

## Exploring the potential contribution of B&H diaspora to economic development of B&H<sup>1</sup>

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### **Abstract**

Bosnia and Herzegovina (B&H) was subjected to a period of violent conflict that caused mass emigration of around one fourth of its population. In the period following the conflict, we have seen a process of establishment of a strong transnational community of B&H Diaspora. This paper investigates how the Diaspora enhances the economic development of B&H on a unique survey conducted in 2012; it then investigates if additional forms of economic support are in place. Based on the survey analysis, alternative solutions for engagement of Diasporas in economic development of a country, available in literature, were reviewed and their appropriateness, effectiveness and means of implementation were discussed. The results of the article reveal large economic and investment potential of B&H Diaspora that still remains unexploited and provides a range policy recommendation for B&H institutions dealing with the economic development of the country, offering solutions for enhancing large contribution of B&H Diaspora.

**Keywords:** migrations, diaspora, Bosnia and Herzegovina, potential, diaspora survey

### **Introduction**

Migration and development are no longer been considered separate, but rather interlinked and complementary issues. The focus of the debate has shifted from the negative effects of migration to the potential benefits migrants can offer as agents of development for both their home and host countries. Many developing countries rely on diaspora businesses, investments and knowledge as main drivers of their economic development. Bosnia and Herzegovina (B&H) well illustrates ongoing trends towards diaspora engagement and showing the complexity of this topic. The potential of Diaspora is recognized and some efforts are made both from government and international institutions to mobilize B&H diaspora for development. However, the issue is still very challenging task, since there is no consensus within B&H institutions about the issue, institutional capacities are rather weak, and diaspora is divided along ethnic lines, where ethnic Serbs and ethnic Croats are more interested in contributing to the development of Serbia and Croatia, respectively. Consequently, this paper aims at investigating the potential for contribution, willingness for contribution, and possible means of contribution of B&H Diaspora to the economic development of the country.

Bosnia and Herzegovina's historical situation and wars that have occurred on this area contributed to higher level of migrations, so nowadays BIH is placed among the top ten

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countries with the largest diaspora as a share of population, according to the estimates by the Ministry of Human Rights and Refugees (MHRR) reported in the BIH Migration Profile for 2011. International organization for Migration (IOM) and Migration and Development Department, recognize the link between migration and development as increasing. Migrants make considerable progress and contribution worldwide, through their involvement in capacity building projects in their origin country, remittances they send back home, knowledge, education and connections they established in migrant country. Generally, migrant contribution can be distinguished as: human capital and financial advantages. All of the above contributes to technological development, economic activities and cultural enrichment.

The purpose of the paper is to determine willingness and opportunities of BH Diaspora to invest their assets in origin country. We will determine economic potential of B&H diaspora due to increase of economic activity in BIH.

We set the research question as follows:

*What is the current potential of BH Diaspora and what are the possible solutions for improving possible economic engagement in Bosnia and Herzegovina?*

Paper is further organized in three main sections. Section 1. *Problem description* focuses on BIH Diaspora and its current engagement, Section 2. *Data and Methodology* describes the sampling scheme, descriptive and inferential methodology and gives the results of the analysis, Section 3. *Conclusion* sets the concluding remark and the policy recommendations.

## **Problem Description**

Territorial status and historical events in Bosnia and Herzegovina created such an environment suitable for migrations so BIH have a long migration history which started in early 60's when first wave of migrants left BIH for work opportunities abroad, so called "guest workers" (*Germ. Gasterbeiters*). Germany was traditionally destination country of labor migrants from ex-Yugoslavia in the first wave, but also many migrants left to Austria and other Western Europe countries.

Second period which matches with the war 1992-95, was marked by mass population displacement of about half of the entire population. UNHCR data estimates the total number of refugees at the end of 1992 was around 1.8 million, and the most interesting countries for our migrants were neighboring countries as Croatia (714.000 migrants), Serbia and Montenegro (495.000 migrants) and around 537.000 migrants outside ex-Yugoslavia. (Tabeau & Bijak, 2005). In that first wave there was another large outflow, in a time when Srebrenica massacre happened. "This is in line with generally observed patterns of forced migration, when people flee to neighboring countries first, and then chose more distant destination attracted by economic opportunities (acting as push factors) or lack of prospects in the neighboring countries (acting as pull factors)." (Kačapor-Džihić & Oruč, 2012).

Based on BIH Migration Profile for 2010 the leading destination country of Bosnian migrants were again neighboring countries where 40% of them left to Croatia, Serbia, Montenegro or Slovenia, while around 28% left to Germany, Austria (7%), Sweden (5%), Slovenia (3,5%), Switzerland, Turkey and USA (app. 2% each). Finally second period is mainly characterized by great outflows and post-war return of emigrants to BIH.

Third period, started from the beginning of the new century until now. Main characteristic is voluntary migration of workers, students and migrant family members. Literature shows that emigration to United States of America (USA) decreased and emigration to Slovenia increased. Unfortunately, data on emigration to other countries are not available, but some authors interviewed agree that the emigration to other already mentioned countries also increased (Kačapor-Džihic & Oruč, 2012). OECD database shows that between 15.000 and 20.000 Bosnians on average emigrates every year to the EU since 2000. Also, there is significant migration of workers to neighboring countries (ex-Yugoslavia). Again, the most interesting destination is Slovenia, but also a large proportion on workers leaves to Croatia and Montenegro. “According to the experts’ estimates, the figures for migration to Croatia and Montenegro are somewhat larger, particularly in terms of circular migration, as a large number of temporary workers in construction and tourism sector work in these two countries over the summer season, and return to BiH. They are not recorded in the work permits figures, as both countries have large informal sector and many workers from BiH are employed without a contract. “ (Kačapor-Džihic & Oruč, 2012).

BiH Migration Profile for 2011 showed that 43,4 % of total Bosnian and Herzegovina population reside outside their origin country. These data for most states do not include the second and third generation emigrants BiH who were born in the receiving state<sup>2</sup>.

Table 1: Stock of emigrants from BiH by country of destination

Country	Estimates	Official data	Source of official data
USA	350.000	120.655	US Census Bureau
Croatia	300.000	262.620	Agency of Statistics of Croatia
Germany	240.000	240.000	Agency of Statistics of Germany
Serbia	150.000	131.108	Agency of Statistics of Serbia
Austria	150.000	133.585	EUROSTAT
Slovenia	150.000	97.142	Agency of Statistics of Slovenia
Sweden	80.000	56.127	Agency of Statistics of Sweden
Switzerland	60.000	59.222	Agency of Statistics of Switzerland
Australia	60.000	37.898	Ministry of Immigration and Citizenship of Australia
Canada	50.000	28.735	Agency of Statistics of Canada
Italy	40.000	29.066	Agency of Statistics of Italy
Denmark	23.000	22.338	Agency of Statistics of Denmark
Norway	16.000	15.918	Agency of Statistics of Norway

Source: BiH Ministry of Security, BiH Migration Profile 2011

The first five countries are considered to be “traditionally destination countries of emigrants from Bosnia and Herzegovina”. Many of the literature states these countries with *strong diaspora communities and associations* because of the long migration history of BiH citizens related to these countries.

According to DIOC-E 2000 Database (release 2.0) 51,4% of Bosnian migrants are women, 11,9% young people age 15-24 and 11,2% is tertiary educated.

A study performed by Uvalic (2005) indicates a high percentage of 80 % of PhD graduates which emigrated from BiH, showing enormous “brain drain” from BiH. Unfortunately, there are no studies which show structure of this “brain drain” divided by professions and effects on labor market in Bosnia and Herzegovina.

De Zwager and Gressmann (2010) conducted a survey on 1.216 migrants from Bosnia who visited BiH during the holiday season and discovered that our migrant population involves

<sup>2</sup>Migration Profile for 2010

mostly entire families and are mostly a great part of economically active population, and that average age in EU countries of BiH migrants is 41 year while in neighboring countries 37 years. These findings lead to the conclusion that BiH will have huge problems with ageing population and will have to import labor force. This survey showed that BiH migrants in the vast majority work in the formal sector, and do not have intention of returning home before the retirement. Observing frequency of home visits, they concluded that BiH migrants still have strong ties with Bosnia and Herzegovina.

### Current Engagement of BH Diaspora

BH Diaspora is currently engaged in BiH through several channels which are respectively remittances, investments and skills transfer.

Bosnia and Herzegovina ranks 12th on the list of Top Emigration Countries as a percentage of population (2010) with a score of 38,9%<sup>3</sup> of emigrants from 3,752 million of estimated population in 2011<sup>4</sup>, meaning that almost 1/3 of total population lives abroad, mostly in Western Europe. These facts place BiH's Diaspora as one of the most numerous Diasporas in the world.

Data taken from the World Bank shows that Workers' remittances as a percentage of GDP represent a valuable amount in that relation every year, which can be seen in the following table<sup>5</sup>:

Table 2: Remittances as a percentage of GDP in BiH

Country name	2003	2004	2005	2006	2007	2008	2009	2010
Bosnia and Herzegovina	20,9	20,67	18,66	17,39	17,67	14,75	12,49	11,44

Source: World Bank data

The World Network of Bosnian Diaspora estimates remittances on at least 3 billion KM in 2011, saying that most of these amounts is sent through informal channels. Based on BiH Central Bank, remittances to BiH represent 40 % of total inflow and De Zwager and Gressmann (2010, p.13) assert that only 22,5 % of those remittances is sent through formal channels.

There are two types of investments that can be provided by diaspora, direct investments and households' investments. There are no exact data about the extent of contribution of BiH Diaspora through any of the two investments channels. However, sporadic evidence suggests that BiH Diaspora is investing in starting new businesses, purchase of land and houses, which is mainly households' investment. As the inflows of direct investments to BiH are generally very low, consequently the Diaspora's involvement through this channel cannot be expected to be significant.

Transfer of skills from diaspora to their homeland can be performed in two ways, return and "virtual return", where the skills are transferred by using new means of communication

<sup>3</sup> Development Prospects Group - The World Bank. Migration and Remittances Factbook 2011. *The World Bank*.

<sup>4</sup>The World Bank Data about Bosnia and Herzegovina, from: <http://data.worldbank.org/country/bosnia-and-herzegovina>. We emphasize the estimated values because the last official census was performed before the war in 1991.

<sup>5</sup>Data from the World Bank on Bosnia and Herzegovina.

without the need for change of place of living. Also, it can be either permanent or temporary return. Unfortunately, the data about return by education and/skills of returnees are not available, so the only solution for providing insight about current level of contribution of BiH diaspora through skills transfer can be by providing information about the return, regardless of their skills, which can at least suggest the approximate level of the skills transfers flows.

Regarding the programs that would attract return of highly skilled members of BiH Diaspora, no such activity has been conducted by BiH government. Only two programs were conducted, Brain Gain Plus (BG+) by World University Service (WUS) from Austria and another by IOM, called Temporary Return of Qualified Nationals (TRQN). Brain Gain Plus program was focused on temporary placement of academics from BiH Diaspora at public universities in BiH. Also, they have created a database of academics from diaspora who are interested in temporary placements in BiH. More effective was the TRQN program, supported by the government of Netherlands, which managed to attract more than 800 BiH nationals from abroad and provide them temporary placement, mainly in industry (26%), self-employment (21%), education (20%) and health (15%).

### **Data and Methodology**

The empirical strategy aiming at measuring latent resources available within the BiH diaspora community (such as savings, skills, and social capital) and their willingness to engage it in activities that would increase economic development of the country is based on the survey of BiH diaspora, using a questionnaire that contains a mix of mutually reinforcing qualitative and quantitative questions. The survey attempted to research the following: Interest (willingness) and potential capacity (availability) of the Bosnian Diaspora have to invest in their home country and to identify the potential channels through which they can contribute to BIH economy.

The questionnaire used in the survey is designed based on the literature review on diaspora potential an previous empirical research on this topic. It was available in Bosnian language and was developed using SurveyMonkey, an online survey software and questionnaire tool. Survey started in August 2012 and finished in November 2012. All people from Bosnia and Herzegovina living abroad were invited to participate in the survey. Potential respondents were contacted through e-mail invitations, personally and through different Diaspora associations and unions (Congress of North American Bosnians, Federation of Balkan American Associations, and World Alliance of Diaspora) so as through Ministry for Human Rights and Refugees of BIH. Given that we did not have sufficient answers at the beginning, calls were repeated several times.

The questionnaire consists from 62 closed-ended (yes/no, multiple-choice, rating scale, etc.) and open-ended (comments) questions divided in 7 modules. The modules reveal information as regards to education level, job and income, entrepreneurship ability, financial capital (savings and remittances) and social capital (links with home country and affiliation to Diaspora association). Although not in an ordinary sense, we devote the last module to demographic information in order to gather background information on migrants in Diaspora. Also, questions are constructed in the way as to be as much as clear to the respondents while answers in percentages are avoided for the same reason.

The questions were analyzed primarily by using descriptive statistics, in order to transform data collected through the survey into information that will serve as inputs into further discussion of possible solutions for enhancing engagement of diaspora by each of possible channels, such as remittances, investments, transfer of skills, tourism, another contribution. Then, inferential statistical analysis is provided, where we analyzed significance of means for considerable variables. Ethnicity is very sensitive question for our Diaspora so when it comes to ethnicity we used Identity points, based on Taeku Lee which extended analysis on identity points to measuring ethno racial self-identification in surveys as one potentially fruitful means of bridging this gap. (Lee 2009)

We have found that 26,7 % of respondents own a business, and 96,7 % of them located their business in a country of current living, while 3,3 % have business located in Bosnia and Herzegovina. Those who have a business outside of BIH, still have some but also very weak connections with BIH through: importing products from BIH, employment of seasonal workers from BIH, branching/manufacturing facilities in BIH, financial support and investments in BIH.

Table 3: Business connections with BIH

	Yes	No	No, but I am interested
Import products from BIH	5,30%	71,10%	23,70%
Employment of seasonal workers from BIH	5,60%	77,80%	16,70%
Branche / manufacturing facility in BIH	5,60%	86,10%	8,30%
Provide financial support and investment in BIH	20,00%	68,60%	11,40%
Other	31,80%	54,50%	13,60%

Source: Own calculation based on survey

The results also suggest that 49,3 % of respondents have never invested in BIH, while 50,8 % did. More than a half of them invested in urban areas, and the rest in rural or both areas. Respondents mostly invested in buying apartments/houses (58%), business start-ups (26%), government bonds (8%), land (5%) and company shares (3%).

42,2 % of the sample is interested to invest more in Bosnia and Herzegovina, 20 % is not and 37,5 % do not know. Main reasons for the lack of interest indicate what is already stated in literature as a main problem in Bosnia and Herzegovina, investment uncertainty (39%). Other reasons are: lack of savings (19%), no investment ideas (22%), complicated start-up procedures (11%) and respectively great investment demands, lack of local government support and high taxes (3%).

Those interested in investing want to start up a business (66,7 %), buy a land (9,8 %) or a house/apartment (21,6 %). Only 2 % want to invest in company shares. Urban and rural areas are interested to 45,3 % of the sample, while urban area exclusively to 30,2 %, and rural area to 3,8 % of the sample.

In the framework of inferential statistics we conducted two types of tests in order to determine statistical significance in means: *t-test* and *one-way ANOVA*. T-test was used for variables with two categories and one-way ANOVA for variables with

more than two categories within.

Finally, for interpretation of the results in this paper we will use only those variables with significant p-values.

The research has shown there are significant differences when it comes to gender and willingness to offer skilled in BiH. Female respondents are more prone to offer their skills in BiH than their male counterparts (*Mean*: male=1,243243; female=1.652174). These variables are taken as statistically significant with the p-value of 0.0490 within 95% Confidentiality Interval. Finally, interest for investing in BiH is more noticeable with those respondents who hold the BiH citizenship based on Barlett's test for equal variances performed under the one-way ANOVA, where p-value of 0,0509 shows statistical significance.

Ethnicity is very sensitive question for our Diaspora so when it comes to ethnicity we used Identity points, based on Taeku Lee<sup>6</sup> which extended analysis on identity points to measuring ethno racial self-identification in surveys as one potentially fruitful means of bridging this gap. (Lee 2009)

### **Limitations**

The main limitation of any online survey, including this one, is the difficulty in achieving a satisfactory representation of the desired demographic. Thus, we can expect three main types of biases as part of this survey. First, there is the sample selection problem of online surveys, i.e. that only those individuals who use the internet are potential interviewees. Second, the sample is usually biased towards more educated individuals. Third, the supposition is that willingness to participate in such surveys is proportional to the degree to which the individual maintains ties with her or his home country. Therefore, results may be slightly biased towards a greater potential and/or willingness to contribute than is typical. However, a survey such as this, where a country's Diaspora lives in numerous destination countries, cannot be conducted practically in any other way. Therefore the drawbacks of such a method must be accepted if we wish to study this target population. Another problem we faced during this survey is a lack of interest so the 112 is the final number of the respondents, making sample slightly biased but statistically acceptable.

### **Conclusion**

Diaspora is generally recognized as valuable economic potential for its origin country. Current Engagement of Diaspora in BiH is seen through remittances, investments, skills transfer and philanthropic contribution. Literature on this issue states on great financial pools which were created during time in Diaspora, which could be invested in BiH and create benefits for both individual investor and BiH economy. Studies have shown a great percentage of highly educated young migrants with skills and willingness to contribute its home country through different channels, even though temporary or permanent return. This paper has provided empirical evidence and solutions for further engagement of BiH diaspora for economic development of the country.

Individuals living and working in diaspora earn relatively higher income than individuals in a origin country. Increased incomes increase investment and entrepreneurial activity

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<sup>6</sup>Lee, T. (2009) *Between Social Theory and Social Science Practice: Toward a New Approach to the Survey Measurement of 'Race'*. Cambridge University Press.

among diaspora population because of greater amount of disposable income available for investment activity. „On balance, the amount of net savings retained by Bosnian migrant HHs abroad remains substantial at EUR 8,508 on average per annum. And, due to the high number of BiH households in long-term migration (conservatively estimated at between 480,000–536,000), the total estimated pool of annual “retained savings” for 2009 is EUR 4,660 million. By means of simple extrapolation over BiH’s near 20-year overall mass migration experience (since the Balkan wars), it can be imagined that this accumulated capital pool now stands at many billions of euro. “

Money sent to Bosnia and Herzegovina through remittances is often used shortly for daily consumption and basic needs. 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”. A very small part of these amounts were left aside for savings and investments. 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.

As the evidence provided in the paper suggest, BiH diaspora is already contributing greatly to the economy of their homeland. However, its potential is considerably larger, and there is a great opportunity for BiH government to increase diaspora's contribution through well designed programs that would benefit both BiH economy and diaspora. Alternative policies used in other countries are discussed above and, based on the potential and willingness of diaspora identified through empirical research, as well as consideration of specific context of BiH, selected areas of engagement and programs were proposed.

Knowing the financial potential of BIH diaspora, Diaspora Handbook suggest several options for increasing investment opportunities in general, such as: Provide access to information, Share information on how to invest or obtain business loans, Create a one-stop shop for investment information, Provide access to networks, Organize business events for diaspora members, Match local entrepreneurs, business owners, and government leaders with their diaspora counterparts, Create exclusive international networks of top business leaders, Provide access to business training programs, Supply training directly, Support training programs provided by the private sector and international organizations, Provide entrepreneurs access to funds, Set up matching funds, Provide loans, Channel private funds to finance private businesses or public infrastructure.

Gillespie et al. (2001) argues that rather than financial deals which are costly, diaspora entrepreneurs may need more brokering assistance to establish businesses even in a homeland they believe they know. Main conclusion is that Diaspora needs to be introduced to people with whom they can work. In BIH, a possible good solution would be a Foreign Trade Chamber of Bosnia and Herzegovina, which could potentially be a link between Diasporas and Bosnian Entrepreneurs. Education, trainings, seminars, roundtables, newsletters and other promotional materials should be provided to potential investors which a clear presentation on potential for investments, gaps and oversights and an extensive overview of BIHs market. Riddle (2008) gives interesting solutions for diaspora utilization. Inter alia, diaspora entrepreneurs can serve as “reputational intermediaries” for domestic companies in foreign market, while domestic firms can utilize connections they have with diaspora investors/entrepreneurs’ to use transnational networks to identify business leads, opportunities and financing markets abroad. Then, financial organizations



could be established like international organization Investors without Borders. The main purpose of such organization is intermediary between Diaspora investors who would lend money to Bosnian firms below the market rates of interest. This is an example of diaspora investments without ever leaving country of residence and very much time-saving.

Finally, there is existing and urgent need to BIH Government more serious approach these issues, because of the maturity of BIH Diaspora, meaning they are still linked to BIH through family members, investments they have in BIH and emotionally, but verily Diaspora structure is changing and will not eventually have strong ties to BIH. Considering such a high position BIH occupies in world statistics due to its Diaspora, it is truly amazing we still do not have inimitable institution in charge for all related questions.

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