



BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Remittances to Kosovo: An analysis of the methods of transfer

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PUBLISHER ©Central Bank of the Republic of Kosovo
Payment Systems Department
33 Garibaldi, Prishtina 10000
Tel: ++381 38 222 055
Fax: ++381 38 243 763

INTERNET SITE www.bqk-kos.org

ELECTRONIC ADDRESS paymentsystems@bqk-kos.org

Gjylfidane Kastrati-Kadrijaj, Director of the Payment Systems Department
Masar Baxhaku, Payment Systems Oversight Officer

Acronyms

ATM	Automated Teller Machine
MTA	Money Transfer Agencies
WB	World Bank
BIS	Bank for International Settlements
CBK	Central Bank of the Republic of Kosovo
PSD	Payment Systems Department
WGFA	Working Group on Financial Activity
FDI	Foreign Direct Investment
CPSS	Committee on Payment and Settlement Systems
RSP	Remittance Service Provider
POS	Point of Sale
KBA	Kosovo Banking Association
SWIFT	Society for Worldwide Interbank Financial Telecommunications
SDNPS	Strategy for the Development of the National Payment System

NOTE:

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Introduction

Migrant remittances are one of the most important and sustainable sources of external financing for developing countries. In the last two decades, remittances have reached the level of foreign direct investment (FDI). In many developing countries, remittances are even higher than foreign assistance. They remain important especially for less developed countries with high chronic trade deficits, contributing to reducing this gap. Remittances are also among the most sustainable sources for foreign reserves, often with a counter-cycle effect by encouraging consumption and, to a smaller extent, investment during recessions. Considering the importance of remittances, different countries have undertaken policies and initiatives aimed at increasing efficiency and integrity in the provision of remittance services.

Similar to other countries, remittances are of a special importance to the economy of Kosovo as well. Migrant remittances to Kosovo represent one of the main financing sources for household consumption and ensure a stable social situation by reducing the burden to the state budget.

However, a challenge for the Kosovo economy remains the channelling of remittances through formal ways, particularly banks.

In this regard, the Central Bank through the Strategy for the Development of the National Payment System will engage directly for unreserved support to undertaken initiatives aimed at supporting formal transfers by commercial banks and money transfer agencies, as well as governmental institutions and diplomatic representatives in our country and other non-governmental organizations.

In this regard, this study will mainly focus on the role and importance of channelling this category of payment in formal ways, thus aiming to identify more favourable, efficient, safer, faster and lower cost instruments both for sending and receiving these payments from our Diaspora. In addition, the objective of this study is to present the current situation of remittances, discuss appropriate practices and policies based on the experiences of other countries, as well as potential implications for the Kosovo economy.

To assist in this regard, the World Bank and the Committee on Payment and Settlements Systems (CPSS) have established a working group to address the needs for coordination of international remittance policies. The main stakeholders within this working group are the Central Banks of remittance sending and receiving countries, international financial institutions and development banks. This working group has identified General Principles for International Remittance Services in January 2007.

In terms of the policy making perspective, small value international payments have almost the same features as small value domestic payments. However, international wires can be expensive when compared to the amount of remittances, which in most cases are sent in small amounts (typically not more than a few hundred euro). In addition, access to financial services may not be easy for migrants as a result of lack of general knowledge (financial education) and if they do not speak the language of the country where they live or lack the necessary documentation. On the other hand, difficulties in financial terms may also relate to financial education in the receiving country and the relatively undeveloped financial infrastructure, which may pose difficulties to recipients in receiving remittances. Moreover, some markets are often considered to lack competition or have regulatory barriers to the provision of remittance services.

1. Remittances

Remittances are classified into two main categories: domestic and international. Domestic remittances occur in cases of migration from rural to urban areas within the country due to better employment opportunities. However, this report focuses on international remittances, which for purposes of this study are defined as cross-border person-to-person payments of relatively low value¹. In practice, remittances are regular payments by migrants (workers who send money to their families in their country of origin). For simplification purposes, further in the text, we will refer to such payments as “remittance transfers”, meaning international transfers. In most of the cases, remittances are transfers between people living in developed countries and those living in developing countries, namely with a lower living standard. Such transfers mainly aim to provide sustenance rather than profit.

In developing countries, remittances have a very significant impact on the economic development and social wellbeing. Similar to other developing countries, Kosovo has a significant number of citizens who live in other, more developed countries (mainly the European Union countries). Given the high number of unemployed in Kosovo, from the 90s onwards, it was remittances that have provided the living conditions for many citizens.

1.1. Impact of migrant remittances on economic development

Considering that migrant remittances constitute an important element of national incomes and represent an important source of consumption financing and consequently contributing to economic growth, the studying of this category is very important for the Kosovo economy.

Migrant remittances are increasingly relevant for economies and societies as a result of current global realities, especially the growing economic integration and interdependence among countries at all levels, as well as the growing movement of migrants worldwide.

¹ CPSS/World Bank-General principles for remittances- January 2007

1.2 Remittance service providers

Migrants use different channels to send their money home, ranging from the physical transfer of cash from the country in which they work to their country of origin and to the more advanced way through bank transfers. In this report we will focus on transfers made through various agencies or banks, while the physical transfer of cash from one country to another will not be analyzed due to lack of data for this type of transfer. Hereinafter in this report, the institutions providing money transfer services will be referred to as Money Transfer Agencies (MTA).

1.3 Participants in remittance transfer

The following parties are involved in the remittance transfer process: the sender, the recipient and the money transfer agency. In most cases, two MTAs are involved in a transfer, one in the destination country and the other in the country of origin. These two MTAs should cooperate with each other to enable the transfer of funds; thus, the sending MTA should send the message to the receiving MTA with accompanying information such as the person sending the money, the country wherefrom the money is sent, the person receiving the money, etc. Often MTAs do not have physical locations, but carry out their activities through agents. Banks and credit unions usually perform the function of money transfer and distribution to the receiving customers.

If we analyze the manner in which the transfer is executed, it can be said that most remittances are credit transfers- that is the transfer is initiated by an instruction given by the sender to the MTA². The money transfer process involves the simultaneous transfer of funds and information from the sender's MTA to the receiver's MTA (the sender must provide the transfer institution with information to enable it to send money to the recipient, whereas the disbursing institution/person that distributes the money can inform the recipient who the sender is).

1.4. Types of remittance services

In order for a remittance service to work, there should be some kind of "network", i.e. points where the funds are received and disbursed and procedures to link these points to enable messaging and settlement.

Points where such procedures are carried out may be owned either by providers of these services or agents who disburse the funds. MTAs may be classified into the following categories³:

- Unilateral services - The entire money transfer process is carried out by a single money transfer agency. This is the case when the relevant agency has physical access points in both sending and receiving countries.
- Franchised services – A franchised service is where a central agency, without necessarily having any physical access points of its own, provides a proprietary service: the central agency creates infrastructure for conducting the transfer (e.g., messaging and settlement, advertising), but obtains the necessary access points by inviting institutions in both sending and receiving countries to offer the service or act as franchisees on determined contract terms.
- Negotiated services – In a negotiated service, a MTA negotiates with a limited number of other institutions in other countries in order to create an adequate network of access points. Examples of negotiated services include bilateral arrangements between banks, credit unions or by postal organizations.
- Open services – In an open service, a MTA offers a proprietary service to its customers in the sending country and obtains physical access points in the receiving country using an open network to which any MTA can have direct or indirect access. Currently the only such network is the international banking network, consisting of national payment systems that can be accessed from another country either through correspondent banking or direct links between national payment systems. Open services are the most common form of remittance transfer provided by banks.

2. Analysis of key issues concerning remittance services

Five possible features of the market for remittances that can lead to lack of safety and efficiency in the market for remittances are⁴:

- lack of transparency in the market and of understanding by users;
- weaknesses in the infrastructure that is used to provide remittance services;
- the possibility of adverse effects from poor or disproportionate regulation or a weak legal framework;
- lack of competitive market conditions; and

- Risk.

2.1 Lack of transparency and understanding

Customers should have necessary information on all features of a remittance transfer (price, transfer time, access points where money is received, exchange rate etc.) in order to make an informed choice. This information allows individuals to choose which service they want to use, as well as affect the efficiency of the market for remittances. The cost and the speed of the transfer service are among the most important features to customers, therefore due consideration should be given to making them as transparent as possible. At the moment, the market for remittances is generally not very transparent.

2.2 Infrastructure issues

Another issue that may cause problems in the market for remittances is infrastructure. The market for remittances needs a safe and sound infrastructure to function properly. The problems that may arise in the infrastructure of the market for remittances are:

- Creating a network of physical access points – This poses a problem to MTAs because extension of access points in different countries is faced by problems of varying nature. One option for eliminating these problems is through arrangements with credit unions or banks so that money transfers are executed from those institutions in their own facilities.
- Weaknesses in the financial infrastructure in receiving countries – Commonly, remittances are sent from more developed countries to developing countries, therefore the financial infrastructure in receiving countries may be underdeveloped and cause problems to the money disbursing process.
- Common problems concerning international payments from developing countries – Some developing countries either do not have access to international money transfer systems or face other problems concerning international transfers, which prevent the normal functioning of the market for remittances.

2.3 Legal and regulatory framework

The remittance industry, like any other, is likely to flourish best when the general legal framework in which it operates is sound, predictable, non-discriminatory and proportionate. Particularly important here is likely to be the enforceability of contracts, especially when the parties to the contract are in different jurisdictions.

The main purpose of regulation of remittances is to eliminate risks, prevent money laundering and terrorism financing, and other reasons. Regulations may differ in different countries depending on their respective features.

At the moment, there is no legal framework in Kosovo covering this important category. Therefore, given that remittances account for about 11 % of GDP (in 2009)⁵ and about 40% of family income⁶, the relevant authorities should develop the legal infrastructure in order to protect the citizens and to regulate the functioning of the market for remittances by law.

2.4 Lack of competitive market conditions

Market competition always increases the efficiency of provided services. A greater number of MTAs in the market will lead to better quality of services provided by them. However, in many cases MTAs place exclusivity conditions, meaning that agents or other MTA are allowed to offer its remittance service only on condition that they do not offer any other remittance service. This may lead to local monopolies, since in developing countries the number of agents providing remittance services could be very small and due to exclusivity conditions they may only provide one type of remittance service. This problem may arise in developing countries due to the poor legal infrastructure.

2.5 Risk

MTAs may face financial, legal, operational, fraud and reputational risks. The small values involved in remittance transfers mean that it is unlikely that there will be systemic risk.

For senders and receivers of remittances, the potential risk when making a remittance is that of losing the funds while they are in transit (due to the bankruptcy or other problems of the MTA receiving the money).

Another risk consists of the fact that remittance services may be misused for illegal purposes such as money laundering, terrorism financing etc. Therefore, remittance transfer institutions now pay special attention to these two phenomena.

⁵ Kosovo Remittance Study, November 2010, UBO Consulting, UNDP & USAID KOSOVO, p.41

⁶ Ibid, p. 41

3. General principles for international remittance services

3.1 Public policy objectives

The aim of public policy concerning remittance provisions is defined as follows: remittance services should be safe and efficient. To ensure this, remittance service market should be non-discriminatory, transparent, open and sound.

Competition in the delivery of remittance services helps improve the provided services as well as reduce prices, therefore market for remittances should always be open to new participant. Such markets should provide to senders and receivers:

- clear information about the price and other features of the services (i.e. the remittance industry should be transparent);
- easy access to remittance services (i.e. the remittance industry should be accessible); and
- reasonable protection from operational failures and criminal abuse (i.e. the remittance industry should be sound).

3.2 Application of the general principles

In order to achieve the public policy objectives, the working group has defined general principles covering five key areas⁷: (1) transparency and consumer protection; (2) payment system infrastructure; (3) the legal and regulatory environment; (4) market structure and competition; and (5) governance and risk management. Their purpose is to help remove those weaknesses in order to create a safe and efficient market.

3.3 The general principles

3.3.1. Transparency and customer protection

Transparency in remittance services, combined with adequate consumer protection, helps to foster a competitive and safe market for remittances.

As already mentioned in this report, transparency of prices and other service features is crucial to the establishment of an efficient market for remittances. Remittance service providers should therefore be encouraged to provide such information in easily accessible and understandable forms. As far as possible, such information should include the total price (i.e. fees at both ends, foreign exchange rates, and other costs if there are any), the time it will take the funds to reach the receiver, and the locations of the remittance service provider access points in both sending and receiving

countries. In addition, it should be made clear to the sender if there are any fee changes when payment is done in cash or through bank account, etc.

3.3.2 Payment system infrastructure

Remittance services require among others a sound payment system. In some countries, especially in remittance receiving countries, this infrastructure remains underdeveloped where payment services without cash are provided only in urban area.

Safety and efficiency of remittance services can be affected by payment systems in the relevant markets and how these systems are accessible and used by MTAs. Improvements in the internal payment system may also have a positive impact on the efficiency and safety of the international payment system, through improved legal infrastructure, communication standards, formats of payment messages and other elements that influence the stability of the payment system.

3.3.3. Legal and regulatory environment

The legal and regulatory framework includes general legal infrastructure (such as the law relating to contracts, payments, securities, banking matters, etc.) and any specific statutes, case law, regulations or contracts (e.g. payment system rules) relevant to remittances.

A remittance involves at least two jurisdictions: the jurisdiction of the country of origin and destination of the migrant. The authorities of a given country can, of course, have an influence on their country's laws. Nevertheless, if they are concerned about any issue of the other country, they may want work with authorities of the country concerned in order to solve the problem.

Special importance in this regard have rules related to policies against money laundering and financing of terrorism. All remittance service providers must be in full compliance to these policies.

3.3.3. Market structure and competition

The efficiency of remittance services depends on there being a competitive business environment. Competitive markets will lead to limit monopolistic practices and lower prices of services as well as increase the level of services. Competition can be assisted by discouraging money transfer agencies from imposing exclusivity rights to different agencies.

To provide remittance services, MTAs usually need to be able to make use of the domestic payment infrastructure. Access to this infrastructure can be either direct or indirect.

Hence, whichever form access takes, MTAs should be treated equally

because they are in competition with each other and access to payment systems may be a factor that will affect the competition among them.

3.3.4. Governance and risk management

Appropriate governance and risk management practices by money transfer agencies, can improve the safety and soundness of remittance services and help protect consumers. Hence, money transfer agencies should adopt standards for good governance according to the laws of the country in which they operate and follow best practices in order to develop a safer and effective remittances market.

As in the case for the payments industry generally, international remittance industry faces with legal, financial, operational, fraud or even reputational risks. In establishing risk control measures, remittance service providers should conduct risk level assessments, to ensure that risk control measures are appropriate to the level of risk and business in general. In doing so, they should as far as possible take appropriate measures to protect themselves and their customers against risks arising from their operations in different jurisdictions, particularly in those with shortcomings in their legal and regulatory framework.

3.4 Role of money transfer agencies and public authorities

Although circumstances vary from country to country, money transfer agencies and public authorities have responsibilities for implementing the principles in order to achieve the public policy objectives.

- ***Role of money transfer agencies - active participation in implementing general principle***

MTAs should endeavour to follow general principles for migrant remittances. They should strive to offer competitive and efficient services in Kosovo in order to meet the requirements of their customers. In order to be as transparent as possible, MTAs in Kosovo must disclose their prices, including the provisions with which they are charged, they should also show the time of the commission of transfer. MTAs in Kosovo must ensure that they are operating in full compliance with national legislation, particular attention should

be paid to money laundering and financing of terrorism as two of the issues devoted more attention around the world.

- ***Role of public authorities - public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles set forth above***

Where policymakers decide to take action with respect to remittances by applying the principles, the relevant authorities need to have appropriate powers and resources. There are multiple tools that can be used by public authorities, depending on the level of involvement authorities decide to undertake. These tools include monitoring, dialogue with the private sector and the provision of information to the public. Where implementation of the principles involves multiple domestic authorities, policymakers should ensure that domestic policies are coordinated and that the authorities cooperate at the policy and implementation levels. When possible, cross-border cooperation is welcomed.

3.5. Formulating an approach to implementing the general principles

Implementation of the general principles remains one of the main challenges to the money transfer agencies. Responsibility for implementing the principles lies with both the public and private sector.

Tools for implementing the general principles

Public authorities can take action on remittance services in various ways, depending on the level of involvement they decide is useful⁸.

- Monitoring will be helpful in carrying out public policy objectives and deciding on appropriate actions with respect to the remittance industry. The changing nature of the remittance market increases the importance of monitoring, which could focus on the way remittance systems are evolving.
- Dialogue with the private sector is an important tool that can be used to understand market trends. Dialogue should involve all interested parties, so that the views of all stakeholders are taken into account.

⁸ CPSS/World Bank-General principles for remittances- January 2007

- Communication and outreach are related to dialogue but they deserve specific attention since they involve awareness-raising among money transfer agencies that they may be able to provide efficient and effective remittance services for end users to foster their use of financial products.
- Authorities may be able to help the private sector improve the market for remittances by acting as a catalyst, e.g. by setting rules or laws under which they should operate.
- Public authorities may sometimes need to use regulation to avoid market failures. Where they do so, they should attempt to ensure that their actions have net benefits and do not create unnecessary barriers for remittance services. Authorities may wish to review regulations to ensure that they are not inapplicable and do not discriminate money transfer agencies.
- Direct provision by public authorities of certain services to support remittances is also a possible instrument, although often this will be desirable only if other instruments prove ineffective.

4. Current situation of remittances in Kosovo

4.1 The developments and money transfer channels

Kosovo Albanians migration has started since the times of former Yugoslavia. The first phase of Kosovo-Albanians migration is estimated to have taken place during 60s-70s, where due to the difficult economic situation in Kosovo, many people were forced to migrate at other countries both inside and outside the federation seeking for new opportunities for job. The second phase includes the period from 1989 when massive migration of Albanians from Kosovo to western countries took place. Reasons of migrations were economic as well as political. The third phase includes the period after 1999, after the war, when Kosovo faced major economic crisis. Destroyed factories, underdeveloped infrastructure, lack of electric power and high level of unemployment were the main factors that contributed to the continuation of migration of the citizens of Kosovo.

Kosovo with such a high rate of unemployment which is believed to be approximately 37- 40.7%⁹ is largely dependent on remittances. Most migrants are concentrated at European Union countries and other more developed countries of Europe and of the World. The economic crisis which swept the world in recent years undoubtedly affected the financial condition of Kosovan migrants thus affecting the amount of cash sending to Kosovo. For sending their means migrants use various routes which generally fall into two main groups: formal and informal ways of sending money.

4.2 The formal form of sending the remittances

The structure of works performed by Kosovan migrants in Western countries is different. Thus, these migrants use the easiest ways to send means although often they are not very safe. However there is the other part of migrants who, as precondition for sending their means determine the safety before cost or other factors.

Transfer through specialized agencies for money transfer remains one of the preferred ways of transfer for migrants. These agencies are scattered in almost all areas in Kosovo, enabling their customer's easy access to receiving money. These agencies provide quick delivery of money but the cost of delivery is relatively high. They have a large number of agents who are spread across urban areas and also in rural areas.

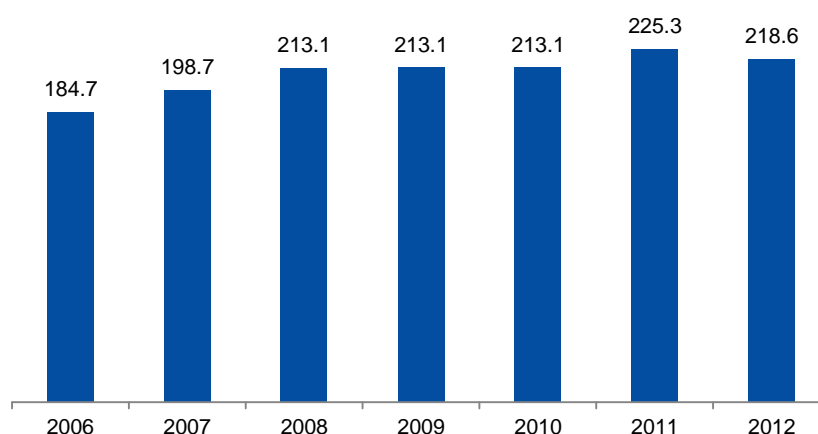
⁹ Ministry of Labour and Social Welfare, Labour and Employment, Annual Report 2010

Table 1. The amount of remittances sent to Kosovo through money transfer agencies

Year	Amount (in million Euro)	Total participation (%)
2006	184.7	39.5
2007	198.7	38.5
2008	213.1	35.0
2009 Q1	46.3	38.0
Q2	53.3	37.5
Q3	53.0	30.3
Q4	60.5	41.2
2010 Q1	46.3	38.4
Q2	53.3	36.8
Q3	53.0	32.1
Q4	60.5	39.4
2011 Q1	50.1	40.1
Q2	55.1	39.9
Q3	55.7	33.8
Q4	64.5	41.2
2012 Q1	47.1	39.5
Q2	55.0	38.6
Q3	52.0	29.7
Q4	64.5	38.2

Source: CBK (2013)

Table 1 indicates the value of remittances sent through money transfer agencies in Kosovo during 2006-2012. From the table we see that there have been ongoing changes to the amount of cash sent through MTA. During the fourth quarter of 2012 there was nearly equal amount of remittances sent through MTAs, compared with the same period last year, where, during this quarter through them were sent 64.5 million euros.

Graph 1. The amount of remittances sent to Kosovo through money transfer agencies (*in million Euro*)

Source: CBK (2013)

Transfer through bank accounts enables customers to transfer money from the country of destination to migrant's country of origin. This remains one of the safest forms to send money. Banks are connected with international financial telecommunications network called SWIFT, which enables banks sending messages in order to make payments from different countries. Our banks in the absence of direct connections with banks in different countries use intermediary banks (which usually are world renowned banks) for making these payments. Transfers carried out via accounts are quite safe but have a higher cost, since fees of ordering bank, intermediary bank and the receiving bank have to be paid. Even the timing for transfers is longer since it involves the three institutions. Customers prefer sending money via bank accounts in cases where payments are in greater amounts due to safety and the cost. Although the transfer via bank accounts is a more preferred form of transfer by businesses, however this remains very important form for transfers by migrants.

Table 2. The amount of remittances sent to Kosovo via bank accounts

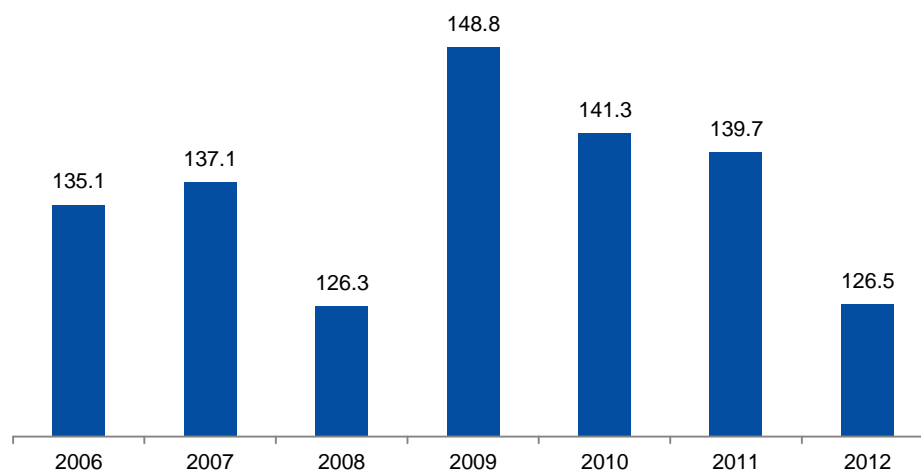
Year	Amount (in million Euro)	Total participation (%)
2006	135.1	28.9
2007	137.1	26.6
2008	126.3	20.8
2009 Q1	32.4	26.6
Q2	30.9	21.7
Q3	58.0	33.2
Q4	27.5	18.7
2010 Q1	34.1	28.2
Q2	33.4	23.0
Q3	43.8	26.6
Q4	30.1	19.6
2011 Q1	30.3	24.2
Q2	25.2	18.2
Q3	48.9	29.7
Q4	35.2	22.5
2012 Q1	23.3	19.6
Q2	21.8	15.3
Q3	56.3	32.2
Q4	25.1	14.9

Source: CBK (2013)

Table 2 shows that the amount of remittances sent to Kosovo via banks have had ups and downs from year to year. In 2008 there was a slight decline in the amount of remittances

sent via bank accounts, either due to economic crisis in Western countries, or due to the high cost and the long time for transfer of these means from the country of destination (sending country) to the country of origin (receiving country). In 2009 was marked an increase in the amount of remittances sent via bank accounts, but in subsequent years the amount of remittances sent via bank transfers marked a decline. In 2011 compared with a year earlier, the amount of remittances via bank accounts marked a decline of 1.1%, while in 2012 the decline was about 9.4%. Transfer via bank accounts for international transfers remains one of the most preferred forms for high amount transfers due to a lower cost (compared to the money transfer agencies), as well as the most appropriate way of the payment of goods and services.

Graph 2. The amount of remittances sent to Kosovo via bank accounts (in million Euro)



Source: CBK (2013)

4.3 Informal form of sending remittances

In addition to formal form, is also used the informal form for sending remittances. This means carrying of cash money when migrants return to Kosovo or sending money through their acquaintances.

Transfer of cash money has been and remains the most used form by Kosovan migrants for transfers of means. This at the same time is the oldest and not very safe form for the transfer of money. Often migrants for various reasons (including the cost and other reasons) decide to carry their money in cash when travelling to Kosovo or send the money through their relatives. Another reason why

migrants do transfers in cash is because there are some who do not have valid residence permit and cannot have access to banks or other money transfer institutions. It is believed that cash money transfer includes fairly large volume of remittances that migrants send to Kosovo. It is impossible to determine accurately the number and volume of these transactions since everything is carried out privately. Another very important reason why migrants do money transfers in cash is due to loss of confidence in financial institutions because of disorders that financial system underwent in the former Yugoslavia.

It is believed that a large proportion of the remittances to Kosovo still continue to come through informal channels, which makes it difficult to calculate the amount of means that are the result of remittances and their impact on economic and social development of the country. Some of the reasons for choosing informal way of sending remittances are:

- The high cost of money transfers;
- Lack of banks or agencies for transfers in rural areas;
- The obstacles in opening of accounts in the migrant's countries of destination, mainly due to illegal migration;
- Lack of confidence in the financial system as a result of the negative developments in the banks of the former Yugoslavia during the 90s;

A study conducted by UBO Consulting, supported by UNDP and USAID, indicates that during 2009, 42 percent of remittances came via official channels, while 58 percent of remittances via informal channels. In transfers through unofficial channels migrants used two main ways: sent the means personally during birthplace visits or other ways through their relatives and friends.

4.4 Remittances according to receipt channels

Table 3 shows which ways of money transfer Kosovo migrants currently use and have used over the years. Based on the data in table 3 it can be concluded that the most preferred and used manner by our migrants in 2012 was the transfer via informal forms, followed by transfers via money transfer agencies and then another alternative and the one less used are bank transfers.

Table 3. Remittances according to sending channels (in million euro)

Year	Through Banks	Through Operators	Through other ways	Total
2004	N/A	N/A	N/A	357.0
2005	N/A	N/A	N/A	418.0
2006	135.1	184.7	147.3	467.1
2007	137.1	198.7	179.8	515.6
2008	126.3	213.1	269.3	608.7
2009	148.8	213.1	223.8	585.7
2010	141.3	213.1	229.9	584.3
2011	139.7	225.3	219.8	584.8
2012	126.5	218.5	260.6	605.6

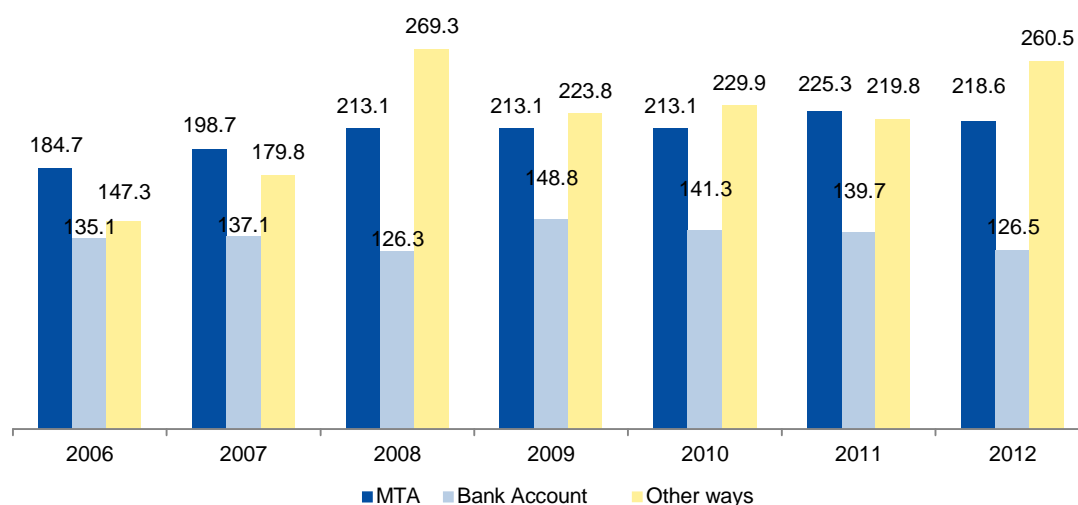
Source: CBK (2013)

Reasons why migrants choose money transfer agencies as the first formal way of sending means are various, but we can highlight the following:

- Easy access to locations of these agencies (both in the country of origin and the migrant's country of destination);
- Simple procedures (without bureaucracy in the transfer of means from the sender to the recipient);
- Time (these agencies enable the transfer of means in a relatively short period of time ;) etc.

During 2006 approximately 29 percent of remittances were sent through banks, 39 percent via agencies and approximately 32 percent via other ways. During 2007 approximately 27 percent of remittances were sent through banks, 38 per cent through operators and around 35 percent via other ways. The trend was almost the same over the years, whereas sending money via bank accounts remains as the safest way. During 2012 remittance transfers through banks marked a significant decline, whereby during this year only 21 percent of remittances to Kosovo were sent via banks, 36 percent via MTAs while the remaining 43 percent via other ways of transfer.

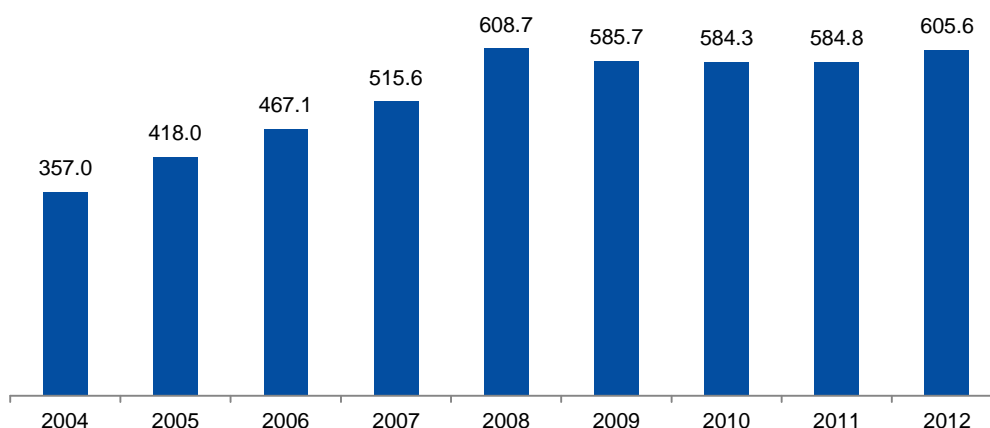
Graph 3. Remittances according to sending channels (in million euros)



Source: CBK (2013)

Graph 4 shows the total value of remittances to Kosovo during 2004-2012. From 2004 to 2008 there was a continuous increase of remittances sent to Kosovo, which if expressed in percentage we note that in 2007, there was 10.4 percent more money received than in 2006. In 2008 there was an increase of 18.1 per cent in remittances compared to 2007, in 2009 there was a decline of 3.8 per cent in remittances compared to 2008, in 2010 there was a decline of approximately 0.24 percent compared to 2009. This is the period when economic crisis still continued in developed countries, which had and still continues to have an impact in the value of remittances sent to the country. In 2011 there was a slight increase of remittances sent compared to 2010, increasing trends continued in 2012, whereby during this year the amount of remittances sent increased by 3.6% compared with the previous year. All these data can best be seen in Graph 4, which shows the trend of remittances from 2004 until 2012.

Graph 4. Remittances by years (in million Euro)



Source: CBK (2013)

4.5 Remittance sending countries

Migrants from Kosovo mainly migrated to countries of the European Union due to more developed economic level and a higher standard of living. It is believed that the number of those who emigrated from Kosovo is over 400 000¹⁰, but there is no exact figure of the number of migrants from Kosovo to other countries. Most migrants are established in Germany (27%), Switzerland (24%), USA (9%), United Kingdom (6%), Italy (5%), France (4.8%), Sweden (4%)¹¹ and in other developed countries. Table 5 shows the percentage of remittances coming from single countries compared to total remittances. Thus, during Q4 2012 remittances from Germany accounted for approximately 34% of total remittances received in Kosovo, from Switzerland approximately 21%, from Italy over 9%, from Austria 6%, from USA over 4%. Therefore, from countries where there are more migrants, the amount of remittances sent is greater, which is easily understandable. Amounts of remittances coming from Germany in previous years, marked low fluctuations, with slight ups and downs.

¹⁰ World Bank, The World Bank Kosovo Poverty Assessment, Volume I: Accelerating Inclusive Growth to Reduce Widespread Poverty (3 October 2007)

¹¹ Kosovo Remittance Study, November 2010, UBO Consulting, UNDP & USAID KOSOVO, page 26

Table 4. Countries remittances come from

	2008	2009				2010				2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Germany	38%	35%	39%	37%	38%	35%	35%	33%	34%	33%	33%	34%	34%	31%	37%	35%	34%
Switzerland	16%	21%	20%	21%	22%	21%	21%	21%	22%	24%	23%	23%	22%	24%	26%	23%	21%
Italy	13%	11%	11%	10%	10%	9%	8%	7%	7%	7%	7%	6%	7%	5%	8%	8%	9%
Austria	6%	5%	6%	6%	5%	6%	4%	7%	5%	6%	6%	6%	5%	6%	6%	6%	6%
Belgium	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	2%	3%	3%	1%	7%	3%	3%
USA	3%	3%	3%	3%	2%	4%	5%	5%	3%	5%	4%	2%	4%	6%	4%	4%	4%
Sweden	4%	3%	3%	4%	3%	3%	3%	3%	4%	4%	3%	4%	3%	4%	1%	3%	3%
France	4%	3%	4%	4%	4%	3%	4%	4%	4%	4%	4%	4%	4%	3%	0%	3%	3%
Norway	2%	3%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	5%	1%	3%	2%
Canada	2%	2%	2%	2%	2%	1%	2%	2%	2%	2%	2%	2%	2%	1%	0%	1%	2%
Great Britain	1%	2%	1%	1%	1%	2%	2%	2%	1%	2%	1%	1%	1%	3%	2%	2%	2%
Denmark	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	1%	1%
Finland	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	1%	1%
Netherland	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%	1%	0%
Slovenia	1%	1%	1%	2%	1%	3%	4%	6%	4%	4%	4%	3%	4%	5%	5%	4%	4%
Other Countries	3%	4%	1%	2%	2%	4%	6%	3%	5%	3%	6%	7%	5%	5%	1%	4%	6%

Source: CBK (2013)

5. Recommendations

Efficiency and safety remain the two main objectives to be met by institutions that provide remittance services. The legal basis and the oversight conducted by Central Bank according to authorizations determined by law, have a great impact in the fulfilling of these objectives.

In order to increase the efficiency and safety of migrant's transfers the following is recommended:

- **Awareness campaign for the migrants to use formal transfer methods** - this should be supported by the CBK, Ministry of Diaspora, Ministry of Finance and commercial banks. The campaign can be organized by the CBK, Ministry of Diaspora, KBA and other agencies and institutions, whereby informational brochures would be prepared for the migrants during the summer season and be placed in all banks and shopping centres as places highly frequented by migrants.
- **Expansion of the money transfer agency branches into rural areas.** It is well known that banks and money transfer agencies are mainly located in urban areas; hence, access for residents of rural areas is difficult due to infrastructure and other factors. Opening of branches throughout these areas would be welcome for the residents of these areas.
- **Expansion of ATM and POS terminals network in rural areas** to facilitate access for residents of these areas. Currently in Kosovo ATMs and POS terminals are concentrated in urban areas, while in rural areas rarely can be found any. Lack of connections and the cost of maintenance are considered as factors that have contributed to the small number of ATMs and POS terminals in rural areas;
- **Equipping of Kosovo with SWIFT Code** – CBK has continuously strived regarding the issue of SWIFT Code, but political circumstances have prevented the possibility of equipping with this code. Equipping of Kosovo with SWIFT CODE would reduce the cost of transfers from abroad, since the commercial banks would not use and pay for the SWIFT CODE of other countries and transfers would be performed easier and quicker;

- **Lowering tariffs on incoming transfers from Western countries** by banks and agencies specialised for international transfers, which would greatly contribute to reducing the volume and number of informal transfers;
- **Enhancing competitiveness** - licensing of other agencies for transfer of money.
- **Drafting of legal regulations for remittances** - CBK in coordination with other stakeholders should draft a document that would define the manner of the functioning of remittance market in Kosovo. This way the rights and obligations of the participants in the remittance market would be defined clearly and at the same time customers would be better protected from potential abuse.

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