
*Maximising the Development Impact
of Migration-related Financial Flows
and Investment from Austria to
Bosnia and Herzegovina*

Prepared for OeEB by

*International Agency for Source Country Information (IASCI) and
International Organization for Migration (IOM), Vienna Mission*

September 2009



International Organization
for Migration



International Agency for
Source Country Information

FINAL REPORT

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Table of Contents

Table of Figures	ii
Abbreviations	iii
Acknowledgements	v
Executive Summary	vi
I. Introduction	1
I.1 Objectives.....	1
I.2 Financial Flows and their determinants.....	2
I.3 Methodology.....	5
I.3.1 Qualitative Approaches.....	6
I.3.2 Quantitative Approaches.....	6
II. Background	8
II.1 Mandate and role of the Oesterreichische Entwicklungsbank AG (OeEB).....	8
II.2 Bosnia and Herzegovina in Transition - an Overview.....	10
II.3 Overview of the Financial System.....	11
II.3 Overview of Migration Issues.....	15
III. Observations of Attitudes and BiH Migrants and their Dependents	19
III.1 Quantitative Observations.....	19
III.1.1 Migration Experience.....	19
III.1.2 Clustering.....	20
III.1.3 Communication Behaviours.....	21
III.1.4 Financial Transactions and Savings Behaviours.....	21
III.2 Qualitative Migrant HH Survey in Austria.....	25
III.2.1 Migrant Community Analysis.....	25
III.2.2 PEST Analysis.....	27
III.3 Financial Analysis of Stakeholders in BiH.....	27
III.3.1 Qualitative Stakeholder Analysis.....	28
III.3.2 SWOT Analysis.....	30
IV. Recommended Activities - taking into account the role of OeEB	32
IV.1 Project Fiche 1: Rotating Student-loan Fund.....	32
IV.2 Project Fiche 2: Migration Investment Trust Fund.....	35
IV.3 Project Fiche 3: Investment Security Mechanism.....	38
V. Conclusions and Recommendations	39
V.1 Conclusions.....	39
V.2 Related Areas of Intervention.....	43

Table of Figures

Figure 1: Selected Data on Migrant Household (HH) Savings and Remittance Behaviour	4
Figure 2: The BiH-Austria Migration Corridor	4
Figure 2: The amount and structure of remittances in BiH in Million USD	17
Figure 3: Percentage of remittance senders by year of migration (sample size: 644 HHs)	19
Figure 4: Reasons for selecting Country of Migration	20
Figure 5: Clustering in places of migration	20
Figure 6: Preference of months by migrants for visiting HH members in BiH	21
Figure 7: Access to Sources of Information in place of migration	21
Figure 8: Budgetary Allocation of HH income in BiH, in chart format	22
Figure 9: Division of household incomes in BiH	23
Figure 10: Estimate of Money Transfers from Austria to BiH (2008)	23
Figure 11: Preliminary Estimate of Savings of BiH Migrants in Austria (2008)	24
Figure 12: Savings of BiH Households (2008)	25
Figure 13: Savings of BiH Households (2008) that are receiving money from Migrants in Austria	25
Figure 14: PEST Analysis	27
Figure 15: SWOT Analysis of the Financial Sector in BiH (Sources: Qualitative Interviews in BiH)	32

Abbreviations

AMFI	Association of Microfinance Institutions
BCP	Basel Core Principles
BLSE	Banja Luka Stock Exchange
BH Presidency	Presidency of Bosnia and Herzegovina
BHF	Bosnian Federation
BiH	Bosnia i Herzegovina
BIRS	Main market index in Republic of Srpska
CBBiH	Central Bank of Bosnia and Herzegovina
CEFTA	Central European Free Trade Agreement
CESS	Centre for Economic and Social Studies
CGAP	Consultative Group to Assist the Poor
DPA	Date and Peace Agreement
DEVINPRO	Development of Innovative Products (IASCI Initiative)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EU	European Union
EUFOR	European Union Stabilisation Forces
FBH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment
FIPA	Foreign Investment Promotion Agency of Bosnia and Herzegovina
GDP	Gross Domestic Product
HH	Household
HTAs	Hometown Associations
IASCI	International Agency for Source Country Information
IGO	Intergovernmental Organization
IM	Information Management
IMF	International Monetary Fund
IOM	International Organization for Migration
KBSA	Congress of Bosniaks of North America (Kongres Bošnjaka Sjeverne Amerike)
KfW	Kreditanstalt für Wiederaufbau
KM	Konvertible Mark
LMSAA	Law on Movement and Stay of Aliens and Asylum
MCC	Micro-Credit Companies
MCO	Micro Credit Organization
MFI	Micro-Finance Institution
MIGA	Multilateral Investment Guarantee Agency
MTO	Money Transfer Operator
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organization
OeEB	Österreichische Entwicklungsbank AG , the Development Bank of Austria
OHR	Office of the High Representative
OPIC	Overseas Private Investment Corporation
PEU	Project Execution Unit

PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Papers
PPP	Public-Private Partnerships
RS	Republika Srpska
SAA	Stabilisation and Association Agreement
SASE	The Society for the Advancement of Socio-Economics
SASX-10	Index designed to represent the performance of companies listed on the Free Market of the Sarajevo Stock Exchange
SEE	South East Europe
SFOR	Stabilization Force in Bosnia and Herzegovina
SOP	Standard operating Procedures
SPSS	Statistical Program for Social Sciences
SSD BiH	International Association of Diaspora of BiH (Svjetski savez dijaspore BiH)
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Fund for Children
USAID	United States Assistance for International Development
VAT	Value Added Tax
VBIH OA	Council of BiH Associations of Australia (Vijece BiH organizacija Australije)
VoIP	Voice Over internet Protocol
WB	World Bank
WFP	World Food Programme
WTO	World Trade Organization

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Identifying the areas and means by which the Oesterreichische Entwicklungsbank AG (OeEB) might concretely support Bosnia and Herzegovina (BiH) and its financial intermediation sector in promoting the positive aspects of migration-development/migration-related financial flows are key outputs of this research effort. Through its unique orientation and multi-faceted research approach, innovative insights into the Austria-Bosnia and Herzegovina 'migration corridor' and distinctive understandings of migrant objectives and their related savings and investment behaviours, were gained. We trust that this document can serve as a stepping-stone for further development of relevant migrant-specific savings-investment-employment models, as well as a practical guide for any interventions on the part of OeEB and its network of partners.

This document builds equally on recent research carried out by the International Agency for Source Country Information (IASCI) within the region and the expertise and role of the Vienna Mission of the International Organization for Migration (IOM) in providing technical support to IOM in Eastern and South Eastern Europe & Central Asia over the last 12 years. To provide seamless inter-agency collaboration, experts from IASCI and IOM Vienna formed a Project Execution Team (PEU) through which the project partners supported the development and implementation of the project at every stage. These joint efforts included the refinement of methodologies, carrying out the field work, engaging in data analysis, as well as eventual drafting of conclusions and recommendations, proposing areas of intervention, and developing OeEB-specific project outlines.

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As is usual in these instances, the authors take full responsibility for the data, analysis, conclusions and recommendations presented in this document; and nothing in this research necessarily reflects the official views of OeEB.

Editors:

Nicolaas de Zwager
Wolfgang Gressmann
IASCI
Vienna, June 2009

Executive Summary

The overall objective of this study is to provide the Oesterreichische Entwicklungsbank AG (hereinafter OeEB - in English Development Bank of Austria) and related stakeholders with relevant data, information, conclusions and recommendations to support sustainable development within the SEE regional context.

It does so by examining innovative means of promoting the positive aspects of migration and development, especially as they are connected to migration-related financial flows.

A unique focus is provided by examining and building on the nexus between:

- a) supporting migrants to achieve their primary migration-related objectives as they relate to income generation activities and savings, and
- b) directly linking these objectives and resulting financial flows with viable financial intermediation, investment opportunities, and hence sustainable development.

In this regard the research and recommendations go well beyond remittances. They should rather be seen within the context of the ongoing debate about how human, social and financial capital linked to migration can better support the development process.

By analysing migrants from the point of view of a distinct market segment, and gaining insight into their actual migration, savings and investment behaviours, the necessary stepping-stones for developing relevant and sustainable migrant-specific savings-investment-employment models become more apparent.

The following pages examine a phenomenon that is often unknown to governments, analysts and commercial financial intermediaries. Following onto previous work in this area it is hypothesised that one key migration-related objective of most BiH migrants in fact is to build up financial capital - often combined with other important skills and contacts - during migration. As a result a pool of migrant savings is being accumulated in cash, investments and banking systems in the place of migration rather than being remitted or saved at home. Migrants may choose to transfer these retained savings, or a portion thereof, at some future date (at which point they are termed “migrants’ transfers”). And it is in fact this accumulated capital, rather than current remittances per se – especially when combined with the social and human capital migrants might wish to invest in the realization of their plans and ideas – which has the greater potential of being a substantial development opportunity – assuming of course that suitable local conditions exist.

Recent IASCI research, in collaboration with a Consortium of leading financial intermediaries operating in Albania and Kosovo, confirms that a high propensity to save (in the range of 40% of net disposable income) amongst migrants from these two nearby countries. In fact such ‘retained savings’ in host countries represent accumulating annual capital pools of multiple billions of Euro. Assuming suitable intervention techniques and products could be developed by the commercial intermediaries and governments of these countries, these resources might be attracted to be saved or invested in their respective host countries, and thereby represent an important catalytic role in an overall development strategy. This development impact could also be leveraged when intermediated by financial institutions or coupled with resources from the private sector or from local authorities.

With this rationale, research was carried out in Bosnia and Herzegovina and Austria on behalf of the OeEB in order to test the validity of the migrant-savings/investment model in support of maximising the development impact of financial flows between these two countries. The practical objective was to possibly identify and propose areas of intervention, and a set of specific project proposals, which the OeEB can consider when supporting BiH, and particularly its financial intermediation sector, when introducing relevant, balanced and durable migration-development initiatives.

A. Research

A multifaceted and integrated research methodology was utilized in order to directly address multiple objectives - entailing the use of mutually reinforcing qualitative and quantitative approaches.

To inform the survey-work and provide necessary background information, desk research on available literature, statistics and information related to key BiH-Austria migration and environmental issues such as migration trends, business environment and financial intermediation sector was carried out.

Semi-structured interviews with 27 relevant financial institutions, government ministries and specialized agencies in BiH were conducted to examine more closely the current and potential role of the financial intermediation sector, regulatory framework and business environment. More specifically the qualitative interviews related to the level of awareness and views on current and future banking, savings, and investment products especially targeting the migrant community, to ensure adequate coordination in relation to any areas of intervention or project proposals to be put forward.

A representative survey of 656 households (hereinafter HH) that have at least one member working abroad, preferably in Austria (or, alternatively, Austria-type economies, i.e. Germany, Switzerland, etc.) was carried out. In addition, a control group of 170 household interviews were conducted in the same target areas.

As a counterpart to the household survey, qualitative interviews and one focus group discussion with 26 migrant households from BiH were conducted in Austria. The focus group discussion with Bosnian migrants was necessary in order to test some findings from the quantitative household survey. This relates especially to the amount of savings and investment intentions of migrants currently residing in Austria. **

B. Household Survey: Key Findings

BiH Remittance Corridor

- The Austria-BiH migration corridor seems to represent a significantly lower source of financial transfers to BiH (6.1% of all transfers) than its total number of BiH migrants on global level (18.2%) would seem to indicate.
- In line with expectations a significant correlation exists between the year of migration and the propensity to send money to BiH.

BiH Migrants in Austria - Propensity to Save

- Interviews with BiH migrants residing in Austria indicate a propensity to save amongst BiH HH in Austria (about 15.3% of net disposable income). This is relatively low, when compared to similar research recently carried out by IASCI with Kosovar and Albanian migrants, which suggested that the propensity to save was nearer a very significant 40%.
- This is also reflected in the remarkably lower savings of remittance factors (estimated at 1.4), when compared to the markets of the previous IASCI research mentioned above (i.e. between 4.8 and 5).
- These relatively low HH remittance and savings values can be the result of a combination of migration-related factors, including the migration history between Austria and BiH, evidenced by *inter alia* the large number of BiH born persons with Austrian citizenship, the high rate of family reunification in Austria, as well as, the greater integration and lower return intentions of this

** Note: Given the research objectives, a purposeful sampling was introduced in order to gain insight into the experience of BiH households (HH) with migrants in Austria as well as Austrian-based migrants themselves. Neither sample was intended to reflect the total population of household with neither migrants, nor BiH migrants in general. Any attempt to extrapolate from these findings to other migration-corridors is not advisable.

population when compared to the Kosovar and Albanian experience. Alternately, it could be a function of the relatively low income level of BiH migrant households in Austria when compared to other countries of migration.

- Note: These findings are very preliminary and need to be better understood through carrying out more in depth, larger-scale (i.e. more representative and linear) research amongst the broader BiH migrant population.

Migration Experience

- Most migrants left BiH in order to secure gainful employment (33%) or to improve their living standards (17%). Only 14% of migrants are considered by their families in BiH to have left due to the war in BiH and the risk of persecution.
- 14 percent of migrants were residing abroad before 1990, while 86% of the target migrants left BiH after 1991, including the majority (54% of the total migrant population) that left BiH after 2001.
- HH in BiH expect that their migrant relatives working in the field of construction and domestic help have a higher return potential than migrants that are working in other occupational sectors. While 44% of construction workers are expected to return to BiH, households in BiH expect only 18% of migrants working in the services sector or tourism to return.
- Contrary to the literature, the survey found out that the majority of HH respondents (78%) are not considering migrating at this time.

Financial Issues

- A significant 20.1% of HH with persons in migration do not receive financial transfers from abroad. This is consistent with previous research carried out by IASCI in the region. This could be another indicator of the maturity of the migration process – most probably leading to a continuation of structural decrease in such transfers in the long-term.
- Of those HH receiving financial transfers in 2008, the average amount is 4,530 Bosnian Convertible Marks (KM) per year (Average: 378 KM per month. The average amount per transfer is 677 KM¹).
- Bosnian HHs with migrants abroad receive an average of 6.4 transfers per year.
- The preferred way of receiving these transfers is through the migrant or fellow migrants hand-carrying the savings themselves (65%). As the second most preferred means of transfer, 141 households listed Western Union (18%). Bank transfer ranks only at the third place (16%).
- The majority of respondents report having received the same level of transfers in 2008 when compared to previous years (57%). Furthermore, a significant 34.3% report that less money was transferred, while only 8% reported receiving more.
- Importantly, 41% of HH respondents expect to receive less money from abroad in 2009. This would seem to confirm a clear downwards trend in migration-related financial flows from Austria to BiH.
- HH that do not receive remittances from their members in migration have the same budgetary allocation behaviour as the control group (i.e. HH without persons in migration).

¹ Official exchange rate dd. Monday, 31. August, 2009: 1 Euro = 1.95496 Bosnian Mark (BAM); 1 Bosnian Mark (BAM) = 0.51152 Euro (EUR). The ISO 4217 code of the Bosnian Convertible Mark is *BAM*; it is locally abbreviated *KM* (Latin) or *KM* (Cyrillic).

- The average level of budgetary allocation of HH with migrants and receiving financial transfers from abroad in 2008 is significantly higher (13%) than HH with no access to such income sources (i.e. average HH income at 1,000 KM per month, rather than 867 KM).

BiH Households – Propensity to Save

- In line with the literature on this subject, the findings confirm that there is a low propensity to save amongst the general BiH population. That said, BiH HH with access to regular transfers save twice as much of their net disposable income (i.e. 6%) than those HH with no access to transfers.
- It is possible to estimate that 16.7% or near Euro 14 Million of transfer values to BiH was saved by the receiving BiH HH in 2008. Most of this capital was transferred and saved in cash.
- The average savings rate of households (HH) in BiH that have remittance-sending migrants in Austria (69,836 HH), and based on a propensity to save between 6% (low self estimate) and 19.4% (all savings inclusive), is between 25 and 83 million Euro per year².
- If those budgetary allocations that are not required for the economical survival of the household are considered together (i.e. savings, investment, farm expenses, and repayment of debts), they constitute a very significant 19.5% of the budgetary allocation of those HH that regularly receive transfers from abroad; Compared to 16% for those households that receive no financial transfers from abroad.
- While the number of savers is small, an indication of savings objectives is as follows: ability to respond to emergencies and to mitigate the risk associated with migration 27.6%; secure a pension/retirement (23%); education of children (12.7%), and finally; the procurement of durable goods (12%).

Clustering and Communication

- In line with expectations, BiH migrants tend to cluster in their places of migration. For instance migrants from Una Sana Canton (Bihac) are clustering in the Austrian town of Wels. . In addition, a significant 63% of BiH migrants in Linz originate from Banja Luka. And in Vienna, 13 of 55 respondents (24% of migrants) originated from Zivinice municipality, and 18% from Bihac.
- Bosnian migrants have relatively traditional communication behaviours, compared with other countries studied. The preferred means of communication between migrants and their families in BiH is the telephone; the majority of migrants from BiH never use the internet (79%) or text messaging (SMS, 64%) to communicate. Given this finding, these may not be efficient marketing channels, and mobile / internet banking may not be an attractive potential market segment at this time.
- The majority of migrants from BiH (58%) visit their home country 1-2 times per year, while 13% never visit BiH. The preferred months for visiting BiH are July and August (35.8% of all visits) and December 16% .
- 87% of BiH HHs with migrants believes that migrants regularly communicate with each other in their places of migration. 75% of respondents believe that their family members in migration have regular access to television from BiH.

C. Qualitative Interviews of Migrant HH in Austria: Key Findings

In total, 26 families were interviewed in Austria between April and May 2009. As a representative sample of the BiH diaspora in Austria, most of them migrated during the war period 1992 – 1994, and only five of them arrived after 1995. All except one are married with the spouse residing in Austria with an average of 1.4 school-aged children, most of whom were born in Austria. The interviewed

² See also section III.1.4 - Financial Transactions and Savings Behaviours, section C

persons originate from Central Bosnia, Sarajevo, Banja Luka and Una Sana Cantons. Their average age is 39 and the majority have Austrian citizenship.

None excluded the possibility of return to BiH; yet most consider that the time has not come for them to do so. Some stated their intention to achieve their savings objective prior to returning.

Most consider themselves as skilled workers (craftsmen or service industry), and are working in their chosen profession. Two are currently unemployed. The average monthly income of the male heads of the households is between 1,100 Euro net (for unskilled workers) and 1,700 Euro net (skilled workers). In most cases, the spouse is also working, typically on part time basis. On average, the total net monthly HH income of BiH migrant households in Austria is 2,290 Euro (conservatively estimated).

Most interviewed families would agree that they spend most of their earnings on monthly expenditures of rent, food, clothing, car (if they have one) and credit (if they have one). On average (again, conservatively estimated) BiH migrant households save around 350 Euro per month, or 4,200 Euro per year (propensity to save $350 \text{ €} / 2,288\text{€} \times 100 = 15.3\%$).

Participants estimated the amount of money sent to family members in BiH to range from 1,500 to 2,000 Euro per year. These figures confirm the findings from the quantitative HH research carried out in BiH, which provided a more accurate estimate of 1,750 Euro.

Financial transfers by BiH Migrants are preferably hand-delivered, during an average number of two to three visits to BiH per year. Habitually, BiH family-members also request ad hoc transactions when necessary – on average in the range of 200 Euro. Often, family members in BiH have bank cards associated to an account in Austria, with which they can take cash from ATMs in BiH.

The amount of remittances went down in 2008, in comparison to previous years, and continues to decrease as a direct impact of the economic crisis.

Annual savings per BiH Migrant HH in Austria, not including financial transfers to BiH, can therefore be estimated in the range of 2,000 to 3,000 Euro. The majority save this money in bank accounts in Austria. Primary savings objectives are education of children, risk mitigation of unforeseen events, purchasing property in Austria, and durable goods.

Insufficient capital and the priority of investing in Austria are seen as the main hindrance for not investing more money in BiH. In general, investment in BiH are considered as very risky – in terms of lack of security and perceived high levels of corruption.

BiH migrants in Austria are often clustered and meet regularly at community centres, diaspora organisations and associations, mosques, etc. Virtually all BiH households have access to television in Bosnian language, including Serb, Croat and Bosnian TV stations. Most migrants in Austria communicate with their family members in BiH via telephone, on a weekly or at least monthly basis. The younger generation is frequently using internet and VoIP to communicate with their home country, but the use of telephone (for younger migrants this includes mobile telephony and SMS) is most common.

D. Financial Intermediation Survey: Key Findings

All institutions showed strong interest in the topic/study, and all are aware of the importance of remittances for BiH. None has considered however conducting research on the subject of the development impact of remittances in BiH. All interviewees had been surprised with the results of the results of the Kosovo/Albania study, and in particular, with the high remittances-savings factor. All felt that BiH had similar potential. However, at this time no organization interviewed had plans to develop a remittance-related project in the near future.

Both the BiH Presidency and the Ministry of Finance see the current political situation as a potential obstacle to any remittance-related projects at the state level. Many interviewees outside the government sector mentioned the same challenge.

The main conclusion of the banking sector analysis is that little choice exists in the products and services associated with remittances in BiH. No bank offers products or services based on remittances, nor are they planning to do so in the near future. Remittances are not considered an income source in a loan approval process. All of the surveyed banks offer MTOs services.

One product is exclusively related to the migration community, and is offered by ProCredit Bank. “ProFutura” is a typical savings term-deposit product. Other banks do not have savings products targeting the migrant community. They also do not have any concrete plans. But all interviewees said that this research made them curious, and are interested in the results.

Micro-credit institutions consider remittances as a source of income in their client’s loan applications. However, they do not approve loans solely based on remittances. The only impact of migrants in this sector is evident in the increase in turnover in the businesses of their clients as a result peak periods of migrant community arrivals. It is noted that this effect has been weakening since the beginning of the current economic crisis. Considering existing legal framework (and a consequent lack of ability to accept deposits), the only migrant community-related product that MFIs can consider is acting as agents for MTOs.

In summary, the banking system is one of the leading sectors of the BiH economy and much more developed than the non-banking in BiH. This situation is unlikely to change in the next five years.

As only one bank is currently offering a savings product targeting migrants, it is obvious that this market is still highly underdeveloped. On the basis of current market conditions and interviews held, there is a potential in developing products and interventions targeting savings abroad.

A high interest rate on savings deposit is not enough. Financial intermediaries will need to offer additional advantages to attract migrants’ deposits. Banking groups could play a vital role by providing cross-section products (e.g. property insurance or leasing at a special rate).

E. Conclusions and Recommendations

BiH will continue to be characterized by international and internal migration as well as migration-related financial flows for the foreseeable future. Migration will continue as the agricultural sector consolidates and restructures, shedding surplus in labour, and as people move from rural communities to small rural towns and urban settings and often abroad in search of employment and better facilities.

In large part, evidence from the research complements the existing literature to the extent that recipients use migration-related funds primarily to increase their household consumption rather than to save or invest in businesses or other productive assets. On the other hand, our results also point to a higher overall family income in Austria than is often presumed; and that this income level is combined with a propensity to save (both at the migrant and remittance beneficiary levels) – though again, this propensity to save is certainly not as pronounced as previous research in Kosovo or Albania indicated.

It is possible to identify complementary areas between the needs of different BiH migrant groups and opportunities presented by migration related financial flows. The key needs are:

- to create large-scale employment opportunities: the majority of people in BiH are interested in securing waged employment and only a small percentage of migrants and savers have either the skills or ambition to become entrepreneurs;
- to provide access to long term finance: at present this is one of the major constraints faced by many otherwise viable enterprises;
- to have opportunities for viable investments: inability to channel funds into productive investments (or ‘unwillingness’ given the current environmental situation in BiH) not only discourages return and negatively affects the reintegration process (thereby potentially encouraging recurrent migration) but may in fact lead to a situation of ‘forced consumption’;

- to create opportunities for direct finance and credit-client relationships: to overcome the deep distrust Bosnians hold on financial intermediaries in BiH.

Opportunities presented for the mobilization of financial resources gained through migration may be summarized as follows:

- many BiH migrants in Austria retain a strong attachment to their country and a substantial number express an interest in returning once sufficient capital is acquired or other migration-objectives are met (whether they will actually do so is another question, depending on a number of personal and environmental factors and incentives);
- migrants' savings, whether retained in Austria or in BiH, - though smaller than expected - still represent a substantial pool of funds that, given appropriate incentives, safeguard, and regulatory framework, might be encouraged towards investment and savings opportunities;
- the pool of savings and interest in local investment can be predicted to increase in the long-term;
- within the context of the post-transition period and ongoing reform efforts, this expanding pool of savings will be occurring in a macro-economic and business environment that will continue to improve; thereby providing more opportunities for viable savings and investment vehicles to develop.

In summary, and under the overall objective of providing the means for migrants and their beneficiaries to shift a part of their savings from Austria to BiH, from informal to formal channels, and from MTO to banking channels, our proposed areas of intervention can be grouped under the following guidelines:

- Provide for more research and data development on migration-related financial flows and the understanding of migrants as a specific market segment, with a particular focus on the attraction of migrant transfers within the context, and potential, provided by the evolving return process;
- Support the broadening and deepening of the BiH financial intermediation market in relation to migrants as a specific market-segment, by encouraging the development of a relevant policy and regulatory framework, as well as targeted awareness amongst key decision makers in both private and public sectors;
- Support the personal objectives of the migrants through the provision of relevant remittance, savings and investment products, as well as related services and interventions. This area of intervention should closely complement, and be complemented by, public and private actors involved in financial regulation, economic development of marginal regions of BiH, SME development, credit provision, and migration-management. Its objective should be to directly broaden and deepen financial intermediation by attracting remittances and migrants' transfers towards financial intermediation and productive investments.

Project Fiche 1: Rotating Student-loan Fund. Establish, within one or more trusted financial intermediary, possibly in PPP collaboration with the government of BiH, a rotating fund which will offer student loans (interest-free during the period of study) at a recognized university and technical school. Build and operate the funds by matching the financial resources of the project partners: OeEB, financial intermediary and migrant/clients (savers) - and perhaps government.

Project Fiche 2: Migration Investment Trust Fund. Mobilize migrants' savings as a long-term source of capital for on lending by one or more commercial banks or Micro-Finance Institutions operating in BiH by establishing or supporting the establishment of a "commercial financial mechanism" in Austria, or other jurisdiction trusted by the migrant/client, based on existing norms and well-regulated models of 'Social Investment Funds' or 'Trust Funds' within an existing, regulatory framework and banking trade-mark (i.e. both known and trusted by many potential migrant-clients).

Project Fiche 3: Investment Security Mechanism. Establish a mechanism that would attract migrants' savings to BiH financial institutions in order to serve as collateral for individual business loans to their households in BiH.

I. Introduction

I.1 Objectives

The overall objective of this study is to provide the Oesterreichische Entwicklungsbank AG (hereinafter OeEB - in English Development Bank of Austria) and related stakeholders with relevant data, information, conclusions and recommendations to support sustainable development within the South-east European (SEE) regional context.³ In examining innovative means of promoting the positive aspects of migration, and in particular development/migration-related financial flows, the research is intended to go well beyond remittances.

The following pages test the proposition that, through the identification of practical financial intermediation products, services and interventions of direct relevance to various categories of migrants, mutually advantageous relationships can be created that benefit all stakeholders – including migrant/beneficiaries; place/country of origin; country of migration, private sector and participating financial institutions. By focussing on understanding migrant objectives and their savings and investment behaviours, this study aims at providing a stepping-stone for the development of relevant and sustainable migrant-specific savings-investment-employment models. On this basis, the research objective is to identify specific areas of intervention and concrete steps - coherent with the work of other donors and actors in the field - which OeEB can consider in supporting Bosnia and Herzegovina (BiH) through its financial intermediation sector by introducing more meaningful and durable migration-development initiatives.

A unique focus therefore is provided by examining and building on the link between:

- a) supporting migrants to achieve their primary migration-related objectives as they relate to income generation activities and savings, and
- b) directly linking these objectives and resulting financial flows with viable financial intermediation, investment opportunities, and hence sustainable development.

The *immediate objectives* of the research are:

1. To gain insight into migrants as a specific market-segment of the financial services and intermediation industry by examining the migration and return objectives of migrants, with a detailed focus on saving behaviours and investment intentions, as well as examining migrants' transfer and investment behaviour and patterns
2. To test the validity of the previously developed savings/investment/development model based on the above behaviours on the part of BiH diaspora members; and provide an estimate of its potential developmental impact.
3. To examine the current and potential role of the financial intermediation sector, regulatory framework and business environment in supporting the above model in BiH.
4. To identify possibilities for improving the developmental impact of migrant-transfers through formal intermediation, encouraging more savings and improving the allocation of investment resources in BiH.
5. To identify possibilities for engaging the private sector and local communities in entering into alliances and funding schemes with migrant communities.
6. Based on the above, to identify measures of relevance to OeEB in supporting sustainable and long term development.

³ This study on migrants from BiH has been designed as the first study of a series, the totality of which shall analyse linkages between migrant communities, their savings and migration objectives and investment opportunities in selected countries of origin. By means of standardised approaches and research methodologies, cross-references and comparisons will be possible across the range of future studies in the series. It is expressly noted that the OeEB made no *a priori* commitment to financing future studies in this series.

I.2 Financial Flows and their Determinants

Remittances represent one well-known element of migration. Globally, they impact at least 700 Million people and total to almost US\$300 Billion per year, of which only US\$93 Billion pass through formal channels. Remittances undoubtedly play an important part in poverty reduction and the improvement of living conditions in countries of origin such as Bosnia and Herzegovina (BiH). However, remittances are not often used for productive activities and their direct impact on economic growth is therefore considered limited. It is commonly estimated that approximately 70 per cent of remittances received are used for family consumption and health, while another 15 per cent is spent on housing. One common policy priority therefore is to channel the remaining amounts remitted into productive investments, able to contribute to the economic growth of developing countries. On the other hand, it is generally acknowledged that the majority of migrants remit relatively modest amounts that are usually spent wisely, and any attempt to interfere with their use would be counter-productive. Although such person-to-person remittances remain topical, it is debatable whether they represent the most significant potential developmental contribution migrants/diaspora can make.

It is also important to highlight that, although financial flows and remittances in particular, play an important role in poverty reduction, governments should not limit their activities to this aspect of migration. Benefits of migration-related financial flows can only be maximized if certain preconditions are met and the most important condition to encourage migrants to invest in their home country remains a favourable economic climate - with macro-economic stability and openness for entrepreneurial activities. On a personal level, too often, inadequate attention to the microeconomic climate in the countries of origin destines investing or returning migrants, especially those working on a small scale at village or town level, to failure, as they cannot be expected to overcome problems like the lack of infrastructure, corruption, overregulation and bureaucratic obstacles. Simply put, migration cannot be a substitute for development policy or good governance.

Moreover, it is also necessary to highlight the importance of engaging not only financial but also non-financial migrant/diaspora resources in equal measure. Although large volumes of financial remittances continue to attract a lot of international attention, other types of migrants' activities might be more important from a development perspective. Many migrants acquire expertise in areas significant for the development of their own countries, and can act as mediators between home and host countries in establishing new relationships and renewing old ones on the basis of mutual interests. Significant beneficial effects of migration can therefore result from the activities of migrant communities rather than - or in addition to - their financial inputs.

The approach by diasporas to investment/development is often based on the principle of self-help, incorporating all forms of resource mobilization – financial, social – such as trust and values, intellectual, political and cultural. Migrants participate in investment of development projects for different reasons, ranging from business interests to the desire to have a sense of belonging to a greater purpose, or aspiration to support their country of origin perceived as a cradle of their culture or a source of primary loyalty. Migrant initiatives are often community based and their main emphasis is on people, processes and relationships rather than on technical aspects of inputs and outputs. A migrant can provide a link between home and host countries and should therefore be regarded as the central stakeholder. An important priority of any balanced development policy therefore is to mobilize the skills and know-how of migrants/diasporas for the benefit of home countries - in parallel to the effect of financial transfers. Any policy or intervention designed to bring forth more engagement needs to focus on the interests and aims of migrants in participating in development initiatives.

Effective collaboration among the various stakeholders involved in migration and development policies is necessary to maximize the positive effects of migration and effectively address the related challenges - while keeping firmly in mind that migrants/diasporas and governments differ in their approach to development in many ways. There are many challenges in involving diasporas in collaborative partnerships for development, including the diversity of migrant communities.

Diasporas are not only scattered geographically. They are far from being homogenous entities; being comprised of different categories of people who differ in terms of skills and qualifications, socially, politically, religiously, in their reasons for migrating, as well as their intentions and ability to stay in the host country or return home. In light of this diversity, the need to avoid generalizations when approaching diasporas and tailoring strategies for the involvement of migrants to the requirements of a particular group needs to be recognized.

In most cases, governments do not have comprehensive information about migrant communities established in different countries. Despite widespread discussions on cooperation with migrants and diasporas, existing literature is simply insufficient to design a targeted cooperation programme - and by large no significant research has so far been devoted to this issue in Europe.

Clearly, cooperation can only be achieved if all partners are genuinely interested in working together and contributing towards the attainment of common goals. It is therefore helpful to devise incentives for all relevant stakeholders to engage in cooperation for migration and development. There are several prerequisites to establishing successful collaboration between a country such as BiH and its diaspora - the most important of which is an environment of mutual trust. Ensuring the effective dissemination of information among migrants and their families on available investment opportunities and incentives offered is commonly identified as another necessary condition for the successful mobilization of migrant resources.

Within the broader context and caveats introduced above, a variety of agents can form productive partnerships with migrant communities. Business-oriented migrant associations could cooperate with chambers of commerce or similar private sector organizations in the host countries, as well as investment and privatization authorities in home countries.

More specifically, it is clear that the development contribution of financial flows can be enhanced to the extent that formal intermediation encourages more savings in the country of origin and improves the allocation of investment resources there. In general, there is consensus that having access to financial services is one of the important aspects of development, investing into which produces a quick and controllable positive effect.

Policy makers and financial institutions have spent the last 15 years developing and delivering new products to make money transfers cheaper, faster, more reliable and more accessible. While formal intermediation have been facilitated in various markets through the introduction of such remittance-focused products and services, the actual development impact of these technical solutions can be said to be rather limited – in large part for the reasons described above.

Today, migrants, especially in SEE, are very familiar with the currently available innovative and modern means to transfer funds such as internet banking, mobile phone networks or pre-paid/multiple credit cards for family members home and abroad. Alternately, and as the distances are not too large, they simply hand-deliver their transfers, or use informal channels such as cash deliveries by bus drivers and fellow-migrants.

Often ignored by analysts and commercial financial intermediaries, a substantial pool of migrant savings is in fact being accumulated in cash, investments and banking systems in the place of migration rather than being remitted or saved at home. Indeed one key migration-related objective of most migrants is to build up financial capital - often combined with other important skills and contacts during migration. IASCI research in Albania and Kosovo confirms that there is a high propensity to save amongst migrants.

This level, multiplied by the actual number of migrants and the average period of migration, suggests that such 'retained savings' accumulating in host countries can have a value of many thousands of millions of Euro. Migrants may transfer these retained savings, or a portion thereof, at some future date (at which point they are termed "migrants' transfers"). For an indication of the level of savings and possible size of the overall BiH-market, one can compare them to the findings made by IASCI in similar markets, such as Albania and Kosovo, please refer to the table below:

	Albania	Kosovo
~ Monthly HH Income:	€ 2,300	€ 3,900
~ Monthly Expenditures:	€ 1,477	€ 2,324
~ Monthly Saving Rate:	€ 855	€ 1,578
~ HH Remittance Value:	€ 1,664	€ 3,212
~ Annual Savings Rate:*	€ 10,260	€ 15,724
Savings in 2008:	€ 3,473 Million	€ 2,340 Million
Remittances 2008:	€ 672 Million	€ 479 Million
Savings/Remittances Factor:	5.2	4.8

* # Kosovar HH abroad: 149,000 # Albanian HH abroad: 404,000;

Figure 1: Selected Data on Migrant Household (HH) Savings and Remittance Behaviour⁴

This level of capital, when combined with the social and human capital migrants might wish to invest in the realization of their plans and ideas, has the potential of representing a substantial development opportunity – assuming, as noted, that suitable local conditions exist. This development impact can further be leveraged when pooled or coupled with funds from the private sector or from local authorities in the form of twinnings, and when invested in productive innovative businesses - thereby creating new working places and generating income for local communities back home. Today a vigorous debate continues about how such human, social and financial capital linked to migration can better support the development process. It is increasingly understood that governments can cooperate with each other and the private sector to create triple wins—for migrants, for their countries of origin, and for the societies that receive them.

	Total (persons)	Percentage Population	Percentage Migrants
Austria Total*	8,298,923		
Migrants registered in Austria	1,236,282	14.9%	100%
SEE	375,191	4.5%	30%
Serbia (incl. Kosovo) and Montenegro	190,163		15%
Bosnia and Herzegovina	132,262		11%
Croatia	35,738		3%
Macedonia	17,028		1%
Moldova	NA		NA
Albania	NA		NA
Turkey	154,705	1.9%	13%

Figure 2: The BiH-Austria Migration Corridor⁵

Migrant populations from BiH have for the most part permanently settled in Austria and as a result, financial flows from Austria to the region will remain a significant source of foreign exchange in the long-run. As a function of the maturing migration corridor between Austria and BiH it can be hypothesised that a) remittances will decrease in a systemic manner (a threat), and b) a growing portion of these financial flows will be oriented towards saving and investment – and away from consumption and poverty alleviation (an opportunity). In parallel, migrant-transfers (retained savings) will continue to represent a potentially large and growing off-shore financial resource. As a result of these trends the geographic scope and potential market for innovative financial service providers can be expected to continue to grow for the foreseeable future.

As a result, extensive consultations with private sector financial institutions and government counterparts in BiH and elsewhere in the region indicate a strong interest in related research and

⁴ Source: IASCI Field Research Dec-Jan 2008/9

⁵ Source: STATISTIK AUSTRIA, Status 15.11.2007

product/service development in facilitating migrant savings-investment models. This mutual interest on the part of both public and private sectors can be supported by a) engaging in relevant areas of intervention (at macro, regulatory and environmental levels), as well as b) providing financial services and other products/services of relevance to migrants, their families and local enterprises. In this context, a substantial - and by far yet unexplored - scope exists for developing innovative private-public partnerships; including with host countries, countries of origin and the local communities.

Unfortunately, an almost complete lack of relevant data, analysis and policy prescription is hindering the improvement of the developmental impact of migration as a process as well as migrant-transfers. Realistic assessments of migration objectives and the investment of migrants' savings vis-à-vis BiH are virtually non-existent. It is therefore important to gain greater knowledge of the migration patterns and savings behaviour of *both*: various categories of migrants in places of migration (in this case Austria); and their respective beneficiaries in the place of origin (BiH); as well as issues related to the means to make investments and savings in the home countries more attractive to the migrants themselves (looking at risks, costs and instruments).

As noted, when considering the savings/remittance factor - within a broader migration-development context - a limited focus on current migrant-beneficiary remittances misses perhaps the largest part of the migration-development relationship. Consequently, there is a need to look beyond remittances by looking at other types of financial flows and non-financial flows, such as FDI, market development opportunities, diaspora-related trade opportunities, technology transfer, as well as the transfer of scientific, technical and economic expertise through brain-gain and brain circulation. The following pages analyse the savings/investment behaviour of migrants/diasporas within the "BiH-Austria migration corridor" and take into account this wider migration-development context. In practical terms a unique focus is provided on means of strengthening the links between:

- supporting migrants to achieve their primary migration-related objectives in the area of savings and investment strategies, and,
 - directly linking these migration-related financial flows with sustainable development;
- and then identifying areas of intervention and project proposals of relevance to both factors.

I.3 Methodology

A multifaceted and integrated research methodology has been utilised in order to directly address the above multiple objectives (Section I.1) by:

- a) Closely examining the "migration objectives" (as they relate to the gain of financial, social and personal capital) of migrants and beneficiaries on the one hand; and
- b) Examining current and potential transfer, savings and investment knowledge as well as real options (both formal and informal) on the other.

The methodology incorporates means of examining migration behaviours and goals, with a particular focus on return intentions, savings behaviours and investment objectives among migrants and their families. This takes into account the crucial roles played by social and human capital (trust and solidarity) as they relate to the nexus between migration-return and savings-investment decisions.

As the topic being studied is clearly private transfers, - based on personal/family decision-making processes - the research focused to a large extent on the household as a research unit; entailing the use of mutually reinforcing qualitative and quantitative approaches in order to provide in-depth and wide-ranging, quantitative data.

I.3.1 Qualitative Approaches

A. Desk review of literature and statistics

To inform the survey-work and provide necessary background information, a desk research on available literature with statistics and information related to key BiH-Austria migration and environmental issues such as migration trends, business environment and financial intermediation sector was carried out.

In this regard, IASCI and IOM continuously and independently collected and collated relevant materials in line with their specific expertise. In parallel a financial expert in BiH (see point B below) collected the most current relevant documentation during the interview process of leading financial institutions, governmental counterparts and other key stakeholders.

B. Migrant survey

As a counterpart to the above household survey, qualitative interviews with 26 migrant households from BiH and one focus group discussion have been conducted in Austria. Respondents were asked a variety of key questions offering explanations to reasons for migration, participation in labour markets, their earnings, savings, remittances and communication behaviours, their future return and investment plans, as well as related aspects of interest.

The focus group discussion with BiH migrants was necessary in order to validate some findings from the quantitative household survey and above-mentioned qualitative interviews. The topic of discussion for the focus group was the amount of savings and investment intentions of migrants currently residing in Austria. A semi-structured questionnaire, derived from the quantitative analysis (see section I.3.2) was utilised to steer the focus group discussion.

Both research methodologies were carried out in a completely anonymous manner. In line with EC, IASCI and IOM standards on data protection norms, complete and total anonymity was made clear to all respondents prior to their participation. The surveys themselves and the methodology related SOP and training materials clearly stipulated a gender-balanced approach to the random target sampling. A summary of the key findings is presented in Section III.2 of this report.

C. Survey of BiH-based Financial Institutions and Government Agencies

An external consulting financial/banking expert carried out qualitative interviews with relevant financial institutions and government ministries and agencies in BiH related to their level of awareness and views on current and future banking, savings, and investment products specifically targeting the migrant community. This module of the research was conducted utilizing a semi-structured interview template.

Within the context of the overall research effort, the purposes of the finance market survey were to carry out a) a stocktaking of current and planned activities of key industry, government and other stakeholders in delivering or expanding financial intermediation products specifically targeting migrants or their beneficiaries; to b) assess the breadth of the banking system as it relates to the research orientation, to c) assess the amounts and channels for migrant transfers flowing into BiH and to d) provide a preliminary assessment of the feasibility of the financial services and intermediation industry developing financial and related products, services, and interventions of interest to migrants. A summary of the key findings is presented in Section III.3 of this report (background).

I.3.2 Quantitative Approaches

A representative sample size of 656 households (HH), having at least one member residing abroad, and preferably in Austria (or, alternatively, Austria-type economies, i.e. Germany, Switzerland, etc.) was utilised. In parallel, and in the same regions, interviews were conducted with 170 HH with no member in migration in 2008 (20% control group). The survey covered Sarajevo municipalities and

rural surroundings, Bihac and Tuzla in Central and Northern parts of the Federation as well as the centre and southern part of Republika Srpska (Banja Luka and Foca regions).

The selection of regions was based on criteria to ensure a) geographic and ethnic representativity, b) fair representation of disparities in economic development among regions, and c) fair representation of the disparities in migration intensity among the regions. Further, the household surveys took into consideration disparities according to age, gender and generation to reflect and analyze differences regarding savings, sending/spending of remittances and return projects.

The sample of the households or their members in migration is not intended to reflect on the total population of HH with migrants in BiH, or migrants in general. Given the research objective, a purposeful sampling was introduced in order to gain insight into the experience of BiH HH with migrants in Austria. As a result, 22.3% of the respondents record family members in migration in Austria. For the balance, a proxy was used through random-targeting of HH in the sample districts with migrants in Austria-like economies - such as Germany, Switzerland and other western European countries. A small percentage of respondent HH had migrants in the USA, Canada, and other countries. Very few related to migration with Serbia or Croatia.

The method used for selecting the interview group was a random-target sampling in distinct rural/urban districts known for high migration to Austria and countries with similar migration and socio-economic profiles.

The researchers are confident that the sample is representative of the target population in regards to: geographic distribution in BiH; key socio-demographic criteria; and country of migration (Austria). 50.8% of the respondents were female.

Both the questionnaire and the internet-based data entry system were beta tested on 19 March 2009 by the Survey Team. This led to final adjustments of the SOPs and data recording processes. Based on lessons learned in previous field work, and in order to ensure a consistent application of the research methodologies, IASCI and IOM carried out a full-day training workshop with 16 recruited enumerators and field supervisors on 20 March 2009.

At this time the codified Standard Operating Procedures for the field work were reviewed, together with an overview of the research process, and an introduction into migration and financial flows, and their theoretical and actual implications. The final questionnaires are composed of 71 and 43 questions for HH with Migrants and HH without Migrants (control group) respectively. The questionnaires closely examined and allowed for reliable statistical cross-tabulation of data from four key areas:

- Social and Demographic Characteristics - of interviewee;
- Migration Objectives - including strategies and return intentions;
- Communication Channels - between migrants and home community, and between migrants in the place of migration;
- Financial Section – including savings, banking and transfer, behaviours, investment intentions and other key parameters.

Data entry was monitored using an on-line data-entry mechanism. The data base was controlled and adjusted and then transferred into SPSS-format for further analysis. The total sample of families in BiH with migrants was further segregated into households that received financial transfers from abroad in 2008, and households that did not.

Section III.1 summarizes the main findings from that analysis.

II. Background

II.1 Mandate and role of the Oesterreichische Entwicklungsbank AG (OeEB)

As the official development bank of Austria, the OeEB is a wholly-owned subsidiary of Oesterreichische Kontrollbank (OeKB), the Export Credit Agency of Austria. It is a private finance institution mandated by the Austrian Government, as such the political and commercial risks involved in the projects of OeEB are covered by sovereign guarantees.

OeEB Projects are required to contribute to poverty reduction, sustainable economic growth, or employment. In support thereof, OeEB can provide different financing products, such as mezzanine financing, long-term loans, refinancing lines for financial institutions, participation in funds or financial institutions. The bank's investment vehicles therefore include both quasi-equity loans as well as debt. It can source its capital from the market or via the OeKB, and it benefits from the network and international know-how of OeKB Group. In some cases, and in addition to its commercial financing activities, OeEB's investments are accompanied by technical assistance in the form of grant money to enhance potential developmental impacts.

OeEB is designed to close the gap between the Austrian Development Cooperation and Cooperation with Eastern Europe (ADC), the Austrian Development Agency (ADA), and financing solutions offered by commercial banks. It can assume a higher risk profile compared to commercial banks and as such is seen as complementing their activities. Its guidelines are laid down in the Export Promotion Act, the Federal Development Cooperation Act and in the 3-year Programme of the Austrian Development Cooperation and Cooperation with Eastern Europe. The activities of OeEB are not tied to national interests and as a development bank it does not compete with commercial banks, but complements their activities.

OeEB is committed to safeguarding the objectives of Austrian Development Cooperation. Three-year Programmes on Austrian Development Policy (BMeiA, 2007) outline the strategic framework for development policy. The current Programme (2007-2009) presents Austria's sector-based approach to bilateral ODA. This focuses on: Medicine, Technology for small and medium-sized enterprises, Education, and Energy.

Austria's development objectives and priorities are: combating poverty, peace and human security, protection and conservation of the environment, gender, and socially compatible economic development/ fair trade. Development priorities for Central and Eastern European Countries (CEEC) include the promotion of sustainable economic development and economic integration within Europe. Concerning CEEC, Austria has the following development targets: democratization and peace-keeping (pluralistic democratic structures, effective political and administrative systems; modern education systems; human, minority, refugee rights), and poverty alleviation. The partner country's realization of fundamental principles of democracy is a precondition for Austria's development assistance: respect of human rights, attention to refugees and minority groups. Furthermore Austrian assistance requires the partners to participate actively in the reform process and commitment to long-term support to the projects realized with Austria's assistance. Priority sectors are rural development, decentralization, educational development/ vocational training, water supply and sanitation, energy, promotion of small and medium enterprises, and transport. Regarding CEEC, priority sectors are: Public administration, democracy and human rights; environment (with particular emphasis on water and energy); education and youth; as well as employment and social services.⁶

OeEB is engaged in challenging markets, notably in developing countries. In addition to the above objectives and sectors, all projects backed by OeEB are expected to contribute to a sustainable on-site development. In this context, it provides tailor-made financing solutions for a diverse set of long-term investments that are usually not available in these markets. The bank may also engineer projects in countries for which an appropriate instruments would otherwise be missing. Throughout a project, OeEB has the stated goal of being an active co-operation partner.

⁶ http://www.unevoc.unesco.org/donors/countries/aus.htm#fn5_text (sourced, June 2009)

OeEB supports viable projects in developing countries that are primarily located in the private sector. On a case-by-case basis, it may also support infrastructure projects in the public sector. OeEB supports entrepreneurial initiatives that meet development policy criteria, whilst being economically self-sustaining. In regard to infrastructure projects OeEB is primarily engaged in Public Private Partnerships. OeEB particularly concentrates on its product development in enhancing a functioning and competitive financial sector; with the underlying aim of providing local companies with access to (capital) investment financing. The crucial criterion is a project's development impact. In particular, its contribution to poverty reduction, to higher employment levels, to know-how transfer or to sustainable development.

In this context, OeEB employs two major instruments for the realization of its projects:

- Financing Products, i.e. investment loans and quasi-equity projects
- Project-supporting measures, so-called Advisory Programmes

OeEB makes use of a range of financing instruments, including the support of new ventures (e.g. start-ups), as well as the refurbishment or the expansion of investments. Facilities granted may be denominated in Euro or USD, with loan amortisation ranging from 3 to 15 years. Grace periods aligned to the project requirements may be provided. Interest rates are close to the going market rates and are adjusted by a reasonable risk margin. Interest rate subsidies are not granted. OeEB requests an equity contribution by the company / person who owns / proposes the project. Collaterals must be adequate to the project in question. Government guarantees may be accepted as long as the economic viability of the project is secured without relying on direct flows from a country's budget. In line with its involvement in a project, the OeEB may charge fees for inspection, management, intermediation, arranging and the like.

Budgetary resources are set aside for activities that support projects in all their different phases, with the goal of supporting and enhancing the local impact on sustainable development of OeEB projects. Therefore, projects with interesting aspects with respect to their developmental significance for a country / region / sector or the like, can be supported by the Advisory Programmes (AP). AP financial support can be in areas such as identifying, preparing and implementing projects or their assessment and monitoring. They can also be used for measures accompanying investments, such as trainings, energy audits, health care, etc. Other examples include: sector- and project-related studies, engineering expertise, capacity building and skills transfer. AP funds are intended to be linked to projects that offer financing opportunities now or in the near future.

In summary therefore, an OeEB project has to:

- meet development policy criteria (sustainability e.g.: poverty alleviation, employment, gender equality and the empowerment of women, transfer of know-how, etc.)
- be commercially self-supporting (profitable)
- be in the private sector
- be located in a developing country, according to the definition of the OECD's Development Assistance Committee (DAC)

OeEB generally provides two lines of products:

- Financing products (e.g. senior loans, subordinated loans, guarantees) are generally offered on a medium/long-term basis with conditions close to market rates.
- Advisory Programmes (AP) that are provided on a grant basis and can be used to enhance the developmental impact of projects.

Sectors: financial sector, industry, services, infrastructure, energy & environment

Amounts: OeEB share between MEUR 5 up to MEUR 25 per transaction, co-financing with other DFIs

Amortization: up to 15 years incl. grace periods, if required

Collateral: all available securities

II.2 Bosnia and Herzegovina in Transition - an Overview

The Dayton Peace Agreement of 1995, which put an end to a four year long conflict, specified the principles of state and legal structure of Bosnia and Herzegovina (BiH). BiH is a parliamentary democracy, and is currently governed by a broad coalition of nationalist and moderate parties. A highly decentralized system limits the decision-making institutions and powers of the state in many areas, as entity level governments were granted significant powers. Jurisdiction not explicitly held by the Bosnian state is assumed by the two entities (Bosnian Federation, BHF, and Serbian Republic, RS respectively), and both therefore have their own constitutions and laws which govern entity level actions.

The UN-established Office of the High Representative (OHR) oversees the implementation of the civilian aspects of the DPA. Meanwhile, a formerly NATO (SFOR) and now EU-led Stabilization Force (EUFOR) continues its mission of monitoring the military aspects of the DPA.

Following nationwide elections in 2006 a political and institutional crisis has continued more or less unabated. Existing constitutional elements have been frequently challenged by key political leaders in both entities, and EU-related reforms have stagnated. There has been little consensus on the main reform priorities, including conditions related to the Stabilization and Association Agreement. In early November 2008, the European Commission issued a critical report on BiH's progress stressing that a new constitution in line with European standards is needed not just for the country's political future, but also for long-term economic development and prosperity. In March 2009, The EU Council noted that, despite the challenging political environment, the security situation in BiH remained stable.

BiH is the poorest country of former Yugoslavia with an economic activity essentially concentrated on industrial production (22.1%) and services (61.7%). Unemployment is extremely high, estimated at 40% (70% of young people 18-30) and almost 20 % of the population lives with incomes under the poverty line (with another 40% with incomes close to the poverty line). On the other hand, BiH has one of the more stable macroeconomic climates in South East Europe, characterized by sustained economic growth, stable currency and low inflation. In 2007, nominal GDP reached 11.05 billion Euros. Real GDP growth was 6.8%, continuing the underlying trend of growth of around 5.5 - 6.5%. The Federation is economically better off than the RS, largely because of larger inflows of international assistance, as well as the inflow of foreign remittances from Bosnians living abroad.

Prior to the current global economic slowdown, external debt had stabilized and substantial improvements have been made in public finance management with a fiscal reform, reduction of government spending and the introduction of the value added tax (VAT), replacing different entity sales taxes. Improvements in the business environment primarily benefited the SME sector, mainly in the shape of improved access to finance. The informal sector remains large. Overall, structural shifts in the economy remain slow and SMEs continue to operate in a complex business environment. The continuing influence of the public sector in the economy, in particular slow privatisation and restructuring or liquidation of insolvent state operated enterprises in the BHF; continue to hamper the efficient allocation of resources by market mechanisms.

The elaboration by the authorities of a Poverty Reduction Strategy (PRSP) was an important step towards the consolidation of Bosnia and Herzegovina's transition process and its national policies. This strategy serves as a basis for sector priorities and spending decisions, as well as a framework for external assistance. The general priorities of PRSP are: (i) to strengthen the business environment for domestic and foreign investors; (ii) to fight corruption; (iii) to speed up Bosnia and Herzegovina's integration into the European Union.

The primary challenges related to the country's ongoing economic development include:

- An ongoing dependence on international aid, and an urgent need for investments to bolster the transition process;
- Lack of accountability in the political and administrative institutions. Even more, confusing arrays of regulations, fees and standards, and a lack of transparency, give ample opportunity to corruption;

- Market fragmentation: The weakness of the legal and regulatory framework, the lack of a strong competitive private sector and the absence of a single internal market remain important impediments to the country's economic development;
- Weak public finances and high current account deficit: The domestic debt is estimated to be 200% of GDP, thus threatening future investment and growth. In addition, the country's high current account deficit is a major concern;
- The 2006 elections showed that nationalistic tendencies persist and still cause insecurity among large segments of the population along with a difficult cohabitation of different ethnic groups.

This should not obscure the genuine progress BiH has made in some areas. Before the current standstill, it was moving in fits and starts toward EU membership. On 1 January 2008 a facilitation and readmission agreement helped launch a visa liberalization dialogue that should eventually lead to visa-free travel to the EU for Bosnian citizens. Signing the Stabilisation and Association Agreement (SAA) on 16 June 2008 was important: the SAA is the first legal agreement between BiH and EU member states on the road to EU membership. An Interim Agreement on Trade came soon after. But BiH has been slow to meet its obligations under these agreements and has made virtually no other progress on the European agenda.

BiH faces the global economic downturn with no demonstrated ability to respond effectively. Diaspora remittances are anticipated to fall significantly; demand for Bosnian export goods is already dropping, driving up unemployment. Many banks are foreign-owned, and repercussions from the European banking crisis could lead towards a collapse of the credit and real estate market.

II.3 Overview of the Financial System

BiH began its transition to a market economy after most other countries of the region and in extremely difficult circumstances following the end of the 1992-1995 war. Since then, BiH has carried out many reforms in the financial sector. Since then, BiH has carried out many reforms in the financial sector. The reforms have been accompanied with an institution building process. The complex structure outlined above strongly determines a framework for conducting a macroeconomic policy. In principle, fiscal policy provides BiH authorities with the only macroeconomic instruments to enhance economic growth. Monetary policy has been functioning on the principles of the Currency Board Arrangement since 1997, with fixed pegs to the Deutsche Mark then the Euro. At the end of 2008, Standard & Poor's Rating Services assigned BiH a 'B+' credit rating with a stable outlook.

The Central Bank of BiH is a state-level institution whose main responsibility is to ensure the stability of the domestic currency by issuing it in accordance with the rules of a currency board arrangement. The BiH currency board regime is usually described as appropriate considering the country's history, its current state, and its future goals.

Today, the financial system of BiH is generally considered neither well developed nor sufficiently diversified; with the system based on a few types of financial institution and intermediation. In 2007, the total assets of the sector of financial services were KM 24.63 billion (EUR 12.59 billion), with the share of banking sector of 79.90%, investments funds 7.16%, leasing companies 5.75%, micro-credit organizations 3.72 % and insurances 3.46 %.

The banking sector is the most successful sector in BiH economy in respect of the asset size. Today, the BiH banking sector is dominated by six large foreign-owned subsidiaries, including: Unicredit Group, Raiffeisen Bank, Hypo Group, NLB Group, Intesa San Paolo, and Volksbank. The biggest growth of the total assets in the financial services sector in 2007 was registered in micro-credit organizations with an increase of 75% and leasing companies with an increase of 64%. Meanwhile, insurance and reinsurance companies registered growth of 20%.

In 2006, the International Monetary Fund (IMF) found that the major risks of financial instability in Bosnia and Herzegovina lie in the fact that foreign-owned bank subsidiaries rely on foreign funding in

combination with the large account deficit, equal to 21 percent of GDP in 2005. Given the current world-wide economic crisis, these risks proved to be true in 2008 when BiH started recording a significant decrease in credit growth.

The same IMF assessment identified some reforms that should be carried out to cope with the risks of financial instability:

- Strengthening banking supervision and adapting it to the transformation of the financial system in line with recommendations in the Basel Core Principles (BCP) assessment
- Increasing banks' flexibility to rely on local funding to finance credit
- Enhance cooperation with home supervisors of foreign owned banks
- Strengthen surveillance capacity
- Unify the two entity supervisors

In parallel, the EC addressed very similar priorities related to the financial sector in its Council Decision (February 2008) on the principles, priorities and conditions contained in the European Partnership with Bosnia and Herzegovina. The Transition Report 2008 highlighted progress in the banking sector; while the non-banking financial system was still considered as undeveloped; in comparison to the rest of the region. Looking forward, the banking sector will undoubtedly keep its leading position in the financial system.

Bosnia and Herzegovina has a relatively low savings rate. According to a 2006 survey⁷, only 9.5% of the population has savings accounts in BiH banks, while 21.5 % of citizens save their cash at home and the remaining two thirds of the BiH citizens do not save at all. While according to the Household Budget Survey of 2007, only 6% of BiH households save, and 94% of households do not save at all. At these levels, BiH has the lowest savings rate of all countries in the Western Balkans. BiH authorities are reportedly aware of this problem, and one of the main goals of the financial development for the period 2008-2013, is to increase the national savings deposit until the region average has been achieved.

Remittances have supported remarkable growth of private consumption, one of the engines of robust economic activity in BiH in past years. They have historically helped finance BiH's large current account deficits. In 2008, a significant drop in remittances was recorded by the Central Bank and other observers. According to a study conducted by the Vienna Institute for International Economic Studies on the impact of the global crisis on SEE, the inflow of remittances will continue to decrease, while the World Bank estimates a 5%-8% drop in 2009.⁸

Due to the economic crisis and commensurate withdrawal of savings, the Law on Deposit Insurance was changed with an insurance deposit level established at KM 20.000 (10,226 Euro) and all deposits of private persons covered to this level. Further, the EBRD is considering providing the Deposit Insurance Agency of Bosnia and Herzegovina⁹ with a stand-by credit line in the amount of EUR 50 million. The aim of the credit line is to increase confidence in the country's financial sector by enabling the Agency to increase deposit insurance coverage to 50,000 KM.

Twelve organizations and the members of the Microfinance Association (AMFI), cover 97% of microfinance market in BiH; having disbursed over one billion KM of credit funds in 2008 alone¹⁰. The

⁷ Deutsche Gesellschaft für Konsumforschung, 2006

⁸ Sarajevo x-com, Biznews, Opast će transferi novca dijaspore u zemlje jugoistočne Evrope, Februar 2009

⁹ Deposit Insurance Agency of Bosnia and Herzegovina, News, Law on Deposit Insurance in banks of BiH has published, December 2008

¹⁰ In the period from 1996 until today, a respectable number of micro-credit organizations (12-14) operating in line with the best world experiences in financial institutions management was established. According to financial indicators, twelve organizations, members of the Association, which cover 97% of microfinance market in BiH, have disbursed 1,060,654,452 convertible marks of credit funds in 2008, which represent increase of 9.20% comparing to the year of 2007. Gross weight increased for 250 millions, or 30%, while the number of active clients increased for 35%, comparing to the previous year, what proves the enormous

results put Bosnia and Herzegovina among the countries with the highest development level in this area of financial intermediation. It is important to stress that in BiH the microfinance sector serves those clients who do not have collateral, have low income, or no income whatsoever. In BiH micro finance institutions (MFIs) are not allowed to take deposits under current regulations.

A new legislation on MFIs was adopted in 2006. Although the purpose of the new legislation was to better accommodate the current level of the microfinance, a few issues will present challenges for further growth in this sector. The limitation of the loan size is a restraining factor for MFI portfolio diversification and outreach to the higher end of the micro enterprise spectrum. This can potentially result in confinement of the microfinance sector to a rather narrow category of clients.

BiH has two stock markets organized on the entity levels. Both Sarajevo Stock Exchanges (SASE) in Federation of BiH and Banja Luka Stock Exchange (BLSE) in Republic of Srpska were established in 2001, with first transactions registered at the beginning of 2002. Although the markets are institutionally separated, there are no noteworthy differences between them. Both markets can be defined as dawning markets, characterized by low liquidity, volatility of prices, and privatization process driven turnover. The main weakness of the local capital market is perceived as the effective lack of local investors; which are necessary in order to provide liquidity to the market; so far, the market has been dependent largely on the foreign investors.

After record turnover and profits in 2007, last year brought a considerably worsening in market conditions with turnover and market prices slumping continuously. In 2008, total turnover on both stock exchanges was not just below the bull year 2007, but also below two previous business years. Main blue chip indices, SASX-10 and BIRS, dropped by more than 60%, with no index constituents recording a gain in 2008. The primary reason was the outflow of the foreign institutional investors that had made up the main driving force of BiH markets in previous years. With the deepening of the financial crisis and risk aversion foreign investors exited the BiH, strongly pushing liquidity and market indices downwards.

Beside brokerage business, other segments of institutional market participants are quite undeveloped in BiH capital market. Closed-investment funds, established during the process of mass-privatization (privatization investment funds – PIFs), continue to dominate the BiH market. Currently there are 11 closed-end investment funds in the Sarajevo Stock Exchange. The size and importance of the open-ended funds in BiH is very low.

One of the crucial preconditions for the further development of the investment funds is the new Law on Securities and Investment funds in FBH, which is starting from January 2009. The Law enables the establishment of not only equity funds but bond, money market, venture funds and real estate funds. However, the most important change is in allowing funds to invest 25% of their net asset value abroad, while previously they could invest only in the domestic market. This is seen as a crucial change for enhancing returns, hedging and diversifying risks.

BiH has made significant efforts to open its economy to more foreign investment. According to the Foreign Investment Promotion Agency the investment climate is characterized with the following incentives for foreign investors:

- *Major initiatives include a liberal State Foreign Investment Policy Law, a new value-added tax (VAT), and a uniform trade and customs policy;*
- *The Law on the Policy of Foreign Direct Investments of Bosnia and Herzegovina (Official Gazette of BH, 17/98, 13/03) ensures national treatment of foreign investors, i.e., foreign investors have the same rights and obligations as residents of BH;*
- *Foreign investors are entitled to open accounts in any commercial bank in domestic and/or any freely convertible currency on the territory of BH;*
- *Foreign investors are protected against nationalization, expropriation, requisition or measures having similar effects; such measures may take place only in the public interest in accordance with*

impact on social security when it comes to obtaining incomes of the socially imperilled population (source: <http://www.amfi.ba/eng/>).

the applicable laws and regulations and against the payment of an appropriate compensation, i.e. compensation that is adequate, effective and prompt;

- *The rights and benefits of foreign investors granted, and obligations imposed by the Law on the Policy of Foreign Direct Investment (mentioned above) cannot be terminated or overruled by subsequent laws and regulations. Should a subsequent law or regulation be more favorable to foreign investors, the investor will have the right to choose the regime by which the investment will be regulated;*
- *Foreign investors may own real estate in BH. Foreign investors enjoy the same property rights in respect to real estate as BH citizens and legal entities;*
- *Foreign investors are entitled to transfer abroad, freely and without delay, in convertible currency, proceeds resulting from their investment in BiH;*
- *Foreign investors concerned about risks of transfer restrictions, expropriation, war and civil disturbances and denial of justice, can be insured against these risks with the European Union Investment Guarantee Trust Fund for Bosnia and Herzegovina, administered by the Multilateral Investment Guarantee Agency (MIGA, member of the World Bank Group);*
- *BH is eligible for the assistance of the US Overseas Private Investment Corporation (OPIC), which also provides political risk insurance for investors;*
- *Free trade agreements; Bosnia and Herzegovina has signed the Central European Free Trade Agreement (CEFTA);*
- *Preferential Export Regimes According to the preferential export regime with the European Union, all goods of BH origin that fulfill EU technical-technological standards and conditions, can be imported to all 27 EU countries until the end of 2010 without any quantitative restriction and without paying customs and other similar duties.*

However, local and foreign investors continue to face a number of serious obstacles, including a complex legal and regulatory framework, non-transparent business procedures, and weak judicial structures. The World Bank rates BiH 119 out of 181 countries¹¹ as a place to do business.

In 2008, a World Bank study on the investment climate confirmed that the private sector is on an upswing but detected grave structural and performance constraints, including financial solvency problems, insufficient capital availability and under-documented labor. An inefficient regulatory regime continues to impose unnecessary bottlenecks and excessive costs to enterprise start up, operations and growth, while swift market mechanisms for pushing failing companies to restructure or exit do not exist. Some of these constraints could be removed by streamlining regulations to allow quick start ups, reduce the number of licenses and permits required for business operations, and strengthen the systems for recordkeeping of real property transfers.

In general, statistical data available from BiH agencies are weak and dated. So, while the time lag affecting official statistics hides the immediate impact of the worldwide financial and economical crisis, the macroeconomic indicators for 2008 published by the World Bank in February 2009 and IMF show that BiH has been affected. Real GDP growth for 2009 is forecast to drop by 7%, or even more; to be followed by a slow recovery starting in 2010. The most affected sectors are expected to be export and construction, while poverty may be further deepened due to falling remittances and layoffs.

¹¹ World Bank, Doing Business Report, 2009

II.4 Overview of Migration Issues

Migration of BiH nationals¹² in the modern period occurred in three primary phases: before the war, during armed conflict (1992- 1995), and mainly in the post-war period. The war in BiH resulted in “an explosion of migration”; with the territorial relocation of 2.2 million inhabitants between 1992 and 1995, including one million dislocated in the country and 1.2 million moving to foreign countries.

Existing conditions, such as the stagnation in economic growth, high rates of unemployment, unsatisfactory quality of higher education, inadequate social programs, and a significant level of destroyed houses and infrastructures, resulted in further migration out of BiH. Recent UNDP research carried out by the Oxford University¹³ found that 62.6% of BiH youth would like to leave the country due to employment concerns.

2007 figures of the BiH Ministry of Foreign Affairs indicate that 1.343.805 BiH citizens were living abroad, whereas the World Bank Remittance Migration and Remittances Factbook¹⁴ for BiH provides a figure of 1.471.594. It is estimated that more than 800.000 migrants are living in other parts of Europe (such as, other republics of former Yugoslavia, Germany, Sweden, Norway, Italy, Austria, Croatia, Serbia, Switzerland) and nearly half a million in the US, Canada and Australia. Of these, approximately 85,000 BiH nationals were living in Austria in 2008, together with 133,000 BiH born Austrian citizens. In the process of acquiring Austrian citizenship, they were required to abandon their nationality of birth.

As noted, there is a lack of data regarding the socio-demographic profiles of migrants (sex, age, education, etc.) as not much research has taken place. However, the International Organisation for Migration (IOM)¹⁵ did note the following in a study on the BiH migration profile in 2007:

- Skilled Emigration: 28.60%
- Refugees 199,946 (2006)
- Asylum-seekers 1,658 (2006)
- Emigration rate of tertiary educated persons 28.6% (2005)
- Emigration of physicians 821 or 12.7% (2005)
- Irregular migrants 204 (2005) and 489 (2006)

Return to BiH started immediately after the end of the conflicts. According to the Ministry of Human Rights and Refugees of Bosnia and Herzegovina, a total of over one million returns to BiH were registered, out of which almost half were so-called minority returns. Residents and potential returnees often face discouraging realities of life in BiH, such as a high poverty rate, a disturbing unemployment rate, a non harmonized educational system, as well as problematic access to pensions, medical services, necessary social welfare, etc. Furthermore, there is a lack of investors and capital. For Bosnian families to stay and thrive, they need the kind of economic development that creates jobs and small enterprises and the security to maintain a still tenuous peace.

Strengthening links with BiH migrant communities abroad and their potential contribution to BiH's development, enlarging possibilities for labour migration of BiH nationals, and facilitating immigration/entry and stay of foreign nationals on Bosnian territory, can be seen as the more “positive” aspects of the BiH migration agenda nowadays. As noted, the BiH diasporas around the globe amounts to an estimated 1.2 to 1.4 million individuals. According to the World Diaspora Association, a large number of BiH diaspora members are willing to build stronger ties with their homeland. While they seem to have expanded networks and be well organized, there also appears to

¹² NOTE: Data necessary for an in-depth analysis of the migration situation in BiH is generally not available, the below is therefore an outline of general trends and basic indicators.

¹³ Oxford Research International, *The Silent Majority Speaks: Snapshots of Today and Visions of the Future of Bosnia and Herzegovina*, prepared for UNDP BiH (2009).

¹⁴ World Bank, Development Prospects Group, *Migration and Remittances Factbook*, (2008)

¹⁵ Chindea, Majkowska-Tomkin, Pastor - IOM (2007) *Bosnia and Herzegovina Migration Profile*

be space for improvement in regard to their links with home communities and potential for contribution to development back home.

A Sector for Diasporas within the Ministry of Human Rights acts as a resource point for BiH citizens living abroad, providing information on citizenship laws, investment opportunities and developments within the country. The sector cooperates with the Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA) to promote investment opportunities. In November 2008 BiH adopted a national Strategy on Migration and Asylum and an Action Plan 2008-2011. Other key national policies include: the National Action Plan for Combating Trafficking in Human Beings and Illegal Immigration in BiH, the National Integrated Border Management Strategy for BiH, the Law on Movement and Stay of Aliens and Asylum (LMSAA) and the Returns Policy, to name a few.

While certain diaspora organizations try to promote a multi-ethnic BiH by establishing cultural and social activities, many diaspora members have a low participation rate in BiH elections and in political parties. It should be noted however that such a low participation rate extends to the general population within BiH, where the relationship between BiH citizens and the political world is dominated by low interest and disengagement. According to the Oxford University survey, the respondent's views of BiH as a country, its political actors and institutions are very negative. Beliefs in corruption are widespread while optimism is relatively weak, and there is a sense of standstill. Social trust is virtually non-existent. It appears that the relationship between BiH citizens and the political world is not one of active interest and involvement. One might conclude that non-engagement is an underlying hallmark of the relationship between BiH citizens and politics.

According to the same research however, BiH citizens who reside abroad are predominantly perceived as a potential economic asset to BiH. The diaspora is not seen as outside a 'community of sufferers' and its long-term return is seen as natural. Respondents are clear that a returning diaspora would have a positive impact on the country. Yet, it is overwhelmingly accepted that the diaspora should stay abroad in order to send remittances to their families in BiH. Equally, the notion that the diaspora has better lives abroad and would therefore not wish to return to BiH, is accepted by a virtually identical proportion of respondents. There appears to be a contradiction between respondents' wishes that the diaspora both come home and stay away. However, this conflict may be resolved if one considers that staying away may be perceived as a temporary economic solution but that return is considered as a natural, though more of a long-term, ambition.

The Oxford University study wished to specify the sort of difference a returning diaspora could make to BiH. Respondents were asked to agree or disagree with attitude statements regarding the prospects of a returning diaspora. Important economic themes stand out:

- Bring back their savings' is a statement which nearly nine in ten respondents endorse (88.9% combined scores). Similarly, 'bring back their skills' is met with resounding approval (86.1% combined). A returning diaspora which could be 'creating employment' is envisaged by seven in ten (69.0% combined).
- Conversely, six in ten respondents disagree with the idea that a returning diaspora could 'take our jobs (61.1% combined disagreement scores) or make life tougher for local businesses (59.9% combined). In other words, a returning diaspora is not generally perceived as an economic threat.

Should the diaspora return, respondents clearly see the socio-economic advantages such as capital investment, skills transfer and job-creation.

Survey results also underline the weakness of 'social capital' in BiH - those bonds of trust, reciprocity and solidarity between people themselves. Underlying this is a basic confusion over identity and belonging, and a frustration and dissatisfaction with post-Dayton political structures. BiH citizens are held to be universally pessimistic about the future and feel the country to be stagnating with no prospect of improvement. There is a sense of non-progress, mixed with extreme negativity about today's situation in BiH.

Asked if they wish to leave BiH, 38.5% of the total sample say they would, if given the opportunity. Critically however, close to two thirds (62.6%) of people below the age of 30 say they wish to

emigrate. Such powerful desires for selective out-migration illustrate that young people especially have a low commitment to BiH. The creation of conditions which are likely to motivate young BiH citizens to remain in their country emerges as a key challenge.

The conflict in the Balkans and the consequent (financial) crises in the region have caused a certain level of brain-drain, as many well-educated young people left BiH permanently to live and work in other countries. Although widespread skill gaps are not yet present, if particular shortages and a general concern about basic skills (partly concealed by the low levels of demand in the formal economy) are left unaddressed, the weakness in the supply side will be a serious impediment for the economic restructuring and development of the country. This refers both to initial and to continuing vocational training. Upgrading the skills of the population represents a serious precondition for a sustained economic growth, particularly when recovery from previous existing levels of GDP will be reached and more exposure to global markets will require increased competitiveness of the economy. Participation in education and training of young people has been increasing during the last years but deficiencies in the quality of the education provision raises questions about the preparedness of young people for the labor market.

BiH is one of the primary exporters of migrants and recipients of remittances in the world. The World Bank lists BiH¹⁶ as sixth among the 20 leading remittance receiving countries in the world (measured as a share of GDP), second only to Moldova in the South Eastern European region, and further notes its significant growth rate of remittances over the years.

Remittances played a major role in sustaining the citizens of BiH during the conflict time and have in recent years continued to uphold the living standards of Bosnians while also contributing substantially to the country's economic growth.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Workers' remittances from abroad*	2,013	2,017	2,016	2,007	1,967	1,973	2,317	2,319	2,469	2,771	2,522
through formal channels (commercial banks, money transfer systems)	145	170	121	259	582	694	813	1,015	1,267	1,441	1,202
through other channels (including pensions delivered in person)	1,868	1,847	1,896	1,749	1,385	1,279	1,504	1,304	1,202	1,330	1,320
Workers' remittances from abroad, in %GDP	27.8	20.7	18.8	16.0	14.2	13.6	14.7	13.7	12.9	12.8	10.0

Figure 2: The amount and structure of remittances in BiH in Million USD

*(Source: CBBiH Balance of Payment Statistics)

The Third Congress of the World Association of Bosnia & Herzegovina Diaspora (WAD) evaluated workers' remittances at KM 7 billion, (about € 3.5 billion), or almost three times the amount reported by the CBBiH. In 2006 the EBRD estimated remittance values at 22% of GDP and noted a very high reliance of micro and small enterprises on remittances in starting up a business. It seems that the largest flows of remittances are related to migrations that took place before and during the war, with migrants coming mostly from the north-western part of the country.

In general, poverty and unemployment are the main push factors for migration and for remitting to friends and family remaining in the places of origin. Hence, people who live fairly comfortably are less likely to receive remittances than people who have financial difficulties. In addition, it has been observed that less educated people are slightly more likely to receive remittances than more educated people. Likewise, unemployed people face a higher probability of receiving transfers or of migrating. Similarly, divorced or widowed people face a higher probability of receiving transfers. On the other hand, neither education nor age has a significant impact on the receipt of transfers.

¹⁶ World Bank, Development Prospects Group 2005: Migration and Remittances Factbook, 2008

According to the literature remittances are largely spent (in order of importance) on: food and clothing, education, home repair, savings, property purchase, medical expenses, business investments and durables as well as on “special events”. According to a USAID commissioned study¹⁷, qualitative evidence shows that overall remittances in BiH have contributed and continue to contribute to poverty reduction and have the potential of boosting longer-term economic development if there are incentives for savings and investment. USAID predicts that with the right incentives for savings and investment, these remittances hold a potential to contribute to poverty reduction and spur long-term economic development. It is generally conceded that further and up-to-date research on the nature and scale of remittances and of their impact in BiH is required before definitive conclusions can be reached about the current role of remittances in the country.

As noted, nowadays, the banking system is considered competitive, well regulated, and broadly the most successful sector of the economy. However, it is estimated that a substantial amount of currency is still outside the banking system, even compared with other transitional economies. Demand for savings services is constrained by mistrust in the banking system and the loss of savings habits during the war period. A recent survey¹⁸ shows that unmet demand is significant. However, the savings products currently on offer do not seem to provide the services that the un-banked population needs since banks do not direct their efforts towards mobilizing savings from the poor.

Based on the information gathered through the Consultative Group to Assist the Poor’s (CGAP)¹⁹ country assessment, seven suggestions for promoting quality deposit services for low-income people emerged:

1. *Conduct more research on the unbanked population to provide information on their habits and needs;*
2. *Carry out financial education focused on savings with low-income and unbanked clients to provide information on banking services and rebuild trust;*
3. *Develop specialized products and services for low-income clients;*
4. *Encourage partnerships between institutions that bring together the capacity, permission, and incentive to mobilize small deposits;*
5. *Offer technical assistance for bank downscaling;*
6. *Expand the e-payment infrastructure to bring more money into the system and increase the convenience of access;*
7. *Stimulate stronger communication and policy dialogue between policy makers and micro-credit institutions to clarify the legal infrastructure and to inform policymakers about the needs of the microfinance industry.*

When compared to the general population, BiH migrants have a higher propensity to save their earnings. BiH migrants characteristically have regular contact with friends and family in BiH, and a recent diaspora event in Sarajevo confirmed that they wish to maintain strong ties with home communities.

¹⁷ Stites, Lautze, Mazurana and Anic 2005: Coping with war, Coping with Peace: Livelihood Adaptation in Bosnia-Herzegovina, 1989 – 2004. USAID commissioned study

¹⁸ Lindh de Montoya, Deshpande, Glisovic-Mezieres (2006). Bosnia and Herzegovina: Country level savings assessment

¹⁹ For more information on this tool: Deshpande, Rani: Country-Level Savings Assessment Tool: Improving the Supply of Deposit Services for Poor People, Washington DC June, 2008

III. Observations of Attitudes and BiH Migrants and their Dependents

III.1 Quantitative Observations

III.1.1 Migration Experience

50% of migrants left BiH because they could not find a job in BiH (33.3%) or wanted to improve their living standards (16.6%). Only 14.4% of the recorded migrants are considered by their families in BiH as having left due to the war in BiH and the risk of persecution.

14 percent of migrants were residing abroad before 1990, while 86% of the target migrants left BiH after 1991, including the majority (54% of the total migrant population) that left BiH after 2001.

In line with expectations a significant correlation exists between the year of migration and the propensity to send money to BiH, see below:

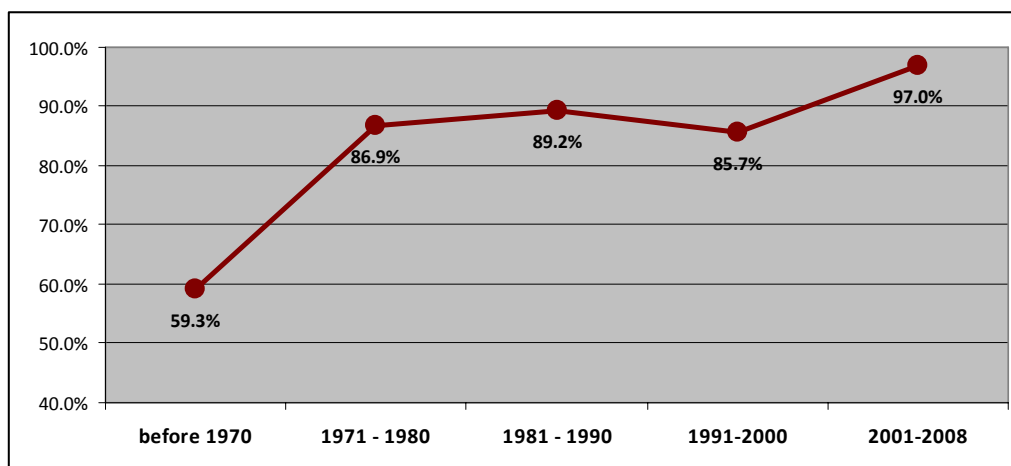


Figure 3: Percentage of remittance senders by year of migration (sample size: 644 HHs)

HH in BiH expect that their migrants working in the field of construction and domestic help have a higher return potential than migrants that are working in other occupational sectors. While 43.9% of construction workers are expected to return to BiH, households in BiH expect only 18.1% of migrants working in the services sector or tourism to return.

Contrary to the literature, the majority of respondents (78.4%) do not suppose that one or more member of their HH in BiH is considering migrating at this time. This significant finding is in strong contrast to the findings from the desk research, where it is commonly reported that the percentage of persons with a migration intention is much higher.

Asked about their main reasons (weighted) why migrants selected a specific country of migration, the best employment chances are noted for USA/Canada, Austria and Germany, whereas the best social security system is identified in Sweden, Switzerland and Germany (see figure below). The chances to get a visa are considered to be the easiest in the Netherlands (18% of respondents claim this to be the main reason for their HH members to select that country for migration).

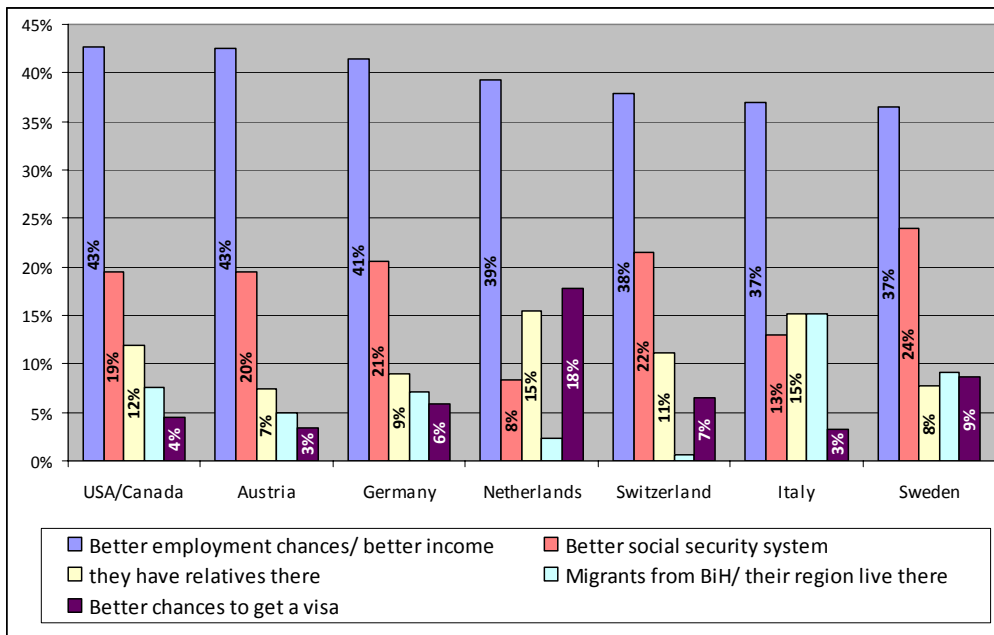


Figure 4: Reasons for selecting Country of Migration

III.1.2 Clustering

In line with expectations, BiH migrants are clustering in their places of migration. As Figure 5 indicates, migrants from Una Sana Canton (Bihac) are clustering in the Austrian town of Wels (40% of interviewed BiH migrants in Wels are from Bihac) and Salzburg (33%). Significantly, 63% of BiH migrants in Linz are originating from Banja Luka. In Vienna, 63% of BiH migrants in Linz are originating from Banja Luka. In Vienna, 13 of 55 respondents (24% of migrants) are originating from Zivinice municipality, and 18% from Bihac.

The top places of origin of migrants in BiH are Bihac and Banja Luka (both 18%), then Sarajevo, Cazin and Zivinice (all 10% each), Velika Kladusa, Tuzla and Hadzizi (8% each), and Visegrad, Gracanica, and Vogosca (3% each).

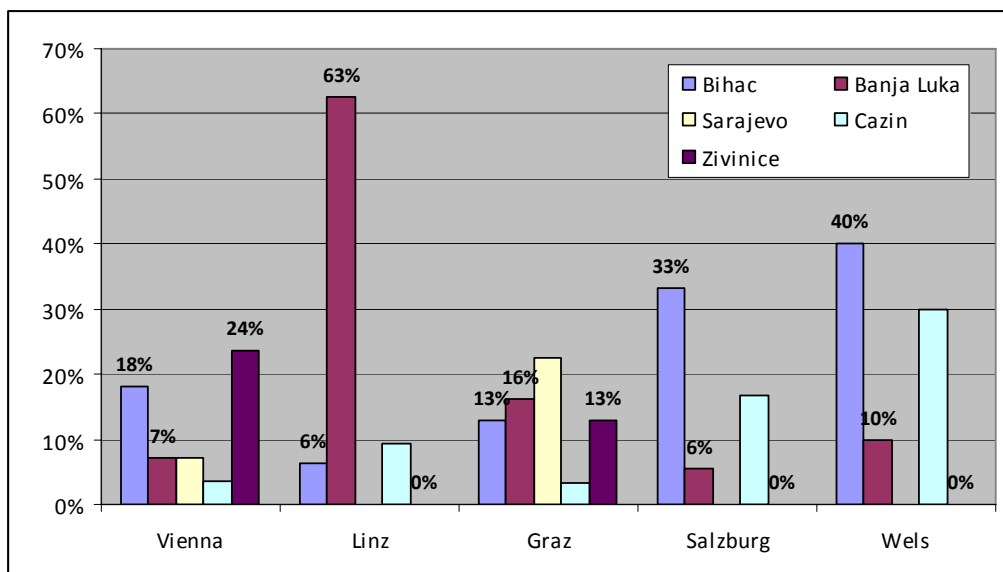


Figure 5: Clustering in places of migration

III.1.3 Communication Behaviours

Bosnian migrants have relatively traditional communication behaviours, compared with other countries in the region. The preferred means of communication between migrants and their families in BiH is the telephone, which 71% of migrants are using either on a daily or weekly basis to communicate home. The majority of migrants from BiH never use the internet (79%) or text messaging (SMS, 64%) to communicate home.

79% of migrants never send any messages through friends to their families in BiH, which can be considered as an indicator that the BiH society is more individualised than in some other countries in the region (i.e. the Kosovo and Albania research).

The majority of migrants from BiH (58%) visit their home country 1-2 times per year, while 13% never visit BiH. The preferred months for visiting BiH are July and August (35.8% of all visits) and December 16%, see figure below.

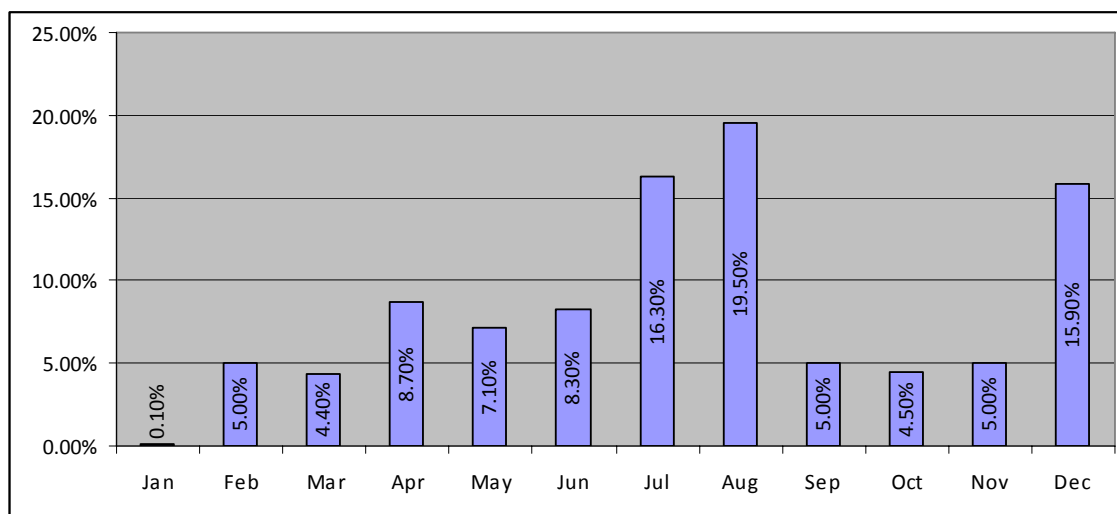


Figure 6: Preference of months by migrants for visiting HH members in BiH

87% of BiH HH with migrants believe that migrants regularly communicate with each other in their places of migration. 75% of respondents believe that their family members in migration have regular access to television from BiH.

	Yes	No	Don't know
TV from BiH	74.7%	7.0%	18.3%
Radio from BiH	64.6%	11.6%	23.8%
Newspapers from BiH	62.3%	13.0%	24.7%
BiH Newspapers in the internet	56.1%	14.3%	29.7%
Newspapers in own language	40.5%	20.8%	38.7%

Figure 7: Access to Sources of Information in place of migration

III.1.4 Financial Transactions and Savings Behaviours

A significant 20.1% of HH with persons in migration do not receive financial transfers from abroad. This is consistent with previous research carried out by IASCI in the region. This, together with the high family reunification rate noted above, would be a strong indicator of the maturation of the migration process, leading to a structural decrease in transfers in the future.

Of those HH receiving financial transfers in 2008 (see above), the average amount is 4,530 KM per year (Average: 378 KM per month. The average amount per transfer is 677 KM).

Bosnian HHs with migrants abroad receive an average of 6.4 transfers per year (Kosovo: 5.7 times, Albania: 3.4 times.)

A significant part of these financial resources remain in the informal sector, reflected by the fact that the preferred way of receiving these transfers is through the hand-carry method by the migrant or the fellow migrants (64.8%). As the second most preferred means of transfer, 141 households listed Western Union (18.1%). Bank transfer ranks only at the third place (16.2%).

The majority of respondents report having received the same level of transfers in 2008 when compared to previous years (56.8%). Furthermore, a significant 34.3% report that less money was transferred in 2008, while only 7.9% reported receiving more.

Importantly, 41.1% of HH respondents expect to receive less money from abroad in 2009. This, together with other findings from this research, would seem to confirm a clear downwards trend in migration-related financial flows from Austria to BiH.

HH that do not receive remittances from their members in migration have the same budgetary allocation behaviour as the control group (i.e. HH without persons in migration).

The average level of budgetary allocation of HH with migrants and receiving financial transfers from abroad in 2008 is significantly higher (13.3%) than HH with no access to such income sources (1,000 KM or 510 Euro per month instead of 867 KM or 442 Euro per month).

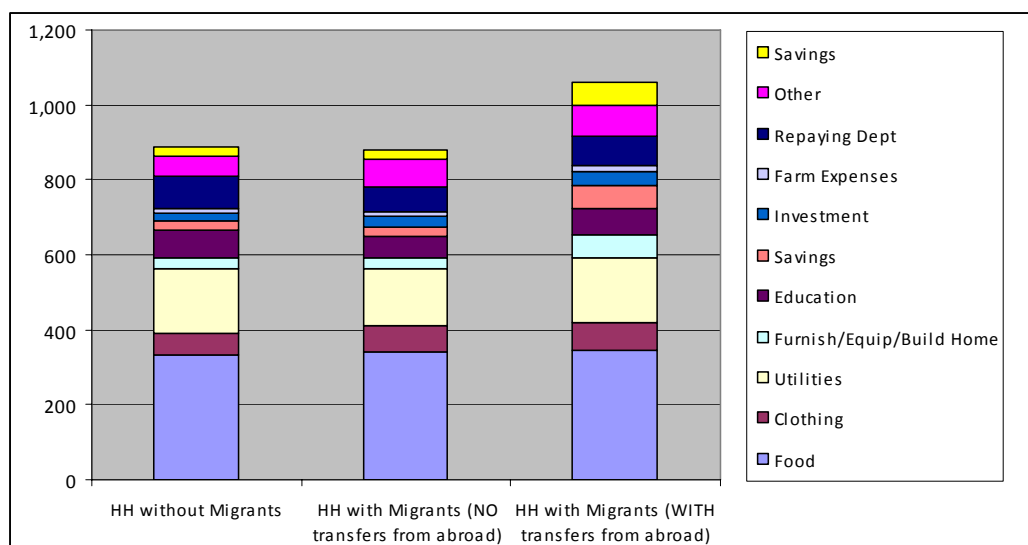


Figure 8: Budgetary Allocation of HH income in BiH, in chart format

If the budgetary allocations that are not required for the economical survival of the household are considered together (i.e. savings, investment, farm expenses, and repayment of debts), they form a very significant 19.5% of the budgetary allocation of those HH that regularly receive transfers from abroad. This percentage is lower if households do not receive financial transfers from abroad (average 16%).

Income levels of households interviewed correspond with the budgetary allocations described above. With an average of 510 Euro per month, the income of families with migrants that send money home to BiH is 14.3% higher than of families without such transfers.

While the number of savers is small, an indication of savings objectives is as follows: ability to respond to emergencies and to mitigate the risk associated with migration (27.6%); secure a pension/retirement (23.3%); education of children ranks as the third savings objective (12.7%), and finally; the procurement of durable goods (12.3%).

The total amount of money needed to meet the above savings objectives is estimated on average at 34,000 KM (= 17,409 Euro).

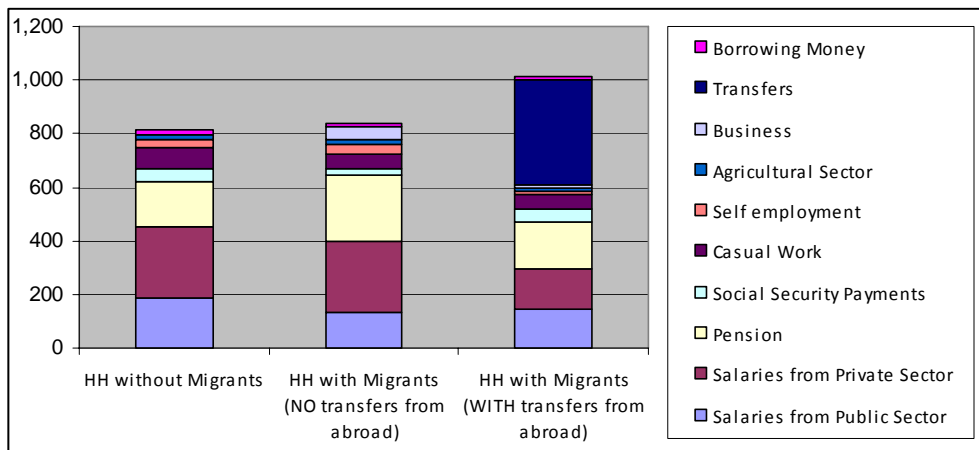


Figure 9: Division of household incomes in BiH

Contrary to the findings of the desk research, about 70% of interviewed households with migrants report that they have a bank account in BiH (control group: 64.8%). The difference between these two amounts can perhaps be explained by the higher incomes and higher propensity to save of households of migrants that are regularly receiving transfers.

According to 49.8% of BiH household respondent, the main reason for not having a bank account in BiH is the insufficient income of their households. Having a bank account is seen as a cost item that is not justified. More than 14% of respondents report that a lack of trust in the banking sector is another major reason when deciding against holding a bank account in BiH.

III.1.5 Key Financial Figures

	Factor	#	Amount	Unit
# BiH Migrants abroad		1,200,000		Persons
# of Migrants Austria		218,238		Persons
Estimated # of Migrants per HH	2.5			Persons
# HH in BiH with Migrants in AT		87,295		HH
~ yearly transfers received per HH			1,750	€
Total Transfers from Austria (2008)			152,766,250	€
Total Remittances Estimate			2,500,000,000	€*
Austria Transfers as % of Total		6.1		%

Figure 10: Estimate of Money Transfers from Austria to BiH (2008)

* Formal transferred according to BiHCB estimates for 2008, plus informal transfers

BiH Remittance Corridor

The Austria-BiH migration corridor seems to represent a significantly lower source of financial transfers to BiH (6.1% of all transfers) than its total number of global BiH migrants (18.2%) would seem to indicate.

In line with expectations a significant correlation exists between the year of migration and the propensity to send money to BiH, as shown below.

BiH Migrants in Austria - Propensity to Save

Interviews with BiH migrants residing in Austria indicate a propensity to save amongst BiH HH in Austria (about 15.3% of net disposable income). This is relatively low, when compared to similar research carried out recently by IASCI with Kosovar and Albanian migrants, where the propensity to save was nearer a very significant 40%.

This is reflected with a notably lower rate of a saving to remit factor as well (estimated at 1.4) when compared to these comparable markets of the previous research on Kosovo and Albania (i.e. between 4.8 and 5).

	Factor	#	Amount	Unit
# Migrants abroad ¹⁾		1,200,000		Persons
# Migrants Austria ²⁾		218,238		Persons
# HH members in migration	2.5			Persons
# HH in BiH with Migrants in AT		87,295		HH
Average HH income in Austria ³⁾		2,288		€
Est. Propensity 1 ³⁾ to save:	15.3%			
Savings per HH per Month			350	€
Savings per HH per year			4,200	€
Average Annual Remittances Value			1,750	€
Yearly Net Disposable HH Income			27,462	€
Total savings value BiH Migrants in AT (rounded)			213,873,240	€
Savings/Remittances Factor:			215,000,000	€
			1.4	

1) Stat Yearbook (2006)

2) Stat Austria (01/01/2008)

3) IASCI-IOM Research

Figure 11: Preliminary Estimate of Savings of BiH Migrants in Austria (2008)

These relatively low HH remittance and savings values can be the result of a combination of Austria-specific migration-related factors, including the relative maturity of the migration cycle between Austria and BiH, evidenced by *inter alia* the large number of BiH born persons with Austrian nationality, the high rate of family reunification in Austria, as well as, the greater integration and lower return intentions of this population when compared to the Kosovar and Albanian experience. Alternately it can be a function of the relatively low income level of BiH migrant households in Austria when compared to other countries of migration.

Note: These findings are preliminary and need to be better understood through carrying out more in depth, larger-scale (i.e. more representative and linear) research amongst the broader BiH migrant population also in other countries of migration.

C. BiH Households – Propensity to Save

In line with the literature on this subject, the findings confirm that, amongst the BiH population there is a relatively low propensity to save. That said, BiH HH with access to regular transfers save twice as much of their net disposable income (i.e. 6%) than either those HH with no migrants or those HH with migrants but no access to transfers.

As a preliminary conclusion, it is possible to state that 17.7% (or Euro 27 Million) of overall transfer values to BiH was saved by the receiving BiH HH in 2008.

The average savings rate of households (HH) in BiH that have remittance-sending migrants in Austria (69,836 HH), and based on a propensity to save between 6% (low self estimate) and 19.4% (all savings inclusive), is between 25 and 83 million Euro per year (see figure 13 below).

	Factor	#	Amount	Unit
# Migrants abroad		1,200,000		Persons
# Migrants Austria		218,238		Persons
Estimated # of Migrants per HH	2.5			Persons
# HH in BiH with Migrants in AT		87,295		HH
# BiH HH receiving AT money	0.799	69,836		HH
<i>Savings of HHs receiving remittances:</i>				
Savings per month			32.2 €	
Savings per year			386.4 €	
Total savings of all HH per year			26,956,696 €	
Remittances received			152,766,250 €	
Savings, as percentage of remittances received:			17.65 %	
<i>Comparison with non-receiving HH:</i>				
Monthly HH savings			18 €	
Annual HH savings			220 €	

Figure 12: Savings of BiH Households (2008)

	Factor	#	Amount	Unit
# Migrants abroad		1,200,000		Persons
# Migrants Austria		218,238		Persons
Estimated # of Migrants per HH	2.5			Persons
# HH in BiH with Migrants in AT		87,295		HH
# BiH HH receiving AT money	0.799	69,836		HH
<i>Average monthly income (incl. remittances)</i>			510 €	
<i>Estimated Propensity to Save of ONE HH in BiH receiving money from Migrants in AT per year</i>				
Per month: Low (self) estimate	6%		31 €	
Per month: Higher (all form of savings incl.)	19.4%		99 €	
Per year: Low (self) estimate	6%		367 €	
Per year: Higher (all form of savings incl.)	19.4%		1187 €	
<i>Estimated Propensity to Save of all HH in BiH receiving money from Migrants in AT per year</i>				
Per year: Low (self) estimate	6%		25,643,779 €	
Per year: Higher (all form of savings incl.)	19.4%		82,914,886 €	

Figure 13: Savings of BiH Households that are receiving money from Migrants in Austria (2008)

III.2 Qualitative Migrant HH Survey in Austria

III.2.1 Migrant Community Analysis

The 26 families interviewed in Austria between April and May 2009 are all based in Vienna. Most of them came during the war period 1992 – 1994, only five of them came after 1995. All, except one interviewed person, are married and have their spouse residing with them in Austria and with an

average of 1.4 school-aged children, with most of them born in Austria. The average age of the interviewees is 39 years. The interviewed persons originate from Central Bosnia, Sarajevo, Banja Luka and Una Sana Cantons. However, the majority of these respondents have already acquired the Austrian citizenship.

Most of the interviewed persons describe themselves as skilled workers (craftsmen or service industry), and are working in their profession in Austria. Two of the interviewed persons are currently unemployed.

While none excludes the possibility of returning to BiH, most of them felt that the time had not yet come for them to do so. Some of them are thinking about investing and returning to BiH later on, others are building a house as a vacation residency only, nevertheless, without planning on returning permanently to BiH. Others admittedly haven't returned due to not having reached their savings objectives.

In this study, it was observed that the average income of the male, usually the head of the household, is between 1,100 Euro (for unskilled workers) and 1,700 Euro net (for skilled workers) per month. In most cases, the wife of the migrant is also working, typically on a part time basis. Therefore, the average salary of female migrants is between 100 and 200 Euro lower than of male migrants based on the same qualifications. On average, married female migrants seem to be earning around 700 to 1,000 Euro net per month. In the cases of families with young dependent children, there is mainly only one income. The stay-at-home mother does, however, receive help from the Austrian government in the form of children's allowance. In total, this Austrian study on the 26 BiH families, suggests that the average amount earned by BiH migrant households in Austria is conservatively estimated at 2,288 Euro net per month.

Most interviewed families agree that they spend most of their earnings on monthly expenditures of rent, food, clothing, car (if they have one) or credit (if they have one). But all of them save of the amount per month stipulated above. On average BiH migrants are saving around 350 Euro per month (conservative estimate), or 4,200 Euro per year. This amount includes the financial transfers to BiH.

In addition, interviewed respondents and focus group participants estimate the amount of money sent to family members in BiH in the range of 1,500 to 2,000 euro per year. These estimates confirm the findings from the quantitative research.

Financial transfers by BiH migrants are mostly hand delivered, during an average number of two to three visits to BiH per year. Usually, BiH family members also request ad hoc transactions, often in the range of 200 Euro. These makeshift transactions are mostly executed via Money Transfer Operators (mainly Western Union), with significant transaction fees (i.e. up to 27 Euro for a 200 Euro transaction, according to the Focus Group discussion on 01 June 2009).

Interestingly, some 10 to 15% of BiH migrants in Austria have savings accounts in BiH as well; mostly at partner banks of their banks in Austria (especially at Raiffeisen Bank, Volksbank, and UniCredit).

Furthermore, during the Focus Group discussion in a mosque in Vienna (see footnote below), the respondents claim that their Muslim religion does not allow them to focus on high interest rates at banks.

Regularly, family members in BiH have bank cards associated to an account in Austria, with which they can take cash from Austria-based giro-accounts at ATMs in BiH.

The amount of remittances went down in 2008, in comparison to previous years, and continues to decrease as a direct impact of the economic crisis.

The total savings rate per Bosnian Migrant HH in Austria, excluding the financial transfers to BiH, can therefore be estimated in the range of 2,000 to 3,000 Euro. The majority of HH save this money in bank accounts in Austria. The main savings objectives are for the education of children, for the risk mitigation of unforeseen events, acquiring of property in Austria, and for the purchase of durable goods. Only to a small extent do migrants in Austria save to invest in Austria.

Lack of access to sufficient funds and the priority towards saving in Austria are the main hindrance for not saving or investing more in BiH. In general, investment in BiH is also considered as very risky – in

terms of lack of security and perceived high levels of corruption. Respondents who consider investing in BiH are predominantly doing so in the field of real estate, and upon retirement (and eventually, their return to BiH).

According to the interviews, most migrants in Austria communicate with their family members in BiH via the telephone, on a weekly or at least monthly basis. The younger generation frequently uses internet and VoIP to communicate with their home country, but the use of telephone (including mobile telephony and SMS) is most common. This finding from the qualitative research confirms the information gained through the HH survey in BiH.

BiH migrants in Austria are often clustered and use to meet regularly in community centres, diaspora organisations and associations, mosques, etc. Virtually all BiH households have access to television programmes in the Bosnian language. There are also Serb, Croat and Bosnian TV stations.

III.2.2 PEST Analysis

Subject of Analysis: Environmental issues related to the viability of developing and offering financial products and services to attract investment and savings of migrants and their households in BiH.	
Political Factors + Ambitions towards EU membership and continuous political support to BiH are a positive factor - Perception of insecurity caused by political differences and inter-ethnic tensions - High level of perceived corruption as a hindrance for increased investment - Political institutional crisis since 2006 - Diaspora has low engagement with politics structures in BiH	Economic Factors + BiH Migrants have considerable savings potential abroad (also negative, as relatively low, in comparison to neighbouring economies) + BiH is rich in natural resources, agricultural potential + Modern, competitive Banking system in BiH - Recovery after war-period slowly progressing in rural areas - Lack of confidence in BiH-based banks - High costs for transactions (through MTO, represents also an opportunity for new financial products) - Global economic crisis also impacts negatively on the economy of BiH
Social Factors + Many migrants planning to return to BiH at some point in time + Close communication between migrant HHs and family in BiH + Presence of diaspora Organisations and Associations - Lower than average propensity to return - Lack of confidence in potential business partners other than immediate family members	Technological Factors + Modernised infrastructure in main population centres (incl. industrial zones) as part of the post-war recovery process + Vicinity to Western Europe, close communication channels for BiH Migrants in Austria - Lack of infrastructure in rural parts of BiH (including access to banking system) - Computer literacy of new diaspora generation

Figure 14: PEST Analysis

III.3 Financial Analysis of Stakeholders in BiH

Twenty-nine institutions in BiH were surveyed with the aim of collecting data on existing financial intermediation products specifically targeting migrants or their beneficiaries. All surveyed institutions were asked for information on their planned activities in developing or expanding financial intermediation products targeting migrants or their beneficiaries. This chapter summarizes the

survey's main findings and provides conclusions and recommendations related to the overall objective of this research project.

III.3.1 Qualitative Stakeholder Analysis

A. Macro-level

International organizations: In terms of international organizations, the survey included the following organizations: World Bank (WB), International Monetary Fund (IMF), European Commission, European Bank for Reconstruction and Development (EBRD), Austrian Embassy/Commercial Section, United Nations Development Program (UNDP), and United States Agency for International Development (USAID).

All institutions showed strong interest in the topic/study, and all are aware of the importance of remittances for BiH. None has considered conducting research on the subject of the development impact of remittances in BiH. All interviewees were surprised with the results of the Kosovo/Albania study, and in particular, the high remittances-savings factor. All felt that BiH had similar potential. However, at this time no organization interviewed has plans to develop a remittance-related project in the near future. Perhaps surprisingly, this lack of engagement in the area of migration-related financial flows and business development is a common phenomenon in countries with high migration rates, including within the region.

Government institutions: Central Bank of Bosnia and Herzegovina, Foreign Investment Promotion Agency, Ministry of Finance and Treasury (state level), and BH Presidency were interviewed.

The Central Bank is the institution responsible for remittances data. The interviewee provided a detailed breakdown of the remittances structure (Table 3, Chapter 4). The table shows that approximately 50% of remittances come through informal channels.

The Central Bank interviewee stressed two important factors about remittances inflows: (1) all remittances are tax free, and (2) remittances flow is liberalized in the sense that the current legislation does not require remittance recipients to convert the foreign currencies into the domestic currency (KM), which is not the case in some countries in the region. On the other hand, remittance transfers are still costly. The interviewee also confirmed a statement provided by many banks that the majority of formal remittances come through "bank account to bank account" transfers, and that money operators are not dominant in this market.

Both the BH Presidency and the Ministry of Finance see the current political situation as a potential obstacle to any remittance-related projects at the state level. Many interviewees outside the government sector specifically mentioned the same problem.

B. Micro-level

Banks: The survey was conducted among seven banks: Raiffeisen bank, Unicredit bank, ProCredit bank, Turkis Ziraat bank, Volksbank, Fima bank, and Intesa Sao Paolo bank. In addition, personal communication of the authors of this report took place with the info-services of Hypo Alpe Adria Bank, NLB Bank, ABS Bank, and Bosnia Bank International.

The main conclusion of the banking sector analysis is that little choice exists in the products and services associated with remittances in BiH. No bank offers products or services based on remittances, nor are they planning to do so in the near future. Remittances are not considered an income source during a loan approval process. All of the surveyed banks offer MTOs services.

Also, none of the banks offer loans to the migrant community. However, the authors noticed the following inconsistency in responses related to the loans for migrants. When asked if migrants could apply for a loan, all interviewees responded negatively. The explanation was that any person applying for a loan must have a residency and regular income in Bosnia and Herzegovina. But, when asked whether migrants can get a loan based on a 100% deposit, the answer was positive. But, having the current loan interest rates in mind, it is difficult to imagine migrants applying for loans in Bosnia

in any case since the loan interest rates offered in developed Europe are always much lower, especially now in light of the current economic crisis.

One product is exclusively related to the migration community, and is offered by ProCredit Bank. "ProFutura" is a typical savings term-deposit product. There are three different options of the product: "ProStandard" (interest is paid on the expiry date during a fixed-term deposit period), "ProMjesec" (monthly payment of interest), and "ProAvans" (advance payment of interest). Additional benefits of the product include: compensation of international money transfer costs of deposits sent to ProCredit (Euro 300 max. per deposit), and free of charge exchange of foreign currency.

Other banks do not have savings product targeting the migration community. They also do not have any concrete plans. But all interviewees said that this research made them curious, and that they would be interested in the final results.

Microfinance institutions: Although the presence of the micro-finance sector in BiH is considerable, existing laws limit are seen as a hindrance to its further development. That is, micro-finance institutions cannot offer savings products, micro-insurance products, and they cannot engage in international money transfer services.

Micro-credit institutions consider remittances as a source of income during their client's loan applications. However, they do not approve loans solely based on remittances. The only impact of migrants in this sector is the evident increase in the turnover of their clients during the migrant community arrivals (primarily summer and Christmas time). It was noted that this effect has been weakening since the beginning of the current economic crisis.

Considering the existing legal framework, the only migration community-related product that MFIs might develop is being agents for regular remittance companies such as MTOs. The authors believe that the increased MFI involvement in the remittance market is desirable for several reasons. First, the outreach and accessibility of MFIs typically surpasses that of commercial banks. Second, remittance transfers as a fee-based product could provide additional revenues to MFIs and help them achieve financial sustainability without compromising the objective of poverty alleviation. Third, non-clients who receive remittances through an MFI can easily become clients. Fourth, MFIs could provide training and marketing services that enhance the awareness and capacity of remittance receivers to invest the income in productive activities. On the other hand, most MFIs in Bosnia are small-scale organizations; without necessary resources to enter the remittance market and this may represent a significant obstacle.

MFIs would be willing in principle to provide loans to clients who wish to migrate if they had a partnership relationship with similar institutions abroad. This relationship would influence the loan repayment. Such mechanisms are in place in some migration corridors (e.g. Mexico-United States)

Insurance companies: The insurance market in BiH remains undeveloped as the total insurance market premium is around 3% of GDP, with obligatory car insurance still remaining the biggest-selling product. This industry is outside the migration-relation and does not plan to target it at all. Insurance companies do not offer any special products for migrants. From the interviews, the author concluded that migrants are mostly interested in property insurance. Some insurance companies, however, are not willing to sell property insurance to migrants because of the risk associated with properties that remain unoccupied for extended periods every year. Migrants are allowed to buy life insurance policies, but such requests are very rare.

The BiH insurance industry is relatively young in comparison to insurance companies in Western Europe countries from where the migrants are mostly originating. Consequently, most insurance companies believe that they cannot compete with the insurance companies in the Western Europe.

Leasing: The majority of leasing companies are owned by foreign banking groups. That implies that they are following more or less the same policy as their group. Leasing companies in BiH do not have any products targeting the migrant community, and they do not plan to invest in this sector. But the

interviewees stated that it is theoretically possible for a migrant to sign a lease contract in BiH, but only for movable property and with one resident warrantor. However, such cases are very rare. Furthermore, they stated that the leasing companies are slowing down their marketing activities during the summer months, exactly the time when migrants come to BiH. This is because the leasing companies are targeting residents, and residents are usually on vacation during these periods.

Investment funds: Since closed investment funds are not able to offer additional issues to the market, they are not able to provide any services targeting migrants. Their shares are traded on the secondary market. Furthermore, they do not see any potential in the diaspora segment. On the other hand mutual open ended funds can offer the issues continuously, where every new issue increases the fund’s capital. Thus, the open ended fund may target Diaspora as a new market segment.

Capital market: In this sector, the bond market may be attractive for migrants, government bonds in particular. Unfortunately, a bond market practically still does not exist in BiH. The Government of Republika Srpska issued some bonds, but their validity is still being questioned by international organisations.

C. Interim Conclusions

In sum, and as noted, the banking system is much more developed than the non-banking in BiH. This situation is not likely to change in the next five years. Therefore, the author believes that any projects arising from this study should be focused on the banking sector.

The conducted research confirmed the following:

- Banks do not offer products or services based on remittances, and more importantly, they are not planning to do so in the near future;
- Migrants could get a loan, but only based on a 100% deposit; But, having the current loan interest rates in mind, it is difficult to imagine migrants applying for loans in BiH as the effective interest rate offered in places of migration is much lower;
- Only one bank is currently offering a savings product targeting migrants, making the market highly unsaturated. Thus, the author sees a huge potential for banks in this market.

The major advantages (pros) and disadvantages (cons) of developing and offering financial products and services for the benefit of migrants and their households in BiH are presented in the SWOT analysis table below:

III.3.2 SWOT Analysis

Subject of Analysis:	
Major advantages and disadvantages of developing and offering financial products and services for the benefit of migrants and their households in BiH.	
Strengths (of the BiH financial sector)	Weaknesses (of the BiH financial sector)
- The savings interest rates offered by BH banks are much higher than those of the banks in	- The lack of trust in the local banking system due to the fact that many people lost their savings

²⁰ ABS bank, for example, is currently offering a 100% deposit insurance (by Steiermarkische Sparkasse - Unternehmen der Erste Bank-Gruppe und der Sparkassen) for time deposits over 20.000 KM, that are deposit on minimum 24 and maximum 36 months, to all clients, not only migration community.

²¹ Over the preceding decade key stakeholders in north-south migration corridors have launched an increasing array of activities, programs, and policy initiatives aimed at maximizing the benefits of migration-related financial flows. Some initiatives start with organization of hometown associations (HTAs) in order to pool financial resources to finance infrastructure and social projects, such as remodelling churches and schools. Government initiatives include creating plans of action and specialized offices that coordinate governmental outreach efforts to migrants. Examples include governments launching matching funds to implement joint

<p>developed Europe</p> <ul style="list-style-type: none"> - The main banks in BiH are daughter-banks of foreign groups with the following advantages: <ul style="list-style-type: none"> o Low risk of the banks' default o Possibility of offering products to migrants at a banking group level o Increased awareness of a client's (migrant) banking history - Possibility to offer high levels of deposit insurance by the mother bank for deposits coming from the migration community (a similar system is already in place²⁰). The BiH banking system is currently facing a decrease of credit growth. This problem is primarily caused by the fact that drawing liquidity and capital from their mother groups and other foreign funding has become very difficult due to the current financial crisis. This situation makes the BiH banks searching for domestic source of financing, primarily through attracting deposits, which creates a huge potential in terms of this project. - Financial system in BiH is neither well developed nor sufficiently diversified when looking at migration-related financial flows. In light of this research, this weakness can be seen as an opportunity for any potential project that may be the result of this study. - Similar initiatives and products have been developed in some countries, that provides an opportunity of learning from their experience²¹ 	<p>during the war. This is further worsened because of the current political situation and the lack of legislation and regulatory bodies at the state level.</p> <ul style="list-style-type: none"> - The level of insured deposits is currently very low, KM 20,000, but it is expected to rise to KM 50,000 during this year due to the stand-by credit line that EBRD should provide to the Deposit Insurance Agency of BiH. But considering other countries in the region, even KM 50,000 is it still low. - The Law on Money Laundering Prevention requires the banks to report any cash transaction of 30.000 KM or more to the Financial Intelligence Department of the State Investigation and Protection Agency (FID). Persons who want to deposit 30.000 KM or more must provide information about the source of money. This law is very vague in terms of defining suspicious clients and transactions. As a result, many "suspicious" clients and transaction even less than 30.000 KM are reported to the FID. This practice frequently leads to privacy protection violation. During the interviews, some banks reported the leak of their clients' information to the media. - The effectiveness of many of relevant initiatives is unknown because evaluations are either incomplete or unavailable for public consumption.
<p>Opportunities (of the BiH economy)</p> <ul style="list-style-type: none"> - The interest earned on savings is not taxable - The low level of domestic savings reveals the need of attracting deposits from abroad. - Bosnian migrants are a relatively young community, and most of them were born in BiH, and it has been assumed that they still feel some type of attachment or loyalty to BiH, and intend on going back. So, in terms of attracting deposits from abroad, it is possible to use their sense of patriotism by explaining them their deposits would positively affect the further economical development of BiH - The communication channels for offering the 	<p>Threats (of the BiH economy)</p> <ul style="list-style-type: none"> - The current financial and economic crisis will <ul style="list-style-type: none"> o affect the industries in which BH migrants are mostly employed o certainly decrease the savings capacity of migrants o make attracting funds kept at home extremely difficult - Official transfer restrictions limit the money transfers from abroad to KM 10,000 per month (regulated by the Law on Foreign Currency Operations). Local natural persons are not allowed to freely transfer capital abroad without the permission of the Federal Ministry of Finance.

partnership activities with HTAs. Members of civil society, including international organizations, have also taken an increasing interest in these processes through research and policy analysis related to the flow of remittances, private sector services and the high costs of remitting, the banking industry and new modes of remitting, and the economic participation of HTAs in countries of origin. Credit unions and banks have lowered remittance costs by generating competition and raised customer awareness of remittance fees and financial planning. Several banks in Central America have been able to raise relatively cheap and long-term financing from international capital markets via securitization of future remittance flows. Sources: Agunias, D., Remittance Trends in Central America, Migration Policy Institute, (1996); Inter-American Dialogue, Remittance and Development Programme, found at: www.thedialogue.org/page.cfm?pageID=80

<p>products targeting migrants already exist (e.g. Diaspora association)</p> <ul style="list-style-type: none"> - Monetary stability caused by currency board is diminishing the effect of global economical crisis on banking sector in BiH. 	<p>Any request to transfer more than KM 10,000 sent to the Ministry must clearly state the purpose of the transfer. However, the requests are normally approved. It is very important to mention that this law is not synchronized on the state level, the law is different in Republic of Srpska and individuals can transfer capital freely without any limitation²².</p>
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Figure 15: SWOT Analysis of the Financial Sector in BiH (Sources: Qualitative Interviews in BiH)

D. Interim Recommendations

Market analysis and expert interviews confirm the potential in developing and marketing financial products and services that specifically target migrant capital accumulated abroad.

A high interest rate on savings deposit is not enough. The banks need to offer additional advantages to attract migrants' deposits. Banking groups could play a vital role by providing cross-section products (e.g. property insurance or leasing at a special rate).

The mother banks should provide increased deposit insurance for the deposits of migrant community.

The campaign which will promote this type of product should include the explanation of the importance of these deposits for economical growth and development of BiH.

The promotion of these products could be realized on the level of whole banking group and by cooperating with recognised associations of BiH diaspora, such as:

- International Association of Diaspora of BiH (Svjetski savez dijaspore BiH - SSD BiH);
- Council of BiH Associations of Australia (Vijece BiH organizacija Australije - VBIH OA);
- Congress of Bosniaks of North America (Kongres Bošnjaka Sjeverne Amerike - KBSA); or the
- Austrian-linked "Islamic Bosnian Umbrella Organisation"; or others.

IV. Recommended Activities

<p>The following project proposals and activities have been developed taking into account:</p> <ul style="list-style-type: none"> - Section 2: the mandate and role of the Oesterreichische Entwicklungsbank AG (OeEB) - Section 3: the research presented in the pages above; as well as, - Section 5: the conclusions and recommended areas of intervention; <p>and should be seen within these three contexts.</p>

IV.1 Project Fiche 1: Revolving Student-loan Fund

<p>1. Basic Information</p>	<p>Establish, within one or more trusted financial intermediary, possibly in PPP collaboration with the government of BiH, a rotating fund which will offer student loans (interest-free during the period of study) at recognized university and technical school levels. Build and operate the fund by matching the financial resources of the project partners: OeEB, financial intermediary and migrant/clients (savers) - and perhaps government.</p>
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²² The study team has contacted the Federal Ministry of Finance in BiH with the person in charge for the approvals being issued by the Ministry, Ms Nusreta Cerkez who informed that they expect that law will change by the end of the year 2009, and there should be no limitations for local individuals to transfer capital freely.

2. Objectives	To support sustainable development through expanding access to high-level education by matching the financial needs of students with the medium to long-term savings objectives of migrants.
3. Background and justification	<p>Many deserving students in BiH cannot complete their high-level and vocational educational objectives due to lack of available finances. This ongoing lack of investment in human capital is negatively impacting the sustainable and balanced development for the country.</p> <p>The project is based on and supports the existing savings objectives of migrant households.</p> <p>It can directly benefit from a purpose specific marketing approach built on the close communication channels maintained between home communities and migrant households abroad.</p>
4. Project Activities	<ul style="list-style-type: none"> - Establish a mechanism that will attract the savings of migrants, based on multi-year bonds, or term-deposits; - Match attracted migrant savings with OeEB finance as well as private sector resources or others similar to those of private-public partnerships;²³
	<ul style="list-style-type: none"> - Identify credit-worthy and deserving students wishing to benefit from student loans for the duration of their educational period;²⁴ - Issue phased loans to the participating students (beneficiaries) based on their ongoing successful performance at their chosen educational institution; - Monitor students for compliance through standard reports issued by the educational institution; - Provide repayment holiday of both capital and interest of the student loan until such time as the studies are completed or suspended, and then initiate repayment according to predetermined agreement.²⁵
5. OeEB Activities in design, development and implementation	<ul style="list-style-type: none"> - Work with project partners to engineer and market tailor-made financing solutions for a long-term investment that is not available in this market.

²³ The Fund would be either a) established on a stand alone and purpose-specific basis, for instance owned and operated by the Government of BiH, or more likely, b) within a number of competing existing BiH financial partners (such as commercial banks and even Micro-credit institutions). The model would probably be based on a PPP basis, with the BiH government perhaps acting as final guarantor on the part of the student-borrowers to the intermediaries administering the Fund - thereby providing security to the administering banks, migrant-lenders and OeEB equally. Such a final guarantee can also positively impact on the margin charged by the competing banks themselves. This is the model used in Canada (for instance).

²⁴ Student-borrowers (clients) would be identified by the participating and competing banks on a commercial basis and in industry-standard manner in line with the criteria established by the key stakeholders. I.e. they would be actively pursuing qualified students through marketing and advertising methods already known to the agencies. The lenders would also be vetting the borrowers, and monitoring their ongoing qualification to remain in the programme over the term of their studies. A reasonable commercial margin would be charged relative to the costs and risks involved, in line with finance industry standards.

²⁵ Securities can be gained through a sovereign guarantee on the part of the BiH government, supported by IFI lending, etc. Estimated rates of non-payment can be pre-determined by studying student loan programmers in other countries, and further BiH-specific studies. Examples of 'personal' securities can include: liens on future incomes, parental or other securities (if applicable).

	<ul style="list-style-type: none"> - Match private-sector capital (from migrants and partner institutions) by providing capital from the market or via the OeEB and financing products (e.g. senior loans, subordinated loans, guarantees) on a medium/long-term basis with conditions close to market rates. - Selectively utilize OeEB Advisory Programmes (AP) on a grant basis to enhance the developmental impact of the project, including: <ul style="list-style-type: none"> o Contribute OeEB AP in identifying, preparing and implementing the project, its assessment and monitoring and remain an active co-operation partner throughout the project. o Use ongoing AP for accompanying measures during the term of the project in areas such as: training, capacity building and skills transfer; o Contribute know-how and benefits from the OeEB and its international network²⁶.
6. Results/Development Impact	<p>Sustainable development of BiH supported through the education of students that would otherwise not have the opportunity to further their education.</p> <p>Deficiencies in availability and quality of the education limiting the preparedness of young people for the labor market addressed.</p> <p>Sustainable economic growth through the upgrading of skills of the population supported.</p> <p>Economic restructuring and development of the country supported by alleviating a pending skills gap.</p>
7. Advantages for local companies/entrepreneurs	<p>See above – employable and qualified candidates made available to local companies and entrepreneurs.</p>
8. Institutional Framework	<p>PPP - Collaborative structure, based on commercial principles, involving BiH government (as potential guarantor, in whole or part), private investors/savers (targeting migrants, but high net-worth individuals and potentially others may express interest), commercial or social financial intermediaries, diaspora organizations and hometown associations, educational institutions, and OeEB (and commercial bank).</p> <p>The Fund would be administered and co-financed by one or more commercial banks or other leading financial intermediary. Models can be found in North America and other developed markets where commercially administered (though often government guaranteed) rotating student loan funds have been existing for some time.</p>

²⁶ The concept presented here will require substantial research, TA, and consultancy support to become and be implemented as a viable project. At the appropriate time OeEB can provide its standard Advisory Programme (AP) support in line with its mandate and policy, i.e. *“projects with interesting aspects with respect to their developmental significance for a country / region / sector or the like, can be supported by the Advisory Programmes (AP). AP financial support can be in areas such as identifying, preparing and implementing projects or their assessment and monitoring.”* (See section II.1, Page 8)

9. Budget	Total project budget is estimated at 40 Million Euro for a self-sustaining revolving fund ²⁷ (based on a 4 year education cycle, 5,000 Euro student loan requirements per year, and 4,000 students) Budget requirements for OeEB (estimate): Between 15 and 20 Million Euro, amortized over 10 to 15 years.
10. Sustainability	Durable and self-sustaining revolving fund based on commercial principles and returns; fund managed by qualified commercial or social investment funds (one or more banks or MFIs), supported by diaspora groups and educational institutions as outreach partners.

IV.2 Project Fiche 2: Migration Investment Trust Fund

1. Basic Information	To mobilize migrants' savings as a long-term source of capital for either direct on-lending by a bank or as a source of capital for one or more Micro-Finance Institutions operating in BiH.
2. Objectives	To broaden and deepen the financial intermediation market in BiH by strengthening the micro-finance sector and increasing available capital to entrepreneurs in BiH. To facilitate constructive engagement of migrants in development efforts and work with diaspora-groups, home associations and places of origin. To complement public and private actors involved in migration-management, economic development, SME development, and financial intermediation/credit provision.
3. Background and justification	The project is based on supporting existing medium to long-term savings objectives of migrants, while addressing their concerns related to perceived risks in placing their savings in BiH. The project simultaneously promotes the migrants' wish to participate in and support their home economies, including developing employment opportunities at home.
4. Project Activities	<ul style="list-style-type: none"> - Identify one or more qualified and trusted banks or micro-credit institution based in BiH with an interest in assuming the lead role in creating or expanding such a Trust Fund; - Under a trusted jurisdiction and existing legislation (such as Austria) either establish or expand a Trust Fund based on established Social Investment Fund principles; - Specifically position the Fund, its product line and marketing strategy, to attract the savings and investment funds of various categories of migrants and other interested parties;

²⁷ The primary debtor to the participating financial institution would be the student (secured or otherwise). The debtor to the OeEB and Migrant-lender would be the participating commercial financial institutions, perhaps including MFIs. A full or partial sovereign debt arrangement, with or without the participation of major MFIs could provide final guarantee to OeEB, Migrant-lenders and commercial banks alike.

	<ul style="list-style-type: none"> - Design and progressively introduce savings and investment products of relevance to migrants/clients, primarily bonds and term-deposits but potentially mutual funds and other vehicles; - Open up a credit line²⁸ and provide technical assistance through OeEB and network partners; - Market the Fund in BiH and through the diaspora organizations using existing and trusted communication channels; - Utilize capital gained to provide finance to MFIs, and/or enterprises and other reliable beneficiaries in BiH as per known due diligence, risk return on capital and other related industry-specific criteria.
<p>5. OeEB Activities in design, development and implementation</p>	<ul style="list-style-type: none"> - Working with lead partners, to engineer and provide tailor-made financing solutions for a set of long-term savings and investments vehicles that are not currently available in this market; - Remain an active co-operation partner throughout the project; - Provide capital from the market or via the OeKB and financing products (e.g. senior loans, subordinated loans, guarantees) on a medium/long-term basis with conditions close to market rates; - Selectively utilize OeEB Advisory Programmes (AP) on a grant basis to enhance the developmental impact of the project; - Contribute OeEB AP in identifying, preparing and implementing the project, its assessment and monitoring; - Use ongoing AP for accompanying measures during the term of the project in areas such as: trainings, capacity building and skills transfer; sector- and project-related studies, engineering expertise, etc. - Contribute know-how and benefits from the OeEB and its international network.²⁹
<p>6. Results/Development Impact</p>	<p>Substantial capital made available to support sustainable development in BiH.</p> <p>Constructive engagement of migrants in development efforts facilitated.</p> <p>Poverty reduction, higher employment levels, know-how transfer and sustainable development directly supported.</p>

²⁸ The 'OeEB credit line', matched by finance from other sources, including the migrant-saver/investor, is intended to support the Migrants Investment Trust Fund.

²⁹ See footnote 29 for an explanation of possible OeEB application of its standard Advisory Programme (AP) component to this concept

7. Advantages for local companies/entrepreneurs	Local companies/entrepreneurs provided with: <ul style="list-style-type: none"> - access to an enhanced, functioning and more competitive financial sector; - access to (capital) investment financing. Sustainable enterprise-specific development supported
8. Institutional Framework	Identify one or more qualified and trusted banks or micro-credit institution based in BiH with an interest in assuming the lead role in creating or expanding a “Trust Fund” in Austria ³⁰ , or other European jurisdiction trusted by the potential migrant/client, based on the established and well-regulated model of a ‘Social Investment Fund’ within an existing, regulatory framework and banking trade-mark (i.e. both known and trusted by many potential migrant-clients).
	Position the Fund and develop necessary specialisations in attracting medium to long-term savings (deposits, bonds etc) as well as more risky investment capital from large numbers of migrants, high net-worth individuals and other interested parties. <p>As one key objective is to address the question of lack of trust, the Trust Fund would best be developed in partnership and thereafter marketed by one or more leading international bank(s) or micro-credit institutions with well-known brand recognition in the migrant and BiH contexts.</p> <p>The Fund could be managed by the bank(s) themselves, or through a well-established professional social investment fund management firm – and use existing norms and risk/return on capital criteria etc.</p>
9. Budget	The total budget for the establishment of the Trust Fund is estimated at 5 to 7.5 Million Euro, of which 500,000 to 750,000 Euro will be required for the start-up phase and targeted marketing. 4.5 to 7 million Euro can be entered into a credit line to match the savings/investments of migrants over a projected amortization period of 5 to 7 years.
10. Sustainability	The Fund will be developed as a durable, market-driven savings/investment option of direct relevance to migrants by seeing migrants and their beneficiaries as "partners in development" and moreover, as a distinct market segment, then supporting their primary financial aims while addressing their current concerns.

³⁰.The Fund needs to be administered by professional social investment fund managers on behalf of the participating agency/agencies, most probably as recruited by (or sub-contracted) them in line with their normal business practices.

IV.3 Project Fiche 3: Investment Security Mechanism

1. Basic Information	<p>Establishment of a facility that would attract migrants' saving to participating BiH financial institutions in order to serve as collateral for individual business loans to their households and other parties known to them.</p>
2. Objectives	<p>To facilitate the availability of mid-level finance to SMEs by directly addressing the problematic issue of sufficient collateral; while lowering the risk to migrant savers/investors.</p>
3. Background and justification	<p>The project is based on the identified gap in accessing reasonable sized loans (5,000 to 25,000 Euro) on the part of SMEs in BiH;</p> <p>Migrants have a greater incentive to support the SMEs of their families or other known members of their home communities if their direct involvement and risks are mitigated through partnership with, and procedures (due diligence, monitoring, etc) provided of, a trusted financial institution.</p>
4. Activities	<ul style="list-style-type: none"> - Establish a financing facility within a trusted deposit-taking institution such as a leading commercial bank operating in BiH. - The facility to issue medium-level finance to viable SMEs, from funds provided to it by the institution and OeEB. - One component of the necessary collateral for the SME finance secured through means of offering long-term interest-bearing deposits to interested migrants (i.e. known to the borrower). - Guarantees/security of OeEB loan to the financial institution provided by the managing financial institution(s) itself. - Assist migrant/clients and their households in identifying feasible investment option in BiH (service facility advise bureau), including legal, technical and financial support.
5. OeEB Activities in design, development and implementation	<ul style="list-style-type: none"> - Work with lead partners to engineer and provide tailor-made financing solutions for a set of mid-range financing vehicles (and savings options for migrants) that are not currently available in this market; - Remain an active co-operation partner throughout the project; - Provide capital from the market or via the OeKB and financing products (e.g. senior loans, subordinated loans, guarantees) on a medium/long-term basis with conditions close to market rates; - Selectively utilize OeEB Advisory Programmes (AP) on a grant basis to enhance the developmental impact of the project; - Contribute OeEB AP in identifying, preparing and implementing the project, its assessment and monitoring; - Use ongoing AP for accompanying measures during the term of the project in areas such as: trainings, capacity building and skills transfer; sector- and project-related

	<p>studies, engineering expertise, etc;</p> <ul style="list-style-type: none"> - Contribute know-how and benefits from OeKB Group and its international network.
6. Results/Development Impact	<p>Substantial capital made available to support sustainable development in BiH.</p> <p>Constructive engagement of migrants and their households in BiH in development efforts facilitated.</p> <p>Financial Intermediation Sector in BiH broadened and deepened.</p> <p>Savings objectives of migrants supported (termed deposit as collateral for loan issued).</p>
7. Advantages for local companies/entrepreneurs	<p>Established SME companies/entrepreneurs provided with:</p> <ul style="list-style-type: none"> - access to an enhanced, functioning and more competitive financial sector; - access to medium-range (capital) investment financing. <p>Sustainable enterprise-specific development supported</p>
8. Institutional Framework	<p>A collaborative venture between leading commercial financial institution(s) in BiH and OeEB, with the support of diaspora organizations and hometown associations.</p>
9. Budget	<p>The total budget for the establishment of a credit line, based on 25,000 Euro as an average loan amount and 1,000 enterprises, is estimated at 10 Million Euro for OeEB and 10 Million Euro for the Financial Intermediary/Intermediaries.</p>
10. Sustainability	<p>Mechanism developed as a durable, market-driven savings/investment option of direct relevance to migrants in BiH; loans lent out at prevailing commercial rates, thereby covering intermediation costs and risk calculations.</p>

V. Conclusions and Recommendations

V.1 Conclusions

The people and economy of BiH will continue to be characterized by international and internal migration as well as migration-related financial flows for the foreseeable future. Migration will continue as the agricultural sector consolidates and restructures, shedding surplus in labour, and as people move from isolated and ill-served rural communities to small rural towns and urban settings, or abroad, in search of employment and better facilities.

From the preceding discussion on the dynamics of Austrian-BiH migration, it is possible to identify four principal Bosnian Migration Groups and their priority needs.

A. Long-term migrants

This large group of 'successful' migrants refers to those who have been able to regularize their status and secure employment in Austria. More often than not they have reunified their immediate families in the place of migration. Many are in fact emigrants to Austria, indeed citizens of Austria, and their return intention is not certain. This combination enables this group to retain a relatively large proportion of their earnings and to limit their remittance transfers to secondary beneficiaries such as parents or extended family members.

They might adopt a portfolio approach to managing their retained savings in order to earn interest and returns whilst spreading their risk. Some of these migrants may be interested in investing a part of their retained savings in viable investment opportunities in BiH, particularly if they provide a return on their investment which is greater than what they could earn elsewhere and compensates for perceived risk.

Indeed many of them may have migrated with this particular objective in mind. At the moment, of those that do invest in BiH, many focus on real estate because it fulfils a need (by investing their money in an appreciating asset and may provide them with a place of residence for holidays or on their return); however, such investments are not considered to be productive from a development perspective.

B. Current and potential migrants

The current migration process from BiH to Austria is broad-based, involving both men and women equally. Migrants are typically from less poor households since they are able to mobilize or borrow sufficient cash resources to pay for their departure. They have usually completed their secondary education, and many have higher education.

They are driven (and to some degree 'kept') abroad largely in order to alleviate poverty, unemployment, low pay and the poor quality of life at home. The needs of these migrants are to: maintain contact with those at home; send money home safely and cheaply; have the option of utilizing their retained savings in BiH, and to return home to work locally (either self-employed or as employees).

C. Those left behind

Many families in BiH have at least one household member abroad. Those left behind include parents and mature children, and less likely spouses and dependent children. This group would be assisted by employment opportunities, the option of realizing self-employment potential when relevant, and increased communication with migrants in order to reduce isolation. They may also be interested in savings and investment options for savings they accumulated from current remittances on behalf of the migrant, or savings accumulated by the beneficiaries themselves.

D. Returnees

Many BiH migrants return home at fairly regular intervals, on a seasonal or cyclical basis. Some return home for good, either when they met their migration goals or prefer the prospects of life at home. Some may have specifically migrated in order to raise capital to start their own business. Others may have some retained savings and new skills that enable them to commence self-employment. It is likely that the majority will seek employment opportunities in the local economy. If this process is successful, it will dampen the wish to re-migrate at a later date.

E. Underlying assumptions

From the previous discussion it is possible to identify complementary areas between the needs of different migrant groups and opportunities presented by migration related financial flows. The key needs are:

- to create large-scale employment opportunities: the majority of people in BiH are interested in securing waged employment and only a small percentage of migrants and savers have either the skills or ambition to become entrepreneurs;
- to provide access to long term finance: at present this is one of the major constraints faced by many otherwise viable enterprises;
- to have opportunities for viable investments: inability to channel funds into productive investments (or 'unwillingness' given the current environmental situation in BiH) not only discourages return and negatively affects the reintegration process (thereby potentially encouraging recurrent migration) but may in fact lead to a situation of 'forced consumption'

whereby savings that have been accumulated for investment are consumed or placed into 'non-productive' investments due to lack of perceived options (thereby aggravating the macro-economic and structural problems associated with remittances);

- to create opportunities for direct finance and credit-client relationships: to overcome the deep distrust Bosnians hold for banks and other financial intermediaries.

Opportunities presented by the mobilization of major financial resources gained through migration may be summarized as follows:

- many BiH migrants have a strong attachment to their country and a substantial number express an interest in returning and investing once sufficient capital is accrued (whether they will actually do so is another question, depending on a number of personal and environmental factors and incentives);
- migrants' savings - whether retained in the host country or accumulated in the place of origin - present a substantial pool of funds that, given appropriate incentives, safeguards, and regulatory framework, might be encouraged towards investment and savings opportunities;
- the pool of savings and interest in local investment can be predicted to increase over the medium to long-term. There is anecdotal evidence that, as the BiH migration cycle continues to mature and the immediate needs are met, a larger portion of income gained through migration will shift towards savings and investment - either as retained savings or investments in the host country, or as migrants' transfers;
- within the context of the post-transition period and ongoing reform efforts, this expanding pool of savings will be occurring in a macro-economic and business environment that will continue to improve; thereby providing more opportunities for viable savings and investment vehicles to develop.

F. The development challenge

The development challenge is to meet the demand for financing large-scale job creation (for those not interested in self-employment, entrepreneurship or income generating activities), by recognizing and capitalizing on the savings and investment aspirations of distinct migrant groups. This mutually advantageous relationship can only be achieved by providing the migrants as well as other investors with investment and savings opportunities tailored to their needs and are of direct relevance to migrants, their beneficiaries and their communities³¹. This approach would complement public and private actors currently involved in SME development and credit provision, including OeEB's planned operations.

In large part, evidence from our surveys complements the existing literature insofar as recipients use migration-related funds primarily to increase their household consumption rather than to save or invest in businesses or other productive assets. Migrants' remittances are indeed used to increase the families' consumption and stock wealth. On the other hand, our results also point to a higher overall family income in Austria and other host countries than is commonly presumed; and that this income level is combined with a relatively high propensity to save (i.e. relative to the general BiH-public, but substantially lower than the findings for Albania and Kosovo). This higher propensity to save applies at both migrant and beneficiary levels.

In addition, and unlike the general population of BiH the vast majority of legal and long-term migrants have experience with the banking systems of their respective host countries and entrust their savings to those intermediation agencies. The literature, as well as our results, also highlights a substantial medium to long-term return potentiality of long-term BiH migrants; bringing with them the substantial human and social capital they have accumulated in their places of migration.

³¹ As noted earlier, improvement in the business environment is a pre-condition to any interventions aimed at maximizing the savings and investment impact of remittances. In BiH, priority might be placed on more effectively enforcing the policies and regulations already in place.

G. Environmental pre-conditions

It is in this context that measures facilitating and stimulating the use of migration-related financial flows and in particular migrants' capital in productive investments should be examined. A successful outcome to any such intervention is based on two crucial environmental pre-conditions:

- Firstly, continued pursuit of sound macroeconomic policies and a political, inter-ethnic process that foster stability, growth and development in BiH are self-evident and necessary pre-conditions to increasing the flow of migrant-transfers, and channelling them towards productive uses (i.e. productive investments). In this context, first and foremost, promotion of economic, financial and political/inter-ethnic stability is necessary;
- Secondly, and building on the first, a framework of policies and measures that directly address the concerns of migrants and convince them, as well as their households in BiH, that they would benefit by transferring, and perhaps investing, a greater portion of their financial resources into savings products or productive investments in BiH. Clearly, any initiative in this area would need to be based on the clear recognition that remittances, migrant transfers and investments are *private transfers* and that the savings involved belong to the migrants and their families, whose primacy of choice in their allocation is paramount.

H. Summary

In summary, and under the overall objective of providing the means for migrants and their beneficiaries to shift their remittances and savings from place of migration to BiH, from informal to formal channels, and from MTO to banking channels, our proposed areas of intervention can be grouped under the following guidelines:

- Provide for more research and data development on migration-related financial flows related and the understanding of migrants as a specific market segment, with a particular focus on the attraction of migrant transfers within the context, and potential, provided by the evolving return process;
- Support the broadening and deepening of the BiH financial intermediation market in relation to migrants as a specific market-segment, by encouraging the development of a relevant policy and regulatory framework, as well as targeted awareness amongst key decision makers in both private and public sectors;
- Support the personal objectives of the migrants through the provision of relevant remittance, savings and investment products, as well as related services and interventions³². This area of intervention should closely complement, and be complemented by, public and private actors involved in financial regulation, economic development of marginal regions of BiH, SME development, credit provision, and migration-management. Its objective should be to directly, and in a practical manner, broaden and deepen financial intermediation by attracting remittances and migrants' transfers towards financial intermediation and productive investments.

³² Products and services of relevance to migrants could cover the entire migration cycle ranging from pre-departure, migration and return, or certain aspects of it. By way of example, these might include: pre-departure financial education and language training, credit lines, short, medium and long term savings products (term deposits, bonds, etc.), investment vehicles (trust funds, mutual funds, social investment funds, etc.), business plan development and related services, financial packages for the establishment and ongoing support of businesses, etc.

V.2 Recommendations and Related Areas of Intervention

The following paragraphs expand on the guidelines above and link them to specific actions that might be implemented by OeEB over the medium-term.

A. Strengthen Research and Data

Current understanding of what motivates migration, remittance, savings and investment decisions of BiH migrants remains surprisingly limited, and policy development is hindered by this paucity of information and analysis. Although it is accepted that these flows have crucially affected the alleviation of poverty and economic stabilization in BiH these issues have not been analyzed in a systematic way - neither at the micro nor at macro-economic level. In fact, what data has been collected has been largely used to estimate balance of payment flows. More empirical work clearly needs to be done to understand migration-related financial flows and their link to economic development.

Therefore, undertaking of serious empirical analysis and its effective circulation at the appropriate levels, which would inform policy actions in this area, is in high need. In order to understand and effectively respond to the evolving trends in the migration sector it is necessary for BiH, as well as the financial intermediation industry itself, to substantially and systematically improve the volume and accuracy of available information on migration and resulting financial flows. With the financial and technical support of the OeEB, relevant ministries, the Central Bank, institutes of statistics, and specialized agencies could undertake these actions - each within their respective expertise and mandates.

Given its particular importance to BiH, special mention must be made of the urgent need for in-depth and empirical research on the '*return potentiality*' of long-term migrants. The aim would be to understand both, a) the conditions required to support their sustainable return, and b) to provide attractive and viable incentives to encourage their retained savings/remittances towards productive investment. A related set of research activities could focus on the strong role of 'social capital' in all phases of migration, as well as the creating of structural capital such as NGOs and other associations, informal and formal networks, organizations, etc. This will require repeated assessments of their changing requirements, and a flexible approach - longitudinal surveys are therefore very appropriate. This research would be directly linked to remittance, savings, investment behaviours and return management; and should be specifically designed to feed directly into the other measures proposed in this paper.

Note must also be taken of the relatively small market size of BiH migrants in Austria, at approximately 87,200 households (i.e. some 18% of the possible market, of which many BiH migrants are fully integrated in their country of migration). Action targeting those households and/or their beneficiaries in BiH may not prove cost effective, taking into account the commercial interests of the financial institutions and the necessity of reaching economies of scale. Further, there may be a risk of introducing market distortions in BiH itself through such tightly targeted interventions. Research focusing on outreach to a broader market including other primary countries of migration, especially in European Union Member States would therefore be useful.

Key research partners for OeEB include: operational-level departments and agencies within the BiH government at national and entity levels and Central Bank; qualified research institutions in BiH and selected countries of migration; Diaspora and Home Town Associations; other relevant civil society actors; commercial financial institutions and micro-credit providers, and; from the international community, WB, IMF, ILO, IOM and UNDP.

B. Support Policy Dialogue for an Enabling Environment

Clear visions of the role of migration in the development process, and a sense of what can be achieved, as well as what is beyond the remit of government, are yet to be developed in BiH.

To be effective, remittance-specific initiatives that target investment and development need to be placed within a policy dialogue and framework that addresses: the appropriate macro-economic framework; a conducive business environment; a profound understanding of savings, remittance and investment patterns; and policies and programmes for employment promotion and income generation. IFAD could provide important insights into these broader policy dialogues, drawing on its core-competencies in providing direct financial support and capacity building to various intermediation services.

OeEB would be able to make substantive contributions to discussions in the following technical areas, using the prospect of heightening the impact of migration-related financial flows as leverage to encourage the BiH governments to improve the business environment and undertake complementary investments:

- reinforcing the importance of a sound macro-economic framework and business-friendly regulatory environment from a migrant's perspective, with a view to facilitating and encouraging inward savings/investment from migrants;
- increasing the value of remittances by bringing a larger proportion into the formal sector, especially by lowering the costs of formal remittance transfers;
- broadening and deepening financial services to poor people and rural areas, possibly using transfer receivers and existing savers as "early adaptors";
- amending legislation to make it easier for businesses to become established;
- enforcing existing legislation, policies and programs, strengthening the civil service, lowering corruption;
- examining the possibility of establishing remittance-backed government bonds either targeting migrants directly or through securitization with the guarantee that money will be paid back from future remittance flows;
- encouraging the formation of Hometown Associations, especially in regard to awareness raising and cooperation on issues such as savings and investment mobilization, and remittances.

Key partners for OeEB include: decision-makers at the BiH government at national and entity levels – especially the Ministry for Refugees and Diaspora; the BiH Central Bank; operational-level departments and agencies; Diaspora and Home Town Associations; other relevant civil society actors; commercial financial institutions and micro-credit providers; BiH media, and; from the international community, WB, IMF, ILO, IOM and UNDP.

OeEB could support the financial intermediation industry, relevant ministries, specialized agencies and civil society actors in promoting a wide-ranging consultative process to determine the policy framework in which BiH labour migration, long-term emigration and return processes are occurring, and what trade-offs BiH is both willing and able to make in regard to managing the positive and negative aspects of large scale migration. OeEB can provide important insights to this policy debate, particularly with regard to financial intermediation and opportunities for developing SMEs as well as the broader economy.

As an immediate measure OeEB is invited to host and/or participate in a "Regional Conference on Diaspora and Development - Migrant Savings, Investment and Development in the OSCE Region", (tentatively scheduled for December 2009) which has been developed by IOM together with OSCE in the framework of the Seventeenth OSCE Economic and Environmental Forum under the Greek Chairmanship of the OSCE.

The conference is designed to bring together leading figures from the political, diplomatic, financial and academic spheres to build the capacity of the South East European (SEE) countries in establishing the link between migration and economic development by recognizing the Diaspora's impact on

economic development in SEE. The objectives include the promotion of financial institutions' cooperation and future initiatives that strengthen the link between Diaspora's savings-investment and development. Working groups will be organized to discuss and develop ideas for future follow up research and project ideas on how to facilitate Diaspora investments in countries of origin. The project's main outputs will be the enhancement of networks for information and best practice exchange, and the development of projects aiming at facilitating Diaspora investment.

The specific objectives of the project proposal are:

- To introduce and debate on some of the latest research on Diaspora savings and investment potential in the OSCE region;
- To encourage exchange of best practices and expertise aiming at addressing the problems of cross-country business for banks;
- To discuss the obstacles for migrants to save and invest in their countries of origin and how governments can address these obstacles;
- To identify future targeted needs for research on migrant saving corridors and migration patterns;
- To develop future projects researching the awareness level of European banking institutions on the nature and volume of migrant savings;
- To develop future projects which can facilitate investments of migrant savings and remittances.

One of the findings of this report was a widespread and general lack of knowledge about the financial market, its institutions and regulations. Equally, popular understanding of government and finance industry policy and actions in regard to remittance-related issues such as savings channels, investment opportunities, incentives and disincentives is for all intents and purposes non-existent. In order to ensure that migrants and their beneficiaries receive correct information regarding financial intermediation structures, their opportunities, benefits, uses and risks, a series of related information campaigns or "financial literacy efforts" could be supported by OeEB.

C. Awareness raising and trust building

Public Information Campaigns of direct relevance to the migration-finance-development challenge can be carried out via mass media outlets, diaspora associations, ports of entry, look-see visits, etc. A collaborative and coordinated effort on the part of all interested actors, including the ministries and financial institutions would add additional emphasis and impact to any such campaign. Relevance of the campaign should be ensured by means of the market research proposed here under the first intervention point; especially as regards the changing concerns and requirements of the migrants themselves. A pluralistic approach, taking into full account of the wide differences within the migrant community, their income levels and savings, as well as their experiences in the various host countries is crucial in this regard.

As with other markets studied, one of the interesting features of Bosnian migration to Austria is its largely localized nature, allowing migrant frequent visits to their place of origin. When combined with a strong social network in the place of migration a natural and trusted distribution mechanism for the dissemination of information exists. Therefore, public information campaigns that carefully target the places of origin, will not only reach the beneficiaries of the remittances, but the emigrants themselves.

Bosnian diaspora and other non-profit organizations as well as strengthened Embassy/Consular Offices could offer, in BiH or in Austria, accurate information as well as savings and investment advisory services to migrants (or those that wish to return). Current and impartial information on available credit facilities, saving schemes, training in small-scale business management, as well as assistance in obtaining services from relevant government departments, commercial financial intermediaries and micro-credit institutions could prove especially helpful.

A contextual and public policy objective OeEB could support, one that is not directly in the area of financial intermediation, is the need to reinforce legal migration through a concerted effort by the

BiH Government to reach labour exchange and employment agreements with EU Member States and other countries. For the migrant such an agreement framework would reduce the direct and indirect costs, as well as risks, related to migration, as well as reduce the migrant's vulnerability to exploitation.

An intervention in support of regular migration would indirectly support OeEB's own development objective by increasing the migrants' incomes, remittances and savings values and encouraging the use of formal channels. Such benefits would also extend to their beneficiaries through increased remittance flows, while simultaneously representing a direct benefit to the broader home economies.

D. Support the Development and Provision of Relevant Remittance, Savings and Investment Products, Services and Interventions

By focusing on providing direct support to the migrant and their household in BiH, mutually advantageous relationships might be created that benefit all stakeholders – including migrant/beneficiaries; place/country of origin; country of migration and participating financial institutions. As noted, initiatives that savings, target investment and development need to be placed within a framework including appropriate macro-economic framework; a conducive business environment; a profound understanding of savings, remittance and investment patterns; and policies and programmes for employment promotion and income generation. These issues are partially addressed by intervention areas 1 and 2 above.

The overall purpose of this area of intervention is to facilitate the establishment of conditions for a win-win situation for: BiH and places of origin; host countries, migrants, and financial intermediaries, by:

- directly supporting migrants to meet their personal migration objectives;
- maximizing the developmental aspects of migration as they relate to financial flows and local investment; and,
- improving entrepreneurship and employment creation for the people left behind.

Particular emphasis could be placed on the promotion and use of micro-credit and microfinance institutions among migrant communities, as well as assist the microfinance institutions to reach out to the Diaspora communities in order to develop new products and services which address the needs of this market segment specifically.

For example, actors in the micro-finance sector could consider establishing intermediary vehicles, such as a social investment trust fund, which would focus on mobilizing a portion of migrant savings (i.e. migrant capital) accumulating in Austria and other places of migration. Such medium to long-term savings could then be intermediated and lent on for business activities in BiH through the micro-credit institutions' normal procedures.

Thereby, supporting the capital requirements of the micro-credit institutions; while simultaneously providing migrant clients with a reasonable rate of return on their savings, and providing these migrants with an opportunity to directly support the development of their home communities.

In support, marketing strategies can be built on the social and human capital identified by the research presented above.

Marketing approaches should be specifically designed to compensate for the perceived risks related to institutional, regulatory and other issues commonly associated with the transitional character of BiH and the widespread mistrust of the target groups vis-à-vis BiH financial intermediaries.

Key partners for OeEB under this area of intervention include: commercial financial institutions and micro-credit providers; decision-makers at the BiH government at national and entity levels and Central Bank; operational-level departments and agencies; Diaspora and Home Town Associations.

E. Synergies with the Assessment Study conducted by the Frankfurt School of Finance and Management³³

The IASCI-IOM study on migration-related financial flows within the ‘Austria- BiH corridor’ was carried out almost in parallel to an OeEB-sponsored study conducted by the Frankfurt School of Finance on remittances in selected countries of South East Europe - with a special focus on BiH, Moldova, Serbia and Kosovo. As there are clear linkages between these two studies, their preparation phases included careful calibration in order to avoid overlapping and duplication of effort.

As shown, the preceding pages examine a migration-related phenomenon that is largely unknown to governments, analysts and commercial financial intermediaries. By closely examining possible means of promoting the positive aspects of migration, and in particular its relation to the nexus between development and migration-related financial flows, this study intended to go well beyond the remittance discussion. Importantly, and consistent with previous works in Albania, Kosovo and Armenia, this research confirms the underlying hypothesis that a key migration-related objective of most BiH migrants is to accumulate financial capital during their migration experience - often combined with other important skills and contacts. As a result a significant, and less recognised, pool of migrant savings is being accumulated in cash, investments and banking systems in the place of migration in parallel to those funds that are being remitted home – to be either consumed, saved or invested.

Given appropriate incentives and conditions, migrants may choose to transfer this accumulated capital, or a portion thereof, at some future date (at which point they are termed “migrants’ transfers”). And it is in fact this accumulated capital, rather than current remittances per se – especially when combined with the social and human capital migrants might wish to invest in the realization of their plans and ideas – which has promise of greater impact and representing a substantial development as well as commercial opportunity – assuming again, that suitable local conditions exist.

This distinction between current remittances and migrant capital, as well as their relative potential development impact, is both important and equally recognised by both the Frankfurt School Assessment and this IASCI/IOM research. From the outset the objective of the Frankfurt School assessment was “to focus on the financial sectors, banking products and the use of remittances in the homeland countries”³⁴, including assessing the amounts of and channels for remittances originating in Austria and an analysis of their flows to SEE; the role of the Austrian banking sector and existing bank products for emigrants in Austria, including money transfer services; assessing the use and impact of remittances in the respective SEE countries; identify possibilities for improving the developmental impact of remittances; identify possibilities to make formal channels for money transfer more attractive; and finally identifying the role of OeEB in financial sector development, particularly regarding the more productive use of remittances, capacity building, refinancing lines for banks, new financial products, etc³⁵.

But, as experience showed, even current remittances flows and uses – when related to questions of migration and development – are inextricably linked to a number of additional factors and policy areas, including migration management, macro and micro-economic environments, government priorities, capacities and policies, financial intermediation and microfinance, and private migrant savings and investment behaviours, among others.

In this manner the two research papers, with very different starting-off points, and working independently with very different methodologies, often arrived at similar conclusions and recommendations.

³³ Becker Torsten, Hockenos Paul, Holmes Elisabeth, Assessment Study - Remittances from Austria, Frankfurt School of Finance and Management, April 2009

³⁴ Ibid, p. 5

³⁵ Ibid

Key amongst these are:

- Remittances are just one – though important – factor in a complex cluster of factors that directly impact migration and development.
- A history of collapsed banking sectors and lost savings has left home communities and diaspora members profoundly distrustful of the financial sectors of their home countries.
- Efforts to increase the development impact of migration-related financial flows need to directly address this underlying lack of trust, as well as related structural weaknesses of the financial system(s).
- The main reason for the extensive use of informal transfer (and one some levels savings) channels is not due to any lack of quick/cheap formal transfer possibilities. Migrants have more personal reasons for hand carrying their remittances, including the previous savings losses and mistrust touched upon above. The geographical proximity to many of the key remittances sending countries (including Austria) and the fact that carrying money home personally provides a form of ‘additional social capital’ not available through impersonal channels are other factors. In general, neither research group sees much potential for a quick change in informal remittance behaviours.
- The Frankfurt School Assessment Study confirms that the above-mentioned complex of factors (amongst others) will continue to profoundly shape the migration and development context between SEE and Austria in ways for decades to come.
- Despite the enormous potential impact, both positive and negative, of these phenomena on SEE (and Austria), there is surprisingly little reliable information on related topics, and not nearly enough research being undertaken to maximize the potential of remittances and migration, or address this potential commercial market.
- There is a general absence of coherent policies toward migration and development; with diasporas largely ignored as potential agents of economic development in the public sphere, and a lack of strategies in product and service development (and marketing activities) within the broad financial sector.
- As a result both sets of recommendations go beyond remittances in addressing a broad range of factors that can help leverage diaspora resources, in the broad sense, in support of maximising the potential development impact of migration.
- As with the IASCI/IOM findings on BiH, the countries examined by the Frankfurt School were seen to recognize the necessity of maximizing the positive impact of migration – and minimizing the negative aspects – yet none of them had an operational national programme to manage migration or leverage diaspora resources in service of sustainable development. Greater institutional coherence could be achieved by adopting policy frameworks, designing governmental coordination mechanisms, and enhancing analytical capacity. Recommended areas of intervention include supporting the formulation of policies and strengthening of state institutions responsible for migration and development. The collection of accurate statistical data and information on remittances, migration, and diaspora, and is among the essential components in enhancing analytical capacity and supporting both public policies and private sector market interventions.
- Benefit was seen in supporting national discussions and commissions on migration, resulting financial flows and development that would focus policymaking, coordinate initiatives, and facilitate a serious public debate about migration.
- As with IASCI/IOM the Frankfurt School Assessment emphasises matching fund schemes to promote the collective pooling of diaspora resources for community/infrastructure projects at the local level. IASCI/IOM research confirms the finding of evidence that diaspora communities are interested in promoting the welfare of their home villages. In this regard recommendations in both studies focus on concern supporting individual projects, rather than launching any large scale funds.

- Both studies confirm that migrants among the diaspora 'are tired of simply giving money away', with many having supported dependents and home country financially for years or even decades. A shift towards actively facilitating diaspora investment in the homeland private sector is seen as more durable and realistic; with migrants thereby supporting the home country and also benefiting by capturing a return on investment, rather than providing pure donations. Related, it is recognised that in many cases diaspora entrepreneurs or investors are more likely to assume the additional risks inherent in their home country's private sector than other investors.
- Both studies have identified a major constraint insofar as there is a clear discrepancy between the stated willingness of migrants. In general their primary and direct investment means present themselves to migrants: in a start-up, in an existing enterprise, or in a business being privatized. These tend to be risky and unappealing to migrants as they may be unwilling to return to manage their investments at the present time or in the medium-term. This is a serious disincentive to investing in their homelands. Emphasis should therefore be placed on supporting and developing capital market financial products, such as equity and debt funds or bonds that allow migrants to invest indirectly – with products and services that especially target those potential diaspora investors who live abroad and intend to stay there for the foreseeable future.
- The Frankfurt School Assessment supports the IASCI/IOM contention that instruments that promise the possibility of profit and also have a leveraging effect for development could appeal to this category of migrant. Such instruments might include certificates of deposit, equity and debt funds, bonds, or the securitization of remittances, issued by a trusted intermediary in order to raise debt capital, finance development projects (for example, for infrastructure projects) and create jobs.
- As a corollary both studies identify greater loan sizes, leveraged through a link to regular contractual savings through the introduction of innovative remittances-based savings and loan product as a potentially important initiative. This would also benefit the financial systems by increasing a predictable stream of deposits.
- Micro-finance Institutions are seen as having important outreach, especially in rural areas, and are thus closest to most remittances recipients. But they need technical assistance and capacity building in order to successfully offer products of relevance to migrants.

In summary, both studies emphasises that the development impact of migration would benefit greatly from strengthened financial systems, as well as the availability of more diverse, reliable products and services for migrants, remittances recipients, and the general population. It is recommended for OeEB to engage in projects with commercial financial institutions in the SEE to extend their products and services, including developing specific departments, capacities, and vehicles, together with targeted marketing strategies, to raise awareness of their products within the diaspora and provide better tailored services to its members.



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