



## The Importance of Remittances as a Foreign Source of Financing in Kosovo

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**Abstract:** This paper aims to present the importance and effect of remittance flows in the context of receiving foreign funds. Remittances from Kosovar migrants constitute one of the most important source of the foreign flows and in microeconomic terms represent one of the most important sources of households income because of the great dependence of households on them. This paper will also present data and analysis regarding to the trend of migration and remittances, influenced factors on variable phenomena, the importance of remittance flows in macro and micro economic terms. The paper finds that remittances are not only related to remittances flows to Kosovo, but also with other contribution forms such as expenses, money, purchases and other expenses they execute during their stay in Kosovo; remittance flows are significant as a share of GDP. This share is the highest in the region. The paper also shows how remittances have a very important role in mitigating the balance of payments deficit.

**Keywords:** Remittances; Migration; households; Kosovo

**JEL Classification:** E60

### 1. Introduction

Migration is a phenomenon which constantly occurs in all countries of the world, especially to developing ones. There are economic, social and political reasons which are the starting point of the inhabitants towards the countries of the European Union or even beyond. Indeed, the emigration of Kosovars dates back long ago and is related to country's wars history. The Balkan wars as well as the Serbian persecution influenced the displacement of Kosovars, especially in Turkey. By means of such involuntary displacements, the migrants have created statistics and as

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a result, the population in Kosovo got decreased. Although migration had shrunk the number of population of the country, it had had a positive effect on the income flows we have received from abroad.

Most of households are dependent on remittances sent by migrants.

In this research, we will talk about the importance of remittances in the welfare of households, as well as in macroeconomic terms. The remittance effects on balance payments as one of the most important sources of foreign financing will be covered.

The recent war in Kosovo has caused great displacements in neighboring countries, European countries and worldwide. The increase of migration in Kosovo driven by political and economic reasons was particularly pronounced in the 1990s but its culmination was recorded during the period of the last war in 1998-1999. It is estimated that more than 800,000 people left Kosovo during this period and mainly as refugees in countries like Macedonia, Albania (who returned later to their homeland) as well as European Union(?), North America even Australia where they reunited with other family members who have migrated earlier. Whereas, after 2000s, the return of these refugees to the country was quite high. The last wave of Kosovars migration was in 2014 and 2015 which was an illegal process of migration of whole families or young people to European countries through illegal channels of Hungarian roads.

The migration process has influenced the remittances flows be the most important source of foreign income for its economy. For instance, in 2008, the flow of remittances in Kosovo was 608.72 million euros, whereas in 2019 the remittance flow was 851.7 million euros which accounted for 15.80% of GDP. Most remittances are mainly from countries such as Switzerland, Germany as well as the USA. Compared to other Balkan countries, Kosovo receives the highest level of remittance flows. Remittances are sent through legal and ilegal channels. Their transfer through official channels is mainly realized through transactions of financial institutions, but, a large part of them passes through other uncontrolled channels, which causes challenges in accurately determining the value of remittance flows. Remittances in Kosovo have a very important role in filling the budget of families, increasing their welfare and poverty reduction, especially in rural areas. Remittances are the most important source of income in the context of secondary income.

To carry out this paper, secondary data provided by authorities, organizations and other research papers, were used which were initially collected, processed and published data on migration, remittances and other micro and macroeconomic factors.

The limitations of this research are that it does not present specific policies and instruments for the management of remittance flows as well as the presented and analyzed data on migration and remittances are not presented in net terms.

## 2. Literature Review

The study of remittances is a wide field because it can be evaluated from different points of view such as: the source of remittances, the motivation (of the diaspora (?)) for sending them, the use of remittances by households, their impact on households or their impact in macroeconomic terms. Numerous studies have been conducted on all these implications, as in the vast majority of countries in transition remittance flows are the second largest source of foreign incomes after Foreign Direct Investment.

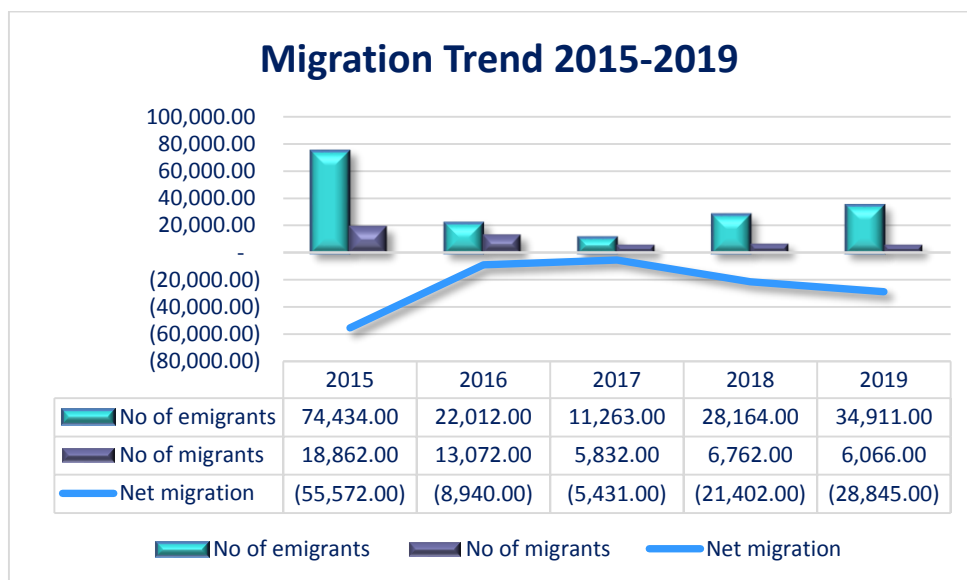
The remittances as a share of GDP is higher by regional standards although it decreased from 17.5% to 13% in 2010-2014 (World Bank, 2011). "Migration has developed as coping strategy with poverty and unemployment, with almost 30% percent of household having migrant relation abroad, and over 20% of households receiving remittances" (Shaorshadze and Miyata, 2010).

Remittances in Kosovo usually have high marginal expectations to be used for consumption, reducing large numbers of households from poverty. Due to an internally developed financial system, remittance flows are likely to be directed to investments (Barajas, Chami, Fullenkamp, Gapen, Montiel, 2009). Remittances significantly reduce the risk of poverty of households and it has been found that the poverty level was increased when remittances got reduced. This shows the dependence of Kosovar families on remittances (Loxha, 2019). For most countries in Europe and Central Asia, remittances are the second most important source of foreign financing after Foreign Direct Investment. Migrant funds represent over 20 percent of GDP in Moldova and Bosnia and Herzegovina, and over 10 percent in Albania, Armenia, and Tajikistan (Mansoor and Quillin, 2006).

We can say that historically the economy of Kosovo economy has been affected by remittance flows mainly due to high unemployment rate in the country. Money senders are willing to sacrifice the revenue generated to be delivered to their householders expressing a high level of altruism. There are a lot of papers which pay special attention to the motive of altruism in sending remittances. One of them (Bouhga-Hagbe, 2006) states that if altruism is an important motive for remittances, families are likely to be dependent on these flows. "Altruism, insurance and investments may indeed play a crucial role in remittances. Nevertheless, there is one important factor behind these different motives: the personal attachment of the migrant to the home and the hosting country" (Holst and Schrooten, 2006).

### 3. Characteristics of Remittances

The phenomenon of migration in Kosovo has been historically present. The trend of migration has been in continuous but if we look at the last decade, according to statistical data, we can say that its peak reached in 2015, where a strong expression of interest in migration both through official or illegal channels became apparent. The reasons to migration were mainly family reunification, marriage, employment or studies. According to the Kosovo Agency of Statistics, the number of emigrants estimated in 2015 is a total of 74,434 inhabitants, including legal and illegal migrants. The vast majority of migrants were illegal, with about 90% seeking asylum in EU countries and a smaller proportion in other countries such as the US and Canada. In the following, we will present data on the number of migrants in Kosovo during the period 2015-2019 including legal and illegal migrants.



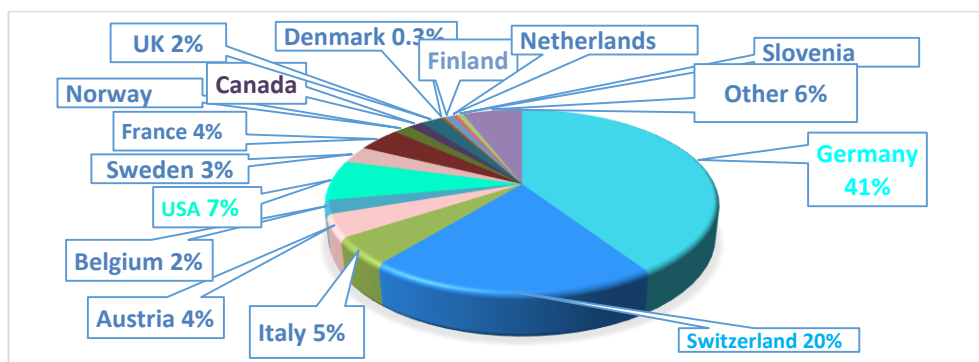
**Figure 1. Migration Trend 2015-2019**

*Source: Kosovo Agency of Statistics*

Most immigrants in 2015 were illegal, unlike immigrants in other years where majority of them were legal. Usually the destination countries are EU countries and EFTA member countries as well as the USA. According to the graph above, the presented values of the number of immigrants include data on returnees who have previously migrated (repatriated persons), the number of asylum seekers who have acquired the right to citizenship in Kosovo and persons with a residence permit in Kosovo for more than a year. Most of the emigrants are from Prishtina, Ferizaj, Gjilan and Vushtrri. "In 2019, about 5,390 Kosovar citizens were caught with illegal residence within the territory of EU member states and the Schengen area. This

number has decreased by -9.3% compared to a year before (5,945) and by about nine times compared to the record level of 2015, when the total number of Kosovar citizens illegally residing within the territory of EU member states and the Schengen area was 52,275. According to gender classification, males dominate with 82% (4,400) compared to females with 18% (975). Irregularly residing Kosovar citizens within the territory of EU member states and the Schengen area were mainly aged 18-34 years and accounted for 82% of the total number, while 7% were under 18 years old. The number of Kosovar citizens who are engaged in illegal residence within the territory of EU member states and the Schengen area, according to the ranking of countries and the percentage does not differ so much from the previous year: Germany with 40% (2,165), Switzerland with 19% (1,020), France with 12% (620), Croatia with 9% (465), Hungary with 6% (330), Austria with 5% (280), Italy with 4% (215) and other countries with 5% (290) (MIA, 2019) (Ministry of Internal Affairs, 2019).

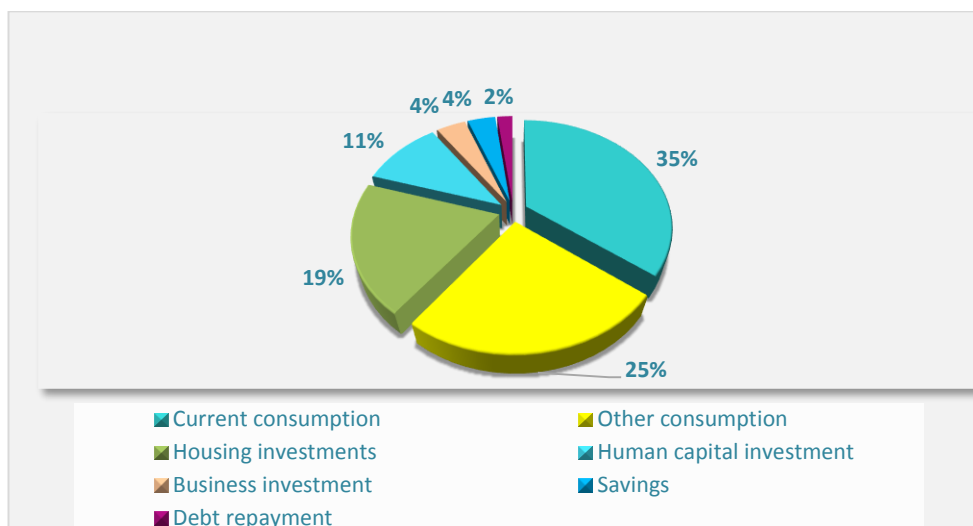
As mentioned above, destination countries of Kosovar emigrants are mainly EU countries, EFTA, the USA, Turkey, and so on. Kosovars are destined for countries such as Germany about 35%, Switzerland about 23% then Italy, Austria, Sweden, the USA etc. Proportionally, the value of remittances sent to Kosovo is derived according to the countries listed above. While, if we refer to the statistics of 2019 for remittance flow by countries we can understand that 41% of them come from Germany, Switzerland 20.2%, France 4.3%, Italy 4.9%, Austria 4%, USA 7.1% and others presented in the graph as below.



**Figure 2. Inflow Remittances as Percentage by Sending Countries (2019)**

Source: Central Bank of the Republic of Kosovo

Based on a report published by UNDP ("Kosovo Remittance Study", 2012) it was found that about 35.4% of remittances are used for current consumption such as expenditures on food, clothing, services, etc. Expenditures on home appliances, cars, weddings, funerals are 24.8%, expenditures on renovation and purchase of apartments / houses account for 19.6%, expenditures on education and healthcare services 10.6% and other destinations which we will present in the chart below.



**Figure 3. Distribution of Remittances**

*Source: UNDP, 2012*

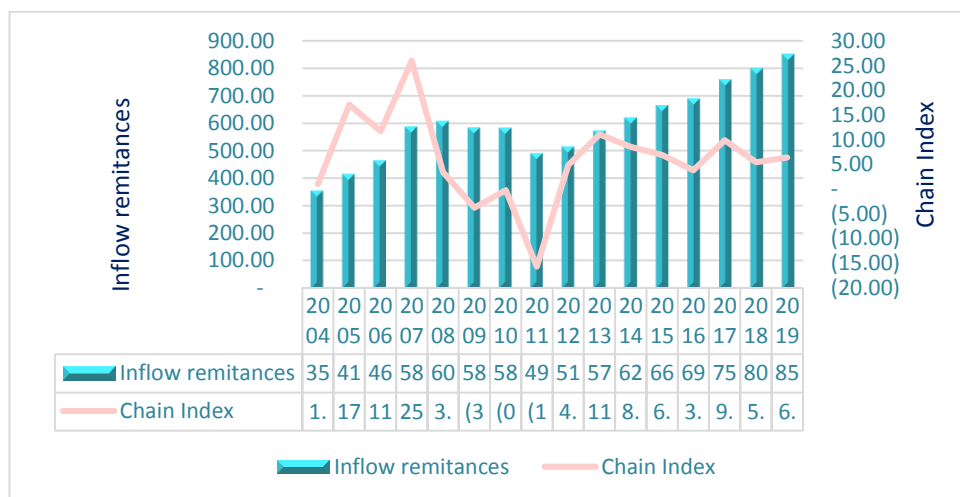
As we can see in the data above, we can say that in general remittances affect the increase of consumption in food, clothing, maintenance and renovation of houses, in financing education or even for health reasons. A smaller percentage is intended for repairing bank loans. Either way this has a significant effect because households are improving their banking history and may not have financing difficulty through bank loans in the future. Migrants send remittances which may not be used by households as well as their deposit in bank accounts which brings benefits to the banking sector as it affects the growth of funds that can be used to generate bank loans. The limit of their deposit in the maximum (a separate deposit) is in the interest of the migrants for the preservation of the financial means which they have brought through informal channels or which they have gained through secondary jobs in other countries which they may not have been declared.

**3.1. Some of the determinants of remittances:** Migrant remittances represent an important source of household income. Remittances especially are depended on the marital status. In many cases, the spouse sends financial means to the children and the spouse because the reason for the migration was to ensure a better life for the immediate family. In other cases such as when the entirely immediate family is relocated to another country, remittances to the extended family are more likely to be lower. Remittances also depend on the frequency of migrants' visits to Kosovo. They usually use the summer and winter holidays to spend in Kosovo and this affects the increase of funds they can get in their pockets as well as other expenses executed during their stay in the country. Another determinant of remittances is the gender of migrants. Males are more exposed to the labor market in migrant countries, so

remittance flows are higher. However, another, probably stronger reason that keeps the males' desire to send financial means, may also be the motive of inheritance in their country of origin. According to a 2011 KAS (Kosovo Agency of Statistics) report, it is stated that the gender ratio of the Kosovar population who emigrated was 56.67% male and 43.33% female. Indeed, Kosovar migrants are able to "sacrifice" to provide a higher income for their families, therefore we can say that the altruistic motive is an important factor of emigrant remittances. The motive of males to migrate is mainly related to the higher price of labor market in other countries and they want to use their capacities for higher income which would ensure even higher welfare of their families; while women migrate mainly for reasons of marriage and family reunification, but less for reasons of employment. The economic and social conditions of the households have an impact on the values of remittances. The higher the unemployment rate in Kosovar households, the more migrants tend to send remittances. However, this could also have a negative effect on the passivity of the unemployed in Kosovo, as the unemployed take such remittances for granted.

**3.2 Remittances as a share of GDP:** The high value of remittances is likely to increase family welfare and help alleviate poverty. Remittances are a very important source of foreign financing.

Remittance flows have an increasing trend from year to year and are supporting households. In 2019, remittances flow were more than 851 million euros.



**Figure 4. Trend of Inflow Remittances (mil euro)**

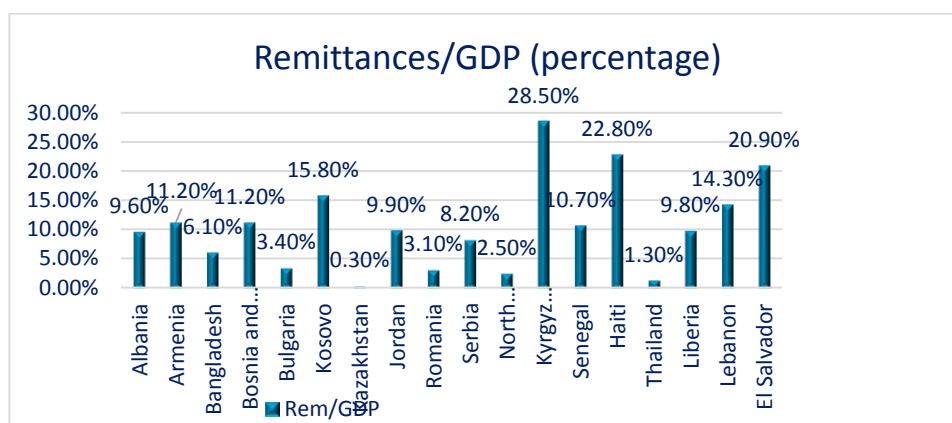
*Source: Central Bank of the Republic of Kosovo*

According to the data above, we have presented the value (in million euros) of remittances flow from 2004 to 2019 as well as the chain index of the trend of

remittances flow. Except for the years 2009-2011 where we have a slight decline in remittances caused by the financial crisis of the countries where migrants are located, compared to the previous period, in all other periods according to the index where we have taken the previous year as a basis, we can see that we have a positive trend of remittances which is of course influenced by the increase in the level of migration.

In 2011, there is a larger decrease in remittance flows due to the change in the methodology of measuring remittances by the Central Bank of Kosovo (Esida Bujupi, 2018). Their highest value was reached in 2019, which represents an increase from the previous period of 6.41%. If we take the periods from 2004 to 2019 we can say that the average growth of remittances according to the geometric average is about 6%.

Kosovo has a high level of remittances to GDP ratio, even compared to the countries of the region it has the highest ratio while compared to other countries in transition, Kosovo enters to the group of countries with the largest share of remittances to GDP. For many developing countries remittances are one of the most important sources of foreign income, but for some others, remittances are the most important source. The distribution of remittances to GDP of some selected developing countries only for 2019 is presented as follows.



**Figure 5. Remittances as a Share of GDP of Selected Developing Countries**

*Source: World Bank*

As we can see, for some of the developing countries, remittances represent a high share of their GDP. As for Kosovo, if compared to countries in the region, we can see that it has highest share of remittances in GDP. Remittances flow provide stability for as long as they are delivered. But there are dilemmas as to whether they can really affect economic growth, especially in the long term.

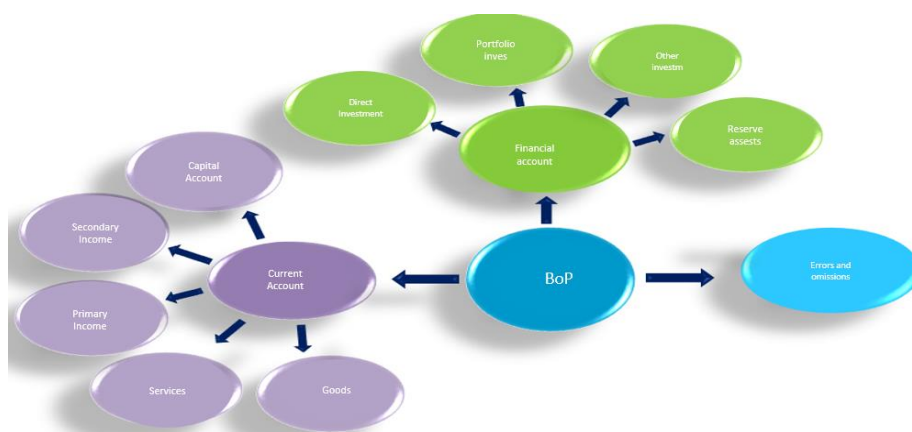
Sending remittances is a priority in ensuring family welfare, yet it also has its consequences. The destination of remittances flow, especially for current



consumption, creates dependence on migrants, creates unemployment because the unemployed would rather not work at low wages for as long as their family members are sending them money. This causes inflation especially during the periods when migrants are on vacation in Kosovo, because for many services they are able to pay whatever price because in Kosovo the prices are much lower than in the countries where they live. Another consequence is the lack of accountability by policymakers because the public goods that are not offered to citizens, are being replaced by the private sector, even those financed by remittances. If there was a better infrastructure in terms of law enforcement and elimination of corruption, a better business environment would be created, thus migrants would send more remittances which would be destined for business investment purposes.

#### 4. Remittances as One of the Most Important Sources of External Financing

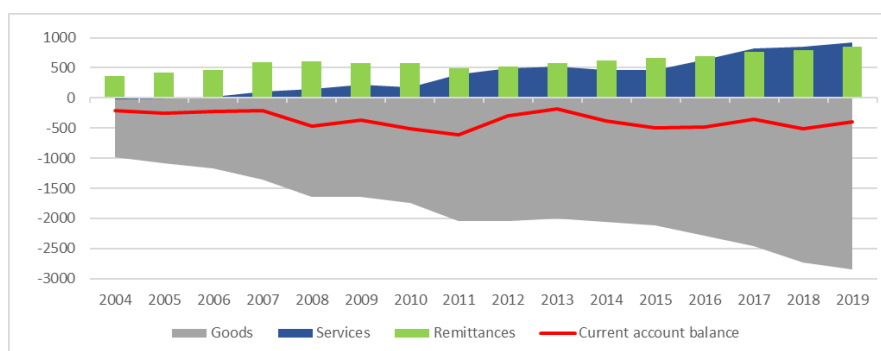
Remittances represent one of the most important sources of external financing as it affects the improvement of the trade deficit of the balance of payments. Within the Balance of Payments (BoP), statistics published by the CBK show that remittance flows have a positive impact on the financing of the balance of payments deficit. The balance of payments is a statement of statistical data which presents in detail all transactions between residents and non-residents over a certain period of time. The net residual from the value of completed transactions can be positive, negative and equal (only in theoretical terms). When the income from the exchange of international transactions exceeds the outflow, the BoP is positive and it is called trade surplus, otherwise it is negative and is called trade deficit. The maintenance structure and statistical presentation of BoP in Kosovo is built as follows:



Remittances are part of secondary income together with other transfers of the government sector and the sector of financial corporations, non-financial

corporations, households and NPISHes, a sector which also includes remittances because they are transfers received by households or individuals. The contribution of remittances to total transfers received from the private sector is about 74 percent of the total value of remittances, on average during the period 2004 - 2019.

Consequently, remittances play an important role in financing the current account deficit, which is presented in the figure below.



**Figure 6. Financing of Current Account Deficit**

*Source: Central Bank of the Republic of Kosovo*

As it can be seen in the figure below, the current account of the balance of payments of Kosovo is constantly faced with a deficit, while the biggest cause of this deficit is the trade balance, the large disproportion between imported and exported goods, of course in import favor. However, there are other components that make this deficit significantly mitigated, including remittances and services, both influenced by the Kosovar diaspora.

Kosovo's remittances are received in different forms, including "other" remittances which include goods such as clothing, home appliances or capital assets such as cars, although their share in total remittances is symbolic.

Migrants, during their stay in their country of origin, increase domestic consumption. They make payments for reasons of travel services affecting the growth of the services account within the current account balance. In fact, they increase investments through house construction, land acquisition investments and other real estate investments, thus positively affecting the financial account through foreign direct investment. All these cash flows (excluding remittances) are compensated flows, i.e. payments for which they have received a certain service, but those that are received in full are flows of funds derived from migrants.

The services account includes 12 different categories of transactions between residents and non-residents such as insurance and pension services, financial services, transport, travel and others. Around 95 percent of travel services deal with migrants expenditure during their stay in Kosovo. Payments received from travel services are

presented as follows.

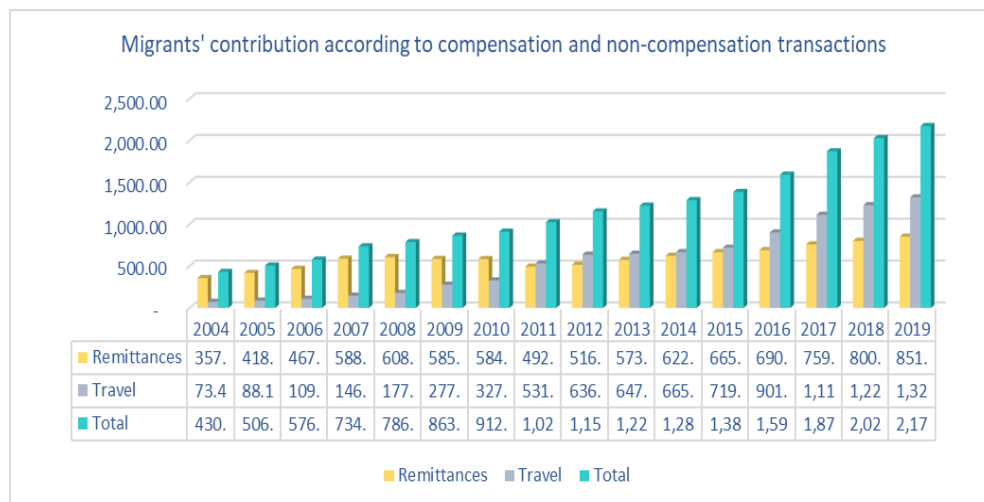


**Figure 7. Travel Services Trend Statistics**

*Source: Central Bank of the Republic of Kosovo*

As we can see, the trend of flows from services. The services have increased from year to year. In 2019, compared to the previous year, travel services increased by about 8%; while if we refer to 2016 compared to the previous year, the increase was more than 25% influenced by the migration flow of 2014 and 2015. On the other hand, the investment of migrants in real estate constitutes an important part of this category of foreign direct investment.

As we have seen, the contribution of migrants in Kosovo is in various forms. Sending money through official and unofficial channels does not include the sole contribution for their families. They provide to their families with money and capital and contribute to the outflow of funds through the travel service. If we take a cumulative of these contributions for their country of origin, we can see that their effect on BoP is significant.



**Figure 8. Migrants' Contribution According to Compensation and Non-Compensation Transactions**

*Source: Central Bank of the Republic of Kosovo*

While until 2011, travel revenues were lower than flows of remittances; after 2011 the opposite happens. However, both phenomena have marked a positive trend over time. The change in the ratio of travel services to remittance flows stems from the change in the methodology of statistical data producing by the CBK.

**Table 1. Trend Analysis of Remittances and Travel Services for the First Six Months 2016-2020**

	Up to June 2016	Up to June 2017	Up to June 2018	Up to June 2019	Up to June 2020
Remittances	321.8	359.9	384.6	405.4	434.5
Travel services	219.1	303.8	374.9	408.6	223.9
Travel services/Remittances	1	-15.59%	-2.52%	0.79%	-48.47%
Index chain of remittances	1	11.84%	6.86%	5.41%	7.18%
Index chain of Travel Services	1	38.66%	23.40%	8.99%	-45.20%

*Source: Central Bank of the Republic of Kosovo*

To analyze the importance of travel expenses in the total migrant flows we take for comparison the first six months of the year from the period 2016 to 2020, which was caught by the pandemic situation. The pandemic situation caused a decline in economic activity in Kosovo and its effects were pronounced in the influx of migrants

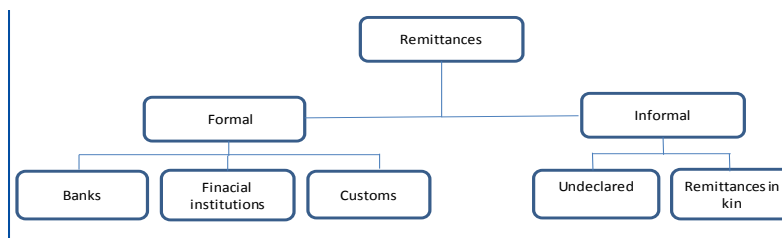
in Kosovo. The impossibility of moving due to protective measures and other restrictions resulted in a decrease in revenues from travel services by more than 45% compared to the same period of the previous year. If we take into account only the first six months, then we see that since 2016 revenues from services have had a positive trend and with a significant importance especially when comparing 2017 with the previous year and this because of the influx of migrants in previous years.

Although the ratio of travel to total remittances during the year is positive from 2011, according to the above data, the first six months of 2017 and 2018 show a negative trend, but this trend is deepened in the first six months of 2020 to previous year due to non-arrival of migrants where travel expenses were 223.9 million euros as opposed to the same period of the previous year which were 408.6 million euros. The inability to come to Kosovo raised the possibility that part of the expenses that would be made in Kosovo, be sent to their families in the form of remittance flows. Thus, while remittances sent in the first half of 2019 were about 20.8 million more than in the same period of the previous year, then in the first half of 2020 remittance flows increased by 29.1 million euros compared to the same period of the previous year.

#### 4.1. Remittances by Channels

Remittances in Kosovo come through formal and informal channels. Formal channels are considered funds received through the electronic payment system such as transactions received through the banking system, transfers through money transfer agencies and in-kind remittances registered by Kosovo Customs. Whereas, informal remittance channels can be different, such as undeclared means at border crossings and remittances on goods from emigrants living outside Kosovo. Most Kosovar migrants use formal channels to send funds to their families. On average, during the period 2006-2019, 63 percent of remittances were sent through formal channels, respectively through bank transfer and money transfer agencies. The rest were sent through informal channels, which could be deliveries of goods, deliveries through family members or vehicles brought without being declared to Customs.

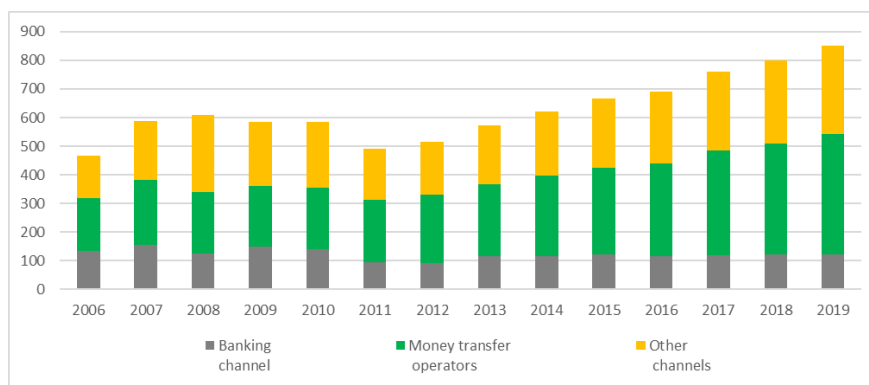
The ways of sending remittances are illustratively presented in the figure below:



**Figure 9. Remittances by Channels**

*Source: Central Bank of the Republic of Kosovo*

While the statistics of remittances by main channels in the time series are presented in the figure below:



**Figure 10. Remittances by Channels, in Million Euros**

*Source: Central Bank of the Republic of Kosovo*

As it can be seen in the figure above, money transfer agencies are the most preferred way of sending remittances from Kosovar emigrants. This way of sending remittances has increased continuously over the years since 2010 and has reached the highest level in 2019. In 2019 compared to ten years earlier (when the countries where the Kosovar diaspora lives were facing the global financial crisis), remittances from this channel have been doubled. Money transfer agencies are the fastest way to send funds and are mainly used for small amounts, therefore it is the most used way of sending funds.

Transfers through the banking system are the second most used way of sending remittances by Kosovo emigrants. This method of sending funds is used for larger amounts due to higher security and they take longer to execute. As for remittances from informal channels, they are carried out in different ways and are relatively important in the total value of remittances. Their share in the total value of remittances is identified with the choice of informal economy in the economy of Kosovo.

## 5. Conclusion

Remittances are an important part of foreign financing of developing countries. Continuous migration and especially the last wave of migration (2014-2015) have increased the remittances sent by migrants. Remittance flows increase the welfare of host families as they affect the fulfillment of many needs which would be difficult to meet without migrant remittances. Thus, their effect on poverty alleviation is high, as remittances are intended for about 90% for current consumption, sustainable goods, health and education. However, their effect on economic development and long-term welfare cannot be guaranteed, because remittance recipients are likely to be dependent on regular remittances from their family members and consequently, they

may not be part of the labor market as they are confident that their family members will finance them for consumption and other expenses. Indeed, sending remittances, in addition to the economic status of family members in Kosovo, depends on a large extent on family ties. If a whole family has migrated, remittance flows will be lower for extended family members, compared to when a family member has migrated and due to close family members remaining in Kosovo, will send more remittances. If we look at remittances from the macroeconomic perspective, we can see that they have a high importance in the financing of the current account deficit; the high value of migrant remittances, the expenses they incur during their holidays in Kosovo, the clothes and other goods they bring to their families, the cars they bring, the purchase or construction of houses and other investments in real estate contribute to the reduction of the deficit of Balance of Payments. During the 2019, the total value of all forms of migrants contribution in Kosovo was around 2.17 billion euros.

While the ratio of remittances to the country's GDP in 2019 was 15.8% and compared to countries in the region, Kosovo had the highest share in GDP. Migrants apply different ways when sending money, such as through bank accounts, MTO (Money Transfer Operators) and other unofficial channels. Customarily, sending the money through bank accounts is applied when it comes to higher values due to the secure transfers, even though it may take longer time and has a higher cost. However, when the sent values are smaller amounts, in urgent cases, the migrants mainly use MTOs because of lower costs and faster delivery. In addition to these two, they use informal channels through relatives or even through their pockets. The latest creates challenges in the real measurement of remittance flows, although estimates by the relevant authorities may be approximate.

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