

# **IMPACT OF REMITTANCES ON ECONOMIC DEVELOPMENT AND MANAGEMENT OF REMITTANCES: EVIDENCE FROM KOSOVO**

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## **Abstract**

*Remittances have been and remain of great relevance for socio-economic development of the country, as they constitute an important source of financial resource. The aim of this article is to assess the impact of remittances, transfer channels and other aspects, with reference to Kosovo. Existing data show that since 2005 there has been a significant and continuous growth of remittances: in 2005 remittance flows were recorded at 418 million Euros, reaching up to 772 million Euros in 2015. Remittances are mainly sent to support families in Kosovo. Main investment destination sectors of remittance senders are construction, accounting for 47.2 percent of total investment value.*

*Keywords: Migration, Remittance, Economic growth, employment*

## **INTRODUCTION**

Remittances at the global level represent the second most important financial flow ranked behind international aid. International migration represents a multidimensional phenomenon that has had and has impact on the socio-economic aspect and in country of origin and country of destination. When it comes to preserving the current account balance and alleviating social

pressures for all countries in the region, the remittances from these Diaspora affect significantly. There has been a substantial and stable pattern of inward remittances to Western Balkans countries as shown by the World Bank. Remittances have been around \$3-4 billion in Serbia, above \$2 billion in Bosnia, over \$1 billion in Albania and Kosovo, and below \$500 million in Macedonia and Montenegro on average per year in the past five years (World Bank, 2016).

Based on findings, it is found that remittances have positive impact on Kosovo's economic development and in enhancing the welfare of households. In recent decades their role is becoming ever greater in the development of the global economy. The nature of remittances, their size, frequency, their impacts and factors influencing their importance have prompted many scholars to deal with this source of income, socially, economically as well as politically. Regarding the status of studies on the role of remittances in Kosovo, there are no comprehensive data available. Study about remittances should be developed on a continuous basis at the country level in order to have up-to-date data on their role and impact on Kosovo's economic development and welfare. In 2015, remittances in Kosovo were 772 million Euros, compared to 2014, marking an increase of 8.1%. Remittances in 2015, represented 13% of Gross Domestic Product (GDP). The pronounced macroeconomic importance of remittances is also reflected by the fact that remittances cover more than 40% of Kosovo's trade deficit (Central Bank of Kosovo, 2016).

Remittances in Kosovo since the 70s of the last century have provided an important support to the economic development and to the improvement of welfare of the population. The most significant support of remittances has been in the country's social aspect, especially for the households that remittances were the only source of income. The role of remittances in households has contributed to the improvement of living conditions as well as to the alleviation of unemployment and to the increase of income. As for the employment of migrant heads of households who are employed in host countries it turns out that about 87% of them are employed.

On the other hand, statistical analysis shows that remittances in some cases have negative impact in the offer of the working force of the recipients of remittances, which has contributed to the growth of inactivity of working force on the labor market which in Kosovo is very high. This has been noted that some recipients of remittances do not seek for job in the offices for employment and mediation within the Ministry of Labor and Social Welfare. The number of Kosovar emigrants who have emigrated outside Kosovo during 2015 was estimated around 74,434. In this number of immigrants are included all legal and illegal migrants, the largest number of them was illegal asylum seekers. International migration balance, respectively net migration to Kosovo for 2015 was -55,572 (Kosovo Agency of Statistics, 2016).

The remittance study aims to provide information that will contribute to the formulation of policies and sustainable development strategies of the country that will impact to the maximum use of remittances in Kosovo. One of the main factors influencing emigration is the high unemployment rate in Kosovo, where according to the results of the Labor Force Survey (AFP) for 2016, the unemployment rate is 27.5%, while the employment rate is 28%.

The most pronounced unemployment is among women with 31.8%. The most pronounced unemployment rate is for 15-24 age group with 52.4% (ASK, 2017). In the following article is presents a theoretical overview on the role of remittances in economic development, immigration and return trends in Kosovo, the impact of remittances on the economic development, remittance acceptance trends, remittance management and at the end of the article are presented conclusions as well as references.

## **A THEORETICAL OVERVIEW ON THE ROLE OF REMITTANCES IN ECONOMIC DEVELOPMENT**

According to studies in the field of remittances it results that remittances play a major role in the socio-economic aspect. Remittances have a strong impact to the level of income growth and the living standard of the beneficiary country (Taylor & Wyatt, 2006). According to Richard et al. (2005), remittances particularly affect poverty alleviation.

Early immigration roots are thought to have been found about 1.8 million years ago when Homo erectus migrated from Africa over the Levant corridor. The word "migration" comes from the Latin word "migratio" which means the physical displacement of people. In terminology, the distinction is made between the word emigration used from the point of view of the country of origin and the word immigration used from the point of view of the host country. International emigration has to do with the movements of individuals from a sovereign territory to another territory.

The origin of modern emigration starts from the beginning of the 19th century and is widespread nowadays. All the reasons and motives that lead to emigration are divided into pushing and attractive. The pushing reasons are the reasons that motivate people to leave a certain country, where one of the reasons may be economic difficulties, not a very good political situation, unemployment, natural conditions, etc. Attractive reasons are the reasons that encourage and motivate people to go to a particular destination (Everett S. Lee, 1966).

There are numerous theories and studies that explain and analyze international and local emigration, as well as theories that present this phenomenon under a positive viewpoint and other theories that present it from a negative point of view.

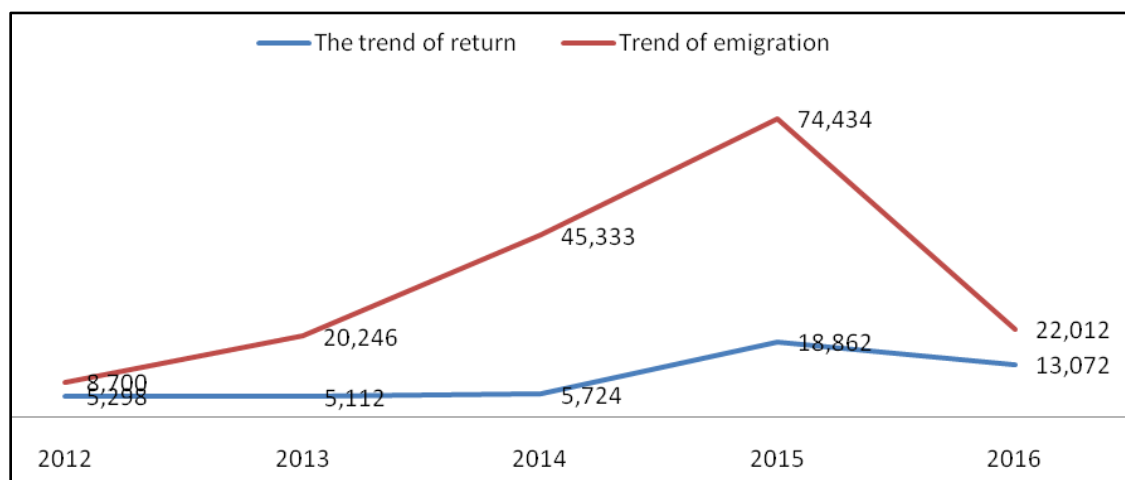
From emigration social problems are solved such as alleviating unemployment, poverty alleviation, economic support, professional capacity building or experience gained from developed countries. This happens from a cultural, educational or handicraft point of view (Smith, 2007). Emigration plays an important role in the transfer of capital investments and accelerate the exposure of traditional communities to liberal, rational, democratic ideas and modern knowledge (Nickell & Saleheen, 2008).

Having in mind higher salaries in the host countries means that the marginal output in these countries is at a higher level compared to the country of origin, so this affects the relocation of people towards these countries by increasing the overall output worldwide (Krugman & Obstfeld, 1991).

### IMMIGRATION AND RETURN TRENDS IN KOSOVO 2012 -2016

International migration according to available data is estimated to be more than 550,000 Kosovar residents who have migrated from Kosovo since 1969, while in terms of net migration during 2012-2016, it is estimated that from Kosovo has emigrated abroad 122,657 persons or about 6.9 % of Kosovo's population (Figure 1) The largest immigration trend was in 2015 with about 74,434 Kosovar people who have emigrated (Kosovo Agency of Statistics, 2016).

Figure 1. Immigration and Return Trends in Kosovo, 2012-2016



Source: Calculated by author's, based on population estimates for period 2012-2016

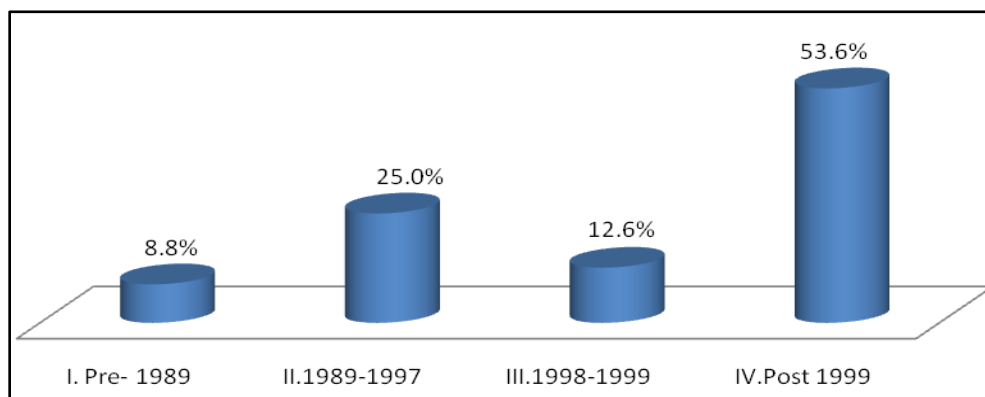
According to the figure above it can be seen that during 2012-2016 it emerges that Kosovo continues to have a high rate of emigration with an average of 34,145 or 1.91% emigration within one year. If we analyze the returns over 2012-2016 it turns out that a number of the

population has returned to Kosovo or an average of about 9,614 people per year, or expressed in percentage of 0, 53% of the population within a year.

Kosovo through relevant institutions should pay a particular attention to the system of managing the returnees in Kosovo from abroad, therefore through the electronic system should administer with higher efficiency all applications and relevant data regarding repatriated persons and their benefits are to be recorded, stored, processed and archived. Through this system, the process of reintegration of repatriated persons must be fully managed from the moment of entry into the country, respectively in Kosovo until the closing of the case, which is presented in accordance with the political and legal procedures and definitions.

Analyzing emigration by periods using the data of the Household Remittance Survey conducted in 2011, based on the wave of emigration it turns out that in Kosovo the largest percentage of household heads who have emigrated abroad are after 1999 or expressed in percentage 53.6%. You can notice these changes through (Figure 2). Then the wave of emigration was higher between 1989 and 1997 or expressed in percentage for about 25.0% (UNDP, 2012).

Figure 2. Distribution of emigrants over the years

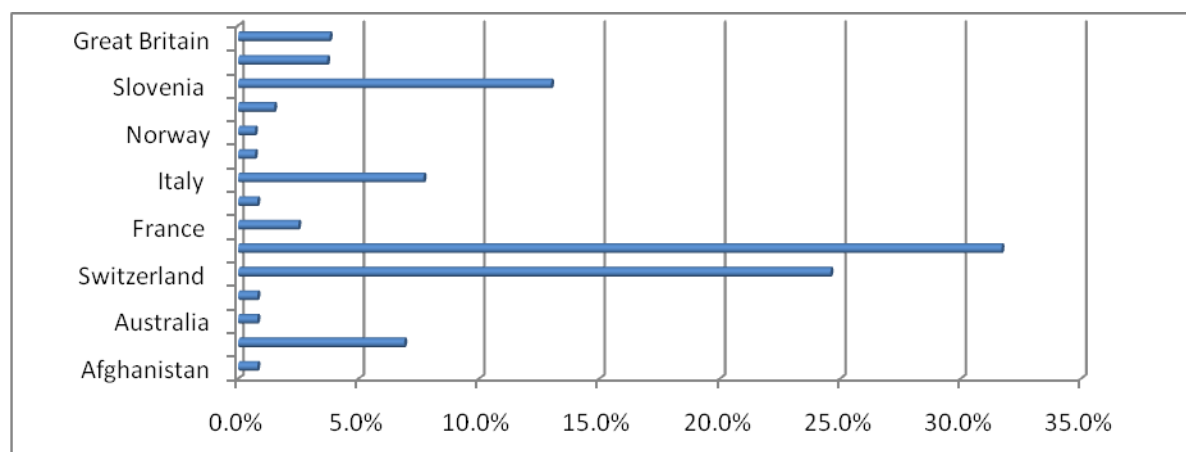


Source: UNDP (2012) Kosovo Remittance Study

EU's policy responses became increasingly restrictive as the number of asylum applicants increased dramatically in late 2014 and in 2015. Hungary's June 2015 decision to start building a fence to prevent Kosovo migrants from entering the country was the culmination of it. The fence Later served to close off the border to refugees from the Middle East. Member states, most importantly Germany, Western Balkans countries have been declared as "safe countries of origin," by member states, particularly Germany; allowing asylum seekers faster return (Eurostat, 2016).

Regarding the host countries of Kosovar emigrants, the largest share of Kosovars live and work in Germany or around 31.7%, followed by Switzerland by about 24.6%, then in Slovenia by 7.7%, while other emigrants host countries are represented with a smaller percentage (Figure 3), (Kosovo Agency of Statistics, 2013).

Figure 3. The countries of destination of Kosovar emigrants



Source: Distribution of Kosovar emigrants by country, by the author based on the data of Kosovo Remittance Study 2013

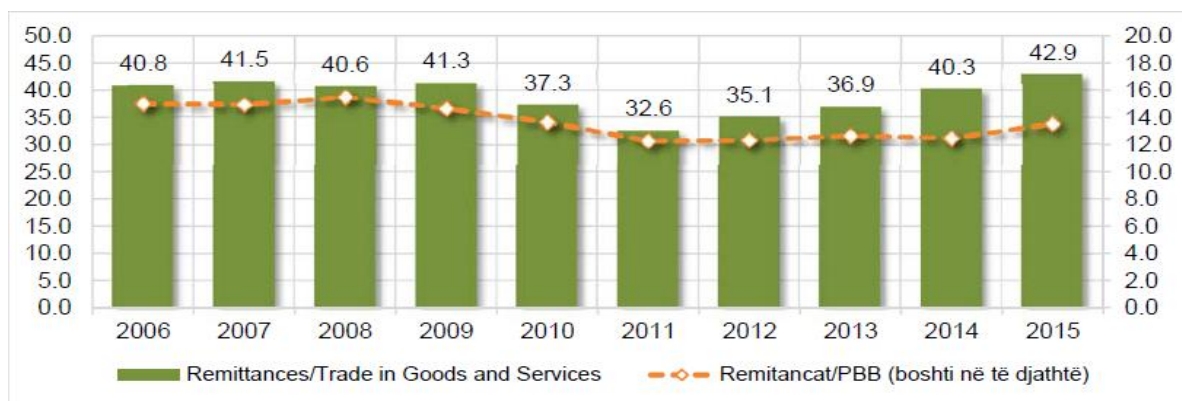
An important role Kosovo should devote to the employment respectively unemployment policies with foreign countries which aims to secure information on job search and job placement abroad for those persons who have decided to migrate therefore competent institutions at the state level should research more in this regard and then make temporary arrangements for employment abroad. Emigration decision is determined by different driving factors, such as economic, political and social factors. People decide to migrate to countries that provide better living conditions, higher standard, better income, better education, and other aspects. This phenomenon is not only in the state of Kosovo, but all countries are influenced by emigration. However, it must be emphasized that Kosovo is distinguished country, when analyzing migration by age groups. The age group that dominates in terms of emigration is the 30-34 age group, which is known to be more labor-intensive (Bellaqa, B., 2016).

### THE IMPACT OF REMITTANCES ON THE ECONOMIC DEVELOPMENT

According to the data of the Kosovo Agency of Statistics (KAS) of 2016 Gross Domestic Product (GDP) at the current country-level price in 2016 was 6,070.1 million Euros, while real GDP growth in 2016 compared to 2015 was 4.06%. In terms of GDP per capita for 2016 it was 3,386 euros (Kosovo Statistical Agency, 2017).

Data reveal that Kosovo compared to Western Balkan countries still has a low GDP value both at the country level as well as per capita. Taking into account Kosovo's economic development, remittances have served as very important supporters for the country's economic and social development. According to the Central Bank of Kosovo (CBK), remittances sent to Kosovo during the last five years had an average of 650 million euros on an annual basis. Remittances in 2015 made 13% of GDP. If we analyze it in macroeconomic terms, remittances have a significant importance where it is seen that they cover over 40% of Kosovo's trade deficit (CBK, 2016).

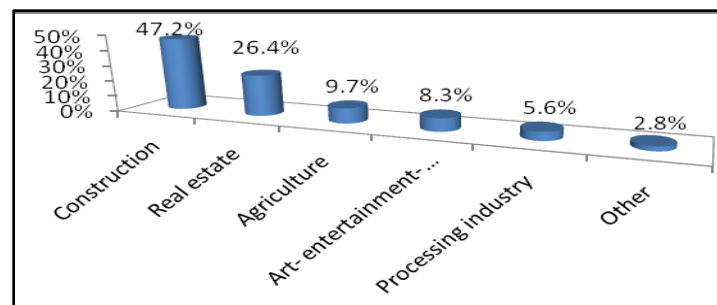
Figure 4. Percentage of remittances as part of GDP and deficit of trade balance, 2006-2015



Source: CBK (2015), Annual Reports

In the following figure it can be seen that the largest share of investments sent by emigrants is concentrated in the construction sector with 47.2%, then investments are oriented towards the purchase of real estate by about 26.4%, investments in the agriculture sector with 9.7%, while other investments like recreation, processing industry and others are included with a smaller percentage (KAS, 2013).

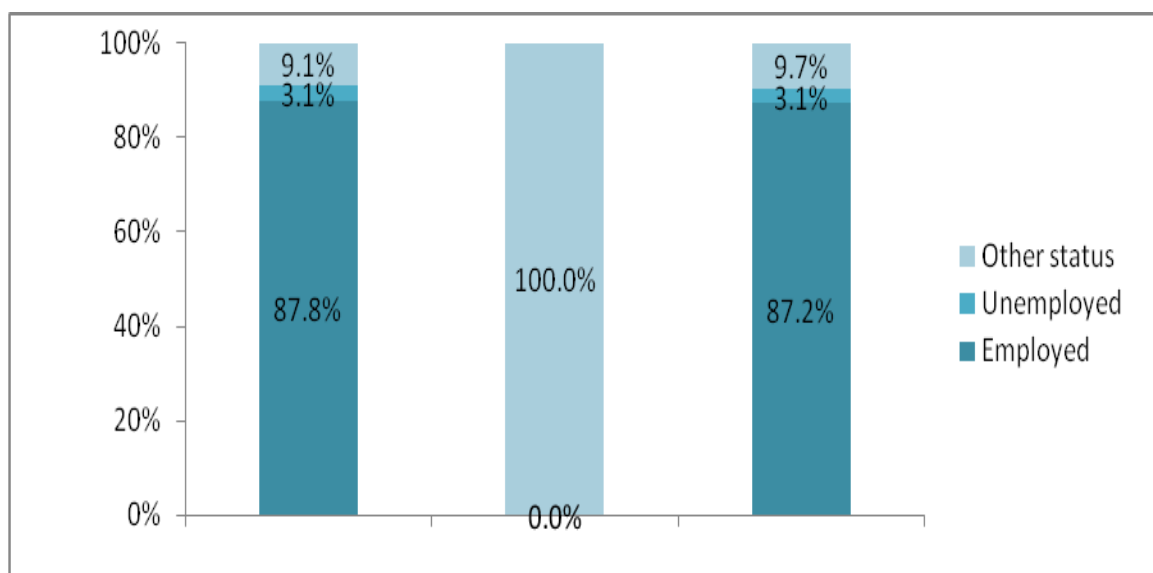
Figure 5. Main investment areas of remittances in Kosovo



Source: KAS, (2013) Study on Remittance in Kosovo

Regarding the employment status of migrant household heads you can see on Figure 6, where it is seen that most migrant household heads are employed, where according to the data in percentage, the percentage of emigrant households heads appears to be employed around 87.8%, while only 3.1% of them are unemployed while 9.1% are either retired, seasonally employed or are students. Women as household heads enter in other categories including housewives or retirees.

Figure 6. Employment status of migrant heads of households, by gender



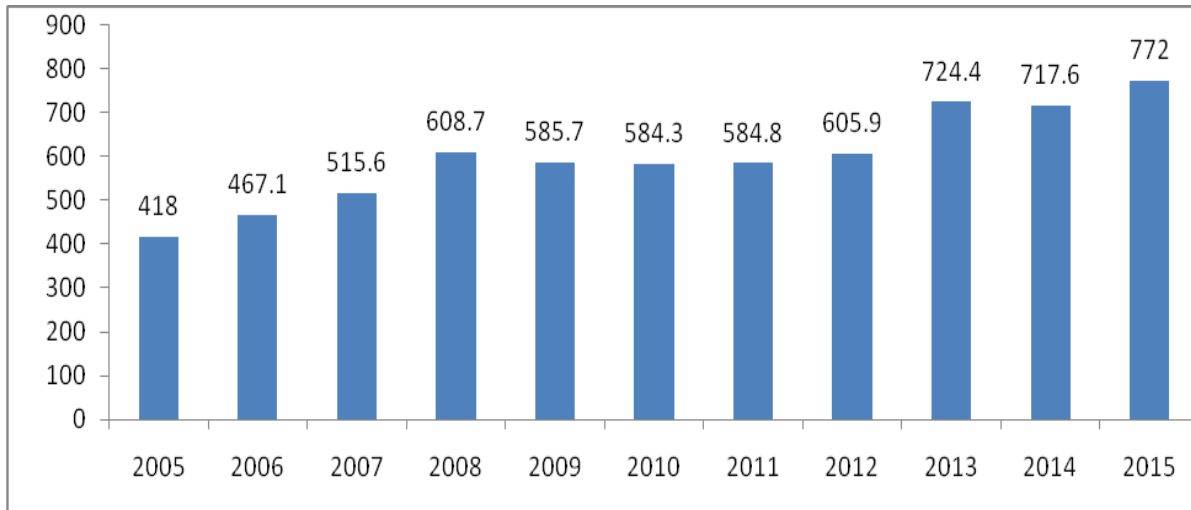
Source: KAS, (2013) Study on Remittance in Kosovo

## REMITTANCE RECEIVING TRENDS IN KOSOVO AND CHANNELS OF REMITTANCE TRANSFERS

Remittances from migration to Kosovo have been and continue to be an important contributor to the country's economic and social development, where it is estimated that today a quarter or more households have at least one member living abroad, so their contribution has been and remains very important in the economic aspect and in the improvement of social welfare. In 2015, remittances in Kosovo amounted to 772 million euros, compared to 2014, an increase of 8.1%. In 2005, annual remittance incomes were 418 million euros, and since 2006 remittances have had a slight increase in Kosovo, with higher revenues in 2013, followed by a slight fall in 2014 but the highest remittances in Kosovo were in 2015 reaching 772 million euros (Central Bank of Kosovo, 2016).



Figure 7. Remittance Revenues in Kosovo 2005-2015 (in millions of euro)



Source: Calculation made by the author's of the data obtained from the annual report 2013 and Macroeconomic Developments Report 2016 published by the Central Bank of Kosovo

Table 1. Remittances in Kosovo for 2005-2015 in millions of euro

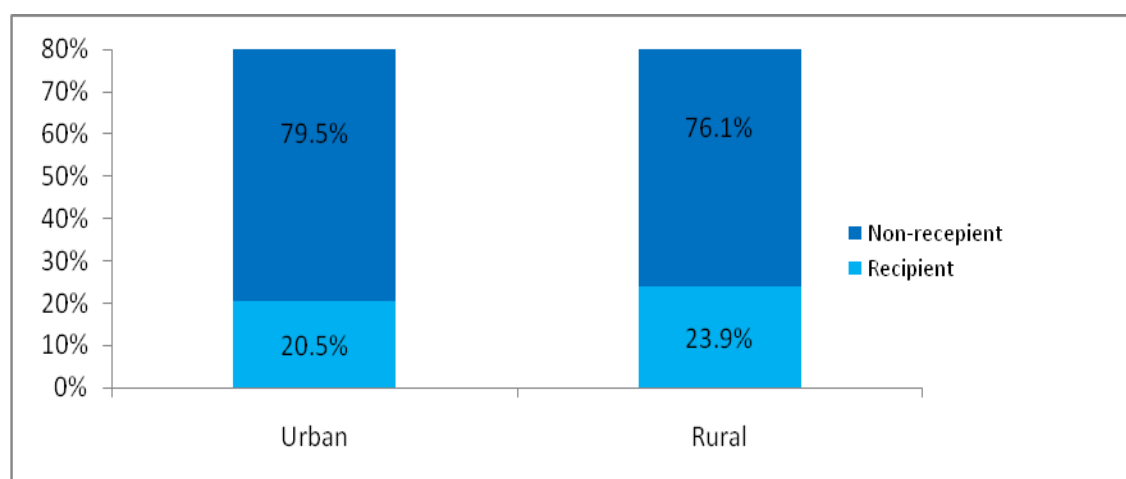
| Year | Remittances (mil. €) | Base index: 2005 = 100 | Chain base index |
|------|----------------------|------------------------|------------------|
| 2005 | 418                  | 100                    | -                |
| 2006 | 467.1                | 111.746                | 111.74           |
| 2007 | 515.6                | 123.34                 | 110.38           |
| 2008 | 608.7                | 145.62                 | 118.05           |
| 2009 | 585.7                | 140.11                 | 96.22            |
| 2010 | 584.3                | 139.78                 | 99.76            |
| 2011 | 584.8                | 139.9                  | 100.08           |
| 2012 | 605.9                | 144.95                 | 103.69           |
| 2013 | 724.4                | 173.3                  | 119.55           |
| 2014 | 717.6                | 171.67                 | 99.06            |
| 2015 | 772                  | 184.68                 | 107.58           |

Source: Calculations of indexes made by the author's using the data from annual report of the Central Bank of Kosovo

In 2006, remittances in Kosovo compared to 2005 had an increase by 11.7% and the increase of remittance revenues continued to increase until 2008, whereas in 2009 remittances had a decrease in revenues in Kosovo. Compared with 2008 in 2009, remittances decreased by 3.7%. If we analyze the remittance revenues from 2005 to 2015, the highest incomes are in 2015, where in Kosovo this year the remittance revenues reach 772 million euros. According to the

results of the Household Budget Survey (HBS), in 2015 salaries from the public sector were the most important source of household income in Kosovo, but as a further important source were salaries from the private sector for about one-fifth of households. According to HBS regarding remittance income revenues, remittances sent from abroad have had a share of 9% of total household income and have been a very important source for households in Kosovo (Bellaqa, B., 2016). Regarding remittances received by settlements, the largest percentage of households in both rural and urban areas have not received remittances; this can be seen through Figure 8.

Figure 8. Receipt of remittances by residence

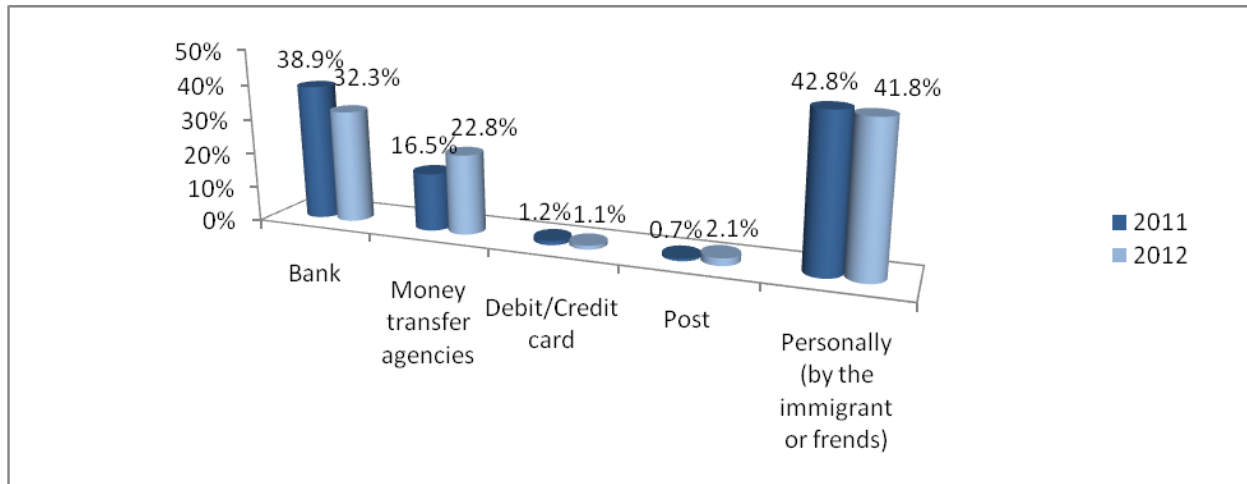


Source: KAS, (2013) Study on Remittance in Kosovo

Regarding the transfer of remittance, their transfer is mostly through official channels, respectively through the banking system, while the rest of the remittance transfers is carried out through unofficial channels.

Countries that leads in sending remittances in Kosovo are Germany and Switzerland, the largest number of Kosovar emigrants live and work in these two countries. The results of the remittance study conducted in 2013 show that 42.8% of remittances have been sent through unofficial channels, in person or by emigrants friends in 2011, while in terms of using official channels results the highest percentage of remittances sent by emigrants use these channels or about 57% use official channels such as banks, debit or credit cards, money transfer agencies and mail. If we make a comparison between 2012 and 2011 it emerges that in 2012 there is an increase of transfers through agencies as well as through the banking system, while remittances from other channels have minor changes. This can be seen through (Figures 9).

Figure 9. Distribution of remittances in goods and services by type



Source: KAS, (2013) Study on Remittance in Kosovo

Regarding remittance transfers, the management of state policies should be directed with a higher commitment to improve the money transfer market in order to reduce informality, increase competition and reduce costs.

In the official channels as it is shown in the Figure 8, it can be seen that for money transfer mostly are used banks that allow migrants to transfer money from the country of destination to their country of origin. This remains among the safest forms for sending money. Banks are linked to the international financial telecommunications network that enables banks to send messages in order to make payments from different countries. Domestic banks are also facing difficulties in performing remittance transactions with some internationally Banks where they do not have direct financial telecommunications networks and therefore use intermediary banks to execute payment transactions.

### MANAGEMENT OF REMITTANCES OF HOUSEHOLDS IN KOSOVO

The impact of remittances on human progress it can be said that it depends very much on the profile that accepts the remittances as well as the consumer categories in which they make investments. Managing the distribution of household expenditures that receive remittances, according to the received remittances, the income are mainly orientated for their basic consumption.

Expenditure on food items, housing, non-food items, education, clothing, furniture and health includes about 78% while the other part of about 22% is distributed across other groups (Remittances Survey, 2013).

In Table 2 it can be noticed that except the expenditures in the base consumption of recipient households, data are provided for other categories of expenditures as well.

Table 2. Distribution in percentage of expenditures of economies in categories, according to remittances acceptance for 2011/2012

| <b>Expenditure categories</b> | <b>All households</b> | <b>Households receiving</b> | <b>Households non-receiving</b> | <b>Test - statistical (side, two)</b> |
|-------------------------------|-----------------------|-----------------------------|---------------------------------|---------------------------------------|
| Expenditure categories        |                       |                             |                                 |                                       |
| Food                          | 38                    | 36                          | 39                              | -4.33*                                |
| Housing                       | 11                    | 11                          | 11                              | -4.21*                                |
| Non food items                | 10                    | 9                           | 10                              | -4.84*                                |
| Education                     | 7                     | 7                           | 7                               | -1.66                                 |
| Clothing and furniture        | 7                     | 8                           | 7                               | -1.66                                 |
| Health                        | 6                     | 7                           | 6                               | -2.9*                                 |
| Payment of debts              | 6                     | 5                           | 6                               | -2.7*                                 |
| Transport                     | 5                     | 5                           | 5                               | -2.19*                                |
| Investment in business        | 5                     | 4                           | 5                               | -0.47                                 |
| Durables                      | 3                     | 6                           | 3                               | 0.1                                   |
| Recreation                    | 2                     | 2                           | 2                               | 0.4                                   |
| <b>Total</b>                  | 100                   | 10100                       | 1100                            | -3.45*                                |

Source: Calculation by the author's of data from the Survey on Remittances 2013

From the table above the differences in the statistical aspect are statistically significant and that the recipients and the non-recipients we can say that they are almost the same in terms of the structure and size of the household in Kosovo. From table 2, it can be seen that by the percentage distribution of household expenditures in general, from categories leads expenditures for food with 38%, followed by housing with 11%, followed by non-food items with 10%, while other articles participate with a smaller percentage.

## CONCLUSIONS

Remittances in Kosovo have played an important role in economic and social development at the country level. Remittances from emigration to Kosovo have had a significant impact on economic development and in particular in improving the living standard of households. Kosovo is faced with not sufficient information regarding remittances and their role in the socio-economic and political development of the country, so it is necessary to have as much

information as possible in the area of remittances and this information serves as a very important input in creating and managing national development policies and strategies.

The transfer of remittances from abroad through official channels respectively through the financial system, although there is solid progress, still requires greater clarification regarding the remittance flows. Another limitation that has led to the creation of a more inclusive analysis is the fact that not all the determining factors identified by literature on remittances can find use in the case of Kosovo, mainly as a result of lack of data. The role of remittances, as a source of external finance income, is an important source for both the household and the country.

Having in mind that Kosovo is characterized by a high level of unemployment, migration mitigates labour market pressure, where in Kosovo the balance between income and output in labour market revenues is at a fairly high discrepancy. According to the data, remittances are more oriented to basic consumption, what has been good for remittances to be focused more on development projects, but this is influenced by the socio-economic situation of the country.

The migration strategy and the national action plan for the sustainable reintegration of repatriated persons in Kosovo 2018-2022 represent the objective that migration should increase the support to economic development, but this strategy should have greater clarity regarding the steps to be taken in implementing migration development policies. The migration strategy needs to have clearer goals in terms of how migration can better support the country's economic development and set clear targets for achieving strategic development goals. Migrants in terms of sending their money use several transfer channels, starting with the transfer of cash funds from the country where they work to their country of origin or even more modern way through bank transfers.

The lack of development of society and the lack of an offer are one of the main reasons why young people see their future not in the country but somewhere in the western countries. It is necessary to draft more sustainable policies at the country level, so that Kosovo's very young workforce to keep in Kosovo and contributing to their homeland.

In the future, authors shall continue studying the role of remittances in economic development, but it is necessary to have as much research as possible on remittances from the academic world and state institutions. In particular, there is a need to expand research methods in terms of links between remittances, economic development and other indicators by following similar models in developing and developed countries. This study will be an important input for decision-making institutions in Kosovo and academic institutions, and this study will be used by international scholars as well.

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