

Migration and development: the effects of remittances on education and health of family members left behind for the case of Kosovo

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Abstract

Kosovo as many other states in the region is known for its high dependency on remittances. Due to the social and political turmoil that Kosovo was facing from the Yugoslav state authorities during the 1980's and especially during the 1990s, many people lost their jobs, having as a drastic increase of the number of Kosovars migrating abroad. The civil war of 1999 contributed even more to this trend. In general, the migration wave from Kosovo to developed countries of Western Europe such as Germany, Switzerland, Austria, Italy and other developed countries such as USA was motivated by both political and economical factors. The high level of unemployment, high poverty rates, and the low standard of living made people pursue a better life somewhere else. Now more than 20% of Kosovars live outside Kosovo, which are more than 400,000 people. Following the massive conflict-related and war-related emigration, remittances became and continue to be a significant source of household income. For instance, the inflow of remittances in Kosovo was 535 million Euros in 2008, which accounts for 14.1 percent of GDP, making Kosovo one of the largest recipients of remittances in the Western Balkans. According to the Kosovo Remittance Study by UNDP (2010), it was suggested that remittances not only affect positively the level of income, but also the ability to access healthcare and education it was not suggested how much and how significant this effect was. Thus, due to the lack of data this effect could not be measured and it is not known how significant it is.

Key words: remittances, migration, economy, Kosovo

1. Introduction

In a time of relatively free movement of labour and in the presence of migration, officially recorded remittances flows to developing countries have grown dramatically from \$93 billion in 2004 to \$278 billion in 2007 and appear to have recovered quickly to \$325 billion in 2010 after the Global Financial Crisis (Mohapatra, Ratha, Silwal, 2011). Despite the economic downturn remittances appear to remain resilient compared to other resource flows and in 2004 they were as twice as large as the level of international aid towards developing countries (Adams and Page, 2005). Remittance flows, money sent by emigrants, are an important source of income for most of developing countries. The trend of remittances has had an important implication for the economies seen both in micro and macro perspective. In microeconomic perspective, remittances directly affect household's income and consumption; whereas in macroeconomic perspective remittances influence poverty reduction (Adams and Page, 2005), economic growth, entrepreneurship and financial development (Aggarwal, Kunt, Peria, 2006).

According to Popov (2011) during the recent economic downturn emerging and developing countries experienced a decline in international capital inflows where \$250 billion inflow before the crisis turned into an outflow of \$200 billion at the end of 2009. Popov (2011) implies that the countries that have experienced a relatively small shock in capital flows can alleviate the decline in GDP growth through increased remittances or devaluation of currency and leaving foreign exchange reserves unchanged. If the capital shocks are large and not offset by remittances then nothing could stop GDP to fall which would inevitably lead to recession.

In Kosovo, the remittances have always been on a very high level. The data are not available because they were not registered. Therefore, the remittances play a crucial role as an external source of finance due to high number of Kosovar emigrants living abroad. In Kosovo almost every family has some of their family members living abroad who keeps family ties by sending back money in the form of remittances.

Thus, this paper will discuss the factors that made so many people search for better life abroad and as well as the ways and means the families that receive these remittances spend their money. In addition this paper will present the theories about the effect of remittances on the education attainment and healthcare of the family members left behind in Kosovo. Since most of the remittances are used for consumption and only a little for investment, it should be investigated how much of the remittances are spent on the education attainment and healthcare.

2. Migration flows from Kosovo to other countries

Kosovo as a newly formed country has a society characterized by mass migration that fled mostly to the United States, Germany, Switzerland, and other European countries especially in the periods of 1989/90 and 1998/99. These two periods were characterized as very important points in the country's history as the number of immigrants to the Western countries for a better life increased drastically. The reasons for this high migration were due to both economic and political factors. Due to extensive emigration, remittances have become a crucial source of financial support to the Kosovar families left behind. But what were the precise reasons that made almost every family have one or more of their family members living abroad?

The Kosovar Diaspora is mostly characterized with three waves of migration; in the late 1960s, the early 1990s, and during the 1998-1999 conflict (Kosovo Remittance Study, 2010). Therefore, the most significant mass migration period started in the 1960s when people from Kosovo and other Yugoslav states emigrated as guest workers in Western Europe; particularly in Germany, Switzerland, etc. The labour forces were mainly unskilled and poorly educated who left their families in order to send them back money which were mainly used to invest in houses or for extravagant weddings (Clark, 2000). According to Reineck's study (1991, p.201), "the migrants frequently displayed a tendency to insist more strictly to adherence to family traditions, while few contribute to economic innovation on their return." However, continuing in the 1990s, the emigration flows were even more massive due to the Serbian oppression towards ethnic Albanians in that time. This offensive started as a result of the elimination of autonomous status from Serbia in 1989, associated with the laying-off of many

Kosovans from their jobs (Vathi and Black, 2007, Mustafa, et al. 2007). Due to the political turmoil that Kosovo was facing at that time many people and especially the political activists left the country.

In addition, the civil war of 1998-1999 in Kosovo made people migrate forcefully and unwillingly. More than 800,000 people ran away as refugees, mostly in Albania and in Western Europe and America (UN, 2006). As a result of the war some of these refugees did not return back home (according to IOM-2008 around 70% of the refugees voluntarily have returned back to Kosovo).

It can be said that in addition to these political factors migration is encouraged also due to economic condition, as it is seen as a mean to improve the livelihoods of the people and also to improve the quality of life of the family-sending migrants. Since many workers were pushed out of work, and consequently to that the high number of unemployment, the high poverty rates and the denial of the right of education and health care made people migrate towards Western Europe and other developed countries. However, this wave of migration was characterized by better educated and skilled emigrants.

A 2007 survey estimated that there were around 315,000 emigrants from Kosovo (Mustafa, et al, 2007) while in 2010 the World Bank recorded around 253,000 emigrants from Kosovo; where those who send remittances in particular reside in Germany and Switzerland given that the highest level of remittances inflows are from these two countries (Tables 1 and 2).

Table 1. The Distribution of Emigrants by Host Country/Region

Host country	Share of total emigrant in percent
Germany	39.4
Switzerland	23.2
Italy	7.0
Austria	6.7
Scandinavia	5.8

UK	4.8
USA	3.5
France	2.1
Canada	1.6
Neighboring countries	3.7
Other countries	2.2

Source: Riinvest Survey 2007

Table 2. Migrant remittances by country

Countries	Remittances in percent 2008	Remittances in percent 2009(Q4)
Germany	38	38
Switzerland	16	22
Italy	13	10
Austria	6	5
Sweden	4	3
France	4	4
USA	3	2
Canada	2	2
UK	1	1
Other countries	13	13

Source: Central Bank Kosovo (Annual Report 2009)

Kosovo as Europe's poorest region has relied heavily on remittances since the first wave of migration to Germany, Switzerland and other European countries in the 1960s. Following the massive conflict-

related and war-related emigration since that time, remittances became and continue to be a significant source of household income which serves as a very important external financial assistance which also has significant implications on the economic performance of Kosovo. According to the World Bank (2010), Kosovo ranks number 11 in the world in terms of share of remittances to GDP. For instance, the inflow of remittances in Kosovo was 535 million Euros in 2008 (Central Bank of Kosovo, 2008), which accounts for 14.1 percent of GDP, making Kosovo one of the largest recipients of remittances in the Western Balkans region (Albania 12.8 percent of GDP, Bosnia and Herzegovina 17.0 percent of GDP, Macedonia 4.0 percent of GDP, Serbia 11.8 percent of GDP). In 2009 the remittances decreased due to Global Financial Crisis but they were still in at a high level, 498 million Euros (IMF 2010), which accounts for 12.8 percent of GDP, making Kosovo the largest recipient of remittances in the region and in the world.

3. The effect of Diaspora and Remittances on Macroeconomic performance of Kosovo

“Remittances are personal money flows from migrant to their friends and families...targeted to the needs of recipient who are often poor” (Ratha and Mohapatra 2007, pp.1). Remittances are a lifeline for developing countries and they affect the households directly. Therefore countries with high emigration rates as it is the case with Kosovo are more likely to receive remittances. In support, a 2007 survey (Mustafa et al. 2007) indicates that 18 percent of respondents’ households (28 out of 155 interviewed) have a member living abroad, and 8 percent out of 18 percent of the households having someone abroad receive remittances. There are arguments made empirically for other countries that Diaspora contributes contribute to the reduction of poverty, growth and development of the country of origin through promoting trade and investment as they are more informed about the economic opportunities or are driven by personal relations and connections in business. With no exception remittances are significant by having the role of external capital flows (Haxhikadrija, 2009).

Therefore, they have an important role in the relation between migration and development as they contribute in improving the emigrants’ family welfare, help to finance education and healthcare and have a multiplier effect in the economy (Haxhikadrija, 2009). To the extent that remittances can be used to finance education, health, investment, consumption, they in meantime tend to effect positively

the overall economic growth. Shaorshadze and Miyata (2010) in their empirical study about the effect of remittances on poverty reduction in Kosovo found that households with lower wealth are more likely to have migrants and receive remittances and the latter have significant effect in reducing poverty of household-remittance receivers. While Kosovo has small amount of exports and is mostly based on import-consumption, economic growth has been largely supported by remittances flows, foreign direct investment and higher deposit-financed credit growth (BTI, 2010).

Remittances also contribute to the lowering of the interest rate in the sense that they might increase bank deposits which contribute to the increasing of the supply of loans and additional potential loans. The evidence from Turkey indicates the positive effect of remittances on consumption, investment, imports and income, thus implying that any crisis in the global economy does not affect only exports and remittances but also affects indirectly consumption and investment through remittances (Tansel and Yasar, 2010). Remittances tend to be countercyclical in poor countries, in that migrants respond by remitting more when the recipient economy suffers from economic deterioration or political conflict, therefore smoothing household consumption in these countries (Ratha and Mohapatra, 2007).

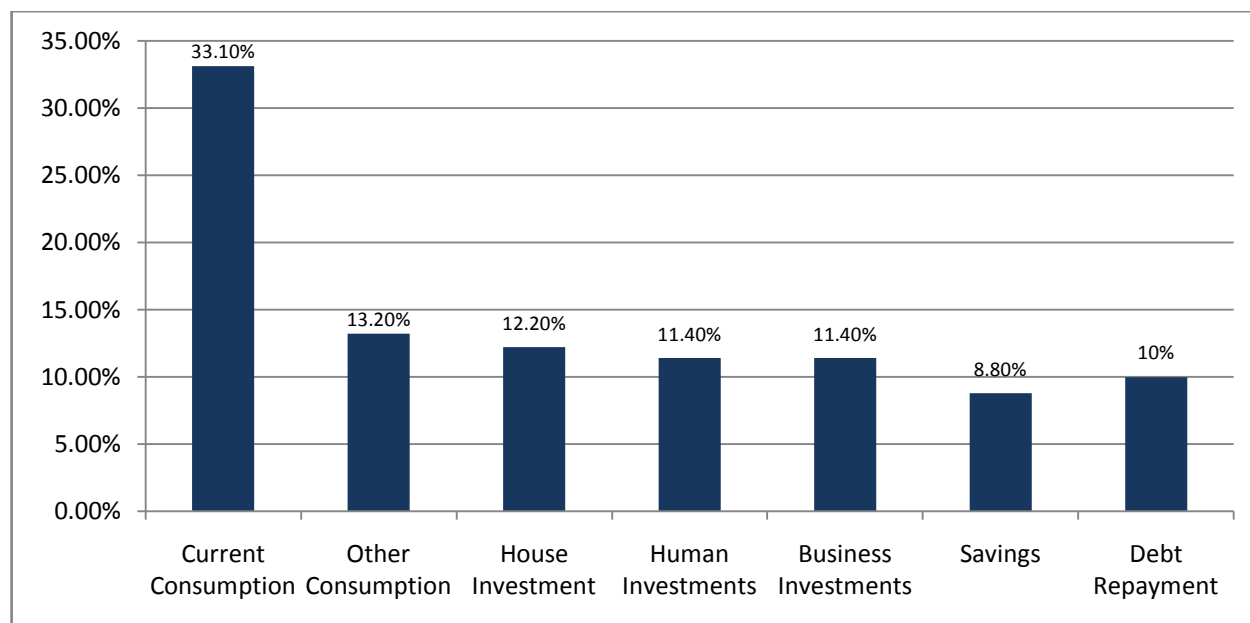
Remittances are important for monetary inflows as much as exports are. “They are payments for exports of labour” (Muhamet Mustafa, et al, 2007, p.20). They comprise a large share of income, in Kosovo exceeding the size of international aid and foreign direct investment (FDI). FDI were estimated to be 7.53 percent as a share of GDP in 2009 and foreign assistance was 9.4 percent, whereas remittances were 12.8 percent of GDP (IMF, 2010). In developing countries where the financial system is typically underdeveloped remittances contribute to the lessening of the credit constraints which in return stimulates the economic growth (World Bank, 2006). In contrast, as adverse effect of remittances, Azam and Gubert 2006 (cited in Dietz, 2010) in their empirical study suggested that households receiving remittances in African countries may reduce their supply to the domestic labour market: remittance-recipient choose increased leisure rather than labour.

3.1 How households use remittances? - The distribution of remittances by categories

The effects of the Diaspora and remittances are noticeable throughout the economy. A clearer view of the impact of remittances in economic performance can be taken with a regard on how the households

spend remittances in different sectors. Leon-Ledesma and Piracha (cited in Dietz, 2010) have suggested that investments and private consumption have increased in Eastern European transition countries as a result of remittances. To some extent investment in human capital may be attributable to emigration. A significant positive effect of remittances in transition economies has been found empirically where emigration contributes directly to the improvement of the skills if emigrants return to contribute to the economy back home as well as through the increasing of investments and consumption (Leon-Ledesma, Piracha, 2001). A study based on survey of 4000 households (UNDP, 2010) gives an idea of expenditure and effects of remittances. In this consideration it is important to know how households use remittances and how they may impact the economy of Kosovo. Most of remittances received are used for consumption (45 percent according to Kosovo remittance study UNDP, 2010) whereas 11 percent are used for business investment and 12 percent for housing investment (Figure 1).

Figure 1. The use of remittances by categories



Source: Kosovo Remittance Study 2010 (UNDP)

Given that remittances contribute in the household income they also have impact on the decision of the remittance-receiver for seeking a job because those who receive remittances are more likely to be unemployed. This situation may be subject to moral hazard problem. According to the survey (UNDP, 2010) around 11 percent of the interviewed households who receive remittances would accept to work

with less than 151 Euros per month. In this case, remittances in Kosovo do not appear to have an impact on increasing the wages but the case whether they have negative impact on labour supply is not sufficiently researched. A study undertaken in Mexico finds that the impact of spending money in non-productive patterns such as consumption influences all economic activities due to the multiplier effect on aggregate demand and output (Haxhikadrija, 2009). To the extent that remittances increase households' income, they do not have positive significant effect to Kosovo's domestic production because higher aggregate demand affects the size of the marginal propensity to import as long as Kosovo is more import oriented economy.

As mentioned above remittances contribute to lowering the poverty rate. According to the World Bank the poverty rate is 20 percentage point lower in rural households when compared to urban households, when both are receiving remittances, due to the fact that a higher value of remittances are received by rural households (World Bank, 2007). About 70% of emigrants send remittances back home in Kosovo (Mustafa et al.2007). A stream of literature suggests that emigration, through remittances, have positive effect in entrepreneurship and creation of new jobs, smooth consumption, which will be reflected in turn in lowering the poverty. But how do remittances affect education and healthcare of member of family left behind will be discussed in the next chapter.

4. The effect of remittances on education and healthcare of children left behind

The hypothesis that remittances raise educational attainment and provide better healthcare, has received support in a growing number of studies. The studies that deal with these effects are more about the developing and emerging countries as they are characterized with higher level of migration. More or less, all of these studies suggest that remittances effect positively the investment in human capital because they help in lifting liquidity constrains. The disposal income of the households increases and as a result they have more money left for education and healthcare.

One of the studies from Dorentes and Pozo (2010) suggests that in the Dominican Republic the remittances promote the education of children and this effect is noticeable more among the children

attending secondary school. According to the authors, the developing countries which are characterized with high level of migration do experience positive impacts from the remittances they receive on the education of children. Another study conducted in Peru by Ilahi (2001) suggests that changes in household welfare affect the schooling and work of girls more than boys. For the case of El Salvador, the authors Cox Edwards and Ureta (2003), by employing the Cox proportional hazard model found that remittances have a large, significant effect on school retention. More specifically according to the authors remittances have a much larger impact on the hazard of leaving school. Another study for Mexico by Borraz (2005) suggests that the effect of remittances on schooling is positive and small only for children living in cities with fewer than 2,500 inhabitants and with mothers with a very low level of education. But the authors suggest that for the case of Mexico the magnitude of this effect is not substantial. Lastly, about the analysis of the effect of remittances on school attainment, another study conducted in this regard for the case of Ecuador is from the authors Calero, Bedi and Sparrow (2009). In their study, the investigation of the effects of remittances on school enrolment and child work in Ecuador, suggests that remittances increase school enrolment, especially for girls and in rural areas. In general, it can be concluded that in theory the remittances do have positive effect on school attainment but this effect is more significant for developing countries since they are characterized with higher level of remittances.

The theoretical literature and the collection of data on the remittances for the case of Kosovo has only recently been put at a higher level of importance from policy makers and research institutes. Until now only little has been researched for remittances even though they are the second largest source of income for households (Shaorshadze and Miyata, 2010). As it is suggested, the remittances in Kosovo are used more for consumption than from any other category of spending. Even though the positive effects of remittances on education and healthcare is known from other authors who have conducted research in these aspects, for the case of Kosovo the remittances are used much less for education and healthcare.

One of the studies that has directly been involved in the collection of data for remittances and in the investigation of the effects they have on different aspects of the economy, namely: income, unemployment, access to healthcare, and access to education is the “Kosovo Remittance Study 2010” commissioned by UNDP through joint efforts with IMF and USAID and together with the Central

Bank of Kosovo, Ministry of Economy and Finance, and the Statistical Office of Kosovo. For this study 4,000 households have been questioned. The survey data found that nearly a fifth (19.6 %) of Kosovar households receive remittances.

This study suggests that regarding the access to education, households receiving remittances on average spent 7% more on education than households that do not receive remittances. More specifically, the households that receive remittances spent on average 67 Euros per month for education while the households that do not receive remittances spent on average 62 Euros per month for education. In addition, households headed by men who receive remittances are more able to access education (UNDP, 2010). Regarding the access to healthcare, the households that receive remittances spend on average 22 % more than the households that do not receive remittances according to Kosovo Remittance Study 2010 (UNDP). More specifically, the households that receive remittances spend on healthcare 35 Euros per month while the families that do not receive remittances spend 28 Euros per month for healthcare. In addition, the households headed by women who receive remittances have easier access to healthcare and are able to meet the cost of medicines compared to households headed by men where there is an inverse effect of remittances on access to healthcare, that is remittance receivers tend to have a lower access to healthcare than those who do not receive remittances.

However, in general it can be concluded that due to the difficult economic conditions in Kosovo, households face difficulties in investing in human capital as large percentage of the remittances are used for consumption rather than for education or healthcare. However due to the lack of data the effect of remittances on healthcare and education is not being appropriately investigated leading to the conclusion that this topic needs further development and investigation.

5. Conclusions

In Kosovo, more than 20% of Kosovars live outside the country, which are more than 400,000 people. The potential impact of migration to the economic development is of a key interest. Having in mind the fact that unemployment rate in Kosovo is around 45 percent, the net average wage in the public sector is 211 Euros and the average monthly income for a Kosovar household is 442 Euros (UNDP, USIAD, 2010), it is clear why the remittances play a crucial role for the welfare of the families left behind.

As stated above, the inflow of remittances in Kosovo was 535 million Euros in 2008 (Central Bank of Kosovo), which accounts for 14.1 percent of GDP, making Kosovo one of the largest recipients of remittances in the Western Balkans (Albania 12.8 percent of GDP, Bosnia and Herzegovina 17.0 percent of GDP, Macedonia 4.0 percent of GDP, Serbia 11.8 percent of GDP).

There are empirical studies conducted in other countries that Diaspora contribute to the reduction of poverty, growth and development of the country of origin through promoting trade and investment as they are more informed about the economic opportunities or are driven by personal relations and connections in business. With no exception, remittances are playing a significant role in development acting as a source of external capital flows. For the case of Kosovo the remittances help in the alleviation of poverty since majority of them are used for consumption but very little for investment in business or investment in human capital.

Since the effect of remittances on education and healthcare is not significantly researched in the UNDP study (2010), the focus of the government of Kosovo should be put on raising the awareness of the households for the possibilities of investing more of the remittances in the education and healthcare of their family members which would then have a long term positive effect on the socio-economic development of Kosovo.

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