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ABSTRACT

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The purpose of this paper is to investigate the role played by ethnicity on the determinants and welfare implications of transfers from abroad in Kosovo. This territory, in which the tension among ethnic groups is still the focus of international concern, is one of the primary recipients of remittances in the world. Using data collected in 2011 from 8000 households residing in Kosovo and 650 of their members living abroad, we focus on differences in the remittance behaviors of Serbs and Albanians who were involved in a civil war in the 1990s. Our results show that the probability of receiving money is much higher for the Albanians compared to the Serbs, which is related to differences in migration models between both ethnic groups. Remittances lead to a significant increase in the average level of per capita consumption for all ethnic groups even after accounting for endogeneity of the transfer variable. *Journal of Comparative Economics* xxx (xx) (2014) xxx–xxx. Imperial College London, South Kensington Campus, London SW7 2AZ, United Kingdom; Université de Nantes, BP 52231 Chemin de la Censive du Tertre, 44322 Nantes Cedex, France; INED, 133 boulevard Davout, 75980 Paris, France.

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1. Introduction

International migrations have many implications for developing countries, one of the largest being remittances. At the macro level, remittances outpace private capital flows, international official aids and, for a few countries, the volume of foreign direct investments (World Bank, 2013). At the micro level, remittances provide crucial resources for recipient households. Although remittances have a significant impact on poverty (Bisogno and Chong, 2002; Adams and Page, 2005; Duval and Wolff, 2010; Adams and Cuecuecha, 2010, 2013), there is still no consensus on the impact of remittances on income inequality. This could be due to the migration timing as emphasized in Brown and Jimenez (2008). In the early stages of migration, international migrants are not randomly distributed across income groups. This selection-bias favors the well-off households and remittances tend to reinforce existing income inequality. However, with the development of migrant

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networks in the destination countries, remittances tend to reduce income inequality because international migrations concern after a while, all income groups.¹

So far, the literature has not really addressed the issue of ethnic origin in explaining differences in remittance behaviors and their effect on the living standards of households. This lacuna can be explained by the difficulty to find appropriate micro level data, some countries refusing to include questions on ethnicity in their national census or rejecting to register some specific ethnic group as a legitimate category. Another explanation is the paucity of household surveys from post-ethnic war context, a noticeable exception being [Bhaumik et al. \(2006\)](#). Using the Kosovo Living Standards Measurement Study household survey collected by the World Bank in 2001, they find that the Serb households have more favorable economic characteristics than the Albanian households. However, despite these advantages, the Serb households have on average lower living standards.

An explanation of the higher living standards of the Albanian households could be the receipt of remittances. In this paper, we study the relevance of this assumption using an unusually rich data set collected in 2011 by the United Nations Development Programme (UNDP hereafter) from 8000 households residing in Kosovo and 650 of their members living abroad. Specifically, we perform an econometric analysis to explore the determinants and welfare implications of transfers received from family members living abroad across ethnic communities in Kosovo. We wonder whether the recipient's ethnicity has an impact on remittance decisions and how these transfers affect living standards in a post-civil war context.

Kosovo is an interesting setting to study whether ethnic origin matters in comparative living standards of households.² Kosovo is in a process of transition from communist system to market economy and from ethnic violence to peace, which has led to severe vulnerability of the population ([World Bank, 2001](#)). Serbs and Albanians were involved in a civil war in the 1990s on the territory of former Yugoslavia and the tensions are still high between the two ethnic groups.³ Despite progress during the post-conflict reconstruction, Kosovo is characterized by a combination of extreme poverty and a lack of employment opportunities with a high rate of emigration. Although reliable data is scarce, the current number of international migrants is around 20% of total population ([UNDP, 2012](#)). According to the Central Bank of Kosovo, the total value of remittances received in 2010 was estimated at around €500 million. Kosovo is among the main recipients of remittances in the world as a percentage of gross domestic product (17%). In that context, one expects remittances to be a crucial resource of livelihood strategies for households living in Kosovo.

We proceed in the following way in our empirical analysis. We begin with an investigation of the determinants of remittance receipt in Kosovo by ethnicity. Then, using treatment effect models and decomposition techniques, we assess the impact of remittances on welfare proxied by the level of per capita household consumption. We find that ethnicity matters in explaining the probability of receiving money, which is much higher for the Albanians compared to the Serbs. The disparity between ethnic groups is explained by different migration models between Albanians and Serbs. For all ethnic groups, remittances lead to a significant increase in the living standards even after accounting for endogeneity of the transfer variable. As a consequence, there is little dispersion in living standards between recipients and non-recipients while the within dispersion is much more important.

The remainder of the paper is organized as follows. In the next section, we provide background on Kosovo. We present the UNDP data and descriptive statistics in Section 3. We study the determinants of remittance receipt by ethnicity in Section 4 and investigate the welfare implications of remittances in Section 5. Finally, Section 6 concludes.

2. Context in Kosovo

Let us describe the context of Kosovo resulting in the break-up of the Socialist Federal Republic of Yugoslavia and the Balkan wars in the 1990s ([World Bank, 2001](#)). The hostilities escalated in 1989 as Serbia revoked the Kosovo's autonomous status and took repressive measures against the Albanians. In 1998, the Serb army conducted an offensive in Kosovo with the aim to create an ethnically homogenous and contiguous Serb territory that resulted in large number of victims and population displacements. Due to the violent ethnic tensions, the North Atlantic Treaty Organization (NATO hereafter) decided on military operations. In 1999, the United Nations Security Council Resolution 1244 decided to place Kosovo under an international protectorate. In 2008, the Assembly of Kosovo declared unilateral independence. Over 80 countries recognized it with the exception of Serbia and Russia. The status of Kosovo remains undetermined today. It is subject to territorial disputes with Serbia and the tension among ethnic groups is the focus of international concern ([Bhaumik et al., 2006](#)).

¹ Previous studies show that migrant networks play an important role on the migration decisions of potential migrants. They facilitate further migrations by providing employment information, accommodation and supportive relationship and by offering services that reduce costs of migration ([Dolfin and Genicot, 2010](#)).

² A few studies have focused on the differences in living standards in Israel where there are also two main ethnic groups with violent ethnic tensions, Jews and Arabs. Comparing the living standards for households headed by immigrants from Asia and Africa with those headed by immigrants from Europe and North America, [Deutsch and Silber \(2006\)](#) find that ethnic origin matters when explaining poverty. Using the Israeli Social Survey in 2006, [van Praag et al. \(2010\)](#) analyze the satisfaction of life of Israeli citizens (Jewish and Arab descent) and find that Arabs are less satisfied with their lives than the Jews are.

³ As emphasized in [Bhaumik et al. \(2006\)](#), both Serbs and Albanians have the conviction of being legitimate occupants of Kosovo for both historical and cultural reasons. In particular, this territory became the center of the Serb Empire in medieval times. There is still a strong Serb Orthodox heritage with important religious sites located in Kosovo.

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