families, on the contrary, save remittances in bank deposits. Obviously, saving in immovable property continues to be a must.

7. How do you save remittances?

Answers	Num. of persons
In Bank deposit	55
At home	7
In luxury good	1
In immovable property	23
other	4

8. How much do you receive in a year?

Answers	Num. of persons
100.000 – 150.000 Lek	10
150.000 – 200.000 Lek	19
200.000 – 250.000 Lek	6
250.000 – 300.000 Lek	6
Much more	4
No answer	3

Most of emigrant's families receive about 100.000/200.000 lek per year. This amount represents about 8 times the monthly salary of a university professor. Remittances are an important source of income for Albanian families. It confirms the relevance of remittances for daily life and social needs of families. From the other side they appear not to be sufficient for investments in business activities. Probably, cumulated savings of emigrants during their stay abroad are more important for investment when they return. And to this regard the great majority of emigrants have the desire to return.

9. Do you think to come back to Albania definitively?

Answers	Num. of persons
Yes	33
No	7
I don't know	8

4. CONCLUSIONS AND RECOMMENDATIONS

At the end of the study we present some general conclusions on the role of remittances for the socio-economic development of the country.

Remittances of Albanian emigration are a factor of special importance for the socio-economic development of the country. They are a source of income for Albanian families, which use remittances for their daily needs and to alleviate poverty. In specific and rare cases remittances are used as financial means for the development of small and medium scale businesses. In the long run, emigrants could increase their economic contribution for the socio-economic development of the country, but it depends on several factors.

Macroeconomic policies and particularly monetary and exchange rate policies are consistent with the creation of a stable environment for the enhancement of remittances. But the financial market suffers of backwardness which does not allow the allocation of remittances for economic development. As regard saving formation and deposit activities, Albanian banks have increased their capacity to collect saving and to channel remittances. Greek banks especially have improved their services to migrants in order to manage remittance flows. But Albanian families don't trust banks and financial crisis continue to be just around the corner. From the other side the resource allocation function and the credit/lending activities of banks are not sufficiently developed. It depends both on bad organization of banks, diversion of saving for the financing of State budget deficit (crowding-out effect), and on few and risky business opportunities in Albania.

Lack of trust and confidentiality in official institutions remains one of the main problems that emigrants and their families are posing. This is also evidenced in several unsettled legal problems they have with fiscal organisms.

In the district of Scutari businesses also express lack of security for the continuation of their activities, because of lack of power supply. Infrastructure problems are in fact another factor that restrains investment in productive sectors.

Analyses carried out in Tirana and Scutari show that there is no program or strategy designed for remittance use to the benefit of local development. However, in Scutari there is one foreign agency operating in the city, which has engaged to give technical assistance and financial contributions to support the development of small and medium scale enterprises. For this reason, this agency is planning to support emigrants returning to the birthplace to undertake economic activities in sectors like family tourism, tourist villages, and agro-food business.

In this framework two general guidelines with some specific indications may be put forward.

1. Financial and bank reform programme should be accelerated for creating an enabling environment to increase the formal channelling of remittances, the saving formation and investing activities. With the improvement of financial and economic conditions in Albania, Italian banks could become more inclined to offer services to migrants for channelling remittances. The banking system can and must give its contribution, by offering special accounts for business plans, house construction, foreign currency deposits, higher interest rates for local currency deposits.
2. Given the insufficiency and failure of markets in managing remittances flows, public intervention appears necessary in the short time.
 - Management of income from the Albanian emigration should become a priority of the Central and Local Governments through a better knowledge of the remittances characteristics and amounts. An innovative calculation methodology is needed.
 - Provision of order and peace are another important factor that should contribute to lower the risk of remittance investment. It can be assured only through structural reform and public investment.
 - Promoting a favorable legal framework about investment in Albania is needed. Thus, promoting reduction of customs taxes, especially for machinery and devices aimed at investment, facilities in issuing visas for businessmen, connections to governmental institutions in those countries where Albanian emigration is most concentrated, etc.
 - The designing and implementation of an official policy to support the initiative of Albanian emigration to invest in the country is deemed a crucial step. Promoting credit-saving associations and micro-credit programs can also be a valid work for encouraging emigrants in investing in productive activities.
 - International cooperation is just supporting the creation of specialised financial institutions and micro finance schemes for spreading lending to small and medium enterprises and business activities of families. Those institutions should dedicate new attention to remittance channelling, deposit and investing activities¹⁷.
 - Creation of special funds and accounts, guaranteed for emigrants' investments in small and medium scale businesses in Albania. This can be realized also by giving supports and credits guaranteed by Italian official institutions (SIMEST and SACE) and especially by lowering service costs for money transfer.

¹⁷ In this sense another CeSPI - MigraCtion research analyses the constraints and opportunities to enhance remittances from Italy to Albania.

- Encouraging the transfer of emigrants knowledge of new technology, new methods of organization and competition in developed markets, and promoting professional emigrants' circulation and return to their home country is important and has to be done by both Central and Local Government policies.
- Decentralised cooperation should be promoted considering that migratory chains create specific relationships between territories in origin and destination countries, and that credit-saving associations and micro finance programmes are radicated in specific territories and communities.
- Promoting initiatives of Local Governments in cooperation with their counterparts in those states where Albanian emigration flow are directed it would be worthy. Sensitize the state of emigration could contribute to a more rational and legal way of transferring remittances.

LIST OF CONTACTED INSTITUTIONS

American Bank of Albania
Albanian Partner in Microcredit
Arabic – Albanian Islamic Bank
Bank of Albania
Italo Albanian Bank
Tirana Bank
Fefad Bank, Tiranw & Shkodra
World Bank
Commercial Bank, Shkodwr
Savings Bank, Shkodwr
Western Union, Tiranw & Shkodwr
IOM, Tiranw
Ministry of work and social
Ministry of Economy
Ministry of Finance
Besa Fondation, Shkodra
Prefecture of Shkodra
Municipality of Shkodra
The office of work in the region of Shkodra

Non governmental organizations in Shkodra

Woman's Table of Shkodra's
The new intellectuals of Shkodra's hope
Teuleda (The agency for regional development, UNOPS)
UNOPS (United Nation)
Red Barnet (Danish non governmental organization)
The mouvement for life (NGO)
Cristal (NGO)
The new businessman association of Shkodra

BIBLIOGRAPHY

Bank of Albania, "Annual Report 2001", May 2002

Bank of Albania, "Annual Report 2002", May 2003

Baleta T. and Tanku A., "Is cost increase a rational way to absorb immigrant remittances", Tirane, 2000.

Beccattini G., "Mercato e forze locali: il distretto industriale", Il Mulino, Bologna, 1987.

De Soto H., Gordon P., Gedeshi I., Sinoimeri Z., "Poverty in Albania. A qualitative assesment", The World Bank, Washington DC, 2002.

Gedeshi I., "The role of remittances of albanian organisation and ther impact in domestic economy", 2000.

Gedeshi I., "The role of remittances from Albanian emigrants and their influence in the country' economy", in Kotios and Petrakos (eds.), *Restructuring and Development in South Eastern Europe*, University of Thessaly Press, SEED, 2002.

IMF, "The raise and fall of Albania's Pyramid Schemes", March 2000.

INSTAT, "Albania in figures", Tirana, June 2002.

Martin P. and Straubhaar T., "Best Practices to Foster Economic Growth", Cooperative Efforts to Manage Emigration (CEME), May 7, 2001

Misja V., "Emigracioni nderkombetar ne Shqiperi gjate periudhes se tranzicionit", Shtepia Botuese *Marin Barleti*, Tirane 1998.

Pastore F., "La rotta di Enea. Relazioni euromediterranee e migrazioni", gennaio 2001.

Project Law for Emigration, Ministry of work and social, 2003.

Samson I., "Albania experience among transition trajectories", Working Paper , Grenoble 1996

Stocchiero A., "Migration flows and small and medium Sized Enterprise Internationalization between Romania & Italian Veneto Region", CeSPI, May 30, 2001.

Stocchiero A., "Small enterprise clusters and migrants in the euro-mediterranean basin", CeSPI, Rome, 2000.

UNDP, "Human Development Report in Albania 2000".