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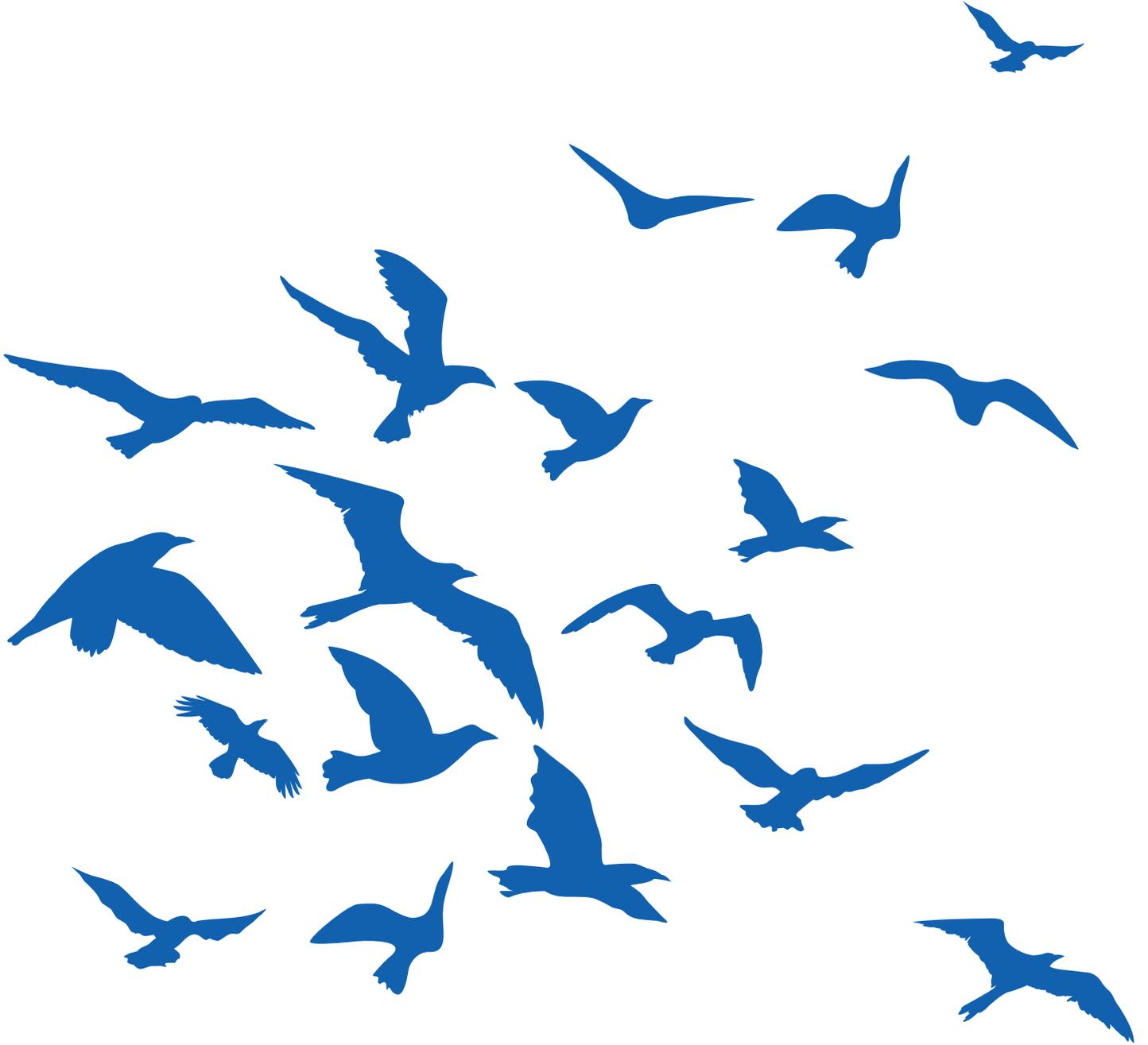
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ASSESSMENT OF THE NATIONAL INVESTMENT FRAMEWORK FOR DIASPORAS IN THE REPUBLIC OF SERBIA



MAY 2017

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IN THE REPUBLIC OF SERBIA

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ABBREVIATIONS

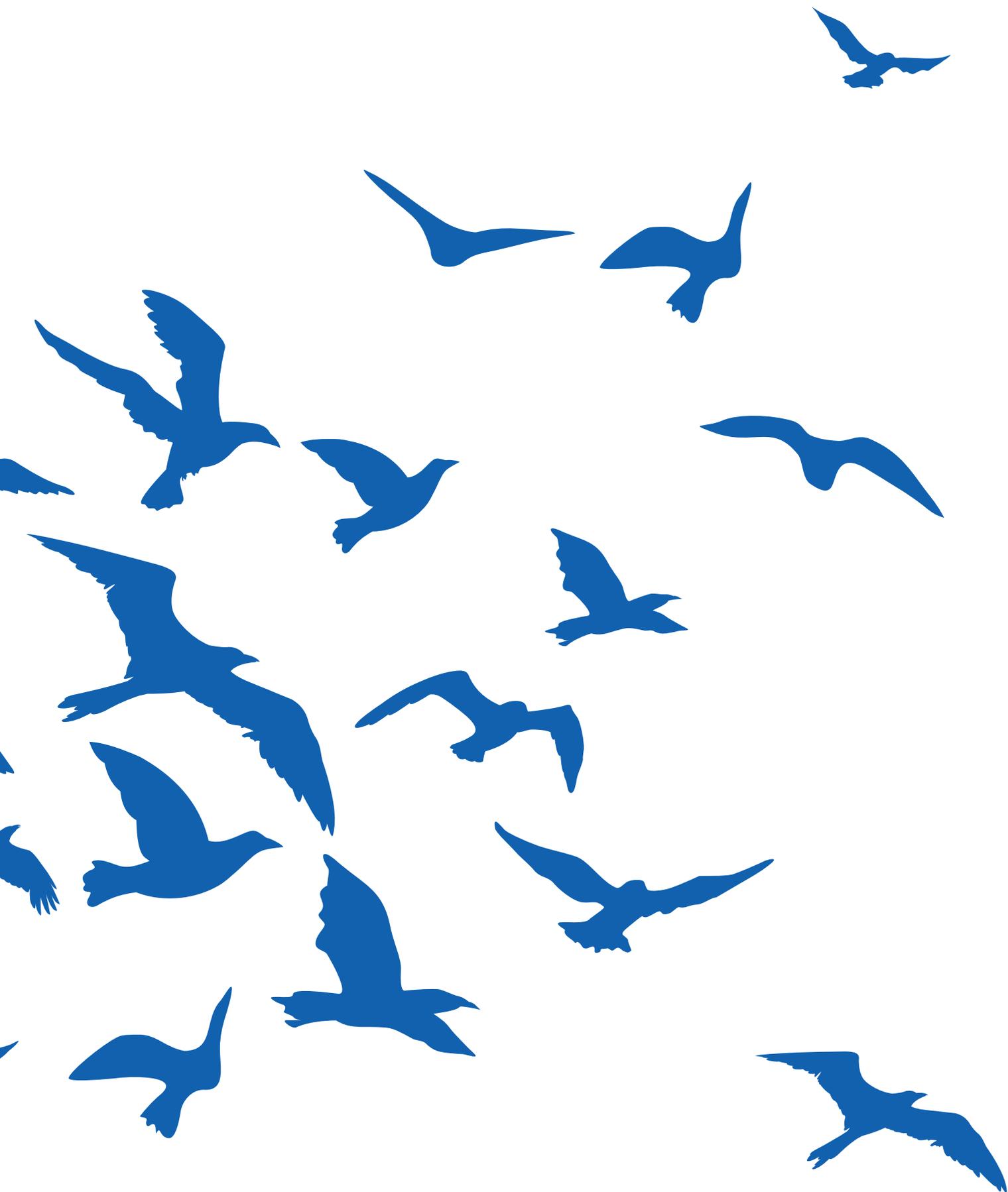
CCIS	The Chamber of Commerce and Industry of Serbia
CfD	The Centre for Diaspora
GIZ	The German Organization for International Cooperation
DCMA	The Diplomatic and Consular Missions
DfD	The Directorate for Cooperation with the Diaspora and Serbs in the Region
DMDSC	The Directorate for Migration Policy, Diaspora, and Social Contracts
DHO	The Diaspora Home Office
GOfD	The Government Office for Cooperation with the Diaspora and Serbs in the Region
IOM	The International Organization for Migration
LOfD	The Local Offices for the Diaspora
OLEDP	The Offices for Local Economic Development and Projects
OLED	The Offices for Local Economic Development
MFA	The Ministry of Foreign Affairs
MfD	The Ministry for the Diaspora
RCCS	The Regional Chambers of Commerce of Serbia
SKGO	The Assembly of Cities and Municipalities
SDA	The Serbian Development Agency
UNDP	The United Nations Development Programme
USAID	United States Agency for International Development

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INTRODUCTORY NOTE

Serbia has a significant lack of official national statistics relevant to quantitatively analyze the diaspora business and investment impact, and its specificities on the national and local level. There is no system and database that is specific, simple and used by all the institutions tracking investments, employment based on investments, diaspora investments and the developmental impact of investments (FDI and DDI) on the local and national level.

The Directorate for Cooperation with the Diaspora and Serbs in the Region has done a very important work from its inception in 2004, as the Ministry for the Diaspora, but it still does not have a representative database on business associations abroad to make a quantitative analysis possible. The Directorate has introduced a distinction in its open calls regarding the diaspora engagement, and from 2017, it will be possible to quantitatively analyze the projects approved for fostering the business cooperation of the diaspora with Serbia and their resultant effects and results.

We have used a research conducted by Mr. Stevan Rapačić, in which he directly focused on FDI effects on local development. There is no yet research done on the impact of diaspora direct investment in Serbia. We have also used information from a quantitative researches implemented targeting remittances. However, no research up to date distinguishes the developmental effect of the diaspora more specifically than by numbering the theoretical elements of social remittances, knowledge transfer and the local approach. Although helpful for identifying important elements, it does not help identify the developmental specifics of the business diaspora and their investments, or allow us to make a difference inside the business diaspora. The motives, incentives, goals and approaches are very

different, and have different outcomes for the home country's economy.

The importance of the diaspora has certainly been assessed and discussed many times in the last twenty years. There have been dozens of conferences, workshops and trainings on empowering institutions and non-state actors concerning the possible role of the diaspora in development. The one thing always missing was – why the diaspora is actually important outside the short-term workshops and conferences. The issue of how to develop a continuous developmental and successful relationship to bring diaspora development “home” has actually never been addressed. What matters are the problems in the system and how to solve them in a context-specific way for the state, local actors, the diaspora, not through abstract proposals and foreign model frameworks that do not work in the Serbian environment.

Our research was focused on a qualitative approach, covering four dimensions (or, as we defined them, “frameworks”) of analysis: the institutional framework, the regulative framework, the social-political framework and the business diaspora framework. We also included four additional approaches to control for the complete qualitative environment: North's institutional approach, informal and formal relations, investment bottlenecks (problems occurring in the previous practice), but also all the potential roles played by the Serbian diaspora actors (important for a Serbian-based model).

The next step will be a quantitative research of diaspora direct investment in Serbia, based on our qualitative framework set. The quantitative research will be focused on the diaspora spill-over effect and the local developmental effect.

SUMMARY

The topic of the diaspora is very important in Serbia. From the Declaration (2006) to the Law on the Diaspora (2009) and the Strategy developed (2011), they all identify the diaspora as one of the key potential drivers for Serbia's development. The main ways identified are investment, human capital, remittances and hometown infrastructure development.

The one thing lacking has been a systematic, apolitical approach to the topic. Within the policy framework, Serbia has remained on the point of a "declarative beginning" for a decade now. It has not been able to overcome the socio-political approach to the diaspora from the previous eras.

In the institutional framework, the state has developed a diversified service through the Directorate for Cooperation with the Diaspora and Serbs in the Region, managing status and legal issues, projects, information points and even developing a foundation for diaspora investment. One of the key institutions that can develop the mapping and statistical analysis of the diaspora is the Directorate. Moreover, the CCIS has moved the investment and business diaspora discourse into a more complete arena, with sectoral engagement and targeting not only diaspora individuals and middlemen, but also collective bodies such as diaspora bilateral chambers of commerce, business clubs and associations. Finally, the national body, the Ministry of Foreign Affairs, has two state secretaries who target the business diaspora, and on the local level, more than twenty-five local diaspora offices have been developed as part of the local municipal governments.

The investment regulation framework does not identify the diaspora as a special case, as it does not distinguish it from other (foreign or domestic) investors. Our argument is that the state should not distinguish the business diaspora based on its ethnic affiliation, but on its specific developmental role, which involves not only investments and managing investments, but also establishes a foundation for a more value-added FDI. Through our qualitative research, we will present the special types of DDI that have a significant spill-over effect on the community, educational institutions and other businesses, as opposed to FDI. We will argue that, based on a low level of human capital, financial capital,

domestic knowledge for competition and absorptive capacity for home-grown development, the state needs to allow (subsidize and support) these New Serbian Argonaut Companies to lead the way into a knowledge-based economy, mushrooming in Serbia's innovation centres and hometown investment companies in the underdeveloped regions. We will show that many of these actors are already in Serbia and play a significant role in developing the domestic economy, market and export.

A framework for different diaspora actors and their effects on the market and the economy has been developed. We will also show that Serbia already has programmes of successful cooperation between faculties of applied sciences and business (however, state-owned and mostly for domestic use). There is a strong foundation of educated students who are now professionals and alumni abroad, and who can play an important role in Serbia's development (some of them already do).

There is an absence of relevant data on the diaspora investment. The current research methodology that measures and tracks the diaspora investment is not comprehensive, and does not provide exact information on the level and the current status of the existing diaspora investment. The Serbian Business Registration Agency, the Statistical Office of the Republic of Serbia, the Ministry of the Economy, the Serbian Development Agency and the Local Offices for Economic Development do not regularly track the core facets of the diaspora investment. Even the local diaspora offices do not track diaspora investors.

Serbia has a rich eco-system of diaspora business and professional organizations abroad. Many of them are passive and with an active program, but a special cooperation between the key national stakeholders may engage these business associations and foster a channel for investment and business development.

The remittance enigma that has motivated so many officials wanting to harness its potential is assessed in a different way. We base the enigma in its social discourse and argue that only the change in the discourse and supported by a comprehensive development project on the local and national

level, may affect and re-direct remittances into small business development and collective investments.

Although brain drain represents one of the key problems of the society, we show that the same liberal mechanism that allow the highly qualified to emigrate, may allow them to move back, now with knowledge on the competitive level globally, as well as a wide network of contacts and open markets.

Problems occurring during the diaspora investment process can be dealt with only with the cooperation of all key stakeholders through an active and transparent system of cooperation.

We identified that one of the greatest problems for successful diaspora engagement is the lack of credible offer on the local level, and thus, the human capital. Educating the officials and bureaucrats as well as the private sector in business planning and public-private partnership projects on the local level may bring a significant change in the relations with the diaspora. On the other hand, engaging the diaspora with the concrete opportunities to invest in Serbia will allow the diaspora to participate more actively.

In section 1, we established a theoretical framework adequate for addressing the Serbian highly complex and diverse diaspora. In section 2, we developed a contextual framework showing all the specificities of the Serbian diaspora and the Serbian economy. Section 3 was dedicated to the methodological framework used in the qualitative study. In section 4, we addressed the diaspora potential in the Serbian context and the areas of development. The elusiveness of the developmental role of the diaspora was addressed in the Serbian context. We made a distinction between FDI, DDI, diasporas in FDI and the phenomena of diaspora middlemen

and diaspora overachievers. In section 5, we analysed the remittance puzzle discussed in Serbia for over two decades. In section 6, we presented a qualitative analysis of diaspora investors and their special developmental approaches to the Serbian community, the academia and local development. In section 7, we set in place four frameworks of analysis (the social-political, regulative, institutional and business diaspora ones) for the national framework for investments from the diaspora. In the same section, we assessed and presented the diaspora investment-related issues in Serbia. In section 8, we assessed the institutional framework on investment promotion (targeting foreign, diaspora and domestic investments). In section 9, main conclusions on the four frameworks were presented. All of the conclusions drawn from the research were presented as well.

1. THE THEORETICAL FRAMEWORK

1.1 VERTOVEC'S TRANSNATIONALISM AND DEVELOPMENTAL DIASPORA

"New technologies, especially involving telecommunications, serve to connect such networks with increasing speed and efficiency. Transnationalism describes a condition in which, despite great distances and notwithstanding the presence of international borders (and all the laws, regulations and national narratives they represent), certain kinds of relationships have been globally intensified and now take place paradoxically in a planet-spanning yet common – however virtual – arena of activity" (Steven Vertovec).

THE SERBIAN TRANS-NATIONAL COMMUNITY

Lifting the sanctions imposed upon Serbia and liberalizing the travelling regime opened the door not only for the first generation of the diaspora to travel home, but also for the second and third generation, who learned about Serbia from their parents. The change in the approach towards the diaspora – from being ignored and considered politically subversive, the diaspora has gradually become an integral part of Serbian society, with no distinctions in the social sphere. Digitalizing the diaspora engagement, the DfD, the national television provider (RTS) and other TV programmes targeting the diaspora have enabled a direct diaspora connection with the life and economy of Serbia. Today there are several cable networks providing the diaspora with all-day programmes from Serbia ("*ties that bind*"). The Orthodox Church has played an integral role in developing these connections, as the institution most trusted by the diaspora. The biggest problem today is how to organize time to come and stay in Serbia for a while, willingness to do so is no longer an issue. The biggest problems for businessmen are how to get information on the local Serbian market and its potential for investment and business development most efficiently, and the issue of how much trust to place in institutions.

Vertovec (2009) follows Landolt, Autler and Baires (1999) and differentiates among four types of transnational migrant enterprises: circuit firms which transfer goods and remittances, cultural enterprises importing goods from countries of migrant origin, ethnic enterprises or small retail firms catering to immigration communities and return migrant microenterprises established in homelands by returning migrants and continuing to rely on contacts in the receiving country.

The globalization of entrepreneurial networks reflects dramatic changes in the global labour markets. Falling transport and communication costs allow highly-skilled workers to work in several countries at once, while digital technologies make it possible to exchange vast amounts of information across long distances cheaply and instantly (Saxenian, 2012). Traditionally a one-way process, migration has become a reversible choice, *particularly for those with scarce technical skills*, while people can now *collaborate in real time, even on complex tasks*, with counterparts far away (Saxenian, 2014). Scientists and engineers from developing countries can contribute to their home economies while maintaining professional and business ties in more technologically advanced countries. Networks of foreign-born engineers and entrepreneurs transfer technical and institutional know-how. They include foreign-born engineers, entrepreneurs, managers, lawyers and bankers who have the linguistic and cultural abilities, as well as the institutional knowledge to collaborate with their home-country counterparts.

From a theory that tries to explain the phenomenon of a transnational social space and work, Steven Vertovec proceeds to bring us the new role of the diaspora, a new pool of opportunities that have developed. From an endangered community, the diaspora has become an

actor with a strong comparative advantage regarding both home and host societies and markets.

Some use these advantages to invest and develop businesses in their place of origin. Others go further and develop transnational companies with a strong export and expansion model for their companies in host countries. They use the rules and processes of the liberalized world and markets to their advantage, and the advantage of the home country (*Economist*, The Magic of Diasporas).

1.2 RODRIK'S SELF-DISCOVERY PARADIGM AND HOMETOWN INVESTMENT

Prof. Dani Rodrik from the Kennedy School of Government has introduced the concept of "*self-discovery*", as a *key mechanism for the industrial policy of the 21st century*, or open industrial policy, and as a way of allowing a *laissez-faire* industry. Rodrik argues that market planning and industry planning do not work, and that an industrial policy for the 21st century should adjust to the local potential and capacities, not to imaginary strategies. The role of the state is to foster the right environment and support the successful companies, not to cherry-pick the champions. The approach is bottom-up, instead of top-down, as in many socialist countries, such as Yugoslavia and post-communist Serbia.

Prof. Rodrik's premises are as follows: entrepreneurship in a developing country consists in discovering the underlying cost structure – what can and cannot be produced profitably. Initial investors in a new line of economic activity face a great degree of uncertainty, since a foreign technology always needs some local

THE SERBIAN HOMETOWN INVESTMENT SELF-DISCOVERY MODEL

Serbian diaspora investments are characterized mostly by their local direction (hometown investments). The DfD officials identify 90% of all diaspora investments as going to the local level. The local levels where the diaspora originates from are the lagging regions (Eastern Serbia, Southern Serbia and South-Western Serbia). These areas have several problems in attracting FDI. The state and the local municipalities do not have the financial resources to develop these areas. The Serbian Government has identified special programmes for attracting investment in these lagging areas, but needs to include some special measures that will make it much easier for the diaspora to invest in small business development and public-private partnerships and infrastructure investment on the local level. Collective remittances are mostly possible in these "regional HTA areas" (most of the diaspora in Austria, Germany and Switzerland). A combination of promotional programmes, incentives and the self-discovery model is the most practical way of doing this, as the diaspora works in different sectors abroad and has very diverse opportunities to involve local business in foreign markets.

adaptation. Their cost discovery soon becomes public knowledge – everyone can observe whether their projects are successful or not – so the social value they generate exceeds their private costs. If they succeed, much of the gains are socialized through entry and emulation, whereas if they fail, they bear the full costs. This is the core of the DDI knowledge spillover. Bering this in mind, the role of the diaspora first movers and DDI has even more significance for a local innovative and competitive development. The diaspora's business planning, engagement and finding the right setting for their business and company development are the key elements for development. The role of the state and local municipalities is to adjust their logistics and infrastructure, to bring the full capacity out of the investment, and thus, value-added production and employment.

In our research, we focused on two types of developmental companies, *companies of hope* and companies of chance. Many investors from the diaspora invest in their hometowns and regions. As we saw in the previous section, FDI is slowing down in Serbia and is especially bypassing many areas of Serbia that are not close to the primary FDI focus (Corridor 10). Not waiting for the Government to build roads, many diaspora returnees have financed local infrastructure projects as a way of giving back to their places of birth or origin. Moreover, they support local business development and call upon the local municipality and the Government to support their initiatives. Their self-discovery is based on the role they want to play in the local community and business development, and thus give back to their place of origin. Channelling collective remittances, these individuals have an important role to play in the local economic development. We called these investments and companies of hope. The Government and the local municipalities should identify this DDI motive and practice, and make it much easier for hometown investors to invest in infrastructure development and logistics, and to foster the local business potential, such as organic food production in Eastern Serbia.

1.3 ANNALEE SAXENIAN AND THE NEW SERB ARGONAUTS

“Like the Argonauts of Greek mythology who ventured with Jason centuries ago, these US-educated but foreign-born entrepreneurs are embarking on risky foreign adventures

*in pursuit of wealth. Armed with their knowledge of technology markets and their global contact books, the new Argonauts are in a strong position to mobilize the expertise and capital needed to start successful global ventures. Their success also forces us to think afresh about how countries and regions grow”.*¹

The Serbian diaspora is very diverse, even a highly educated and an overachiever one. In our approach, we will use the term the **New Serbian Argonauts**, following AnnaLee's definition but adjusting it to the Serbian diaspora phenomenon and potential.

Serbia has a very substantial diaspora educated in the leading academic institutions around the world, such as the UK, the United States, Switzerland, Germany, France, Russia, Canada, Austria, Italy and Sweden. During the last thirty years, thousands of students and alumni of the Faculty of Electrical Engineering in Niš, the School of Electrical Engineering in Belgrade, the Faculty of Mechanical Engineering in Belgrade and the Mathematics Grammar School have continued their education and work in the leading education, financial and business centres of the world. Students of other faculties and universities have gone in the same direction. Many of these alumni have developed successful careers and some of them have come back to land their competitive products and knowledge in the Serbian development environment. These are the ones that best correspond to AnnaLee's definition and focus (IT and electrical engineering alumni).

During our research, we identified a much more complex Argonaut eco-system in the Serbian case. The diversity comes not only from the origins and motives of the diaspora, but from the industrial sector. As we will see, all of these diverse actors are following the “Argonaut path” AnnaLee set in her conceptualization of the New Argonaut phenomenon. We have included several more segments of the diaspora because they fit completely the developmental role played by AnnaLee's Argonauts, give a wider approach than AnnaLee's to fit the Serbian diaspora developmental profile and complement the Serbian development needs.

We included *second generation emigrants, who kept a strong bond with the country of origin through their parents and were educated at even better schools than*

¹ AnnaLee Saxenian, *The New Argonauts*, Diaspora Matters, 2011.

their parents.² We also included *professionals and highly successful individuals who have left Serbia during the crisis in the past twenty years and continued their success abroad while working in the sphere of cutting-edge business, science and the academia in various fields* (manufacturing, agronomy, machinery, chemistry etc.). Finally, we included in our definition of the New Serbian Argonauts *highly successful diaspora scientists and entrepreneurs (from the first and the second generation)* who are very interested in cooperating with other Serb entrepreneurs and working in Serbia (giving back to their parents' homeland).

AnnaLee based her concept of the Argonauts' competitive advantage on the changes of the world economy that have undermined the core-periphery model. The increasing mobility of highly-skilled workers and information, combined with the fragmentation of production in the information and communication technology sectors, have provided unprecedented opportunities for the formerly peripheral economies and their companies. Developmental states³ have become a fertile environment for decentralized growth based on entrepreneurship and experimentation. Foreign-born, but Western-educated and trained engineers are increasingly transferring know-how and market information to their countries of origin and creating spin-off companies. They are helping to jump-start local entrepreneurship, enabling their home economies to participate in the information-technology revolution (Saxenian, 2012). Because of their experience and professional networks, these *cross-regional entrepreneurs*⁴ can quickly identify promising new market opportunities, raise capital, build management teams and establish partnerships with other specialist producers – even those located far away (Saxenian, 2012). The ease of communication and information exchange within ethnic professional networks *accelerates learning about new sources of skill, technology and capital, as well as about potential collaborators*. It also facilitates *timely responses*, which are essential in a highly competitive environment (Saxenian, 2012). This decentralized responsiveness is an advantage which few multinationals have. Start-ups become global actors from day one; many raise capital, subcontract manufacturing or software development, and market their products or services outside the U.S. The scarce resource is no longer size but the ability to locate foreign partners quickly and then to manage complex business relationships and team work across cultural and linguistic barriers. First-generation immigrants have a commanding advantage.

Developing economies typically have two major handicaps: they are remote from the sources of leading-edge technology and distant from the developed markets and the interactions with users that are crucial for innovation. A network of technologists with strong ties to global markets and the linguistic and cultural skills to work in their home country is arguably the best way to overcome these limitations. Cross-regional entrepreneurs and their communities can facilitate the diffusion of technical and institutional know-how, provide access to potential customers and partners, and help overcome isolated economies' reputational and informational trade barriers. New technological clusters cannot be created simply by mobilizing researchers, capital and a modern infrastructure; they also require the shared language and trust of a technical community, which permits open information exchange, collaboration and learning (often by failure), along with intense competition. This makes transnational companies more competitive than multinationals.

When speaking about start-up investment, the New Argonauts have attracted more capital from venture funds, having more developed ideas and proposals than the local actors. This is a very important advantage for the economy if channelled adequately. Saxenian states that before their arrival U.S. venture capitalists were typically neither interested in nor able to serve the Taiwanese market. Native-born investors provided the cultural and linguistic know-how needed to operate profitably in the developing markets. Serbia has a huge opportunity to use the human capital abroad to channel their return and investment from abroad from venture capital funds and from the diaspora development funds.

AnnaLee used examples from the 1980s of Taiwan, India and Israel. However, we argue that Serbia needs a closely related but different Argonaut model. In the Taiwanese and Israeli case, the state had a significant role to play. Politics was in the centre of development when it came to financing educational institutions and the key industry sectors. Both AnnaLee and Leftwich argue that without politics the developmental effect of the Argonauts would be questionable. In Serbia, the state does not have the financial capacity to finance academic institutions in such a capacity and there is no company infrastructure. The state should only adjust the regulations to allow for venture capital investment and subsidize the Argonauts' companies

² There is a "social norm" in Serbia among the middle class, higher class and even the poor, namely, that children should be educated at the best institution possible, even if not affordable for the family. Most of the parents grew up in the former Yugoslavia, where education was free or very affordable. Afterwards, there were and are many cases of families taking a mortgage to educate their children in Serbia and abroad. This norm has been continued by the diaspora to an even higher extent. This "norm" has been kept even during the economic crisis in Serbia in the previous twenty years. Of course, this does not include the whole community (those who do not identify themselves with the norm and those that can do it if they did).

³ Stages of Development, Adrian Leftwich, 2007.

⁴ AnnaLee Saxenian uses the term cross-regional entrepreneurs for the same entities we call transnational companies.

and the university infrastructure to cooperate with these companies.

AnnaLee argues that returning entrepreneurs are ideally positioned to identify appropriate market niches, mobilize domestic skill and knowledge, connect to international markets and work with domestic policymakers to identify and devise strategies to overcome obstacles to further growth. Returning entrepreneurs typically seek (with varying degrees of success) to transfer venture capital, merit-based advancement and corporate transparency to economies with traditions of elite privileges, government control and corruption. They seek to reproduce team-based firms with a limited hierarchy in an environment dominated by family-run businesses or state-owned enterprises. And they seek to influence policy-making because the national institutions that support the Silicon Valley system – efficient capital markets, an independent judiciary, regulatory oversight, sophisticated education systems, research institutions and physical infrastructure – are rarely present in these developing economies.

Returning entrepreneurs have found different ways to overcome the weaknesses of their home countries. They detach the operations and capacities most adequately to harness the opportunities of both systems – the home and the host one.

The New Argonauts are undermining the one-way flows of technology and capital from the core to the periphery, creating far more complex and decentralized two-way flows of skill, capital and technology. A small but meaningful proportion of individuals who have left their home countries for greater opportunities abroad have now reversed their course, transforming a brain drain into a 'brain circulation'.

POTENTIAL PROBLEMS FOR DEVELOPING COUNTRIES ACCORDING TO SAXENIAN:

- venture capital infancy, managerial and human capital resources and organizational synergy,
- if states are not careful, they may miss the opportunity to upgrade local skills and capabilities, and instead remain suppliers of low-cost labour to global (or domestic) corporations,
- not all developing economies can reap the benefits of brain circulation and peripheral entrepreneurship – only those that have invested heavily in higher, typically technical, education and are politically and economically stable enough for immigrants to consider returning home,
- lacking the skill base or political openness to foster technology entrepreneurship,
- policymakers and planners can encourage cross-regional connections, they cannot create or substitute for transnational entrepreneurs and their decentralized networks.

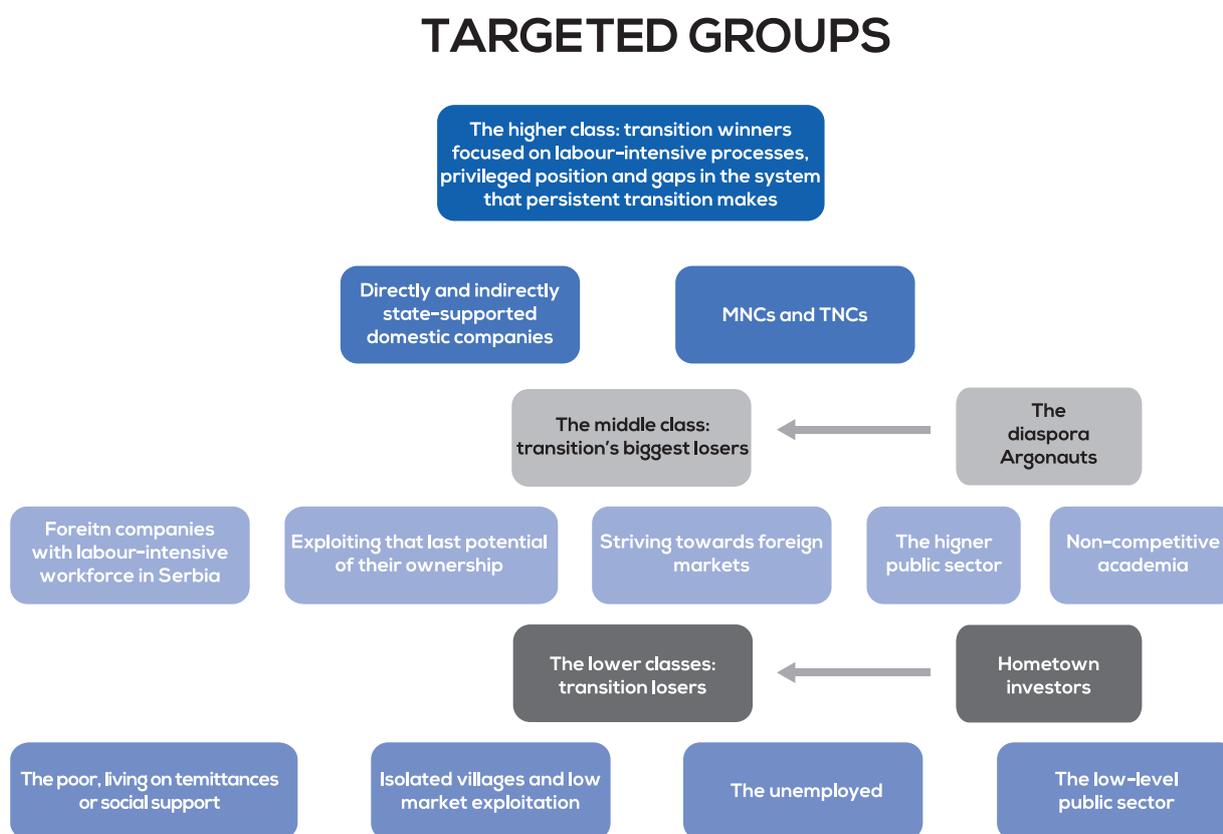
We will show through our qualitative analysis of the existing DDI in Serbia that New⁵ Serbian Argonauts are already in Serbia. They have emerged from the historical and contextual framework of Serbian emigration, succeeded abroad and became respected overachievers. Their goal is quality, personal high-quality product and an innovative approach, expanding business and export, supporting the community and transferring knowledge, offering significant spill-overs, the satisfaction of a successful return and a vision of the developmental role in the society.

THE NEW SERBIAN ARGONAUT COMPANIES

Circular return and transnational lifestyle (some more abroad and some more in the home country) characterize the owners. The money invested was earned abroad. The know-how, knowledge and technology used are cutting-edge internationally. The products developed can compete internationally. Value-added production is in most cases moved to the country of origin if the regulations are not restrictive and do not hinder this process and decision-making. Business is developed predominantly for export, but has a small local spill-over effect. The market was identified even before the company's creation, controlling the initial risk (using business networks developed abroad in the host country). Most of them succeed because of this support from connections abroad or direct information transfer. Connections in the form of product development or knowledge transfer with the local faculties are with a high level of the spillover effect. Business is developed with a long-term financial return plan. The motive for developing a company is emotional, but in the long term it is purely business success.

⁵ The Old Serbian Argonauts were the Planned Elite in the 19th century. For more details, see: The Planned Elite, Ljubinka Trgovčević.

Chart 1. The business diaspora's developmental impact regarding the Serbian community



2. THE CONTEXTUAL FRAMEWORK

2.1 THE HISTORICAL FRAMEWORK

Serbia has a long history of very diverse emigration processes. All of these processes have made the society and institutions weaker, less capable of coping with the changes that lie ahead. Not only have these emigration waves divided the society in specific ways, this has also affected the diaspora itself and how it perceives its home and the home society.⁶ When approaching the diaspora, state institutions and representatives need to acknowledge these differences and adjust accordingly. The diaspora itself sometimes perceives itself as a group, but mostly even these diaspora groups are internally very divided and diversified. Historically, we can identify 4 biggest waves of emigration from Serbia (Yugoslavia) that still affect the perception in the diaspora.

1. **Emigration after WWII.** The soldiers of the Yugoslav Monarchy, captured and sent to prisoner-of-war camps in Germany during WWII, chose in great numbers (tens of thousands) not to return to Yugoslavia because of the regime change (the communists took over Yugoslavia), but to stay abroad (accompanied by their family after a few years). The diaspora from this period mostly moved to the UK, France, and the United States. The Yugoslav state treated this diaspora as subversive and the initial attitude towards the diaspora was formed in the 1950s and 1960s. The diaspora was a *potential enemy element* for the home country. These diaspora groups were highly connected internally, and left a strong mark on the second generation of migrants. Moreover, their children have become highly educated and work in important sectors of the host countries. They are not connected specifically to the Serbian state, but they are connected to Serbia's history, society and culture, the roots that connected

⁶ For more on the topic see *Problem identiteta (kulturalno, etničko, nacionalno i individualno)*, Slobodan Divjak

them through their parents to the country of origin. Thus, their initial interest is in people similar to them – well educated, with Serb origin, living as diaspora in the West. There were several waves of migration of Bošnjaks from the southwest Serbia, also known as „Raško-polimska oblast“ or „Sandžak“ area, principally to Turkey, where they and their descendants reside to this day, nurturing culture and language.

2. **Emigration in 1960s and 1970.** SFR Yugoslavia opened its borders for its citizens to migrate to Western European countries looking for *labour-intensive workforce* (becoming a diaspora known as *gastarbeiters* /“*guest workers*“/). Around million workers from all parts of Yugoslavia moved predominantly to West Germany, Switzerland and Austria. They were *treated as heroes* of the Yugoslav state because they sent money home to their family (Ivana Bajić-Hajduković, 2010). As these temporary workers stayed in the host countries, their families followed (re-unification).
3. **Emigration during the 1990s.** During the 1990s three emigration waves occurred. As a *result of the civil war in Yugoslavia*, a large number of Serbs from the then Federal Republic of Croatia, the Federal Republic of Bosnia and the Autonomous Province of Kosovo and Metohija were displaced. Firstly, hundreds of thousands of Serbs moved to Serbia and then abroad (predominantly to the UK, Canada, the United States and Australia receiving refugee status and becoming *the refugee diaspora*). This process has created double linkages. Many family members of the people who emigrated as refugees abroad have stayed in Serbia, creating a new home for themselves. The diaspora is now looking both to the area where they originate from (today’s Croatia, Bosnia or the territory under the mandate of UN – Kosovo and Metohija), and to Serbia as a new national homeland or country of origin where their relatives live. The second and third emigration waves occurred as a result of the UN sanctions. The economy was destroyed and many companies were state-sponsored social-peace institutions, but companies with no future for workers, only for the management. The uncertainty affected *the middle class*, which wanted to emigrate and find a more normal life for their family, and *the young and highly educated*, to find where they could continue studying and working successfully in their area of specialty. There were many cases of their inviting their closest family at some point to follow them abroad, but most of the highly-educated migrants’ family members stayed at home.

4. **Period after the democratic changes of 2000.** The massive emigration process extended after 2000. The process was based on two reasons. Firstly, following Hain De Haas’s argument that the liberalization and “opening” of a country does not bring emigration down but up, as many people from the middle class and highly educated people have a better opportunity to leave. Secondly, the transition process proved to be very difficult and slow for the people who had been awaiting a substantial change from the 1990s. Highly qualified persons dominated in the emigration process in this period (see below under 2.2. the identity issue).
5. **After the global financial crisis.** The process only accelerated after the global financial crisis, when the Serbian economy took three substantial hits, the FDI declined, transition and privatization brought unemployment and huge disappointment, and there was no hope in sight as the new system did not modernize the country but adjusted it to the EU integration context. One thing that especially marks the emigration process from this period is a great disappointment regarding the democratic changes after 2000, and an even bigger mistrust of Serbia than during the previous waves. This process is still active, as the transition phase is not over yet, not even the privatization process.

The Serbian diaspora was passive during the twentieth century, usually receiving relatives through re-unification processes and rarely visiting Serbia, if ever. The cheap costs of transport and communication affected the diaspora in several ways. Not only has the diaspora begun to travel more to Serbia, but the young (the second generation) were even more interested in learning about their origin, connecting with the young in Serbia during their trips to Serbia. A parallel process of massive emigration of highly qualified persons occurred. This diaspora is more mobile and travels home more often. In both cases, the young and the ones strongly connected to Serbia much more often travel, visit and are more interested in investing and doing business in Serbia than in the previous periods. There is even a mutual backing of the diaspora from several countries.

2.2 TRANSITION AND THE DIASPORA IDENTITY

Serbia has experienced frequent changes of its economic and political systems. In the past 25 years, Serbia has changed its legal status three times: at first, Serbia was a part of the Federal Republic of Yugoslavia from 1992; then a part of the confederation called the Union of Serbia and Montenegro from 2003; and finally, from 2006, a fully independent state,

the Republic of Serbia. These changes have had an impact on the country's institutional framework, economic development and even on the pace of becoming an EU member state. Most importantly for the topic of the diaspora, these changes have strongly affected the identity of citizens living in and emigrating from the former Yugoslavia. When the diaspora left its country before the breakup of the former Yugoslavia, it identified itself with a Yugoslav state that included Serbs from Slovenia to Macedonia. The multi-ethnic Yugoslavia enabled all constitutive ethnic groups to live in one single country, with internal republic lines (federal units) having a very small effect on ethnic group identity. However, with the breakup and dissolution of SFR Yugoslavia, many refugees and emigrants who left the country differed significantly in their perception of their homeland – whether it was Yugoslavia or the new Bosnian, Croatian, Macedonian or Serbian state. All of the new states introduced laws on citizenship based on which it was not important where in Yugoslavia an individual was born, but whether the individual or his/her parents or grandparents had lived in the territory of today's new nation state and felt ethnic affiliation.⁷ The new state and identity affects all research and statistics regarding the Serbian diaspora. It all depends on how a researcher perceives the diaspora and approaches the issue (whether researcher relies on citizenship or the laws on the diaspora, and thus the basis for the government's policy on this issue). The process of creating new nation states introduced the phenomenon that Serbs who left Croatia, Bosnia, Macedonia and Montenegro have two home countries – one on whose is the territory they or their parents were born; and a second one, a new nation state, if its national identity differs from the previous one.⁸ Even today, twenty-five years afterwards, the breakup of SFR Yugoslavia affects the diaspora and its identification and engagement with the home country (whether Serbia, Croatia or Bosnia), from social to economic interactions (some are highly interested in investing and providing support, while others have no attachment to these countries, as they maintain nostalgic connections to Yugoslavia and “*the moment when they left it*”).

Going beyond a multiple-identity context, the Serbian diaspora context gets even more complex when you include the diaspora diversity (the motives/reasons for emigrating). The Serbian diaspora is extremely heterogeneous and this can seriously hinder any attempt to make generalizations.⁹ “Immigrants from different migration waves have different reasons – political, economic and personal – for emigrating; they also come from different social backgrounds and have different experiences in the host societies (became more or

less integrated), which can all lead to quite diverse remitting practices” (Bajić-Hajduković). We can even argue that seldom Serbs, Croats and Bosniaks in the diaspora originating from the same social backgrounds in the former Yugoslavia understand one another better than Serbs, Croats and Bosniaks inside their own ethnic corpus, but with a different social origin and motive for emigrating. This being so, a great potential exists for cooperation between these diasporas and their new/old home countries.

When discussing the investment framework in the diaspora discourse, we need to address and acknowledge one important issue. Serbia and the Serbian diaspora are complementary fields but not exactly the same. Serbia has two social and legal fields that it needs to address. One is to acknowledge and address its immediate foreign surroundings, whose diaspora identifies with Serbia as the country of origin. The Ministry for the Diaspora has done this through the Law on the Diaspora and all the attendant documents. All institutions and actors now follow the same framework, as well as the diaspora organizations. The second one, still lacking, is to engage and develop links with the diasporas that originated from Serbia but by its other ethnicities, such as Hungarians, Muslims from central Serbia, Vlachs, Albanians, to name the few biggest ethnic communities. The wars in the 1990s made this matter a very touchy issue, as ethnic diasporas were the ones that financed and supported the conflicts in Serbia in the former Yugoslavia. After almost twenty years from the last conflict, it is time to engage all the diasporas for sustainable development of all the communities and regions. Many of the diaspora representatives are interested in developing their places of origin, as others were previously in supporting the separatists. A change in the diaspora investment and business discourse would bring about a change in the community relations and in the development discourse. Finally, the key light motive for diaspora policies and programs is that the diaspora represents the segment of the emigration that is “interested and motivated to be engaged and participate”¹⁰, not the whole emigration originating from Yugoslavia and Serbia. Diaspora programs and policies needs and should control for this phenomenon to implement successful projects and programs targeting diaspora.

2.3 ECONOMIC TRANSITION

The democratization and market liberalization process from a socialist to a post-socialist state and economy in

⁷ For more information on the citizenship in the post-Yugoslavia space, see: http://www.citsee.ed.ac.uk/_data/assets/pdf_file/0009/108909/338_diasporapoliticsandpostterritorialcitizenshipincroatiaserbiaandmacedonia.pdf.

⁸ For more information on the multiple-identity phenomenon in Central and Eastern Europe, see *The multiple identities: Slovak diaspora in Serbia in between state and nation*, Svetluša Surova.

⁹ *Transnational Networks, Transnational Entrepreneurship and the Role of the State: The Cases of Serbia and Albania*, Tanja Pavlov, Jelena Predojević Đepić, Svetlana Milutinović, Brikena Balli, Eldisa Zhebo, Kosta Barjaba, Bernard Zeneli (2014).

¹⁰ Interview with Nikolina Milatović-Popović

Serbia began in 1991. During the 1990s and the conflicts in the former Yugoslavia, Serbia was isolated from most of Europe's dynamic changes in economic development and political systems that were ushered in after the fall of communism: new technologies, increased transfer of capital and know-how from developed countries toward developing countries and changes in the political systems of all the former socialist countries. The real process of economic and market restructuring started in 2001. The diaspora strongly supported the need to transform Serbia into a modern and liberal state and economy, but never really participated in this process, except in the role of individuals who returned to Serbia to work with the domestic politicians on transforming the state and the economy. The first democratic government (from 2001 until 2003) included several members of highly educated and successful returnees to Serbia. This pattern of including successful and highly educated people from the diaspora in the Government has been continued by all Serbian governments and by all political parties until today.

2.3.1 Privatization, structural changes and focus on foreign direct investment

Serbia has had a long history of privatization. Privatization is at the centre of transition in Serbia, and has gone through various phases due to many reasons. Vujačić and Petrović-Vujačić (2011) argue that the most important reasons were the wars in the former Yugoslavia and the UN sanctions, as well as permanent political instability.¹¹ Privatization commenced in 1990. The fourth, last phase, as defined by the privatization legislation, began in 2015 (Vujačić and Petrović-Vujačić, 2016). The privatization process was predominantly politically determined, with institutions being formed anew to achieve political goals. Vujačić and Petrović-Vujačić argue that the political aspect of privatization was the primary factor that led to some or most of the institutional failures of privatization in Serbia.

The transition process started with the privatization of state-owned enterprises and with consumption-driven GDP growth. The first phase of the transition, lasting through 2010, was based on a strong inflow of foreign direct investment (FDI) through the privatization process and through GDP growth that was based on increasing domestic consumption. This type of economic policy focused on economic development through financing consumption at the domestic level by the revenues and income brought in from the privatization process. The result was a continuous

increase in the country's foreign trade deficit, which grew larger as the domestic population continued to consume goods and materials that were being imported to Serbia faster than the country could produce on its own.

Structural changes and an emphasis on foreign investment were now seen as the new model of economic development. At the beginning of the global financial crisis, it was quickly understood that the old economic development model and economic policies were not sustainable. Serbia experienced a decrease in FDI at this time, and privatization revenues became smaller, as there were fewer institutions and entities left to privatize. The new model was based on cutting public expenditures and increasing investment in infrastructure and industry projects. Until today, every single government, with different degrees of success, has pushed for structural changes and made additional efforts to adjust the institutional framework in order to increase the quality and efficiency of the public sector, so that it can contribute to the business environment as whole.

The myriad of challenges to the privatization process (reportedly, one in four privatizations failed) affected the state of the economy. Instead of restructuring and further developing the existing companies, the economy entered a state of persistently high levels of unemployment, low-level production, low exports and little value production. The problem now occurring was not only unemployment but what kind of jobs FDI produced. A new Law on Privatization was passed in 2014. Around 526 companies originally put under restructuring, firms in which privatization was annulled and specific entities that had not undergone the process of privatization like local media and spas were to be privatized. The process commenced in June 2015. The World Bank encouraged the Serbian Government to solve the situation of the remaining state-owned enterprises with the argument that they are a source of fiscal risk (Toni Verhagen, Head of the World Bank Office in Serbia, 2016).

2.3.1.1 The diaspora and the Law on Restitution

One of the most important laws regarding the diaspora was the Law on Restitution. After WWII, many citizens from Yugoslavia fled the communist regime and emigrated around the world. The diaspora created in this period is predominantly in the UK, the United States, Canada and Australia. Many families lost a large part of their property (some all of their property) and inheritance based on communist laws passed to nationalize the private property in Yugoslavia (the laws from 1945, 1946, 1948 and 1958). One of the diaspora's

¹¹ For more details, see Privatization in Serbia - Results and Institutional Failures, Vujačić and Petrović-Vujačić.

primary interests after 2000 and the democratic changes was to retrieve their property and/or inheritance, or receive compensation. The Law on Property Restitution and Compensation was passed in 2011.¹² A special Restitution Agency was created in 2011 to help the previous owners get their property back. The Agency and the whole process had a lot of problems in the implementation phase, and much of the property was not returned or compensated for adequately. It was even sold through the privatization process or blocked. The treatment of the diaspora's rightful property and inheritance was a disappointment.

2.3.2 Foreign direct investment in Serbia

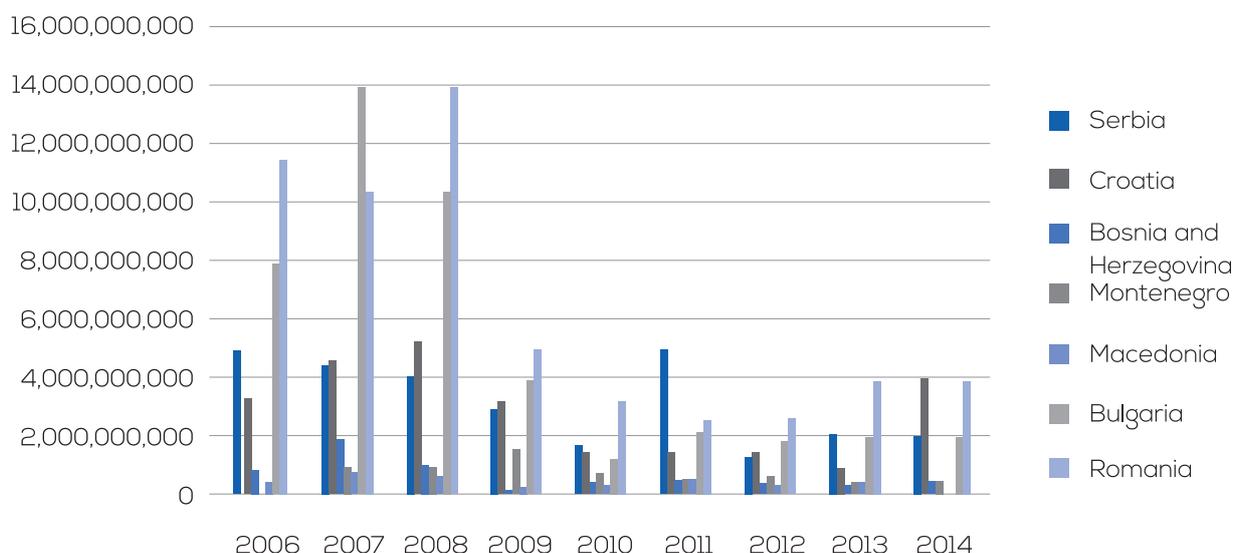
The role of FDI in Serbian economic development is important. Due to a severe backwardness, a lack of managerial knowledge and, most importantly – a lack of capital and domestic savings for capital investment projects, the role of FDI is very important. From the beginning of the transition process, Serbia defined FDI as having a leading role in financing growth and spurring economic development. The government programmes and policies around FDI were based on attracting foreign capital through privatization and direct investment. The incentives, tax regimes and institutional support were developed to secure a continuum of FDI inflow and new job creation.

Foreign direct investment plays a leading role in transition. The beginning of the 21st century marked the start of the transition process in Serbia, during which foreign

direct investment was emphasized as a leading tool for efficiency, increasing technology transfers and knowledge imports and developing know-how. However, the state did not develop an adequate industrial strategy under which the leading economic sectors could be preserved after ownership changes. As a result, Serbia is faced with a situation where it had active FDI during the first wave of privatization efforts, when those well-established state-owned enterprises were sold and greenfield investments were rare. The privatization process was somewhat flawed in creating and sustaining economic value for the country, as some of the privatized companies were bought not because of their core businesses, but rather because of their properties and reserves, which were later sold off and separated from the business for a profit.

Foreign direct investment is declining. Although Serbia has attracted significant amounts of FDI in the past, the country is now facing several constraints in the creation of adequate institutional frameworks that would encourage the business environment and attract further FDI. The next graph compares FDI inflows among Western Balkan countries and their surrounding EU members. The data show that Serbia is in the fourth place based on the levels of FDI during the 2006-2014 period, after Romania, Bulgaria and Croatia. In this period, FDI peaked in 2006, due to the privatization of the mobile operator Mobi63, which was sold to the Norwegian Telenor company for US\$1.5 billion. Since then, Serbia has experienced a fall in FDI, which reached only US\$2 billion in 2014.

Graph 1. Total FDI inflows in the region from 2006 to 2014¹³



¹² The set of laws regarding restitution includes: the Law on Property Restitution and Compensation, the Law on Property Restitution and Compensation to Churches and Other Religious Groups (2006), and the Law on the Elimination of the Results of Property Seizure of Victims of Holocaust Who Have No Living Legal Successor (2016).

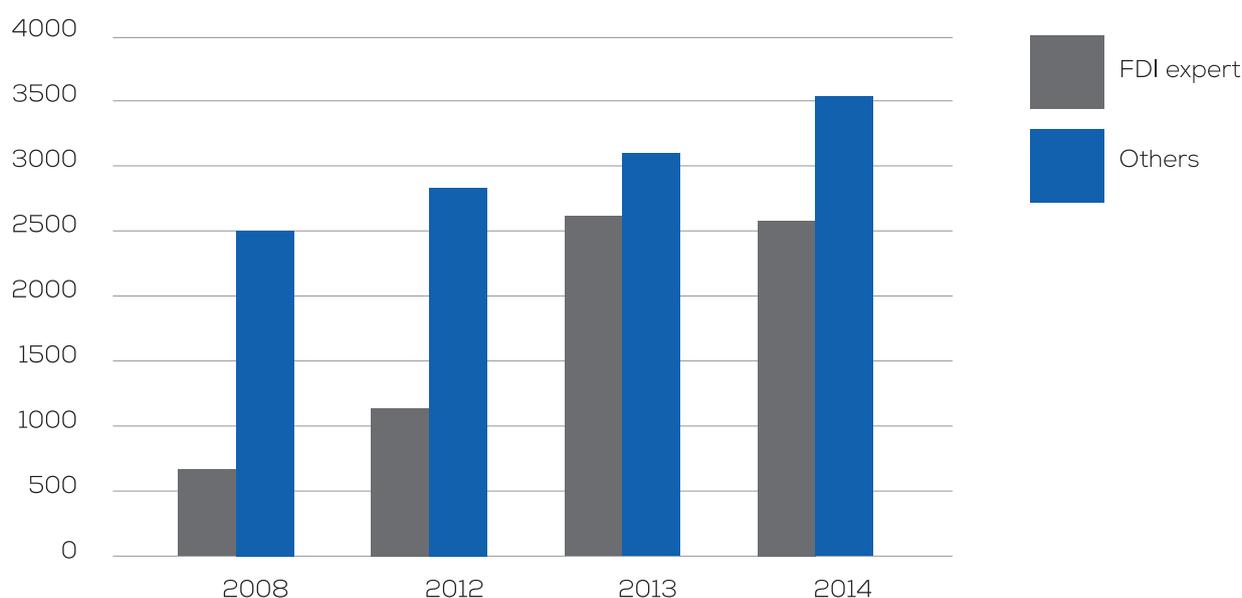
¹³ The source of the graphs is the World Bank, available at: <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>. Accessed: 15th May 2017

Foreign direct investment is important for export levels.

The appearance of several multinational investors on the stage in Serbia, particularly from Italy, led to positive effects for the Serbian economy in terms of specific products and their export to foreign markets. According to the latest complete available data for the year 2014,¹⁴

the participation of the 100 largest exporters in Serbia in 2014 helped to increase Serbian exports by 14 percent: from 42 percent in 2008 to 56 percent in 2014. Many of the companies that belong in this group of recipients from large investors and now strong exporters are the result of the FDI process.

Graph 2. Comparison of the eight top FDI exporters with the sum of all exporters in Serbia¹⁵



The data from the previous graph show a challenging picture of Serbian exports due to eight FDI companies increasing the total exports from 22.28 percent in 2008 to 42.39 percent in 2014. Such an export structure is inadequate due to the high degree of dependence on several players.

The main constraint faced by evaluators during this research was a lack of adequate data available and related to employment by foreign investors, as it seems that no single official state institution is charged with conducting such research.

2.3.2.1 Sectoral and regional investment concentration

Foreign direct investments are concentrated in the service sector. Before the global financial crisis, a dominant share of

FDI inflows was directed to the finance sector, as well as to construction and real estate. The reason for this can be found when looking at the privatization process, during which most of the foreign investors bought not just the companies that were state-owned, but also companies in the developed market. The first wave of privatization was oriented towards well-established enterprises with a developed market potential and prospective growth possibilities.

According to the National Bank of Serbia data gathered from 2004-2012,¹⁶ the financial intermediary sector attracted €4.820 billion in FDI, with wholesale and retail trade attracting €2,983 million, real estate attracting €2,384 million, transport and communications attracting €2,360 million, and the accommodation and food services sectors attracting €94 million. This places the service sector, an ideal sector for investment in Serbia, at the top in terms of

¹⁴ The Ministry of the Economy data, available at <http://www.privreda.gov.rs/kategorija/aktivnosti/publikacije/>, the Customs Administration data from the Ministry of Finance, available at <http://www.upravacarina.rs/cyr/Informacije/Stranice/Statistika.aspx>, the National Bank of Serbia data, available at <http://www.nbs.rs/internet/cirilica/80/index.html#eoi>. Accessed: 15th May 2017

¹⁵ The Customs Administration data from the Ministry of Finance, available at: <http://www.upravacarina.rs/cyr/Informacije/Stranice/Statistika.aspx>. Accessed: 15th May 2017

¹⁶ See the National Bank of Serbia data, available at <http://www.investinsrbia.biz/ieis.php>. Accessed: 15th May 2017

attractive industries for FDI. The service sector dominates the country's FDI inflow, with US\$6,555 million going into it, leaving the primary and manufacturing sectors with the remaining US\$5,281 million in FDI. The majority of FDI came through the privatization process, of which €6,868 million, US\$2,103 million, came through greenfield investments, with private sales bringing in US\$1,925 million and joint ventures bringing in US\$940 million.¹⁷ Since the economic crisis of 2007-2009, the structure of FDI inflow has changed – and actually improved. State policies and support programmes now look for investments that produce tradable goods and services that the national economy can capitalize on. Within the manufacturing sector, most of the FDI inflow went to industries such as motor vehicles and trailers, rubber and plastics and food production. The continuation of the EU accession process and the general Euro Zone recovery, as well as improvements to the investment and business climate in the country, will lead to further increases of FDI in the tradable sector and contribute to a more favourable GDP composition for Serbia overall.

regional asymmetric development, best shown through the expanding concentration of economic activities along the Danube-Sava River belt. Notwithstanding the rules of economic geography, which should be taken into account, almost 2/3 of the manufacturing industry is located in two regions: AP Vojvodina and the City of Belgrade.

As most of the FDI inflow is concentrated in the most developed regions, the biggest cities and Corridor 10, there is a need for a special programme to foster a more favourable business environment in the lagging regions, to enable a more even regional development and slow down the negative demographic processes in the country (*internal migrations towards the three biggest cities* resulting from the large differences in development and quality of life and business on the local level).

Receiving foreign direct investments is not a guarantee that all the positive effects will spill-over into the country being invested in. However, the possible *negative effects*

Table 1: FDI by branch of activity in 2014¹⁸

SECTOR	EUR (million)	Percent of total FDI
Manufacturing	€535.2	36 percent
Financial and insurance activities	€358.0	24 percent
Wholesale and retail trade; repair of motor vehicles	€224.8	15 percent
Construction	€162.7	11 percent
Professional, scientific and technical activities	€83.6	6 percent
Information and communications	€46.8	3 percent
Other sectors	€89.4	5 percent
Total FDI liabilities	€1,500.5	100.0 percent

All the weaknesses of Serbia's economic policy during the transition period have been demonstrated in the advent of the global financial crisis, especially since the second half of 2008. The Serbian economy felt a lack of investments in the real sector of the economy (industry, construction, agriculture), especially in the tradables sector, which would help increase the competitiveness of the domestic economy, raise exports, reduce trade deficit and unemployment (Aničić et al., 2011). The negative Serbian trade balance is a result of an *inadequate export structure*, in which labour-intensive and resource-intensive products dominate, while import is dominated by energy, raw materials and technology-intensive products (Aničić et al., 2011). Economic transformation deepened the

of FDI are also a result of the domestic economy. In an economy predominantly dependent on and developed by foreign investment, there is a narrow space for domestic technological innovations, as well as implementation of domestic scientific solutions. When the economic structure of a country is almost completely dependent, the development component of the economy is usually realized in the country of origin of the company that controls the technology transfer and investment (Popov, 2015). This kind of economic environment has been visible in Serbia in the last ten years. Corporate managers are almost exclusively concentrated on existential questions and their company's competitive advantage built through cost reduction, especially regarding the workforce. These

¹⁷ The joint venture regarding Fiat, at number 3, is a contract between Serbia and Fiat S.p.a. to establish a new car factory in Serbia through a joint investment. The Serbian Government invested money and infrastructure, while Fiat S.p.a invested technology and know-how in car production.

¹⁸ "Balance of Payments", from the National Bank of Serbia, available at <http://www.investinsrbia.biz/ieis.php>. Accessed: 15th May 2017

companies plan their business operations in such a way that human capital is predominantly directed to labour-intensive activities.

Between 2001 and 2013, twenty billion euros have been invested in Serbia from abroad, without achieving the desired effect on the domestic economy. Negative indicators of economic development are mostly concerning the unemployment rate and the low level of production. The unemployment rate was higher in 2013 than in 2005. To be accurate, the level of FDI dropped significantly from 2008, as a result of the global financial crisis.

Not one state institution keeps a clear and complete database on foreign investments. The number and the amount of foreign investments are unknown. The SIEPA, and afterwards the SDA, have data only on the investments they assessed and approved subsidies for. Stevan Rapačić has analysed seventeen Serbian municipalities in which FDI was the highest in Serbia during the period analysed, to assess the local economic development effect.

Local municipalities do not keep track of foreign investments as a common practice (if some local municipalities do so, it is based on their internal policy). Even the National Employment Agency does not have exact information on the real employment level. There is no unified and widely accepted system for gathering economic parameters by institutions and other actors. The SDA classifies the development level of municipalities through a special methodology. To assess the development level of a municipality, primary and corrective indicators are used. The primary indicators are salaries, the budget income of the local municipalities and the demographic indicators. The corrective indicators are demographic movements (decline or growth), the unemployment rate and the level of employment. According to Stevan Rapačić's research, in most cases FDI not only did not stimulate local economic development between 2001 and 2013, but also had neutral and even negative effects (Rapačić, 2016). The argument was based on analysing the effect of FDI in local municipalities with the highest FDI inflow. Of the seventeen municipalities analysed, in only one case there was a clear linear connection between the FDI inflow and local economic development, namely, in the municipality of Indjija. The negative effects of FDI were manifested mostly through rising unemployment. Most of FDI came as privatization of local companies and factories. When they were privatized, many employees were fired, or left the company after receiving a severance pay. There was

a lack of company restructuring and expansion as a result of privatization. The researchers concluded that the local spill/over effect was determined by three factors: the FDI type, the sector invested in and an active and productive engagement by the local municipality. The specifics of the Indjija case were: a continuity of FDI; all the investments were greenfield investments; and most of them went into the manufacturing sector. The growth of the local economic development through FDI was not dependent on the previous level of industrial development of the municipality, but stemmed from the active, constructive and long-term approach of the local municipality officials. Administrative measures, a business-friendly approach and the whole business environment were fostered in a favourable way regarding FDI.

2.3.2.2 Brain drain and the new consensus

According to many parameters that foreign investors take into account when deciding to invest, Serbia is positioned very poor globally. According to the research of the Global Economic Forum for the years 2015-2016, Serbia is in the 140th place (from a total of 148 countries) in brain drain: a. when measuring *the capacity of the country to retain talent*, 140/148, and, b. when measuring *the capacity of the country to attract talent*, Serbia is 139/148. This results in a context in which no foreign investor will decide to invest in business activities that need a highly-educated young workforce, but in a labour-intensive one.

As a consequence of the sanctions imposed in the 1990s, but also of the way transition was managed, especially privatization, *the middle class is disappearing*. The middle class was the biggest transition loser. The state still has not developed a policy, action plan or programme that would support the middle class. This is one of the reasons the middle class is mostly emigrating, especially the youth. The social structure developing in Serbia is highly unfavourable for attracting foreign investment targeting value-added production. A predominant process is a rapid expansion of the segments of society living on minimum wages or pensions. On the other side are the transition winners, a very small group of the super-rich, with no social responsibility.

There is a highly intensive wave of emigration of highly-qualified students and professionals in areas that are most needed for the country's economic development (brain drain). When looking at these processes, it is not hard to see why Serbia is in the 94th position in the world when looking at the Global Competitiveness Index.¹⁹

¹⁹ The Global Competitiveness Report 2015-2016.

2.3.2.3 Government subsidies and entrepreneurship promotion

With economic growth and the development of a good business environment as its goal for fostering investment, employment and a more balanced regional development, the Government improved its regulatory framework, infrastructure and investment support. The issues encountered with regionally unbalanced FDI and rising unemployment were addressed through specific measures for attracting FDI. The regulatory framework for attracting direct investments includes: *the Law on Investments, the Regulations on the Terms and Conditions for Attracting Investment, the Regulations on the Rules for Granting State Aid, and the Rules on the Application Form for Granting Subsidies*. The system of awarding subsidies was designed in such a way that they stimulate mostly investment projects in the manufacturing sector and services, which are the subject of international trade and investment targeting the less developed areas (lagging areas), where they are most needed.²⁰

The Government declared as one of its key goals to develop an entrepreneurship economy. Based on the "Decree on Subsidies for Entrepreneurship Development" from December 2014, the Ministry of the Economy has organized several open calls for entrepreneurship subsidies. The next open call will be announced in January 2017, and will last until the end of the year, or when all the planned funding is spent. The goal is to help and support the citizens who are unemployed or have lost their jobs during the transition process (due to privatization or the restructuring of public companies). Serbia has a very high unemployment rate of around 20%. The Serbian Development Agency started supporting entrepreneurship projects in 2016, through open calls for subsidies. The National project

"The Year of Entrepreneurship 2016" was officially presented at the ceremony held on March 1, 2016, at the Chamber of Commerce and Industry of Serbia. The project is implemented by the Government of the Republic of Serbia and the Ministry of the Economy, with the participation and support of numerous institutional partners, especially the SDA and the CCIS. The basic idea was to implement different activities, a package of assistance programmes for entrepreneurship and mobilization of all segments of the public, society and the state, to develop a competitive economy which will be based on the ideas of private initiative, knowledge, entrepreneurial spirit and a social consensus on encouraging these values and long-term policies.²¹

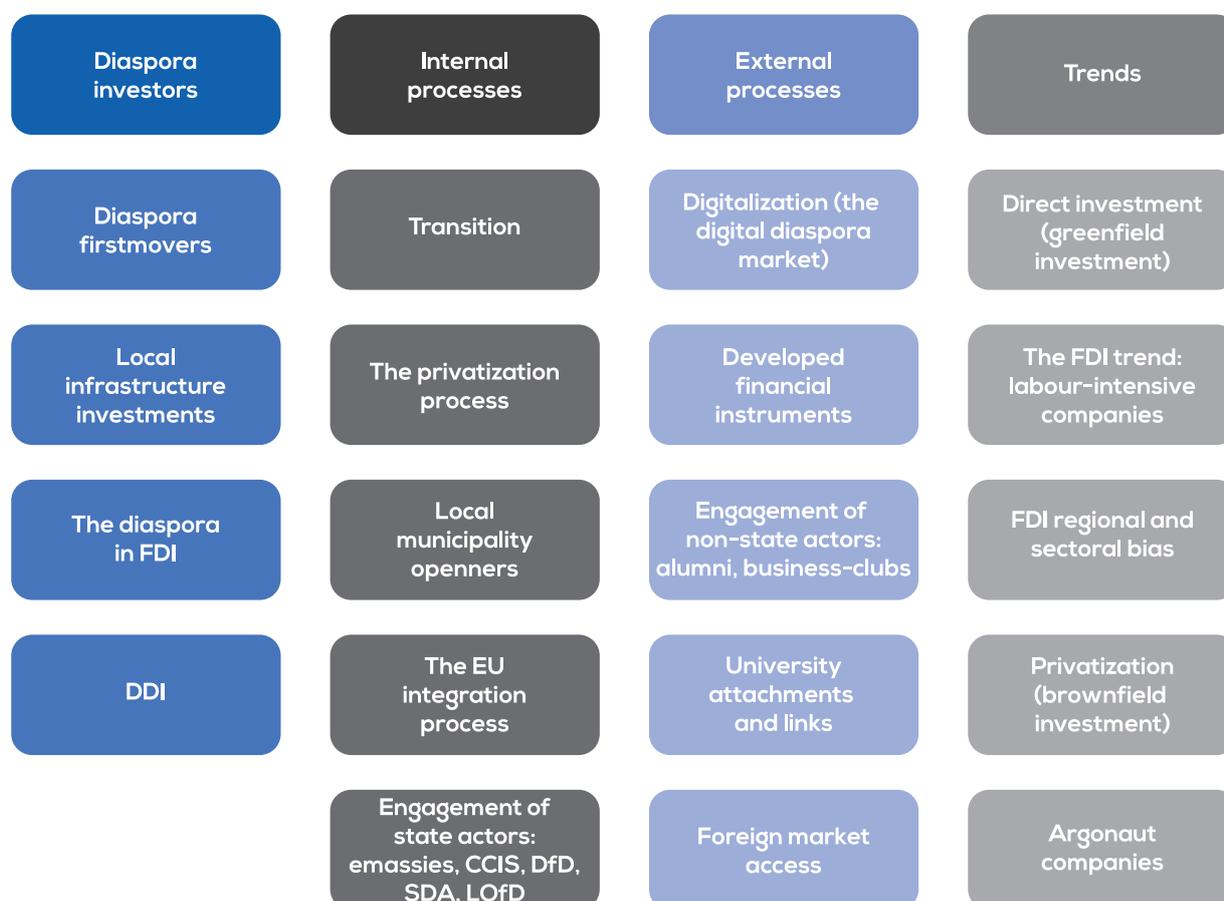
The new goal set by the Government is to move from an explicit FDI focus to homegrown development through developing an entrepreneurship economy. Notwithstanding the good intentions, the resources are scarce, the procedures are complicated for a typical unemployed citizen, and there is no infrastructure which can support small businesses on the local level. Moreover, the taxes and regulations regarding small businesses are preventing motivated entrepreneurial individuals from entering the market. The risks and financial burdens to small new companies are so high that many give up before even trying.

The investment environment is demotivating the diaspora from investing in small businesses on behalf of their family members back home (re-directing remittances to investment), as they conclude that their money would be spent more on taxes and financial burdens than on the business development itself. The highly-experienced diaspora could help the domestic government adjust the regulations, making it easier for entrepreneurs to start their business and spur home-grown development.

²⁰ Source: www.privreda.gov.rs/privredni-i-regionalni-razvoj-3. Accessed: 15th May 2017

²¹ Source: <http://ras.gov.rs/year-of-entrepreneurship-2016>. Accessed: 15th May 2017

Chart 2. The DDI business environment



3. THE METHODOLOGY AND INFORMATION BIAS IN SERBIA

The research implemented controls for a two-level development (usually ignored by researchers) by the diaspora – targeting the middle class and the lower classes. It also includes all the sectors and actors.

We set a theoretical framework based on Vertovec's (1999) transnationalism (the diaspora identity and dynamics), the special roles played by the diaspora such as self-discovering (Rodrik, 2004), developmental actors (hometown investments and business development), institutionalism and economic development (Douglas North 1990), the diaspora spill-over effect for innovation (Bathelt et al. 2004) and AnnaLee's (2008) New Argonauts concept (showing the development potential of the diaspora in

fostering the knowledge economy, the academia and the market). A literature review was conducted to set the most adequate theoretical context for Serbia and the Serb diaspora in place.

We conducted a qualitative research inside four frameworks of analysis that would allow us to analyze the effect in Serbia. Based on these four frameworks, we conducted interviews with officials of all the institutional actors addressing the diaspora, as well as all non-state actors addressing investments and innovation. We interviewed well-respected members of the business diaspora, introduced the term diaspora middlemen (a very popular concept in the Serbian diaspora) and interviewed schools and alumni. The most impressive interview was conducted with the Headmaster of the Mathematical Grammar School in Belgrade, as the core of human talent aimed at engineering, physics, machinery, electronics and mathematics for the whole world. We analysed legislation and all the formal documents in Serbia regarding the diaspora.

In our research, we focused not only on the frameworks, but also on the problems occurring in the programmes targeting the diaspora. Many officials argued that they received a lot of foreign advice on how to manage the diaspora but not one single piece of advice gave concrete solutions. We tried to do just that.

4. UNDERSTANDING THE DIASPORA AS SPECIFIC INVESTMENT ACTORS

One of the key questions regarding the diaspora debate today is: **Why should the diaspora have a privileged role as an investor? Should it be treated as any other investor?** Among others, this question was asked by one of the highest members of the CCIS during the research to this study. It is pointless to propose or even discuss diaspora policies and instruments if you do not present the differences and the diaspora's key importance for development through investment and business development. We will try to answer this question in the following sections and use it to assess the national investment framework for diaspora investment. We will focus on the areas of development that mostly affect the move to the knowledge economy.

4.1 AREAS OF DEVELOPMENT

We have mapped three key areas where a change is needed for the economy to develop further, and where the companies of diaspora returnees are making the most significant impact. The most important key effects from the diaspora for development are as follows: educational change, a fully developed market push, a technological push for a knowledge economy.

Goal 1: Push for an educational change

The civil wars in the 1990s in the former Yugoslavia, and the state of permanent transition lasting for fifteen years after it began in 2000, have left a strong mark of the educational system in Serbia. Once a pride of the country, with academics educated in Western Europe, the United States and the Soviet Union returning to Yugoslavia to educate the young with leading-edge knowledge, now they are institutions that are permanently struggling with finances, salaries, curricula that are old and not adjusted

to the current market trends and scientific breakthroughs. With a high unemployment rate, very few job openings and an even smaller space to extend their knowledge working in companies after their graduation, students have emigrated in significant numbers from Serbia. Around 20,000 people leave the country every year, among them mostly young graduates and professionals, which roughly presents the sheer magnitude of the problem of brain drain.

Goal 2: Push for a developed market

By definition, models based on sale, with the expectation of significant revenue, need a market with a strong demand side. This is obviously lacking in the Serbian market. The Serbian market, with many problems at every step, from the bureaucratic procedures, low-qualified and inexperienced civil servants, to privileged businesses and monopolies, keeps the business environment very complicated for anyone, especially young entrepreneurs with great ideas to enter and be successful. The returnees and their companies are pressing for changes that are needed. Tackling problems, but concentrating on foreign markets and export their companies have become the drivers of the private sector's development and movement towards a completely free and developed market. These companies are developmental companies.²² The diaspora and its domestic business success have become a "push factor" for market reforms and stronger institutions.

Goal 3: Push for a local institutional development and regional development

The Nobel Prize laureate Douglas North argues that economic development needs a specific level of developed institutions. He distinguishes normative and social institutional levels. Normative level includes regulations and norms (norms on how things are done based on the law and legal procedures). Social level includes how the structure of the given society keeps the rules based on formal institutions (human capital and societal norms). In the diaspora investment in Serbia, formal institutions are present in a very developed way, but social institutions are strongly biased and distant from formal institutions (something that strongly affected the privatization process as well). This allows for a strong outside intervention and corruption on the local level. If formal and social institutions were brought into alignment, the institutional system for the diaspora investment would work on a very high level. This could be done by several layers of monitoring and control, from top to bottom. The diaspora investors could map all the

²² Developmental companies as opposed to companies that bring development. Developmental companies are those companies that bring a higher level of production and value-added activities for potential employees. Companies that bring development are those that just hire people on any job position and lower the unemployment rate. This could be exploitative and downgrading for the employee. As we will present in section 5: all "companies of hope" are development companies, and all "companies of chance" are developmental companies.

bottlenecks reached and cooperate with the Government and all stakeholders to eliminate the bottlenecks. A quantitative mapping of the diaspora investments and all the bottlenecks will bring about a more efficient investment system, effective communication and trust in Serbian institutions. The social layer of institutions (investment and development controlled by the diverse state actors as social norms are lacking for a transparent process) is the key for solving this problem, not the procedure based on the regulations.

Goal 4: A technological push

The state apparatus is very well developed in terms of form, but not in terms of substance and dynamic adjustability to the international market, education and bureaucratic efficiency. The state lacks the human and financial capital to push the country into a knowledge economy and a developed market. This is not the fault of the current Government, but a cumulative effect of decades of poor institutional development. Because of the existing context, there is a need for a developmental approach towards institutions as well. If it is not implemented, the existing mistakes when it comes to engaging the diaspora will continue: the wrong approach implemented in the past was to co-opt somebody successful from the diaspora to develop an adequate programme and framework, and leave it for implementation to the current state bureaucracy. The key problem in this is that domestic officials do not understand the dynamics of the international and internal life of these institutions in developed countries and markets. This cannot be transferred through ad hoc mentoring, as it has specificities that can be learned only by living and working in a foreign system. A strong point raised is also that diaspora overachievers do not understand the domestic processes, so they need the current administration to adjust their work in the right way. A combination of the two approaches is strongly needed. Finally, and most importantly, the authority of the decision how to reorganize the institutions must be in the hands of the people who are making changes. The talent for manipulating development by re-directing it for personal interests is very much in evidence in Serbia. A special approach is needed to complement the previous processes.

How to actively engage the diaspora in supporting the institutional and policy changes in Serbia remains a key question. The diaspora needs to be engaged to move its activities to Serbia, that is, its production and operations. When "landing" in Serbia, its interest will be to show all the potential and capacities the Serbian market and the economy have and need. This process is currently under

way in Serbia, but not enough to bring about a substantial "**developmental push**". The country needs a developmental push forward from the private sector, from the innovative, technology-driven, business-driven diaspora enthusiasts coming home, the Argonauts. Their push for private sector development will push for all the changes required in the institutional and regulation field, to adjust the Serbian system so that it becomes competitive globally.

The initial potential

There is no adequate absorptive capacity for value-added production investment, except in the IT sector. This is the sector in which the young wait the least to find a job. On the one hand, the IT industry opens more jobs than any other sector globally. On the other hand, the IT sector is the most globalized one and depends the least on the domestic institutions, market, and regulations. This is, thus, the best initial entry point for the business diaspora. Following the new Serbian Government strategy in developing the IT sector, as the strategic sector for developing the economy, the IT sector could be a very important diaspora opportunity as potential investments from the diaspora could be substantial and have a spill-over effect on other industries.

4.1.1 Creating the knowledge economy – back to the future

In 1990, the Electronic Faculty of the Niš University had strong ties with the industry and its students worked with high-quality equipment in a quality manufacturing environment. The technology level was not competitive when compared with the West, but it was not far behind when knowledge was concerned. Yugoslavia manufactured products for the local market and Third-World countries. Most of the professors went to specialize at Western universities and came back with all the knowledge and know-how. Students and young professionals knew how to adjust to leading-edge knowledge very easily. The faculties retained this practice as much as they could even during the "lost decade" (1990s), but with no Government and local support, and with the economy destroyed by the long UN sanctions and NATO bombing, they did not have a chance. Twenty years later, the industry is devastated, there is no capital and the market is very weak, but the universities and the economy got something more powerful in return, their former students as successful professionals around the world, from the key innovation centres to the leading companies. Focusing on the Electronics Faculty in Niš, many of the alumni have developed successful careers, in the United States and Australia primarily, and some of them

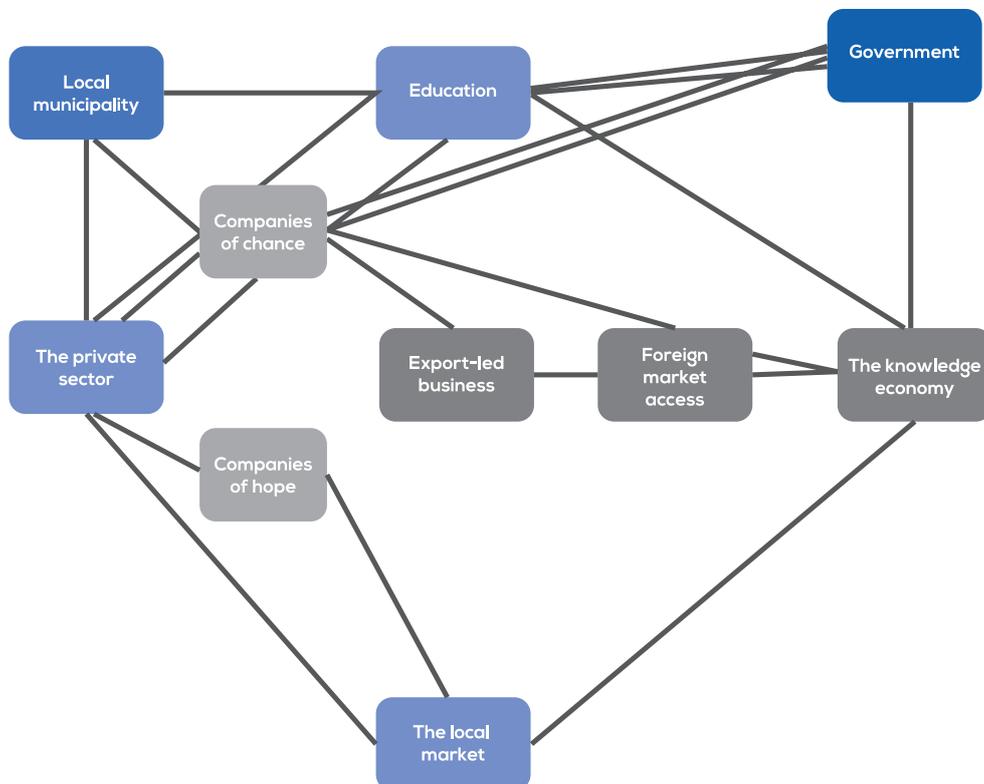
have even returned. In fact, one of the leading IT companies in Serbia, "Frame", was created by the Electronics Faculty's alumni. This shows that another type of company and market have replaced the previous state-owned giants.

A new special relationship should be developed for the new economic environment. Although some of these companies already cooperate with the universities, there is a huge potential for both sides to create a deeper cooperation, which will make these companies even more successful globally, university programmes very competitive and provide the best students with a chance to advance their knowledge and skills, while providing Serbia with the one thing it has been looking for: a new relationship between the state, market and universities as a foundation for domestic development. The New Serbian Argonaut companies are the new private sector actors that can develop the academia grassroots, based on the needs of the market and adjusting to the market. There is a need for a more substantial local and national support in terms of logistics and infrastructure to foster this spill-over effect. NiCAT Innovative Technology Cluster has become a core source of this process in the Niš region. The Technology Forum organized annually (October) under the

auspices City of Niš, NiCAT cluster, Electronics Faculty, and the National Employment Service and Regional Chamber of Commerce Niš, a summit of knowledge and innovative business solutions, is bringing business and science together and teaches young professionals about the product and software solutions, and the market. The NiCAT cluster is currently developing a stable knowledge pipeline connected to the Electronics Faculty alumni diaspora located in the centres of innovation, Eindhoven, Zurich, Munich, Malmo, Tel Aviv, the Silicon Valley, Toronto-Waterloo.²³

Instead of going for a state-centralized solution, the state and the local municipalities should spur New Serb Argonaut companies mushrooming. This complex and diverse environment of companies with leading knowledge and a high spill-over effect on the community, university and business will drive the economy forward much more efficiently and more successfully than any amount of FDI. In the words of Dani Rodrik from Harvard and Ha-Joon Chang from Cambridge, "do not *cherry-pick winners*, foster an ecosystem that will help them succeed by themselves. Their number will be much higher, the state will have much less costs and the market will have the adequate competition to fully develop.

Areas of development



²³ Clusters and knowledge: local buzz, global pipelines and the process of knowledge creation.

4.2 THE DIASPORA AND ITS SPECIAL INVESTMENT ROLE

The returning diaspora and transnational companies (home and away) are pushing for a strong change in the domestic economy. Overachieving returnees have a clear goal in developing their companies based on the pillars of knowledge learned abroad. Usually, they build companies step by step, from a group of returnees or a group of pioneers. The thing that is specific of these companies is the pattern of fast expansion. In a couple of years, a very large percentage of these companies expand drastically and become successful. We identified several reasons for this success: these companies use the founding knowledge of the returnee to identify an area in which a company could have a demand from abroad; the demand exists through diaspora returnees' contacts and already developed business connections abroad; companies are organized and managed efficiently, effectively and product-oriented (social remittances brought home by the diaspora); new employees from the home country are trained not only to work on specific job positions (as they are in the global companies that outsource parts of their production to Serbia for cheap-labour jobs) but are taught to understand the whole value-added process and are motivated and urged to learn, so that the company could develop in terms of quality production and services; most of the company's products and/or services are export-oriented. Knowledge is the key driver of these companies and their products' success. The local market does not have the absorptive capacity for these products and, thus, no capital to enable the company to develop. Only a small percentage of products and services are sold or realized on the local market. However, by developing the market step by step with their knowledge, products and/or services, and teaching the young how to work on the knowledge economy playing field globally, these companies are the ones that bring change and move the economy towards the knowledge economy, much more than any state policy. The state policy should allow these companies to develop more easily and expand as much as they can, and encourage the universities to cooperate with them and move faster toward the market.

One of the key issues in engaging the Serbian diaspora is the lack of understanding of the diaspora as an individual and collective actor, and differentiating the diaspora from the regular foreign investors, business and education actors. By assessing the empirical evidence, we can identify the diaspora's developmental role. On the other

hand, the empirical evidence will also confirm in some cases the diaspora's role as that of regular foreign investors. This is the reason why we should never generalize about the diaspora actors but focus on their practice. All investments are equal by law²⁴, but there are some differences which can be deducted empirically. To understand the diaspora's potential (and its already empirical) role much better, we need to differentiate among the motives and interests of *first movers*, the *diaspora foreign investors* and the *diaspora direct investors*.

4.2.1 The diaspora in FDI

The biggest confusion in the area of the business diaspora engagement is due to the differentiation between the diaspora as a developmental actor and the diaspora as an FDI investor. When the diaspora invests with a complete investment matrix of a foreign investor, even focusing on the labour investment potential in a country they know very well as the first mover, they are completely the same as FDI investors. There should not be any differentiation between the diaspora and foreigners in this context, as their interest is the same – only profit. The diaspora in FDI should be only specially supported by the state in providing information because of the social and legal responsibility that the state has towards its citizens and their successors living abroad. When the diaspora invests as a developmental actor, thus investing in local infrastructure projects, it fosters business development in local communities, in which FDI does not have an interest and which the state does not have the capacity to develop; when it develops special value-added products and processes, which has a significant spill-over effect on the academic environment and the community, when the young have an opportunity to work and enhance their higher education, talent and ideas, special support by the Government is needed. This support should be developed through a specific combination of infrastructure, logistics and financial incentives.

4.2.2 DDI – diaspora direct investment

Ardevino states that the general verdict on FDI points towards it being a powerful tool for growth but conditional on factors including the level of education, infrastructure and institutions that promote good governance and effective oversight. These are all elements that make a country developed and not developing. Or, putting it differently, if these elements were in place, homegrown

²⁴ The Serbian Law on Investments, <http://www.privreda.gov.rs/wp-content/uploads/2015/10/Zakon-O-Ulaganjima.pdf>. Accessed: 15th May 2017

development would be possible and FDI would not even be needed. Ardo vino addresses an alternative to FDI that provides more flexibility. "This alternative is not completely novel, nor is it unique to just one region or country in the global economy, and it revolves around a theoretical construct known as the New Economics of Migration (NEM)." We argue that DDI is not an alternative but a necessary parallel process to FDI in managing development. Moreover, we point to one of the key roles of Diaspora Direct Investment (DDI), and that is a long-term approach to business ventures. Most FDI will not risk a long-term return on the investment as DDI would, and its goal is not long term as the diaspora returnee's is.

Ardo vino presents DDI as an alternative to foreign direct investment (FDI) in increasing economic growth in developing societies. DDI is distinct from FDI in that "it relies on a transnational social network made up of migrants and migrant mechanisms operating between host and home countries. The migrants are the linchpin because they have a unique knowledge of their homeland and culture. These factors make the migrants a more viable facilitator of capital acquisition and investment."²⁵

Returning migrants not only have the financial incentives of a typical foreign investor but also have the *social aspects and knowledge of the local business environment and investment possibilities*, as well as an ethnic advantage ("the First Movers"). However, returnee migrant investors also include *several aspects that are specific of DDI*. According to Ardo vino, DDI's roles are: *the Brain Gainer; the Altruistic Technologist; the Brave Capital Investor; the Catalyst; and the Diplomat*.

1. **DDI as a Brain Gainer** – In many countries, talented and highly educated emigrants have returned to their home countries. As these professionals return to their countries, they bring knowledge, know-how, organizational skills, technology, as well as capital and, more importantly, access to advanced markets in developed countries. They have the potential to serve as advisors and role models to domestic businessmen, and to advise government officials on effective management and organizational matters, oversight and regulatory issues. Their key developmental role in the context of Serbia is to transfer their knowledge to universities and train youth while opening their opportunities to work on higher quality level, moving the academia and the job market forward.
2. **DDI as an Altruistic Technologist** – Diasporas are major conduits of technology and business know-how to

their home countries. Rodriguez-Pose and Cresscenzi (2008) showed that vertical and horizontal spill-over effects as a result of the FDI are so small and low-level that they are not significant, especially for innovation and local economic development.²⁶ Ardo vino also argues that there is evidence that shows foreign investors try to limit these naturally occurring spill-overs. Some foreign entrepreneurs are often unwilling to share their technology or institutional know-how with local workers, understanding that these workers can take this knowledge elsewhere and become potential competitors. A fear of technology leakage is especially present in countries with a limited rule of law. Anecdotal evidence shows that these spill-over restrictions occur less frequently with diaspora investment. The diaspora is more willing to share technological capabilities, if not directly the ones that they use for their production processes, then other that can help develop the community. Following our differentiation in the section 2, regarding the identity of the diaspora, we can identify diverse spill-over motives. The highly educated diaspora is predominantly motivated in helping the new generations (youth) in the home country, as they identify their life situation with their own before leaving the country. The labour-diaspora's predominant motives for the local spill-over effect are to contribute to the development of their home town or region ("zadužbinari"- "endowment investors"). The refugee diaspora is predominantly interested in investment that is connected to home towns. The business diaspora is predominantly interested in transnational business interests. The second generation of diaspora is focused on cooperating with diaspora with similar background working together on philanthropic projects towards their country of origin. The scientific diaspora's spill-over effect is connected to researchers in the same fields globally and back home.

3. **DDI as a Brave Capital Investor** – Diaspora investors are less averse to political risks and economic shocks than other foreign investors, often feeling a sense of pride and duty to the homeland. Because of this bond, homeland investment is more likely to attract investment from the diaspora than from the non-diaspora. DDI also has a great role to play in supporting the poor and low developed areas of the country. Individuals in the diaspora who left these areas are interested in investing in infrastructure projects at the local level, as well as in small businesses or

²⁵ For more details, see Diaspora Direct Investment (DDI): The Untapped Resource for Development.

²⁶ For more details, see: Mountains in a flat world: Why proximity still matters for the location of economic activity.

group-organized business activities. Their motive is almost purely developmental, emotional, to give back to their place of origin. This motive could also be incentivized by the local municipality offering lucrative deals, such as public-private partnerships. In each type of approach, DDI is the key resource the local municipality has. Bearing in mind that the Government and most local municipalities do not have the financial and human capital resources to develop the local infrastructure and logistics channels, the role of the diaspora is invaluable. Once capital flows arrive in the country, DDI is more likely to stay than other types of investment. Unlike FDI, DDI is more fixed and more difficult to pull out of the country than portfolio investment in the event of a political or financial crisis. DDI is superior to other forms of FDI because the diaspora has a better grasp and understanding of the local business environment. The only issue is how to enable the diaspora to realize this role in the most effective way for them and for the local community.

4. **DDI as a Catalyst** – Many scholars have noted a catalytic effect of DDI on FDI. By setting up joint ventures and promoting export for domestic companies, diaspora investors and middlemen played an important role in attracting FDI. Ardovino suggests applying these lessons to transition economies, so that the diaspora could accelerate closing the gap that inevitably exists between the post-socialist economy and the rest of the world, and provide a strong backing for the integration of the home country into the global market.
5. **DDI as a Diplomat** – DDI encourages development of internal market reforms because highly-skilled diaspora entrepreneurs and middlemen provide an access to the global economy. To succeed in this globalized setting, local businesses need to adopt free market practices, and they learn this from diaspora returnees.

We will add a 6th role, reflected in the university spill-over effect – DDI has a powerful potential to push the academia forward regarding the methodology used, equipment and technology. The previously mentioned altruistic technologist role is here even more expanded into a developmental DDI role. The universities are the key for the country's development. If this diverse eco-system of highly-competitive companies is allowed and incentivized to more systematically transfer knowledge and know-how, and have a much higher spill-over effect, the central

industrial policy of the Government is not needed, as the self-discovery model will point the way forward.

Long-term investment-return planning – As we mentioned previously, the diaspora's goal is to develop a company back home, not to exploit the market through short-term financial returns. We can identify in this gap the difference between those interested in labour-intensive companies and value-added companies.

The research conducted by Pavlov et al. showed that, by starting small businesses in a range of sectors, migrant returnees to Serbia can contribute to the development of various spheres of the economy. A specific importance of their transnational activities lies in the fact that they can bring in know-how and innovation from abroad. In some cases, they start and develop business operations in some new innovative sectors, especially in the fields of information and communication technologies. Through their business employment, they are attempting to change the organizational culture and contribute to an unbiased evaluation of outputs, legalism, strategic thinking and planning.

Our research has gone a step further and shown that DDI has a significant spill-over effect, much bigger than FDI. This qualitative spill-over effect needs to be *researched qualitatively more deeply, and quantitatively more widely in Serbia*. We argue that it could be a base for a mosaic of hundreds of small and medium-sized companies (connected or not to large diaspora companies abroad) that can spur the development of the business-friendly local institutions, effective diaspora engagement, academic institutions and other businesses and individuals that can profit from the spill-over effect on the local level. In this role we identify the special role that need special support by the Government.

4.2.3 The First Movers²⁷

Previously, we have identified the difference between FDI and DDI. There is a need to clarify the overlapping between the two. The overlapping comes from their inherent position of being the "first movers". Many diaspora investors invest according to the same logic as foreign investors, but with an advantage of being the first movers. The first movers can be described as *'investors who could come first to an emerging market of the home country, and by doing this could change market expectations and advance an*

²⁷ For more details, see Realizing the Development Potential of Diasporas, United Nations University, 2011.

inflow of more conventional FDI.²⁸ Similarly, they have been defined as “economic agents who are ready to take additional risks and, when successful, are seen by their peers as role models for replication and follow-up. And by being the first movers, diaspora representatives have a chance of becoming leaders, mentors, partners and godfathers of the local private sector.”

On the basis of their relationships in/with their homeland, migrants-entrepreneurs are more likely than other investors to take risks and start businesses in high-risk or newly emerging markets (Pavlov et al.). In addition, based on the knowledge of the local political, economic and cultural circumstances, migrant entrepreneurs can lead the way in relation to other investors and employers in the country of origin. This is confirmed by examples of Serbian migrant returnees who developed transnational business activities.

Seldom does the diaspora serve as foreign business middlemen, and it is seldom more “exploitative” than foreigners, trying to satisfy their employers. They use their first mover positions in a negative way when looking at the home country’s development. In a context in which the diaspora acts as a foreign investor, but channelling investment and business development towards home towns where foreign investment would not come and in infrastructure projects that lack national and local funds, or where corruption or bureaucracy scares away foreign investors, we identify these diaspora investors as DDI investors. Their role is very important, as they engage in areas where there is a very low possibility that foreign, domestic or even local municipality entrepreneurs would invest. To help them in their investment, the Government and the local municipality should work more closely in enabling the best infrastructure and logistics possible for the diaspora, as well as public-private partnership opportunities. In our case studies, several cases correspond to this type of investment.

4.2.4 Diaspora middlemen²⁹ – from insertion facilitators to development

When it comes to the business diaspora, there is a need for identifying the role of *diaspora middlemen*.

Large-scale emigration processes from Yugoslavia, and then from Serbia, spurred the formation of several hundred diaspora organizations abroad. The difference in the origin of the diaspora organizations and their members, their internal diversity, made a large mosaic that even the home country could not follow. Individuals who became most active dealing with the home country and developed wide diaspora connections between diaspora groups and Serbian institutions became important *diaspora middlemen*.

Diaspora middlemen’s role is positive in terms of engagement, but it could be corrosive when taking into account only their personal interest and not the home country’s development. They often channel the diaspora into FDI or the diaspora as FDI, but very rarely DDI, because they can’t identify personal interest through DDI and wider social interests. This is one of the main issues facing the Serbian diaspora. For far too long there has been a limbo in the diaspora engagement policies and programs by the home country, and thus many diaspora representatives have become diaspora business middlemen. The solution can be found in differentiating among the approaches to the diaspora as foreign investors, regular foreign investors and DDI.

Diaspora middlemen are trusted because they are always well positioned in diaspora organizations and communities, and have more time than others, who are focused on everyday work. Time, position and experience gathered being in the middle all the time, place them in a better position in relation to embassies, institutions and individuals back home. Serb diaspora middlemen are seldom interested in political positions in the host countries (in Germany), in trade (Canada), in business (Switzerland), in culture (many diaspora organizations globally). From an element of gathering, working voluntarily, diaspora middlemen have decided to “cash in” on their positions in “different currencies”. This, however, should not include the many experts and patriotically inclined people working on this guided by their heart and the developmental goals of their community in the host country and in the home country. Diaspora middlemen could, but seldom have a very positive role. In their positive roles of establishing connections with the private sector, they will open the door for business development and cooperation.

²⁸ Global Diaspora, Harnessing the Power of Global Diasporas, Strategies Toolkit, (2011), Kingsley Aikins and Nicola White.

²⁹ Although this phenomenon is not reserved for the Serbian diaspora, it is highly developed in the Serbian diaspora context, and needs to be understood before even entering the topic of the diaspora’s investment engagement.

TWO POSITIVE CASES OF DIASPORA MIDDLEMEN: MR. SLOBODAN IVANOVIĆ AND MR. MIŠA ĆIRIĆ

Many members of the CCIS Business Council for the Diaspora are business middlemen for diaspora investment and business development. Two representatives of this phenomenon are Mr. Misa Ćirić (diaspora.group.org) and Mr. Slobodan Ivanović (MTT Group), from the U.S. and Canada, respectively. They have both worked on the diaspora engagement for more than twenty years. Over the years, they have developed an important network and channels for cooperation with Serbia, as well as a magnificent media visibility for the diaspora in the home country, keeping the diaspora, especially the business diaspora, in focus. Currently, Mr. Ćirić is a talk show host of the Serbian Science Television programme Serbian EXPO, bringing business, academia and sports news from the diaspora to Serbia. Mr. Ivanović is currently heading the initiative for developing a trade distribution centre in Toronto (Canada) for Serbian nostalgia trade and export promotion. If it succeeds, the model will be multiplied in countries where a dominant Serb trade diaspora exists around the world. Their human capital and knowledge in diaspora engagement is invaluable.

A solution for the diaspora middlemen debate

Instead of ad hoc and opportunistic middlemen managing the diaspora engagement, develop a system that will enable every single diaspora member who would like to work in a developmental manner toward Serbia to do so, supported by the Government, and leaving all foreign investment engagement to middlemen. This will change the whole diaspora business environment at home and abroad.

4.3 DIASPORA OVERACHIEVERS

Yevgeny Kuznetsov defines overachievers as *“the First or the Second Generation Diasporans who have achieved extraordinary success in their new country of residence and look to their home country for new professional opportunities. Diaspora overachievers tend to undertake ventures in their home country despite obstacles such as a poor investment climate and corrupt governments, have unusually long planning horizons and above-average capabilities that allow them to innovate and sometimes facilitate institutional changes.* (This includes business development but also the academia and institutions. Moreover, this concerns the most effective and result-based coordination and cooperation between the three – M.P.). *Even within this subcategory of overachievers, it is rarely an easy task to identify those who are willing and able to engage with the homeland and connect them to what is often only a small, better-performing segment of the home country’s institutions, which is interested in and capable of developing joint projects with diasporans.”* Kuznetsov suggests *“search networks”* as a mechanism and provides suggestions for initiatives to create

institutionalized and focused search networks with the diaspora’s participation.

At the Global Zurich Summit, a special event is designed for the overachievers from the science and academia diaspora – the academic forum. The participants of the academic panel are scientists, young academics and alumni around Europe. The academic panel targeting alumni will be the first step towards engaging engineers and other alumni groups towards Serbia and its private sector development.

4.3.1 Scientific alumni associations – from schools to professionals

Many Serbian universities and faculties, with a great reputation for educating and developing very successful young scientists and entrepreneurs, have set up alumni associations. These alumni associations gather former students and seldom present successful overachievers. These are more like connections between alumni from Serbia and the alumni organizations created in the diaspora. An active program towards alumni and other diaspora alumni groups abroad would be much more effective solution and provide opportunities for home country’s development.

Approach from the private sector

A dynamic alumni network is currently being developed by the NiCAT cluster in Serbia, basing the network on the Electronic Faculty alumni, but focusing on professional cooperation, knowledge sharing and global networking with all potential partners this diaspora network reaches.

Taken from the Niš Alumni Booklet

Prominent member of the Alumni Center

Prof. Dr. Zorica Pantić,

President of the Wentworth Institute of Technology in Boston

Diplomas obtained at the University of Niš represent an excellent foundation for professional development and career advancement in the world, Prof. Dr. Zorica Pantić, President of the Wentworth Institute of Technology in Boston, stressed on the occasion of founding the Alumni Center of this major higher-education institution in Niš.

The alumna of the University of Niš, professor Pantić, stressed that her position of a first woman president of a technical college in the U.S. she owes to her education, from a graduate engineer through M.Sc. to a Ph.D. degree, as well as to the experience gained at the Faculty of Electronic Engineering in Niš. Being aware of the quality of the personnel working at the Faculty she initially came from, the President of the Wentworth Institute of Technology in Boston expressed the hope that many more quality-driven professionals and scientists from the University of Niš, with their work and results, will continue to spread the University's name and reputation around the world.

Professor Pantić pointed out that the students and staff of the University should have in mind that their higher education institution is of extremely high quality, and that all of them need to collaborate towards its ever-greater recognition, which could be significantly helped by the experience and authority of the former students gathered around the Alumni organization.

Prof. Dr. Zorica Pantić graduated in 1975 from the Faculty of Electronics in Niš, where she also received her M.Sc. degree in 1978 and a Ph.D. in 1982.

During her 30 years in academia, which includes more than 10 years of academic administration experience, Dr. Pantić has been an agent of change and a champion for excellence and diversity.

As the director of the School of Engineering at San Francisco State University (SFSU) from 1997-2001, she increased the quality, size, and visibility of the programs that resulted in their ranking among the top 50 undergraduate engineering programs for the first time in SFSU history.

As the founding dean of the College of Engineering at the University of Texas at San Antonio (2001-2005), she spearheaded the institution's efforts to become a flagship university in the state of Texas and a top-tier research university in the U.S.

In 2005, Dr. Zorica Pantić became the fourth, and the first female President in Wentworth's century-long history, and the first female engineer to lead an institute of technology in the United States.³⁰

Approach from a high-school educational institution

A great example of managing the alumni is the practice of the Mathematical Grammar School in Belgrade. Students are taught by one hundred teachers, of whom forty-one are PhD professors from the Faculty of Mathematics, the Faculty of Electrical Engineering, the Faculty of Mechanical Engineering and the Faculty of Physics. When they graduate, they are strongly prepared for all of these sectors. Students of this high school have won around 500 medals in international competitions and Olympics in mathematics. Every year, more than ten students are accepted at leading foreign colleges. The rest go to the leading faculties of applied sciences in Serbia, and afterwards specialize in different sectors abroad (PhD or

PostDoc studies). Several students per year are accepted at Cambridge University, as one of the biggest clusters of Serbian overachieving students in the world. The rest go to other renowned universities around the world. Most of them stay and work abroad, and only a few return. The reason is that there is no working environment that could accommodate their level of work and knowledge. The Alumni network ("*Almagi*") has around eight hundred active members. The school is very proud of its students and promotes their cooperation and networking long after they finish school. The school organizes events every year in which former students return and share their experiences with the students currently attending the School, and show them the path forward in education and work. The School represents a dominant source of human capital for four top faculties of natural sciences and possible human capital for development. Business Diaspora and Alumni networks should work more closely in financing their work at home. Cooperation with the Argonaut companies could provide a significant working space for these students.

³⁰ Alumni Center, University of Niš, Alumni Booklet, June 2011.

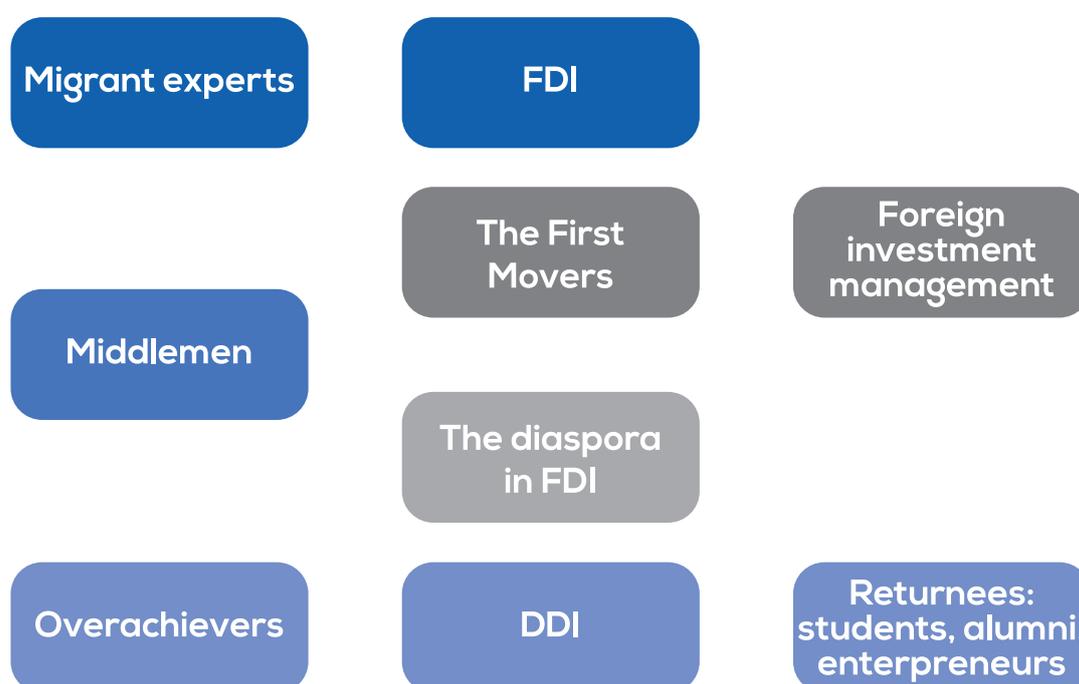
Approach by professional diaspora organizations

A different example is that of scientific diaspora organizations. These organizations gather sectoral experts in the diaspora, discussing professional issues and networking. Their gathering is more professionally focused. The Association of Engineers and Technicians Nikola Tesla e.V. in Stuttgart, Germany, is a leading example of this type of scientific diaspora organizations. This association was founded in 2000 in Stuttgart. It now has around one hundred members and organizes around five to ten events for between fifty and one hundred guests, mostly focusing on professional and scientific topics, networking and promotion of Serbian scientists in Germany.³¹ Almost all Serbian diaspora countries have professional organizations of scientists and academics, especially in the United States, the UK, Germany, France, Switzerland, Russia and Canada.

4.4 CONCLUSION

For almost thirty years a diverse network of diaspora actors have been engaged in Serbia and its institutions. The vague difference between them and identifying them under the cumulative name "the diaspora" has made it more complicated to understand and explain the difference, and furthermore, target diaspora actors in business differently, as their motives and goals are different. Identifying the importance of DDI and overachiever programmes, and their role in the home society is very important for developing different policies for attracting their potential for development and investment. The potential of different actors is very diverse, and only when engaged in an adequate way, developmental in full. A coordinated support and programmes are needed to show the diaspora the way forward, and how to feel at home when developing their transnational companies with headquarters in Serbia.

Chart 3. Different forms of diaspora actor involvement based on motives



³¹ Source: The Serbian Diaspora in the Federal Republic of Germany.

5. DIASPORA REMITTANCES: FROM HELPING COUSINS TO INVESTING AT HOME

5.1 THE REMITTANCES PUZZLE: "WHERE DOES THE MONEY FROM MIGRANTS DISAPPEAR UPON ARRIVAL IN SERBIA?"

DEFINITION

Migrant remittances are defined broadly as the monetary transfers made by migrants to their country of origin. Most remittances are personal cash transfers from a migrant worker or immigrant to a relative in the country of origin, but they can also be funds invested, deposited or donated by the migrant in the country of origin, or in-kind personal transfers and donations – transfers of skills and technology, as well as "social remittances".³²

The scope of this study is limited to monetary transfers from senders abroad to receivers in the home country³³. The remittance paradigm is often analysed through the **3 key aspects**: *the source of remittances, the remittance mechanisms and how remittances are spent*. Host countries (and donor agencies) are mostly interested in the source of the remittances and in the remittance mechanisms ("*banking the unbanked*"). Home countries are mostly interested in how remittances are spent (*consumption vs. business development*). Between these two are the diaspora and their families back home, with all their social connections and motives for remitting (remittances are "*social instruments*", and being so, they are so elusive to state policies). To understand the real developmental potential of remittances, there is a need to understand all the three actors and processes together. In this study, we focus on the potential for channelling investments into small businesses and collective investments into infrastructure and public-private partnerships, capacity development and other business development.

Source of the remittances – Remittances have been the focus of the state's interest for a long time in Serbia. In the 1960's, when SFR Yugoslavia decided to open borders for its labour force to emigrate, the goal was to attract remittances for investment and balancing the current account deficit. The remittances from the "gastarbeiter" states were high and stable, and were invested significantly into house building back home, thus fulfilling the planned role, until the first wave of family reunification in the 1970s. Following the breakup of the former Yugoslavia, during the 1990s almost half a million Serbs emigrated abroad. The sanctions strongly affected how and where money was transferred ("*remittance corridors*"). The predominant ways were in person, travelling by coaches, or through diaspora friends who were traveling home. The Serbian emigration developed informal transport/transfer mechanisms, bypassing the formal system and insecure banks in Serbia. The constant financial crisis kept *informal money transfers* permanent. According to a research implemented by the DfD in 2016, 75% of those interviewed from the Serbian diaspora said that they used informal channels for money transfers.³⁴ Of the rest of the interviewees, 17% declared that they used formal channels³⁵ and 8% used both formal and informal channels. Looking at informal money transfers, 76% are realized personally, 19% through "coach transfers" and 5% through a letter sent home. Regarding *formal money transactions*, 73% of those interviewed stated that they sent money through banks, followed by 20% sending money through money transfer companies, while only 7% sent it through the post office bank service. The key determinants used by the diaspora while choosing to transfer money are: credibility (trust), easiness to use, low costs of transactions and the transaction speed. Mr. Krivokuća argues that this is partly the blame of the monopolistic position of the Western Union in the Serbian market, and of the banks, which do not see any interest in remittances and lowering their transfer costs. Many agree with his claims.

- 75% of those interviewed said that they used informal channels for money transfers.
- 76% of informal money transfers are realized personally.
- 23% of all families in Serbia have one family member living abroad.
- 11% of those interviewed said that they seldom or regularly received money from abroad.

³² IOM (2007), *A Study of Migrant-Sending Households in Serbia Receiving Remittances from Switzerland*.

³³ No one in Serbia uses the word 'remittances' ('doznake' in Serbian) except banks and other institutions dealing with financial transactions. Remittances in Serbia are referred to as 'money' ('novac' in Serbian). There is no semantic difference between the word 'money' in its other meanings (e.g. a current medium of exchange in the form of coins and banknotes; financial gain; wage; assets) and in the meaning of 'remittance'. Thus, to say that one is receiving remittances is, in Serbian, to say that one is receiving money, which implies either a professional or charitable relationship (Ivana Bajic-Hajdukovic).

³⁴ Interview with Mr. Vukman Krivokuća.

³⁵ According to the World Bank Baseline Survey implemented in 2016, money transfer operators are the main remittance service providers among regulated channels used in the six countries surveyed. 47% of respondent households.

After 9/11, the focus of development agencies was turned toward remittances, specifically motivated by “banking the unbanked” for security reasons. Various programmes for mapping the remittance corridors and amounts were implemented. However, even Mr. Olivier Beauvais stated at the conference on remittances in 2010, that Swiss banks were not so much interested in developing special financial products that would deal with the remittances costs. During and after the global financial crisis, host countries did research into how the crisis affected the remittance channels and the amounts remitted. In the Serbian case, the remittances continued flowing on a regular basis, even though the first-generation emigrants are now elderly people.³⁶ At the end of 2016, the biggest remittance corridors towards Serbia were still German (23.6%), Swiss (15.1%), French (9.4%), and Austrian (8.6%). The constant state of economic insecurity (especially in the most emigration affected regions) in Serbia has affected the continuation of the remittance flows, as well as fostered a rejuvenation of the diaspora through the emigration of a new generation of emigrants. The stability of the remittances was directly connected to the continuation of economic insecurity in the home country.³⁷ “We should only hope not to receive remittances at all, because it would mean we are a prosperous country.”³⁸ Remittances were coming predominantly from people who left the poor part of the Serbian community,³⁹ and not from the middle class.⁴⁰ Remittances and motives for remitting should be differentiated, depending on the country and the type of diaspora.

5.1.1 Why understanding remittances is so important?

As we presented above, diaspora remittances represent money transfers from abroad to family members and friends who stayed in the home country. They are primarily private and have social goals. In other cases, there are such remittances in the form of continuous money transfers to family members notwithstanding the social motive. Understanding the motive of the diaspora for sending remittances, as well as understanding the diaspora diversity (to which group it belongs to), and thus the “*role of remittances*”, is very important for policy recommendations and strategies for harnessing the potential of the remittance capital in order to channel individual

and collective remittances for developmental purposes, such as infrastructure development, small business development and business support.

5.1.2 Why are remittances important?

The importance of remittances can be understood through the two impacts they have: the macroeconomic and the microeconomic one. To examine these two impacts, we will use a case study of Serbs in Switzerland. The additional value of this debate will be presented in the conclusion and the final policy recommendation.

5.1.2.1 Macroeconomic reasons

Migrant remittances represent an *important source of foreign exchange*, enabling countries to acquire vital imports or pay off external debts. Remittances are even more important than private capital flows in countries suffering from a chronic economic crisis and political instability. Unlike capital flows, remittances do not create debt servicing or other obligations. As such, they can provide financial institutions with access to better financing than might otherwise be available. For example, securitization of remittances is used in countries such as Turkey. Remittances now make up a substantial source of foreign financial flows to Serbia, matched only by imports of consumer goods. Because remittances are a significant source of foreign exchange, they can improve creditworthiness and access to international capital markets for many receiving countries. For example, if remittances are included as a potential source of foreign exchange, the ratio of debt to exports falls by close to 40 percent for Serbia.

The official data from the National Bank of Serbia⁴¹ and data from the World Bank indicator database⁴² show that, over the last eight years, the amount of remittances has been close to US\$4 billion each year, and that they have come through official and unofficial channels. According to the World Bank data, more than US\$31 billion in remittances entered Serbia between 2007 and 2014, overreaching the inflow of foreign direct investment (which was US\$21 billion) during the same time period. The same research places Serbia fifth out of 155 countries, ranked according to the level of inbound remittances.⁴³

³⁶ Interview with Mr. Vukman Krivokuća.

³⁷ Branko Hinić, Director of the Sector for Economic Analysis and Research in the National Bank of Serbia.

³⁸ Ibid.

³⁹ Interview with Mr. Vukman Krivokuća.

⁴⁰ Ivana Bajić-Hajduković compared the experience of middle-class families in Belgrade and the low-income gastarbeiter diaspora.

⁴¹ “Serbia’s Balance of Payments,” The National Bank of Serbia, available at http://www.nbs.rs/internet/cirilica/80/platni_bilans.html. Accessed: 10th June 2017

⁴² “Personal Remittances Received”, an interactive country-by-country analysis by the World Bank, available at <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT>. Accessed: 10th June 2017

⁴³ “Migration and Remittances Data”, an interactive country-by-country analysis by the World Bank, available at <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>. Accessed: 10th June 2017

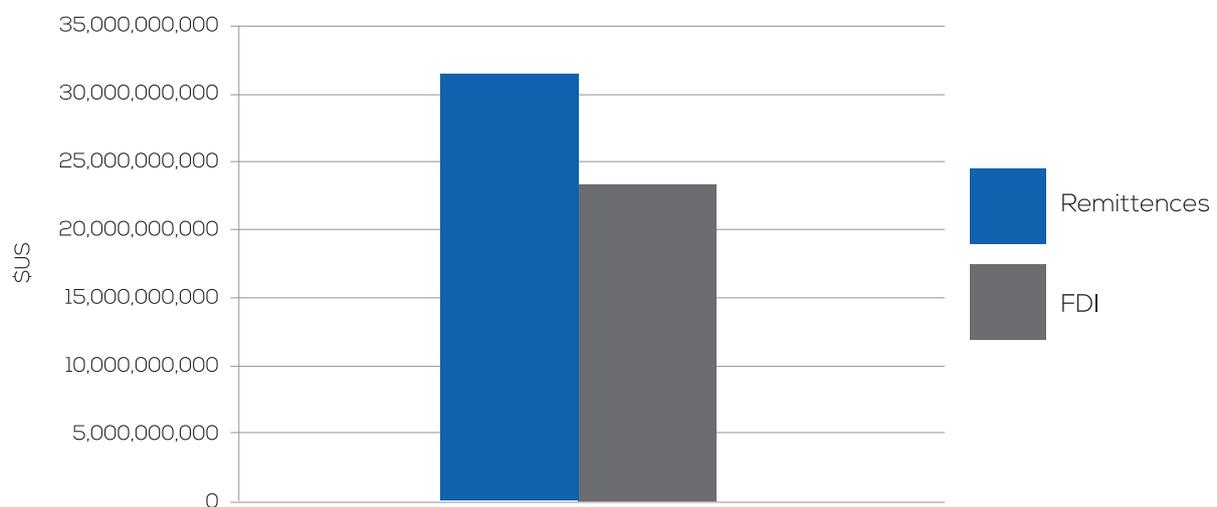
REMITTANCES IN SERBIA

The official data from the National Bank of Serbia show that, in 2013, over €2.77 billion came into Serbia through official channels, all of which were registered as bank transfers. Of this amount, €2.06 billion was registered as remittances, €163.7 million was categorized as gifts or help, and the rest, €546.9 million, was categorized as other transfers.

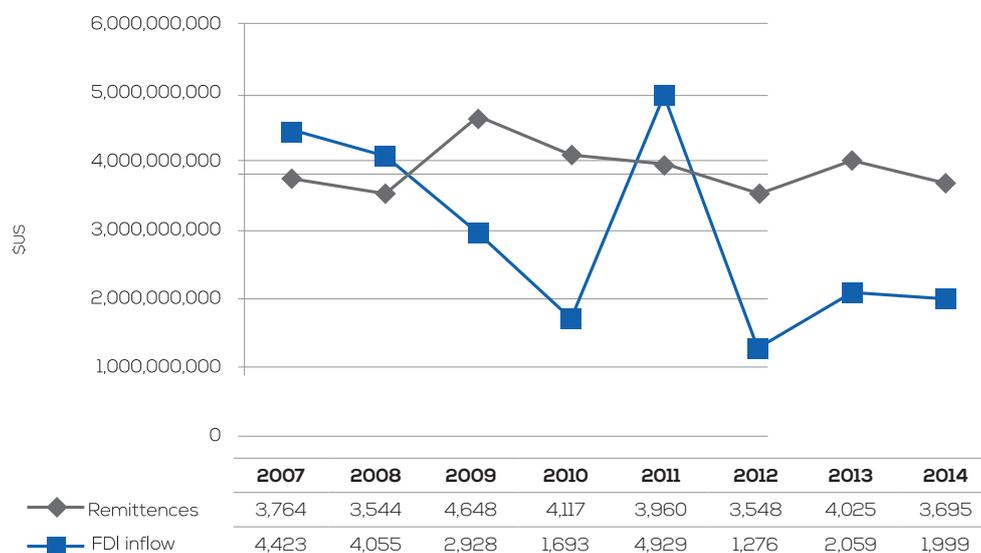
The next graph shows the parallel movement of the inflow of FDI and personal remittances, using World Bank indicators.⁴⁴ By using information from the World Bank database,⁴⁵ we have secured comparable data needed for a time series analysis of FDI and remittances.

These graphs show the differences in remittances and FDI movement at the beginning of 2007 and during the global economic crisis. The foreign direct investment inflow decreased from US\$4.055 billion in 2008 to only US\$1.693 billion in 2010. At the same time, remittances increased

Graph 3. Parallel movement of the inflow of FDI and personal remittances



Graph 4. A comparison between FDI inflow and remittances, according to the World Bank (in US\$) (2007-2014);⁴⁶ total amount and annual level



⁴⁴ See <http://data.worldbank.org/indicator>. Accessed: 10th June 2017

⁴⁵ See <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?view=chart>. Accessed: 10th June 2017

⁴⁶ The source of the graph is the World Bank, "Personal Remittances Received", an interactive country-by-country analysis by the World Bank, available at <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT>. Accessed: 10th June 2017

from US\$3.554 billion in 2008 to US\$4.117 billion in 2010. The explanation for the inverse relationship can be found in the FDI rationality of withdrawing from unsecured markets during times of crisis and concentrating on investors' countries of origin. On the other hand, diaspora remittances decreased during the 2008-2012 period, but were still above FDI. Remittances started to recover in 2013, but dropped again in 2014. Such movements were due to the uncertainty of EU economies, where the majority of the diaspora are living and working. The inflow of remittances stayed very high, allowing experts to perceive remittances as a stable source of foreign currency and, thus, a financial instrument which Serbia can rely on and build a strategy. The development potential of remittances in Serbia could be harnessed through the growth of savings, private sector growth and expanding the financial instruments for SME loans and microfinancing.

In May 2010, a high-level International Conference "*Financial Remittances of the Serbian Diaspora*" was organized in Belgrade. One of the conclusions from the conference was that income from remittances is mostly consumed rather than invested, raising the trade deficit and bringing the positive economic impacts of this financial flow into question. Mr. Bojan Marković, the Vice-Governor of the National Bank of Serbia, called this effect a "*two-edged blade of remittances*"; and argued for a strategic approach aimed at re-directing remittances into investment projects. The second conclusion from the conference was that a special programme needs to be developed with banks and other stakeholders for harnessing remittances for the purpose of saving and investment. The main conclusion of all the governments in Serbia from 2000 has been that "more must be done" to leverage a segment of remittance flows into investments and savings. Until the end of 2016, no such policy or programme was developed.

Remittances are a social instrument. Migration and the consequent sending of remittances is a private solution to many people's need for better employment and income-earning opportunities, needs which remain largely unmet in their place of origin. The assumption is that about 70,000 people receive pensions from Western countries, predominantly from Germany. The number of Western-earned pensions has grown after 2000.⁴⁷ Some analyse migration and remittances as simply the result of "family decisions based on optimizing their potential given the opportunities and constraints they face, and the costs of remittances can be viewed as largely derived from *moral hazard problems*."⁴⁸

5.1.2.2 Microeconomic reasons

An efficient and well-structured remittance environment enables migrants and their families to benefit from improved access to remittances services that are cheaper and safer to use (WB, 2017: 5).⁴⁹ Creating efficiencies in the provision of remittances services will also have the added benefit of additional funds being made available that can be leveraged for savings and investment purposes. There is also an opportunity to leverage access and use of remittances services as an entry point to broader financial services for those that are either underserved or currently have no access to services outside of those they use to receive money from friends and family overseas (WB, 2017: 5).⁵⁰

A study published by the International Organization for Migration (2008) highlighted the extent to which many rural-based families with long-term ties to Switzerland are dependent on remittances as a regular and significant income source, particularly in elderly households. This observation is important because a large part of the Serbian diaspora in Switzerland (and also Austria and Germany) is believed to originate from rural areas. At the same time, the data suggest that this level of dependency is not generalizable to the entire population, suggesting that remittance patterns to other kinds of migrant-sending households may be very different, particularly households in urban areas, in better social-economic positions and/or with younger members who can generate earned income to complement remittance flows from Switzerland. This argument was confirmed by the research conducted by Ms. Bajič-Hajduković (2010), comparing remittance channels from middle-class families in Belgrade and rural families living in Eastern Serbia.

Remittance longevity – A long-standing hypothesis in remittance research is that a migrant's time abroad is an important factor in his or her propensity to remit, and normally, over time, migrants tend to remit less and/or less often. This phenomenon is known as "remittance decay". If this were true for Serbs in Switzerland, then we would expect to see a decline in remittance flows over time. However, this does not seem to be the case. Instead, many of the households surveyed report that their remittance flows have continued for decades. Jennifer Petree and Nilim Baruah give two potential answers. One is that the diaspora is socially connected to its home place and family through sending money, and not only motivated by the financial issues of the recipients. It is a social bond and a developed internal norm. The second answer is, as we mentioned earlier, that because of the persistent economic crisis at home remittance recipients either became dependent on remittances, or emigrate themselves and join

⁴⁷ Interview with Vukman Krivokuća, Assistant Minister at the MfD.

⁴⁸ See more in: A Study of Migrant-Sending Households in Serbia Receiving Remittances from Switzerland, IOM Research Series.

⁴⁹ See more in: Baseline survey on remittance beneficiaries' financial behaviors in East Europe and Central Asia, World Bank, 2017

⁵⁰ Ibid.

their family abroad at some point and became the remitting diaspora. Migrants who clearly demonstrate a continued link to their social network in Serbia through the regular sending of remittances are also likely to be interested in new forms of investment, which can provide additional support to their relatives and help relieve, in part, their own remittance burden.

5.1.3 Issues and questions raised

The initial call by the Government was for foreign and domestic banks to allow cheaper money transfers to the diaspora, and to develop special financial instruments that would channel remittances into investment as much as possible. Banks have lowered transaction costs but not significantly, and there are no significant products developed that would harness the potential of remittances for fostering SME development. Foreign and domestic banks were not interested enough in this market segment. As for money transfers, the rules are still that a money transfer company needs to be registered with a local bank.⁵¹

5.1.3.1 What was missing and also presents an opportunity?

In a Baseline survey supported by SECO and conducted by experts of the World Bank Group at the end of 2016 on remittance beneficiaries' financial behaviours in East Europe and Central Asia, remittances account for 30% of total household income. The research showed that remittances primarily contribute to meeting households' basic needs. "Not only do remittances contribute toward purchasing consumer goods, household products, appliances, and groceries, but also settling medical expenses and covering education costs" (WB, 2017). Only 40% of households could fully cover their basic needs if they were to stop receiving remittances. Remittances are the main source of income for 28% of households surveyed (WB, 2017).

A very important assessment for future policy recommendations made by the experts of the World Bank was that the money-saving habits are not very developed in remittance-receiving households. Despite the fact that saving is not a widespread practice among remittance beneficiaries, those who do save set aside money occasionally whenever possible (WB, 2017). However, remittances positively influence the ability to save for a large number of surveyed households. "41% of surveyed households that save money claim they would not be able to put aside savings if they did not receive remittances" (WB, 2017: 34). Remittances, thus, could provide a special

opportunity for small business development programs and a base for SME loans and micro-loans.

Diaspora remittances are social instruments, more than a financial ones⁵². Their persistence is only partly affected by the time spent in the host country, but significantly by the social relations between the senders and receivers, and the state of the home country's economy, and thus potentially a family reunification in the host country. To affect and re-direct the financial remittances, the social discourse needs to be affected and stimulated, through an active engagement of key institutional actors, special programs and local opportunities, including the engagement of the diaspora and the ones they remit money to. This shows that both the host and the home country have an interest to cooperate in harnessing as much financial transfer as possible towards business development at home.

Only a small segment of remittances can be re-directed to investment, and presumably into small-business initiatives. A large part, as various researches have shown, is a completely social instrument, and it will not be affected by any policy, but eventually by economic developments in the home country. Other amounts, much higher than remittances, although fostered by possible programmes of investment promotion and engagement, will not be remittance channelling but remittance redirecting to investments. In that form, the remittance debate becomes a part of the *diaspora investment engagement debate*.

5.2 POTENTIAL INSTRUMENTS AND OPPORTUNITIES FOR DEVELOPMENT

5.2.1 Venture Capital

Expatriates and diaspora networks can be an important source of venture capital and related expertise. Redirecting a small percentage of remittances to innovative ventures could make a considerable contribution to knowledge economy financing.⁵³ The channelling of such resources requires well-designed mechanisms and learning processes. These instruments should target special groups from the diaspora, such as alumni from a specific universities or segments of diaspora business associations focused on innovation and high-tech products. The Serbian diaspora in the UK, Canada and the United States are mostly interested in these financial instruments, targeting innovative projects in Serbia. Problems in this area occur in the Serbian regulative framework, which is not adjusted to the potential from abroad, especially from the diaspora.

⁵¹ Research and Feasibility study of the formal sector for money transfer and alternative systems of receiving money and receiving remittances in Serbia.

⁵² Interview with Nikolina Milatović-Popović

⁵³ For more details, see Venture Capital in the "Periphery": The New Argonauts, Global Search and Local Institution Building.

CHANNEL REMITTANCES FOR SMALL BUSINESSES

Mr. Miroslav Zdravković proposes one of the solutions for individual remittance senders. The diaspora from Paraćin uses their money to finance the building of huge houses which they will never live in (a similar practice was recorded in Eastern Serbia). He argues that the state and the CCIS should motivate this segment of the diaspora to invest in local cattle farms and to employ the local population. This would bring successful investments, profit and socially responsible action through hiring locals.

5.2.2 SME loans and micro-loans

Microfinance represents an entire range of financial products, from credit, savings and insurance to payment and transfer services. These services need to be adjusted to the needs of the diaspora and money receivers at home. The CCIS and the SDA should work with remittance-receiving citizens who are seeking credit to expand their businesses by helping to facilitate their relationships with the local leading institutions using remittance money as collateral to secure loans. The process of mapping possible financing opportunities and financial instruments should also include a specific diaspora and what it perceives as a viable option for its home region and the capital remitted. Local municipalities and regional offices of the CCIS should interview the diaspora about their previous business ideas and proposals for SME loans. This dual engagement is not only for the purpose of identifying financial instruments but also for informing the diaspora about new opportunities tailor-made to their needs. A viable option for financing would be manufacturing cooperatives such as Zadruga [Cooperative]. Mr. Petrikić argues that financial support for tourism and organic food production, as well as for cooperatives is badly needed in Eastern Serbia, so that the local community could have a chance to export their products.

Simultaneously, there is a need to develop capacities at the human, institutional and system-wide levels to implement and enforce policies effectively for inclusive markets. Capacity development efforts have to be directed at offsetting the risk of new products for the commercial sectors, creating greater access to unreached customers, introducing new technologies, enhancing the consumers' financial and technical education, bringing in private sector entrepreneurial skills to improve the financial infrastructure and setting the service and credit standards.⁵⁴ By removing the barriers to linking remittances to financial services – a lack of trust in banking, financial illiteracy and a lack of access to money transfer services – such a partnership can create opportunities for productive investment by the diaspora, recipients or local entrepreneurs.

5.2.3 Collective Remittances

The goal of many government policies is to develop instruments with its diaspora for collective remittance transfers to home countries, whether in infrastructure

development, business development or socially responsible programmes. The successful and partly successful cases such as the 3x1 Mexican Home Town Association (HTA) programme inspired many others around the world.⁵⁵ The key part of the Mexican model was to share the risk and share the success. For each investment from the diaspora, the federal government offered the same share, and the government of the federal unit in which the investment was made invested the same share as the previous two. The investment was thus tripled and included in every project three stakeholders responsible for its success. In the case of Serbia, a share from the Government that grants subsidies for investments into lagging regions (diaspora regions) can be matched by local infrastructure or logistics projects (public-private partnership and fast procedures) managed by the local municipality and diaspora. In this way, all three actors are stakeholders in a business development initiative undertaken by the diaspora.

5.2.4 Remittances and local social responsibility

Supporting a special programme for transferring money for free through block-chain mechanisms that have a special business programme, the Government focuses on the local level. A programme aimed at covering the life expenses of a relative would be a possible remittance re-direction from consumption. Targeting taxes or home expenses such as electricity or other costs would direct the money straight to the local budget. Emigrants and the ones who stayed at home would have a free remittance corridor, the local municipality will have paid bills to its public companies, and from the national point of view, that small amount would not go to consumption.

5.2.5 Crowdfunding

Citizens from small rural places in Serbia have emigrated to different countries and places, and integrated in various ways in the host communities. Individually, they remit money home to their family members. They have, however, maintained mutual communication, and see one another a few times a year when a significant event at home takes place. Such an event is “*Negotinski dani* [Negotin Days]” in Eastern Serbia,⁵⁶

⁵⁴ Remittances, diaspora and inclusive microfinance: What have we learnt? Realizing the development potential of the diaspora. Arun Kashyap and Kai Schmitz (2011)

⁵⁵ See <http://siteresources.worldbank.org/INTINTERNATIONAL/Resources/1572846-1253029981787/6437326-1253030152495/Cordova.pdf>. Accessed: 10th June 2017

⁵⁶ Advice received during the interview with the leading diaspora philanthropist and investor in Eastern Serbia, Mr. Radivoj Petrikić.

when a great number of emigrants come home to spend time with their family and friends. The local municipality and leading individuals in the community could set up an online platform, in cooperation with the regional office of the CCIS, and use it for offering the diaspora to send a segment of the remittances they are already sending for a local infrastructure project, from whose completion the whole community would benefit. The results could be presented at the Negotinski dani festival, as well as the state's and the local municipality's gratitude. As in the case of Jabukovac, the surrounding municipalities would follow the example.

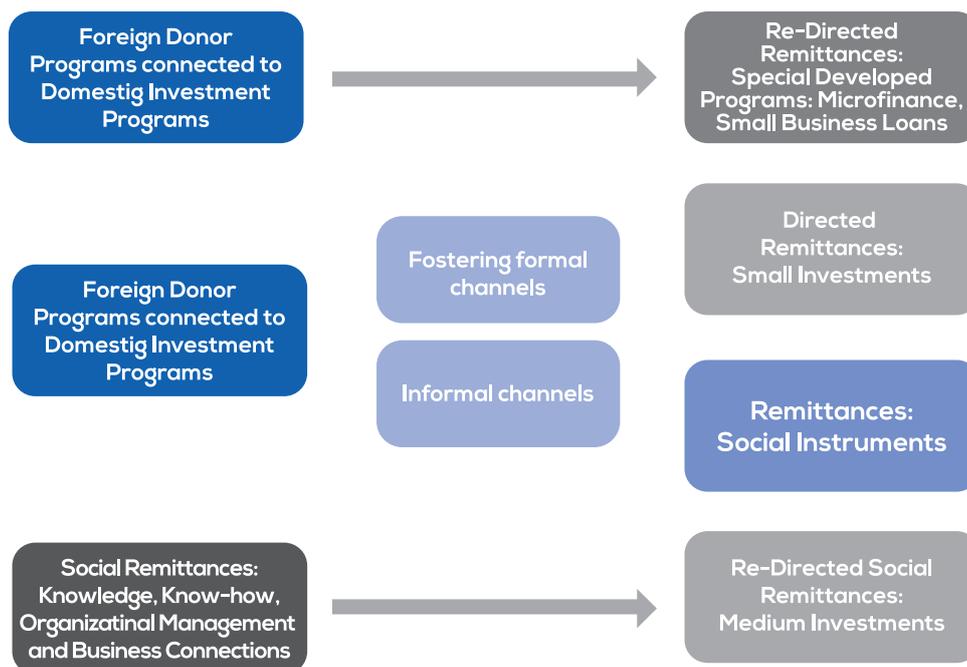
5.4 CONCLUSION: THE SOLUTIONS TO THE SERBIAN REMITTANCES PUZZLE

Whether in 2008 or in 2017, the question remains the same: how to harness the diaspora remittances for development? Ten years into this topic, several banks have lowered the costs and a few money transfer companies have entered the market. However, no remittance investment-focused instrument has been developed, and the puzzle has remained. It is too small to be treated as a potential investment, and collectively too big to be ignored. The state has mistakenly treated the remittance enigma as part of the diaspora investment potential in general, and this erased the significant differences.

Motive + Source + Financial instruments developed + Local reach and Infrastructure Opportunities + Multi-level Cooperation + Promotion and Recognition = Moving a segment of remittances into investments

The solution for the "Serb remittance puzzle" needs to be connected to the specific state policy towards the diaspora, which all the diaspora-engaging actors would follow. This programme would promote money transfer through the cheapest formal channel, towards a special type of instrument that would be focused on the diaspora's SME investments or infrastructure projects, with local logistical and infrastructural support and recognition by the local community, the state and its diplomatic missions abroad. Only through a financial, developmental, social and promotional framework, with the motive of moving a segment of remittances into direct investment and formal channels, could their successful harnessing be enabled. The rest of the remittances will go into consumption, as the home country market and the business environment will keep the family members in need of special financial support. The promotion of purchasing domestic products from successful companies (especially those in which employees are happy and products are of a high quality) would be a second solution. The final part of the remittance enigma is solved by identifying the social sources and motives of remittances, and thus defining policies accordingly. The so many times proposed and now debated Diaspora Development Bank could develop these kinds of free transactions.

Chart 4. Remittance diversity and opportunities for harnessing their potential



6. DIASPORA INVESTMENTS

6.1 DIASPORA INVESTORS

Diaspora investors can be grouped in the following categories, according to the differences we identified in the section 4 (FDI, diaspora in FDI, and DDI), type of investment and possible spill-over effects, and the relationship with business and employees. The information is collected from interviews conducted with investors, state representatives and specific institutions that deal with investment in Serbia.

6.1.1 The First Movers - "*Companies of Hope*"

We called these investors *the first movers*, as they invest with the previous knowledge of the local potential, workforce and possible problems in their places of origin. These investments are by *companies of hope* because they are not based on market analysis but mostly on emotions and potential exports or international cooperation. They bring development to the least developed areas in Serbia. For this reason, the first movers will invest in areas where foreign investors will not, and on the other hand, the local municipalities do not have the financial and human capital to foster the private sector development. All of these reasons make hometown diaspora investors very important for the development of many parts of Serbia, such as Eastern and Southern Serbia, where this diaspora investment practice is manifested the most.

6.1.1.1 Hometown investors

This segment of the diaspora is investing money in Serbia because it is their place of birth or origin, and such funds are focused on organizing small businesses like agricultural production or manufacturing in other industries, but with a low level of sophistication in the production chain. According to Ms. Slavka Drašković, the diaspora targets 'home' directly when investing in Serbia, thus its involvement is mainly oriented towards localities. Mr. Krivokuća argues that 90% of all diaspora investments are targeting home towns and regions. The second characteristic of the diaspora investment, Ms. Drašković stresses, is that it tends to favour small and medium-sized enterprises. "It is actually these two characteristics, the local orientation and a focus on small and medium-sized enterprises, which underpin the potential development of any economy and any industry, which is of course no less true in Serbia", Ms. Drašković said.⁵⁷

6.1.1.2 Local infrastructure development

Many successful diaspora individuals (and sometimes groups) spend their free time and earned capital abroad on developing their places of origin, through infrastructure projects, logistics and programme development, enhancing the quality of life in these places. By doing so, they affect the local community, allowing people to find there the opportunity and motive to start a small business or participate in cultural and sports programmes and arenas. We will use one of the leading cases in Serbia on diaspora hometown investment that of Mr. Radivoj Petrikić, a famous corporate Serbian lawyer in Austria.

INVESTING IN AGRICULTURAL PRODUCTION

Mr. Mile Jovanović from Despotovac invested into blueberry production in Serbia the money he earned working in Italy. He imported blueberries from Holland and planted them on a plot of land that his father in Despotovac tends by using the latest technology in blueberry cultivation. He continues working in Italy, but comes back to Serbia twice a year to help in the enterprise's business organization and development.

INVESTING IN INDUSTRY

Mr. Danijel Trajković from Veliko Gradište returned from Austria to invest his money and knowledge in the production of fresh eggs. Today, his company has 18,000 chickens, produces 15,000 eggs per day and has six employees. The company is in solid financial shape, with revenue increasing year after year. He chose Veliko Gradište for investment because he was born there.

⁵⁷ See <http://www.dijaspora.gov.rs/en/dijaspora-engaged-reforms/>. Accessed: 10th June 2017

INVESTING IN HOMETOWN INFRASTRUCTURE

From 2008, Mr. Petrikić has invested tens of thousands of euros in infrastructure projects and programme development in his home village of Jabukovac, near the town of Negotin in Eastern Serbia. His focus was on building and repairing roads, renovating children's playgrounds, sports facilities, schools and venues for cultural events, supporting and rejuvenating tourist attractions such as Rajačke Pimnice.⁵⁸ To do this, he managed a 650,000-euro road-building project from the town of Negotin (the area's central town) to the village of Rajac. He also equipped the local municipality with a fire truck and an ambulance. His local infrastructure development projects were so transformative that other nearby villages followed his example and did many similar things.⁵⁹ The diaspora "intervention" had a spill-over effect. This developmental spill-over effect should be supported by the government in the form of special programmes for the local level, in cooperation with the local municipalities. He argues that tourism and organic food production are the future of Eastern Serbia's development. Mr. Petrikić does not only invest in infrastructure and programmes, but also purchases local products and uses them as gifts to colleagues and friends in Austria. In his local endeavour, he supported a group of young individuals gathered in a regional development agency, RARIS.

- The infrastructure investment as a philanthropic act, like that of Mr. Petrikić's, is one of the oldest Serbian heritages – "zadužbinarstvo [endowment philanthropy]". In history, a specific local building was constructed by a local nobleman or a wealthy individual, and left to the community and local municipality to keep for specific socially responsible work. "Zadužbinarstvo" did not only consist in providing infrastructure, but also in financing various social, cultural and educational programmes. Mr. Petrikić's investment and engagement experience for his hometown is a clear continuation of that old practice, now from the diaspora business side.
- The infrastructure investment as a public-private cooperation on a lucrative level is a very young topic in Serbia. It has yet to be developed on the local level and by foreign investors as well. The diaspora finds itself in the middle of this new development in practice. Although there have been several initiatives to promote this kind of diaspora engagement in the local infrastructure development, most notably as part of the Investment Potential of Cities and Municipalities programme by the MfD, until a special law was passed for public-private partnerships (in 2011), there was no adequate framework for action.

6.1.1.2.1 Diaspora-inspired "Zadruga d.o.o."

Cultural programme development on the local level opened the door for small producers to present and sell their different kinds of domestic and site-specific foodstuffs and products. The event organized in Jabukovac enabled a bazaar market activity, presenting all kinds of products. Everything that was

presented found a buyer such an inspiring atmosphere was created. Mr. Petrikić's proposal to the local youth and entrepreneurs was to create a network of honey producers in an authentic form of Serbian entrepreneurial grouping called zadruga [cooperatives]. The proposal included the need to adopt all the standards of product quality as proposed on developed markets. He would promote and negotiate sales of this honey to Austria and other countries. Export-led grass-root development would be enabled by diaspora-led foreign market entries.

6.1.2 The first movers – foreign investors

There is no difference between some first movers and most foreign investors in Serbia. We could use these two terms interchangeably here, and need to clearly underline that this term does not carry a negative connotation. Predominantly, both of them focus on cheap labour productivity and highly-skilled labour. We divide these companies into labour productivity users and highly-skilled labour users.

6.1.2.1 Labour productivity users

This segment of the Serbian diaspora is investing in industry production enhancement by using the advantages that come from saving on labour costs, while still preserving high levels of productivity. However, we have cases of the diaspora investment that triggers a spill-over effect to different sector producers.

⁵⁸ For more info on this tourist attraction, see www.rajackepivnice.com. Accessed: 10th June 2017

⁵⁹ Interview with Mr. Radivoj Petrikić.

DIASPORA MULTISECTORAL DEVELOPMENT – THE ČOLIĆ DISTILLERY

Mr. Miloš Čolić has lived and worked in Italy. From 2011 to the end of 2016, Mr. Čolić invested more than 200,000 euros in developing a distillery in the village of Kutlovo, in central Serbia. The company manufactures the Serbian national drink called "rakija [brandy, raki]" (the company brand is called "dostojna rakija [worthy brandy]"), with the intention of exporting it abroad. He hired 4 full-time employees, and hires 3-5 part-time employees every year during the season. The company purchases fruit from local producers, from Western Serbia to Northern Serbia. However, the company's goal is to purchase 10ha of land and to go into the agro business. Mr. Čolić develops the distillery based on a long-term money return plan. He aims for quality and opening export markets.

The Čolic Distillery imports all its packaging from Italy, as well as its design. The company produces around 50,000 litres of rakija. There was no subsidy or support by the Serbian Government or the local municipality. As Mr. Čolić lived and worked simultaneously in Italy and Serbia, he knew all the procedural needs for opening a new company and setting up the production. He did not have any procedural problems, as he understood the institutions and the market very well. However, the problems he encountered were a lack of state inspections and allowing the black market to flourish. His products cannot be competitive on the local market because of unfair competition through the black market. The company has all the international quality certificates required for exporting its products. The first export market for rakija was the Netherlands. At the first Zurich summit in 2016, Mr. Čolić agreed with diaspora members from Switzerland to allow them to approach a Lidl Supermarket store in Stuttgart, Germany. His intention is to offer home-manufactured rakija to a large pool of targeted customers, to expand his production and hire more employees in Serbia.

Mr. Čolić argues that a very important issue is educating the local fruit producers. They do not understand all the potential of fruit production and export. "The role of the diaspora working in the agro international market, in educating producers about their export potential, would be a great initiative and with results for primary and secondary producers. The goal should be to gather fruit and other agro producers, inform them about the international market, what to focus on in their production, make a long-term business plan and cooperate with the diaspora through the export chain."⁶⁰

Mr. Čolić presents his products at trade fairs in Italy, France, the Netherlands and Austria. He underscores the two trips he took to attend a trade fair in Russia, organized by the Chamber of Commerce and Industry of Serbia. His future goal is to expand his business portfolio in Serbia, investing in the food industry. The company and its approach have strong vertical spill-over effect on the community and local producers and their knowledge.

6.1.2.2 Highly-skilled labour users

The diaspora is investing in the young, well-educated labour force in Serbia through outsourcing or by

developing completely new products for international markets. If these companies keep value-added production in Serbia, these companies are the diaspora's development investment companies and "companies of chance".

INVESTING IN THE IT SECTOR

Mr. Sava Marinković was born and educated in the USA, where he obtained a Master's Degree at Harvard University. He came to Serbia and started his business, Teleskin, which produces an application for early recognition of skin cancers such as melanoma. His company won a Microsoft competition for best solutions in the health sector in 2012.

⁶⁰ Interview with Mr. Miloš Čolić.

6.1.3 “Companies of Chance”

We have named the following diaspora companies the companies of chance because they are offering students and the young to work in cutting-edge businesses and conditions, whether in manufacturing or in services. These companies affect the most pressing problem of Serbian society and its economy: Serbia is the 2nd country in the world regarding brain drain. The process increased in the previous period because of the effects of the Global Financial Crisis. These companies of chance, in their developmental role, are the only mechanism that could help decrease this process. Their employees would learn to create competitive products, earn fair salaries and move up the knowledge ladder through these types of companies and investments. We have identified empirically 3 types of these companies.

6.1.3.1 Clusters going global through the diaspora

There are more than 150 clusters in Serbia, grouping companies into several industry sectors. Clusters are grouped based on the individual logic and focus. Their approach towards the diaspora for development is in the initial phase, but an active one. The role of the diaspora in the cluster’s and company development can be diverse, from financial and social remittances, knowledge transfer through product development and spill-over effects, to market access and knowledge pipelines (“*the Serbian Argonauts*⁶¹”). The IT sphere is the most globalized industry and allows for easiest cooperation with partners and clients around the world.

THE NICAT CLUSTER AND THE SERBIAN ARGONAUTS

The NiCAT (Nis Cluster of Advanced Technologies) was founded in 2011. The cluster includes companies working in information and communication technologies, electronics and automation, optoelectronics, electro-medicine and mechanical engineering. The cluster has thirty company members. The cluster manager embarked on a similar task as the Hindu, Chinese, Russian and Israeli diasporas did in the Silicon Valley more than a decade ago. According to Mr. Goran Mladenović, Cluster Manager at NiCAT, the diaspora network is in its initial phase. At the current moment, there is no serious diaspora developmental effect on the Niš innovation cluster. However, the NiCAT cluster mapped around 350 alumni of the Faculty of Electrical Engineering in Niš, now living, studying and working in the diaspora. In 2017 focus of NiCAT is on direct flight destinations from Nis (Nis has the 2nd fastest growing airport in Europe). Based on feedback from company members, Mr. Mladenović on behalf of NiCAT is personally developing relationship with Eindhoven (Netherlands), Zurich (Switzerland), Munich (Germany) and Malmö (Sweden) in 2017, and additionally, Tel Aviv (Israel). In 2018, the NiCAT team have in plan to visit the Silicon Valley (NiCAT got letter of support from Serbian diaspora at the Stanford and Berkeley Universities and BAFA Associations of ETF alumni from Belgrade in California) and Toronto-Waterloo area (already established contact with influential Canadian entrepreneurs and advisors, ELEF alumni community has 40 people). They hope that this trip will be organized with the support of the DfD of the MFA of Republic of Serbia.

Ni-Cat was also invited by the team of alumni from the Faculty of Faculty of Electrical Engineering in Niš, now working in California. Mr. Mladenović is personally developing four directions of diaspora and foreign engagement, towards Zurich (Switzerland), Munich (Germany) and Tel Aviv (Israel). In 2018, the NiCAT team will visit Toronto and Waterloo, the second largest place of innovative companies after the Silicon Valley. There are forty diaspora alumni of the Faculty of Electrical Engineering in Toronto, Canada. The cluster has already developed cooperation with the Serbian diaspora in Austria. The NiCAT cluster has a strong cooperation with the Niš public University, especially the Faculties of Electronics, Mechanical Engineering and the Faculty of Natural Sciences and Mathematics. The cluster cooperates with two privately owned Niš Universities, Singidunum and Metropolitan. The NiCAT cluster has developed a strong cooperation with several Niš high schools, especially with the High School of Technical and Specialized Studies. The cooperation includes lectures and presentations, traineeships, supporting students’ final papers and master’s degrees; cooperation through projects of connecting science and business; connecting academics and businessmen. The Municipal Government of the City of Niš has played an important role in its creation, and has supported it ever since.⁶² In 2011, the representatives of the local municipal Government and the NiCAT cluster signed a Memorandum of Close Cooperation. Based on this Memorandum, the cluster has developed close relations with several sectors of the municipal government. Together with the Youth Office cluster, it has implemented a project on re-qualifying workers for IT. With the Office for Local Economic Development and Projects, NiCAT is organizing a Forum of Advanced Technologies together with Electronics Faculty, National Employment Service and Regional Chamber of Commerce Niš. The NiCAT team is also included in organizing foreign business visits to the City of Niš, and its Manager is a member of the Business Council of the City Government. Mr. Mladenović argues that the Government of Serbia and the CCIS should include representatives of the leading clusters in all business delegations abroad, as well as all diaspora-organized events. Financial support by the diaspora and its access to big projects and companies is an invaluable resource for the cluster’s and local development (business and educational).

⁶¹ See more in “The New Argonauts”, AnnaLee Saxenian.

⁶² Interview with Ms. Stela Jovanović, Director of the Office for Local Economic Development and Projects.

Two member companies were created and managed by returnees (*the Argonaut diaspora – bringing knowledge, know-how, market, and technology*).

CASE STUDY 1: ADVANCED SECURITY TECHNOLOGIES

Mr. Vladan Todorović has lived abroad for twelve years. He studied at the Faculty of Electrical Engineering in Niš, after which he studied at Cambridge and Barcelona. Mr. Todorović worked all through his studies, developing software solutions for different companies. He has lived and worked in Cyprus, Greece, Italy, China, the UK, Singapore and Germany. Shortly before his return home, Mr. Todorović founded Advanced Security Technologies in 2014. The company specializes in innovative software solutions and services in the domain of cyber security. Advanced Security Technologies is a holistic, end-to-end approach to business risk and cyber security. The company addresses the full threat landscape from technology security, people and processes, security operations, security strategy, policies to procedures and governance. By truly integrating the security approach into the client's business and IT service management, Advanced Security Technologies is able to provide efficiency resulting in a lower cost of ownership. The products and services are predominantly for foreign clients, focusing on the APAC and CIS regions. Having a very specialized service, the company does not have many employees. The business model is focused more on specific demands and not on quantity. Advanced Security Technologies' employees are located in Niš and in the APAC region. Being part of a wider community inside the Ni-Cat cluster enables Advanced Security Technologies to receive all the needed information important for local business operations. As an organization that actively participates in regional events and represents the interests of its member companies, the Ni-Cat cluster allows maximum contribution with minimal time spent for its members. Mr. Todorović's intention to set up a company in Niš and Serbia was mostly emotional but also strategic. The knowledge and know-how acquired while actively working on big

international projects was the key driver that motivated Mr. Todorović to set up his own company. The innovative solutions he and his team worked on during his final stay abroad became the ownership of the company he worked in, and he wanted this to change by setting up his own company. Mr. Todorović is interested in helping the local community and institutions on the local level. He lectures at the university and at public IT events. He is currently a member of the working group of the City of Niš responsible for drafting the new Local Community Security Strategy for the period 2017-2020. When asked about the best paths for developing the IT industry in Serbia, he stresses that there is a scarce supply of IT workforce in Serbia, which cannot compete for attracting global companies on a labour-intensive level when compared with other countries in Eastern Europe, namely, Poland, Romania and Bulgaria. Mr. Todorović argues that companies in Serbia, and specifically those from the City of Niš, need to focus on their competitive advantages globally, and innovation is definitely the key one. His proposal is that Serbian IT companies specialize in specific IT services and software solutions, and become recognizable worldwide. There are already a few companies in Niš with that status, and the rest could follow. His own company, Advanced Security Technologies, is positioning itself globally as a leading actor in the solutions it provides. This could also bring a huge impact on the universities they cooperate with. Mr. Todorović identifies the potential for cooperating with the diaspora in market information sharing, potential business cooperation and investments. He identifies domestic business impediments in too much "paper bureaucracy" that wastes a lot of time. He proposes the Singapore model for solving this problem and moving bureaucracy needs online.

CASE STUDY 2: NIRI 4NL LTD.

Mr. Marko Smiljanić finished his PhD studies in the Netherlands. During his studies in Serbia and the Netherlands, he actively developed research-based software solutions. He returned to Serbia in 2006 and started working for his family company, Research and Development Institute NIRI Ltd., in Niš. The company was founded by his father in 1990. Mr. Smiljanić firstly set up a special sector inside the company, the Intelligent Computing Sector, focused on machine learning and data analytics. In 2014, a subsidiary company was founded and named NIRI 4NL Ltd. The company produces software solutions for foreign markets, and has only been engaged a few times in local business. When assessing the importance of the Ni-Cat cluster, Mr. Smiljanić stresses that the cluster is their main contact with the business community in Niš and Serbia. Through the information provided by the cluster, the company learns about the business opportunities and business partners. NIRI 4NL Ltd. is completely focused on the foreign market. The company has twenty employees, with a constant growth of two employees per year in the last ten years. Because of the changes in the business model, Mr. Smiljanić expects a bigger growth from 2017 onward. The education and knowledge obtained abroad were important for developing a new company regarding the product quality. The most important results of his life abroad were learning the business culture, mentality, management

and communication skills. Every transferable technique and knowledge gained abroad Mr. Smiljanić teaches to his employees. By offering student trainee positions and giving lectures at the local university, Mr. Marko Smiljanić has actively supported the local community education development. He relies on the diaspora business contacts to develop his business network. He stressed the 3 key elements for a successful diaspora business network: "The right people, in the right positions, in the right markets. If you have a quality product to offer and contacts abroad that believe in your work, you have a market and you will have success. Trust, developed during life abroad, is very important for opening business opportunities. Mr. Smiljanić identifies the following difficulties and impediments for further development in the IT sector: the unfavorable tax system, slow and unprofessional bureaucracy, and lack of systematic support for cooperation between education and industry. There is a strong need for cooperation with well-experienced business developers from the diaspora. The help of experts around fifty years old, working successfully in various sectors in the diaspora, would be invaluable for supporting us in reaching global markets, says Mr. Smiljanić. The potential this could bring to Serbia's development is enormous. Experienced business strategists would turn the odds in favor of the Serbian IT sector. Mr. Smiljanić proposes an Advisory Board for Business Developers from the diaspora.

6.1.3.2 Export-led development

Diaspora businessmen invest in greenfield and brownfield portfolios in the home country. Depending on their experience, knowledge and know-how accumulated abroad, they develop products that are predominantly exported. The investment process includes high-quality training of employees and equipping the company with state-of-the-art equipment for manufacturing products

that could be competitive internationally. Employees not only learn to work on a competitive level, but are also paid more in comparison with cheap-labour manufacturing companies. One of the finest examples comes from the town of Leskovac in Southern Serbia, where a diaspora investor purchased a former chemical giant that once supplied the whole Yugoslav market. The bankrupt company lost its market share and withdrew its products from stores.

**EXPORT-LED
DIASPORA
– ALL ME
COSMETICS AND
PHARMACEUTICALS
D.O.O.**

Ms. Slobodanka Vlačić founded in 2012 the cosmetics company All Me Cosmetics and Pharmaceuticals d.o.o., based in Serbia. She returned after a decade of living in Switzerland, where she worked in the sphere of finance and managed a company of international reputation. From 2012 to 2014, the company worked with several domestic cosmetics producers, using their manufacturing services while developing its own recipes. In 2014, All Me Cosmetics decided to purchase a production facility, so that it could control the manufacturing quality and effectiveness. In 2014, All Me Cosmetics signed an Agreement on Technical Cooperation with Nevena Leskovac, a once famous Yugoslav and Serbian cosmetics company based in Leskovac (Southern Serbia). A bad privatization of the sixty-year-old cosmetics giant in 2007 led to its bankruptcy. However, once Ms. Vlačić signed a contract with the company, all the employees from the production facility got their jobs back. They were retrained and now work on cutting-edge manufacturing machines and operations. From 2014–2017, Ms. Vlačić will invest 900,000 euros in the manufacturing equipment. An additional 100,000 euros was spent on adhering to quality standards for the EU and international markets. All of the packaging and design are imported from Italy. The company has 57 employees, 52 in Leskovac and 5 in Belgrade. Although the company works at full capacity, Ms. Vlačić plans to introduce four shifts with six working hours a day in 2017. All Me Cosmetics manufactures all kinds of cosmetics and predominantly targets foreign markets. In 2016, 80% of the company's products were exported. The region is the biggest buyer, with Bosnia and Herzegovina, Montenegro and Bulgaria on top. All Me Cosmetics has clients in Switzerland, Slovenia, Austria and in the Gulf region. The company's next target markets are the North American, Russian and the Middle Eastern ones. Ms. Vlačić is currently negotiating a potential cooperation with the local Leskovac high school specializing in chemicals, as well as with the Faculty of Chemistry in the City of Niš. A special approval will grant the educational institutions an opportunity to cooperate with All Me Cosmetics and develop programmes that train students to work directly for market demands, and will teach them how to follow the leading practices. All Me Cosmetics d.o.o is now the leading industrial cosmetics manufacturer in Serbia. It develops its own recipes, uses its own supplements and makes competitive high-value products for the global market. The President of the Chamber of Commerce and Industry of Serbia Mr. Marko Čadež stated that All Me Cosmetics – formerly Nevena Leskovac, shows that “there is life after bankruptcy” for badly privatized former leading companies. The company expanded by 20% in the second year of operations, and is set to export as much as it can on the international market. Presenting its hard soap brand at the annual New Year market in a department store in Zurich, the company sold 15,000 high quality soap bars. This was the first time in history that a Serbian company presented its products at that department store, and it became the company that sold the most products during the festive season. Bearing all this in mind, Ms. Vlačić argues that the role of the Serbian Embassies and the business diaspora should be to represent Serbian companies with leading corporations in the same industry, and to foster cooperation for subcontracting opportunities. The owner has also one more goal that she put before the company, and that is to return all of the famous products that every household used for decades to store on the shelves in Serbia (their place was taken by foreign companies when Nevena Leskovac went bankrupt). The company plans to triple its number of employees in 2017, making Leskovac again “The City of Cosmetics”.

6.1.3.3 Transnational diaspora companies

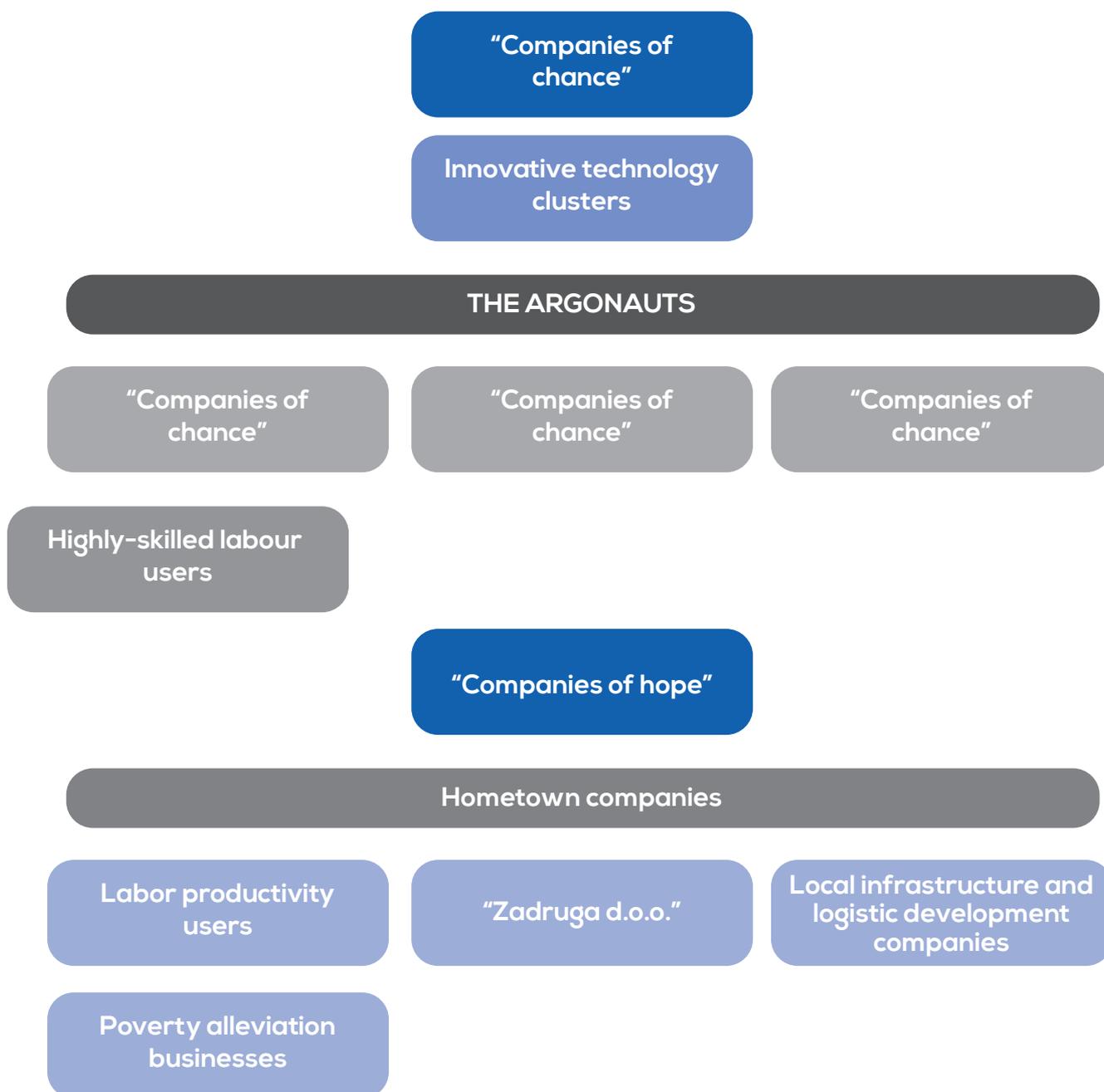
There are companies developed by knowledge and capital acquired abroad in the most developed economies. Moreover, using the capacities and market access of their companies abroad, the diaspora sets up a company in Serbia and develops its production capacities. These companies offer services and products of high quality, and keep value-added jobs

in Serbia. It is not rare that motives for founding these companies in Serbia are emotional, so that a diaspora member could return home and be closer to his/her family. This stands in contrast to many rules of the foreign capital investment, and it is the key for a special diaspora role in development. Diaspora investment can go into areas where foreigners are not interested. Diaspora investors are more open to knowledge spillovers than any foreign company.

**TRANSNATIONAL
DIASPORA
COMPANIES:
"MV ENGINEERING
– MILANOVIĆ
ENGINEERING D.O.O."**

Milanović Engineering d.o.o. was founded in 2000, as an engineering planning company renting a space at the Faculty of Mechanical Engineering. As opposed to All Me Cosmetics, Milanović Engineering d.o.o. started its operations inside a faculty facility and through cooperation with professors of the Faculty of Mechanical Engineering in Kragujevac. The initial goal was to support the business operations of the parent company, MV Engineering, located in Krefeld, in Germany. Both companies are wholly owned by Mr. Branislav Milanović. At the very beginning, Milanović Engineering d.o.o. offered planning and engineering services. The company has evolved and expanded, and today has its own manufacturing complex extending over 25,000 m². Following foreign market needs and demands, the company adjusts its services and products, and has included new manufacturing programmes. From 2006 until 2010, Milanović Engineering d.o.o. had ten employees working on design, planning and engineering. The number of employees gradually increased, and in 2008 there were fifty of them, as a result of the company's first big expansion. During the first years of the Global Financial Crisis, the number of employees decreased to thirty-five employees. As Milanović Engineering d.o.o. adjusted its business operations and successfully overcome the effects of the financial crisis, the number of employees started to grow again. At the end of 2016, the company had 424 employees, fifty of them highly-qualified engineers, and all of them working on high-quality and competitive products for the German and Austrian markets. Milanović Engineering d.o.o. manages regular trainings for employees, no matter what their level of education, skills and qualification. Initially, a special training for employees was organized in Germany for several months, so that they could master the process and the working techniques. Today, the company organizes trainings for learning foreign languages (English and German), Excel, Microsoft Access, project management, trainings for new quality control instruments and also trainings for welding. The production process is implemented according to cutting-edge technologies, and represents the best manufacturing facility of its kind in the Balkans. Milanović Engineering d.o.o. exports 90% of its products, primarily to Germany and Austria, but also to the whole EU market. A short-term goal is to expand its exports to Albania and Bulgaria (expanding to the regional Balkan market), and the mid-term goals are exports to African and Latin American markets. The company's expansion plan for the next five years includes extending the manufacturing facilities from the current 25,000 m² to 60,000 m². The number of employees will expand accordingly. Milanović Engineering d.o.o. sells its products to several leading German and international companies, including Siemens, Sjolund, Luxfer, Vallourec & Mannesmann Tubes, Bombardier, Alstom, Veolia Water, ProMinent, Messer, Heineken, Molson Coors, Coca Cola and Hellenic. Ms. Ana Račić, the Coordinator of the Centre for Research and Development at Milanović Engineering d.o.o., acknowledges the need for coordinated state support for export to foreign markets that companies do not have experience with, such as African and Latin American markets. She argues that the biggest problems the company faces on the domestic market are administrative problems, slow and complicated bureaucratic procedures, and the long time it takes to receive building permits. The motive of the owner, Mr. Branislav Milanović, to return to Serbia was 70% to return to his place of origin and the region of Šumadija, and 30% for business opportunities. His company is one of the rare foreign investments in the region, and yet it is so successful. He left Serbia (the former Yugoslavia) in 1972, as a 10-year-old. He lived in a multicultural environment in Bonn, Germany, which he enjoyed, and in his own words, it taught him a lot. He was the second generation of "gastarbeiters", the ones that grew up and were educated in Germany. Mr. Milanović worked in several companies, and in 1989 decided to set up his own company. The company was not successful, as he needed a lot more to learn about the market demands and trends. His first business break came in 1995, and the first big project in 1999. The business project was targeting export and service operations from Germany to Algeria. He used the first big successful project in Germany to open a subsidiary company in Serbia, Milanović Engineering d.o.o. Mr. Milanović invested in Serbia as a domestic investor, using his Serbian passport, not as a German citizen, purely for personal reasons. In 2013, the company received 200,000 euros in subsidies from the Government of Serbia for hiring fifty employees. The company invested around 8,000,000 euros in purchasing equipment and in the building for the manufacturing operations. The key product of the company is manufacturing aluminium components for trains and other rail vehicles. The President of the CCIS Mr. Marko Čadež argues that not only has Milanović Engineering d.o.o. expanded its personnel five times in five years, and exports most of its products to the most competitive markets in Europe, cooperating with the leading companies such as Siemens, but also its engineers in Serbia work on enhancing the product quality and advise their colleagues in Germany on innovative solutions. This shows that Serbian companies and their products could not only be competitive but also highly innovative. The company's director Mr. Djordjević has underlined the importance of cooperation with universities as the key driving force of the company. The company has created its R&D Sector, in which young engineers could develop their knowledge and innovative solutions for the company, and keep the company highly competitive. Milanović Engineering d.o.o. has signed a partnership agreement with the Delia Group from Albania, for a joint venture business cooperation in Albania, targeting water pipeline systems and clean water systems. Mr. Milanović argues that this is the best time to invest in Serbia regarding business development and export. His goal is to expand the current manufacturing facilities in such a way, in cooperation with foreign partners that it grows into a leading industrial complex in the region.

Chart 5. Diaspora companies of chance and hope in Serbia



6.2 LOBBYING FOREIGN INVESTMENTS AND MANAGING FOREIGN INVESTMENTS

Lobbying – a diaspora experience from the UK

One important type of diaspora business engagement is lobbying foreign companies to invest in Serbia. Based on their professional integrity and credibility in the

host countries, the business diaspora has significant leverage over influencing businesses to develop business relations with their country of origin. As the first movers, they understand the home country market very well, with all its problems and advantages. On the other hand, being in a leading business environment, diaspora business overachievers identify all the potential for the foreign business, why to manufacture products in Serbia and export abroad. Ms. Jadranka

Dervišević Kitarić of the BSCC underlined the role of the London-based business diaspora in influencing an important investor, to invest in Serbia at the end of 2016.

Managing – a diaspora experience from Turkey

The second important type of diaspora business engagement in Serbia is managing foreign investments. Although this position is very close to the first mover position, these actors do not risk their own capital but use their knowledge of the market and the state to successfully advise and manage a foreign company or group of companies, or even to foster investment in their home country, as is the case with Mr. Aleksandar Medjedović in managing the Turkish investments in Serbia.

6.3 INITIATIVE FOR A DIASPORA DEVELOPMENT BANK

A Diaspora Development Bank is a very old idea and initiative in Serbia and its diaspora.

Its initial manifestations from the home country were highly compromised by controversial state initiatives such as the “Loan for the Economic Revival of Serbia” in 1989, initiated by the transitional communist government, and the state-sponsored but technically private Dafiment and Jugoskandik banks, resulting in organized scams by the “business diaspora” returning to Serbia at the beginning of the 1990’s. If there was any initial support for the idea, it was lost for a decade after these two very unsuccessful experiences.

A diaspora-led initiative by the business diaspora from the United States was twice unsuccessful, once during the 1990s, and the second time after the changes of 2000s. On both occasions, the proposals were to create a system of banks by the diaspora to financially support small and medium-sized enterprises, “the ordinary citizen”. Concerning the first initiative, the then Government wanted to control the diaspora bank and its capital, and to indirectly and directly finance the ruling elite.⁶³ The diaspora rejected this proposal. After the Milošević regime ended, a new initiative came to create a Serbian-American diaspora bank. The proposal included purchasing by the business diaspora several small banks supporting small enterprises and agro-producers. The proposal from the diaspora was to integrate those banks into one and finance half of their

capital from the United States by the diaspora. Again, the key issue was the regime’s need to control the diaspora bank and its capital. On the other hand, the diaspora wanted a bank that would work on the local level, financially supporting ordinary people and their needs, even without financial guarantees.

In 2000, there was another initiative for creating a Serbian Investment Fund by the diaspora in Europe. The initiative came after a meeting called the First Congress of the Serbian Diaspora in Europe, in Hannover, Germany. The meeting was organized by Mr. Djordje Jovanović. The idea was to create the Fund in cooperation with a leading German bank, the Deutsche Bank. The goal was to initiate cooperation between the business diaspora, business partners and companies in Serbia. After the second unsuccessful initiative, there were no significant initiatives until the beginning of 2013. In December 2013, the biggest conference for the business diaspora in history was organized in Belgrade by the GOfD and the Belgrade Chamber of Commerce. One of the key conclusions from the conference, called symbolically “*Serbia and the Diaspora*”, was to initiate the drafting of the model of a Diaspora Development Bank. A special meeting on the premises of the Belgrade Chamber of Commerce followed in January 2014, but did not have any substantial results. The bank was not created until the end of 2016. As the four final initiatives for a diaspora development bank, we identified:

- In 2014, Mr. Milan Vujović (an expert from Belgrade, Serbia) headed the expert team drafting the concept of a bank for the diaspora. According to Mr. Aleksandar Vljaković, the Deputy Director of the GOfD, a diaspora development bank should not be a bank of individuals, but founded by a large group of diaspora investors.⁶⁴ It should also manage investments. The initial equity should be no less than ten million dollars. The Serbian Government should be a small shareholder and the guarantor of the bank’s success.
- In 2015, David Djumić from the Ministry of Finance of the Republic of Serbia almost won the competition for the best innovative idea by proposing the model for a diaspora development bank. His concept of the diaspora development bank includes the state as a small shareholder of about 10%; and around 100 investors from the diaspora as the primary founders of the bank, but thousands more shareholders around the world. The bank should have commercial officers from the diaspora, and offer low interest rates. The bank should primarily finance infrastructure projects in Serbia.

⁶³ Interview with Miroslav Majk Đorđević.

⁶⁴ For more information see <http://www.djiaspora.gov.rs/lat/predstavljen-projekat-osnivanja-banke-dijasporo-2/>. Accessed: 10th June 2017

Mr. Djumić also argues that a “wiser” option is to first create an *investment fund* (not a bank) that gradually turns into a development bank. He identifies the reasons for this in the newest regulations on banks, and the need for a processual approach to this important topic.

- In 2016, Ms. Daniela Sremac, Director of the Serbian Institute in Washington (United States), initiated an idea for founding a diaspora bank, but with no details about its structure, strategic approach and potential operations.
- At the end of 2016, the final proposal came to the CCIS from Mr. Nebajša Dobrijević, a Serbian banker from Canada. His proposal was to develop a Canada-based Diaspora Development Bank. The entire bank model will be presented at the Zurich Global Summit in June 2017.

6.4 DIASPORA BONDS – THE TRUST MECHANISM

Diaspora bonds have been proposed several times by the business diaspora and experts in Serbia as one of the solutions for the diaspora capital. Following the successful practices of the Indian and Israeli diaspora and the home countries, Serbia could develop a similar instrument. Mr. Petar Milosavljević of the Serbian Economic Forum argues that diaspora bonds should be proposed as a cheaper source of investment. Under the assumption that only 5% of the diaspora in the Western countries (1.8 million people) invests 5,000 euros in diaspora bonds, the state could attract 450,000,000 euros. This is a conservative assumption when compared with the remittance flows, but as we explained above, in correlation with the potential of financial remittances. Moreover, a conservative proposal should be set for the initial phase of the diaspora bond emission, in which the state builds and returns trust. To emit diaspora bonds by the state, the Serbian diaspora will receive for the first time a distinct financial instrument through which to invest in Serbia. They would be in the form of savings and not donations. The most important issue solved by issuing diaspora bonds will be renewed trust on the part of the diaspora, lost in the previous decades of misuse and deception. The initial emission of diaspora bonds could go into financing infrastructural projects in Serbia and show directly how the money was spent. A proposal exists to found shareholder companies for infrastructure projects, and to use their shares as guarantees for diaspora bonds. Connect diaspora bonds to a specific infrastructure project, and keep a high

interest rate for diaspora investors for their risk in local development projects. Others argue that through diaspora bonds diaspora investors should receive some additional privileges.

6.5 CONCLUSION: TARGETING TYPES OF DIASPORA INVESTMENTS

All of those interviewed had the knowledge of how to produce quality products, learned abroad and upgraded during their business operations using the foreign comparative advantages. All of the case studies had, be it at the beginning (the Faculty of Mechanical Engineering), during the process (the Faculty of Chemistry) and ad hoc cooperation (the Faculty of Electronic Engineering) with the faculties of applied sciences throughout Serbia, and even pointed out that such cooperation would be a positive approach to educating suppliers on the foreign demand and business processes (the Agricultural Faculty). In all the cases, the investment came from personal sources earned abroad. In all the cases, the products are not only competitive at home but are mostly exported (80% or more), and thus lower the country's trade deficit. In all the cases, the diaspora had initially opened markets abroad (demand), which grew during the company's expansion and, thus, capital was earned and employees hired. Every single qualitative case study shows a different member of the diaspora: one left with parents who were “gastarbeiters”, one followed a new career path abroad, one left to earn money and return to develop his own business in Serbia; one went to study abroad and returned; one left to study and work abroad and returned home. All of them today live, work, and cooperate transnationally, and the term “return” should be used in the same context. They conform to our definition of New Serbian Argonauts, with their specific developmental role and knowledge spill-over effect on the community, the academia and local institutions.⁶⁵ There is a need for a quantitative analysis of the spill-over effect, based on the qualitative case studies presented in this study.

The diaspora is a complex actor, made up of individuals and groups with very different motives and interested in completely different issues. From the successful diaspora that wants to invest in developing its home country, to the first movers who will help develop parts of the country that are endangered, and those who are clearly here just for profit and do not differ from any other foreign investor. The state and local municipalities should develop programmes of support for the developmental diaspora in terms of

⁶⁵ When a foreign investor comes to Niš in the area of innovative technologies, one of the members of the delegation on behalf of the City of Niš is Mr. Goran Mladenovic, as the Manager of the Ni-Cat Cluster. This provides special support in the areas in which the local municipality lacks human capital and knowledge for successful negotiations.

logistics and infrastructure, and at one point even subsidies and national recognition. The state and local municipalities should support investments in the least developed regions through logistical support and easier bureaucratic procedures, as well as promotion. Finally, the state should offer all the information needed and bureaucratic support for a classic investment by the third group of diaspora investors, looking only to maximize their profit.

When discussing a diaspora development bank, the key issues are: whether the bank is state-controlled or diaspora-controlled; whether the money is loaned for developmental projects, for start-up development, agro-production and small business development, or whether it is only a regular bank with very low interest rates; what the ownership structure is to be; and the key question: who will initiate and manage this process in a successful way? All these open questions demand an open debate, both in the home country and in the diaspora, as well as expert opinion in a representative format, and new innovative solutions for all the specifics of a diaspora developmental bank. The diaspora bonds topic will follow the debate and success of the diaspora development bank.

7. FOUR FRAMEWORKS OF ANALYSIS

In this report, we will develop four frameworks for our analysis: the socio-political, institutional, business and regulative framework. The need for a four-framework analysis for assessing the investment environment is derived from the fact that all of the frameworks affect engagement with the diaspora. The socio-political framework affects the Government's actions towards the diaspora, including strategies, policies and programmes. The regulative framework, derived from the previous framework, affects the whole identity of a diaspora investor. The institutional framework affects the logistics required for working effectively with the diaspora. Finally, the business framework abroad and in the home country will allow us to understand the context in which the diaspora developed its business framework abroad and towards the home country.

7.1 THE SOCIO-POLITICAL FRAMEWORK

The diaspora was for decades treated as a subversive element for the home state. The communist restraint was followed by the post-communist regime. For their

part, the leading diaspora organizations supported opposition leaders directly and confronted with the government. After the change in 2000, the attitude toward the diaspora changed, publicly, and in a way substantially. After years of lobbying, the diaspora got a special Ministry for the Diaspora as part of the Serbian Government. Notwithstanding the important contribution by the Ministry for the Diaspora, through special laws and the only state strategy formally targeting the diaspora, the diaspora still was a foreign entity with an emotional attachment to Serbia.

The Serbian Government adopted the *Declaration on Proclaiming the Relations Between the Homeland and the Diaspora as a Relation of the Highest State and National Interest* (2006) and the *Strategy for Preserving and Strengthening Relations Between the Home Country and the Diaspora and Between the Home Country and Serbs of the Region* (2011). With this Declaration and Strategy, the relations between the homeland and the diaspora are "marked as relations of the highest order and national significance".

In 2009, the Serbian parliament adopted the *Law on the Diaspora and Serbs in the Region*. Based on this Law, Serbia and its diaspora are for the first time connected through the Diaspora Assembly. The Diaspora Assembly has 45 delegates, and the Serbian President, the Prime Minister, the relevant ministers, representatives of the highest educational, religious and business institutions, as well as of the state media, all participate in its work. On April 21, 2011, three Councils of the Diaspora Assembly were formed: the Economic Council, the Council for Status Issues and the Council for Educational, Cultural and Sports Cooperation. According to the Law on the Diaspora, the term Diaspora refers to "all Serbs living abroad, regardless of whether they are citizens of Serbia or not". Furthermore, the Law has a wide definition of the terms "Serb" and "Serbian diaspora". The Law stipulates a definition of the Diaspora that includes not only Serbian citizens living abroad but also Serbs who lived in the South-Eastern region (Bosnia and Herzegovina, Slovenia, Croatia, Albania, Montenegro, Macedonia, Hungary and Romania), as well as their descendants, regardless of their citizenship. According to the Law, the MfD (now the GOfD) is responsible for supporting projects which will enable the diaspora to learn Serbian, apply for grants and scholarships, and ask for similar forms of support. The Law establishes that relations between the homeland and the diaspora have to be strengthened through the promotion of economic cooperation.

Trust as the key instrument

The burden of false promises, betrayals, political change and, thus, never going a step ahead has kept “the diaspora debate” as a social and political debate not only in its initial stage but also with a completely lost trust in the home country institutions and political processes, as well as in the belief that the state is not sincere in its attitude to the diaspora. The environment has contributed to making the diaspora change from a developmental actor and a potentially collective investor to individual initiatives and a clear-cut FDI context. The debate has shifted to the technical level of a diverse diaspora engagement, from institutional support to developing social relations on a local level. Local diaspora offices have been developed following this approach.

7.2 THE DIASPORA BUSINESS FRAMEWORK

On the individual level, migrants are joining alumni, professional and business networks, organizations and clubs in their host country. Their motive is personal development, networking and the “local buzz” (hearing the leading-edge ideas and initiatives in the area of interest). These are not diaspora organizations but the diaspora’s access to these high-level clubs and networks allows the diaspora to engage business, investors and scientists interested in working together on some project, product and business initiative that could find its way to the home country. Interestingly, many individuals from the diaspora meet in these professional and alumni networks and clubs, as primarily focused on their career and area of expertise. At some point, they develop an idea that could be implemented aiming at their home country, and need

support from Serbian institutions, firstly the embassy. They are not so much fond of business clubs as interest groups. Developing a successful cooperation based on the embassy’s initiatives would foster many investment ideas, opportunities and business initiatives. This is especially important in Canada, the United States and the United Kingdom, as the number of the Serbian scientific and business diaspora members there is very large, and they are successful there. On the other hand, diaspora business organizing is very diverse and includes diaspora business clubs, bilateral business entities, including diaspora and foreign business, foreign business councils, diaspora middlemen and various types of business events (from official meetings with national institutions of the home country and/or the host country, sectoral events, export promotion, to the global diaspora business gatherings with the institutional support of the home country institutions). The diaspora’s investment motives were presented in section 3. In this section, we will present different forms of diaspora business organizing, as well as the motives and goals of these business actors.

7.2.1 Diaspora business clubs

The Serbian diaspora has developed national (meaning that they cover the whole territory of the host country) business clubs in several host countries. Their goals are usually to gather diaspora businessmen who operate in the host country, build business relations and a network online or through special events organized individually or in cooperation with the Serbian Embassy. These clubs often support various cultural events organized by diaspora organizations in the same host country and maintain close ties with the Serbian Embassy.

CASE STUDY 1: THE SERBIAN UNITY CONGRESS

Founded in 1990, the Serbian Unity Congress is a non-profit, non-partisan organization that promotes Serbian American culture and heritage. The organization is working on building relationships in Washington and within the Serbian Congressional Caucus. It is one of the most influential Serb diaspora organizations in the world. The Serbian Unity Congress also works on issues in Serbia: restitution, rehabilitation and anti-corruption. The Congress is not strictly a business club, but was founded by the leading Serb business

members, dealing with Serbia many times in the course of the last 30 years.⁶⁶ Many investment and business initiatives have been introduced by this organization. Yet, the organization has never acted as an organizational entity for financing private sector development in Serbia. It has remained a donor organization and an interest group. A representative of the Serbian Unity Congress, Ms. Slavka Drašković, became the Director of the GOfD with the Diaspora and Serbs in the Region in 2012.

⁶⁶ See more at www.serbianunity.com Accessed: 10th June 2017

CASE STUDY 2: THE ASSOCIATION OF SERBIAN BUSINESSMEN IN SWITZERLAND⁶⁷

The Association of Serbian Businessmen in Switzerland (*"Verein Serbischer Unternehmer in der Schweiz"*) was founded in 2015. At the constitutive session of the Association, alongside the founders and members of the future organization, special support was provided by the presence of representatives of the MFA, providing the event and the new diaspora business association with home state support, credibility and importance. The organization includes 36 members in Switzerland. It is a member of Switzerland's Chamber of Commerce for South-eastern Europe. The goals of the organization are similar to those of other business clubs, including mutual

support, cooperation and business advice. However, there are a few things that make this business club specific. It is focused on promoting one national and one regional entity (the Chamber of Commerce and Industry of Serbia and the Chamber of Commerce and Industry of the Republic of Srpska). The members of the business diaspora in the Association see themselves as being the diaspora of two entities at the same time, one in Bosnia and Herzegovina, the other being the Republic of Serbia. The Association was the first diaspora business organization that organized and created an annual global business and academia meeting/ summit (Expo 2016) for the Serb diaspora.

7.2.2 Bilateral entities: chambers, economic councils and business clubs

Bilateral chambers of commerce usually include the Serbian diaspora and foreign/host country businessmen with the goal of establishing business connections between the two countries, networking and promoting potential cooperation. There are three types of bilateral chambers: those created by the chambers of commerce of the two countries; secondly, those created by the Serbian business diaspora; and thirdly, those created by foreigners in partnership with the Serbian diaspora businessmen to work actively aiming at Serbia and exploit the business potential. Whether they are founded by two chambers or constitute private enterprises, these bilateral chambers always attract the successful business diaspora interested in investing in their country of origin or positioning themselves as the first mover advisers to foreign business and investors interested in Serbia. Their potential is invaluable when looked at from the perspective of Serbia and its economic development, as well as the sheer number of these entities and their membership. There has been a mushrooming of bilateral business clubs. Until the end of 2016, there were several bilateral chambers of commerce, including the Serbian-American Chamber of Commerce (1987), the French-Serbian Chamber of Commerce (2009), the British-Serbian Chamber of Commerce (2008), the Austrian-Serbian Economic Council (2010), the Swiss-Serbian Chamber of Commerce (2014), the Hungarian-Serbian Business Council (2015), the Canadian-Serbian Chamber of Commerce (2016), the

Australian-Serbian Chamber of Commerce (2015) and the Serbian-German Chamber of Commerce (2016), to name only the leading ones.

Notwithstanding the opportunities and their potential, there are also some issues with these business associations. The issues range from a complete lack of any deeper interest in business initiatives by the members, participating in the work of the chamber only in order to get invited to events and feel privileged ("the symbolic effect"), as well as having a networking club connected to their private interest (a foreign company already working in Serbia), all of which with direct access to home-state institutions (Serbian state representatives and domestic businessmen are often invited to join the clubs and organized events; chambers communicate directly to state officials and promote private interests). Rarely do these organizations have a result-based agenda/programme, except when it comes to organizing events for networking, cultural cooperation and philanthropic purposes. The additional value of these organizations often depends on the individual capacity and motivation of enthusiastic diaspora members. However, these bilateral business entities do provide important arenas for engaging the business diaspora and for the diaspora's role in influencing investment in Serbia. One common characteristic is that it is usually left to individual members' initiative to channel this engagement and to push for projects and business initiatives. There is a need to engage these entities through the diaspora, on an active and programme-based level by the CCIS and other leading actors.

⁶⁷ See www.privrednici.ch Accessed: 10th June 2017

CASE STUDY 1: THE GERMAN-SERBIAN CHAMBER OF COMMERCE⁶⁸

The Serbian-German Chamber of Commerce (“AHK Serbia”) was the first bilateral chamber founded based on the new Law on Chambers of Commerce in Serbia. The establishment has emerged on the basis of the agreement between the Governments of both countries. The German-Serbian Chamber of Commerce has four priorities, including: supporting services and state companies that are interested in doing business in Germany and Serbia; representing the interests of German companies when dealing with their Serbian partner companies; being the central network for German and Serbian business representatives; finally, improving dual education in Serbia. The Minister of the Economy Mr. Željko Sertić has expressed hope that the

Chamber, in cooperation with Serbian institutions, is going to continue to work on the improvement of economic relations between the two countries and bringing in new investors.⁶⁹ The activities of AHK Serbia are focused on enabling interaction between member companies and institutions, but also on contributing to the building of a broad platform for contacts, training, exchange of experiences and ideas, discussion of current issues in the context of the many informative events, workshops and seminars, events which have for many years been carefully conceived and prepared, among other things. While the AHK Serbia includes the Serb diaspora companies from Germany, working in Serbia, diaspora doesn’t have any significant role and authority.

CASE STUDY 2: THE BRITISH-SERBIAN CHAMBER OF COMMERCE (BSCC)

The British-Serbian Chamber of Commerce was created through a private initiative of English businessmen and the Serbian business diaspora in the UK in 2008.⁷⁰ The organization represents a good example of a private foreign entity with a mixed membership, but strongly controlled and managed by the Serbian business diaspora. The BSCC opened its office in Belgrade and has several directors based in Serbia. The BSCC has promoted Serbian companies in London for several years. The latest promotions included Air Serbia (the Serbian National Airline Company) in 2015, Belgrade Waterfront (the biggest infrastructure project in Serbia) in 2016, and a special event organized at the Serbian Embassy promoting five Serbian vineyards,⁷¹ presented by the British wine expert Mr. Christopher Burr. The BSCC networked business and investors during the annual EBRD conference for the Western Balkans in London in 2016.

Ms. Jadranka Dervišević-Kitarić, the Business Development Executive, stressed how successful the promotional event for Belgrade Waterfront, organized at Harrods, London, was.⁷² During a high-profile visit to Serbia, the Business Development Executive argued that “In the United Kingdom, we are experiencing an increased interest in Serbian products and are helping more and more companies to enter the British market. In the first part of 2017, we will be organising a promotion of Serbian designers at the London Fashion Week, and also a trade mission of Serbian companies to the North of England and the Midlands.” A year before, a similar event was organized

for the film industry (December 2016). The Agreement on the Establishment of the Mixed Chambers Council was signed with the CCIS in September 2016. The goal of the Council is to bring together and connect the international business communities active in Serbia, with the Chamber as an umbrella association of the Serbian economy.⁷³

The BSCC also supports and cooperates with the alumni organizations of leading UK universities, mostly Cambridge. Every year, the BSCC is co-organizes an annual dinner with the Pexim Foundation of Cambridge Alumni from Serbia and Macedonia at the Trinity College in Cambridge.⁷⁴ It targets the alumni of all colleges and supports young talent in the diaspora. Its support extends to Serbia, where, in 2016, the BSCC supported the 3rd “New Technologies in Education” Conference & Fair, which works on improving the quality of the educational systems in South East Europe (SEE) by bridging the gap between the ICT and the education sector.⁷⁵ Supporting the modernization of the Serbian educational system is one of the BSCC’s important roles.

According to the European Attractiveness Survey 2016, a research project conducted by a BSCC corporate member, the audit and consulting company Ernst & Young (EY), Serbia is one of the five most attractive states for foreign direct investments in the European industry, and is in the second place when it comes to the growth rate of the number of new workplaces created through FDI.⁷⁶

⁶⁸ See www.serbien.ahk.de Accessed: 10th June 2017

⁶⁹ See <http://www.diplomacyandcommerce.rs/official-german-serbian-chamber-of-commerce-established/>.

⁷⁰ For more details, see: www.britisrbcham.eu Accessed: 10th June 2017

⁷¹ See www.britisrbcham.eu/wine-testing-event-on-22nd-july. Accessed: 10th June 2017

⁷² See www.britisrbcham.eu/current-members/belgrade-waterfront/belgrade-waterfront/. Accessed: 10th June 2017

⁷³ See <http://www.britisrbcham.eu/mixed-chambers-council-founded/>. Accessed: 10th June 2017

⁷⁴ See www.britisrbcham.eu/the-pexim-foundation-networking-event/. Accessed: 10th June 2017

⁷⁵ See www.britisrbcham.eu/the-new-technologies-in-education-conference/. Accessed: 10th June 2017

⁷⁶ See www.britisrbcham.eu/serbia-one-of-the-five-most-attractive-states-for-investments/. Accessed: 10th June 2017

The BSCC hosted a visit to Belgrade of the London's Guild of Entrepreneurs⁷⁷. This visit enabled about a dozen young entrepreneurs from Belgrade to meet and share ideas with the 22 representatives of the guild at the CCIS. This event has already opened doors to at least two young entrepreneurs to the UK market and potential business cooperation. One of the comments from the members of the Guild was that they were astonished to meet young, tech-savvy and innovative people, as opposed to old tycoons, in similar business trips.

CASE STUDY 3: THE TURKEY-SERBIA BUSINESS COUNCIL – DIASPORA MIDDLEMEN

In 1996, Turkey became a member of the Customs Union with the European Union. Following this development, DEiK reorganized its Business Councils with EU member states under the auspices of the Turkey-EU Business Council and established a joint membership basis. The Business Councils continue their individual activities in areas that do not concern the EU, while the EU Business Council works on the advancement of Turkey-EU relations. In the process of EU expansion, the Balkan countries were integrated into the region. With their inclusion, the regional organization, which previously only included EU member countries, was expanded to a 37-member structure called the European Business Council. For several years, the Deputy Coordinating Chairman of the organization has been Mr. Aleksandar Medjedović, a Serb from Germany, now working for Turkey and its business cooperation with Europe. *"A German Serb representing the interests of Turkish business at foreign trade fairs, even when dealing with Serbian companies."*⁷⁸ In his own words, his ultimate goal is to work on Serbian business development abroad, but he still has not found an adequate way to do so.

In 2002, the Turkey-Serbia Business Council was established.⁷⁹ The Chairman representing Turkey is again Mr. Aleksandar Medjedović, and his counterpart Chairman from Serbia is the President of the CCIS. Two Serbs are managing the relations between Serbian and Turkish companies. Mr. Medjedović is managing several Turkish investments in Serbia, and at the same time sits on the Business Council for the Diaspora of the CCIS. Although he is dedicated to protecting and advising Turkish businesses, he invites Turkish companies to invest in Serbia, building a special bridge of trust, through all the institutional and business networks developed. During the bilateral business forum in Belgrade, attended by the Turkish and Serbian Prime Ministers, Mr. Medjedović played a central role and invited Turkish companies to invest in Serbia as the central and most important country in Southeast Europe. On the other hand, he advises Serbian companies to export to Turkey, and through Turkey to the Middle East.⁸⁰ The role of a diaspora individual of such magnitude in bilateral business cooperation is invaluable for a country such as Serbia.

7.2.3 Sector-specific initiatives

Experienced diasporas organize sector-specific events for matchmaking producers/manufacturers, traders and other interested parties from the home and the host country. We will use two case studies of two members

of the CCIS Business Council for Diaspora, and two of the most experienced diaspora middlemen, Mr. Slobodan Ivanović and Mr. Zoran Golubović, whose initiatives date to early 2000s.

⁷⁷ For more about the Guild, see www.guildofentrepreneurs.org. Accessed: 10th June 2017

⁷⁸ See www.ekapija.com/website/sr/page/497922/Aleksandar-Me%C4%91edovi%C4%87-direktor-Frankfurtskog-sajma-za-Tursku-i-predsednik-Tursko-srpskog-poslovnog-saveta-u-Istanbulu-Ni%C5%A1ta-ne-mo%C5%BEe-da-zameni-razgovor-u%C5%BEivo. Accessed: 10th June 2017

⁷⁹ See www.deik.org.tr/european-business-councils-turkey-serbia-business-council. Accessed: 10th June 2017

⁸⁰ See www.pks.rs/Vesti.aspx?IDVestiDogadjaji=19930. Accessed: 10th June 2017

CASE STUDY: SIAL TORONTO

One of the leading business diaspora middlemen, Mr. Slobodan Ivanović, presented during the annual meeting of the Business Council for the Diaspora of the CCIS a Serbian business diaspora event that will take place in Canada in May 2017. The successful SIAL Toronto 2015, organized by the Serbian diaspora has set the track for SIAL 2017. The goal of the event will again be to promote Serbian products at the famous agro-summit SIAL.⁸¹ The event will take place at the "Toronto Exhibition Place", from 2-6 June, 2017. During the summit, more than thirty producers from Serbia will present their products and promote their brands. There will be two business panels organized at the Serbian Embassy in Toronto and the Consulate in Ottawa, one focusing on the IT sector and the other one on trade. As a very large number of the Serbian diaspora members are dispersed around Toronto

(around 350,000 Serbs live in this area), an event will also be organized in Kitchener and Montreal, where the concentration of Serbs is the highest. The goal of the SIAL 2017 conference will be, besides the export-related promotion of Serbian products in Canada, business cooperation and investment in Serbia. A special envoy of the CCIS, the Director of the Sector for International Economic Cooperation Ms. Danijela Čabarkapa, will participate in the additional networking events to promote the investment potential of Serbia, present its regulatory framework and potential partnerships with Serbian companies. A special topic during the meetings will be the initiative for setting up a Distributive Trade Center in Toronto for competitive Serbian products. Mr. Taras Stojković heads this initiative as a co-organizing partner of the event.

CASE STUDY: IT MATCHMAKING CONFERENCE CHICAGO

A member of the Business Council of the CCIS, Mr. Zoran Glubović organized a very successful IT business conference in Chicago, Illinois, in December 2008. At this event, the organizers brought together the leading IT companies from Serbia and companies from U.S.

interested in cooperation. The cooperation resulted in the creation of bilateral companies and business expansion that profited from this cooperation. The event, however, did not become a regular one, and it was continued for only a decade afterwards.

7.2.4 "The Gatherings"

"The Gatherings" – a Serbian variation of the Irish diaspora business practices. The Serbian diaspora has established annual events in which it gathers businessmen and scientists of Serbian origin from around the world. There were three symbolic and case specific events organized in the previous history: the annual meetings of the CCIS Business Council for Diaspora (organized from 2002),

the conferences "Serbia and Diaspora" and Diaspora and Tourism (organized in 2013 and 2014, respectively), and the Serbian Global Summit in Zurich (the initial event was in 2016). The first event is an annual meeting organized by the CCIS as a national business hub. We will present it in full in section 8. The second events were organized by DfD, as a Government office. The third is organized by the diaspora business club, but with the support of the Ministry of Foreign Affairs and the CCIS.

⁸¹ For more details, see: www.sialcanada.com/en/article/sial-canada-be-back-in-toronto-in-2017. Accessed: 10th June 2017

CASE STUDY: THE CONFERENCE “SERBIA AND THE DIASPORA”

The conference “*Serbia and the Diaspora*” was organized in Belgrade on December 23, 2013. The conference was organized by the GOfD, and moderated by the Director of the GOfD, Ms. Slavka Drašković. The keynote speaker was the Prime Minister of Serbia. During this business conference, three important issues were addressed: one was the initiated direct cooperation between the GOfD and LOFD, through a signed memorandum of cooperation; the second one was the presentation of the project “Diaspora, Hire Serbia” by Mr. Milomir Mandić, who headed the project. At this conference, the idea for a diaspora bank was launched. The conference “Serbia and the Diaspora” was one of the biggest initiatives realized by the state for the purpose of bringing the business diaspora to Belgrade and negotiating potential cooperation. The conclusions from the conference included: the need for liaison officers at the local level; the initiative to assess the needs of Serbian public companies for diaspora experts; the idea of organizing job fairs at Serbian diplomatic missions in the leading cities in the West; the need to create a diaspora financial

institution which will channel diaspora investments and business development towards Serbia; the Serbian economy should support diaspora investments in small and medium-sized companies; and finally, there is a need to support project and business planning by the local businesses and municipalities. Although many proposals made sense, not one has been implemented in practice after the conference. There was no capacity (human, social, and institutional) by the GOfD to implement these proposals.

The business conference was followed by the conference “*The Diaspora and Tourism*” in February 2014. The conference was attended by Serb tour operators from thirteen countries. The event was organized in partnership with the Tourist Organization of Serbia, the Tourist Organization of Belgrade, the National Association of Tourist Agencies, and with the attendance of the Directors of the National Airline Company and the Hoteliers’ Association of Serbia, and representatives of several interested Ministries.

CASE STUDY: THE GLOBAL SERB SUMMIT / GLOBAL ZURICH SUMMIT

The event, under the name of *The Global Serb Summit* or the *Zurich Global Summit*, is very similar to the Irish practice of “Gatherings” and Scot Global’s business events in Scotland. The Serbian case is specific because it is one of the rare examples that diaspora has a global business gathering event outside the country of origin. Moreover, the annual meeting of the CCIS Business Council for Diaspora is organized at the event, with the leading state institutions of the home country attending and presiding. The focus of this diaspora event is on inviting members of the business diaspora to their home country and, through a series of cultural programmes and events, directly connecting members of the business and academic diaspora to their colleagues from the home country.⁸²

The Global Serb Summit is held at Dietikon in Zurich, Switzerland. Developing into one of the most important

gathering events of the Serbian diaspora, the Global Serb Summit represents a specific phenomenon in itself. It is organized by the Association of Serb Businessmen in Switzerland. This business diaspora association formally targets two countries, Serbia and Bosnia and Herzegovina. The Association has a key logistical and a scarce financial support by home country institutions, primarily the CCIS, and a strong backing by the Serbian Embassy and MFA. The Global Serb Summit was opened in 2016 by the President of the CCIS.

The Global Zurich Summit lasts for three days. On Day One, companies from Serbia network with Swiss companies and other diaspora business clubs. The special guests at the Summit in 2017 will be the Swiss Chamber of Commerce for South-eastern Europe and several Swiss companies. On Day Two, an academic session will be held. In 2016, the session was managed by the Serbian diaspora scientists

⁸² For more information about the Irish “Gathering” and ScotGlobal, see www.irishgathering.ie. Accessed: 10th June 2017

working at CERN, Switzerland. In 2017, the academic panel will be managed by young Serbian professionals working around Europe and United States. Parallel to the academic session, a business session is held, featuring the Serbian diaspora companies in Switzerland and those from Serbia and Bosnia and Herzegovina. There is a special cultural programme organized, and a fair at which Serbian companies present their products to all the participants.

One town or city from Serbia is a special donor of every Summit. The special guest and donor municipality from Serbia in 2017 will be the local municipality of the town of Loznica, which will present its local opportunities for diaspora investment.⁸³ A group of successful local entrepreneurs from the town or city being promoted also attend the summit and present their products to all the attendees.

7.2.5 Diaspora organizations and business cooperation

CASE STUDY 1: THE CORROSIVENESS OF DIASPORA DEVELOPMENT AID PROJECTS

Working for several years on diaspora-related issues makes some diaspora middlemen feel that the home country owes them. The rhetoric of diaspora middlemen becomes strong as they try to position themselves to profit from this position. Their need to “cash in” or “get back” on their diaspora track record becomes of key importance. Donor agency programmes seldom finance diaspora organizations work in the host country. This frustrates diaspora organization middlemen as they become involved in diverse corruptive actions through development programmes towards their home country.

The case of the Central Council of Serbs in Germany when applying for a Centre for International Migration and Development (CIM) project is representative of a corrosive development role on the part of the diaspora. The goal of the project applied for by a diaspora organization was to develop a knowledge transfer programme in developing business development relations between the diaspora in Germany and entrepreneurs in Serbia. This would have been the first time this diaspora organization implemented a business project in Serbia. This case should have been an example of the diaspora’s developmental engagement aimed at Serbia. However, the final issue regarding the project was not programme-based, but boiled down to the greed of diaspora organization members that instantly transformed into migrant experts awaiting adequate payment. Members of the Central Council were

frustrated at Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)/CIM for not having a programme that would finance their work from Germany, and then focused on organizing how the implementation partner would “return” the money that they “received” from the Central Council of Serbs in Germany. The project meaning and goal instantly degraded to focusing on project finance extractions and not strong business programme implementation. This was a classic example of a corrosive role of the diaspora development aid and the diaspora middlemen. Members who are not even entrepreneurs instantly become migrant experts in business with the goal of positioning themselves in the diaspora arena in Germany. This case shows that the diaspora does not always have a developmental role but a financial motive. Any state policy needs to take this seriously into account. The key point that needs to be answered for the purpose of preventing similar situations is how to establish a “moral ladder” – why are diaspora members becoming middlemen and how do they need to be perceived and financed? What should be their role? In this case, the diaspora is interested only in itself and how to earn money, make business contacts in Germany, which they will then exploit, and with no clear developmental agenda for Serbia. The biggest problem is that such conduct and the resultant bad reputation will demotivate those diaspora individuals and middlemen interested in real development.

⁸³ The donor municipality in 2016 was the City of Pirot (Sothern Serbia), and its mayor as the keynote speaker from Serbia.

CASE STUDY 2: THE SERBIAN CITY CLUB

Created as a specific hybrid between a social and a business organization, the Serbian City Club as a diaspora organization unifies all the required elements for young and business-oriented individuals with an emotional attachment to their community of origin. Helping students from the home country with their internships and advice for success in London is a very important role of the City Club. Moreover, the Club helps the young socialize and introduces them to the new urban jungle. The annual meetings serve as an enjoyable rest or business networking for interested individuals.

The Serbian City Club in London was one of the oldest diaspora organizations that directly engaged with the development of their home country on a foreign donor development program. In 2008, its members participated in an IOM programme of mentorship and knowledge transfer. The people included were from different sectors and businesses. This programme showed all the potential and

impediments of the diaspora knowledge transfer process. On the one hand, the knowledge and especially business know-how of the Serbian UK diaspora is invaluable. Working in the sphere of leading-edge industry gives them the right perspective for advising the home country private sector and the young on how to be competitive, look at the market trends and be innovative. We identified this as social remittances in the section about remittances. Mr. Gordan Škaljak was one of the participants and trained interested actors in Serbia in marketing and running a marketing company. On the other hand, the diaspora time and distance problem needs to be solved, so that this kind of programme could bring more additional value for the development of Serbia. Circular migration is sometimes not the solution, and the time issues are pressuring the diaspora to decline any potential activity. An online solution that would allow the diaspora to directly engage Serbia, at a time most suitable for them, would bring new potential for business development inputs.

7.2.6 Conclusion

There is a strong cooperation between Serbian institutions and the Serbian business diaspora, although there is no programme and strategy of engagement. Institutions act individually and react positively in participating and supporting diaspora investment promotion events, and even engage and co-organize such events. The diversity of business associations and their membership size are impressive. However, many of these associations are "ghosts in a shell", passive, without any concrete strategy,

activities and business development programmes. They become gatherings themselves by organizing events that are more social than business-oriented and result-based. As it is evident that the CCIS and the MFA are engaging and fostering the development of business associations, they could also map good practices and discuss, on a country-by-country basis, what would be the best opportunity for result-based work for each of individual association. This would contribute to a better mapping of all associations and produce an updated input of their activities and passivity.

Chart 6. The diaspora business framework



7.3 THE REGULATORY FRAMEWORK

7.3.1 A comparison between the former and the new Law on Investments

The legal basis for the application of state aid for the purpose of attracting foreign direct investments (FDI) in the Republic of Serbia are the *Law on Investments*⁸⁴ and the bylaws to the *Regulations on the Terms and Conditions for Attracting Investments*.⁸⁵ Additionally, all of the requested or proposed state aid needs to be approved by the Commission for State Aid Control, which operates according to the *Law on State Aid Control*⁸⁶ and two additional bylaws: the *Regulations on the Rules for State Aid Granting*⁸⁷ and the *Regulations on the Rules and Procedure for State Aid Granting*.⁸⁸ The sole purpose of these laws and bylaws is to form the legal basis for achieving Serbia's priority investment goals, which relate to job creation and improving the competitiveness of the Serbian economy by making Serbia a desirable FDI destination. The state aid provider for such incentive programmes is the state itself, and the users of state aid are those investors (whether domestic or foreign entities) that submit an application for the allocation of funds in accordance with the above-mentioned regulations and are registered in accordance with the respective regulations for their businesses and entities. A user of these state aid funds, according to the regulations, must be a direct or indirect subsidiary of an investor that has received state aid funds in accordance with the regulations.

The country needs a more transparent incentive approval process. The state has developed a subsidy programme for supporting foreign investors. The programme aims to attract foreign investors by securing resources for each job opened by paying for the labour force engaged for the first two years. The most important aspect of fostering FDI through state incentives is to ensure the transparency of the state's subsidy allowance programme at all the steps of the process, from applying for subsidies through analyzing applications to approval. Until the passing of the new law, the state had the discretionary right to protect the information about the level of subsidies given to foreign investors. The main argument for maintaining such secrecy was that confidentiality is part of an investment deal; however, the actual result is that the public was left without any information on how much money they (as taxpayers) pay for opening new jobs via foreign businesses.

Each institution in the foreign investment process needs to cover precisely defined responsibilities. The law names the Ministry of the Economy, the Council for Economic Development, the Serbian Development Agency and the provincial and local authorities as the operative agencies for handling the process of implementing FDI support programmes. The Serbian Development Agency has a mandate over all professional, operative and development activities related to direct investment, export promotion and economic development, which is quite a broad area. The Council for Economic Development also has a mandate to approve subsidies offered to foreign and local investors and to control and monitor the process of subsidy usage by such entities. A new addition to the interaction between various state agencies is the role of provincial and local authorities, which, many argue, need to take a more proactive role in the foreign investment process. They are obliged to provide the full technical expertise for processes such as obtaining the necessary licenses for the establishment of a business at the local level. The new law recognizes two types of investment: investments with specific interests for the state of Serbia, and investments of specific interest for the local authorities. The defined criteria used in the process of subsidies approval (and thus a determination of whether the investment falls under the national or local level processes) are: the number of created jobs, the amount of the total investment, the influence of the investment on foreign trade, the investment's lifetime, the value chain position, the investor's references and the overall project and investor credibility.

Incentive allowances should be granted according to precisely defined criteria. Funds may be awarded for financing investment projects in the manufacturing sector and the service sector that may be subject to international trade. A right to participate in the process of the allocation of funds is accorded to the investors that have investment projects in the above-mentioned sectors and that applied for these funds before the start of the realization of the investment project in the manner and under the conditions provided for in the Regulations. Users of grants are required to provide a minimum of 25 percent of eligible costs from their own resources or from other sources that do not contain state grants. Funds for large enterprises from the state aid funds cannot be allocated before examining the documents and determining that the allocation of funds will provide an effective incentive. The amount of

⁸⁴ *The Law on Investments*, The Official Gazette of the Republic of Serbia, nos. 55/05, 71/05 (including corrections), 101/07, 65/08, 16/11, 68 / 12 (US), 72/12, 7/14 (US) and 44/14.

⁸⁵ *The Regulations on the Terms and Conditions for Attracting Foreign Investment*, The Official Gazette of the Republic of Serbia, no. 27/2016.

⁸⁶ *The Law on State Aid Control*, The Official Gazette of the Republic of Serbia, no. 51/09.

⁸⁷ *The Regulations on the Rules for State Aid Granting*, The Official Gazette of the Republic of Serbia, nos. 13/10, 100/11, 91/12, 37/13, 97/13 and 119/14.

⁸⁸ *The Rules and Procedure for State Aid Granting*, The Official Gazette of the Republic of Serbia, no. 13/10.

state aid that can be allocated has an upper limit of 50 percent of the eligible costs of the investment for large business entities, 60 percent for medium-sized business entities and 70 percent for small business entities. The maximum amount of state aid that can be allocated for investments of special importance for the Republic of Serbia varies, depending of the amount of the investment. For investments that exceed €50 million, the maximum amount of state aid that can be allocated is up to 25 percent of the eligible costs of the investment, and for investments that exceed €100 million, up to 17 percent of the eligible costs of the investment. (Articles 5 and 6 of the Regulations).⁸⁹

7.3.2 Investment-related issues

There are a number of other important systems to analyse when looking at the business environment for investors as a whole.

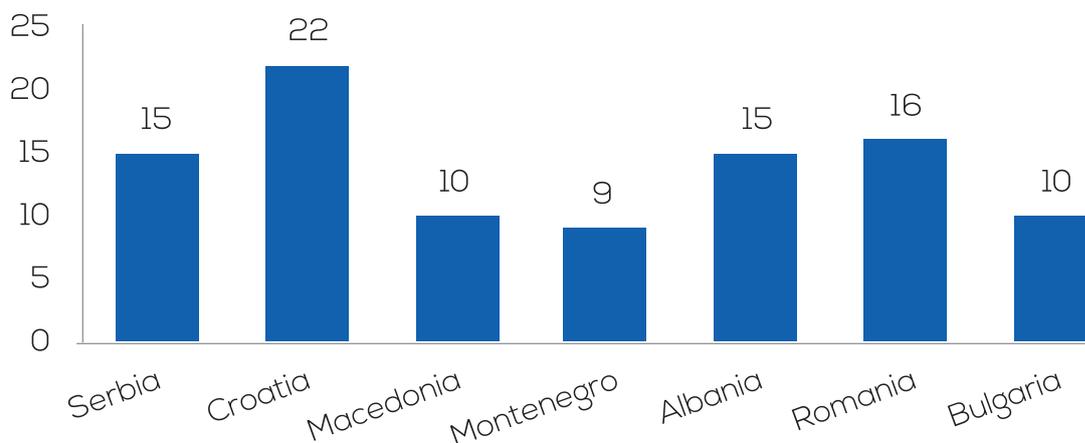
7.3.3 Corporate taxation

Understanding the tax environment in Serbia requires gathering pieces of information from a number of different laws, regulations and bylaws, each of which regulates corporate income tax, personal income tax, value-added tax, property tax and tax procedures. The

tax environment is significant for foreign investment issues not just because of the impact of the tax level itself, but also because the complexity of tax procedures plays an important role in determining the quality of the tax system and its influence on business activities. According to the World Bank's 'Doing Business Report' for 2015, which examines 189 economies across the globe, Serbia experienced a decline in tax payment, dropping from 161st place for its tax system and receipt of taxes to 165th place.

The corporate profit tax in Serbia is still among the lowest in Europe. The corporate tax rate has had a variety of different levels during the last 15 years of transition. The corporate tax rate in Serbia hit a record low in 2005, when it was at 10 percent, and hit a record high in 2013 at 15 percent. The tax subjects that the tax code regulates are those companies that are resident in the Republic of Serbia, regardless of whether they make their income inside or outside of the country. Those non-resident companies located or doing business in Serbia pay taxes only on their income derived from revenues in Serbia. One example is the case of foreign representative offices in Serbia, which may not derive profits from their activities in the country. A company qualifies for a 10-year tax exemption if it invests RSD 1 billion (approximately €9 million) of its own fixed assets in the country and if it employs at least 100 new workers during the period of this investment.

Graph 5. A comparison of corporate income tax rates in the region (%),⁹⁰ 2015



⁸⁹ Article 13 of the same Regulations states precisely defined criteria for the evaluation of investment projects in terms of defining the level of incentive.

⁹⁰ The source of such data is the Ernst & Young Corporate Tax Guide report, available at <http://www.ey.com/GL/en/Services/Tax/Worldwide-Corporate-Tax-Guide---Country-list>. Accessed: 10th June 2017

There are some special tax relief programmes for hiring new employees. According to the *Personal Income Tax Law* and the *Law on Compulsory Social Security Contributions*, companies may be partially exempted from paying the salary tax and employer social security contributions for newly employed individuals and disabled persons under the conditions specifically mentioned in the legislation.

Serbia has a complicated payroll tax regime. The system regulating taxes on payroll is quite complicated and not well understood by foreign companies; thus, it hinders the state from achieving proper tax rates and

collections from foreign companies, and deters the work of foreign companies in Serbia. Such foreign companies are forced to use a system that is not compatible with those found in the rest of the world, so companies find it difficult to integrate it into their existing accounting and auditing procedures. The Serbian system is robust, with several steps required in calculating the obligations of the employer toward the state and its employees. Below is a detailed summary of the taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as the administrative burden in paying such taxes.

Table 2: The structure of the payroll tax system in Serbia⁹¹

Type of tax or mandatory contribution	Payments (Number)	Notes on payments	Time (hours) to completion	Statutory tax rate	Tax base	Total tax rate (% of profit)
Social security – employer	4	Can be made online	106	17.90%	Gross salaries	20.19%
Corporate income tax	12		48	15%	Taxable profits	16.02%
Property tax	4		0	0.40%	Property value	1.91%
Property transfer tax	1			2.50%	Sale price	1.52%
Environmental tax	1			Flat rate RSD 306	Tons of waste	0.03%
Other municipality charges	12			Variable	Various	0%
Employee paid – social security and personal income tax	0	Jointly		19.90%	Gross salaries	0%
Construction land development fee	1			Variable	Square metre of useful land for construction	0%
Value-added tax (VAT)	7	Can be made online	90	20%	Additional value	0%
Total:	42	-	244	-	-	-

Serbia has made paying taxes easier for companies by introducing an electronic system for filing and paying VAT and social security contributions, as well as by abolishing the urban land usage fee that was previously levied on companies.

7.3.4 Labour regulations

There is a new institutional framework related to labour. The new Labour Law was introduced in July 2014, with the main aim of making the labour market more efficient

⁹¹The source of such data is the 'Doing Business Report', available at <http://www.doingbusiness.org/data/exploreeconomies/serbia/paying-taxes/>. Accessed: 10th June 2017

and flexible. The final version of the Law was a result of wide consultation among government actors, ministries, socio-economic councils, employers, other business syndicates and the EU. The new Labour Law was passed on 27 July 2014.

The calculation of severances owed and previous work has changed. The most important changes brought by the new Labour Law relate to the calculation of severance owed and the calculation of previous work (which is now calculated at one's current firm, as opposed to the previous method of calculation, which took the total working years at all the previous firms into account). Also, the new Labour Law decreased the level of severances owed by employers to employees related to their retirement down from three to two times their monthly wage, and increased the allowed time for employees working on set time contracts (not subject to all severance rules and other regulations) from one to two years now. Furthermore, the new Labour Law provides for more employer flexibility for the cancellation of employee contracts and outlines more realistic demands in the process of creating collective contracts and negotiating with unions.

The new Labour Law is characterised by enhanced flexibility. The new Labour Law introduces flexible workforce contracts, such as part-time and distance working, by defining a company's and employee's obligations and rights in such areas. The Law assumes full equality among new and traditional workforce contracts. The Law introduces some new technical and electronic mechanisms for employee payroll as well, and improves on the ease with which employees can collect paychecks. Also, employees are now better protected against non-payment by the introduction of faster procedures for accepting the employer's debt and creating an efficient collections mechanism.

7.3.5 Land-related issues

The main problem during the transition process related to land regulations. One of the biggest problems in Serbia during the process of transition was the question of land and the possibility of purchasing and renting it, which, at the time, was unclear (for the domestic population, but especially for foreign investors). The process was difficult because of non-regulated ownership and the process of restitution. Exacerbating this, illegal construction was almost a tradition during the 1990s, making infrastructure hard to develop and increasing difficulties in the process of

real estate or industry project development.

Land usage in the privatization process is complicated.

The main difficulty related to land during the privatization process was the existence of two possibilities: (1) if the land was in private hands, then an investor could buy it and obtain a license for using it if the basic regulative standards were met; and (2) if the land was offered to an investor as state-owned land that went together with a state-owned enterprise, in most cases it could not be sold, but it could be rented on a 99-year lease basis, because the law did not allow the selling of state-owned land. If the investor bought a state-owned enterprise, he could be the owner of the building on the land, but could not then lease it as well. This was quite disturbing for foreign investors, especially those looking for value through long-term investment in real estate. Along with this, additional problems arose when the Law on Restitution came into effect, which effectively reversed the course for some land rights after the privatization process had already been under way for several years and several million square metres of land already sold. An additional layer to these issues was the fact that the procedures, the number of documents and days needed to obtain licences for developing real estate projects were all burdensome and inefficient.

Strong changes in the regulatory mechanisms were ushered in with the new laws related to land use.

The *Planning and Construction Law* was introduced in December 2014 with the main objective of making state procedures to obtain licences for real estate projects far more efficient. With the new law, the state reduced the number of documents required to implement a real estate project, as well as the number of days needed to begin and the taxes to be paid during the real estate investment process – all of which aim to influence GDP movements in years to come. According to the *Planning and Construction Law*, the state will organize the process of document collection, so that real estate investors will not be obliged to appear in person before all of the various ministries, public authorities and local offices where permits or other submissions are required. In this way, the state will be increasing the efficiency of public officials by giving them a time frame to work with when the necessary documents need to be presented. The process of obtaining licences will be organized in one place, where investors will receive all the documents, from the beginning to the end of the project.

There is a need for foreign investors to be able to purchase land for agricultural production, but they are not yet allowed to. A major impediment to increased foreign investment in the agriculture sector is the fact

that foreign investors will not be able to buy land through foreign companies until 2017. However, if a foreign company opens a company with joint ownership with a Serbian one, it could purchase agricultural land.⁹²

7.3.6 Competition policies: rules and institutions

At the end of 2014, the establishment of the Commission for Protection of Competition was completed, with the Commission appointing a new President and four members for the Commission's Council.

The establishment of regulatory mechanisms. In 2005, the Law on the Protection of Competitiveness was brought to fruition as part of the institutional framework of improvements by which regulatory mechanisms for competitiveness were introduced and implemented. The main aim of the regulations is to develop a methodology by which a state body can measure the concentration of ownership among producers within a single sector. With better quality measurements, it is possible to make more accurate assumptions related to the main market players' behaviour within particular industry sectors and to better assess their influence on demand, supply and the price of goods.

Regulatory bodies. The Commission for the Protection of Competition holds a central role and has a mandate to analyse the market positions of certain sector players and their influence on market movements. The Commission is also obliged to give opinions on merger and acquisition processes if the concentration among sector players changes. If foreign or domestic market players want to merge or acquire one another, they require approval from the Commission before a contract is signed. Without an approved opinion and a signed contract, a newly merged or acquired company cannot be established and fully operational. In this process, the Commission acts as an independent institution with the obligation to provide directly to the Assembly a report on the competitive aspects of the proposed deal.

Positive developments. The Commission has made progress on rule-making procedures and enforcement by clarifying the existing competition rules regulating binding proposals, as well as by improving relations between competitors in public procurement proceedings.

The absence of public support. The Commission still does not have a strong public support for its mandate, due to the unclear position of the institution (and the power that it might have) within the broader system of public administration. Although most of the Commission's decisions are entirely public, not all of the relevant second-instance court rulings on the Commission's decisions are publicly available, which influences the transparency of the entire process.

7.3.7 Trade agreements

Trade agreements with Serbia provide free export to a market of one billion people. Serbia can serve as a manufacturing hub for duty-free exports to a market of more than one billion people, which includes those countries in its proximity with which it has strong trade ties, including the European Union, the Russian Federation, the United States, Kazakhstan, Turkey, Southeast Europe, the European Free Trade Agreement members and Belarus. The customs-free regimes that Serbia maintains cover most of the key industrial products, with only a few exceptions, and annual quotas are kept for a limited number of goods.

The European Union relationship. In 2008, Serbia signed and ratified the Stabilization and Association Agreement (SAA) with the European Union. The Agreement with the EU established a free trade area within six years of the SAA coming into effect. At the end of 2000, the EU gave a preferential status to Serbia and lifted customs duties for the majority of products imported from Serbia. As of the date when the Trade Agreement came into effect, many other customs duties, quantity and other restrictions on import of goods from Serbia into the EU were lifted. Some export limitations are imposed only on exports of beef, sugar and wine in the form of annual export quotas.

The Central European Free Trade Agreement (CEFTA). The CEFTA is a free trade agreement among Serbia, Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro and UNMIK in Kosovo. The CEFTA as a whole represents a market with approximately 30 million people. The CEFTA has been in effect since May 2007, and it stipulates the introduction of free trade zones across the region. The CEFTA also stipulates the cancellation of quantity limitations on certain goods and the cancellation of all export customs duties (and agreement to not enact new ones), while the current levels of import duties will not be increased (and new agreements will not be enacted).

⁹² The Law on Agricultural Land states that a foreign person or a foreign company is not eligible to own agricultural land (Article 1), but companies founded in Serbia with 100 percent foreign capital are (and have been since 2006). So, foreign investors seem to be able to buy agricultural land through their companies founded in Serbia.

The European Free Trade Association (EFTA). Industrial products exported from Serbia to EFTA member states (including Switzerland, Norway, Iceland and Liechtenstein) are exempted from customs duties, except for a very limited number of goods, including fish and other marine products. Customs duties for the import of industrial products originating in EFTA states will gradually be abolished, so that no such customs duties will be paid by entities from these member states that export to and sell in Serbia. Additionally, trade in agricultural products is regulated by separate agreements with each EFTA member, which make mutual concessions for specific products.

The United States of America. Trade with the United States is pursued under the Generalized System of Preferences (GSP). US trade benefits provide for a preferential duty-free entry for approximately 4,650 products on a cleared list, including most finished and semi-finished goods and selected agricultural and primary industrial products. Certain sensitive goods (for example, most textile products, leather goods and footwear) are not eligible for classification as duty-free exports. The list of eligible goods is reviewed and adjusted twice per year, with input from US industry representatives.

The Russian Federation. The Republic of Serbia is the only state outside the Commonwealth of Independent States (CIS) that has an active free trade agreement with Russia, thus enabling Serbia a privileged access to a major global market of over 140 million people. The free trade agreement with Russia stipulates that goods produced in Serbia (which have at least 51 percent value added composition in their production in Serbia) are considered to be of Serbian origin and can be exported to the Russian Federation customs-free. The list of products that are excluded from the free trade agreement with Russia and that cannot be exported under such preferences is revised annually. As of March 2012, the list of excluded products included poultry and other food products considered edible waste, some sorts of cheese, sugar, sparkling wine, ethyl-alcohol products, tobacco, cotton yarn and fabrics, some types of compressors, tractors and new and used passenger cars.

Turkey. Serbia and Turkey signed a free trade agreement in June 2009. The free trade agreement with Turkey allows for the implementation of a model of asymmetric trade liberalization that favours the Serbian side. Among other sectors, the agriculture sector in Serbia is especially protected by and benefits from this agreement. Turkey is a market with 75 million inhabitants, so it offers a great

opportunity for Serbian exports. Companies from Serbia can export to Turkey without paying customs duties, and imports of industrial products from Turkey to Serbia are generally customs-free as well; however, certain customs duties remain in effect for agricultural products exported and imported between the two countries.

Belarus. The free trade agreement between Serbia and Belarus was signed on 31 March 2009, and its provisional implementation started immediately upon its execution, though it has not yet come fully into force, as it must first pass all the necessary adoption and action procedures in both countries. The free trade agreement with Belarus was made for a period of five years, with the option that, after that date, there will be a possibility of automatic renewal if neither party shows a wish to terminate the agreement. There are only a few exceptions to the agreement, for goods that cannot be exported and imported duty-free, such as sugar, alcohol, cigarettes, used cars, buses and tyres.

Kazakhstan. The free trade agreement with Kazakhstan went into effect in 2011. The list of free trade exemptions for goods includes meat, cheese, wine, motor vehicles and several other product groups.

7.3.8 Free zones - special economic zones

According to the Free Zones Administration at the Serbian Ministry of Finance, "free trade zones" are defined as fenced-off and marked parts of Serbia's territory where business activities are carried out with certain benefits bestowed on the businesses involved, such as preferential customs treatment, tax relief and/or simplified administrative procedures. Free zones represent highly developed centres of technology, telecommunications, modern infrastructure and logistic support, and provide a good example of the type of high technology industries Serbia can be engaging with. Currently, 14 free zones are operating in various locations throughout Serbia.

The main benefits of doing business in free zones in Serbia include:⁹³

- fiscal benefits (including exemptions from any tax burden for FDI, as well as special VAT reductions and other specific local tax benefits),
- exemption from customs duties restrictions on the import of goods, equipment and raw materials used in exporting production and in the construction material for building infrastructure,

⁹³ *The Law on Free Zones*, The Official Gazette of the Republic of Serbia, no. 62/2006.

- financial benefits (including free cash flow),
- efficient administration (through the provision of a one-stop shop),
- simple and fast customs procedures (as each zone has its own Customs Administration Office to facilitate its companies' dealings with customs regimes),
- local subsidies for using the free zone infrastructure (and with the community offering low prices and service costs to such investors),
- a set of services available to investor users under preferential terms (including those related to transportation, loading, reloading, freight forwarding services, insurance and banking services),
- VAT is not owed for goods that are necessary and imported for performing business activities, and for which the taxpayer would have had a prior tax deduction in those instances where the company needs to provide the goods for its own operational needs in an area that is outside of the zone,
- VAT is not owed for providing free zone users with transport and other services that are directly related to carrying goods to and from the free zones for the purpose of performing business activities.
- Businesses benefit from the general conveniences of VAT exemptions, which include:
 - o for goods temporarily imported within the customs procedures and actively refined with a business's storing system,
 - o for goods temporarily imported and exported that remain in an unchanged condition,
 - o for goods where the processing procedure was previously approved under customs control,
 - o for goods where the storing procedure was previously approved under customs control,
 - o for goods exempted from paying customs duties and dues, on the basis of the Law on Customs Duties.
- Businesses get the spill-over benefits of the VAT-exempted services to free zone users, including:
 - o free zone area tenancy, which includes open and closed storage areas, areas for performing

- production and areas for office activities,
- o services for the loading, reloading and unloading of goods,
- o the international transport of goods intended for import and export,
- o other intermediary services.

7.3.9 Public-private partnership regulations

The initial step in forming a system for public-private partnerships in Serbia was taken with the adoption of the Law on Public-private Partnership and Concessions in 2011. Along with this, the Law on Public Utilities, the Law on Public Properties and the Law on Public Procurement, the institutional framework to allow public-private partnerships, was finally adopted and adjusted in a cohesive manner.

The establishment of the Public-Private Partnership Commission. The Public-Private Partnership (PPP) Commission was designed to become the central body involved and tasked with the process of improving and encouraging private-public partnerships in the country, with the aim of issuing approvals of and opinions for particular projects, so that they could be realized. According to publicly available data, 27 projects have been approved by the PPP Commission so far.

7.3.10 Conclusion

The diaspora was not explicitly mentioned in the Law on Investments in Serbia. Decisions regarding foreign investments in Serbia should be made based on the type of the investment, not the ethnicity. Diaspora investment should be fostered on a developmental level, where it should receive subsidies for development and a long-term set of goals. One thing missing is the special role the diaspora plays on the local level. A special procedure is

THE WINNER IN SOUTHEAST EUROPE: THE FREE TRADE ZONE IN PIROT, SERBIA

In 2014, in the Pirot free trade zone 113 tenants enjoyed a range of benefits. The zone offers excellent infrastructure conditions for its investors, with a logistics centre that was completed last year and enables companies to move goods via road and rail. The success of the Pirot free trade zone led to its receiving a commendation in this year's Global Free Zone awards for infrastructure development. The construction of the Pan European Corridor 10, which will connect Belgrade to Istanbul, is a mere 300 metres from the Pirot free zone. The zone also recently expanded its free zone area by up to 400 hectares, which improved its links to the highway infrastructure. Its tenants benefit from tax holidays of 10 years when an investment exceeds €8.5 million and job creation surpasses 100 work posts.

needed for making it easier for the diaspora to invest (not only donate, but implement an investment) at the local level in infrastructure development and public-private partnerships. The potential released will be a significant development opportunity for areas endangered by three processes: a high level of population that emigrated abroad; no interest among foreign investors in the area; and no financial capacities of the local municipality to work alone.

7.4 DIASPORA INVESTMENT-RELATED ISSUES

7.4.1 The lack of information and offer from the local level

Some explain the lack of information from cities and municipalities regarding investment opportunities through personal interests and corruption, as evidenced by informal relations keeping their place on centre stage. The Law on Municipalities⁹⁴ gave cities and municipalities a great deal of autonomy. National institutions could only find a common ground and cooperate with local municipalities, and it was often only possible if the same political party was in power on the local level and on the national level. These relations were so complex and complicated that many significant initiatives were abandoned because there were no ways of guaranteeing the cooperation of the local actors until the end of the process. Mr. Krivokuća described several absurd situations occurring with important investors from the diaspora when negotiations were conducted on the local level. The local officials acted more as private businessmen than as public servants dedicated to their community. The situation has significantly changed in the last couple of years, but a successful system and means of control have not been developed yet.

Others argue that the lack of information comes from low human capital on the local level. Local officials and bureaucrats do not have the capacity and knowledge to work with the local businesses and map all the potentials and opportunities for investment. There is a strong need for a specialized national actor to train and develop human capital on the local level in business planning for public interest, public-private partnerships and private sector development.

Most investors from the diaspora stress the lack of information about the investment potential and all the regulative requirements for starting a business and having

a successful investment. The business diaspora gathers information by contacting the local Serbian embassy or consulate, the CCIS, the DfD, the OLED, LOfD or directly all the institutions that they assume can assist them in their business attempt aimed at Serbia. The second approach is to contact their family and friends in the home country, to gather the needed information. Finally, diaspora investors contract law firms and contract them to analyse and prepare all the documentation required, and even assess their investment proposal.

There is a significant difference between those who left the country a long time ago, and others, who are living very much connected to their homeland, travelling and keeping their social connections alive. The former are no different from foreign investors in their understanding of the market, and the latter understand the market and know how to reach the information they need as domestic businessmen do. In-between, there is a large segment of diaspora businessmen who do not have the time for all the bureaucratic obstacles and leave everything to a hired law firm that manages all their investment issues. However, the first step when it comes to informing the business diaspora about the investment potential, business environment and all the opportunities on the local level needs to be presented in an active and dynamic way (efficient, effective and engaging). Mr. Mandić, a part of the Serbian diaspora in the South African Republic (SAR) and a member of the Business Council for the Diaspora of the CCIS, came to Serbia and asked what there was for their businesses to invest in Serbia. Whatever is a profitable and smart investment, he could find a buyer from SAR. But there is no investment database with projects and all the potential offers.

7.4.1.1 The first attempt – Vukman’s investment promotion database

The first attempt to map the local potential for the benefit of diaspora investors came from a programme developed at the MfD.⁹⁵ The programme “*Investment opportunities in the cities and municipalities of Serbia*” was presented in 2010 by the Minister for the Diaspora, Mr. Srdjan Srečković at the National Assembly of the Republic of Serbia. The man behind this programme was Assistant Minister Mr. Vukman Krivokuća. His idea was to map all the cities and municipalities in Serbia, and engage them in developing a common database with investment opportunities. The city and municipality officials were responsible for working with the business community and identifying the potential projects that could be offered to diaspora investors. Every

⁹⁴ The Law on Municipalities 2007, and 2014.

⁹⁵ See the information recorded on the DVD: “Investment opportunities in the cities and municipalities of Serbia”.

city included information about itself, such as the location, population and employed and unemployed workforce, gross domestic product, land area and agricultural land area, the local municipality contact person for diaspora investors and contact information. The database also included a short description of the local community and municipality. Finally, all the cities and municipalities presented project proposals for the diaspora.

All of the above information was recorded on a DVD presentation with the intention of distributing the DVD to the diaspora around the world. The DVD also included information about the MfD, its work and leading projects implemented in cooperation with the diaspora. The DVD contained information and stories of successful investments as examples of good practice. It also included the Law on Investment in Serbia, the Law on the Diaspora, information about free economic zones and even about the successful patents developed by Serbian scientists abroad. A special section was dedicated to the Serbian tourist offer targeting the diaspora. The information was grouped in three sections: the industry sectors, the area of technology and investors' interest.

The MfD did not include a wider spectre of national actors in the implementation of the programme and went ahead with it alone. Local municipalities and city officials did not understand the diaspora's needs adequately, so the proposed projects were mostly badly defined or completely irrelevant for credible investors. In some cases, local municipality officials privileged and proposed projects because of their close cooperation with the project or property/business owners, and not because of the local municipality needs. There successful cooperation with the local municipalities during the programme implementation was rare and diaspora investors encountered many problems on the local level.

7.4.1.2 The second attempt – the “Diaspora, Hire Serbia” programme

The second attempt to implement a business diaspora engagement programme was initiated in 2013 by the Government Office for Cooperation with the Diaspora and Serbs in the Region.

The primary goal of the project was to build trust between the diaspora and its home country, develop modern communication channels and develop a favourable environment for diaspora investment. The GOfD set up a special subsite with web pages dedicated specially to diaspora investors, in which the role was played by the

local municipalities. The goal of this portal was to unite, in terms of cooperation and efficiency, national and local institutions in their diaspora investment engagement.

The project included identifying a contact person (liaison officer) in local municipalities who was authorized to provide all the information required by diaspora investors. The liaison officer was needed to: 1. gather information from the relevant institutions regarding the investment potential and primary projects of the local municipality; 2. update the data regarding their municipality on the subsite of the GOfD and on the website of the local diaspora office; 3. inform the relevant local institutions about the investment and business development inquiries from the diaspora; and also to support those institutions in their fulfilment of these duties; 4. develop and constantly update the local database of successful business diaspora of local origin and about their projects implemented in the hometown; and about all the problems they encounter while investing and developing their business initiatives in Serbia. As was the case with the previous programme by the MfD, this one too was divided into three segments: industry sectors, investors' interests and the type of investment.

The network of local liaison officers was not developed, although this was tried. The human capital at the local level was not up to the task. Local municipality officials did not see much interest in the programme. Some municipalities were privileged when it came to actual engagement. Others criticized these privileges based on contacts and not on successful practices. In the end, the programme was cancelled when the GOfD was restructured into the DfD and become a part of the MFA of the Republic of Serbia.

7.4.1.3 The third initiative

7.4.1.3.1 Radovanović's “DHO Cooperation System”

The initial change came from the CCIS in 2015, when a new Business Council for the Diaspora, a new programme towards business diaspora and new cooperation with institutions were proposed and initiated.

The new approach by the Business Council for the Diaspora of the CCIS urged closer cooperation with the relevant institutions and government bodies needed for diaspora investments and business development. Many of the new members of the Business Council for the Diaspora coming from these institutions and bodies became very active and showed how this cooperation

could be functional on the ad hoc level (during the Council meetings), but in many cases also in terms of individual approaches afterwards. The idea about active and dynamic cooperation between the stakeholder institutions was discussed. Working closely with the UNDP in 2016, the Head of the Centre for the Diaspora initiated a project for setting up a special entity inside the Centre for the Diaspora that would make communication with the business diaspora much more efficient for both sides. The goal was to set up a system that would provide all the needed information to the business diaspora regarding the investment and regulatory needs. On the part of the CCIS, a fast and efficient response represents a potential diaspora investor in Serbia. While developing the concept, a special consultative process was implemented. In this consultative process, a representative of the CCIS had meetings with representatives of other institutions that engage the diaspora. The goal was to find a common ground for cooperation and make the business diaspora engagement more efficient. The idea came from the new Business Council for the Diaspora of the CCIS, as it included in the new programme from 2015 membership of representative stakeholder institutions and Government agencies that are approached by the diaspora or needed for their successful informing. The new approach would include a direct engagement of all of the members of the Business Council for the Diaspora of the CCIS on a regular basis by the new contact point inside the Centre for the Diaspora, the DHO – Investment Information Point. At the annual meeting of the Business Council for the Diaspora on December 26, 2016, the DHO model was presented to all the members of the Council and the guests. The next step is to develop its full programme and pilot the DHO.

7.4.1.3.2 Kemiveš's "IPAS"

Looking at the investment needs from another perspective – the perspective of all foreign investors regardless of whether from the diaspora or foreign direct investment, special advisor to the President of the CCIS Mr. Aleksandar Kemiveš developed with his team an investment promotion database draft model called the IPAS (*"The Investment Project Application System"*) in 2016. This draft model includes all the elements that the previous diaspora promotion programmes included, from the sectoral approach to the local municipality engagement, now by the CCIS. The CCIS has regional offices throughout Serbia and the capacity to develop human capital at the local level through a special programme implemented. Another innovative approach from this draft model will be a special mechanism which will screen all projects depending on their credibility, capital volume and capacity for

development. This mechanism will compensate for the lack of human capital on the local level, while also training local officials on how to train local project proposal-makers. The projects included in the IPAS database would be promoted by the CCIS's mission to diaspora host countries during special events organized abroad.

7.4.2 Bureaucracy and regulation on the local level

Many local municipalities are not specifically trained to manage fast-track cooperation with donors and investors, and especially not with the diaspora. However, the diaspora is one of the most important potential partners for many local municipalities especially in the lagging regions. Approaching local municipalities as home towns (Petrikić, Todorović, and Smiljanić) or regions (Čolić and Milanović), they encounter various bureaucratic bottlenecks that prevent them from freely investing at the local level.

In his research, Rapačić (2015) found that the role and attitude of the highest official in the local municipality is invaluable for a successful business-friendly environment and investment. The need for more trained officials and mid-level bureaucrats is important for providing information and opportunities in an adequate way. The national system of coordination and cooperation of key actors is important to support and monitor the process, so that it could be most effective, bypassing all bottlenecks during diaspora investments. Lastly, the diaspora promotion of local opportunities and projects is very important for direct contact and the credibility of national actors (the CCIS, the SDA and MFA).

Diaspora investors and their philanthropic initiatives often face problems regarding local procedures that indirectly block development. The misalignment of regulations and legal procedures is connected to potential corruptive acts on the local level. Mr. Petrikić explained that even though he wanted to invest in the renovation of the local town hall building's façade, he was denied this possibility. The procedure calls for a public procurement open call, giving rights to another company to realize the infrastructure job. There are many similar examples. One of the access points that the diaspora found was by going through the fast procedure implemented for projects of national interest that allows special measures. However, there are many projects the diaspora could implement in developing the local infrastructure and capacities if there were more practical solutions. Not only that this situation when the diaspora offers help sometimes becomes absurd, as no

one else would renovate the above-mentioned building, but another issue surfaces in other case studies. It is not a rare situation that local municipality governments grant these public projects to companies with which individuals from the municipal government have "close ties". Donors from the diaspora know this and feel offended, partly used and partly robbed. This potential corruptive act and a context in which the procedures are legal but not legitimate significantly hinders any initiative from the diaspora to invest in their home towns. The diaspora investor and donor cannot be privileged in comparison with anybody else, be it a domestic company and investor, a foreign investor or any other actor in a similar position. However, a special kind of procedure on the local level that makes the process more efficient, transparent and cooperative would build trust and confidence within the diaspora, and bring about a herd behaviour effect in supporting local infrastructure, public-private, and logistics development.

The system on the local level is crude and not adjustable to diaspora donors and infrastructure investors. Mr. Krivokuća also points to the lack of logic in many projects proposed by local municipalities, by which the municipalities offer projects that are completely philanthropic. Very rarely

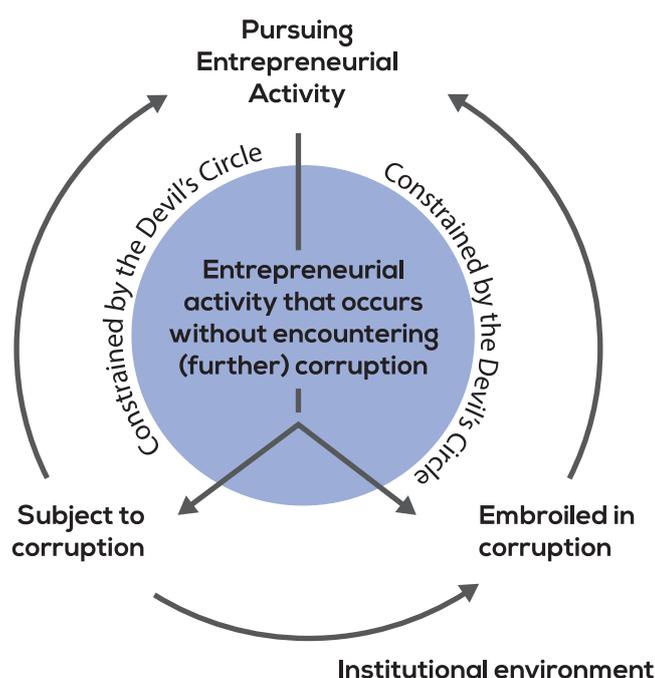
does a municipality offer a prospective joint venture to the business diaspora. A special training in diaspora engagement is clearly needed for managing their investments in local development.

7.4.3 The business and academic environment

The former Minister for the Diaspora Mr. Srečković stated at the Economic Council of the Diaspora Assembly: "The problems occurring in diaspora investment could be classified as follows: lack of information about the investment potential, the local municipality capacity, lack of transparency, a slow bureaucracy that privileges some and blocks others (procedural inequality) and administrative bottlenecks."

Researchers from Sheffield University have analysed the business environment in Serbia and the region, and have devised a concept called the "Devil's Circle". The Devil's Circle maps all the problems investors and entrepreneurs face while developing their business in Balkan countries.

Figure 1. The dynamics of the Devil's Circle: curtailing entrepreneurial scale and perpetuating corruption⁹⁶



⁹⁶ Taken from In the Balkans, investors operate within a devil's circle.

According to this model, investors cannot break out of the 'Devil's Circle' in which they are forced to engage in corrupt practices themselves if they are to get anything done.⁹⁷ Vorley and Williams argue that, in many transition and post-conflict environments, the nature of corruption is systemic and permeates many spheres of everyday life. "It ranges from petty bureaucratic corruption to the more organized corruption in the upper echelons of big business and politics, and undermines productivity and governance. For entrepreneurs trying to establish themselves across the Balkans, corruption has become an aspect of their business activities that needs to be considered and managed if they are to survive, let alone grow."

Unfortunately, when we look at the problem from the perspective of the diaspora, all of these problems occur even more often. On the one hand, diaspora investors have a first mover position in knowing the language, community and being able to understand the social and business dynamics much faster than foreigners, especially the ones who invest in their home towns. On the other hand, corruptive pressure and exploitation of diaspora investors investing in their home towns is the same, if not even more pronounced than in the case of foreigners. The information bias about diaspora investment prevents us from establishing a clear correlation between these two figures. However, the existing problems send a significant signal to other investors from the diaspora, namely, that Serbia is still not a place where even its diaspora's capital is safe. The experience of the MfD while implementing the programme "The Investment Opportunities of Cities and Municipalities of Serbia", showed that the process was very challenging. As the Head of the Business Sector of the MfD, Mr. Vukman Krivokuća headed the implementation of the "Investment Opportunities in the Cities and Municipalities of Serbia" programme. Based on his experience in managing more than twenty investment negotiations, he argues that a better communication between the national actors approached by the diaspora and local municipalities is needed. It is not rare that a municipality unprepared for diaspora investors treats them as a lucrative source of private interest and not as a developmental actor.

In our interviews and research, we found two key problems pointed out by the officials interviewed, the bottlenecks on the local level (potential racketeering in the second phase of the investment process, manifested as direct corruption – asking for money; and indirect corruption – ignoring the investor through irrational time expansion and documentation-related demands) and project

proposals that are a clear case of public-private corruptive cooperation.

There is a great potential for diaspora investors in helping the national institutions fight corruption. As we have already mentioned, individuals from the diaspora are the first movers. As the first movers, they have the motive to invest, donate and develop business in their home country even when other foreign investors do not and are worried about corruption. Moreover, the diaspora's success could result in the herd effect, motivating foreign investors to invest following their good example. A special programme implemented by the key national actors engaging the business diaspora could identify all the bottlenecks as they occur in practice and help change the investment environment. The much-needed transparency coming from a joint activity of the key stakeholders supporting the diaspora in their developmental role on the local level may bring about the necessary change that will then spill over to the whole market and the local institutions. The diaspora could play a significant role in breaking through the Devil's Circle in Serbia.

There has been scarce research of transnational activities of representatives of the academic and professional diaspora in the context of examining the transformation of brain drain into brain gain and brain circulation (Pavlov and Polovina 2011; Predojević-Despić 2011). The key findings are that, in spite of the good intentions among the academic and professional diaspora, there is a low level of transnational professional activities leading to brain gain and brain circulation in Serbia. The reasons for this lie primarily in the difficult socio-economic circumstances and a lack of state incentives, on the one hand, but also in the exclusiveness of the academic and professional community in Serbia.

Not only does the diaspora need to develop programmes aimed at Serbia, but also has to fund them, as Serbia is a poor country (and in every poor country with weak institutions, when money is awarded to a wider audience, it is always dominantly directed – leading to corrosive development or potential corruption) and to "find access" to the academic community (universities, faculties, institutes and the academia), as they are also full of inadequate human resources and fall into three groups: 1. those who are open to learning, including new methodologies and equipment; 2. those who declaratively want cooperation because of the money and visibility, but potentially will misuse the projects; and 3. those who ignore the need for innovation (they either isolate themselves or even go further, institutionally blocking others, jealous of the money they would potentially receive).

⁹⁷ See: In the Balkans, investors operate within a devil's circle.

7.4.4 Conclusion

Chart 7. Local-national-global human capital needs



The previous experiences of the MfD reveal substantial elements and needs for a successful solution. This experience points to the 4 key needs for a successful solution: the need for a coordinated system for efficient informing of the diaspora about all the investment requirements; the need for a better mapping of the investment potential; coordination between the key stakeholders on training Serbian citizens and preparing adequate projects for the business diaspora; and the need for a more transparent approach by and to local municipalities. Current initiatives for institutional

cooperation go through the DHO office coordination (the Radovanović initiative) and a multilevel mapping of investment opportunities offered to the business diaspora and training offered on the local level (the Kemiveš initiative). We named the proposed solution the "*Radovanović-Kemiveš proposal*" as it learns from the previous experiences of the MfD/GOfD and moves four steps further up the ladder, developing a hybrid solution. This solution includes specific cooperation between national institutions and local municipalities, as well as the whole foreign investment playing field.

8. INSTITUTIONAL FRAMEWORK OF INVESTMENT PROMOTION

THE LEGAL FRAMEWORK OF THE DIASPORA POLICY CONSISTS OF:

- the Constitution of the Republic of Serbia (2006),
- the Declaration (from 2006) and the Law on the Diaspora and Serbs in the Region (from 2009),
- the Strategy of Migration Management (from 2009), and
- the Strategy for the Preservation and Enhancement of Relations between the Homeland and the Diaspora and between the Homeland and Serbs in the Region (2011).

These legal documents paved the way for engaging the diaspora in different areas, from culture, education, legal status, language learning, fostering diaspora organizations and their cooperation with the homeland, to developing business cooperation between the diaspora and the home country. The Strategy from 2011 opened the possibility for engaging the diaspora for the purpose of knowledge transfer, learning from the scientific diaspora and transforming the home country. However, the action plan for each of these areas has not been developed.

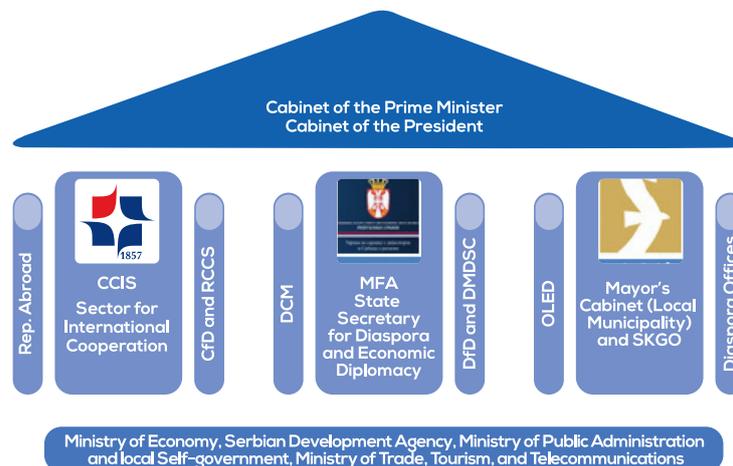
Lacking a strategic approach, national institutions, however, loudly voice the view that the future of the country is based on how to connect and coordinate the institutions (government support), business (capital)

and the universities (knowledge) in order to make a competitive economy. This is the most important role set before the diaspora in all public statements by government officials.

8.1 DIASPORA-SPECIFIC INSTITUTIONS

The Law on the Diaspora does not identify any Government institution with an exceptional jurisdiction over the diaspora. There is no specific approach to the diaspora, such as a political, social, legal or cultural one. Institutions have defined internal jurisdiction and programmes, focusing on their area of interest. Diaspora engagement programmes in Serbia exist from the local level to the national level, with different degrees of success. These institutions and programmes are completely separate from one another, to the point that one institution initiates a programme without knowing that another one worked on the same or similar programme years ago. Regarding the investment framework, there is a set of institutions which, although they do not have any authority over investment promotion or business cooperation development, have developed a number of programmes that have de facto created a very diverse eco-system in the sphere of diaspora business engagement. The lack of a formal policy, strategic programmes and mutual cooperation among these institutions and actors from the local to the national level is why this effect is not more visible and very successful. We will present the key institutional actors in this area: the MFA, the Chamber of Commerce and Industry of Serbia, the National Assembly, the Diaspora Assembly and the leading local municipality office dealing with the diaspora, the City of Niš Office for Cooperation with the Diaspora.

Figure 2. Key National Pillars of Diaspora Engagement



8.1.1 From the Ministry for the Diaspora to Directorate of the Ministry of Foreign Affairs

8.1.1.1 The Ministry for the Diaspora (MfD)

The Ministry for the Diaspora was founded in 2004. It was the result of a joint initiative by the Serbian diaspora from North America, Australia and Europe. Among the most important legacies of the MfD were the Law on the Diaspora (2009), the Strategy on Engaging the Diaspora (2011), the multimedia catalogue "Investment Opportunities in the Cities and Municipalities of Serbia" (2010) and the setting up an annual open call for projects in different areas for developing cooperation between the diaspora and the home country. Every year, around seventy co-financing projects are approved. The information channel created towards diaspora organizations by the MfD and further developed by the government office and directorate is a very significant resource, with an important potential use for fostering business and academic gatherings in the diaspora. The Business Sector of the MfD was and still is one of the Serbia's most experienced segments regarding the diaspora investment process, from the potential to all the problems likely to occur. In 2007, headed by the State Secretary at the Ministry for Diaspora, Professor Jovan Filipović, local diaspora offices were established inside the regional chambers of commerce. The offices were intended to become "little ministries for diaspora" focusing on the regional and local level. These offices haven't produced results regarding the goals set, but professor Filipović showed through this initiative the importance of working towards the diaspora from the local level, and through regional business entities, such as the chamber of commerce.

In August 2012, the newly appointed government transformed the MfD into the Government Office for Cooperation with the Diaspora and Serbs in the Region (GOfD). After a strong, programme-diverse (two large diaspora conferences about business and tourism; the initiative for a diaspora development bank; the initiative for a diaspora branding programme; engaging diaspora investors and developing a special programme for engaging diaspora investors "Diaspora, Hire Serbia") and engaging period, however, with not very successful accomplishments (not necessarily only because of the Directorate's fault), the government office was again

demoted and transformed into a Directorate for the Diaspora of the Ministry of Foreign Affairs.

8.1.1.2 The Directorate for Cooperation with the Diaspora and Serbs in the Region

The Directorate for Cooperation with the Diaspora and Serbs in the Region has kept all the logistics in terms of the human capital (around 20 employees working on the same administrative duties as in the Ministry and the government office) and infrastructure the MfD and the government office had before it. The information sector and the business sector are still very active. Its programme jurisdiction has remained the same: *"to provide technical services for the Government and relevant ministries related to the monitoring of the status of Serbian nationals living outside the Republic of Serbia; to support the process of improving the conditions for the exercise of voting rights; and to help in the preservation and development of the national and cultural identity of the Serbian people outside Serbia"*. The open call for projects from diaspora organizations was clearly differentiated based on sectors, so that the projects and their impact on the sectoral level could be more easily quantified and analyzed.⁹⁸ The digitalization and information portal keeping contact with the diaspora through diaspora organizations is a very important and growing role of the Directorate. Ms. Nikolina Milatović-Popović stresses how digital diaspora programmes and connections will bring a new quality to the Directorate's practice. Mr. Zvonko Šošević has worked on this agenda for nearly a decade.⁹⁹ The diaspora research potential of the Directorate is invaluable. The key problem for the institution continues. At the end of 2016, there is still no appointed director of the DfD. This keeps many initiatives at their starting point.

8.1.1.2.1 The Diaspora Assembly, the Economic Council

The leading diaspora institution involved in diaspora-related issues is the Assembly of the Diaspora and Serbs in the Region, consisting of the Economic Council, the Council for Status Issues and the Council for Cultural, Educational, Sport and Scientific Cooperation. The Diaspora Assembly was constituted in July 2010. There were three sessions held until the end of 2016. The Assembly represents diaspora interests before the Government and meets regularly on the Day of the Diaspora, June 28th. The Assembly, coordinating diaspora issues, consists of 45 delegates. Besides that, the delegates are elected by their

⁹⁸ Interview with Ms. Nikolina Milatović-Popović.

⁹⁹ See: Economic Guidebook for the Diaspora, The Official Gazette of the Republic of Serbia.

migrant communities from countries and regions with a large Serbian diaspora, various governmental institutions (the Government, business, church and the media) and participate in the work of the Assembly. The Diaspora Assembly is the leading diaspora representative body.¹⁰⁰

The Economic Council's mandate is to gather all influential business members of the Diaspora Assembly, to develop a common strategy for business engagement aimed at Serbia and policy proposals for the Government of Serbia to make diaspora investments more successful. The Diaspora Assembly has not been in session from 2013 due to political reasons.

8.1.1.3 The Ministry of Foreign Affairs of the Republic of Serbia

The main institution responsible for cooperation with the diaspora in Serbia is the Ministry of Foreign Affairs.¹⁰² The MFA has two appointed State Secretaries responsible for the business diaspora, the State Secretary responsible for cooperation with the diaspora, and the State Secretary responsible for economic diplomacy. The two positions are relatively new (2016) and special programmes for both are currently being developed.¹⁰³ The State Secretary for cooperation with the diaspora has jurisdiction over the Sector for Consular Affairs and the DfD.

The MFA, before even integrating with the DfD, had its own mandate to work with the diaspora. Through diplomatic missions, the Ministry provided assistance in fostering the diaspora's national and cultural identity, education and information in Serbian. The Ministry also encouraged the diaspora to intensify their contacts and relations with

Serbia, and continually promoted economic, scientific and cultural ties, as well as those in the fields of information, sports and other common links. Overlapping is evident, but their own special roles, different from one another, are also important.

The Directorate for Migration Policy, Diaspora and Social Contracts has long been the only address at the MFA responsible for the diaspora. As one of its four jurisdictions, the Directorate is responsible for: *"Fostering relations with Serbian citizens living and working abroad, especially in the area of cultural and spiritual identity, as well as developing the organizational capacities and content of diaspora organizations belonging to Serbian citizens around the world"*.¹⁰⁴ The significant support this Directorate provides to diaspora business club development, presiding over the Zurich Summit and participation in the Business Council for the Diaspora of the CCIS is derived from this responsibility.

As a member of the Business Council of the CCIS, the Directorate's Director, HE Dr. Ljiljana Nikšić played an invaluable role in changing the state approach to the business diaspora. A new programme was set, focusing on sectors, as well as on business and academia synergy. A result of this was the formal and logistic support to the Association of Serbian Businessmen in Switzerland in organizing the Global Zurich Summit, discussed in more detail in section 4.1. The Directorate has played a significant role in backing the Summit ever since. HE Ljiljana Nikšić stresses that political will is needed for a more significant integration of actors and institutional activities and programmes aimed at the business and academic diaspora. Until then, every institution works

THE DIASPORA ASSEMBLY'S EFFECTIVENESS

Even while heading the Economic Council, Mr. Rodivoj Petrikić himself had a lot of problems and open issues when trying to invest and manage infrastructure projects in his home place Jabukovac, in Eastern Serbia. There was not any single mechanism of institutional cooperation and coordination with the local municipalities. Whatever was decided on the national level was not very relevant on the local level, as the Law on Municipalities¹⁰¹ provided a broad scope of autonomy to local municipal governments. The Economic Council could not meet regularly, as the Diaspora Assembly has not been in session for several years. The decision made during the third Diaspora Assembly meeting, to hold electronic conferences while the Assembly was not in session, has not been implemented. The Council has been informally dissolved without any concrete results. The business diaspora was yet again disappointed.

¹⁰⁰ The Law on Diaspora and Serbs in the Region, <http://www.djaspورا.gov.rs/wp-content/uploads/2014/04/LAW-on-diaspora-and-Serbs-in-the-Region.pdf> Accessed: 10th June 2017

¹⁰¹ The Law on Local Municipalities, <http://www.mduls.gov.rs/doc/dokumenta/Zakon%20o%20lokalnoj%20samoupravi.pdf>. Accessed: 10th June 2017

¹⁰² See <http://www.mfa.gov.rs/sr/index.php/konzulami-poslovi/djaspورا/djaspورا-opste?lang=lat>. Accessed: 10th June 2017

¹⁰³ Interview with Mr. Branko Lazić, Chief of Cabinet of the State Secretary responsible for the diaspora at MFA.

¹⁰⁴ From the official website: www.mfa.gov.rs/sr/index.php/o-ministarstvu/organizacione-jedinice/konzulami-poslovi?lang=cyr. Accessed: 10th June 2017

separately and under its own jurisdiction.¹⁰⁵ These separate programmes and activities aimed at the diaspora co-exist based on a division of responsibilities, and sometimes they overlap. The integrated approach and synergy are realized through the initiatives of their officials. Although it is the oldest entity in the Republic of Serbia with jurisdiction over the diaspora, its activities aimed at business and academic migration have been developed in the previous three years.

8.1.2 The National Assembly of the Republic of Serbia, the Diaspora Board

A special board of the National Assembly deals with cooperation with the diaspora. Its role, besides regular meetings with the business diaspora, is to propose cooperation and initiate business events and study trips. A representative of the Diaspora Board is a member of the Business Council for the Diaspora of the CCIS. The monitoring role and the role of providing initiatives coming from the Diaspora Board of the National Assembly are its key contributions to the diaspora engagement institutional eco-system.

8.1.3 From the Centre for Diaspora (CfD) of CCIS to the CfD-DHO System

The Centre for the Diaspora was established by the Serbian Chamber of Commerce to be a mediator between the Serbian economy and Serbia's diaspora. The main goal of the Centre is to involve the Serbian diaspora and to give them a more significant place within the Serbian economy as a potential investor in various sectors. The initial effort made by the Centre was related to the registration of the current diaspora investors in Serbia, either through Serbian subsidiary entities of foreign companies or thorough direct investment. Unfortunately, this attempt failed because the current legislation does not give state officials the opportunity to ask investors about their extended country of origin (to determine whether they are Serbian or from the region, and whether their investment can be classified as a diaspora investment). Besides, most diaspora investors use foreign passports during the business registration process because of the possible protection these passports can provide under the laws of their home countries, enabling the investor to call upon the foreign embassy in the event of problems with the

Serbian state.

The Centre is working on transforming the current Council for the Diaspora, trying to create instead a more efficient body that will represent actual diaspora investors rather than be comprised of non-investors but still focused on diaspora investment issues. Such a revived council will have two roles: first, it will make suggestions and recommendations to state representatives regarding the conditions for obtaining more investment; second, it will promote prospective sectors that are well-positioned for diaspora investment and attention.

The Centre for the Diaspora of the CCIS has supported the development of the *Global Centre of Alumni for Knowledge Transfer and Development*. Members of the Business Council for the Diaspora of the CCIS, as alumni of the leading world universities such as Cambridge, Sorbonne, the LSE, Descartes, Bocconi, Oxford, the College of Europe, to name but a few, created an entity that will serve as a networking system for engaging the scientific and business diaspora in projects aimed at Serbia. The goal is to work in all the countries where the ever-expanding network of alumni live and develop their professional careers, and create an educated, professional and active pool of successful individuals who are interested in working on developmental projects in their area of expertise. The Global Centre of Alumni was registered as a legal entity at the beginning of 2016, under the auspices of the CCIS. It currently develops its branches in several countries in the world. The coordinator for the academic sector of the Global Centre of Alumni will moderate the academic panel of the Zurich Global Summit in 2017.

8.1.3.1 The Business Council for the Diaspora of the CCIS

The Business Council for the Diaspora of the CCIS was founded in July 2002.¹⁰⁶ The first Council had twenty members, ten from the diaspora and ten from Serbian institutions and the private sector. The Business Council was a forum organized annually on the premises of the CCIS. Representatives of the CCIS and Serbian institutions presented the state of the Serbian economy, market trends and project proposals. Diaspora representatives asked state representatives about the pressing issues for doing business in Serbia and presented future business projects. In June 2015, the Business Council was re-structured,¹⁰⁷ with a new sectoral approach to the diaspora,

¹⁰⁵ Interview with HE Dr Ljiljana Nikšić, Head of the Directorate for Migration policy, Diaspora, and Social Contacts.

¹⁰⁶ For more information, see www.srpskadjaspora.info/u-privrednoj-komori-srbije-juce-osnovan-poslovnj-savet-pks/. Accessed: 10th June 2017

¹⁰⁷ For more information, see www.pks.rs/Vesti.aspx?IDVestiDogadjaji=18237. Accessed: 10th June 2017

a new team of forty-seven members from the diaspora, including a mixed team of previous members, new diaspora businessmen and young professionals highly connected internationally through the leading colleges they graduated from and their professional activities. From this point on, the MFA, through the Director of the Directorate for Migration Policies, the Diaspora and Social Contracts actively engaged the business diaspora, and a special synergy between the CCIS and the MFA was developed, the two institutions acting together when dealing with the diaspora. The new Business Council programme was a result of the work of two individuals, the future Head of the Centre for the Diaspora of the CCIS and the Director of the Directorate for Migration Policy, the Diaspora and Social Contracts. The first result of the preparations for a Business Council meeting was the founding of the Global Centre of Alumni for Knowledge Transfer and Development, which included all the young professionals encompassed by the new Business Council of the CCIS and opened the door for alumni of the leading colleges from abroad to join through projects and business and academic initiatives aimed at Serbia. The second result, the inclusion in the Summit in Zurich, was a direct result of the preparations for the first meeting in 2015.

8.1.4 Local diaspora offices – the City of Niš

When it comes to the diaspora, municipalities in Serbia, in their local strategies for development, recognize the diaspora as a resource for local development and the local economy. A very limited number of municipalities have implemented this strategic goal and developed cooperation with the diaspora. There are 25 offices for the diaspora as parts of local municipalities in Serbia. Although local offices for the diaspora exist, local government bodies randomly establish cooperation with the diaspora

in Serbia. Many of these local offices are empty shells, with ordinary bureaucratic officers not accustomed to dealing with diaspora-related issues, and with no capacity whatsoever to work actively or to fulfil diaspora-specific needs before the local officials and institutions. Most of the local diaspora offices transfer their jurisdiction when it comes to diaspora businessmen and investment inquiries to the Office for Local Economic Development and Projects or the municipal government itself. However, there are also successful cases in which all these local offices cooperate effectively dealing with investors, especially those from the diaspora. The Office for the Diaspora of the City of Niš is one such example.

The City of Niš is the second largest city in Serbia. It has a large diaspora abroad. The initiative for setting up the local office for the diaspora came from a returnee from Chicago, the United States. The local office was created in 2012.¹⁰⁸ The formal support came from the Director of the Government Office for the Diaspora. There were strong ties between the national and the local office at the beginning of its work. The programme was mostly focused on cultural and legislative issues, while transferring business and investment issues to specialized sectors of the local municipality dealing with FDI, as well as to the Office for Local Economic Development. The local Niš office has implemented many projects with and for citizens living abroad originating from the local area, thus contributing to its specific local identity and needs.

The role of the individual. – Notwithstanding all the impediments and the lack of institutional programmes aimed at the diaspora, the individuals managing the office, as in the previous two cases, have brought a specific quality and standards, now on the local level. The office's projects are similar to those of the former GofD, but with a local and regional focus. Projects range from culture to education and business connections promotion. The

LOCAL INVESTMENT COORDINATION: DIASPORA-OLEDP-SDA

Diaspora investment engagement is not an official policy or programme. The office deals with individual initiatives coming from the diaspora itself and connects them to the right local or national address. According to Ms. Vujanac, the former Director of the Office for the Diaspora (currently on maternity leave), when diaspora businessmen inquire about the information needed for investing in Niš, she either helps them with the relevant information, or if it is a more complex issue, consults with the Office for Local Economic Development and Projects (OLEDP). If necessary, the Office for Local Economic Development takes over a diaspora investor and informs the Serbian Development Agency (SDA) about the potential investor, and the potential investor about the support offered by the SDA.

¹⁰⁸ For more information, see www.djasporanis.com. Accessed: 10th June 2017

Niš office closely cooperates with other sectors on the municipal level, but not actively or programme-based with the DfD. Ms. Stela Jovanović, the Director of the Local Office for Economic Development and Projects, has described the relations between various local actors as cooperative and complementary.

8.1.5 Informal relations vs. developing a system

The role of the individual. – Left to themselves, the bureaucrats engaging and communicating with the diaspora develop informal relations, and pressured by politics from above, they create their own work environment, in which they rarely cooperate with other actors targeting the diaspora. There is no clear mid-term or long-term strategy or approach, and accordingly, no resources and space intended for developing programmes with the diaspora. Not one developmental process exists, only plans for activities with no clearly defined steps. These plans either target an abstract diaspora (with no clear perception of its specific identity and potential, or ways of engagement) and become unsustainable, or use informal individual networks; they are nice visually, but cannot bring about the desired effect, let alone a change. The lack of a clear vision brings the whole environment into a context in which individuals are always invited ad hoc to attend events, and every event basically turns into networking with no clear goal ahead. Without these individuals who foster these processes, there would not be even this level of engagement. Individuals from different institutions targeting the diaspora need to learn to work together and learn from each other's experiences, mistakes and proposals. Their role is very important for fostering the process of change and steering the diaspora engagement in the right (or wrong) direction. Institutions need to cooperate closely, so that these individuals could work together and support each other's successful initiatives.

The lack of programme-based work and focus on reacting to the diaspora, channelling the diaspora to other relevant institutions and sectors, and the lack of a mid-term and long-term approach, all confirm that although we have the Law on the Diaspora, declarations on the diaspora's importance, as well as active cooperation with the diaspora, the state and its institutions actually do not make a distinction between the diaspora and any other foreigner. The only exception is when the diaspora members rely on their Serbian citizenship and inquire about their rights and opportunities. There is a declarative attitude on the part of institutions that the diaspora is important for Serbia's development, but no single institution has developed a

mid-term or a long-term programme for harnessing the diaspora's potential.

8.1.6 Conclusion

From the empirical overview of the human resources-based approach to the diaspora, we can identify a high level of the *diaspora discourse* in the DfD and a high level of the *transnationalism discourse* in the CCIS. Business is the easiest topic for channelling cooperation and initiatives towards the home country, followed by education. These two areas intersect at the product development level, where knowledge transfer and knowledge competitiveness are recognized as very important. Both, however, still do not know how to channel initiatives and develop linkages towards adequate institutions.

Serbia has developed a diverse institutional eco-system for engaging the diaspora. This system goes from the global level, through the internal policies of the MFA for supporting the business grouping of the diaspora, giving them an active support by the diplomats and consuls in the host countries. Sometimes even state officials and high-ranking ministry officials come to show support for diaspora business associations in their founding and early phases. The support is manifested in open calls offered to diaspora organizations in the sections specifically dedicated to co-financing projects that foster diaspora business cooperation. On the national level, all the leading institutions have frameworks for engaging the diaspora, even though they, too, do not have a public strategy for this area. The National Assembly has a special Assembly Board for the diaspora, where they formally receive businessmen from the diaspora and representatives of diaspora organizations. The Board supports strongly the work of the DfD and the Business Council for the Diaspora of the CCIS. The MFA manages the DfD and has two state secretaries who are directly focused on the business diaspora, the State Secretary in charge of diaspora issues and the State Secretary in charge of economic diplomacy.

Due lack of financial resources and problems occurring through overlapping actions the institutions need to cooperate much more closely in their individual and common programmes. This cooperation will provide the diaspora institutional eco-system more space to work in, as well as horizontal and vertical connectivity (horizontal: among national institutions; vertical: from embassies to local municipalities). A balanced and cooperative programme is needed for levelling the institutional system in the most effective way.

8.2 THE INSTITUTIONAL FRAMEWORK SURROUNDING ALL INVESTMENT PROMOTION

8.2.1 The Serbian Development Agency

The Serbian Development Agency (SDA) is a new institution, created as a state agency by the Ministry of Economy, on the experience and existence of the former institutions in that area, including the Serbian Investment and Export Promotion Agency and the National Agency for Regional Development. It was created to provide a wide range of services on behalf of the government, including support for direct investments and export promotion, and takes the lead in the implementation of projects aimed at improving Serbia's competitiveness and reputation in order to support economic and regional development.

The Serbian Development Agency's role is to secure the full support to foreign and domestic investors who are willing to found local companies that will produce goods and provide services. The Agency will provide all the necessary information to investors regarding complying with the national and local regulations, taking advantage of the available support programmes and obtaining fast responses from the national and local authorities regarding potential investments and government permission. The agency runs a complete process for the management of foreign investment, from the initial contact to providing information about regulations on programmes that provide benefits for foreign investors, such as the subsidies available for new jobs created.

The agency also supports SME's and entrepreneurship through the government's initiative entitled "The Year of Entrepreneurship". This programme supports the internationalization of companies, entrepreneurs and clusters involved in the production, processing or services that may be subject to international trade (and thus require the oversight or involvement of the government). The total budget earmarked for grant beneficiaries under this programme is 90 million RSD (or approximately €731.6 thousand). The available funds are approved as co-financing, which will help finance up to 70% of project costs, excluding VAT. Funds are awarded in an amount up to 1,000,000 RSD (or approximately €8.1 thousand) for recipients that are companies or entrepreneurs and depending on the type activity. For 'cluster' or other joint initiatives or projects, the available funds range up to 2,000,000 RSD (or approximately €16.3 thousand). The programme also provides stimulus

funds and grants for participation in business fairs up to 1,000,000 RSD (or approximately €8,100). The funds will be refunded to the company or recipient upon the completion of the project and submission of reports and evidence of completed activities. Thus, the programme will last until all the funds are distributed to the intended beneficiaries.

The funds from this programme are intended for a variety of activities: new product design and packaging; improvement of the existing technology and development of new technological processes; improving the existing products and developing new products for the domestic and foreign markets; testing new products; participation in international fairs abroad that highlight Serbian businesses; and testing in foreign markets.

8.2.2 Serbian Development Fund programmes

The Serbian Development Fund is a government body established to organize credit activities and use state budget resources to create conditions that are more favourable than those offered on the market. The Fund has several programmes that support the development of business activities, starting with investment loans, entrepreneurial loans, short-term loans (for liquidity guarantees) and reprogramming credit lines.

With its credit activity, the Serbian Development Fund is trying to fulfil its main goals, as defined in *The Law on the Serbian Development Fund*:¹⁰⁹

- providing business incentives to business entities and entrepreneurs in the Republic of Serbia,
- providing incentives for job creation,
- providing incentives for manufacturing,
- providing incentives for sustainable and comprehensive development.

The right to apply for the Serbian Development Fund's assistance is generally restricted to those business entities classified as 'micro' businesses, though small, medium-sized and large companies that are registered in Serbia and that have submitted their financial statements for the previous two years, provided no losses were incurred (except in the case of entrepreneurs and agricultural households) are also eligible to apply:

- business entities that are in private or state-owned majority ownership, except for public enterprises,

¹⁰⁹ *The Law on the Serbian Development Fund*, The Official Gazette of Republic of Serbia, nos. 36/2009, 88/2010, 119/2012 and 5/2015.

- businesses/entities with less than 40 percent participation of socially-owned capital.

In order to achieve these goals, the Serbian Development Fund offers the following types of loans:

For micro, small and medium-sized and large companies:

- investment loans would be approved with a maturity date of up to 10 years, for which the grace period is up to one year. The annual interest rate is 1.5 percent if the collateral is a bank warranty; otherwise, the interest rate is 3 percent (with a foreign exchange clause);
- loans for working capital would be approved with a maturity date of up to 4 years, for which the grace period is up to nine months. The annual interest rate is 1.5 percent if the collateral is a bank warranty; otherwise, the interest rate is 3 percent (with a foreign exchange clause).

For entrepreneurs:

- investment loans would be for projects lasting up to seven years, with a one-year grace period,
- working capital loans would be approved with a maturity date of up to five years, with a nine-month grace period,
- The annual interest rate on both would be 1.5 percent if the collateral is a bank warranty; otherwise, the interest rate would be 3 percent (with a foreign exchange clause).

Short-term loans:

- for stimulating the competitiveness and liquidity of areas of the domestic economy, loans would have a maturity date of three to 12 months, with an interest rate of 2.5 percent (with a foreign exchange clause).

Loans to micro, small, medium-sized and large companies, for maintaining current liquidity:

- Loans for maintaining the current liquidity of companies would have a maturity date of up to 18 months, with a grace period of up to three months. Annual interest rates would be 2% if the collateral is warranty of the bank; otherwise, the interest rate would be 3.5% yearly (with a foreign exchange clause).

Start-up loans:

- The right to apply for funds earmarked for start-ups (in the form of start-up loans) require that the entrepreneurs and/or business entities be registered at the Serbian Business Registry Agency no later than in the year before the submission of a request for the loan. The loan

would be approved with a maturity of up to five years, with a grace period of up to one year. Annual interest rates would be 1.5 percent if the collateral is warranty of the bank; otherwise, the interest rate would be 3 percent yearly (with a foreign exchange clause).

Warranties:

- SDF provides warranties for loans and other business operations of the SME's
- Warranty fee is 2% annually of the amount of funds guaranteed

Total amount of funds available through SDA and SDF are in total about EUR140 million. Public Invitations for application for these funds are re-published every year.

8.2.3 The Innovation Fund

The Innovation Fund is a programme of support developed for advising and financing early-stage private, micro and small enterprises that possess a technological innovation with the potential for the creation of new intellectual property (IP) in the country. It is implemented through the 'mini-grants programme'.

The sole purpose of the mini-grants programme is to stimulate the creation of innovative enterprises based on knowledge creation and enhancement through private sector start-ups or through spin-offs by providing financing for market-oriented and innovative technologies and services with a high potential for commercialization. The projects selected must be completed within 12 months and can include any fields in science and technology and the industrial sectors. The applicant must come from the private sector, be a micro or small enterprise, and must be incorporated in Serbia for no longer than two years at the time of the application, and the majority of the applicant's business ownership must be domestic (Serbian).

Another programme that was developed by the Innovation Fund is the 'matching grants programme'. The goal behind the matching grants programme is to form or expand collaboration opportunities for Serbian innovative micro, small and medium-sized enterprises with the best potential strategic partners in their sector or industry (e.g. other private industrial companies, research & development organizations and venture capital/private equity funds). The matching grants programme is designed to help companies struggling to address the significant financial investments that are associated with the development cycle of a company and the high cost of translating research into a commercially viable product.

Additionally, the Innovation Fund, through the Technology Transfer Office, provides commercialization support to academic and non-academic research & development institutions and private sector companies. This support consists of providing funding to select innovative projects coming from the public academic research & development institutions in the company. This financial support can be expected to be around €10,000 per project, and the funds must be used to purchase goods and services that would boost the project's commercial potential.

8.2.4 The Science Technology Park & Business Technology Incubator of the Technical Faculties in Belgrade

The Science Technology Park was established by the Ministry of Education and Technology Development, the City of Belgrade and the University of Belgrade as a suitable environment for developing stronger connections between industry and research institutions. This initiative was supported by Switzerland development program (SECO) from its inception phase at the Technical Faculties of the University of Belgrade. The aim of the Park is to provide channels for knowledge transfers, technology development, commercialization of innovative activities and other tools for spurring the development of a knowledge-based economy in Serbia.

Within the Technology Park, the Business Technology Incubator of the Technological Faculties was established in 2008, with the main aim of encouraging the establishment of businesses among young, well-educated people in the field of high technology. The Business Technology Incubator provides help for early-stage start-ups and business development through its office and research facilities, and with technological and telecommunication infrastructure, along with administrative assistance and other business counselling. To date, 300 young entrepreneurs have registered for the Business Technology Incubator programme, 25 of whom are experts from abroad. In 2014, 70 percent of the revenues from established businesses came from export, so it is anticipated that the Business Technology Incubator will help to develop linkages and systems for early-stage Serbian businesses and entrepreneurs looking to export their products as well.

8.2.5 Conclusion

Serbia has a diverse eco-system for fostering innovation and technology transfer. There is either a developed programme or a successful evolution of every institution that supports foreign investment and business development. Financial

constraints are holding back many of the opportunities from being realized. There is a clear lack of cooperation between the entities. Moreover, not one of them has developed a special programme for the diaspora, although during the interviews all of them mentioned that they would be delighted to cooperate, especially with overachievers and successful businesses from the diaspora. Developing several programmes or socially responsible project proposals would show the actors the new developmental role and possible cooperation with the diaspora in a broad-ranging and individual interest.

9. THE MAIN CONCLUSIONS

The overlap of responsibilities between state institutions makes procedures complicated and burdensome. Over the past several years, the main problem with attracting foreign investors to Serbia has been the inefficient systems of decision making and controls that apply to foreign investors, and a lack of complete information on FDI activity that would enable the government to better measure the effects of the state's promotional activities. The current system of overlapping responsibilities creates huge delays and discourages foreign investor activity, as it can take many days for foreign investors to receive even an answer to a simple question.

The country needs an adjusted system for FDI promotion and attraction. Over the past two years, the government has begun implementing a new strategy through which it will increase the efficiency of state institutions related to foreign investment. The main idea for these changes is to create a central place to offer complete services to foreign investors, starting with the promotion and attraction of FDI, assistance with lobbying and complying with legislative issues, and applying for incentives. The goal will be to have one place where all the relevant information and assistance will be available to investors, and where all the required procedures will be clearly organized so that investors can have their questions answered quickly and receive the support that they need. The CCIS-DHO-Investment Centre will have a specific role regarding the Business Council for the Diaspora of the CCIS, and the coordination of special support for the business diaspora and its special needs while doing business and investing at home. The CCIS-DHO-Investment Centre will address diaspora-specific issues and coordinate its work with the SDA on the complete scope of foreign investments.

The cooperation and coordination between various actors engaging the diaspora need to be developed. The goal is to achieve efficient and effective use of resources, the human capital and to be more effective in bringing results

in diaspora engagement. One more goal is to address the diaspora in constant capacity, and with no downturns affected by the elections, change in the office and departmental problems. The CCIS, the MFA/DfD, the SDA and the local diaspora offices need to develop a system of active communication and programme coordination when approaching the diaspora. Internal coordination will allow for an easier diaspora mapping and monitoring. A special approach can be organized, aiming at the diaspora business associations abroad, to foster a more active and developmental approach on their part to the home country. Looking at the local level, joint cooperation with the local municipalities will empower local officials to actively work on investment project proposals and initiatives with the local private and public sector.

The lack of a specialized programme targeting diaspora investment ignores a huge potential sector for inbound foreign investment. The institutions that are currently tasked by law with providing administrative and financial support to foreign investors do not differentiate between foreign investors and diaspora investments. Currently, no tailored programme targets the diaspora investment community and the increasing diaspora investment, although there is a great potential in capitalizing on the already known inroads and interest in diaspora investment. The government programmes for FDI are open to diaspora investors as well, but no official data are being tracked on FDI from diaspora members, and thus there is no way that the government can capitalize on the diaspora investment opportunity. The government should leverage the current transformation process to create additional programmes tailored to diaspora investments. The solution could be found in the special types of diaspora investments. The diaspora investments and investors should not be positively discriminated by the government because of ethnic origin, but because of the special ways in which diaspora investors differ from foreign investors, in ways that bring development and special opportunities for the local communities. We identified several types of diaspora investments and their contributions. Specialized programmes should be focused on these positive effects for the Serbian economy, and not on individuals based on their passports.

Learning from successful cases and practices of the New Serbian Argonauts. The key for developing the domestic market and a market-focused educational system is not top-down, but bottom-up. The potential Serbian diaspora model of developmental engagement needs to learn from the current experiences of DDI in Serbia and develop a mosaic of diaspora developmental engagement. Based on these individual successful cases, and from foreign top-down experiences in harnessing the diaspora human capital for

private sector development, a Serbian strategy and model of academia-business-institutions could be developed, but with the diaspora as a permanent knowledge pipeline.

Understanding and empirically testing the diaspora's potential. A dialogue between the state and the diaspora has been initiated and managed very differently for thirty years. The MfD was the result of the diaspora's engagement, and the conference "Serbia and the Diaspora" was the result of a state institution's engagement. The mutual testing through popular sentences about a mutual need and potential never got a step further, except through initiatives undertaken by brave and visionary individuals. There is a need for a concrete programme implemented by the state and its national business association, the CCIS, which will test in practice all the diaspora potential, including export promotion, branding, investment promotion, tourism promotion and bringing businesses closer. The empirical examples delivered could bring a strong spill-over effect.

9.1 CONCLUSIONS AND RECOMMENDATIONS

- 1. Diaspora investment mapping.** The mapping of diaspora investments through the national database is impossible without a substantial bias. Diaspora investors have every right to be treated the same, and to choose through which nationality (passport) they would like to enter the Serbian market. Only in small communities can this mapping take place more efficiently, implemented through a special programme. The Moldavian model of HTA development can serve as a good example. A better option than trying to quantify diaspora investors is to analyse the diaspora investment diversity, developmental approach and successful cases. The thing that sets the diaspora apart from foreign investors is their motive and possible incentives. The diaspora can be engaged for the purpose of investing in development. At different levels, the diaspora is connected to its place of origin. The state and the local municipalities can develop a series of incentives and engagement programmes for the diaspora. Map diaspora business clubs, and evaluate their activities, and potentials for program cooperation.
- 2. Control for diversity.** Understanding the diaspora diversity will allow the state and the local municipalities to target different diaspora actors through different policies and investment projects. Remittances are the best example of the need to differentiate between the diaspora motive and potential. Target small investment projects in Germany, Austria and Switzerland. Target local infrastructure projects from every poor area, such as Eastern Serbia, which has a strong diaspora.

3. Control for institutional experience. A lot of experience has been gathered during the previous sixteen years of engaging the business diaspora. Brilliant initiatives, inadequate responses from both sides, privileging individuals, making diaspora middlemen and failing several times. The policy makers and the decision makers could learn more from the failed cases and approaches in the Serbian context than from foreign practices. Control the inadequate (in terms of numbers and institutional experience) human capital addressing the topic in the institutions, so that it does not become a repetitive experience that would even further disappoint the diaspora. The institutional and policy failures strongly affect the diaspora, as the diaspora is developing a stereotyped view of Serbian corruption and incapability. A political consensus in Serbia is needed to professionalize and empower the approach to the diaspora with strong knowledge of its every aspect and issue, to show the diaspora that Serbia means business.

4. Incentivizing companies of chance. The Law on Subsidies is primarily focused on companies of quantity – the companies that hire a large number of employees, or expand their number in a significant degree. It does provide a narrow space for companies of chance, as we have shown above. The proposal for the SDA is to adjust the policy on subsidies by including a segment for chance company development by the diaspora. There is a need for a quantitative analysis for DDI spill-over effects and mapping all the differences occurring. Use the best empirical practices for the academia and local municipality cooperation for developmental models. Following Dani Rodrik, the self-discovery process in Serbia is strongly affected not by the existing public sector and the Government planning, but by the individual, brave and long-term planning of the Serbian Argonauts. The public policy should be directed towards enabling these companies, and many more, as an open, safe, productive environment, to come back and develop Serbia and its new private sector. Subsidies should be based on possessing value-added production and connected knowledge transfer programmes aimed at universities; training students and young professionals, and organizing special case studies; equipping faculties with instruments and space for work with Argonaut companies; and expansion through including highly-qualified personnel and the best and brightest graduates from the universities.

5. Balance laissez-faire and regional and developmental strategic needs. The Government and the SDA need to balance the willingness of the diaspora to invest where they like (self-discovery) and receive subsidies for their developmental investment, but also to

strategically advise the diaspora on all the positive impacts the investment could receive if modified to suit the development needs and potential at the regional level (university future cooperation, employment). The diaspora does not include as many parameters as FDI experts do when investing (except the larger ones).

6. Financial support for scientific alumni clubs and networks. All scientific clubs and networks represent the biggest knowledge-based surplus value Serbia has. By becoming members of these alumni network, their motive is partly professional and partly emotional concerning their former faculties and home country. The same processes that have inspired each and every one of them to go abroad and develop their capacities and knowledge to the fullest degree possible could bring them back home again, participating in knowledge transfer programmes or through Argonaut companies. This return need not be physical but through their knowledge transfer.

7. Develop efficient remittance transfers and engagement programmes. Assess leading foreign remittance transfer mechanisms, develop a special programme of re-directing small investments, and make the process cheaper and developmental based on comprehensive local development programs. Numerous conferences (especially the high-level one in 2010) and proposals for investment programmes (everyone calling other interested parties to do something) did not have any impact because they did not include all the actors needed: the host country, the diaspora, national actors, local actors and banks in one programme. A joint programme will bring substantial results because it will affect the social instrument (re-direct remittances) and the financial focus of the instrument. Cooperate with host countries on developing a coordinated programme which will engage the diaspora in an adequate way. Offer different financial support mechanisms for local investment. Promote the successful practices at home and in the diaspora to bring about the herd behaviour effect. The programs developed need to be comprehensive and need to have program and motive channels: individual and collective (for directing individual and collective remittances). The programs need to include actors from local, regional, national, to international level (host countries and embassies). The programs need to target comprehensive local development but offer individual opportunities. A successful story needs to be targeted and not a social survival. Nobody will be motivated by social survival before going himself abroad.

8. The Radovanović cooperation initiative. The Serbian practice in engaging the diaspora needs to move beyond the weak institutional context (a chronic lack

of finances, specialized employees focused especially on engaging the diaspora, supporting events and institutional cooperation). An integral framework allowing for the cumulative action, efficiency and success of all the institutional actors from embassies to local municipalities would be an important step forward. After the UNDP negotiation process with all the institutions targeting the diaspora, establish the Diaspora Home Office – Investment Centre. Its role will be to provide the diaspora with all the information needed for investing in Serbia or to direct them to an adequate address. The DHO would cooperate with a series of institutional members of the Business Council for the Diaspora of the CCIS, the SDA, ministries and other stakeholders to allow for a fast, efficient and dynamic reaction to the diaspora in a horizontal and vertical national system. As opposed to other proposals for centralizing the diaspora investment management, this proposal argues that the best solution is to centralize the information point, the DHO, but to decentralize and actively include different actors in the process of diaspora investment engagement. This will bring about the necessary transparency, monitoring and cooperation for overcoming all the potential bottlenecks that usually develop when concentrating all authority within one institution. The CCIS-DHO will also strengthen the work of the local diaspora offices, chronically struggling with finances.

9. The Kemiveš's investment platform initiative. Long-term migration process, from internal migration (to biggest cities), to external migration (moving abroad), have left local municipalities with a serious lack of human capital. The lack of the human capital on the local level is seriously affecting the local capacity to develop business planning programs that would be credible for foreign even diaspora investors. Thus, the biggest problem in communicating with the business diaspora is that the local community doesn't know how to offer opportunities to the diaspora investors. Moreover, MfD, CCIS, and GOfD have shown in practice all the problems and misunderstandings that occur on the local level when implementing a programme of promoting diaspora investment. The CCIS should use previous experiences and initiate a program of cooperation and mapping of local potentials, investment profiles based on market needs, train local officials in how to train local businesses and individuals to develop an open-ended project proposal, and draft the final version of a multilevel investment project database. The institutional part could be implemented through the DHO office, and thus be a part of the Radovanović-Kemiveš proposal, and use all the experience of the Vukman's attempt.

10. Diaspora engagement programme. We have identified only one Strategy of Engaging the Diaspora (MfD,

2011). Several other institutions do not have strategies but have internal policies that give them jurisdiction to take action in engaging the diaspora. The MFA should propose a dynamic engagement programme based on systematic work and results, which will develop a system of active cooperation between all stakeholders when acting abroad. Ms. Vlačić, the owner of All Me Cosmetics, proposed a role for the embassies and the Diaspora in countries where big companies could be targeted for cooperation. There is a need to engage diaspora business associations on the programme level, to show them continuously what is needed from their existing and potential capacities, and to allow them a direct access to state institutions to direct investments and manage foreign ones in a fast and effective way.

11. Eliminate local and national bottlenecks. Allow diaspora pioneers to work with all the national actors together, to eliminate all the existing bottlenecks and issues facing diaspora investors on the local level. The case study of Mr. Radivoj Petrikić's work and similar cases are an important starting point. Using the previous experience of programmes implemented by the MfD and the GOfD would provide an additional perception of the whole matter. The previous knowledge and experiences should be mapped and used while implementing all the new programmes.

12. Access developed and developing markets. There is a huge potential for diaspora business associations to support the exports of Serbian products to foreign markets. Some of diaspora actors are calling for cooperation with the home country, so they could contribute to its development on a pro-business level. Diaspora middlemen will find their place in the most adequate context and allow the diaspora to profile itself based on motives – profit, emotion or development goals. The CCIS should develop a programme of export promotion and branding through the business diaspora.

13. Diaspora bank and bonds. Initiate a representative and substantive debate on a diaspora development bank and diaspora bonds. There have been several strong initiatives towards creating a diaspora development bank. We have identified the key questions that need to be answered through a wide consultative process in the diaspora and in Serbia. The key issues are: state-controlled or diaspora-controlled; money is loaned for developmental projects and small business development, or is it only a regular bank with very low interest rates; the ownership structure; identify a wide set of actors who will initiate and manage this process in a successful way. All these open questions demand an open debate, in the home country and in the diaspora, as well as expert opinion in a representative

format, and new innovative solutions for all the specifics of a diaspora developmental bank. In the end, answer the question: do the diaspora and Serbia need a development or developmental bank? The diaspora bonds debate will follow the diaspora bank debate and its success.

- 14. Integrated diaspora debate.** The story of the diaspora was essentially a Serb diaspora debate. The large potential of the diaspora of other ethnic groups in Serbia has never been addressed. Nor has the cooperation of the diaspora with Serbia. Initiate a debate on new joint ventures, recently conflicting diasporas (Serb, Albanian, Muslim and Hungarian), on a common diaspora business development space. The conflicted political diaspora was one of the key supporters of the ethnic conflict in the former Yugoslavia. All the regions of Serbia where a multi-ethnic community lives are predominantly poor. No foreign investor wants to invest in post-conflict zones, potentially expecting his/her investment to go up in flames. A multi-ethnic approach by diasporas could become a founding block for supporting development in these areas and for leveraging FDI.
- 15. Events in the diaspora.** Developing a CCIS and MFA joint programme for diaspora export and investment promotion and branding. Create annual events in the key countries in the diaspora. Develop a common programme aimed at diaspora business clubs for the purpose of making them more dynamic and programme-based. Re-structure the Business Council for the Diaspora of the CCIS into a three-level entity consisting of: representatives of the diaspora (middlemen), representatives of business clubs and representatives of the diaspora investment and business development stakeholders. Include a coordination role for the DHO inside the Business Council.
- 16. A diaspora development programme.** The diaspora has been very much underestimated in the previous decades. Notwithstanding the financial side, the human capital possessed by the diaspora is invaluable for Serbian private sector development. A special programme needs to be developed to inform the diaspora about the needs, potential and important roles they could play in developing Serbia, from reforming research institutes to educating the young at the universities. This will help develop the quality of the workforce, and thus entrepreneurship and attractiveness for the investors.
- 17. Local infrastructure projects.** The role of the diaspora in financing development and infrastructure projects in their home places is very important. The Ministry of Public Administration and Local Self-Government

needs to discuss these issues with the local municipalities and enable a much easier engagement for the business diaspora, not only to donate but also to implement development activities on the local level.

- 18. Diaspora middlemen.** In the previous twenty years, a great number of people have profiled themselves as dynamic diaspora middlemen. They have a large network of contacts and credibility in the diaspora. However, their role has never been assessed in the right way, and their role is vague, depending on personal motives and incentives. A debate on the role of diaspora middlemen is needed, as is a differentiation of when diaspora middlemen work for the home country's development per se, and when for personal profit and privileges. This will put a spotlight on a segment of the diaspora that needs to be addressed for the purpose of easier cooperation with and engaging the diaspora.
- 19. Developmental paradox.** While institutions, agencies and officials look for solutions and most adequate programmes for bringing university programmes and students closer to the market, diaspora companies that have brought knowledge from abroad actively cooperate with universities and train students and the young for the market are completely ignored. The decision-makers need to look throughout Serbia and identify empirical cases and best practices for local and national business-academia-institution engagement. Propose financing of more developed programmes for knowledge transfer and allow for logistics and infrastructure. A programme directed towards learning foreign experiences in this area could be connected to the same initiative and present both sides of the story, the empirical one and the model one. Develop absorptive capacities on the local level, so that more Argonauts could return and succeed.
- 20. Innovative financial instruments.** The debate about a diaspora development bank and diaspora bonds hides an even bigger potential. There is a wide set of innovative financial instruments and business platforms that could be used for channelling business development and investment from the diaspora to Serbia. One of them is crowdfunding, but there are many more. Diaspora overachievers working in leading finance positions could develop the best options for these potential investment channels, looking from the perspective of global financial processes. The CCIS, the MFA, the Ministry of Finance and the National Bank of Serbia should work together on this subject and its entire potential for channelling investments from the diaspora into Serbia.
- 21. Local office development.** Local diaspora offices have been under strong pressure in the last couple of years. The heads of these offices were either

officials managing several offices and local sectors, and did not care much about the issues the diaspora office covered, except if they had a chance to meet somebody famous from the diaspora. The budget for the offices was very small, so that they could not even plan one trip abroad for leading a business networking project, not to mention anything more.¹¹⁰ Mutual cooperation of the still existing offices, application for projects and funds together, and partnering with the CCIS and the DfD, partnering with local clusters as in Niš, or organizing local business events focusing on diaspora entrepreneurs and investors on a small scale could be some of the ways forward.

22. Sectoral approach to the diaspora. Programmes aimed at applied sciences, tourism and agro production could bring about a game change in Serbia. The potential for these three areas is so strong in the diaspora that their know-how and advice, channelled through special programmes could significantly advance investments from the diaspora into these three areas. The previous meeting with the diaspora, in 2014, never had an

action plan for cooperation, and left an empty space in this area. The former Minister for the Diaspora, now the Secretary of the Association for Tourism at the CCIS, Ms. Milica Čubrilo-Filipović, argues that there is a need to identify the needs of the specific clients in the Serbian diaspora, connect with them and develop a way, together with the government, to promote investment into spas and organic production in Serbia.¹¹¹

23. Attract Argonauts through laws on entrepreneurship.

Use the innovative solutions planned in Latvia, a future law for fostering entrepreneurship, not allowing it to move to neighbourhood countries (such as Bulgaria), which have liberalized the market faster for investment, venture capital and crowdfunding. Serbia is a market competing with other markets. If Serbia does not have innovative solutions in the regulative, institutional and logistics environment, the diaspora as FDI and even domestic companies will move to countries in the neighbourhood so that they could develop more successfully, without financial burdens and much faster.

¹¹⁰ From the interview with Ms. Bojana Pajić-Vujanac, former Director of the Niš Office for the Diaspora.

¹¹¹ From the interview with Ms. Milica Čubrilo-Filipović, former Secretary of the Association for Tourism at the CCIS.

APPENDIXES

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2. Key National Pillars of Diaspora Engagement

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INTERVIEWS

1. Aleksandar Radovanović, Head of the Centre, Centre for Diaspora, CCIS.
2. Aleksandar Kemiveš, Advisor to the President of CCIS; Head of the Section for Strategic Planning and Initiatives, CCIS.

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3. Milica Čubrilo-Filipović, former Minister (2008), Ministry for Diaspora, Republic of Serbia.
 4. Tijana Maljković, Head of the Association, Tourism Association, CCIS.
 5. Jovan Miljković, Serbian Development Agency; advisor at the World Bank Competitiveness and Jobs project aimed to develop new programmes for attracting FDI.
 6. Nikolina Milatović-Popović, Assistant Director, Head of the Information Sector, MFA Directorate for Cooperation with the Diaspora and Serbs in the Region.
 7. Vukman Krivokuća, Assistant Director, Head of the Business Sector, MFA Directorate for Cooperation with the Diaspora and Serbs in the Region.
 8. Branko Lazić, Chief of Cabinet, State Secretary for Cooperation with Diaspora, Republic of Serbia.
 9. Ljiljana Niksić, Director of the MFA Directorate for Migration Policy, Diaspora, and Social Contracts, Republic of Serbia.
 10. Dušan Purić and Edvard Jakopin, Ministry of Economy, Republic of Serbia.
 11. David Đumić, Ministry of Finance, Republic of Serbia.
 12. Stela Jovanović, Director, Local Office for Economic Development and Projects, City of Niš.
 13. Bojana Pejić-Vujanac, former Director (2016), Office for Cooperation with Diaspora, City of Niš.
 14. Srđan Ognjanović, Headmaster of the Mathematical Grammar School, in Belgrade.
 15. Ivan Rakonjac, Director, Innovation Fund.
 16. Stojan Stevanović, President, Association of Serb Businessmen in Switzerland.
 17. Radivoj Petrikić, Chairperson of the Economic Council of the Diaspora Assembly, member of the Business Council for the Diaspora, CCIS.
 18. Radivoj Petrikić, Interview realized by OSSAW, 26.12.2016.
 19. Slobodan Ivanović, MTT Group, member of the Business Council for the Diaspora, CCIS; Co-organizer of the SIAL Summit 2017, Toronto.
 20. Taras Stojković, Co-organizer of the SIAL Toronto, member of the Business Council for the Diaspora, CCIS.
 21. Marko Pavlović, member of the Business Council for Diaspora, CCIS.
 22. Aleksandar Protić, Head of the Academic Sector, Global Centre of Alumni for Knowledge Transfer and Development; member of the Business Council. CCIS.
 23. Branislav Milanović, Interview realized by the local newspaper, www.kragujevacke.rs/U-zizi/BRATISLAV-MILANOVIC-VLASNIK-MILANOVIC-INZENJERINGA/.
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 25. Slobodanka Vlajčić, Owner, *All Me Cosmetics and Pharmaceuticals d.o.o.*
 26. Miloš Čolić, Owner, *Čolić Distillery*.

27. Ana Racić, Director of R&D, *Milanović Inženjering d.o.o.*

28. Jadranka Dervišević-Kitarić, Business Development Executive, British-Serbian Chamber of Commerce.

29. Ana Firtel, Executive Director, Foreign Investors Council.

30. Gordana Danilović-Grković (Director) and Ljiljana Ršumović (Project Coordinator) of Science Technology Park, Belgrade.

31. Nataša Ćirović, IT Support, Business Technology Incubator of Technical Faculties, Belgrade.

QUESTIONNAIRE

1. Goran Mladenović, Cluster Manager, *NiCAT Cluster of Advanced Technologies*.

2. Vladan Todorović, Managing Director, *Advanced Security Technologies*.

3. Marko Smiljanić, Managing Director, *NIRI 4NL d.o.o.*



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