

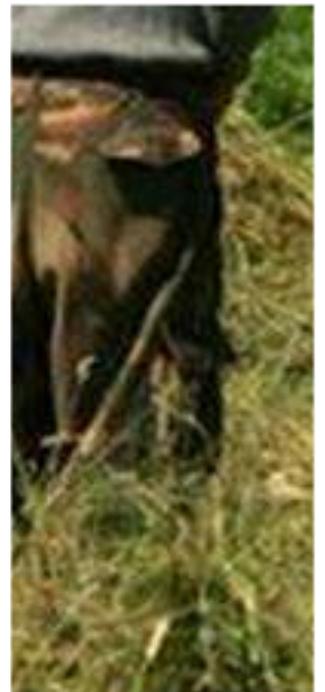


Report

Triodos  Facet

RESEARCH: DIASPORA-SAVINGS BASED FUND FOR RURAL ENTREPRENEURS, BOSNIA-HERZEGOVINA

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Date: April 2011

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List of abbreviations

BiH	Bosnia & Herzegovina
BDS	Business Development Services
EKN	Embassy of the Kingdom of the Netherland
IOM	International Organization for Migration
MFI	Micro Finance Institutions
RDA	Regional Development Agency

Diaspora

Originally this word refers to (a group of) countries where a large number of immigrants from a specific country live. In this report, however, the word Diaspora will be used to refer to the immigrants instead of their resident countries.

1 Background

This is the final report of an assignment by the International Organization for Migration (IOM) and the Embassy of the Kingdom of the Netherlands (EKN) to Triodos Facet, aimed to assess the possibilities of mobilizing the savings and remittances of Diaspora and returnees into a fund that would be used to enhance the business perspectives of rural entrepreneurs in Bosnia-Herzegovina (BiH).

1.1 Introduction

Developed by IOM and EKN the assignment sought to investigate the feasibility of creating a fund where Diaspora and returnee communities use their remittances and savings to support rural entrepreneurs with new financial products and services, connected to non-financial services offered by other organizations. The idea is partly based on a study that was conducted by IOM in Austria.

The financial products and non-financial services available to rural entrepreneurs are scarce. The distance to business development services and direct chain supporting actors is often too great and thus difficult to utilize. Financial service providers, on the other hand, consider rural entrepreneurs as too high risk, making loans too expensive (high interest rates) or simply impossible (collateral criteria).

According various research projects, the returnee and Diaspora communities are substantially contributing to their country of origin. Nevertheless, this capital is not efficiently distributed to give leverage to entrepreneurs within the same communities who are known to have high needs for the services and products mentioned above.

1.2 Research elaboration

The research is divided into 2 components:

1. The first component is a field study of rural entrepreneurs in BiH to create a brief overview to identify the need for and access to financial and business services. This field study will include a brief assessment of the size of savings in rural communities in BiH.
2. The second part is a survey among Bosnian Diaspora in the Netherlands and Sweden. This research is aimed to identify the interest to invest in a fund that facilitates finance and service access for rural entrepreneurs in BiH.

1.3 Follow-up

This research will be approached with the primary aim being to create a fund with the savings from Bosnian Diaspora to be used as a commercial support tool for rural entrepreneurs in BiH. Commercial support was selected because it differs from a subsidized, granted or government run support fund and therefore gives the beneficiaries more control over their assistance. The outcomes of the research will provide further indication that commercial support works best for rural entrepreneurs.

Within the fourth chapter several scenarios on how to use the savings fund, which will be elaborated on in the next chapter, as a commercial tool for rural entrepreneurs will be presented. These scenarios will require additional research and development (strategy and partnership) before implementation.

1.4 Content of the report

The next chapter will describe the outcomes of the field research, with details of the demand for and access to financial and business services and rural savings. The third chapter will describe the outcomes of the survey. The fourth chapter will present several scenarios and feasibility scans of potential services that can be created with the savings fund. Finally, the fifth chapter will present several conclusions.

2 Field research

2.1 Access to finance

Rural entrepreneurs, like any entrepreneur, need finance to develop their business. Generally finance is used to buy inputs, pay salaries, etc., and also used to invest in new equipment, production lines or housing. This financing for most rural entrepreneurs is very difficult to obtain. In other words, the access to finance for Bosnian rural entrepreneurs as it is often limited, or they have a low level of access to finance. This paragraph will describe the level of access to finance and the possibility to increase that level.

2.1.1 Current financial products

Although banks and micro finance institutions (MFIs) are not lacking capital to offer loans to clients, it is difficult for rural entrepreneurs to access the services offered by these institutions. At the same time, MFIs have recently been accused of over-indebting their clients (giving out too many loans to people who are in a very marginal financial situation), especially in BiH. This confirms that there is no problem with the liquidity of the banks and MFIs.

In general, the interest rates are a large burden to entrepreneurs and many of them have problems getting a loan because of the lack of valuable collateral. For rural entrepreneurs, the distance to the banks and MFIs is an extra hurdle to get a loan.

Rural entrepreneurs who are located closer to urban centres have easier networking capacities and opportunities with support organizations. Due to their proximity to community centers these rural entrepreneurs have easier access to credits, especially the ones that have relationships with agencies, associations and non-governmental organisations (NGOs) who work on enhancing the access to finance for rural entrepreneurs. Some banks and MFIs have a specific focus on rural areas but still have a limited outreach due to the costs. There is also the case of SERDA, where loans are subsidized, by government structures or by donor investments, which increases the access. For example SERDA is providing such loans, focusing on a specific part of the country, which successfully reaches rural entrepreneurs.

During the field study, a sampling of banks was approached to discuss the matter of rural demand for finance. From these interviews different opinions were expressed by corporate and non-corporate banks, regarding the market of rural entrepreneurs. The corporate banks tend to offer no opportunities to finance small rural entrepreneurs because of high maintenance costs and a high risk profile for loans that tend to be very small. On the other hand,, the non-corporate banks such as MFIs, do reach out to this market; however, because of the relatively small loans, the high risk profile and the dismissible collateral, they are forced to maintain high interest rates.

The following chart introduces the data on 4 financial institutions that were interviewed, regarding the type of institution, the outreach or target group, and various information on the clients and the loan agreements.

Chart 1: Finance institutions interviewed

Name	Type	Outreach	Defaults	Interest rate	Guarantee
Pro Credit Bank	Bank	Urban & rural	0.9%	13-13.5%	Pledge, collateral, letters
Reiffeissen Bank	Bank	Urban	3-4%	10%	Pledge, collateral
EKI	MFI	Urban & rural	unknown	15-20%	Collateral
SERDA/UCB	Agency/Bank	Rural	Unknown	Subsidized	SERDA

Besides EKI, there are several other MFIs that are active in rural areas where the interest rates and loan criteria are all very similar (except for SERDA, which is not an MFI). The collateral criteria also have a rather strict valuation of collateral because of their risk management policies. This results in existing collateral being valued much lower than the market potential which results in much lower possible loan sizes.

For most rural entrepreneurs the loans remain inaccessible for further business development because of the limited size of the loans or because of the collateral criteria. This frequently occurring problem for

entrepreneurs is the “missing middle”, which is when a request for finance is too large for an MFI but too small for a corporate bank. In BiH, especially in rural areas, this “missing middle” is common and in response to this niche some corporate banks and MFIs have created new products to fill this sector.

2.1.2 Other financial ‘products’

Entrepreneurs also create financial support through saving groups. Saving groups are a group of entrepreneurs who collectively save money then lend it to one of the contributing members. These groups create a system of short term working capital which is often needed to finance supplies or salaries to overcome the gap between costs and income.

Building upon these saving groups, many small businesses formalize the group activities, such as savings, into cooperatives. As cooperative they are more eligible for credit schemes, thus creating an economy of scale to better support their business.

Many entrepreneurs in BiH have created their businesses and developed their assets through various donations. Large and small scale donor programmes have been available with direct financial support or extremely subsidized credit schemes. Currently, these opportunities are not known to be available anymore. These donor programmes have both been institutional (such as UNDP) and private initiatives, including from Diaspora.

Many entrepreneurs are supporting themselves through the remittances they receive from Diaspora relatives. These remittances are small grants that are generally used for consumer budgets, but a large portion of entrepreneurs also rely on them to sustain their livelihood.

2.1.3 Gaps and solutions

According to institutions such as UNDP, Worldbank and others, a major problem to access finance is the insufficient possibility of rural entrepreneurs to offer collateral. Rural entrepreneurs confirm this. Additionally, they present that the high interest rates, if not subsidized, are problematic for their micro business cases. The interest rates are usually too high to have a sustainable positive financial result, which further limits their access to finance.

The problem of lack of access to finance is thus likely to be more of a symptom of another problem – lack of business skills – which is also confirmed by a study done within the FARMA Project by USAID and SIDA on access to finance for entrepreneurs in Bosnia. The study presents the level of basic business skills of rural entrepreneurs as the actual problem for entrepreneurs’ access to finance. Solutions are to provide various trainings to rural entrepreneurs, such as basic business skills. This will improve their risk profile and increase their capacity to cope with the costs of finance. This will be described further in the next paragraph, discussing services.

Another solution to increase access to finance is to increase the supply side of finance by decreasing the barriers, such as with the establishment of a special credit line or a guarantee fund for rural enterprise finance. These could enable rural entrepreneurs to access finance without relying completely on collateral. For example, SERDA provides guarantees for the loans of rural entrepreneurs. This programme by SERDA has increased the number of loans in rural areas in the canton around Sarajevo.

2.2 Access to Services

Business development services (BDS), are non-financial support tool for entrepreneurs to increase the competitiveness and efficiency of the business. Providing services could, for example, be done through direct supply by consultants making a marketing plan or transporting products more efficiently. It may also mean that the entrepreneurs follow trainings to improve their skills needed for the enterprise.

2.2.1 Current services and projects

The FARMA Project, financed by USAID/SIDA, has researched the level of access to finance in rural areas and concluded that the low level is likely to be a symptom rather than a problem on its own. The lacking basic business skills of rural entrepreneurs results in low access to finance. Services, including trainings, are the solution to this problem.

Of the services that are available in rural areas, the market for these services is distorted in BiH. Donor and government programmes are available for rural entrepreneurs to receive services and trainings free of charge. Therefore, they only have access to services through NGOs and some development agencies which are subsidized. The level of these services is often low and the supply is limited. There are no commercial service providers available in rural areas.

The donor and government service programmes offer various trainings and some direct services such as registration support and training financial management, all on a very small scale. The trainings are appraised positively by the participants and through the trainings they have organized themselves jointly to gain easier access to finance, markets and services.

Regional Development Agencies (RDAs) are now working in rural areas with small entrepreneurs, besides their work with entrepreneurs in urban areas which is their focus. As mentioned earlier, RDAs facilitate loans and increase the accessibility to the loans through guarantee schemes. The services provided vary and include: writing business plans, business coaching and mentoring, trainings of farmers on business skills and technical skills and offers support to organizing farmers into cooperatives in order to increase market access and efficiency.

Most international development organisations, such as the USAID/SIDA programmes and UNDP work with the RDAs for delivery of such programmes. There are also some municipal or more localized development agencies that some of these NGOs work with.

2.2.2 Demand for services - gaps

The demand for services remains very low in rural areas which may have several causes. The market awareness of services is very low, which results in a low demand. Supply of services has increased the demand in the case of REDAH for example. The first training programme resulted in a demand for more and extended training programmes.

The low demand for services may also be due to the low absorption capacity of many rural entrepreneurs. In many cases the entrepreneurs are unaware how to use their increased capacity and skills within their business. The fact that the services were free of charge often also results in a lack of motivation to capitalize on the increased skills.

Rural entrepreneurs with free access to trainings and services are expected to be reluctant to pay for such services. However, in many cases they actually show an increased business potential which should be valued directly. When asked, their response is hesitantly positive about willing to pay for these services in case the providers will start to charge fees. Although it remains questionable how much they are willing to pay, how much they can afford, and if they are still willing to pay when this becomes a reality.

The results of the interviews with rural entrepreneurs and development workers reveal that there is a high need for services in many rural areas. They presented general outcomes such as the lack of capacities, knowledge, network, etc. and, of course, finance. The need for services, could be assessed further regarding the specificity of which kind of service and/or training is needed. However, as mentioned, supply of services will further sophisticate the demand, therefore the needed and requested services. The usual facets of services such as trainings in business skills, financial management, marketing and networking and direct services such as business planning, accounting, marketing mix, are not sufficient. There are specific services such as legal capacity (microjustice), market access development, organizational strategies (cooperatives, associations) that offer more effective results for rural entrepreneurs.

2.2.3 Solutions

The challenge for the rural communities is to create sustainable access to quality services. This access is possible through the creation of a sustainable supply and demand. Sustainable demand and supply for services go hand in hand with a sustainable demand for finance and vice versa.

The solution to create a supply of services through financial institutions or independent suppliers is a disputed subject. The opportunities created by the link between services and financial institutions capitalize a wide existing network and can build on the synergies. The reliance on such interdependence

constitutes a weakness because of the fact that this is not a market driven system of choice (of which provider to use).

There are several ways to increase the supply of services, including: service funds, value chain development projects, regional development strategies, capacity building, etc. Most projects utilizing these methods are donor funded and not feasible as commercial fund because of the high costs. Commercial services are available in BiH but in the larger urban areas only. For rural areas, BDS provision can be enabled through group approaches such as the creation of cooperatives. Through a cooperative, entrepreneurs can buy the services on group levels and share the costs between the members. Creating a cooperative might be a step too far for some businesses in fear of having to share information or inefficiencies of partners. Joining interests and forces into an association or a similar institution among rural entrepreneurs can be used instead. BiH has experience with such tools successfully. The major challenge is the reliability of entrepreneurs among each other which can be harmed by inefficiencies and by services that are too generic and not valuable for some of the members.

As presented earlier, the supply of services can generate greater demand for these services, both to rural and urban entrepreneurs. Additionally, the improvement of access to business services, financial institutions benefit from entrepreneurs with improved capacities with the enhanced risk profiles and lowered default rates, which are two generally known outcomes of access to services for entrepreneurs.

2.3 Savings in Bosnia

According to the Central Bank of BiH, Bosnian households deposited approximately 4 billion in 2006 and 6.4 billion KM in 2010. Of the 4 billion deposited in 2006, Bosnian households (including time-deposits) saved only 2.3 billion KM while in 2010, savings increased to approximately 3.9 billion KM, showing an impressive growth.

Various stakeholders were interviewed about savings patterns and potential in BiH: savings behaviour in rural areas; perceived willingness to deposit savings in banks; and willingness to earmark a portion of these savings for a fund that would support rural entrepreneurs. Among those interviewed, some were of the opinion that there are no savings in the most marginalized returnee villages, while at the same time these same areas have the highest demand for business opportunities. Others interviewed were of the opinion that rural villages, including rural returnee communities, do have savings, but that these are kept at home and not deposited in banks. The rural entrepreneurs also confirmed to have savings which they were plan to use for reinvesting in their companies. Generally, consumer savings are set aside to pay for the education of children and grandchildren.

According to the farmers interviewed, it is possible to save as a rural entrepreneur. At the same time, all of the farmers that participated in the focus group discussion stated that they also take out loans (micro credit) for their businesses. Thus, entrepreneurs tend to use their personal savings to invest in the company more than comfortable for an average entrepreneur. This shows that that more business loans are needed for the entrepreneurs than currently accessible

During the focus group discussion, the group of rural (returnee) entrepreneurs and representative organizations also discussed the opportunity to deposit savings with the aim to support other rural entrepreneurs. The general consensus was favourable, though it was estimated that the amount of savings was small and not deposited in banks.

2.4 Conclusions

The interviews conducted during the field study identified major challenges facing rural entrepreneurs as well as pointing to potential solutions. The low level of access to finance is less a problem of supply, than of rural entrepreneurs' capacity to meet the criteria required to access financing. The criteria, as discussed above, can be fulfilled either through increasing capacity or lowering the loan amount through additional financial support schemes. This, however, should be accompanied by a services supply scheme to work on both sides of the finance market.

Savings in rural BiH do not provide a substantial amount of capital to leverage into a financial product. However, rural savings in BiH could be added to an internationally carried product.

The next section will discuss the outcomes of the survey. This information will be used to determine whether there is an opportunity to start a fund based on the combined savings of Diaspora and returnees.

3 Survey: Diaspora savings fund

The purpose of the survey was to discover whether Diaspora communities in The Netherlands and in Sweden were interested in depositing a part of their savings to support rural development in BiH.

3.1 Introduction

The research included a survey component to identify and measure the interest of the BiH Diaspora community in The Netherlands and Sweden to deposit a portion of their savings into a fund which would be used to create financial products and facilitate access to non-financial services for rural entrepreneurs in BiH.

3.2 Information

The survey was conducted online, during the months of February and March 2011. The target group was Bosnia and Herzegovina Diaspora residing primarily in The Netherlands and Sweden. The total sample for the study was 600 people with a response rate of 13%. Despite the fact that the online sample was slightly limited, a sample of this scope affords statistical validity of 9.2% at a 90% confidence limit meaning that 90 times out of 100 the answer will be within 9.2% in either direction of reality, proving the answers can be relied upon and are not attributed to random error in sampling and measurement.

Of the respondents, 55% were Dutch, 38% Swedish and the remainder live in other EU countries and North America. Fifty-seven percent of respondents were women. Forty-eight percent were between the ages of 25 and 35 years and 26% between 35 and 44 years of age. Respondents were mostly positive about the idea of committing to further progress in BiH and about the idea that the Diaspora should take a major role in the development of BiH through, for example, investments. This result confirms the conclusions made in the 2009 Diaspora study conducted by IOM and IASCI.

3.3 Respondents profile

The profile that can be derived from the respondents can be described briefly. The Bosnian Diaspora have strong ties to their country of origin and genuinely wants to see the country live up to its potential; the majority of the respondents visits Bosnia at least once a year; 75% regularly send remittances to Bosnia; and 58% closely follow political developments in BiH.

Seventy-nine percent of respondents are convinced that the Diaspora can have a big influence on the economic development of BiH, but also believe that the money from remittances, donors and foreign investors is not being leveraged properly. Additionally, 70% believe they should contribute towards a better economic situation in BiH, suggesting that the Bosnian Diaspora is willing to contribute to the economic development of BiH.

The Bosnian Diaspora is relatively inexperienced investors who generally seem to be risk averse. When asked about the most important factor before choosing an investment option, the two outliers were steady growth and the safety of the investment principal. Sixty-eight percent of respondents stated they have savings in amounts up to EUR 20.000. Their savings are mainly kept in savings accounts confirming their risk averse attitude.

3.4 Research topics

This research is aimed at identifying the interest of the respondents to invest in the fund for rural entrepreneurship and development. The survey was drafted to identify potential interest on various levels and through different approaches. We focused on the extent to which the target group is interested in investing in such a fund; the conditions that would need to be met to lower the risk and increase the interest to participate; and the extent to which the target group trusts banks/MFIs in general.

3.5 Interest in the fund

The majority of the survey group seems to be open to the idea of investing in BiH based on emotional ties to the region. The various questions to measure readiness to invest in BiH were answered mostly

positively. Willingness to invest in BiH or using part of their savings to support BiH ranged between 50 to 60 percent.

Reservations towards the idea were minor. Only 23% stated they would not consider investing in BiH. To confirm this response, a follow up question was posed asking about interest in investing in BiH, which was answered in the negative by roughly 21% of respondents. In the case that the fund was managed by a foreign finance institution, only 10% remained to be negative regarding the idea.

In conclusion, the idea of a rural investment fund is welcomed by the majority of respondents. There is, however, some degree of hesitation evidenced by the high percentages of respondents saying they are either neutral or “don’t know” if they are willing to invest. This implies that there is a perception about the conditions to invest in BiH to be much more complicated than is actually the case (according the interview with the two banking experts). The degree of interest appears to increase if a foreign institution were to manage the fund.

3.6 Risks

According to the target group, the greatest risks and the main factors that are holding back the development of the region are the unstable political situation, the corruption that permeates society, and the complexity of investing in BiH. The largest group of respondents (36%) chose the unstable political situation as reason for not investing in BiH.

With regards to perceived corruption, at the end of the war in BiH in 1995, the market was flooded by professional and amateur organisations raising funds for the development of BiH. In many cases the funds expended by these charity initiatives did not actually reach their targeted beneficiaries. This has made the Bosnian Diaspora wary when it comes to putting money towards charity ideas and projects. In order to mitigate Diaspora concerns toward possible investment, transparent and ongoing communication of goals, activities, and results will be necessary.. Another effort which could increase the target group’s interest and would help in addressing the perception of widespread corruption, is collaboration with an internationally reputable fund manager.

One of the main concerns of many in Diaspora is the potential risks associated with the fund. Many people find the BiH market too risky; investing in a fund for rural entrepreneurs carries even more risk. While the largest group of respondents were not sure of the level of risk, the remainder were evenly split between those that found the risk high and those that did not.

A final risk that should be considered arises out of ethnic/political divisions. The ethnic and geographic mixture of beneficiaries/clients of the fund could be unattractive for some investors/depositors. It is possible that potential investors or depositors might be dissatisfied if savings are used to develop a part of the population that is considered the enemy. Having said this, nothing in the discussions carried out confirms this.

3.7 Trust in finance institutions

There is an overall perception amongst the respondents that financial institutions in BiH are relatively stable and trustworthy organizations. Even though there is a clear reliability bias, there is no significant preference for national or international financial organizations within the target group; the majority of the respondents are neutral towards financial institutions in general. However, when asked who should manage the fund, there was a strong preference towards foreign agencies based in BiH.

Before the war, there was one major bank in Yugoslavia which was the Ljubljanska Banka. After the war, this bank remained active in Slovenia while many depositors from the other countries of the former Yugoslavia lost their savings and pensions. This has harmed the general reputation of banks substantially. However, banking professionals working in BiH as advisors to the banking system claim that banks are very solid in BiH and currently form no risk for savings and deposits. The only risks for banks are the political risks which are the same for local and foreign banks alike.

3.8 Details regarding the fund

When people were asked whether the fund could be successful, almost 70% responded positively while only 3.5% were negative or doubtful. Regarding the management of the fund, the largest group (70%) sees a foreign, i.e. non-Bosnian, organisation as the smartest choice to manage the fund. Regarding respondent interest in investing if the management were in the hands of a foreign organisation, 60% state they would invest while some 10% would not. This is a greater margin than the answers to the question posed about investment in general, suggesting that there would be a positive impact if a foreign organisation were to manage the fund.

3.9 Fund beneficiaries

The results of the survey show that the actual location for the beneficiaries is irrelevant; cantons or regions with most potential should be targeted first. Agriculture is definitely seen as one of the areas with highest potential, but this does not imply that agriculture should be the only sector addressed.

The vast majority of respondents believe that the fund should not focus on small farmers, but on small and medium enterprises (SMEs) and large corporations which can employ larger numbers of people. However, it should be pointed out that medium and large enterprises have much fewer problems with access to financing and therefore this is an interesting view of the respondents.

3.10 Savings

Sixty-seven percent of the target group have savings accounts with different levels of savings. The table below shows the variations of the size of these savings accounts among the respondents with saving accounts.

Q: How big are your current savings?	
€ 10.000 - € 19.999	12,50%
€ 20.000 - € 29.999	4,17%
€ 5.000 - € 9.999	29,17%
Above € 50.000	16,67%
Below € 5.000	37,50%

Cross-tabulation of the respondents' interest in the potential fund with savings levels as shown in the table above indicates a negative correlation between the size of the savings and positive response to the fund. This suggests that people are interested in the fund regardless of the size of their savings.

The next chapter will present a calculated estimation of the size of the savings based on these outcomes from the survey.

3.11 Conclusion

The conclusion is that the respondents are positive regarding the savings fund and investing in BiH with a rural development perspective. They are more positive when an international institution is leading the fund. The risks are important for them and should be carefully considered. The respondents also showed an interest in supporting BiH development on a non-financial level.

4 Feasibility scan of a Diaspora Savings Fund

The feasibility of the fund depends on two factors. First, the size of the total available funding from the Diaspora is discussed. Second, the size of the demand for finance or other support that is commercially viable and the additional cost of such a service are discussed. This chapter will present what kind of products could be created through the Diaspora savings fund.

4.1 Diaspora savings and interest in the fund

When the different outcomes of the survey, shown in Annex 3, are cross-tabulated with each other and averaged we can make a very rough estimation of the possible size of the total savings. By calculating the average savings and the interest in investing in the savings fund, rough conclusions can be made from what size of total savings; the savings fund can try to extract deposits. These conclusions and numbers will be presented below.

Of a sampling of 600 Diaspora, the average total size of savings from the respondents is approximately 345.000 Euro. The total savings estimate, based on the 13% of the sample that responded, is respectfully 107 million Euro. The size of the savings fund depends on the interest of the group and how much they would be ready to invest. The minimum size of the fund depends on management costs, market interest rates and the product/service. The structure of the fund will determine the management costs of the fund. For example, an internationally managed fund is more expensive than a locally managed fund.

4.2 Rural entrepreneurs' demand for finance

The demand for finance in rural areas by entrepreneurs is described in chapter two, which states that there is higher demand than what is supplied currently. Based on the evidence examined, demand of financial support is mostly characterized by need for working capital and investment capital; however, the lack in access to financial assistance is rather a symptom than a problem. The primary issue for rural entrepreneurs is a deficit in their management skills with symptoms such as a lack of access to finance. Therefore, simply increasing the amount of currently offered credit or creating other tools to increase access to financial support will not increase the access to finance immediately.

4.3 Implementation scenarios

4.3.1 *The origin of the institution to manage the savings fund*

According the survey, the interest of the Diaspora will increase substantially when the fund would be managed by an international (i.e. West European) institution.. There are several banks that offer services which would accommodate such a savings fund and these institutions should be considered as valuable partners.

However, there are arguments against international fund management. The management costs of such an international structure will be higher than if a BiH institution were to manage such a fund. Also, the prejudice that international institutions are more reliable or trustworthy is outdated according the interviewed bank experts.

4.3.2 *Rural credits*

There are several existing institutions offering micro credit organisations, such as EKI, in rural areas, which leads to the conclusion that the lack of access to finance is not related to a lack of possibilities to obtain finance. The scenario to start a rural micro credit programme is therefore not additional to the market. However, a gap in the finance market is the maximum of micro credits and the minimum of SME loans. Therefore, a missing middle credit line is additional in the rural market. However, existing MFIs and banks are able to expand their market in this direction as well, hence a new fund is not needed to be created for that. Therefore, starting a rural entrepreneurs' small credit fund should be structured as part of an existing institution in BiH, because starting a new institution to manage the credits is too expensive. If the savings fund would be an international operating bank, its international fund manager would act as the investor in

the local MFI and the local MFI would handle the actual credits. There are certain local MFIs with reputable backgrounds: Prisma, EKI, Mikrofin and Partner for MFIs and the Pro Credit Bank.

Interest rates should be market driven and not subsidized, as the subsidies distort market competitively and subsidies for regular costs are not sustainable on the long term. As shown in the second chapter, the market rate for small business loans is ca. 13% and the market rate for micro credits is between 15-20% (25-30% for household loans).

4.3.3 *Rural guarantees*

One of the major issues is a lack of access to finance for rural entrepreneurs is the collateral. First, collateral is often already used for household loans. Second, assets in rural areas are often valued lower. Finally, many entrepreneurs, especially rural ones, do not have any legally registered assets that can be used as collateral. An often used method is a guarantee letter from friends or relatives, which is a difficult and unsustainable system. Guarantees in general and when they are more structuralized, are an interesting solution. The SERDA, mentioned earlier, has a similar system and successfully increased the amount of rural entrepreneur credits.

The problem of guarantee funds is that they do not necessarily offer a market driven reliable investment. Banks and MFIs with a loan request based on a business plan should not need any collateral if the plans are healthy. If there is a doubt on the health of the plan – the bankability - collateral is requested by the bank to ensure they will retrieve the loan. The guarantee might therefore only help less healthy business plans to get finance. Some literature therefore claims that a guarantee fund is basically a subsidy for the banks to increase their portfolio. Also, the default rates could become very high, which increases the costs and finally, the risks would be too large for a commercial savings fund.

Another problem is the additional costs for the entrepreneur, especially if the default rates are very high. The interest rate of a guarantee is not very high (1 or 2%), but the default rate and the management costs are expensive (3.5-5%). These percentage points would be added to the interest for the loan and this will make the loan too expensive for the entrepreneur. The savings fund should reach also for a guarantee fund reach the size of about 30 million Euro.

4.3.4 *BDS fund*

As noted in the second chapter, the lack of access to finance appears to be more of a symptom of other problems on the side of entrepreneurs than a problem on its own. The actual problem is the lacking business skills of entrepreneurs and the lack of access to services. BDS market development and capacity development for entrepreneurs and service providers would be a solution, which can be done through a BDS fund.

A BDS fund is a financing or subsidizing mechanism to increase the access to services for entrepreneurs by covering part of the costs for the services. One problem for the BDS market is that it is impossible to develop, which is due to many entrepreneurs having a reluctance to pay for services and which decreases the access to BDS. Subsidizing the services is a short term solution, while financing is a possible long term solution. A stand alone commercial BDS fund would be that financing solution, however, this is unprecedented.

Because of the commercial approach of the Diaspora savings' fund, the BDS fund should be a revolving fund. A commercial revolving BDS fund has been tried before by adding services to loans and paying for the services through an increase of the interest rate. This was not sustainable because the services became obligatory – the banks would increase their turnover that way – and the selection of providers was not market driven which decreased the quality and raised the prices.

A commercial BDS fund which offers services to entrepreneurs on credit is a solution. Non-financial organisations offering credits need to have approval from a financial institution for each credit they provide in BiH. The system could therefore be based on an MFI. The challenge is on the side of the BDS provider, who might never get paid for many services they have provided. But the system to offer BDS would be market driven with the MFI as facilitator of the services and the payments. This project would also be interesting for the banks and MFIs, as the risk profile decreases and loans should be less defaulting.

Through international networks, general trainings to service providers (in all forms) are possible. Such an international network is for example PUM from the Netherlands (NL) which is a network of business experience-experts who are possible to engage by entrepreneurs to up-scale their business. There are several other voluntary systems for capacity development in developing and transitional countries. The savings fund for a BDS supply system will work differently compared to the voluntary systems, as the size of the fund does not need to be as large as the previous ones. However, the start-up period of a BDS fund will need to be subsidized to increase the sustainability and decrease the user costs.

4.3.5 *Direct financing platform*

Instead of a general fund for rural entrepreneurs, the fund could also become a platform for people to work together directly with the entrepreneur of their choice. The financial product could be anything they need: guarantee, loan, BDS, assets, etc. depending on what the entrepreneur needs and the depositor accepts. The depositors can be relatives, friends and or so called business angel – people who invest in a business through whatever kind of financial product. Business Angels are well established entrepreneurs who 'adopt' an entrepreneur and provide finance, skills and knowledge. In return, the angel expects shares of the company and hopes that they will reach a certain return on investment.

The business model for such a platform is difficult. If costs occur, the incentive for the Diaspora to use the platform and pay for this should be well developed. Certain services should be offered such as reliable control and monitoring, some general BDS and trainings, financial management support to the entrepreneur, etc.

A combination with a loan product that is provided by the savings fund as presented in the first scenario is also possible. The business cases which are supported by specific depositors go through a graduation system and therefore get easier access to the loans from the system.

4.4 **Fundraising**

This paragraph will briefly show the fundraising aspects including marketing towards the Diaspora and grants from donors.

4.4.1 *Diaspora savings*

The calculation above shows that the very rough estimated size of the fund could potentially be 107 million €. Bosnian Diaspora are living throughout Europe, the United States, Canada, and Australia. To reach the complete target group, several marketing efforts will have to be implemented..

An issue in the creation of this savings fund is that many people within the Diaspora have deposited their savings at a long term savings package, thus preventing them from easily redistributing. The fund design should accommodate to this hindrance.

The international level of the fund also incurs challenges. The costs are high and even though respondents implied that they would prefer an international operating institution, the fact that Diaspora will use savings to support rural population in BiH while an international organisation receives earnings on that, might not be received positively.

4.4.2 *Returnee and rural savings*

The information collected through the interviews in BiH and provided in the first chapters shows that rural Bosnian communities do have bank accounts, but that most rural households store savings at home and difficult to attract to a savings fund. According the Bosnia-Herzegovina National Bank, the amount of money saved at banks in Bosnia is 3.9 billion KM, which is an average of about 900 KM per person. The estimate is that it will be very difficult to reach a threshold amount of savings for the fund in Bosnia. Therefore our conclusion is not to pursue this path separately but in a joint effort of an international effort.

4.4.3 Grants for starting-up the savings fund and service in BiH

Fundraising to finance the start-up of the Savings Fund will ensure long-term sustainability and decrease the costs of taking a loan for the direct beneficiaries. Fundraising for BiH is increasingly difficult because of retreating international organisations and other donors, and many subsidy programmes have been and will be discontinued. In fact, as mentioned at the start of the report, the idea of developing a Diaspora-savings fund for rural Bosnian entrepreneurs was also established because of the urge to find replacing tools for rural development in BiH because the funding was being cut.

4.5 SWOTS

To assess the above scenarios, it is important to compare them based on their opportunities, threats, strengths and weaknesses (SWOTs). Summarizing from the above, the following can be listed on the SWOTs of the scenarios above.

Scenario	Opportunity	Threat	Strength	Weakness
Inter'l fund manager	Reliability	-	Close to the savings market	Expensive
Nat'l fund manager	Logical partner	Corruption Unreliable	Less expensive	-
Rural credits	Market extension	Not additional	Demand	Not additional
BDS fund	Effective	No demand	Effective	Inefficient
BDS and MFI	Effective	Mixing markets	Market / network	-
Guarantees	Demand	Banking subsidy	Effective	Expensive
Direct finance platform	Innovative	No demand No interest / supply	Cooperation Knowledge Not expensive	Too small

5 Conclusion

This chapter will provide:

1. a short conclusion regarding the financial products in BiH and the possible scenarios as presented in the chapter above;
2. a short description of the services and possible scenarios as solution to improve access to (financial) services;
3. a brief review of the outcomes of the survey as shown in chapter 3;
4. a draft of potential follow-up project ideas.

5.1 Financial products

Concluding from the field interviews and from other studies, access to finance is insufficient for rural entrepreneurs. There seems to be sufficient capital in the market, but there are many limitations for rural entrepreneurs to obtain a loan. These limitations are lying in the area of high interest rates or collateral criteria. . There seems to be a demand for additional financial products that would expand the market for the missing middle and improve the access to finance for rural entrepreneurs.

However, another conclusion related to the limited access to finance, broadly shared among institutions in BiH, is that the low access to financial support for entrepreneurs is more a symptom than a problem – elaborated in the second chapter. Financial products may still be a solution for the business development of the entrepreneurs as many lack in the necessary business skills. This lack of skill may be the key to resolve a large barrier to access to financial assistance.

In chapter 4, several scenarios were presented for rural financial products such as credits especially targeted to remote rural entrepreneurs, guarantees for loans for remote rural entrepreneurs, direct financing or direct financing platform. A credit line should be made in addition to existing products, which could, for example, be an option to address the “missing middle”.

5.2 Services

Based upon the results of the interviews, business services are hard to access for rural entrepreneurs and if there is availability, these programmes are of very basic level and quality. Since services tend to be free of charge, commercial providers present no interest in supplying services in rural areas according the interview outcomes. The study conducted by USAID/SIDA adds to this argument by illustrating that the lack of skills and solutions for this gap is a larger development constraint for rural entrepreneurs than access to finance.

As described in the scenario for a BDS fund in chapter 4, connecting business services to financial services is disputed. One , perspective is that this linkage is positive as the result of cost sharing and the formation of networks between institutions. However, the combination may also be a constraint as service-only or finance-only contracts might become unattractive to offer. Also the lacking independence of the service provider towards the client is unattractive.

5.3 Survey

The interest of the Diaspora in the fund is positive, as shown in chapter 3. Also, the general commitment of the respondents to the development of the country is positive, as was expected based on the outcomes of the IOM research in Austria. This outcome not only relates to the fund but also to other possibilities where Diaspora can be mobilized to invest non-financial resources into the country, for example by contributing skills and network.

As shown in chapter 4, through calculation of the survey outcomes and the size of the Diaspora, one could calculate that the total size of the fund could be raised up to 107 million Euro.

If the target group were to deposit 10% of their savings, the fund would reach a size of about 11 million Euro. The size of the fund would therefore be too small to exist on its own. Therefore, if one would decide to start the fund anyhow, it is recommended to work together with reliable existing organizations in order to keep the costs as low as possible..

5.4 Next phase

The results exhibited throughout this report are based on the data obtained via a field interviews and a survey. To start any commercially run service to support rural entrepreneurs, a thorough feasibility study and the creation of an extensive business plan are needed. In addition to this recommendation, those seeking to improve financial support for rural entrepreneurs must cooperate with existing organizations and conduct a thorough partner analysis.

For a business plan, it is to be expected that around 60.000-80.000 Euro needs to be raised. For the implementation, another 90.000-120.000 Euro should be raised. All kinds of in-kind contributions not calculated. If these costs are to be covered by the Diaspora savings fund, they will push the costs of the fund. Hence, for sustainability reasons, it is recommended to raise a grant for these initial costs.

5.5 Conclusion

The final conclusion is that at this stage it is unfeasible to start any of the scenarios presented in chapter 4. First, the size of the expected Diaspora savings that will be deposited in the fund is too small to run a new additional financial service for rural entrepreneurs. Second, raising funds for an existing financial services organisation among Diaspora is not additional. Finally, starting a service fund needs substantial funding for research and development which is currently unavailable.

Annex 1

LIST OF MEETINGS

Who	Type or service	Activities they perform
EGW / Gacko project - Vehid Tanovic	BDS Returnees	Setting up a returnee community project to create employment and revitalize community
Embassy of the Kingdom of NL - Riny Bus	Donor	Supporting development projects
UNDP - Peter van Ruysseveldt - Ismar Ceremida	BDS	Value chain development projects
Dario Vinc	Finance	Banking reform (USAID, Chemonics) and investor (49 consultancy and investments)
UNHRC - Lejla Ridjanovic	Returnee communities	Returnee community development
SERDA - Zanaida Porobic - Asad Karisik	BDS Finance	Regional development agency
Irfan Polimac	Finance	Financial markets expert, founder of Society of Market Studies.
Pro Credit Bank - Biljana Hadzimustafic-Jevtic	Finance	Banking, rural banking
Raiffeisen Bank - Michael Muller - Edin Cehajic	Finance	Banking, mainstreet
Worldbank - Mirjana Karahasanovic	Donor	Development banking
REDAH - Ivica Sivric - Hamzo Tula - Ramo Babanic (municipality)	BDS	Regional development agency (like SERDA, different region)
FGD - Sejdeja Sot Koprda - Munir Boric - Hakija Zelic - Refik Boloban - Amra Murtic	Entrepreneurs	Farmers
SIDA - Anders Hedland	Donor	Swedish development agency. Involved with various projects including some of the above.
EKI - Sadina Bina	Finance	Micro Credit Organisation
EKN - Fatima Krivosija	Donor	Supporting development projects
MDG-F - Sasha Barnes	IOM	Supporting youth employment and migration
Coop Milinar - Nihad Imsirovic	Cooperative in Zavidovici	Rural business
REZ - Maja Kisic	Regional Economic Development Agency, Zenica	Business development
PREDA - Bojan Jojic	Regional Economic Development Agency, Prijedor	Business development, fund management
Central Bank - Snezana Janjic	Financial institution, statistical department	Monetary policy, financial statistics in BiH

Annex 2

LITERATURE LIST

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Annex 3

SURVEY OUTCOMES

General

I am very attached to my country of origin	
1 - Absolutely agree	50,94%
2 - Tend to agree	32,08%
3 - Neutral	9,43%
4 - Tend to disagree	1,89%
5 - Absolutely disagree	5,66%
Grand Total	100,00%

I am closely following the developments in BiH	
1 - Absolutely agree	28,30%
2 - Tend to agree	32,08%
3 - Neutral	13,21%
4 - Tend to disagree	16,98%
5 - Absolutely disagree	5,66%
6 - I don't know	3,77%
Grand Total	100,00%

I feel I should contribute towards a better economical situation in BiH	
1 - Absolutely agree	32,08%
2 - Tend to agree	39,62%
3 - Neutral	11,32%
4 - Tend to disagree	7,55%
5 - Absolutely disagree	5,66%
6 - I don't know	3,77%
Grand Total	100,00%

I am doing enough to improve the economical situation in BiH	
1 - Absolutely agree	11,32%
2 - Tend to agree	26,42%
3 - Neutral	20,75%
4 - Tend to disagree	20,75%
5 - Absolutely disagree	11,32%
6 - I don't know	9,43%
Grand Total	100,00%

I believe Diaspora can strengthen the economical development in BiH	
1 - Absolutely agree	47,17%
2 - Tend to agree	32,08%
3 - Neutral	3,77%
4 - Tend to disagree	7,55%
5 - Absolutely disagree	5,66%
6 - I don't know	3,77%
Grand Total	100,00%

In BiH, there is too much corruption in all layers off society	
1 - Absolutely agree	43,40%
2 - Tend to agree	33,96%
3 - Neutral	5,66%
4 - Tend to disagree	1,89%
5 - Absolutely disagree	13,21%
6 - I don't know	1,89%

Savings

Do you have savings (including investments)?	
No	32,08%
Yes	67,92%
Grand Total	100,00%

How big are your current savings?	
€ 10.000 - € 19.999	12,50%
€ 20.000 - € 29.999	4,17%
€ 5.000 - € 9.999	29,17%
Above € 50.000	16,67%
Below € 5.000	37,50%
Grand Total	100,00%

How many months of living expenses could be safely covered by your current savings?	
Between 4 and 12 months	30,19%
Less than 4 months	15,09%
More than 12 months	18,87%
(blank)	35,85%
Grand Total	100,00%

Investing

What factor would you consider most important before choosing an investment option?	
How quickly I will be able to increase my wealth	5,66%
Other, please specify...	3,77%
The amount of monthly income the investment will generate	13,21%
The opportunity for steady growth	24,53%
The safety of my investment principal	39,62%
(blank)	13,21%
Grand Total	100,00%

When it comes to investments (excluding savings accounts), I would describe myself as...	
Experienced investor	3,77%
Somewhat experienced investor	20,75%
Somewhat inexperienced investor	39,62%
(blank)	35,85%
Grand Total	100,00%

Are you considering investing in BiH?	
I already invested in BiH	15,09%
Maybe	35,85%
No	22,64%
Yes	26,42%
Grand Total	100,00%

What would stop you from investing in BiH?	
Financial crisis	3,77%
Instable political situation	35,85%
Lack of investment opportunities	1,89%
Lack of trust in financial institutions	13,21%
No savings/remittances	15,09%

What would stop you from investing in BiH?	
Other (please specify)	5,66%
The conditions to invest in BiH were more complicated than anticipated	24,53%
Grand Total	100,00%

"I am interested in investing in a fund aimed at improving the economic situation in BiH"	
1 - Absolutely agree	18,87%
2 - Tend to agree	35,85%
3 - Neutral	16,98%
4 - Tend to disagree	13,21%
5 - Absolutely disagree	7,55%
6 - I don't know	7,55%

If there was a fund set up for redevelopment in BiH, which was managed by an EU reputable institution where all diaspora can deposit their savings from Western EU banks to this fund in BiH, would you consider depositing your savings?	
I don't know	22,64%
No	7,55%
Yes	69,81%
Grand Total	100,00%

I am interested in investing in this fund	
1 - Absolutely agree	11,32%
2 - Tend to agree	49,06%
3 - Neutral	0,00%
4 - Tend to disagree	7,55%
5 - Absolutely disagree	1,89%
6 - I don't know	30,19%
Grand Total	100,00%

This fund can be successful	
1 - Absolutely agree	24,53%
2 - Tend to agree	45,28%
4 - Tend to disagree	1,89%
5 - Absolutely disagree	1,89%
6 - I don't know	26,42%
Grand Total	100,00%

Banks

I trust banks/MFI's in BiH	
1 - Absolutely agree	1,89%
2 - Tend to agree	13,21%
3 - Neutral	35,85%
4 - Tend to disagree	28,30%
5 - Absolutely disagree	3,77%
6 - I don't know	16,98%
Grand Total	100,00%

I trust foreign banks/MFI's in BiH more than the local ones	
1 - Absolutely agree	9,43%
2 - Tend to agree	24,53%
3 - Neutral	41,51%
4 - Tend to disagree	5,66%

I trust foreign banks/MFI's in BiH more than the local ones	
5 - Absolutely disagree	7,55%
6 - I don't know	11,32%
Grand Total	100,00%

Should be managed by foreign agency	
1 - Absolutely agree	26,42%
2 - Tend to agree	26,42%
4 - Tend to disagree	20,75%
5 - Absolutely disagree	3,77%
6 - I don't know	22,64%
Grand Total	100,00%

Sectors

Which sector in BiH requires investing the most	
Agriculture, Fisheries, Forestry	20,75%
Construction	3,77%
Education & Childcare	26,42%
Engineering	3,77%
Healthcare	11,32%
Manufacturing & Production	11,32%
Other, please specify....	3,77%
Social work/Non-profit	3,77%
Tourism & Hospitality	7,55%
Transport and Logistics	7,55%
Grand Total	100,00%

Do you think agriculture is a potential investment opportunity in BiH?	
I don't know	15,09%
Yes	84,91%
Grand Total	100,00%

This fund should focus primarily on agriculture	
1 - Absolutely agree	3,77%
2 - Tend to agree	45,28%
4 - Tend to disagree	20,75%
5 - Absolutely disagree	3,77%
6 - I don't know	26,42%
Grand Total	100,00%

I think the beneficiaries of this fund should be:	
Large corporations who can employ large numbers of people	30,19%
Small farmers	20,75%
Small to medium-sized enterprises	49,06%
Grand Total	100,00%