MIGRATION AS A SAFETY NET: ANALYSIS OF THE EFFECTS OF REMITTANCES ON POVERTY AND INEQUALITY IN ALBANIA AND BOSNIA AND HERZEGOVINA

Esmeralda Shehaj and Nermin Oruc

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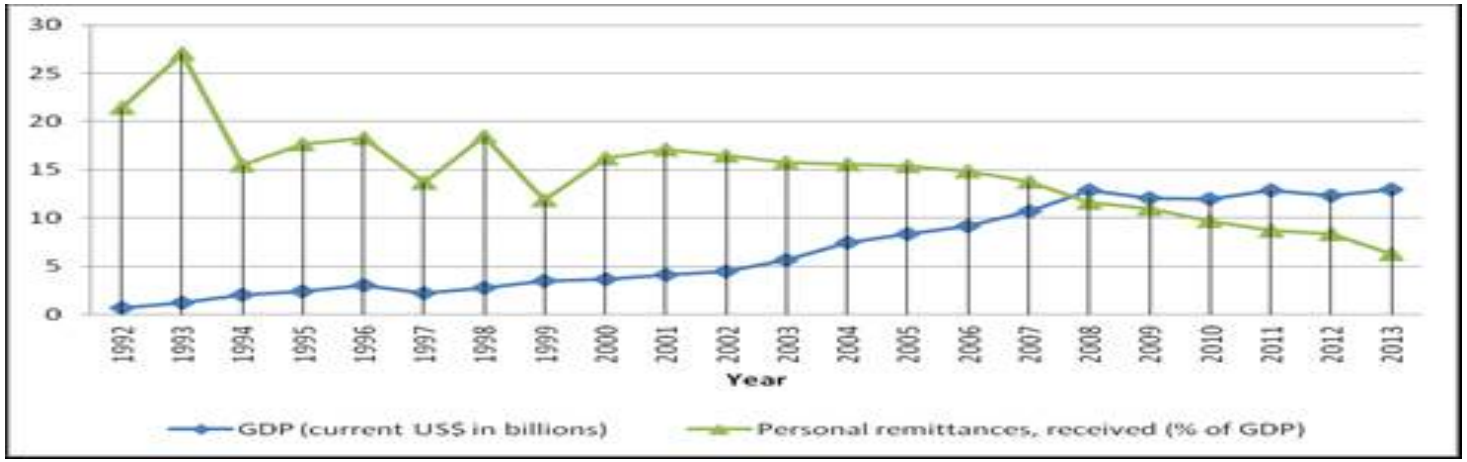
Introduction

- Remittances inflows to BiH 14% of GDP
- Remittance inflows to Albania fell from 13% in 2006 to 6.3% in 2013.
- No clear expectation about the direction of influence of remittances on poverty and inequality
  - Remittances reduce poverty (Adams and Page, 2008; Brown and Jimenez, 2007; Gubert et al., 2010, Beyene, 2011)
  - Remittances have no impact or increase poverty (Acosta et al., 2007; Adams, 2004)
  - The impact also depends on poverty measures used.
  - Remittances increase income inequality (Adams, 1991; Anyanwu, 2011), or
  - The effects are heterogeneous and depend on the circumstances (Ebeke and Le Goff, 2009; Kimhi, 2010)
- No evidence about the effect of global economic crisis

Effect of the crisis in Albania

Macro level

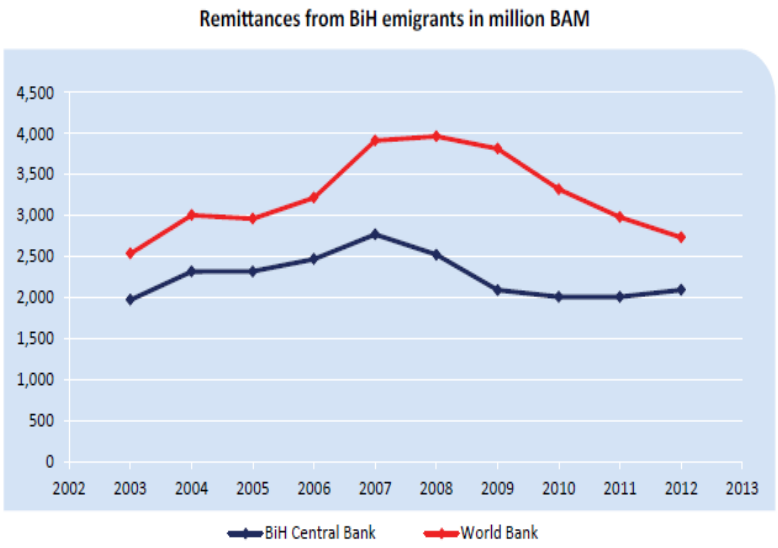


Micro level

Variable	2008	2012	Change
% of recipients	25.3	6.2	↓

Effect of the crisis in BiH

Macro level



Micro level

Variable	2007	2011	Change
% of recipients	7.72	5.88	↓
Average monthly amount (BAM)	125	152	↑

Methodology

- Using the Albanian LSMS of 2008 and 2012, and HBS 2007 and 2011 data
- Crisis = 2011 – 2007
- "During …", not "Effect of …"
- Estimation of the econometric model of determinants of households consumption if there are no remittances
  - (Problem of lack of appropriate identifying variable for the selection model)
- Poverty rates measured by headcount, gap and severity
- Inequality = Gini coefficient
- Simulation of Gini that would be if there were no remittances
- Comparing it with the actual poverty rates and Gini

Model

- Determinants of household consumption (without remittances):

*Consumption p/c = c1 + c2*gender_head + c3*age_head + c4*age_head_squared +c5*married + c6*education_head + c7*size_HH + c8*size_HH_squared + c9*dependency_ratio + c10*main_income +c11*no_income + c12*rural +c13*own_house +c14*self_employment + c15*dummy2011 + u* (1)

- Slighlty different variables in the case of Albania

Results

Consumption model

Variable	Coefficient
Gender of the head (1 if male)	**-0.115**
Age of the head (years)	0.007
Age of the head, squared	-0.000
Marriage status of head (1 if married)	0.019
Education of head (1 if with incomplete or complete secondary school)	**0.202**
Education of head (1 if with college or university)	**0.632**
Education of head (1 if with postgraduate degrees)	**0.639**
Size of household (no of members)	**-0.222**
Size of household squared	**0.010**
Percentage of dependent members in total household members	**-0.482**
Main income (1 if pension is main income)	-0.040
Main income (1 if social assistance is main income)	**-0.090**
Main income (1 if other source is main income)	**0.046**
No income (1 if the household has no income)	**0.124**
Own house (1 if the household possesses own house)	**0.172**
Self employment (1 if household has a private business)	**-0.058**
Urban (1 if urban)	**0.129**
2011 (1 for the year 2011 (during crisis))	**-0.074**
Observations	4538
R-squared	0.246

Simulation of poverty rates and Gini coefficient

- These estimates are then used to predict the consumption remittance recipient households would have had, in case they had not received remittances.
- However, a simple fit of this regression would provide very stable consumption, because it omits all the random factors that affect household consumption.
- To address this problem, approach used in Barham and Boucher (1998) and Acosta et al. (2008), was used, where a series of consumption shocks were added to the fitted values of the above regressions, being drawn from a normal distribution with properties as the residuals from the above regression.

Results for Albania

		2008				2012			
		Poverty							
		HC	Gap	Severity	GINI	HC	Gap	Severity	GINI
Overall	Actual	12.4	2.3	0.7	28.2	14.3	2.9	1.0	26.9
	Predicted	21.2	6.3	3.0	30.9	14.6	3.0	1.0	26.6
	Difference	**2.60**	**0.80**	**0.80**	**2.7**	**0.24**	**0.08**	**0.03**	**-0.3**
Urban	Actual	10.1	2.0	0.6	29.5	13.6	2.9	0.9	27.7
	Predicted	15.4	3.9	1.7	31.3	13.8	2.9	0.9	27.5
	Difference	**2.8**	**1.0**	**1.4**	**1.8**	**0.2**	**0.0**	**0.0**	**-0.3**
Rural	Actual	14.6	2.6	0.7	26.0	15.3	3.0	1.0	25.7
	Predicted	26.8	8.5	4.4	28.7	15.5	3.1	1.1	25.3
	Difference	**2.3**	**0.7**	**0.3**	**2.7**	**0.3**	**0.1**	**0.0**	**-0.4**
Remittance Recipients	Actual	10.8	1.8	0.4	26.0	9.4	1.5	0.4	25.5
	Predicted	49.1	19.4	11.2	30.2	14.4	3.2	1.0	20.5
	Difference	**9.0**	**2.9**	**2.9**	**4.1**	**5.0**	**1.6**	**0.6**	**-5.0**

Results for BiH
Simulation of Gini

	Gini coefficient	
	Actual consumption	Consumption without remittances
2007	0.343	0.343
2011	0.368	0.366
Poole OLS	0.356	0.356

Source: Author's estimates

Conclusions

- In Albania
  - Poverty increased during the crisis, but inequality decreased
  - The impact of remittances on poverty is positive, but lower in the crisis period
  - The impact of remittances on inequality is positive before the crisis, but negative during the crisis
- In BiH
  - Gini increased during the crisis in
  - However, not due to remittances, since the effect of remittances on income inequality in BiH, both before and during the crisis, remains negligible (other reasons?)