

## **Ardian Fullani: Remittances: An opportunity for growth - the Albanian migration to Italy as a case study**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Conference on Remittances, Bari, 4 March 2006.

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Ladies and Gentlemen,

I am very pleased to speak to you today on the occasion of the Conference on Remittances. I would like to congratulate the World Bank and the Puglia Region for co-organizing this esteemed international event. I greatly appreciate your partnership and this opportunity to explore with you the possible ways for a sustainable growth, formalization and higher effectiveness of remittances.

I would like to open my remarks by asking a simple question. Why are remittances our main topic today?

Remittances represent the most direct and immediate benefit to emigrants families and to the economy. Remittance flows to developing countries are now estimated to be twice as much as the development aid these countries receive. In some countries like Albania, they noticeably exceed foreign direct investment. Therefore, governments nowadays are paying more and more attention in their development strategies to remittance flows as an important financial source to boost economic development, especially in depressed areas where economic conditions force people to migrate. A key input for these policies is the economic and the logistic framework behind migration and remittance. This conference and its underlying case-study make a great contribution to these developing efforts.

Since the beginning of the transition, the volume of remittances to Albania has grown rapidly. Indeed, remittance flows are increasingly important relative to other foreign exchange-earning activities, representing around 14 percent of GDP, 70 percent of exports, and 33 percent of imports. Italy is the major migration destination country for Albanians. On the other hand, Albania is the number one recipient country in terms of remittance flows from Italy to other countries. Therefore, remittance services from Italy to Albania have become a topic of great interest. The Italian-Albanian remittance corridor is a relevant case to examine the effects of remittances on local communities and to discuss the ways of making these flows more efficient and less costly.

A recent survey of the Bank of Albania shows that remittances have had positive impact across all Albanian regions. The influence is slightly higher in less developed regions alleviating to some extent income disparities. Remittances have become a critical source of income for households, reaching 33 percent of disposable income of an average family recipient and almost 40 percent in rural areas. The recipients of remittances are from all social groups, including middle income class (60 percent) as well as the low income class (27 percent). Our estimates show that the level and severity of poverty are significantly reduced among those households receiving remittances, with greater influence on severity rather than the level of poverty.

Remittances are mostly used for imported consumer goods, services, and for the purchase or construction of houses. A small share is saved or invested in businesses, mainly in agricultural sector. Therefore, the impact of remittances in creating new jobs has been limited. In this view, I do not want to downplay the importance of remittances, but to draw attention to additional structural reforms needed to enhance their impact in the economy. It is not a coincidence that after reaching the level of 14 percent of GDP, the growth rate of remittances has been as constant as that of foreign direct investments in Albania. This shows that in the mid-term, there is no difference between the decision of foreign investors and remitters to invest in Albania. Of course, emigrants may have a better knowledge of domestic markets. They are more connected to their home-country and react faster than foreign investors. Nevertheless, they demand guarantees for their investments as much as foreign investors do. Therefore, both the volume of remittances and their effectiveness largely depend on improvements of Albanian business environment.

While efforts to speed up reforms aiming to improve business environment are underway, especially now with the most recent signing of the Stabilization and Association Agreement, a question still remains: is there any other measure that may enhance the contribution of remittances in the development? The Bank of Albania in cooperation with other governmental and non-governmental institutions has been considering some concrete measures, which I have already highlighted in a

conference organized by EBRD on these issues last September. I would like to briefly mention some of them here again, with some new insights.

**First**, improving our knowledge about remittances remains critical for the assessment of policies, which directly impact the developing role of remittances in the economy. The improved information is needed not simply to assist policies on remittances but also financial infrastructure (e.g. by reducing transaction costs) and to understand the impact on poverty. The Bank of Albania has continuously emphasized the importance of accurate estimation of capital inflows in the form of emigrants' remittances. For better statistics we have been assisted by IMF missions to bring the methodology in defining remittances closer to the international standards. Also, there is a close cooperation with our main economic partners, Italy and Greece, as the main destinations of the Albanian emigrants, to harmonize our methodologies in order to improve the estimation accuracy of remittances. The report of the World Bank on the Italian-Albanian corridor is also a great contribution to improve our understanding of remittances, and on behalf of the Albanian authorities I express our gratitude for this support.

**Second**, formalizing the inflow of remittances is a very important moment. More than half of remittances enter the country through informal channels. Our surveys show that the bulk of remittances to Albania are channeled through unofficial sources; physically brought by the emigrants (59 percent), friends and relatives (23 percent). This is partially a reflection of the short geographical distance between the two countries. However, this high flow of remittances through unofficial channels also asks for actions to make official channels more attractive in terms of efficiency, safety, cost and anonymity. As the study team has found out, emigrants in Italy have a high banking utilization rate – more than 50 percent have bank accounts. On the Albanian side, this figure drops to less than 20 percent. Emigrant families' access to banks is suboptimal despite the considerable geographical expansion of commercial banks in recent years. In contrast with other remittance-receiving countries, banks in Albania still have only a small market share in remittance services. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

The high fees of the money transfer applied by the banks are often brought up as a motive why individuals do not prefer this service. Nevertheless, there is already an Albanian commercial bank, which offers transfers from Italy to Albania without charging any fee for amounts up to 250 euros a day, when the average monthly delivery of emigrants usually ranges from 100 to 150 euros. In the meantime, there are several other banks that provide the same service for transfers from Greece. Actually, we are examining the possibilities to lower the transfer costs through broader bilateral agreements between the two countries.

Even though, money transfer companies provide transfer services at reasonable rates with a good geographical coverage, we still observe a lot of cash entering the country in bags. I retain, this is more a regulatory problem rather than the preference of emigrants to go informal. The disparity between our two countries in terms of bank accounts accessibility is largely a reflection of the fact that in Italy you cannot get your salary if you do not provide with your bank account number. The anti-cash program initiated by the Bank of Albania clearly indicates that in order to lower the cash economy, we have to abolish the option of cash payments, including here salaries of the private sector, payments of utilities, etc. Our bank is fully committed to support this process at all levels, being these regulatory or technical.

Of course, this comes at some cost, which in case of remittances is going from zero rates that informal or cash channels offer to some positive commissions required by formal channels. I understand the concerns raised by some analysts that legislation on exchange rate control or anti-money laundering could increase transfer rates further and push people to go underground. This calls for a revision of regulation that does not penalize the volume of remittances. As I mentioned earlier, the formalization of the economy is a major component of improving business environment in Albania. Therefore, "forcing" individuals to get into formal channels while comes at a short term cost of some positive rates most probably will have the long term benefit of signaling the serious intentions that we are moving on the right directions to both emigrants and foreign investors.

For recipient families, accessibility to financial institutions plays a more important role due to large percentage of receipts delivered straight to the recipient's door. In fact, the disconnection between the physical receipt of funds and the location of the financial institution may have a great impact on disintermediation among recipients. Assuming that receivers can exercise some control over the mode and location of receipt, the geographic proximity of a branch or the ability to pick up a remittance in an

office (as required by Western Union) can determine an institution's ability to compete in the remittance market of the Albania, not to mention the possibility of mobilizing savings from these new potential clients.

Remittances can be a point entry for many remitters and their families to the formal financial system. Many emigrant families are either not familiarized with banks or have limited access with financial institutions. The Bank of Albania through its public communication strategy is aiming to bring the public closer to banking products and services, including transfers. No matter the small size of remittance amounts. Even those small shares left by recipient families in bank accounts could assist economic development as more funds will be available in banks to provide loan products to private sector. The same concern was initially expressed about public administration salaries. Now, this service is provided by the banking system, and we see the power of pooling small amounts. For commercial banks, their ability to market additional value-added services, such as savings products, loans or other types of credit to remittance recipients, will require the achievement of a critical mass of customer acquisition, as well as a higher technology delivery mechanism, to bring down the average cost of the investment required to serve that client.

Micro credit programs and qualitative improvements of banking infrastructure, concerted with introduction of new financial instruments will also help to attract more remittances. Promoting microfinance organizations as participants in remittances market, could offer certain advantages to the microfinance sector, to the government and to remittance recipients. The costs of this expansion would primarily fall to the regulatory and supervisory authorities. We already took an important step in bringing these institutions under the Bank of Albania supervision which we expect to improve their status in the market by enhancing the confidence of operating with them. Microfinance institutions are already providing small amount loans to the low income class. Their existing programs allow them to leverage their network and geographic reach to assist remittance senders and receivers in gaining access to low cost financial services, as well as access micro-saving and investment products.

**The third area** of our efforts is to channel the workers' remittances toward country's development needs. The formalization is a necessary step but does not ensure the role of remittances as a developing instrument. It is often claimed that emigrants are not the most preferred clients of banks, since this category is considered to have more unstable jobs and low level of income. First of all, this perception is not entirely correct and the results of the Italian team support the fact that the pool of emigrant savings is becoming significant enough to be a profitable business. The latest Italian bank entering the market in Albania (Banca Italiana di Sviluppo) is another witness of this reality. However, I would like to see the other banks operating in Albania to be as aggressive as their Italian counterparts in competing for this pool of savings sooner rather than later. There are also other financial services that could be offered to the remittance recipients. For instance, linking workers' remittances with investments by channeling remittance flows toward micro-credit loans or projects; or supporting migrants' contribution and emigrants' communities in the development of the country.

A concerning signal comes out from our survey showing emigrants low intention to invest in either private ventures and/or public developing projects. It tells us that the issue of remittances goes beyond the financial framework. Therefore we should think of new ways to improve incentives of emigrants to invest back in Albania, like the recent government initiative to offer to emigrants the opportunity to return and invest in their country by enjoying a three year exemption from the profit and personal income taxes.

In conclusion, I would add that a distinctive feature that makes remittances particularly important instruments for the economic development is their relative stability compared to private capital and financial flows. In contrast to financial flows that showed a high volatility during 1990s, remittances continued to flow much more steadily. In terms of the "life cycle" duration of individual remittances, theory holds that the longer the duration of migrant status, the lower the probability of large flows of remittances. This urges us to speed up our efforts to exploit the potential of remittances sooner rather than later. Their immense role calls for new ways of achieving a sustainable growth, a full formalization and higher effectiveness of remittances. Obviously, this is not a battle we can win today. It requires a lot of attention, good will, but also a complete enforcement strategy.

Thank you.