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FINANCIAL SUPPORT FROM DIASPORA

Background to Emigration

In order to fully understand and appreciate the role that Croatia's diaspora has in Croatia (both present and past), one must look at the circumstances under which that diaspora was created and the logistical support which is in place. Croats emigrated in several waves to various parts of the world. The Republic of Dubrovnik sent sailors around the world. Croatian sailors were among the crews of many famous expeditions from Columbus to Hudson. Marco Polo, the most famous explorer was born in Croatia (on the island of Korčula). These sailors not only made an impact on the world but many of them did not return home. During this period there were large-scale migrations, within Europe, particularly during the time of the Austro-Hungarian Empire.

The first large wave was at the end of the 19th century when poverty forced large-scale emigration from Dalmatia, particularly the islands. Most of these emigrants went to North and South America.

The next large wave was between the two world wars. For economic and political reasons, Croats sought their future elsewhere. The destinations were primarily North America and Australia.

At the end of WWII, a large group of Croats emigrated to South America to avoid persecution at the hands of the communists.

Legal emigration was virtually grounded from 1946 to 1960 as the borders were sealed and only the bravest attempted to cross the border illegally at the risk of prison or death. Yugoslavia made the unprecedented decision to allow migration in the early 1960s. This was done for several reasons. Emigration slightly changed the structure of the population, since it was primarily Croats who chose to leave. It gave the Yugoslav face of communism a social appearance and most importantly it resulted in the inflow of foreign currency. Croats who left for good, or as tempo-

rary workers sent vast amounts of money home to support relatives who had stayed behind.

This stage continued throughout the sixties. After the Croatian Spring of 1971, the next wave of political immigration occurred. Most of these emigrants stayed within Europe, although some went to North America or Australia.

Croatian organizations abroad

The oldest and most important Croatian organization abroad is the Croatian Roman Catholic Church. Croatian speaking priests were sent to wherever there were large concentrations of Croatian immigrants. They were able to preserve the language and culture as well as instigate the creation of other organizations. In Canada, for example, there are 19 Croatian parishes and 19 strong Croatian communities. In the United States there are 23 parishes and 23 strong communities. Beyond doubt, where a Croatian parish was formed the community prospered and future immigrants were naturally drawn to those centres. These parishes received strong non-financial support from the homeland. Nuns were also sent from Croatia abroad to support these communities.

In these communities, Croatian Cultural Institutions were formed (folk dancing, choirs and tamburitza groups) to preserve traditions. Eventually even soccer teams usually called Croatia were established. These teams were very successful especially in Sydney (Australian champions on more than one occasion) and Toronto (Canadian and even North American champions). Some of these teams did have contacts with Yugoslavia. Croatian players from the Yugoslav first division were given permission to play abroad. However, these teams rarely traveled to Croatia because they were seen to be overly nationalistic.

Croatian schools were opened abroad in order to preserve the Croatian language. In Europe, many of the schools were supported by Yugoslavia who sent teachers abroad to teach "Serbo-Croatian". In North America and Australia, there was no contact with Yugoslavia and the schools were independently organized and self-financed.

The Croatian Peasant Party which had chapters around the world first organized political activity abroad. Other political groups ranging from The Party of Rights to the Croatian Democratic Union were established. The 1950s brought a proliferation of political parties primarily dedicated to the destruction of Yugoslavia. In many cases, these parties were the targets of illegal Yugoslav secret ser-

vice activity including assassinations, which numbered in the hundreds. Most political parties were disbanded or fell apart in 1990 as democratic changes took place in Croatia. The exception was the Croatian Democratic Union (CDU), which dramatically grew in North America, Australia and Europe. These organizations provided the cash for the democratic changes in Croatia and were one of the reasons that the CDU did so well in all of the elections in Croatia from 1990 until the present day.

The Croatian World Congress (CWC) was formed in 1992. Its goals and structure were based on the World Jewish Congress. The CWC is active in most countries where there is a strong Croatian presence. Since the elections in 2000, the CWC and the new coalition government have been at odds over numerous issues ranging from the treatment of returnees to the right of Croat citizens abroad to vote. The former CDU government supported CWC's activities and was able to benefit primarily from its lobbying capabilities. Today, communication is only through the media destructive.

There are several examples of Croatian financial institutions abroad. The best examples are Credit Unions which operate in the US and Canada. These Credit Unions attempted to get a foothold in Croatia in the mid 1990 with no success. The weight of bureaucracy was too heavy. They can be the future centres for possible diaspora investment funds.

Task Force was an idea based loosely on the ideals of the Jewish Kibbutz. Starting in 1992, Croatian youth from around the world came to Croatia during the summer to work on various projects. The idea was to increase ties to the homeland, which many of the participants had never seen. The first group worked in Voćin cleaning up the what was left after the war devastation. The participants came from 5 continents. Of the 45 participants, 19 chose to remain in Croatia, some permanently. The others improved their ties to the homeland and created a network of Croatian youth around the world. Task Force continues today and many of the participants return to participate again. What is remarkable is the number of non-Croats who choose to participate for various reasons ranging from research to adventure and friendship. The project is coordinated by Matica (Homeland Foundation) in Zagreb.

Investment Potential

Investment potential in Croatia in the early 1990s was questionable to say the least. After the declaration of inde-

pendence, very few external analysts gave the country a positive appraisal. The country was a risk in terms of ability to survive, border control, suppression of internal rebellion and coming to grips with the economical hardship, which were sure to follow. To make matters worse an arms embargo was declared. The purpose of the arms embargo was not to prevent fighting but rather to make it even more difficult for the newly declared country to defend itself.

The borders with Slovenia were disputed primarily due to Slovenia's attempt to gain access to international waters. The border with Serbia and Montenegro was not under Croatian control. Most importantly, the longest border with Bosnia and Herzegovina (B-H) was totally compromised. The Serb paramilitary and Yugoslav army occupied 26% of Croatia's territory. To make matters worse, the occupied territories were in the heart of Croatia making normal travel impossible. A 3-hour drive from Zagreb to Osijek was extended to 6 hours. A drive from Osijek to Dubrovnik took up 14 hours instead of the usual 6.

These logistical problems created other problems and the Dalmatian coast was always on the verge of being totally cut off south of Zadar. To make matters worse an additional 25% of the country was rationing water and electricity because Serbs controlled the distribution of water and electricity.

During the height of the war, Croatia had up to 400,000 internally displaced persons. The 600,000 refugees, who fled to Croatia from neighbouring B-H were an even greater problem. It was disastrous drain on the economy just to house, feed and care for these 1 million people considering the total prewar population of 4.5 million in Croatia.

An analysis of the Croatian economy in 1989 showed that there was an over employment level of 30% in industry which relied on cooperation with other republics within Yugoslavia and was geared towards the eastern markets. Roughly 70% of Croatian industrial output was destroyed, occupied or disrupted. This additional unemployment together with a growing army of up to 250,000 meant that most of the budget funds would have to maintain the war effort or to sustain minimum standards of living. The Kuna was introduced and has remarkably maintained its stability since 1992 until the present day. There were and continue to be constant rumours of its devaluation and daily comments by so-called experts calling for its devaluation by up to 40%. Interest rates for foreign currency transactions were in the range of 11 to 14%. It was, and

continues to be impossible to borrow money in Croatia without a foreign currency clause.

Given these facts, it is needless to say that investment potential in Croatia up until 1996 was catastrophic. Very few investors were willing to risk their capital in an unstable and seemingly risky country. Most of the exceptions were companies that were owned or run in collaboration with the Croatian diaspora.

Foreign Direct Investment

Year	FDI million DM
1993	256.6
1994	250.4
1995	257.7
1996	1,100.3
1997	1,174.8
1998	2,162.3
1999	3,488.3
2000	2,403.7
2001	3,082.8
Total	14,176

According to statistics from the Central Bank, the total FDI in Croatia up until 1996 was 764.7 million DM. This was when tens of billions were being allocated into Central Europe and Hungary and the Czech republic took more than their share. It is remarkable that the country was able to survive until 1995 when two military actions operations “Flash” and “Thunder” liberated almost all of the occupied territories. FDI jumped to over 1.1 billion DM in 1996 and 1997 and to over 2 billion DM in 1998. The best year for FDI was 1999 when 3.5 billion DM was invested primarily in telecommunications, banking and pharmaceuticals.

In January 2000 new elections were held. This was heralded as the post Tuđman/Croatian Democratic Union era. The process of “Democratization” and Euro-Atlantic integration insured prosperity and growth for Croatia. It was hoped that foreign investment would flood in and the six party coalition would run the country in an efficient, non-corrupt and transparent manner. The campaign was waged on “important” issues such as:

- Will sell “Tuđman’s” jet and travel with regular airlines;
- Will move the president’s office from Pantovčak;

- Will not use the Islands of Briuni to entertain foreign guests;
- Will reduce the number of expensive cars in the government pool.

Other issues, which the coalition partners raised were:

- Reduction of the VAT from 22% to 17%;
- Creation of 200,000 new jobs;
- Drastically reduce salaries of government officials;
- Take away the right of non-resident Croats to vote;
- Reduce bureaucracy at all levels and decentralize and downsize the government.

The post-election expectations have been shattered. None of the above promises have been kept and in fact the only positive result has been one of International acceptance. However, this acceptance has not been translated into the surge of foreign investment. It was expected that FDI would double and perhaps even triple immediately. In fact, if we compare the two pre-election years and the 2 post-election years it has decreased.

Diaspora Investment

The key question is how was Croatia able to survive prior to 1996 given that foreign investments were so low. The answer lies in the contributions of diaspora. The importance can be seen through a specific example. The Croatian Privatization Fund (CPF) is a State Privatization Agency. Up until the elections investors by providing information in an attempt to bypass bureaucracy. A web site was opened in order to insure timely access to potential diaspora investors from around the world. This policy had immediate results as one can see from the chart below (CPF statistics).

Year	DM (million)
1992	2,600
1993	17,067
1994	58,132
1995	5,472
1996	49,623
1997	10,395
1998	6,482
1999	1,030
2000-02	0,584
Total	151.3

This total of 151 million DM only relates to shares purchased from the CPF. As a result of the structure of the privatization portfolio, which includes reservations, small shareholders and State Pension Funds the actual investment was greater than 600 million DM including recapitalization. The most important role of these investment relates to the time at which they were made. From the FDI chart, we can see that there was very little interest in Croatia prior to 1996 due to the circumstances mentioned. These same inhibitions were not prevailing and did not affect the willingness of Croats from abroad to invest. Each investment dollar prior to 1996 was certainly much more valuable than one that was invested later.

If we dissect the CPF diaspora investment we can see that most of the investment came from countries where the Croatian community was large and active. Nearly 40% came from Germany where Croats have worked as “foreign workers” for the past 40 years. Followed by the United States and Canada with over 20%. Even Australia contributed 9% despite the distance. These three communities were among the best organized if the number of churches, soccer teams, cultural institutions and political organizations are considered.

One of the more interesting stories is that of billionaire Androniko Lukšić from Chile. According to Forbes, Lukšić is one of the wealthiest men in the world. His parents emigrated to Chile from the island of Brač. He had never visited Croatia and in 1994 he purchased a brewery in Karlovac. At that time his factory was 43 kilometres from the front lines. His 9 million DM initial investment was illogical except for the fact that he had Croatian roots. This was typical of the way most diaspora investors thought.

In addition to investment through the purchase of shares, a great deal of money was deposited in the Croatian banking system. Estimates range from 500 million to 1 billion DM. Money continued to pour into Croatian Banks up until the financial crisis struck several banks (e.g., Glumina). Most of the depositors, which lost parts of their savings, lived abroad. Only the first 30,000 DM from each account was covered by deposit insurance. The government refused to cover the rest although indirectly most of the money was recovered through a process of coincidental withdraws and deposits which created the illusion of multiple accounts.

Croatian communities around the world raised funds to finance the opening of diplomatic missions. Over 20 million DM was raised in Australia, Germany, the United

States and Canada. The amount of money and energy spent on lobbying for the recognition of Croatia is impossible to measure. Nearly 1 billion DM worth of “humanitarian” aid was sent to Croatia. This included food, clothes, and medical as well as military equipment. Estimates on the amount of direct cash, which was sent, range from 275 to 500 million DM. This amount is impossible to verify because various groups tend to exaggerate their contributions. Official documentation has not yet been made public because most of the funds were used to circumvent the arms embargo.

Over 5,000 Croat families have returned from abroad since 1990 until the present day. Estimates on the amount of cash they brought with them vary but many experts agree that the amount exceeded 350 million DM. Even more importantly, diaspora sent roughly 250 million DM in family support during the war years of 1991 until 1995. Although this type of support continues today, the initial family support was used to purchase weapons, food and cover other expenses.

The greatest source of foreign currency in Croatia besides tourism is generated by workers pensions earned abroad (primarily Germany). Each year over 100 million DM is brought into Croatia. In addition, foreign pensions that belong to Croats living in B-H find their way into Croatia because most of the goods that these Croats purchase are of Croatian origin. In fact B-H is the only country in the world with which Croatia has a favourable trade balance.

Virtually all of the Greenfield investments in Croatia prior to 1996 were diaspora backed. In total, nearly 400 million DM was invested in construction alone. These ventures included shopping malls, housing, marinas, and other tourist related activities. In this sector alone nearly 10,000 new jobs were opened. However, more important than the investment itself was that new technologies were introduced.

Government and Institutional response

Diaspora played and continues to play a key financial role in Croatia. The only difference now is that they are no longer appreciated. The war is long behind us and the climate of unity and gratefulness has emerged into one of resentment.

Immediately after the elections in 2000, the government-run press attacked Croatian diaspora, particularly its role in investment and monetary support. The attempt to

descredit everything associated with Croats living abroad was based on the overwhelming support the diaspora offered the former CDU Government. Remarkably, Androniko Lukšić, a billionaire of Croatian heritage from Chile was questioned about the discounts he received although he had purchased his brewery according to the existing tender laws. Many other companies, which were purchased by the diaspora also experienced difficulties when they tried to renew their concessions, more over, the financial and criminal police investigated their activities. The main aim was to show that they had purchased their shares in a non-transparent manner and that they had made secret contributions to the former government. To this date not a single case has been successfully prosecuted in the courts. The effect however has been to discourage further investment not only by the diaspora but by other investors as well.

Croatia opened diplomatic missions around the world immediatley after international recognition. As mentioned earlier, in many cases, local Croats funded the purchase of consular buildings for these missions. After the elections in 2000, the President's office and Ministry of Foreign affairs announced the closure of many missions. This was described as a cost saving measure. These missions included consulates in Mississauga, Cleveland, Chicago and Melbourne, where Croatian communities were among the most numerous and active in the world. The message was clear; they had to be punished for supporting the previous government. Since this announcement there has been some back peddling because of the backlash and internal disagreement among the coalition partners, some of whom believed that cooperation with the diaspora was essential to the future prosperity of Croatia.

Croats who returned from abroad had unbelievable problems in securing the required documentation to enable them to work. The greatest difficulties were related to recognition of tertiary degrees. Even prior to the elections in 2000, it was a long, tedious and expensive process to gain recognition of degrees obtained abroad. The exceptions were for degrees from the former Yugoslav Republics. A degree from the "University" of Banja Luka is readily recognized but a degree from Harvard required:

- Translated course outlines;
- Additional courses (Marxism in some cases);
- Certificates from the American Embassy;
- Certificate from the Croatian Ministry of Foreign Affairs;
- Approval from the University of Zagreb.

As incredible as this sounds this process is very expensive and often lasts several years. In the meantime many occupations require certain levels of education and prior to this diploma recognition individuals are penalized in terms of position and salary.

The most sensitive issue is related to whether or not Croats who live abroad have the right to vote. During the 1995 elections, 12 seats were reserved for the Croat Diaspora List. All 12 elected members were on the CDU list, which received 90% of all votes cast. During the elections of 2000, all 6 MPs elected by the diaspora were CDU members, garnering over 90% of the votes cast. This was a clear sign for the new ruling parties to do everything in their power to prevent the political influence of the diaspora. The public campaign began and was based on the idea that if you did not pay taxes in Croatia or serve in the army you could not vote. These arguments failed for several reasons. What about the unemployed, the retired or students. They do not pay taxes either. In terms of military service, what about women who are required to do compulsory service in the army. Many of the voters in the diaspora did military service before, during and after the Homeland war, and pay taxes even though they live abroad. The biggest stumbling block was the constitution, which guaranteed equal treatment regardless of place of dwelling. The new government could not create two types of citizens, those who could vote and those who could not. Clearly, a new tactic had to be employed. The government could not prevent the diaspora from voting but they could make it more difficult. The new idea was that everyone could vote but only within Croatia. Thus, distance would prevent 99% of eligible Croats living abroad from voting. In addition, the seats reserved for the diaspora would be eliminated so that the diaspora vote could be diluted.

The disturbing aspect of this voting issue is the fact that Croatia is moving away from current world trends, which they had pioneered. Most countries in the world, which have democratic systems, allow their citizens the opportunity to vote and make it as simple as possible. As Croatia is attempting to eliminate parliamentary seats for the diaspora many European countries, such as Italy, Poland, the Ukraine and Portugal, are introducing them.

Opposition to the diaspora seats is based on the arguments that people living abroad should not have so much influence in domestic policies. In fact this argument is baseless. In 1995, CDU had 73 seats of a total of 127. Without the 12 diaspora seats they would have had 61 of 115,

still a clear majority. In the elections of 2000, the CDU elected 46 member of 151 (30%) and would have had 40 of 145 (28%) without the diaspora seats.

Now what

In order to rebuild the bridges and mitigate the damage done to diaspora relations the Government should immediately undertake some or all of the following measures:

- A. Streamline the recognition of foreign diplomas and encourage education abroad as well as stimulate the repatriation and hiring (in the government and private sector) of Croats from abroad.
- B. Streamline and reduce the cost of Croat citizenship for all Croats regardless of place of birth or residence.
- C. Improve cooperation with various Croatian organizations abroad, such as: the Croatian World Congress, Croatian Soccer Federations, Folklore and other Cultural Organizations, Political Organizations, Church and all other groups. This improved cooperation and coordination should be channeled through Matica and diplomatic offices.
- D. Institute financial reform creating a tiered banking system with various levels of protection for deposits. At least one government controlled bank should have a deposit insurance in the amount of \$1 million, insuring the inflow of diaspora cash.
- E. Implement a new election law allowing for mail-in votes and reserving at least as many seats in Parliament as minorities currently have.
- F. Enact a new law on return, outlining various benefits, which will allow for the return and integration of the diaspora. This law should target specific groups based on their potential to improve the long-term stability of Croatia.
- G. Finally and most importantly, undertake steps through the government controlled media in particular Croatian TV to convince all Croats (local and abroad) that the repatriation of Croats is in the long-term interest of Croatia.