

The Role Of Migrant Workers Remittances In Fostering Economic Growth: The Kosovo Experience

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In many developing countries, in Kosovo as well, remittances of workers from diaspora have become an important source of external financing. In this paper some theoretical and practical aspects of the role of remittances in the development of countries receiving them are treated. An analytical approach is made about the migration trends of Kosovo's population, trends and role of remittances in the economic development of Kosovo through various statistical data published by relevant national and international institutions and current published material in this regard. Researched material and published data on the role of remittances in Kosovo's economic development lead to the conclusion that migration and remittances will continue to be an important part of the economic, political and social development of Kosovo.

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1. Introduction

Level of wages in developed economies on average are approximately five times larger than the salaries of employees of the same occupations in developing countries. This is a strong reason for migration and indeed migrants often take personal risk to travel to the US, Europe and in many cases in developing countries. Partly because of this incentive, in 2010 it was estimated that there are about 200 million migrants world wide. (Todaro, M. P. & Smith, S. C. 2012).

The importance of remittances of diaspora workers in the process of economic development in developing countries is a very important and interesting field of research. Remittances of diaspora workers resulting from international migration have attracted the attention of academics and policy-makers for their role and importance in macroeconomic variables in their countries of origin.

Numerous experiences of migration and sufficient material in this regard point out the concern that migrating abroad could damage the development processes because of losing skilled and educated workers through the so-called "brain drain". Balancing of this concern are the benefits from remittances sent to family members in countries of origin of migrants. When immigrants are low-skilled and recipients of remittances are poor, then their potential for development and poverty reduction becomes evident and very clear. Immigrants usually build houses for their relatives and send money for education and better nutrition. Therefore remittances now provide a safe way to reduce poverty. Actually, the World Bank reports that remittances have significantly reduced poverty in countries such as Guatemala, Uganda and Bangladesh. (Todaro, M. P. & Smith, S. C. 2012).

According to the World Bank's Migration and Remittances Factbook 2016, more than 250 million people, or 3.4 percent of the world population, live outside their countries of birth.

This "Nation of Diaspora" is a major economic contributor to both countries, for country of origin and the country they live and work in, mainly through transfer of their money back known as "remittances". About 82 percent of migrants originate from developing countries and their remittances amount to about 592.0 billion dollars in 2014, which represents an essential source of foreign exchange in these countries and a very important instrument to reduce poverty. (World Bank, 2013).

The growth rate of remittance flows to developing countries is projected to rise to about 4 percent per year during 2016–17 and broadly in line with the forecast in the *Migration and Development*. The acceleration of remittance flows is driven by a modest rise in GDP growth in the United States and the Euro Area, an improvement in growth in Russia after the estimated 3.8 percent decline in GDP in 2015, and a stabilization of the U.S. dollar exchange rates of remittance-source countries. (World Bank, 2016)

The term migration has been expounded by sociologists in terms of the "push-pull" models which encompass push and pull factors ([M. Azam, 2015](#)). Whereas, push factors are usually considered negative aspects for the country of origin, the pull factors are considered positive aspects for the country of destination. Folks left their country for different push and pull factors. Push factors are concerned with the country of origin from where folks seek to shift abroad while the pull factors are concerned with the country of destinations where the folks intend to shift to. Push factors are associated with paucity of jobs, nepotism in jobs, low wage, unfavorable working environment, poverty, civil conflict, social unrest, dismal economic circumstances, political and religious harassment, etc. On the other hand, the attractions for jobs, labor demand, improve education, health facilities, friendly

working environment, better wages, improved standards of living, political and religious freedom, etc., in abroad could pull people to migrate ([M. Azam, 2015](#)).

Remittances have a welfare enhancing effect, particularly when supporting consumption, capital investment, education and human capital development, entrepreneurship, and poverty reduction efforts. However, given the high remittance transfer costs through formal channels (such as banking services), in most cases remitters prefer to send money via informal channels which often include postal mail, visiting migrants or migrant's relatives and friends, and informal money transfer services.

Remittances are the most obvious and the most evident benefits from diaspora workers. At the macro level they bring necessary foreign exchange and contribute to the correction of current flow account balance in the countries of origin. In many countries, remittances represent a high percentage of GDP. (Topxhiu R. 2010).

Through their direct and multiple effects they maintaining the demand, thus stimulating economic activity and result by creating employment. At the household level, remittances could contribute to poverty reduction and development of human resources through investment in education and health, being very important for the development of countries of origin of migrant workers. Therefore reduction of incomes is of concern for migrant workers, their families and their countries.

Although their global value is less than Foreign Direct Investments (FDI), remittances are better distributed. While most of the foreign direct investment is concentrated in countries with middle income, remittances are more distributed and in more countries. They are the first source of external financing for a large number of developing countries.

Migration has been a tradition of Kosovars for many decades and Kosovo is one of the countries with the highest migration in Europe (and the world). In the '90s, migration was accelerated due to sufferings from war and peaked in 1999 when

hundreds of thousands of Kosovars were forced to flee. However, end of war, a nearly two decade ago, has not stimulated migrants to return (except those who have returned from the host countries of temporary residence).

Migration has been providing security for a large part of the population, serving as a source of life from an environment with high unemployment and high rate of poverty. Remittances have provided a safety net, helping household economies to diversify their livelihood strategies. For the poorest families, remittances account for over 70% of their income. (World Bank, 2010).

2. A theoretical overview on the role of remittances in economic development

Remittances have become a very popular issue in international finance literature over the decades because of their volume and their potential to reduce poverty and stimulate economic growth in developing countries.

The study of theoretical literature and empirical research on the role of migration and remittances in promoting economic growth in developing countries points out very clearly that the issue of migration and remittances is quite controversial, because many researchers have found that remittances and migration have a positive effect in stimulating economic growth, many others have found that remittances have a negative effect on economic growth, whereas some others do not find any statistically significant link between them. However, by analyzing and comparing many theoretical and empirical surveys it turns out that most of them are in favor of the positive effects of workers' remittances in growth and development of developing countries.

Review of literature reveals that sources of economic growth are: investments and savings (Sato, 1964), technological change (Solow, 1956), sufficient labor force, (Fields, 1980), foreign support (Levy, 1987), opening of economy and investment in human capital (Lucas, 1988), investments in new ideas and research (Romer, 1986, Barro, 1991), foreign direct investments (Andreas 2006).

Economists of development have traditionally considered foreign savings as the key to increase the output rate of the country. Factors such as Foreign Direct Investment (FDI), Official Development Assistance (ODA), Foreign Market, Technology Transfer and recently immigrants' money have entered into this analysis. (Todaro, M. P. & Smith, S. C. 2012).

A considerable number of authors have reported that many empirical researches have been made on the role of remittances in economic development based on data from surveys of households on the role of remittances in reducing poverty. Most of these researches have found that remittances have a positive effect on economic growth. Giuliano and Ruiz Arranz, (2007) have found that in economies with underdeveloped financial system, remittances eliminate barriers and credits, and serve as a substitute for financial development, by improving the allocation of capital and thus accelerating economic growth.

Using an augmented Solow framework and an ARDL bounds test for cointegration, Kumar,(2013) explore the short- and long-run effects of remittances, aid and financial deepening on growth in Guyana using annual data for the period 1982–2010. The results show that remittances have a positive and significant effect both in the short and the long run. Jongwanich (2007) uses the generalized methods of movements (GMM) to empirically examine the relationship of workers' remittances with economic growth and poverty. The annual data of the period from 1993 to 2003 of 17 developing Asia Pacific countries have been used. Results suggest the significant positive impact of workers' remittances on poverty reduction. On the other hand a positive and significant relationship is also found between workers' remittances and economic growth. M Azam (2014), uses annual time series data over the period 1976-2012 and the ordinary least squares as an analytical technique for parameters estimation to empirically examine the relationship of workers' remittances with economic growth in the four Asian developing countries and found the existence of a

significant positive relationship between migrant workers remittances and economic growth. The other control variables such as foreign direct investment, openness to trade and infrastructure are also found to be statistically significant with positive effect on economic development. Ahmed *et al.* (2011) use a bound testing approach and error correction model to investigate the impact of workers' remittances on economic growth in both the long run and short run. Annual time series data from the period of 1976 to 2009 have been used. Results suggest that workers' remittances have a significant positive impact on economic growth in both the short run and long run.

Literature and debates that highlight the positive effects of migration and remittances in countries of origin bring numerous arguments under which migrants contribute significantly to poverty reduction, growth and development of the country of origin. Impact on development is mainly in reducing unemployment and supporting new economic activities through financial investments and transfer of technology and knowledge. Migrants support tourism and consumption in their country of origin. They can support both trade and investment as they are better informed about various economic opportunities and benefits of network of contacts in their homeland. Through this they contribute to the development of new export markets for local industry and create opportunities for their country of origin in global trading and financial networks. (FID, 2009)

It is widely accepted that migrants and their remittances have effects in reducing poverty in their countries of origin. World Bank researches show that an increase of 10% of official remittances per capita impacts in reduction of 3.5% of poor people of their country of origin. They also impact the receivers in cases of unexpected events such as illnesses, different flooding (World Bank, 2010a). Remittances are associated with increased investment in education, entrepreneurship and health of their recipients.

Various studies on the effects of remittances show different results. E.g. Chami *et al.* (2003) with 113 countries included in the analysis, found that remittances have a negative effect on economic growth. The authors of this study argue on the negative effects in terms of moral damage that remittances cause. In fact the study concluded that incomes from remittances enable receiving households to reduce their performance and productivity, thus causing reduction of workforce in developing countries.

Another study on the role of remittances on economic growth in Turkey (Karagoz K.2009) for the period from 1970 to 2005 found that remittances have a negative impact on economic growth despite the fact that Turkey remains one of the countries that receive large remittance money from immigrants. The study argues that in the case of Turkey, remittances do not seem to be an important source of capital for economic growth as it happens in other countries. Negative effects of remittances on economic growth have also found Barajas, Chami, Fullenkamp, Gapen, and Montiel (2009), Chami, Fullenkamp, and Jahjah (2003), and IMF (2005).

Jawaid and Raza (2012) employed annual time series data over the period of 1980 to 2009. Johansen and Juselius's cointegration technique, error correction model, and sensitivity analysis have been performed to analyze the long-run, short-run relationships and robustness of Workers' remittances and economic growth in China and Korea. Cointegration results confirm that there exists significant positive long-run relationship between remittances and economic growth in Korea, while, significant negative relationship exist between remittances and economic growth in China.

A more critical debate is about long-term effects of remittances. Actually they can lead to dependence of national economies on remittances from abroad, which could have negative effects in terms of inflation. Excessive import of foreign goods may also hinder internal development. Eventually they could create a "migration culture" and dependency of incomes in the poorest countries. (FID, 2009).

In a study done by the IMF (2005) about the impact of remittances on growth for a fairly long period (1970-2003), for 101 countries it did not find any statistically significant relationship between remittances and economic growth per capita.

In Kosovo there is also a substantial number of researches on remittances on different aspects and from different authors and institutions. Survey of the World Bank (WB, 2010) is based on a single source of data: Migration Survey, which was conducted in spring 2009 and included 2024 household economies. The research has given significant results about migration and remittances in Kosovo. One of the research findings is that the migration type manifested by Kosovo so far can not be considered as "brain drainage" because the majority (92 percent) of migrants have not reached more than the secondary level of education. Research has also found that remittances represent a substantial source of incomes for the population of Kosovo and has a major impact on poverty. Remittances are a crucial part of incomes, representing more than half of the average of household economic incomes for those families under the group with low level of incomes. Removing the money sent from abroad would increase the poverty level for 2.2 percent and the impact would be much greater among households that receive this money. (WB, 2010)

Another study researched the links between poverty reduction and migration policies in Kosovo (Vathi& Black 2007). This study presents an explanatory way in that direction, however it focuses mainly on the historical aspects of migration in Kosovo. This study is based mainly on secondary sources.

The research of UNDP Kosovo Remittance Study (KRS) 2012, sheds light on the flow, use, and impact of migration and remittances on the Kosovo economy and on the people of Kosovo. The Study is based on a survey of remittances conducted during the summer of 2011, a peak period when many senders of remittances visit Kosovo to unite with remittance recipients. Compared to the first remittance survey, which was undertaken by UNDP in 2010, the sample of the 2011 survey was doubled

to 8,000 households. A striking finding is that, contrary to public perception, there was a 14% decline in remittance inflows to Kosovo in 2011 compared to 2010 – representing a steep decline that comes in the midst of the ongoing European debt crisis. Still, dependency on remittances in Kosovo remains substantial – with 25 per cent of households reporting reliance on remittances, a figure that is even higher among households in rural areas and those headed by women. (UNDP, 2012)

The 2014 Kosovo Human Development Report applies the lessons from the Global Report to the particular circumstances of Kosovo and focusses on how migration and links with the Diaspora affect human development in Kosovo. The report highlights how linkages with the Kosovo Diaspora contribute in multiple ways to the human development of Kosovo residents. Migrant remittances, labour income from short-term workers abroad, travel expenditures of migrants visiting Kosovo, and other international reserve flows to the economy of Kosovo serve to strengthen demand for domestic goods and services in Kosovo and boost the demand for local workers. (UNDP, 2014). Meyer (2014), found that remittances have no impact on the extremely poor, but lift around 40% of migrant households above the vulnerability threshold. Gini coefficients show a tendency to increase due to migration. Determinants of different outcomes of migration are explored in a logit regression on migration success. Household and income structure as well as education play a role in how migrant households climb up the income ladder.

Many macroeconomic studies and papers that support the positive role of remittances on economic growth show that even though emigrant money is influenced by economic cycles of the country where they work and the home country, they usually provide an important source of *foreign currency, increase of national income, finance imports* and contribute to the *balance of payment*. Remittances can be positively associated with economic growth and they are not only an important resource for their families but they also can be seen as additional funds and expand the capital. Eventually, Diaspora

money can have a positive effect not only in quantity but also in the quality of investment. Immigrants and their dependents may have a better understanding of local conditions and opportunities for investment than foreign creditors and investors. (Topxhiu R. 2010)

3. Migration and remittances trends in Kosovo

3.1 County profile

Republic of Kosovo has an area of 10 908 km². It is situated in South-Eastern Europe bordering Albania to the southwest, Montenegro to northwest, Serbia to northeast and Macedonia to the south. Kosovo is a partially recognized state that declared independence from Serbia in February 2008 as the Republic of Kosovo.

Kosovo state structure is characterized by a very young population, where the average age is 30.2 years, while median age is 26.9 years. In the period after 1990, Kosovo struggled with the issue of migration which had an impact both in population structure and in its growing rate. Free and uncontrolled movement of population changed the ratio between urban and rural population. According to population census that was conducted in April 2011, 61% of the population lives in rural areas.

Table 1.

Selected indicators of Kosovo economic system

Land Area (km ²)	10 908
Total residential population (31 December 2013)	1.820.631
Per capita GDP (Current €) (2004-2014)	2.324
Annual GDP Growth (%) (2004-2014)	3.98
Annual Inflation, consumer prices index percent (2004-2014)	2.27
External Debt as percentage of GNI (2009-2014)	28.4
Current account balance as percentage of GDP (2004-2014)	-8.87
Volume of remittances (million €) (2004-2015)	553.3
Remittances as percentage of GDP (2004-2015)	17.5

Foreign Direct investment as percentage of GDP (2004-2013)	7.09
Donor support (AID) as percentage of GDP (2004-2012)	9.0

Source: Kosovo Agency of Statistics (ASK), Statistical yearbook - 2015, Central Bank of Kosovo - Annual reports, World Bank indicators. Figures for interval years are averages computed by the authors.

A potential candidate for EU membership, the Republic of Kosovo is a lower-middle-income country with a solid economic growth performance since the end of the war in 1999. It is one of only four countries in Europe that recorded positive growth rates in every year during the crisis period 2008–12, averaging 3.7 percent.

The resilience of Kosovo's economy reflects (i) limited international integration into the global economy; (ii) the success of its diaspora in the labor markets of, especially, the German-speaking countries of Central Europe, resulting in a steady reflux of remittances; (iii) a generally pro-growth composition of the budget, allowing for about 40 percent of public expenditures to be spent on public investments; and (iv) a steady influx of donor support. ([WB, Kosovo](#) overview).

The productive base has remained narrow and exports have not reached a transformative level. A gradual rebalancing to make growth much more reliant on higher productivity at home and greater competitiveness abroad is needed for job creation – particularly for young people - and improvement of income levels. Efforts aimed at strengthening domestic productivity—particularly critical in a euroized country—will need to remain the pivotal policy anchor, as Kosovo continues to struggle with high rates of unemployment and poverty. Joblessness in particular - estimated at about 35 percent - remains a central economic-policy challenge. ([WB, Kosovo](#) overview).

Migration from Kosovo

Although Kosovo has been a source of migrant workers since the beginning of the twentieth century, the exact number is still unknown, therefore it is reported as a rough figure.

The number of Kosovar migrants living abroad is estimated to be between 220,000 and 500,000. Based on the most real estimation, the number of emigrants was 400,000 (UNDP, 2012).

As in many other developing countries, migration has been a reaction to poor living conditions due to high unemployment in Kosovo, especially in rural areas. Therefore, the initial migrant base consisted of young men from rural areas in Kosovo, with low education and low skills, who migrated to Western Europe (mainly Germany and Switzerland), to work as "guest" laborers (German "Gastarbeiter") in order to provide food for their families in Kosovo. Emigrant base structure underwent little change around late 80s, with the migration of young educated and more skilled people, and after 1999 when emigrant families started to join their siblings in the host countries. (UNDP, 2012).

Based on the current literature on migration in Kosovo, they are grouped into four waves of migration as noted in the following table:

Table 2.

Share of emigrants across emigration waves

Emigration wave	Percentage of emigrants
I. Pre-1989	8.8%
II. 1989-1997	25.0%
III. 1998-1999	12.6%
IV. Post 1999	53.6%
Total	100%

Source: UNDP, 2012

The first wave of migration, namely emigration before 1989 characterizes youth migration from rural areas with low education and low skills who migrated to Germany and Switzerland as "guest- gasterbajter workers" (late 60's and early 70's) this flow decelerates for a short time in 70s due to the creation of new jobs in the public administration institutions and social enterprises in Kosovo.

The second wave of migration (1989-1997) is characterized by the migration of young people with higher levels of education and training coming from both rural and urban settlements. It is the period when the Albanians were massively expelled from their jobs and many youth also migrated in Western Europe in order to avoid Yugoslav military service.

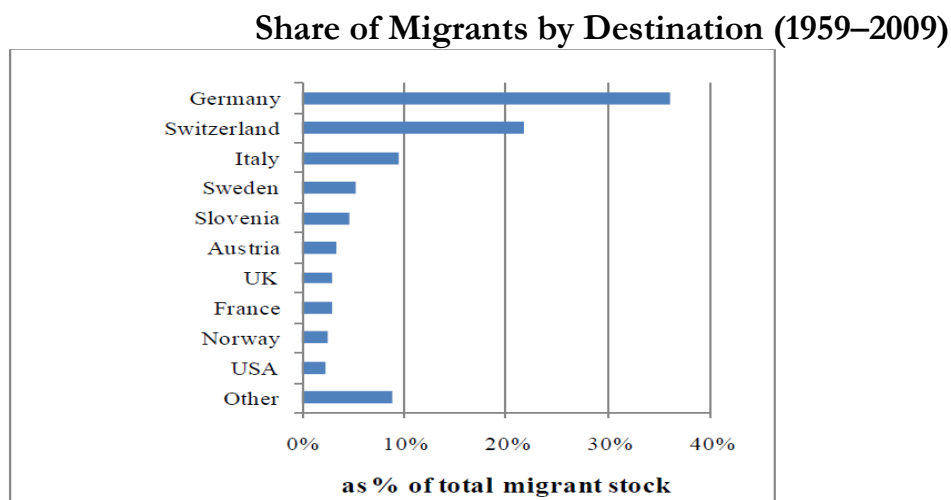
Third wave of migration (1998-1999), is characterized by violent displacement of more than 1 million Albanians from Kosovo where the majority migrated to neighboring countries as refugees or in other countries as asylum seekers. After the war, most of the displaced population returned to Kosovo.

The fourth wave of migration (after 1999) characterizes change in the structure of migration and it is mainly due to : 1) migration for family reunification ; 2) illegal migration of young people with low levels of education and low qualification and 3) temporary migration of individuals with high levels of education and high qualification to study or work abroad . (UNDP, 2012).

By aggregating the data based on above mentioned UNDP survey on emigration waves, it shows that the highest percentage (53.6%) of heads of the family immigrants emigrated after the war. The share of the second-highest, 25%, have emigrated between 1989 and 1997. Germany (31.3%) and Switzerland (27.9%) have been and continue to be the most popular destinations of Kosovar immigrants. There is high proportion of other immigrants living in Italy (7.1%) and Austria (6.8%) (UNDP, 2012).

The number of migrants from Kosovo has not changed much since 2005. However, other European countries have also become destinations (Figure below). Compared with 2005, in 2009, 10 percent more migrants headed for other destinations in Europe, especially in Italy. This trend shows that Kosovars are building networks in other European countries, which contributes to further diversification. The destination countries are similar to those of the neighboring Balkan countries.

Figure 1.



Source: WB, (2011) Migration and Economic Development in Kosovo

The average age of migrants increased compared with the 1990s, when the average age was 19 years old, in 2009 the average age was 29 years old. This is probably because during the war period many of those emigrating were young political refugees. Since the conflict started in 1999, parents and older members of the family migrated to join their siblings who migrated earlier. (WB, 2011)

The main reason for leaving Kosovo is employment, although in the past, the war was a major cause of migration. After the war, an increasing factor for migration were family reasons (such as marriage). There was a large drop of migration in 2008 which partly reflects the global economic slowdown that began at the end of that year. There is some evidence that since the beginning of 2009 the pace of migration for work can be returned to the levels of 2007. According to the UNDP survey, 2010, 43 percent of migrants left Kosovo for economic reasons. (WB, 2011)

Based on the results of the Census 2011, the main reasons for migration of Kosovars abroad are family reasons (48.8%), employment issues (37.9%), due to the reasons of war (8.1%), studying 4.0% and 1.2% for other purposes.

See the following figure:

Actually, migrants come from the age group most likely to be unemployed. More than 90 percent are 20 to 35 years, corresponding to age with high unemployment. While this correlation does not imply a causal link between age, unemployment and migration, it shows that a significant part of the workforce in the best age fit to work in Kosovo is moving away from the country.

Only 35 percent of migrants are women, and most leave for reasons such as marriage or family reunification. It seems that low participation of women in the labor market and skill shortages are partly due to social and cultural norms biased against women working outside their houses. Most women in Kosovo are working without a formal contract, and more women than men were cut from jobs between 2006 and 2007 (World Bank, 2011).

International migration can have major static and dynamic effects in domestic labor markets affecting (a) participation in the labor market of those who are left behind, (b) the possibility of employing returning migrants on the basis of skills or information acquired while abroad, and (c) demand for labor due to immigrants sending money.

In the circumstances of Kosovo, households with migrants participate less in the labor market than households without them. Participation in the labor force by immigrant households is 45 percent, 14 percentage points lower than households without migrants (59 percent).

Lower rates can be explained by the fact that usually the most skilled members of a family migrate. Thus, the heads of households that receive remittances are more likely to fall into a category that has less chance of finding employment in Kosovo: women, older, or those living in rural areas. The low turnout could also occur because individuals receiving remittances have a higher minimum wage compared to the job offer. (WB, 2011).

In terms of human capital of Kosovo, insofar the type of migration that Kosovo has experienced can not be considered as a "brain drain" because 92 percent of migrants have no more than a secondary education; only 5 percent had a university degree (bachelor) when they left Kosovo. However, given the high rates of unemployment for youthsters (15-24 years) in the country (72 %), which are even higher for more skilled young people, in the future brain drain can be expected to become a big problem. (WB, 2011)

Trends, dynamics and the role of remittances in fostering economic growth

Migration and remittances have historically been a survival strategy for millions of people with social and economic disadvantages worldwide.

Official remittances registered in developing countries are estimated to be around 432 billion dollars in 2015 and remain the main source of external financing and significantly exceed the official development assistance, private debt and portfolio investment. However, these figures are derived from official records, they may underestimate the real extent of remittances, taking into account that they are characterized by informality.

Growth of remittances in developing countries in 2015 was for only 0.4% higher than the previous year, but they are expected to grow at a faster rate (4.4 % average annual growth) during the coming years 2016-2017. (WB, 2016)

Flow of official remittances sent to Kosovo, according to reports by the Central Bank of Kosovo, show that they indicate and increase having into account the significant decrease between 2008 and 2009 because of the crisis. Since the end of war in Kosovo, year 2009 shows the only period when remittances declined. This decline in remittances is a result of the global economic crisis, which significantly affected developed countries, and where the largest numbers of immigrants from Kosovo are concentrated. The effects of the crisis were manifested with significant job cuts that also affected Kosovo migrants. (CBK, 2013)

Table 3.**Remittances in Kosovo (2004-2015), (mil.€).**

Year	Remittances (mil.€)	Base index: 2004=100	Chain base index
2004	357	100	-
2005	418	117.086	117.09
2006	467.1	130.84	111.75
2007	515.6	144.26	110.38
2008	535.4	149.97	103.84
2009	505.6	141.45	94.43
2010	584.3	163.7	115.6
2011	584.8	163.8	100.08
2012	605.6	169.6	103.6
2013	620.8	173.9	102.5
2014	693.7	194.2	111.7
2015	752.4	210.6	108.4

Source: Central Bank of Kosovo, Annual Reports and author's calculations

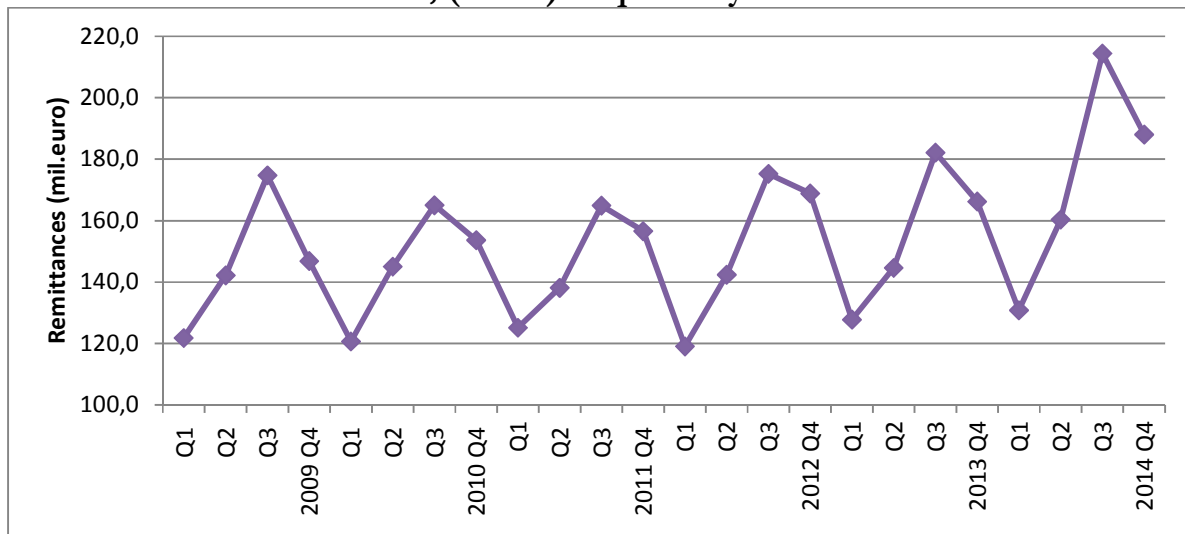
Remittances underwent a positive growth trend over the period 2004-2015, with an annual average growth rate of 7.2 %. However, despite this, in 2009 compared with the previous period diaspora remittances decreased by 5.56 %, down to 505.6 million euros from 535.4 million euros, compared to 2008, a decline that is similar with the region and with developing countries generally and with the global level. Decrease of remittances is less than the decline in foreign direct investments in Kosovo, which has been around 25%,e this trend also followed regional and global level.

If we look at the movement of remittances on a quarterly basis it shows that they take place in seasonal basis which represents approximately *regular periodic fluctuations* which occur during certain months or quarterly period within the year and repeat in shape and approximately the same intensity from year to year. Seasonal component of time series presents a tendency to climb up or down during specific seasons of the year.

For illustration purposes we have taken remittances sent to Kosovo for the last past 5 years (2009-2014) on a quarterly basis, which shows very clearly that remittances have a seasonal character and their value every time in the third quarter (July, August, September) is much higher than the amount sent in the first quarter (January, February, March) of each respective year. These variations are repeated from year to year in approximately the same intensity and scale but with a general trend of growth. (Topxhiu.R, 2016)

Figure 2.

Remittances, (mil. €) in quarterly basis 2009-2014



Source: Central Bank of Kosovo, Annual reports

Remittances in Kosovo constitute a significant percentage of GDP (16.72 % in 2015) and significantly exceed the level of FDI and support from donors. In the framework of external financial resources, greater participation in Kosovo's GDP are remittances by providing still the main funding source for many Kosovo families.

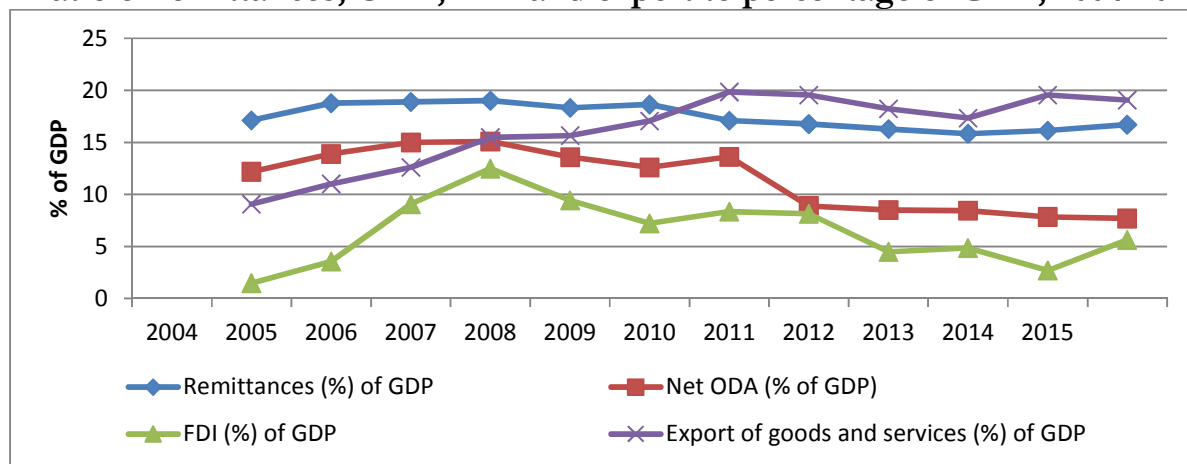
Table 4.
External sources of funding in Kosovo, 2004-2015, (as presentage of GDP)

Years	Remittances (%) of GDP	Net ODA (%) of GDP	FDI (%) of GDP	Export of goods and services (%) of GDP	Errors and Omissions (BoP) (%) of GDP
2004	17.14	12.2	1.46	9.08	6.2
2005	18.77	13.9	3.58	11.02	7.8
2006	18.90	15	9.07	12.62	8.8
2007	19.01	15.1	12.48	15.48	6.8
2008	18.33	13.6	9.44	15.66	3.2
2009	18.66	12.61	7.22	17.06	6.9
2010	17.10	13.63	8.35	19.85	5.07
2011	16.76	8.91	8.16	19.56	5.01
2012	16.29	8.51	4.51	18.25	-
2013	15.86	8.46	4.85	17.34	-
2014	16.15	7.86	2.71	19.57	-
2015	16.72	7.69	5.64	19.09	-

Source: World Bank Indicators and author's calculations

Remittances from diaspora in Kosovo are the largest external funding source in Kosovo, which are equivalent to 17.4 percent of GDP in 2004, marking a significant increase in 2006 and 2007 their share in GDP being over 18 % with a trend of decreasing participation in GDP in future years. Consequently, in 2011 their share fell to 16.76 percent. Based on regional and global standards this participation can be considered high. The remittances of nearest neighbors Bosnia and Herzegovina and Albania also play a significant part in countries GDP.

Figure 3.
Ratio of remittances, ODA, FDI and export to percentage of GDP, 2004-2015



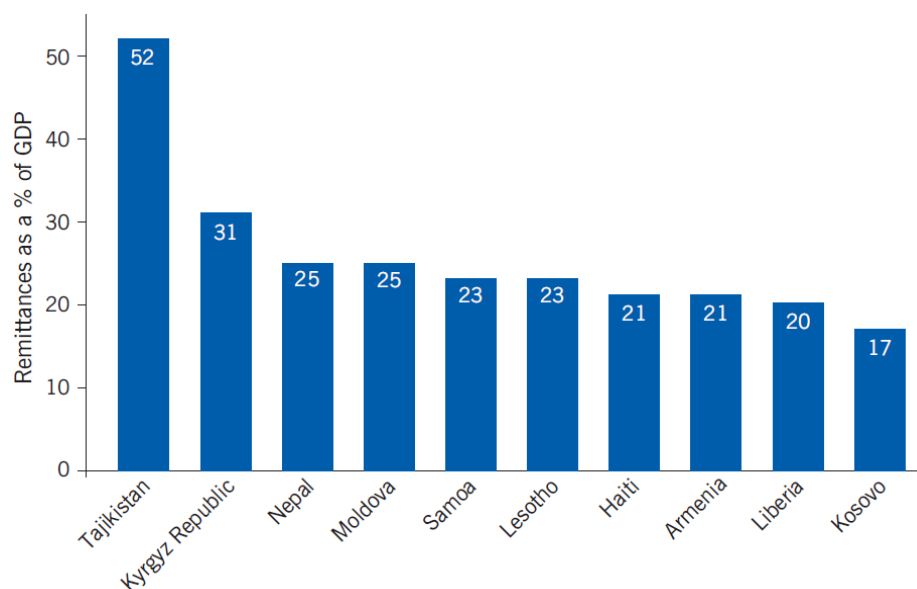
Source: Adapted from World Bank indicators

Apparently remittances and export of goods and services are the two most important resources and stable indicators of external financing in Kosovo economy, which have shown positive impact for economic growth during the observed period. Although the share of remittances in GDP of Kosovo has slightly declined in 2009, however it is a quite stable and significant impact on the economy. Exports have a tendency to rise, which is a signal that Kosovo's economy is developing. Apparently two other funding sources of Kosovo's economy, the foreign direct investment and official development assistance have faced a considerable decrease and have produced not very healthy effects for the economy.

According to the World Bank, Kosovo scored among the first 10 countries in the world according to the participation of remittances in GDP (17 %), where their participation appears to be greater than the local authorities report.

In 2012, Kosovo has been ranked among the top ten countries in the world on the level of remittances as a percentage of GDP.

Figure 5.
Top 10 recipients of migrant remittances as a share of GDP (% of GDP, 2012)



Source: World Bank. *Migration and Remittances: Recent Development and Outlook*. World Bank Migration and Development Brief No. 22, 2014. Online at: <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf>

The figure for remittances received by diaspora presented in Official Balance of Payments of Kosovo, is underestimated since it does not fully capture the informal flows. A significant proportion of errors and statistical deviations of Kosovo balance

of payments are attributable to remittances and in all probabilities they should be higher than the official figures reported.

Because less than 10 percent of remittances are transferred through banks, they do not contribute directly to the development of the banking sector.

Almost half of the money sent by diaspora come through private businesses, such as Western Union, although often it is the most expensive method of transferring funds. If more come through a bank transfer payment, they will help the expansion of the deposit base of banks, which in turn can extend loans and can motivate more people to use banking services. If the majority of shipments (i.e., € 500 million) came through banks and lowered tariffs to an average of about 1 percent, banks would earn only € 5 million in transfer fees. (WB, 2011).

Remittances represent a substantial source of income for the population of Kosovo and have major impact on reduction of poverty. Remittances are a crucial part of incomes, representing more than half of the average household income for families and groups with low incomes. Eliminating the money sent from abroad would increase the poverty level to 2.2 percent and the impact would be much greater among households that receive this money. It is important to note that migrants mainly come from groups of middle and high income. (WB, 2010)

Migration, or remittances, have helped families with low income to circumvent poverty and earn substantial income from one or more family members abroad.

The average amount of remittances received per household per month is close to the average monthly salary in Kosovo (around 320 euros).

The average remittances go to the poorest group consumption (net of remittances transferred).

In other words, the relative impact of remittance flows in consumption or in poverty is highest in poor families.

Although remittances have played a role in reducing poverty, they did not have any major role in stimulating economic activity. Most remittances apparently are used for immediate consumption, and only a small fraction goes for business investment or education.

Remittances have helped family members to buy the basics, but it remains unclear whether remittances have contributed to investments in business and education. (WB, 2010).

A longer term impact of remittances directly depends on the use of remittances. While consumptive use might ease everyday life and prevent families from acute poverty, longer term positive economic development is only to be expected if remittances are at least partly (and successfully) invested in income creating activities.

Since the data on remittances and other variables such as exports of goods and services, foreign direct investment, official development assistance and other economic variables in Kosovo for long period are missing, it prevented us to use statistical tools such as ordinary least squares or other methods to measure empirically the effect of remittances on economic growth in Kosovo.

Conclusion

Migration will continue to be an important part of the economic, political and social development of Kosovo. Youth migration has alleviated labor market pressures, and remittances have helped beneficiary families to enjoy a decent standard of living - even for the poorest families. Today, a quarter or more of the households have at least one family member living abroad. Furthermore, over 10,000 Kosovars are estimated to leave the country every year. For this reason, strengthening focus with diaspora and better use of the potential of Kosovo's migration can provide an important contribution to its economic development.

Public policies can facilitate the migration process, reduce transaction costs for remittances from diaspora, to boost trade and tourism, remittances, and promote investment opportunities for immigrants (returnees). Authorities may also consider policies to protect migrants by promoting their social protection and personal access to health and education.

Kosovo should establish an institutional framework to realize its vision of how migration will contribute to the development of Kosovo.

Because remittances from diaspora are the largest source of external financing in Kosovo, measures to facilitate their transfer and to reduce the costs of transfer should be a priority. Authorities should therefore direct their attention towards promoting competition for transfers and increased financial literacy among remittance senders and recipients.

Since a substantial portion of Kosovar emigrants maintain links to their land, improving economic conditions and providing information on investment opportunities can attract and encourage them to invest in economic activities. Several measures may be adopted, i.e, to promote the return of academics that lecture in universities abroad by offering financial and other incentives to lecture at universities in Kosovo.

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