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# Development Financing and the Remittance Market in Serbia and Switzerland

**A survey commissioned by the State Secretariat  
for Economic Affairs SECO, Switzerland,**

conducted by

- the Swiss Forum for Migration and Population  
Studies SFM, University of Neuchâtel
- the International Organization for Migration IOM
- the European Bank for Reconstruction and Development EBRD

## imprint

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## Foreword

Remittances sent by migrants to their countries of origin have risen by around 50% over the last five years and now amount to threefold the amount of official development assistance. Remittances are the second most important source of income for developing countries after foreign direct investment. In view of their volume, stability and positive impact for development, remittances have in recent years become an important topic in the debate on international development and migration. Various multilateral development agencies as well as several remittance sending and receiving countries have developed and implemented concepts and projects, which facilitate and render more secure the transfer of remittances, and strengthen the impact of these money flows on development.

As an important origin of remittances, Switzerland is very interested in these issues. The State Secretariat for Economic Affairs SECO has therefore entered into the subject in the context of its work in the field of economic development cooperation. The aim of SECO's efforts is to strengthen the efficiency and impact on development of remittances from Switzerland. The present study on the remittance corridor between Switzerland and Serbia and Montenegro was commissioned to provide a basis for developing concrete projects and to gather data on remittances from Switzerland. The deciding factor in the choice of Serbia and Montenegro was the size and level of organization of the diaspora in Switzerland. The study was conducted by the Swiss Forum for Migration and Population Studies (SFM) of the University of Neuchâtel, the International Organization for Migration (IOM) and the European Bank for Reconstruction and Development (EBRD) and is intended to shed light on the volume of money transfers from Switzerland to Serbia, the costs and risks of money transfers and the channels used. At the receiving end the study examined the question of what the remittances are used for and what influence they have on economic growth as a whole as well as in individual recipient households. Finally, the study also examined whether, from a legal perspective, there are impediments to transferring remittances to Serbia and whether possibilities exist to increase the involvement of remittance recipients in the Serbian financial sector.

The study highlights the significant volume of money transfers from Switzerland to Serbia and provides extremely interesting responses to all these questions. In addition, the authors offer recommendations for possible actions, which could contribute to strengthening the impact of remittances on development. SECO's next step will be to discuss the findings of the study at a conference in Belgrade with representatives from the financial sector, the diaspora and Balkan country governments and jointly formulate projects aimed at improving the efficiency and impact on development of remittances. It is important to recognize that the impact of remittances – as is also true of public development assistance – can be strengthened when they are made in the context of a sound political and economic environment. It is therefore vital that concrete measures to improve the efficiency of remittances go hand in hand with the strengthening of basic economic conditions and institutions in the remittance-receiving countries.

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## Table of contents

Summary of findings and recommendations .....	7
Background, Mandate and Methodology.....	7
Key Finding 1:    Remittance Definition, Flows, Determinants and Longevity .....	11
Key Finding 2:    Remittance Transfer Mechanisms, Determinants and Frequency .....	14
Key Finding 3:    Remittance Use, Investment, Impact and Determinants.....	17
Key Finding 4:    Serbian migrants in Switzerland as potential investors .....	21
Key Finding 5:    Legal Assessment Report, what are the regulatory bottlenecks .....	22
Key Finding 6:    Financial Sector Development.....	23
Recommendations .....	27
I.    Overall Aim: Improve formal remittance transfer services .....	27
II.    Overall Aim: Improve financial services available to migrants and migrant families .....	28
III.    Overall Aim: Increase philanthropic investment by the Serbian diaspora in physical infrastructure and social developments projects.....	29
IV.    Overall Aim: Increase remittance flows to Serbia through links to migration policy .....	30
V.    Overall Aim: Improve Remittance Data Collection .....	30

## Appendix: CD-ROM

- Remittance Behaviour of Serbian Migrants living in Switzerland – A Survey, Swiss Forum for Migration and Population Studies SFM, University of Neuchâtel
- A Study of Migrant-Sending Households in Serbia-Montenegro Receiving Remittances from Switzerland, International Organization for Migration IOM
- Remittances in Serbia and Financial Sector Development: Business Opportunities and Priorities for Investment, European Bank for Reconstruction and Development EBRD
- Financing transition through remittances in south-eastern Europe: The case of Serbia, European Bank for Reconstruction and Development EBRD
- Study on remittances in Serbia, Legal Assessment Report, European Bank for Reconstruction and Development EBRD



## Summary of findings and recommendations

### Background, Mandate and Methodology

The Serbian diaspora in Switzerland is one of the largest foreign populations in the country. The migration of Serbian nationals to Switzerland is rooted, in large part, in Swiss labour migration policies of the 1960s, 70s and 80s when short-term “guest worker” permits were offered to thousands of migrant men and women, among them, a large number of Serbian nationals. Over the years, increasing economic hardship and political unrest at home were two key factors motivating Serbian men and women to migrate to Switzerland, and ultimately, to remain there permanently. Consequently, by the time the Swiss government phased out the seasonal guest-worker programme in the mid 1990s, a large Serbian population had established permanent residency in Switzerland, a status which allowed them to facilitate a smaller but constant flow of new immigrants for the purpose of family reunification. In 2004, 211,340 citizens of Serbia-Montenegro resided in Switzerland, among them a large part of Kosovo Albanians.<sup>1</sup> Today, Swiss migration law restricts immigration of Serbian nationals to high-skilled workers, family members of established residents and/or a small number of asylum seekers, a policy which has significantly reduced the annual growth of this foreign population.

Although thousands of Serbian men and women now reside permanently in Switzerland, many of them continue to maintain close contact and relationships with their home country and their family members and friends who live there. One indicator of the importance of these transnational ties is the extensive practice of sending remittances - money and in-kind goods – home, either to contribute to the economic maintenance and wellbeing of their relatives and/or for the purpose of private investment. In recent years, remittance flows to Serbia have become so large that in 2004, the World Bank placed Serbia and Montenegro in the world’s top 11 remittance-receiving countries with an estimated inflow of US\$4.1 billion, representing 17.2 % of Serbia’s GDP that year.<sup>2</sup>

At such high levels, remittance flows to Serbia, including transfers from Serbs living and working in Switzerland, have the potential to significantly enhance economic growth and help reduce poverty in the country. To take advantage of this opportunity, Switzerland’s State Secretariat for Economic Affairs (SECO) commissioned a study on the subject, including: in-depth data collection and analysis of the nature of the Serbian diaspora in Switzerland; the size of remittance flows in this corridor; patterns of remittance transfer and use; the policies, infrastructure and institutions which facilitate or impede these transfers; and the potential of these remittances to enhance economic development.

Three institutions were engaged to carry out different aspects of this research and analysis, including: the European Bank for Reconstruction and Development (EBRD), the International Organization for Migration (IOM), and the Swiss Forum for Migration and Population Studies (SFM). EBRD was charged with an analysis of the economic and legal framework, banking practices and financial laws which help or hinder remittance flows to Serbia and their investment potential. The IOM was charged with examining the migration histories, socio-economic profiles and remittance behaviours of migrant-sending families in Serbia with relatives in Switzerland. The SFM’s contribution focused on investigation and analysis of the migration histories, socio-economic profiles and remittance patterns of Serbian men and women living in Switzerland.

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<sup>1</sup> Swiss Federal Statistical Office 2005;

<sup>2</sup> World Bank, *Global Economic Prospects*, 2006, based on BoP Yearbook figures.

This final chapter presents a summary of the key results of these three in-depth research reports (see Chapters 1-3), as well as a set of recommended strategies and interventions designed to improve remittance services and enhance the economic development impact of remittance transfers in this corridor. These results and recommendations will be presented and discussed at a conference dedicated to the subject in the spring of 2007 in Belgrade, Serbia and hosted by SECO. Representatives of relevant financial institutions, diaspora groups, government agencies, development and international organizations, academic institutions and the media, among others, will be invited to attend.

The following table gives a quick overview of the methodologies used for the data collection on which the study is based.

<b>Methodology</b>	<b>Subject/Population Studied</b>	<b>Quantity</b>	<b>Institution</b>
Household Interviews on national level in Switzerland (CATI – Computer Aided telephone interviews)	Households containing at least one Serbian man or woman residing in Switzerland <sup>1</sup>	600	SFM
Household Interviews in two rural regions of Serbia (face-to-face)	Self-identified Heads of Household in Serbian households with relatives living in Switzerland <sup>2</sup>	343	IOM
Focus Groups	Serbian men and women from Belgrade with relatives living in Switzerland	2 groups involving 16 people	IOM
Focus Groups	Serbian migrants, “ethnic business” owners and informal remittance service providers in German and French speaking parts of Switzerland	4 groups involving 21 people	SFM
Key informant interviews (on the phone; face-to-face)	Representatives of formal and informal transfer channels in Switzerland	6	SFM
Key Informant Interviews	Representatives of Serbian Ministry of Diaspora, Swiss Embassy, Swiss Agency for International Development Cooperation, Eki Transfers (rep of Western Union), the World Bank, University of Belgrade, municipal government reps and village leaders in surveyed areas and bus driver linking Geneva and surveyed areas	9	IOM
Key Informant Interviews	Major banks, financial institutions, government ministries and other institutions in Serbia involved in remittance transfers and/or providing services to migrants and/or migrant-sending families	22	EBRD
Review of Secondary Literature			SFM, IOM and EBRD

*Methodological notes about the data sets used:*

- (1) The sample of Serbian men and women living in Switzerland interviewed by SFM was randomly drawn from the Serbian population aged 18 or more identified in the Central Aliens Register (CAR) and includes 500 Serbians with residence permits (C – to be renewed every 5 years) or settlement permits (B – annual residence status), and an additional 100 Serbs who have recently obtained Swiss

citizenship via naturalization. The sample does not include citizens of Montenegro or Kosovo-Albanians, but neither can it be considered statistically representative of the entire Serb population in Switzerland because the subset of Serbs within the larger population of people from Serbia-Montenegro cannot be accurately calculated. The socio-economic profile of the Serbs identified in the Swiss Population Census 2000, however, showed high levels of similarities to the one of the population surveyed.

- (2) IOM's surveyed households were drawn from two rural regions in central and eastern Serbia – Petrovac na Mlavi and Cuprija. The surveyed households were identified and approached by "community guides" – members of the surveyed communities who serve as liaisons between their communities and the local municipal government. Data from urban households are not included in the sample. For this reason, and because the dimensions of rural poverty and the conditions in high-migration regions in Serbia vary substantially, this sample cannot be considered representative of all Serbian households with links to Switzerland.
- (3) EBRD's analysis of the economic and legal framework in Serbia affecting remittance flows from Switzerland was conducted through interviews of government ministries and offices, financial institutions, civil society organizations, and international aid agencies. Participants in the study included commercial finance institutions, microfinance institutions, overseas development assistance programme officers, diaspora associations, policy makers in macroeconomic management, international financial policy makers, foreign investment promotion, and others. The study of financial institutions involved a lengthy questionnaire with one extensive face-to-face interview as well as extensive follow up.

The following institutions participated in the study: Alpha Bank, Banca Intesa, Komercijalna Bank, Postanska Bank, ProCredit Bank, Raiffeisen Bank/RZB Group, Société Générale Yugoslav Bank, NLB Continental Bank, Vojvođanska banka, Hypo Alpe Adria Bank, the World Bank, the International Finance Corporation (IFC), MicroFins, the Micro Development Fund, Opportunity International Štedionica, the National Bank of Serbia, the Serbian Unity Congress (SUC), the Serbian Chamber of Commerce, the Ministry of Diaspora, the Ministry of Foreign Economic Relations, the Association of Serbian Banks, the International Organization for Migration and the Swiss Forum on Migration

The questionnaires were preceded by secondary research on regional migration patterns, economic and financial development in Serbia and in the region, current macroeconomic policy, the investment climate, the financial sector's legal and regulatory framework, the evolution of microfinance and the state of civil society participation in the economy, politics and society.

### **Profile of Serbian migrant household respondents in Switzerland**

The Serbian population surveyed in Switzerland is a well established one. One out of two Serbs has been living in Switzerland since 1991. Only 15% of respondents have arrived in Switzerland since 2000. Among recently arrived migrants, women are more numerous than men, while the opposite is true for Serbs who have been in Switzerland for a longer period of time. The age profile of respondents – who were, in 94% of surveyed households, considered (one of) the household head(s) – is rather young. Household heads are, on average, 40 years old. Households headed by older, retired migrants were almost absent (2%). The majority of migrants interviewed live in family households (74%). Half of the respondents live in the areas around Zurich, St. Gallen, Basel and Lucerne. Only a small proportion of migrants live in Switzerland's French or Italian speaking regions. Only 17% of migrants live in rural areas.

**Profile of migrant-sending households in Serbia with relatives in Switzerland:**

The largest number of migrant-sending households from the rural areas of Serbia surveyed by IOM is headed by older men whose children live and work in Switzerland. Two-thirds of the surveyed heads of households have no more than a primary school education, and only about half of them are engaged in the labour market, mainly as agricultural workers, with the rest being retired or unemployed. The average monthly household income in the surveyed areas is CHF 990 (approximately US\$800), 40% of which comes from remittances.

Serbian men and women living in Switzerland who originate from the households surveyed by IOM in Serbia are most commonly the adult children of Serbian migrant-sending households, with an average age of 47 years. Having migrated to Switzerland 20 years ago, on average, during the mid-1980s, most of the migrants from the surveyed regions left agricultural jobs to take up low-skilled and unskilled jobs in the German-speaking cantons of St. Gallen and Zurich where they live today.

## **Key Finding 1: Remittance Definition, Flows, Determinants and Longevity**

**Definition:** In this report, remittances are defined as monetary or in-kind transfers that a migrant makes to his or her country of origin.

**Global and National Flows:** According to the World Bank, international remittances to developing countries in 2005 were estimated at approximately US\$167 billion, but the true size of this flow could be as much as 50% higher if unrecorded remittance flows moving through formal and informal channels were included in this figure. In recent years, global remittance estimates have grown significantly due to improved data collection, growing migration flows, and more supportive government policies and transfer services which encourage larger flows through formal channels. Regardless of their true size, remittances are an important source of foreign exchange for many migrant-sending countries, allowing them to purchase imports, pay off external debt, alleviate credit constraints, and may also stimulate economic growth. Ultimately, remittances are believed to help reduce poverty at the household level and contribute to economic development at the local, regional and national levels. However, the impact on economic development greatly depends on the condition of the local economy. Indeed, different observers point to the fact that remittances are mostly used for consumption as well as the acquisition of “prestige” goods. This increases imports, often leading to large trade deficits, and may hinder local economic development. Large inflows of remittances may also lead to appreciation of the local currency, making it harder for exporters to remain competitive. Moreover, remittances can sometimes also contribute to dependency among receivers. Given that migration is selective, remittance transfers may also increase inequalities between recipient households who were able to afford migration on the one side and non-recipient households who remain the poorest part of the population. Thus, remittances’ impact on poverty alleviation is widely recognized but may be uneven across the population.

Within the global context, Serbia ranks among the top 11 countries in the world by value of remittances and even higher in relation to the share of GDP.<sup>3</sup> Among the countries of the Former Republic of Yugoslavia, Serbia is the largest remittance recipient.<sup>4</sup> Nevertheless, accurate estimates of the true size of remittance flows to Serbia have been difficult to calculate. It is likely that official figures published by the National Bank of Serbia drastically under-estimate the total flows due to the way in which calculations are derived, and because a large percentage of transfers are made through informal channels and are therefore hard to accurately measure. Economists at the University of Belgrade recently estimated the national remittance flow to Serbia at US\$2.5 billion,<sup>5</sup> a figure nearly six times larger than estimates by the National Bank of Serbia, but significantly smaller than IMF estimates of US\$4.1 billion.<sup>6</sup> Estimates by the SFM on the basis of the survey among Serbian migrant households living in Switzerland suggest that only a minor part (approximately US\$50 million– CHF 60 million) of this total national flow comes from Switzerland. This estimation has however to be taken with some caution. Due to the impossibility of estimating the actual size of the Serbian sub-population within the broader population of citizens from Serbia-Montenegro residing in Switzerland, the survey sample cannot be considered statistically representative for this population (see the methodological note 1 in the previous section).

### **Individual/Household Flows and Determinants:**

The importance of remittances to Serbia is perhaps best illustrated by their prevalence among a majority of migrant-sending families around the country. SFM’s telephone survey found that among Serbian households in Switzerland, 3/4 have remitted money and/or goods (mostly consumption goods or household equipment) to relatives back home in the past 12 months. According to IOM’s research, nearly

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<sup>3</sup> World Bank, *Global Economic Prospects*, 2006, based on BoP Yearbook figures;

<sup>4</sup> [www.unpopulation.org](http://www.unpopulation.org);

<sup>5</sup> M. Jovicic and R. Dragutinovic Mitrovic. “Migration, Remittance and External Balance: A Panel Model of the SEE Countries and a Case Study of Serbia”, „Seventh Annual Global Development Network Conference, St. Petersburg, Russia, Jan. 22-23, 06;

<sup>6</sup> World Bank, *Global Economic Prospects*, 2006, based on IMF BoP Yearbook figures.

all migrant-sending households from the two rural regions surveyed (91%) receive remittances from relatives in Switzerland. Furthermore, half of the remitter households in Switzerland report sending money to a single recipient in Serbia, while one-quarter report sending money to at least two persons.

While remittances are without a doubt contributing significantly to raising the living standards of recipient households, research by the SFM and IOM show varying conclusions on the exact size of these individual and household flows. Serbian households surveyed by IOM report receiving, on average, CHF 4,800 per year while Serbian households in Switzerland surveyed by SFM report sending a total of CHF 4,400 per year on average, often to more than one recipient. More specifically, SFM's research concludes that remitters send, on average, CHF 2,400 per year to each recipient, a much lower estimate than IOM's figures. It should be noted that recipient households may receive money from more than one migrant living in Switzerland, a fact which may partly explain these differences.<sup>7</sup>

Besides the fact that information about household finances is sensitive for different reasons (privacy, informality of remittance transfers, etc) and consequently difficult to accurately survey, there may be additional explanations for the divergent results of IOM's and SFM's surveys. One further explanation is likely due to the different data samples used. IOM's sample was limited to migrant-sending households from two rural regions of Serbia – areas with significant rates of poverty and unemployment and large elderly populations with extended dependence on remittance income as a form of regular economic support. SFM's sample included a broader national cross section of Serbian migrants, who likely originate from both rural and urban areas, and from families of more diverse socio-economic backgrounds and demographic makeup whose need for and reliance on remittances as a form of monthly support may vary more widely. The SFM survey also over-represented more educated and higher income Serbian migrants. But regardless of why the results differ, the findings of both studies are important. IOM's findings highlight the extent to which rural-based families are dependent on remittances as a regular and significant income source, particularly among elderly households, while SFM's findings give a more generalizable figure and additionally suggest that remittance patterns to other kinds of migrant sending households may be very different, particularly to households in urban areas, those in better socio-economic positions, and/or households with younger members at home who can generate earned income to complement remittance flows.

However, remitting behaviour is not the same for all Serbian migrant households in Switzerland but rather mirror the heterogeneity of people's biographies and socio-economic status in Switzerland. For example, SFM's research suggests that education and income of remittances senders positively affect the amount of money remitted as nearly 50% of migrants with a tertiary level of education report sending large amounts (more than CHF 4,100) home in a year, while only about 1/3 of less educated migrants report remitting at this level. The major determinant, however, is household income. The more migrant households earn in Switzerland, the more likely they are to remit to Serbia and the larger their transferred amounts will be.

Beyond education and income, another important remitting determinant is people's migration status. Serbs who have become naturalized citizens have a higher probability to send more remittances than other remitters, a finding which is best explained by the fact that this group is likely to be the most economically integrated and therefore, they are more likely to have higher earning capacity than other groups, allowing them to remit more.

One factor that does not strongly influence the remittance behaviour of Serbian migrants is the length of their residence in Switzerland as findings show that more than 50% of people who have lived in Switzerland for at least 25 years still remit. This is likely related to the particular circumstances of the transition period in Serbia, as well as the war in the 1990s which (re-)mobilized remittance flows to the region from Serbs living abroad in order to sustain the declining living standards of their relatives in Serbia. SFM's survey showed that the relation migrants maintain with their country of origin over time has a much more important impact on their propensity to remit. If they visit Serbia often, and/or maintain

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<sup>7</sup> These numbers include only monetary remittances, in-kind remittances are not included.

close friends or family members there, then their propensity to remit and to send large amounts is high. The economic relationship people maintain with Serbia is also important as migrants with bank accounts or housing assets in Serbia are more likely to send (large) remittances than those without.

Finally, the amount people send home is also determined, in part, to the kinship relation they have with the recipient. While in IOM's survey the remittance senders were found to be most commonly the adult children of the surveyed receiver households, the SFM's data show more diversified kinship relations between senders and receivers (45% of remitters are adult children or grandchildren of the receivers; 1/5 are siblings; 12% are parents of the respondent's nuclear family; and the remaining 23% is linked by looser kinship relations to the respondent). Generally speaking then, the data show that remittances sent to members of a migrant's nuclear family (parents, grandparents, children, spouse or siblings) are higher than those directed to other family members, which is best explained by the different levels of responsibility migrants have towards different family members.

**Longevity:** One final point is the longevity of these remittance flows. The data show that Serbs in Switzerland have been sending money home for a very long time. Once more, the particular economic and political circumstances in Serbia might explain this longevity. Among Serbian households surveyed by IOM, 40% report having received remittances for more than 20 years. This finding is likely due to the fact that remittances flows to the surveyed areas, in large part, support regular consumptive costs which require ongoing support, particularly among elderly recipients who have no plans to relocate to Switzerland and no additional income earning opportunities. SFM's data is distributed slightly differently, with approximately 25% of migrants sending money home for more than 20 years and an additional 24% sending remittances for the past 15-19 years.

The stability of the overall Swiss-Serbian remittance flow seems however not to be assured in the future. Indeed, SFM's survey showed that the total amount sent by sender households in Switzerland tend to decrease with the number of years they reside in the destination country. Since further migration flows from Serbia to Switzerland will take place under restricted conditions (only family reunifications and skilled selective migration), the overall flow of remittance might decrease in the future. Furthermore, the growing second generation (young adults who grew up and went to school in Switzerland) has a very low tendency to remit, given that their links to Serbia and relatives living there are weaker than those of the first generation.

## **Key Finding 2: Remittance Transfer Mechanisms, Determinants and Frequency**

**Transfer mechanisms and determinants:** The vast majority of remittances in this corridor (approximately 80%) are sent through informal channels. Informal transfers are most commonly hand carried by migrants, friends or acquaintances during visits home. People also frequently send money with bus drivers travelling back and forth between Switzerland and Serbia (15% of remittances senders). The remaining 20% of remittance transfers from Switzerland to Serbia are sent via formal transfer services, most often through a bank. Other formal transfer means such as the postal system or money transfer companies such as Western Union are used by only a tiny fraction of the population. This percentage of remittances flowing through formal transfer channels is very low compared to international standards and also drastically different from that of a highly comparative remittance channel – remittances from Germany to Serbia – where 50% of remittances flow through formal channels – banks (40%) and money transfer companies (10%).<sup>8</sup>

The main reasons for choosing a particular transfer method is (in the order of their importance) its simplicity, its reliability and its cost (and convenience). However, SFM's research suggest that even if Serbian remitters in Switzerland are almost all banked, general knowledge of the (formal) remittance service market is quite low among them, a factor which undoubtedly also contributes to the continuation of established, informal remitting practices. Interestingly, the same advantages of particular transfer methods are put forward by migrants using different transfer means.

SFM's findings show that the characteristics of remitters and recipients may be more important determinants for the choice of how they send money home than the real advantages and disadvantages of the different remitting channels available. Formal-channel users are clearly younger and slightly better educated than those who do not, but they are also linked to Serbia to a much lesser extent through social relations and do not travel there frequently – meaning that their possibilities to hand carry remittances home are limited. Additionally, migrants who use formal (banking) channels declare stronger local (Swiss) language proficiency and more than twice as likely as other migrants to have a bank account in Serbia, findings which are likely (33%) compared to informal channel using ones. This observation related to higher rates of banking literacy and confidence in the Serbian banking system.

### *Informal Methods*

Both IOM and SFM's research shows that the majority of households receiving remittances from Switzerland, receive them from their relative, a friend or an acquaintance when they travel to Serbia for a visit. Hand carrying remittances is by far this diaspora's transfer method of choice because it is considered highly reliable and is cost free. The geographic proximity of Switzerland and Serbia additionally facilitates informal transfers and carrying money in this corridor is fast and does not represent a significant barrier given that most Serbs in Switzerland report knowing someone travelling to Serbia nearly every week that could carry money home for them.

When migrants cannot hand carry remittances home themselves or send it with a friend, many rely on bus drivers, whom they know and trust to deliver money and/or goods to their relatives in Serbia. This transfer method has historical roots stretching back to the 1970s when Serbian workers first started coming to Switzerland in large numbers. For a long time, buses were the primary mode of transport linking the two countries, and during the war in the 1990s, represented a critical lifeline between the diaspora and their relatives in Serbia. To send remittances this way, migrants pay a "tip" to the bus driver, usually a percentage of the cash being remitted – 2 to 3% of the value – or a fixed fee in the case of goods transfers. Overall, remittance transfers via bus drivers are seen by many senders and receivers as being

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<sup>8</sup> De Luna Martinez, Jose, Isaku Endo and Corrado Barberis, "The Germany-Serbia Remittance Corridor: Challenges of Establishing a Formal Money Transfer System", The World Bank, 2006.

reliable, reasonably priced and convenient (except perhaps in the case of emergency) as bus drivers leave from various locations in Switzerland to Serbia nearly every day of the week, and can deliver money or goods within one to two days to nearly any household in Serbia.

### *Formal Methods*

Although almost half of rural migrant-sending households receiving remittances report having a bank account in Serbia where they could receive money from their relative in Switzerland, only 12% of respondents report using banks as their primary or secondary transfer method. This is primarily because many people do not consider Serbian banks to be a reliable transfer option. Indeed, the survey among the remittances senders in Switzerland confirms the importance of the lack of trust in the formal transfer systems as a reason for not using them. This is due to different negative experiences of many Serbs in relation to Serbian banks, including the freezing of foreign deposits in the early 1990s, the collapse of (pyramidal) banking schemes, and corruption. These events are still in the population's mind, even if the situation of the local banking market has considerably improved in the last past years.

Cost is another reason why people may prefer hand carrying or sending money with a bus driver over bank transfers, which cost between CHF 12 and 30 for a transfer value of CHF 300. Besides being costly, bank transfers in this corridor involve significant time delays, requiring on average 2 to 5 days on average) from the time they are sent in Switzerland to the time they are available to the recipient in Serbia for pick up. So even in cases where people trust banks to transfer their money successfully, and where bank to bank transfers are accessible to both senders and receivers, high costs and these time delays often render this transfer unpopular. Other secondary factors making bank transfers less popular than informal mechanisms include size and foreign currency restrictions. Some people also perceive bank transfers to be too complicated. This might be particularly true for senders with low proficiency in the local language. In other cases, bank transfers are not practical or possible for reasons of accessibility – either because the intended recipient does not have a bank account, or because they live far away from a bank. In a few cases, migrants perceive bank transfers to be a security risk and fear that their relative would be assaulted when they go to the bank to pick up their money in Serbia.

Apart from banks, formal transfers from Switzerland to Serbia can be made through private money transfer companies, specifically Western Union, which is the only licensed operator in this corridor, although this kind of transfer makes up only a tiny fraction of this market (5%), as both IOM and SFM findings show. The comparatively high cost of sending money through Western Union to Serbia is likely the main reason that people rarely choose this option and is a consequence of lack of competition in this market. If prices were more competitive with other transfer methods, private remittance companies could likely play a bigger role in this remittance corridor given the fast and reliable services they can offer.

### **Frequency:**

IOM's and SFM's results show that slightly more than 1/3 of the Serbian households surveyed receive their remittances once a month. Another 1/3 of households receive money and/or goods just once or twice per year. This is particularly the case for rural households receiving large transfers which coincide with annual visits home by their migrant relatives. The remainder of households receive money and/or goods at other frequency intervals.

SFM's survey additionally shows that remitters sending money home monthly are much more likely to use formal channels than those who send fewer transfers each year. However, IOM's research contradicts this finding for the two rural settings studied where 82% of the recipient households who report receiving monthly remittances receive this money and/or goods through hand carried methods or via a bus driver, while a similar proportion ( $\frac{3}{4}$ ) of households who receive remittances once per year receive their money and/or goods through these same informal means. These divergent findings might indicate that standardized and formal transfer means are used for regular remittance to households in urban settings,

where the banking infrastructure is much more extended, while informal transfer means remain the standard for rural recipients.

### **Key Finding 3: Remittance Use, Investment, Impact and Determinants**

**Use and Investment:** Migrant-sending households in Serbia use most of their remittances sent from Switzerland to help pay for recurrent living costs and basic needs. This is particularly true among older recipient households. Remittances are most commonly spent on: utilities (water, electricity, and gas), phone service, petrol for cars and farm machinery, food, medicine and healthcare, household appliances and furniture. Remittance income is very rarely used to pay for non-essentials. Beyond consumptive expenditures, recipients also use remittances for social expenditures such as basic education and health care, although at much lower rates. IOM and SFMs findings are similar here.

In households surveyed by IOM, many recipients were also found to use remittances for investment purposes. Approximately half of surveyed households have used remittances to buy, build or improve their house or apartment and approximately  $\frac{1}{4}$  have used remittances to expand agricultural production. 13% of these households have used remittances to help pay for higher education. Approximately 8% of households report using remittances to buy land and/or animals. Another 8% of households have invested in a business. Only a small fraction of households have invested remittances in higher education (2%) or to enhance savings (1%). These findings however diverge from the SFM's results. Their surveys with remittance senders indicate much lower levels of investment-related use. The distinct nature of IOM and SFM's samples is likely the reason for this difference.

**Impact:** IOM's research also explored the impact of remittances on Serbian households, focusing specifically on five development indicators: poverty, economic assets, health, housing, and education. Research showed that on average, remittances constitute 40% of total household income in the surveyed areas, supplementing earned and/or pension income. Remittances constitute a critical part of basic financial well-being in large numbers of migrant-sending households, keeping some of the most vulnerable households out of poverty, and for less vulnerable households, helping to counteract external financial fluctuations.

Beyond increasing or stabilizing basic income, in a majority of households (69%), remittances have contributed to the acquisition, expansion and/or improvement of one large financial asset – housing, thus contributing to the socio-economic status, physical safety and economic security of many migrant-sending households. SFM's findings confirm this finding as  $\frac{3}{4}$  of respondents own a house or apartment in Serbia. However, widespread investment in housing located specifically in the rural regions surveyed by IOM, is perhaps not ideal as many of these homes are drastically underutilized, sitting empty the majority of the year, and because they have very little resale value in a region hard hit by emigration and economic stagnation. Investment in housing in urban areas is likely to be a better investment because of rising housing values and a bigger demand for quality housing.

Beyond housing, remittances have also contributed, in fewer cases, to the ownership and/or acquisition of other financial assets such as land (9%), vehicles, livestock, small businesses (8%), and the accumulation of savings in the surveyed areas.. In terms of their use for health, remittances spent on medicine and medical care serve as a form of supplementary financing, protecting the erosion of basic household assets. However, remittances are not significantly improving people's basic access to medical services or medicines. This is likely due to the fact that access to health care services is not reported to be a problem in the regions surveyed by IOM. In terms of education, in a small number of cases, remittances help to support educational costs, but are not making an essential difference in the choice or ability of students to advance with their studies. The small number of families investing remittances in education is partly explained by the fact that only 19% of surveyed households have one or more school-aged children (age 6-18) in the home.

**Determinants:** Socio-demographic factors are important determinants in how people use and/or invest remittances. Examples of how socio-economic factors determine spending housing, small business investment, education, medical care and savings follow:

- Housing: IOM's research shows that 52% of remittance recipients of all age, gender, education and income categories invest remittances in housing, although men and women in their 30s, 40s, and 50s have a slightly higher tendency towards housing investment than younger or older recipients. Similarly, people with average educational levels (primary and secondary) are more likely to investment remittances in housing than illiterate or highly educated households. Household income however, makes the biggest difference. Households with larger than average monthly incomes (CHF 1000+) are approximately 50% more likely than households with lower incomes to invest remittances in housing.
- Education: Among the few households who invest remittances in education (basic and/or higher education), most are households headed by women, middle-aged households (household head in their 40s) and households headed by someone with a post-secondary education.
- Medical Care: Similar to education, households that spend part of their remittances on medical care and/or medicine are more likely to be headed by a woman than a man. But it is age that matters most in this category: Elderly households, who are most likely to have little or no formal education, are by far the most likely to be spending their remittances on medical care and medicine compared to younger households, regardless of their income level.
- Savings: Almost no one reports using remittance income to enhance savings. But among the very small number of households who do, the most important determinant is income. Wealthier households are more likely than middle income or poor households to use remittances to enhance savings. The data show that having a bank account also makes a small positive difference in promoting savings among remittance recipients.
- Businesses: Remittance recipients who are most likely to invest part of their remittances in a small or medium sized business, are young men, with a post-secondary education and an above average monthly household income.

Generally speaking, given the demographic makeup of IOM's surveyed recipient group – primarily older households with limited income and in many cases, retired members – it is not surprising that investment levels are generally low and are largely limited to housing as housing is not a high risk investment and because home ownership is important for economic well being in older age, among other reasons. However, IOM's findings also offer important clues for the design of future investment programmes and/or new financial services which aim to meet the needs and preferences of diverse socio-demographic groups. For example, research shows that younger, less risk averse households are the most active and interested investors in small businesses. Secondly, female headed households place higher priority on investments in education and health. Third, households with higher-than-average incomes are more active investors and savers than other households. Fourth, older households place prioritize investing remittances in health. And last, investment of remittances in housing is done largely by people in their 30s, 40s and 50s.

Apart from socio-economic factors of individuals or households receiving remittances, another important determinant for how remittances are spent and invested is the economic structure and investment environment of recipient communities and region. Remittance investments act as a kind of foreign savings, which interact with and depend directly on the opportunities available to investors in the local environment. In this case, the environments in which Serbian households are receiving remittances offers people very few viable opportunities for investment beyond housing, land and agricultural activities. For this reason, remittances not used for consumptive and social expenditures end up in these three

investment categories, and helps explain why investment in other areas, such as small business development, is pursued by less than 10% of migrant-sending households.

A third determinant of how remittances are spent and invested relates to people's practices and attitudes towards banking services in recipient communities and regions. Nearly half of surveyed households hold a bank account, although less than 10% use it for anything more than managing cash flow. People commonly claim that they have insufficient funds to hold a bank account, don't need banking services, and/or don't trust banks as a reliable forum for savings and investment. Knowledge of and access to local banking services are not widely mentioned as barriers to wider banking use. The combined fact that banks are used very infrequently to transfer remittances, and the fact that people feel they have no need for or lack of trust in banks as mechanisms for investment, helps explain why savings rates among this population is so low and why more remittance income is not leveraged for credit for larger or more diverse forms of investments. On the other hand, the research results also illustrate the positive correlation between being banked, and patterns of productive use and investment of remittance income. Findings show that among the few households investing remittances in higher education, small/medium businesses, and/or to enhance savings, nearly all of them also have a bank account.

**Flows/Use of Collective Donations from Serbian Migrant Associations in Switzerland:** One final point regards collective donations from Serbian migrant associations in Switzerland. Research in the surveyed areas of Serbia revealed a history of collective donations sent from migrant associations with links to particular communities of origin to support infrastructure improvements such as new roads, electrical connections, a new water system and a school for special needs children and adults. Collective, philanthropic transfers are however rare, mostly likely because of weak or non-existent links between the diaspora and local community institutions and/or government representatives, and no formal mechanisms for communication or collaboration between these entities, even after three decades of continued migration and transnational living.

**Note – Differences among migrants and migrant-sending households from urban areas of Serbia:** The socio-economic profile of migrant-sending households from non-surveyed parts of Serbia, particularly households in urban areas such as Belgrade, may be significantly different in composition, and may exhibit different patterns of migration and remittance flows which are important for this study and the corresponding recommendations. Focus group research involving representatives of 16 migrant-sending families in Belgrade hint at these differences, and findings from SFMs survey of migrants in Switzerland provide further support. Nonetheless, additional research among urban-based migrant-sending families in Belgrade and other Serbian cities would help to confirm these hypotheses.

Findings suggest that migration to Switzerland from Belgrade began later than migration from rural areas of Serbia. Although both rural and urban migration have been motivated mainly by economic factors, generally speaking, it seems likely that migrants from Belgrade are more likely to be higher skilled than their rural counterparts. Urban migrants probably maintain equally strong transnational ties with their relatives back home but may visit less frequently and send remittances less frequently than migrants from rural areas. Remittances from these groups may act more frequently like a financial safety net than as a regular income stream, for the same reasons mentioned earlier – because recipient households in urban areas are likely to be better off economically and have younger members at home who can generate earned income to complement remittance flows. Additionally, remittances to urban households in Serbia are sent to a broader recipient group than remittances to rural areas – to parents and children, but also to siblings and other younger relatives. The transfer of goods is likely to be equally frequent compared to transfers to rural areas. As in rural areas, urban migrants also sometimes send large sums of money to relatives in Belgrade to help with the purchase of housing or small businesses. However generally speaking, investments in housing may be less common overall, either because migrants prefer to purchase housing and property in Switzerland where they envision their future and retirement, and/or because housing investment opportunities in Belgrade may be more limited and/or unaffordable. Like migrants from rural areas, when urban migrants do send remittances, they most commonly carry it by hand during visits home or transfer it through a bank suggesting that financial services are underdeveloped and under-

utilized for the urban diaspora, as for their rural counterparts, and that they similarly lack of trust in the banking system. On the other hand, urban migrants and their relatives in Belgrade may be better positioned than rural migrants to engage in investment activities, such as small businesses, or to save larger amounts of capital due to their better socio-economic position and lighter remittance burden.

#### **Key Finding 4: Serbian migrants in Switzerland as potential investors**

As it has been mentioned, most remittance receiving households in Serbia use these resources to pay for their basic needs, as well as for investments in health and/or housing, activities which can contribute in small part to development in Serbia. However, Serbian migrants in Switzerland can also act as investors, contributing directly to the development of their country of origin. Indeed, SFM's survey showed that Serbian migrants – especially those who remit – maintain important social and economic links with their home country, and are therefore well positioned to act as development partners (as investors and otherwise). Even if the current level of business activities involving Serbian migrants in or with their country of origin is almost insignificant, a third of Serbs report plans to invest in Serbian business, housing or land in the future. Furthermore, the profile of these would-be investors is promising from a developmental perspective, as they represent the younger and economically better off group of Serbian migrants in Switzerland. The most distinctive feature of this group of migrants, however, is the level of economic activity that they maintain with Serbia via remittances, loans or bank accounts, as well as their frequent physical presence there. However, numerous structural conditions have to change in order for these investment plans to be put into practice. Structural barriers to implementing such plans are worsened by other factors that migrants complain about, including: lack of sufficient democratic processes, corruption, criminality and favouritism, making business investments risky. Furthermore, a culture of entrepreneurship and people with sufficient, relevant knowledge and experience to help new business enterprises success is just now emerging and still in its infancy.

## **Key Finding 5: Legal Assessment Report, what are the regulatory bottlenecks**

The legal assessment report has not identified any major obstacles regarding the transfer of payments through banks or other financial services providers. The preliminary analysis has revealed, however, that certain regulatory requirements could favour informal transfers at the detriment of formal transfers.

**Definitions and legal nature of remittances.** Discrepancies exist between the Foreign Exchange Law and the Serbian central bank's (the "NBS") Unilateral Transfers Decision. The Decision does not regulate incoming "personal transfers" (comprised of, inter alia, gifts, aid and inheritance) but rather only outgoing ones, whereas the former envisages both. Even though this does not restrict "personal transfers", they ought to be explicitly allowed.

**Methods for sending remittances to Serbia.** Formal transfers of remittances (i.e. not physically transferred by a traveller) involve cross-border payment mechanisms. Under the Foreign Exchange Law, Serbian banks enjoy exclusive rights to operate money transfer mechanisms. Money transfer service companies must therefore operate via Serbian banks, which increases the cost of transfer and reduces competition.

When remittances are physically brought in by hand-carriers, reporting requirements (declaration) vary depending on the currency (Serbian dinars or another currency) and residency of the carrier. Some of the requirements originate from the Forex Law whereas some others are found in the Anti-Money Laundering Law. This combination of legal guidelines leads to ambiguities in the interpretation of requirements.

**Information collected by the central bank is not completely ring-fenced and may be used by other government authorities.** The central bank is subject to several regulations regarding the transmission of data collected from commercial banks. In particular, information may be transmitted to the Money Laundering Prevention Committee and the Tax Administration. The extent to which this deviates from international standards and hinders remittance senders from using formal channels remains to be carefully assessed.

**The fiscal regime applied to remittances is unclear.** Receiving remittances can be subject to various tax duties depending on their legal nature. Immediate family members are subject to reduced tax duties or even exonerated. If both the sender and the recipient are part of the same household, the recipient shall not be considered as enriched, since he/she also contributes to the acquisition of such revenue. In this case, no taxes are due. However, the Family Law and some other pieces of legislation require that the families form a unity of life, and such unity could be questioned by the tax authorities since the remittance sender effectively lives abroad.

**In assessing creditworthiness, the treatment of remittances is left to commercial banks.** The central bank insists on "regular" and "net" elements to qualify incomes in the creditworthiness analysis. Most banks have so far been very cautious. It could be worth assessing under what conditions a clarification of the Provisioning Decision would provide additional comfort for banks.

## Key Finding 6: Financial Sector Development

Serbia has several factors in its favour to leverage remittances for financial sector development. Many countries in which informal transfers are common have poor-quality payment system infrastructure or low accessibility. On the contrary, Serbia benefits from modern and high-quality payment infrastructure. Nor is the geographic accessibility of financial services in question. Not only do several Serbian banks have large branch networks extending into rural areas, the sector has expanded rapidly since economic sanctions were lifted in 1995. This expansion has been accelerated by recent privatization that placed many of the country's major financial institutions in the hands of foreigners, many of whom have built a corporate footprint throughout Central and Eastern Europe and headquarters or affiliates in remittance-sending countries. Electronic payments and payment card usage in Serbia are among the fastest growing in the region, although products such as pre-paid cards are not yet offered. New foreign owners of financial institutions are investing in new technology to bring their products and services to the level of other international members of their banking group.

### *Challenges ahead*

The banking survey illustrates several challenges that must be surmounted on the supply side to address financial sector development through remittances. This is intended to prioritize areas for investment and additional effort by all stakeholders.

**Scarce information available causes difficulty in assessing the extent of the untapped market.** For example, the estimate of remittances entering the country ranges from US\$2.5 billion to \$4 billion. The number of Serbs abroad and their geographic distribution is equally vague.

**Lack of competition.** All the banks offer money transfer through corresponding banking channels. However, Western Union's money transfer product and the new branded service offered by ProCredit Bank, ProCash, are the only visible, differentiated remittances services. The post bank's services, including those offered by Eurogiro, appear to be used much less frequently (as indicated in IOM/SFM surveys) and primarily for very low value transfers. Banks have neither streamlined nor differentiated their money transfer services among their various offerings. Finally, Western Union's exclusive operating license has diminished potential competition as new money transfer entrants would probably inject both price and non-price competition by offering incentives and other services for senders and receivers. As a result, little competition has manifested in higher prices.<sup>9</sup>

**Remittance clients have proven difficult for banks in the past.** Past efforts to attract remittance recipients to banks have been mixed. A couple of respondents indicated that their agency with Western Union transpired due to a desire to increase foot traffic in their branches and to cross-sell financial services. These efforts were said to have failed because Western Union clients "*do not demand other financial services.*" No bank was able to say how many remittance recipients had become banking clients; many said practically none. No bank had any specific approach to attracting individuals with little banking activity.

**The physical presence of banks is wider in urban areas while remittance recipients live in rural areas.** The evolution of the banking sector in Serbia – especially of current growth segments – favours urban areas. Half of the respondent institutions emphasized this in their current strategy. There is no information about the extent of receipt of remittances in urban areas. Western Union indicates that a large

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<sup>9</sup> When one major money transfer company has exclusive agreements in a remittance receiving country, prices also tend to be higher. Often exclusive agreements lock up the most widely available infrastructure in developing countries, the post office or postal banks. This can have an important impact on service availability and the price of service. See World Bank (2005) for more analysis of this phenomenon.

percentage of remittances are received in urban areas, even though they have representatives throughout the country via 37 banks, but the extent to which the final destination is urban is unclear.

**No linkage between remittances and other financial services.** Efforts to cross-sell remittances to other banking services are not currently widespread. No respondent indicated that their institution is offering additional remittance-linked services. Loan officers may evaluate remittances as part of a borrower's income, but only on an ad hoc basis depending on the borrower, the institution and the officer. Banks will not jointly assess the creditworthiness of non-resident Serbians for a product such as a mortgage. These ideas were approached with great caution by financial institutions. There have been no efforts to design special savings vehicles for remittances to be used as guarantees or collateral.

**Regulatory uncertainty about counting remittances as income.** The definition of remittance as a unilateral transfer (or essentially a gift) or as a family transfer may impact banks' abilities to link them to other financial services because of NBS measures to restrain the rapid growth of retail credit.<sup>10</sup> Banks indicate lack of clarity about whether current bank provisions for retail loans and limits on consumer indebtedness to no more than 30% of income are consistent with counting remittances as income. There may be tax consequences once remittances are considered income for the purpose of lending.<sup>11</sup>

This may also impact the extension of foreign currency-denominated loans to remittance recipients. The NBS requires classification of foreign currency-denominated loans as higher risk than the comparable local currency loan and, therefore, higher provisioning, unless the borrower's income adjusts with inflation or currency movements. If remittances can be considered income denominated in foreign currency, especially if deposited into a foreign currency account, then this might diminish the cost to the institution.

**Early-stage financial sector evolution provides few opportunities for broader linkages.** Mortgages, financial leasing, small business credit and consumer loans, among others, might be secured with special savings instruments funded by remittances. Migrants abroad might likewise purchase insurance, pay into private pension funds or purchase shares in investment funds. Such potential notwithstanding, Serbia is in an early stage of the market development for all but relatively basic financial services.

**Marketing and cross-selling efforts not yet developed.** The IOM and SFM surveys indicate changing client needs. The banking survey shows that management was in the process of analyzing and re-working their retail strategy. For some banks, this marks a substantial departure from current business practice as they are still in the process of investing in front office sales staff.

**Profitability and efficiency hinge on technology and training.** In the case of remittances, profits come primarily from fees paid by senders and receivers, foreign exchange spreads and the earnings on the float. Remittances may generate efficiencies such as providing foreign exchange liquidity so that currency for other operations does not have to be purchased on the market. Other returns might be generated by remittances from cross-selling other products. Banks in this survey noted that technology, access to foreign currency and liquidity management, and staff and human resources (training and salaries) were the most costly aspects of offering remittance services.

A good foundation exists, however, for bringing remittances into the financial mainstream as a profitable service – an increasingly competitive financial sector with a focus on the development of retail banking services, good payment infrastructure, and new technology and communications systems. Institutions are addressing the challenges of generating profitable remittance products, especially in technology and training.

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<sup>10</sup> The NBS has introduced a 100% risk weighting to retail loans, increased mandatory reserves on foreign currency assets and loans and introduced a maximum ratio between retail loans and basic bank capital.

<sup>11</sup> The SFM study suggests that many senders are aware of tax consequences and maintain good records of their transactions for this reason.

### *Possibilities for remittances-based products*

Raising awareness of remittance entry points based on the experience of other countries should guide institutions towards solutions for the Serbian market. The following are possibilities for remittance-based products derived from market evolution thus far:

- Savings mobilization in local currency is one of the NBS' major objectives. Earning interest on remittances in a secure institution should be superior to current savings and investment behaviour among migrants and their families.
- Small and medium enterprise credit has increased in penetration and interest on the part of both specialized institutions like ProCredit and Opportunity International, as well as the downscaling of larger banks like Komercijalna and Raiffeisen. Many younger recipients of remittances are already inclined towards using such funds for small businesses. Remittances could be stretched further by linking them with appropriate credit or by considering them explicitly as income. There appears to be a gap, however, in financing for start-up enterprises, which are not normally attended to by commercial financial institutions but rather by microfinance institutions such as Micro Development Fund and MicroFins.
- The mortgage market and other housing finance instruments have recently begun to grow with the availability of mortgage insurance, NBS incentives and government subsidies for young homebuyers. These supply innovations can be matched with the high percentage of Serbian migrants who invest in land, home construction or home improvement but currently pay for these investments in cash.<sup>12</sup>
- Even though retail credit has grown very rapidly, banks are still in the process of refining their approach, using initial loans to collect information and get customers in the door. Remittances might be connected with credit cards or secured consumer loans. If consumers are banked on both sides of the transaction, then institutions can share information about financial behaviour and creditworthiness.
- Alternative payment instruments, such as cellular phones, are already in limited use for basic financial services other than remittances. There is not a prepaid remittance card as of yet, but the overall market for cards is growing rapidly. Younger, more educated recipients, as well as those in urban areas, would form the most likely source of demand for these services.
- All banks offer bill payment services and indicate that it would be possible to link an international money transfer with a standing order for payment of utilities, for instance as a means of relieving elderly parents from a time-consuming task. This has not been offered as a standalone product although it may be possible at this point to deposit money via corresponding bank transfer to an account from which bill payments could be made.

**Examples from other markets.** A lack of competition in remittances seems to have mitigated pressure on public and private institutions to ensure that services are efficient, low in cost, transparent, and

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<sup>12</sup> The NBS is encouraging growth in housing loans to increase collateralization of the retail portfolio. In fact, housing loans that are guaranteed by the government can be deducted from the basis for calculating banks' mandatory prudential reserves. A new entity, the National Corporation for Insurance of Housing Loans, has been established to encourage homeownership by offering insurance of mortgages as well as government support for housing loans to young, first time homebuyers.

reliable. To compare Serbia with other markets, several features, products and services are missing that would seem to be broadly compatible with current infrastructure, service levels and corporate strategy:

- Other institutions offer price incentives to send and receive remittances within their own international network. Examples of this are Wells Fargo and Bank of America to Mexico and Central America, ICICI's transfers to India, BCP Bank's remittances to Brazil, Citigroup's partnership with Banco Solidario for money transfer to Ecuador, as well as ProCredit's ProCash in Southeastern Europe. Recent information sponsored by UK DFID at [www.sendmoneyhome.org](http://www.sendmoneyhome.org) suggests that multinational banking groups that have headquarters or branches in remittance-sending countries offer lower prices for transfers in-network, but Serbian banks do not appear to be aware of this, nor have they marketed such services.
- Banks and non-banking financial institutions can link remittances directly with a basic savings and transactional account, as well as with credit products like mortgages, small business loans or microcredit and services such as bill payment. Ecuador's Banco Solidario has built a suite of remittance-linked products for migrant families. Their alliance with La Caixa and other credit unions in Spain allows the sender and the recipient to be banked so that both institutions can share necessary information about the clients' financial behaviour. Mexico's Hipotecaria Mexicana and Su Casita are mortgage finance institutions with sales offices in the United States from which they process applications for the purchase or construction of homes in Mexico.

## Recommendations

Recommended strategies based on the research findings, which can help to enhance the economic development impact of remittances and reduce poverty in Serbia, include:

### **I. Overall Aim: Improve formal remittance transfer services**

#### **Intended Results: Increase remittances flows through formal channels:**

- (1.1) Conduct further investigation of the regulatory framework in specific areas to clarify regulatory bottlenecks identified in this research. The Unilateral Transfers Decision by the National Bank of Serbia does not explicitly allow incoming remittances. For remittances coming into the country through hand-carriers, ambiguities between the requirements under the Forex Law and Anti-Money Laundering Law may lead to ambiguities in their interpretation. A clarification of the fiscal regime applied to remittances may also encourage more remittances to be transferred through formal channels.
- (1.2) Assess whether the data collected by the central bank for statistical and monetary policy purposes should be kept confidential from other authorities. This policy should conform to international practices.
- (1.3) Increase banking literacy among remitters and recipients, promoting financial education and active communication with migrants and representative associations placing special emphasis on how banks can meet the particular needs of different groups. This should be done in cooperation with financial institutions that agree to integrate Serbian and Serbian migrant clients. In the US, non-profit groups have been useful in channelling low income people who have received instruction in the use of financial services into accounts, education savings accounts, mortgages, loans, etc.
- (1.4) Assess the potential of new technologies, such as cellular phones or international bill payment services, which would attract a younger clientele.
- (1.5) Distribute information to remittance senders about the various remittance transfer options available – relative costs, speed, etc, and their comparative advantages and disadvantages (UK example: <http://www.sendmoneyhome.org/>). Migrant associations could also be partners for the information diffusion. Identify and place special emphasis on remitters sending money regularly and/or monthly and who are not currently using formal transfer services. Information should also be disseminated among financial institutions to encourage competition and raise visibility of the size and business potential of the remittance flows.
- (1.6) Build partnerships with sending-side institutions to increase visibility and marketing of remittances, make use of existing networks of parent companies' banking groups or establish remittance service providers in remittance-sending countries to appeal directly to Serbians abroad.
- (1.7) Link different financial or non-financial services at preferential prices – which might be attractive for remittance senders as well as remittance recipients – to promote the use of formal transfer services. Examples could be: access to preferential credits, transnational medical insurance for older recipients, cross-border savings accounts, life insurance, standing-order bill payment, etc. (see next section).

- (1.8) Open up the remittance market in Serbia to allow new providers, perhaps by designating a new category of institution solely dedicated to money transfer.
- (1.9) Improve market information dissemination to financial institutions in Serbia. Require Serbian and Swiss financial institutions to clearly post their sending and receiving prices, as well as standards of service (time to delivery, delivery to account or in cash, customer service/complaint redress, etc.).
- (1.10) Build capacity and raise awareness of remittances among financial service providers in Serbia. Provide leadership on and advocacy for the importance of banking in the Serbian diaspora (newspaper editorials, addresses to banks and foreign investment councils, etc.). Sponsor Central Bank and financial institutions' staff to intern with the Inter-American Development Bank Multilateral Investment Fund or other institutions such as ICICI of India, La Caixa of Spain, etc.
- (1.11) Make Serbian regulations on money transfer companies more transparent and explicit, especially (1) create a special designation for money transfer distribution that indicates much lower or no capital requirements for participants recognized for their low systemic risk; (2) explicitly open entry of more money transfer companies to the market; (3) discourage exclusive transfer management arrangements with companies like Western Union and Money Gram; (4) clarify rules on the treatment of Serbian non-resident account holders.

## **II. Overall Aim: Improve financial services available to migrants and migrant families**

### **Intended Results:**

**Integrate people into the formal banking system;**

**Facilitate more formal flows;**

**Increase saving rate:**

**Expand investment in small and medium enterprise (local & transnational)**

- (2.1) Design mechanisms to link remittance transfer services via banks and/or other financial institutions to savings accounts offering incentives for remittance recipients to maintain a portion of their remittance income as savings in the bank.
- (2.2) Assess whether the Provisioning Decision of the Central Bank could encourage commercial banks to include remittances in their assessment of the creditworthiness of borrowers.
- (2.3) Provide affordable credit to migrants and migrant families for local and transnational SME start-up and/or expansion and allow families to use remittance income as a form of collateral. This could be done through banks as well as via community-based financial institutions. Banks have not yet taken an important precursor step to design and promote special savings accounts and/or vehicles that act as guarantees or collateral for lending in Serbia. It may also be necessary to ensure that banking regulations and credit bureaus acknowledge the typical history of both remitting and receiving remittances as an income flow.
- (2.4) Offer value-added financial services to existing and potential clients by providing incentives and designing appropriate products and services; together with local banks, assess potential for increasing savings rates, linking remittances with mortgages and micro or SME loans.
- (2.5) Provide technical assistance and/or business training for local or transnational SME start-up and/or expansion.

- (2.6) Offer migrants and remittance recipients, particularly those in rural areas, information on prudent real estate investment in both rural and urban areas, as well as investment opportunities beyond housing and land acquisition.
- (2.7) Target remittance senders and recipient households whose socio-demographic characteristics make them most likely to be interested in investment-oriented financial services. For example, target SME investment products and/or services towards younger remittance senders and recipients, second generation Serbs in Switzerland, migrants and recipients with post-secondary education and/or higher than average household incomes.
- (2.8) Create new and/or special financial products for female remitters and remittance recipients to support their preferences or patterns of investment in health and education.
- (2.9) Create new and/or special financial products for older remittance recipients and the migrants sending remittances to them to support their preference or need to spend their remittance on medical care. One possibility would be the creation of a transnational medical insurance policy which could be paid for by migrant relatives and could provide medical coverage to elderly relatives for basic, emergency and long-term care.
- (2.10) Expand on the Serbian Ministry of Diaspora's current efforts to reach out to the diaspora, engaging them as co-investors in new business initiatives and existing economic activities in targeted regions which require external financing. Place a special emphasis on supporting the start-up and growth of enterprises which create employment for young people, including skilled employment to help to retain high-skilled young professionals in the country. Place emphasis on the start-up and expansion of SMEs which leverage the particular human and natural resources of rural and urban communities. Facilitate technical cooperation with migrants in Switzerland with relevant skills and experience to provide additional support.
- (2.11) Facilitate identification and matching of *existing* and experienced businesses, NGOs and microfinance initiatives that are *not* connected with migrant diaspora with potential diaspora investors or philanthropic organizations.

### **III. Overall Aim: Increase philanthropic investment by the Serbian diaspora in physical infrastructure and social developments projects**

- (3.1) Strengthen communication, collaboration and coordination between Serbian migrant organizations in Switzerland, local governments in migrant-sending regions, the Serbian Ministry of Diaspora, donor/development agencies, etc. to facilitate more collective philanthropic initiatives which address national and local development priorities in communities and regions affected by migration.
- (3.2) Explore the possibility of establishing new, non-governmental, local or regional institutions which can facilitate philanthropic flows and provide professional support for the planning, implementation and evaluation of development initiatives carried out in collaboration with the diaspora. Such institutions could offer an alternative to diaspora groups who do not wish to collaborate directly with government entities and could offer important qualities to these groups such as: transparency, opportunities for cooperative planning, oversight, technical guidance, etc.
- (3.3) Build capacity of migrant leaders and Serbian diaspora associations to plan, finance and implement sustainable philanthropic projects which contribute to national development goals.

- (3.4) Establish a matching fund scheme for collective donations. Such programme would be modelled after Mexico 3x1 programme. Alternatively, matching funds could come from non-governmental actors (private sector, international donors, etc.) and such funds could be channelled through non-governmental institutions established for this purpose (see 3.2).
- (3.5) Create programmes and/or mechanisms by which Serbian migrants in Switzerland with relevant skills and experience could assist with philanthropic projects with in-kind donations, knowledge and skills transfer.

#### **IV. Overall Aim: Increase remittance flows to Serbia through links to migration policy**

The migration-development nexus is linked to various policy fields and orientations, such as economic and labour market policy, migration policy, and foreign affairs policy. Consequently, leveraging migration for development offers both potential and challenge for the policy arena in that cooperation and coordination between these different policy fields is required in order to fully realize its development potential. Taking this into account, the following broad policy recommendations, drawn from the SFM's survey in Switzerland, aim to enhance remittance flows to Serbia from Switzerland and to assure their stability over time. It should be noted, however, that these recommendations are drawn from the research findings and may be in conflict with current migration policy and/or policy orientations in Switzerland, but are nevertheless important to mention.

- (4.1) Improve the labour market integration of Serbians in Switzerland in order to enlarge the pool of household financial resources and consequently, enhance remittances. To achieve this, issues of labour market discrimination must be addressed. Furthermore, new policies need to be elaborated and put into place, such as the recognition of Serbian diploma equivalency. Naturalization may also assist with integration as it facilitates access to the labour market.
- (4.2) Facilitate long-term transnational living because the more migrants maintain links to their country of origin, the more stable future remittance flows will be. Expanding possibilities for dual citizenship and/or expanding "visas de circulation", are examples of measures which sustain transnational living. However, these kind of measures require the cooperation of both host and origin countries.
- (4.3) Expand opportunities for temporary labour migration in order to sustain the future remittance flows by renewing the stock of remitting migrants who remain particularly strongly linked to their country of origin. They would not only send more often and larger remittances, but would might also become potential investors when they return.

#### **V. Overall Aim: Improve Remittance Data Collection** **Intended Result: Accurately track changes in remittance volume & transfer patterns**

Remittance data are either unsatisfactory or non-existent in Switzerland. The Swiss case is not an exception. In order to better understand the remittance patterns or the link between remittances and development in general, and to identify corridors where specifically designed projects may be fruitful, the improvement of data on remittances is necessary. The following recommendations support this aim:

- (5.1) Adopt new formulas for estimating remittance inflows at a national level in order to capture informal remittances.

- (5.2) Integrate remittance-related questions into (existing) large-scale national and periodical socio-economic surveys among migrants in Switzerland (as the SLF) in order to produce nationally representative information on remittance behaviour (by migrant origin groups) and to identify the main distinctive and comparative characteristics of remitting and non-remitting individuals. This information is essential for an accurate estimation of the macro outflows (by migrant origin groups) as well as for the design and implementation of development projects. Examples of yearly remittance-related surveys already exist for the US-Latin American remittance corridor (see: Inter-American Development Bank).
- (5.3) Regularly update the methodology for estimating macro-level remittances on the basis of periodic survey data (by migrant origin groups).



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