THE IMPACT OF REMITTANCES ON HOUSEHOLDS: THE CASE WITH RESIDENTS OF THE PRIZREN REGION

Kujtim HAMELI
Istanbul University, Republic of Turkey
kujtim.hameli@ogr.iu.edu.tr

Qëndrim BYTYQI
Faculty of Economics
University of Prizren "Ukshin Hoti"
qendrimbytyqi077@gmail.com

ABSTRACT

Remittances are an important source of external funding. They have a positive impact, both at the microeconomic level, like for the welfare of the household, and at the macroeconomic level, like in the growth of the domestic economy. Remittances are current transfers in cash or in other forms or money received by resident households from non-resident households.

The purpose of this paper is to discover the impact of remittances on the welfare of the household in the Prizren region. For this reason, an online questionnaire with 160 participants was conducted by selecting the non-random sampling method. According to the results obtained, remittances play an important role in the households of the Prizren region because most of these remittances are used for food consumption, education and clothing. At the end of hypothesis testing it is found that there is an important relationship between the residence and the frequency of receiving remittances, and people living in both, urban and rural areas receive remittance in different frequencies. However, no significant relationship has been found between the gender and frequency of receiving remittances. The research mainly has a descriptive nature of the effect of remittances on households.

Key words: remittances, impact, household, receiving, role

Jel Code: D1, E2, I13

Introduction

The phenomenon of migration is widespread in every country. Kosovo has experienced migration of the population abroad throughout the history, both in Turkey at the time of the Ottoman Empire and in the West, in the post-war and modern times. Consequently, a considerable amount of remittances stems from these families.

Migration can have positive and/or negative impacts, both in the short and long term. On one hand, migration can lead to higher living standards and educational and wellbeing standards improvement. On the other hand, when groups of educated people leave the developing countries, there is a significant human capital loss. This is known as "brain drain", as can be seen in some developing countries where their highly skilled workers move out of their countries. This can be seen as a lost opportunity since developing countries have limited spending on education and training (Ahmed et al., 2010).

Remittances are incomes that come from abroad. These incomes are also called personal transfers. Thus, the International Monetary Fund Committee refers to personal transfers as current transfers in cash or in other forms or cash received by resident families or other non-resident families (IMF, 2006).

Personal transfers include all current transfers from resident to non-resident households, regardless of sender's income sources (such as wages and salaries, social benefits or any other transfer, including transfers from a non-receivable person); relationships between families (either between relative or non-relative persons); the purpose for which the transfer is made (whether inheritance, a fixed monthly amount, lottery, etc.) (Alvieri and Havinga, 2006).

1. Literature Review

International remittances have become a very important source globally in recent years. Remittances are perhaps the largest source of external financing in developing countries (Maimbo and Ratha, 2005). The flow of remittances is less affected by the economic downturn and remains a sustainable source of incomes. Remittances are identified as the third pillar of development, as their volume is the second for foreign direct investments and higher than aid for overseas development (Alvieri and Havinga, 2006).

Household spending reflects family preferences for consumption and family characteristics are very important to understand how revenue between different types of goods is shared (Randazzo and Piracha, 2014). The country's disposable income level increases as remittances go directly from immigrants to their family or friends (third-party remittances) (Salomone, 2006).

Migrant transfers play an important role in developing countries. It is important to understand how family members accept and perceive them. Randazzo and Piracha (2014) emphasize that international remittances have a strong effect on household expenditure behavior: they are used for food, consuming and sustainable goods, and education. However, those who accept international remittances are inclined to spend less on food and more on sustainable goods, education and investment.

Medina and Cardona (2010) have found that remittances have a positive impact on education and that families who received remittances spent 10% more on total spending on education compared to households that did not accept remittances. At the same time, remittances have important effects on the living standards of eligible households and that they have higher standards of living compared to non-remittance families.

Borici and Davoci (2015), in their research found that Albanian families involved in different economic activities are more likely to be economically independent and do not need greater support on remittances. However, families with large numbers of women receive remittances as they are considered as a strong protective weapon of their well-being. Household members of different ages have a different impact on the presence of remittances. While families with younger members, 18-65 years old, represent an active participatory force in economic life, they have a negative impact on receiving remittances. Whereas, older-age members, over 65 years old seem to be heavily dependent on receiving potential remittances. Similar results have also Wadood and Hossain (2016) found that women are more likely to receive remittances comparing with men and that this result depends on the fact that comparing to the past when men were head of households, now females are head of households in the absence of migrant males. The age of the head of the family also positively affected the probability of receiving remittances.

Ahmed et al. (2010) conclude that the average incomes of a migrant family in Pakistan are 17.3% higher than a non-migrant family. The share of remittances in total incomes increases as the household moves to a higher income group. Remittances also contribute more to the incomes of rural households than to urban household incomes. Regional characteristics also had a significant impact on the migration pattern and consequently remittance flows in Pakistan. Wadood and Hossain (2016) have also found that families in rural areas are more likely to accept remitancas compared to those in urban areas.

There is a positive correlation between remittances and food spending, and households receiving remittance suffer less from poverty. These families spend more on health spending than those who do not receive, but there is found no difference in education (Wadood and Hossain, 2016).

Muktarbek et al. (2015) claim that remittances in the Kyrgyz Republic are about one third of GDP, their volumes are larger than foreign direct investment and foreign aid. Remittances increase the share of

expenditures on durable goods, human capital investments (healthcare and education costs), construction and celebrations. At the same time, remittances reduce the share of spending on food and public services. The effect of remittances is statistically significant for constructions, celebrations and durable goods. The increase in the share of remittances from total household incomes leads to an increase of 0.3 percent in the share of construction spending. Families receiving remittances share less spending on food and public services, but spend more on construction, durable goods and celebrations.

Incaltarau and Maha (2012) confirm the contribution of remittances to rising consumption and investment in the family. Moreover, the relationship between remittances and investments is even stronger than that between remittances and household consumption.

Research of Parinduri and Thangavelu (2011) emphasizes another aspect of remittances. They have sought the impact of remittances on the development of the human capital of children in household incomes in Indonesia and have found that remittances have an impact on continuing education.

However, recently, remittances have been influenced by the weak economic growth in Europe, the Russian Federation and the GCC countries (cyclical factors), as well as exchange controls, burdened regulations and anti-migration policies in many countries (structural factors). Remittances, especially in South Asia and Central Asia, have been affected by low oil prices and poor economic growth in Russia and the GCC countries. Poor growth in Europe has also been influenced by flows in North Africa and Sub-Saharan Africa. The weakening of the euro, the British pound and the ruble against the US dollar further highlighted the fall in remittances in US dollar terms. The flows of remittances in the region of Europe and Central Asia (ECA) marked a significant decline for the third consecutive year; these rates have fallen by 30 percent since 2013. Latin America and the Caribbean (LAC) were the only region that recorded a growth (6.9 percent) in remittances, supported by strengthening employment rates in the United States (World Bank Group, 2017).

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2. Remittances in Kosovo

Kosovo as well as any other developing country has a considerable number of its citizens living in developed countries (mainly in the European Union). Given the high number of unemployed people in Kosovo, from the 1990s onwards, there have been remittances that have provided the living conditions for many of Kosovo's citizens. Thanks to these funds coming from abroad for the citizens of the Republic of Kosovo has been provided a better life wellbeing, which subsequently contributed to the development of the economy at a general level in Kosovo. Emigrants from Kosovo have migrated mainly to European Union countries because of the most developed economic level and the highest standard of living. Based

on the reports released by the CBK, it emerges that over the years Kosovo only from migrants who live abroad has received millions of euros of money used for different needs (CBK, 2013).

Remittances in Kosovo have increased by 12,7% in January 2016, according to data from Central Bank of Kosovo. Kosovar migrants usually choose money transfer operators to send money to friends or relatives at home. The inflow of remittances to foreign emigrants in Kosovo has reached 691 million euros in 2016, compared to 665.5 million euros in 2015. Out of the total of 665.5 million euros, 148.4 million euros have been sent by Kosovans living in Germany and 90.5 million euro from those living in Switzerland (Insajder, 2017). Remittances in Kosovo have reached 759.2 million euros in 2017 and marked an annual growth of 9.9 percent (BQK, 2017).

Remittance flows help alleviate negative shocks in the country and consequently their withdrawal in Kosovo should be prioritized by the relevant authorities. Kosovar emigrants are characterized by altruistic motives and tend to send more remittances to their family members in Kosovo when their financial situation deteriorates (Bujupi, 2018).

3. The Case with the Residents of the Prizren Region

The purpose of this research is to identify the importance of remittances to households for residents of the Prizren region. Using secondary data, a questionnaire has been applied to residents from Prizren region through the convenient sampling. The questionnaire has been performed online using Google Forms and the link is left opened between 11 to 21 April 2018. A total of 160 questionnaries has been collected for analyses.

Hypotheses:

H_1: There is an important relationship between gender and the freuquency of receiving remittances.

H_2: There is an important relationship between residence and the frequency of receiving remittances.

3.1. Data Analyses and Results

3.1.1. Demographic Characteristics of Research Participants

The Table 1 gives the descriptive frequencies of research participants. From 160 participants, the research consists of 71,3% of males and 28,7% females. 50% belong to 21-40 years old interval and 32,5% to <20 years old. Most of the participants, 54,4% have a bachelor degree. 59,4% of participants live in rural areas and 40,6% live in urban areas. 66,9% of participants are single. Personal incomes distributions are different, but mostly of them, 30,6% have over 400 euro personal income and 23,1% have 201-300 euro personal incomes.

Table 1. Frequency Distributions

	Question	Frequency	Percent
Gender	Male	114	71.3
	Female	46	28.7
Age	< 20	52	32.5
	21-40 years old	80	50.0
	41-60 years old	25	15.6
	Over 60 years old	3	1.9
Education	Primary school	13	8.1
	High school	44	27.5
	Bachelor	87	54.4
	Master and phd	16	10
Residence	Urban	65	40.6
	Rural	95	59.4
Status	Single	107	66.9
	Married	46	28.7
	Divorced and widow	7	4.4
Personal Incomes	0-100 euro	33	20.6
	101-200 euro	21	13.1
	201-300 euro	37	23.1
	301-400 euro	20	12.5
	Over 400 euro	49	30.6

3.1.2. Frequency Distributions Related to Remittance Receiving

The Table 2 describes the frequencies related to remittance receiving. It can be noted that most of the remittances, 38,8% come from Germany, 26.3% from Swiss and 14,4% from Italy. Most of the participants, 31,3% receive remittances every month. However, the distributions for other frequencies of receiving remittances are very similar. The received amount is less than 500 euro (52,5%). 45,6% of emigrants send money in cash, however, 35,6% send money through bank. According to the spending resource, most of the participants, 70% use remittances for food consumption, 51,2% for education and 50% for clothing.

Table 2: Frequencies Related to Remittance Receiving

	Question	Frequency	Percent
Origin of Remittances	Germany	62	38.8
	Switzerland	42	26.3
	Italy	23	14.4
	USA	6	3.8
	Austria	5	3.1
	Other (15 countries)	22	13.6
Frequency of receiving remittances	Every month	50	31.3
	Every quarter	38	23.8
	Every six month	41	25.6
	Once per year	31	19.4
Amount of remittances received	Less than 500 euro	84	52.5
	501-1000 euro	51	31.9
	1001-1500 euro	10	6.3
	1501-2000 euro	7	4.4
	More than 2000 euro	8	5.0
Remittances receiving channel	Cash	73	45.6
	Bank	57	35.6
	Money Transfer Agencies	23	14.4
	Debit/Credit Card	1	0.6
	Post	1	0.6
	Goods	5	3.1
	Choose all that apply question		
Resource of remittance using	Food consumption	112	70.0
	Education	82	51.2
	Clothing	80	50.0
	Health	68	42.5
	Car	32	20.0
	Property	19	11.9
	Furniture	16	10

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3.1.3. The Relationship between Demographic Characteristics and Remittances

H_1: There is an important relationship between gender and the frequency of receiving remittances.

Chi Square Value: 4.079; df: 3; Sig. .253

To test this hypothesis the Chi-Square test of Independence has been performed. A crosstabulation has ben extracted between gender and the frequency of receiving remittances. However, there is found no statistitcal relationship between gender and the frequency of receiving remittances. The Chi Square value is 4,079 and the significance level is 0,253. As a result, the H_1 hypothesis has been rejected.

H_2: There is an important relationship between residence and the frequency of receiving remittances.

Chi Square Value: 10.141; df: 3; Sig.017

Residence * The frequency of receiving remittances Crosstabulation							
			The frequency of receiving remittances				
			Every month	Every quarter	Every six months	Once per year	Total
Residence	Urban	Count	21	17	9	18	65
		Expected Count	20.3	15.4	16.7	12.6	65.0
	Rural	Count	29	21	32	13	95
		Expected Count	29.7	22.6	24.3	18.4	95.0
Total		Count	50	38	41	31	160
		Expected Count	50.0	38.0	41.0	31.0	160.0

To test the relationship between residence and the frequency of receiving remittances, the Chi-Square of Independence has been performed. The Chi Square value is 10,141 and this value is significant at the 0,017 significance level. To check this relationship, a crosstabulation between these two variables has been used. It can be seen different distributions of people from urban and rural areas in receiving remittances. We cannot say if most of the urban area participants receive every month remittances since distributions for other frequencies are almost similar. However, the number of participants receiving remittances every six month is lower. Participant living in rural areas have as well as different distributions. But, opposite to urban participants, here, the numbers of participants receiving remittances every six month and every month are the highest. We can conclude that there's a significant relationship between residence and the frequency of receiving remittances. Hence, the H_2 hypothesis has been accepted.

Conclusion and Further Discussion

Remittances are an important tool of financing from abroad. The aim of this paper was to gain a general frame of remittance receiving of people from Prizren region. Using an online questionnaire, we have tried to measure the overall degree of remittances in Prizren region. The questionnaire has been applied to 160 participants. As it was in relation with the research of CBK, most of the remittances come from Germany

and Switzerland. Most of the participants receive remittances every month or at least every quarter. The amount they receive is under 500 euro, however, a considerable number receive remittances 501-1000 euro. They receive this money mainly in cash and through bank. They use remittances mostly for food consumption, education and clothes.

Besides this, we wanted to test if there is any significance relationship between gender and frequency of receiving remittances, as Borici and Gavoci have found in Albania, and Wadood and Hossain in Pakistan. Generally, people working overseas leave their wifes in home and they send money to them. This way, we wanted to see this effect. Further more, we wanted to check if females (mostly single females here) having no job, receive more remittances from their relatives comparing to males, who are more likely to have a job. Nevertheless, there were found no important relationship between gender and the frequency of receiving remittances. This also can be a result of the low number of female participants according to the male participants. The paper has also searched for relationship between residence and the frequency of receiving remittances. As there are different distributions in receiving remittances according to the time frequency, we can conclude that people in rural areas receive more remittances than people in urban area. We can say this also from personal observations. People in rural areas have their relatives abroad and they send money to household, while the people of urban areas are more apt to find a job in their city, with less need for a job abroad. Ahmet et. Al (2010) and Wadood and Hossain (2016) have found that there's a relationship between residence and the frequency of accepting remittances. They state that people in rural areas are more apt to receive remittances than people in urban areas. However, the results from the research show different distributions for both, rural and urban areas.

Furthermore, it can be searched if there's any statistical relationship between age groups and the frequency of receiving remittances, as Borici and Gavoci (2015) have found that older people receive more remittances according to younger people. We can make comparisons between Albanians of Albania and Albanians of Kosovo to see how different behave people in receiving remittances. To do this, we need to raise the sample of older people, as there are no significant relationships due to the actual sample size.

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