

Remittances in Kosovo: Primarily an economic survival tool?

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REMITTANCES IN KOSOVO: PRIMARILY AN ECONOMIC SURVIVAL TOOL?

Migration and remittances have been of considerable importance to the economy and households of Kosovo since the late 1960s and continue to be so even today. Its importance is reflected both at micro (household) as well as macro level. In countries with high poverty rates such as Kosovo, remittances first and foremost play a strategic role of social insurance for families, and are not generally sent for investment purposes. This said, they are considered to have a poverty reducing role and are often part of the risk-spreading strategies of households and help deal with times of uncertainty. The migration and development literature also suggests that remittances may stimulate growth and reduce macroeconomic imbalances.

Although the evidence on the various effects of remittances in Kosovo is relatively scarce, lessons deriving from the data and the available evidence elaborated in the following paragraphs suggest that remittances are primarily an economic survival tool for households in Kosovo.

Remittances as a survival tool

It is recognized widely that the Kosovar economy relies heavily on remittance flows from migrants, as according to [UNDP 2012 Kosovo Remittance Study](#), 25 percent of households report reliance on remittances.¹ A slightly lower share (23.2%) is reported by [KAS](#) (2013). Remittances are also reported to represent the second largest source of income for remittance-receiving households more precisely, 20.1 percent of total monthly income. That is drastically higher than the share of any formal social protection benefit or non-permanent employment activity.

According to [KAS](#) (2013), the distribution of households with and without remittances across income quintiles suggests that remittances have moved a considerable part of recipient households from low (poor) to mid and high income quintiles.² In other words, it gives indications that remittances have moved a considerable proportion of recipient households from poverty.

Remittances are also acknowledged as one of the most important components in financing of consumption in the country (Central Bank of Kosovo, 2013)³. The remittance use is largely geared towards basic consumption amongst recipients, with more than 90 percent spent on basic items, such as food, clothing, housing, durable goods, health and education. According to the [UNDP 2012 Kosovo Remittance Study](#), the share of households that claim remittances have been invested in production or profit generating activities or invested in business are very small, 4% and 8% respectively. Moreover, only around 4% of received remittances are designated for savings. This tends to suggest that given the necessity of financing basic consumption needs, very little from remittances is left for investment or saving purposes.

1 UNDP (2013). Kosovo Remittance Study 2012

2 After receiving remittances, a considerable part of households has moved from the first three categories - € (1-200), € (201-340), € (341-480)- towards the two higher(st) categories.

3 CBK (2013). Remittances to Kosovo: An analysis of the methods of transfer.

The above said implies that remittances are not channeled into activities that would increase their sustainability. This on the contrary may increase dependency which subsequently increases reservation wages and negatively affect the labour supply of recipients (UNDP, 2012; Acosta et al., 2007). In other words, remittance recipients may be less motivated to work compared to their counterparts due to remittances. This is further supported by the fact that the minimum wage for which remittance recipient are willing to work is higher than the minimum wage of the non-recipients (KAS, 2013). Yet, this may not necessarily be the case as recipients simply may have fewer opportunities to be employed and this is also why they receive remittances (Ibid). However, the former expectation seems to prevail in Kosovo and evidence in Rudi (2014) supports it. The study finds that remittances increase reservation wage and decrease the likelihood of registering at the local unemployment centers in Kosovo.

The high dependence of households on remittances and its use suggests that poverty rates would be much higher without the safety net provided through migration and remittances. It should be noted that migrants might not come from the lowest quintiles of the income distribution; therefore, remittances may not flow towards the poorest (Waddington and Sabates-Wheeler, 2003). In such cases, it is not expected that remittances would have a large effect on poverty. Nevertheless, presence of migration networks in Kosovo is considered to have facilitated migration of the poor especially in some regions. The evidence from [a study](#) GLPS has published in 2015 which empirically investigated the effect of remittances on poverty in Kosovo supports the abovementioned expectation. More precisely, in the scenario without migration and remittances, the estimations indicate that, if the recipient households in Kosovo did not receive remittances, poverty rates would have changed from around 26 percent observed to around 52 percent, which is an increase of 100 percent. In general, compared with the observed situation, the poverty rates would be higher in both rural and urban areas, yet the impact of remittances is particularly high in rural areas. The results also suggest that poverty reducing effect of remittances also holds across the regions.

Remittances and growth

In addition to its poverty-reducing effect, data suggest that remittances have contributed in reducing macroeconomic imbalances in Kosovo. Remittances are one of the key external sources of finance for Kosovo's economy (WB, 2012). Kosovo ranked in top-10 percent of countries with high share of migrant remittances as a share of GDP in 2011, 2014 and 2015 ([WB, 2016](#)). More precisely, remittances in 2011 accounted for 18 percent of GDP whereas in 2015 for 13 percent. Remittances have been one of the most important components of the balance of payments of Kosovo, averaging 600 million Euro since 2004 and in 2015 amounted to 752.4 million Euro; marking an annual increase of 8.5 percent.

However, the broader net economic impacts of remittances on national growth will strongly rely on government policies to maximize their potentials as well as how recipients use them (Chami and Fullenkamp, 2013).

Regardless of the earned income of recipients or the profile of migrants, remittances increase the gross income level of recipients, which subsequently increases the demand for consumption of products and services. This normally results in increased demand for local labour, hence through multiplying effects, remittances may stimulate growth.

Nevertheless, for remittances to actually aid a nation's development, they have to be invested in productive activities and spent towards local industry such as purchasing food from local farmers and goods from local manufacturers. As noted above, remittances are mainly used for meeting basic consumption needs. During the last decade Kosovo has recorded large trade deficit, with exports covering only less than 10% of imports. Thus, if (as it is the case with Kosovo) remittances are spent on imports - given the increased demand for products is met by imports - remittances are not expected to contribute much to the local economy. In other words, the money basically arrives by one method and leaves the country by another. This said, for remittances to really benefit the homeland, the value of the money has to actually stay in the country.

Despite their importance, government policies to maximize its contribution to economic development in Kosovo are almost absent. To conclude, so far Kosovo fails to implement general social and economic reform, migration and remittances are unlikely to contribute to nationwide sustainable development. As a result, dependency on remittances will remain high and its sustainability will not be ensured hence remittances will continue to primarily play a poverty reducing role.

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