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Remittances Support the Growth of Developing Countries

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REMITTANCES SUPPORT THE GROWTH OF DEVELOPING COUNTRIES

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Abstract. Emigration plays a fundamental role in shaping the economic, social, and political developments in the Kosovo. In fact, in the last decades, no other phenomenon has influenced the country more than emigration. Even in the case of best social-economic scenarios for the near future, it is reasonable to assume that emigration will persist, as shown in examples of other European countries, where emigration, once started, lasted for decades or even centuries. A new strategic vision for the country's development must be defined, which must imply the shifting from the consumption growth model financed by remittances and building a model based on investments, exports, and innovations. This strategy must maximize the positive impact of remittances, on development, and limit their negative impact.

Keywords: Remittances, Growth, Economic development in Kosovo.

JEL Classification: F24, F22, F43, O16

INTRODUCTION

Empirical evidence suggests that remittances have a mixed impact on the economy. Their positive main effect is due to the increase in the disposable income of the population and, respectively, the decrease in the rate of poverty (Wiesmann, Kiteme, and Mwangi 2014).
In this context, it can be said that remittances have already had a considerable economic impact, reducing the poverty rate in the Kosovo substantially. In turn, lower poverty implies a higher turnover for businesses and higher accumulations of taxes. Other positive effects are related to the financing of the current account, given that remittances, as a rule, are stable inflows of foreign currency, they are often counter-cyclical, tending to offset the decline in population income under recession. Additionally, the inflows of remittances foster the demand for banking services, contributing to their modernization. Deposits opened by emigrants or their relatives are converted into loans and investments, respectively. It is complicated to determine the relationship between migration and economic development of source countries[1], as numerous factors affect the process. International migration is a many-sided phenomenon that affects many aspects of the country, the individuals and the state, and is an integral part of the cross- border cooperation of any country.
The impact of remittances on the development of source countries is a highly debated topic today with the intention to find the most effective solutions to stimulate the country's economic growth, better distribution of pensions, and poverty reduction.

FACTOR INFLUENCING THE REMITTANCE DELIVERY DECISION

Labor force from low-income countries, such as Kosovo mostly migrates to developed countries securing access to better income to support their families.

Measuring the determinants of migration and economic development of source countries has been a trendy field of study for the researchers, especially where remittances play a vital role in social and economic development in countries.

A research conducted by Thomas Osang (2006) using both cross-section and panel-data estimation methods, finds that remittances as a share of GDP have a positive impact on the economic development of the source country.

Aydas, Neyapti Ozcan (2005) examined the determinants of flows of remittances from Germany towards Turkey in the period 1963-1982 and analyzed the impact of remittance income in Turkey. Although the paper covers the period before the financial liberalization of Turkey, the results show that investment motive always had a place in the remittance decision of Turkish migrants. He finds that the wage level as a critical element of the potential flow of remittances, and then the political stability determines what part of it has been remitted.

The confidence that the Turkish emigrants felt in the safety and liquidity of their investments in Turkey has a meaningful impact on their decision to remit.

According to the research of E. Holst, M. Schrooten (2006), the level of the migrant's income is very important, as the higher the income, the more it will be sent to the family. The amount of income is directly related to the length of stay in the host country and increasing integration. The longer a migrant is in the country, the more integrated he is in society, he has been able to legalize his place of residence and find more paid work, leading to an increase in remittances. With the extended stay in the host country, the likelihood of permanent placement and bringing the family to the host country increase. When the closest members are transferred to the host country, the quantity and periodicity of remittances are reduced (Jorgensen 2007). The status and integration of the migrant will also affect the distribution channel through which he/she sends remittances[2]. A more integrated migrant has greater access to financial services in the host country and can, therefore, use official channels such as banks and other financial institutions.

On the other hand, illegal migrants do not have access to official channels (banks, or similar institutions) and send remittances through acquaintances who return to their country of origin or send them through financial services that do not require the legal status of the migrant. However, these services are more expensive than banking services but have the advantage of being more available in home countries (for example, Western Union is also more accessible in more remote areas).

Remittances are also affected by family members' income at the source country and their number. The lower the income, and the higher the number of family members, the more frequent and higher the remittances we have (Simpson& Sparber 2019).

Macroeconomic factors that may be involved in migrants' decisions to send remittances are economic and political conditions in the country. Examples of economic factors include the stability of the currencies, the interest rates, and exchange rates in these countries, the security, and liquidity, the effectiveness of funds transfer systems, and the level of inflation.

For example, if the inflation rate in the source country is too high or suddenly rises, remittances will drop and change in nature, meaning that a migrant will send, for example, missing goods in the source country and will be exchanged for essential materials. In this case, inflation mainly affected the structure of remittances (P Fajnzylber, JH Lopez – 2008).

As for interest rate changes, these will not have much of an impact on remittances, as in most cases, remittance funds are just enough to buy essential food, thus an increase in interest rates that would otherwise cause savings. One of the reasons is the relatively low level of remittances, but also their distrust in financial institutions, or their inefficient functioning or complete abstinence.

EFFECTS ON POVERTY REDUCTION

Remittances in terms of their effects can be seen just like any other increase in national income, so that their impact on poverty reduction can be monitored through a rise in GDP per capita or average income and a distributional effect, for the population receiving remittances.
According to Adams Page (2003), remittances measured by participation in GDP have a substantial impact on poverty reduction, since 10% of the increase of remittances correlate with decreases by 1.6% of people living in poverty, hence remittances impacting to poverty.
According to the same study, an increase in the participation of the population living abroad[3].
This study is based on a sample of 74 developing countries that have been able to access migration, remittance, and poverty data since 1980. The study uses not only the population with less than one U.S. dollar a day to measure poverty, but also the so-called poverty gap index, which measures how much average spending, or income of the poor, lags behind the poverty threshold, as well as the square of this index, which measures the severity of poverty and reflects changes in income distribution among the poor, bearing in mind that transfers from the poor to the poorer will not affect the former two poverty indicators, but will reduce the square of this index.
The study came to the following results:

- Poverty elasticity in relation to income inequality (Gini coefficient) is found to be positive,
- The share of remittances in GDP as a variable has a negative impact on all poverty indicators, the number of the poor, the poverty gap, but the poverty elasticity of remittances is low. Hence a 10% increase in remittances would lead to a 1.6% decrease in the number of poor people.

The reason why the impact of migration and remittances on poverty is estimated as small but statistically significant is that both variables are underestimated relative to their true values, bearing in mind that they are illegal emigrants most likely use unofficial remittance channels, which are not recorded on the balance of payments (Thomas Faist 2018).

REMITTANCES AND THE CONSUMPTION

The remittances impact on the economy of the source country depends primarily on whether they are spent on investment or personal consumption. In the first case, remittances would contribute to an increase in production directly, and in the second, through a multiplier effect of consumption, demand for goods and services of domestic origin, and in proportion to their share in total consumption. The multiplier effect depends on whether the urban or rural population consumes the remittance, and on whether a smaller or more substantial portion of the purchasing power obtained will be directed to domestic products and thus have a smaller or larger multiplier effect (A.Taylor 1990). Spending remittance on goods not participating in international exchange should, as Burgess and Haksar (2005) point out, affect the deterioration of the competitiveness of the domestic economy through appreciation of the domestic currency, but by acting on the level of domestic prices, this effect is neutralized.
Evidence from a survey by the Asian Development Bank (Global Crisis, Remittances, and Poverty in Asia 2012) shows that a large proportion of remittances is spent on the purchase of real estate, especially residential construction, as well as food, education, and rent payments. From a

household point of view, spending remittances on the acquisition of houses, apartments, land and other things of lasting value represents a form of savings and investment, which will impact an increase in consumption or an increase in total wealth, but from the economic point of view, a change in ownership of these goods have no effect on economic activity, such as the purchase and use of capital goods intended for production, does not increase the total capital of the economy or its productivity(Mr. Jahjah & Fullenkamp & Chami, R. 2003) .
Concerning the macroeconomic effect of remittances, the literature indicates that remittances increase the consumption of the family who uses them, without investing in productive investments, except for real estate investment (Bougha-Hagbe 2004, Oberiai and Singh 1980, Alderman 1996, Brown 1997).

Another part of the literature indicates that part of the remittances which is invested in the source country has a short-term multiplier effect (Stahl and Arnold, 1986; Stahl&Habib 1989).
It should be considered that Mr. Jahjah & Fullenkamp & Chami, R. (2003) found a low degree of correlation between remittances, real consumption, and GDP. Additionally, they also found insufficiently convincing evidence of the stabilizing role of short-term remittances based on the VARM. This model is using consumption as a function of disposable income, income, and real interest rates, using remittances by using two values, nominal remittance and real income from remittances.
Using data for Morocco and using the technique of cointegration, the model given by Bougha-Hagbe (2004) assumes that the altruistically motivated worker splits his income into few parts, having in mind the need to increase his/her wealth, on consumption in the country where he/she works. The acquisition of financial assets in the country in which he works, family consumption in the country to which he remittances, and the acquisition of financial and other assets, including real estate, in the country to which he/she dispatches. On this basis, authors concluded that if the attachment of emigrant to the country of origin is greater, the long-term elasticity of remittances relative to the amount invested by the worker in non-financial assets in the country of origin will be positive, and if altruistically motivated, the resilience between remittances relative to real wages or GDP in the country of origin will be negative, with remittance elasticity relative to wages in the country in which they acquired must be positive.

EFFECTS ON INVESTMENT

Remittances should, in principle, act as an incentive to move investments, since they contribute to the creditworthiness of investors and facilitate covering initial investment costs, as evidenced by many studies. However, these studies do not acknowledge these effects, estimating that remittances primarily reflect an increase in consumption. However, these studies consider consumption, with relation to domestic goods and services, through the effect on total economic activity, which then reflects in the movement of investments.
Also, remittances by their positive effects on credit availability may partially offset the effects of external disturbances on fixed investment movements, but Adams and Page (2003) indicate that in the case of large shocks, credit availability would not counteract their effects on investment decisions. What constitutes the positive effects of remittances based on long-term investments are, in their estimation, an increase in entrepreneurship, self-employment, and investment in more intensive forms of production.
In his study on remittance theory applied to Morocco, Bough- -Hague (2004) states that, when remittances occur in the form of portfolio investments, they are subject to changes in rates of return on this type of investment, thereby increasing the sensitivity of the foreign exchange inflow of the recipient country to this type of change. It could be assumed that the increase in the

rates of return in the receiving country and their decline in the country of origin of the remittances have a positive effect on the foreign exchange inflow in the source country, there is a positive correlation between them. He stresses that this is not the case for the part of remittances that comes in the form of foreign direct investment, whose sensitivity is related to the general economic conditions in these countries, where economic reforms would have a positive impact on the allocation of investments in terms of more significant diversification opportunities, as well as neutralizing the negative the effect of labor outflows by creating new jobs. Here, the author takes into account the need to correct the structure of investments, since a large part of the investment goes to residential construction, instead of creating small and medium-sized enterprises. It acknowledges, however, that remittances can stimulate the growth of the real estate sector and, consequently, construction activity, or employment, with a multiplier effect on demand and production growth, regardless of the fact that the effect on the creation of small and medium-sized enterprises and the use of skilled labor is less recognizable rather than if remittance is used more for productive investments.

At the microeconomic level, remittance investing requires, as Ralph Chami (2003) points out, oversight of what family members engage as remittance agent, meaning that part of remittances should be intended to compensate family members for the job. According to this interpretation, families can play the role

of financial intermediary and act as an insurance company, which protects against sudden changes in income by diversifying their sources. The family can also play the role of financing the bank, with remittances representing repayments of these loans, from which future loans for family members can be financed.

When it comes to portfolio investment, Bouhga-Hagba's (2004) model predicts that there is a motive for diversifying the portfolio of securities in the country of origin, with remittances remaining at the same long-term level. However, this model did not establish that the desire to diversify the beneficiary country's financial assets portfolio causes remittances in the long run, suggesting that only an increase in interest margins will not increase the remittance amounts in the beneficiary country's accounts.

In the process of direction remittances in the direction of increasing production relative to residential investments, the opening of small and medium-sized enterprises should be encouraged, and appropriate information, legal and administrative assistance is needed.

ADVERSE EFFECTS OF REMITTANCES ON ECONOMIC ACTIVITY

Remittances can improve the welfare of family members and improve the economies of receiving countries. However, they also create a culture of dependency in the receiving country, decreasing labor forces participation, promoting inadequate consumption, and slowing economic growth. A better understanding of remittances might reveal how they contribute to economic development or could be channeled into productive investment through appropriate policies (Jackman, M., Craigwell, R. and Moore, W. 2009).

Remittances can decrease labor supply in the country and create a culture of dependency that obstructs the development of the country's economy. Remittances can impact the increase of the consumption of non-tradable goods, appreciate the real exchange rate, elevate their prices, and reduce exports, consequently damaging the receiving country's competitiveness in world markets. Remittances can be shortened, along with international migration, by escalating anti-immigrant sentiment and tighter enforcement practices in host countries.

According to the model proposed by Ralph Chami (2003), by linking the motivation for remittances and their effects, using the panel method, based on a sample of 113 countries, concludes that remittances have a negative effect on the economic growth.

A similar conclusion is drawn by Burgess and Haksar (2005) following the example of the Philippines, using the ordinary least squares (OLS) method in a model representing the logarithm of real GDP per capita as a function of the logarithm of the share of investment in GDP and the logarithm of the share of remittances in GDP. With data from 1985–2002, a negative correlation between GDP growth per capita and remittance growth has been established, with the conclusion that no record has been established on the countervailing effect of remittances, either on income or on consumption. On the other hand, the model did not provide convincing evidence of the negative impact of remittances on economic growth, but with the fence that is determining the relationship between remittances and economic growth aggravates the problem of endogeneity. Also, according to the authors, the model could be expanded by introducing new variables, since remittances could reflect economic developments in the countries where they are employed, changes in their qualification structure and labor supply from other countries, opportunities for workers to return to countries of origin and demographic factors.

By linking the individual causes and the corresponding effects of remittances, Ralph Chami (2003) states, the movements of remittances across the national economy could be monitored, and unexpected effects can be avoided. Due to the considerable spatial distance of the sender and the remittance users, the authors find that the government is not able to reliably monitor the way remittances are used. That means that this type of transfer is carried out in an asymmetric information environment, which entails considerable moral hazard.

Unlike several studies that address the short-term effects of remittances, there is no record of their longer-term effects on economic growth, and the few records that exist suggest a negative impact of remittances on long-term economic growth.

REMITTANCES IN KOSOVA

The large current account deficit (15% of GDP in 2018) is mainly financed through remittances. Indeed, Kosovo is among the top countries receiving remittances from abroad, where the annual amount reaches 15% of GDP. Although remittances have remained significant and stable during the last years, only about 11% of inflows are used for investment, with most of the funds going to current consumption. (USAID 2012).

In the period 2015-2018, remittances, by narrower definition, increased, moving up a steady upward trend.

Table 1. Total remittances and channel of transfers

Years	Total remittances	Channels of transfers		
		Banks	Funds transfer agencies	Others
2015	665.5	121.1	303.3	241.1
2016	691	116.3	324.4	250.3
2017	759.2	120.4	363.7	275
2018	800.6	123.1	387.5	290

Source: edited by the author from CBK data

Remittances received in Kosovo, which also represents the largest category within the secondary income account, amounted to euro 800.6 million, representing an annual increase of 5.4 percent (CBK 2019). Remittances in Kosovo come mainly from Germany and Switzerland, counting 62.1percent. A significant portion of remittances is also accepted by the U.S., 6.7 percent of total remittances (CBK 2019).

From reports of Central Bank Kosovo (CBK), it is observed, that remittances through Banks remain very low over the years, while, on the other hand, there is an increase in remittances through money Transfer Agencies.

Based on official data of the Central Bank of Kosovo, the diaspora has sent in Kosovo through bank transactions 123.1 million euros in 2018, 120.4 million euros in 2017, 116.3 million euros in 2016, while

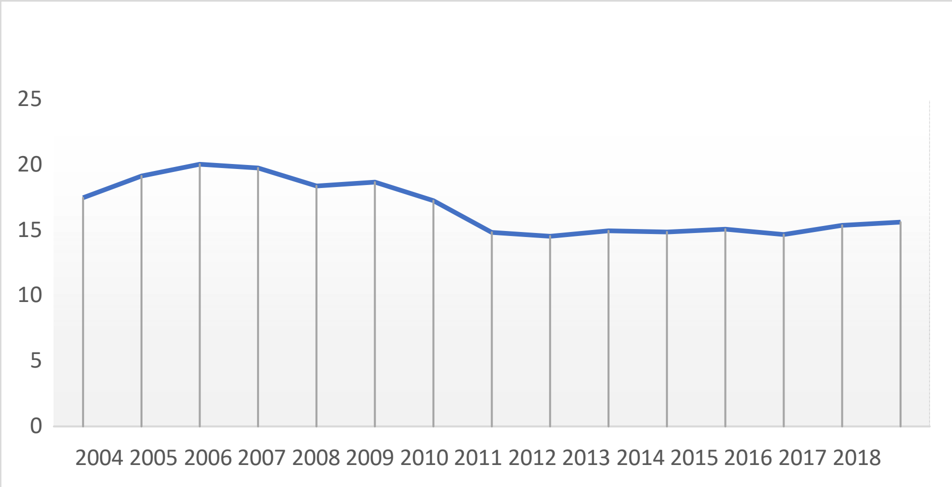
121.1 million euros in 2015.Only about 15 % of registered remittances come from commercial banks, and 48% from Western Union institutions (or similar institution) and the remaining comes thorough other channels 36%.

Table 2. Total remittances by country

Remittances by country in %															
Germany	Switzerland	Italy	Austria	Belgium	USA	Sweden	France	Norway	Canada	UK	Denmark	Finland	Netherland	Slovenia	Other countries
36.4	22.5	5.0	3.8	2.6	6.2	2.9	3.3	3.2	1.3	3.1	0.6	0.5	0.6	1.4	6.6
36.7	22.4	4.8	3.5	2.5	8.0	2.9	3.1	2.7	2.0	2.9	0.3	0.6	0.7	0.8	6.0
37.1	22.6	5.3	3.6	2.3	6.8	3.4	3.8	2.0	1.6	2.9	0.4	0.7	0.7	1.1	5.7
40.4	21.7	4.9	4.1	2.5	6.7	3.4	4.3	1.9	1.4	2.3	0.3	0.8	0.6	0.5	4.2
39.3	22.5	4.4	3.8	2.6	7.0	3.4	4.1	1.9	1.6	2.8	0.4	0.8	0.6	0.5	4.6

Remittances represent a high percentage of GDP, and they go far beyond FDI and exports. The net inflow of foreign exchange through exchange operations represents an increase in the foreign exchange reserves of the central bank and commercial banks.

Graph 1. Remittances as percentage of GDP:



Sources: World Bank

Since a significant proportion of remittances comes to the country from informal channels, with part of the balance of payments statistics being recorded as foreign exchange inflows from foreign exchange transactions, their remittance portion is difficult to estimate. Based on the total number of our migrants it is believed their family members who have remained in the country as recipients of remittances could make between EUR 1. billion and EUR 1.2 billion a year. The highest amount of remittances come from Germany, Switzerland, Austria, and the USA.

ECONOMIC CONDITION FOR POSITIVE IMPACT ON THE DEVELOPMENT

Based on the above considerations, a picture can be drawn of the possibility of intervention on Macro and Microeconomic levels (Blion Verriere 94).

Macroeconomic measures and structural reforms in the countries of origin, although not thought of with priority reference to remittances, they can lead to building a more favorable context for transfer and efficient use of remittances. In this sense, the effects on remittances were positive, especially in the Asian countries following the adoption of active economic policies to support industrial production, the incorporation of migrations into planning macro, and the definition of specific measures to catalyze remittances for production purposes. Other measures include both the banking side and the programming of flows of emigrants with greater skills and greater potential in terms of saving capacity and, therefore, of transfer of remittances.

In the micro economic levels, the central issue is restructuring and modernization of the financial system both in the countries of arrival and in those of origin of the migratory flows. According to the analysis conducted by Blion e Verriere(1994) in France, he insists in favor of measures which create a network between French banks and countries of origin, a more significant factor for efficient use of remittances, tendency of the banking system towards immigrant customers, the creation of companies with guarantee capital granted by the savings of immigrants, increase access to credit in the countries of origin is considering important factor in reducing remittances due to increasing integration of emigrant to the host country.

DISCUSSION AND CONCLUSION

International migration, remittances, and investment may not always lead to the development of source countries, even though migration has a powerful potential to spur it. The positive impact of immigration on economic development can be seen, in a short period, when the increase of funds in the country leads to growth in consumption, rising living standards, and sometimes increasing investment. However, success in the short term may not lead to economic growth in the country. The growth of inflow may not lead to an increase in investment, and if used only to increase consumption, it may lead to a rise in inflation. Migration can be an incentive, but whether it will lead to economic growth depends on the ability of the source countries to manage it effectively. Effective migration policies must be based on their prudent and effective management and cooperation between source and host countries.

- Both forms of foreign exchange inflow contribute to poverty reduction and thus also isolate the country from the effects of market volatilities, especially in the period of transition.
- In theory, the adverse effects of remittance could be avoided, by adjusting the monetary policy and wage policies, keeping both of them under control correcting them for effects in the foreign exchange and labor markets.
- The adverse macroeconomic effects of remittances are based on moral hazard for governments since remittances are a significant source of foreign exchange for many countries, whom economic policy would be subjected to high pressure, this means that, under the influence of remittances, governments tend to ignore imbalances in the economy and avoid politically necessary measures to remedy them. The predictability of remittances, create the comfort to governments that remittances will continue to isolate the domestic economy from the negative consequences in the world economy, leading the country to even greater dependence on them.
- It is necessary to better differentiate the short-term from the long-term effects of remittances in the markets regarding the factors of production, especially labor. The short-term effects include the effects on the labor cost of labor exporting countries in terms of growth based on a decrease in labor supply, and labor importing countries in the opposite sense, as well as impacts on the structure of labor-intensive investments in labor-importing countries and vice versa. In addition, the development of entrepreneurship and self-employment, long-term effects would include those arising from such changes in the structure of investment, the price of labor in both groups of countries, and they would also be the opposite.
- It is significant for source country to reduce the costs of remittance transfers and the use of its informal forms, encourage the placement of remittances in productive investments, as well as sterilize their monetary effects. Also, a more precise analysis of the macroeconomic effects of remittances is needed.

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