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# *Remittances from Austria*

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## *Final Report*

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*Prepared for OeEB by  
Torsten Becker, Paul Hockenos, Elizabeth Holmes*

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*Vienna, April 2009*

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# Assessment Study — Remittances from Austria



## Final Report April 2009

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## Abbreviations

ADA	Austrian Development Agency
ADC	Austrian Development Cooperation
AFK	Agency for Finance in Kosovo
AK	Justice and Development Party
AMIK	Association of Microfinance Institutions of Kosovo
ATM	Automatic Teller Machine
BEK	Banka Ekonomike
BiH	Bosnia and Herzegovina
BKT	Banka Kombetare Tregtare
BpB	Bank for Business
BZFM	Beselidhja Zavet Microfinance
CAR	Capital Adequacy Ratio
CBBH	Central Bank of Bosnia and Herzegovina
CBK	Central Bank of Kosovo
CBS-AXA	Centre for Sociological Investigations and Marketing
CEE	Central and Eastern Europe
CEO	Chief Executing Officer
CIS	Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan
COH	Cash on hands
CPM	Consulting & Projektmanagement
DEP	Directorate for Economic Planning
DFID	UK Department for International Development
DIS	Deposit Insurance Scheme
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECIKS	Economic Initiative for Kosovo
EFSE	European Fund for Southeast Europe
ENP	European Neighbourhood Policy
ESI	European Stability Initiative
EU	European Union
EUR	Euro
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment

FIC	Financial Information Centre
FID	Financial Intelligence Department
FINCA	Foundation for International Community Assistance
FIPA	Foreign Investment Promotion Agency
FIPA	Foreign Investment Promotion Agency of Bosnia and Herzegovina
FMA	Finanzmarktaufsicht
Frankfurt School	Frankfurt School of Finance & Management
GBP	British Pound
GfK	Gesellschaft für Kaufkraft
GTZ	German Technical Cooperation
HVB	Hypo Vereinsbank
IBAN	International Bank Account Number
IC	International Community
IDP	Internally Displaced Person
IFAD	International Fund For Agricultural Development
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
IPKO	Kosova Internet Project
IT/MIS	Information Technology/Management Information System
JSC	Joined Stock Company
JV	Joint Venture
KBA	Kosovo Banking Association
KBB	Komercijalna Banka
KEP	Kosovo Enterprise Program
KfW	Kreditanstalt für Wiederaufbau
KGMAFM	Kosovo Grameen Mission Arcobaleno
KM	Bosnian Convertible Mark
KRK	Kreditimi Rural I Kosoves
LDK	Democratic League of Kosovo
LED	Local Economic Development
LHB	LHB Internationale Handelsbank AG
LTV	Loan to Value
MCO	Microcredit Organisations

MEUR	Million Euros
MfD	Ministry for Diaspora
MFI	Microfinance Institution
MoHRR	Ministry of Human Rights and Refugees
MSC	Migrant Service Center
MSE	Micro and Small Enterprises
MSIF	Moldova Social Investment Fund
MTO	Money Transfer Operator
NATO	North Atlantic Treaty Organization
NBS	National Bank of Serbia
NCFM	National Commission of Financial Markets
NCBM	National Commission of Financial Markets
NGO	Non-Governmental Organization
NLB	Nova Ljubljanska Banka
OeEB	Oesterreichische Entwicklungsbank
OeNB	Österreichische Nationalbank
ÖVP	Österreichische Volkspartei
OFI	Other Financial Institution
PAK	Privatization Agency of Kosovo
PCBK	ProCredit Bank Kosovo
POS	Point of Sale
PTK	Post and Telecommunications of Kosovo
RAP	Return Action Plan
RBKO	Raiffeisen Bank Kosovo
RDC	Rural Development Centre
RED	Regional Economic Development
RFC	Rural Finance Corporation
RISP	Rural Investment and Services Project
RoA	Return on Assets
RS	Republika Srpska
RSD	Serbian Dinar
RSP	Remittances Services Providers
RUB	Russian rubbles
SCA	Savings and Credit Association
SDC	Swiss Development Cooperation



SEE	Southeastern Europe/Southeastern European
SECO	State Secretariat for Economic Affairs, Switzerland
SFOR	Stabilisation Force
SIDI	International Solidarity for Development and Investment
SME	Small and Medium Enterprises
SOE	Socially owned enterprise
STUZZA	Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr
SUC	Serbian Unity Congress
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TEB	Türk Ekonomi Bankası Kosovo
TNS	Taylor Nelson Sofres
UFP	Unioni Financiar Prishtinë
UNDP	United Nations Development Programme
UNMIK	United Nations Interim Administration Mission in Kosovo
US	United States
USAID	United States Agency for International Development
USD	United States Dollars

## Exchange Rates<sup>1</sup>:

1 USD = 0.79173EUR

1 RSD = 0.01061 EUR

1 RUB = 0.02210 EUR

1 KM = 0.51271 EUR

## Definitions:

For the study, we will use the following definitions for recurring terms:

**Diaspora:** Emigrants and foreign-born residents, including second-generation people with migration backgrounds, students, and unauthorized foreign nationals living in Austria.

**South Eastern Europe (SEE)** includes all of the countries of former Yugoslavia, as well as Greece, Albania, Romania, Bulgaria, and Moldova.

**Remittances:** The term “remittances” generally includes “workers’ remittances,” “employee compensation” and “migrant transfers.” **Workers’ remittances** are regular foreign transfers by emigrants living abroad. In contrast, **compensation of employees** is paid to temporary migrants like short-term and seasonal workers. **Migrant transfers** are defined as non-recurrent, one-time transfers, including flows of goods. Furthermore, gifts and other material goods sent or brought by migrants to the homeland can also be considered remittances.

**Sustainable Development** refers to a pattern of economic and social development that will be sustainable and thus continue into the future in this study. In more general terms, sustainable development “meets the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>2</sup>

**Out migration:** To migrate from a place (in this context, we are usually referring to a country) to live in another (especially moving from a native country.)

**Extreme poverty** is the most severe state of poverty. People living in extreme poverty cannot meet basic needs for food, water, sanitation, and health care. According to the World Bank extreme poverty characterises people who live on less than USD 1.25 per day.

**It is useful to distinguish between “remittances” and “savings.”** The former are mainly sent in small amounts to family members for purposes of consumption. There is usually little if anything left over to invest. Yet there seems to be another category of funds (savings) that diasporas have access to that could be invested. It would be instructive to think in terms of accessing this second category of savings for purposes of development. We have therefore also considered savings and investment in our study.

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<sup>1</sup> Exchange rates as of 20.02.2009 from [www.oanda.com](http://www.oanda.com)

<sup>2</sup> United Nations. 1987. “Report of the World Commission on Environment and Development.” General Assembly Resolution 42/187, 11 December 1987.

## I Executive Summary

In contrast to other parts of the world where the resources of emigrant communities have been leveraged for the purpose of sustainable development, Europe has been remarkably slow to acknowledge the positive potential of migration. And in terms of creative policies to exploit that potential, it continues to lag woefully behind innovators in the field. Yet the preconditions for linking migration and development, and for duplicating the best practices employed elsewhere, exist in Europe. Decades of emigration from South Eastern Europe (SEE) to the more prosperous countries of Western Europe, Austria among them, has produced large and often well-networked diaspora communities that remit hundreds of millions of euros (EUR) to their origin homelands. These remittance flows have bolstered the hard currency reserves of shaky economies, helped balance yawning trade deficits, and lifted whole populations beyond poverty. **Yet one thing that decades of remittance transfers has not done is lay the foundation for sustainable development.** On the contrary, **regions of high “out” migration, particularly in rural areas, remain underdeveloped and suffer from brain drain, depopulation, and a chronic dependency on remittances.**

It was to address this conundrum that the Development Bank of Austria (OeEB) contracted the Frankfurt School of Finance & Management (Frankfurt School) to produce the “Assessment Study — Remittances from Austria.” The study’s aim was to take stock of the relationship between Austria’s vibrant émigré communities — particularly those from Bosnia and Herzegovina, Kosovo, Moldova, and Serbia — and the economies of SEE. More specifically, the study was to analyze the role of remittances and the capacity of the financial sectors in both Austria and the Western Balkans to enable diaspora communities to contribute to development. Moreover, the objective of the study was to propose three concrete projects for the OeEB to implement. On-site research for the study was conducted from October 2008 to January 2009.

One of report’s primary findings is that far too little has been undertaken by the various key actors — development agencies, governments in SEE, NGOs, financial sectors, and the emigrant communities — to make the most of the diverse and potent resources that exist in Austria’s diaspora populations.

In the origin countries, remittances, for example, are still spent overwhelmingly on consumption. Despite their impressive total volumes, most individual remittance transfers to SEE are of small sums (EUR 100-300) and are urgently needed for families’ basic needs like food, clothing, home heating, and medical expenses. When savings is invested, all too often it is in unproductive sectors, like housing. Also, despite slowly growing trust in the banking sectors, remittances are still often sent through informal channels and thus circumvent regional financial systems that are in need of capitalization. Many remittance recipients also possess low financial literacy.

Moreover, **both in Austria and in the recipient countries there are far too few financial products and services that encourage emigrants and remittance receivers to use formal channels and to minimize the transaction costs of remitting.** The Frankfurt School team found Austria an intimidating environment for many emigrants faced with financial decision-making. It recommends, on the one hand, providing financial literacy to diaspora communities and, on the other, sensitizing Austrian banks to the subject, as well as encouraging them to provide better services and information. **The establishment of a Remittances Task Force in Austria modelled after that in the United Kingdom** including key stakeholders could promote these issues on a national scale.

Thus while the **inflow of remittances has greatly increased living standards** in the countries examined, particularly in rural areas, it has not resulted in healthy private sectors, communities primed for development, or employment prospects for the younger generations. **What develops is a vicious circle:** faced with consistently bleak economic prospects in the home country, neither are emigrants willing to return in order to invest savings and use skills learned abroad nor does the younger generation in the homeland see its future in the village — but rather abroad, following in the footsteps of other family members who have previously emigrated. This is a particularly risky default strategy as it depends on the door to emigration always being open. In fact, today it is closed tightly shut. Just about the only way to get abroad from SEE’s non-EU nations is illegally or through family reunion. **The younger generations do not have the option to migrate the way their parents did.**

There are however a **broad range of policies, strategies, and mechanisms to help break this circle of underdevelopment.** For a start, the countries of the EU, like Austria, could be more open to **bi-lateral circular/temporary migration**

schemes, like those outlined in the final report of the 2005 Global Commission on International Migration<sup>3</sup>. These programmes can either send workers abroad for limited periods of time during which they learn valuable skills that they can then employ upon return to the homeland or they enable skilled members of the diaspora to return for short periods in order to transfer their skills. But the governments of SEE have not been successful in brokering these kinds of agreements. This, the Frankfurt School team found, was indicative not only of narrow immigration policies in the EU, but of deep capacity deficiencies in the regional ministries and agencies responsible for migration-related issues in SEE. This study thus calls for **long-term capacity building measures** to bolster these underfunded and understaffed institutions, and to help fortify them with the expertise they need to design and implement coherent policies to manage migration. In addition to circular migration, the kinds of relevant programmes designed elsewhere to link migration with development include the creation of **diaspora data bases, skill transfer exchanges, diaspora investment funds, and matching funds schemes for collective infrastructure projects**. In order to formulate coherent policies these countries also require more effective, accurate **data collection mechanisms** for measuring migration, remittances, and diaspora as well as enhancing analytical capacity.

Critical to leveraging migration is an **expanded conception of the migrant**, one that envisages the wage-earner abroad not only as a sender of remittances but as a **transnational agent with valuable know-how, worldly savvy, and investment capital**. This study found a keen willingness on behalf of the diaspora communities and returned migrants, as well as remittance recipients, to invest in the local private sectors. But too often the obstacles to doing so were prohibitive. There is, for example, a profound lack of information in diaspora communities about investment possibilities. **Proactive outreach** on behalf of the homelands could provide this kind of information as well as made-to-order investment packages, like the Investment Promotion Agency of Kosovo/Economic Initiative for Kosovo (IPAK/ECIKS) office in Vienna does for the Kosovar diaspora in Germany, Austria, Switzerland, and beyond.

In the same vein, there is a dearth of **financial products and services**, both in Austria and in SEE, that **facilitate remittance-related savings and investment**. There should be more **financial products that specifically target diaspora remitters, remittance recipients, and returnees in order to encourage direct investment in the homeland**. Introducing targeted credit products and strengthening credit institutions in rural areas is essential to do this. Greater loan sizes, for example, could be leveraged through a link to regular contractual savings. Predictable streams of deposits would greatly benefit the financial systems. And in light of a lingering distrust of the regional banking sectors, better savings and loan products would **address underlying structural weaknesses of the financial systems**.

**Especially microfinance institutions (MFIs) need to be strengthened in order to provide more sophisticated savings products** to diaspora remitters and remittance recipients since MFIs often have wide outreach into rural areas (in comparison to commercial banks) where many remittance recipients live. But the MFIs need upgrading before they can offer products like money transfers and remittances-tied savings. Likewise, **support for start-ups** could include both loans and technical assistance to new entrepreneurs that would mitigate some of the risks of start-up financing. With additional incentives and support, more potential entrepreneurs might choose to stay in or return to their home villages.

Since the current financial sectors in many SEE countries are not conducive to the introduction of more innovative transfer mechanisms (i.e. mobile transfers) and indirect investment, **we recommend OeEB's role in increasing the development impact of remittances by:**

1. **Focusing on strengthening key aspects of the financial systems in order to lay the foundation for more innovative products in the future;** and by
2. **Encouraging direct investment in local businesses and facilitate access and housing loans to the diaspora, remittances recipients and returnees through the provision of refinancing credit lines to banks and MFIs.**

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<sup>3</sup> Global Commission on International Migration, "Migration in an interconnected world: New directions for action" October 2005 ([www.gcim.org](http://www.gcim.org))

In this context, Frankfurt School recommends the following seven projects to OeEB:

### **1. Support the Set Up of a Deposit Insurance Scheme (DIS) in Kosovo**

The objective of this project is to increase the attraction of remittances-linked savings by the financial sector, and thereby support financial and private sector development in Kosovo. The establishment of a DIS will build trust in the financial system among small depositors in Kosovo. By supporting both the set up of the initial fund as well as staff training, the fund will be managed professionally and lay the basis for sustainable development. Also, an increased awareness of the DIS will encourage more remittances recipients to place their savings in financial institutions.

### **2. Strengthen Savings and Credit Associations (SCAs) to Support Investment in Rural Moldova**

The objective is to enhance the access of financial services, especially savings possibilities in rural Moldova for returnees and remittances recipients, and thus to encourage private sector growth. By supporting the SCA industry at a critical period of transformation, the project should strengthen the SCA system and improve access to financial services in rural Moldova. With more professional, well-developed, growing SCAs it will be easier to attract clients and motivate them to save and invest remittances.

### **3. Savings and Loan Product in Kosovo**

This product is designed to increase the attraction of (migration-linked) savings by the financial sector, and thereby support financial and private sector development in Kosovo. The new product will generate the basis for investments in real estate and the real economy, and enable savers to finance the purchase of housing or to invest in private sector businesses with long-term loans after two to three years of regular saving. The scheme will also encourage more remittance recipients to place their remittances-linked savings in banks or MFIs.

### **4. Strengthen the Microfinance Sector through the Association of Microfinance Institutions of Kosovo (AMIK)**

An amendment to the regulation on microfinance institutions now allows MFIs in Kosovo to apply for licenses for deposit taking and other banking activities, such as international money transfers. This will enable them to provide more comprehensive services to the general population and more specifically to diaspora and remittances recipients. MFIs, however, need strengthening to transform and to provide new products and services. The objective of this project is therefore to strengthen the Kosovar microfinance sector. In order to enhance the whole sector rather than strengthening only individual MFIs, it would channel support through the Association of Microfinance Institutions in Kosovo (AMIK).

### **5. Feasibility Study – Mortgage Backed Deposits**

The introduction of mortgage bonds would be an effective way to provide indirect investment instruments in the homeland. Mortgage bonds, however, require a certain degree of development of the capital market and uniformity of the housing sector, thus we consider more appropriate a modified scheme replacing mortgage bonds with certificates of deposits. Due to the complexity of such a development, Frankfurt School would however recommend conducting a short feasibility study in assessing the status of housing sector, legal framework and the willingness of banks in investing their resources in such an instrument. OeEB could later provide refinancing to jump-start the development of a secondary market.

### **6. A: Refinancing for Diaspora Housing Loans B: Refinancing for Diaspora Investment in MSMEs**

The project should provide refinancing and some TA to partner institutions for the implementation and marketing of the new loan products targeting the diaspora, i.e. MSME and housing loans. The projects' aims are to a) Increase the attraction of diaspora investment, and thereby support financial and private sector development in SEE; and to b) provide the diaspora with a means to purchase or improve housing in the home country. The introduction of an MSME or housing loan product could also be linked to encouraging regular formal transfers and the use of remittances and savings for investment.

## 2 Introduction

It is well-known that the Republic of Austria boasts an impressive international and multicultural composition. Almost 900,000 foreign nationals live in Austria, more than ten percent of the population.<sup>4</sup> And about 17 percent of all Austrians have a migration background – namely are foreign-born or have parents born abroad. In Vienna more than a third of its residents has such ancestry.<sup>5</sup> For centuries at the crossroads of eastern and western, as well as northern and southern Europe, Austria has been the destination of travellers, traders, refugees, migrants, and visiting professionals and students from the countries (and empires) of Central and South Eastern Europe (SEE). Today, over two-thirds of the foreigners in Austria stem from the former Yugoslavia and Turkey. In 2007, according to estimates of Austria's central bank (OeNB), EUR 698 million in workers' remittances was sent back to the worldwide homelands of these diverse transnational subjects. The World Bank even put the figure at well over EUR one billion, or 0.5 percent of GDP in 2006. In terms of trade, Austria stands out as a leader in many SEE countries; it is, for example, the number one trading partner of Bosnia and Herzegovina. Like those of no other country, Austrian banks are represented and known across the region.

These facts just begin to illustrate how important Austria is for SEE: as a host country for its varied emigrants, as a sending country for remittances, and as a hub for trade and investment. Yet although these flows of both human and financial capital have an enormous impact on the countries of SEE, remarkably little is available on the topic in Austria. This omission is particularly glaring in light of the prominent role that remittances and migration have been designated in the contemporary discourse over sustainable development and poverty reduction in developing and transition countries. There is broad recognition that the positive effects of migration can be maximized and the negative reduced; through coherent policies, managed migration and coordinated diasporas can contribute to economic growth in their countries of origin in different ways – and simultaneously enrich the host countries with more than just cheap labour. The United Nations High-Level Dialogue (2006) and the Global Forum on Migration and Development (2007) both underscored the potential of migration and diaspora activism, and the rigorous challenge of formulating hands-on policies to make development happen.

In the complex cluster of fields that impact the migration-development nexus, remittances is just one – though one very important – factor. In fact through this ongoing discourse, the emigrant (or better put, the person with migration background) is seen as more than just a remitter of money, but rather as a transnational facilitator of development. There are many places in the world where diasporas have already contributed significantly to homeland development, and where working-level policies and programmes have leveraged diaspora resources for even greater developmental impact. Yet these best-practice success stories come not from Europe, but overwhelmingly from Asia and Latin America. There is however considerable speculation that such policies are viable in the European context and that now is the time to begin to test them.

It is in this context that the Development Bank of Austria (OeEB) commissioned the Frankfurt School of Finance & Management to conduct the “Assessment Study – Remittances from Austria.” On-site research for this study was conducted between October 2008 and January 2009.

Among other aims the “Assessment Study – Remittances from Austria” will strive to:

- assess the amounts of and channels for remittances originating in Austria including an analysis of the flows to SEE, with a special focus on Bosnia and Herzegovina (hereafter “BiH”), Serbia, Kosovo, and Moldova;
- analyse the role of the Austrian banking sector and existing bank products for emigrants in Austria, including money transfer services;
- assess the use and impact of remittances in the respective SEE countries;
- identify possibilities for improving the developmental impact of remittances;

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<sup>4</sup> [www.statistik.gv.at/web\\_en/publications\\_services/statistische\\_nachrichten/033746.html](http://www.statistik.gv.at/web_en/publications_services/statistische_nachrichten/033746.html).

<sup>5</sup> [www.statistik.at](http://www.statistik.at).

- identify possibilities to make formal channels for money transfer more attractive;
- identify 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, etc.;
- propose at least three concrete projects to be financed by OeEB.

From the outset, the study was designed to focus on the financial sectors, banking products, and the use of remittances in the homeland countries. But since remittances – and more broadly migration and development – are so integrally tied to a range of much larger issues, this study has taken many additional fields into account, including migration management, government policies, microfinance, and diaspora investment practice, among others.

During the course of the study, it was gradually becoming apparent that the global financial crisis could heavily impact remittances, migration potential, and the economies of SEE in general. Some experts even predict reverse migration as a result of job loss and decreasing remittances. Yet the diasporas of SEE have proven time and time again that it is in times of crisis that they rally most strongly to their homelands. This study will concentrate on these countries from October 2008 to January 2009 when the Frankfurt School team conducted its research, before it was clear what the full effects of the financial crisis would be on the region.

## 2.1 Methodology

The four focus countries for the study – BiH, Kosovo, Moldova and Serbia – were chosen in cooperation with OeEB according to the size of the emigrant communities in Austria, the respective importance of remittance flows to the target countries, and the economic and political situation in SEE.

The study **consisted of both primary and secondary research**. Wherever possible, the Frankfurt School team took the findings of previous secondary research into account drawing on a variety of studies, databanks, articles, websites, and books; among others, by credible:

- 1) international and national research institutions (including universities, think tanks and independent researchers);
- 2) international donors and financial institutions (for example, the World Bank and the International Organisation for Migration);
- 3) government institutions (such as ministries and central banks); and
- 4) local and international press.

The secondary research was primarily used for background information on migration, remittances and the respective financial sectors. It was, however, principally used to complement the primary research of the study and where secondary research is used this has been cited in the relevant paragraphs. The study's primary research entailed following three major components:

### I. Interviews with key informants, including:

- 1) important stakeholders in the emigrant communities in Austria (including leaders and/or members of diaspora/migrants organisations and networks, migrant community religious figures, diaspora business people, and Austrian politicians, scholars, community organisers who work closely with migrant communities);
- 2) remittance recipients in target countries (primarily residents of selected villages which have experienced major out-migration over the past decades in each of the target countries);
- 3) Austrian Remittance Services Providers (RSPs) (formal remittances-linked financial service providers, for example, banks and money transfer operators) and other stakeholders in the Austrian remittance market (including the central bank of Austria and mobile phone operators);



4) financial institutions and other relevant stakeholders in the target countries' remittance markets (including commercial banks, microfinance institutions, savings and credit associations, central banks, ministries of finance, investment promotion agencies, and others) ; and

5) government officials and donors working on migration/remittance-related projects in the region (including relevant ministries and other government agencies, international donors, local politicians, NGOs and other other stakeholders.)

In total, over 185 interviews were conducted with the above mentioned individuals and organisations<sup>6</sup> from October 2008 to January 2009. The interviews were primarily designed to provide the Frankfurt School team with the following information<sup>7</sup>:

- a) An overview of the SEE emigrant communities living in Austria and their remittance-sending behaviour, including the organisation of diaspora networks;
- b) Information on the use of transfers products and remittance in recipient countries;
- c) An overview of the status of and developments in the Austrian remittance market, as well as in the target countries in SEE;
- d) Information on governmental and non-state institutions working in the area of migration and development in the target countries, as well as a compilation of current and planned projects of bi- and multilateral donors in this area.

## 2. RSPs Survey in Austria

1. In preparation of the RSP survey and the test transfers, the Frankfurt School team first conducted a **detailed and comprehensive analysis of the Austrian banking sector**, to establish a list of all study-relevant providers offering remittances services. Besides 52 listed joint-stock banks currently operating in the Austrian financial sector, there are numerous 'Raiffeisenbanken', 'Sparkassen' and 'Volksbanken' all over the country. Furthermore, eleven registered exchange offices are allowed to offer remittances services. Given a total of 870 listed credit institutions in Austria, it was important for the Frankfurt School team to first establish a list of the most relevant RSPs<sup>8</sup>. From the beginning, joint-stock banks like private banks, specialised banks and banks with an obviously different geographical focus were not taken into consideration. Thus, 15 banks, six exchange offices and one MTO were initially considered to be included in the study. After further examination of these 15 RSPs in terms of retail money transfer services, geographical focus/branch network in the four target countries, large private customer bases, the Frankfurt School team selected the 13<sup>9</sup> most relevant providers to be included in the study.

2. Following the compilation of this list of relevant Austrian RSPs, the Frankfurt School team carried out the **detailed survey** on country specific transfer fees in September and October 2008. The Frankfurt School team anonymously phoned or visited the selected providers' branches in order to collect the required information. This method of approaching the service centres ("mystery shopping") also gave Frankfurt School a first impression of the banks' general attitudes towards migrants' remittances.

3. When enquiring about the fees and conditions for different types of international transfers for the amounts of EUR 100 and EUR 500, the survey distinguishes between wire transactions, transfers within the bank's network (also printed form and online), payment by cheque, and cash transactions (both deposit to recipients account and cash payout). The survey also distinguishes between OUR, SHARE and BEN transactions. In OUR (BEN) transactions the sender

<sup>6</sup> For a full list of persons consulted, please see Annex 2

<sup>7</sup> The full questionnaires used for the interviews with RSPs, please see Annex 3

<sup>8</sup> There are also several special banks, investment fund management companies, severance and retirement funds, exchange offices, Slovenian loan banks, savings banks and savings banks joint stock companies, industrial credit cooperatives, mortgage banks, building societies, and branch offices of credit institutions from European economic area member states. However, besides two institutions, none of them are relevant in the context of this study.

SFMA([www.fma.gv.at/cms/site/attachments/3/7/9/CH0217/CMS1139835264280/ki-liste040401engl\\_5883.pdf](http://www.fma.gv.at/cms/site/attachments/3/7/9/CH0217/CMS1139835264280/ki-liste040401engl_5883.pdf))

<sup>9</sup> The survey on transfer fees also includes two online money transfer services.



(receiver) bears all costs incurred, while for SHARE transactions both parties split costs. Possibilities and additional fees for quick money transfers were also enquired. Furthermore, the survey provided information on exchange rates, respective transfer durations, basic customer requirements (e.g. necessity of holding an account), customer information management, branch networks and opening hours.)<sup>10</sup>

Specifically, the RSP survey was designed to establish:

- a) A comparison of official transfer methods for remittances and the costs associated with each channel;
- b) Market profiles of selected financial institutions and money transfer operators (MTOs), including the networks of branch offices in Austria and SEE, hours of operation, product portfolio (characteristics and conditions), transfer durations from Austria to the respective country, as well as customer requirements.

The data collected through the RSP survey is comprised of the official information available to any customer interested in remittance services (prices, transfer duration, etc.). This means that the data gathered is the standard information that the RSP provides to customers. The results of this survey will be provided in chapter 3.2.

### 3. Test Money Transfers

The test transfers were designed to sample the services of different Austrian RSPs to the four target countries. This complemented desk research, interviews, and data from the RSP survey. One principal objective of the test transfers was to verify the data provided by financial institutions in the RSP survey. Although the test transfers were not statistically representative, they nevertheless give a fair indication of how the process works in practice and its shortcomings. Frankfurt School therefore tested three RSPs<sup>11</sup> per country in the following way, comprising a total of 12 transactions for the four target countries:

- a) One cash transfer through an MTO or internet provider;
- b) One wire transfer through banks;
- c) One cash transfer through a bank.

The transfer amount was EUR 100, an amount that corresponds to that sent regularly by remitters.

The following chapters will detail the findings of this primary research in relation to existing secondary research. This report starts by mapping the remittance market in Austria, including an analysis of remittances flowing from Austria to SEE, the products and services offered by Austrian financial institutions to residents with migration backgrounds, and the characteristics of the SEE diasporas in Austria and their remittance-sending behaviour. The second part of the report constitutes an assessment of remittances from Austria to the four SEE target countries. It analyses both remittances in the financial sectors as well as migration policies, remittances use, and migration-related investment in the four focus countries. Finally, the study concludes with recommendations on improving the development impact of migration and remittances in SEE including specific recommendations on the role OeEB could play by proposing concrete project ideas.

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<sup>10</sup> For the full information asked for the survey, please see the questionnaire in Annex 3

<sup>11</sup> The results of the test transfers can be found in chapter 3.2.5

### 3 Mapping the Remittance Market in Austria

The following is a summary of the remittance market as well as a detailed analysis of RSPs in Austria and the transfer products available. This chapter concludes with a discussion of Austrian RSPs' broader strategies concerning products and services that target emigrants and remittances.

**Table I:** Workers' remittances from Austria 2007

Selected countries	EUR million
Serbia (incl. Kosovo)	131
Poland	78
Hungary	75
Czech Republic	71
Slovakia	68
Turkey	67
Germany	63
Bosnia and Herzegovina	33
Croatia	17
Romania	10
Italy	6
Great Britain	5
Philippines	5
France	4
Netherlands	4
Bulgaria	4
India	4
USA	3
Slovenia	3
Russia	3
Macedonia	3
Iran	3
Switzerland	2
Greece	2
Egypt	2
Nigeria	2
Albania	1
Moldova	<1
<b>Total worldwide</b>	<b>698</b>

Source: OeNB (unpublished estimates)<sup>12</sup>

#### 3.1 Outline of Remittances from Austria

The OeNB estimated the 2007 outflow of workers' remittances at EUR 698 million.<sup>13</sup> As table I shows, the major share of remittances from Austria goes to Central European and SEE countries. By far the highest share of remittances from Austria (EUR 131 million) flowed to Serbia (including Kosovo). More than EUR 70 million was also transferred to each of the following transition countries: Poland, Hungary, and the Czech Republic, followed by Slovakia and Turkey with EUR 68 million and EUR 67 million, respectively. Bosnia and Herzegovina received EUR 33 million in remittances from Austria. In comparison, remittances to Moldova were negligible, estimated at below EUR 1 million.

Despite the high proportion of people with migration backgrounds living in Austria, the total volume of remittance outflows is relatively small compared to those of much bigger countries like Germany, France, Spain, UK, and Italy. In terms of sheer volume, Belgium and the Netherlands are roughly on a par with Austria. However, in relation to GDP, Austria ranked above the EU-average: 0.26 percent of Austria's GDP was transferred to non-EU countries as remittances, which is higher than, for example, Germany (0.16 percent), the UK (0.15 percent), and Italy (0.10 percent).<sup>14</sup>

Other sources estimate a much higher volume of remittances from Austria. In addition to fluctuating exchange rates and different methods of calculation, differences result from varying definitions of "remittances." For example, in addition to workers' remittances, World Bank figures include "employee compensation" and "migrants' transfers."<sup>15</sup> The World Bank thus estimates that EUR 1 billion in remittances was sent from Austria in 2006.<sup>16</sup> Accordingly, remittances transfers per country are also estimated to be higher. The World Bank calculated that EUR 267 million in remittances was transferred to Serbia (incl. Kosovo and Montenegro) in 2006, while EUR 171 was transferred to BiH. Even so, World Bank calculations include only officially recorded remittances (i.e. sent through formal channels such as

<sup>12</sup> Provisional estimates provided by OeNB must not be published without approval from OeNB.

<sup>13</sup> OeNB estimates on workers' remittances base on domestic income growth. Administrative data is taken from different sources like social insurance, wage and income tax, and population census.

<sup>14</sup> Jimenez-Martin, Sergi, Natalia Jorgensen, and Jose Maria Labeaga, "Volume and geography of remittances from the EU", European Commission, 2007([http://ec.europa.eu/economy\\_finance/publications/publication10089\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication10089_en.pdf)).

<sup>15</sup> Workers' remittances, which the OeNB tabulates, are regular foreign transfers by emigrants living abroad. In contrast, employee compensation is paid to temporary migrants like short-term and seasonal workers. Migrant transfers are defined as non-recurrent, one-time transfers, including flows of goods. The term "remittances" generally includes "workers' remittances," "employee compensation" and "migrant transfers."

<sup>16</sup> CorporAID magazine, "Lost in Transaction", 2008([www.mficorp.com/links/Remittances.pdf](http://www.mficorp.com/links/Remittances.pdf)).

banks and other financial institutions) and does not take informal transfers (i.e. remittances sent with visiting family members or non-licensed operators) into account. It thus claims that: “The true size of remittances, including unrecorded flows through formal and informal channels is believed to be larger.”<sup>17</sup>

It is exceedingly difficult to track informally transferred remittances and there are no official estimates indicating their volume from Austria. Nevertheless, a **large proportion of remittances from Austria to SEE are sent informally**. Austria is close to SEE and, according to many interview partners, informal transfer methods are more convenient than banks and other formal channels. It is even likely that more remittances are sent informally from Austria than from Germany, where the World Bank estimates that half of remittances to Serbia are transferred through informal channels.<sup>18</sup> The Swiss State Secretariat for Economic Affairs (SECO)<sup>19</sup> estimates that as much as 80 percent of remittances are sent informally from Switzerland to Serbia. The total volume of remittances from Austria can therefore be assumed to be much higher than the official estimates. In light of the complexity of identifying and quantifying informal remittances, this study in the first place assesses money transfers from Austria through formal RSPs.

On the other hand, remittances are much lower than foreign direct investments from Austria, as illustrated in the box below. Therefore, this study also touches on the possibility of diaspora investment wherever possible.

#### Foreign Direct Investments (FDIs) from Austria:

The worldwide stock of FDIs from Austria was EUR 80.3 billion in 2006. By far the highest share was invested in Germany (EUR 11.1 billion). Almost 50 percent (EUR 36.8) were invested directly in Eastern and Southeast European countries. Total active FDIs increased significantly within the last years, also driven through increasing stocks in EE/SEE.

FDIs from Austria 1999-2006 (in EUR million)

	1999	2000	2001	2002	2003	2004	2005	2006
Total	19,039	26,674	32,351	40,512	44,308	51,249	60,869	80,256
o/w EE/SEE	5,483	8,026	11,548	14,745	16,295	20,073	28,846	36,760

Source: OeNB (2008), Direktinvestitionen 2006

Most Austrian FDIs in EE/SEE went to Czech Republic, Hungary, and Romania. These countries were not only the main target countries in the region. After Germany, they were also the three main destinations for Austrian FDIs worldwide.

FDIs from Austria to Serbia (including Kosovo) were EUR 1.1 billion, while EUR 709 million were invested in BiH. Since the number of Austrian direct investments in Moldova is too small, no data is available for active stocks in the country.

FDIs from Austria in selected EE/SEE countries (2006)

Czech Republic	6,238
Hungary	5,714
Romania	4,772
Croatia	3,497
Slovenia	1,848
Bulgaria	1,592
Serbia	1,111
BiH	709
Moldova	N/A
Total EE/SEE	36,760

Source: Unpublished OeNB calculations

<sup>17</sup> Dilip Ratha and Zhimei Xu, “Migration and Remittances Factbook – Austria”, World Bank, 2008.

<sup>18</sup> De Luna Martínez, José, Isaku Endo, and Corrado Barberis, “The Germany-Serbia Remittance Corridor: Challenges of Establishing a Formal Money Transfer System”, World Bank Working Paper No. 80.(2006) Washington, DC: World Bank.

<sup>19</sup> Swiss State Secretariat for Economic Affairs, “Development Financing and the Remittances Market in Serbia and Switzerland”, February 2007.

## 3.2 Remittance Service Providers in Austria

Commercial banks and specialised MTOs dominate the RSP market in Austria. The following provides an overview of the most important RSPs including branch networks, offered services, and transfer conditions. Most of the information given was collected through the RSP survey and interviews with stakeholders and site visits to branches. Section 3.2.5 also includes the results from test money transfers.

### 3.2.1 Overview of RSPs in Austria

The Austrian Financial Market Authority (FMA) currently lists 871 licensed financial institutions<sup>20</sup> operating in the national market. However, not all of them offer money transfer services to private customers and/or SEE countries. Several specialised banks, investment fund management companies, severance and retirement funds, mortgage banks, building societies, and branch offices of credit institutions from European economic area member states are therefore not relevant in the context of this study.

Money transfer services are principally offered by 53 joint-stock banks; 11 exchange offices (Wechselstuben); 544 independent rural credit cooperatives (Raiffeisenbanken); 55 savings banks and savings banks joint-stock companies (Sparkassen including Erste Bank der Österreichischen Sparkassen); and 69 industrial credit cooperatives (Volksbanken). Yet only the eight joint-stock banks offer transfer services to SEE.

**Among banks, Raiffeisenbanken, Volksbanken, Bank Austria, and Erste Bank (representing Sparkassen) are the most important RSPs.** They have large retail customer bases in Austria, and a strong presence in SEE countries, which makes them attractive to emigrants living in Austria.

Unlike in other countries, in Austria there is no specific license for MTOs. Thus, companies exclusively focusing on money transfers in Austria are either listed as exchange offices (e.g. Coinstar Money Transfer), cooperate with a partner bank (e.g. Money Gram), or have a full banking license (e.g. Western Union International Bank). As it is worldwide, **Western Union is the most important MTO** in Austria. Although it transformed into a bank, it also offers money transfer services through other banks. Western Union's keenest competitor is MoneyGram, which does not have its own banking license in Austria and therefore cooperates with Deniz Bank. Furthermore, Coinstar Money Transfer offers worldwide money transfer services and operates with an exchange office license in Austria.<sup>21</sup>

### 3.2.2 Branch Network in Austria and SEE, Hours of Operation

The outreach of the Austrian banking sector is high. In 2007 the sector included 870 main branches and 4,286 additional branch offices. The central offices and branches are well distributed among the nine federal states. In short: The sector provides very good banking access in cities, villages, and rural areas.

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<sup>20</sup> Finanzmarktaufsicht, "Licensed credit institutions in Austria", 2009

<sup>21</sup> There are three other MTOs in the Austrian market: PNB Austria Financial Services (an official overseas office of the Philippine National Bank), MBTC Remittance GmbH (an affiliate of Philippine Metrobank), and iREMIT Europe Remittance Consulting. However, all three exclusively conduct money transfer to the Philippines.

**Table 2: Banking sector outreach in Austria (2007)**

State	Central offices	Branch offices
Wien	160	484
Steiermark	111	581
Oberösterreich	141	809
Salzburg	88	267
Tirol	102	425
Kärnten	68	293
Vorarlberg	33	207
Burgenland	44	196
Niederösterreich	123	1,024
<b>Austria</b>	<b>870</b>	<b>4,286</b>

Source: Oesterreichische Nationalbank (2009), Statistiken – Daten und Analysen, Q 1/09

The four largest banks according to balance sheet total and private customer base also have the largest national branch networks. Raiffeisenbank has by far the widest outreach, followed by Erste Bank (Sparkasse), Volksbank, and Bank Austria (UniCredit Group). These four banks all belong to banking groups with member banks<sup>22</sup> in the SEE market, two of which have an especially strong presence in Serbia and BiH. Raiffeisen International also operates in Kosovo. However, none of these banking groups are present in Moldova.

**Table 3: International branch networks of the four Austrian major players**

	Austria	Serbia	BiH	Kosovo	Moldova
Raiffeisen (International)	2,190	91	92	12	-
Erste Group	993	67	-	-	-
Volksbank (International)	>600	26	50	-	-
UniCredit Group	336	50	161	-	-

Source: Websites of the respective banks (January 2009)

**Western Union has the largest branch network in Austria and the SEE region.** It benefits from the good bank branch networks in Austria since it has partnerships with and is represented in two commercial banks (Raiffeisenbank, Verkehrskreditbank). Western Union is also represented in exchange offices (e.g. Interchange Austria), and post offices (P.S.K.). Since it has a banking license, it offers services at the premises of Western Union International Bank (which has seven branches in Vienna and Innsbruck) and at various retailers focussing on emigrants, such as call-shops. Western Union has over 320,000 agent locations in more than 200 countries and territories. Accordingly, it also has the widest network of all RSPs in the four selected countries. In Serbia and BiH, it completely dominates the MTO market.<sup>23</sup>

**MoneyGram and Coinstar Money Transfer have much smaller operating networks than Western Union in both Austria and SEE.** Worldwide, MoneyGram's 162,000 locations are spread over 180 countries and territories. In Austria, it operates at ten branches of Deniz Bank in Bregenz, Graz, Innsbruck, Linz, and primarily Vienna. But it does not consider SEE as one of its main target regions. MoneyGram has several partner banks in Kosovo and three in Moldova

<sup>22</sup> Raiffeisen International is a fully-consolidated subsidiary of Raiffeisen Zentralbank Österreich AG (RZB). RZB is the central institution of the Austrian Raiffeisen Banking Group and the core company of the RZB Group. Raiffeisen International manages subsidiary banks, leasing companies and a number of other financial service providers in 17 Central and Eastern European countries. Volksbank AG is the central institution of Austrian Volksbanks and the primary shareholder of the bank group in Central and Eastern Europe with a network in 12 countries. Erste Bank Group is based in Austria. It also has subsidiaries in seven Central and SEE countries. Bank Austria is a member of UniCredit Group. Within the group, Bank Austria is responsible for 18 countries in Central and Eastern Europe (CEE). The CEE Division operates through Bank Austria which acts as sub-holding company of the Group.

<sup>23</sup> Further information on Western Union and other MTOs follows in the country analyses (chapter 4).

(SE Posta Moldova, Victoria Bank, Banca Sociala), but only two in Serbia (Agro Banka, Volksbank) and one in BiH (UniCredit Bank).

Coinstar Money Transfer has 21 points of service in Vienna and one in Graz, Linz, Salzburg, and Villach. For 2009, it plans to significantly increase its points of service. Coinstar primarily operates at retailers like call-shops and internet cafes, and offers services in over 23,000 locations in 143 countries. Regarding the four countries considered in this study, it offers money transfer only to Moldova, cooperating with six local partner banks. Coinstar plans to expand its network to Serbia, BiH, and Kosovo in the near future.

Opening hours of Austrian RSPs vary widely, not only between institutions but also from one branch to the next. However, **bank opening hours are generally shorter and more restrictive than those of MTOs**. Generally, banks' customer business hours start between 8 a.m. and 9 a.m., and end between 3 p.m. and 4 p.m. (5.30 p.m. once a week). Some smaller branches close for an hour-long break at noon, while larger or well located branches are also open on Saturday morning. If not located in a bank, MTOs generally open from 9 a.m. to 7 p.m. or even 11 p.m., including Saturdays, which allows for much more convenient access to services than Austrian banks are providing.

### 3.2.3 Overview of Remittance Transfer Products

**Banks principally offer wire transfers from one bank account to another.** This type of transfer can be conducted within the banks' internal network or through a foreign correspondent bank. Today, almost all banks use the SWIFT network.<sup>24</sup> Payment orders can be conducted directly in person at the bank branch or online.

The remitter of a wire transfer can choose between OUR, SHARE, and BEN transactions. The difference between these options is defined by the party (sender or receiver) that bears the cost of the transaction: In OUR transactions the sender bears all costs, while all fees are paid by the receiver. For BEN transfers, costs are split between sender and receiver. For SHARE transactions, the sender pays the internal fees of the sending bank, while the recipient is charged with external costs. In all cases, the sender determines which transaction type is used when sending the money.

Banks furthermore offer bank-order and customer-order check payment. However, the sending of checks is neither quick nor cheap, and is therefore generally considered unattractive for remitting.

**Cash transfer<sup>25</sup> is no longer offered by most banks.** The processing of the remitter's cash payments to bank accounts in foreign countries is simply too much effort, especially in terms of gathering and forwarding the recipient's personal data. Most banks therefore stopped cash transfers a few years ago due to the administrative effort of processing the increasing number of transactions. Only one bank in the survey still provides this service. All other banks discourage the remitter from using this channel, instead encouraging account-to-account transfers or MTO services.

On the other hand, cash transfer is basically the only transfer method offered by MTOs.<sup>26</sup> Cash is paid by the remitter at one of the many service points in Austria and within minutes the remittee can pick-up the money in cash in the recipient country. One major difference to bank transfers is that money is not sent to a specific branch but can be picked up at any countrywide location offering MTO service. Recipients need photo identification (ID) and a code which is given to them directly by the remitter, usually via phone/text message. At Western Union and Coinstar Money Transfer, the remitter pays all costs. At Money Gram, transfer fees can also be paid by the recipient. Sharing transfer

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<sup>24</sup> SWIFT, the Society for Worldwide Inter-Bank Financial Telecommunication, exchanges standardised financial messages for over 8,300 banking organisations in more than 200 countries.

<sup>25</sup> If offered, cash transfer includes only cash in-payment without passing a payment to the remitters account. Banks then transfer the money via an interim account to the recipient's bank account. Direct cash out-payment without crediting the recipient's account can not be offered by the ordering bank. This would require a direct, MTO-like cooperation between sending and receiving institute.

<sup>26</sup> One MTO also offers cash transfers to bank accounts. However, this option is relatively expensive and not only therefore almost not demanded.

fees is not possible. Cash can either be paid out in EUR, local currency (although in that case unfavourable exchange rates may be applied by the MTO), or sometimes in USD.

One further transfer method is the use of online providers. However, **online providers are still used very infrequently**. Some online providers initially require individual registration from the remitter. By virtually sending money to the recipient's email address, the latter is then asked to open an account. Funds can be uploaded to the online provider's website from either a bank account or a credit card and can be further transferred either to the recipient's bank account or by check.<sup>27</sup> With other online transfer methods money can only be uploaded to an online account from Master Card or Visa Card. Thereafter, the recipient will be sent a reloadable Visa prepaid card, which can be activated online or by phone.

Other formal options for sending money to SEE, such as mobile transfers services, are currently not available in Austria.

#### **Mobile Money Transfer:**

Mobile money transfer is one of various financial services provided within the scope of mobile phone banking. In a global view, it has great potential to significantly reduce remittances fees and durations. With 30 newly subscribed mobile phones every second, there are meanwhile 2,000 times more mobile phones as ATMs worldwide.<sup>28</sup> Sending and receiving money via phone is therefore **especially convenient for long-distance transfers to beneficiaries in rural unbanked areas**. Accordingly – and of course also considering international migration patterns and the structure of diaspora communities – most noteworthy examples come from recipient countries in Sub-Sahara Africa and South/Southeast Asia.

Vodafone and Citigroup announced a worldwide mobile remittance venture, although to Frankfurt School's knowledge this has not become operational. Starting with the first cross-border trial from UK to Kenya, a newly developed product would allow remitter and beneficiary to choose from a range of sending and receiving options. The cooperation builds on Vodafone's experiences with M-Pesa, a domestic mobile banking service offered by its Kenyan affiliate Safaricom.<sup>29</sup> This pilot project was initially co-funded from the UK Department For International Development (DFID). M-Pesa now has 6.5 million subscribers and 7,000 agents (compared to 750 bank branches countrywide).<sup>30</sup> Besides the lacking physical access to the banking sector, the success of M-Pesa also results from a benefiting regulatory framework in Kenya. Cooperating agents do not need to have a bank license to redeem sent credits as cash.

For money transfer to the Philippines, Smart communications offers a product called Smart Padala, the worldwide first remittance service via text message. Remitters can send money to a Smart mobile number through cooperation partners in 19 countries, including Austria. Beneficiaries will be sent text messages including code and transaction confirmation. Recipients can then choose between encashing the money in a Smart Padala centre or receiving a Smart money card for withdrawing cash from ATM's nationwide. Again, like in the case of Kenya, one crucial success factor has been the flexible regulatory environment enabling mobile phone providers to mix banking and telecommunication services.<sup>31</sup>

One Austrian mobile phone provider had a project team evaluating the potential of mobile remittances services to SEE. The team's work was, however, put on hold in 2008. Calculations for the channel Austria to Serbia showed that financial conditions are unfavourable due to high start-up investments and relatively small expected earnings. The main obstacle is that the legal framework in Serbia does not allow non-financial institutions to encash funds received through mobile phones. For offering remittances services, mobile phone providers would therefore have to cooperate with a partner bank, leading to shared profits between the mobile phone provider and the partner bank (making the return on investment much less attractive to providers). Furthermore, access to banking services in SEE is generally good, which decreases the demand and the likelihood of success for mobile banking services.

<sup>27</sup> Check payment is only available to residents of OECD countries.

<sup>28</sup> Homepage "Mobile Money Transfer", 2009 ([www.mobile-money-transfer.com/the-mmt-opportunity](http://www.mobile-money-transfer.com/the-mmt-opportunity)).

<sup>29</sup> Vodafone (2007), ([www.vodafone.com/start/media\\_relations/news/group\\_press\\_releases/2007/vodafone\\_and\\_citigroup.html](http://www.vodafone.com/start/media_relations/news/group_press_releases/2007/vodafone_and_citigroup.html)).

<sup>30</sup> Homepage "Mobile Money Transfer", ([www.mobile-money-transfer.com/africa/latest-news](http://www.mobile-money-transfer.com/africa/latest-news)).

<sup>31</sup> [http://smart.com.ph/corporate/services/SmartPadala/Padala\\_intl.htm](http://smart.com.ph/corporate/services/SmartPadala/Padala_intl.htm)



### 3.2.4 Costs, Duration, and Conditions of Transfers

#### 3.2.4.1 Costs

The total cost of wire transfers differs according to the relationship of the sending and receiving banks. For account transfers outside of the EU, total costs are composed of: 1) internal fees of the sending banks in Austria; 2) external fees of the receiving banks; and 3) fees of correspondent banks.<sup>32</sup> Austrian banks' fees generally do not differ by receiving country; the only difference is whether a receiving bank is in or outside of the EU.<sup>33</sup> However, sending banks in Austria can only realistically specify their own, internal share of total transfer fees. Additional, external transfer fees depend on the fees of correspondent and recipient banks involved in the transaction.

The RSP survey found the average sending fees<sup>34</sup> for wire transfers through the ten banks examined in the survey to be EUR 9.18 and EUR 9.78 for sending EUR 100 and EUR 500, respectively.<sup>35</sup> Seven banks charge fees between EUR 8 and EUR 10. One bank offers money transfer up to EUR 100 free of internal charge. It charges EUR 6 for transfers up to EUR 5,000. Another Austrian provider is significantly more expensive than the other banks: It charges EUR 14.50 for sending up to EUR 5,000.

If requested by the customer, quick money transfer within one working day is available for an additional fee of between EUR 10 and EUR 20 (average: EUR 12.61). However, although remittances should usually be transferred as fast as possible, this option is more attractive for sending higher amounts since additional fees are relatively more expensive for small transfer amounts.

Table 4: Austrian banks' fees for EUR 100 and EUR 500 wire transfers to selected countries (in EUR)

<i>Wire transactions</i>	Internal fee (EUR 100)	Internal fee (EUR 500)	Additional fee quick transfer
Bank 1	8.00	8.00	10.00
Bank 2	9.00	9.00	10.80
Bank 3	9.40	9.40	11.00
Bank 4	0.00	6.00	15.00
Bank 5	11.45	11.45	10.00
Bank 6	9.43	9.43	20.00
Bank 7	10.00	10.00	12.30
Bank 8	14.50	14.50	12.00
Bank 9	10.00	10.00	15.00
Bank 10	10.00	10.00	10.00
<b>Range of fees</b>	<b>0.00-14.50</b>	<b>6.00-14.50</b>	<b>10.00-20.00</b>
<b>Average</b>	<b>9.18</b>	<b>9.78</b>	<b>12.61</b>

Source: Frankfurt School RSP survey

Wire transfer fees generally do not increase up to a relatively high transfer amount of EUR 5,000, EUR 12,500, or even EUR 50,000. **Bank transfers thereby become relatively cheaper with increasing transfer amounts.** On the other hand, total fees are high for sending small amounts like EUR 100 which provides an explanation why emigrants often prefer to send smaller amounts in cash through MTOs or informal channels rather than using wire transfers.

<sup>32</sup> In this context, internal transfer fees do not mean fees for group/network internal transactions, but fees that remitters have to pay to the ordering bank for group/network external money transfer. For SWIFT transfers, additional external fees for example accrue at the correspondence bank(s).

<sup>33</sup> Account transfers within the EU are generally free of any charges for transfers in EUR.

<sup>34</sup> Valid for account transfers to all countries outside the EU, including the four target countries.

<sup>35</sup> The following data was collected by an anonymous survey, either via telephone or visit to a branch.



However, it should be reiterated that **the above mentioned costs are not necessarily the total cost of the wire transfer.** Above are only the fees charged in Austria by the sending banks. Additional fees can and often do apply to a wire transfer depending on the number or correspondent banks and the fees of recipient banks, making wire transfers for small amounts even more expensive and unattractive. Total costs, however, need to be evaluated on an individual basis and cannot be summarized in a general manner.

#### Transit Germany: Money Transfer from EU countries to Serbia

Since January 2009, Serbian Komercijalna Banka offers remittances services from EU to Serbia through their business unit in Frankfurt, Germany. Latter is thereby used as an EU-hub<sup>36</sup> between the remitter's bank (anywhere in the EU) and Komercijalna Banka Serbia. Recipients have to open a free foreign currency account at Komercijalna Banka.

Total transfer fees are relatively cheap (e.g. EUR 7 for sending amounts between EUR 250 and EUR 700), and shall be borne by the beneficiary. Once the payment entered Komercijalna Banka's branch in Germany, net-internal transfer to the recipient's account in Serbia takes place within the same day.

According to EU directives, both registration and transfer procedures follow strict provisions against money laundering and terror financing. Therefore, as an independent third party, the remitter's house bank verifies the customer's identity based on passport or identity card. Foreigners (non-EU residents) additionally have to submit a residence permit. An identification form provides further information about employment relationship and transfer purpose/approximate amount.

Sources: Komercijalna Banka homepage ([www.kombank.com/eng/tekst.asp?id=293](http://www.kombank.com/eng/tekst.asp?id=293)) and FS RSP survey

One Austrian bank, by circumventing correspondent banks, offers wire transfers at lower costs to banks in SEE that are members of the same group. One Austrian bank offers EUR 7 transfers to their member bank in Serbia and BiH, irrespective of the amount sent. Another Austrian bank plans to offer a EUR 3 flat fee (total cost) for money transfers to their member bank in Serbia as of 2009. Neither one of the two providers will charge sender or recipient an additional external fee, making this an attractive transfer option. Other banking groups operating in both Austria and SEE do not specify offering special conditions for group internal wire transfers to the target countries.

Table 5: Special fees for group internal transactions to selected countries (in EUR)

Group internal transactions	Total fee	Additional fee quick transfer
Bank 1 Austria to Bank 1 Serbia and BiH	7.00 flat rate	-
Bank 2 Austria to Bank 2 Serbia (upcoming)	3.00 flat rate	-

Sources: Frankfurt School RSP Survey

Internal fees for order checks are on average the most expensive transfer option and differ significantly between banks. For sending bank-order checks (EUR 100), the remitter has to pay from EUR 9.40 to EUR 24.50 (average EUR 16.76). Fees for customer-order checks lie between EUR 9.40 and EUR 21.50 (average EUR 15.62). The recipient is further charged with fees for cashing the check, making this option in total expensive and unattractive.

In contrast to wire transfers, MTO fees differ significantly depending on provider, recipient country, and amount sent. MTO 1<sup>37</sup> is the by far the most expensive of the three MTOs. The remitter is charged EUR 17.50 (special fees: EUR 12)<sup>38</sup> for transferring EUR 100. MTO 1 is much more expensive than MTO 2 which offers the same transfer for EUR 8.50 to all four recipient countries included in the study (BiH, Kosovo, Moldova, and Serbia). The third MTO considered is the cheapest service to transfer EUR 100 (with EUR 8), although this is currently only available for transfers to Moldova. Prices at all three MTOs are significantly higher for sending EUR 500 and increase significantly for higher amounts (as opposed to banks that only increase their fees for amounts above EUR 5,000).

<sup>36</sup> EU-internal EUR-transfers from the ordering bank to Komercijalna Banka Frankfurt are generally free of charge. The follow-up transfer to Komercijalna Banka Serbia takes place net-internal.

<sup>37</sup> See Table 6 below.

<sup>38</sup> Some distribution partners offer special fees for sending money to SEE countries including Serbia, BiH, Kosovo, Montenegro, Macedonia, and Croatia.

**Table 6: MTO fees for EUR 100 and EUR 500 transactions to selected countries (in EUR)**

EUR 100	Serbia	BiH	Kosovo	Moldova
MTO 1	17.50/12.00	17.50/12.00	17.50/12.00	17.50
MTO 2	8.50	8.50	8.50	8.50
MTO 3	N/A	N/A	N/A	8.00

  

EUR 500	Serbia	BiH	Kosovo	Moldova
MTO 1	35.00/25.00	35.00/25.00	35.00/25.00	35.00
MTO 2	21.00	21.00	21.00	21.00
MTO 3	N/A	N/A	N/A	27.00

Source: Frankfurt School RSP survey

**Costs of online transfers vary according to provider and the amounts sent and are not conditional to the transfer method as such.** Irrespective the amount sent, the first online provider surveyed offers relatively cheap transfer conditions compared to both wire transfers and MTOs. Fees for sending money are only 1 percent (minimum EUR 0.50), while receiving money on the provider's account is free of charge. Uploading funds to this account is either free (from a bank account) or costs 1.9 percent of the uploaded amount (from credit card). Withdrawing the money to a bank account costs EUR 1.80, other withdrawal options are not available for the four selected countries. If funds are uploaded from a credit card, this results in total transfers fees of EUR 4.70 for EUR 100 and EUR 16.30 for EUR 500. If funds are uploaded from a bank account, total transfer fees are only EUR 2.80 for sending EUR 100 and EUR 6.80 for EUR 500, which is remarkably cheap compared to other provider fees.

**Table 7: Online provider 1, transfer fees for EUR 100 and EUR 500 transactions (in EUR)**

	EUR 100	EUR 500
Upload from bank account	free	free
Upload from credit card	1.90	9.50
Transfer fee	1.00	5.00
Withdrawal to bank account	1.80	1.80
<b>Total if uploaded from bank account</b>	<b>2.80</b>	<b>6.80</b>
<b>Total if uploaded from credit card</b>	<b>4.70</b>	<b>16.30</b>

Source: Frankfurt School RSP survey

At the second online provider considered, fees are USD 5 (up to USD 1,000) plus an additional 3 percent of the amount sent for transfers outside the United States.<sup>39</sup> Accordingly, sending USD 100 (USD 500) to the prepaid VISA card costs USD 8 (USD 20). However, there are several other fees for shipping the prepaid card (at least USD 11.95 to Europe), account maintenance (USD 0.99 monthly for the remitter), and ATM withdrawal (USD 1.99 for the recipient). Thus, although fees for the transfer itself are relatively low compared to banks and MTOs, several other fees cause additional costs on both sides, making total costs intransparent.

Exchange rates can often be an additional source of hidden transfer fees. However, in the analysed corridors, the **exchange rate is not a source of additional transfer costs**. Irrespective of the transfer method, money is sent and received in EUR. For wire transactions, recipients in all four considered countries have to have an EUR account for receiving transfers from Austria. For order checks, MTOs, and online providers, money is also sent and received in EUR.<sup>40</sup> The recipient does not have to exchange EUR to local currency at the receiving provider, but can choose any other bank or exchange office offering attractive exchange conditions.

<sup>39</sup> Online provider 2 exclusively offers USD payments.

<sup>40</sup> At Ikobo, money is sent and received in USD.

### 3.2.4.2 Duration

The duration for sending money depends on the type of transfer, and not on a particular provider or the receiving country. The following gives an overview of transfer durations at banks (wire transfer, order checks, and one bank's group internal transfer), MTOs (cash), and online providers (account to account).

**Table 8: Remittance duration for different types of transfers**

Wire Transfer	Order Checks	Group-internal (for only one bank)	MTOs	Online Providers (account to account)
est. <sup>41</sup> 2-5 working days	est. 4-5 working days, up to two weeks	est. 1-2 working days	10-15 minutes	Real-time plus e.g. wire transfer

Source: Frankfurt School RSP Survey

MTOs transfer money through their own international network, which makes them by far the fastest providers. Money is available to the recipient within 10-15 minutes, making MTOs unrivalled in this context since remittances are often urgently needed.

According to the bank tellers' estimations, wire transfers last 2-5 working days depending on how many correspondent banks are involved. Sending order checks takes 4-5 working days, and in some cases even up to two weeks depending on the courier service. As is the case with total fees for bank transfers, the exact duration of wire and check transfers can not be forecast reliably.

Sending money from one Austrian bank to its affiliate in Serbia/BiH, however, in most cases only takes 1-2 days. The banks are directly connected and have a special agreement on money transfer conditions. Hence, not only the costs but also the duration of the group-internal transfer make this transfer option very attractive. For all other banks belonging to groups with member banks in SEE customer service representatives indicated that transfers from Austria to associated group members in SEE take just as long as wire transfers to other banks in the target countries.

Although online providers often transfer money from account to account in real time, additional steps are often necessary for making the money available. For example, downloading funds from an online provider's account to a bank account lasts the regular wire transfer duration of about 4-5 days. At other online providers, after sending the money from the online account it takes several days until funds are finally available on the recipient's prepaid card, making transfer durations unpredictable.

### 3.2.4.3 Customer Requirements

Wire transfers first of all require a bank account for the sender. Austrian banks, however, have different requirements for opening bank accounts. All banks ask for a valid passport or identity card. Some banks furthermore ask foreign citizens to present a certificate of residence from the responsible municipality. Others also need to see proof of a regular source of income if the applicant is not an Austrian citizen. For the actual money transfer, the remitter must identify him- or herself each time by presenting either ID or a bank card. This applies for all transactions, irrespective of the amount sent. Of course, for bank account transactions, the remitter also needs the recipient's name and account number (if possible IBAN) as well as the receiving institute's bank identification codes (e.g. BIC or SWIFT), which implies that a remitee must also have a bank account in order to receive the funds.

MTO customers do not need to open an account for sending money since transactions are cash-based. Nevertheless, MTOs can also have strict requirements for customer identification. For example, one MTO requires a document detailing information about the customers' current residence for every transaction. Besides a valid ID, this could for example also be an invoice of a public utility company or a hotel statement. Requirements are not as strict for using the other two MTOs. Another Austrian MTO requires the remitter to provide identification only for transfer amounts above EUR 850.

<sup>41</sup> Estimates for wire transfers, order checks and group internal transfers are rough estimations according to the RSPs surveyed. Transfers can be faster or slower in reality.

Similarly, the third considered MTO only requires the sender to present an ID for amounts over EUR 500. Recipients must present IDs for any amount for all MTOs.

For using online remittance services, customers need to register and provide the address of their residence, phone number, and email address. Bank account and/or credit card details are also required. In accordance with e.g. anti-money laundering guidelines, profile data are then verified with an independent information source.

In summary, the customer requirements of Austrian RSPs are in line with international standards. Banks, MTOs, and online providers in Austria follow the legal guidelines that are required in terms of anti-money laundering. In Austria, there are no additional requirements complicating formal transfers.

### 3.2.5 Outcome of Test Money Transfers

The test transfers confirmed that **MTOs can reliably predict the cost and duration of transfers, whereas banks are not able to give reliable ex ante information to customers.** As table 8 shows, test transfers via the three considered MTOs correspond entirely with the providers' statements. The remitters paid the state fee and after transmitting the transaction code by phone, cash was available for the recipients immediately. There were no unexpected complications.

**Table 9: Results of test money transfers (EUR 100)**

Transfer channel	Ordering institute	Target country	Receiving institute	Received (EUR)	Fees Austria (EUR)	Total costs (EUR)	Duration (working days)
MTO	MTO 1	Serbia	Internal	100.00	8.50	8.50	0
MTO	MTO 2	Kosovo	Internal	100.00	17.50	17.50	0
MTO	MTO 2	Moldova	Internal	100.00	8.00	8.00	0
Bank account	Bank 1	Serbia	Bank 1 Serbia	99.60	8.25	8.65	1
Bank account	Bank 2	BiH	Bank 2 BiH	100.00	0.00	0.00	2
Bank account	Bank 3	Kosovo	Local bank 1	95.00	0.00	5.00	1
Bank account	Bank 4	Moldova	Local bank 2	90.00	9.40	19.40	2
Cash via bank	Bank 5	Serbia	Local bank 3	70.00	10.00	40.00	4
Cash via bank	Bank 6	BiH	Local bank 4	Transfer refused <sup>42</sup>			
Cash via bank	Bank 7	Kosovo	Local bank 5	Transfer refused			
Cash via bank	Bank 8	Moldova	Local bank 6	Transfer refused			
Online	Online provider 1	BiH	Local bank 7	98.20	2.40	4.20	26

Source: Frankfurt School test transfers

On the other hand, **banks are largely unable to provide customers with reliable ex ante information and cannot control total costs and durations of wire transfers.** This was to be expected due to the problems of transferring money via correspondent banks, which makes both exact costs and duration unpredictable for banks. For example, the cash transfer from Bank 5 to Local bank 3 in Serbia showed that correspondent banks' fees can be very significant. Bank 5 only charged the sender EUR 10 in internal fees. However, of the transferred EUR 100, only EUR 70 finally arrived in the recipient's account, indicating that intermediary banks charged EUR 30 for their services.

Some test transfers in fact showed better than expected performance of Austrian banks. Many **transfers were faster and cheaper than expected** in comparison to the information obtained during Frankfurt School's RSP survey. Results show that **banks can in some cases compete with MTOs in terms of price and duration.** For example, instead of the expected EUR 14.50, Bank 2 offered a transfer to BiH free of internal charge. Furthermore, with only 1-2 days duration, transfers were also faster than assumed (4-5 days). This positive performance can be explained as follows:

- No internal fees were taken for wire transfers to Kosovo and BiH. The transfers were free of internal charge since both banks referred to **EU standard transfers that are always free of charge.** Although the remitters

<sup>42</sup> As explained above, cash transfer is no longer offered by most banks in Austria. This, however, only became apparent when conducting the test transfers since some banks still officially offer this option and prices were provided by banks during the RSP survey. (see further explanation on page 24)

reiterated that the receiving institutes were not located in EU member countries, the banks did not debit the remitters' accounts. It can be assumed that this was caused by the fact that recipient banks have parent companies within the EU. There were therefore not only no fees charged by the sending bank, but also no external fees from third parties. Thus, since the receiving bank in BiH does not levy fees for incoming transfers, the entire bank transfer from Austria to BiH was free of charge. Transfer from Bank 3 Austria to Local bank 1 Kosovo cost only EUR 5 for the incoming transfer fee.

- Bank 1's group internal transfer to Serbia cost the remitter EUR 8.25 instead of expected EUR 9.43. More importantly, the recipient only had to pay the recipient bank's 0.4 percent incoming transfer fee (EUR 0.40). No further external fees incurred, leading to total transfer fees of EUR 8.65.<sup>43</sup>

Interestingly, upon Frankfurt School's further inquiries with customer service representatives of the banks in Austria, it was reiterated that the transfer fees of the RSP survey should apply to the specific transfer example conducted above and that no cheaper or faster transfers were available to banks that are members of the same group in SEE. This stands in stark contrast to the outcome of the test transfers that showed both cheaper and faster transfer possibilities exist.

In general, there were many discrepancies between the RSP survey and the test transfers. Test customers experienced **difficulties in obtaining reliable information on available transfer services without actually performing a transaction. Banks' customer services do not seem to be well-informed about transfer services**, which was also confirmed by the attempts to perform cash transfers at banks. During the test transfers three of four banks refused cash transfers when customers went to the branches, although customer service representatives had confirmed the services and conditions in the preceding phone survey. Furthermore, some of the prices provided by banks during the RSP survey turned out to be inaccurate.

Further results of the test transfers showed that although the price was predicted accurately, **the process of the online money transfer proved to be more complicated and time-consuming than other transfer methods**. In the end, the entire online transfer process took more than one month since there were difficulties for the recipient transferring the money to his bank account. The tested online provider was unable to verify the data in the recipient's profile with an independent information source. Due to anti-money laundering regulations, they were therefore required to obtain an additional proof of identity<sup>44</sup> before processing this first withdrawal request (which after verification still lasted six days). This is a legally binding procedure, and final verification only needs to be done once. It is however questionable whether remittances recipients in the four considered countries are willing to undergo such complicated procedures to send remittances.

### 3.2.6 Austria's Approach and Challenges in Providing Remittance Products

**Although virtually all retail banks in Austria offer international transfer services, very few institutions consider these to be remittances-linked services or offer other products or services linked to remittances or targeting migrants in Austria.** Migrant remittance services are generally considered a niche product and not as an important part of Austrian banks' business strategies.

Nevertheless, two banks belonging to a network with banks in SEE pointedly focus on diaspora communities in Austria. In the context of an ongoing customer relationship project, one bank's future strategy is to offer comprehensive financial services to the SEE community, both in Austria and in their home countries. The provider also explicitly aims at offering cheaper money transfer than the most frequently used MTO. Group internal money transfers to SEE will be offered for only EUR 3, irrespective of the amount sent. However, of the four selected countries, this bank operates only in Serbia. A further RSP already offers cheap group internal transfers (EUR 7 flat-rate) from Austria to Serbia and BiH,

<sup>43</sup> Based on Serbian remittances recipients previous experience with the bank (according the Frankfurt School's on-site interview partners), it is possible that additional charges will be debited from the recipient's account at a later point in time.

<sup>44</sup> The online provider offered the recipient three options for obtaining additional proof of identity: 1) Charging the withdrawal fee to the recipient's credit/debit card (instantly), 2) Verifying the recipient's bank account (within 3 banking days), or 3) Verifying the recipients address (within 2-5 banking days). The recipient chose the third option, whereupon he was sent a letter for reply.

thus revealing a special focus on these countries' diaspora communities. None of the other Austrian banks, however, specified any remittance-linked services or strategies.

Naturally, **international money transfer and, thus, remittances are MTOs' core business.** In fact, emigrants and their families in the homeland are MTOs' main target group. Because of selective marketing measures for the top corridors, large and/or specialised MTOs are well-known among diaspora communities. Furthermore, MTOs often employ immigrants from relevant countries who can reach out to customers in their native languages. Consequently, especially those emigrants not speaking sufficient German feel much more comfortable. According to one MTO, this service is much more important than the actual price of the transfer.<sup>45</sup> Thus, MTOs provide good transfer services tailored to the needs of diasporas in Austria.

In general, however, **Frankfurt School experienced an outright disinterest from Austrian RSPs and especially banks to improve existing transfer methods or develop more remittances-linked financial products.** Frankfurt School sees several potential reasons for the lack of interest:

- Numerous banks realize a decent profit by offering MTO services in their branches. MTOs' positioning in the remittances market is very dominant, not least because of aggressive and costly marketing measures. Therefore, there is probably a lack of financial incentives for banks to become another competitor themselves by offering cheaper transfers and/or more comprehensive services. Potential profit margins might be too low for risking the profitable earnings of the existing partnerships with MTOs.
- Banks furthermore might be concerned about their image. According to informal conversations with some of their employees, perhaps banks do not want to be known as a "migrant bank."
- The lack of interest could possibly also issue from the stigma attached to international transfers that are often associated with money laundering and terror financing.

Furthermore, Austrian banks in particular are faced with another main challenge to offer or improve special products and services targeted at diaspora in Austria:

**Remittances are still largely sent informally and capturing more of the informally sent remittances is very difficult.** For example, one Austrian bank had seriously taken the large volume of informally sent remittances into consideration in their expansion strategy for SEE. Five years ago, the bank even started offering free money transfers to SEE. But this has not had the expected success in terms of winning new clients or increasing money transfers: because of the persistent use of informal transfer channels. The extensive use of informal transfer methods in the SEE corridor has various reasons that banks can not influence:

- Due to the proximity of SEE, emigrants are able to travel to their origin countries several times a year and therefore have the opportunity to bring remittances with them or to entrust them to friends or family members to deliver. This also has a personal aspect which cannot be replaced by a bank transfer. As long as emigrants keep visiting their native countries on a regular basis, it is unlikely they will stop sending through these informal networks.
- Some of the informally transferred money has also been earned in gray economies and black markets. Therefore, senders prefer to send money this way because there is no formal record of the transaction. This money will most likely never be sent through formal channels.
- People from SEE have had very bad experiences with their home countries' banking sectors.<sup>46</sup> Some of them lost all of their savings on numerous occasions. It takes time to rebuild trust in the banking sector, also in light of the current worldwide financial crisis.
- There is still a general uneasiness and suspicion concerning state observation and a reluctance to trust public bodies. Although this is largely an intangible fear, emigrants are nevertheless reluctant to disclose how much

<sup>45</sup> Two of the MTOs specialised in remittances to the Philippines, exclusively employ staff speaking Tagalog.

<sup>46</sup> The lack of trust in the SEE banking sector will further be discussed in section 3.3.3.

money they are earning/sending/receiving due to experiences in the past and the uncertainty of what could happen to the money or the recipients if sent formally.

- Informal transfer channels work and have become habitual. There is no real felt “need” on the side of the senders or recipients to use other services because informal transfer channels are relatively quick, reliable, and not too expensive. Furthermore, senders and receivers have grown accustomed to using these transfer methods. Therefore, channelling more informal transfers into formal channels is even more difficult because it would mean offering a better service and breaking ingrained habits.

**On the other hand, Austrian banks are well positioned to use remittances services to attract new clients.** Especially due to the issue of trust, but also because of an overall positive image, Austrian banks have a positive influence on SEE banking sectors. This positive image coupled with the already good positioning of Austrian banks in SEE suggests that Austrian banks are facing very good conditions for further development in the region, which also pertains to remittance-linked products.<sup>47</sup>

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<sup>47</sup> However, banks in recipient countries belonging to Austrian groups are rather independent in each country and would also need to be dealt with on a more or less individual basis. Possible products development and marketing would also need to be discussed with them directly.



### Key Points

- The Austrian central bank estimates remittances from Austria at EUR 698 million, with the major share going to Central Eastern and Southeastern European countries. It is however likely that the total volume of outflows is even higher. **Although official estimates are not available, a large proportion of remittances from Austria to SEE are sent informally.**
- Some banking groups have large branch networks in Austria and SEE. Worldwide operating MTOs also offer remittances services to SEE.
- Transfer fees differ among RSPs. MTO fees thereby increase significantly for higher transfer amounts. In contrast, banks' wire transfer charges remain the same for sending amounts up to several thousand EUR, thus becoming relatively cheaper with higher sending amounts.
- Although costs and duration are important determinants for the remitter's decision on both transfer channel and provider, **banks can hardly ever give reliable ex ante information on total transfer cost and durations.** Each individual transaction cost and duration depends on various factors. Costs, for example, not only include fees charged by the sending banks but also fees of receiving banks and other involved correspondent banks. **Total transfer costs are often opaque for the remitter.**
- There is only one exception, offering quick EUR 7 transfers to Serbia and BiH within the banking group. Another bank plans EUR 3 transfers to Serbia within the group network in the near future.
- MTOs focus on remittances. Their competitive edge is often staff with a migration background, convenience, speed, and relatively cheap transfer conditions for sending small amounts. However, only the most expensive MTO in Austria has a widespread network in the considered receiving countries.
- Test money transfers indicate that **banks can in some cases compete with MTOs in terms of price and duration.** However, the tests also disclosed **difficulties in obtaining reliable information on available transfer services** without actually performing a transaction.
- **Bank customer services do not seem to be well-informed about transfer services.** For example, if the receiving institute's parent company is located within the EU, bank account transfers free of charge are possible. But during the survey on transfer conditions this was not communicated by the banks' customer service staff.
- **Most Austrian banks do not consider remittances a priority business segment** for various reasons (e.g. MTO partnerships and difficulties capturing informal transfers). Bank transfers are in most cases not well communicated to migrants as an option for sending remittances. There are almost no special marketing measures targeted at diaspora communities.
- **Frankfurt School experienced an outright disinterest from Austrian RSPs and especially banks to improve existing transfer methods or develop more remittances-linked financial products.**
- **Remittances are still largely sent informally and capturing more of the informally sent remittances is very difficult.**
- Due to an overall positive image and group-internal branch networks in SEE, **some Austrian banks are well positioned to use remittances services for attracting new clients.**

### 3.3 Remitters from SEE in Austria and their Use of Transfer Channels

Austrian territory has long been the destination of migrants of various kinds from the lands of SEE. Austria's geographic propinquity to the Balkans has made it the recipient of waves of migrants and refugees following many upheavals and crises in the region. The Croatian settlement in eastern Austria and the Slovenian population in the south are constitutionally recognized minorities. There are also significant other communities as a result of migration, including around 185,000 Turks, 178,000 Serbs, 132,000 Bosnians, as well as 131,000 Croats (the latter are not part of the



indigenous Croatian minority in the province of Burgenland, which is a separate category in the census.)<sup>48</sup> Today the patchwork of diverse ethnic and national groups from the Balkans contributes significantly to the multicultural fabric of Austrian society. In 2008 the number of foreigners in Austria was 854,752, or 10.3 percent of the total population. More than two-thirds of that population comes from SEE.<sup>49</sup> Since many migrants have naturalized over the years, the number of people from SEE with “migration backgrounds” [*Migrationshintergründe*] is considerably larger – and extremely difficult to estimate. About 12 percent of the workers in Austria are foreigners. BiH, Kosovo, and Serbia all have significant numbers of their emigrants living in Austria, many of whom now have Austrian citizenship. In contrast, Moldova has a very small diaspora living in Austria.

### 3.3.1 Kosovars in Austria

**Composition of the Kosovar community in Austria** – Austria has the third or fourth largest Kosovar population in the world, after Germany and Switzerland, and about the same as that in Italy. It is estimated to include about 23,000 people, overwhelmingly ethnic Albanians, of whom the vast majority are legal, most with either long-term residency permits or Austrian citizenship.<sup>50</sup> The Kosovar diaspora includes more men than women, and among those engaged on behalf of Kosovo (remitting, investing, participating politically) it is overwhelmingly males who are active. (This is a reflection of the patriarchal structures and migration patterns of the Kosovar Albanians.) The diaspora is very young: an estimated 80 percent of it is under 28 years of age.<sup>51</sup> The Kosovar Albanians are scattered across Austria, though with particularly strong concentrations in Vienna and Graz. Over the decades many have put down deep roots in Austria: Nearly all of the interview partners said they did not plan to return permanently to Kosovo; those who do plan to return either have business interests in mind or plan to retire there. Most visit Kosovo once or twice a year, usually over the Christmas/New Years break and during the summer. Yet Kosovo remains close to them in many ways: they have close relatives in Kosovo, keep in regular contact with them and with events in Kosovo, and send either regular or sporadic remittances.

**Migration Patterns** – The Kosovar diaspora is a product of four waves of migration: the early guest workers and later their families who joined them; the explicitly political refugees of the 1980s; the economic and political refugees of the 1990s; and those who left after the summer 1999 withdrawal of Serbian troops from Kosovo. Among the latter category is the significant Kosovar Albanian student population at Austrian universities that totals around 2,000.

When the first guest workers began to leave Kosovo in the late 1960s, Austria, one of the Western European countries that had contractual arrangements with socialist Yugoslavia for temporary labour transfers, was a key destination. The early migrants were overwhelmingly from poor rural areas in Kosovo and had only rudimentary education and skill sets. Over the course of the 1970s thousands of Kosovar men worked in Austria under these conditions, most eventually returning to Kosovo. As in Germany and Switzerland, they worked overwhelmingly in low-skilled jobs such as construction, gastronomy, and agriculture. In 1973/74 Austria’s labour importing policies, along with those of other Western European countries, was terminated with the onset of recession and the oil crisis. By this time, however, many of the Kosovar workers had received longer-term work permits, which enabled them to stay in Austria and eventually obtain unrestricted work permits or even, later on, Austrian citizenship. As they established themselves, they became eligible for family reunion and their families joined them in Austria. This generation of labour migrants came to Austria with the explicit purpose to remit money home to their families; this they did, and still today they tend to be the Kosovars most likely to remit regularly to Kosovo.

The second wave of migration followed the 1981 government crackdown on student protests across Kosovo. Several thousand ethnic Albanian student activists fled the country; others were arrested and left Yugoslavia after serving prison

<sup>48</sup> “DEMOGRAPHY (Austria) - Sentinel Security Assessment - Western Europe,” [www.janes.com/articles/Janes-Sentinel-Security-Assessment-Western-Europe/DEMOGRAPHY-Austria.html](http://www.janes.com/articles/Janes-Sentinel-Security-Assessment-Western-Europe/DEMOGRAPHY-Austria.html)

<sup>49</sup> Statistische Nachrichten - Summaries October 2008, [www.statistik.gov.at/web\\_en/publications\\_services/statistische\\_nachrichten/033746.html](http://www.statistik.gov.at/web_en/publications_services/statistische_nachrichten/033746.html)

<sup>50</sup> “Diaspora and Migration Policies”, Rinvest Institute/Forum 2015, Pristina, December 2007, p. 7; Kosovar Albanian diaspora organization leaders estimate the population to be 30-40,000.

<sup>51</sup> Ibidem

terms. Some of these political migrants landed in Austria. Although their numbers were not great, they would become very important for the political movement of the Kosovar Albanians during the 1990s. They remain prominent in the different diaspora parties active in Austria today.

With the termination of Kosovo's provincial autonomy in 1989 and the onset of ever harsher measures against the ethnic Albanians in Kosovo, there began another wave of migration: an exodus of tens of thousands and then hundreds of thousands of Kosovar Albanians abroad, overwhelmingly to destinations in Western Europe, prominently among them Austria. This exodus peaked in 1998-1999 when armed conflict broke out in Kosovo. In spring and early summer 1999, during the NATO-led bombing campaign against Yugoslavia, as many as 800,000 Kosovar Albanians fled Kosovo. It is estimated that as many as 5,000 came to Austria, most with temporary refugee status.<sup>52</sup> Some received political asylum. Most of these refugees left Austria in late 1999 and 2000 once fighting had stopped, Serb troops withdrew from Kosovo, and postwar reconstruction had begun. Yet others who came during the 1990s had managed to secure work permits — at first short-term, then longer-term — and settle in Austria.

Finally, since 2000 a limited number of Kosovar Albanians — and Kosovar Serbs too — have managed to enter Austria and remain there, some illegally at first while others came through family reunion. There is also a surprisingly large student population of several thousand in Austria. (Austria is the only country that recognizes the high school diplomas of those students schooled in Kosovo's parallel state schools of the 1990s.) It has become extremely difficult for Kosovars to come to Austria, and it is not expected that significant new numbers will come as long as there is stability in Kosovo itself.

**Diaspora Organization** — During the 1990s, the Kosovar Albanians had one of the best-organized, most effective diasporas in the world. The main Kosovar Albanian political party, the Democratic League of Kosovo (LDK), had offices and branches across Europe and North America, including one of their main offices in Vienna and many dozens, if not hundreds, of small local chapters elsewhere in Austria. Like their diaspora brethren elsewhere, the Kosovars of Austria contributed generously to the maintenance of the Kosovo Albanians' "parallel state" in Kosovo itself, particularly to the education and health funds. Later they also contributed to the creation of the Kosovo Liberation Army, the Kosovar Albanians' guerrilla army that formed in 1997-99.

However, as Frankfurt School found during its on-site research in Austria, since 2000 and the emergence of a full party spectrum in Kosovo itself, the unity of the Kosovar Albanian diaspora has dissolved. As in Germany and Switzerland, in Austria the main diaspora organizations are based on the main political parties in Kosovo itself: the LDK, the Justice and Development Party (AK), Christian Democrats, and the Democratic Party of Kosovo (PDK). They meet weekly in Kosovar Albanian-owned cafés or restaurants among themselves, not associating with members of rival parties. In fact, there is considerable animosity between them, though they are not particularly active in Kosovo or in Austria. One neutral observer summed up their weekly meetings as excuses for men to get out of the house, have a drink with old friends, and comment on the nightly Kosovar news programs, which are transmitted to Austria. Other diaspora organizations include a student group, Ilini, and the Albanian-Austrian Circle. A very small minority of Kosovar Albanians belong to religious, Islamic-oriented organizations. (These are far more important for the Macedonian Albanians in Austria.)

**Diaspora Organizations' Relationship to Official Institutions and other Actors** — Frankfurt School on-site research also showed that neither are the Kosovar Albanian diaspora groups connected to one another, nor are they in close touch with other official state or non-state actors. Although Kosovo declared its independence last year, and was recognized by Austria, there is very little in the form of official representation in Austria. A Kosovar ambassador to Austria was named in 2008, Sabri Kicmari. The diaspora organizations claimed they had no direct contact with city or federal government officials or agencies. (The one exception was the LDK, which does have sporadic contact with its Austrian party of choice, the conservative ÖVP.) Also, the diaspora organizations said they had never been visited by one of the Austrian banks or other representatives of financial service providers, for example not even Western Union which does considerable community outreach. They did say, however, that they would be open to the idea of meeting

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<sup>52</sup> [www.demokratiezentrum.org/de/startseite/wissen/timelines/asylpolitik\\_in\\_oesterreich.html](http://www.demokratiezentrum.org/de/startseite/wissen/timelines/asylpolitik_in_oesterreich.html)

representatives of financial service providers. There is also very little contact with these organizations and the official structures in Kosovo itself, including the Office of Non-residential Affairs, which is responsible for diaspora matters. This was a source of resentment among the organization members interviewed by the Frankfurt School team. They were openly critical of this office and bemoaned its lack of profile and engagement, as they lament the disunity in the Kosovar diaspora in general, particularly after such a successful cooperation as that of the 1990s.

One unique organization of the Kosovars in Austria is the Vienna-based office of the **Kosovo Investment Promotion Agency (IPAK)**, which is managed by the 2003-founded and ADA-supported **Economic Initiative for Kosovo (ECIKS)**. ECIKS is a four-person office in downtown Vienna whose mission is to support the economic development of Kosovo by promoting and facilitating foreign investments, supporting the SME sector, and developing economic policies and strategies for Kosovo. Responsible for the German-speaking realm of Austria, Germany, and Switzerland, it is much more dynamic than the investment promotion agencies of the other target countries in terms of outreach to the diaspora. Firstly, IPAK is the only such institution with a representative office outside of the country, which, in the case of IPAK, happens to be in Vienna. Furthermore, IPAK is the only investment promotion agency actively targeting its diaspora for investments in the home countries.

As a first attempt, IPAK launched a series of conferences in 2008-2009 specifically for informing the diaspora – the events are held entirely in Albanian – about possibilities to invest in Kosovo. These conferences took place in major cities with important Kosovar communities, including New York, Brussels, Frankfurt, Stockholm, and Zurich. Frankfurt School was able to attend one of the conferences held in Zurich and was generally impressed by the presentation and the idea of the Kosovar representatives reaching out to the diaspora. This in itself is important as diaspora nationals often feel neglected and unappreciated by the homeland. It is very common to hear them say they want to be taken more seriously; they want the homeland to reach out to them. This the conference did. Also, it provided clear and updated information to potential investors, including concrete investment possibilities. The problem was, as some of the participants suggested, that there is, at the moment, no way for small investors with say EUR 5,000 or 10,000 or even 50,000 to invest in Kosovo without actually being there and starting up a very small enterprise.

**Remittance Behaviour** – Most of the Kosovar Albanians that the Frankfurt School team interviewed were no longer sending regular remittances. They said that they and their families now lived in Austria and, in most cases because they had families of their own now, they were no longer required by the family in Kosovo to remit, whereas Kosovo was virtually fully financed by the diaspora during and directly after the conflict of the 1990s. Thus, the tendency to remit has decreased with family unification over the past decade, but still remains active, although less regular than before. The Kosovar Albanians said they either “often” or “occasionally” sent money to Kosovo for special purposes, be it for a sick relative, funeral costs, educational purposes, or some other emergency. In the context of remittances, they seemed to feel that they had made a huge sacrifice for Kosovo during the 1990s, including aiding with reconstruction in the postwar years. Some are even still indebted from loans they took out to help with reconstruction at the time.

Most interview partners said that they do use bank transfers to send money to Kosovo. Yet many Kosovars continue to use Western Union, private buses, bring money themselves when they visit, or use travelling friends to transfer money to Kosovo. The buses, which leave from Vienna’s Südbahnhof, take either 1 percent of the total cost or nothing at all if you know the drivers or if the drivers know your relatives. Others use Western Union even though it was more expensive because it is quick, safe and convenient. It should be noted that the Kosovar Albanians were completely excluded from the banking system in Kosovo (Serbia) during the 1990s, which meant that none of them used the banking system at that time fostering a habit of informal transfers that continues to this day. “There is thus a long tradition of using informal channels. The informal channels, they say, are reliable, inexpensive, and fast.

**Investment Behaviour and Potential** – In general, there was substantial interest among Frankfurt School interview partners about the possibility of investing, in some way, in Kosovo. Those who had been part of the 1990-1999 parallel state financing said they were proud to have participated and would like to continue to help Kosovo, whether investing in the private sector or in public infrastructure projects. Yet, as already mentioned in the description of the IPAK conference in Zurich above, they are not presently investing and feel uncertain about how they would actually go about doing so in a safe way. They mentioned that they are far away from Kosovo and that one has to have on-the-ground

knowledge and connections in order to make an investment work. They felt their information was inadequate and that only recently, with independence, had the real conditions for investment possibly emerged. Furthermore, they pointed out that the Kosovar Albanians in Austria are not particularly well off: It was not long ago that they were guest workers and refugees. While they may have settled down and some moved into managerial positions or other white-collar jobs (in Germany this applies to 7 percent of the Kosovar diaspora<sup>53</sup>), for the most part they are not in a position to make significant investments. The 2006 European Stability Initiative study on rural Kosovo<sup>54</sup> concluded that the diaspora had contributed significantly to start-up micro-enterprises in the country's villages. But these enterprises were extremely small scale including the likes of family-run grocery shops, taxis, carpenter shops, swimming pools, cafés, one-pump gas stations, car repair shops, and other such small businesses. Diaspora had also contributed to help the villages with limited infrastructure projects, including school repairs, asphalt roads, water works, a mosque, a footbridge, and a health clinic.

The Frankfurt School team concluded there being substantial interest in a diaspora investment fund that was somehow guaranteed or backed by a Western European institution. This is an idea that has been implemented successfully in other diasporas, such as in Armenia, Turkey, Ireland, Africa, and Latin America. This way someone with as little as 500 or 1000 EUR could invest in the homeland.

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<sup>53</sup> "Diaspora and Migration Policies," Forum 2015 ,Pristina,December 2007, p. 8.

<sup>54</sup> "Cutting the Lifeline: Migration, Families and the Future of Kosovo," European Stability Initiative, 2006.

### Key Points

- **There is a discrepancy between the Kosovar diaspora's interest to invest in Kosovo's private sector**, on the one hand, and its members' ability or means to do so, on the other. The majority of those interested in investing are not interested in returning permanently to Kosovo. Most are also not interested in investing in a business that is run by a proxy, like a relative, in Kosovo. There is a lack of means to invest indirectly in Kosovo, like through bonds or a stock market.
- **There is little to no interaction between the diaspora groups and either official Austrian institutions or Austrian financial sector actors.** The Kosovar diaspora is organized and there are channels and networks through which the Kosovar diaspora in Austria can be reached. It is possible to reach it with information through these groups and networks or via the satellite Kosovar television channel and newspapers. The establishment of an embassy in 2009 will help facilitate such communications.
- **Certainly more remittances could and should be channelled through formal channels.** There seems to be a slight trend toward formal channels, with more Kosovars using banks as their trust in the young financial system of their won independent state grows. There is not an awareness that Kosovo's financial system itself could be helped by increased liquidity provided by more formalized remittances.
- **There is a lack of trust in the political parties and the government actors in Kosovo** itself. Thus an investment fund or another investment scheme would be aided tremendously by the involvement of a non-partisan, external actor such as the OeEB.
- The idea behind IPAK/ECIKS is solid. In the same spirit, **a fully funded, fully staffed Kosovar chamber of commerce and embassy in Vienna would help channel diaspora and other foreign investment to Kosovo.** IPAK/ECIKS's strategy to visit diaspora communities with a presentation and investment information is productive and could be expanded. In part, it addresses the diaspora's feelings of neglect and being taken for granted. They also provide possible investors with necessary information.
- **There is interest to invest among Kosovars with limited incomes and some savings.** Thus, in thinking about an investment scheme it should be something that the "little man" with just EUR 1,000 a year could contribute to in some way. This makes much more sense than another old Austrian taxi being sent to a village relative, which is a common alternative, or trying to interest small diaspora businessmen in buying a privatized factory. It also makes more sense than trying to squeeze investment capital out of remittances in the range of EUR 150 a month in support of families' subsistence.
- The Kosovar Albanians spent the 1990s and much of the 1999-2008 years helping their nation in selfless ways – through remittances, parallel state contributions, small private sectors start-ups in the villages, postwar reconstruction, small collective infrastructure projects. It would be most productive to interest them today in making money through private sector investments in one way or another to make profit rather than continuing pure philanthropy.

### 3.3.2 Moldovans in Austria

There are very few Moldovans in Austria and given the size of the community, it is very difficult to draw many conclusions on remittances sending behaviour from Austria. The Moldovan embassy in Vienna has no estimate of their numbers and is barely in contact with the Moldovans in Austria. The only diaspora group is very small and is called Community of Moldovans. The head of the organisation estimates there are 300 Moldovans legally in Austria and another 1,700 there illegally. IOM Moldova's estimates are slightly lower.<sup>55</sup> The Moldovans residing in Austria legally have no trouble setting up bank accounts. But those in Austria illegally can not and thus transfer money informally. Most Moldovans who are in Austria illegally are in transit, on the way to other locations such as Spain, Portugal, and Italy. There are also an unknown number of Moldovans in Austria with Romanian passports.

<sup>55</sup> See "Migration Dynamics in Austria: Patterns and Policies in the 19th and 20th century" by Kraler, Albert and Stacher, Irene in: "Historische Sozialkunde.Geschichte-Fachdidaktik-Politische Bildung", Special Issue 2002, International Migration, pp.51-65

**Diaspora Organization** — There is only one Moldovan diaspora organization, namely the Community of Moldovans, founded in April 2007. It held three official meetings as of autumn 2008 and has organized some cultural events (supported by KulturKontakt Austria) that drew 30 to 40 people, among them a handful of Moldovan students. A smaller, informal group meets more regularly. The issues that interest Moldovans are: how to call and fly home cheaply, how to send money, information on enrolling at the university. This group also wants to help change the image of Moldovans in Austria, which the head of the organisation claims is very bad. The Community of Moldovans does have contact with an office in the Moldovan foreign ministry in Chisinau responsible for maintaining contacts with diaspora. The Ministry of Foreign Affairs has organized several all-diaspora conferences (see also section 4.4.3.2), one of which was attended by the head of the Community of Moldovans.

**Diaspora's Relationship to Official Institutions and other Actors** — The Moldovan embassy has ties to the Moldovan diaspora. However, due to the minute number of Moldovans in Austria, there is little contact and also little interest in the subject on the side of the embassy. Since most Moldovans are in Austria illegally, they shy from official institutions of all kinds. There is an Austrian voluntary repatriation program that gives support to Moldovans who voluntarily leave the country and return to Moldova, which is supported by the Austrian Development Association (ADA). The Frankfurt School team met one young man in Moldova (he had received political asylum in Austria) who took advantage of this program and used the financial support, in part, to help set up a walnut farm outside of Chisinau. But clearly, his was an exceptional case given the small number of Moldovans living in Austria.

**Remittance Behaviour/Investment Potential** — Moldovans send remittances almost exclusively with the minibus that goes to Moldova through Austria, as most Moldovans are in Austria illegally and have few other options than to use informal transfer channels. It is common knowledge in the community when the bus comes through daily, from a destination south of Austria and the transfers are quick and reliable. Almost nobody uses banks since only legal migrants have bank accounts, but some use Western Union. Many students make money working in call centres and old peoples homes, and manage to even send a little money home. But there is little to no investment potential because the Moldovan community in Austria is so small, mostly illegal, and it earns so little.

**Key Points:**

- There are too few Moldovans in Austria for the OeEB to fund projects addressing them in Austria. Therefore, OeEB should focus any interventions targeting Moldovans on remittances recipients or returnees in Moldova itself (see chapters 4.4 and 5)



### 3.3.3 Serbs in Austria

There is a long history of Serbs living in Austria that dates back to Ottoman rule when Orthodox Christians from Serbian territory fled westward.<sup>56</sup> There was considerable contact between the Serbs in the monarchy and Habsburg Austria during the 18th and 19th centuries, as well migratory movements at the turn-of-the-century, between the world wars, and in the immediate aftermath of World War II. The first Serbian Orthodox organization in Austria dates to 1910.

But the majority of Serbs in Austria today either arrived during several waves of postwar migration or were born in Austria during those decades, the offspring of those labour migrants. Most important was the recruited labour migration from socialist Yugoslavia.<sup>57</sup> As Germany and Switzerland had done in the 1950s, Austria forged bilateral agreements with southeastern European states in the 1960s to recruit temporary workers. An agreement with Yugoslavia in 1966 led to the settlement of significant numbers of these workers (including Serbs, Croats, Bosniaks, Kosovars, and others) and their families in Austria. By 1973 the number of "Yugoslavs" in Austria totalled 178,000.<sup>58</sup> Interestingly, since Austria began labour recruitment later than Germany and Switzerland, it drew more migrants from poorer parts of the country, including Kosovo, and eastern and southern Serbia. The oil crisis and recession in 1973 radically reduced the demand for guest workers, a phenomenon repeated after the second oil shock in 1981. As a response, recruitment was ended and the access of foreigners to employment was restricted. When the economy recovered, many former migrants from Yugoslavia returned and other forms of migration – family reunification, spontaneous labour migration and, by the late 1980s, clandestine migration and asylum – became more important. The conflicts of 1990s sent more Serbs to near-by Austria (many following the paths of relatives who had been guest workers during earlier waves of migration.) Thus those fleeing the wars in Croatia and BiH emigrated and during the course of the decade a young, highly education population of Serbs, many from urban areas, fleeing the battered economy, conscription, and the suffocating atmosphere of the Milosevic regime had left the country.

Frankfurt School on-site research showed that the actual number of Serbs in Austria depends on which definition is used. The official number given by Austrian authorities is 178,000. While the Serbian embassy counts only Serbian citizens from the Republic of Serbia (140,000 in Austria, some of whom have dual citizenship), diaspora groups count ethnic Serbs from across the Balkans, as well as second and even third generation Serbs, most of whom have Austrian citizenship and not Serbian. The umbrella organisation of Serbian associations in Vienna (Dachverband der serbischen Vereine in Wien) puts the number at 300,000 (170,000 in Vienna alone), while another NGO, the American-based Serbian Unity Congress, uses the number 250,000. The Ministry of Diaspora in Belgrade (counting "all those people who think they're Serbs") puts the number in Austria at 200,000. In 2001 the Austrian Bureau of Statistics counted 74,000 persons in Vienna alone who considered themselves Serbian Orthodox Christians.<sup>59</sup> But when it came to register to vote in Serbia's elections, which the diaspora could do as of 2004, only 52,000 people opted to do so, according to the Serbian embassy.

Thus as a result of the long history and the different waves of emigration the Serbs of Austria are a mixed group. The monarchist-oriented postwar émigrés have little in common with the former guest workers, who have much lower levels of education and come from poor, rural parts of Serbia. Neither of these groups has much in common with the "Milosevic exiles," the young, democratically minded Serbs from Belgrade and other urban centres who fled Serbia during the 1990s.

<sup>56</sup> Dejan Medakovic, "Serben in Wien", Prometej, Vienna, 2001..

<sup>57</sup> See Kraler, "Migration Dynamics in Austria: Patterns and Policies in the 19th and 20th century", Albert and Stacher, Irene in: "Historische Sozialkunde. Geschichte-Fachdidaktik-Politische Bildung", Special Issue 2002, International Migration, pp.51-65. And also Michael Jandl and Albert Kraler, "Austria: A Country of Immigration" International Centre for Migration Policy Development, March 2003.

<sup>58</sup> Ibidem

<sup>59</sup> "Gastarbejter, Tschusch: Serben in Wien, " *Die Presse*, 19 Juni 2008, p. 12.

The low diaspora voter registration and turnout is just one reflection of the complex and at times antagonistic relationship that diaspora Serbs have with Serbia. Depending on political orientation, there is resentment toward the Serbian political leadership: diaspora nationalists charge that contemporary Serbia sold out (or simply ruined) the project of Greater Serbia losing even Kosovo; young democrats feel that the authoritarian Milosevic regime stole their best years and the possibility of having a normal middle-class life in Serbia itself. Also, during the 1990s the regime raided foreign currency bank accounts in Serbia destroying the lifetime savings of many Serbs abroad. Moreover, a late 1980s investment fund for Serbia's reconstruction had relied extensively on diaspora funding; it was used in the early 1990s from the war in Bosnia and became worthless.<sup>60</sup>

Serbs work in professions across the professional spectrum, depending largely on the migration flow from which they stem. There is seasonal work in Austria for Serbs from Serbia in agriculture, forestry, and tourism on fixed term contracts.

There is still migration from Serbia even though the percentage of migrant workers in Austria from Serbia and Montenegro (including Kosovars) has fallen since 2000 — from 39 to 31 percent in 2004. Taken as one group (Serbs, Kosovars, Montenegrins), it is the largest foreign group in Austria, followed by workers from Turkey (15 percent), Germany (10.8 percent) and BiH (7.6 percent).<sup>61</sup> As for gender composition of the foreign workforce in the 2000-2004 period: among workers from Serbia and Montenegro female employment was 44.7 percent, among Bosnians 41.3 percent and among Croats 41.1 percent. By comparison this was considerably higher than among women from Macedonia (25.5 percent) and Turkey (26.7 percent).<sup>62</sup>

**Diaspora Organization** — The Frankfurt School team found a large number of Serb diaspora groups in Austria, with a strong concentration in Vienna. There are religiously oriented Serbian Orthodox groups, as well as others focusing on culture, sports, folklore, Serbian language teaching, and a political lobby, namely the Serbian Unity Congress (SUC). There are two umbrella organizations, one for all of the Serb groups in Austria and another Serb association just for Vienna. The latter is funded by the city of Vienna, private donations, and the diaspora ministry in Serbia itself. Some of these groups had been Yugoslav guest worker clubs founded in the 1970s which had originally included different peoples of Yugoslavia. In early 1990s, however, it became Serb while the non-Serbs formed their own groups. There is also a hometown association of Vlachs from the Pozarevac region in eastern Serbia called Bambi (after a cookie manufacturer from the Pozarevac region), but in general the Serb diaspora is not organized according to hometowns. Western Union is very active in supporting cultural events, something that the leaders of the diaspora organizations Frankfurt School met with<sup>63</sup> say they appreciate. Informants from these communities said one of their priorities was to improve Serbia's image, which they say had suffered immensely during the 1990s.

**Diaspora's Relationship to Austrian Authorities and No state Actors, including Financial Service Providers** — In contrast to the Kosovar Albanians and Moldovans in Austria, the Serbs say they have good and close relations with the Austrian authorities. In part this reflects the fact that Serbia has a fully staffed embassy and consulates in Vienna, and other representatives elsewhere in Austria. The city of Vienna helps finance the Dachverband der serbischen Vereine in Wien. Many diaspora Serbs are Austrian citizens and therefore participate in Austrian politics at all levels. In addition to Western Union, the diaspora groups have also been in contact with the banks Raiffeisen and Erste, which they say see the Serbs of Austria as a target group — not just for remittances but for all financial services. The SUC is so pleased with Western Union that it helps it advertise. The diaspora groups are in loose contact with the Diaspora Ministry in Serbia.

**Remittance Behaviour** — Many Serbs in Austria still send money to relatives in the homeland, although fewer send regular remittances as had in the past. Instead, money is sent for purposes of emergencies, like health matters, or to help the relative with paying for education. The embassy has no official or estimated figure for remittances sent to Serbia from Austria.

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<sup>60</sup> Hockenos, Paul, “*Homeland Calling: Exile Patriotism and the Balkan Wars*”, CUP: Ithaca, 2003, p. 221.

<sup>61</sup> Gudrun Biffi Austrian Institute of Economic Research, SOPEMI Report on Labour Migration, WIFO, Austria 2005-2006..

<sup>62</sup> Ibidem

<sup>63</sup> See Annex 2 for a full list of persons consulted for the study



Remittances are sent in different ways, ranked here in order of importance according to the key informant interviews: 1) many Serbs take money themselves or give the money to friends or family members when they visit, which considering Serbia's proximity is quite often, even just for a weekend; 2) through travel agencies and private couriers (busses); 3) Western Union; 4) through banks. Austria has a number of banks in Serbia which makes bank transfers all the easier. However, despite the existence of these Austrian banks in Serbia, Serbs still overwhelmingly use informal channels to send money. This is most likely a legacy of the past failure of banks and the distrust in the Serbian financial system and the state.

**Investment Behaviour and Potential** – There are no official or unofficial figures pertaining to diaspora Serb investments in Serbia. Many diaspora members confirmed a general interest of many Serbs in Austria to invest in some way in Serbia, but they are uncertain as to how to do so in a profitable way. Although most members of the Serb diaspora are not wealthy, many do have small amounts of money saved which could be invested<sup>64</sup>. However, many Serbs familiar with acquaintances who had tried to do so in the form of direct investment (for example, by starting a small business or supporting family members in doing so) lost money. Others feel that the region is still too unstable to invest there at present or do not feel confident to start a business themselves given the administrative hurdles to start a business and the distance to oversee such an investment. This, combined with the diaspora's bad experiences with Serbian banks and the diaspora investment fund, has made many Serbs wary to make any medium or long-term financial commitments. Although there is a Serbian Chamber of Commerce in Vienna, it appears largely ineffective and spends no energy or resources attempting to lure diaspora investment to Serbia. It concentrates on foreign investment in general (i.e. from foreigners), but neither considers nor targets attracting the Serbian diaspora itself to invest in Serbia. Neither is there an easy way for the Serbian diaspora to make indirect investment in Serbia.

#### Key Points

- The Serbian diaspora in Austria is complex and has difficult relations to the homeland. It is divided among itself and because of negative experiences in the past and other resentments is wary about investing in Serbia. Diaspora leaders acknowledge this and want to develop a strategy to overcome it, because they think there is potential for investment.
- It would make sense for the Serbian Chamber of Commerce to target diaspora businessmen as possible investors in Serbia. This appears an obvious source of investment potential that the various Serb diaspora institutions and government representatives in Austria could do more to tap.
- **Any solution to involving the diaspora more in investment in Serbia or trying to direct more remittances through formal financial channels will inevitably have to deal with questions of how to gain the trust of the diaspora** for the Serbian financial system and address issues of distrust in the state.
- **It will be difficult to convince Serbs in Austria to use official remittance channels more regularly.** Serbia is so close that many people go there just for a weekend and bring the money themselves thus saving the transfer fees.
- **While many diaspora Serbs express interest in investing in Serbia, they are less interested in direct investment and lack an indirect means to do so.** Most live now permanently in Austria and neither want to invest in a privatized factory or an SME in Serbia itself.

<sup>64</sup> There are no numbers on the volumes of diaspora savings available, but FS interview partners were often times interested in investing small amount in the range of EUR 5,000 to 30,000.

### 3.3.4 Bosnians in Austria

There are approximately 130,000 Bosnians in Austria, overwhelmingly Bosnian Muslims (Bosniaks) but also Bosnian Croats, Bosnian Serbs, and other Bosnians. The Bosnian diaspora organizations estimate about 70,000 Bosniaks in Austria, half of them in Vienna.

The Bosnians, as the Serbs, have a long history with Austria, BiH having been a joint Austrian and Hungarian protectorate since 1878 and annexed by the monarchy in 1908. But as with Serbia and Kosovo, the contemporary Bosnian diaspora in Austria is largely a product of post-1965 labour migration, family reunions, and then the refugee flows from the conflicts of 1990s. The first Bosnian war refugees arrived in Austria in 1991/92 and during the course of the war over 90,000 Bosnians were recognized as "de facto refugees." After the war's end in 1995 about 60,000 Bosnians received political asylum and stayed in Austria; this half of the current diaspora community. Thus, refugees have become migrants or even citizens and often have no plans to return to homelands. There are also roughly 2,500 Bosnian students studying in Austria. There is now a young second generation of Bosnians for whom Austria, not BiH, is their proper home. (This is the same for Serbs and Kosovars.)

**Diaspora Organization** — The Bosniak diaspora is divided between those who identify and practice Islam, who belong to Islamic organizations associated with local mosques/prayer halls, and those in secular organizations. (Many belong to no organization at all.) It is also a fact that most Bosnian Croats and Bosnian Serbs — who belong to an organization in the first place — belong to Croat and/or Serb diaspora groups. Additionally, there are many Bosnians in Austria who do not belong to any sort of organised diaspora group.

As for the Islamic groups, there are 27 in Austria, 24 of whom belong to the Islamic Bosnian umbrella organisation, which was founded in 1993. Before the war, most Bosnians were either in the Yugoslav clubs or were not organized at all. There was, however, an upsurge of religious identification with the onset of the war in 1992 and many upstart Islamic groups and local mosques and prayer houses were established. Our interview partners from these groups underscored that they practice a moderate brand of Islam, one that emphasizes tolerance and peaceful coexistence with other peoples and religions. The umbrella organisation is part of an Islamic faith community [*Glaubensgemeinschaft*] that includes Turk and Arab co-religionists. The Islamic groups have Sunday religious instruction, bringing in imams for lectures, and raising donations for war invalids and operations for children, as well as building mosques in BiH. Some branches have cultural sections.

The secular groups include sports, cultural, folklore, and language instruction organizations, and include Bosnians of all ethnicities. Most of them belong to the umbrella organisation of Bosnian Groups in Austria, which has a tripartite leadership that includes a Bosniak, a Croat, and a Serb.

**Relationship to Austrian Authorities, Financial Sector Service Providers, and the Bosnian Embassy** — The diaspora organizations say they have good relationships to the Austrian authorities, although not particularly close. The Islamic groups, in particular, tend to keep to themselves. None of the groups that Frankfurt School spoke with had had any contact with financial sector service providers of any kind. They said that they would be open to this if it brought them something of value. They are in touch with the Bosnian embassy.

**Remittance Behaviour** — Most of the interview partners that the Frankfurt School team spoke to claimed that they didn't send regular remittances to relatives in BiH (although we know that remittances from Austria to BiH are quite high with 33 million, according to OeNB.) Some of them had in the past, but most did not do so anymore. All of them mentioned that they did send money for emergencies and other special purposes. Because BiH is so close to Austria many people travel regularly and bring the money with them on trips. Others use the bus (which was the means of choice during the war), Western Union, and some use banks (though no specific preferred providers were mentioned). There are several Austrian banks now doing business in BiH. Nevertheless, informal channels and Western Union still seem to be the preferred transfer methods.

None of those interviewed said that any of the banks they use reached out to them as migrants. In fact, at first at least, they feel quite alienated from the Austrian banking system. They didn't understand what was wanted or what the conditions were, and there was no one in the banks to explain it to them in their language. One Bosnian woman said: "You can't imagine how intimidated I was when I went to open a bank account. I couldn't really speak proper German yet and I had no idea what to do. I had put it off as long as I possibly could; keeping the small amount of money I had in the cupboard. It took all of my courage to go in one day and open an account. It was a nightmare." The interview partners felt there was a lot of room for improvement here.

**Investment Behaviour and Potential** — There are isolated examples of Bosnian diaspora members in Austria who have invested in BiH. The interview partners underlined that the Bosnian diaspora in Austria is not well off. Large families still live in small apartments and one family member, usually male, works in low income jobs. Nevertheless, we spoke to a number of small Bosnian businessmen in Vienna who said they would like to invest but they're not really sure how to do that. Some said the conditions still weren't right to invest. One man had lost a significant amount of money because of unclear guidelines.

There is significant room for improvement when it comes to promoting investment in BiH from Austria (even though Austria is BiH's number one source of FDI with EUR 1,446 in 2008<sup>65</sup>) whether that be from Bosnians or non-Bosnians. There is no chamber of commerce although there is an open office room and a salary designated for that purpose. "It is a lack of political will to fill it," said a woman at the embassy who agreed it would be beneficial to have a Bosnian chamber of commerce in Vienna. There was also, at least in fall 2008, no one in the Bosnian embassy responsible for investment or economic development, nor is there a branch of the Bosnian investment promotion agency outside of the country.

#### Key Points

- BiH itself and the Bosnian diaspora would benefit greatly from a Bosnian Chamber of Commerce finally being set up in Vienna or the presence of another kind of investment promotion agency, perhaps along the lines of Kosovo's IPAK/ECIKS. The Bosnian embassy should also have a point person for investment and other financial issues. The Bosnian embassy in Vienna is severely understaffed and overtasked.
- **It is worthwhile trying to interest the Bosnian diaspora in Austria in investing in the homeland.** It has established itself in Austria and will have more savings the further the war years recede. There remain very strong bonds between the diaspora communities and their localities in BiH. Moreover, there should be a means for the small investor to invest in the homeland, perhaps by means of an investment fund or bond.
- **There should be an awareness campaign to have Bosnians use banks to send remittances.** It should be underscored that this help broaden BiH's financial system, and thus, ultimately the real economy.
- There is probably not a lot to be leveraged from remittances or the "emergency funds" that diaspora Bosnians use to respond to different kinds of emergencies. But better-off émigrés and businesspeople have modest amounts of capital that could in some way be invested. This however needs to be made easier and safer for them to do.

<sup>65</sup> [www.fipa.gov.ba/](http://www.fipa.gov.ba/)

## 4 Assessment of Remittances from Austria to four SEE Recipient Countries

### 4.1 Overview of Migration from SEE

For many thousands of years, the regions of SEE have been the venue of vast population movements. Above all, this is because of the geographic location of the Balkan peninsula, which links Central Europe with Central Asia and the southern Russian steppes. Though it has seas on five sides — the Black, Aegean, Ionian, Marmara, and Adriatic Seas— they have long been easily traversed, linking its coasts to Southern Europe, Northern Africa, and beyond. Even its imposing mountain chains did not hinder waves of migration from the east that crossed through the Hungarian plains or along the Black Sea coast into the Western Balkans.<sup>66</sup> Although this geographic position made the region a natural transit hub for trade, it was very often crises — wars, political upheaval, economic disasters, and religious persecution — that promoted so many diverse peoples to come and go so frequently and to create the multiethnic, poly-religious fabric that is still today a defining characteristic of the Balkans. Because of its proximity, the territory that is today the Republic of Austria has long been a destination of travellers, traders, refugees, and migrants of many other stripes. During Ottoman rule Christians fled to the territories of the Austro-Hungarian monarchy for sanctuary. The two world wars and then the Cold War, followed by the bloody collapse of socialist Yugoslavia, made Austria a logical choice for those fleeing conquering armies and political persecution. During the postwar decades, Austria's prosperous economy and labour shortages attracted hundreds of thousands of labour migrants, many who opted to stay in the country and bring their families to be with them. Today's Austria is unimaginable without the diverse ethnic peoples that over the years put down roots in the republic and consider it as much their home as the places from which they hail.

### 4.2 Overview of Remittances in SEE

For many countries in SEE, remittances are a major source of external financing. Especially in the region's poorest countries, private remittances inflows often exceed funds from foreign assistance and FDI. To a certain degree, remittance flows compensate economic losses in a region suffering from mass migration and brain drain after the breakdown of the Eastern bloc.<sup>67</sup> Especially in the former Yugoslav states, remittances have been tremendously important since the early 1990s due to additional economic and political difficulties resulting from the civil wars.

Remittances to SEE are often an important source of foreign exchange, domestic consumption, and even investment. Especially in the region's rural areas, these funds are a stable source of household income.

### 4.3 Serbia

#### 4.3.1 Migration from Serbia

There has been migration between Serbia and Austria (under different state forms) for centuries. Even in the 20th century alone there have been many very different waves of Serb migration to Austria. Most of the current Serb diaspora in Austria, however, stems from two sources: the labour migration of the Cold War decades and the economic/political refugees of the 1990s. Estimates of the number of Serbs (or people with Serb origins) in modern Austria range from 170,000 to 300,000. There are many Serbs in Austria from regions of former Yugoslavia that are not part of Serbia, like those from the territory of present-day BiH. Many people with Serbian backgrounds (an estimated one third) have Austrian citizenship; they work a wide range of jobs from skilled professionals to unskilled agricultural labour. Since Austria is so close to Serbia, there are Serbs who say they "live in Serbia but work in Austria."

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<sup>66</sup> Holm Sundhussen, „Südosteuropa,“ in *Enzyklopädie Migration in Europe*, Ed. Klaus J. Bade et al. (W.Fink, Munich: 2007), p. 288.

<sup>67</sup> Felic, Dijana, "Determinanten und makroökonomische Effekte von Remittances: Eine empirische Analyse für Südosteuropa", Ludwig-Maximilians-Universität, München, 2008

## 4.3.2 Remittances in the Financial Sector

### 4.3.2.1 Volume and most important corridors

The National Bank of Serbia (NBS) estimates total remittances inflows to Serbia in 2008 at USD 3.58 billion. Almost USD 2 billion is estimated to be unregistered inflows. Over USD 925 million came registered through the banking sector. So-called “other remittances” – primarily pensions and cash inflows for disabled persons – are estimated at USD 719 million.

Germany, Switzerland, and the United States are the main sending countries followed by Austria, Croatia, Italy, France, Bosnia and Herzegovina, Montenegro, Slovenia, Russia, Cyprus, and the UK. Table 3 gives an overview of incoming transfers to Serbian commercial banks. The figures show remittances channelled through banks and MTOs, thus only registered flows:

**Table 10: Incoming transfers from selected countries to physical persons’ foreign currency accounts 2000-2007 (in USD millions)**

Country	2000	2001	2002	2003	2004	2005	2006	2007	Total 2000-2008	% 2000-2008
Germany	26.5	75.0	190.2	213.4	189.9	222.5	321.1	342.8	2198.2	21.2
Switzerland	3.9	13.4	40.3	69.3	90.8	114.1	137.5	139.8	877.3	8.4
<b>Austria</b>	<b>21.6</b>	<b>27.0</b>	<b>29.9</b>	<b>72.9</b>	<b>68.9</b>	<b>67.2</b>	<b>72.2</b>	<b>63.1</b>	<b>521.2</b>	<b>5.0</b>
Ireland	0.1	0.1	0.2	32.9	138.2	166.9	175.1	197.5	1057.4	10.2
USA	11.8	13.0	50.2	73.0	66.9	68.2	97.8	100.0	652.7	6.3
Croatia	0.1	2.1	6.2	14.9	51.1	66.8	94.8	104.0	525.5	5.1
Other	447.7	274.8	203.3	302.4	382.1	476.5	640.1	664.5	4561.0	43.9
<b>Total</b>	<b>511.7</b>	<b>405.3</b>	<b>520.4</b>	<b>778.7</b>	<b>987.9</b>	<b>1182.2</b>	<b>1538.7</b>	<b>1611.6</b>	<b>10,393</b>	<b>100.0</b>

Source: NBS

Over the last eight years, almost USD 10.4 billion was transferred through the banking sector. By far the most remittances came from Germany (21.2 percent). Austria is in sixth place with 5 percent. Importantly, total (worldwide) formal remittances to Serbia increased significantly since the 1990s. Yet remittance flows from Austria fluctuated unpredictably. Since banks can only record inflows from the countries of final payment, the country from which banks transfer money to Serbia may not necessarily be the country where the money actually originates. For example, within the last eight years, more than 10 percent of formal inflows came from Ireland. The reason is that Ireland is a hub for Western Union transactions. Therefore, the banks record all Western Union transactions to be from Ireland.

### 4.3.2.2 Local regulation on money transfers

In Serbia legal provisions restrict the type of companies that operate in the domestic and international money transfer business. RSPs must have a NBS license in order to collect or pay out remittances.<sup>68</sup> In other words: Only registered commercial banks are authorised to make payments, which forces MTOs like Western Union and Money Gram to cooperate with a partner bank.<sup>69</sup> Like in many other countries, this is part of Serbia’s policy against money laundering and terror financing.

Concerning banks’ creditworthiness analyses of private persons, there is no clear definition whether remittances can be considered as regular household income. NBS qualifies income as a “regular element,” which can include remittances.

<sup>68</sup> De Luna Martinez, Endo and Barberis: ‘The German Serbian Remittances Corridor’, World Bank Working Paper No. 80 (2006), World Bank, Washington D.C.

<sup>69</sup> In other countries, for example grocery stores, gas stations or mobile phone companies are allowed to pay out remittances. However, this is not the case in Serbia.

Accordingly, some banks indicate that they include confirmations of remittances receipt in their loan analysis. Other banks conclude that remittances are by regulation excluded from assessing customers' potential for financial services. Furthermore, the definition of "income" is not very comfortable for the banks. They are very cautious about including remittances in creditworthiness analyses. Remittances go to a current account, which can not necessarily be seen as a security in case of loan loss. Thus, loan officers often decide on an ad hoc basis. A clarification of this NBS provision might simplify this issue.

For international bank-to-bank transfers, recipients in Serbia need a foreign currency account. Serbia does not allow for multi-currency accounts. There are no regulatory obstacles or restrictions in opening a foreign currency account, and thus, to receiving remittances through a regular bank account. However some banks charge for account opening and/or management.

#### 4.3.2.3 Analysis of the banking sector

**The Serbian banking sector has come a long way since the 2000 ouster of the Milosevic regime and is today modern and efficient, even by Western European standards.** The sector was composed of 34 commercial banks in 2008 after mergers, acquisitions, and also the revoking of licenses<sup>70</sup> caused the number of financial institutions to decline. In 2003 there were still 47 banks and 14 other financial institutions (OFIs, i.e. savings banks, savings credit institutions, and savings credit cooperatives) with operating licenses in Serbia.<sup>71</sup> December 2006 was, however, the final deadline for OFIs to comply with the provisions of the new bank law. Only one out of six remaining OFIs was issued NBS permission to transform into a bank. The others had their operating licenses revoked.

NBS is restricting the growth of the Serbian banking sector, especially on the assets side, by having a retail loan growth ratio connected to the bank's equity, mandatory reserves of up to 40 percent<sup>72</sup>, and an extraordinarily strong policy for loan loss provisioning. These measures have proven very efficient: the entire banking sector has undergone a fundamentally positive transition since 2000. The non-performing loan ratio seems to be very high (24.7 percent in 2006 and 27.9 percent in 2007<sup>73</sup>), but this is explained by the loan loss provisioning that banks have to report according to NBS regulations.<sup>74</sup>

Compared to other remittance-receiving countries, the infrastructure of the Serbian banking sector, including rural areas, is well developed. Serbia possesses a modern, high quality payments system. The population benefits from good geographic accessibility to financial services.<sup>75</sup> As Table 11 shows, the overall restructuring decline of licensed financial institutions has come along with a significant expansion of operational networks.<sup>76</sup> While the number of branches increased from 292 to 567, the number of branch offices (1,657 in 2008) has more than doubled since 2003. This development has influenced the labour market for bankers: Since 2004, almost 8,000 new staff members found jobs in the banking sector. It boasted a total of 31,331 employees in 2008.

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<sup>70</sup> For example, Kreditno-eksportna banka a.d. and MB banka a.d. Niš were revoked their operating license.

<sup>71</sup> NBS Banking Supervision, Quarterly Reports ([www.nbs.yu/export/internet/english/55/55\\_4/index.html](http://www.nbs.yu/export/internet/english/55/55_4/index.html))

<sup>72</sup> To increase the liquidity of the banks, NBS is no longer obliging banks to hold any mandatory reserves since the end of 2008.

<sup>73</sup> CEE Banking Sector Report 09/2007, Raiffeisen Research

<sup>74</sup> Which do not correspond with IFRS, according to the author

<sup>75</sup> Suki, Lenora, 'Remittances in Serbia and Financial Sector Development: Business Opportunities and Priorities for Investment', The Earth Institute at Columbia University, 2006 ([www.seco-cooperation.admin.ch/shop/00008/02002/index.html?download...jKbNoKSn6A-&lang=de](http://www.seco-cooperation.admin.ch/shop/00008/02002/index.html?download...jKbNoKSn6A-&lang=de)).

<sup>76</sup> NBS defines the banking network as business units, branches, branch offices, teller units (counters), agencies, and exchange bureaus.

**Table 11: Development of the Serbian banking sector from December 2003 to June 2008**

	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007	June 2008
<b>Number of banks</b>	<b>47</b>	<b>43</b>	<b>40</b>	<b>37</b>	<b>35</b>	<b>34</b>
Number of OFIs	14	8	8	-	-	-
<b>Network of banks</b>	<b>1,465</b>	<b>1,709</b>	<b>1,867</b>	<b>2,158</b>	<b>2,435</b>	<b>2564</b>
o/w business units	97	124	114	82	80	70
o/w branches	292	300	327	413	519	567
o/w branch offices	774	1,010	1,162	1,387	1,544	1,657
o/w teller units	302	275	264	276	258	238
o/w agencies	-	-	-	-	33	31
o/w exchange bureaus	-	-	-	-	1	1
<b>Employees</b>	<b>N/A</b>	<b>23,463</b>	<b>25,680</b>	<b>28,092</b>	<b>30,246</b>	<b>31,331</b>

Source: NBS Banking Supervision - Quarterly Reports

The expansion of the networks was driven by recent privatisations. In this context, foreign-owned banks play a particularly important role. More than half of the banks (20 out of 34) are majority foreign-owned. Many of them have their headquarters in remittance-sending countries and aim at enlarging their group internal networks to Central and Eastern Europe. Only six banks are in majority ownership of domestic persons, while eight are in majority ownership of the Republic of Serbia.

In June 2008, balance sheet totals of all 34 banks amounted to RSD 1,649 billion (EUR 21 billion). With RSD 761 billion (EUR 9.7 billion), the five largest banks in terms of balance sheet total had a share of 46.2 percent. Four of them (Banka Intesa, Raiffeisen Bank, Hypo Alpe Adria Bank, Eurobank EFG stedionica), are 100 percent foreign owned, while Serbia and EBRD are the main shareholders in the fifth, Komercijalna Banka. Banks in majority foreign ownership thus accounted for RSD 1,236 billion (EUR 15.8 billion) or 75 percent of Serbian banks' balance sheet totals.

An increase in Serbian banks' foreign currency deposits nevertheless seems to be developing in line with increasing remittance flows. Total deposits at Serbian banks increased sharply from RSD 223 billion in 2003 to RSD 984 billion in June 2008. Household deposits thereby have by far the largest share. They increased to RSD 467 billion in June 2008 (amounting to 47.5 percent of total deposits), which might reflect a renewed confidence in the Serbian financial sector. However, even more important, most household deposits are held in foreign currencies (89.7 percent in June 2008)<sup>77</sup>. In 2007, this number increased by RSD 120 billion (about USD 2.2 billion). Keeping in mind that USD 1.6 billion was sent to private persons' foreign currency accounts the same year, it can be assumed that there is a positive correlation between the development of formally transferred remittances and foreign currency deposits, which are used for refinancing the banks' lending activities.

The improving physical access to the banking sector has led to higher level of bank penetration in Serbia. In mid-2005, there were 2.2 million savings and deposit accounts. Only an estimated 37 percent of the Serbian adults had a bank account.<sup>78</sup> This low number limited the possibilities for bank-to-bank money transfers. But things have changed. One reason for the increasing amount of household deposits is an increasing number of bank accounts within the last three

<sup>77</sup> Although no specific data are available on which foreign currencies are held by households, FS assumes that most foreign funds are in EUR.

<sup>78</sup> De Luna Martinez, Endo and Barberis, 'The German Serbian Remittances Corridor', World Bank Working Paper No. 80 (2006), World Bank, Washington D.C.



years. With currently 4.2 million savings and deposit accounts, the number has almost doubled since 2005. Although there are still many Serbs employed in the informal sector (who therefore do not necessarily need a bank account to receive their salary), the banking sector has become much deeper in terms of its customer base.

However, one major problem still remains: Although increasing, the confidence in the banking sector is still comparatively low. Serbs in general are extremely cautious about depositing money in banks. In the context of the current worldwide financial crisis, the media spread rumours about a pending collapse of the Serbian banking sector. Many, especially older, people withdrew their deposits. NBS tried to avoid a bank run by assuring their customers that bank deposits are safe and protected. In an official statement<sup>79</sup> NBS called the banking sector safe and sound in terms of solvency and liquidity. However, people in Serbia still have in mind the government confiscation of foreign currency deposits in the early 1990s, as well as the hyperinflation (October 1993 to January 1995). This discredited the whole banking sector and severely undermined confidence in financial institutions.

#### 4.3.2.4 Analysis of the banking sector and banking products for migrants

Most of the products and services offered on the Serbian banking and financial market are quite well developed. After penetrating the market with loans, deposits, and different current account-related services (cards, e-banking), banks started to introduce alternative savings products like mutual funds in early 2007 while securities (like shares and bonds) had previously been introduced. Yet it has to be pointed out that the penetration of these products and services is still very low: In 2006 electronic banking in Serbia was the lowest in the region.<sup>80</sup>

In terms of international money transfer, all banks in the Serbian market offer sending/receiving regular wire transfers from/to foreign currency accounts. Additionally, some banks offer transfers within their own networks. Postanska Stedionica Bank offers group internal payments via their own Eurogiro system. This system connects Postbanks and post offices all over Europe. For payments from/to Austria, they have a bilateral agreement with BAWAG P.S.K. for all types of payments, including remittances. For payments within SEE, ProCredit Bank offers their group internal Propay system. Through this system, payment orders can be carried out on favourable terms and conditions among the member banks<sup>81</sup> of the ProCredit network. However, since ProCredit Bank exclusively operates in developing and transition countries, there are no branches in Austria to which Propay could be connected.

**The average amount of remittance transfers to Serbia is about EUR 300** for both wire transfers and quick money transfers through MTOs.<sup>82</sup> Actually, since especially high amounts are exclusively sent through bank accounts, the average amount of incoming SWIFT transfers to private persons is much higher (in some banks up to several thousand EUR). However, these transactions differ significantly in terms of the amount sent, ranging between EUR 15 and EUR 50,000. Transactions amounting to several thousand EUR are in most cases single payments, which per definition should not be considered as recurrent workers' remittances. Most transactions are — like quick money transfers — far below EUR 1,000. Excluding these high single payments leads to the above mentioned average of EUR 300. This is also the average amount for group internal Eurogiro payments to Postanska Stedionica Bank, while SWIFT transfers to this institute are only used for pensions and insurance.

**The bank fees for receiving international money transfers are in most cases relatively low.** Six banks (see Table 12) charge between 0.2 and 0.4 percent of the total transfer amount. One bank charges a flat rate of EUR 5, while another provider charges at least EUR 5. Depending on the agreement with the remitter, recipients might also be charged with additional fees resulting from the involvement of (sometimes several) correspondence banks. These fees are individually different for every transaction, and can not be determined in advance.

<sup>79</sup> NBS ([www.nbs.yu/internet/latinica/scripts/showContent.html?id=2861&konverzija=yes](http://www.nbs.yu/internet/latinica/scripts/showContent.html?id=2861&konverzija=yes))

<sup>80</sup> GfK CEE-Newsletter, 03/2007

<sup>81</sup> The Propay system can only be used for money transfer between Bosnia and Herzegovina, Serbia, Kosovo, Moldova, Albania, Macedonia, Rumania, Bulgaria, Ukraine, and Georgia.

<sup>82</sup> Only a few banks were able or willing to provide Frankfurt School with data on total/average remittances inflows.



**Table 12: Incoming international payments fees for natural persons**

	Fees for incoming international payments	Note
Bank 1	EUR 5	
Bank 2	0.35%	From bank group member in Austria 0.25% (min. RSD 250, max. RSD 8,000)
Bank 3	free of charge	
Bank 4	0.25%	Free of charge if money gets transferred to savings account
Bank 5	0.20%, min. EUR 5	
Bank 6	0.30%	Free of charge if amount stays on savings account for 3 months
Bank 7	0.20-0.40%	
Bank 8	Up to 0.40%	

In terms of incoming international transfers, four findings should be highlighted:

1. Due to a generally close group internal cooperation, Bank 2 Serbia charges less for payments coming in from its Austrian affiliate;
2. Since October 2008, Bank 3 in Serbia does not charge customers for receiving money from abroad;
3. Bank 4 releases the client from paying the receiving fee if the money is deposited in a savings account;
4. Bank 6 does not charge the recipient any fee if the total amount stays with the client's savings deposits for at least three months.

It can therefore be observed that banks are already offering some remittances-linked services and products. A further Serbian bank offers 5.25 percent effective interest rate for short/medium term deposits (3 months). This range goes up to 8 percent for long-term deposits (3 years). As discussed above, other banks claim to include remittances - among other income sources - in the creditworthiness calculation for loans and mortgages. Furthermore, debit and sometimes also credit cards are offered depending on the client's income, including remittances.<sup>83</sup>

However, **most banks in Serbia currently do not offer any specific remittances-related loan products.** One 2006 survey of nine Serbian banks found that "efforts to cross-sell remittances to other bank services are not widespread at the moment."<sup>84</sup> No respondent indicated that their institution offers additional remittances-linked services. Some banks make no secret of their non-existing remittances-related loan portfolio. In their opinion, remittances are spent on consumption and due to the risks and their focus on other target groups, they do not want to promote consumer lending. Other banks think that by legal restrictions only taxable income (e.g. salaries, rents) can be included in private persons' creditworthiness analyses. This reflects the current uncertainty regarding legislation. Another major problem is that inflows are not constant and could stop at any time. The introduction of remittances-related products therefore involves an element of risk. Being aware of the large potential of these funds, a few banks have already tried to develop special products, but they could not find a proper and safe way since the remitter can/does not guarantee the continuity of inflows. As a result, most banks see no potential for offering tailor-made remittances loan products.

<sup>83</sup> Although these products have cross-selling character, it remains questionable whether they can be considered as special remittances-related products. High interest rates on foreign currency savings are rather the banks' general endeavour to keep hard currency funds in times of overall decreasing foreign facilities and credit lines. Ordinary loans, mortgages and cards are offered to any client depending on his/her liquidity and history with the bank. In all these cases, the special, tailor-made remittances aspect is missing. None of these products exclusively focuses on migrant money transfer.

<sup>84</sup> Suki, Lenora, 'Remittances in Serbia and Financial Sector Development: Business Opportunities and Priorities for Investment', The Earth Institute at Columbia University, 2006).

Nevertheless, **some banks have an ongoing discussion about offering remittances-related products in the future.** Despite the risk, new savings products and mortgage loans tied to remittances are being considered. Especially those transferring large amounts want to improve the use of their internal network and also try to connect to other networks in order to offer faster and cheaper money transfer services. Therefore, banks are looking for partner institutions in sending countries like Germany and Austria. However, some banks only consider remittances/EUR-savings as a cheap source of foreign funds in times of currently high interest rates for foreign credit lines. They might reverse their focus on remittances (and thereby also their focus on related products) if/when lending from foreign financial institutions becomes cheaper again.

In any case, **most banks do not seem to be aware of the potential of remittances.** In their opinion, recipients do not demand loans because they lack sufficient savings. “Nobody in Serbia can start a business with EUR 300 per month,” they say. Most banks, including NBS, indicated that in most cases remittances are spent on basic living. In contrast, a 2006 EBRD survey<sup>85</sup> of managers of 160 enterprises shows that some of them used remittances to fund their businesses, often to a significant extent. Remittances financed more than 30 percent of start-up costs, and about 10 percent of investment and working capital. However, it is also highlighted that remittances transferred through banks may not be linked to business financing, which in turn does not necessarily contradict the statements of the banks. As the EBRD study concludes, “it seems that remittances help to alleviate a lack of credit for business start-up. The long-run role of remittances as a source of investment remains important, and authorities and the local banks have an important task to work together to develop innovative ways to enhance this effect.” It is thus questionable whether banks are doing their best to attract more remittances through formal channels.

For example, in 2003 NBS initiated the **DinaCard** in order to expand the then underdeveloped payment card market in Serbia. Today, DinaCard account for 44 percent of the total 5.7 million debit/credit cards in circulation. They are issued by 27 commercial banks and are accepted by more than 55,000 point of sales terminals and 2,070 ATMs countrywide. Although only 44 percent of the cards are in active use, 40 percent of retail transactions (goods and services) were made with this national card last year. Since December 2007 it is technically possible to send international transfers (cash to DinaCard) via RIA financial services.<sup>86</sup> This service directly aims at lowering fees for the sending of small amounts. Costs to the remitter are relatively low compared to banks, and the receiver’s fee is specified by the card issuing bank. After a pilot phase including five banks, since November 2008 all banks in the DinaCard system have the possibility to offer this service. However, although eight out of ten of the considered banks issue the DINA card, not one even mentioned it as a potential vehicle for remittances, indicating a clear lack of awareness of the subject matter. Nobody, not even the banks’ employees, seem to know about this service.

#### 4.3.2.5 An analysis of Serbia’s MTOs and MFIs

##### Money Transfer Operators

Western Union dominates the sector with a widespread country-wide network covering 269 cities with 1872 active locations.<sup>87</sup> They cooperate with almost every commercial bank in the country. The other MTO, Money Gram, plays a secondary role in Serbia. Although MoneyGram recently significantly increased its branch network, It is otherwise only present in a few other bank branches. According to legal regulations, payments can be made only through banks and post offices. Incoming payments are only available in EUR, while MTOs are not allowed to send money from Serbia.

Looking back at Table 10, Western Union inflows (recorded transfers from Ireland as their international hub) to Serbia amounted to 10.2 percent of the last eight years of formal remittances transfers. In 2007, almost USD 200 million was

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<sup>85</sup> EBRD, ‘Financing transition through remittances in Southeast Europe: The case of Serbia’, 2006([www.seco-cooperation.admin.ch/shop/00008/02002/index.html?lang=en&download...%20-](http://www.seco-cooperation.admin.ch/shop/00008/02002/index.html?lang=en&download...%20-))

<sup>86</sup> Ria is the third largest global money transfer company, serving more than 85 countries. They cooperate with more 400 correspondence banks, including more than 41,000 distributing agencies. However, they are not present in the Austrian market.

<sup>87</sup> Western Union ([www.wu.co.yu/locations.html](http://www.wu.co.yu/locations.html))

sent to Serbia via Western Union. For flows originating in Germany, the World Bank estimated 20 percent of the formal flows to be transferred through MTOs.<sup>88</sup>

Quick money transfer is primarily used for sending/receiving small amounts, averaging about EUR 300. Almost all transfers are below EUR 1,000.<sup>89</sup> The number of transfers differs significantly between banks. Some receive about 2,500 Western Union transfers annually, others more than 20,000. In some banks, almost all transfers are received through Western Union, while others have more wire transactions.

For Western Union transactions, banks see almost no potential for cross-selling banking products. In order to expand their customer bases, it is bank policy to also offer its own products to Western Union clients. Despite the fact that receivers may or may not be customers of the bank, almost none of them deposit the money, according to the banks.

#### Microfinance Institutions (MFIs)

There are three MFIs in Serbia: AgrolInvest, Micro Development Fund, and Mikrofin.<sup>90</sup> The latter two are NGOs, providing funds to refugees, and are thereby not direct competitors of market leader AgrolInvest (67 percent of market share).

MFIs face a difficult regulatory environment in Serbia. In contrast, for example, to BiH and Montenegro, they are not allowed to disburse credits directly to clients. All three MFIs therefore have to cooperate with a partner bank resulting in relatively high lending interest rates due to shared profits. This partner bank (currently all three MFIs cooperate with Privredna Banka) is only used as a provider for disbursement, while the MFIs do the creditworthiness analysis (client assessment, field visits, etc.) and cover the entire risk. The maximum credit amount is EUR 2,000, which can be expanded to EUR 5,000 depending on the client's repayment history. NBS furthermore limits the maximum term for microcredits to 24 months. These regulations were introduced to control an increasing trend in consumer lending. However, they also have negative effects on lending to SMEs since start-up capital and long-term income generating activities are thereby limited.

AgrolInvest has more than 16,000 clients in 14 branches/cities south of Kragujevac where 22 percent of the population are their customers. In order to have sufficient information for client assessments, they closely cooperate with about 120 village associations consisting of about 150 households each. To raise a credit, borrowers need two guarantors, one of which has to have a permanent salary. Over 60 percent of their clients are women, and more than 95 percent of the credits are used for agriculture. AgrolInvest's average loan amount is EUR 1,800, with an interest rate up to 29 percent p.a.<sup>91</sup> With their focus on smaller cities in generally underdeveloped areas in southern Serbia, one could assume that AgrolInvest clients are to a large scale also remittances recipients.

#### **4.3.2.6 Alternative transfer channels:**

Informal transfers are still the most common way of sending remittances from Austria to Serbia. NBS estimated about USD 2 billion – 54 percent of the total inflows – to be sent through informal channels. The World Bank estimates that 50 percent of the total from Germany is brought by bus drivers, other couriers, or the migrants themselves.<sup>92</sup> Interview partners in Serbia confirmed that informal transfers (buses or visits) are still commonly used to transfer money from Austria to Serbia.

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<sup>88</sup> De Luna Martinez, Endo and Barberis, 'The German Serbian Remittances Corridor', World Bank Working Paper No. 80 (2006), World Bank, Washington D.C.

<sup>89</sup> As already mentioned, higher amounts are usually sent by bank-to-bank transfers.

<sup>90</sup> Former MFIs like ProCredit Bank, Cacanska Banka and Opportunity Bank now have a NBS banking license. They have however kept their focus on SME lending.

<sup>91</sup> Although this interest rate is relatively high in a global context, AgrolInvest loans are cheap compared to their two competitors' lending conditions. The reason is that AgrolInvest also operates in Montenegro where they themselves can easily get EUR credits. Only operating in Serbia (where it is difficult to lend EUR), Micro Development Fund and MikrofinS have to take more expensive RSD loans, which lead to client's interest rates up to 40 percent p.a. (Nov. 2008)

<sup>92</sup> For a more extensive explanation on why informal channels are used, please see chapter 2.4

### Mobile Phone Operators, Internet, etc.

Mobile phone transfers are not currently being offered by any providers between Austria and Serbia. Furthermore, since NBS is not willing to change the current regulation, mobile phone providers were given no closer consideration in Serbia. Other transfer channels (e.g. internet, etc.) basically have no relevance to remittances sending from Austria to Serbia.

#### Key Points

- Today **Serbia's banking sector is modern and well developed** in terms of management, branch networks, and products/services. One reason is recent privatisation: Large banks are in majority foreign ownership, primarily from Italy and Austria.
- The banking sector has become deeper in terms of customer base: Improving physical access has led to higher level of bank penetration (current and savings accounts) as the foundation for formal bank transfers.
- **Most remittances inflows come from Germany and Switzerland.** Increasing inflows resulted in an estimated USD 3.6 billion in 2007, of which almost USD 2 billion was sent informally.
- **Many Serbian citizens still distrust the banking sector.** However, household bank deposits — especially in foreign currency — are increasing, thereby reflecting a returning confidence.
- Average amount of remittances transfers (banks and MTOs) is about EUR 300.
- **Western Union dominates the MTO sector**, cooperating with almost every Serbian commercial bank. It handles mostly small transfers, but this accounts for an estimated 10 percent of all formal remittances to Serbia.
- Fees for incoming transfers are relatively low, and sometimes even free of charge (e.g. if recipient puts money on savings account).
- **Some banks include remittances, among other income sources, in creditworthiness calculations.** However, most banks do not consider these “unstable and insecure” flows. In this context, an additional problem is the inexact definition of “regular income” as a basis for loan calculations.
- In general, besides savings, **banks currently do not see high potential for cross-selling other remittances-related products to sender or receiver.** It is questionable whether banks do their best in attracting more remittances through formal channels, for example using the DINA Card.
- Nevertheless, **some banks see potential in an ongoing discussion on remittances-related services and products** (especially Société Générale). This includes new saving products, mortgage loans, and improving networks for offering faster and cheaper transfers.

### 4.3.3 Migration Policies, Remittances Use and Investment

During the latter Cold War decades, socialist Yugoslavia went to great lengths to tap the financial resources of its migrant labourers abroad. On the local level, municipalities charged a small tax which often funded infrastructure projects in the villages like the building of schools and roads. In exceptional cases, Yugoslav workers abroad even banded together to build production facilities at local factories. During the wars of the 1990s the diaspora was called upon again and again to give to the homeland in one way or another, be it “Care packages” and remittances for family members or medical supplies for the front. In the aftermath of the 1999 NATO bombing campaign against Serbia, Serbs abroad contributed again for rebuilding the country.

**State Actors/Policies** — In June 1989, the year of the 600th anniversary of the Kosovo Field battle, the socialist republic of Serbia initiated an investment fund entitled the Loan for the Reconstruction of Serbia that was intended to attract Serbs abroad to invest in Serbia. The finances were supposed to be used for the purpose of economic development and modernization projects. The date of its launch was conspicuous as it was intended to exploit the patriotic sentiment of Serbs abroad at the time of the emotional, well-publicized anniversary. The fund netted over USD 150 million, much of which came from diaspora investors.<sup>93</sup> In the end, however, the fund was used for political purposes, to prop up dying

<sup>93</sup> Paul Hockenos, “*Homeland Calling: Exile Patriotism and the Balkan Wars*”, Cornell: Ithaca, p. 126.

industry in the bastions of Milosevic support and even fund the wars in Croatia and BiH. The fund went broke without diaspora investors seeing any return. The fund's misuse and the lost money has since been an irritant in homeland-diaspora relations in Serbia, one of the reasons for the difficult and complex relations between Serbia and its diaspora.<sup>94</sup> The national bank has launched other investment funds since then, but they had only very limited success, largely because of the legacy of the first such fund.

There are also other reasons for the complex relationship between Serbia and its diaspora, as mentioned in section 3.3.3. Importantly, during the 1990s most Serbian banks went bankrupt, and were only artificially kept alive by the non-implementation of the NBS bankruptcy acts. Due to this illiquidity, most foreign currency savings were lost, causing those with hard currency accounts to not only lose their savings, but also their trust in the financial sector. There is thus a lack of trust between Serbs abroad and the Serbian government.

This situation makes a constructive state policy toward the diaspora difficult. Moreover there is no central office or ministry that deals with fundamental migration issues like statistics, visa, etc., not to mention the apparent lack of any sort of state migration or returnee policy. The Serbian **Ministry for Diaspora** (MfD), the only ministry of its kind in the countries considered in this study, is pursuing policies to tap the potential of the Serbs abroad, which it estimates at 3.5 million. It is aware that Serbia suffers from acute brain drain and claims that during the 1990s Serbia lost 400,000 people, many of them young, educated, and skilled, and that the country would benefit from having them back. The ministry itself is small, with a staff of 40 people in three branches: economy, state issues, and diaspora affairs. It has an updated website<sup>95</sup> that, among other things, promotes investment in Serbia. It is currently involved in several projects, none of which have really gotten off the ground. One is a brain gain initiative that would allow companies in Serbia the possibility to have highly trained professionals from abroad to work in Serbia. Another idea is to give preferential treatment for Serbian investors from abroad to invest in Serbia. The problem though, the ministry found, is that this is not in accordance with EU law. So instead it is trying to give diaspora Serbs relevant information for investing. The ministry notes that it has little policymaking power. The ministry has prepared several laws, none of which have been passed by the parliament and it seems that migration issues are not high on the government's overall agenda.

Integration into the European Union (EU) remains one of the main political objectives of the Republic of Serbia as the country has embarked on reforms in the key areas of public administration, judiciary, and the democratic control of the armed forces. While political and transition issues continue to challenge this process, the country is taking steps to strengthen its borders, to align its legislation to the European Union, and to fight transnational organized crime and corruption. In January 2006, the Republic of Serbia adopted the integrated border management strategy, outlining its long-term vision for more effective migration management. Another centrepiece of the government's agenda concerns criteria for inclusion in the Schengen "white list."

**Non-State Actors** — Serbia has a large and active diaspora with an estimated 1300 organizations around the world, most of them in Europe, North America, and Australia. Austria alone has at least 45 Serb organisations. Most of these groups are cultural (broadly speaking) and have no programmes aimed at investment or economic development. One organization with a full-time presence in Belgrade is the 1990-founded **Serbian Unity Congress** (SUC), a US group that was created during the tumultuous 1990s to improve Serbia's image and lobby on its behalf. It had an explicitly nationalist agenda and actively promoted it. However, now it supports the democratic government. SUC has recently been active on restitution issues (the return of land confiscated by the communist government to political exiles), political rehabilitation cases, and the reimbursement of the lost money from the diaspora fund. The SUC wants to be more active in promoting investment in Serbia in 2009. It mentioned that it intended to put together a round table on remittances and development with other actors in the field.

Another non-state actor is the daily newspaper *Vesti*, which is the biggest daily "diaspora publication" of its kind in the western Balkans. (The Serbs in Europe have access to three Serbian television channels via satellite and many more via the internet.) *Vesti* has a circulation of 180,000 with daily editions for Germany, Switzerland, Austria, the US, and

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<sup>94</sup> According to SUC, in 2008 the new government promised that it will reimburse the fund in order to repay diaspora investors.

<sup>95</sup> [www.mzd.sr.gov.yu/Eng](http://www.mzd.sr.gov.yu/Eng)

Australia. There had never been a full-scale campaign to get remittances channelled into formal channels. The readers of *Vesti* are overwhelmingly linked to the guest workers of the Cold War decades. Were there to be an information/awareness campaign around remittances, *Vesti* would be a logical, effective, interested partner, as would the relevant TV stations.

There are people at the Serbian universities working on migration-related issues but there is no specific work on remittances/development. There are few other small NGOs doing work on migration and development, but by and large there is very little discourse and activity in Serbian civil society.

**International Actors** – There have been a number of good studies on remittances to Serbia produced by international organizations, including those of SECO (together with EBRD and IOM), GTZ, the Earth Institute, and the IMF.

**IOM:** In addition to its in-depth 2007 report “A Study of Migrant-Sending Households in Serbia Receiving Remittances from Switzerland” (part of the SECO study), IOM has been contributing to the formulation of the EU acquis-alignment migration strategy. It says it has taken the lead in a region-wide initiative to develop and make available to police training institutions comprehensive training curricula and materials on counter-trafficking/counter-smuggling. It supports the strengthening of Serbia’s institutional and operational capacities. IOM Serbia pays particular attention to defence personnel facing redundancy, refugee and displaced populations, irregular migrants, actual and potential victims of trafficking and vulnerable minority groups including the Roma.<sup>96</sup>

**UNDP’s** Capacity Development of the Ministry for Diaspora (MfD) provides technical assistance in support of policy planning and project interventions in order to engage the Serbian diaspora for development. Support is provided in order to encourage trade and investments of migrant workers in Serbia as well as contribute to diverting remittances for sustainable use. UNDP correctly notes that there is a lack of capacity and updated knowledge on how diaspora can support development in its country of origin.

One central activity in UNDP’s support to the MfD was a three-day International Conference on Serbian Diaspora and Homeland Development, organised in Belgrade in November 2008. The conference’s purpose was to provide a platform for exchange of information, knowledge, experiences, best practices, and different perspectives, focusing on the potential role diasporas can play in Serbia’s development. Among the participants were international migration/diaspora experts, coming from countries with large diasporas and with developed mechanisms for diaspora-homeland collaboration. However, only two representatives from the Serbian diaspora in Sweden and Germany were invited as speakers.<sup>97</sup>

The conference addressed key policy challenges the MfD seeks to tackle in the upcoming years. Panel discussions and presentations included the diaspora’s role in Serbia’s economic development, the question of transnational identity and communication networks, as well as legal and statutory issues. It was highlighted that Serbia has the potential to become the economic leader in the Western Balkans, but much more effort would be needed to create competitiveness, fight corruption, and not at last to strengthen the connection of young Serbs abroad to their (or their parents’) home country – three of Serbia’s main problems that in the end detain diaspora investment. One major issue is restoring the trust of the diaspora in both Serbia’s politics and economy. The conference concluded with a workshop aimed at formulating concrete proposals and programmes covering various aspects of building relationships with the Serbs abroad: development of institutional mechanisms within Serbia to more effectively deal with diaspora issues, identification of necessary resources/institutions to be established abroad to communicate with the mother country, and, other means for strengthening links between the diaspora and Serbia including citizenship, voting, asylum, labor migration, remittances, gender aspects etc.<sup>98</sup> It is, however, unclear what the follow-up of this conference will be.

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<sup>96</sup> [www.iom.int/jahia/jahia/pid/700](http://www.iom.int/jahia/jahia/pid/700)

<sup>97</sup> This fact was excoriated by the diaspora representative from Sweden. For obtaining better results, he demanded a new conference with more participants from Serbian diaspora communities.

<sup>98</sup> [www.undp.org.rs/index.cfm?event=public.ProjectsDetails&revid=8ECC1125-3FF2-8C75-261C3B545709F921](http://www.undp.org.rs/index.cfm?event=public.ProjectsDetails&revid=8ECC1125-3FF2-8C75-261C3B545709F921)



#### 4.3.3.1 Analysis of Remittance Use and Investment

The exact total of remittances sent from Austria to Serbia is unknown. The estimate of the OeNB is EUR 131 million, although that includes flows to Kosovo. But regardless of the total sum it is clear that remittances to Serbia have an enormous impact on the economy in two main ways: one, as a source of foreign exchange and, two, in terms of poverty reduction, particularly in rural areas. It is also the case that the remittances flow to Serbia has not declined despite the end of classic labour migration in the 1980s. Households that have migrants abroad tend still to receive remittances, even if the migrants left decades ago. The remittance flow into Serbia is expected to remain much the same over the near future. The majority are sent informally, by bus, family friend or relative, or during personal visits home. According to the 2007 IOM report on households in Serbia receiving remittances from Switzerland, 83 percent of respondents use informal channels to remit.<sup>99</sup>

**The Use of Remittances** — The existing research on remittances sent to Serbia comes to the overwhelming conclusion that **remittances are used by receiving families for consumption**, health-related expenses, utilities, phone service, gasoline for cars, and household appliances and furniture. Over the past 40 years, by far the largest investment above-and-beyond consumption has been in housing, followed by land and agricultural activities. Recently there has been increased investment in urban housing, including housing blocks in the cities nearest the rural homes of emigrants. The IOM research shows that four factors determine the use and investment of remittances: socio-demographic status; the environment in which they are received; knowledge of investment possibilities; and, lastly, attitudes toward financial services. Younger households are less risk-averse and thus tend to be those prone to invest in small and medium-sized enterprises. The most active investors and savers are higher-than-average-income households. Older people spend more of their remittances on health, while middle-aged people tend to spend it on housing. Also, it is noted that in Serbia the environment offered people very few opportunities to invest beyond housing and land. Moreover, investment behaviour is partially determined by the knowledge that remittance receivers have about the financial system and services available. Although many remittance receivers have bank accounts, their use of them and bank services are extremely limited.

As for the **impact of remittances** on households, the available research and the Frankfurt School findings underscore that low-income, rural households (often with elderly members) are kept out of poverty by remittances. On average, remittances constitute 40 percent of total household income.<sup>100</sup> The difference between receiving remittances and not is the difference between leading a humble existence and wanting for basic necessities like food, clothing, and energy.

It is thus not entirely surprising that remittances are invested in housing, an investment that ensures a degree of physical safety, comfort, health, and economic security. The priority of housing is strikingly evident in those areas like eastern Serbia from which large numbers of labour migrants left during the Cold War decades. Just driving through villages around Pozarevac and Petrovac na Mlavi one can see the emigrant-built houses, usually two or three stories high. Some of them are uninhabited, others inhabited only on the lower floors, usually by an older relative.

But remittances also have a **negative impact** on these areas. Many of these villages are severely depopulated, some even look like ghost towns with not a person to be seen. Many of them are inhabited almost exclusively by older people. In some places the fields are no longer worked, in others there is not enough labour to carry out the harvest. These areas have been hard hit by brain drain: there are too few skilled people in the work force, thus ensuring that these areas remain underdeveloped. They are classic cases of "modernization without development." There is little to no perspective for the small number of young people in the villages and nothing to entice emigrants to come home. Unemployment in these areas is particularly high. Also, in the urban areas, where housing has been bought up, the prices for real estate are now three times what they were just five years ago.

According to the results of available research and the Frankfurt School findings, **it seems unlikely that much of the remittances sent to rural Serbia can be used to invest in sustainable enterprises**. For one, the families that receive remittances need them to reduce poverty. They do not save money or spend it on non-essential things. Also, the quantity of remittances per household is actually quite small; few households receiving remittances are able to exist

<sup>99</sup> "A Study of Migrant-Sending Households in Serbia Receiving Remittances from Switzerland," IOM, Report No. 28, 2007, p.9.

<sup>100</sup> Ibidem, p. 8.

solely on remittances. Usually, they supplement other incomes through agricultural or local public or private sector jobs. The remittance senders themselves are usually employed in unskilled work and the majority have their own families to provide for abroad. According to the IOM study, the households in north-eastern Serbia examined receive an average CFH 4,800 a year (in addition to non-cash remittances in the form of goods.) Most families do not receive regular remittances but rather a cash gift from relatives once or twice a year. In other cases, money is sent for purposes of emergencies. If there is money above-and-beyond purposes of consumption, it is usually very little and is "invested" in housing or agricultural machinery. In addition, the education and skill level of remittance-receiving families is often very low. They have only a very basic grasp of the way the private sector works, and usually experience only in agriculture. In other words, they are not typical entrepreneurs nor does the economic climate in rural Serbia offer them other obvious alternatives for investment. It thus seems very unlikely that the remittances (defined as something other than savings) can be used for purposes of sustainable investment.

It is, however, another question **whether the remittance-sending emigrant himself/herself can invest in the private sector** of the region from which he or she came. Many small enterprises are established by returned migrants or with money sent from abroad. In Petrovac na Mlavi, for example, car repair shops, garden supply shops, a flower shop, little grocery stores, cafés, and restaurants have been established with migrant capital. Nevertheless, ultimately these examples are modest. Also, the villages from which many of them came are now, as already noted, severely depopulated. The people there, if they have work, are low-paid agricultural workers and thus do not have income to fuel demand. Thus, although it is not impossible for migrants to set up SMEs, when it does happen those enterprises tend to be quite small, with a very small number of employees.

Interestingly, the people in the Pozarevac municipal administration are remarkably downbeat about the possibility of migrants investing in the town and the rural areas around it. For one, they noted the real estate boom, which has caused property prices to shoot up and has thrown a spanner in the process of restitution under way. But they did agree there was untapped potential there, which they hoped could in one way or another be mobilized. The administrators from the economic development office said they had little contact with diaspora businessmen or savers who might be interested in investing. Once a year, for example, the mayor meets with people from abroad who have returned to visit. They have also tried to put together a data base. In the end they admitted, their real target was FDI from foreign businessmen abroad, not diaspora entrepreneurs.



### Key Points

- **Due to its troubled history, the Serbian diaspora has a complex and difficult relationship to the Serbian state.** There is a conspicuous lack of trust from the side of the diaspora in the financial sector and anything related to the state or official authorities as such. Likewise, local and state authorities are disillusioned with the diaspora which they feel is uncooperative.
- **Over four decades of migration and remittance-sending has not resulted in sustainable growth in rural Serbia.** In fact, many of the high-sending villages are severely depopulated and live almost exclusively from remittances. Rather than develop they have become dependent on remittances.
- Numerous studies on remittances to Serbia have been published and thus **the standard of available information is very good compared to other countries in the region.** A responsible ministry has been set in place. Nevertheless there is a remarkable lack of importance attributed to the subject of migration and diaspora in terms of following-up on recommendations, allocating resources and formulating and implementing relevant government policies.
- **Although it makes sense to try to channel remittances into formal channels, this alone is unlikely to result in sustainable investment in remittance-receiving regions.** There are definitely other benefits, including some extra money for the recipients (or for the sender, as the case may be) and capitalizing the financial sector. But in light of the fact that the level of remittances per family is low, and the needs of the recipients so great, it is unrealistic to think that much of this can be saved or go toward investment.
- It is still difficult for Serbian people with migration backgrounds to invest directly in SMEs in Serbia. One finding of the SECO study was that one third of the remitters that it interviewed in Switzerland did want, or even “planned,” to invest at some point in the future. (They tended to be the younger and better-off migrants in Switzerland.) The Frankfurt School interviews also ascertained a desire to invest in some way.
- The UNDP capacity building project should be evaluated once it is finished (December 2008). Even more starkly than the Serbian MfD, the offices of other regional countries that deal with diaspora/migration affairs are undercapacitated and in need of training. The success of the UNDP project could point to more such programs, perhaps on a bigger scale, elsewhere in the Western Balkans.
- **Most remittances are still sent through informal channels despite the development of a viable financial sector and good formal transfer options.** Due to Serbia’s proximity to many of the key remittances sending countries, there is little potential for a quick change in sending behaviours.

## 4.4 Moldova

### 4.4.1 Migration from Moldova

Unlike in the countries of former Yugoslavia, mass outward migration is a new phenomenon in the Republic of Moldova: it began in the late 1990s and within a decade roughly a third of the work force migrated abroad. While this brought new flows of badly needed foreign currency to the country, it also created grave socio-economic problems including shattered family structures and acute brain drain. According to official government and independent estimates, between 350,000 and 700,000 Moldovans are currently living and working abroad. This is a major source of income for Moldova, with remittances estimated at more than USD 300 million per year. In 2007 Moldova was one of the world’s top remittance recipients with 36 percent of GDP coming from remittances, according to the World Bank. Managing Moldova’s migration is an enormous challenge for the Moldovan government, non-state actors in the country, and their partners in the international community, not least the European Union. While significant progress has been made over the past ten years, much still needs to be done to exploit the positive potential of migration and marginalize the negative bi-products.

## 4.4.2 Remittances in the Financial Sector

### 4.4.2.1 Volume and most important corridors

Moldova's primary sources of remittances are Italy, Russia and Spain, followed by Greece, Portugal, Turkey and the United States. Remittances from Austria are very limited due to the small number of Moldovans living there. According to the National Bank of Moldova, only USD 2.2 million of remittances was transferred from Austria to Moldova during the first six months of 2008. To give an idea of how little this is in comparison to other countries, Moldincombank estimates that in 2008 USD 230 million in remittances was transferred using its services. Likewise, Banca Sociala processed USD 74 million, EUR 27 million, and RUB 377 million (equivalent to EUR 8 million) within the first 8 months of 2008.

In general (not limited to Austria), remittances transferred through formal channels are mainly sent via quick payment systems. In Frankfurt School interviews, Moldovan banks estimated that 80-95 percent of remittances were transferred via quick payment systems and only 5-20 percent through wire transfer (using SWIFT). One exception was Moldova Agroindbank that estimated that half of its remittances were sent via wire transfer and the other half via quick payment systems. Quick payment systems are usually chosen for small amounts between EUR 300 and EUR 500. For amounts of EUR 1,000 and more, Moldovan migrants prefer wire transfer because of the lower costs. The percentage of clients receiving remittances through a bank who also have bank accounts with the bank is relatively low, ranging from 5 to 20 percent.

Usually, banks provide four to ten different quick payment systems depending on the origin country of the remittances. Most of the providers target specific countries. The use of MTOs requires little documentation: clients only need to show their ID and fill in a form. Usually banks do not inform their customers about the status of delivery as transfers happen quickly. According to an official brochure on transfer options in Moldova, transfers take anywhere from 5 minutes to three working days. The Frankfurt School test transfers confirmed the rapidity and convenience of sending money via MTOs; the transfer from Austria took only a few minutes and could be picked up at any of 92 locations in the capital alone.

### 4.4.2.2 Local regulation of money transfer

In 1994 the National Bank of Moldova issued the "Regulation on Foreign Exchange Regulation on the Territory of the Republic of Moldova"<sup>101</sup>, in line with regulations on international payment operations in Western countries. In comparison to the countries of former Yugoslavia, the process of incoming wire transfers is less complicated since banks are allowed to credit transferred amounts immediately to the beneficiary's account. Additionally, the "Instruction on Transfer/Export from the Republic of Moldova of Funds by Certain Categories of Individuals" was approved in 2006. This applies to outgoing payments only.

Moldova has not yet implemented the IBAN (International Bank Account Number) system and, according to the National Bank of Moldova, will not do so in the near future. Presently, the National Bank considers the domestic payment system to be sufficient. However, the implementation of IBAN would clearly be an improvement for remittances senders in countries where an IBAN code of the beneficiary is usually required in order to perform the payment transaction (for example, in Italy, Spain, and Portugal). Mobile transfer services can not currently be offered in Moldova. The National Bank does not allow for these types of services as there are currently no relevant laws and regulations, which is not likely to change in the near future.

### 4.4.2.3 Analysis of the banking sector

The Moldovan banking sector is still dominated by local banks: of 16 commercial banks only four are foreign banks (with a foreign investor as major shareholder): Mobiasbanca as part of the French Société Générale group, Eximbank as

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<sup>101</sup> [www.bnm.md/en/regulations\\_op\\_valute](http://www.bnm.md/en/regulations_op_valute)

part of the Italian Gruppo Veneto Banca, ProCredit (ProCredit Holding AG, Germany, and Stichting DOEN, Holland), and Unibank with the Austrian investment and advisory company Vienna Capital Partners.

Although the size of the total banking sector is still very small (EUR 2.6 billion total assets in 2008), the development of the key ratios like return on assets, as well as the capital adequacy, are quite stable. Key indicators show that the Moldovan banking sector:

- has had an average of 40 percent growth of capital and 40 percent growth of total assets since 2006;
- shows a constantly growing capital adequacy up to more than 30 percent; and
- produces a steady growing Return on Assets (RoA) of up to 4 percent.

**Table 13: Key indicators on the overall Moldovan banking sector in detail<sup>102</sup>:**

<i>in 000 EUR</i>	<b>30.9.08</b>	<i>change in %</i>	<b>31.12.07</b>	<i>change in %</i>	<b>31.12.06</b>	<i>change in %</i>	<b>31.12.05</b>
	(16 banks)		(16 banks)		(15 banks)		(15 banks)
<b>Total assets</b>	2,648,165	37.7%	1,922,771	43.5%	1,340,207	13.5%	1,180,599
<b>Net loans and financial leasing</b>	1,607,976	34.6%	1,194,414	54.6%	772,801	23.0%	628,422
<b>Total deposits</b>	1,878,750	35.3%	1,388,191	36.7%	1,015,850	12.4%	903,631
<b>Capital</b>	454,704	36.5%	333,161	43.9%	231,502	19.1%	194,438
<b>Capital adequacy</b>	30.80%	6.0%	29.07%	4.3%	27.86%	3.3%	26.98%
<b>Total assets of 5 largest banks/total assets</b>	64.20%	0.7%	63.76%	-4.0%	66.43%	-4.7%	69.73%
<b>Return on assets</b>	4.04%	3.3%	3.91%	15.0%	3.40%	21.4%	2.80%
<b>Past due loans and past due plus non-accrual interest loans/total loans</b>	4.62%	89.3%	2.44%	-29.5%	3.46%	-7.5%	3.74%
<b>Number of employees</b>	11,067	12.3%	9,851	9.2%	9,020	6.4%	8,476

<sup>102</sup> Data as of 31.12.2005, 2006 and 2007 are adjusted according to the results of external audit, which is not yet the case for the data as of 30.9.2008

**Table 14:** Some key indicators on the Moldovan banking sector, per bank<sup>103</sup>

in 000 EUR	TOTAL ASSETS			NET PROFIT			BRANCHES			Automatic Teller Mashines (ATMs)		
	31.12.07	31.12.06	change in %	31.12.07	31.12.06	change in %	31.12.07	31.12.06	change in %	31.12.07	31.12.06	change in %
Moldova Agroindbank	413,887	277,643	49.1%	14,147	10,717	32.0%	68	58	17.2%	91	87	4.6%
Victoriabank	246,757	155,204	59.0%	10,759	6,314	70.4%	21	16	31.3%	52	47	10.6%
Moldindcombank	219,177	138,817	57.9%	5,494	3,836	43.2%	23	21	9.5%	44	44	0.0%
Banca de Economii	183,195	205,257	-10.7%	11,250	4,739	137.4%	37	35	5.7%	46	35	31.4%
Eximbank	163,132	81,076	101.2%	3,426	982	249.0%		17	16.0%	44	36	16.0%
Mobiasbanca	156,618	114,891	36.3%	5,500	3,475	58.3%	14	14	0.0%	13	13	0.0%
Banca Sociala	127,217	92,791	37.1%	3,098	2,370	30.7%	21	18	16.7%	32	32	0.0%
Fincombank	101,523	69,633	45.8%	2,635	2,132	23.6%	15	13	15.4%	50	46	8.7%
Banca Comerciala Romana	86,848	48,021	80.9%	4,111	1,733	137.2%	2	1	100.0%	5	0	
Investprivatbank	66,143	38,183	73.2%	671	565	18.7%	11	5	120.0%	0	0	
Energbank	63,544	40,087	58.5%	2,200	1,159	89.8%	19	19	0.0%	12	10	20.0%
Unibank	31,667	35,428	-10.6%	1,326	-276	580.9%	5	7	28.6%	12	9	-33.3%
Comertbank	22,919	16,997	34.8%	836	1,163	-28.1%	1	1	0.0%	0	0	
Universalbank	19,389	17,209	12.7%	-297	1,003	-129.6%	5	3	66.7%	0	0	
EuroCreditBank	11,897	10,622	12.0%	726	445	63.4%	2	2	0.0%	1	0	

While the indicators above show a mainly positive development, there are issues that need to be addressed. A major weakness is the lack of transparency of the Moldovan banking sector:

1. For many of the banks, it is not possible for customers to find information about ownership structure;
2. Financial statements of banks are rarely published on the banks' homepages. The National Bank also does not publish detailed income statements and balance sheets of banks;
3. The National Commission of Financial Markets (NCFM) is supervising non-bank financial institutions, e.g. microfinance institutions, savings and credit organizations, and insurance companies. Its homepage offers sector statistics, but it is not possible to obtain detailed figures about each organisation;
4. The concentration of the Moldovan banking sector is relatively high compared to many other transition countries. Two-thirds of the total market is shared among the five largest banks: Moldova Agroindbank, Banca De Economii, Victoriabank, Moldindconbank and Mobiasbanca;
5. The larger MFIs operating in Moldova, Rural Finance Corporation (RFC) and MicroInvest, have a higher transparency than the banks, providing annual reports and loan information on their homepages<sup>104</sup>.

#### 4.4.2.4 Analysis of the banking sector and banking products for migrants

The Moldovan banks are still very transaction-oriented and demand-driven. This can also be seen when visiting branches; many of the customers are dealing exclusively with cash- and non-cash operations. Bank branches are equipped for this purpose: open zones for customer advisory exists in exceptional cases only. A more active approach from banks in attracting customers seems rare with one exception: ProCredit in Moldova uses the same concept as in other countries and has contact their customers both on the spot and outside the bank's outlet.

In addition to the above-mentioned, most of the standard services and products for private individuals are available:

<sup>103</sup> "Standard Financiar", Nr. 1/2008

<sup>104</sup> RFC: [www.microfinance.md/](http://www.microfinance.md/) and <http://www.microinvest.md/about/history/en.html>

### Current accounts

Standard operations on a current account like cash in/out and payment transfers are offered by all the banks. More advanced services, like standing orders and direct debit, are missing.

### Money transfer

Remittances are sent in two official and legal ways to Moldova: via wire transfer (SWIFT) and via quick money transfer. Unlike in many other countries where Western Union has an exclusivity agreement with the banks, Moldovan banks ensure freedom of competition for money transfer companies. Thus, there are 23 different quick money transfer systems represented in the Moldovan MTO market. The table below shows the different transfer systems including duration of transfer, target country, currency and maximum amount to be transferred.

**Table 15: Comparison of MTO's in Moldova**

Name of provider	Duration of transfer	Target country	Amount and currency
MTO 1	3-24 hours	CIS, Baltic states, Germany, Greece, Spain, Rumania, Italy etc.	USD (USA)
MTO 2	1-2 days	20 countries incl. Portugal, Italy, Spain, Germany, Ukraine	EUR, max. amount EUR 2,000
MTO 3	5-10 min.	All CIS countries	EUR, USD, RUB. Max. amount UR/USD: 10,000, in RUB: 280,000
MTO 4	Up to 5 min.	CIS countries, Italy and Turkey	USD and EUR, max. amount 10,000
MTO 5	Up to 5 min.	Azerbaijan , Georgia, Kazakhstan, Russia, Tajikistan, Ukraine, Belarus, Moldova	EUR and USD, max. amount 10,000
MTO 6	1-4 hours	n.a.	EUR and USD
MTO 7	4-24 hours	CIS countries, Baltic, Italy, Turkey, Portugal, Spain etc.	EUR, USD, RUB
MTO 8	2-3 days	Only Italy – Moldova	EUR, max. amount 5,000
MTO 9	1-2 days	Only Greece - Moldova	EUR, max. amount 900
MTO 10	10-15 min.	CIS, Ukraine, Poland, China, Vietnam etc.	EUR and USD
MTO 11	5-10 min.	CIS countries, Baltic states, Great Britain, USA, Spain, Israel	EUR, USD, RUB. Max. amount USD/EUR 10,000
MTO 12	5-10 min.	Baltic and CIS countries	USD, RUB. USD: 10,000; RUB: 280,000
MTO 13	10-15 min.	More than 170 countries worldwide	USD and EUR. Max. amount 10,000
MTO 14	5-10 min.	Moldova, Ukraine, Russia, Belarus, Lithuania, Armenia and Azerbaijan	EUR and USD
MTO 15	Max. 24 hours	Russia	RUB, max. amount USD 5,000
MTO 16	1-3 work days	Italy – Moldova	EUR, max. amount 2,500
MTO 17	2 work days	Spain – Moldova	EUR, max. amount 3,000
MTO 18	2 days	Turkey – Moldova	EUR and USD, max. 3,000
MTO 19	Up to 15 min. for CIS countries and Europe, all other countries 24 hours	CIS countries, Baltic, Belgium, Netherlands, Rumania, Czech Republic, Turkey, USA, Great Britain etc.	EUR, USD and RUB
MTO 20	1-2 days	Russia, Spain, Italy, Germany, Portugal, France etc.	EUR
MTO 21	5-10 min.	More than 170 countries worldwide	EUR and USD, max. amount 10,000
MTO 22	5-10 min.	More than 70 countries	USD and EUR, max. 5,000
MTO 23	1-3 days	Italy – Moldova, Moldova - Italy	EUR, max. amount 8,000

For remittances transferred through the SWIFT system, the banks with the highest market share are Victoriabank, BCR Chisinau, and Banca Sociala. In 2006 EBRD analyzed transfers of remittances by banking institutions in Moldova.<sup>105</sup>

**Table 16: Remittances Transfers from Financial Institutions in Moldova**

<i>in USD</i>	Monthly transactions	Monthly volume	Annual transactions	Annual volumes	Market share
Moldova-Agroindbank	8,00	3,916,667	100,000	47,000,000	8%
Banca de Economii	10,000	4,000	120,000	48,000,000	8%
Victoriabank	25,000	12,500,000	300,000	150,000,000	24%
Moldindconbank	3,500	1,575,000	42,000	18,900,000	3%
Mobiasbanca	9,500	5,000,000	120,000	60,000,000	10%
Eximbank	6,300	3,150,000	75,600	37,800,000	6%
Banca Sociala	20,000	10,000,000	240,000	120,000,000	19%
Fincombank	5,000	2,500,000	60,000	30,000,000	5%
BCR. Chisinau	15,750	7,875,000	189,000	94,500,000	15%
Unibank	1,200	70,000	14,400	840,000	0% <sup>106</sup>
Universalbank	688	26,829	8,250	3,300,000	1%
EuroCreditBank	2,400	840,000	28,800	10,080,000	2%
Other	1,000	500,000	12,000	6,000,000	1%

When looking at the revenue level, it can be seen that the banks most active in the field, also have a high revenue ratio. BCR Chisinau stands out with close to 90 percent. Banking institutions income and revenue from remittance transfers in Moldova.<sup>107</sup>

**Table 17: Financial Institutions' Revenue from Remittances Transfers in Moldova**

<i>in USD</i>	Net income	Income as % of assets	Annual transaction revenues	Ratio of revenue per transaction and net income
Moldova-Agroindbank	7,504,314	2.00%	564,000	7.50%
Banca de Economii	5,547,827	2.00%	576,000	10.40%
Victoriabank	4,194,965	2.00%	1,800,000	42.90%
Moldindconbank	3,752,049	2.00%	226,800	6.00%
Mobiasbanca	3,105,344	2.00%	720,000	23.20%
Eximbank	2,191,365	2.00%	453,600	20.70%
Banca Sociala	2,508,022	2.00%	1,440,000	57.40%
Fincombank	1,882,089	2.00%	40,800	2.20%
BCR. Chisinau	1,297,944	2.00%	1,134,000	87.40%
Unibank	957,574	2.00%	10,080	1.10%
Universalbank	465,143	2.00%	39,600	8.50%
EuroCreditBank	287,088	2.00%	120,960	42.10%
Other	2,574,949	2.00%	252,000	9.80%

<sup>105</sup> Basic data from EBRD report "Financial Sector Analysis for South Caucasus", 2006, updated with statements from the FS Consulting Team interviews in Moldova in November 2008.

<sup>106</sup> 0.134%

<sup>107</sup> EBRD report, "Financial Sector Analysis for South Caucasus", 2006

The revenue from remittances is, as it can be seen in the table above, contributing significantly to the banks' results; almost half of the banks earned more than 10 percent from transfers of remittances.

Bank representatives claim that their customers are not charged for wire transfers since fees have already been taken from the ordering party. However, most banks have a withdrawal fee, meaning that beneficiaries receive the remittances on their accounts without costs, but are charged with a fee up to 1 percent upon withdrawal from the account. One of the exceptions is Eximbank that offers a relatively low fee of 0.2 percent for transfers from Italy.

### Deposits

Deposits for private individuals are mainly offered in MDL, USD, and EUR with maturities up to 10 years, whereas the interest rates are quite high compared to other countries in transition (MDL up to 25 percent p.a., USD and EUR up to 15.5 percent p.a.). For 2008, the yearly inflation is roughly 12 percent. Allegedly 40 percent of the Moldovan population holds a current account in a bank, but no official statistic exists. Data about market penetration and product usage from the Moldovan banking and financial sector is limited.<sup>108</sup>

**Table 18: Deposits in Moldovan banks<sup>109</sup>**

in 000 EUR	DEPOSITS		
	31.12.2007	31.12.2006	change in %
Moldova Agroindbank	319,158	221,471	44.1%
Victoriabank	202,205	120,001	68.5%
Moldindcombank	180,456	109,762	64.4%
Banca de Economii	137,033	173,904	-21.2%
Eximbank	77,874	52,939	47.1%
Mobiasbanca	109,603	77,890	40.7%
Banca Sociala	78,719	67,997	15.8%
Fincombank	67,042	50,754	32.1%
Banca Comerciala Romana	69,831	38,294	82.4%
Investprivatbank	55,224	28,338	94.9%
Energbank	46,728	28,405	64.5%
Unibank	14,630	24,986	-41.4%
Comertbank	13,272	8,710	52.4%
Universalbank	11,864	9,379	26.5%
EuroCreditBank	3,472	3,019	15.0%

Several banks are running information and marketing campaigns to convince beneficiaries to keep remittances in deposit accounts in Moldovan banks. ILO/IOM has been active in this field with a project to inform and train remittances receivers. Some of these examples are listed below:

- Mobiasbanca tried to be in direct contact with the diaspora through its network banks (Société Générale group). The objective is to convince senders of remittances to use bank services instead of mini-buses or other informal channels. So far, however, the success of this approach is still low as many in the diaspora find the informal channels sufficient;
- Eximbank is trying to attract clients by offering the lowest withdrawal fee on the Moldovan banking sector, as mentioned in the chapter "money transfer";

<sup>108</sup> Phone conversation with Ms. Swoboda, GfK/Vienna from Nov 28, 2008.

<sup>109</sup> "Standard Financiar", Nr. 1/2008



- FinCom Bank provides new customers with premiums for depositing remittances, regardless of how the money comes into Moldova (via formal or informal channels).
- Banca Sociala's tellers communicate with beneficiaries directly at the counter in order to convince people to save their money in the bank;
- Moldova Agroindbank started with advertising campaigns and ads for travellers, for instance on the back side of flight tickets or in magazines of Air Moldova;
- A special campaign "Get money! Win a car!" has been successfully implemented two times by Moldincombank (now the campaign is running for the third time): the customer receives a coupon for every five remittances placed in the bank, with which he can participate in a lottery and win a car.

### Loans

Consumer loans, overdrafts, and mortgage loans are offered to Moldovan citizens with interest rates up to 28 percent. EFSE recently started to grant refinancing lines to banks for housing finance up to 10 years, which is at the moment also the maximum duration on the market.

Table 19: Loans, total as well as consumer and mortgage loans, in Moldovan banks<sup>110</sup>

in 000 EUR	LOANS			(thereof) CONSUMER LOANS			(thereof) MORTGAGE LOANS		
	31.12.2007	31.12.2006	change in %	31.12.2007	31.12.2006	change in %	31.12.2007	31.12.2006	change in %
Moldova Agroindbank	284,633	191,127	48.9%	64,604	44,552	45.0%	25,961	6,272	313.9%
Victoriabank	169,748	90,667	87.2%	30,061	6,063	395.8%	22,114	3,059	622.9%
Moldindcombank	160,689	94,511	70.0%	27,549	9,511	189.7%	20,353	1,127	1705.6%
Banca de Economii	99,781	95,643	4.3%	7,028	16,209	-56.6%	11,055	12,110	-8.7%
Eximbank	109,212	55,559	96.6%	1,642	1,722	-4.6%	12,400	7,164	73.1%
Mobiasbanca	96,877	69,680	39.0%	30,196	24,859	21.5%	12,130	6,539	85.5%
Banca Sociala	79,447	61,842	28.5%	2,924	3,029	-3.5%	6,220	1,350	360.8%
Fincombank	59,827	38,599	55.0%	3,477	2,369	46.8%	5,618	959	485.7%
Banca Comerciala Romana	61,649	30,912	99.4%	2,495	1,728	44.4%	5,250	241	2074.0%
Investprivatbank	39,270	19,844	97.9%	9,036	4,946	82.7%	1,536	1,084	41.7%
Energbank	38,672	26,305	47.0%	5,121	3,852	33.0%	211	138	52.9%
Unibank	18,772	17,595	6.7%	1,426	0		2,400	0	
Comertbank	12,321	10,070	22.3%	91	0		45	0	
Universalbank	12,250	9,589	27.7%	2,920	2,388	22.3%	216	0	
EuroCreditBank	3,750	2,815	33.2%	1,769	1,021	73.3%	282	2	14381.8%

Since the demand for loans is much higher than the supply – which is also expressed in the increase of loan volumes from 2006 to 2007 in the table above – banks have no motivation to disclose terms and conditions in a transparent manner. Interest rates and loan-related fees for instance are not published on the homepages of all the banks; effective interest rate is not shown, and it also not required.

Most of the financial institutions; banks, MFIs, Savings and Credit Associations (SCAs), but also leasing companies understand that there is a link between inflow of remittances and repayments of loans or other financial products (leasing, insurance). At the same time, they have limited interest in the source of income from clients, as long as they provide repayment on time.

<sup>110</sup> "Standard Financiar", Nr. 1/2008

In case of assessing repayment capabilities of private individuals some of the banks (e.g. Banca Sociala) include possible remittances as part of the income when evaluating the creditworthiness of the loan applicant. However, a track record is required, i.e. that the beneficiary can prove receiving similar amounts of money through remittances over one year. Also the SCAs consider remittances a source of income; their level of credit analysis is, however, very limited and relies mainly on personal contact to the client.

### Cards

Both Visa and Master are widespread in Moldova in regard to debit as well as to credit cards. In certain cases, like Moldova Agroindbank, American Express cards are issued. Local cards are not available yet, but this is planned. In rural areas, cards are rarely used, in contrast to cities. In general, rural financial services are often used on a “once a month” basis; the clients go once a month to the next larger city or village where they are able to do their payment operations and deposit cash in a bank. Many people do not have bank accounts reflecting a lack of trust in the system. Additionally, the infrastructure for cards is lacking in villages; there is a lack of ATMs and Point of Sales (POS) terminals.

### Internet Banking

Internet Banking is already common and well-developed in Moldova by the commercial banks. With most of the systems, customers can view their accounts, transfer money, and make payments (both in local and in foreign currency) as well as buy and sell foreign currency. However, there is a significant difference between cities and country side: access to computers and internet, and computer literacy is very low in the countryside.

### Mobile-Banking

Moldova Agroindbank offers an SMS-based service to its customers that enables them to control card accounts by receiving card account balances, confirmations about card transactions, and card-related information. This service is provided by Orange and Moldcell, the two biggest mobile phone operators. However, as mobile transfer business is not yet allowed in Moldova, the service only provides information to card holders.

#### **4.4.2.5 Analysis of MTOs, MFIs, and other financial institutions concerning remittances**

### MFIs

The 14 MFIs in Moldova are supervised by the NCFM. The most important and active are MicroInvest and Rural Finance Corporation (RFC), as well as ProCredit. However, ProCredit started banking operations with a new legal entity at the beginning of 2008 under a license from the National Bank. Therefore its MFI is only active in collecting instalments from loans granted as MFI.

**RFC** was established in 1997 as a part of setting up the SCA system to ensure better access to financial services among the rural population. Although RFC is organized as a joint stock company, it is in fact acting more as a cooperative with SCAs as shareholders. RFC is also functioning as refiner of a majority of the SCAs in Moldova; at the moment, RFC is refinancing 254 SCAs, with more than 32,000 active members. The loan agreement between RFC and the SCA is an exclusivity agreement, meaning that SCAs are not allowed to refinance their activities from other sources, except from savings. RFC further provides direct loans to farmers and rural enterprises for larger loans than could be provided directly by SCAs.

The loans for RFC are offered under the following conditions: SCAs receive funds up to 36 months and with interest rates up to 24 percent p.a. Private farmers and rural entrepreneurs can apply for loans with up to 10 years maturity and with interest rates between 18 and 21 percent p.a. Preconditions for loans to the second target group are their own contribution of 20 percent (of the loan amount) as well as a collateral (real estate, equipment, vehicles or guarantors) with a Loan to Value (LTV) of 130 percent. (Other products and services, like cash- and non-cash operations, are not allowed to be offered according to the law on microfinance organizations.)

RFC also offers support services to its SCAs. The staff of the former National Federation of SCAs (see below) was taken over by RFC when the federation was liquidated in January 2008, and continues to provide support over the RFC regional offices for the RFC affiliated SCAs.

**Microinvest**, the second largest MFI in Moldova, was founded in 2003. Its major shareholder is the Soros Foundation Moldova. Other shareholders are the Open Society Institute (a Soros Foundation company), the International Solidarity for Development and Investment (SIDI) company from France, and Oikocredit, a micro finance organization that is active in 60 countries.

Microinvest offers similar loan products for SCAs and entrepreneurs (up to USD 250,000) as does RFC. However, its lending to SCAs is of a much smaller scope than RFC, which currently holds roughly 70 percent of the market. Additionally, Microinvest makes loans to private individuals for financing cars, houses, and education. Interest rates range between 18 percent p.a. for hard currency and 27 percent p.a. for local currency. The loan default rate is not higher than 2.59 percent (delays or past dues with 30 days and more), which is almost similar to the figure in Moldovan banks.<sup>111</sup>

Since Microinvest is (as all other MFIs) not allowed to participate in companies as shareholder, it is considering setting up a venture capital company abroad. Additionally, an upscaling of all MFIs' business activities will be necessary since some of their customers already exceed the maximum loan amount of USD 250,000. This will ensure that for further business expansion, customers will not be forced to leave Microinvest and move to commercial banks.

#### Savings and Credit Associations (SCAs)

The SCAs were created in the late 1990s as a way to ensure rural access to financial services. Each SCA was given permission to lend within its village only. The managers of the SCAs were found among village residents with good standing in the community. Until a few years ago, these managers worked voluntarily. Loan decisions are taken by a council set up from the SCA members and is based on limited financial analysis. The success of the SCAs, where a majority has excellent repayment rates, lies in the close contact to its village clients.

Currently there are 454 SCAs registered with Moldova's NCFM, but only 430 of them are active. Although SCAs have to provide regular reports to this commission they are currently not supervised. A decision on whether it makes sense to supervise SCAs and MFIs is still pending. On a central level, the National Federation of SCAs was created to function as a support, lobby, and information organisation for SCAs. However, the federation was not successful and the SCAs lost interest in paying member fees. Thus, the federation was liquidated in early 2008. Its staff and the services it provides were taken over by RFC, which continues to provide the support services to its SCAs. However, there is currently no central organisation for all SCAs.

A new SCA law came in force 1 January 2008. The law provides a framework that allows further development of the SCA operations, also on central level. The main points in the new law are the possibilities for SCAs to gain different levels of licenses, allowing them a broader span of activities. The law also foresees creation of Central SCAs, which provide a number of services to the SCAs that they are too small to handle individually, such as the set up of a liquidity pool among the SCAs (of high importance due to the seasonal loan portfolios of SCAs) and legal advice. According to the law, 25 SCAs can create one Central SCA. Thus, it is possible to have several SCAs. It is assumed that maximum two Central SCAs will be created: one by RFC and one by Microinvest.

Three levels of SCA licenses are provided by the NCFM;

- A-license: this is the lowest level of license for the smallest SCAs. With an A-license, an SCA is only allowed to work in its own village, and only with credits in local currency to private individuals. A collection of deposits is not possible with this license. Roughly 200 SCAs are foreseen to apply for this license, however, the specific application requirements are still being developed and therefore no A-licenses have been granted to date.

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<sup>111</sup> See "key indicators on the Moldovan banking sector", Table 13

- **B-license:** With the new B-license, SCAs may collect savings and provide loans from or to private individuals. In addition, they may extend their outreach and work regionally. The conditions for a B-license are linked to portfolio size, but also to issues such as internet access, proper offices, and the educational level of the management. Approximately 70 SCAs currently are qualified to apply for this license. As of early February 2009, 60 SCAs have applied for a license and 20 have been granted a license.
- **C-license:** With this highest grade of license, an SCA can collect savings and grant loans to private individuals and legal entities on the entire territory of Moldova. Precondition for obtaining the C-license is that the SCA is successfully active with a B-license for at least one year. Thus, there are no SCAs currently eligible for this license.

The new law provided a transition period of one year until 1 January 2009 for the SCAs. However, the regulations under the law were delayed and the licensing process could start only in October 2008. Thus, as of early February 2009 20 SCAs has received their licenses, while the remaining applications are still being processed. Allegedly, the law outlines the starting date for the Central SCAs to be 1 of January 2009. When 25 SCAs have gained their license, RFC foresees to set up its Central SCA. However, the regulation for the Central SCAs is still to be drafted; thus a full set up will only be feasible once the regulations are in place. It is planned that all remaining regulations should be finalised by the end of May 2009. On a central level, the development of regulations is supported through technical assistance from the World Bank.

So far SCAs are neither allowed to provide loans in hard currency nor are they connected to the national payment system. The NCFM is open to discuss such a project. At the same time, both the connection to the national payment system and the permission to provide loans in hard currency require a continuous technical and managerial upgrade of the SCAs.

Since 2005 the SCAs have been supported through a technical assistance and training programme financed by Swiss Development Cooperation. Currently, the programme has supported SCAs in applying for B-licenses, and is supporting in set up of branches and possible mergers. Additionally, the programme has started computerising the SCAs through computer training, is advising and developing tools in liquidity and savings management, and training SCAs in the financial analysis of clients. **Continuous support to the SCAs in order to adjust to the new market opportunities is critical.**

The SCA in the village of Bardar, with 5,000 citizens approximately 30 km outside of Chisinau, is a typical SCA. Of its 1,300 members who pay a yearly membership fee of MDL 100 (EUR 7), 1,100 have taken a consumer or trade loan with interest rates of 28 percent p.a. For deposits the members receive interest rates of 20 percent in local currency. The total outstanding loan volume amounts to MDL 11 million (EUR 850,000), which is financed with MDL 8 million from RFC, MDL 2 million from savings and MDL 1 million from own equity. Collaterals for loans up to MDL 15,000 (roughly EUR 1,100) are not required; the loan repayment mainly builds on ensuring a will for the client to repay since everybody knows everybody in the small village.

The loan application is straightforward: The client must be a member and possess an ID card. The applicant has to wait until the SCA has funds to disburse the loan amount. Many SCAs have liquidity bottlenecks. **The set up of a liquidity pool in a Central SCA will therefore be of great support for the local SCAs.** For amounts above MDL 15,000 and up to MDL 250,000 (EUR 20,000) collateral is required, which can be either a mortgage or a vehicle. Instead of a loan loss provision, the SCA collects a 10 percent mandatory deposit from the members, meaning that the customer receives just 90 percent of the requested loan amount. If the whole loan is repaid, the customer receives this “premium” back. In Bardar, so far just 70 loans are overdue. The potential of this SCA is quite high: the demand in Bardar is twice as high as the supply of funding resources. Additionally, operational bottlenecks (see below) limits the SCAs. In Bardar, the manager estimates that upon receiving a B-license its market would immediately extend from 5,000 to 200,000 members and customers.

While the increase of geographical outreach provides the SCAs with new opportunities, and increases their possibilities to stay sustainable, it also imposes risk in terms of ensuring an operational management of sufficient standard. Most of the

SCAs are working with very simple tools (paper instead of computer), with management that has no banking background, and according to the cash-in-cash-out principle. This means that improvements will be vital for the continued development of the system. As mentioned above, a Technical Assistance (TA) programme is currently supporting the system. However, **the needs for the sector in short-, mid- and long-terms are substantial.**

#### GARANTINVEST<sup>112</sup>

GarantInvest, a specialized guarantee fund, was created in 2005 with the aim to remove impediments to business development and to guarantee a part of the loan when the collateral offered by the entrepreneur is insufficient. The UK Department for International Development (DFID) provides the necessary technical assistance for its implementation by assisting the Guarantee Society. Shareholders of GarantInvest are RFC, ProRuralInvest, and seven commercial banks. In 2008 GarantInvest issued 49 guarantees, which are limited to a maximum of USD 25,000.

Its customers, 70 percent from rural areas, are charged a commission of 3 percent of the guarantee up to 12 months and with 2.5 percent of the outstanding amount of the guarantee with more than 12 months. 70 percent the loans, supported by GarantInvest, were used for working capital, the rest for investment. So far GarantInvest is not reinsured; this is why it wants to join the European Association of Mutual Guarantee Societies. In order to grow GarantInvest is interested in cooperating with donors and international organizations like the Development Bank of Austria which could provide refinancing, equity or a grant.

#### **4.4.2.6 Alternative Transfer Channels:**

During the interviews Frankfurt School heard differing statements concerning the safety of informal money transfers. Most interview partners stated that transfers via busses are safe; therefore money is also sent in larger amounts, either by giving it directly to the driver or by hiding it in parcels. Others said that money transfers via mini-bus are not very safe anymore, since in some instances drivers disappeared with money or money was confiscated at borders.

In fact, the answer depends predominantly on who is addressed: officials such as, for example, representatives from the National Bank or the Centre for Combating Economic Crimes and Corruption point out that all the money is declared at the boarder and all the money is “clean,” although other sources clearly indicated that this is not the case.

Other transfer channels practically do not exist; neither the electronic channels (mobile phone operators, through the internet) nor debit or credit cards are used for remittances. The reason is the following:

- Qualification, level of education, and financial literacy of both the senders abroad and the beneficiaries in Moldova is quite low, indicating less likelihood to make an electronic transaction;
- Most of the remittances are distributed to rural areas and since these regions are not properly covered with bank branches or ATMs, it makes sense for the beneficiary to receive cash. This is one of the pluses of mini-buses; they deliver the money or parcels, where money is hidden, to the door.
- E-banking solutions make little sense from the beneficiary’s point of view; it only offers an advantage to the ordering party. If e-banking is part of the development of Moldova’s financial market then this should be taken into consideration.
- Although many citizens in the cities who don’t have access to fixed internet lines are using wireless internet access from mobile phone operators in Moldova, the largest (Orange and Moldcell) said they’re not interested in a banking-related product.

When taking a closer look at the second argument in the list above (bank branches or ATMs) then it can be seen that the concentration of ATMs and branches is still low, compared to developed markets like Germany and Austria:

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<sup>112</sup> [www.garantinvest.md/en/index.html](http://www.garantinvest.md/en/index.html)

### Key Points

- **Remittances play a significant role in Moldova's economy.** The inflow of remittances is estimated to be 36 percent of GDP. The money is widely used for daily consumption; fairly little is used for savings or investments in businesses.
- Moldova is to a large extent, and especially in the rural areas, **still in many ways a cash economy**, much more so than say Serbia or even BiH. There are few uses of bank services aside from current accounts. The ATM and POS system has a limited reach, especially in rural areas.
- **The banking sector** is still, in comparison with many other transition countries, **to a large extent locally owned**. The bank services focuses mainly on cash-handling services, while more advanced products often are missing. **Transparency and submission of information from the sector is improvable**, where the larger MFIs are in general showing a higher level of transparency than the banks.
- The **public trust in the financial institutions is very low in Moldova**, dating back to the early 1990s when many Moldovans lost all their savings in a bank crisis. Financial literacy, especially in rural areas, is low.
- The **SCAs play a vital role in ensuring access to financial services in rural areas**. The currently ongoing sector restructuring through the new SCA law brings new opportunities for SCAs to develop their services further in a sustainable manner. At the same time, the SCA system still needs support to operate according to the new standards. While the National Commission would be open to future connection of SCAs to the payment system, the SCAs will need substantial support before reaching the level of operations necessary.
- **Informal transfers of remittances are still predominant**, although there is good access to formal transfer services through MTOs and banks which, however, are not tied to the IBAN system.

## 4.4.3 Migration Policies, Remittances Use, and Investment

### 4.4.3.1 Migration-related Policies

Unlike in the countries of former Yugoslavia, mass outward migration is an entirely new phenomenon in the Republic of Moldova: it began in the late 1990s and within a decade at least a third of the work force migrated abroad. While this brought new flows of badly needed foreign currency to the country, it also created grave socio-economic problems including shattered family structures and acute brain drain. According to official government and independent estimates, between 300,000 and 700,000 Moldovans are currently living and working abroad. This is a major source of income for Moldova, with remittances estimated at more than USD 300 million per year. In 2007 Moldova was the world's top remittance recipient with 36 percent of GDP coming from remittances, according to the World Bank. Managing Moldova's migrants is an enormous challenge for the Moldovan government, non-state actors in the country, and their partners in the international community, not least the European Union. While significant progress has been made over the past ten years, much still needs to be done to exploit the positive potential of the migration phenomenon and to marginalize the negative bi-products.

There is general agreement among all of the actors involved in the migration nexus that the foremost priorities are to promote orderly and safe migration that respect human rights, and to create sustainable domestic and social policies that boost development in Moldova and thus pose alternatives to seeking foreign employment. The initial policies to manage migration concentrated on combating irregular migration, for example, migration control and regulation, and fighting trafficking. International community (IC) efforts have included the promotion of national capacity building for border control, acting against smuggling and corruption, and shutting down illegal migration channels. Although there is still illegal migration, it is much less than before, in part a result of these policies.

Although much has been undertaken in combating trafficking and other illegal forms of migration from Moldova, the same cannot be said for realizing the economic potential of migration-remittances-return. Remittances can play a major role as a poverty-alleviating tool in Moldova since they are 15 times the total social assistance budget. The challenge is to harness this capital and the social capital of migrants (brain gain) in order to achieve pro-poor sustainable economic growth and social development. Migration in Moldova must be treated as a resource to reduce poverty in the long term



(not just the short term) and be integrated into national migration concepts and technical assistance projects in order to promote economic development.

#### 4.4.3.2 State, Non-State, and International Community Policies on Migration and Development

**The Moldovan State** — As a very poor, post-Soviet state with a frozen conflict on in its eastern-most territory, Moldova has been plagued with a vast variety of ills associated with economic collapse, bad governance, and transition. It was thus slow to confront the many challenges of migration that confronted it quite suddenly in the late 1990s. The competencies for migration and migration-related phenomena are scattered throughout the government administration: in the ministries of economics, labour, foreign affairs, interior, information development, and the national bank. It has only recently been able to work with basic migration-related data and information.

IOM has been very active advising and assisting the various state ministries involved in migration-related issues. A detailed National Remittances Programme for the Republic of Moldova 2008-2011 was designed by Manuel Orozco, Director of the Remittances and Development Program at the Inter-American Dialogue, and has been presented to the Moldovan government officials. IOM has also presented a draft action plan on improving the productive use of remittances that could be used for developing a National Action Plan on Remittances by the Ministry of Economy and Trade. This action plan includes a strategy to leverage remittances for development on a national scale. The strategy's implementation hinges on government commitment and international donor cooperation. None of the other countries studied by Frankfurt School for this report had such detailed draft policies and strategies concerning migration and development as Moldova. OeEB should consider whether it could collaborate with other donors to support the implementation of the National Remittances Programme.

In September 2008 the Ministry of Labour adopted and began to implement an ambitious Return Action Plan (RAP), aimed at stimulating the return and reintegration of Moldovan migrants. The RAP aims to enhance the links with the Moldovan diaspora; provide special services to returned migrants; expand access to email and telecommunication services for labour emigrants; and develop a culture of entrepreneurship to attract remittances into the Moldovan economy. The latter goal will be achieved through orienting the beneficiaries of remittances toward opportunities for launching a business in Moldova, and providing assistance and consultancy on how to administrate a business through efficient management methods. IOM and ILO were both involved in drafting the RAP; several of its elements were taken from the IOM study entitled Small and Medium Enterprises Sector Development Strategy for 2009-2011.

Currently there is no significant institutional linkage between the state and migrants. The Moldovan Foreign Ministry has a **Bureau of Interethnic Relations**, one subdivision of which is a diaspora office. There is only one person in charge of the office that deals with the "diaspora." This office interacts mostly with the "old diaspora," namely that which includes Jews, ethnic Germans, and other older migration waves that landed people in Russia, Belarus, Ukraine, Israel, and Germany. In contrast, the "new diaspora" is in the Baltic, Russia, Portugal, Greece, Italy, Great Britain, Spain, and Ireland; it is a labour diaspora and in many cases temporary. The two communities have little contact with one another but that is gradually changing. The first group of communities does not want to return to Moldova but, according to the office director there is interest in investing in it. The director is following up on these possibilities. The diaspora office has had three congresses where they discussed numerous issues including possible investment in tourism, food, entertainment, small joint enterprises, Orthodox churches, tourism, monasteries, and rural tourism. This office has a list of over 40 Moldovan diaspora organizations worldwide.

**International Community** — The two centrepieces of IC policy for the near future in Moldova are the IOM-sponsored package of programmes (see below) and the 2009-initiated EU-Moldova Mobility Partnership (see below). The Mobility Partnership is a very recent pilot project that includes only two countries: Moldova and Cape Verde.

**The European Union** — The EU has been working with Moldova on border, visa, migration, and trafficking issues in the context of different agreements since 1998. The 1998 EU-Moldova **Partnership and Cooperation Agreement** set a framework for trade liberalisation, legislative harmonisation, and cooperation in a range of sectors, including migration. In 2005 the joint **European Neighbourhood Policy (ENP)—Action Plan** was adopted, which supported Moldova's own programme of democratic and economic reform. **European Commission (EC) assistance** has focused on the reform



priorities agreed in the ENP Action Plan and increased from EUR 20 million in 2003/2004 to EUR 42 million in 2005, 2006, and 2007.<sup>113</sup> Moldova's progress has been noted as having shortcomings, particularly in the field of trafficking of persons. Moldova is still ranked third among countries that do not respect minimum standards for the elimination of trafficking.

The EU-Moldova Mobility Partnership was signed in June 2008. (There are 15 EU states involved in the programme: Germany is one of them, Austria is not.) The mobility partnerships are new pilot instruments designed to better manage migration flows, and in particular to fight illegal migration. The initiatives it specifies include improving migration benefits and contributing to development, diminishing the negative effects of labour migration (namely the emigration of highly qualified people), facilitating migration, return, and reintegration of migrants. The partnership, which includes financial assistance, also sees bilateral initiatives considering social security, long-term reintegration programmes, exchange, temporary labour training. Moldova's priorities within the Mobility Partnership include consolidating relations with the Moldovan community abroad; promoting the reintegration of migrants; strengthening the institutional capacity in the migration management area; ensuring the social protection of nationals working abroad; and combating illegal migration and trafficking in human beings. EU representatives stress that a partnership between origin, transit, and destination countries is the only way to resolve migration-related problems.

**IOM/ILO Programmes** — IOM is involved in a number of important migration-related areas, including studies, border management, counter-trafficking, reintegration, health, and the linking of migration and development. Many of these activities are being conducted in collaboration with ILO. (One of the key recommendations in a 2004 IOM was the creation of a migration information centre for the general public.)

**Remittances** — IOM's 2007-launched project Beyond Poverty Alleviation: Developing a Legal, Regulatory and Institutional Framework for Leveraging Migrant Remittances for Entrepreneurial Growth in Moldova is aimed at maximizing gains from migration and remittances in Moldova. The project is funded by the European Commission and is being implemented in partnership with Moldova's Ministry of Economy and Trade and the International Labour Organization (ILO). This initiative is part of the strategy of the government to create effective mechanisms for regulated migration and a favourable environment for the investment of remittances.<sup>114</sup>

**Resettlement** — IOM organises the safe movement of people for temporary and permanent resettlement or return to their countries of origin. It also provides pre-departure medical screening and cultural orientation programmes. Activities include the movement of refugees resettling in new countries, returning qualified nationals, scholarship holders, war victims requiring medical evacuation, and irregular and trafficked persons.<sup>115</sup>

**Assisted Voluntary Return** — The IOM-supported National Reintegration Network offers a package of selected reintegration services to returning migrants, including those returning in the framework of Assisted Voluntary Return programmes (among others, from Austria). Reintegration services can be delivered at the local level through Rayon National Employment Agency branches. The programme is administered and monitored by IOM Chisinau and the National Reintegration Office in the Ministry of Trade and Economy.<sup>116</sup>

**Facilitating Employment Abroad** — IOM's Moldova labour migration activities focus on the regulation of labour movement and programmes to assist governments and labour migrants in the selection, recruitment, cultural orientation, training, travel, reception, integration and return of migrants.<sup>117</sup>

**Financial Literacy** — IOM and ILO cooperated on a financial literacy project with Moldovan remittance recipients (from December 2007 through May 2008). The pilot project included four banks (Banca di Economi, Eurocredit Bank,

<sup>113</sup> "Implementation of Reforms Initiated Accordingly to EU-Moldova" ,*Euromonitor*, Issue 2 (11), Edition III, June 2008.

<sup>114</sup> [www.iom.md/migration&development.html](http://www.iom.md/migration&development.html)

<sup>115</sup> [www.iom.md/resettlement.html](http://www.iom.md/resettlement.html)

<sup>116</sup> [www.iom.md/resettlement.html#avr](http://www.iom.md/resettlement.html#avr)

<sup>117</sup> [www.iom.md/resettlement.html#fea](http://www.iom.md/resettlement.html#fea)

(Incombank, Mobias Bank,) as well as selected SCAs.<sup>118</sup> The financial literacy pilot was part of a move to increase the use of other financial services and products, and in particular to encourage savings (since in Moldova in particular, savings and investment was shown to have a strong link to account holding and regular savings.) Depending on the results of the pilot, a further roll-out could also be a possible area of collaboration with OeEB.

**EBRD** also funded a survey on remittances use in Moldova, Georgia and Azerbaijan. According to the results of this survey, EBRD is currently launching a pilot project on financial literacy for savings promotion among remittances recipients in Georgia. If successful, EBRD would consider replicating this project in Moldova.

#### 4.4.3.3 Non-State Actors

**Hometown Associations** — Since the Moldovan community abroad is relatively new and until recently substantially illegal, there has been the clear tendency of Moldovan immigrants to follow village neighbours and relatives to locations abroad.<sup>119</sup> This means that there are strong regional concentrations of Moldovans in many of the respective receiving towns and cities, particularly in Italy and in Moscow. They are organised informally — in fact, “network” is the best definition — but they are definitely aware of one another and can, as they have in isolated examples such as Padua in Italy, pool remittances for common purposes (roads, church repair). The IMF even speaks of “colonies” of Moldovans abroad.

**Publications, Websites** — Notably, because of the “youth” of the Moldovan communities abroad and their unmanaged out migration, there is not a newspaper like Serbia’s Frankfurt-produced *Vesti*. Although there is communication in the small colonies and networks, there is not a sound means of communication for the Moldovan diaspora as such. This is something lacking that should be addressed.

**Migration/Remittances overview** — The nexus of migration, remittances, and return has enormous implication for Moldova’s social and economic development. According to World Bank figures, Moldova leads Europe in terms of the size of remittances in proportion to GDP: 36 percent in 2007.<sup>120</sup> An estimated quarter of the adult work force is abroad. The IOM Migration and Remittances Survey 2006 shows that over 40 percent of the population lives in households that receive remittances and that remittances are crucial for keeping many families out of poverty. It is estimated that a third of remittance recipients use the banking system, just under 30 percent bring the money to Moldova themselves, while 25 percent and 19 percent respectively use money transfer offices and buses.<sup>121</sup> (see Table 20) The majority of these flows are used to fund basic household consumption, consumer durables, housing, and debt repayment. A much smaller, though growing, part of these flows, around 7 percent, are being used to finance business investment and as little as 5 percent are saved in bank accounts.<sup>122</sup> Nevertheless, there is savings happening — increasingly as the economy has rebounded — and there is potential to both increase and leverage savings, especially if the global financial crisis does not adversely affect Moldova. The IOM study found that nearly 30 percent of remittance recipients manage to save USD 500 a year and that this would probably increase the longer the migrants stayed abroad. Nevertheless, informal saving, rather than in bank accounts, is the rule. Frankfurt School also found numerous examples of SMEs being established with saved remittances and saved remittances (or capital acquired while temporarily working abroad) being used as down payments on loans.

<sup>118</sup> [http://www.thedialogue.org/PublicationFiles/Orozco%20-%20Moldova%20Financial%20Literacy%20Report\\_FINAL.pdf](http://www.thedialogue.org/PublicationFiles/Orozco%20-%20Moldova%20Financial%20Literacy%20Report_FINAL.pdf)

<sup>119</sup> “Migration and Remittances in Moldova,” Milan Cuc, Erik Lundbäck, and Edgar Ruggiero, International Monetary Fund, Washington, D.C., p. 21.

<sup>120</sup> Dilip Ratha & Sanket Mohapatra, “Increasing the Macroeconomic Impact of Remittances in Development”, Deceloptment Prospectus Group, World Bank, Washigton DC, Noevember 26,2007

<sup>121</sup> This under-use of the banking system prompted the Mexican developmental economist Manuel Orozco to conclude: “This situation highlights the need to increase financial intermediation by expanding bank services and by allowing other savings and credit institutions, particularly in rural areas, to participate in the remittance payment market.” He attributes the low ownership rate of bank accounts to: lack of trust in banks, low income among receiving households, lack of financial literacy, poor government incentives to provide financial intermediation. Orozco, “Looking Forward and Including Migration in Development: Remittance Leveraging Opportunities for Moldova,” IOM Moldova, Dec. 2007, pp. 19-21.

<sup>122</sup> IOM Migration and Remittance, Survey 2006, p. 29.

**Table 20: Methods to Transfer Remittances**

Category	percent
Bank Transfer	30
Money Transfer Offices	25
Post Offices	5
Train Conductor	2
Maxi-taxi/bus conductor	19
Migrants brings it on visit	28
Someone else brings it	9
By mail	2
Other	0.4

Source: IOM Migration and Remittance Study 2006

One of the Frankfurt School findings was that emigration, which had risen steadily since the mid-1990s, may in fact be levelling off. Although most of the existing (and extensive) studies indicate that over a third of Moldovans in Moldova would like to or even intend to emigrate, Frankfurt School met a number of business people and farmers in rural Moldova who contradicted this expectation. Many Moldovans are acutely aware of the negative fallout of migration: brain drain, labour shortages, broken families, exploitation and poor working conditions abroad. Also, with the recent economic upswing (through 2008) there are jobs now available in Moldova, particularly in Chisinau. Although they don't pay as well as even the most menial jobs in Western Europe, apparently they pay nearly as much as Moldovan workers receive on construction sites in Russia and Ukraine. Considering the high cost of migrating, more people are seriously considering small investments in the country rather than migration. Also, economists expect that the current global financial crisis will have considerable ramifications for Moldovans abroad, resulting in a drop in remittances, jobs abroad, and an increase in return. Interestingly, they think that the Moldovan economy might be spared the worst of the crisis because it is not thoroughly integrated into the international economic/financial system. Nevertheless, several sources have indicated that remittances to Moldova are already decreasing in the wake of the worldwide recession and may continue to do so.

Findings of Moldova field research:

- While migration from Moldova has risen sharply from the late 1990s to mid-2008, it is likely that emigration will level off in the near future (perhaps this is already happening) as a result of the improvement of the Moldovan economy and the impact of the global financial crises in receiving countries;
- Savings and investment in SMEs is increasing; migrants play an important role in both processes;
- Moldova suffers enormously from brain drain and labour shortages. Any IC policy concerning migration has to incorporate a strong incentive to return;
- The structure of Moldova's communities abroad is quite different from those of the Western Balkans; many are abroad temporarily and plan to return. Astute international policy can prevent the Moldovan workers from the same fate as the guest workers [*Gastarbeiter*] of southern Europe in western Europe;
- There is entrepreneurial spirit in Moldova that should be encouraged by both IC policy and Moldovan government reforms to make Moldova more business friendly;
- Moldova has a comprehensive migration-development strategy that is being implemented in cooperation with IC actors in the country. Rather than start new programmes, interested IC actors should get on board with existing projects such as the EU-Moldova Mobility Partnership and the Plan of Actions Fostering the Return of Moldovans from Abroad;
- The SCAs have contributed greatly to rural development. Their upgrade and products must expand as does the economy;

- There is a growing pool of former migrants who are saving and investing in financial and other assets;
- Temporary migration programmes have been partially successful and should be expanded;
- There is a dearth of NGOs dealing with migration-related issues, NGOs such as Atikha Foundation in the Philippines that provide economic and social services to overseas Filipinos and their families in the Philippines.<sup>123</sup>

**Profile of Moldovan Community Abroad** — Moldova’s remitters are unlike those of Serbia, Kosovo, and BiH in many ways — something that has significant implications for the migration-development nexus of remittances, return, and investment.

For one, the overwhelming majority of the Moldovans abroad left the country after 2000. Many have been abroad for short amounts of time, such as two or three years. Thus they have yet to put down roots abroad and continue to maintain very strong ties to the homeland, in particular to their families and villages. Studies show that they remit large amounts of their income and visit Moldova often.<sup>124</sup> There is extensive to-and-fro between Moldova and the places its people live and work abroad. Secondly, many (over 40 percent in 2004, according to the IMF) are seasonal or temporary workers, a trend that is stronger among men than women, and stronger among Moldovan migrants in Russia and Ukraine than those in Western Europe. (Of those household heads planning to emigrate, over half indicated that they plan to go for less than a year.<sup>125</sup>) Thirdly, the Moldovans are largely engaged to the least desirable occupations when it comes to types of employment: construction, the repair industry, agriculture, tourism, and household help. (The migrants who have been abroad for longer periods — especially in Western Europe — are those who are better educated and tend to have better jobs. They are also the type that is most likely not to return to Moldova.) Thus they are not high wage earners, a factor that has clear implications for remitting and remittance use.<sup>126</sup>

Another difference that Frankfurt School ascertained was that a substantial portion of the migrants we spoke with (those temporarily back in Moldova and the families of migrants) plan to return to Moldova in the near future. In other words, they see their future in Moldova and not abroad. One study noted how “remarkable” it was that only 14 percent of current labour migrants plan to settle permanently abroad.<sup>127</sup> Also, emigration has resulted in severe brain drain, up to 40 percent of working adults are working abroad. The Moldovan authorities are aware that the country needs to get many of those people back if the country is going to prosper in the long-run. Lastly, Moldova has nearly 80 percent of its migrants to its east, in Russia and Ukraine. Only 20 percent are in western and central Europe, predominantly in Italy but also in Portugal, France, Spain, and Greece, as well as Romania and Turkey. (In 2006, 59 percent were in Russia, 17 percent in Italy.) Not only do the migrants in former Soviet bloc countries earn and remit less than those in, say, Italy and Portugal, but there is a different dynamic in terms of the use of financial services (i.e. fewer using banks, other products). There is also less likelihood that these migrants decide to reside permanently in Russia.

**Quantity of Remittances** — As great as the total estimates for annual remittances to Moldova are — and as great as this is per capita compared to per capita GDP — most households actually receive small amounts of cash transfers. In 2006, over 60 percent of households, for example, received USD 1,000 or less a year, while only 25 percent received USD 1,000 to USD 3,000 annually. The average amount sent per transaction was USD 439. In the 2006 IOM study, a third of household surveys said that remittances account for 25-50 percent of the household budget, while a quarter of respondents indicated that remittances made up 75 percent of the family budget.

<sup>123</sup> Orozco, Manuel. “Worker Remittances and the Financial Sector — issues and lessons in the South Caucasus”. EBRD and Bendixen & Associates. June 2007, p. 31.

<sup>124</sup> Milan Cuc, Erik Lundbäck, and Edgardo Ruggiero. “Migration and Remittances in Moldova”, IMF. 2005, p. 20

<sup>125</sup> Manuel Orozco, „Looking Forward and Including Migration in Development: Remittance Leveraging Opportunities for Moldova“, 2007, p. 15.

<sup>126</sup> Milan Cuc, Erik Lundbäck, and Edgardo Ruggiero. “Migration and Remittances in Moldova”, IMF. 2005, p. 14

<sup>127</sup> IOM “Migration and Remittance Survey”, 2006, p. 44.

**Use of Remittances** — Frankfurt School’s research substantiated the findings of all of the recent studies, namely, that the primary expenditure of remittances is for daily needs: food, clothes, rent, household repairs, consumer durables, and health care. Remittances keep many families out of poverty and increase the living standards of others. Remittances finance 25 to 75 percent of current expenditures in roughly 60 percent of all remittance-receiving households.<sup>128</sup> (see Table 21) In the Moldovan villages it is easy to spot the families that have and those that don’t have family members abroad: the housing of the former is repaired and modern, that of those that don’t receive remittances is dilapidated. One remittance recipient in the village of Sadova in central Moldova north of Chisinau brought us into his house which had been renovated and extended through the remittances of his wife who worked in Italy caring for an elderly woman there. (She had legalized her status several years previously.) He was an Orthodox priest and owns some farmland, but even though he and his parents work the land, they cannot make a living from their farming alone. They were basically subsistence farmers whose disposable income came from abroad. The priest saw migration as both a blessing and a curse: it gave him and his family a significantly higher standard of living, while at the same time taking his wife away from them.

**Table 21: Contribution of Remittances to Household Income**

Contribution	percent
Less than 25 percent	17.4
25-50 percent	30.9
51-75 percent	27.4
More than 75 percent	24.3

Source: IOM Migration and Remittances Study 2006

**Savings from Remittances** — Both the IOM study and the Frankfurt School field research found that many remittance recipients had raised themselves out of poverty and repaid their debts over the last ten years, largely through remittances. Many had finished or almost finished repairing or building their houses. They had purchased the large consumer goods that they wanted and paid off debt. Thus the situation is very different from that of even five years ago and has significant implications for policy recommendations. It appears that exactly these types of people have begun saving, though mostly in informal ways (under the proverbial mattress) rather than in banks. The IOM report indicates that nearly 30 percent of remittances receivers are able to save an estimated USD 500 a year.<sup>129</sup> Women are more inclined to save than men. Those who have been receiving money over time are saving significantly larger amounts. Those households receiving remittances are four times more likely to save than households that don’t receive remittances. According a study by Orozco<sup>130</sup> this finding indicates that Moldovans are saving over larger periods of time, another positive trend. Although it should be a priority to get these savings banked, it is a positive sign that there is saving happening at an increasing rate. Of course, it would also be valuable to know whether the migrants in their places of residence abroad are also saving, but this was beyond the scope of both the Frankfurt School survey and the other existing surveys. Interestingly, the IOM and the Fincom Bank Survey<sup>131</sup> studies noted that bank account ownership among remittance recipients is associated with saving and investing. Moldovans with bank accounts were considerably more prone to save and invest if they had bank accounts and the more so the longer they had had these accounts: 58 percent of Moldovans with savings have bank accounts while 31 percent of investors have bank accounts.

**Investment of Remittances** — In 2006, according to IOM, seven percent of remittances was invested, usually in small businesses, a trend that had increased over the past seven years (1999-2006) and should increase further in the future if the quantity of remittances remains at its current level or increases. Many of the people interviewed by the Frankfurt School team expressed an interest in investing in their properties beyond housing, for example, in more advanced

<sup>128</sup> IOM “Migration and Remittance Survey”, 2006, p. 10.

<sup>129</sup> Manuel Orozco, „Looking Forward and Including Migration in Development: Remittance Leveraging Opportunities for Moldova“ 2007, p. 5.

<sup>130</sup> Manuel Orozco,“Looking Forward and Including Migration in Development: Remittance Leveraging Opportunities for Moldova”, IOM, December 2007 .

<sup>131</sup> TNS —Fincom Bank Survey, 2007.

agricultural machinery, plastic tarps for crops, and irrigation systems. This appears to be one of the very first investments made after repairs/extensions of the house and repayment of debt. All of the Frankfurt School interview partners in national and international offices concurred that reinvested savings and entrepreneurial activities by returning migrants were an important and real benefit from migration that had manifested itself particularly over the past three or four years and had even more potential for the future. According to the 2006 CBS-AXA survey “compared to 2004, there is now a small but discernable group of migrants investing in local financial and real assets and running their own businesses.”<sup>132</sup> The Frankfurt School team confirms this finding and feels that this small group has grown even larger since 2006.

Outside of Chisinau, Frankfurt School spoke with an array of SME owners: proprietors of small grocery stores, orchards, auto repair shops, vineyards, crate-making enterprises, green houses, refrigeration services/cold storage, and nut farms. Every one of these enterprises had been started within the last five years with a combination capital earned abroad and small loans, often from an internationally backed or started micro-finance institution. (The walnut farm was started by a young man who had had political asylum in Austria. The money he received from the voluntary repatriation programme helped him buy the farm. He also has savings from work in Austria and he took out a small loan in Moldova.) There also appeared to be at least some brain gain as a number of the migrants had learned skills or about new technologies while working abroad (in greenhouses in Spain, in auto repair shops, etc.) All of the businesses the Frankfurt School team observed seemed to be flourishing and many expressed a desire — and the demand for — expansion and more loans. None of them planned to migrate or to have anyone from their family migrate. One small shop owner summed up the situation succinctly: “It’s a mystery to me why anyone would opt to emigrate today. The cost of leaving (visa, etc.) is so much that the same amount invested in an enterprise like mine would make more money. It’s just not worth it today to migrate the way it was a few years ago.” It should in this context be mentioned that Romania, due to the historical and cultural links, provides Romanian citizenship to all Moldovans that can prove that they are born in Moldova. Thus, many Moldovans also hold or are in application process for a Romanian passport, which allows for easier travel.

Frankfurt School also found that an important aspect of the mini-boom in SMEs with migration background was the micro-credit offered by the SCAs in rural areas. There are over 400 SCAs in Moldova serving more than 200,000 clients. The Consultant Team interviewed several of these institutions. But the interview partners said that the needs of their rural areas were now greater than the services that the SCA could provide under the present licensing. They could now, for example, deal with foreign currency and could only issue credit up to USD 15,000. The average size loan was just USD 3,000. This was too small for some of the small enterprises that had demand for expansion. In his 2007 report, Orozco estimates that 50 of the SCAs are strong enough to offer remittance transfers or tailored financial services to recipients.

**Infrastructure Projects** — The Frankfurt School team found several examples of pooled remittances being used as donations for local infrastructure or community projects. Sadova, a village with a large number of its people in Italy, has paid for church repairs, one paved road, and a few computers for a community centre for the local kids through its people abroad. But as in other such villages, it was more the case that one well-off individual has paid for these projects rather than organized, collectively pooled resources.

In most places, the first such expenditure is the church. In Costesti, a large and more prosperous village, for example, one local man abroad paid for new church bells. But in the same village over the course of the last three years there had also been other infrastructure projects funded partially through collective expenditures: kindergarten repairs, a museum, the high school, gas heating for the schools. These projects were funded by the Moldova Social Investment Fund (MSIF) with a village contribution of 15 percent, much of which came from the diaspora. The MSIF is a government of Moldova project, created with the support of the World Bank aiming at contributing to the empowerment of poor communities and their institutions to manage their priority development needs. It has funded thousands of such infrastructure projects across the country. It should, however, be noted that this support is purely

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<sup>132</sup> IOM; “Remittances and Migration Survey”, P. 50

grant based and that local communities are highly unlikely to be interested in loans to support infrastructure development.

**Negative Consequences of Migration** — Any internationally backed policy related to migration in Moldova must keep in mind that migration has had and will continue to have negative — of course as well as positive — consequences for the country. For example, everywhere that the Consultant Team went it encountered examples of severe brain drain and labour shortages. With 40 percent of the working population out of the country, this impacts the country's developmental potential. In some of the smaller, rural places there are not even and not able hands to complete the harvest. Also, nearly every interview partner told us about the tragic social impact of migration: divided families, orphans, children being raised by their teachers for EUR 100 a month. The Moldovans we spoke with seemed acutely aware of the downside of migration and this figured into their expectation that the phenomenon is a temporary want. They do not expect their people to put down roots and become permanent residents in the places of work abroad. Thus, any international intervention on migration-related issues should be linked up to the return of as many Moldovans abroad as possible.



### Key Points

- **Migration in Moldova is a new phenomenon** and thus there exists the opportunity for Western Europe to avoid the mistakes it made with the Gastarbeiter of the Cold War decades.
- **Return has to be part of the strategy.** As a result of the dramatic migration over the past decade, Moldova has experienced many negative side effects. Therefore, **it is essential that any international community strategy to leverage migration and Moldova prioritise migrant return.** It is also the case that a large portion of Moldova's migrants want to return. Most have not taken up permanent residency abroad and say this is not their aim. According to IOM: "In the medium to long run, the impact of labour migration on Moldovan society will depend not only on who leaves Moldova, but also on who returns."
- **The international community is deeply involved in Moldova** in the form of the EU Mobility Partnership and the various IOM programs undertaken together with ILO and the relevant ministries. Moldova has a comprehensive migration-development strategy that is being implemented in cooperation with IC actors in the country. No other SEE country that the Frankfurt School team observed has international participation/capacity building at this level. The Mobility Partnership and the IOM programs should be watched very closely to decipher best practices for other countries in SEE. Currently, many of the various EU/IOM programmes in Moldova are in need of international funding for 2009 and beyond. Rather than start new programmes, interested IC actors should get on board with existing projects such as the EU-Moldova Mobility Partnership and the Plan of Actions Fostering the Return of Moldovans from Abroad.
- **Temporary work programmes have been successful.** Moldova has managed to regulate and legalize its migration dramatically over the last five years. One factor has been the establishment of at least 40 labour recruitment offices that facilitate short-term labour exchanges with many countries and businesses in Europe, and even beyond Europe, such as in Israel. A very high portion of Moldova's people abroad are working on short time contracts and with limited visas. These contracts enable migrants to take on specific jobs for set amounts of time without the right to bring their families with them. They are attractive because they make migration and migrants' employment legal, and make them responsible for income tax, health insurance, and other social security contributions payable in either the host country or at home. Also, they do not tend to encounter the kind of political opposition in receiving countries that permanent migration does. It also seems that this is what most Moldovan migrants and potential migrants want: to go abroad for a short time, earn money, and return to Moldova.
- Although the examples of pooling resources in order to invest in local infrastructure projects are limited, this is understandable in light of the relative youth of the migration phenomenon in Moldova. Frankfurt School found that there is clustering of Moldovans abroad and that they are informally connected through loose networks. There are solid concentrations of Moldovans in Moscow, Rome, St. Petersburg, Istanbul, Odessa, Lisbon, Milan, Padua, Paris, and Tyumen.
- **The MFIs/SCAs have done excellent work but need to be improved with updated and more sophisticated services to meet the needs of rural remittance recipients and SME investors.** Elsewhere in the world, MFIs and credit unions have been instrumental in banking the unbanked and in transforming remittance clients into clients of other financial services. While there has been international support for these kinds of alternative financial institutions in Moldova, there is still a need for continued support to reach out to rural remittance recipients.
- The Frankfurt School team was impressed by the number of former migrants that it encountered who had invested saving from work abroad in SMEs. These entrepreneurs were clear that they would much rather be in Moldova than working anywhere else. They also appear to have had success with their small businesses and some had even utilized skills learned abroad.

## 4.5 Bosnia and Herzegovina

### 4.5.1 Migration from Bosnia and Herzegovina

Thirteen years after the signing of the Dayton Peace Agreement, which set down the constitutional framework establishing the state of Bosnia and Herzegovina, the country still faces enormous political and economic challenges. Nearly 20 percent of the population lives below the poverty line and another 30 percent is close to it. An estimated 1.5 million Bosnians are considered to be abroad – a third of the population<sup>133</sup> – at least half of which is in Western Europe. (Fifty percent of those are former war refugees.<sup>134</sup>)

An estimated 132,000 Bosnians live in Austria – only Germany has more – and remitted an estimated EUR 33 million<sup>135</sup> to their home country in 2007. In 2006, total remittances inflows of USD 1.94 billion constituted 17.2 percent of Bosnian GDP.<sup>136</sup> Two years before remittances constituted for even 22.5 percent of GDP, by this time the fifth highest proportion worldwide.<sup>137</sup> In addition to this, according to OeNB, Bosnian diaspora summering in BiH spent EUR 115 million in 2006. Also, Austria is, by far, BiH's greatest source of FDI and many Austrian firms do business in BiH.

### 4.5.2 Remittances in the financial sector

#### 4.5.2.1 Volume and most important corridors

The Central Bank of BiH (CBBH) estimates last year's total volume of remittances at KM<sup>138</sup> 2.7 billion (EUR 1.38 billion).<sup>139</sup> Inflows to BiH have increased significantly during the preceding years:

Table 22: CBBH estimates of total inflows of remittances 2003 - 2007 (in KM millions)

Year	2003	2004	2005	2006	2007
Remittances	1,973	2,317	2,318	2,468	2,715

Source: CBBH statistical office

Other sources, such as the World Bank, estimate the total volume of inflows to BiH to be much higher. This is because the World Bank's definition of total remittances includes for example compensation of employees. According to CBBH, in BiH most of these payments are for foreign citizens working for international organisations or the military (e.g. NATO, SFOR). Therefore, CBBH excludes these payments from its calculations.

No further detailed data about volume (formal vs. informal) or corridors of remittances to BiH are available from the authorities. Neither CBBH nor the two banking agencies record or monitor these inflows. Although commercial banks report monthly international transactions and foreign currency transfers, figures are only recorded in total amounts including corporate/business payments, international salaries, and pensions. In other words, bank-to-bank transfers are not divided in remittances and others, so the respective sums are unknown. Furthermore, figures are not subdivided by country.

<sup>133</sup> World Bank Migration & Remittances Factbook 2008

<sup>134</sup> Ibidem

<sup>135</sup> OeNB (unpublished)

<sup>136</sup> World Bank Migration & Remittances Factbook 2008

<sup>137</sup> World Bank (2006), Global Economic Prospects.

<sup>138</sup> The Bosnia convertible mark (KM) was formerly pegged to the German 'Deutsche Mark' (DM). Since Germany introduced the Euro, the fixed exchange rate for 1 DM is 0.51129 EUR (1 EUR = 1.95583 DM). The Bosnia KM has adopted this fixed exchange rate.

<sup>139</sup> To determine these figures, CBBH collects data from banks, Western Union, the Statistical Office (household surveys and questionnaires), exchange offices, and the IMF. Furthermore, they do cross-country comparisons with data from other central banks.

According to commercial banks, the most important source countries for SWIFT payments are Germany, the United States, Austria, Slovenia, Croatia, Serbia, Canada, Sweden, Norway, and Italy. However, since it is not required by regulation, not even the banks have subdivided statistics about private persons' remittances or about the source countries of payment. Most quick money transfers inflows (via MTOs) also come from Germany and the United States, followed by Austria, Canada, and Sweden.

It is estimated that remittances covered 25 percent of the trade deficit in 2003.<sup>140</sup> Furthermore, substantial remittances inflows were one factor reducing the country's needs for foreign currency borrowing. Gross foreign currency reserves of the central bank rose from EUR 500 million in 2001 to more than EUR 2 billion in 2006.<sup>141</sup> Amongst former European socialist countries, BiH has the highest share in remittances per capita. Like in many other countries receiving remittances on a large scale, annual inflows are very stable and more significant than FDI or official development assistance (ODA). Private money inflows are more than 300 percent of FDI and more than 200 percent of ODA. Using a broader definition of remittances, World Bank estimates remittances to be almost 650 percent of FDI and more than 350 percent of ODA. Behind Moldova, BiH, meaning domestic population and economy, has the second highest dependency on remittances inflows among current transition countries.<sup>142</sup>

#### 4.5.2.2 Local regulation of money transfer

Only licensed commercial banks are allowed to receive and pay out international money transfers. Therefore, like in Serbia, specialised MTOs need to cooperate with a partner bank. This regulation is part of the country's commitment to prevent money laundering and terror financing. In this context, inflows are monitored by the banking agencies.

There are no further specific regulations or restrictions targeted at remittances. In general, BiH authorities do not concern themselves with international money transfer. People working in the BiH payment transactions sector characterise the legal environment as "laissez faire" or "completely deregulated." Neither CBBH nor the two banking agencies control foreign currency inflows (except regarding money laundering).

In terms of regulation and supervision, the role allocation is unclear. CBBH defines and controls the implementation of monetary policy in BiH, including the management of the currency board. It also supports and maintains appropriate payment and settlement systems. CBBH should furthermore coordinate the activities of the two banking agencies which are in charge of bank licensing and supervision. However, the banking agencies do not supervise international money transfer. According to CBBH, this would be the job of the Ministry of Finance, which in turn does not seem to register inflows. In the opinion of CBBH, this division of tasks has led to uncertainty and inefficiency in terms of supervising and monitoring. Supervision (and also other tasks) therefore should be handed over to CBBH as a single nationwide authority. Given the current political situation in BiH, this is, however, likely to be a lengthy and complicated process.

#### 4.5.2.3 Analysis of the banking sector

There are currently 31 banks operating in BiH: 21 are based in the federation (FBiH) and 10 in Republika Srpska (RS). Seven banks from FBiH are also present in RS, while six banks from RS have branches in FBiH. Banks registered in FBiH have 608 branches, branch offices, and other organisational units countrywide. Since only seven of them also operate in RS, most of these units are within FBiH. Banks from RS have 398 countrywide units, of which only 23 are located in the territory of FBiH.

<sup>140</sup> Etf Country Analysis (2006), Bosnia and Herzegovina,

([www.etf.europa.eu/pubmgmt.nsf/\(getAttachment\)/03E6ED7A1067B948C12571FF0039A1C4/\\$File/NOTE6UBEAB.pdf](http://www.etf.europa.eu/pubmgmt.nsf/(getAttachment)/03E6ED7A1067B948C12571FF0039A1C4/$File/NOTE6UBEAB.pdf))

<sup>141</sup> European Commission (2007), Ex post evaluation of Macro-Financial Assistance to Bosnia and Herzegovina, ([http://ec.europa.eu/economy\\_finance/about/evaluation/final\\_report\\_bosnia\\_herzegovina\\_en.pdf](http://ec.europa.eu/economy_finance/about/evaluation/final_report_bosnia_herzegovina_en.pdf))

<sup>142</sup> Schrooten, Mechthild (2005), 'Bringing home the money – What determines workers remittances to transition countries', Discussion Paper Series A No.466, The Institute of Economic Research, Hitotsubashi University, Kunitachi, Tokyo

**Table 23: Number and network of Bosnian banks as of 30 June 2008**

	Number	Total organisational units in both entities
Banks registered in FBiH	21	608
Banks registered in RS	10	398
<b>BiH total</b>	<b>31</b>	<b>1,006</b>

Source: Quarterly Reports of FBiH and RS Banking Agencies

According to statements from the banking agencies and commercial banks, the networks of more than 1,000 branches and branch offices are spread throughout the whole country, thereby claiming “perfect access” to the banking sector, even in small villages and rural areas. Similar to Serbia, the financial sector is thereby very well developed in terms of geographical outreach.

Since there is no official data available, the depth of the banking sector remains unclear. Neither CBBH nor the banking agencies have an overview of the current number of bank accounts in the country. However, since the physical outreach of the banking sector is high and bank deposits are increasing (see below), this could be an indication that the number of people with a current/saving account is also increasing (although no exact numbers are available). This assumption was also confirmed by the Frankfurt School team’s interview partners.

Most banks in BiH are majority foreign-owned. In FBiH, 18 of 21 banks are in private or majority private ownership. Eleven of them have majority foreign ownership. 56 percent of this foreign capital is owned by shareholders from Austria, followed by Croatia and Germany. Considering the location of the parent institution’s headquarters, there is also a predominance of banks and banking groups from Austria (53 percent), followed by Italy and Turkey. In RS, all ten banks are in private ownership, while only one is not in majority foreign ownership. Three banks are in Austrian ownership. Owners from Slovenia, Serbia, Russian Federation, Lithuania, the Netherlands, and the United States each own one bank respectively.

Not least due to the important role of foreign-owned banks, the banking sector has shown the most evident progress of all economic sectors in BiH. Besides privatisations, a deposit insurance system has strengthened confidence, leading to an increased level of private depositors’ savings.<sup>143</sup>

Aggregated balance sheet totals of all 31 Bosnian banks were KM 21.1 billion in September 2008 (KM 15.2 billion in FBiH and KM 5.9 billion in RS). Driven by loan disbursements, assets increased by almost 20 percent since end of 2007. Increased deposits thereby represent the major share of funding sources.

**Table 24: Assets and liabilities in BiH (in KM million), September 2008**

	Dec 2007	Sep 08	Change
<b>Assets</b>	19,575	21,140	7.99%
<b>o/w cash funds</b>	7,104	6,540	-7.94%
<b>o/w net loans</b>	11,161	13,331	19.44%
<b>Liabilities</b>	19,575	21,140	7.99%
<b>o/w deposits</b>	14,777	15,715	6.35%

Source: “Information on Banking System” (as of September 2008) of both entities Banking Agencies

The increase of loans and deposits has been continuously positive for more than 10 years now and was particularly high in some years. This development, on one hand (loans), reflects a recovering post-war economy. On the other hand (deposits), it reflects returning trust in the banking sector. In December 2008, time/saving deposits were slightly higher

<sup>143</sup> OeNB (2005), ‘The Banking Sector of Bosnia and Herzegovina: The Dominant Role of Austrian Banks’, ([www.oenb.at/de/img/feei\\_2005\\_2\\_special\\_focus\\_4\\_tbanking\\_tcm14-33490.pdf](http://www.oenb.at/de/img/feei_2005_2_special_focus_4_tbanking_tcm14-33490.pdf))

than demand deposits, summing up to KM 12 billion. Loans on the contrary are primarily long-term. The total outstanding loan amount was KM 14.6 billion.<sup>144</sup> However, resulting from the economic conditions expected for 2009, it can be assumed that disbursements will slow down significantly, or turn into negative growth respectively. Deposit outflows and reduction of foreign credit lines might lead to shrinking asset bases.

**Table 25: Development and structure of deposits and loans of Bosnian commercial banks (in KM million) from 2000 –December 2008**

Year	Deposits			Loans		
	Demand deposits	Time and saving deposits	Total deposits	Short-term	Long-term	Total loans
1997	784	598	1,382	956	1,482	2,439
2000	1,385	568	1,953	878	2,138	3,017
2006	4,942	3,896	8,838	2,218	7,089	9,308
2007	6,025	6,112	12,138	2,752	9,211	11,963
2008	5,481	6,532	12,013	3,714	10,847	14,561

Source: CBBH Quarterly Report - Bulletin December 2008

Within the last ten years, the loan expansion was favoured by general economic trends, relatively easy availability (strong competition in the banking market), and especially an increasing household demand. 93 percent of banks' claims on households are made up of credits. Households have borrowed more than private (non-financial) enterprises. The household debt in BiH was 27.1 percent of GDP in 2007, which was above SEE average.<sup>145</sup> Unlike in most other countries in the region, only a fifth of these household loans are officially used for housing (construction, reconstruction, purchase). It can however be assumed that a relatively high percentage of consumer loans are in fact also used for housing or entrepreneurship. Non-purpose loans are relatively cheap in BiH, therefore borrowers might not demand special housing loans because of collateral registration costs and a longer processing time. But officially, less than five percent of the credits are disbursed for private entrepreneurship. Consequently, consumer loans statistically make up as much as 70 percent of the banks claims on households. CBBH refers to this development as "quite alarming". However, since late 2008, banks have introduced stricter lending standards or discontinued some forms of consumer lending.

Most of the household loans are long-term, with variable interest rates<sup>146</sup> linked to reference interest rates in the Euro zone. Although interest rates in Europe increased significantly in 2007, this trend did not carry over into the Bosnian market. Banks tried to postpone increasing interest rates in order not to lose their customers.<sup>147</sup> While during 2008 the European Central Bank relaxed interest rates over the course of the economic crisis, loans in BiH remain available at relatively low interest rates.<sup>148</sup>

#### 4.5.2.4 Remittances-related banking products

All banks in BiH offer SWIFT payments from/to foreign currency accounts.<sup>149</sup> Only a few banks offer the receipt of money in cash. As in all other operating countries, ProCredit furthermore offers their group internal ProPay System. This, however, enables cheap money transfer only within the ProCredit group, and is therefore not available in Austria or in any other Western European country.

<sup>144</sup> Figures from CBBH do not match with aggregated figures from both entities Banking Agencies.

<sup>145</sup> CBBH (2008), Financial Stability Report 2007

<sup>146</sup> Technically, rates are not floating but fixed, although banks usually have the right to increase rates if the base rate increases significantly.

<sup>147</sup> According to CBBH, it is certain that the increase of the interest rates in Europe would sooner or later also result in a decrease of loans in Bosnia, primarily through reduction of disbursement of new credits. However, since BiH has not faced such a situation so far, it is difficult to anticipate the consequences.

<sup>148</sup> Source: CBBH (2008), Financial Stability Report 2007

<sup>149</sup> In contrast to Serbia, account holders do not have to open a separate foreign currency account to receive money from abroad. Banks automatically (and free of charge) open a sub-account if the account holder receives money in foreign currency.

It is not possible to give a meaningful overview of total or average amounts of remittances to banks in BiH. Since it is not officially required by legislation, most commercial banks do not record remittances inflows separately. Data on incoming transfers to private persons often include salaries and pensions.<sup>150</sup> In their internal statistics, some banks do not even distinguish between SWIFT payments from/to legal and physical persons.

According to the banks that do collect data on private money transfer separately, average incoming amounts are EUR 500, EUR 1,200 and EUR 6,000 respectively. However, one has to keep in mind that – like in Serbia – these amounts also include non-recurrent, single payments of several thousand or ten thousand EUR, which are generally not considered workers remittances and thus skew transfer amounts resulting in higher averages.

Charges for incoming international transfers differ between the banks. Most banks charge at least three percent or KM 10. Two interesting findings should be highlighted: First, Bank 3 (see table 26) releases recipients from paying incoming fees if the money is deposited on a savings account for at least one month. Second, Bank 4 does not charge fees for incoming transfers. In addition, they have no fees for group internal cash withdrawal. Account holders from Austria could give debit cards to relatives in BiH, who could then withdraw remittances from an Austrian account for free.

**Table 26: Incoming international payments fees for natural persons (selected banks)**

	Fees for incoming international payments	Note
Bank 1	0.5%, min. KM 10	
Bank 2	0.5%, min. KM 10	
Bank 3	0.3%, min. KM 2; max. KM 30	Free of charge if deposit on savings account
Bank 4	Free of charge	Europe-wide no group internal withdrawal fee
Bank 5	0.3%, min. KM 10	
Bank 6	0.45%	

Source: FS interviews November 2008

Some banks have made initial efforts to offer remittance related products:

- Remittances are included as additional income in some banks' creditworthiness analyses and loan calculations. Most important remains however the client's overall history with the bank. Overdrafts, debit/credit cards, loans, and mortgages are offered step by step, depending on risk assessment and the client's reliability. Furthermore, most Bosnian banks also offer high interest rates on EUR savings.<sup>151</sup>
- ProCredit Bank BiH offers a money transfer related savings product called ProFutura. It is targeted at Bosnian citizens living abroad offering them attractive interest rates on medium and long-term deposits. International money transfer to the clients' account and the exchange of foreign currencies are free of charge. For opening an account, the client (or in other words the emigrant) does not have to be present; an authorised person can submit a certified copy of ID or passport. However, according to the bank, this product has not been successful so far. It is either unknown or unpopular amongst Bosnian emigrants.

Other banks consider offering special remittance-related services in the future. However, these banks are well aware of the given risks and are therefore not sure whether their ideas will be feasible. For example, one Bosnian bank is considering offering SME/retail clients a package of lower transfer fees, higher interest rates and additional credit cards. They also would like to support business start-ups based on remittances.

<sup>150</sup> Although these pensions are also regular income from abroad, they should be excluded from this analysis for several reasons. Pensioners are not likely to invest their money or start up an own/new business. Furthermore, banks in general do not disburse loans to people older than 63/65 years. Special banking products are therefore neither demanded nor supplied. Even more than remittances, pensions are assumed to be spent only for consumption.

<sup>151</sup> As already mentioned for the case of Serbia, despite a certain cross-selling character, it remains questionable whether these offers can be considered as special remittances-related products. They are available to any client with a sound financial record.

Yet small transaction sizes, a perceived high-risk target group, and lack of understanding of the client base hinder most banks from taking further steps to offer such products. Due to high internal risk management standards, loans, overdrafts and cards are only offered to clients with regular salary or pension payments. Remittances are not further considered. Additional guarantees or collaterals would be necessary. Furthermore, like also in Serbia, some banks think that – except from consumer credits – remittances recipients do not demand further loan products. In their opinion, clients do simply not start a business with money from abroad. This, however, does not account for the fact that diaspora may have additional funds available (apart from remittances sent on a regular basis and specifically meant for consumption) that could be mobilised for investment.

#### 4.5.2.5 Analysis of BiH's MTOs and MCOs

##### MTOs

Only Western Union and Money Gram offer quick money transfers to BiH. The former dominates the market, present in more than 1,000 bank branches and post offices country-wide. Almost every commercial bank offers Western Union services. Money Gram is only located in a few branches of the former HVB Central Profit Bank. HVB however recently merged with Western Union distribution partner Unicredit Bank. Due to exclusive agreements, Unicredit Bank soon has to decide with which operator they will cooperate in the future.

The average incoming amount of Western Union transfers is EUR 250. Thus, as in Serbia, primarily low amounts are transferred via MTOs. For sending higher amounts, the remitters usually use bank account transactions. Banks in general do not see potential to offer/cross-sell financial products to MTO customers. The relatively low received amounts are considered as family support for basic living expenditures.

##### Micro Credit Organisations (MCOs)

The Bosnian microfinance sector is one of the best developed in Europe. After the war, the sector was built with enormous international donor support, including both funding and technical assistance. At the end of the 1990s, start-up funds were primarily channelled through the World Bank's Local Initiative Project. Thereby, until today, the World Bank has heavily influenced the way in which MCOs are managed.<sup>152</sup>

Both Bosnian entities adopted a new microfinance law in 2006. MCOs now have to transform into Micro Credit Foundations (capital requirement: EUR 25,000; maximum loan size: EUR 5,000) or Micro Credit Companies (capital requirement: EUR 250,000; maximum loan size: EUR 25,000). They are licensed and supervised by the banking agencies.<sup>153</sup> Therefore, like for commercial banks, the regulatory environment for MCOs differs between the two entities. So far, the entire transformation process has been much swifter in RS. The banking agency FBiH has still not defined the regulation on status and performance of MCOs.

Currently, there are 25 MCOs operating in BiH, 19 are registered in FBiH and six in RS. The larger MCOs have licenses to operate in both entities. Some other, smaller institutions are only active on a regional level. Although the total number of MCOs is already relatively high, the regulators continue to issue new licenses. In terms of the number of clients, there are twelve relevant market players. The top performers are Mikrofin, EKI, and Partner, with balance sheet totals of more than KM 200 million each. Therewith the market leaders in BiH are also among the top performers in Europe.

<sup>152</sup> Planet Rating, Girafe Rating of LOK Micro BiH, 2007 ([www.planetrating.com/EN/rapport.php?order=nom\\_pays&ascdesc=ASC](http://www.planetrating.com/EN/rapport.php?order=nom_pays&ascdesc=ASC)).

<sup>153</sup> On the one hand, this is a step forward since before MFIs were under supervision of the Ministry of Finance (RS) and both the Ministry of Justice and the Ministry of Displaced Persons and Refugees (FBosnia). On the other hand, several bylaws in both entities again complicate an overall overview about regulation and supervision.



**Table 27: Assets and liabilities of the twelve largest MCOs as of September 2008 (in KM million)**

	Balance sheet total	o/w current outstanding loans	o/w long term liabilities
Mikrofin (RS)	238.1	218.4	170.7
EKI (FBiH)	207.8	199.9	117.3
Partner FBiH)	200.8	180.0	106.5
LOK (FBiH)	136.0	124.0	92.6
Sunrise (FBiH)	98.1	89.7	77.5
MI-Bospo (FBiH)	80.4	74.1	50.6
Prizma (FBiH)	80.1	74.8	48.9
Sinergija plus (RS)	57.3	51.6	39.6
Mikra (FBiH)	31.3	22.9	19.2
Zene za Zene (FBiH)	18.4	16.7	4.5
Lider (FBiH)	12.4	12.2	4.1
Mikro Aldi (FBiH)	7.7	7.2	2.5
<b>Total</b>	<b>1,168.7</b>	<b>1,071.5</b>	<b>734.1</b>

Source: EFSE

The sector has been growing fast since 2004. Balance sheet totals of all MCOs increased from KM 300 million in 2006 to KM 1.2 billion in September 2008. MCO assets are primarily compiled of outstanding loans. Funds are primarily long-term liabilities from commercial banks like Raiffeisen Bank and Hypo Alpe Adria Bank. Additional funds are provided by institutions like EFSE and EBRD. Similar to banks, MCOs' lending activities are however expected to slow down in 2009 as a consequence of decreasing refinancing opportunities and general uncertainty about national and international financial markets.

According to experts from EFSE, sector consolidation is urgently needed. Cross-indebtedness and asset quality problems are two of the issues arising from the significant degree of market fragmentation in BiH. Small MFIs do not have the know-how or the resources to manage their businesses sustainably – including managing asset quality. Moreover, the high level of competition resulting from fragmentation enables borrowers to “shop around,” playing MFIs against one another regarding loan offers in a race to the bottom. Consolidation in the sector is strongly needed to ameliorate these problems.

MFIs, however, have little incentive to merge or consolidate, particularly in light of emerging asset quality problems. Therefore, MFIs need not only the capital and the resources – including know-how – to transform, they also need incentives. Only the largest MFIs could achieve the required capital levels to transform, yet these would still require additional capacities, particularly in human resources and IT/MIS, to offer banking products and services. A significant amount of technical assistance would be required even for large MFIs in order to transform. Transformation into a bank is not currently a viable option for most smaller MFIs. In addition, some MFIs have internal social responsibility policies requiring a relatively high percentage of customers from low-income households. These MFIs therefore prefer to maintain their focus on the current client base and niche market.

While transformation into a bank presents only limited opportunities for MFIs to break into the remittances market at this time, opportunities do exist for MCOs to cooperate with commercial banks. For example, EKI is looking for a partner bank to offer additional services like deposits and money transfer. Since many of their clients receive remittances from abroad, they see this cooperation as a chance to fulfil the financial needs of their customers. EKI would envision providing financial literacy training to their clients to teach them basic knowledge of savings and deposits in conjunction with offering them tailor-made loan products for investment and start-ups. However, it seems that most banks in BiH are not willing to cooperate in this context.

MCOs in general do already include remittances in their loan analyses. According to Lider, one of the smaller MCOs, more than 40 percent of their customers receive money from abroad. In contrast to commercial banks, MCO loan

officers do not only consider the clients' financial records. On-site visits to the applicants' home/company ensure a broader and more personal overview about every client's individual potential for repayment. Inflows from abroad are thereby just one small component of the analysis.

#### 4.5.2.6 Alternative transfer channels:

##### Remittances through informal channels

There are no official estimations of the volume of informal flows into BiH. It can however be assumed that the proportion of formal to informal flows is very similar to Serbia, where more than 50 percent of remittances are estimated to flow through informal channels. Furthermore, as in Serbia, many Bosnian citizens emigrated to neighbouring countries. The geographical proximity of the remitter is a reason for the high volume of informal flows.

A World Bank survey<sup>154</sup> amongst returning migrants shows that 50 percent of them did send money home during their stay abroad. Remittances then amounted to one third of the surveyed migrants' total income. Almost half of them sent money once per month, while the by far most important vehicle is friends travelling home to BiH (45 percent of channels used). Stating the convenience and the reliability of this channel as the main determinants, costs do not seem to be the key factor for BiH emigrants' decision on how to send money. Since many of the remaining emigrants live in BiH's neighbouring countries or at least in geographical proximity, there still seem to be low incentives for using channels other than bus drivers or private cash couriers.

In the context of anti-money laundering, the banking agencies cooperate with the Financial Intelligence Department (FID) of the State Investigation and Protection Agency. FID cooperates with foreign agencies like the Austrian Federal Crime Police Office.<sup>155</sup> They try to control informal flows directly at the Bosnian frontier. Some people report cash voluntarily, and the National Border Service spot-checks cars entering the country. However, it can be assumed that the majority of informal inflows remain unreported.

##### Mobile Phone Operators, Internet, etc.

There are no mobile phone companies offering remittances-related services in BiH. Mobile phone operators do not have a license to make payments or take deposits. There are currently no plans to change this regulation, neither from the banking agencies nor from the mobile industry. To provide money transfer services, mobile phone operators therefore have to cooperate with banks or post offices. However this is also the case for MTOs, and considering the number of banks having a Western Union partnership, this cooperation seems to be quite lucrative. Furthermore, looking at other corridors being served by mobile remittances providers, such cooperation is not an exception.<sup>156</sup> Although leading to shared profits, this regulatory set-up does not at all exclude mobile phone companies from the remittances market. It is rather the case that Bosnian mobile phone operators are not (yet) interested in becoming part of this business.

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<sup>154</sup> Source: Worldbank ([http://siteresources.worldbank.org/ECAEXT/Resources/Section\\_2.pdf](http://siteresources.worldbank.org/ECAEXT/Resources/Section_2.pdf))

<sup>155</sup> Both FID and the Austrian Federal Crime Police Office are members of the Egmont Group, a worldwide network of law enforcement agencies and financial intelligence units.

<sup>156</sup> Due to similar regulatory frameworks in other countries, mobile phone providers and banks do already cooperate successfully in terms of remittances services. For example, Vodafone and Citigroup announced a worldwide mobile financial remittance venture in February 2007.

### Key Points

- **The banking and microfinance sectors are well-developed, with broad geographical reach and a high level of depth.** The banking sector is the key driver of economic stability in BiH. 31 banks run more than 1,000 operational units throughout the country, reaching even remote rural areas. The microfinance sector is one of the best-developed in Europe, with 25 institutions and 12 relevant market players. In the banking sector, privatisation and the deposit insurance system have led to strengthened confidence and an increasing level of private depositors' savings. Loan growth has been steady, reflecting a recovering post-war economy, and at times has reached explosive levels.
- The large number of financial institutions in BiH reveals the high degree of sector fragmentation. This fragmentation is one factor that has facilitated overindebtedness; household debt in BiH is 27 percent of GDP, cross-indebtedness among financial institutions, and asset quality problems. **Market consolidation is direly needed; yet institutions, particularly in light of asset quality problems, have little incentive to consolidate.**
- An additional challenge in the sector is the mismatch between assets and liabilities: long-term liabilities are not necessarily matched with long-term assets.
- **The regulatory environment is complicated given the dual-authorities:** both entities (FBiH and RS) have their own authorities (ministries, banking agencies), thereby complicating countrywide regulation and monitoring. **No specific regulations are targeted at international money transfer.**
- Given the laissez-faire regulatory environment, **little accurate data on remittance flows are available.** The amount and source of remittances remains unclear. The Central Bank estimates total annual remittances at EUR 1.4 billion in 2007 (12 percent of GDP). It is clear, however, that **the economy is highly dependent on remittances:** BiH has the highest share of remittances per GDP amongst former European socialist countries and one of the highest worldwide.
- **Remittance transfers are carried out by banks and MTOs; MFIs are prohibited from transferring funds.** Western Union dominates the MTO sector. The average transfer amount is low at EUR 250. Banks generally enact larger transactions.
- While some banks have made initial efforts to offer remittance-related products, their success has been limited. Several banks are currently considering such products. **In general, however, small transaction sizes, a perceived high-risk profile, and a lack of understanding of the client base hinder banks from offering remittance-related products.** The small average MTO transaction size and the belief that this incoming money is immediately spent for consumption has discouraged banks from establishing partnerships with these institutions to provide remittance-related products. Furthermore, cooperating with an MTO is generally lucrative and does not provide incentives to improve transfer channels.
- **Banks and MFIs look differently at remittances.** Regarding loan analysis, for example, some banks consider remittances as an additional income source, but overall credit history and relationship to the bank take precedence. MFIs, on the other hand, generally implement a cash-flow approach to loan analysis; it is estimated that 40 percent of MFI clients are remittance recipients.
- **Transformation presents only limited opportunity for MFIs to offer remittance transfer and related services.** Only the largest MFIs would be able to meet capital requirements, and even then would require significant equity injections and capacity-building, particularly in human resources and IT.
- **In sum, the market for remittance-related products (apart from transfers) in BiH is underdeveloped and financial institutions see little potential to develop the market.** Remittance funds are often spent on imported goods, and little investment is undertaken by the diaspora due to the lack of (or lack of awareness of) opportunities, the political/economical climate, and overregulation.

### 4.5.3 Migration Policies, Remittances Use, and Investment

As indicated in section 3.3.4, part of the problem of leveraging Bosnian remittances originating in Austria (or working with the Bosnian diaspora in general) is that the Bosnians abroad are largely divided according to ethnicity and other factors, and roughly half of them in Austria are refugees from the 1990s war. These conclusions were, in part at least, reinforced by the Frankfurt School team's work on the ground in BiH: The country-wide diaspora organizations, some of which have representatives in Sarajevo, are not well-organized and only represent Bosniaks. There is not a lot of traditional national solidarity among Bosniaks, the way there is, for example, among Croats or Kosovar Albanians.

Yet one of the Frankfurt School team findings was that the refugee communities have begun to put down roots: they are connected regionally (both in Austria and in BiH), and they have begun to participate (beyond remittances) in the development of BiH, even when their home villages are in Republika Srpska. These former refugee groupings tend to be well organized and active. They send remittances and even help fund infrastructure projects. In fact, one could argue that they are now no longer "refugee communities" at all but rather a young "diaspora." From isolated examples that the Frankfurt School team came upon in BiH, it appears these communities could indeed be a source of developmental potential (see below "use of remittances").

#### State — Diaspora Relations

An article in BiH newspaper 'Nezavisne Novine'<sup>157</sup> has attracted much attention in BiH and has therefore been redistributed to several internet forums. It describes the relationship between the BiH government and the citizens in foreign diasporas as being catastrophic. If the government does not take concrete action, the links between emigrants and their home country will completely disappear in the near future. For its diaspora, BiH has almost become a place for solely spending holidays. Especially the second generation of migrants has lost a close connection to their parents' country of origin. They are rarely speaking their parents' mother language, thereby also losing contact to their parents' mother country. As a major task, further emigration of young and talented people should be avoided. Young Bosnians leave the country to study abroad, and most of them do not return because they are offered attractive jobs. By putting incentives for returning to BiH, their knowledge could be transferred.

For many years the diaspora has asked BiH authorities unavailingly to set up a Ministry of Diaspora. The article furthermore refers to the closing the BiH consulate in Bonn as a reflection of the bad relation between BiH and its people abroad. This act complicates the life of about 50,000 Bosnians living in Germany. Since BiH authorities seem to neglect BiH citizens living abroad, there is almost no investment on the part of the diaspora, which negatively influences domestic employment opportunities. According to the former Minister of Finance, remittances have saved the state from bankruptcy; however, most of the money gets spend on imported goods. The state should create a good investment environment to foster multiplier effects. The mix of the current political/economical climate and overregulation (for example for starting their own business) is considered as not investor friendly.

**State Actors** — There is at present no diaspora ministry in the Bosnian government, although Bosnian groups abroad have been calling for one for years. The competencies for issues linked to migration, diaspora, refugees, return, and remittances are spread out over a number of government agencies and departments, including the National Bank, Ministry of Human Rights and Refugees (MoHRR), Ministry of Foreign Affairs, Directorate of Economic Planning in the Council of Ministries, and Ministry of Security. There has been no migration policy and only poor statistical information until very recently. The government has been concentrating on refugee return and return-related issues, not migration, diasporas, or remittances as such. The state's approach to migration-related issues is increasingly dictated by the EU harmonization and integration process, particularly in areas such as border management, visas, etc. A temporary and circular migration programme will start next year with participating EU countries; there are already such programmes with the Czech Republic and Slovenia. Austria will not be participating in it.

As of 2007, however, there is a diaspora sector in the MoHRR with one sub-office: one for economy, educational, and cultural exchange of Bosnians abroad. There will be another sub-office as of 2009 for diaspora status issues. Together

<sup>157</sup> Source: [www.nezavisne.com/nedjeljne/vijesti/23795/Dijaspori-je-BiH-samo-odmaraliste.html](http://www.nezavisne.com/nedjeljne/vijesti/23795/Dijaspori-je-BiH-samo-odmaraliste.html)

these departments are supposed to have 16 employees. At the moment, the first is formally operative with 8 people. The current diaspora sector says it is a priority to create a state law on diaspora. This is at an early phase, and a commission has recently been formed to formulate a draft law, something that diaspora organisations have long been lobbying for, but it is unclear when such a law could be passed since there seems to be little political interest. They also want a state ministry of diaspora with more substantial resources. The MoHRR will, however, be dissolved after the current mandate ends since refugee issues are no longer on the forefront. Current plans indicate that human rights related topics will henceforth be covered by the Ministry of the Interior, while migration and diaspora issues will be incorporated in the Ministry of Foreign Affairs.

The Directorate for Economic Planning (DEP) is currently working on drafting a national development strategy 2008-2013. MoHRR diaspora sector is in contact with them, lobbying to have at least two items concerning diaspora within it: remittances and brain drain. They are, for example, aware of Croatia's programme to bring back highly qualified people for certain amounts of time, as well as remittance-related policies in Croatia, which are more advanced than elsewhere. They have also been looking around at strategies pursued by other countries, including as far away as Mexico. As of yet, however, they have no strategy, plan or even an exact mandate and seem to be in need of guidance and capacity building to draft and implement relevant policies.

**FIPA** – Bosnia and Herzegovina has mandated the Foreign Investment Promotion Agency (FIPA) to facilitate and support foreign direct investment. The agency offers practical assistance in dealing with government institutions, by working directly with investors and, more structurally, by assisting the government in improving the legal framework for foreign investments. FIPA will also assist investors to develop contacts with the public and private sector. The problem is that FIPA is not represented in Austria and has no strategy to reach out to diaspora Bosnians. It has a presence there only in that there is an embassy through which one should be able to access FIPA materials. However, the Frankfurt School consulting team was unable to do this.<sup>158</sup>The FIPA office in Sarajevo said that they would very much like to have a presence, in the form of an office, in Vienna. They also presented a 45 SME investment projects for the World Diaspora Congress 2007 in Sarajevo, which, however, apparently remained fruitless, the reasons for which remain unclear to the Consultant Team.<sup>159</sup>

**Regional Economic Development (RED) agencies** – Although the RED agencies do not deal specifically with migrant communities, they could be a future partner of diaspora businessmen/organizations interested in participating in development projects. Through a number of pilot projects, the EC has been actively involved in supporting Local Economic Development (LED) initiatives in BiH. Under the 2003 programme of support to BiH, the EC has created a wider programme for RED throughout BiH. The European RED Project commenced in 2003. Funded by the EU it aims to improve the economic environment throughout the country through an integrated regional approach. The main objective of the project is to create a framework for sustainable economic development in BH, which approximates to EU regional support systems such as structural funds.<sup>160</sup>

#### 4.5.3.1 International Agencies

**USAID** – USAID focuses on supporting the return of minority refugees and displaced persons to their homes. The programme relies on direction provided by local officials and returnee groups to determine what kinds of projects were most needed. Eventually it became clear that, once home, returnees needed a way to earn a living. Therefore, the programme expanded to include small grants, loans, and technical assistance. Since half of the Bosnian diaspora is refugees/former refugees, these programmes implicitly impact diaspora and could involve a leveraging angle.<sup>161</sup>

**IOM** – IOM has several programmes that affect the migration-development nexus:

<sup>158</sup> [www.fipa.gov.ba](http://www.fipa.gov.ba)

<sup>159</sup> [www.fipa.gov.ba/](http://www.fipa.gov.ba/)

<sup>160</sup> [www.rez.ba/en/AboutREZRDA/REZRDAProjects/REDI/tabid/117/Default.aspx](http://www.rez.ba/en/AboutREZRDA/REZRDAProjects/REDI/tabid/117/Default.aspx)

<sup>161</sup> [www.usaid.ba](http://www.usaid.ba)

**Assisted Returns** — This programme offers logistical and financial assistance to persons unable or unwilling to remain in the host country who volunteer to return to BiH. It provides assistance to people fleeing conflict situations, refugees being resettled in third countries or repatriated, those who are stranded, unsuccessful asylum seekers returning home, displaced persons, and other migrants.<sup>162</sup>

**Movements** — Undertaken in cooperation with migrants and governments, this movement programme provides resettlement, repatriation, and transportation assistance. IOM assists with the resettlement of persons accepted under regular immigration programmes, through processing relevant documentation, performing medical screening and arranging safe transportation. IOM also assists with the voluntary repatriation of refugees.<sup>163</sup>

**Labour Migration** — IOM's prime objective is to promote regular labour migration within the framework of combating irregular migration, fostering the economic and social development of countries of origin, transit and destination, while respecting the rights and integrity of migrants.<sup>164</sup>

**The Netherlands/IOM, Skills Transfer Programme** — This is an IOM programme to help migrant diasporas contribute to reconstruction and development. It receives funding by the Dutch government. The EUR 2.5 million, three-year programme aims to facilitate the temporary return of qualified nationals living in the Netherlands to BiH, among other countries.<sup>165</sup>

**UNDP** — Although UNDP does not have any programmes dealing specifically with diaspora or migration-development, it is on the ground in places, particularly in Republika Srpska, where diaspora networks are involved in small infrastructure projects (see below). UNDP has provided matching funds to diaspora organizations investing in infrastructure projects at the village level.

#### 4.5.3.2 Non-State Actors

**Word Diaspora Association of BiH (Svjetski Savez Dijaspore)** — This is the foremost Bosnian diaspora group although it does not have an office in BiH. It was founded in 2001 and has since organized four congresses in BiH (the first in 2002). It has a basic website<sup>166</sup> and claims to represent diaspora groups in 23 countries, including a Bosnian organization in the city of Linz. One of its main focuses is the property laws that affect Bosnians abroad. It also lobbies on issues such as dual citizenship, diaspora voting, Bosnian schools abroad, the establishment of a diaspora ministry, the establishment of functional embassies and consulates, etc. Last year the congress in Sarajevo included a presentation by FIPA about investment possibilities for diaspora in BiH, but it apparently did not result in any concrete investments. Even though the Congress does not have a particularly impressive track record, it does have a network through which internationally backed programmes or initiatives could be advertised to the diaspora. Its headquarters are in Birmingham, UK.

**Union of Association of Refugees and Displaced Persons** — This is a Sarajevo-based group that deals with return issues. Although it knows where Bosniaks abroad are, it is active in return-related issues but is not involved in development issues.

#### 4.5.3.3 The Use of Remittances

Remittances were of particular importance to BiH citizens during the war/post-war years in the 1990s. It is commonly assumed that, without these funds, many BiH households would not have survived the war. This important supplement

<sup>162</sup> [www.iom.ba/page1.html](http://www.iom.ba/page1.html)

<sup>163</sup> [www.iom.ba/page1.html](http://www.iom.ba/page1.html)

<sup>164</sup> [www.iom.ba/page1.html](http://www.iom.ba/page1.html)

<sup>165</sup> [www.iom.ba/page1.html](http://www.iom.ba/page1.html)

<sup>166</sup> [www.bihdijaspورا.com/onama/aboutus.htm](http://www.bihdijaspورا.com/onama/aboutus.htm)



amounted to about 30 percent of household incomes.<sup>167</sup> Of course, during the Balkan crisis, the money was spent for daily living.

Unlike for Kosovo, Serbia, and Moldova, there has been very little research on remittances, migration and development in BiH. Nevertheless, from Frankfurt School's on-the-ground interviews and observations in the field, as well as other evidence and findings from other places in former Yugoslavia, it can be concluded that the pattern of remittance sending and spending is very similar to that in neighbouring countries. In short: remittances are still spent first and foremost on consumption and health needs. The first investment is usually in housing and then perhaps in land. There are examples of investment in very small businesses, but not much beyond that. It is also the case that the diaspora contributed significantly to helping rebuild postwar BiH. As elsewhere in the Western Balkans, there is considerable "diaspora tourism" in the summer, which might be better exploited. The Frankfurt School team was also told by a representative of the Islamic Community of Bosnia that because Muslims are expected to share 20 percent of their wealth with the less fortunate of their faith that many diaspora Bosniaks contribute to the building of mosques, refugee and orphanage support, and the financing of Islamic schools.

Somewhat different from the other countries under study, the Bosniak diaspora is composed primarily of two elements: the Gastarbeiter and their families, including now a young adult second generation (in Western Europe); and the refugee communities from the wars of the 1990s. The Austrian diaspora, for example, is composed almost equally of the two groups.

Yet in the course of its field work in eastern BiH, Frankfurt School came across some unexpected examples of diaspora contribution to local infrastructure projects. In the Zvornik, Bratunac, Prijedor, and Sanki Most regions, it is the case that diaspora groupings from villages in those regions have pooled savings in order to collectively fund infrastructure projects in their home villages. This is remarkable for at least two reasons: for one these diaspora groups are composed almost exclusively of Bosniak (Muslim) refugees who fled the country during the early 1990s. Secondly, they are funding projects in their home villages, mostly in the Serb-dominated part of BiH, Republika Srpska.

**Zvornik Region:** Frankfurt School looked most closely at the Zvornik region. In at least four villages in the Zvornik municipality there are projects either completed or in process to build roads, water works, and in one place also a small community centre for local youth. There has also been a sizeable memorial to the victims of 1992-95 constructed with diaspora funding. The diaspora/refugee groups come almost exclusively from Austria, from a region that includes most of the refugees from the villages in question. Without any international assistance, they organized themselves and collected the funds to finance these infrastructure projects and the memorial. Since they didn't have the full amount necessary for these projects, they sought international matching grant funds and received small contributions from the UNDP, in one case, and a Finnish NGO, in another.

The Frankfurt School team talked to the "mayor" of one of those villages, Gorni Sepak, whose people are overwhelmingly in Austria around the city of Linz, organized in the Diaspora Association Drina in Schwanenstadt. While there has been substantial minority return to the Zvornik region, most of the people of Gorni Sepak, who were ethnically cleansed in 1992-93, still live abroad. This is not because they feel unsafe there but rather because before the war most of Gorni Sepak's people worked in the local socially owned factories. Today those factories that are operational at all are running at just a fraction of their former capacity. Thus while there were 2,100 in Gorni Sepak before the war, today there are only 250, mostly elderly. For the most part, the diaspora return in the summer. Nevertheless many homes have been rebuilt, as have the schools. The diaspora people also decided to rebuild the local community centre, the Dom Kulture, as a place to meet in the summer and a place for a year-round shop, ambulance, administration and doctor's offices. This seemed to work so well that the diaspora group collected money to asphalt a local road and build a mosque.

Interestingly, other near-by villages discovered these developments and duplicated the enterprise paving roads of their own with collective diaspora remittances. Also in the Bratunac region south of Zvornik in villages such as Konjević Polje

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<sup>167</sup> Stites, Elisabeth, Sue Lautze, Dyan Mazurana, and Alma Anic (2005), 'Coping with War, Coping with Peace: Livelihood Adaptation in Bosnia-Herzegovina 1989-2004', ([www.odi.org.uk/HPG/meetings/bosnia\\_livelihoods\\_study.pdf](http://www.odi.org.uk/HPG/meetings/bosnia_livelihoods_study.pdf))



and Skugrići there have been roads built with the combination of diaspora money, municipal funds, and international aid. The local organizing takes place at the lowest level of Bosnian administration, the mjesna zajednica. There is a strong relationship between the local community and the diaspora. These roads connect these small places to the local market. Unfortunately, in these places there have been very few examples of diaspora people coming back to open a small private business and it is not expected that this will happen in the future.

Another interesting and novel example of transnational civil society, the Diaspora Association Drina in Schwanenstadt (Austria) together with the Association of Returnees of Zvornik Municipality organised and carried out the largest regional investment project: the Memorial Complex for the 308 civil victims of 1992 in 2005. It was funded by donations from Zvornik diaspora around the world, but the largest amount came from Austria (40-50 percent). The Zvornik municipality offered to participate financially, but the refugee/diaspora organisations refused. Every July the Schwanenstadt Association organises a diaspora gathering for locals from all over the world, though mostly from Europe, and particularly from Austria. Apparently, a lot of fundraising for various projects happens at this event. In August there is a Zvorničko kulturno ljeto (Zvornik Culture Summer) each year and also a kayaking championship along the Drina (BiH).

### Key Points

- **Despite nearly four decades of migration, remittances, and return, this has not led to sustainable development in the labour-sending regions.** While there has been diaspora investment in the private sector and some examples of collective infrastructure/community projects, these are not of a scale to create long-term, sustainable economic development.
- **Emigration is at a standstill.** It is nearly impossible to get abroad today unless one does it illegally or through family reunion.
- The **Bosnian diaspora is a complex phenomenon** that is certain to present aid organizations and policy makers with a particular challenge. Because it is largely ethnically divided, there are basically three Bosnian diasporas. And, even within those ethnic diasporas, there are fault lines between secular and religious, older migrant groups and newer ones, as well as political differences. Half of the Bosnian diaspora is made up of former refugees, those who left the country during the wars of the early 1990s.
- **These communities of former refugees, which now can be considered a diaspora, has begun to contribute in ever more volume to BiH, including in infrastructure and community projects.** The Frankfurt School team examined one of these areas and felt other such examples would be worthwhile investigating, both in Austria and BiH. It is noteworthy that there had been some "spill over effect" in that neighbouring villages had begun to imitate the example of the first villages that called upon their diaspora to support such projects. On the other hand, refugees becoming diaspora and establishing themselves more and more in their host countries also implies a decreasing likelihood for return.
- **It is encouraging that the Bosnian government is putting together a diaspora sector** in its ministry dealing with human rights and refugees. It has two priorities: remittances and brain drain/brain gain. It is however obvious that this sector lacks personnel, resources, and expertise. Ways to provide them international assistance, perhaps in the form of capacity building, should be investigated. Partially, however, this depends on the passage of a new law regarding diaspora and these offices which is supposed to happen in 2009. Moving the diaspora sector to the Ministry of Foreign Affairs could, on the other hand, further undermine the importance of the department, as well as its ability to promote issues of migration and development.
- Especially in BiH it seems that **working at the regional and municipality levels will be much more effective** than the federal level where agreement is difficult to reach and migration seems not to be a priority.
- **There is a dearth of information on remittances and migration** which would be a necessary prerequisite to formulate meaningful policies. No studies have been undertaken on remittances to BiH, especially a comprehensive household survey is lacking.
- Lastly, **it is an obvious omission that the Bosnian economy/private sector is so poorly represented in Austria.** There is no chamber of commerce and there is no investment promotion agency, such as that of the Kosovars (ECIKS). Although the investment potential of Bosnians abroad is probably not as great as that

of the Kosovar Albanians, it nevertheless exists and is being tapped at the village level. Nevertheless, it would be worth trying to better exploit this potential on a larger scale.

## 4.6 Kosovo

### 4.6.1 Migration from Kosovo

The Kosovar diaspora is a product of four waves of migration: the early guest workers and later their families who joined them; the explicitly political refugees of the 1980s; the economic and political refugees of the 1990s; and those who left after the summer 1999 withdrawal of Serbian troops from Kosovo. Among the latter category is the significant Kosovar Albanian student population at Austrian universities that totals around 2,000. Today it is virtually impossible for Kosovars to immigrate, even for temporary labour.

### 4.6.2 Remittances in the financial sector

#### 4.6.2.1 Volume and most important corridors

Central Bank of Kosovo (CBK) estimates the total volume of remittances of 2007 at 521.7 million EUR, amounting to 15.2 percent of GDP. As a percent of GDP, Kosovo was the seventh largest recipient of remittances in 2004 in Europe and Central Asia, and the 20th largest recipient worldwide. The evolution of inflows is demonstrated in the table below:

**Table 28: CBK estimates of total remittances volume 2005 – 2007 (in Mio. Euro)**

Year	2004	2005	2006	2007
Remittances	357.0	418.0	467.1	521.7

Source: CBK Monthly Statistics Bulletin, October 2008

The estimate of incoming remittances is based on official channels and informal channels. (Unfortunately, no breakdown between formal or informal channels exists.) The official estimates show a clear increase in remittances during the last four years and predict that remittances should remain constant at the present size in the medium term. However, most of the parties interviewed by Frankfurt School expected that remittances flows will decrease due to the current financial crisis. Furthermore, an increasing number of emigrants no longer return after short work periods abroad but rather settle in the host country and thus tend to transfer fewer remittances.

There is no official data available on remittances according to sending countries. Nevertheless, the visited financial institutions indicated that the most important sending countries are Germany, Switzerland, United Kingdom, and the United States, followed by Italy, Slovenia, the Benelux countries, Austria, Turkey, and Sweden.

In this context it is important to note that Kosovo has not yet received an international country calling code and hence does not have direct access to the SWIFT system which impedes more precise data collection on origination countries of remittances. ProCredit Bank Kosovo (PCBK), Raiffeisen Bank Kosovo (RBKO), and Komercijalna Banka (KBB) use the Serbian country code 381 and are SWIFT members. All other banks have to operate through correspondent banks.

This means that the country from which banks register inflow of remittances to Kosovo is not necessarily the country where the money actually originated, but the domicile of the correspondent bank. For example, some of the visited banks cooperate with LHB in Germany, which carries out the money transfer to and from many SEE countries. Germany is therefore registered as sending country, although the money might originate not only from Germany but from SEE as well.

#### 4.6.2.2 Local regulation on money transfer

All licensed banks automatically fulfil the criteria for participating in the international transfer market, whereas the MFIs do not as long as they are registered as NGOs. The MFIs are only considered as lending institutions and hence they can not mobilise deposit portfolios above a total of EUR 125,000.

According to the United Nations Interim Administration Mission in Kosovo (UNMIK) regulations, MFIs can obtain a license from CBK that will enable them to mobilise savings (not current accounts). The regulation does not explicitly state what else the license covers, though it implies that an MFI planning to offer money transfer services must apply to CBK separately. All individual transfers exceeding EUR 10,000 must be reported to CBK as well as to the Financial Information Centre (FIC) for anti-money laundering reasons. Additionally, the banks and the MTOs must report the total amount of monthly transfers (individuals and enterprises). The reporting requirements neither comprise any statistics on country of origin nor the transfer channels.

No legal regulation on mobile phone money transfers exists in Kosovo. However, it can be expected that such alternative channels will require permission by CBK. Though most transfers take place in EUR there are no regulations to prevent other currency transfers. Thus it is rather common to transfer in CHF, USD, and GBP. According to a 2007 Riinvest report,<sup>168</sup> a major barrier to diasporas' investment is lack of appropriate enforcement and continued corruption. This statement is confirmed by our interview partners.

#### 4.6.2.3 An analysis of the banking sector

In the aftermath of the 1999 conflict in Kosovo, the financial market collapsed and no banks operated in Kosovo until 2000. Kosovo did not dispose of an institution with authority similar to a central bank, a prerequisite for a financial sector. Therefore the Banking and Payments Authority (BPK) was established according to UNMIK regulation 1999/20. Today there are eight commercial banks operating in Kosovo, as well as 5 MTOs and 15 MFIs. The commercial banking sector employs more than 3,700 staff.

The first bank to start operations in 2000 was Micro Enterprise Bank (now ProCredit Bank). During 2001 another international bank, American Bank of Kosovo (now RBKO), and five local banks were established. One of the local banks, Credit Bank of Pristina, was closed by CBK in March 2006. During spring 2007 the Slovenian bank Nova Ljubljanska Banka (NLB) bought the majority of Kasabank and New Bank of Kosovo, and merged the two local banks under the name NLB Prishtina. Thus there are now only two local banks left in the market though NLB still has Kosovar minority shareholders.

In 2008, three further international banks received licenses. The bank that seems to have entered the market most aggressively is Türk Ekonomi Bankası Kosovo (TEB). In contrast to it, Banka Kombetare Tregtare (BKT) has been establishing operations more slowly and has only gained an insignificant market share. Finally a Serbian bank, Komercijalna Banka (KBB), operates branches in Mitrovica North and in a few other Serbian enclaves in Kosovo. The two latter banks only have branch licenses. Currently the national post company, the Post and Telecommunications of Kosovo (PTK), is planning to establish a post bank in Kosovo.

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<sup>168</sup> "Diaspora and Migration Policies" Forum 2015, Riinvest, Pristina, 2007.

**Table 29: Number and network of Kosovo banks as to 31 December 2008**

No.	Name of bank	Ownership	Branches	Total outlets
<b>International banks</b>				
1	ProcCredit Bank	International	55	55
2	Raiffeisen Bank	International	12	50
3	Nova Ljubljanska Banka (NLB)	Slovenian	18	64
4	Komercijalna Banka	Serbian	2	3
5	TEB Kosovo	Turkish / French	8	17
6	Banka Kombetare Tregtare (BKT)	Albanian / Turkish	6	6
<b>Local banks</b>				
7	Banka Ekonomike (BEK)	Kosovo	7	35
8	Bank for Business (BpB)	Kosovo	7	36
<b>Total</b>			115	266

Source: Frankfurt School interviews, websites of banks (January 2008)

As can be seen from the table above, there is an extensive branch network throughout Kosovo. All of the commercial banks have main branches in the seven main cities, and sub-branches and teller offices in most secondary towns. Nevertheless, the banking infrastructure in urban areas is more developed than in rural areas.

The table below shows indicators from the balance sheets of all banks. It appears that the international banks are dominant in the market both in terms of deposit and loans. The three biggest international banks held around 90 percent of all bank assets. Compared to this figure, the two local banks had a market share of only 7 percent.

**Table 30: Bank balance sheets as of 30/09/2008 in '000 Euro**

	International banks						Local banks		TOTAL
	PCBK	RBKO	NLB	KBB	TEB	BKT	BEK	BpB	
<b>Assets</b>	650,495	593,749	216,910	35,454	35,220	12,500	72,918	51,573	1,668,819
o/w Securities	40,154	0	1,100	0	0	0	0	0	41,254
o/w Loans	419,087	393,798	132,775	4,657	24,991	3,312	46,715	27,166	1,052,501
<b>Liabilities</b>	604,514	523,944	189,902	29,604	24,029	6,138	61,178	43,773	1,483,082
o/w Deposits	564,517	495,326	172,857	29,461	23,236	6,008	60,051	42,777	1,394,233
<b>Equity</b>	45,980	69,805	27,008	5,850	11,191	6,362	11,740	7,800	185,736

Source: CBK website

For the sector as a whole there has been satisfactory growth in deposits, as demonstrated in Table 3. Taking into account the disaster in the mid-nineties of hyperinflation and loss of deposited money followed by the collapse of the banking sector and the conflict in 1999, it is impressive that the sector has been able to regain confidence and mobilise approximately 1.4 billion EUR in deposits despite the current absence of any depositors' insurance scheme.

KfW is currently supporting CBK in the development of a Deposit Insurance Scheme (DIS). The project has produced a drafted law (originally an UNMIK regulation, which was rewritten into a Kosovo law after independence) and has additionally worked intensively with communication to all involved stakeholders. Currently, the set up of the DIS would require additional support in terms of initial seed capital for the fund, but also in terms of guarantee functions and additional technical assistance during the set up of operations.

The following table shows the evolution of total loans, deposits and equity from June 2005 to September 2008 indicating impressive growth rates.

**Table 31: Highlights from balance sheets 2005– 30/09/08 in '000 Euro**

	June 05	June 06	Growt	June 07	Growth	Sept. 08	Growth
Loans	466,249	616,948	32.3%	722,276	17.1%	1,052,501	45.7%
Deposits	742,212	845,351	13.9%	981,555	16.1%	1,394,233	42.0%
Equity	67,193	82,590	22.9%	125,637	52.1%	185,763	47.9%

Source: CBK, CBK Bulletin 2006, CBK Bulletin 2007

The households' share of the total deposit is demonstrated in the table below, which also shows the non-EUR share of the deposit.

**Table 32: Specification of households' deposit**

MEUR	June 05	June 06	Growth	June 07	Growth	Sept. 08	Growth
Total	407.9	479.0	17.4%	589.2	23.0%	851.5	44.5%
o/w non-EUR	20.3	26.2	29.1%	41.3	51.9%	70.3	70.2%

Source: CBK Monthly Bulletins 01.06, 01.07 and 10.08

It is interesting to compare the growth rates of total deposit to non-EUR deposit. Households' non-EUR deposit derives from remittances from the diaspora. According to the experience of the Frankfurt School team, particularly the diaspora in Switzerland, the United Kingdom, and the United States bring large amounts in CHF, GBP, and USD when visiting Kosovo during the summer and over the New Year's holidays. The table indicates that remittances in the mentioned currencies have substantially increased. **It also shows that a significant share of remittances is saved and not consumed.**

It has not been possible to obtain exact data on Capital Adequacy Ratio (CAR). An indication can be seen in the table below showing the proportion between the equity and the assets cleaned for COH, CBK, and securities.

**Table 33: Approximate CAR as of 30/09/2008**

	International banks						Local banks		TOTAL
	PCBK	RBKO	NLB	KBB	TEB	BKT	BEK	BpB	
<b>Net assets<sup>169</sup></b>	571.9	535.1	196.1	25.9	31.0	4.8	65.2	44.1	1,474.1
o/w Securities	40.2	0	1.1	0	0	0	0	0	41.3
Equity	46.0	69.8	27.0	5.9	11.2	6.4	11.7	7.8	185.8
Equity/net assets	<b>8.0%</b>	<b>13.0%</b>	<b>13.8%</b>	<b>22.8%</b>	<b>36.1%</b>	<b>133.3%</b>	<b>17.9%</b>	<b>17.7%</b>	<b>12.6%</b>
Eq./net assets-sec.)	<b>8.7%</b>	<b>13.0%</b>	<b>13.9%</b>	<b>22.8%</b>	<b>36.1%</b>	<b>133.3%</b>	<b>17.9%</b>	<b>17.7%</b>	<b>13.0%</b>

Source: CBK website

In general, the sector has a satisfactory CAR. Yet it is noteworthy to mention that PBC, despite being the market leader in deposit mobilising, has the lowest CAR. This is due to relatively small equity, which is probably caused by the fact that the bank has never needed capital injections for liquidity reasons.

Since 2002 various credit providers have offered **refinancing sources** to the commercial banks and MFIs. They are: European Fund for Kosovo and KfW, on behalf of the Swiss and German governments respectively. In 2005 EFSE established an office in Pristina. It is now administering the previously disbursed funds. EBRD entered the Kosovo financial market in 2006.

The banking sector has a traditional two-tier structure with **CBK as a supervisory authority** and the commercial banks as the executive institutions. In recent years the supervisory framework was strengthened with technical assistance mainly from the IMF. CBK holds the deposit of Privatization Agency of Kosovo (PAK) deriving from the privatization of the socially owned enterprises (SOEs). As of September 2008, 433 million EUR had been placed with CBK – and afterwards replaced on bank accounts abroad in the EUR-zone, according to CBK rules. This money is missing in the

<sup>169</sup> Assets – COH and deposit at CBK

commercial banking sector, which of course is detrimental to the banks possibility to offer long-term finance for investments in the real sector.

The commercial banks are all members of the Kosovo Banking Association (KBA) which was established in 2003. KBA represents the banks in government meetings, especially regarding the development of new banking-related legislation. Furthermore it offers training to the member banks. Twenty local trainers have been trained in basic banking topics. In 2009 KBA plans to train 15 further trainers in more sophisticated topics, and to develop a Banking Certification Program.

#### 4.6.2.4 Analysis of the role of the banking sector and banking products for migrants

The banking sector in Kosovo provides all basic banking products, including loans, deposits, and services like cards and e-banking. Other banking services (investment finance) are still to be developed in Kosovo. All banks offer international money transfer from account to account. Additionally, two banks cooperate with Western Union.

International money transfer in Kosovo faces the challenge that there is no country SWIFT code. Most banks therefore cooperate with several correspondent banks. The banks expect that a country SWIFT code for Kosovo will be introduced this year, but CBK did not confirm these expectations. Transfer fees and durations vary substantially according to sending bank.

Almost all banks charge **fees for incoming money transfers**. Usually they apply different modalities, including a minimum fee and graded fees for certain amounts of money. Only one bank does not charge any fee at all. Another bank did not charge until January 2009, and is now charging a minimum of EUR 5 for amounts up to EUR 200. The highest minimum fee is EUR 15. All banks charge a certain percentage of the transferred amount, ranging from 0.1 percent to 3 percent. Furthermore, the banks apply special conditions depending on the client sending the money or the amount. One bank did not provide data on transfer fees.

**Table 34: The banks' fees for receiving**

Bank	Modality 1	Modality 2	Modality 3
Bank 1	na	Na	Na
Bank 2	Min. 15 Euro (up to 5,000 Euro transfer)	0,1 – 0.3% (more than 5,000 Euro transfer)	-
Bank 3	Min. 5 Euro (up to 200 Euro transfer)	10 Euro (up to 10,000 Euro transfer)	0.1 % (more than 10,000 Euro)
Bank 4	Min. 0.3%	Max. 0.5%	-
Bank 5	Min.15 Euro	0.15 %	-
Bank 6	No fee	No fee	No fee
Bank 7	Min. 8 Euro	0.2%	-
Bank 8	Min. 1%	Max. 3%	-

Source: Interviews with banks (January 2008)

Some banks have special products or special marketing campaigns targeting diaspora that are presented below:

- BEK offers a special interest rate of 5.5 percent for savings that are deposited between December and January. This special offer is valid during one month, usually in the holiday season when most diaspora visitors are expected (New Year holiday, summer holiday). BEK reports that this offer has been quite successful to retain customers;
- RBKO offers a mortgage loan for diaspora based on remittances. The incentive for the payment of the instalments is a cheaper money transfer;
- NLB offers a gradual savings product based on remittances. As clients send money regularly they may be granted a loan of up to five times the amount they saved. However, this scheme does no guarantee the customer will be granted a loan, as the bank still has the possibility to reject the loan application;

- TEB is advertising its deposit and money transfer services in banks in Switzerland, targeting the diaspora;
- PCBK has been running a campaign to attract deposits from the diaspora, i.e. by offering attractive interest rates.

However, these products currently have a limited relevance for most of the banks. Diaspora and remittances receivers are not considered an important target group, and banks are **not aware of business possibilities in the field of remittances**. In general it seems there is no discussion of this topic in the banking sector. Only one interview partner explicitly pointed out that it was in the process of developing products targeting diaspora. The CEO of another bank in Kosovo mentioned that they had been discussing this topic (product development: savings, remittances transfer via telephone banking), but that due to the current economic crisis remittances were expected to decrease, meaning that was also expected less demand for such products.

#### 4.6.2.5 An analysis of Kosovo's MTOs and MFIs

The **average amount of remittances** is estimated to be EUR 300 to 500. It was not possible to obtain reliable statistical data from the visited institutions as they were reluctant to reveal data regarding remittances flows. Furthermore, they could not distinguish between the amounts they received as remittances and transfers from business transactions. But interview partners estimated that usually remittances are sent in small amounts of EUR 300 to 500 and on a regular basis. These estimates are supported by the figures based on a household survey conducted in Kosovo in 2007 by the Riinvest Institute think tank.<sup>170</sup>

Table 35: Average Amounts remitted by Kosovars abroad

Euro Amount	Annually transfer (in %)	Monthly transfer (in %)
100 – 500	16.47	66.19
500 – 1.000	21.26	26.68
1.000 – 2.000	20.06	4.89
2.000 – 3.000	19.16	1.63
4.000 – 9.000	18.86	0.61
10.000 – 20.000	4.19	0

Source: Riinvest

There are two MTOs operating in Kosovo at this moment: Western Union and Money Gram. **Western Union** is dominant. It operates through three agents in Kosovo: PKBK, RBKO, and Unioni Financiar Prishtinë (UFP). UFP is a (non-bank) financial institution licensed by CBK for money transfer services with Western Union. UFP is the largest among the three Western Union agents in Kosovo and operates through about 100 outlets across the country. These selling points are located in banks, travel agencies, and phone shops. Including the networks of PCBK and RBKO, Western Union thus disposes of the most widespread network of outlets in Kosovo. In contrast, **Money Gram** has only of 50 outlets.

Usually MTOs are used to transfer smaller amounts of money. Due to legislation, transfers through MTOs are limited to a maximum of EUR 10,000 per customer transaction. All amounts exceeding EUR 10,000 have to be sent through banks. Therefore informal channels of remittances transfer are the biggest competition to MTOs. None of the MTOs charge a fee for incoming transfers, as all fees are paid by the sending party. The service is rather expensive, e.g. Money Gram will charge EUR 15 for transferring EUR 200 from Austria, paid by the sender. The MTOs are able to compete with the generally much cheaper banks due to short transfer time and flexibility. A transfer can be done in less than 15 minutes and the receiver can collect the money at any MTO outlet in Kosovo.

#### MFIs

As is in all transition economies, in Kosovo the MFIs play an important part in development. The first MFI, Kosovo Enterprise Program (KEP), began its operations in 1999. In January 2009, 15 MFIs were registered with the CBK, which

<sup>170</sup> "Diaspora and Migration Policies" Forum 2015, Riinvest, Pristina, 2007



is in charge of supervising MFIs. None of the MFIs' market products and services for the diaspora or domestic receivers though the repayment capacity of a significant part of loans extended to rural clients is based on contributions from relatives abroad. KEP is currently developing a basic loan product targeting diasporas and domestic remittances receivers.

There is a good geographic spread of MFI operations throughout Kosovo. But the sector has become increasingly oriented towards urban areas. Yet Kreditimi Rural i Kosoves (KRRK) and KosInvest target only rural areas and to a large extent agricultural lending. KRRK is registered as a Joint Stock Company (JSC) and operates as an "umbrella bank" for 37 credit associations in rural areas. All other MFIs except for KEP focus mainly on urban areas. The 37 credit associations in the network of KRRK constitute an excellent platform for attracting depositors in rural areas and KRRK plans by the end of 2009 to apply for deposit taking license. As of 2009 the equity exceeded EUR 4.4 million. The minimum capital requirement to be licensed and qualify to be deposit taking MFI is EUR 2.5 million.

The table below shows the newest published loan balance and equity of six of the important MFIs. Though they have had an impressive growth during the last years they still represent only EUR 81 million loan balance (Sept. 2008) compared to the commercial banks' nearly EUR 1 billion (Sept. 2008).

**Table 36: Loan balance and equity of seven selected MFIs in Kosovo (in '000 Euro)**

MFI	31/12/2006			31/12/2007			30/09/2008
	Loans	Equity	Equity / Loans	Loans	Equity	Equity / Loans	Loans
KEP	14,674	9,792	66.7%	27,359	11,020	40.3%	38,371
FINCA	11,661	2,852	24.5%	12,776	2,462	19.3%	15,904
KRRK <sup>171</sup>	7,691	1,022	13.3%	8,144	1,459	17.9%	10,649
KGMAMF	3,945	4,211	106.7%	4,219	4,471	106.0%	4,185
AFK	3,072	2,025	65.9%	4,619	2,410	52.2%	6,064
BZMF	3,014	2,069	68.6%	3,180	2,181	68.6%	3,885
KosInvest	904	911	100.8%	1,760	799	45.4%	2,325
<b>Total</b>	<b>44,961</b>	<b>22,882</b>	<b>50.9%</b>	<b>62,057</b>	<b>24,802</b>	<b>40.0%</b>	<b>81,383</b>

Source: The Mix Market web site, AMIK website

The MFI sector is getting closer to the commercial banks' pricing. The concept of flat rate interest does not exist any longer and the interest rates are decreasing though still higher than the rates of the commercial banks. Until 2008, MFIs in Kosovo were restricted to lending activities only. They would not participate in money transfer and were not allowed to mobilize deposits. Therefore they are all originally funded by means of donor money. The biggest MFI, KEP, applied for a banking license in 2007, but had not obtained one as of January 2009. KEP is in the process of developing new loan products targeting the diaspora with the aim to help the rural population help itself by means of income-generating investments financed by loans based on transfer from diasporas.

In February 2008, CBK passed legislation allowing MFIs to transform into Deposit Taking Institutions. The regulation was promulgated by UNMIK (29/05/2008). FINCA applied for a license and is planning to start saving operations by mid-2009. Both institutions, KEP and FINCA, have good capital bases and will probably not impose extraordinary risk to a depositors' insurance scheme. Three other MFIs are preparing to apply for a licence: KRRK, Kosinvest, and AFK. The two latter need to reach the minimum equity requirements of EUR 2.5 million, and are therefore searching for additional funding. Furthermore, in order to transform these three MFIs it will be necessary to develop their capacities, especially in cash management, marketing, and product development.

The microfinance sector in Kosovo employs more than 600 staff. KEP and FINCA are the large employers with a total of nearly 500 staff. Most MFIs are organized under the Association of Microfinance Institutions in Kosovo (AMIK). Since

<sup>171</sup> As of 31/12/2008 book value 4,415,700 EUR. All shareholders but one (the staff) are development agencies and microcredit foundations.

1999, AMIK has successfully supported its members in three major fields: implementation of international best practices; capacity building and training; and advocacy. AMIK will support MFIs in their transformation process to microfinance banks or deposit taking institutions.

#### 4.6.2.6 Alternative Transfer Channels

##### Mobile Phone Operators, Internet, etc.

The potential of money transfer through mobile operators, internet, or online-banking is very restricted in Kosovo. The technical infrastructure exists: It is already possible to send mobile phone credit from one phone to another. With the entry of the Kosova Internet Project into the communications market the access of the population to internet services increased substantially. But implementation of international money transfer through these channels is not regulated at all. This poses a substantial risk for any company that might be interested in investing in such product development. Furthermore, investment in Kosovo is perceived to be high risk, and until now no company has been interested in establishing, for example, online payment services in Kosovo.

##### Bus and travel agencies

Frankfurt School research in Austria showed that many Kosovars continue to use private buses, travel agencies, bring money themselves when they visit, and ask travelling friends to take money to Kosovo. This is supported by the interview partners in Kosovo. Nevertheless, trust in the formal financial sector in Kosovo has increased of late. This is a result of the increased importance and the good reputation of international banks in Kosovo. Trust in the banking sector also increased after the closure of Credit Bank of Pristina in 2006, and the arrest and criminal prosecution of various bankers in 2007 and 2008.

##### **Key Points**

- **Although the banking sector in Kosovo is quite young** (the first bank started operating in 2000 after the war) **it has wide outreach with 266 branches/outlets**, and hence **the market potential is limited as the population is limited** (two million inhabitants) and the average monthly wage is 250 EUR.
- **International banks are dominant in the market.** Among them, PCBK, RBKO, and NLB have the biggest market share. Local banks suffered from bad management and fraud in the past, thus only two small local banks are left in Kosovo.
- Though the international banks have set high standards for banking, the **product assortment is still basic.**
- **There is still a big market potential for MFIs**, which have much more outreach to rural areas and poor populations than commercial banks. Currently the MFIs have no deposit taking or international transfer license. Five MFIs are in the process of applying for deposit taking license.
- **No clear regulation exists on participation of MFIs in international money transfer.** They will need a special CBK permit.
- While the period after independence has shown a significant increase of deposits to banks, **additional trust in the banking system from the general public could be gained through implementation of the Deposit Insurance Scheme** which is currently being drafted.
- Only the commercial banks and the MTOs participate in the official remittances market.
- The Kosovo Banking Association and the Association of Microfinance Institutions of Kosovo (AMIK) are well-functioning umbrella organisations. They are involved in capacity building and training. Yet AMIK needs assistance to build up a sustainable training division.

##### **The Remittance Market**

- **The commercial banks and the MFIs only offer basic products to remittance senders** and recipients. Yet the microfinance institution KEP is currently developing a basic loan product targeting diaspora;
- **Regular remittances constitute an important part in the credit worthiness evaluation** of the borrowers;
- Most remittances inflows come from Germany, Switzerland, UK, the United States, Austria, and the Netherlands.

- **Western Union is dominant in the MTO sector** with three agencies and a total of more than 200 outlets throughout Kosovo

### 4.6.3 Migration Policies, Remittances Use, and Investment

#### 4.6.3.1 International, State, Local, and NGO Policies Related to Migration and Development

In Kosovo policies that seek to leverage diaspora resources for the purpose of sustainable economic growth are severely underdeveloped. This is in part a consequence of the low governance capacity of the young Kosovar state and the legacy of the years under Serb rule. There is thus significant room for creative policy initiatives linking the diaspora to development in Kosovo, a country that is as reliant on remittances as Moldova and has an unemployment rate of over 40 percent (2007). According to the World Bank, approximately 45 percent of the population is living in poverty and 15 percent in extreme poverty. While the governance structures appear particularly weak at the federal level, there are limited local initiatives at the municipal and village level that effectively leverage diaspora funding for the purpose of local infrastructure projects. These projects deserve further investigation and could well be leveraged further with international assistance.

#### International Community Policies

##### IOM

IOM Kosovo's **Assisted Voluntary Returns** programme is dedicated to creating an environment conducive to successful and sustainable returns, implementing complementary reintegration support measures and a range of capacity building activities.

**Migration Service Centre, Pristina** — In order to reduce irregular migration and optimize the possibilities for legal migration, IOM in partnership with Kosovo's Ministry of Labour and Social Welfare and the Ministry of Internal Affairs, opened a Migrant Service Center (MSC) in Pristina as a part of regional network of MSCs. The MSC aims to foster local capacity to develop migration policy and provide potential migrants with efficient information, and advice. The MSC is funded by the European Community AENEAS 2006 Programme, Swiss Federal Office for Migration, and German Federal Office for Migration and Refugees.<sup>172</sup>

**World Bank** — The Sustainable Employment Development Policy Programme, being developed jointly with the government of Kosovo, has the final goal of identifying policies that would alleviate high unemployment. It is a three-year program that will provide grant funds for budget support to Kosovo from a multi-donor trust fund, consisting of approximately EUR 60 million, in a series of three annual operations. Apart from the World Bank contribution (USD 40 million), this operation is supported by nine other important donors for Kosovo.

**IFAD and Raiffeisenbank Albania** are funding the DEVINPRO project (a 20 month-long project) which has the objective of supporting migrants through the provision of relevant remittance, savings and investment options to make their migration experience more successful while at the same time broadening and deepening the financial system. The project started in November 2008 in Kosovo with the first of three phases which is a comprehensive market analysis to identify market demand and possible products. Later phases will include the development and piloting of the developed products in at least six regions in Albania and Kosovo. Products and services will be adapted to the needs of the migrants as identified in the market research phase of the project. The project partners include Raiffeisen Bank Albania, Raiffeisen Bank Kosovo, Credins Bank, Tirana Bank, Opportunity Albania, and the Centre for Economic and Social Studies and is lead by the NEXUS Development and Migration Initiative. To the knowledge, this is the first project of its type in SEE and an exception to the otherwise scarce work on migration and development in Kosovo.

<sup>172</sup> [www.iomkosovo.org/Projects.html](http://www.iomkosovo.org/Projects.html)

## **Kosovo Government Policies**

The government's policies regarding migration are mainly focused on efforts to encourage the Kosovo diaspora to invest in Kosovo, and to place Kosovars in circular/temporary labor programmes abroad, though no one document laying out the Kosovo government's policy on migration exists. One of its top priorities – where it has so far been unsuccessful -- is visa liberalization for Kosovo citizens in order to create an opportunity for them to work abroad.

### **Ministry of Trade and Industry, Investment Promotion Agency of Kosova (IPAK)**

Investment Promotion Agency of Kosova (IPAK) was established under the administration of the Ministry of Trade and Industry. Its purpose is to aid the economic development of Kosovo through FDI that will have direct impact in reducing unemployment and increasing the social welfare of Kosovo's citizens. Its mission is to improve the image of Kosovo and to attract foreign investors through a proactive marketing campaign.<sup>173</sup>

The Frankfurt School team was positively impressed with IPAK. It serves as a kind of ersatz official economic representation for a country that has no such network and very weak diplomatic representation abroad. Its office in Vienna, called ECIKS, is responsible for the German-speaking world and partially funded by ADA. It has a good public presentation (with powerpoint and print information) and has taken it to six international conferences specifically targeting the diaspora (five cities in Europe and one in the US.) The presentation is professional and could also be given in Kosovo to visiting emigrants in the summer months, perhaps combined with supplemental presentations by municipal officials.

### **Ministry of Labour and Social Affairs**

This ministry is working to create job opportunities in Kosovo and abroad including the initiation of circular/temporary migration programmes. It is aware that Kosovo had sustained labour migration over three decades, which ended abruptly after the 1999 war. Today it is virtually impossible for Kosovars to go abroad legally. It is only through family reunions and illegal migration that Kosovars manage to leave the country. Given the very high jobless rate and Kosovo's very young population (75 percent of the population is younger than 35 years of age), a resumption of labour migration – even if temporary or circular – is imperative for Kosovo. The ministry is lobbying other countries for visa liberalization, possibilities for professional education and the initiation of seasonal migration programmes. Yet this ministry has had very little success interesting other countries (with labour market shortages) in such programmes. It is presently in talks with Finland about such a programme, and has had positive feedback from Norway, France, and Italy, among others. But presently there are no such active programmes, except for a very small scale example with Slovenia.

### **The Office of Non-Residential Affairs**

This office was created in 1999 to deal with an array of diaspora issues. It was never effective and was shunted from one ministry to another. It is at present in transition again, leaving the Ministry of Culture; it has been placed in the prime minister's office. It would like to concentrate its activities on attracting investment which would, however, interfere too much with the mandate of other ministries. The Office therefore concentrates on preserving culture in the diaspora. Its activities over the years have included outreach to the diaspora through regular communication and publications, establishing partnerships with educational institutions and exchange programmes, and is currently working on the creation of a diaspora data base. It is presently dealing with citizen and other documentation issues, the type of activities other countries with full diplomatic services would have their embassies do. This office is badly in need of direction, capacity, and funding. It could benefit from associations with other regional "diaspora offices," like those in Croatia and Armenia, which have had some degree of success in their projects. The Office hopes its mandate will become clearer once a new law is passed in 2008 transforming the Office into an agency directly under the government with a clear policy to follow.

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<sup>173</sup> [www.invest-ks.org/](http://www.invest-ks.org/)

## Ministry of Education, Science and Technology

The government launched a national "brain-gain" campaign in March 2008 aimed at persuading members of the diaspora, and professionals from other countries, to take part in the country's development. "The government is determined to encourage highly educated professionals from Kosovo and abroad to get involved in the process of state building in Kosovo," a ministry statement said. The ministry believes that a successful brain-gain campaign will help ease the "difficult socio-economic circumstances and improve the low living standards" which are among the reasons that a majority of highly educated citizens have chosen to leave Kosovo in the first place. The ministry statement says the government will try to offer educated citizens better working conditions so that they have an incentive to contribute to the country's development. The ministry's efforts will focus on migrants with high academic qualifications.

## Municipal/Local Administrations

The Frankfurt School team found a surprising amount of activity and connections between the municipality/village administrations and their diasporas, particularly those in western Europe. In the northwestern municipality of Istog and the southeastern municipality of Gjlane, for example, the Frankfurt School Team were told about an array of co-financed infrastructure projects including paved streets, water supplies, school and school repairs, and bridges that were paid for through some combination of co-financing from the municipality, the villages, and, in some cases, international agencies. Many of the local private sector enterprises were started up with diaspora funding.

In the co-financed infrastructure projects, the share paid by the village came overwhelmingly — though not exclusively — from the families' diaspora relatives. In Istog nearly every one of the 50 villages in the municipality had some such project. In Crcece, the paving of the road from Istog to Peja has had an enormous positive impact on the village and its small private sector. Those villages with the better organized and concentrated diasporas, like the one in Ludwigsburg, Germany, from the village of Sudenica have been particularly active. Usually, the idea comes from the village and its administrators bring it to the municipality together with an estimation of the amount of funds it thinks it can raise from diaspora connections and local businesses. Usually every family with someone abroad pays EUR 150-500, the same as families with private businesses. Those families with neither pay substantially less. Then the municipality either matches the raised funds with equal or higher amounts. If funding is still incomplete, the municipality might then try to interest an international donor to come up with the remaining financing.

The officials from the Istog municipality have also travelled to the diaspora in Germany, Switzerland, and Austria in order to encourage such projects and also to push private investment. It is not uncommon for the municipal authorities to have a little reception for visiting diaspora in the summer.

## Impact of Remittances in Kosovo

Although the numbers for Kosovar Albanians abroad varies greatly, the 2007 Riinvest study<sup>174</sup> puts the size of the diaspora at about 315,000 (Kosovar Albanians) out of a worldwide population of 2.5 million, or 17 percent of all Kosovar Albanians. (It estimates there are another 100,000 Kosovars of Serbian and other ethnicities abroad.) Over 60 percent of the former live in either Germany or Switzerland. Just under 7 percent of that total live in Austria, about 22,000 people. (Austria ranks fifth as intended destination for those intending to emigrate.) 94 percent of Kosovar Albanians abroad live in EU countries. About 30 percent of Kosovar households have one or more members living abroad, and 70 percent of emigrants — a high relative figure — remit to family members in Kosovo. Yet the multiplicative effect on generating economic growth and new jobs is low.

It is estimated that between EUR 225 and EUR 600 million in cash remittances and in-kind contributions flow into Kosovo every year from the diaspora, totalling around 14 percent of GDP. (The figures are vague due to poor statistical methodology, and the large share of informal and in-kind remittances.) Although remittances seem to have declined compared to the 1990s and the immediate postwar period, they have remained constant at the present size in recent years. Between 2005 and 2007 there were no significant changes in the level of remittances. Interview partners on-the-

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<sup>174</sup> "Diaspora and Migration Policies", Forum 2015, Pristina, p. 7

ground in Kosovo in January 2009, however, say that the global financial crisis is being felt now in different ways in the villages, although no one told the Frankfurt School team specifically that their remittance income had decreased since summer 2008 because of the crisis. (As of January 2009, the Ministry of Finance was still predicting an increase in total remittances based on projected inflation.) The impact of these transfers is crucial for ameliorating Kosovo's huge foreign trade and labour market and balances and keeping many rural families out of poverty.

### The Kosovar Albanian Diaspora

The Western European Kosovar Albanian diaspora is the product of three phases of migration: the guest workers of the 60s and 70s, and their families; the remnants of the economic and political refugees of the 1990s (many of whom have returned to Kosovo); those who have left since summer 1999, usually through family reunion. This is a young, geographically concentrated, politically conscious diaspora, much of which has already come strongly to Kosovo's aid during the 1990s and then again in the massive reconstruction effort after the war, to say nothing of family support over four decades. It has a high tendency to remit, even compared to other high-remitting migrants. It is two-thirds male and very young in terms of age (average age: 28 years). It has a relatively low level of education and Kosovar Albanians are mostly employed in low-income jobs such as construction, gastronomy, manufacturing, agriculture, and service industries. The average annual salary is about EUR 1,700. Most (60 percent) have citizenship in the resident countries, another 43 percent have temporary resident permits, 1.3 percent are on student visas.<sup>175</sup> Thus, the overwhelming majority is abroad legally.

There are very strong ties between Kosovar Albanian migrants and the homeland and thus enormous potential for the Kosovar Albanian diaspora to participate in Kosovo's development for some time to come. For example, over three quarters of emigrants plan to return to Kosovo. The 2007 Riinvest study concluded: "With appropriate policies and incentives, the diaspora could contribute more effectively, both in terms of human capital and financial resources, to economic growth and job creation in Kosovo." "Large diasporas such as Kosovo's can account for an important share of FDI and, moreover, may be willing to invest under conditions that would dissuade other investors."<sup>176</sup>

As for the organization of the diaspora, the current organization in resident countries is uneven, a state of affairs that has direct implications for diaspora engagement: Those Kosovar Albanian diaspora communities that are better organized and geographically concentrated are more likely to pool remittances for common projects than scattered communities.

### Remittances

Although the total **sum and impact of remittances** is great, the total amount that the recipient families (one in three families in Kosovo) receive is actually quite small: 72 percent send from EUR 100-EUR 1,000 annually, whereas 18 percent send from EUR 1,000-EUR 3,000 annually. Another study showed that of those families receiving remittances, two thirds received between EUR 100- EUR 1,000 annually and 22 percent received between EUR 1,000 and EUR 3,000 annually. In light of this — and the extremely high unemployment and poverty rates, particularly in rural Kosovo — it is not surprising that these remittances are used overwhelmingly for consumption, including food, clothing, cars, housing repairs, as well as education and health services. In the past, good-sized houses were built in rural areas, a trend that appears to have tapered off. In fact, many of the half-built houses noted in the 2005 ESI research are still half built. Nevertheless, as one interview partner told the Frankfurt School team: "One way or another almost everyone here benefits from remittances. Before emigration began in late 60s, people only survived." Since then people have had a better life. "Life continued in Kosovo because of the diaspora."

According to relevant studies, only 3 percent of remittances go toward entrepreneurial activities. Nevertheless, the diaspora is critical to the **private sector** in Kosovo and private sector start-ups. "Just look at almost any private sector enterprise investment and it comes from the diaspora," the SME agency representative at the Ministry of Trade and

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<sup>175</sup> Ibidem

<sup>176</sup> Ibidem p. 11



Industry told the Frankfurt School team. He claimed that the diaspora is the biggest source of investment in Kosovo<sup>177</sup>, even though it does not receive preferential treatment. Most common is a joint venture with a foreign partner or a triangle structure. Since independence there are more businesses being opened and there is also more interest for investments from abroad. He also noted that the EC is supporting the creation of five regional development agencies. It is not inconceivable that OeEB work closely with these agencies to foster diaspora investment in rural regions. Any investment in rural microfinance and/or micro-credit is implicitly related to the migration-development nexus. But in general business ventures from outside Kosovo are faced with the same problems as local businesses: access to finance, staff qualification; power supply; documentation/papers; transportation.

In the villages visited by the Frankfurt School team in January 2009, it was ascertained that the vast majority of rural SMEs had diaspora involvement in some way. (This might even include loans or the collateral for loans.) The 2007 Riinvest study surveying summer diaspora visitors to Kosovo noted that a quarter of respondents had invested in the business or infrastructure in Kosovo. Also, the 2006 ESI study showed that almost all of the private sector in the villages it surveyed had been financed by the diaspora.<sup>178</sup> Although many of these enterprises are very small or even unprofitable, it is the case that the diaspora is involved and wants to be involved in the future. Despite the small percentage that goes to private sector investment, it can be leveraged and possibly increased as well.

There are no figures that document the degree of Kosovar Albanian diaspora involvement in **collective infrastructure projects**, like the paving of rural roads or contributions to water works, health clinics, school repairs, etc. But Frankfurt School learned of several such projects in the villages it visited. According to municipal representatives from Istog and Gjilan, there are small-scale infrastructure projects co-financed by the diaspora (indirectly through the villages) in most villages in Kosovo, certainly in Istog and Gjilan. These projects are usually co-financed together with the municipality, village businessmen, and often an international agency.

### Migration from Rural Kosovo

Unlike during any time over the past four decades, it is extremely difficult and costly (and mostly illegal) for Kosovar Albanians to emigrate today. It costs upwards of EUR 1,500—and as much as EUR 5,000—to do so, and there is no assurance that this will lead to residency or labour opportunities abroad. This is particularly relevant in Kosovo where, unlike in other countries in SEE, the population continues to grow. According to one interview partner, think tank director Shpend Ahmeti of Institute for Advanced Studies GAP, Kosovo would need consistent annual growth of 8 percent to absorb the growing labour force. In stark contrast to the villages in eastern Serbia visited by Frankfurt School in 2008, the villages from which the first guest workers emigrated from in Kosovo are not depopulated at all, but rather they have grown threefold since the late 1960s. This said, it is clear that the birth rate is now declining, family size is smaller. The census planned for 2009 will be welcome to pin down the more recent trends in demography, including rural-to-urban domestic migration.

The 2006 ESI report underscores how dangerous the situation is, particularly in rural Kosovo where the average age is 25 (the youngest in Europe) and unemployment is well over 40 percent. All projections expect unemployment to continue to rise. Yet, there are no emigration policies and the door is closed for Kosovar Albanians to most EU countries and job markets. Despite efforts, Kosovo has failed to secure circular labour programmes with Western European countries. There are, however, several towns from which up to 5,000 people are working in Iraq and Afghanistan. Interestingly, when asked what high school graduates do today if they can't find jobs, the answer from Shpend Ahmeti, Executive Director of the Institute for Advanced Studies, a think tank in Prishtina, was: They go to university. There is a vast number of universities in Kosovo and an enormous student population that is unlikely to find work in Kosovo upon graduation.

Kosovo is often compared to Armenia, a country whose diaspora has played an important role in its development. Economic reforms there created a more business-friendly environment and flexible financial sector that set the stage and

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<sup>177</sup> Note that this investment may not officially count as remittances and therefore the aforementioned 3 percent of remittances going to entrepreneurial activity may not fully reflect the diaspora's engagement in the Kosovar economy.

<sup>178</sup> "Cutting the Lifeline: Remittances, Families, and the Future of Kosovo", ESI, Berlin/Prishtina, 2006, p. 34



growth was fuelled, in part, by investments from the diaspora and remittances from both diaspora and circular migrants. There has also been considerable international engagement in the leveraging of diaspora resources in Armenia, such as the UN program “Global Armenia.”<sup>179</sup> Armenia is seen as a diaspora success story and often pointed to as an example for Kosovo to follow. The key was continued high level of remittances and diaspora investments. Between 1994 and 2004, 69 percent of all foreign investments in Armenia were diaspora-connected and 68 percent of all FDI went to diaspora-connected firms in the country. Also, there were agreements with other countries<sup>180</sup> to permit circular migration – something that in the long run is essential for Kosovo.

#### Key Points

- Unlike during any time over the past four decades, it is **extremely difficult for Kosovar Albanians to emigrate today**. It is possible primarily through illegal means and family reunion. The state has not been successful in bilateral talks to institute a circular migration program.
- The 2007 Riinvest report's conclusions confirm much of the field research of the Frankfurt School team. It sees considerable weakness at the top and the centre of the Kosovo government, and an inability to formulate and implement coherent policies on migration and remittances.
- **Unlike the migrant-sending villages in rural eastern Serbia and elsewhere in the Western Balkans, the migrant-sending villages of Kosovo have grown three-fold over the last 40 years.** Despite four decades of migration, remittances, and return, this has not produced sustainable development. In fact, many of these rural localities are dependent on remittances.
- **The international community's migration-related programs in Kosovo are much less developed than in other countries.** There is a significant opportunity here for greater, more effective international engagement.
- **Unemployment, estimated at over 40 percent, is an acute problem in Kosovo**, one that will be exacerbated in the short-term by the large, young population that will come of age in the next ten years.
- There are local initiatives at the municipal and village level that effectively leverage diaspora funding for the purpose of local infrastructure projects. These projects deserve further investigation and could well be leveraged further with international assistance.
- Any investment in rural microfinance and/or micro-credit is implicitly related to migration and development.
- **There is not an investor-friendly means for diaspora Kosovars with modest savings to invest directly in the homeland private sector.** Were there an indirect means to do so, it would be attractive to many diaspora Kosovars who intend to remain abroad rather than return as businessmen.
- The Frankfurt School team was positively impressed with IPAK. It serves as a kind of ersatz official economic representation for a country that has no such network and very weak diplomatic representation abroad.

<sup>179</sup> [www.globalarmenia.am](http://www.globalarmenia.am)

<sup>180</sup> The Czech Republic and Slovenia

## 5 Recommendations

The results of the Assessment Study confirm that the complex set of factors at the interface of migration and development have and will continue to shape the socioeconomic constitution of SEE and Austria in both positive and negative ways for decades to come. But despite the enormous impact of these phenomena on SEE and Austria, there is too little consistent and reliable information on related topics and not nearly enough being undertaken to maximize the potential of remittances and migration. In fact, there is an egregious absence of coherent policies toward migration; the diasporas are largely ignored in economic development strategies as well as in the product development and marketing activities of financial sector institutions.

International experience has however shown that there is a wealth of best practices that can improve the development impact of migration. These can also be applied in SEE. Remittances are just one – though one very important – factor in this complex cluster of fields that impact migration and development. Our recommendations will therefore focus not only on remittances, but address the broad range of factors that can help leverage diaspora resources in order to maximize the development impact of migration. They are furthermore divided into three parts: 1) general recommendations of improving the development impact of migration and remittances in SEE; 2) specific recommendations for OeEB; and 3) project ideas to be considered by OeEB.

### 5.1 Recommendations on Improving the Development Impact of Migration and Remittances in SEE

#### 5.1.1 In Austria

**Increase outreach to diaspora communities in Austria.** In Austria, the SEE diaspora communities could greatly benefit from more contact and better relations with Austrian official representatives and the representatives of Austria's financial institutions. They would be open to outreach in a number of ways. One possibility is greater support for the cultural activities of these communities, which would both contribute to the better organisation of the diasporas in Austria, promote closer contact with and knowledge of these communities, and – from the diasporas' side – build goodwill toward Austria. Better, closer contacts with these communities is also a prerequisite for mobilising them for other purposes, like financial literacy campaigns or other projects that would raise awareness for formal money transfers or increasing investment in the homeland. A financial literacy campaign to encourage the use of formal remittance channels and the banking of unbanked remittance receivers in the origin countries could be highly effective.

**Actively encourage Austrian banks to promote better knowledge of transfer channels among their customer service representatives and diaspora clients.** The comparison of the Frankfurt School's RSP survey and the results of the test money transfers in Austria illustrated the extreme difficulties in acquiring accurate information on the total cost and duration of wire transfers. Customer service representatives often gave false information. It is difficult and often intimidating for emigrants without the necessary language skills and knowledge of the Austrian financial system to make informed choices on transfer options. Providing financial literacy to diaspora communities is one necessary step to encourage increased use of formal transfer channels. But **sensitizing the banks to the subject** and encouraging them to provide better services and information, both in terms of accuracy and marketing of existing products, is just as important.

Foremost, **Austrian banks should consider employing and marketing customer service representatives with migration backgrounds** who will speak with migrants in their native languages or even **establishing special diaspora departments** which would respond to the specific needs of migrants. This could also include the development of specialised products in cooperation with banks in the home countries (especially where these are in the same network as Austrian banks). Frankfurt School believes Austrian banks could be open for suggestions on providing more and better financial products and services to the diaspora. Some Austrian banks have already shown some initiative in this direction on a small scale (for example, in trying to cross-sell by offering cheap transfer services). Many Austrian banks are also in a very good position to provide better services and products due the fact that they own or belong to the same bank networks as

institutions in SEE. It is, however, questionable how willing banks will be to invest in staff recruitment, training, marketing and development of new products which are all likely to be costly investment in light of the current financial crisis when many (including Austrian and SEE) financial institutions are striving for bare survival rather than grand expansion.

**Faster, cheaper and more transparent transfer products** should also be encouraged since average prices and duration for transfers from Austria are still relatively high. This **could also include the development of mobile transfer services**, although the banking networks in SEE receiving countries are so well developed (in terms of outreach) that it is questionable whether designing and implementing such a system would be necessary and profitable. Furthermore, clients would need to go to a bank to pick-up remittances (thus not increasing the access to banking or remittances services); due to the regulation in place in SEE which only permits cash pay-out by banks. Nevertheless, this option could be further evaluated since there has already been some interest from Austrian mobile phone providers. For example, the “Branchless Banking Diagnostic Template” developed and tested by CGAP could be used for the evaluation. It suggests that „branchless banking can increase poor people’s access to financial services if regulation (i) permits the use of a wide range of agents outside bank branches, thereby increasing the number of service points, (ii) eases account opening (both on-site and remotely) while maintaining adequate security standards and (iii) permits a range of players to provide payment services and issue e-money (or other similar stored-value instruments), thereby enabling innovation from market actors with motivation to do so.“<sup>181</sup> A decision whether or not to implement mobile banking options in SEE would therefore require a more thorough analysis of the sector.

The **establishment of a Remittances Task Force** (as has been done successfully in the United Kingdom) that includes key stakeholders from different sectors (diaspora organisations, the central bank, other relevant government and non-governmental organisation, but also major Austrian banks and MTOs) could be a valuable tool to raise awareness and promote these issues on a national scale. Its responsibilities could include lobbying, marketing, roundtables, and information campaigns. For example, a campaign could be organized through this Task Force to **inform about and encourage increased use of formal transfer channels**. The establishment of a website or similar medium comparing formal transfer options would furthermore **increase transparency and create an incentive to provide better, cheaper transfer services**. On the other hand, such an initiative needs a strong promoter to ensure continuous organization or else activities are likely to taper off and have little effect. It is therefore advisable that a Task Force Secretariat be established and funded to coordinate and organise activities.

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<sup>181</sup> CGAP, “Branchless Banking Diagnostic Template“, February 2008

### 5.1.2 In South Eastern Europe

**Support the formulation of policies and strengthen state institutions responsible for migration and development.** In all of the countries examined, programmes are needed to support and inform governmental policies addressing the cluster of policy fields that impact migration, remittances, return, and development. Although all of the countries examined recognize the necessity of maximizing the positive impact of migration — and minimizing the negative bi-products — in none of them was there a full-fledged national programme to manage migration or leverage diaspora resources for the purposes of development. The various offices responsible for diaspora affairs/migration were severely understaffed, underfunded, lacking in relevant expertise, and low on the respective governments' priority lists. Even within their own national administrations they tended to be marginalized. They lack both the pertinent legislation and administrative capacity to formulate and implement cogent policy. Greater institutional coherence could be achieved by adopting policy frameworks, designing governmental coordination mechanisms, and enhancing analytical capacity.

In Serbia, the only country in this study with a diaspora ministry, there is a very small capacity building program being conducted by UNDP. In Moldova, IOM and the EU are working with the Moldovan government to initiate comprehensive policies addressing migration. Above all, BiH and Kosovo are in need of long-term international assistance to professionalise the respective offices and ministries, to help define priorities, to design innovative policies, and to help lobby their own governments, national legislatures, and international partners.

**Support temporary/circular migration schemes.** One particularly high priority of migration management in SEE is the promotion of **circular/temporary migration programmes** with Western European (and other, for example, Middle Eastern) countries. Research clearly shows that when temporary worker programmes are designed with the development needs of the origin countries in mind, they can lead to economic gain as well as the retention of human and social capital necessary for development. They can also address labour shortages and demographic gaps in higher income countries. Spain has made particularly good use of bilateral labour agreements with Romania, Morocco, and Columbia, mostly in the agriculture sector. But in most of SEE there are still few positive examples. Typically, while the relevant offices in the labour ministries in SEE recognize such programmes as vital, they are unable to negotiate successfully with Western European or other partners to conclude temporary labour contracts. Thus establishing **circular/temporary migration programmes** and helping SEE countries conclude bilateral labour agreements could be part of capacity building (see above.) It is also imperative for countries like Austria to be open to such bilateral agreements. The EU Mobility Partnership with Moldova would be one place to start as circular and temporary migration are supposedly integral to its concept.

**Support the collection of accurate data on remittances, migration, and diaspora, and enhance analytical capacity.** Accurate statistical data from regular and professional data collection is among the essential components missing in order for the countries of SEE to formulate and implement effective migration-related policies. In none of the countries examined was there a bureau for migration data collection and all of the relevant offices, including major international organizations like the World Bank, felt hampered by the lack of reliable information. Recent initial studies conducted by IOM, ILO, GTZ, ESI, EBRD, SECO, and the World Bank have begun to address some of the deficiencies in the Western Balkan region, but these kinds of one-time reports are no substitute for regular statistical data collection and native analytical capacity. (In BiH the data is particularly weak. There is not even a single published study on remittances.) Importantly, nor are there migration studies departments, or even courses, at the major universities in SEE. In this context, the funding of a migration chair, department, or institute at one of the major universities, for example in Belgrade, would be immensely valuable.

In the same vein, the creation of “**diaspora data bases**” would be of great value: They identify and assess the actual profiles and resources of diaspora communities. A comprehensive diaspora database includes information about emigrant communities such as their localities of origin, countries of residence, educational and professional backgrounds, self organisation, remittance behaviour, visitation patterns, etc. This information can serve as a useful tool for governments, civil society, and the private sector. It can, for example, aid in assessing and employing the available knowledge and socio-professional resources of the diaspora, including their willingness to contribute to the development of their country

of origin in skill transfer programmes. Such a data base would also enable governments to communicate and reach out more effectively to its people abroad, something that would benefit both the homeland and the diaspora.

**Support the creation of a National Commission on Remittances and Development.** In all of the examined countries there is a lack of coordination between the various agencies, NGOs, and ministries that deal with migration-related issues and a dearth of public discourse on the array of issues around migration. It would be greatly beneficial to support the organization of a national commission on remittances and development that would focus policymaking, coordinate initiatives, and facilitate a serious public debate about migration. This could also be a valuable tool to promote more visibility and better information on remittances and development in Austria.

**Support matching fund schemes to promote the collective pooling of diaspora resources for community/infrastructure projects at the local level in rural areas.** There is ample evidence that diaspora communities from rural areas in SEE are actively interested in promoting the welfare of their home villages, often through collectively donated public projects. Diaspora savings can be pooled for specific projects, like paved roads (and other infrastructure), health clinics, or school repairs, and matched by the respective municipality and an international donor. This model was effective in Mexico where the "3-por-1" programme brought together home town associations (village concentrations abroad), local, regional, and federal governments to fund mostly infrastructure development projects in communities in high sending regions. Although there are sporadic examples of this kind of engagement happening without international support or coordination in Moldova, Serbia, BiH, and Kosovo, their practice could be expanded and leveraged with much greater impact through active international participation. An international agency could help coordinate the linking of interested communities with donors willing to provide matching funds.

It is, however, questionable whether the large-scale Mexican example could be copied to SEE. A successful regional or national matching fund scheme would require active and well organized diaspora communities in the sending countries with strong ties to local communities in the homeland. Frankfurt School research showed that although ties to the diaspora are strong in all four target countries, the diaspora only loosely organised in Austria. Funding would be a further challenge since the social investments made would not have a financial return and support would therefore constitute pure grants in addition to the administrative costs of running and marketing such a scheme. Nevertheless, it would be valuable to encourage more diaspora support for the homeland by providing matching grants, but this is likely to have a greater cost-benefit if projects are evaluated on an individual basis, rather than launching a large scale fund.

Frankfurt School research showed a strong tendency among the diaspora that they are tired of simply giving money away. Many have supported the home country financially through different funds or village projects for years or even decades. Since diaspora is still interested to support their home country and to encourage its development, an ideal way to promote this is to **actively facilitate diaspora investment in the homeland private sector**. Diaspora could thereby support the home country by also benefiting by capturing a **return on investment** rather than providing pure donations. It is often the case that diaspora entrepreneurs are more likely to take the necessary risk to invest in the home country's private sector than other investors. There should thus be greater effort to attract and promote diaspora investment. One tool to encourage more outreach and information dissemination is investment promotion agencies like Kosovo's IPAK. It has an office in Vienna (Economic Initiative for Kosovo ECIKS) responsible for Austria, Germany, and Switzerland (see section 4.3.3). It does not limit its services to the Kosovar diaspora — its goal is to increase FDI — but it does reach out to the diaspora through a data base of Kosovar businesspeople abroad and through international conferences, as well as through its day-to-day activities in Vienna. This kind of outreach is greatly appreciated by the diaspora who often feel taken for granted by the homeland; it also provides them with up-to-date, practical information to facilitate investment. BiH, for example, would profit immensely from such an agency with an office in Vienna.

**Support capital market financial products**, such as equity and debt funds or bonds, **for diaspora investors to invest indirectly in the homeland private sector**. There is a clear discrepancy between the stated willingness of SEE emigrants to invest in their homelands, on the one hand, and their ability to do so, on the other. At present, there are three main ways for diaspora to invest in the homeland private sector: in a start-up, in an existing enterprise, or in a business being privatized. All three kinds of investment are direct investments. This tends to be risky and unappealing

for the potential diaspora investor who lives abroad and intends to stay abroad for the foreseeable future. (This applies less to Moldova, and more to BiH, Serbia, and Kosovo.) Direct investment implies either returning to the homeland or having the enterprise run by a proxy, such as a relative.

It would thus be appealing were there capital market instruments such as certificates of deposit, equity and debt funds, bonds, or the securitization of remittances, issued either by a country or local financial institutions to raise debt capital to finance development projects (for example, for infrastructure projects) and create jobs. Such instruments promise the possibility of profit and also have a leveraging effect for development and growth. Different kinds of funds and bonds have taken many forms in countries with extensive diasporas, such as Armenia, Israel, India, Turkey, and elsewhere. Israel and India have raised USD 35-40 billion using government debt bonds.<sup>182</sup> For example, the **introduction of mortgage bonds would be an effective way to provide diaspora investors with the possibility of indirect investment** in the homeland. Such a scheme could, for example, provide MSMEs with medium- to long-term financing of investments and hence deliver high developmental impact. Assuming a capital adequacy requirement of 8 percent, the scheme would provide a leverage effect of 12.5 times. A modified scheme replacing bonds with certificates of deposit would be more feasible in the current regulatory environment. However, even a modified scheme would require the development of a secondary market organized by the leading banks as market makers. A secondary market with periodic quotations of bid and offer prices on the bonds (or certificates) could encourage diasporas to invest in their origin countries. Due to the complexity of such a development, we would however recommend conducting a feasibility study before any technical assistance should be offered.

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<sup>182</sup> Israel since 1951, India over ten years

### Mortgage Bonds

The nature of a mortgage bond scheme is that the provider of loans does not disburse cash money to the borrower. On the contrary the borrower receives bonds at the similar amount as the mortgage. The bonds are issued from large pools with similar maturity and nominal interest rate. Afterwards the borrower sells the bonds at the stock exchange at the current market price. The bonds then become financial instruments in the secondary market.

The borrower will then pay interest and instalments on the mortgage loan to the bond issuing institution according to the loan conditions.

The holder of the bonds will be paid interest – in principle against coupons – by the institution (or his bank). The bonds have a maturity, say 10 years, and the holder will be repaid by the issuing institution at par value at the latest on the maturity day.

The holder might be repaid earlier as the instalments paid by the various borrowers in a pool will be repaid to the holders at par value according to a draw that takes place at any settling day, which will typically be by the end of the calendar quarters.

The mortgage bonds are strong securities as they are backed by mortgages in addition to the equity of the issuer. The bond issuing institution will be supervised by the banking supervision and hence obliged to adhere to the ordinary capital requirement rules (Basel Accord).

The mortgage bond scheme can be launched at variable or fixed interest.

In Denmark, for example, mortgage bonds have been financial instruments for more than 200 years and have proven to be a valuable means for economic growth both in the sense of long term finance of real estate and in the sense of very secure and liquid investment objects for financial institutions, enterprises, institutions and private individuals.

However, in Kosovo, for instance, no stock exchange and no secondary market exists. Hence a mortgage bond scheme or mortgage backed certificates of deposit would require a mechanism to state prices on purchase and sale of the instruments.

It is obvious that major international banks like RBKO, PCB and NLB could act as market makers stating daily or weekly prices on the instruments depending on assumed security, remaining time of maturity, market interest etc. enabling e.g. banks, insurance companies and pension funds to buy and sell and hence contribute to creation of liquid investment market that would be attractive also for diaspora aiming indirect investment in their home land.

Moreover, due to the high level of diaspora distrust of the homeland governments in SEE, **it is questionable whether the diaspora will be willing to invest in government bonds.** Furthermore, capital markets in SEE are generally illiquid and underdeveloped and **given regulatory restrictions or legal uncertainties in the target countries, indirect investment schemes do not currently seem to be realistic.** Any introduction of new products would therefore require the general strengthening of the system as a prerequisite. We would therefore suggest the promotion of indirect investment vehicles in the long run, but not at the present time.

Thus, our primary recommendation is to increase **financial products specifically targeting diaspora remitters, remittance recipients, and returnees in order to support direct investment in the homeland.** Introducing targeted credit products and strengthening credit institutions in rural areas is important for business growth. Increasing direct investment in MSMEs could be promoted by **providing banks and microfinance institutions with refinancing credit lines enabling them to open a lending window to specifically target the diaspora, remittances recipients and returnees** (especially in Moldova.) Since housing is one of the main sources of diaspora and remittances expenditure, **extending credit lines for home improvement and real estate investments** would also be advisable.



In addition to promoting investment through the provision of pure loans, greater loan sizes could be leveraged through a link to regular contractual savings if a new **remittances-based savings and loan product** were introduced. This would also benefit the financial systems by increasing a predictable stream of deposits. In general, it would be advisable for SEE financial institutions to extend their products and services and to **consider introducing diaspora departments** in their institutions to **raise awareness of their products and provide better tailored services to the diaspora**. For instance, the example of the DINA card in Serbia shows that products do exist but are not marketed sufficiently. This observation leads to two recommendations:

- **Raising awareness in Serbia.** The possibility of sending remittances to the DINA card is hardly advertised. Neither in Serbia nor for example in Germany there are targeted marketing efforts. OeEB could cooperate with NBS in order to inform remitters and recipients about this option of formal money transfer.
- **Finding a service provider in Austria.** At the moment it is not possible to send money to the DINA card from Austria. The currently only transfer provider (RIA) does not operate in the country. It is therefore a possibility to either encourage/support RIA expanding its operational network to Austria or to find another service provider offering this special money transfer service from Austria. According to NBS, there is no exclusivity agreement with RIA.

However, one has to keep in mind that the main reason for the extensive use of informal transfer channels is not the shortcoming of quick/cheap formal transfer possibilities. For example, despite widespread marketing measures and attractive transfer conditions, the Serbian Komercijalna Banka has only little success with placing their transfer product in Germany. Serbs living abroad have various other reasons for taking their money personally or sending in by bus. One is that previous savings losses have led to a general distrust in financial institutions. Another is that the habit of taking money home personally attaches an even more personal aspect to the family support. Due to Serbia's geographical proximity to many of the key remittances sending countries (including Austria), Frankfurt School sees **little potential for a quick change in sending behaviour**. It is therefore questionable whether the encouragement of sending money to the DINA card would lead to increasing formalised flows. Nevertheless, this possibility of proposing formal transfer services and product development is worthy of further exploration.

Throughout SEE the history of collapsed banking sectors and lost savings has, however, left diasporas profoundly distrustful of their origin countries' financial sectors. Therefore, the efforts to increase the development impact of remittances and provide migrants and recipients through financial products and services should also **address the underlying structural weaknesses of the financial system**. In Kosovo, for example, it would be immensely useful to set up a deposit insurance agency. **Especially MFIs in Kosovo (in Moldova, the SCAs) need to be strengthened in order to provide savings products** to diaspora remitters and remittance recipients. MFIs have the widest outreach into rural areas and are thus closest to most remittances recipients. But they need strengthening before they can offer products such as the above mentioned savings and loan scheme or money transfer services. In light of recent changes in regulation allowing for upgrades of MFIs/SCAs, this is the most pertinent area to direct current support.

**Support for start-ups** is a specific need in Moldova and Kosovo. There is substantial potential for growth through increased economic activity in rural areas, particularly through the entrepreneurial initiative of returnees and remittance recipients. Ideally, this support would include both loans and technical assistance to new entrepreneurs to ensure well-run businesses. To mitigate the risk of start-up financing, schemes such as the above outlined savings and loan product could be used. As one successful business man in rural Moldova put it: "I would not migrate again today. If you had EUR 5,000 today [roughly the price of going abroad] in Moldova, you would be stupid to go. There are now many ways to make money in Moldova." With additional incentives and support to new entrepreneurs, more people might chose to stay or return to their home villages, and in doing so as contribute to economic development.

**Support Kosovo's diplomatic representation in all states that recognize Kosovo's independence.** The young Kosovar state requires assistance in many areas of governance, including the establishment of diplomatic missions. Normally, embassies are the first and most logical point of contact for foreign national living and working abroad. They usually address a wide range of issues that concern foreign nationals abroad, from passports to tax information. It is essential that the

Kosovars abroad have functional diplomatic missions to provide these kinds of services and to represent their interests in the host countries.

## 5.2 Specific Recommendations to OeEB in the area of remittances

According to the Terms of Reference, Frankfurt School was asked to identify the role of OeEB in the area of financial sector development concerning the more productive use of remittances and to suggest at least three concrete projects to be financed by OeEB. All of the above mentioned recommendations are resourceful ways to leverage the developmental impact of migration and remittances from different angles. But more specifically, the economies of SEE would benefit greatly from strengthened financial systems, as well as the availability of more diverse, reliable products and services for emigrants, remittances recipients, and the general population. Since the current financial sectors in many SEE countries are not conducive to the introduction of more innovative transfer mechanisms (i.e. mobile transfers) and indirect investment, **we recommend OeEB's role in increasing the development impact of remittances by:**

- 1) **Focusing on strengthening key aspects of the financial systems in order to lay the foundation for more innovative products in the future;** and by
- 2) **Encouraging direct investment in local businesses and facilitate access and housing loans to the diaspora, remittances recipients and returnees through the provision of refinancing credit lines to banks and MFIs.**

In the following section, we present seven concrete project ideas that focus on:

- 1) Support the establishment of a Deposit Insurance Scheme (Kosovo and Moldova);
- 2) Strengthen SCAs to support private sector investment, among others from remittance recipients and returnees in rural areas (Moldova);
- 3) Diaspora/remittance recipient savings and loan product;
- 4) Strengthen the Microfinance Sector through AMIK (Kosovo)
- 5) Feasibility Study – Mortgage Backed Deposit
- 6) A: Refinancing for Diaspora Housing Loans  
B: Refinancing for Diaspora Investment in MSMEs

Kosovo and Moldova have received more attention than Serbia and BiH in the recommended project ideas for the following reasons:

- Both Kosovo's and Moldova's financial sectors are less developed than those of Serbia and BiH.
- Serbia's financial sector is already very developed and the diaspora's structure is such that investment and return are less likely since many migrants have lived abroad for many years, decades or even multiple generations.
- BiH's financial sector is already very saturated with donor support and furthermore over-indebted. Additionally, the Bosnian diaspora as the BiH people is very diverse, making it exceedingly difficult to design a large scale intervention tailored to the needs of the émigrés and the recipients.
- On the other hand, Moldova's diaspora is comparatively young and temporary and therefore more likely to send regular remittances, return and also invest in businesses and also housing.
- Kosovo is still a young state with the need for support. Although the financial sector is one of its success stories, it is still in need of strengthening and shows potential for the introduction of new products in support of the economy. The diaspora is very interested to invest in the homeland now that it has established itself as in independent state.

The concrete project ideas presented here focus mostly on rural economies and on the strengthening of microfinance sectors since they are so vital to both emigrant remitters and remittance recipients. They are described in more detail in the following section.

### 5.3 Project Ideas

#### Support the Establishment of the Deposit Insurance Scheme in Kosovo and Moldova

<b>Background and Rationale</b>	<p>One of the main challenges in channelling more remittances into the financial system and in attracting more savings and investment from both diaspora and remittance recipients is countering the deep-seated lack of trust in the region's financial sectors and governments. Any initiative to encourage more savings and investment therefore first needs to address this underlying problem.</p> <p>The creation of Deposit Insurance Systems (DIS) usually creates greater trust in the banking system for small depositors; more deposits are placed in financial institutions, strengthening the whole financial sector, and giving financial institutions more capacity to provide loans and subsequently to spur investment and economic growth.</p> <p>Lack of trust is a particularly acute problem in Kosovo. The newly independent country currently has no DIS and also suffers from a serious lack of trust on the side of the diaspora to invest money in the homeland. Additionally, a DIS in Kosovo is an important part of the process of adjusting to European standards.</p> <p>Currently, the Central Bank of Kosovo, with support of a KfW-financed TA programme, has drafted a Deposit Insurance Law that is ready to be presented to the Kosovo parliament and will be the basis for the foundation of a DIS in Kosovo. However, additional funding and technical assistance is required for the actual establishment of the DIS and the Deposit Insurance Agency that is to handle the DIS operations.</p>
<b>Overall Objective</b>	<p>Increase the attraction of savings by the financial sector, and thereby support financial and private sector development in Kosovo.</p>
<b>Specific Objective</b>	<p>The establishment of a DIS will build trust in the financial system among small depositors in Kosovo.</p> <p>By supporting both the set up of the initial fund as well as staff training, the fund will be managed professionally and lay the basis for sustainability.</p> <p>An increased awareness of the DIS will encourage more remittance recipients to place their remittance-linked savings in financial institutions.</p>
<b>Target Groups</b>	<p>Small depositors in Kosovo, as well as diaspora and remittance recipients.</p>
<b>Project Description to Support the Set-Up of the Deposit Insurance Scheme in Kosovo</b>	<p>Support of the financial prerequisites for setting up the Deposit Insurance Fund (through grant for initial fund capital or set up of guarantee/lending facility for the fund).</p> <p>Support to professional governance of the DIS through a technical assistance programme for the Deposit Insurance Agency.</p> <p>Ensure public awareness of the DIS and its operations through a public awareness campaign.</p>
<b>Cooperation Potential with Donors/Gov. Agencies/Existing Initiatives</b>	<p>KfW has supported the initiative to set up a DIS since 2006. After conducting a feasibility study, the support has focused on stakeholder coordination and lobbying of the system, drafting of the law text, and financial modelling for the fund. The TA programme also contains a first start up support to the Deposit Insurance Agency once the law is accepted and the agency should be established.</p> <p>Close coordination with KfW is recommended. KfW would welcome the additional support from OeEB and is open for discussion about it.</p>

<b>Technical Assistance</b>	A technical assistance (TA) programme to: a) set up a Deposit Insurance Agency; b) train its staff and board; and c) increase public awareness of the DIS.
<b>Sustainability</b>	<p>Support to the DIS is needed to make the system operational. Under the current KfW TA programme, a financial model has been developed for fund size projections and sustainability calculations. With an initial fund of proper size (see below) as well as a balanced bank premium system, the DIS is foreseen to build up its funds and enable it to be sustainable. In line with international guidelines, a fund equity/insured deposits ratio of 5 percent is targeted. A larger bank failure would naturally harm the fund. With a last resort guarantee facility, the DIS would be able to manage such situations.</p> <p>To ensure good governance, staff training will be needed to ensure operational sustainability.</p> <p>It is also important that the new institutions become a member in an international deposit insurance organisations, such as IADI. This would ensure that the Deposit Insurance Agency in Kosovo would have access to best practices worldwide.</p>
<b>Funding Requirements</b>	<p>According to financial modelling built on current deposit data and projected deposit increases over time, the fund would need a minimum of an additional EUR 5 million to be able to establish the fund in a sustainable manner with smaller adjustments of the bank premiums to be paid into the system.</p> <p>The project would need roughly an additional EUR 9 million to create the fund in a sustainable manner without adjustments of the bank premiums.</p> <p>Additionally, the fund needs a loan guarantee to draw on in case of bank failures. A failure of a larger bank would require a guarantee facility for roughly EUR 100 million.</p> <p>A TA programme should be conducted during the first 1-2 years of the fund's operations, in close coordination with KfW.</p>
<b>Risks and Assumptions</b>	<p><u>Assumptions</u></p> <p>The project proposal assumes that the current law draft will be promoted by the Ministry of Finance and then approved by the Kosovar parliament.</p> <p><u>Risks</u></p> <p>The implementation of the DIS has been slower than expected. One reason for delay was Kosovo's declaration of independence in February 2008, when the law draft needed to be redrafted and the law approval moved from UNMIK to Kosovo parliament.</p> <p>Additionally, interest in the DIS has varied among stakeholders. For example, larger international banks have less interest in the scheme. An increase of bank premiums would therefore create a risk of lack of acceptance among stakeholders.</p>
<b>Recommended Partner Institution</b>	<p>Central Bank of Kosovo as current developer of the DIS scheme.</p> <p>KfW as donor supporting CBK with a TA programme for the DIS scheme.</p>
<b>Recommended Target Countries</b>	<p>Kosovo</p> <p>Moldova is another country to support to improve the current DIS since the current coverage of the existing DIS is only EUR 350. However, this support would require a more detailed study of Moldova's current status and needs.</p>
<b>Legal Status/Regulation</b>	<p>The DIS law is being drafted and might need further adjustments. Additionally, the DIS law has an impact on other laws, the most important being the UNMIK regulation 1999/21 on banks.</p>

**Strengthening SCAs to support  
investment of remittances recipients and returnees in rural areas**

**Background and Rationale**

Migration and remittances play a vital role in sustaining populations in rural areas. In many cases “temporary” migrants have settled in the host countries together with their families. They are thus likely to return to or invest in their home country. Yet this is not the case for Moldova. The phenomenon of emigration in Moldova is still very young and largely temporary. Many Moldovans still plan to return and invest money earned abroad. During the field research, the Frankfurt School team observed numerous examples of private sector investments financed by returnees or remittances recipients. In fact, many people in rural areas complained about a lack of access to sufficient credit, not only to start a business but also to enlarge prosperous, existing businesses. Furthermore, providing improved financial services in rural areas has increased in importance in the wake of the financial crisis, which may cause many Moldovans abroad to return and remittances to dry up.

Savings and Credit Associations (SCAs) play an important role in ensuring access to financial services in rural Moldova. While banks are well represented in cities, SCAs are often the only financial service providers in smaller villages. There are currently 454 SCAs operating in Moldova. The SCAs were created in the late ‘90s as a way to ensure rural access to financial services. At first, SCAs were permitted to lend within their village only. Loan decisions are taken by a council set up of the SCA members and are based on limited financial analysis. The success of the SCAs, the majority of which has excellent repayment rates, lies in the close contact to their village clients.

A new SCA law came into force 1 January 2008 providing a framework that allows for further development of SCA operations, including on a central level. The main points in the new law are the possibilities for SCAs to gain different levels of licenses, allowing them to provide a broader span of services. The law also foresees the creation of “Central SCAs” in order to provide a number of services to SCAs that are too small to handle such services individually, such as the set up of a liquidity pool among SCAs (of high importance due to the seasonal loan portfolios of SCAs) or the provision of legal advice. According to the law, 25 SCAs can create a Central SCA. Thus, it is possible to have several Central SCAs. In practice, however, it is likely that at most two Central SCAs will be created initially: one by RFC and one by Moldova Microfinance Alliance (MMA)/Microinvest.

RFC has received their license for a Central SCA in early 2009 and is currently starting on the build-up of the new institution. According to the knowledge of Frankfurt School, MMA has not yet founded a central institution.

Under the new law, three levels of SCA licenses are provided:

- “A license”: The lowest level of license for the smallest SCAs. With an A-license, the SCA may only work in one village, and only with credits in local currency to private individuals. Collection of deposits is not possible with this license.
- “B-license”: B-licensed SCAs may collect savings and provide loans from or to private individuals. In addition, they are allowed to extend their outreach and work within their region.
- “C- license”: With this highest grade of license an SCA can collect savings from and grant loans to private individuals and legal entities on the entire territory of Moldova. The precondition for obtaining the “C”-license is that the SCA has been successfully active with a “B”-license for at least one year. Thus, there are no SCAs currently eligible for this license.

The new SCA law will most likely lead to a consolidation of the sector, which will have a positive impact on the system’s sustainability. The future of the system mainly lies with the 60 SCAs that are large enough to apply for a B-license. Importantly the system will also have to provide quality services

	<p>to the SCAs on the central level. It is foreseen that the Central SCA should provide a number of support areas for the individual SCAs; for example, the Central SCA should set up a liquidity pool for their member SCAs, which would be of vital importance to address the seasonality of the SCA loan portfolios.</p> <p>So far, SCAs are neither allowed to provide loans in hard currency nor are they connected to the national payment system. The National Commission of Financial Markets is open to discuss such a project. At the same time, both of the above mentioned services would require a continuous/long-term technical and managerial upgrade of the SCAs.</p> <p>Since 2006, the SCAs have been supported through a technical assistance and training programme financed by Swiss Development Cooperation, SDC. World Bank is providing support on policy level, i.e. law development and drafting of regulations.</p>
<b>Overall Objective</b>	To enhance the access of financial services, especially savings possibilities in rural areas of Moldova for returnees, remittances recipients, and the general population to encourage private sector growth in rural areas.
<b>Specific Objective</b>	By supporting the SCA industry at a period of transformation, the project should strengthen the SCA system and improve access to financial services in rural Moldova. With more professional, well-developed, growing SCAs it will be easier to attract clients and motivate them to invest and save received remittances.
<b>Target Groups</b>	Returnees, remittances recipients, and the general population in rural areas through enhanced SCAs and Central SCAs.
<b>Project Description for “SECTOR SUPPORT TO THE SCA INDUSTRY”</b>	<p>Strengthen the SCA industry and help it adjust to the new legal requirements and market opportunities through support to establish Central SCAs, reaching all SCAs, and their operations, including support in the operational set up (e.g. writing of business plan, sustainability projections, staff training; organisational set up, set up of liquidity pool.)</p> <p>(Note: SDC and World Bank are currently planning their support to the SCA industry for the next two - three years, until 2011/2012. It is recommended to align possible TA according to the support from SDC and World Bank, in order to create synergies and avoid overlap.)</p>
<b>Cooperation Potential with Donors, Gov. Agencies, Existing initiatives</b>	<p>There are currently two donors supporting the SCA industry: Swiss Development Cooperation (SDC) has since October 2005 provided ongoing training and technical assistance to the SCAs. Currently, the project is supporting the SCA to apply for, and adopt their operational procedures to, the B-license. Current project phase ends August 2009. SDC has made a principle decision to continue support in the period 2009-2012, with a focus on supporting the SCAs in loan analysis, product development and delinquency management. The SDC sponsored programme is implemented by Frankfurt School in cooperation with the Moldovan NGO Rural Development Centre (RDC).</p> <p>The World Bank has an SCA industry component within its large sector programme RISP II (Second Rural Investment and Services Project). RISP is managed in Moldova by the government agency Consolidated Agriculture Project Management Unit (<a href="http://www.capmu.md">www.capmu.md</a>). The support has so far focused on providing consultancy to the National Commission in drafting of the new SCA law and the required regulations. A foreseen TA programme to support the set up of Central SCAs was cancelled in 2008, mainly linked to different opinions between World Bank and RFC on the organisational set-up of the RFC Central.</p> <p>In 2009, the World Bank foresees instead to support the SCAs directly through a TA programme, focusing on support in mergers and branch roll-out, to be initiated mid 2009. The individual SCAs will thus be supported with TA programmes from World Bank and SDC. Under the RISP programme, World Bank is also continuing supporting the policy level and the drafting of regulations under the new SCA</p>



	<p>law.</p> <p>The withdrawal of funds from World Bank for Central SCA set-up means that there is currently no support to the Central SCA level at hand.</p> <p>Since the start of the projects, SDC and the World Bank have coordinated their technical assistance to the system through regular steering committee meetings. It would be highly recommended to ensure a similar coordination also with a possible OeEB support to the industry.</p>
<b>Technical Assistance</b>	<p>Technical assistance is mentioned in the project description above. It would be important to combine TA with training measures. Considering the large number of SCAs, it is recommended to cooperate with a local organisation with good contacts and knowledge of the SCA system. The SCA system today is divided among a few refinancing institutions. The two main institutions are RFC and MMA/Microinvest. It would therefore be recommended to cooperate with these two institutions in setting up of Central SCAs.</p>
<b>Sustainability</b>	<p>The SCA industry has developed rapidly over the last years. Only 2-3 years ago, most SCAs had structures that depended on voluntary work from the management and limited scope of credit products. At the same time, the industry faces new challenges due to the financial crisis and the decrease of remittances flowing into Moldova. Today, around 60 SCAs have received a B-license that will allow them to function as more professional cooperatives, and one Central SCA has been licensed. A team of combined international and national experts would ensure that knowledge is transferred to Moldova during the project phase, thereby bolstering sustainability.</p>
<b>Funding Requirements</b>	<p>This project entails TA only. Refinancing of SCAs has a limited scope. A handful of SCAs act independently, namely they are not linked to a refinancing institution and would thus theoretically be possible targets for refinancing. In reality, though, these SCAs are in general small and weak, and not of a standard to apply for international financing. The SCAs refinanced by RFC, where a majority of the largest SCAs are to be found, have an exclusivity agreement with RFC and are not allowed to accept direct financing. However, <u>RFC and the second major refiner of SCAs, MicroInvest, could be partners for refinancing through credit lines.</u></p> <p>The TA funding would be dependent on the number of Central SCAs created and thus the needing support to build up their structure.</p>
<b>Risks and Assumptions</b>	<p><u>Assumptions:</u></p> <p>Both SDC and World Bank are currently in planning future TA to the SCA industry. The SCAs support needs, however, are significant. This programme outline assumes that both SDC and the World Bank will continue their support over the next three years, and that support from OeEB would complement these initiatives by supporting the Central SCA level.</p> <p>Further, it is assumed that the required regulations will be in place within a reasonable time period. This would provide the necessary legal framework for the support.</p> <p><u>Risks:</u></p> <p>Delays in ratification of regulations would have a negative impact on the SCA sector in general, and also on the provision of TA.</p> <p>The Central SCAs will be important institutions for the SCA industry and TA would be welcomed to ensure a smooth set up and start of operations. However, planned TA funds to support RFC to set up the Central SCA were withdrawn by the World Bank in late 2008. It is therefore recommended to communicate with World Bank on this matter, given previous happenings. Recommended would be to take a sector approach and support all Central SCAs to be created.</p> <p><b>Recommended Partner</b> It is recommended to provide the support in combination with other donor initiatives in the field.</p>



<b>Institution</b>	For support to create the Central SCAs, it is recommended to work with RFC which is currently starting the set up of its Central SCA. RFC welcomes the opportunity of technical assistance and is currently covering roughly 70 percent of the SCA industry. For the remaining of the SCA industry, it would be proposed to communicate with Microinvest/MMA on their need of support. In this way, the programme could create an almost full-sector outreach.
<b>Recommended Target Countries</b>	Moldova
<b>Legal Status/Regulation</b>	The TA would be largely focused on the operational implementation of the new SCA law through the set up of Central SCAs and the services required from them. The project is therefore highly dependent on the ratification of detailed regulations to outline the scope of work. The current World Bank consultant assigned to National Commission to support the writing of regulations plans to complete all outstanding regulations until end 2009. Current ready regulation drafts are awaiting the new parliament to be able to be accepted.

### Diaspora/Remittance Recipient Savings and Loan Product

<b>Background and Rationale</b>	<p>Despite the obvious fact that neither the lion's share of SEE's diaspora remitters nor its remittance recipients are wealthy people, some of them do have the capacity to accumulate savings. According to the Central Bank of Kosovo's monthly bulletin (Oct. 2008), the savings of private individuals at commercial banks in non-EUR currencies has progressively increased and reached EUR 70 million in September 2008. The total balance has been growing since June 2005 when it amounted to only EUR 20 million. These foreign currency savings (which are mostly in USD, GBP, and CHF) derive from the diaspora. As for EUR savings, although there are no statistics available,<sup>183</sup> a similar upward trend is anticipated. These impressive figures indicate an important, new savings capacity.</p> <p>Although the banking sectors in SEE are relatively well developed, they still offer mostly basic loan and deposit products. Presently, neither diaspora nor in-country Kosovars are offered particularly attractive savings or loan products. The only incentives to date are minor increases of offered interest rates.</p> <p>The introduction of a savings and loan product would encourage regular deposits from both diaspora and in-country Kosovars (some of the latter being remittance recipients) at attractive interest rates. This product will provide the contractual right to a higher loan amount once the savings term ends.</p>
<b>Overall Objective</b>	Increase the attraction of (remittance-linked) savings by the financial sector, and thereby support financial and private sector development in Kosovo.
<b>Specific Objective</b>	<p>The new product will generate the basis for investments in real estate and the real economy, and enable (diaspora, et al.) savers to finance the purchase of housing or to invest in private sector businesses with long-term loans after two to three years of regular saving.</p> <p>The scheme will also encourage more remittance recipients to place their remittances-linked savings in banks or MFIs.</p>
<b>Target Groups</b>	Diaspora and remittance recipients as well as all existing and new clients.
<b>Project Description for "Kosovo: Remittances/Diaspora Save and Loan Product"</b>	<p>The proposed project will serve to implement a new savings and loan product at participating partner financial institutions (after the example of the UK Building Societies and the German Bausparkassen property finance schemes). The product will provide for regular savings over an agreed period of time which will be contractually linked to the receipt of a loan upon conclusion of the savings term. Since the depositor will have already demonstrated their capacity to save on a regular basis and will have saved part of the capital for the investment, larger loan sizes that are otherwise unattainable can be granted under this scheme.</p> <p>The scheme can take different shapes according to the nature of the individual partner institution. For example, the subsequent loan could be linked to a certain type of investment, such as longer term housing loans or shorter term credits for durable consumer goods.</p> <p>In all cases, the loan will be secured by mortgage or pledge on the asset purchased.</p> <p>The contractual conditions should be:</p> <p style="padding-left: 40px;">Monthly saving: 300 EUR</p> <p style="padding-left: 40px;">Saving period: 36 months</p> <p style="padding-left: 40px;">Loan: three times the total savings</p>

<sup>183</sup> The euro is Kosovo's official currency and is thus not counted as foreign currency.

	<p>Maturity: three times the saving period</p> <p>Interest rate: <math>x^{184}</math></p> <p>In the above example, period the client will have available <math>((36 \times 300) = 10,800 + \text{interest} + (10,800 \times 3) = 32,400)</math> or <math>43,200 + \text{interest}</math> after the savings period.</p> <p>The use of formal transfer channels could also be encouraged: the lending institution could add special benefits for the account holder if a standing transfer order is agreed with an Austrian bank, e.g. better interest rates or fee exemption for the transfers when funds are sent directly to the account in SEE.</p>
<b>Cooperation Potential with Donors/Gov. Agencies/Existing Initiatives</b>	<p>The proposed product would be new and no players in the market are currently implementing or developing such a project. Although the IFAD-financed DEVINPRO project has started operations in Kosovo, it is still at a preliminary phase and it is not clear what type of projects/products will result from its survey phase. The project is furthermore targeting the commercial banking sector (namely, Raiffeisen Bank Kosovo), whereas the savings and loan product would ideally also be offered by MFIs.</p> <p>It is conceivable that other donors will be interested to support the proposed savings and loan project, especially for the roll-out after the pilot phase which will require further technical assistance to new partner institutions.</p>
<b>Technical Assistance</b>	<p>The introduction of the product will require technical assistance to the selected partner institutions as well as training of selected managers and staff of the institutions.</p> <p>The TA should focus on:</p> <ol style="list-style-type: none"> <li>1. Identifying partner institutions;</li> <li>2. Concluding cooperation agreements with the selected institutions;</li> <li>3. Developing and assisting in the implementation of the savings and loan product;</li> <li>4. Consulting relevant authorities (i.e. central banks) the support of which will be necessary for launching the new product;</li> <li>5. Developing and implementing a marketing plan for launching the new product after agreement with the management of the partner institutions;</li> <li>6. Developing and implementing classroom training for selected branch managers, loan officers, marketing staff, and legal advisors of the partner institutions;</li> <li>7. Providing on-the-job training to the partner institutions.</li> </ol>
<b>Sustainability</b>	<p>In order to create sustainability it is necessary that partner institutions take ownership of the project and are actively involved in the process. Cost-sharing would be advisable to secure ownership by partner institutions. Staff incentives for successful roll-out should also be considered.</p>
<b>Funding Requirements</b>	<p>The project should only provide TA.</p> <p>As long as it is expanding, the scheme will be self financing and hence no additional funding is required.</p>
<b>Risks and Assumptions</b>	<p>Assumption: Ideally, the product would also be offered by MFIs which generally have a larger rural outreach than banks. In Kosovo, an amendment to the regulation on microfinance institutions now allows the MFIs to apply for a license for deposit-taking and international transfers. One primary assumption is therefore that MFIs can receive a deposit-taking license (specifically in Kosovo) and</p>

<sup>184</sup> The interest rate naturally depends on the market situation and general competition. However, as we are talking about contractual term savings, the interest offered should be higher than ordinary savings.

	<p>ideally also licenses for money transfer so that the product can be linked directly to savings.</p> <p>Risk: There is also a risk that neither diaspora or in-country Kosovars will be able to generate sufficient savings due to the financial crisis.</p>
<b>Recommended Partner Institution</b>	<p>The target groups to introduce the product, and to receive technical assistance and training, are banks and MFIs. In Kosovo, these include: KEP, FINCA, KRK, AFK, and KosInvest. They must first obtain necessary licenses from CBK.</p> <p>The microfinance institutions KosInvest and KRK both specialise in targeting the rural population and will therefore be excellent partner institutions.</p> <p>KEP is under transformation to become a microfinance bank.</p> <p>Alternatively local banks (i.e. banks with domestic shareholders) should be considered as a target group. These are: BpB, BEK, and NLB (though Slovenian majority).</p>
<b>Recommended Target Countries</b>	<p>After implementing a pilot project in Kosovo, the scheme can be expanded to Moldova where high rates of return and circular migration would make this product particularly attractive. BiH and Serbia can also be considered.</p>
<b>Legal Status/Regulation</b>	<p>In Kosovo no legal preventions for implementation of such a product exist. According to the CBK regulations, the future loan obligations will have to be booked as off balance sheet items. The legal environment in Kosovo has experience with contingency liabilities since the number and volume of various guarantees issued is substantial.</p>

### **Kosovo: Strengthen the Microfinance Sector through AMIK**

<b>Background and Rationale</b>	<p>Most MFIs in Kosovo belong to the Association of Microfinance Institutions in Kosovo (AMIK). Since 1999, AMIK has successfully supported its members in three major ways: implementation of international best practices; capacity building and training; advocacy.</p> <p>An amendment to the regulation on microfinance institutions now allows MFIs in Kosovo to apply for licenses for deposit taking and other banking activities, such as international money transfers. This will enable them to provide more comprehensive services. Hence, the MFIs have the possibility to play an essential part in the transfer market in the future and also to attract savings from diaspora remitters and remittances-recipients, in particular in rural Kosovo.</p> <p>AMIK will support MFIs in their transformation process to microfinance banks or deposit-taking institutions. However the institution will also need to be strengthened with training and capacity building in order to grow with the new developments in the sector.</p>
<b>Overall Objective</b>	<p>Increase the attraction of remittance transfer through formal channels and attract migration-linked savings by the microfinance sector. This would support the microfinance and private sectors, in particular in rural areas.</p>
<b>Specific Objective</b>	<p>Strengthen the professional capacity of the microfinance sector — with the aim to encourage diaspora remitters from and remittance recipients in rural areas to become savers, e.g. in savings and credit associations, and to equip the sector to enable it to participate in the transfer market.</p>
<b>Target Groups</b>	<p>Diaspora and remittance recipients in Kosovo, in particular in rural areas.</p> <p>In order to optimize support to the whole microfinance sector and enhance sustainability, the project envisages that support be channeled through AMIK as the main recipient. Further MFIs may be selected for technical assistance.</p>
<b>Project Description for "Kosovo: Strengthen the Microfinance Sector through AMIK"</b>	<p>Instead of providing support just to individual MFIs operating in the Kosovar microfinance sector, Frankfurt School proposes to work through AMIK, a local institution that can enhance the whole microfinance sector in terms of continued transfer of knowledge and capacity building. The planned project will serve to assist AMIK to provide regular trainings to its members, which could include the establishment of a permanent training division. Frankfurt School also proposes to introduce a "training of trainers" course to provide training to in-house trainers of participating MFIs. The assistance should also cover development of curriculum and training material, as well as recruitment and professional/methodical training.</p> <p>In addition to trainings, the assignment should also include TA to selected MFIs, e.g. in product development, implementation of deposit and transfer products, as well as cash handling and cash management. This will link practical knowledge to the training programme so that selected MFIs can receive hands-on assistance to implement product development (e.g. within deposit and transfer).</p>
<b>Cooperation Potential with Donors/Gov. Agencies/Existing Initiatives</b>	<p>AMIK has previously provided trainings funded by the World Bank and Danida (through the EFSE Development Facility). However no consistent support for the creation of a training division has previously been provided and no such plan currently exists.</p>
<b>Technical Assistance</b>	<p>The project's main TA components will consist of the following:</p> <ul style="list-style-type: none"> <li>▪ Coaching the management of AMIK and selected MFIs;</li> </ul>

- Institution building of an AMIK training division would furthermore include:
  - Creation of a training standing committee including order of business and TOR for the committee;
  - Development of policies and procedures for the training division;
  - Elaboration of an operational budget for the training division;
  - Fixing price and conditions for training offered to MFIs;
  - Fixing salaries and conditions for trainers and prospective administrative staff;
  - Recruitment of trainers;
  - Pedagogy and professional training of trainers;
  - Assistance to development of curriculum and training material.
- The curriculum and the training should focus on:
  - Marketing plan (targeted, direct sale);
  - International transfers;
  - Correspondence banking;
  - Deposit (product development, procedures, policy);
  - Cash management;
  - Cash handling and security;
  - Logistics, operations, and MIS;
  - Crop financing;
  - Start-up financing.
- TA and practical on-the-job training to selected partner institutions:
  - Transformation from NGO institution to licensed MFI;
  - Product development [deposit, loans (crop financing), and transfer];
  - Implementation of deposit and loan products and international transfer;
  - Development of policies and procedures [deposit, new types of loan (e.g. crop financing), transfer business];
  - Cash management, cash handling, and security.

**Sustainability**

Sustainability would be enhanced through the creation of a permanent training division and strengthening AMIK as an institution as well as its staff. This would facilitate the transfer of knowledge to the whole microfinance sector. However since a permanent training division would after an initial phase require members to pay for training, this option would need further research and consideration.

**Funding Requirements**

In addition to the TA for institution building, staff coaching, and training, it will be crucial to support AMIK with the acquisition of computer work places.

**Risks and Assumptions**

Assumption: Successful implementation of the project hinges upon the agreement of the AMIK board. The AMIK CEO is in favour of the proposed project.

Member institutions need to be willing to allow selected staff to participate in the training of trainers programme and to conduct training.

Frankfurt School furthermore assumes that MFIs will allow their staff to participate in the trainings and will be willing to pay for the services of the new training division (or, at least on a cost sharing basis).

Risk: There is, however, a risk that the identified MFIs will not be granted new licenses by CBK in the near future and that MFIs will not succeed in establishing networks for competitive remittance transfers as they will depend on cooperation with correspondent banks.

<b>Recommended Institutions</b>	<p><b>Partner</b> AMIK and MFIs that have or are going to apply for deposit-taking licenses. These are: KEP, FINCA, KRK, and KosInvest. AFK based in Peje could also be considered a target institution. KRK does not require additional support for its transformation process as it receives long-term TA from the EFSE Development Facility.</p> <p>Overall, the focus should be more on smaller MFIs that have potential but have received less support previously.</p>
<b>Recommended Target Country</b>	Kosovo
<b>Legal Status/Regulation</b>	<p>The CBK regulation 28/2008 lines out the conditions for MFIs to obtain a deposit-taking license. The regulation specifically makes it possible for the licensed MFIs to attract savings.</p> <p>However the regulation does not explicitly mention the licensed MFIs' access to the transfer market. The regulation only states that the MFIs shall apply for license to provide other financial activities. Furthermore, it has become increasingly difficult for NGOs to transform into Limited Companies, which is required for a deposit-taking license. This could further slow the MFIs' transformation process.</p>



## Refinancing for Diaspora Investment in a) MSMEs and b) Housing

### Background and Rationale

Remittances are primarily transferred through informal channels and used for consumption in SEE. On the other hand, the Frankfurt School research found that many members of the diaspora are interested and willing to invest in the homeland. Likewise, remittances play a vital role for the purchase or construction of housing in the home country. As Frankfurt School research showed, diaspora either build or purchase retirement or vacation homes or provide the funding for family members' residences (either purchase or home improvement).

In the absence of indirect means of investment, promoting diaspora and recipient investment in MSMEs and housing by providing financial institutions with refinancing credit lines, would be one valuable way to encourage more diaspora, but also returnees and recipients to act on their interest.

Although MSME and housing loans are available, currently no banks or other financial institutions in SEE are offering diaspora or remittances recipient oriented MSME or housing loan products to help finance businesses, housing or renovations of homes. Although the banking sectors in SEE are relatively well developed, they still offer mostly basic loan and deposit products. Presently, neither diaspora nor in-country residents are offered particularly attractive loan products. And no banks or MFIs are specifically targeting the diaspora.

The introduction of an MSME or housing loan product would encourage regular formal transfers and the use of remittances and savings for investment.

### Overall Objective

- a) Increase the attraction of diaspora investment, and thereby support financial and private sector development in SEE.
- b) Provide the diaspora with a means to purchase or improve housing in the home country.

### Specific Objective

The new product will generate the basis for investments in the real economy, and enable (diaspora, et al.) to finance investments in private sector businesses.

The new product will provide the diaspora and remittances recipients with a means to purchase or renovate a home for return or family members in the home country.

The scheme will also encourage more remittance recipients to use received funds for investment, rather than consumption.

### Target Groups

Diaspora, returnees and remittance recipients. Specifically, start-ups of returnees should be considered.

### Project Description for "Refinancing for a) Investment in MSMEs and b) Housing"

The project should provide refinancing and some TA to partner institutions for the implementation and marketing of the new loan product targeting the diaspora. The current outline deals with two separate products and subsequently two different projects targeting the diaspora:

- a) Refinancing for MSMEs
- b) Refinancing for housing loans

The basic principles behind these two products are the same: the diaspora takes a loan (either for MSMEs or for housing) with a partner institution in SEE and pays this back via transfers from abroad. The difficulty in implementing such a scheme is that foreign earning need to be taken into account in the loan requirements and appraisal. The details of such a project would therefore still need to be worked out. Specifically, this would entail a study on the regulatory, financial, and organizational requirements and possibilities of the introduction of such a product before further steps could be taken. Nevertheless, such products already exist in other parts of the world and can be examined as examples.

It is furthermore advisable that a participating partner institution build a special diaspora department with trained staff qualified to answer questions from people working and living abroad and to provide services tailored to their needs. This will improve their service and improve conditions for diaspora investment.

The use of formal transfer channels could also be encouraged: the lending institution could add special benefits for the account holder if a standing transfer order is agreed with an Austrian bank, e.g. better interest rates or fee exemption for the transfers when funds are sent directly to the account in SEE. In this context, it would be advisable to cooperate with an Austrian or other European institution to act as correspondent banks to provide low transfer fees and avoid increasing the effective interest rate. For example, European institutions could have a special account for diaspora loan repayments and make collective transfers, thereby decreasing the costs of individual transfers.

**Cooperation Potential with Donors/Gov. Agencies/Existing Initiatives**

The proposed products would be new and to our knowledge no players in the SEE are currently developing such a product targeting diaspora or their recipients. It would be advisable to work with the local central banks to ensure that diaspora earning can be included in the loan appraisal. The local investment promotion agencies and government agencies responsible for diaspora and MSME development will also be key partners to promote the product. It may also be necessary to work with Austrian/European credit bureaus or other institutions to enable the consideration of foreign earnings in loan appraisals.

**Technical Assistance**

As stated above, before such products can be seriously considered for introduction, a more thorough investigation of the regulatory, financial and organisational requirements should be conducted, as well as some further demand assessment with the target clients.

Upon successful completion and positive evaluation of such a scheme, the introduction of the products will require technical assistance to the selected partner institutions as well as marketing and training of selected managers and staff of the institutions.

The subsequent TA could focus on:

8. Identifying partner institutions (both in Austria/Europe and target countries);
9. Concluding cooperation agreements with the selected institutions;
10. Developing and assisting in the implementation of the loan products including marketing measures;
11. Developing and assisting in the set-up of diaspora departments;
12. Developing and implementing classroom training for selected branch managers, loan officers, marketing staff, and legal advisors of the partner institutions;
13. Providing on-the-job training to the partner institutions.

**Sustainability**

In order to create sustainability it is necessary that partner institutions take ownership of the project and are actively involved in the process. Cost-sharing would be advisable to secure ownership by partner institutions. Staff incentives for successful roll-out should also be considered.

**Risks and Assumptions**

Assumptions

The assumptions for a successful project implementation are first of all that a regulatory, financial and organisational assessment yields positive results on the feasibility of the introduction of such products.

Another assumption is that a number of financial institutions are interested in introducing such a products and can qualify to become borrowers of refinancing credit lines. It means that e.g. MFIs can pass a due diligence study satisfactorily.

	<p><u>Risks</u></p> <p>One risk is that the interest rate might be too high to be attractive taking into account that the country and debtor risk most places in SEE is high. Additionally, Kosovo, for instance, has a tax withholding rule on interest of 15%, which implies that the interest rate will be 15% artificially higher as no double taxation agreement with Kosovo has been concluded yet.</p> <p>It is possible that diaspora will not be willing to transfer money through formal channels.</p> <p>Regulatory frameworks may not allow for the proposed products.</p>
<b>Recommended Institution</b>	<p><b>Partner</b> In principle, many institutions Frankfurt School interviewed in all target countries visited were interested in cooperating with OeEB. Interest in cooperating on this precise product would need to be further evaluated.</p> <p>Austrian financial institutions should also be considered as partners to enable cheaper collective transfers of loan instalments and avoiding driving up the effective interest rate.</p>
<b>Recommended Target Countries</b>	Kosovo, Moldova, Serbia
<b>Legal Status/Regulation</b>	<p>Legal/regulatory check would be required. Banks would have to take earnings abroad into account in their loan appraisal.</p> <p>Tax withholding on interest could also be prohibitive.</p>
	<p><b>Feasibility Study – Mortgage Backed Deposits</b></p>
<b>Rationale</b>	<p>There is a clear discrepancy between the stated willingness of SEE emigrants to invest in their homelands, on the one hand, and their ability to do so, on the other. At present, there are three main ways for diaspora to invest in the homeland private sector: in a start-up, in an existing enterprise, or in a business being privatized. All three kinds of investment are direct investments. This tends to be risky and unappealing for the potential diaspora investor who lives abroad and intends to stay abroad for the foreseeable future. (This applies less to Moldova, and more to BiH, Serbia, and Kosovo.) Direct investment implies either returning to the homeland or having the enterprise run by a proxy, such as a relative.</p> <p>It would thus be appealing were there instruments for indirect investment in the homeland. Such instruments promise the possibility of profit and also have a leveraging effect for development and growth. For example, the <b>introduction of mortgage bonds would be an effective way to provide diaspora investors with the possibility of indirect investment</b> in the homeland. Such a scheme could, for example, provide long-term financing to homebuyers and through backward linkages contribute to economic development (i.e. construction industry, employment in MSMEs involved in the sector etc.).</p> <p>Mortgage bonds, however, require a certain degree of development of the capital market and uniformity of the housing sector, thus we consider more appropriate a modified scheme replacing mortgage bonds with certificates of deposits which would be more feasible under the current regulatory environment. <b>Due to the complexity of such a development, we would however recommend conducting a short feasibility study</b> in assessing the status of housing sector, legal framework and the willingness of banks in investing their resources in such an instrument.</p>
<b>Overall Objective</b>	Increase the attraction of diaspora investment, and thereby support capital market, financial and private sector development in SEE.
<b>Specific Objective</b>	Provide diaspora with a means of indirect and safe investment in the home country.

<b>Target Groups</b>	The end target group is the diasporas in Austria and elsewhere and their relatives at home.
<b>Project Description for “Feasibility Study – Mortgage Backed Deposits”</b>	<p>The project is to develop a financial instrument that will be attractive for investors in general and diasporas in particular and at the same time become a vehicle for economic development. As a first step, we recommended to do a feasibility study on a mortgage backed deposit product (as a simplified version of the mortgage bond) that could cover four main requirements:</p> <ol style="list-style-type: none"> <li>1. Ensure a safe investment while offering an attractive return</li> <li>2. Generate real investments with an important development impact, i.e. investment in construction sector and connected industries</li> <li>3. Create liquid domestic investment possibilities for the financial institutions (Banks, insurance companies, pension funds etc.)</li> <li>4. Lay the foundation for the development of a secondary market )in Kosovo, this would be a forerunner of a securities market).</li> </ol> <p>The project should carry out a feasibility study which would entail the following:</p> <ul style="list-style-type: none"> <li>▪ Assess the level of development of the housing sector including legal framework;</li> <li>▪ Assess the level of the development of the interbank and capital market;</li> <li>▪ Assess the interest of all stakeholders (financial institutions, central bank and diaspora) in the implementation of such a scheme.</li> </ul> <p>If the results of the feasibility study are positive, in addition to financing a feasibility study and technical assistance for implementation, <b>OeEB could play a valuable role in purchasing bonds (or certificates of deposit) or providing gap refinancing to banks</b> to finance the loans at a first stage (when demand from diaspora may not be as high and market acceptance is not yet provided), thus jump-starting the development of a secondary market.</p>
<b>Cooperation Potential with Donors/Gov agencies/existing initiatives</b>	The project should seek cooperation with local authorities and especially the central banks.
<b>Technical assistance</b>	<p>The assignment will be:</p> <ul style="list-style-type: none"> <li>▪ To organize a kick-off workshop for interested parties, i.e. banking association, selected banks, central bank, the Ministry of Finance, chamber of commerce, possible diaspora associations and prospective enterprise associations. The purpose of the kick-off workshop is to discuss the idea and to present the preparatory project.</li> <li>▪ To identify likely partner institutions</li> <li>▪ To identify likely market makers</li> <li>▪ To scrutinize the legislation governing housing sector and central bank regulations</li> <li>▪ To consult relevant authorities, the support of which will be necessary for launching new products and services</li> <li>▪ To draft desirable new bills or amendments to laws and regulations</li> <li>▪ To develop and describe the required financial instruments</li> <li>▪ To draft standard internal policies and procedures for likely providers of the suggested product</li> <li>▪ To draft a marketing plan targeting (investors): Diaspora in Austria and other important</li> </ul>

	<p>Diaspora, banks and insurance companies as well as (borrowers): MSMEs in Kosovo</p> <ul style="list-style-type: none"> <li>▪ To prepare a final project proposal on implementation of the instrument including technical assistance and training approach</li> </ul>
<b>Sustainability</b>	Sustainability of the project will only become apparent if the feasibility study shows positive results.
<b>Risks and Assumptions</b>	<p><u>Assumptions:</u></p> <p>The assumptions for a successful project implementation are first of all that the authorities and the banking institutions can be attracted by the idea because this instrument is based on broad acceptance and support from all stakeholders.</p> <p>Another assumption is that the leading banks are interested to act as market makers.</p> <p><u>Risks:</u></p> <p>An obvious risk is that suggested products as “Mortgage backed deposit” is more sophisticated than typical banking products in SEE and hence might imply difficulties to be understood and accepted by the partner institutions and the authorities as some legislative changes also might be required.</p>
<b>Recommended partner Institution</b>	Banks. Partner institutions to be determined during the feasibility study.
<b>Recommended target countries</b>	All countries in need of closer consideration in form of a feasibility study. Kosovo recommended as a pilot country.
<b>Legal Status/Regulation</b>	To be determined during the feasibility study.

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## Annex

### List of MTOs operating in Austria

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<b>Money Transfer Operator (Institutions offering quick payment services)</b>	<b>Target countries</b>
Western Union AG	Worldwide
MoneyGram International AG	Worldwide
Coinstar Money Transfer (Austria) GmbH	Worldwide
PNB Austria Financial Services GmbH	Philippines
IREMIT EUROPE Remittance Consulting AG	Philippines
MBTC Remittance GmbH	Philippines, China







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