

The Negative Long Term Effects of Remittance Inflow in Bosnia and Herzegovina

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Abstract

It is a well known fact that, as a consequence of the 1992-95 war, Bosnia and Herzegovina is one of the leading remittance receiving countries in the world, the inflow making up a significant percentage of the country's GDP. This paper will analyze the effects of remittances on social aspects of life in Bosnia and Herzegovina for those left behind. It will argue that for the most part, the initial purpose of remittances was helpful in re-building the economy and society of Bosnia and Herzegovina having had significant short term effects. However, the long term effects of remittance inflow in the country are less favorable and have in many ways led to the deterioration of Bosnia and Herzegovina, in the economic and social sense, having a negative effect on its growth and productivity. It will also specifically discuss the effects of remittances on education in particular and the youth brain drain caused by the inflow.

Key Words: remittances, Bosnia and Herzegovina, Brain drain, migration, Diaspora

Introduction

Remittances play a crucial role in many countries' economies, sometimes making up a very significant portion of the gross domestic product. How the inflow of remittances is used and whether their effects are strong enough to create significant impact on microeconomic and macroeconomic levels has been debated. While some authors argue that remittance inflow provides positive effects on a country's economy through growth and productivity, others state that the effects are minimal and even detrimental in some cases.

With regards to Bosnia and Herzegovina, a country that experienced significant migration specifically in the periods after the World Wars, remittance inflow is significant and has a clear impact on gross domestic product. The effects of these remittance inflows have often been considered positive, although much analysis and data is lacking most notably due to the country's poor post-war bureaucratic system. Regardless, many citizens left in Bosnia and Herzegovina have been depending and living with aid from remittance inflows causing many to argue that remittances drastically helped boost the war torn (Bosnian war) economy because of this.

However, upon further analysis of not only the economic situation of Bosnia and Herzegovina but the social one, one comes to see the detrimental patterns that have formed. Not only have remittance inflows slowed economic growth and productivity by helping reinforce an already corrupt government reliant on such inflows, but also by forming a nation reliant on "free aid", unwilling to better the situation in their home country but rather search for ways to migrate elsewhere. This paper will not only discuss these points but will ultimately through migration and Diaspora data show the detrimental long term effects created by the inflow of remittances resulting in a massive brain drain in Bosnia and Herzegovina.

Remittances and Bosnia and Herzegovina

In order to deduce the role remittances play in Bosnia and Herzegovina, it is important to outline the major migration flows of the country. Assuming that emigration prior to the Second World War is insignificant with regards to remittances today (although it is interesting to note that remittances played a large role in the economy of Yugoslavia), we will take into consideration only the migration flows prior to this time period. By doing so, we can identify three major migration flows that are significant to our analysis.

- 1. Emigration of labor force in the 1960's and 1970's.** At this time, the territory today known as Bosnia and Herzegovina was part of the former Socialist Federal Republic of Yugoslavia (Yugoslavia). Yugoslavia experienced economic slowdowns resulting in

unemployment in the 1960s and 1970s causing the government to ease restrictions pertaining to emigration. This period highlights the first large migration flow of Bosnians (labor migrants) to various parts of the world including, Australia, America (including Canada) and to the countries of Western Europe such as Germany, Austria and Switzerland. The education level of emigrants during this period was low and medium-educated.¹

2. **The war in Bosnia and Herzegovina, 1992 – 1995.** The war saw a large migrant population of low, medium and highly-educated Bosnians due to conflicts in the country. Due to the nature of this migration flow, the areas to which migrants fled ranges greatly. Here we saw migrations ranging from countries of the European Union, North America and Australia.
3. **Post war migration, 1996 and onwards.** The third major migration flow pertains to the period prior to the war in Bosnia and continues nowadays. This migration flow will be discussed in more detail later in this paper.

With regards to remittances and their role in Bosnia and Herzegovina nowadays, the most significant migration flow we will take into consideration is the second one pertaining to the emigration caused by the Bosnian war. As a consequence of the war in Bosnia and Herzegovina between 1992 and 1995, there were massive forced migration outflows from the country. The number of refugees that fled Bosnia and Herzegovina at this time to various countries around the world, as mentioned earlier, is estimated to be over one million people.² Today, this dispersed population makes up a large portion of the already existing Bosnian Diaspora (mainly from emigration of the 1960s and 1970s). As of 2010, The World Bank estimates that the stock of emigrants from Bosnia and Herzegovina is 1.461 million.³

With an emigrant stock of such proportions, it is easy to see how Bosnia and Herzegovina has become one of the top remittance receiving countries in the world. In 2004, Bosnia and Herzegovina was the second highest receiver of remittances in Eastern Europe and the Former Soviet Union, with USD 2.072 billion in remittances coming into the country that year. In 2009, Bosnia was fifteenth in the world for top remittance receiving countries, with remittance payments making up 13 percent of the country's Gross Domestic Product (Figure 1).

¹ Bosnia and Herzegovina Ministry of Security, *Bosnia and Herzegovina Migration Profile: for the year 2010*, (Sarajevo: Immigration Sector, 2011), 68.

² Carl Dahlman and Gearard Toal, "Broken Bosnia: The Localized Geopolitics of Displacement and Return in Two Bosnian Places", *Annals of the Association of American geographers*, Vo. 95, No.3 (2005): 644.

³ World Bank, *Migration and Remittances Factbook 2011*, (Washington DC, World Bank Publications, 2010), 77.

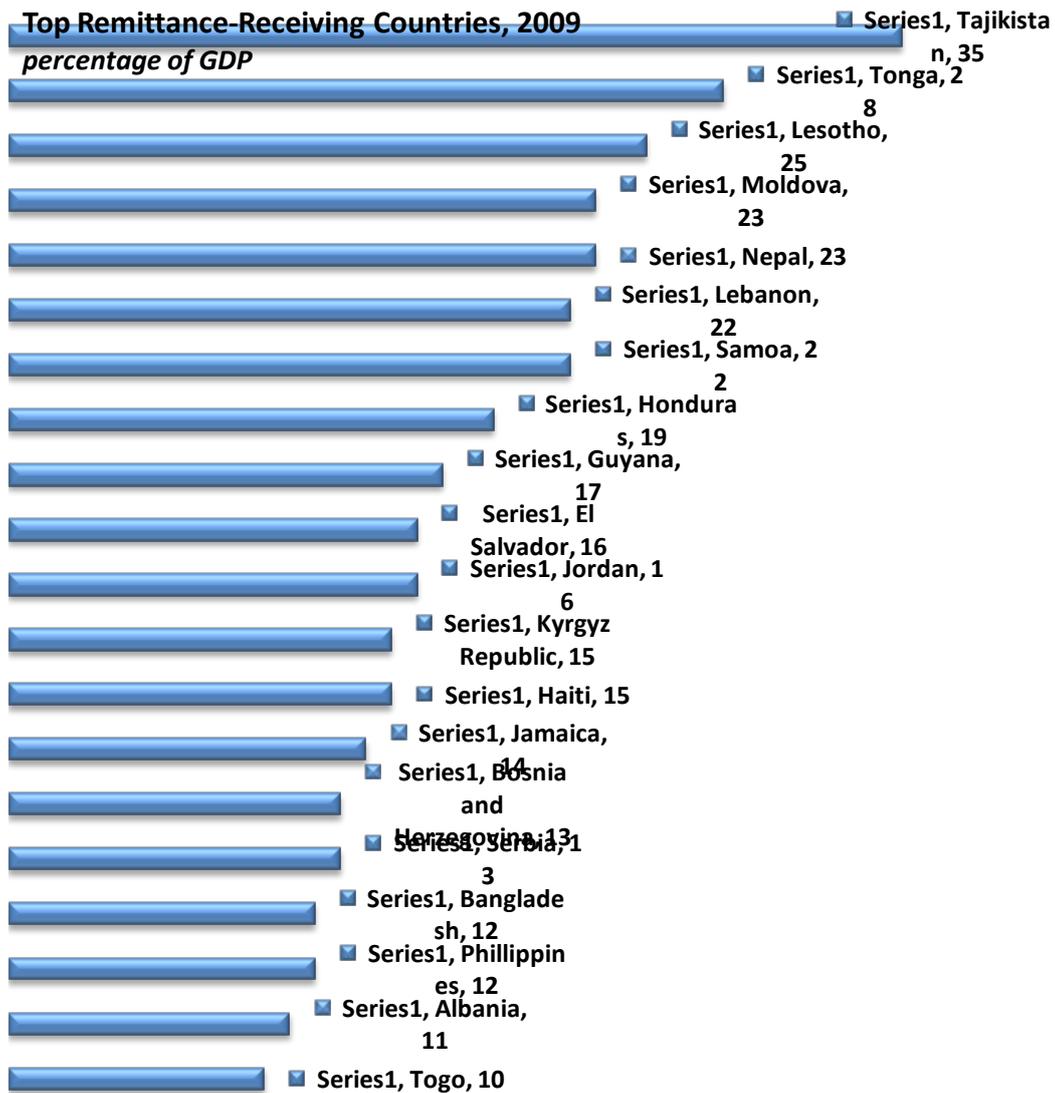


Figure 1. Top Remittance Receiving Countries, 2009

Source: Development Prospects Group, World Bank

Advantages of remittances to Bosnia and Herzegovina

Remittances have always been a subject of ever growing interest to economic and other scholars. Literature used to focus more on the concept or remittances in general, the motivation for remitting and such, while the modern approach is focusing more on the impacts of remittances on developing countries rather than the analysis of remittances. The impacts of remittances, both on macro and micro levels, are generally considered positive. The impacts that remittances have on the developing countries they are being sent to include their direct impact on income distribution, poverty alleviation and individual welfare. Subsequently, remittances can impact the economy as a whole from employment to productivity and growth. They have also been known as a means of

covering deficits in the trade balance as well as in the current account.⁴ As a developing country with a large Diaspora, Bosnia and Herzegovina tops most remittance-receiving lists.

Although many fled or were forced out of Bosnia and Herzegovina during the war period (and afterwards), many family members, whether internally displaced or not, remained within the country. Some refugees also decided to return although an exact number of those that left and/or returned is hard to determine as an official census has not been conducted since the year 1991. Regardless, those that remained and/or returned found themselves the beneficiaries of various gifts, usually in the form of money given by the Bosnian Diaspora. These remittance payments provided aid to those left behind, helping to sustain economic and social life in their communities.

In post war Bosnia and Herzegovina, where even after the signing of the Dayton Peace Agreement in 1995 there was an absence of state welfare institutions and employment possibilities (among other issues), remittances were of great importance to most households. This is further suggested by a survey conducted in 1999 of income sources of women in Bosnia and Herzegovina where nearly one-fourth of those surveyed “listed remittances among the top three sources of household income.”⁵ In this way, remittances helped those left behind in Bosnia and Herzegovina to survive difficult economic situations as well as receive health care and education that was lacking during the post war years.

If we take into consideration the real growth rate of the growth domestic product in Bosnia and Herzegovina (Table 1), it is clear that there was a significant increase in GDP in the post war period with rates of 5 percent and 8 percent in 1999 and 2000 respectively.

Table 1. GDP – Real Growth Rate (%)

GDP	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
growth rate (%)	5	8	6	2.3	3.5	5	5	6	6	5.5	-3.2	0.8

Source: CIA World Factbook

Similarly, remittances received from Bosnian emigrants (Table 2) show a steady increase in the value in USD coming into Bosnia and Herzegovina every year.

⁴Organization for Economic co-operation and Development, *International Migration Outlook*, (OECD, 2006), 153.

⁵ Marita Eastmond, *Transnational Returns and Reconstruction in Post-war Bosnia and Herzegovina*, (Oxford: Blackwell Publishing Ltd., 2006)

Table 2. Remittances from BiH Emigrants

Remittances	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World Bank (In million USD)	1.521	1.526	1.749	2.072	2.043	2.157	2.700	2.735	2.167	2.228

Source: World Bank

It is important to note that there are no analyses on the use of remittances in Bosnia and Herzegovina and therefore it is difficult to determine for which purpose remittances are being used. However, it is generally presumed that the majority of remittances are being used for consumption. This is a good presumption since both remittances and GDP show yearly increases, and consumption being a main component of GDP, we can conclude that the increase in remittances yearly that are mainly being used for consumption, contribute to the GDP increase. In fact, in 2009, most likely due to the financial crisis, remittances to Bosnia and Herzegovina showed a significant drop. At the same time, GDP has also significantly dropped (Figure 2).

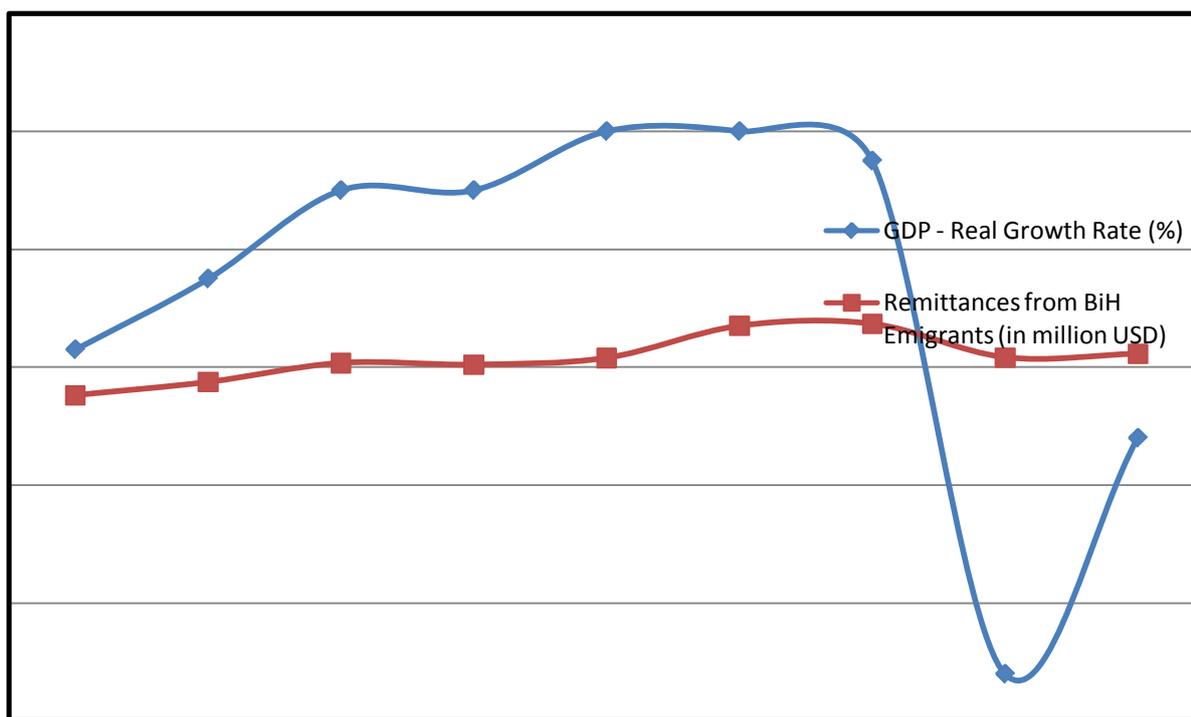


Figure 2. GDP and Remittances for Bosnia and Herzegovina

Based on this data it can be said that remittances helped boost the economy of post war Bosnia and Herzegovina, and in some respects continue to help the economy today contributing to the overall GDP. In a country where “government bureaucracy absorbs a staggering 50 percent of the gross

domestic product and the average monthly wage is about USD \$450”⁶, remittances, even if only used for consumption, definitely provide a necessary boost to household incomes.

Long term effects of remittances to Bosnia and Herzegovina

While the short term effects of remittances, which initially helped those left behind in Bosnia and Herzegovina whether through difficult situations caused first by the war and later by bureaucratic failures, were of considerable help to the economy of Bosnia; the long term effects seem to show a different result.

As mentioned before, remittances to Bosnia and Herzegovina are presumably mainly used for consumption which according to some economic theories helps boost the receiving country’s economy on a whole. Ratha argues that “Remittances directly augment the income of recipient households. In addition to providing financial resources for poor households, they affect poverty and welfare through indirect multiplier effects and also macroeconomic effects” (Ratha, 2007). Although this may be true for some countries such as Moldova whose spike in gross national disposable income helped spur economic growth, all during a period characterized by high levels of remittances⁷, Bosnia and Herzegovina seems to show otherwise.

For one, the role of remittances in alleviating poverty and inequality in Bosnia and Herzegovina is greatly debatable. Most remittance inflows to Bosnia and Herzegovina are not pro-poor, according to Oruc (Oruc, 2010). Not only do a larger number of non-poor households in Bosnia and Herzegovina receive remittances, but the average amount they receive is nearly twice the amount received by poor households. With regards to decreasing inequality, the average amount of remittances received steadily increases from the poorest to the richest decile.⁸ Based on this data, the role of remittances in affecting poverty and inequality in Bosnia and Herzegovina can be considered minimal.

When considering remittances used mainly for consumptive purposes, it can also be argued that their multiplier and macroeconomic effects are not as significant as would be remittances were saved or invested. If households were to save or invest part of the remittance payments they received then the micro and macroeconomic effects would be greater. Specifically, investing in entrepreneurial ventures would benefit Bosnia and Herzegovina in the long run especially with an estimated 43.3 percent unemployment rate in 2011, according to the CIA World factbook. Not to

⁶Dan Bilefsky, “War’s Lingering Scars Slow Bosnia’s Economic Growth,” *The New York Times*, February 7, 2009.

⁷Ali Mansoor and Bryce Quillin, ed., *Migration and Remittances: Eastern Europe and the Former Soviet Union* (Washington DC: World Bank Publications, 2007), 66.

⁸ Bosnia and Herzegovina Ministry of Security, *Bosnia and Herzegovina Migration Profile: for the year 2010*, (Sarajevo: Immigration Sector, 2011), 4.

mention, how remittance inflow to Bosnia and Herzegovina showed a decrease between 2009 and 2010 and despite expectations from the World Bank that remittances were to show a trend of recovery in the country between 2010 and 2012, no such recovery was visible.⁹ If remittance inflow into Bosnia and Herzegovina continues to decrease, so will consumption. What will be left is a population and country with consumer habits far beyond their financial means and which cannot be maintained without outside support. Unfortunately, Bosnia and Herzegovina is already showing signs of this and is very likely to suffer from the “Dutch disease” – when “the inflow of remittances causes a real appreciation, or postpones depreciation, of the exchange rate, restricting export performance and hence possibly limiting output and employment”¹⁰. Such negative long term economic effects, some of which can already be seen such as Bosnia and Herzegovina’s limited exports and high unemployment, are only one portion of the overall negative effects that remittance inflows into Bosnia and Herzegovina have on the country.

Educational investments from remittances in Bosnia and Herzegovina are arguably non-existent. Although there are no analyses of the use of remittances, only the assumption that the majority of them are used for consumption, it can be assumed that very little are used for education since education in Bosnia and Herzegovina is highly subsidized.

From a social aspect, remittances can cause those receiving them to become psychologically dependent on them, and therefore cause them to feel less obliged to work. Although remittances are meant to act as a reserve or provide supplementary financial aid to a household income or as a potential investment in entrepreneurial ventures, as previously mentioned remittances have been mostly used for consumption purposes. In this way, not only are they not contributing to greater job creation in Bosnia and Herzegovina, but in some ways they are worsening the situation. The recipients of remittances become more or less reliant on these payments and, expecting them to arrive on a regular basis, do not bother to look for a job or even to invest the money in ventures within Bosnia and Herzegovina. This is evident from the rising unemployment rate, nearing 44 percent in 2011 according to the CIA World Factbook.

Nowadays in Bosnia and Herzegovina not only is unemployment at a high but social response to these figures is low. Most people do not show concern since they either do not want to work or intend to find work outside of the country; the youth in particular is in this de-motivated state. Knowing that a “rich” uncle from Sweden will send money or better yet, send for them, makes the

⁹ Bosnia and Herzegovina Ministry of Security, *Bosnia and Herzegovina Migration Profile: for the year 2010*, (Sarajevo, Immigration Sector, 2011), 72-73.

¹⁰ Ali Mansoor and Bryce Quillin, ed., *Migration and Remittances: Eastern Europe and the Former Soviet Union* (Washington DC: World Bank Publications, 2007), 66-67.

youth care less about the economic situation in their country. This mentality has more or less become the social norm among remittance receiving households and has arguably helped in the deterioration of the government, which virtually unopposed finds itself able to get away with corruption and injustice. One example in this direction is the condition of the national pension scheme in Bosnia and Herzegovina which for years now has been in critical condition. Many elderly citizens left in Bosnia and Herzegovina receive remittance payments, thus the desire to protest or demand reforms from the government is more or less non-existent. The government, relying on the continuous inflow of remittances, feels it can slack on its social reforms.

The greatest negative effect remittances have had and can contribute to having in the long run is with regards to further migration and the loss of labor force. It is well known that Bosnia and Herzegovina suffered a huge loss of population due to various migration periods, the most significant being due to the Bosnian war. With an estimated 43 percent of potential human capital already living outside of Bosnia and Herzegovina (Table 3), it can be said that Bosnia experienced a great brain-drain which continues to occur.

Table 3. The Data on the Number of Emigrants from BiH, Estimates by the Ministry for Human Rights and Refugees of Bosnia and Herzegovina, 2010¹¹

Host Country	Number of Migrants from Bosnia and Herzegovina
USA	350,000
Germany	240,000
Croatia	300,000
Serbia	150,000
Austria	150,000
Slovenia	150,000
Sweden	80,000
Switzerland	60,000
Australia	60,000
Canada	50,000
Italy	40,000
Denmark	23,000
Norway	16,000
Total	1.669,000

¹¹ Bosnia and Herzegovina Ministry of Security, *Bosnia and Herzegovina Migration Profile: for the year 2010*, (Sarajevo: Immigration Sector, 2011), 70.

In the year 2000, 23.9 percent of the tertiary educated population of Bosnia and Herzegovina emigrated (Figure 3). In other words, Bosnia and Herzegovina has the second largest tertiary educated emigrant population out of all European and Central Asian Countries.

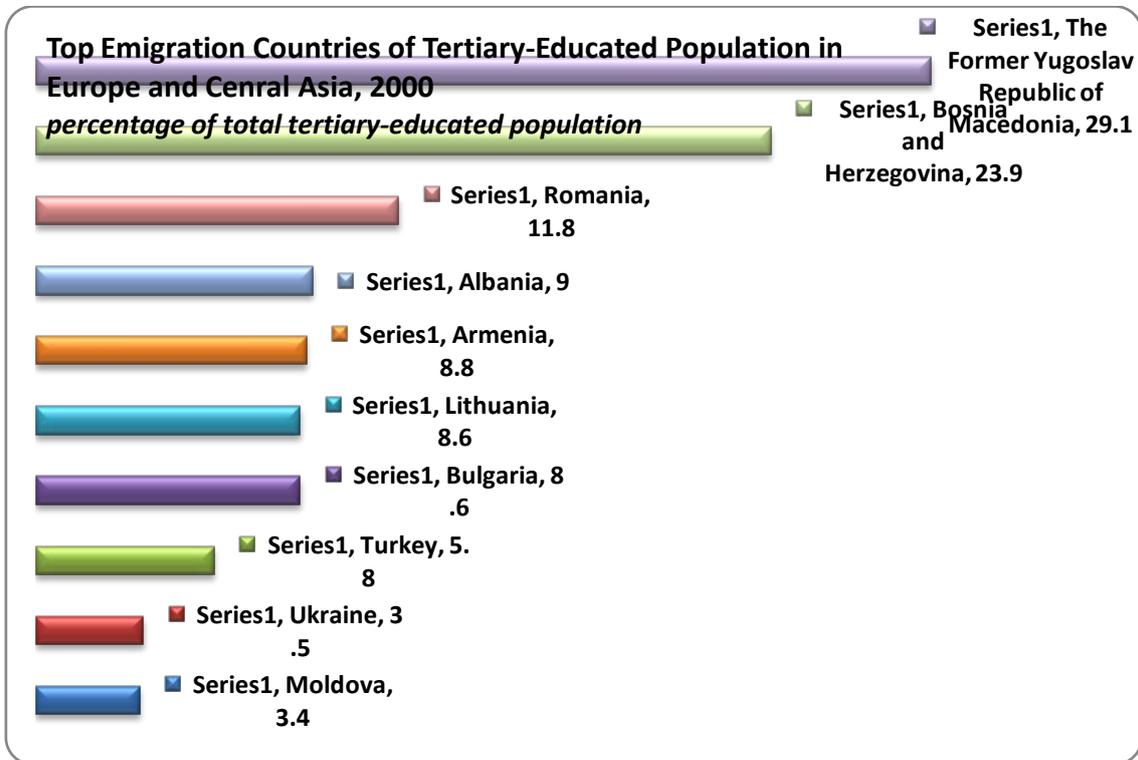


Figure 3. Top Emigration Countries of Tertiary-Educated Population in Europe and Central Asia, 2000
Source: Migration and remittance Factbook - World Bank Publications, 2011.

Bosnia and Herzegovina also tops the list for top emigration countries of Physicians, also in the year 2000, with approximately 12.7 percent of all physicians trained in Bosnia and Herzegovina emigrating (Figure 4). That is an estimated 705 physicians emigrating in 2000 alone, and a significant loss to Bosnia’s health care system.

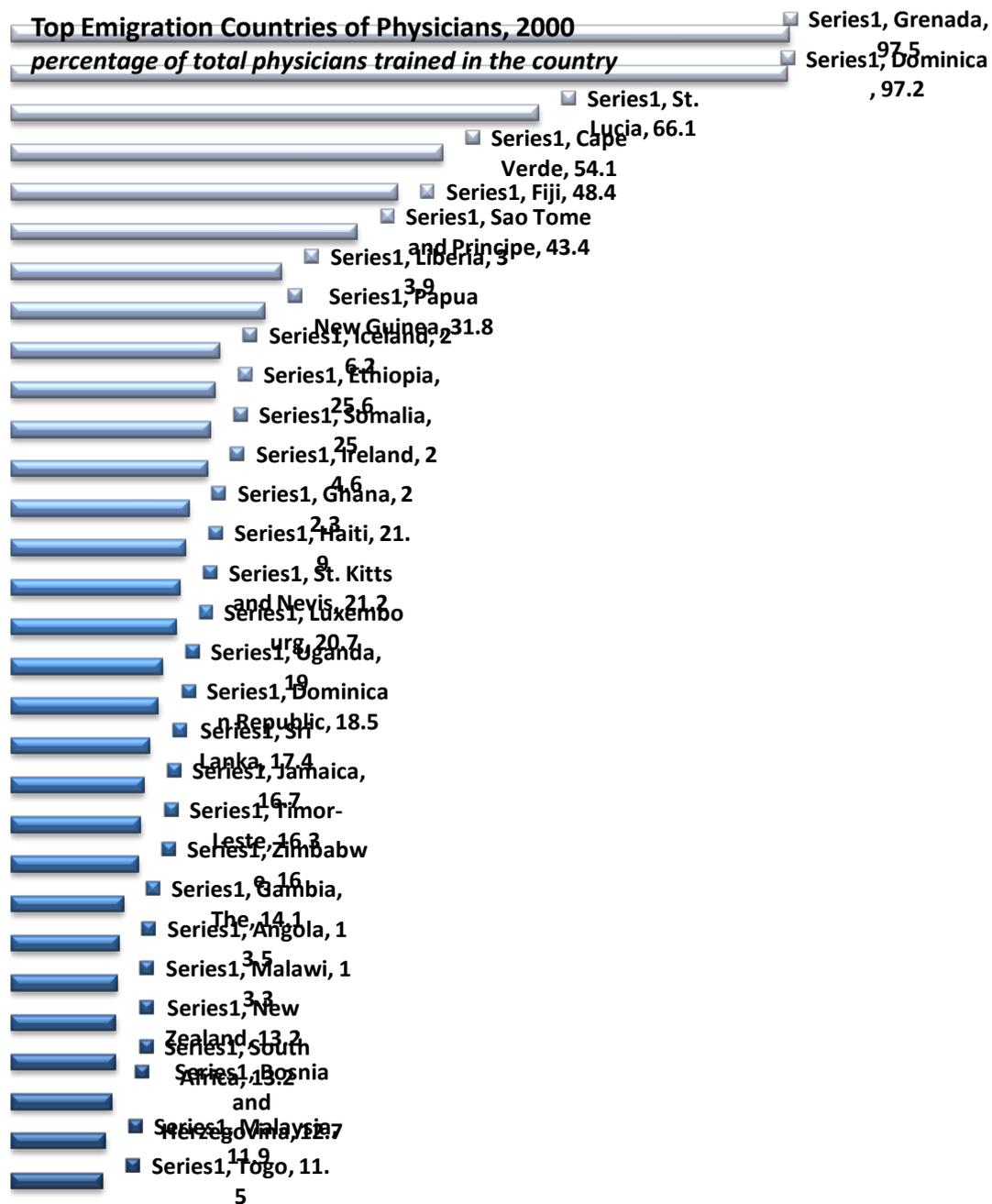


Figure 4. Top Emigration Countries of Physicians, 2000

Source: Bhargava, Docquier, and Moullan 2010.

It can be safe to assume that in the last 12 years these numbers have significantly increased meaning that more and more educated people leave Bosnia and Herzegovina every year. Although there are many factors at play when discussing the brain-drain of Bosnia and Herzegovina, remittances definitely plays a significant role.

In fact, remittances offer the youth the extra financial means to leave Bosnia and Herzegovina after having completed their education, which as mentioned it is highly subsidized. Having the luxury of completing their education and at a fairly low cost, they can use remittances to pursue careers and

employment elsewhere. Also, having family members abroad provides further incentive to leave and upon seeing how well these family members are living abroad, since they are able to send remittances, all spur their decision to migrate. In 2004, the World Bank Living Standards Measurements Survey (Wave 4) was conducted in Bosnia and Herzegovina and one question asked to the sample group was where would you like to move to? 68.3 percent replied that they would prefer to move abroad. Of course, poor government bureaucracy, corruption and such were among the factors for their possible decision. However, corrupt government in Bosnia and Herzegovina prefers remittances to keep the educated population in the country. In fact, if the educated population leaves they are more likely to find financial success outside of Bosnia and Herzegovina and send remittances to their family left in the country and as a bonus the corrupt government is left with a less educated and often older population which is much easier to manipulate. Furthermore, many politicians openly state how they rather have Diaspora who sends money into the country as oppose to the displaced Bosnian population returning. This critical political environment only heightens the negative long term effects of remittances and further initiates the brain drain occurring in Bosnia and Herzegovina.

The feelings are mutual as Diaspora has no desire to return either, not that the conditions are good enough to render return as anyone wishing to return faces many bureaucratic difficulties. A report on the return of young Diaspora to the BiH labour market conducted as part of the Youth Employability and Retention Program in November of 2011 surveyed Diaspora youth around the world. Among other results, the survey found that 31 percent of Diaspora youth was not considering a return to Bosnia and Herzegovina, 85 percent of which stated they have no intention of returning ever. When the group of migrants abroad not interested in returning was asked how they believe they could best contribute to the development of Bosnia and Herzegovina, 81 percent said through remittances.¹²

The atmosphere created partially by remittance receiving over a long period of time is negatively affecting the economy of Bosnia and Herzegovina. With an already weak labor force, remittances are arguably contributing to the further brain-drain that characterized the period of migration of Bosnia and Herzegovina caused by the Bosnian war. Doubled with an already negative population growth, Bosnia and Herzegovina cannot expect to prosper economically, socially or educationally.

¹²Nermin Oruč, Ajla Alić and Sasha Barnes, *To BiH or not to BiH?: A Report on the Return of Young Diaspora to the BiH Labour Market*, (MDG Achievement Fund , 2011), 40.

Conclusion

The long term effect of remittance inflows into Bosnia and Herzegovina have proven to be negative due to their tendency to promote further migration of youth and the educated population at large. With the second highest populations of tertiary educated emigrants in Europe and Central Asia, as well as one of the highest populations of trained physician emigrants in the world, Bosnia and Herzegovina is witnessing a constant drain of intelligent labour force. Furthermore, with a majority of the population left in Bosnia and Herzegovina desiring to move abroad, the country is on its way to facing another massive migration and loss of potential human capital since that is greatly needed to improve the present economic and social conditions.

The tendency of remittance receiving households to use the extra income inflow mainly for consumption tends to have more negative than positive effects on a microeconomic and macroeconomic level. Although the contribution of remittances to gross domestic product is significant, their potential and effect would be greater if invested in greatly needed entrepreneurial ventures in Bosnia and Herzegovina. Knowledge of such possibilities is lacking and with the brain drain, it is unlikely that education will get any better in the near future.

The population of Bosnia and Herzegovina, remittance receiving and otherwise, needs to be educated on the potential of remittances and possibility for economic growth through them. Reforms need to be made to help keep young and educated people within the country as oppose to pushing them out and allowing remittances to help them in doing so. Remittances in Bosnia and Herzegovina have the potential to help boost the economy in many ways; education is just needed to provide remittance receiving households with the proper knowledge and tools to invest their extra income. If steps are not taken, the long term effects of remittances will continue to get worse with time leaving Bosnia and Herzegovina with a deteriorated economy and society with little potential for growth and productivity, the beginnings of which can already be observed.

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