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REMITTANCES – A GATEWAY TO SUSTAINABLE DEVELOPMENT

Lessons learned from the implementation of project Greenback in Kosovo

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About Project Greenback

Despite the crises caused by the COVID-19 pandemic, migrant workers' remittances amounted to a staggering $548 billion in 2020 and are projected to reach $589 billion in 2021. However, the cost of sending remittances remains high for most monitored transfer channels compared to the objectives set by G20 and UN SDGs. Lowering the costs of remittances and increasing available services for migrants and remittance beneficiaries worldwide remains at the core of the global development agenda.
In this context, the World Bank (WB) has been implementing project Greenback in several countries of the world. In Kosovo the Word Bank has partnered with the Central Bank of the Republic of Kosovo (CBK). This initiative aims to increase the efficiency of international remittances and boost the benefits they yield for individual families and the economy, mainly through financial education, capacity building, and stakeholder coordination.

Project Greenback starts in local communities that act as laboratories for analyzing issues related to remittances specific to the communities, devising and piloting solutions that can be scaled up to benefit both the supply and demand sides of remittance markets. The project continually promotes cooperation among local and national stakeholders to sustain meaningful change. While limited in scale, this bottom-up approach produces tools and lessons learned, which have a significant demonstration effect for similar communities and can be easily scaled up beyond the scope and length of the World Bank's involvement in each country.

The WBG team then coordinates knowledge-sharing activities through the Remittance Champion Cities Network, replicating best practices and disseminating lessons learned globally. In this way, Greenback serves as a strategic instrument that brings together the local and global interventions of the World Bank on remittances and financial inclusion.

Project Greenback turned 10 in 2021. It started back in 2011, engaging two migrant communities at first, the Hondurans in Washington, DC, and the Moroccans in Turin, Italy. The project has since been implemented in several remittance sending and receiving countries, including France, United Kingdom, Malaysia, Indonesia, Haiti, and four countries of the Western Balkans. The City of Prizren in Kosovo is one of the local communities where Project Greenback has been piloted within a wider framework of the Remittances and Payments Program (RPP) funded by the Swiss Secretariat of Economic Affairs (SECO).



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ACRONYMS AND ABBREVIATIONS

CBK	*Central Bank of Kosovo*
ECA	*Europe and Central Asia*
FDI	*Foreign Direct Investment*
GDP	*Gross Domestic Product*
LMICs	*Low- and middle-income countries*
LNA	*Learning Needs Assessment*
MTO	*Money Transfer Operator*
ODA	*Official Development Aid*
RPP	*Remittances and Payments Program*
RPW	*Remittance Prices Worldwide*
RSP	*Remittance Service Provider*
SDG	*Sustainable Development Goal*
SECO	*Swiss Secretariat of Economic Affairs*
UN	*United Nations*
WB	*World Bank*

Executive summary

International remittances have a substantial impact on developing economies. Apart from keeping individual families financially afloat, remittances also have positive macroeconomic effects as an essential source of external financing. They reduce the balance of payments deficit, increase foreign currency reserves, alleviate poverty, and sustain growth through direct and indirect multiplier effects.

In 2021, remittances reached a staggering $589 billion sent to the low and middle-income countries (LMICs) according to WB estimates - more than threefold above official development assistance (ODA) and, excluding China, more than 50 percent higher than foreign direct investment (FDI).[1]

As a share of gross domestic product (GDP), Kosovo is the top remittance receiving country in Europe. Remittance inflows are estimated to have reached $1.5 billion in 2021, making up 16.7 percent of the Kosovar GDP. The population of Kosovo origin living abroad (diaspora) in 2017 is estimated to be 833,739 people, which equals 46.36 percent of the people living in Kosovo.[2]



The COVID-19 pandemic slowed new migration and increased return migration for the first time in modern history. It put the remittances sector to test and caused remittance flows to decline fduring March and April 2020. However, remittance flows recovered in the following months off 2020 and throughout 2021 as migrants continued to send money home, pooling from their savings or other emergency funds they could access.

In Kosovo, remittances grew by 15 percent in 2020 compared to the previous year, proving to be a countercyclical and stable source of income for families in times of crisis.[3] Simultaneously, the

[1] World Bank. (2021) Migration and Development Brief 35. Washington, D. C.: World Bank Group.

[2] Government Authority for Migration. (2018) Extended Migration Profile 2013-2017. Pristina. Government of the Republic of Kosovo https://mpb.rks-gov.net/Uploads/Documents/Pdf/EN/41/EXTENDED%20MIGRATION%20PROFILE%202013-2017_final%20II%20(1).pdf

[3] World Bank. (2021) Migration and Development Brief 35. Washington, D. C.: World Bank Group.

importance of remittances as a source of external financing for all LMICs, including Kosovo, became ever so significant as the fragile local economy became disrupted and other forms of external financing diminished.

The cost of sending remittances remains high for most monitored transfer channels compared to the objectives set by G20 and the Sustainable Development Goals (SDGs) by the United Nations (UN), both globally and in Kosovo. Large volumes of remittances are still being hand-carried in cash across borders, entailing security and efficiency-related issues. Access to more affordable, secure, and efficient money transfer services remains limited for many migrants and remittance beneficiaries due to lack of identification documents, stringent anti-money laundering and countering the financing of terrorism (AML/CFT) regulations, lack of available financial products or infrastructure, or poor financial inclusion and literacy levels.

Lowering the high cost of remittances and increasing the financial inclusion of migrants and remittance beneficiaries worldwide remains at the core of the global development agenda. In this context, the World Bank (WB) has implemented the Remittances and Payments Program (RPP) funded by the Swiss Secretariat of Economic Affairs (SECO) in select countries in Europe and Central Asia (ECA), including the Republic of Kosovo. RPP promotes cost-efficient access channels and instruments for disbursing international remittances. Within the RPP framework, Project Greenback is the financial education and capacity-building component.

Project Greenback promotes change motivated by the real needs of remittance beneficiaries in both the sending and receiving countries. Through the direct involvement of migrant workers and their families, local authorities, and remittance service providers, the project seeks to address remittance recipients' specific payment and financial needs through financial education, awareness-raising, and market and stakeholder coordination.

The project helps improve the remittance market and make financial services more accessible, affordable, and attractive to migrant workers and their families at home while demonstrating how remittances can be leveraged to increase financial inclusion and promote development. The main tools of the Greenback approach are financial education of end clients, capacity-building of financial service providers, and stakeholder engagement and coordination.

Within the project's framework, a series of activities have been implemented in Kosovo, yielding the following results:

(i) analyzed and encapsulated financial behaviors and learning needs of remittance senders and receivers, informing further actions.
(ii) raised awareness among individuals in Kosovo and in the diaspora about the importance of remittances, financial inclusion, financial education, and their developmental potential, creating more focus on these topics and giving an impetus for a meaningful change.
(iii) capacity-building programs piloted and entrusted to the national stakeholders to further develop and streamline, scaling up the efforts.

Going forward, an increased focus on making regulated services more attractive to the end-users in terms of access and costs is needed in Kosovo. To this end, it is vital to recognize and differentiate between the specific needs of each target group, such as migrants, women, rural populations, etc. By realizing the potential of digital financial services, sector stakeholders could collaborate to create an inducive market backed by an enabling legal framework and suitable infrastructure that maximizes competition and market entry.

Introduction

Millions of households across the globe depend on remittances, a source of household income that comes from family members who migrated to more developed countries for economic or other reasons. Migrant remittances cumulatively represent essential financial inflows for many developing economies, surpassing the sum of FDI and ODA in most LMICs.



Kosovo is the top remittance-receiving country in Europe per share of GDP. In 2017, the WB, in partnership with the CBK, started to investigate the local market for international remittances and determined main areas of intervention to be implemented within the technical assistance framework of the RPP.

The RPP aims to increase the efficiency of the Kosovo remittance market and boost the benefits remittances yield for individual families and entire economies. The program promotes change on the supply- and demand-sides that can respond to the real needs of the ultimate remittance beneficiaries - migrant workers, their families, and their communities.

An RPP component titled Project Greenback focuses on developing tailored financial education for remittance beneficiaries. It is geared toward strengthening their capacities for financial decision-making and leveraging regulated financial services for personal financial wellbeing. The main activities encompass developing and piloting financial education modules, awareness-raising activities, stakeholder capacity building, and market engagement and coordination.

This report aims to inform a wider audience about the importance of remittances and the specific financial education activities implemented in Kosovo to improve their efficiency. It briefly introduces international remittance flows and their role in the global development agenda, with a particular focus on the impact of the COVID-19 pandemic. The following chapters give an overview of the work of the WB on financial inclusion and international remittances in Kosovo, with an emphasis on project Greenback, and outline the local context for the implementation of the project. The final chapters focus on the activities implemented in Kosovo and suggest the way forward based on the lessons learned.
For more information on the work of the World Bank on reducing remittance costs, Project Greenback and the Remittances and Payments Program in the Western Balkans, please visit

For more information, please visit http://remittanceprices.worldbank.org/

Global remittance flows at a glance

Millions of people across the globe travel to other countries in search of better job prospects. Often, the earnings they make abroad serve both their personal needs and the needs of their families back home. Even though individual transactions they send home are relatively small in value, in aggregate, they amount to hundreds of billions of dollars sent each year. These cross-border, person-to-person money transfers are called international remittances.

Remittances are a lifeline for millions of poor and vulnerable families worldwide. Many households receive them regularly and depend on them for their basic needs, making up 50 percent or more of their monthly income. Others receive them only for special occasions or in case of emergency, while fewer still receive remittances specifically slated for major purchases or investing in economic activities.

Apart from supporting individual household incomes and small businesses, these funds have a measurable impact on entire economies. Remittances reduce trade and current account deficits, increase foreign currency reserves, alleviate poverty, and sustain growth through direct and indirect multiplier effects.

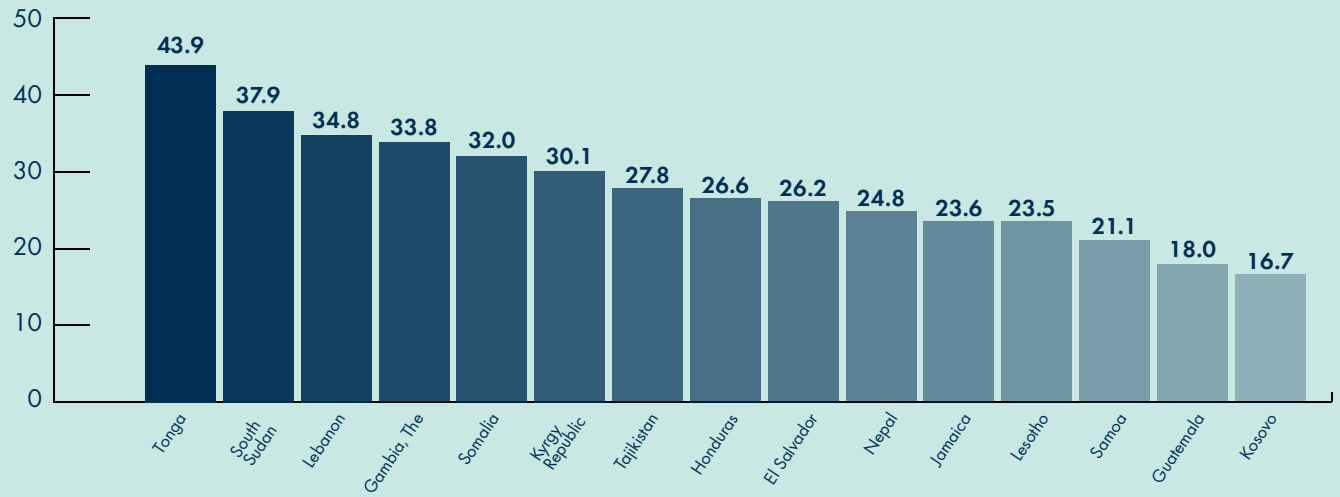
Volume of remittances

In 2021, the WB estimates global remittance flows to LMICs at an astounding $589 billion, registering an increase of 7.3 percent compared to 2020. The current projections foresee further growth in 2022 but at a slower rate.[4]

The current volume of remittances is more than threefold above ODA and, excluding China, more than 50 percent higher than FDI.[5] For most developing countries, remittances exceed the sum of FDI and ODA. Apart from being larger in volume, remittances also have a more immediate impact than these other external financing sources because they go directly into the hands of individual households.

As seen in Figure 1 below, remittances constitute up to 44 percent of GDP in countries most reliant on these inflows. Kosovo is the 15th among LMICs in terms of share of remittance inflows of its GDP.

Figure 1. Remittances as a share of GDP, %, 2021



Source: KNOMAD. Inward Remittance Flows November 2021

[4] World Bank. (2021) Migration and Development Brief 35. Washington, D. C.: World Bank Group.
[5] World Bank. (2021) Migration and Development Brief 35. Washington, D. C.: World Bank Group.

Cost of sending remittances

Sending remittances comes at a cost that can be rather steep, depending on the type of service used to move money across borders. The global average in Q3 2021 was 6.3 percent, more than double the SDG target of 3 percent of the amount sent. According to the WB, banks were the most expensive service provider, with a global average cost of 10.40 percent.[6] That is $20.8 in fees remitters needed to pay for sending $200 to their family back home.

To avoid paying high fees, migrants often bring cash themselves when traveling back home or send it via third parties – other family members, friends, or even bus drivers. However, hand-carried transfers are highly susceptible to disruptions in cross-border travel caused by lockdowns or different types of crises. Moreover, their money is always at risk of being lost, stolen, or confiscated at borders. Hand-carrying via third parties is also rather inconvenient because others determine the time and place of dispatch and delivery rather than the sender and receiver.

Promisingly, new technologies enable remittance services that are safe, cheap, and very convenient. In Q3 2021, mobile money was the least expensive instrument for senders to fund transactions and for recipients to receive remittances.

Nevertheless, many migrant workers and even more remittance receivers around the globe lack access to digital remittance services, mainly due to poverty, lack of financial and digital literacy, and financial exclusion, which are all issues at the core of the global development agenda.

Remittances during the COVID-19 pandemic

The COVID-19 global pandemic has spurred an unprecedented socioeconomic crisis, comparable only to the spread and impact of the Spanish flu almost a century ago. Migrants and their families have been among the hardest hit by the crisis. Struck by lockdowns, social distancing measures, and health hazards, migrants were among the first to lose their jobs and benefits in the host countries, with few or no options for mobility or social protection and less opportunity for supporting their families back home.

Remittance flows are typically countercyclical, with migrants sending more money when the going gets rough. However, because of the global scale of this crisis, it simultaneously hit the remittance sending and receiving countries and jeopardized both the sourcing and transferring of remittances, threatening to significantly decrease the global flows and push the remittance-dependent families and economies toward dire straits. Furthermore, a reduction in remittances could reverse the progress made on the 2030 Agenda for Sustainable Development and the SDGs.

At the onset of the pandemic, the WB projected a sharp decline of 20 percent in remittance flows in 2020.[7] Later on, this projection was changed to a much less pessimistic one, primarily due to the positive effects of the fiscal measures for stabilizing economies and securing jobs in many of the remittance sending countries.

Ultimately, remittance flows to LMICs declined by only 1.7 percent in 2020 compared to the year before despite the severe global recession. By comparison, FDI to LMICs shrunk by over 30 percent during the same period. In 2021, remittance flows returned to growth and are estimated to have increased by 7.3 percent, according to WB. The trend is expected to continue in the following year.[8]

[6] World Bank. (2021) Remittance Prices Worldwide Quarterly. Issue 39 (September 2021), Washington, D.C.: World Bank.

[7] World Bank. (2021) Migration and Development Brief 33, Washington, D. C.: World Bank.

[8] For all the figures in this paragraph, please see World Bank. (2021) Migration and Development Brief 34, Washington, D. C.: World Bank.

The acceleration of digitalization, observed in many aspects of life during this crisis, including the remittance industry, has positively influenced remittance flows during the COVID-19 pandemic. The increased use of digital remittances counteracted the reduced flows of hand-carried cash remittances halted by lockdowns and travel bans and helped reduce the cost of remittances.

Migrants with access to digital financial services were best positioned to weather the storm and continue sending remittances. In parallel, remittance-receiving families equipped to use digital services could receive money from abroad without any disruptions, unlike those who had to rely on cash pay-outs. Digital services were particularly convenient, if not vital, during lockdowns.

Digital remittance transfers also helped senders and receivers remain healthy by avoiding the risks of handling cash and unnecessary physical contact with other people at banks or money transfer operator (MTO) offices. At the same time, digital remittances were cheaper than cash-handling remittance services.

Remittances in the global development agenda

In the early 2000s, the WBG helped bring the magnitude and development significance of remittances to the attention of policymakers and the expert community and has been at the forefront of the global remittance agenda ever since. The WBG collaborated with standard-setting bodies to develop guiding principles that aim to improve the efficiency of the market for international remittances and contributed toward enhanced data collection on remittance flows and prices.

Remittance Prices Worldwide (RPW) is a platform that the WBG set up in 2008 to monitor remittance prices. The number of remittance channels monitored has been growing over the years and is currently at 367 corridors between 48 sending and 105 receiving countries.[9] The prices are examined quarterly by mystery shopping from remittance service providers (RSPs) across all geographic regions.

Alongside RPW, several countries set up their national price-monitoring databases that comply with WBG standards. The purpose of these databases is to track the progress toward the global objectives of reducing the cost of remittances by stimulating market competition and transparency and helping migrants and their families make informed choices about transfer channels.

By reducing remittance costs, billions of dollars can be saved annually and geared toward achieving a substantial impact on growth and poverty alleviation in developing countries. WB was instrumental in setting the first global target "to reduce the cost of remittance services by five percentage points in five years (the 5x5 objective)", endorsed by the G8 in 2009 and G20 in 2011. Later, the UN SDGs set out an even more ambitious target - by 2030, the average cost of remittances to be reduced to less than 3 percent and to eliminate remittance corridors with total fees higher than 5 percent. Furthermore, SDGs aim to increase the volume of remittances as a percentage of GDP as a source of funding to support development processes and reduce inequalities within and among countries.

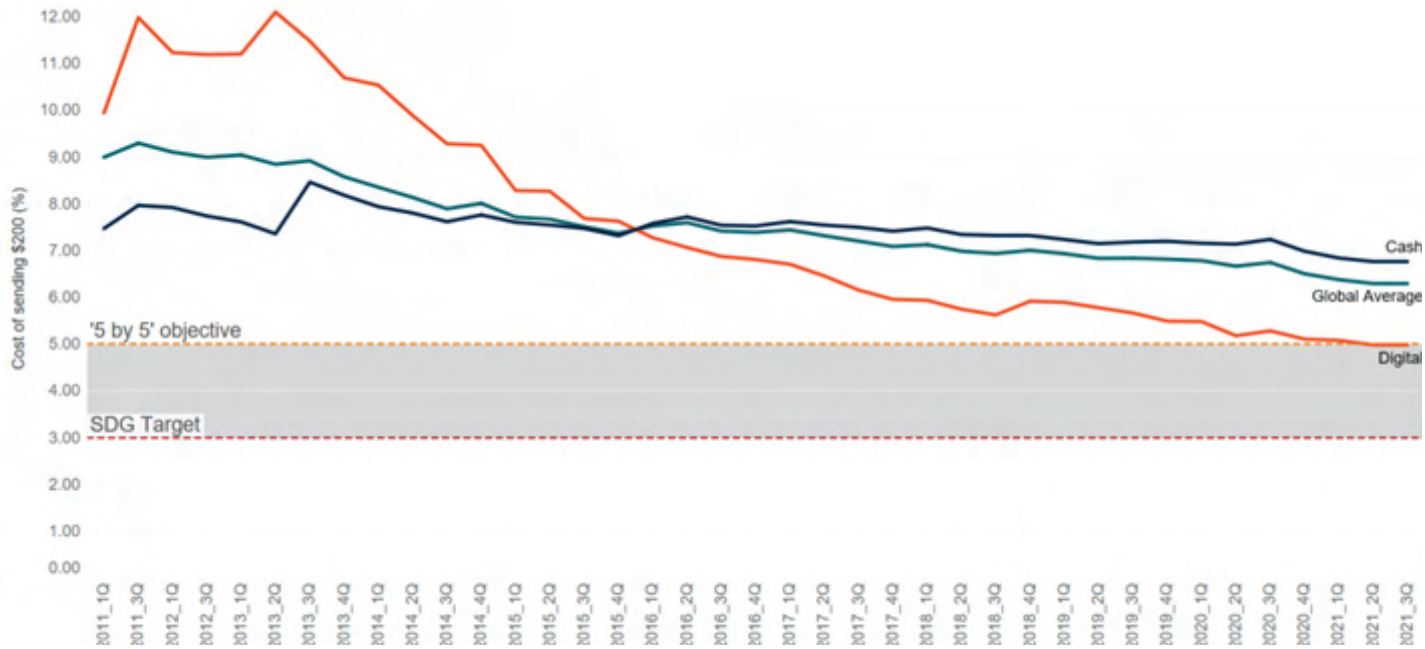
Since adopting the cost reduction objectives, sending remittances has dropped in price. In Q1 2009, the Global Average[10] cost of sending $200 was 9.67 percent, while in Q3 2021, it was recorded at 6.30 percent. The global average for digital remittances was last registered at 4.99 percent, while the global average for non-digital remittances was 6.77 percent. Therefore, digital services have finally reached the 5x5 objective, but they only account for 27 percent of all services RPW collected in Q2 2021 (Figure 2).[11]

[9] World Bank. (2021) Remittance Prices Worldwide. https://remittanceprices.worldbank.org/en

[10] The Global Average is the simple average of the costs of all transparent individual channels monitored through RPW.

[11] World Bank. (2021) Remittance Prices Worldwide Quarterly. Issue 39, September 2021

Figure 2. Trends in the global cost of sending $200, %



Source: World Bank. Remittances Prices Worldwide Quarterly, Issue 39, September 2021

Next to decreasing the cost of remittances, the global development agenda also aims to increase the financial inclusion of migrant workers and remittance beneficiaries by removing barriers and promoting opportunities for widening the access to and use of financial services.

Financial inclusion is an essential tool for coping with and escaping poverty, which is why the UN SDGs perceive it as a critical factor in improving the condition of the most vulnerable portions of society. The unbanked have no transaction accounts, no access to insurance or loans, and no protection for their money from theft or loss. Having no access to financial services leaves people with limited safeguards if they lose their job or fall ill. It also puts them at risk of predatory lenders.

Remittances can be leveraged to increase the financial inclusion of remitters and receivers. They can serve as a gateway to access other financial products and services. Widening access to bank accounts for more migrants and remittance beneficiaries can enable further digitalization of financial services, including remittance services, which increases the efficiency of remittances.[12]

Remittances can also provide innovative financing. The effectiveness of these funds can be significantly increased by directing them towards development and productive investment rather than consumption. Also, directing remittance flows through regulated channels strengthens the receiving countries' economic infrastructure and creates additional financial sector revenue streams.

[12] CPMI and World Bank (2016). Payment Aspects of Financial Inclusion. Basel: Bank for International Settlements, and Washington, DC: World Bank.

Kosovo remittances overview

Kosovar Migration and Remittance Flows

Although Kosovo's economic growth in the past decade has outperformed its neighbors and has largely been inclusive, it has not been sufficient to provide enough formal jobs, particularly for women and youth, or significantly reduce the high unemployment rates. Kosovo's growth model relies heavily on remittances to fuel domestic consumption.[13] Although remittances reach some 20–25 percent of households and provide considerable income among poorer families, they have been primarily used for consumption.[14]

For decades, Kosovar citizens have been emigrating for many reasons ranging from escaping war and political persecution to unemployment and poverty. Since the declaration of independence of Kosovo in February of 2008, the increasing trend of emigration has been primarily motivated by employment, education, and family reunion.



Over thirty percent of the Kosovo populationlive across the globe, mainly concentrated in Germany, Switzerland, Italy, Slovenia, Austria, the United States, France, Sweden, the United Kingdom, and Belgium.[15]

For six consecutive years, the inflow of remittances to Kosovo has been steadily increasing, reaching $1.5 billion in 2021.[16] The most significant volumes come from Germany and Switzerland, accounting for more than half of the total inflow. According to WB estimates, inward remittances comprise 16.7 percent of Kosovo's GDP, making it the top remittance-receiving country in Europe per share in GDP and third in ECA, only behind the Kyrgyz Republic and Tajikistan with 30.1 and 27.8 percent of GDP, respectively.[17]

[13] World Bank. Kosovo Overview. Last updated: April 8, 2021 and accessed on Dec 06, 2021 at https://www.worldbank.org/en/country/kosovo/overview#1

[14] World Bank. Republic of Kosovo Systematic Country Diagnostic (2017). World Bank Group https://openknowledge.worldbank.org/bitstream/handle/10986/26573/Kosovo-SCD-FINAL-May-5-C-05052017.pdf

[15] https://www.knomad.org/data/migration/emigration, accessed on Dec 06, 2021

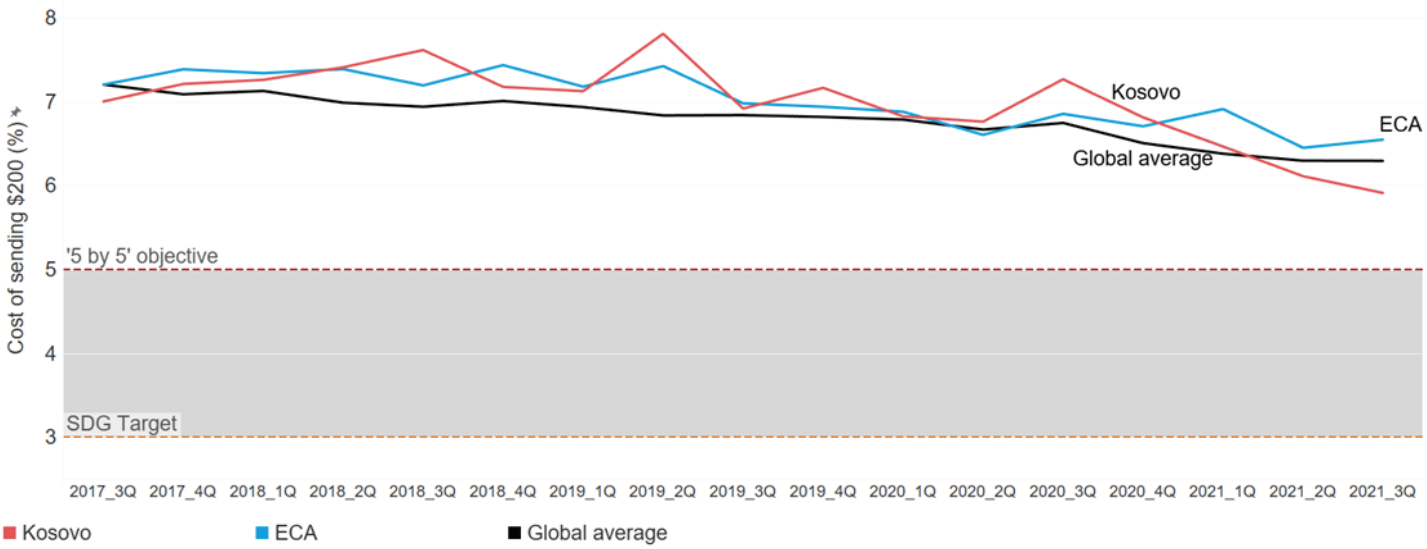
[16] https://www.knomad.org/data/migration/emigration, accessed on Dec 06, 2021

[17] World Bank. (2021) Migration and Development Brief 35. Washington, D. C.: World Bank Group.

Cost of Sending Remittances to Kosovo

In Q3 2021, the cost of sending $200 to Kosovo marked a record low of 5.92 percent, less than the average for Europe and Central Asia (6.55 percent) and the global average (6.3 percent) (Figure 3).

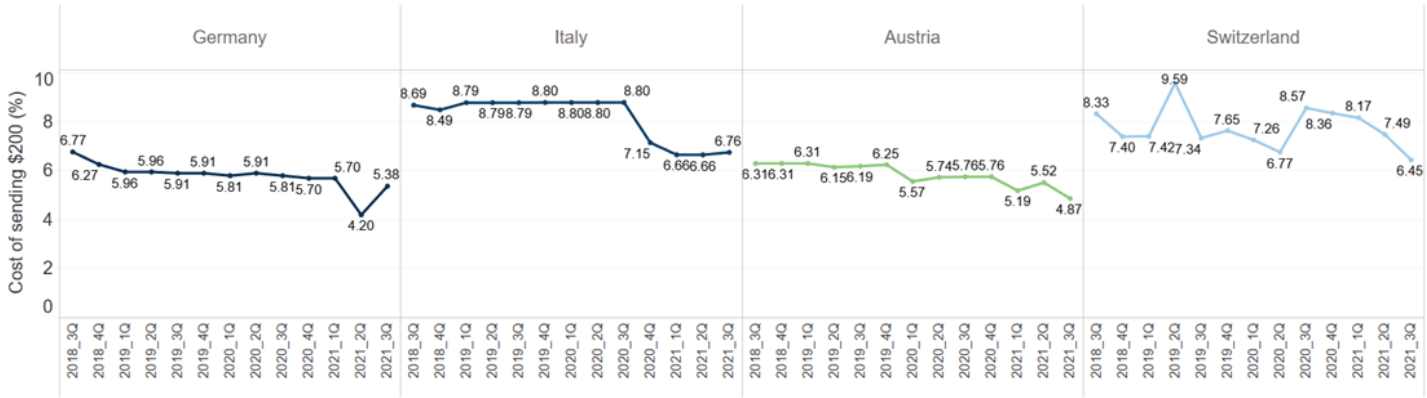
Figure 3. Trends in the global cost of sending $200, %



Source: Remittance Prices Worldwide, World Bank

Italy and Switzerland are the most expensive Kosovo-bound corridors averaging at 6.76 percent. and 6.45 percent respectively in Q3, 2021. The cost of sending remittances to Kosovo has declined for the Italy corridor and fluctuated for the Switzerland corridor. The cost of sending remittances seems to be lower in corridors where there is no need for an FX conversion, e.g., Germany to Kosovo, compared to Switzerland to Kosovo (Figure 4).

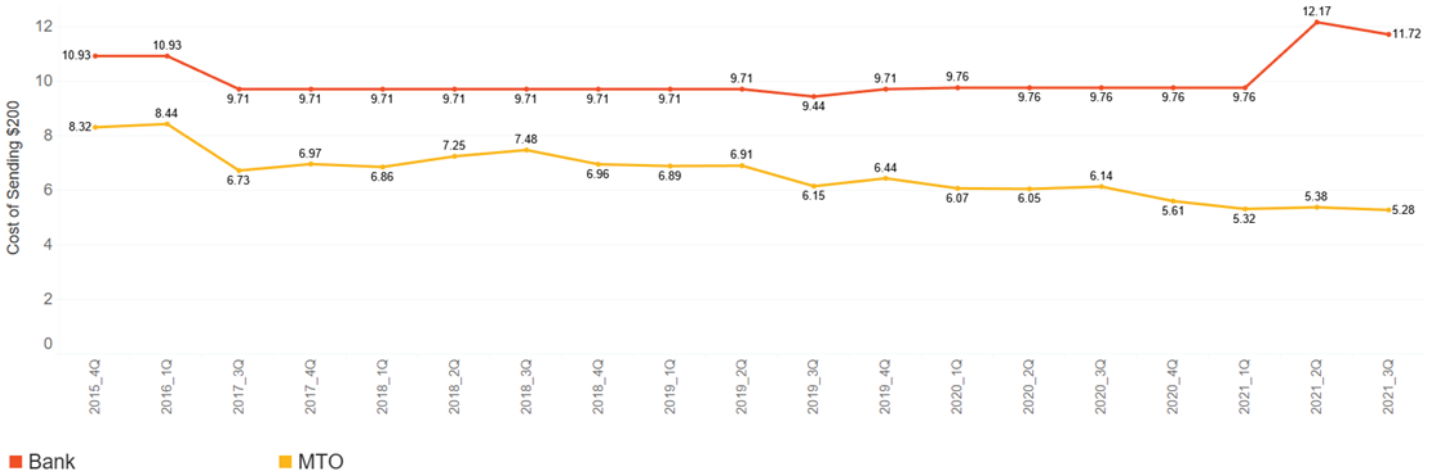
Figure 4. Average cost of sending $200 to Kosovo, %, by sending country



Source: Remittance Prices Worldwide, World Bank

Money transfer operators (MTOs) are the cheapest provider of remittance services to Kosovo with an average cost of 5.28 percent in Q3, 2021. Banks also provide remittance services but their rates are more than double, measured at 11.72 percent in the same period. The post office and mobile money operators are not currently offering remittance services to Kosovo (Figure 5).

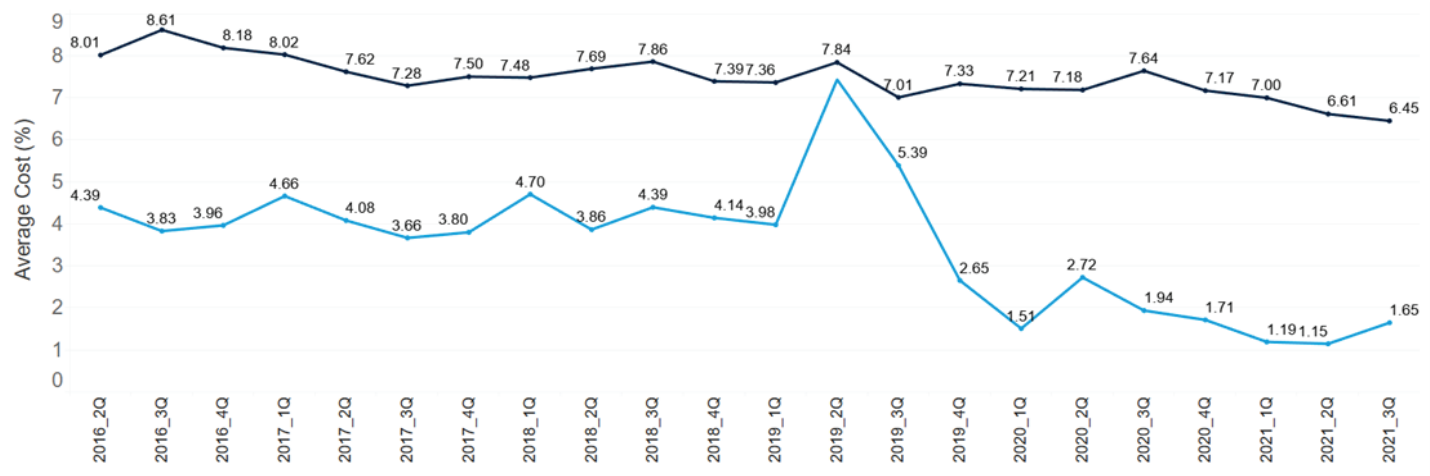
Figure 5. Average cost of sending $200 to Kosovo, %, by RSP type



Source: Remittance Prices Worldwide, World Bank

Available for the Austria and Switzerland corridors, digital remittance services offer significantly lower costs for sending remittances to Kosovo. These services have been available for the Switzerland – Kosovo corridor for at least four years and only in the past year for the Austria – Kosovo corridor (Figure 6).

Figure 5. Average cost of sending $200 to Kosovo, %, by transaction type



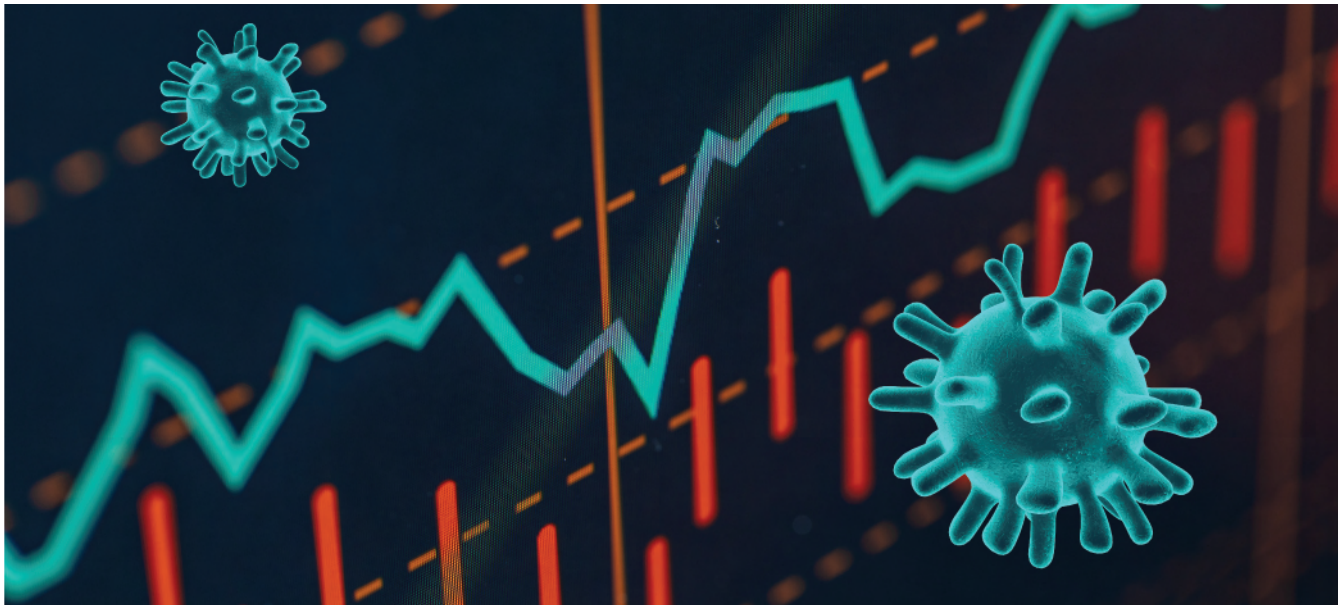
Source: Remittance Prices Worldwide, World Bank

Impact of COVID-19 on Remittances in Kosovo

From March to June 2020, the WB organized a global survey on the projected impact of the crisis on the remittances market and the sector's mitigation strategies. Three central banks from the RPP countries participated - Albania, Kosovo, and Ukraine. The remittances market was significantly hit by the crisis in these countries, even though the regulators and financial service providers managed to ensure business continuity and consider remittance service providers as essential services.

Travel bans and severe lockdowns imposed in many destination countries for Kosovo migrants made cash-based transactions challenging to execute and in-person informal transfers impossible to carry out. Those who had relied on unregulated channels now had to switch to regulated services, which in many cases meant more requirements, such as residency documentation, bank account ownership, costs, etc. To encourage the use of such channels, the central banks have taken a series of enabling measures.

After the initially decreased inflows, remittances to Kosovo quickly rebounded and reversed the trend, reaching double digits growth from May onward. Remittance inflows to Kosovo increased by 15.1 percent in 2020, a countercyclical trend in light of the socioeconomic challenges of the COVID-19 pandemic outbreak . This trend is even more remarkable considering that remittances in ECA declined by 9.7 percent in 2020.[18]



According to the CBK, most remittances (68.6 percent) came through money transfer agencies, which marked an increase of 60.0 percent. Remittances sent through banks increased by 14.9 percent, while remittances through the 'informal channel' decreased by 46.0 percent because of border closure and other restrictions.[19]

The cost of sending $200 to Kosovo fluctuated during the first year of the pandemic but ultimately declined in 2021 as MTOs further decreased their costs by close to 0.7 percentage points. In Q1 2021, Kosovo's average cost of remittances reached a record low of 6.47 percent and dropped below the ECA regional average.[20]

To ensure the steady flow of remittances and use them to mitigate the impact of the economic downturn, the international community came up with a series of recommendations. To this end, Kosovo regulators, authorities, and RSPs took some significant steps to address and preempt some of the effects of the pandemic on the remittances market.

On the regulatory and infrastructure front, the CBK is updating the Banking Law to incorporate the the banking recovery and resolution directive and the Payment Systems Law to transpose PSD2 Electronic Money Directive (EMD) and payment account directives. On the usage and uptake of financial services, the CBK is developing a series of financial education Modules in the context of Project Greenback to promote increased use of regulated remittance services and digital financial services.

[18] World Bank. (2021) Migration and Development Brief 35. Washington, D. C.: World Bank Group.

[19] Central Bank of the Republic of Kosovo.(2021) Annual Report 2020. Prishtina

[20] World Bank. (2021) Remittance Prices Worldwide. https://remittanceprices.worldbank.org/en

World Bank's work on financial inclusion and remittances in Kosovo

Financial Inclusion in Kosovo

Financial inclusion remains a challenge in Kosovo. With widespread informality, the current degree of financial intermediation is low, and many households and firms are still not covered by formal financial institutions. Cash transactions are the dominant form of payment in Kosovo, while electronic payments are limited, and mobile payments are virtually nonexistent.[21]

According to the 2017 Global Findex, Kosovo marks below-average access to financial services compared to other LMICs in Europe & Central Asia. Only 52.3 percent of the adult population in Kosovo owns a transaction account, compared to 65.3 percent in ECA. This coincides with Kosovo having the lowest number of commercial bank branches and ATMs per 100,000 adults of the four RPP program countries in the Western Balkans.[22]

Educated males, employed, and better-off individuals are more likely to be financially included. Account ownership is significantly lower among the adult population with primary education or less (42.1 percent) compared to those with secondary education or higher (65.1 percent). Kosovo also has the largest gender gap in account ownership in the Western Balkans region. Only 43.7 percent of women in Kosovo own an account compared to 61.1 percent of the men.

About 37 percent of Kosovars own a payment card, predominantly used for withdrawing cash and much less for POS payments or internet purchases. Only one-third of remittance receivers in Kosovo have access to a nearby ATM.

According to a WB survey conducted in 2016,[23] the main reason why unbanked Kosovar remittance receivers do not own an account is their belief that they can manage their finances without a bank account. A little over a quarter of the unbanked consider themselves too poor to use financial services or find bank processes too complicated and confusing.

Remittances and Payments Program (RPP)

The RPP in Kosovo aimed to increase access to and usage of transaction accounts and electronic payment instruments by improving the efficiency of domestic retail payments, with a specific focus on international remittances. Ultimately, this program sought to create conditions for the provision of cheaper and more easily accessible payment services for Kosovar migrant workers and their families and the general population. Payment services – under certain circumstances – can facilitate access to other financial services, thus advancing financial inclusion. To this end, remittances are used as a vector for extending basic financial services to people that were formerly "unbanked."

RPP in Kosovo has six main areas of intervention:

1) revising the legal and regulatory framework in line with the EU retail payments acquis,
2) reforming the National Payments Council and updating the National Retail Payments Strategy,

[21] International Monetary Fund. (2020) Monetary and Capital Markets Department. Technical Assistance Report-Financial Sector Stability Review https://www.elibrary.imf.org/view/journals/002/2020/217/article-A001-en.xml

[22] Albania, Bosnia and Herzegovina, Kosovo and Serbia

[23] WBG Payment Systems Development Group (2016) Baseline Survey on Remittance Beneficiaries' Financial Behaviors in East Europe and Central Asia, Washington D.C.: World Bank Group.

3) providing support for the CBK to undertake a study on the cost of retail payments instruments,
4) supporting the CBK in strengthening the payment system oversight function,
5) supporting the CBK in improving payments infrastructure,
6) Project Greenback

Project Greenback

Project Greenback aimed to increase efficiency in the market for remittances through an innovative approach: promote change inspired by the real needs of the ultimate beneficiaries of international money transfers – i.e., the migrants and their families. The project directly engages with migrants and remittance beneficiaries, RSPs, and public authorities to address community-specific payment and financial needs through financial education, awareness-raising, stakeholder capacity building, and market engagement and coordination.

The project initially focuses on a single local community, which acts as a lab where community-specific needs and issues related to remittances are analyzed. By promoting cooperation between local and national stakeholders, the project looked for ways to address these needs and scale-up solutions that can benefit both the supply and demand sides while demonstrating how remittances can be leveraged to increase financial inclusion and promote development.



In Kosovo, Prizren was selected as the "Champion City" for remittances in consultation with the CBK. Remittance champion cities are considered based on their number of remittance receivers, the size of the diaspora (as well as the ties to the diaspora), the presence of the commercial financial sector in the community, and some additional factors (e.g., the presence of local NGOs, the capacity of the local administration to undertake development projects and to liaise with the diaspora, etc.).

In partnership with the CBK, the WB implemented a series of Greenback activities in Kosovo, which simultaneously expanded on a few fronts - direct client engagement, capacity building of stakeholders, and market engagement and coordination. These resulted in the following:

(i) analyzed and encapsulated financial behaviors and learning needs of remittance senders and receivers, informing further actions.
(ii) raised awareness among the general public and the diaspora about the importance of remit tances, financial inclusion, financial education, and their developmental potential, creating more focus on the topics and promoting meaningful change.
(iii) increased capacities of financial service providers to better meet the needs of end clients, primarily remittance senders and receivers.
(iv) capacity-building programs piloted and entrusted to the national stakeholders to further develop and streamline, scaling up the efforts.

Market and needs assessment

The World Bank carried out a series of market research activities that helped identify gaps and opportunities for involvement via RPP and Project Greenback.

Baseline survey on remittance beneficiaries' financial behaviors

In 2016, the WB conducted a baseline survey[24] to capture the financial behaviors of remittance beneficiaries in six countries of the ECA region: Albania, Bosnia and Herzegovina, Kosovo, Serbia, Kyrgyz Republic, and Tajikistan. Some of the key findings from Kosovo are included below.

According to the survey, most Kosovar remitters are male (82 percent), and half of them are aged 30 to 44 years old. Kosovo has an exceptionally high percentage of permanent migrants among its remitters (89 percent), most of whom left the country before the year 2000. This coincides with Kosovo having the highest percentage of households receiving remittances for longer than ten years (42 percent).

Most remittance flows to Kosovo originate from Germany and Switzerland (more than 60 percent combined). The majority of the remittance beneficiaries do not receive remittances monthly but rather one to six times a year. The average amount received in a year is the equivalent of $1,858, or $560 per transaction, which is the highest amount per transaction in the region.

The most frequently used channel for transferring remittances is MTOs (45 percent), followed by hand-carried transfers by migrant workers themselves when visiting family in Kosovo. Personal delivery is more likely to be used by households whose remittances constitute up to 9 percent of their annual household income. In comparison, households whose remittances make up more than 20 percent of annual household income are considerably more likely to receive the money via money transfer operators. The remaining flows are mainly channeled through banks or in cash via third parties.

Remittances represent 23 percent of the annual household budget in Kosovo. Remittances are mainly used for purchases of fast-moving consumer goods (FMCG) and health & hygiene (HH) products (indicated by 81 percent of interviewed households), health expenses (58 percent), and education purposes (50 percent).

However, there is a significant difference in the share of remittances in total household income among various regions in Kosovo. The largest share of remittances in household income is recorded in the country's southwest region. The survey registered 41 percent of the households where the share of remittances from one sender is more than 20 percent of total annual household income. In contrast, remittances constitute less than 9 percent of annual household income in almost half of the households surveyed in the southeast.

When asked about the level of dependency on remittances, a little over a third of Kosovar remittance receivers stated that remittances are not that important as a source of income and could manage without it. Another third could manage without it but would not cover all their basic needs, while for the remaining third, remittances are the primary source of their household income.

[24] WBG Payment Systems Development Group (2016) Baseline Survey on Remittance Beneficiaries' Financial Behaviors in East Europe and Central Asia, Washington D.C.: World Bank Group.

Learning Needs Assessment

Aiming to identify gaps between the demand and supply sides for financial services and opportunities to bridge these gaps through financial education activities, the WB organized a series of ten focus group discussions with remittance senders and recipients from Prizren. These sessions took place in December 2018, using the holiday season as an opportunity to interview returning migrants from the Prizren area.

The focus group methodology enabled the usage patterns, perceptions, and the need for financial services of remittance recipients to be analyzed in depth. More specifically, the reasoning behind the preferred remittance transfer channels, the different uses of remittances, and attitudes towards and experiences with other financial services and financial education were all discussed with the participants.

These sessions validated the findings from the baseline survey and provided some context behind the numbers. The Learning Needs Assessment report was officially approved by the CBK in 2019, informing the following financial education activities within Project Greenback. The key takeaways from the report are listed below.

Remittances are very important for Kosovo and its diaspora for financial and cultural reasons. Regardless of the country of residence, the connection with the families back home remains strong across generations, and the migrants visit at least once a year. Kosovar diaspora members send money home continuously, across decades and generations.. Almost every Kosovar family has some relatives abroad, given the sociopolitical history of the country, and many families receive financial support from abroad.

Regulated and unregulated financial services seem to co-exist in Kosovo. Migrants and their families highly value regulated financial service providers to a large extent. They consider them fast, reliable, and transparent. However, some have been inconvenienced because of technology/systems issues at banks, which caused delays or unexpected hikes in transaction fees or account maintenance fees. Some state that using regulated financial services is quite challenging for the older generations, who must stand in line or seek help to withdraw money or make a transaction at a bank.

The choice of remittance channels is almost exclusively determined by the sender, with the recipient having little or no say in the process. Sending cash via an unregulated channel would be the typical first choice of the senders (usually hand carried by a friend, family member or other acquaintance or sometimes by bus drivers), followed by MTOs (Western Union or Money Gram) and rarely banks. Migrants prefer taking cash with them when they visit the country because usually there is no cost attached to this. On the other hand, recipients prefer regulated financial services, as having a proven track record of regular incoming funds could enable them to open overdrafts, take loans, etc.

Senders seldom determine how the money they send to their families is spent. The head of the family in Prizren usually makes the call about how remittances are spent. In some cases, younger individuals in the household directly receive funding from their relatives abroad to cover their expenses, typically for their leisure purchases, like mobile phones, computers, or cars.

Remittances are primarily used for consumption, bill payments, healthcare, home improvements, and education. Almost all migrants and their families expressed hesitation regarding the use of remittances for investment purposes due to poor market conditions (lack of skilled labor, low market demand, etc.).

Older generations of recipients are more exposed to and dependent on remittances. The participants reported that they get basic pensions (less than 70 euros) and some no pension at all. In addition, the participants claimed that there is no national health insurance scheme in Kosovo, so they must pay for the medical services they need. Therefore, the elderly are heavily dependent on their family members abroad for consumption and healthcare.

Almost none of the remittance recipients engage in the long-term planning of how remittances are used – none of the focus group participants reported saving the money they received or planning to invest it in the future. At the same time, almost all recipients stated that they would always depend on this income. So far, what they had received had not been used to resolve longer-term sustainability issues, such as employment, self-employment, etc.

Remittance market assessment

Between September 2018 to May 2019, WB and CBK met with various local and national stakeholders who provide, enable and regulate financial services. The aim was to assess further the landscape of access to remittance services (proximity, affordability, product features, and eligibility requirements) faced by migrants and their families. These meetings proved instrumental in understanding the gaps and opportunities in the sector to meet the target group's needs.

The key findings from the supply-side analysis were the following:

(i) *Remittances are an unexploited opportunity for financial service providers.*
(ii) *Formalizing the channeling of remittances is closely linked to the formalization efforts in the overall economy.*

Financial inclusion and the issue of trust

Remitters and remittance receivers primarily associate bank account ownership with receiving a salary or paying bills rather than transferring remittances. This coincides with the fact that, except for MTO services, financial service providers do not offer any tailored products to tackle the immediate needs of remittance senders and receivers.

Migrants use banks and financial products much more compared to remittance receivers. Individual account ownership is not seen as necessary by some, especially young females, for whom parents and partners make transactions on their behalf, and by unemployed individuals who depend almost exclusively on remittances from abroad.

There is generally a level of distrust in the financial sector among the local population. When choosing a bank to open an account, receivers would base their decision on advice from family members or relatives whose opinion they value rather than the information offered by service providers. In general, trust in an individual plays an essential role in financial decision-making. Trust is the only element of security when sending cash remittances to Kosovo via bus drivers.

However, the focus group discussions also indicated that it was very common for the Prizren residents to connect their perception of a financial institution with the agent or the staff member that assisted them. In many cases, especially clients of microfinance institutions or money transfer operators (MTOs), receivers had a lot of trust in the agent that assisted them and would base decisions on their advice.
This shows that the issue is not necessarily a distrust in the financial sector, but rather unfamiliarity with it, which stems from a lack of knowledge about financial services and products and ways to leverage them for personal financial wellbeing. If one cannot rely on their own resources when making financial decisions, they look for a trusted person for guidance, within or outside of the financial sector.

Therefore, financial sector stakeholders could reach out to the unbanked and underbanked remittance receivers and invest in their financial education to strengthen their capacities for financial decision-making and boost their confidence to engage with financial service providers. This type of outreach can also help build trust and provide further insight into the specific financial needs of this market segment to be considered when devising tailored services and products.

Financial education for remittance receivers

The Central Bank of Kosovo and financial service providers (commercial banks, microfinance institutions) and their associations are the only active actors in financial education activities in Kosovo. Financial education is considered by supply-side actors a vital enabler of economic development. Even though they recognize the value of financial education, financial service providers also face issues resourcing for and designing financial education programs.

The CBK is prioritizing the financial education of children and youth across various activities in the context of the International Money Week, International Children's Day, World Savings Day, Young Economist and many other broader financial education initiatives. On the other hand, financial service providers focus entirely on potential clients. In most cases, financial education is delivered as "individual consulting" when a potential client wants to use a bank product.



Before Project Greenback, none of the stakeholders offered financial education services specifically focusing on remittances or aimed at remittance beneficiaries or migrant workers. The focus group participants confirmed this as almost no interviewed remittance recipient had never taken part in any financial education training provided by financial service providers or other organizations.

Even though the challenges of the remittance senders and providers are well known to the financial sector, a cohesive strategy for financial education interventions was not in place. A national financial education strategy has been recognized as necessary to structure the financial education work and bring about measurable results. Therefore, the CBK requested WB to develop tailored financial education for remittances beneficiaries in Kosovo as one of the main interventions within the SECO-funded RPP.

Based on the market and needs assessment findings, the WB team developed several types of educational activities for CBK. The purpose of these activities is to:

- *educate remittance senders and receivers and other financially excluded groups about financial services and how to leverage them to improve personal financial wellbeing,*
- *raise the profile of remittances as an enabler of financial inclusion and sustainable development among local stakeholders and the Kosovar diaspora, and*
- *build capacities of the retail sector to effectively engage in offering financial education and maximize outreach to the target groups by partnering with other stakeholders and specialized organizations*

Greenback activities

Project Greenback was officially launched in Kosovo during the International Money Week on March 25, 2019, and it received high exposure in the national media. Presenting CBK's financial education initiatives, Governor Mehmeti announced that they designed Project Greenback with support from the WB and SECO, targeting remittances as an essential category of revenue in Kosovo with the potential to be transformed from consumption-oriented to investment-oriented.



The World Bank team also received official support from the Mayor of Prizren and the director of the CBK Financial Education Center, who actively promoted the project.

Financial education of modules

The WB developed five financial education modules for remittance receivers which cover (i) basic terms and modes of regulated international money transfers, (ii) main features of financial services and products, (iii) digital financial services, (iv) the significance of remittances for the individual and the economy, and (v) the importance of financial literacy.

To achieve greater accessibility and ease of use, the WB adapted the materials graphically and made them suitable for offline and online education. In coordination with CBK, the WB published the five financial education modules in Albanian, English, and Serbian on the CBK website.



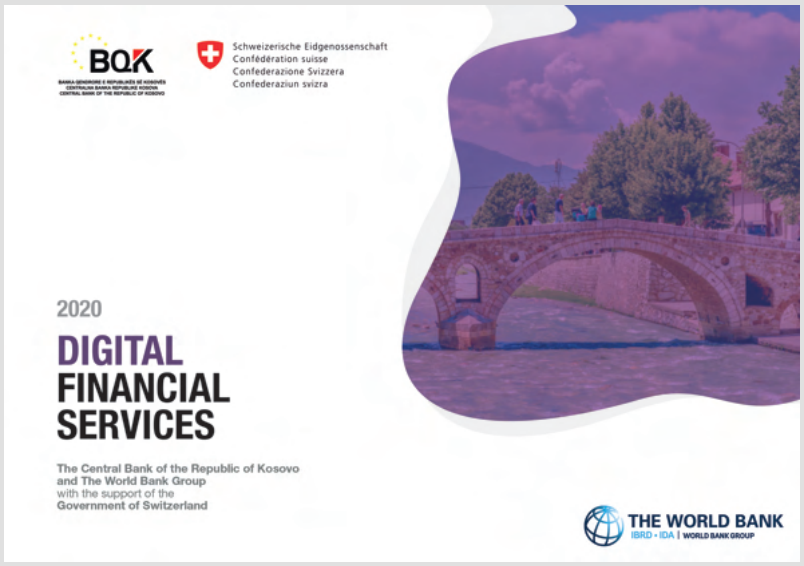
Module 1.
International Money Transfers Basic Concepts



Module 2.
Financial Services and Products



Module 3.
Remittances and their significance for the individual and the economy



Module 4.
Digital Financial Services



Module 5.
Financial Literacy

Project Greenback Diaspora Discussions Series

GREENBACK DIASPORA DISCUSSIONS

Commemorating the International Day of Migrants on December 20th, 2021, the WB and CBK organized an online discussion titled "Remittances – a Footprint for Development" with members of the Kosovar diaspora in the United States and financial sector experts from Kosovo. The event promoted remittances as an enabler of financial inclusion and sustainable development and fostered information exchange between migrants and the local stakeholders – households, regulators, providers.



The discussion was the fifth and final event of this series, convened in collaboration with GERMIN, an NGO that promotes the active involvement of the Albanian diaspora in the development of the countries in the Balkans where Albanians live. The first four virtual meetings gathered members of the Kosovar diaspora from Germany, Austria, Switzerland, and the UK.

The discussion series, which ran between November 10, 2021 and December 20, 2021, proved instrumental for addressing information gaps in the diaspora and building knowledge exchange bridges between migrants and relevant stakeholders in Kosovo, such as financial service providers, regulators, industry experts, etc.

Greenback Academy

In the context of the Greenback Academy, the WB organized two training sessions with representatives of various departments at CBK on the need assessment, development and implementation of National Financial Education Strategies (NFES) and National Financial Inclusion Strategies (NFIS).

These trainings helped provide an overall guidance to CBK on how to strategically think about promoting financial inclusion and financial education.



Incorporating financial education in the educational system curriculum

The Financial Education Department of the CBK asked for technical assistance in developing action plans and strategies for the financial education of young people. The WB team joined forces with Junior Achievement in Albania to create a framework for financial education, containing concepts and activities suitable for high school students in Kosovo.

The framework serves as a guide for developing youth-oriented financial education programs. It provides core principles and suggests specific topics and methodologies that specifically answer the learning needs of high school students in Kosovo while following OECD principles[25] and international standards and best practices.

[25] OECD Directorate For Financial And Enterprise Affairs (2012), OECD INFE guidelines on financial education in schools, France.: OECD. https://www.oecd.org/finance/financial-education/35108560.pdf

Lessons learned and the way forward

Despite the momentous kick-off, the implementation of Project Greenback in Kosovo went through several challenges and limitations prompted by the COVID-19 pandemic. The WB and CBK worked intensively to reshape the project activities to respond to the evolving needs. In-person activities were replaced where possible with publication of financial education materials through online channels, discussions and forums were organized online and other planned group activities were replaced with the development of strategic documents and trainings for the CBK. All things considered, the flexibility in redesigning activities turned out to be a strength of the Greenback methodology. As Project Greenback has been completed, making the remittances market more efficient must be an ongoing effort in Kosovo. To this end, some key insights from the Greenback experience can provide a useful pathway to carry this work forward.



First of all, the financial education of the diaspora and effective information flow is critical in minimizing costs and increasing the usage of regulated financial services for remittances or more broadly. To this end, relevant stakeholders, such as regulators and the government, and providers could coordinate to fill information gaps to reach this target group with guidance and information. This can be achieved through a dedicated educational and information platform for the diaspora.

Secondly, to maximize the impact of remittances in Kosovo, greater efforts should be made to increase diaspora investment in the country in a structured manner. To this end, coming up with new types of financial instruments and products, such as diaspora bonds, could be one way to trigger investment in Kosovo.

Thirdly, CBK could expand its efforts for the financial education of youth exploring linkages with the

Ministry of Education and other providers to incorporate financial education in schools. CBK's current initiatives of introducing financial education in the elementary education system could be expanded to target high schools. In this regard, it is strongly recommended to compile a careful process of due diligence an indispensably a current assessment of the existing financial skills of young students, using the existent tools and methodology provided from OECD/INFE, beforehand.

From a broader perspective, financial education efforts should go hand in hand with efficient payment services to facilitate transactions and increase trust in regulated financial services. To this end, CBK has made major steps forward with the updated legal and regulatory framework and the launch of the National Retail Payments Strategy (NRPS).

Finally, the CBK may need to consider the development of a National Financial Education Strategy to promote greater access and more effective usage of financial services, particularly in light of a more sophisticated financial sector and the emergence of digital financial services. The NFES can also play a critical role in enabling the population to better leverage financial services to cope with unexpected events and crises.



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