
The Role of the Diaspora in Economic Development: The Impact of Remittances and Foreign Direct Investments in Kosovo

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Abstract:

Purpose: *The paper deals with issues related to remittances and foreign direct investments, including the analysis of their economic effect in Kosovo. The main purpose of this paper is to analyze direct investments and remittances in Kosovo and the effect of remittances on the economy in recent years in the Republic of Kosovo.*

Design/methodology/approach: *This article provides a theoretical overview of remittances and direct investments and their impact on the economy. To finalize the work, the material used includes scientific literature, as well as reports and publications from the Central Bank of Kosovo, the Ministry of Finance. To achieve the main objective of the article, various data sources such as analysis methods, comparative methods, econometric analysis are used, which are analyzed and analyzed in a correlative manner.*

Findings: *Within the framework of the work we have done regarding the analysis of remittances and direct investments and their impact on the economy of Kosovo, the results have shown that: remittances and direct investments have an impact on economic processes and economic activities.*

Practical implementations: *Through the study, we consider that the results and recommendations should be taken into account by interested parties and certain sectors in Kosovo.*

Originality value: *Direct investments and remittances remain one of the important factors for the economy in Kosovo. Given that Kosovo has a low level of domestic production and economic growth, as well as a high rate of unemployment, in this context the importance and effect of direct investments and remittances has been and remains of particular importance for family economies and the economy in generally.*

Keywords: *Remittances, economy, direct investments, GDP.*

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JEL codes: *F21, F22, F24, O15, O19, P33.*

Paper type: *Research article.*

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1. Introduction

In the framework of the paper, issues related to the remittances of the Kosovar diaspora, their importance for the family economies in Kosovo, the forms of sending and the economic effect before and during the Covid-19 Pandemic are addressed. The impact of remittances in Kosovo is important because they constitute an additional source of income for host families.

The Kosovar diaspora is distributed in different countries, most of them are concentrated in the countries of Western Europe. Remittances from the diaspora undoubtedly remain an important source of finance for households in Kosovo. The sending of financial means from the diaspora to Kosovo comes through different routes that generally used formal and informal ways of sending money.

The Gross Domestic Product is taken as the most general macroeconomic indicator through which the dynamics of economic development is expressed. The most important economic indicator in the System of National Accounts is the Gross Domestic Product (GDP), which represents the performance of a country's economy in a given period (Statistics Agency of Kosovo, Series 4, National Accounts Statistics, Gross Domestic Product Q2 2020, Pristine, 2020).

The main purpose of this study is to analyze remittances and foreign direct investments in Kosovo and their progress and effect on the economy in the Republic of Kosovo in recent years.

The research questions of this study include:

H0: The impact of remittances on the economy before and during the Covid19 pandemic in Kosovo?

H1: Participation of remittances in GDP in Kosovo?

H2: The importance of foreign direct investments in Kosovo?

In order to answer the presented questions, it was possible to review the scientific literature and relevant articles, as well as important government documents (publications and reports) of the institutions of the Republic of Kosovo.

The paper presents a theoretical overview of the role of remittances in the economy, the effect of remittances in the economy before and during the Covid-19 pandemic, the progress of remittances over the years including the time period from 2010 to 2021, correlations between GDP and remittances and conclusions, recommendations and references, which are presented at the end of the paper.

The study is structured as follows. Section 1 presents the introduction, including the main purpose of the paper, research questions and hypotheses. In section 2, the literature review is presented. Section 3 demonstrates the methodology and methods.

Section 4 of the paper provides the result and discussion as well as the correlation between remittances and GDP. Section 5 the conclusion of the study.

2. Literature Review

Remittances strongly influence the increase in household income and also the increase in the standard of living of the population in the beneficiary country (Taylor and Wyatt, 2006). The origins of modern immigration date back to the early 19th century and are widespread today.

All factors and motives that lead to immigration are divided into push factors and pull factors. The push factors are the reasons that motivate people to leave a certain country, where one of them may be economic difficulties, bad political situation, unemployment, natural conditions, etc. The pull factors are those causes that drive and motivate people to move to a particular destination.

Immigrant remittances have an impact on the economic and social processes in Kosovo, especially on the consumption value of the population (Limani. Musa, 2013). Diaspora plays a very big role in the economic development of Kosovo, through material contribution (remittances) and other forms of aid (Limani and Musa, 2013, Macroeconomics).

Personal finance deals with the administration of money that can be used for daily expenses (such as paying bills), saving and making investments (Bank of Albania, 2011, Personal finance in your hands).

Personal financial planning is the process of managing financial resources (money) to achieve personal economic satisfaction. A financially educated person possesses the ability to make decisions regarding (Bank of Albania, 2011, Personal finances in your hands).

- Saving.- to meet short-term and long-term objectives;
- Credit.- its responsible use;
- Administration of financial risks.

Diaspora represents an important potential and supporting factors for the sustainable development of Kosovo in the future. To send their funds, immigrants use different ways that are generally divided into two main groups: formal and informal ways of sending money (Central Bank of Kosovo-CBK, 2013).

During the transfer through unofficial channels, immigrants have used two main ways: they have sent their means personally during visits to their homeland, or another way through their relatives and friends (Central Bank of Kosovo-CBK, 2013).

According to Curtis and Irvine, (2021), in an economy with a growing population and labour force, growth in real GDP is necessary to maintain standards of living. The following Table 1 reflects the Gross Domestic Product-GDP in Kosovo including the period 2021-2023.

Table 1. *Gross Domestic Product in Kosovo.*

Years	Gross Domestic Product
2021	7,957,876
2022	8,895,728
2023	9,680,068

Source: Kosovo Agency of Statistics, *Series 5: National Accounts Statistics, Gross Domestic Product (GDP) by Economic Activities and Expenditure Approach 2008 – 2023*, Pristina 2024, pg. 11-12.

From this Table, on the progress of the GDP, in the period 2021-2023, it can be seen that the value of the GDP has had a downward trend in 2020 compared to the previous year 2019, this as a result of the measures and restrictions in the economy during the pandemic Covid-19. During the period 2021-2023, the Gross Domestic Product has had an upward trend from 7.9 billion euros in 2021 to 9.6 billion euros in 2023.

I take into account the low level of development in the country, the high rate of unemployment, the deficit in the trade balance, the importance and economic effect of the remittances of the Kosovar diaspora has been and remains of special importance mainly in the consumption and well-being of the receiving families in Kosovo. Remittances to Kosovo during 2021 have reached over 1 billion euros (Central Bank of Kosovo-CBK, Monthly Statistical Bulletin, 2022). The greatest support of remittances remains in the social aspect of the country, especially for families who have the only source of income.

In Kosovo, one of the main factors affecting immigration is the high unemployment rate in Kosovo, according to the results of the Labor Force Survey (LFS) for 2021, the unemployment rate is 20.5% while the employment rate is 30.0% (Kosovo Agency of Statistics-KAS, 2022).

3. Research Methodology

For the realization of the studies, they are connected with the official announcements from the local government and the talks. This article provides a theoretical overview of direct investment and remittances as well as the trends of direct investment and remittances in Kosovo, from 2019 to 2023. The methodology of the study is based on a broad dimension in the review of theoretical and empirical literature. The definitions of the main objective of the articles are different sources of data, as well as the method of analysis, comparative, econometric analysis which is presented through correlative analysis.

However, the relationship between the independent variable of direct investments and the dependent variable of GDP has been established, which is presented through correlational analysis. Through the work and analyzes carried out in relation to direct investments and remittances, including the effect on the economy before and during the Covid-19 pandemic, then the correlation between GDP and direct investments, while at the end of the work, the relevant conclusions and recommendations are given.

4. Results of the Study

Remittances in Kosovo have been and continue to be one of the most important contributors to the country's economic and social development, with estimates suggesting that a quarter or more of households have a family member living abroad. According to the International Monetary Fund „Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies” (International Monetary Fund, (2009). Balance of Payments and International Investment Position Manual, Sixth Edition).

Remittances are considered an important contributor to the well-being of Kosovar families. Remittances represent an important source of private investments and constitute a very important element of aggregate demand, influencing the growth of consumption. In other words, not focusing on complex empirical analysis, including the importance and effects of remittances in the economy of Kosovo, the following table shows the progress of remittances in the period 2019-2023.

Table 2. *Progress of remittances and Gross Domestic Product in Kosovo in the period 2019-2023 million euros*

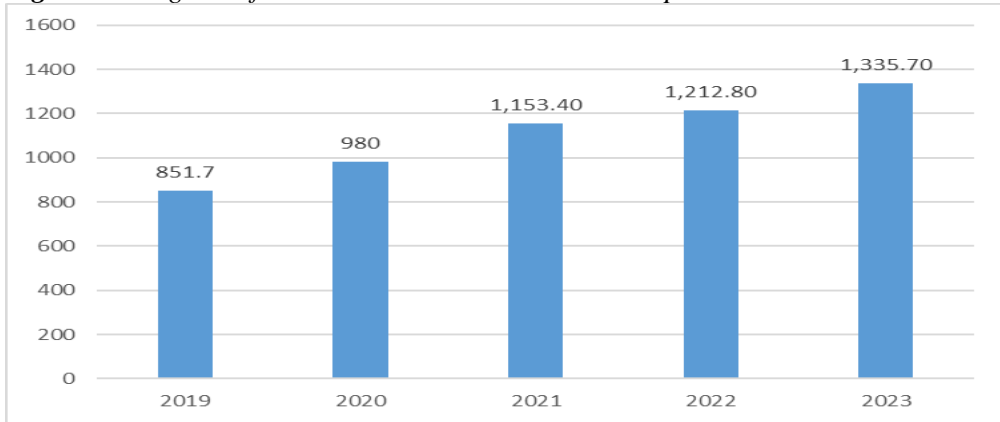
Year	Remittances	Gross Domestic Product	Remittance/GDP report (%)
2019	851.7	6,988.8	12.1%
2020	980.0	6,679.3	14.6%
2021	1,153.4	7,958.0	14.5%
2022	1,212.8	8,594.0	14.1%
2023	1,335.7	9,680.0	13.7%

Source: *Central Bank of Kosovo, Monthly Statistical Bulletin No. 278, Pristina, 2024, p. 99. Kosovo Agency of Statistics, Series 5: National Accounts Statistics, Gross Domestic Product (GDP) by Economic Activities and Expenditure Approach 2008 – 2023, Pristina 2024, pg. 11-12.*

Table 1 and Figures 1 and 2 show the progress of remittances sent to Kosovo and the remittance/GDP ratio including the period 2019-2023. In 2019, the remittances sent to Kosovo were worth 851.7 million euros, while in the following years an increasing trend, reaching in 2023 the value of 1.3 billion euros, or a slight decrease of 0.4 percentage points compared to the previous year.

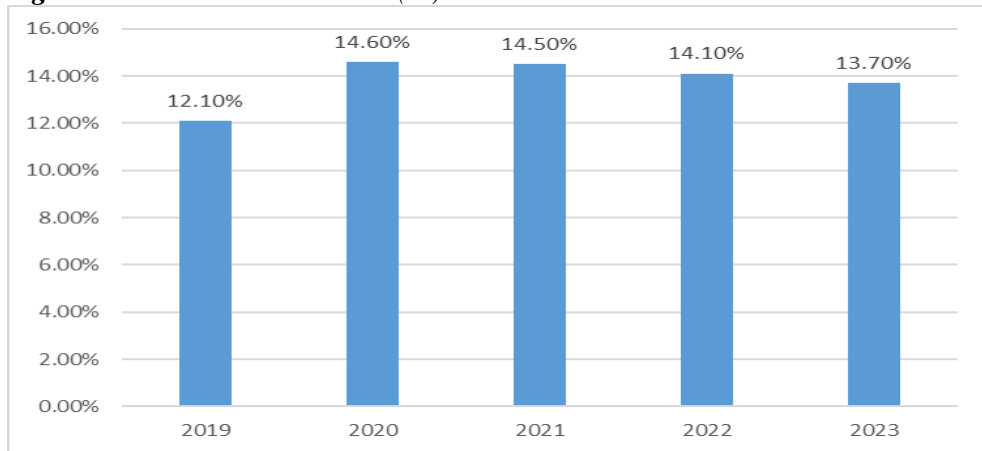
Therefore, the gradual decline in the share of remittances in GDP is observed. In 2022, the share of remittances in GDP was 14.1 percentage points, while in 2023 it was 13.7 percentage points.

Figure 1. Progress of remittances sent to Kosovo in the period 2019-2023



Source: Own study.

Figure 2. Remittance/GDP ratio (%)



Source: Own study.

Taking into account the situation and economic development in Kosovo, remittances have served as a very important pillar for the country's economic development and social development. Kosovo's economy has seen positive growth rates in the last decade, despite the challenges posed by the fluctuations in the global and especially the European economy.

According to Kosovo Agency of Statistics (KAS) data for 2022 Gross Domestic Product (GDP) we notice that in 2022 was 9.6 billion Euro (Kosovo Agency of Statistics-KAS, 2022).

Regarding the origin of remittances, the main contributing countries are Germany, Switzerland, Italy, Austria and the USA. Of the total remittances sent to Kosovo in Q4 2023, the remittances are received from Germany 38.4%, Switzerland 20.8%, USA 7.1%, Italy 4.8%, and Austria 4.2% (Central Bank of Kosovo-CBK, 2023).

In order for remittances to have a greater positive effect on the country's economy, it is important for them to be invested in opening new businesses, expanding existing businesses, and so on. Remittances in Kosovo are, in most cases, used for consumption and have a direct impact on meeting the daily needs of the country's population. Remittances and their effect on the economy before and during the Covid-19 Pandemic in Kosovo.

The capital of the diaspora has played and plays an important role in the financial resources of the population of Kosovo, as they send a part of their savings to their family members in Kosovo. Remittances represent a very important source of income for the population of Kosovo.

Remittances in Kosovo have been and continue to remain an important source of income for households in Kosovo, from which they provide a large part of final consumption. In this context, remittances (remittances from the diaspora) represent a certain value of private investments, constituting an important element of aggregate demand, because they influence the growth of consumption.

Undoubtedly, the Kosovar emigrants distributed in different countries of the world through remittances (financial means) sent to families in Kosovo, influence the increase in consumption and the standard of living, in the alleviation of poverty and the reduction of social problems, as well as through economic investments in the development economic of Kosovo.

So, the Kosovar diaspora in different periods has played an important role by providing an important source of finance for the economy of Kosovo. There is no doubt that the diaspora has been and continues to be an important and supportive potential in economic developments in Kosovo.

Since the post-war, Kosovo continues to have a low level of economic growth, a high unemployment rate and a high trade deficit. Taking into account this indicator, the economy of Kosovo, especially family economies, continue to depend to a large extent on remittances sent by the Kosovar diaspora.

Remittances are usually sensitive and affected by the economic conditions of the countries from which they originate, which may be loosely related to events in the recipient country. Obviously, remittances tend to increase (decrease) when conditions in recipient countries worsen (improve). In other words, from an economic point of view, remittances are directly dependent on economic flows and other conditions in the recipient country.

The Covid-19 pandemic started in China at the end of 2019 and which involved almost all the countries of the world at the beginning of 2020, so Kosovo was also involved in this pandemic starting from March 2020. Based on this, the Covid-19 Pandemic of spread all over the world, it has undoubtedly affected the financial situation of Kosovar emigrants by directly affecting the remittances (financial means) sent by the diaspora to Kosovo.

In Kosovo, with the decision of the Government of Kosovo, the first emergency measures to prevent the spread of the Covid-19 Pandemic were taken in March 2020. The table below reflects the remittances sent to Kosovo before the Pandemic (2019) and during the Covid-19 Pandemic (2020).

Looking at the remittances sent to Kosovo in the period 2019-2021 (the period before the Covid-19 pandemic and during the Covid-19 pandemic), it is observed that despite the measures of restrictions in the economy of different countries, the remittances sent to Kosovo had a growth trend in 2020 compared to the year 2019 before the start of the Covid-19 pandemic.

So, in 2019 before the start of the Covid-19 pandemic, the remittances sent to Kosovo were 851.7 million euros, while during the period of the Covid19 pandemic the remittances sent increased, so in 2020 they were worth 980.0 million euros, while during in 2021 to 1.1 billion euros (Central Bank of Kosovo-CBK, 2022) (Riinvest Institute, 2007).

United Nations Conference on Trade and Development (UNCTAD) defines FDI as "an investment involving a long-term relationship and reflecting an enduring interest and control by an economic entity resident in an economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor".

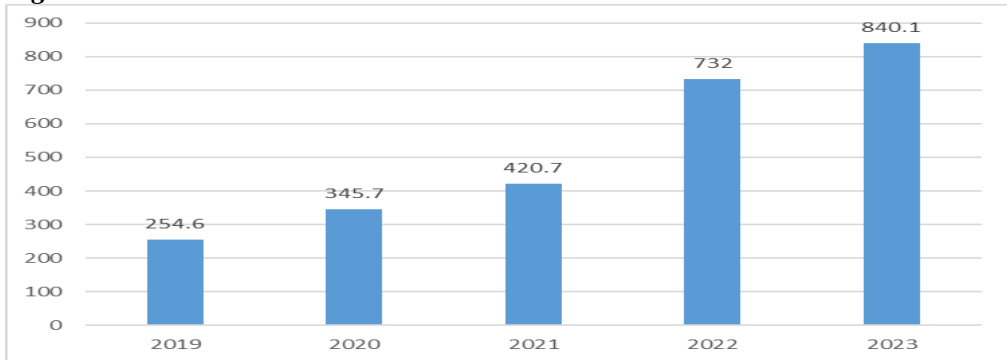
According to the World Bank (WB), foreign direct investments are the net inflows of investments to realize sustainable interest of management (10 percent or more of the voting shares) in the enterprise operating in an economy different from that of the investor. The following Table 3 reflects the direct investments in Kosovo during the years 2019-2023.

Table 3. *Direct investments in Kosovo - in million euros*

Year	Direct investments
2019	254.6
2020	345.7
2021	420.7
2022	732.0
2023	840.1

Source: Central Bank of Kosovo, *Monthly Statistical Bulletin No. 278, Pristina, 2024, p. 111.*

Figure 3. Direct investments in Kosovo



Source: Own study.

Table 3 and Figure 3 show an increasing trend of direct investments in Kosovo during the years 2019-2023. Direct investments in Kosovo have increased from 254.6.1 million euros in 2019 to 840.1 million euros in 2023.

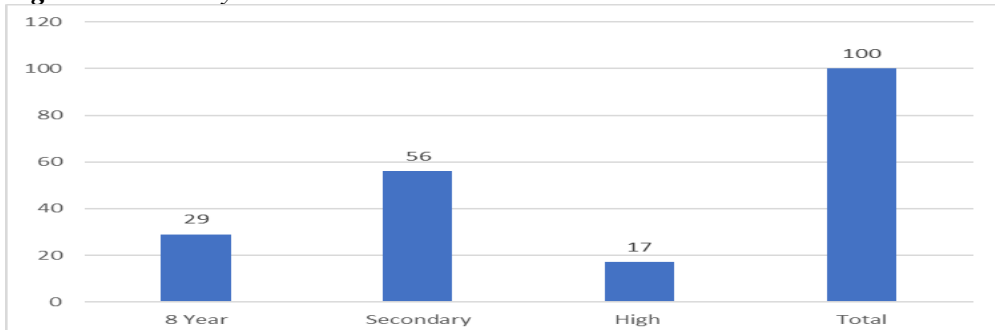
For the purposes of the study, a questionnaire was prepared in which 110 Kosovar immigrants were surveyed. The level of education of the participants in the survey are presented in Table 4.

Table 4. What is your education?

No	What is your education?	Nr	%
1	8 Year	31	29
2	Secondary	61	56
3	High	18	17
	Total	110	100

Source: Own study.

Figure 4. What is your education



Source: Own study.

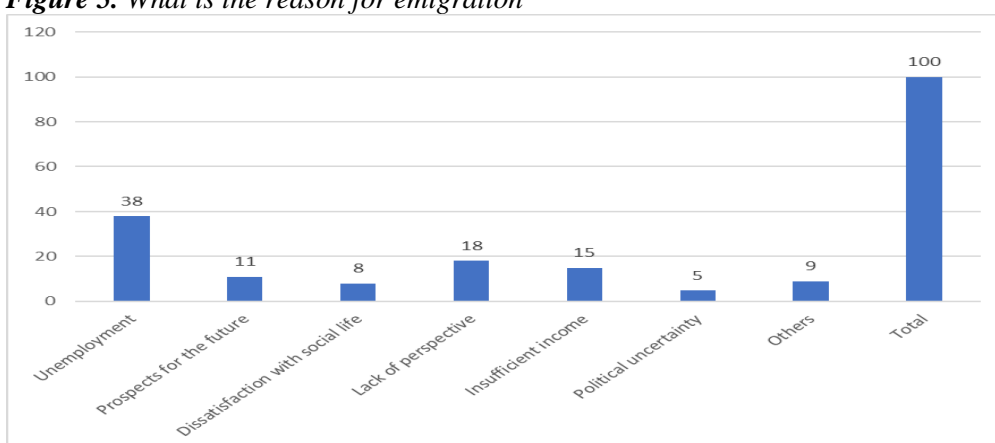
As a result, the response rate for this questionnaire was: The majority of immigrants have secondary education or 56%, while 29% have primary education, and 17% have higher education.

Table 5. *What is the reason for emigration?*

No	What is the reason for emigration?	Nr	%
1	Unemployment	41	38
2	Prospects for the future	12	11
3	Dissatisfaction with social life	8	8
4	Lack of perspective	19	18
5	Insufficient income	16	15
6	Political uncertainty	5	5
7	Others	9	9
	Total	110	100

Source: Own study.

Figure 5. *What is the reason for emigration*



Source: Own study.

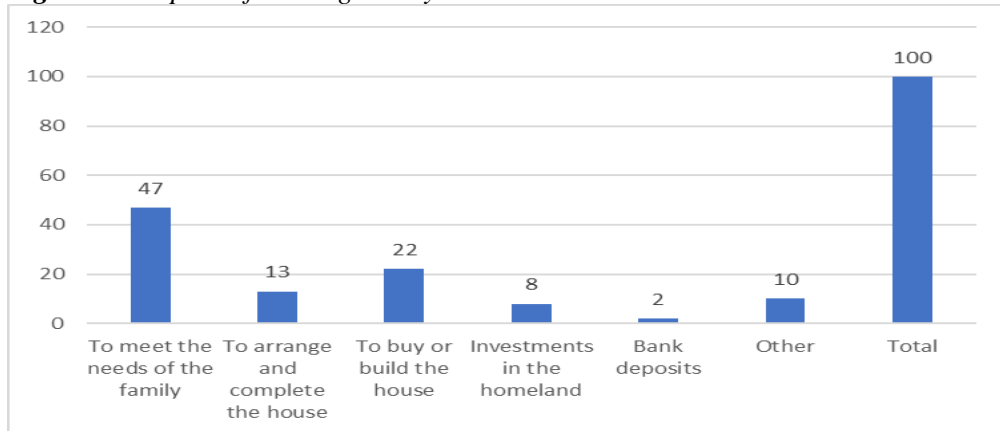
The factors that have encouraged emigration according to the survey are unemployment, lack of perspective, insufficient income. So, 38% of respondents consider that unemployment is the main factor of emigration, then 18% lack of perspective, 15% insufficient income, 11% perspective for the future, 8% dissatisfaction with social life, 5% political uncertainty, 9% others.

Table 6. *Purpose of sending money to Kosovo?*

No	Purpose of sending money to Kosovo?	Nr	%
1	To meet the needs of the family	51	47
2	To arrange and complete the house	14	13
3	To buy or build the house	24	22
4	Investments in the homeland	8	8
5	Bank deposits	2	2
6	Other	11	10
	Total	110	100

Source: Own study.

Figure 6. Purpose of sending money to Kosovo



Source: Own study.

From the respondents, it turns out that 47% send the money to meet the needs of the family (consumption), 22% to buy or build a house, 13% to fix and complete the house, then 8% investments in the homeland, 2% deposits in the bank.

5. Results- Correlation between Gross Domestic Product and Direct Investments

Direct investments are an important economic parameter. Direct investment is a key issue in economic discussions and at the same time an extremely intensive area of research. Correlational analyzes are used in this article to measure the strength of the relationship between the independent variable Direct Investment (X) and the dependent variable GDP (Y). The result of the correlative study is obtained from the correlation coefficient.

The values of the correlation coefficient are between - 1 and + 1. The value + 1 indicates that the two variables are in a completely linear relationship and in the same direction, which means that all points lie on a straight line with the coefficient positive. While the -1 value of the correlation coefficient indicates that the variables are in a complete linear relationship and in the opposite direction.

For correlation analyses, it has been argued that the correlation coefficient is a summary measure that describes the degree of statistical relationship between two variables, the dependent variable and the independent variables (Leroux, 2009).

Indicators of Correlation Analysis of Direct Investment and GDP are represented by Correlation Coefficient (r), Coefficient of Determination (r^2) and Alliance/Contingency Coefficient (ka).

On the basis of correlative analysis we analyze the impact of direct investments on GDP. For Direct Investment and GDP, the correlation analysis covers the period from 2018 to 2022.

Table 7. Data are expressed in EUR millions over the period 2018– 2022

Vitet	Direct investments X1	GDP Y1	X1-X	(X1-X) ²	Y1- \bar{Y}	(Y- \bar{Y}) ²	(X1-X)*(Y1- \bar{Y})
2018	272.1	6,572.9	-140.98	19,875.36	-691.0	477,481.0	97,417.18
2019	254.6	6,988.8	-158.48	25,115.91	-275.1	75,680.01	43,597.85
2020	345.7	6,679.3	-67.38	4,540.06	-584.6	341,757.16	39,390.35
2021	420.7	7,484.5	7.62	58.06	220.6	48,664.36	1,680.97
2022	772.3	8,594.0	359.22	129,039.01	1,330.1	1,769,166.01	477,798.53
Total	413.08	7,263.90	0.0	178,628.4	0.0	2,712,748.54	659,884.88

$$r = \frac{\sum(X1 - X) * (y1 - \bar{Y})}{\sqrt{\sum(X1 - X)^2 * \sum(Y1 - \bar{Y})}}$$

$$r = \frac{659,884.88}{\sqrt{178,628.4 * 2,712,748.54}} = \frac{659,884.88}{696,697.75} = 0.95$$

Covariance: The covariance of choice is defined as follows:

$$S_{xy} = \frac{\sum(x1 - x) * (y1 - \bar{Y})}{n - 1}$$

$$S_{xy} = \frac{\sum(x1 - x) * (y1 - \bar{Y})}{n - 1} = \frac{659,884.88}{5} = 131,976.98$$

Correlation coefficient: The correlation coefficient is **r = 0.95** From this we see that we have a positive average correlation, and that there is a positive average correlation between Direct investments and GDP.

Determination coefficient: **r² = (0.95)² = 0.9025** From here it results that **90.25%** of the Direct investments variation is explained by the variation of GDP.

Alliance coefficient: **Ka = 1 - r² = 1 - 0.9025 = 0.10** It results that **10.00%** are other unexplained factors affecting Direct investments.

6. Conclusion

Direct investments and remittances remain one of the important factors for the economy in Kosovo. Given that Kosovo has a low level of domestic production and economic growth, as well as a high rate of unemployment, in this context the importance and effect of direct investments and remittances has been and remains of particular importance for family economies and the economy in generally.

For the period 2018-2022, a positive dependence between GDP and direct investments is evident. The results of the analysis show that direct investments have been one of the main factors in the economy, as well as their role has been quite important in increasing the well-being of the population, in increasing aggregate demand and for the economy as a whole.

In the framework of the work and analysis we have done regarding the impact and economic effect of direct investments and remittances before and during the Covid19 pandemic in Kosovo, we consider that direct investments and remittances remain an important financial source, influencing the level of consumption and the standard of the livelihood of families in Kosovo, as well as the economy of Kosovo.

In Kosovo, direct investments and remittances are mainly focused on meeting family needs (consumption), then on real estate, while very little on investments in the economy.

Also, in the future, direct investments and remittances in Kosovo should be mainly focused on investments in the economy and development projects.

The government should also stimulate the diaspora to invest through new bilateral agreements that facilitate trade and attract foreign direct investment.

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