

Diaspora's impact on Kosovo's economy during COVID-19 pandemic

 Arritjet

12:00 Motra me familje Anuluar
12:07 Gjyshja prej Gjermanisë Anuluar
12:12 Babi Anuluar
12:25 Dient e Axlës Anuluar
12:26 Qikat e Mallës Anuluar
12:40 Djali me zika Anuluar
12:55 Daja prej Amerikës Anuluar
13:03 Nifati Ar
13:08 Dient e Tezës Ar
13:17 Axha prej Zvicrës F
13:30 Tezja
13:33 Qika e Dajës

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Executive Summary

At a time when Kosovo economy is declining as a result of the COVID-19 pandemic, the role of diaspora in Kosovo economy continues to be significant. Diaspora has an impact on Kosovo's economy, either through remittances, foreign direct investments (FDI), sending of items to their families or even through the expenses they make during their visits to Kosovo. In non-pandemic times, more than half of the diaspora visit Kosovo three to four times a year, staying between two to four weeks, making hundreds of millions worth expenses which amount to about 4.6% of Gross Domestic Product (GDP). While the role of diaspora remittances in Kosovo economy during the COVID-19 pandemic has received due public spotlight, seldom discussions can be heard about economic losses caused by declining diaspora visits to Kosovo, as a result of various travel restrictions to prevent the spread of COVID-19. The purpose of this study is hence to assess the economic losses caused by the restrictions encountered by Kosovar diaspora in terms of their visits to Kosovo, and to see what has been the impact of the pandemic on the trend of FDI and remittances in general.

From mid-March 2020 to early June 2020, Kosovo introduced various travel restriction measures for foreign nationals, including entry bans, closure of land and air border crossing points, two-week quarantine, and self-isolation. On the other hand, most countries where diaspora lives, have included Kosovo in the list of high-risk countries. To carry out their visits to Kosovo, most countries have requested diaspora to be quarantined upon returning to their countries of residence. This led to the cancellation or shortening of stays, of a large number of regular visits to Kosovo. The shortening of diaspora stays has obvious consequences on the economy of Kosovo and is expected to negatively affect various sectors of economy, starting from the accommodation and hospitality, retail, fuel, gastronomy sectors etc. Depending on the calculated scenarios, expenditures from diaspora visits in 2020 may range from 0.55% of GDP (37 million Euros) to 1.83% of GDP (123 million Euros), compared to about 4.6% of GDP (328 million Euros) as estimated prior to the pandemic, however this decline is expected to be partially compensated by the increase in remittances, through official channels, observed during the pandemic. In addition, other forms of investment or diaspora assistance in Kosovo appear to be declining. Foreign direct investments in real estate make a good portion of investments from diaspora, while this year these investments have marked a significant decline. Even the donation of items from diaspora to their families seems to have dropped. As an example, vehicles are one of the main gifts that the diaspora brings to their families and this year the import of vehicles has marked a sharp decline.

Based on the good practices of other countries, this study offers some recommendations on how the financial and human capital of diaspora can be used by the state of Kosovo for the purpose of economic recovery. Majority of people in diaspora are ready to provide their contribution in Kosovo if there is a clear plan on their contribution and in case the doing business environment improves. In order to integrate the human capital of diaspora, large databases of individuals must first be created with information about their skills and professional experiences. After identification, professional networks and clear plans for their inclusion in the economy should be developed, especially in areas prone to innovation for local and international markets.

1. Introduction

On 11 March 2020, after seeing an alarming spread, the severity of illness caused by the COVID-19 virus, and the lack of action of various countries, World Health Organization (WHO), assessed COVID-19 as a pandemic.¹ Taking into account that pandemics are infectious diseases occurring worldwide, or over large geographical areas, crossing state borders and usually affecting a large number of people, COVID-19 affected also travel policies.² The purpose of this study is to present the travel restrictions imposed by Kosovo and countries where most of Kosovo diaspora lives and to measure the economic impact of obstacles to the movement of diaspora in terms of their visits to Kosovo, and to analyze the trend of diaspora remittances and foreign direct investments in the domestic economy, during the COVID-19 pandemic.

Travel restrictions, complete closure of borders and quarantine are just some of the measures undertaken in many parts of the world, in response to the prevention of global coronavirus pandemic. On 16 March 2020, European Commission, in addition to guidelines for controls within the EU borders, issued guidelines on travel restrictions requiring member states to refuse entry to travelers from third countries, such as Kosovo, to EU countries.³ Kosovo is considered a country with a high risk of infection by many European countries, so decisions on measures taken related to citizens visiting Kosovo, are hampering and hindering the arrival of the diaspora. In addition to these restrictions, Kosovo also closed its borders for almost three months, from 13 March to 31 May 2020, imposing various restrictive measures.

All these restrictions made the visits of Kosovo diaspora drop sharply. Diaspora plays an important role in Kosovo's economy, not only by sending remittances to their families, but also as during their visits they spend considerable amounts of money, thus reviving the economic activity of many sectors, such as gastronomy, accommodations and hospitality, fuel, grocery stores, hairdressing salons, etc. About 3.8 million visits or almost 75% of foreign visits to Kosovo in 2019, were for the purpose of visiting relatives, which can be considered mainly visits from the diaspora.⁴

Primary data for this study, included the number of passengers at Prishtina International Airport "Adem Jashari" (PIA) and the number of border policies sold between January-August 2020. Moreover, secondary data from the Central Bank of Kosovo (CBK), Kosovo Agency of Statistics (KAS), the official websites of the ministries of foreign affairs of the countries where diaspora lives and other empirical studies were used. The update of data regarding travel policies was completed in early August 2020. As Kosovo Police could not provide data, shortcomings in conducting this study include lack of detailed data regarding the number of visits from abroad for personal reasons and the nights of their stay.

This study is organized as follows: initially, an overview is provided related to travel policies introduced by Kosovo in relation to foreigners, the policies of the countries where the majority of the Kosovar diaspora lives and the economic damage caused to Kosovo, as a result of declining diaspora visits.

¹ WHO, Archive: WHO Timeline – COVID-19, Source: <https://bit.ly/2FTbRyv>

² WHO, The classical definition of pandemic is not elusive, Burimi: <https://bit.ly/3mNoCj9>

³ European Commission, COVID-19: Temporary Restriction on Non-Essential Travel to the EU, Source: <https://bit.ly/3mEfVUi>

⁴ KAS, Hotel industry statistics, TM1 2020, Source: <https://bit.ly/3kNoRFh>

The second part analyzes the trend of remittances and the impact of diaspora on FDI during the pandemic. The last part presents good practices of promoting remittances for investments and the involvement of diaspora in the economic development of the country. Finally, the study ends with conclusions and recommendations.

2. Restrictions on Entry into Kosovo During the COVID-19 Pandemic

Following the first case of coronavirus in Kosovo, on 13 March 2020, the Government of Kosovo decided to close the land borders to travelers entering Kosovo, except for Kosovo citizens who would undergo medical examinations and self-isolation for 14 days.⁵ Based on this Government decision, all air travel at Prishtina airport was suspended, except for military flights, medical emergencies, and travel for the departure of passengers from Kosovo. This decision was supplemented with another decision excluding inbound travel of Kosovar citizens who were unable to return earlier or the accredited diplomatic staff.⁶ Following a request by Ministry of Health, Government declared public health emergency⁷ and until the end of this state of emergency, all persons who were confirmed or suspected of having been in direct contact with persons infected or suspected of being infected with the coronavirus were accommodated in ‘Student Center’ in Prishtina, designated as quarantine space.⁸

Two months later, the epidemiological situation was considered at reduced risk and the Ministry of Health introduced the first stages of gradual reopening. On 30 May 2020, quarantine was abolished and all decisions that regulated quarantine procedures. The persons accommodated in these spaces (Student Center and Center for Foreigners in Vranidoll) were obliged to undergo the RC-PCR test for Sars COV-2 and the same were released in self-isolation for the next 14 days. Self-isolation was mandatory for all citizens entering Republic of Kosovo.⁹

On 31 May, Kosovo Government took a decision to open its land borders in Merdar, Vermice, Kullë, Hani i Elezit, Jarinjë and Dheu i Bardhë. Subsequently, all persons entering Kosovo who did not have RC-PCR for Sars COV-2 were obliged to self-isolate for 7 days.¹⁰ After about a week, on 7 June, the new Government of Kosovo voted on 3 June, decided on its fourth meeting to remove the self-isolation for citizens entering the Republic of Kosovo.¹¹ On 22 June, the land borders were opened at the following points: Qafë Prushë, Qafë Morinë, Muqibabë, Mutivodë, while on 28 June, air travel was reopened together with “Adem Jashari” Airport in Prishtina.¹²

Following an increase in cases of COVID-19 in Kosovo, the Government of Kosovo took new measures. Taking notice of a deteriorating epidemiological situation in North Macedonia and Montenegro, on 13 July, the Government of Kosovo decided that all citizens of the Republic of North Macedonia, Montenegro and Bosnia and Herzegovina, entering the territory of the Republic of Kosovo had to

5 Republic of Kosovo Government, Decision from Meeting no. 9, Source: <https://bit.ly/33yhoV5>

6 Republic of Kosovo Government, Decision from Meeting no. 12, Source: <https://bit.ly/2XDgrH4>

7 Republic of Kosovo Government, Decision from Meeting no. 11, Source: <https://bit.ly/3aoxTKM>

8 Republic of Kosovo Government, Decision from Meeting no. 13, Source: <https://bit.ly/3gzDOsM>

9 Republic of Kosovo Government, Decision from Meeting no. 35, Source: <https://bit.ly/344HLSV>

10 Republic of Kosovo Government, Decision from Meeting no. 38, Source: <https://bit.ly/3a7xRAH>

11 Republic of Kosovo Government, Decision from Meeting no. 4, Source: <https://bit.ly/2DIY3W8>

12 Republic of Kosovo Government, Decision from Meeting no. 5, Source: <https://bit.ly/3klfehC>

have a negative RT-PCR test to Sars COV-2, not older than 72 hours.¹³ After a continuous increase in infections, since 30 July, the Government of Kosovo decided that the citizens of Albania and Serbia have to prove that they were not infected with COVID-19 and to present a RT-PCR test to Sars COV-2.¹⁴ On 14 August, the border crossing points with Albania in Shishtavece, Orqush, Borje, the border crossing points with North Macedonia in Globoqica and Stanqic, and the border crossing point with Serbia in Brnjak were reopened.¹⁵

Timeline infographic

- 11 March** ○ Temporary suspension of land and air travel from medium and high-risk countries
- 13 March** ○ Land borders closed, except for Kosovar citizens who enter the Republic of Kosovo and are obliged to self-isolate for 14 days; All air travel suspended from 16 March, except for military flights, medical emergencies and the departure of passengers from Kosovo
- 17 March** ○ Permitted air travel for the arrival of Kosovar citizens and accredited diplomatic staff who were unable to return due to the 13 March decision on air travel
- 18 March** ○ Student Center in Prishtina designated as quarantine space
- 30 May** ○ Quarantine requirement removed and mandatory 14 days of self-isolation introduced for all persons entering territory of Kosovo
- 31 May** ○ Land borders opened in: Merdarë, Vërmicë, Kullë, Hani i Elezit, Jarinjë and Dheu i Bardhë; persons without a negative RT PCR test for Sars COV-2 should self-isolate for 7 days
- 7 June** ○ Decisions on self-isolation and test possession procedures repealed
- 22 June** ○ Land borders opened at the following border crossing points: Qafë Prush, Qafë Morinë, Muqibabë, Mutivodë
- 28 June** ○ Air transport reopened, together with “Adem Jashari” Airport in Prishtina
- 13 July** ○ Citizens of the Republic of North Macedonia, Montenegro and Bosnia and Herzegovina, entering the territory of Kosovo should present a negative RT-PCR test to Sars COV-2
- 30 July** ○ Citizens of Albania, North Macedonia, Montenegro, Serbia and Bosnia and Herzegovina, entering the territory of the Republic of Kosovo should present a negative RT-PCR test to Sars COV-2

¹³ Republic of Kosovo Government, Decision from Meeting no. 13, Source: <https://bit.ly/2EQchV>

¹⁴ Republic of Kosovo Government, Decision from Meeting no. 17, Source: <https://bit.ly/3fDKjly>

¹⁵ Republic of Kosovo Government, Decision from Meeting no. 24, Source: <https://bit.ly/2F9q2zg>

3. Restrictions on Interstate Movement Imposed by States with Predominant Kosovo Diaspora

Restrictions on movement within the state as well as interstate ones were a common feature of Kosovo's early measures as well as of many other states against the pandemic. Given that Kosovo economy benefits from the tourism sector, and in particular from the temporary return of diaspora, the restrictive measures still in place in terms of travel to or from Kosovo will undoubtedly affect revenues from diaspora.

In early March this year, when the epidemiological situation in Europe had not yet escalated, many countries were initially against the idea of closing borders. European Union recommended to its member states to be extra careful when entering and exiting those states, however not a complete isolation.¹⁶ After 15 March, the number of infections began to rise and some EU countries such as Denmark, Spain or Poland decided to close their borders to foreign passengers. On the other hand, countries like Germany, Austria or Slovenia initially only increased border control, but after a certain time also closed their borders. During that time, transit was allowed as a pro-economy measure as well as travel by certain categories of individuals on essential travel such as: medical officers, seasonal workers, transport workers, diplomats, family members of European citizens, travelers with residence permits or citizenship in any EU country, etc.¹⁷ The restrictive measures resulted in a wave of criticism from officials of various countries, such as Sweden and the EU presidency itself, noting that border closures were not in the spirit of European values and may have negative effects on the supply of goods to countries during that time period.¹⁸

Restrictions of EU countries continued to be in force until 15 June 2020, when the European Commission recommended that internal border restrictions be eased and subsequently allow non-essential travel after 30 June. However, not all travels were permitted. European Commission recommended that member states select countries with the lowest epidemiological risk, which would be reviewed every two weeks, from which free travel to the EU would have been allowed.¹⁹ The list of countries with lifted travel restrictions initially included Serbia and Montenegro as Balkan states, however two weeks later, they were removed from the list as the epidemiological situation in those countries deteriorated.²⁰ At the same time, Kosovo was considered a country with a high epidemiological risk and was not listed at all.²¹

Though the European Commission recommended that member states take uniform restrictive measures against foreigners, many European countries (including the European Union and Switzerland), which at the same time host a large portion of Kosovo diaspora, implemented different measures regarding travel to and from Kosovo.

16 "Coronavirus: EU rules out Schengen border closures amid Italy outbreak," Deutsche Welle, 24.02.2020.

Source: <https://bit.ly/2Q9QjHA>

17 Travel and transportation during the coronavirus pandemic, European Commission.

Source: <https://bit.ly/2Yju8vk>

18 "Nine EU states close border due to virus," Euobserver, 16.03.2020. Source: <https://bit.ly/2FDofms>

19 "Coronavirus: Commission recommends partial and gradual lifting of travel restrictions to the EU after 30 June, based on common coordinated approach," European Commission, 11.06.2020.

Source: <https://bit.ly/31d6pyD>

20 "Council Updates List of Epidemiologically Safe Third-Countries – Removes Serbia & Montenegro," Schengenvisainfo, 16.06.2020. Source: <https://bit.ly/3hhN9Gz>

21 German list of epidemiologically high-risk countries, Robert-Koch Institute. Source: <https://bit.ly/31bojyN>

On 16 March, **Germany**, state with the largest Kosovo diaspora, initially restricted all non-essential entry to the country. Since 15 June, Germany reopened its borders with other European countries, even for non-essential travel,²² however, on the other hand, it continued the same restrictions for countries, considered as epidemiologically high-risk countries, such as Kosovo.²³ Thus, travelers on essential travel and with no differences in nationality, who stayed in Kosovo 14 days before traveling to Germany, were required to have the RT-PCR test. In case the test was negative, passengers could be allowed to enter the state without self-isolation²⁴, however in cases they tested positive, they had to be self-isolated for 14 days.²⁵ The problem in relation to passengers from Kosovo, was that Germany did not recognize the results of any lab from Kosovo and quarantine was practically inevitable.²⁶ However, as of the beginning of August, those passengers were not necessarily required to take a preliminary test as they had the opportunity to be tested at German airports and in medical centers free of charge, up to three days after arriving to Germany. Self-isolation is still a requirement for those who test positive.²⁷

Switzerland also included Kosovo in high-risk countries, however unlike Germany, it implemented much more severe measures. Travelers on essential travel, who had stayed in Kosovo for up to 14 days prior to travel, were required to undergo 10 days of self-isolation regardless of the RT-PCR test result.²⁸

Italy has banned entry for travelers who were not Italian nationals, European citizens or have residence permit in Italy. Transit is allowed with a total permitted movement of 36 hours within Italy, but the aforementioned travelers, who have stayed in an epidemiologically high-risk area, must undergo 14 days of self-isolation.²⁹

Slovenia permits essential travel from epidemiologically high-risk zones, including Kosovo,³⁰ however it requires 14 days of self-isolation despite the results of RT-PCR.³¹

On the other hand, **Austria** bans essential travel from Kosovo, apart from the transit and those with Austrian citizenship or residence permit. However, those who might travel should self-isolate if unable to present a negative RT-PCR test result.³²

22 Reopening of German borders for specific passengers. 13.06.2020. Source: <https://bit.ly/3hrPwWL>

23 German list of epidemiologically high-risk countries, Robert-Koch Institute. Source: <https://bit.ly/31bojyN>

24 Information on travel to Germany, Federal Office for Doreighners, Germany, 03.08.2020. Source: <https://bit.ly/2FzCt7u>

25 Information on Coronavirus and travel, State of Berlin, Germany. Source: <https://bit.ly/3hcVPgQ>

26 Kosovo embassy in Germany, ana from 7 July 2020, Source: <https://bit.ly/3mOvo5S>

27 Information on travel to Germany, Zusammen Gegen Corona, 05.08.2020. Source: <https://bit.ly/34figCi>

28 Information on travel to Switzerland, Federal Public Health Office, Switzerland. Source: <https://bit.ly/2YhCCmq>

29 Information on travel to Italy, Ministry of Health, Italy. Source: <https://bit.ly/3hfaR5E>

30 Kosovo included in the list of epidemiologically high-risk countries according to the Government of Slovenia. Source: <https://bit.ly/3aVVMUe>

31 Information on travel to Slovenia, Ministry of Internal Affairs, Slovenia 07.08.2020. Source: <https://bit.ly/3iYpGKa>

32 Information on travel to Austria, Ministry of Wellbeing, Health and Customer Protection, Austria. Source: <https://bit.ly/34nPDPC>

Sweden applies more general measures to essential travelers, and therefore prohibits travel from Kosovo with the exception of Swedish family members and travelers with Swedish citizenship or residence permits.³³

France allows unrestricted transit, and essential travelers, but requires 14 days of self-isolation of those travelers with symptoms of COVID-19 or with a positive RT-PCR test result. It is also possible to require self-isolation from those with a negative result. Restrictions also apply to travelers with a residence permit or French citizenship traveling from Kosovo.³⁴

United Kingdom requires travelers from Kosovo to self-isolate for 14 days.³⁵

Belgium does not allow travels to or from Kosovo, apart from the essential ones.³⁶ **Norway** allows travels to Norwegian family members and travelers with Norwegian citizenship or residence permits. However, they are also required to self-isolate for 10 days.³⁷

4. Economic Damage from Lack of Visits of Diaspora to Kosovo

About 64% of diaspora pays three to four visits per year to Kosovo. The duration of visits of 90% of diaspora ranges from two weeks to one month. According to 2013 KAS and UNDP findings, a family from diaspora spends about 2,715 Euros per year, during their visits to Kosovo.³⁸ Before the crisis, according to GAP Institute's rough calculation, the amount spent during annual visits of diaspora to Kosovo amounted to approximately 4.6% of GDP, while in 2019 this amount was estimated to have been over 328 million Euros.³⁹ In the following part, we focus on calculating an approximate amount of diaspora expenditures during visits to Kosovo in 2020.

During the pandemic, due to uncertainty caused by the coronavirus, various restrictions and quarantine measures applied by diaspora host countries, the arrival of diaspora to Kosovo has been relatively low. According to data from Prishtina International Airport "Adem Jashari" and the Kosovo Insurance Bureau, between January-August 2020, the number of visitors to Kosovo was about 62.5% lower than in 2019. It is worth noting that about 41% of diaspora prefers air transport to come to Kosovo, 42% prefers land transport, and the rest travel by bus. While these costs represent a significant cost for them, and at the same time profits for transport and fuel companies in Kosovo.⁴⁰

33 Travel information Sweden, Swedish Police. Source: <https://bit.ly/31d8FpB>

34 Travel information France, Ministry of Europe and Foreign Affairs. Source: <https://bit.ly/2Eggq5c>

35 Travel information United Kingdom, Government of United Kingdom. Source: <https://bit.ly/2Yik8mo>

36 Travel information Belgium, Federal Office of Public Services and Foreign Affairs. Source: <https://bit.ly/2YfPo6M>

37 Travel information Norway, Norwegian Directorate of Immigration. Source: <https://bit.ly/3aFgUoI>

38 Ministry of Diaspora. Initial results of Diaspora Registry. Source: <https://bit.ly/3hyNh3K>

39 See Table 4 in Annex 1.

40 KAS and UNDP. Study of remittances in Kosovo, 2012 and 2013. Source: <https://bit.ly/3m2qDDE>

Table 1. Number of travelers at Prishtina International Airport “Adem Jashari” (PIA), January- August 2019 and 2020

	2019	2020
 Switzerland	595,456	239,308
 Germany	529,362	236,876
 Turkey	248,311	75,718
 Austria	71,614	36,742
 United Kingdom	49,971	24,575
 Slovenia	35,119	
 Norway	25,457	6,416
 Belgium	21,144	9,132
 Hungary	20,565	5,366
 Italy	16,763	6,269
 Sweden	11,437	5,475
 Finland	8,582	
 Denmark	4,727	529
 Saudi Arabia	2,568	138
 Gibraltar		132
 Poland		47
Total	1,641,076	646,723

Source: Prishtina International Airport.

Note: Total number does not represent the number of repeated passengers.

Table 2. Number of border policies sold between January- August 2019 and 2020

	Sold border policies
Jan - Aug 2019	307,948
Jan - Aug 2020	113,380

Source: Kosovo Insurance Bureau (KIB)

Assuming that the trend of visits will remain the same until the end of the year and that the duration of diaspora stay for visits to Kosovo has halved compared to previous years due to the pandemic, the economic damage caused by the non-arrival of diaspora compared to 2019 is expected to range between 205 and 291 million Euros. The calculation was made by adjusting the 2013 KAS and UNDP calculation on diaspora spending during their visits to Kosovo for the increase of productivity and prices in diaspora host countries over the years. Among others, the calculations in the following three scenarios are based on the assumption that during their visits to Kosovo during the pandemic, the diaspora stayed for the same time (scenario 1), half time (scenario 2) and 70% less time (scenario 3) than in previous years. In the last two scenarios, assumptions about the duration of the diaspora stay during visits in 2020 are constructed based on diaspora uncertainty from the coronavirus and fears of border closures. Consequently, it follows that Kosovo economy is expected to gain between 37 to 123 million Euros, from this important source of revenues in 2020, i.e. expenditures made by diaspora during their visits to Kosovo, representing about 0.55 and 1.83% of GDP, respectively. If we take into account the multiplier effects, the damage turns out to be many times higher.

Table 3. Economic damage from lack of diaspora visits to Kosovo in 2020

	Scenario 1	Scenario 2	Scenario 3
Duration of stay of diaspora during visits to Kosovo in the times of the pandemic	20 days (average)	10 days (average)	6 days (average)
Diaspora visits in 2020 compared to 2019	-62.5%	-62.5%	-62.5%
Diaspora expenditures during their visits to Kosovo in 2020	123,020,717 € (1.83% of GDP)	61,510,358 € (0.92% of GDP)	36,906,215 € (0.55% of GDP)
Economic damage compared to 2019	- 205,034,528 € (-63%)	-266,544,887 € (-81%)	-291,149,030 € (-89%)
Diaspora expenditures in the previous three years expressed in amount as a % of GDP	2017 309 million euro (4.8% of GDP)	2018 319 million euro (4.7% of GDP)	2019 328 million euro (4.6% of GDP)

Source: GAP Institute using PIA, MF, OECD, KAS-UNDP and KIB data

Another way how the diaspora helps their family members in Kosovo is through the donation of items and services to their families such as: clothes, vehicles, land, furniture, etc.⁴¹ The number of vehicles imported between March-August 2020, indicates that this form of assistance from diaspora has decreased during the pandemic caused by COVID-19. For this period, approximately four thousand fewer cars (30%) were imported compared to the same period last year.⁴²

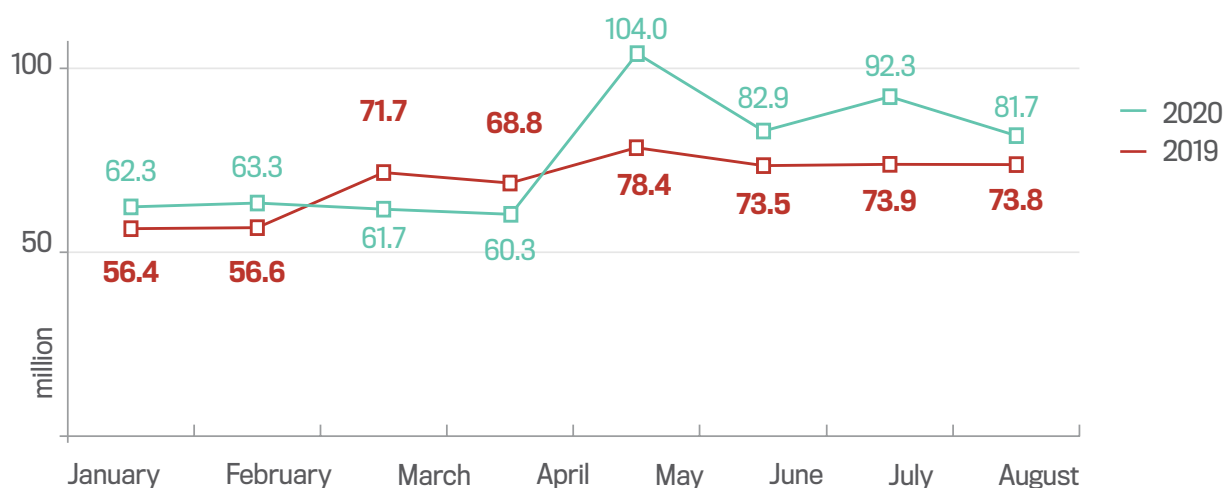
⁴¹ Ibid

⁴² Koha.net, Pandemic brings about a drop in imported vehicles, [Source: https://bit.ly/3kPGRz4](https://bit.ly/3kPGRz4)

5. Diaspora Remittances during the Pandemic

Between January–August 2020, the value of remittances sent to Kosovo by the diaspora amounted to 608.5 million Euros or about 55.4 million Euros (10%) more than in 2019.⁴³ They remain among the highest ones in the Western Balkans and amounted to 12% of Gross Domestic Product (GDP) of Kosovo before the COVID-19 pandemic.⁴⁴ If the same growth trend continues this year, an indicative forecast suggests that remittances could reach up to 14% of GDP.⁴⁵ Given that this year Kosovo is going through a health and economic crisis, the increase in remittances represents a very positive development for the economy of Kosovo. Firstly, as many families are being assisted, some of whom may have been severely affected by the COVID-19 pandemic, either by losing their jobs or spending more than before on health. Secondly, taking into account a lower economic activity and lack of proper intervention of the government to increase consumption⁴⁶, entry of diaspora money to the market, if we take into account the multiplier effect, will have a much greater impact on the economy of Kosovo than in previous years.

Figure 1. Remittances in Kosovo, January– August 2019 and 2020



Source: GAP Institute using CBK data

5.1 Factors Affecting the Amount of Remittances

In determining the factors that influence the behavior of diaspora in terms of sending money to their families in Kosovo, fluctuations in the economy of diaspora host countries are of particular importance. In non-pandemic times, according to the findings of an empirical study conducted in 2018, economic growth in countries where the diaspora lives affects the increase of remittances to Kosovo. Similarly, the increase in remittances is influenced by the deterioration of the economic situation in Kosovo, which points to altruism of diaspora towards their families.⁴⁷

⁴³ Central Bank of Kosovo. Time Series. Source: <https://bit.ly/3l4dNEq>

⁴⁴ World Bank. Growing uncertainties. Source: <https://bit.ly/39xbvse>. Including KAS and CBK data.

⁴⁵ An indicative forecast using the “Double Exponential Smoothing Forecasting” and “Holt-Winters Seasonal Forecast” methods”. See Annex 2.

⁴⁶ Except for the Fiscal Emergency Package which served as an injection of money into the sectors affected by the pandemic for April and May, Kosovo is among the only countries in the region that has not continued to support citizens and businesses affected by the pandemic during June–September. Delays in the implementation of the new measures of the Economic Recovery Package, which have not yet been published, may result in not achieving the desired effectiveness of the interventions (implementation lag).

⁴⁷ Esida Bujupi. Central Bank of Kosovo. Macroeconomic indicators of remittances to Kosovo: Panel Data Analy-

Bujupi's model (2018) does not take into consideration the scenario of how the behavior of diaspora changes in terms of sending money to families in Kosovo, at times when the economic activity has decreased simultaneously in the host country and in Kosovo, as it is happening now due to the pandemic. However, findings from other studies that consider cases from past crises, find moderate effects of the economic downfall in the host country, in terms of the amount of remittances sent by emigrants to their countries of origin. Specifically, even in cases when there is a decline in remittances in times of crisis, they are not drastic and, in the case of the global crisis 2008 / '09, in some countries, remittances have returned to previous levels in a relatively short time period. In general, the literature describes remittances as more stable and less sensitive to economic downfalls.⁴⁸ A predominance of altruistic motive is mainly observed among remittance senders. Also, descriptive data from the Central Bank of Kosovo indicate that Kosovo diaspora is also predominantly led by the altruistic motive, i.e. to help relatives in Kosovo in the difficult times of the COVID-19 pandemic. More specifically, during the pandemic there was an increase in remittances compared to the same period in 2019, in which case the highest value of remittances sent ever within a month to Kosovo was reached, with over 104 million Euros only during May 2020.⁴⁹ This has happened despite the fact that the economy of countries where remittances mainly come from to Kosovo, Germany and Switzerland, has been significantly hit by the pandemic.⁵⁰ However, important elements that stand out in this behavior of the diaspora towards remittances include their high employment rate and habit of regularly saving a considerable portion of their monthly income.⁵¹

Profile of families of remittance receivers and diaspora

In order to provide proposals on how to implement adequate policies that will allocate remittances to sources that provide a return on investment, it is necessary to know the structure of families receiving remittances and the purposes of their use of remittances. Based on the findings of a survey conducted by UNDP in 2013, it turns out that over 43% of families in Kosovo have relatives living outside of Kosovo and over 22% of them receive remittances during the year. In terms of the distribution of beneficiaries by areas, there is a slight prevalence of rural settlements. According to the regions, the region of Peja prevails with 37% of the beneficiaries, followed by Gjilan and Ferizaj with 26% each, Prizren with 23%, Mitrovica with 22% and Prishtina with 20%.⁵² Families that regularly receive remittances, about 48.3%, realize monthly income (including remittances) of an average of 724 Euros, which is why the level of monthly expenditures of these families is higher than those who do not receive remittances. According to a 2012 UNDP survey, recipient families spend over 60% of remittances on food, clothing, services and household appliances, about 20% on real estate investments and 10% on education and health services.⁵³ These data suggest that remittances are also an important factor in alleviating poverty in Kosovo. On the other hand, the impact on investment and education is lower.

sis. Source: <https://bit.ly/3kJR8fw>

48 See Reister (2012), Lacalle (2012), Akkoyunlu (2012). Source: <https://bit.ly/36eThw7>. Also, see Jha et al. (2009). Source: <https://bit.ly/3hYDuUi>.

49 See data on Central Bank of Kosovo in the Time Series. Source: <https://bit.ly/3l4dNEq>

50 To some extent, the impossibility of diaspora to come on vacation has an impact on the increase of remittances, which in the past was used as a channel for bringing remittances to families, which are not included in the official remittance figures.

51 KAS and UNDP. Study on remittances in Kosovo, 2012 and 2013. Source: <https://bit.ly/3m2qDDE>

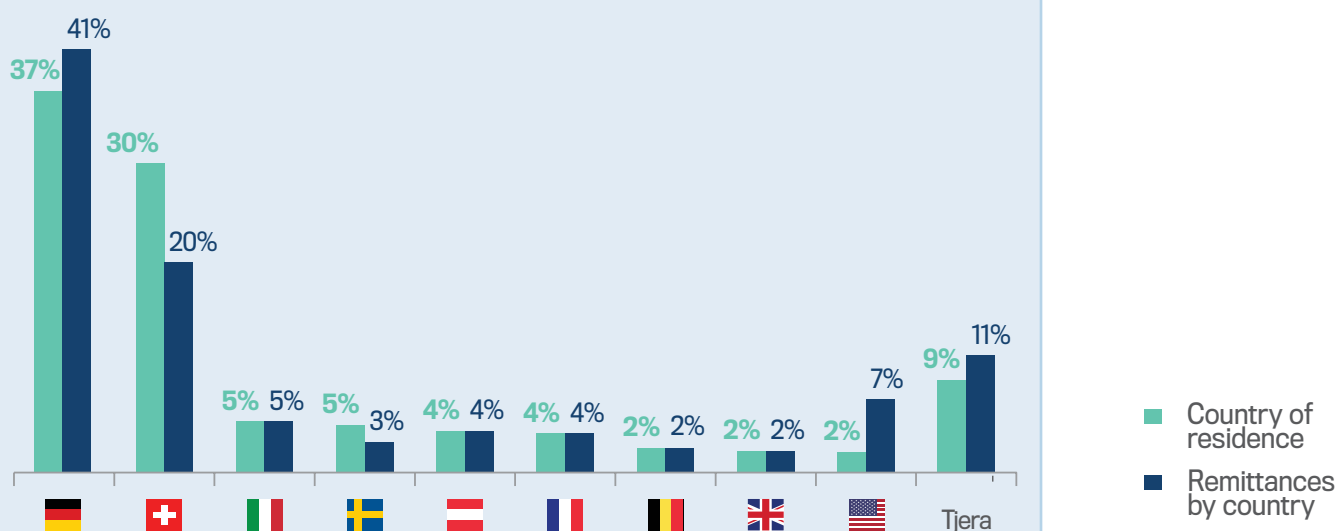
52 KAS and UNDP. Study on remittances in Kosovo, 2012 and 2013. Source: <https://bit.ly/3m2qDDE>

53 Ibid

In order to have a basis to analyze and build various cases on how the pandemic may affect remittances and Foreign Direct Investments (FDI) in Kosovo, it is important to know the distribution of diaspora across countries and the employment status of the diaspora. Thus, depending on the economic blow sustained by diaspora host countries and the measures they have taken to restrict the movement of citizens, it is safe to assume that Kosovo sustains economic damage by reduced revenues from the above listed sources.

Based on various estimates, the number of Kosovar emigrants (diaspora) living abroad makes up over 30% of Kosovo's population.⁵⁴ The main countries in which the Kosovar diaspora is concentrated are Germany with 37% of the total, Switzerland with 30%, Italy with 5%, Sweden with 5%, Austria with 4% and France with 4%. In 2019, the amount of remittances by origin was almost in line with the percentage of emigrants living in those countries. More specifically, about 41% of all remittances in 2019 were sent from Germany where over 37% of diaspora resides. Also, as shown by Figure 2, around 20% of remittances originate from Switzerland.⁵⁵

Figure 2. Kosovo diaspora countries of residence and remittances per countries



Source: GAP Institute using Ministry of Diaspora and CBK data

Within diaspora, more than 93% of heads of family are employed⁵⁶ while in terms of all family members, employment rate reaches around 68%.⁵⁷ More than 63% of families sending remittances to Kosovo, earn a monthly income ranging from 2000 to 4000 Euros, while around 17% earn more than 4000 Euros.

⁵⁴ According to World Banks and KAS estimates.

⁵⁵ Central Bank of Kosovo. Time Series. Source: <https://bit.ly/3l4dNEq>

⁵⁶ Ibid

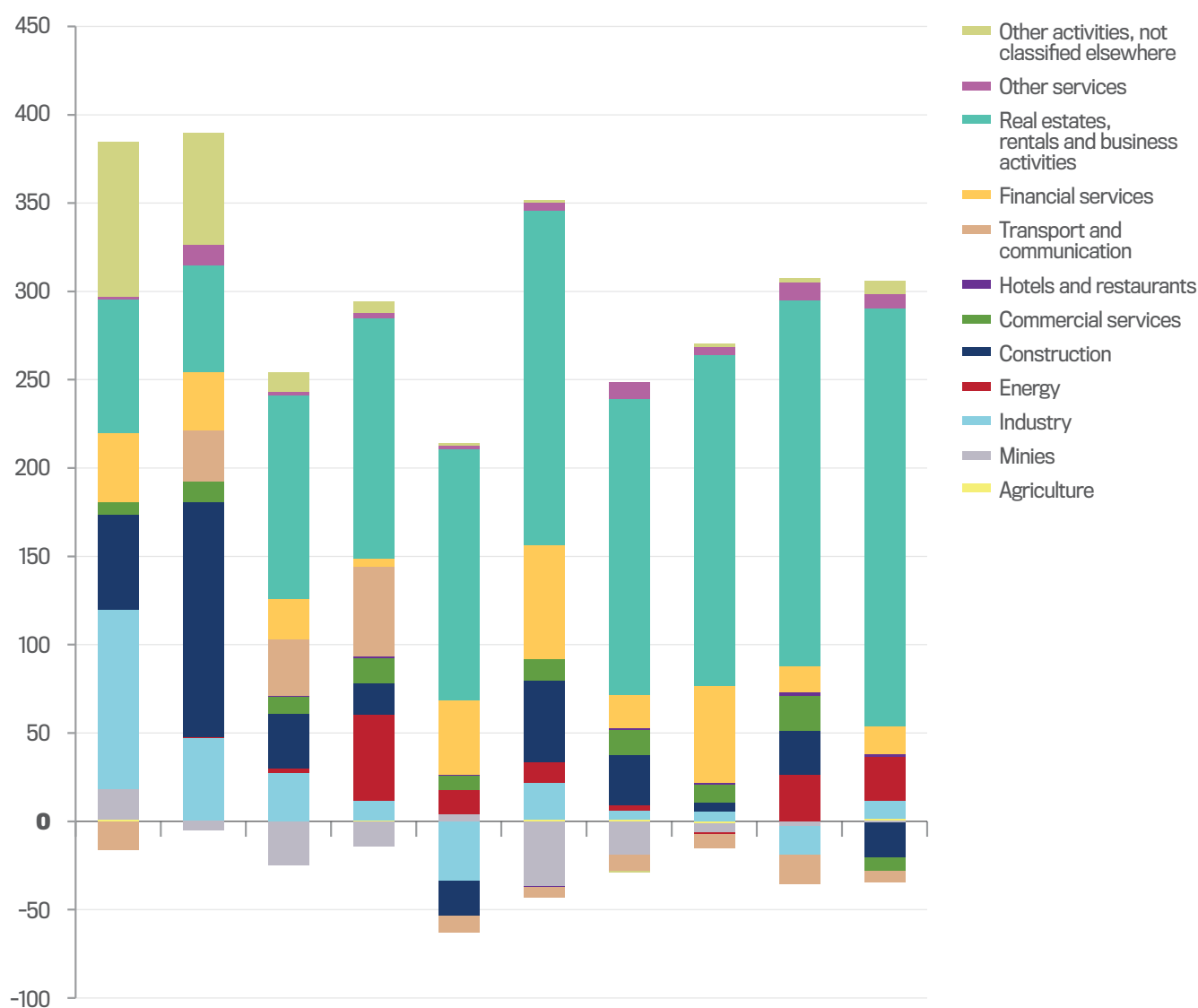
⁵⁷ Ministry of Diaspora. Initial results of Diaspora Registry. Source: <https://bit.ly/3hyNh3K>

6. Diaspora and Foreign Direct Investments (FDI) in Kosovo

A large portion of real estate investments in Kosovo is made by the diaspora. As shown by a survey conducted by UNDP, over 35% of diaspora responded that they invested in Kosovo, mainly in the purchase of real estate for personal use (60%) and investment in family businesses (23%).⁵⁸

Over the last ten years, Foreign Direct Investments in Kosovo have fluctuated and have not been stable. They dropped from over 384 million Euros in 2011, to 116 million in 2012. Similarly after an increase to 190 million in 2015, FDI again dropped to around 168 million Euros in 2017. In 2019, FDI reached approximately 271 million Euros.⁵⁹ As of 2012, the real estate sector remains the dominant sector, with a large increase compared to other sectors, accounting in 2019 for about 87.5% of all FDIs. Construction and commercial and financial services mainly constitute other sources of FDI.

Figure 3. Trend of FDIs in Kosovo, by sectors 2010-2019



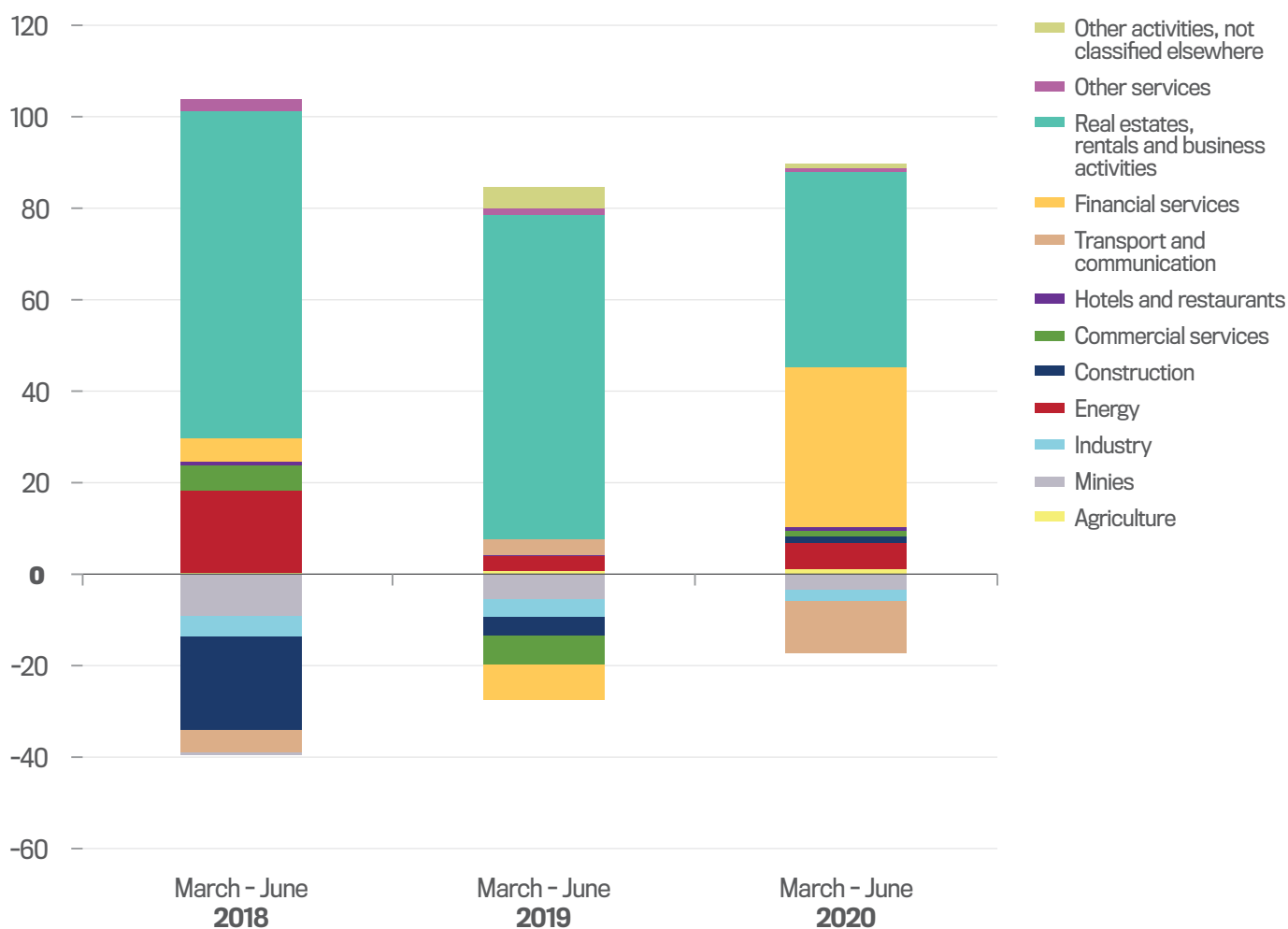
Source: GAP Institute using CBK data

⁵⁸ KAS and UNDP. Study on remittances in Kosovo, 2012 and 2013. Source: <https://bit.ly/3m2qDDE>

⁵⁹ Central Bank of Kosovo. Time Series. Source: <https://bit.ly/3l4dNEq>

Unlike previous years, FDI revenues have dropped during the pandemic (2020). The hardest hit sector is precisely the real estate sector, which had a positive balance of over 70 million Euros in the past two years between March-June, while in 2020 it has dropped to 42 million Euros or a drop of 40%. Compared to 2019 alone, the overall FDI balance, during the pandemic in 2020, is higher by almost 16 million Euros or 27% mainly due to the growth of the financial services category. While other sectors experienced fluctuations similar to those of previous years.

Figure 4. FDI in Kosovo in the period March-June, 2018-2020



Source: GAP Institute using CBK data

7. Policies that Promote Sustainable Use of Financial and Human Capital of Diaspora for Economic Development

7.1 Sustainable use of diaspora financial capital

As regular revenues even in times of the pandemic, remittances are vital for families that receive them in Kosovo, in order to cope with the crisis caused by the coronavirus. Given that many of these families may have been left without a single employed member during this period, remittances now remain their main source of income. The receiving families, which until the pandemic predominantly had other sources of monthly income, spend over 60% of remittances on food and household items. Only about 20% of remittances received are used for investment purposes, mainly in real estate. On the other hand, only 35% of the diaspora claim to have invested in Kosovo and over 20% claim to have their savings in banks in Kosovo.⁶⁰

Given the current situation caused by the pandemic, with its duration unknown and consequently the damage it could cause to the economy, it is high time for the Government of Kosovo to treat remittances as a source that can fluctuate and thus think of policies that promote their use in resources that bring a return on investment. Other countries, facing a similar situation, have undertaken policies aimed at reallocating remittances towards investments and savings. Neighboring countries, such as Macedonia, have helped put into place investment platforms intended for diaspora that have worked in other countries, where emigrants co-invest in potential businesses through a well-regulated scheme.⁶¹ Some other states have established schemes and programs aimed at financially educating receiving families or enabling them to purchase remittance savings-financed properties. Also, the issuance of government bonds only for the diaspora has been used as a form of investment, increasing thereby the sources of financing for the government itself.⁶²

The cost of a remittance transfer from Germany to Kosovo amounts on average about 5% of the transfer.⁶³ In order to facilitate remittance transfer and promote their sending, states have also used mechanisms to lower the cost of transferring remittances, such as the use of mobile telephony technology or signing of bilateral agreements on transfer corridors.⁶⁴ During 2020, the Government of Kosovo, will pay the expenses for the insurance of vehicles of diaspora visiting Kosovo, but has not taken any steps to promote the transfer of remittances.⁶⁵

60 KAS and UNDP. Study on remittances in Kosovo, 2012 and 2013. Source: <https://bit.ly/3m2qDDE>

61 See global platform Homestring.

62 UNDP. Development Finance Assessment. Source: <https://bit.ly/31k5pZx>

63 The World Bank, Remittance Prices. Source: <https://bit.ly/31rCLh>

64 UNDP, Integrated Financing Solutions: Source: <https://bit.ly/2Yzi8Wz>

65 Telegrafi.com, Government covers green card expenditures for diaspora until the end of this year. Source: <https://bit.ly/3lklAv>

7.2 Use of diaspora human capital

Although Kosovo diaspora is unofficially estimated to make around 800 thousand people, the potential of including diaspora in the country's economic development beyond remittances is largely still untapped.⁶⁶ In addition to financial assistance from diaspora, which stimulates consumption in Kosovo, the skills and experiences gained by expatriates during their stay abroad offer a range of development opportunities. Transferring those skills would also mitigate the negative effects of Kosovar youth emigration.

A study on the Albanian diaspora finds that 76% of surveyed professional expatriates are willing to offer their contribution in the country of origin, either physically by visiting the country from time to time or virtually. However, respondents stated that the contribution they would make in the country of origin should be based on working under clear goals, as well as flexibility as they live abroad.⁶⁷

In addition to remittances or other financial assistance, Kosovo can benefit from diaspora potential through the transfer of skills. Countries with large diasporas, such as Kosovo, have managed to exploit this potential by establishing large bases of contacts with individuals interested in contributing. The state of Ireland developed an application called "Global Skills Locator", which aims to find Irish diaspora with certain skills required in the state of Ireland.⁶⁸ Since collaborating with international actors on finding and transferring diaspora requires sufficient time and resources, use of technology usually facilitates the process of matching state needs and diaspora with skills. Kosovo is in the process of registering its diaspora and this process is planned to be completed by 2021. Although there is progress in the registration, the process hit delays and the expected results have not yet been achieved.⁶⁹

Following the establishment of a database of professionals interested in contributing, the practices of other countries show that networking is also an important factor. Neighboring countries have organized various informal meetings with expatriates in their cities of origin in order to better understand the situation in the homeland and how those professionals may assist.⁷⁰ Networking between the diaspora and locals could also result in the forging of new trading partners that could strengthen Kosovo's position in international markets.⁷¹

In addition to direct measures related to diaspora, the experiences of other countries show that improving the business environment also facilitates investments by diaspora in various projects.⁷² Levels of corruption, transparency and strengthening of intellectual property rights are important determining factors for diaspora investment, especially in innovation, that would benefit from diaspora experience and unique ideas.⁷³ Kosovo is at an early stage of fighting corruption and faces obstacles in enforcing intellectual property law.⁷⁴

66 "Engaging Albanian professionals from diaspora in their countries of origin", page 5, Germin, July 2020.
Source: <https://bit.ly/3lpTlyb>

67 Ibid., page 34.

68 "Luck like the Irish – How emigration can be good for Western Balkans," page 10, European Council for International Relations, March 2019. Source: <https://bit.ly/2EyHVax>

69 Ministry of Diaspora, Preliminary results of diaspora registry, Source: <https://bit.ly/2FdRE6y>

70 "Luck like the Irish – How emigration can be good for Western Balkans," page 15, European Council for International Relations, March 2019. Source: <https://bit.ly/2EyHVax>

71 Kathleen Newland, Sonia Plaza, "What We Know About Diasporas and Economic Development," Migration Policy Institute, September 2013. Source: <https://bit.ly/31ADmWo>

72 "Luck like the Irish – How emigration can be good for Western Balkans," page 13, European Council for International Relations, March 2019. Source: <https://bit.ly/2EyHVax>

73 Alireza Naghavi, Chiara Strozzi, "Sparkling off the magic of diasporas," VoxEU, November 2012.
Source: <https://bit.ly/2G6nuSl>

74 EU Commission, Kosovo Country Report 2020, Source: <https://bit.ly/36GryVb>

8. Conclusions and Recommendations

The visits that the diaspora usually pays to their families in Kosovo are an important source of income for the Kosovo economy. But, due to COVID-19 pandemic, the arrival of diaspora to Kosovo during 2020 hit a low level. In addition to the fear of the coronavirus, another obstacle for the arrival of diaspora during summer included measures taken by Kosovo and other countries for visiting Kosovo. The drastic increase in the number of infections before the summer season made many countries in Europe qualify Kosovo as one of the countries with a high risk of spreading the infection.

In addition to remittances, which have increased during the pandemic, there has been a visible decline in diaspora investments in real estate in Kosovo, the purchase of household items, and what is most influential for our economy, diaspora spending during visits to Kosovo has dropped significantly. Prior to the pandemic, diaspora expenditures during their visits were estimated at over 328 million Euros or 4.6% of GDP per year. While this year, based on the drastic decline of diaspora visits to Kosovo by over 62.5% compared to 2019, the benefits of Kosovo's economy are expected to be small, about 0.55 to 1.83% of GDP.

It is very important for the economy of Kosovo to see that remittance revenues have not dropped during the pandemic, and this behavior of the diaspora shows that they are predominantly led by the altruistic motive, although the economies of the countries they live in have been hit by the pandemic. However, knowing that remittance revenues may not be stable in the years to come due to global economic shocks and other elements, Kosovo should:

- Develop policies that encourage reallocating remittances towards investments and savings, either by creating investment platforms or issuing government bonds to the diaspora; by reducing the cost of transferring remittances; and, by increasing programs on financial education of remittance-receiving families;
- Finalize the diaspora registry, in order to use the human capital of diaspora, which should contain information on their fields of expertise, professional experience, readiness for temporary relocation, etc;
- Establish professional networks and plans with specific goals for the inclusion of diaspora in the economy;
- Improve the doing-business environment with an emphasis on strengthening the rule of law, intellectual property rights and transparency.

9. Annexes

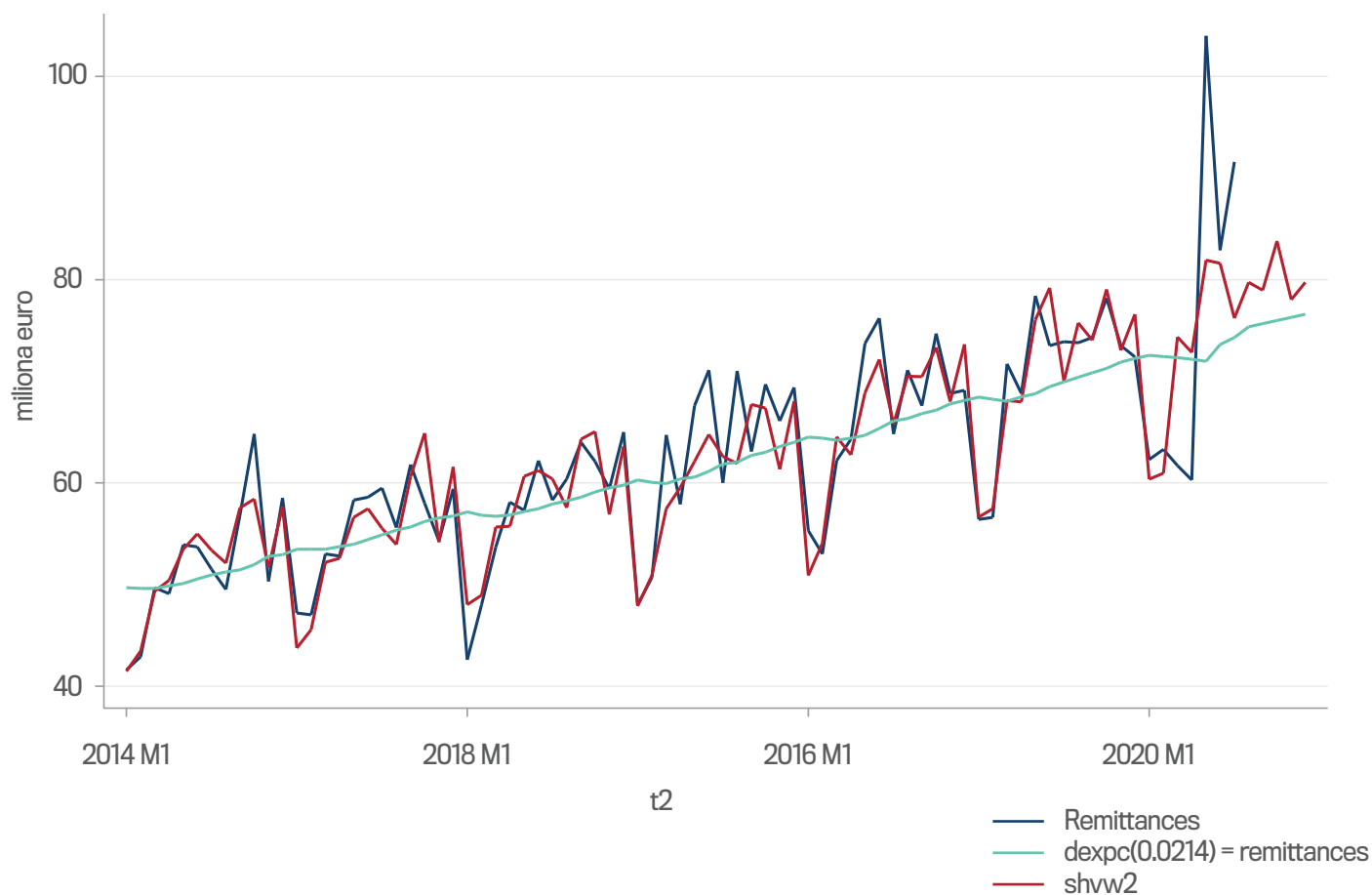
Annex 1. Diaspora expenditures while visiting Kosovo

	GDP Nominal growth in EU-17	Diaspora expenditures while visiting Kosovo	Kosovo GDP	Diaspora expenditures as % of Kosovo's GDP
2012*	-	270,100,000 €	5,058,763,000	5.30%
2013	1.013	273,611,300 €	5,326,617,000	5.10%
2014	1.024	280,123,249 €	5,567,494,000	5.00%
2015	1.034	289,619,427 €	5,807,009,000	5.00%
2016	1.028	297,583,961 €	6,070,110,000	4.90%
2017	1.037	308,594,568 €	6,413,860,000	4.80%
2018	1.032	318,593,032 €	6,725,910,000	4.70%
2019	1.030	328,055,245 €	7,123,100,000	4.60%

Source: GAP Institute using UNDP, OECD and KAS data.

*Note: For diaspora expenses in 2012, we use the calculation done by UNDP. Source: <https://bit.ly/3m2qDDE>

Annex 2. Trend of remittances and indicative forecast for 2020



1. Double Exponential Method

```
. tssmooth dexponential dexremit = remit, forecast(5)
computing optimal double-exponential coefficient (0,1)

optimal double-exponential coefficient =      0.0214
sum-of-squared residuals              =      .43852448
root mean squared error                =      .074504649
```

2. Seasonal Holt-Winters Method

```
. tssmooth shwinters shwr = remit, forecast(5)
computing optimal weights

Iteration 0:   penalized RSS =  -.2956562   (not concave)
Iteration 1:   penalized RSS =  -.20243249   (not concave)
Iteration 2:   penalized RSS =  -.19660666   (not concave)
Iteration 3:   penalized RSS =  -.18052331
Iteration 4:   penalized RSS =  -.17566419
Iteration 5:   penalized RSS =  -.17463936   (not concave)
Iteration 6:   penalized RSS =  -.17438364   (not concave)
Iteration 7:   penalized RSS =  -.17423232
Iteration 8:   penalized RSS =  -.17411075   (not concave)
Iteration 9:   penalized RSS =  -.17405387
Iteration 10:  penalized RSS =  -.17404869
Iteration 11:  penalized RSS =  -.17404718
Iteration 12:  penalized RSS =  -.17404675
Iteration 13:  penalized RSS =  -.17404664
```

Optimal weights:

```
alpha = 0.0041
beta = 1.0000
gamma = 0.4303
penalized sum-of-squared residuals = .1740466
sum-of-squared residuals = .1740466
root mean squared error = .0469374
```



GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.

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