

## EFFECTIVENESS OF REMITTANCES IN IMPROVING THE WELL-BEING OF ALBANIAN FAMILIES

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### **Abstract**

*Massive immigration of the active labor force or “brain” of Albania had its effects following the period of collapse of communism in 1991. Since the first years, net incomes of the immigrants for their families influenced the improvement of miserable economic conditions during that period. In this study, through empirical revision, quantitative analysis of data and theoretical study of literature sources and different authors, we have explored the impact they have on the immigrants’ revenues in reducing poverty and socio-economic challenges among the Albanian families during the global crisis.*

**Keywords:** immigration, effectiveness, remittance, socio-economic development, global crisis.

**JEL Classification:** F24.

### **1. Introduction**

In 2004 the Bank of Albania estimated that the flow of remittances of migrants was 13.5% of GDP of Albania. According to ODA (Official Development Assistance) during that period the remittances of immigrants were three times higher than foreign direct net investments and doubling official development assistance received by Albania (Bank of Albania, 2005)

It is clear that global economic crises had a significant impact in Albania in terms of reduction of remittances. Many studies expressly indicate this finding and the fact that decline of remittance flows may be also due to a natural cycle of migrants’ deliveries, i.e, the larger the number of years of migration, stronger is immigrants detachment from their families of origin due to socialization with the country they live, raising a new family in the country where they have migrated, considering the migration country as a second homeland, regular employment reducing net incomes compared to illegal labor or beginning of studies for younger people etc (Pulaj, 2011). Facts are important; some classify Albania among main countries of the source of remittances, consequently they are deemed as a vital tool for country development and reduction of absolute poverty. On the other hand, reportedly remittances do not reach the poorest individuals as a result of high

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migration costs and so they may have a negative impact on inequality. Even the scale of dependence on remittances at micro and macro level constitutes another concern.

Further, this study will introduce empirical and theoretical data to be collected by surveys with randomly selected interviewees who have become part of our study. Theoretical survey will be realized through the review of literature sources and modern authors, as well as statistical data retrieved until 2010 from other private and public associations and agencies.

By this study we will give a clear overview of influence that remittances have or not on poverty reduction and the way how they will be managed. Similar basic sources are used such as the Albanian legislation on labor market, reports of World Bank, UNDP, ILO and INSTAT, Bank of Albania, IMF and other well known authors. The study will include statistics about the number of migrants and net incomes from their remittances. Further, it will highlight issues related to delivery of incomes from migrants and their management. The study will be finalized with conclusions and recommendations of authors obtained from theoretical and empirical results of the study which will contribute to the field of studies on remittances and their management.

## 2. Literature review

The high level of remittances registered until 2008 has generally reduced poverty effects and high level of unemployment. Although the level of migrants' remittances has significantly decreased, they still have a positive impact and play a crucial role for the macroeconomic stability of our country, maintenance of standards of living and alleviation of poverty. These are at least the findings of statistics and surveys of the Bank of Albania and INSTAT.

Alternatively, remittances in Albania have been instrumental to avoid the high level of unemployment through massive immigration of qualified and unqualified workers, especially to Greece and Italy (IMF, 2008). During the period 1998-2003 remittances constituted 10-22 % of GDP, thus representing the main source of foreign currency in Albania (UNDP, 2005; IMF, 2005). In 2004 they represented about 13.5 % of GDP (AGENDA, 2010) while in 2007 the remittances were at the level of 12-13 % of GDP (Bank of Albania, 2008; UNDP, 2008).

According to AGENDA Institute, the Albanian migrants who are mainly settled in the area of European Union are the main senders of remittances with 90.7 %. To a wider extent, the origin of remittances lies in the neighboring countries such as Greece by 41.9 % and Italy by 38.6 %. About 8.1 % of remittances derive from the United States of America (AGENDA, 2011).

There are different theories on reasons of increase, decrease, positive or negative effects that may be caused by income deliveries of migrants to their countries of origin. Although there are disputes and contradictions between the results of different studies, it is generally believed that remittances have a positive impact on the economy of beneficiary countries. A higher level of demand for goods and services is one of the effects of migrants' remittances (Pang, 2008). Regarding

the effect of remittances on economic growth, many studies have concluded that remittances have a positive impact (Faini, 2003; Ekanayake, 2008). However, other studies question this conclusion or have found a negative impact of remittances on economic growth (Chami, 2005).

At micro level, remittances play a vital role for improving the life of beneficiary families. Cash amounts received from remittances are used to pay the received debts to immigrate or for education and to buy more products, in order to make more investments in business and finance education or health services (Rapoport and Docquer 2006). A study in Guatemala has found that families which receive remittances from abroad spend more for investment goods such as education and houses than for consumables (Adams, 2005). Other studies have reported similar positive effects of remittances as for instance the enlargement of entrepreneurship activity in beneficiary families (Yang 2004; Woodruff and Zenteno 2001). On the other hand it seems that the beneficiaries of deliveries reduce their efforts to look for job due to increased incomes (Frank, 2001).

Studies conducted with data about remittances in Albania provide information about the effects of remittances on different aspects of life within the beneficiary families. The results of (Carletto, 2008) demonstrate that immigration of men may cause the empowerment of women through their wider access to employment or self-employment opportunities. In Albania the remittances are mainly used for primary needs and have a mutual relationship with the level of education of senders and beneficiaries (De Souse, Duval, 2009). However, remittances have positive effects on the level of satisfaction of beneficiaries with the general situation (Duval & Wolff, 2009; AGENDA, 2011).

Extensive research is carried out on the microeconomic motives behind remittances that distinguishes between three basic motives for remittances; pure altruism, pure self-interest and informal agreements with family members left in the home country (Smith, 2003; Solimano, 2004; Rapoport and Docquier, 2006; Adams, 2009; Shahbaz and Aamir, 2007; Alba and Soraya, 2009; Shera, Dosti and Shehaj, 2010). The altruistic model hypothesises that the amount of remittances should increase with the migrant's income, decrease with the domestic income of the family, and decrease over time as the attachment to the family gradually weakens and increase when the home country currency depreciates (Shera, Dosti and Shehaj, 2010).

Jongwanich in 2007 studied the impact of remittances on poverty by decomposing its effect into direct and indirect components, and found that remittances directly reduce poverty through augmenting family incomes, and indirectly through the growth and human capital effects of remittances. He concludes that remittances can generate income even for families who receive no remittances at all mainly through the multiplier effects of expanded spending and such multiplier effect can lead to poverty reduction even for some poor families do not directly get remittances inflows (Jongwanich, 2007). Research suggests that a significant portion of remittances is spent on consumption and a smaller part is saved or invested

(Adams, 2004). Remittances may help families to engage in several investment opportunities including investment in human capital, entrepreneurship and property.

Research on the macroeconomic determinants indicates that remittances respond to changes in the interest and exchange rate differentials between home and host country (Glytsos, 2001; Ratha, 2003; Yang, 2004; Shera, Dosti and Shehaj, 2010). These changes may also affect the timing of remittances for investment, which may indirectly effect poverty reduction (Shera, Dosti and Shehaj, 2010).

Theoretical literature on remittances is mainly focused on three aspects; 1) Motives and determinants of remittances, 2) Use of remittances, 3) Impact of remittances on poverty and inequality. According to the first aspect, the most common and acceptable motive to return money in the family is altruism as the immigrants are concerned about the well being of family members they have left in their home country. (Start and Lukas, 1985).

Regarding the second theoretical aspect on remittances, many researchers argue that the about 2/3 of remittances are used for consumption, mainly for food and the rest for housing (Massey and Parrado, 1994). Various studies about this aspect of remittances have concluded that even in other countries as Greece, remittances are used for food and housing (Glytsos, 1993). A case study in China has reported that remittances go for investments and savings. (Zhu, 2006). A study conducted in Pakistan during 2001-2003 drew the conclusion that remittances are used for investments in physical capital such as agricultural machinery, agricultural land and human capital as education or schooling (Mausuri, 2007).

According to the third aspect on impact of remittances on poverty and inequality, there are different study perspectives and results. A regression analysis on data taken from 40 villages in India, revealed that immigration increases rural inequality within and between villages. Attraction of migration allows the best immigrants to advance with better jobs while the postponement of immigration weakens the poor. The most common senders of incomes from migration work rarely come from poor rural areas. Accordingly, it is less likely that remittances may influence the reduction of rural poverty (Lipton, 1980). However, according to another study in Egypt, international remittances have a minor but positive effect on poverty. Results show that the number of families living in poverty is reduced by 9.8% when the forecasted per capita incomes of families include remittances which are estimated at about 14.7% of the total incomes for poor families. However, when remittances are included in forecasted per capita incomes of families, inequality is increased (Richard, 1991; Adams, 1993). In a study carried out by IMF for 101 countries during the period 1970-2003, there are similar conclusions as the result has suggested a very strong link between poverty and remittances. However, the impact may seem economically insignificant: 2.5% increase in the ratio between remittances/GDP is related to 0.5% reduction of poverty for people who live in poverty. (IMF, 2005)

As regards the case of Albania for distribution of remittances, following the observations it has resulted that remittances from immigrants represent 13 % of

average family incomes while for host families they represent 47 % of family incomes (IMF, 2005). 87% of the total remittances are sent by family members who had left their families since 1990. The rest of 13% is sent by friends or acquaintances (World Bank, 2008). Evidence on impact of remittances on poverty and inequality for Albania vary, depending on areas, migration models and poverty dimensions.

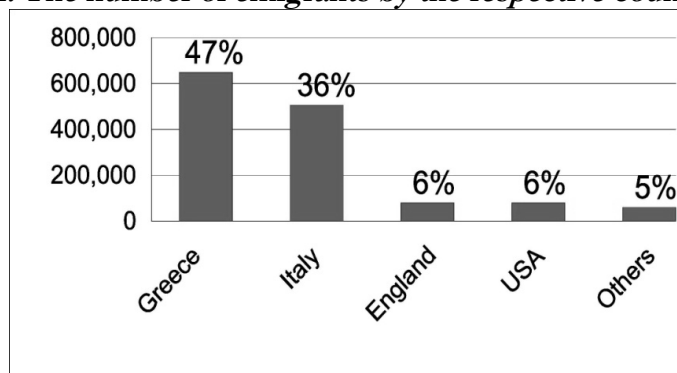
### 3. Research methodology

The research methodology employed is the quantitative one, where data are collected through the conducted surveys and analyzed by the statistical program SPSS. Quantitative research method will be based on numerical data introduced in the form of statistics and collection through the designed questionnaire and define the measurement accuracy. It is based on figures and concise statistics, both objective and deductive. Data will be collected from the surveys carried out through the questionnaires. Assumptions made regarding the study are as follows:

$H_0 \Rightarrow$  Albanian families are not subject to a reduction of poverty due to remittances.

$H_A \Rightarrow$  Remittances reduce poverty of the Albanian families.

**Tab.1: The number of emigrants by the respective country 2010**



The sample population is selected according to the interests of this study, setting some a sample population only persons who: 1) live and work in Greece, Italy, England, USA 2) persons who have travelled by airlines during August 2012, 3) and persons who have arrived in Albania during the timetables 08.00-20.00 (aircrafts landed to “Mother Theresa” Airport after that time have not been taken into consideration for our study). According to the World Bank, the largest percentage of the Albanian migrants as demonstrated by the graph, is focused in countries such as Greece, Italy, England, USA and 5 % in other countries (World Bank, 2010). Therefore, the sample population covers immigrants living and working in those countries. The selected sampling is randomly layered where each individual has equal opportunity to be part of this study falling within the sample characteristics. It is deemed random as the selection of case studies was 1 in 5 migrants crossing the only entry gate of the airport of Albania, who are supposed to live and work in the

countries specified above. Meanwhile, the layering of sample population consists of the fact that people selected for the study are those travelling by the airline to “Mother Theresa” airport, with destination Tirana/Albania, who have arrived only by the airlines Greece-Tirana, Italy- Tirana, England-Tirana and Munich-Tirana (Munich of Germany was selected as it is one of the largest transit lines of the world, where some of the migrants who have come from the USA or Canada to Tirana, have Munich and then Tirana as the first stop). As mentioned above, this layering is caused by the number of migrants in those countries. Based on these percentages it was reached a decision to interview 47 migrants travelling by airlines Greece- Tirana, 36 from Italy-Tirana, 6 from England-Tirana, 11 migrants to be interviewed from the transit airline Munich-Tirana. The total number of persons identified of interest for our study was agreed to be 101 migrants interviewed, where all interviews were conducted during August 2012.

Due to the failure to conduct long interviews and for the purpose of study convenience, the survey used for the interviewing of selected respondents included 19 alternative questions. The questionnaire was structured where the same questions were applied for the whole sample population. The first questions were of demographic character being further expanded with main questions of our study such as: What are the average monthly incomes of relatives living in Albania? What is the average amount of monthly remittances of migrants sent to their relatives living in Albania? Who are the closest relatives living in Albania? Which city or town are they from ...etc.

Indeed, our study has attached proper importance to the principles of study ethics such as: informed consent is the process of explicitly asking the permit of the subject to be participant in the study, based on his full understanding of the interviewing procedures and its purpose (Blanche and Durrheim,1999; Gubrium, 2002). The confidentiality includes an agreement from the applicant to protect the privacy/anonymity of the study participants (Gubrium, 2002). Reporting of results: Study results should be published taking special care of the participants’ rights. At no time the information provided by study participants should be misinterpreted or distorted (Gubrium, 2002). In this study we ensure that the results are fully based on the data obtained from the study participants.

#### **4. Empirical data analysis**

As we already mentioned, we aimed to carry out 101 surveys with the sample population specified above. During the implementation of surveys with 101 subjects selected for our study sample, 87 surveys/interviews were made available for the purpose of analysis. According to a previously reached agreement, a prerequisite for data analysis included only data obtained from the surveys with subjects/persons who do not interrupt the interview until the end of the questionnaire and persons who refuse this survey would definitely not be part of data analysis. Accordingly, out of 101 planned surveys, 12 were not realized due to refusal of the selected subjects in

terms of data collection process. Meanwhile, data obtained from another subject were not taken into consideration due to their low rate of validity.

This person returned to Albania after having served 10 years of his imprisonment sentence in Italy. The respondent in question had lived and worked in Italy for only six months and further he was sentenced by the Italian authorities by a term of 10 years of imprisonment. The data provided by him did not meet the requirements of our study as specified above; therefore they were not taken into account in data analysis. Consequently, it follows that only 87 surveys were taken into consideration for the further data analysis.

All our variables were analyzed through SPSS program, where we will introduce the analysis and relationship between key study variables determining the refusal or not of null hypothesis. Hence, the questions made to the respondents such as age, gender, employment, monthly incomes of their families living in Albania and incomes sent due to work in migration (remittances) etc., are analyzed as shown below in Table 2 and Table 3, to check the frequencies and relationships between them and respectively between the variables of Averagmonth and Monthinc that are respectively the monthly incomes for each family due to work of migrants, and monthly incomes of the Albanian families provided by the employment in Albania of their relatives.

As we will see the table 2 reports that for 35 cases/subjects, the amount of incomes generated from migration, i.e remittances, prove to amount to 20.000-40.000 ALL, where this amount is uniformly distributed for different values of monthly incomes of the Albanian people employed in the country. In this framework, for one case that amount was added to the incomes of less than 10.000 ALL earned from the local employment. In 7 cases, remittances at 20.000-40.000 are added to the value of 10.000-20.000 of incomes from the local employment. In 17 cases which is also the highest frequency, with monthly incomes of 20.000-40.000 ALL, the same amount of remittances per month is added, where it follows that the total of family incomes is doubled. According to table 2, the amounts of incomes from migration work reaching the Albanian families, amount to a maximum of 10.000-20.000 ALL per month with 22 cases and 20.000-40.000 ALL per month with 35 cases.

***Tab.2: (Monthinc \* Averagmonth Crosstabulation)***

	Averagmonth							Total
	Less than 10,000 ALL	10,000 – 20,000 ALL	20,000 - 40,000 ALL	40,000 – 60,000 ALL	60,000 – 80,000 ALL	More than 80,000 ALL	I don't send income	
Less than 10,000 ALL	0	0	1	1	0	0	0	2
10,000 – 20,000 ALL	1	1	7	1	1	0	0	11
20,000 - 40,000 ALL	6	13	17	4	1	1	0	42
40,000 – 60,000 ALL	3	4	7	2	0	0	0	16
60,000 – 90,000 ALL	5	4	3	1	0	0	1	14
More than 90,000 ALL	1	0	0	0	1	0	0	2
<b>Total</b>	<b>16</b>	<b>22</b>	<b>35</b>	<b>9</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>87</b>

*Tab.3: (Gen \* Averagmonth Crosstabulation)*

	Averagmonth							Total
	Less than 10,000 ALL	10,000 – 20,000 ALL	20,000 – 40,000 ALL	40,000 – 60,000 ALL	60,000 – 80,000 ALL	More than 80,000 ALL	I don't send income	
male	7	15	24	6	3	1	1	57
Gen fema le	9	7	11	3	0	0	0	30
Total	16	22	35	9	3	1	1	87

In the meantime, table 3 identifies the incomes of migrants' work according to gender considerations. This table demonstrates that remittances have higher rates from the migration work of male subjects, where out of 87 respondents, 57 subjects/males bring incomes to their families, where for the most frequent amount of 20.000-40.000 ALL per month, the number of males is 24 compared to 11 females.

Referring to the above table 4 which demonstrates the link between the perception about well being and incomes generated from the migrants, we note that 73 out of 87 interviewees are classified into the group of lowest level of remittances in Albania, i.e 20000-40000 ALL per month. The average remittance of a migrant into the first group of incomes is about 30.000 ALL that is approximate to the monthly salary of an employee in Albania (registered as such). From this perspective we reinforce the above conclusion that the main cause of migration in Albania during recent years is the low economic level.

If we focus on the interviewees of the first group but from the perspective of how they perceive well being, we reach the conclusion that they are moderately optimistic about the increase of well being, since the percentage of interviewees who answer in favor of the increase of well being is a little higher than the one of interviewees who give a negative answer.

We deem that the main part of incomes sent from the migrants is used to meet basic living needs and barely for its improvement. This does not apply to the interviewees of the second group of remittances. Considering that their remittances are higher, their perception about the increase of well being is very optimistic. 100% of interrogated persons have been in favor of the well being. In general terms, the perception about well being which indirectly implies poverty reduction from migrants, is positive.

An analysis of the variable on question for which remittances are spent, clearly explains that they have influenced the upgrading of economic level. However, the cross-tabulation analysis between remittances and the way how they are spent, clearly demonstrates that these incomes are used for minimum living conditions such as food, clothing, medicaments or medical examinations, where tab.5 shows that about 84 % of incomes up to 40.000 ALL from migration are used for living needs or



requirements, 13.8 % are used for house construction or refurbishment or for starting a business and only 1.1 % are saved in bank accounts or they are subject to informal methods.

In the meantime, methods of delivery of remittances basically remain the informal ones, where most of the respondents have admitted that they send them through their relatives or acquaintances or when they come to Albania and about 47 per cent acknowledge they use Western Union or Express Mail.

**Tab.4: Standliving \* Averagmonth Crosstabulation**

		Averagmonth				Total	
		20,000 - 40,000 ALL	60,000 – 80.000 ALL	More than 80.000 ALL	I don't send income		
<b>St</b>	Yes, they have influenced	Count	37	12	1	0	50
	to a high degree	% within Averagmonth	50.7%	100.0%	100.0%	0.0%	57.5%
<b>n</b>		Count	36	0	0	1	37
	No, they have not	% within Averagmonth	49.3%	0.0%	0.0%	100.0%	42.5%
<b>ivi</b>		Count	73	12	1	1	87
	influenced to a high degree	% within Averagmonth	100.0%	100.0%	100.0%	100.0%	100.0%
<b>g</b>		Count	73	12	1	1	87
	Total	% within Averagmonth	100.0%	100.0%	100.0%	100.0%	100.0%

**Tab.5: Averagmonth \* Spendincom Crosstabulation**

		Spendincom			Total
		Food / Clothing	Construction/p urchase of a new house	Savings in a bank account	
20,000 - 40,000 ALL	Count	58	9	6	73
	% within Spendincom	90.6%	69.2%	60.0%	83.9%
60,000 – 80.000 ALL	Count	5	3	4	12
	% within Spendincom	7.8%	23.1%	40.0%	13.8%
More than 80.000 ALL	Count	0	1	0	1
	% within Spendincom	0.0%	7.7%	0.0%	1.1%
I don't send income	Count	1	0	0	1
	% within Spendincom	1.6%	0.0%	0.0%	1.1%
Total	Count	64	13	10	87
	% within Spendincom	100.0%	100.0%	100.0%	100.0%

During the study we were interested to examine or prove the hypothesis whether in Albania the remittances influence poverty reduction. Considering that the perception of migrants about poverty may be more challenging, via the questionnaire we have asked them about the well being and its improvement, therefore the hypotheses we have raised have been as follows: H0: Remittances do not influence the improvement of well being. HA: Remittances influence the improvement of well being. Referring to the above paragraph, the foregoing hypothesis is equal to the following one: H0: Remittances do not influence poverty reduction. HA: Remittances influence poverty reduction.

*Tab. 6: Chi-Square Tests*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.347 <sup>a</sup>	3	.006
Likelihood Ratio	17.472	3	.001
Linear-by-Linear Association	5.506	1	.019
N of Valid Cases	87		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .43.

To verify the hypothesis we have applied the chi –square test (based on cross tabulation) with an importance level of  $\alpha=0.05$ . The results of processed data are given in the following table. On the basis of the foregoing we note that Asymp. Sig=0.006 . Given that A.Sig = 0.006 is smaller than  $\alpha=0.05$ , then the basic hypothesis H0 is rejected and the alternative hypothesis is accepted, arguing that remittances influence poverty reduction.

## 5. Conclusions

Remittances are far from the solution they are supposed to provide. However, they generally have a positive impact on main development aspects, including the creation of human capital, investments, poverty reduction and macroeconomic stability, and even social and political changes.

As a result of the whole analysis of data processed through SPSS-s, it becomes clear that remittances have positive effects on the Albanian reality. Yet, on the other hand, as their consequence women or even men representing active labor force because of additional monthly incomes from remittances, apparently do not develop their competitive skills in the labor market and remittances are used only as a safe means of living.

Firstly, remittances have reduced efforts to find a job. Most of women from families with continuous remittances are unemployed. Secondly, there are reduced efforts for work in agriculture and technology or in other beneficial sectors. The families benefitting remittances generally prefer a more comfortable life. Consequently, the percentages of domestic products are reduced. Thirdly, a real assessment of remittance figures is challenging due to informal deliveries, therefore the effective management and formulation of programs and policies for them has been hard for the Albanian State.

We emphasize that the Albanian Government should encourage investments of remittances in small businesses, to further continue the improvement of subsequent

infrastructures for the development of those businesses. Without these conditions the migrants will find it hard to risk their capital under unsafe business conditions. The government should channel this money to productive and active investments for labor forces. Further, the facilitation of job mobility between the place of source and destination of remittances is probably the most important tool for the increase of inflows of deliveries for developing countries such as Albania and this is realized through the increase of agreements on good migration policies in the host countries of migrants.

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