Micro Determinants of Albanian Migrant Remittances: Evidence from Thessaloniki

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Abstract

Since 1990, when the fall of communism created a big wave of emigration, remittances to Albania have been a vital source for this country. The aim of this research is to present an outline of the remitting behavior of Albanian migrants based on a sample from the city of Thessaloniki. Material derives from an extensive period of fieldwork research conducted through a set of 200 in-depth interviews with Albanian emigrants living in this city. The main intention of this paper is to better understand the micro determinants that influence remittances. Based on the results of the modeling, we found that income is one of the most important determinants affecting remittances and male migrants are found to remit more than female migrants. Intention of returning home has also an positive effect on remittances while marital status, the family size and the level of education have a negative impact. Age and the number of years spent in the emigration seem to have no significant influence on the remitting behavior.

Key words: Albanian emigrants, Thessaloniki immigrants, remittances and multiple regressions, micro determinants of remittance.

I. Introduction

After the fall of the communist regime in Albania, the emigration from this country has included more than 25 percent of the population (IOM 2008). It was immediate, rapid and explosive after a nearly 45-year period of isolation. Emigration is the movement of people into a country to which they are not native in order to settle there, especially as permanent residents or future citizens (Böcker 1998). Demographers distinguish factors at the origin that push people out, versus those at the destination that pull them in. Emigrants are motivated to leave their native countries for reasons including a lack of local access to resources, a desire for economic prosperity, family re-unification, escape from prejudice, conflict or natural disaster, or simply the wish to change one's surroundings (Zeev 1997).

The main reason of emigration from Albania was the economic one (Kule et al. 2000). In addition to poverty and lack of employment, social and political unrest have been other factors contributing to the emigration, as for examples: the collapse of pyramid schemes (World Bank 2006; Hernández Coss et al, 2006).

Important economic results of emigration are remittances, the deliveries in kind or money that migrants send to their countries of origin to help the families left behind. It is impossible to study migration and avoid them. In the last decade, remittances have emerged as one of the largest and potentially most effective sources of foreign financing in promoting development (Aggarwal et al. 2006). Remittances help lift huge numbers of people out of poverty by enabling them to consume more than they
could otherwise (Abdih et al. 2012). Based on Migration and development Prospect 2015 (WB), officially recorded remittance flows to developing countries are estimated to have reached $436 billion in 2014, an increase of 4.4 percent over 2013. There is also strong evidence that they alleviate poverty (Adams and Page, 2005) and promote human and physical capital accumulation, economic growth and income generating activities in developing and less developed countries (Taylor, 1992; Adams, 1998; Woodruff and Zenteno, 2001; Ziesemer, 2008).

After the fall of communism, remittances have been considered a major factor for boosting consumer expenditure in Albania, and are widely credited for fuelling the construction sector in the country. The highest amount of remittances was recorded in 2007 with a value of 957.71 million Euros. This is equivalent to 11.5 percent of the annual GDP that year, highlighting once again the important role that remittances play in the Albanian economy.

The aim of this research is to present an outline of the remitting behavior of Albanian migrants based on a sample from the city of Thessaloniki. There are two groups of factors determining the inflow of remittances to the countries of origin, the micro-determinants and macro-determinants. The main intention of this paper is to better understand the micro determinants that affect remittances. In the future, it may be possible to influence remittances flows through specific policies based on these determinants once they are better understood. The rest of the paper is structured in five Sections. The next Section provides an overview of the theoretical and empirical literature on the micro determinants of remittances; Section 3 outlines the Albanian emigration patterns; Section 4 discusses the methodology of the study, the dataset and variable issues; Section 5 presents the estimation results followed with the concluding remarks in the last Section.

II. Theoretical and empirical literature review

In this part of the paper we review the main theoretical and empirical literature on the determinants of remittances. Since remittances affect the lives of so many people around the world, it is important to understand their flows from a policy perspective. Microeconomic determinants of remittance studies usually are based on micro approaches and use a wide variety of variables to explain the flow of remittances, including gender, age, marital status, wage levels, per capita consumption, number of households left at home, length of stay abroad, educational degree of potential remitters, skill levels, occupation, etc. The theoretical debate about the determinants of remittances was initiated by Lucas and Stark (1985) with their paper “Motivations to remit: Evidence from Botswana”. They studied remittances on a household level and hypothesized the main motives to remit to be “pure altruism”, “pure self-interest” and “tempered altruism or enlightened self-interest”. Hagen-Zanker and Ziekel (2007) in their study concluded that determinants such as are income, gender, age, marital status, years in emigration and other characteristics of the emigrants rely on these three main motives.

Referring the literature, most papers find a positive relationship for the effect of the migrant’s income on remittances (Banerjee (1984); SELA(2004)) and a negative relationship for the effect of the household’s income on remittances(Agarwal & Horowitz (2002); Osaki (2003)). Meanwhile, regarding the remittances of Albanians’ emigrants, the results of the studies are different. Shehaj (2012) has found no significant evidence of the effect of household income on remittances, Germejeni et al. (2001) has found a negative effect while Hagen-Zanker and Ziekel (2008) have found a positive effect.

The results of the gender effect are in general incongruent: there are studies in which this variable shows a positive effect, where usually males are better remitter than females (Holst & Schrooten (2006); SELA(2004)) and there are other studies in which this variable is not significant (Agarwal & Horowitz (2002); Funkhouser(1995)). Regarding Albania, Konica (2006) and Shehaj (2012) have found a positive effect while Germejeni et.al.(2001) and Hagen-Zanker and Ziekel (2008) have found no significant effect.
Length of stay is often related to the altruism motive. The longer a migrant has been abroad, and the less frequently the migrant has visited the home country, the weaker the ties to the home country and household are and the lower the importance of altruism (Hagen-Zanker and Ziekel 2007).

According to Hoddinott (1994) and Holst & Schrooten (2006), more educated migrant’s tent to remit more. In the same page seems to be Shehaj (2012). According to her study, age, marital status and human capital variables have significant effects, showing that households with more educated heads have lower migration and remittance propensities. This result is in line with the ones found in other studies of migration determinants in Albania (de Coulon and Piracha, 2005; Germenji and Swinnen, 2005; Piracha and Vadean, 2010).

This result indicates that Albania is not facing a brain drain problem, but this finding has to be taken with caution, because the highest education level of the head of the household is a proxy for the migrant’s education level.

From all the information ahead it is clear that different authors find different motivations to remit in different countries and at different times (Hagen-Zanker and Ziekel 2007). It is important to assess the remittance situation of each country on its own since there are very specific aspects to the motivations to remit in each country, in different periods and with different types of migrants.

III. Albanian emigration patterns and remittances

Emigration from Albania has included more than 25 percent of the population and it was immediate, rapid and explosive after a nearly 45 – year period of isolation (IOM 2008). According to the OECD (2004), the most preferred destination countries for Albanian emigrants are Italy and Greece, followed by the USA, the UK and Germany. About 47 percent of Albanian emigrants live in Italy, making this country the most popular destination, closely followed by Greece with 43 percent of Albanian emigrants. The United States follow as a distant third destination. In selecting the destination of migration of Albanians, several factors have contributed such as geographical proximity, cultural and linguistic proximity, legal access opportunities in different countries, etc. With over a million Albanians living outside the country, it is no surprise that both research and politics increasingly pay attention to the role of these emigrants. Albania ranks among the countries with the highest percentage of the labor force living and working abroad. According to INSTAT (2014), patterns of emigration in the last decade have been largely gender balanced, while there was a clear gender imbalance between 1989 and 2001. This workforce has played a very important role in supplying the country with foreign currency and stimulating the economy through remittances. After the fall of communism, remittances have been considered a major factor for boosting consumer expenditure in Albania, and are widely credited for fuelling the construction sector in the country. In the Factbook 2011 (World Bank), Albania is ranked 19th in the world rankings recipients with a percentage of remittances amounting to 11 % in share of GDP. Based on data provided by the Central Bank of Albania, Figure 1 presents the values of remittances over the years. It seems clear that remittances have been rising till 2008, declining till 2013 and have a small increase the last two years. The biggest decrease in their value is due to the Financial Crisis of 2008. The highest amount of remittances was recorded in 2007 with a value of 957.71 million Euros. This is equivalent to 11.5 percent of the annual GDP that year, highlighting once again the important role that remittances play in the Albanian economy.
Since 1990 a large number of economic refugees and emigrants from Albania went to Greece, mostly as illegal migrants, to seek employment. The vast majority of Albanians in Greece is estimated to be between 60-65% of the total number of immigrants in Greece. According to official data (2008), there are 459,390 holders of Albanian citizenship in Greece (the total number of Albanian immigrants is much higher). The predominant employment is in construction (42%) followed by agriculture (23%), industry and tourism at 12% each (Baldwin & Eduarts 2004).

The empirical base of this research consists in a field – work gathering data in Thessaloniki. The research was conducted between May-June 2012 through a Tempus Project. Thessaloniki is the second largest city in Greece and second major economic, industrial, commercial and political centre. It is also a major transportation hub for the rest of southeastern Europe. Thessaloniki accounts for 9.2% of the total economy of Greece. Important industries for the economy of Thessaloniki included tobacco, banking, trade and tourism. According to the 2011 census data, the municipality of Thessaloniki has a population of 322,240 inhabitants of which 81,549 are Albanian emigrants. Based on the large number of Albanian emigrants in this city, the information accumulated there was considered representative of the whole Albanian emigrants in the country. Over the years, Albanian immigrants who live and work in this city have been subject to many studies. However, it should be noted that most of them have been focused more on the social aspects of their lives. Two of the most debated topics in this field are their integration into the community of this country and the preservation or not of their national identity. Hatziprokopiou (2006) in his book shows in detail how the Albanian immigrants managed to integrate in the city of Thessaloniki. He has filed what are the main challenges that they have been forced to overcome through years. Pratsinakis (2009), in his paper concludes that compared to Russian immigrants, Albanian immigrants decided to follow the path of ethnic invisibility to survive in a hostile social environment.

IV. Methodology

In order to analyze the remit behavior based on Thessaloniki sample, we reviewed the modeling methodology used in the relevant empirical studies. In the earlier papers (for example Lucas & Stark, 1985), the OLS method is used to model the remittance decision, but such a method leads to biased and inconsistent estimates, since a substantial fraction of the migrants does not remit (Hagen-Zanker and Ziekel 2007). In recent papers the main methodological distinction is made between modeling the
determinants of remittances as a one-stage decision (Tobit) where the decision to remit and the amount of remittances are made together, and modeling the determinants of remittances or as a Heckmann two-stage approach (Probit and corrected OLS). In the last method of modeling Heckman (1979), the decision to remit and the subsequent decision on how much to remit, are separated. This two-stage approach method of modeling the remittance decision is followed by Banerjee (1984), Hoddinott (1992), Holst and Schrooten (2006) and Goschin, Z., & Roman, M. (2012). The advantage of this approach is that it allows a repressor to differently affect the decision to remit and the level or remittances.

In this paper we follow this methodological -the two stage approach- trend and our empirical analysis discriminate between the decision to remit and the subsequent decision on how much to remit. Separate multivariate models are estimated for the volume of remittances and for the probability of remitting.

*First,* a simple logistic model (Probit), where the dependent variable can only take two values, is used to identify the factors that influence the probability of sending money to Albania. The dependent variable Y, is a dummy equal to 1 if the migrants have remitted an amount of money during the last year and 0 otherwise. So, we have:

\[ Y^* = X'\beta + \varepsilon, \]  
(1)

Where \( \varepsilon \sim N \left(0, 1\right) \). We also have a vector of repressors’ X, which are assumed to influence the outcome Y. Then Y can be viewed as an indicator if this variable is positive:

\[ Y = \begin{cases} 1 & \text{if } Y^* > 0 \text{ i.e. } -\varepsilon < X'\beta, \\ 0 & \text{otherwise.} \end{cases} \]

*Second,* the remitted amount was analyzed through a multi-linear regression model that expresses the value of the predicted variable as a linear function of several predictor variables and an error. This multiple regression model is specified by the following general equation:

\[ R_i = \beta_0 + \sum \beta_j V_{ij} + \varepsilon_i \]  
(2)

where \( R_i \) represents the dependent variable (the total annual amount remitted by an emigrant \( i \)), \( V_{ij} \) are the exogenous variables, \( \beta_j \) are the parameters that summarize the \( j \) factor contribution to the dependent variable and \( i \) stand for the individual. Last, \( \varepsilon_i \) is an independently and identically distributed error term for \( i \), with zero mean and constant variance \( \sigma^2 \).

It is quite impossible to find secondary (administrative) data regarding remittances for a given group of migrants in a specific destination. Therefore this study is focused in the primary data collected through a survey. Building a representative sample of migrants at destination is often a real challenge for at least two reasons. *First,* except in a few countries, migrants are a rare population. *Second,* because they are vulnerable, especially when undocumented, they are difficult to reach (Beauchemin and Gonzalez-Ferrer 2011). The sample of population used in this survey was selected with the use of the snowballing technique because it provides a potentially attractive solution to this problem. Snowball sampling (or
chain sampling, chain-referral sampling, referral sampling) is a non-probability sampling technique where existing study subjects recruit future subjects from among their acquaintances. Thus the sample group appears to grow like a rolling snowball (similarly to breadth-first search (BFS) in computer science). As the sample builds up, enough data is gathered to be useful for research. This sampling technique is often used in hidden populations which are difficult for researchers to access. It consists in selecting a sample of “seed” individuals to start the survey, and then asking these “seeds” for additional contacts to reach other individuals (or households) in the population of interest.

The empirical base of this research is 200 in-depth interviews with Albanian emigrants living in Thessaloniki. The interviews covered three main topics: (1) Factors driving migration, (2) Migrants actual economic situation and future decisions regarding their future in the host country and (3) Remitting behavior and remittance patterns. The results of the first two section of won’t be discussed in this paper because they do not concern with the main topic of it. Part of the information gathered through them was analyzed in other studies. For references please see Tavanxhiu Tavanxhiu & Mancellari (2015) The questionnaire used in this survey is formed by different Opened Ended, Closed Ended, and Contingency questions. The closed ended are divided between the multiple choice questions and Yes/No questions. The results obtained are processed by using the SPSS statistical software. In order to create a detailed picture of the whole remitting behavior of these immigrants, some of the information gathered through these topics and the description of the variables used in this study are presented below.

**Variable description:** In this part of the paper we present some features of the independent variables. Through the paper, we are going to see how these variables (considered also as remittances determinants) affect either the decision to remit or the amount remitted. These independent variables (determinants) include the income of the migrant, the individual characteristics (age, gender, education and occupation), the family characteristics (marital status, size of the family), intention to return to homeland and time spent in emigration.

*Income* is the net yearly income at the moment of filling the questionnaire and is expressed in Euro for comparability reasons. It is measured as a continuous variable. We expect this variable to be significant due to the fact that the main factor driving Albanian migration is the economic one and the main motive driving remitting is the altruism. Therefore, larger income will lead to larger remitting amounts in order to help the family in the homeland.

The age of the remitting person in our sample ranges between 24-70 years, with an average value of 42 years. Twenty five years ago, when the Albanians emigration started, the biggest wave of emigrants leaving the country was mostly composed by youths. Today, those youths are middle age migrants.

Regarding gender, from 200 emigrants interviewed, 94 were male and 106 female. Respectively they present 47% and 53% of the population under exam. We use the dummy variable ‘gender’, coded 1 if female and 0 if male to see how gender affects first, the decision to remit or not and second the amount remitted.

The level of education attended is another factor that may influence the remittance behavior. Education is a scale variable ranging from 1 to 5 and coded as follows: 1- primary education, 2- secondary education (high school), 3- Technical (vocational) education, 4- Bachelor, 5-Master degree / PhD. Albanian migrants have a clear upward trend in average education. This is due to the fact that before the ’90 (before the start of migration), after finishing the primary education, the secondary or the technical education were almost compulsory.

Profession was removed from the regression due to the high level of correlation with income. We concluded that this last variable is a better predictor.
According to the information of the survey, regarding the marital status, 21 of them, or 10.5% were single, 170 or 85% were married and 5, 2.5% divorced. We use the dummy variable ‘marital status’, coded 1 if married and 0 if otherwise to see how the status affects first, the decision to remit or not and second the amount remitted.

Regarding the number of persons of the families, 47.5% were composed by four persons, 29% by three, 8.5% by 5, 9% by 1, 4.5% by 2 and 1.5% by 6 persons. In this survey there was no evidence of spouse or minor children living in the country of origin. The intention of returning to Albania was included in our econometric approach as a binary variable coded 1 if the emigrant has the intention to return and 0 otherwise. Studies such as Glytsos (1997) stressed the importance of the intentions of returning in the country of origin in determining the remittance behavior, by highlighting the fact that temporary migrants remit more than permanent ones.

Time spent or duration of stay in the host country is a significant factor that determines in a negative way the propensity to remit. We expect the remittance amount to decline as TIME variable increases, given that the ties with the country of origin become weaker as time goes on and the migrant becomes better integrated in the society of the host country (Briere et.al (2002); Amuedo-Dorantes & Pozo (2006); Poirine (2006); Holst & Schrooten, 2006).

V. Main Findings

In this section, we present the results from the regression models. In the first one, the binary logistic model, six from eight determinants results to be significant. (Table 1, Probit Regression). For the Hosmer-Lemeshow Test poor fit is indicated by a significance value less than .05, so to support our model we actually want a value greater than .05. In our example, the chi-square value for the Hosmer-Lemeshow Test is 15.6 with a significance level of .192. This value is larger than .05, therefore indicating that our model is worthwhile. Based on the results presented in the table below, income is strongly related to the remitting behavior and it has a positive effect. Marital status is also strongly related but it has a negatively impact on this decision. Maybe, having a family in emigration is an impediment for the emigrant to remit. As expected, the size of the family in the destination country correlates negatively too. Education has also a negative but less powerful influence, while the gender variable indicates that men have a higher propensity to remit. Being Albanians, patriarchal families, it is understandable for the woman to have less access in the family budget to help the family left behind. The intention to return home seems to be important in the remitting decision. Age and the number of years spent in the emigration seem to have no significant in the remitting behavior.

The second objective of our research is to assess which is the impact of these variables on the amount of remittances remitted toward the home country. The results from the second model (Table 2, Multiple Regression) indicate that sixty per cent of the variance of the remitting behavior is explained by these determinants (F test result is greater than F critical value, F(8,191) α<.05, 1.93).

More precisely, the amount remitted is positively influenced by income and by the intention to return to the home country (at one percent level of significance.). The positive relation between income and remittances is totally understandable because larger income lead to larger savings and therefore larger possibilities to help the family left behind. This finding is in line with the empirical literature reviewed in this paper where almost all researches have income as independent variable highly correlated to remittances.

The positive relation between the intention of returning home and the amount of remittances sanded there can be an explanation by the risk-sharing motive to remit. In the literature it is noted that remittances can appear as a contact between immigrant and their family. While remittances from the emigrant can help the families left behind to raise their income, the family can help the immigrants in
hard times or need (Stark & Levhari 1982; Stark 1991). The marital status, the family size and the level of education have a negative impact on the value of remittances. Single migrants tent to remit more but once they create their own family, the ties and bond with the home country seem to get loose.

The negative impact of the level of education may be related with the wellbeing of the families left behind. During the communism there was a pretty strong positive relation between the level of education and the income earned. Thus, better educated migrants have grown in good economic condition families. Therefore, there is no need for them to support parents or relatives at home.

Gender is not highly significant; however it is in favor of male migrants. Age and the number of years spent in the emigration seem to have no significant influence on the remitting behavior. Twenty and more years from the first wave of emigration, most of Albanians are permanent emigrants, however, links to family and friends remain strong and the volume of remittances is significant. Albanians are well known for their closeness between the family and the strong support they show for each other. So, in this study there is no evidence that could confirm or deny the inverse U-shape function theory of remittances.

### Table 1 Determinants of remittances

<table>
<thead>
<tr>
<th>Dependant variable</th>
<th>Probability of remitting Probit</th>
<th>Remitted amount Multiple Regression</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>2.739***</td>
<td>1.239***</td>
</tr>
<tr>
<td>(Independent Variables)</td>
<td>(0.383)</td>
<td>(0.175)</td>
</tr>
<tr>
<td>Income</td>
<td>0.759***</td>
<td>0.473***</td>
</tr>
<tr>
<td>(0.629)</td>
<td>(0.237)</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>0.014*</td>
<td>0.192</td>
</tr>
<tr>
<td>(0.109)</td>
<td>(0.307)</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>-0.298**</td>
<td>-0.371*</td>
</tr>
<tr>
<td>(0.118)</td>
<td>(0.184)</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-0.726***</td>
<td>-0.221***</td>
</tr>
<tr>
<td>(0.34)</td>
<td>(0.194)</td>
<td></td>
</tr>
<tr>
<td>Marital Status</td>
<td>-0.193***</td>
<td>-0.413***</td>
</tr>
<tr>
<td>(0.181)</td>
<td>(0.184)</td>
<td></td>
</tr>
<tr>
<td>F. members</td>
<td>-0.018**</td>
<td>-0.239**</td>
</tr>
<tr>
<td>(0.134)</td>
<td>(0.074)</td>
<td></td>
</tr>
<tr>
<td>Return</td>
<td>0.693**</td>
<td>0.291***</td>
</tr>
<tr>
<td>(0.120)</td>
<td>(0.392)</td>
<td></td>
</tr>
<tr>
<td>Duration</td>
<td>-0.018</td>
<td>-0.321</td>
</tr>
<tr>
<td>(0.010)</td>
<td>(0.410)</td>
<td></td>
</tr>
</tbody>
</table>

**Observations**: 200

**Chi-square**: 15.6  **F-statistic**: 17.08  **Hosmer-Lemeshow Test**  **Adj.R-squared**: 0.6

Significant at *** 1%, ** 5%, and * 10% level of significance
VI. Concluding remarks

Through this paper we provide micro-level evidence on the determinants of the Albanian migrant remittances. The empirical base of this research is 200 in-depth interviews with Albanian emigrants living in Thessaloniki. The main intention of this paper is to better understand the micro determinants that affect remittances. In the future, it may be possible to influence remittances flows through specific policies based on these determinants once they are better understood. Based on the Heckman two-stage approach method of modeling, we found that income is one of the most important determinants affecting remittances and male migrants are found to remit more than female migrants. The marital status, the family size and the level of education have a negative impact on the value of remittances. Single migrants tend to remit more but once they create their own family, the ties and bond with the home country seem to get loose. However, age and the number of years spent in the emigration seem to have no significant influence on the remitting behavior. This fact shows that links to family and friends remain strong through the years. Based on the positive relation between the intention of returning home and the amount of remittances remitted, policies must improve the perceptions of migrants about the possibilities their home could offer to them. Good perceptions about the overall living conditions and business conditions in Albania can influence their decision of coming back. In this case they will be more likely to invest and also remit in their own country.

VII. Bibliography


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